

Q. [ELG] – Regarding the hypothetical calculations set forth on Tables 2 and 3 of the Rebuttal Introduction to the Company’s rebuttal, please provide the actual calculation of the change in depreciation expense and the corresponding impact that the change from ELG to ALG depreciation will have on return and taxes on revenue requirements in this case. In other words, recognizing that no party in this proceeding is proposing changing historical reserves since they are reflective of actual depreciation rates in place for decades, along with all corresponding retirements, cost of removal, and gross salvage, state the impact due solely to the change proposed currently and the impact on the forecasted test year only for the period that the ALG-based rates would be in place. Further, provide all corresponding input and output of the analysis, including all assumptions, as well as the spreadsheet utilized to calculate the impact on electronic medium in Excel readable format with all formulas intact.

A. Table 1 summarizes the impact that switching from ELG to ALG would have on (i) depreciation expense and (ii) return and taxes for 2013 and 2014.

Table 1
Newfoundland Power Inc.
***Pro forma* Impact of change from ELG to ALG**
(\$000’s)

	2013	2014
Change in Depreciation Expense ¹	(7,495)	(7,684)
Change in Return and Taxes	<u>292</u>	<u>878</u>
Change in Revenue Requirement	(7,203)	(6,806)

Table 1 shows that there is a reduction in revenue requirement for 2013 and 2014, however, over time, the increases in rate base resulting from lower depreciation expense will tend to offset the reductions in depreciation expense and increase the revenue requirements at a point in time.

The choice of depreciation methodology affects the timing of recovery of depreciation expense. In theory, the amount of depreciation expense collected from customers is the same under both the ELG and ALG methods.

¹ The difference for the depreciation expense for 2013 (\$7,495,000) is the depreciation expense estimated under the ALG procedure (\$39,152,000) less the depreciation expense estimated under the ELG procedure (\$46,647,000). The difference for the depreciation expense for 2014 (\$7,684,000) is the depreciation expense estimated under the ALG procedure (\$40,607,000) less the depreciation expense estimated under the ELG procedure (\$48,291,000).

1 Newfoundland Power considers that Mr. Pous' proposed treatment of depreciation will
2 result in historical depreciation reserves (which were funded by past customers) being
3 transferred to the benefit of future customers by way of reductions in future annual
4 depreciation expense.

5
6 Attachment A shows the *pro forma* calculation of depreciation expense for 2013 and
7 2014 using the ALG method and the ELG method.

8
9 Attachment B shows that calculation of the *pro forma* return and tax impact of the change
10 in depreciation expense.

11
12 An electronic copy of the calculations including all assumptions can be found in "CA-
13 NP-619, AttachmentA.xlsx" and in "CA-NP-619, Attachment B.xlsx" on Newfoundland
14 Power's stranded website at the link FTP.nfpower.nf.ca.

**2013 *Pro forma* Depreciation Calculation
Based on ALG Method**

**2013 Pro forma Depreciation Calculation
Based on ALG Method**

	Land	Hydro	Diesel	Gas	Substations	Transmission	Distribution	General Property	Transportation	Communications	Computer Software ¹	Computer Hardware ²	Load Research	Totals
Beginning Plant In Service	9,600	166,713	3,129	18,622	174,697	114,657	795,306	54,773	24,527	10,418	29,807	9,357	372	1,411,978
Ending Plant In Service	<u>9,600</u>	<u>170,460</u>	<u>3,129</u>	<u>18,921</u>	<u>189,876</u>	<u>118,446</u>	<u>826,741</u>	<u>56,460</u>	<u>25,772</u>	<u>10,965</u>	<u>27,940</u>	<u>9,541</u>	<u>372</u>	<u>1,468,223</u>
Average Plant In Service	9,600	168,587	3,129	18,772	182,286	116,551	811,023	55,616	25,150	10,691	28,874	9,449	372	1,440,100
Depreciation Rates ³	0.00%	2.06%	4.10%	5.36%	2.30%	2.98%	2.84%	2.94%	9.66%	6.37%	0.00%	0.00%	0.00%	
Depreciation	-	3,473	128	1,006	4,193	3,473	23,034	1,635	2,429	681	2,440	1,590	-	44,082
Annual True-up ⁴	21	(120)	2	64	(323)	(190)	(1,930)	(138)	(270)	(299)	-	-	-	(3,183)
Amortization of Contributions	-	-	-	-	(84)	-	(1,663)	-	-	-	-	-	-	(1,747)
TOTAL	<u>21</u>	<u>3,353</u>	<u>130</u>	<u>1,070</u>	<u>3,786</u>	<u>3,283</u>	<u>19,441</u>	<u>1,497</u>	<u>2,159</u>	<u>382</u>	<u>2,440</u>	<u>1,590</u>	<u>-</u>	<u>39,152</u>

