

1 **Q. [ELG] – Please explain and justify why Gannett Fleming is relying on an ALG**
2 **calculation procedure for Newfoundland & Labrador Hydro while supporting the**
3 **ELG procedure for the Company in this proceeding.**
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5 A. The Equal Life Group (“ELG”) procedure has been used by Newfoundland Power for
6 approximately 30 years. The Board has approved Newfoundland Power’s use of ELG
7 procedure in every depreciation study completed since 1982.¹
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9 It is Gannett Fleming’s preference to recommend the use of the ELG procedure since it
10 more closely matches the depreciation charges with the service rendered during the life of
11 the property than does the average life group procedure. Conversely, Newfoundland &
12 Labrador Hydro (“Hydro”) had historically used sinking fund depreciation which is a
13 decelerated depreciation method not commonly used for utility ratemaking purposes.
14 The sinking fund method is not a straight line method and therefore the majority of
15 capital recovery occurs toward the end of the asset’s life. Due to migrating away from
16 the sinking fund method, Hydro’s management decided to not use the ELG procedure so
17 as to mitigate the increase in depreciation expense resulting from changing methods for
18 the current study. Gannett Fleming had presented Hydro with depreciation results using
19 the ELG procedure, their management elected not to use ELG at this time.

¹ See response to Request for Information CA-NP-001.