

1 **Q. Reference: Appendix B, Pages A-7 through A-12.**

2  
3 **On page A-12 of Appendix B, Mr. Pous states that shortening the service life from the**  
4 **original estimate “would still result in a magnification of error in an example in which**  
5 **the Company’s initial estimate of service life was excessive and then modified for**  
6 **shorter service life under the ELG method as compared to the ALG method.”**

7  
8 **Please provide all support and justification for this assertion. The response should**  
9 **specifically explain how and why the ELG procedure would have a greater error than**  
10 **the ALG procedure when the initial service life estimate was longer than the actual**  
11 **service life. The response should include any authoritative sources that support this**  
12 **opinion, and should also include examples indicating that the error is in fact larger**  
13 **under the ELG procedure than for the ALG procedure.**

14  
15 **A.** The example set forth on page A-12 of Appendix B lengthens the life by one year for the  
16 investment. It is not possible to present an example that begins with an assumed 1-year life  
17 of an investment and then shortens it, as that assumption would result in an investment  
18 never being placed into service. However, Attachment NP-CA-40 is presented in order to  
19 demonstrate the magnification of the corrective action necessary associated with ELG  
20 when a shorter life occurs in comparison to what was initially projected. As can be seen in  
21 the attachment, there are greater swings in both dollars and percentages when relying on  
22 the ELG procedure.

Newfoundland Power Inc.  
2013/2014 General Rate Application  
NP CA 40

Attachment 1

**Example of ELG Magnification of Correction Based on a Decrease in Actual Versus Estimated Life****Initial Estimate of 3 and 5 Year Life**

<u>Year</u>	<u>Cost</u>	<u>ELG Annual Expense</u>				
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
1						
2						
3	\$1,000	\$333.33	\$333.33	\$333.33		
4						
5	\$1,000	<u>\$200.00</u>	<u>\$200.00</u>	<u>\$200.00</u>	<u>\$200.00</u>	<u>\$200.00</u>
Total Expense		\$533.33	\$533.33	\$533.33	\$200.00	\$200.00
Annual Rate		26.67%	26.67%	26.67%	10.00%	10.00%
Retirements				\$1,000.00		\$1,000.00
Reserve		\$533.33	\$1,066.67	\$600.00	\$800.00	\$0.00

**Initial Estimate of 3 and 5 Year Life**

<u>ALG Annual Expense</u>			
<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
\$500	\$500	\$500	\$250
25.00%	25.00%	25.00%	25.00%
		\$1,000.00	
\$500	\$1,000	\$500.00	\$750.00

**Revised Estimate After First Year of 2 and 5 Year Life**

<u>Year</u>	<u>Cost</u>	<u>ELG Annual Expense</u>				
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
1						
2						
3	\$1,000	\$333.33	\$666.67			
4						
5	\$1,000	<u>\$200.00</u>	<u>\$200.00</u>	<u>\$200.00</u>	<u>\$200.00</u>	<u>\$200.00</u>
Total Expense		\$533.33	\$866.67	\$200.00	\$200.00	\$200.00
Annual Rate		26.67%	43.33%	20.00%	20.00%	20.00%
Retirements			\$1,000.00			\$1,000.00
Reserve		\$533.33	\$400.00	\$600.00	\$800.00	\$0.00
Change in Rate		0.00%	16.67%	-6.67%	10.00%	10.00%
Change in \$		\$0.00	\$333.33	-\$333.33	\$0.00	\$0.00

**Revised Estimate After First Year of 2 and 5 Year Life**

<u>ALG Annual Expense</u>			
<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
\$500	\$600	\$300	\$300
25.00%	30.00%	30.00%	30.00%
	\$1,000.00		
\$500.00	\$100.00	\$400.00	\$700.00
0.00%	5.00%	5.00%	5.00%
\$0.00	\$100.00	-\$200.00	\$50.00

Year 5

\$250  
25.00%  
\$1,000.00  
\$0.00

ear Life

Year 5

\$300  
30.00%  
\$1,000.00  
\$0.00  
  
5.00%  
\$50.00