**2014 Pro forma Depreciation Calculation
Based on ALG Method**

	Land	Hydro	Diesel	Gas	Substations	Transmission	Distribution	General Property	Transportation	Communications	Computer Software ¹	Computer Hardware ²	Load Research	Totals
Beginning Plant In Service	9,600	170,460	3,129	18,921	189,876	118,446	826,741	56,460	25,772	10,965	27,940	9,541	372	1,468,223
Ending Plant In Service	<u>9,600</u>	<u>178,593</u>	<u>3,129</u>	<u>19,293</u>	<u>202,542</u>	<u>122,285</u>	<u>858,620</u>	<u>58,721</u>	<u>26,683</u>	<u>10,655</u>	<u>26,081</u>	<u>9,332</u>	<u>372</u>	<u>1,525,905</u>
Average Plant In Service	9,600	174,527	3,129	19,107	196,209	120,365	842,680	57,590	26,227	10,810	27,011	9,436	372	1,497,064
Depreciation Rates ³	0.00%	2.06%	4.10%	5.36%	2.30%	2.98%	2.84%	2.94%	9.66%	6.37%	0.00%	0.00%	0.00%	
Depreciation	-	3,595	128	1,024	4,513	3,587	23,932	1,693	2,534	689	2,355	1,569	-	45,619
Annual True-up ⁴	21	(120)	2	64	(323)	(190)	(1,930)	(138)	(270)	(299)	-	-	-	(3,183)
Amortization of Contributions	-	-	-	-	(84)	-	(1,745)	-	-	-	-	-	-	(1,829)
TOTAL	<u>21</u>	<u>3,475</u>	<u>130</u>	<u>1,088</u>	<u>4,106</u>	<u>3,397</u>	<u>20,257</u>	<u>1,555</u>	<u>2,264</u>	<u>390</u>	<u>2,355</u>	<u>1,569</u>	<u>-</u>	<u>40,607</u>

¹ Computer software is depreciated based on a straight line basis using an expected 10-year service life.

² Computer hardware is depreciated based on a straight line basis using an expected 5-year service life.

³ Response to Request for Information CA-NP-003, Attachment A, Schedule 1, column 7.

⁴ Response to Request for Information CA-NP-003, Attachment A, Schedule 2, column 9.

**2013 Forecast Depreciation Calculation
Based on ELG Method**

	Land	Hydro	Diesel	Gas	Substations	Transmission	Distribution	General Property	Transportation	Communications	Computer Software ¹	Computer Hardware ²	Load Research	Totals
Beginning Plant In Service	9,600	166,713	3,129	18,622	174,697	114,657	795,306	54,773	24,527	10,418	29,807	9,357	372	1,411,978
Ending Plant In Service	<u>9,600</u>	<u>170,460</u>	<u>3,129</u>	<u>18,921</u>	<u>189,876</u>	<u>118,446</u>	<u>826,741</u>	<u>56,460</u>	<u>25,772</u>	<u>10,965</u>	<u>27,940</u>	<u>9,541</u>	<u>372</u>	<u>1,468,223</u>
Average Plant In Service	9,600	168,587	3,129	18,772	182,286	116,551	811,023	55,616	25,150	10,691	28,874	9,449	372	1,440,100
Depreciation Rates ³	0.00%	2.41%	4.15%	5.24%	2.67%	3.23%	3.18%	2.98%	9.73%	5.37%	0.00%	0.00%	0.00%	
Depreciation	-	4,063	130	984	4,867	3,765	25,790	1,657	2,446	573	2,440	1,590	-	48,305
Annual True-up ⁴	21	111	11	95	8	51	88	(62)	(48)	(186)	-	-	-	89
Amortization of Contributions	-	-	-	-	(84)	-	(1,663)	-	-	-	-	-	-	(1,747)
TOTAL	<u>21</u>	<u>4,174</u>	<u>141</u>	<u>1,079</u>	<u>4,791</u>	<u>3,816</u>	<u>24,215</u>	<u>1,595</u>	<u>2,398</u>	<u>387</u>	<u>2,440</u>	<u>1,590</u>	<u>-</u>	<u>46,647</u>

