

1 **Q. [Amortization] – Please identify all amortization amounts reflected in the**
 2 **Company’s filing. For each amortization amount, please specifically provide the**
 3 **following:**

- 4
 5 **a. when it was first initiated;**
 6
 7 **b. the period of amortization selected;**
 8
 9 **c. all justification for the period of amortization selected;**
 10
 11 **d. where in the Company’s filing such amounts are reflected; and**
 12
 13 **e. a detailed description of the investment being amortized**

14
 15 **A.** Table 1 shows the forecast amortizations for 2012 to 2014 reflected in the Company’s
 16 evidence.
 17
 18

Table 1
Forecast Amortizations
2012 – 2014
(\$000’s)

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Weather Normalization Reserve	2,101	(2,335)	(2,335)
Employee Future Benefits	-	824	824
Depreciation Expense	44,441	46,558	48,202
Reserve Variance	-	89	89
2011/12 Cost Deferrals	-	1,575	1,575
2012 Cost of Capital Deferral	-	829	829
Hearing Costs	250	417	417
2013 Revenue Shortfall	-	346	346
Conservation Program Costs	339	339	438

19
 20
 21 ***Weather Normalization Reserve***

22 Newfoundland Power’s Weather Normalization Reserve normalizes the effects of
 23 weather and hydrology on the Company’s sales and power supply cost. The Weather
 24 Normalization Reserve was approved in Order Nos. P.U. 32 (1968) and P.U. 1 (1974).
 25

26 In Order No. P.U. 32 (2007) the Board approved the amortization over the period 2008 to
 27 2012 of a \$6.8 million (on an after tax basis) non-reversing balance in the Degree Day
 28 component of this reserve.

1 In this Application, Newfoundland Power is proposing that annual balances outstanding
2 in the Weather Normalization Reserve be recovered from, or credited to, customers as
3 part of the Company's annual RSA adjustment to customer rates on July 1st of each year.
4

5 To accommodate this adjustment, Newfoundland Power is also proposing that the
6 outstanding year-end balance for 2011 in the Weather Normalization Reserve of
7 approximately \$5.0 million (after-tax)¹ due to customers be amortized over three years
8 commencing in 2013. This will result in an annual amortization of \$2.3 million from
9 2013 through 2015.
10

11 In both Order Nos. P.U. 19 (2003) and P.U. 32 (2007), the Board approved an
12 amortization period of five years for outstanding balances in the Weather Normalization
13 Reserve. In each of these cases, the amortization of the accumulated reserve variance
14 served to increase Newfoundland Power's revenue requirements. The amortization of the
15 2011 outstanding balance in the Weather Normalization Reserve will reduce the 2013 and
16 2014 revenue requirements.
17

18 The proposals with respect to the Weather Normalization Account are described in
19 *Sections 3.4.4 and 4.3.4 of the Company's filed Evidence.*
20

21 ***Employee Future Benefits***

22 Newfoundland Power maintains both defined benefit and defined contribution plans for
23 its employees. In addition, Newfoundland Power provides other employment benefits for
24 its employees upon retirement including retirement allowances for retiring employees as
25 well as health, medical and life insurance for retirees and their dependents.
26

27 In this Application, Newfoundland Power proposes effective January 1, 2013 to
28 (i) calculate annual defined benefit pension expense for regulatory purposes in
29 accordance with U.S. GAAP and (ii) amortize the recovery of the forecast regulatory
30 asset of approximately \$12.4 million over 15 years.² The effect of these two proposals is
31 to reduce 2013 and 2014 revenue requirements.
32

33 The proposals with respect to the Employee Future Benefits are described in *Sections*
34 *3.4.2 and 4.3.2 of the Company's filed Evidence.*
35

36 ***Depreciation Expense and Reserve Variance***

37 Section 69 of the Public Utilities Act provides for the creation and maintenance of a
38 depreciation account whereby, over the useful life of the various asset classes, the capital
39 assets costs are expensed as a cost of providing electrical service.

¹ The equivalent pre-tax value is \$7,005,000.

² An amortization period for recovery of 15 years was found by the Board to be reasonable for the recovery of the OPEBs regulatory asset created upon the adoption of the accrual method for OPEBs accounting in 2011 (see Order No. P.U. 31 (2010), page 5).

