

1 **Q. [Decommissioning] – Please provide all support and justification for inflating**
2 **decommissioning costs to the estimated year of retirement, without discounting the**
3 **amount back to the present.**
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5 A. The methodology used for production net salvage has been used in prior depreciation
6 studies and approved by the Board for Newfoundland Power since 1991. For ratemaking
7 purposes, the net salvage to be recovered through depreciation expense is equal to the
8 cost that will be expended to remove an asset less any gross salvage upon retirement.
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10 Decommissioning studies were performed for hydro and thermal plants and site specific
11 cost estimates were developed for each generating unit. The hydro and thermal plant
12 decommissioning studies were prepared internally. The estimated costs to decommission
13 each plant as of 2010 using 2010 unit prices for demolition and salvage were included in
14 the decommissioning study reports. Since the electricity generating plants *will not* be
15 retired in 2010, the decommissioning costs were escalated to the estimated year of
16 retirement for each plant. These costs are allocated equally over the estimated lives of
17 each plant using the straight line method, just as they are with any asset class.
18

19 In addition to the final decommissioning and dismantlement costs associated with retiring
20 a hydro and thermal power plant, each plant experiences interim net salvage (i.e., mostly
21 removal costs) during the plant's operating life associated with the replacement and
22 modernization of certain critical components at such facilities.