**2014 Forecast Depreciation Calculation
Based on ELG Method**

	Land	Hydro	Diesel	Gas	Substations	Transmission	Distribution	General Property	Transportation	Communications	Computer Software ¹	Computer Hardware ²	Load Research	Totals
Beginning Plant In Service	9,600	170,460	3,129	18,921	189,876	118,446	826,741	56,460	25,772	10,965	27,940	9,541	372	1,468,223
Ending Plant In Service	<u>9,600</u>	<u>178,593</u>	<u>3,129</u>	<u>19,293</u>	<u>202,542</u>	<u>122,285</u>	<u>858,620</u>	<u>58,721</u>	<u>26,683</u>	<u>10,655</u>	<u>26,081</u>	<u>9,332</u>	<u>372</u>	<u>1,525,905</u>
Average Plant In Service	9,600	174,527	3,129	19,107	196,209	120,365	842,680	57,590	26,227	10,810	27,011	9,436	372	1,497,064
Depreciation Rates ³	0.00%	2.41%	4.15%	5.24%	2.67%	3.23%	3.18%	2.98%	9.73%	5.37%	0.00%	0.00%	0.00%	
Depreciation	-	4,206	130	1,001	5,239	3,888	26,798	1,715	2,551	579	2,355	1,569	-	50,031
Annual True-up ⁴	21	111	11	95	8	51	88	(62)	(48)	(186)	-	-	-	89
Amortization of Contributions	-	-	-	-	(84)	-	(1,745)	-	-	-	-	-	-	(1,829)
TOTAL	<u>21</u>	<u>4,317</u>	<u>141</u>	<u>1,096</u>	<u>5,163</u>	<u>3,939</u>	<u>25,141</u>	<u>1,653</u>	<u>2,503</u>	<u>393</u>	<u>2,355</u>	<u>1,569</u>	<u>-</u>	<u>48,291</u>

¹ Computer software is depreciated based on a straight line basis using an expected 10-year service life.

² Computer hardware is depreciated based on a straight line basis using an expected 5-year service life.

³ See Volume 3, *2010 Depreciation Study*, pages III-4 to III-9, column 7.

⁴ See Volume 3, *2010 Depreciation Study*, pages III-10 to III-14, column 9.

**ALG Depreciation Methodology Pro forma
Revenue Requirement Impacts**

Newfoundland Power Inc.
ALG Depreciation Methodology
2013 and 2014 *Pro forma* Return & Tax Impacts
(\$000's)

	<u>2013</u>	<u>2014</u>	
Increase in Plant Investment ¹	7,495	7,684	A
Increase in Future Tax Balance ²	1,967	2,018	B
Rate Base - Opening	-	5,528	C
Change in Rate Base	5,528	5,666	D = A - B
Rate Base - Closing	5,528	11,194	E = C + D
Average Rate Base Impacts	2,764	8,361	F = (C+E)/2
Rate of Return on Rate Base ³	8.64%	8.58%	G
Return on Rate Base	239	717	H = F * G
Equity Component of Return ⁴	54.75%	55.01%	I
Equity Return	131	395	J = H * I
Gross-up of Equity Component ⁵	184	556	K = J(1-0.29)
Income Tax Rate	29.00%	29.00%	L
Income Tax Impacts	53	161	M = L * K
Impact on Return and Taxes	292	878	N = M + H

Notes:

¹ Reduction in depreciation expense resulting from adoption of ALG methodology.

Based on 2010 Depreciation Study and the 2010 Depreciation Study modified to ALG methodology.

See response to information request CA-NP-003.

² The Future Income Tax Balance is based on depreciation expense less general expenses capitalized times the future tax rate of 29%.

³ 2013 proposed rate of return on rate base per Exhibit 10, page 1 of 2, line 23. 2014 proposed rate of return on rate base per Exhibit 10, page 2 of 2, line 23.

⁴ 2013 equity component of rate of return on rate base per Exhibit 10, page 1 of 2, lines (21+22) / line 23.

2014 equity component of rate of return on rate base per Exhibit 10, page 2 of 2, lines (21+22) / line 23.

⁵ Based on 29% corporate income tax rate.