1 The Board's practice is to approve depreciation for ratemaking purposes based upon
2 studies of experts who examine the various asset classes and determine the average
3 service life of those assets for depreciation purposes.
4

5 Newfoundland Power's depreciation expense for 2012 is based on the 2005 Depreciation
6 Study approved by the Board in Order No. P.U. 32 (2007). For 2013 and 2014,
7 Newfoundland Power's depreciation rates are based on the 2010 Depreciation Study.
8

9 In this Application, Newfoundland Power proposes to implement the depreciation rates
10 resulting from the 2010 Depreciation Study effective January 1, 2013. Newfoundland
11 Power also proposes to amortize the accumulated reserve variance of \$2.6 million over
12 the composite remaining life of the assets.
13

14 In the past, the Board has approved amortization of accumulated reserve variances over
15 relatively short fixed terms of 3 to 5 years. In each of these cases, the amortization of the
16 accumulated reserve variance served to decrease Newfoundland Power's revenue
17 requirements. In this application amortization of the accumulated reserve variance over
18 the remaining life of the assets reduces the revenue requirement impacts on customers in
19 2013 and 2014 from what it would have been if a fixed term of 3 to 5 years was
20 proposed.
21

22 The proposals with respect to Depreciation Expense and the Reserve Variance are
23 described in *Sections 3.4.1 and 4.3.2 of the Company's filed Evidence*.
24

25 ***2011/12 Cost Deferrals and 2012 Cost of Capital Deferral***

26 In Order No. P.U. 30 (2010), the Board approved the deferred recovery by Newfoundland
27 Power of \$2.4 million in 2011 costs. In Order No. P.U. 22 (2011), the Board approved
28 the deferred recovery by Newfoundland Power of \$2.4 million in 2012 costs. In Order
29 No. P.U. 17 (2012), the Board approved the deferred recovery by Newfoundland Power
30 of \$2.5 million in 2012 costs as part of its determination of the Company's 2012 cost of
31 capital.
32

33 In this Application, Newfoundland Power is proposing to amortize the recovery of these
34 2011 and 2012 deferrals in equal parts over a 3 year period commencing in 2013. This is
35 consistent with Newfoundland Power's proposal for recovery of its 2013 Hearing Costs.
36

37 The proposals with respect to the 2011/12 Cost Deferrals and the 2012 Cost of Capital
38 Deferral are described in *Sections 3.5.1 and 4.3.2 of the Company's filed Evidence*.
39

40 ***Hearing Costs***

41 In Order No. P.U. 43 (2009), the Board approved the deferred recovery, over a 3-year
42 period, of approximately \$0.8 million in 3rd party costs related to the 2010 General Rate
43 Application.
44

1 Newfoundland Power currently estimates approximately \$1.25 million will be incurred
2 by the Board and the Consumer Advocate and billed to the Company related to this
3 Application. Newfoundland Power is proposing these costs be recovered in customer
4 rates evenly over a 3 year period from 2013 to 2015.³

5
6 The proposals with respect to the 2013 Hearing Costs are described in *Sections 3.5.2 and*
7 *4.3.2 of the Company's filed Evidence.*

8
9 ***2013 Revenue Shortfall***

10 Based upon a March 1, 2013 implementation, customer rates designed to recover the
11 2014 revenue requirement would result in \$980,000 shortfall in recovering the 2013
12 revenue requirement.

13
14 The Company is proposing a 34 month revenue amortization ending in December 2015 to
15 recover this shortfall.

16
17 To enable proposed customer rates to provide the revenue requirement for both 2013 and
18 2014, amortization of \$288,240 in 2013, and \$345,888 in each of 2014 and 2015 were
19 included in the revenue requirements used in designing rates.

20
21 An approximate 3-year amortization period is consistent with the amortization period
22 proposed for the 2011/12 Cost Deferrals, 2012 Cost of Capital and 2013 Hearing Costs.

23
24 The proposals with respect to the 2013 Revenue Shortfall are described in *Sections 3.5.4*
25 *and 4.3.2 of the Company's filed Evidence.*

26
27 ***Conservation Costs***

28 Beginning in 2013, Newfoundland Power intends to develop and implement an expanded
29 customer energy conservation programming portfolio. This is expected to increase
30 conservation costs by approximately \$2.4 million per year by 2014.

31
32 In Order No. P.U. 43 (2009), the Board approved the deferred recovery, over a 4-year
33 period, of certain costs related to the implementation of the conservation plan in 2009.

34
35 In this Application, Newfoundland Power is proposing that, commencing in 2013, the
36 recovery of customer energy conservation program costs be spread over 7 years. This is
37 reasonably consistent with public utility practice related to conservation cost recovery
38 which indicates recovery of conservation program costs over periods from 5 to 15 years.

39
40 The proposals with respect to the Conservation Costs are described in *Sections 3.4.3 and*
41 *4.3.2 of the Company's filed Evidence.*

³ In the past, the Board has ordered recovery of Application costs over a 3 year period on a number of occasions (see Order Nos. P.U. 7 (1996-1997), P.U. 36 (1998-1999), P.U. 19 (2003), P.U. 32 (2007), and P.U. 43 (2009)).