

1 **Q. [Net Salvage] – In response to CA-NP-051, the Company states that it was**  
2 **determined in many cases that the breakdown of required contributions was not**  
3 **reflected in the Company’s accounting records and as a result salvage and**  
4 **retirement funds were credited to the general CIAC revenue account. In addition, it**  
5 **is stated that the study was completed based on an estimate of what the depreciation**  
6 **reserve in net salvage would have been if the detailed breakdown of the**  
7 **contributions had been reflected in accounting records. At this time, please provide**  
8 **the specific estimates, by account. Further, provide a detailed narrative identifying**  
9 **how each of the values were estimated, along with all actual analyses performed,**  
10 **including all assumptions, considerations, and material reviewed and/or relied upon**  
11 **in sufficient detail to permit verification of the calculations. All calculations should**  
12 **be provided on electronic medium in Excel readable format.**

13  
14 **A.** The cases referenced in the response to Request for Information CA-NP-051 are  
15 primarily related to the transmission and poles accounts. Attachment A includes the  
16 amounts credited to CIAC for 2009, 2010 and 2011 for transmission line relocations and  
17 for distribution line upgrades primarily consisting of poles. Going forward, one third of  
18 these costs will be net with removal costs. Attachment B provides data showing the costs  
19 reimbursed to third parties based on the age at retirement for a given pole.

20  
21 For the Depreciation Study, the book depreciation reserve amounts for the transmission  
22 plant and poles accounts were not adjusted. However, this information was used in the  
23 estimation of net salvage percentages for these accounts.

24  
25 Page B-56 of the Depreciation Study shows the adjusted net salvage analysis for  
26 transmission plant accounts. As the analysis shows, the overall average is -36%, but  
27 includes data from the 1970s and 1980s when net salvage was significantly less negative  
28 than in recent years. The most recent 10 year average is -54% and the most recent five  
29 year average is -69%. Thus, the historical data suggests a net salvage estimate of -55% to  
30 -70% would be appropriate for this account. However, taking into account the impact of  
31 contributions for relocations, the net salvage percents going forward are expected to be  
32 somewhat lower than in recent history. Thus, an estimate of -35% was used in the  
33 Depreciation Study for these accounts.

34  
35 Page B-60 of the Depreciation Study shows the adjusted net salvage analysis for wood  
36 poles. As the analysis shows, the overall net salvage has averaged -33% of retirement  
37 cost, and the most recent five year average is -36%. This analysis suggests that an  
38 estimate of -35% is appropriate for this account.

39  
40 The majority of the contribution amounts for distribution plant shown in Attachment A  
41 represent the contributions from telecommunication companies for pole replacements  
42 required to upgrade telecommunication networks. Retirements related to  
43 telecommunication company requirements have represented a significant portion of pole  
44 retirements in recent years, and this trend is expected to continue in the near to mid-term  
45 as telecommunication companies in the Province upgrade their systems. Going forward,

1 any contributions related to these replacements will be recorded to the reserve. However,  
2 as Newfoundland Power has discussed in its 2013 Capital Plan filed with the Board in its  
3 2013 Capital Budget Application, the Company will need to replace its aging poles in the  
4 mid to long term future. Thus, the majority of retirements for poles currently in service  
5 will be the result of targeted replacements due to age and decay as opposed to  
6 contributions from telecommunications companies. For this reason, for the majority of  
7 poles in service, the data presented on page B-60 of the Depreciation Study will be  
8 representative of the net salvage experienced upon retirement.  
9

10 Due to the near term impacts of the requirements of telecommunications companies, the  
11 -35% based on the historical data will be representative for most, but not all, of the assets  
12 in the poles account. Based on this information, the -35% net salvage estimate was  
13 reduced to -25% in the Depreciation Study.

**Attachment A**

**Newfoundland Power****CIAC for Transmission Line Relocations**

<u>Year</u>	<u>Amount</u>
2009	\$178,000
2010	\$85,000
2011	\$125,000

**CIAC for Distribution Line Upgrades (primarily poles)**

<u>Year</u>	<u>Amount</u>
2009	\$833,000
2010	\$736,000
2011	\$638,000

**Attachment B**

# Newfoundland Power

## Sacrifice Value of Poles 2011

Age	Percent Condition	Pole (\$)	Anchor (\$)
0	100.00%	1,540.00	382.00
1	96.47%	1,485.58	368.50
2	93.32%	1,437.05	274.21
3	90.32%	1,390.91	265.40
4	87.43%	1,346.39	256.91
5	84.62%	1,303.09	248.64
6	81.87%	1,260.84	240.58
7	79.19%	1,219.50	232.69
8	76.56%	1,179.01	224.97
9	73.98%	1,139.28	217.39
10	71.45%	1,100.31	209.95
11	68.97%	1,062.08	202.66
12	66.53%	1,024.53	195.49
13	64.14%	987.69	188.46
14	61.79%	951.55	181.57
15	59.49%	916.10	174.80
16	57.23%	881.34	168.17
17	55.00%	847.03	161.62
18	52.86%	814.01	155.32
19	50.74%	781.43	149.11
20	48.68%	749.61	143.03
21	46.66%	718.56	137.11
22	44.87%	690.94	131.84
23	42.78%	658.86	125.72
24	40.92%	630.23	120.26
25	39.12%	602.43	114.95
26	37.37%	575.48	109.81
27	35.68%	549.40	104.83
28	34.04%	524.15	100.01
29	32.45%	499.76	95.36
30	30.92%	476.21	90.87
31	29.45%	453.50	86.53
32	28.03%	431.59	82.35
33	26.65%	410.46	78.32
34	25.33%	390.05	74.43
35	24.05%	370.32	70.66
36	22.81%	351.24	67.02
37	21.61%	332.75	63.49
38	20.44%	314.79	60.07
39	19.31%	297.33	56.73
40	18.20%	280.34	53.49
41	17.13%	263.83	50.34
42	16.09%	247.76	47.27
43	15.07%	232.12	44.29
44	14.08%	216.88	41.38
45	13.12%	202.00	38.54
46	12.17%	187.43	35.76
47	11.36%	174.90	33.37
48	10.65%	164.03	31.30
49	9.96%	153.40	29.27
50	9.28%	142.97	27.28