

December 17, 2012

The Board of Commissioners of Public Utilities  
Prince Charles Building  
120 Torbay Road, P.O. Box 21040  
St. John's, NL  
A1A 5B2

**ATTENTION: Ms. Cheryl Blundon**  
**Director of Corporate Services & Board Secretary**

Dear Ms. Blundon:

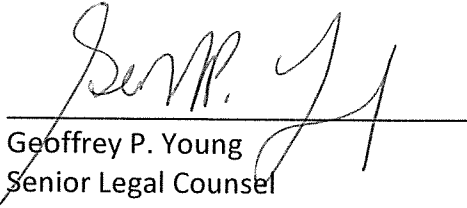
**Re: An Application by Newfoundland and Labrador Hydro pursuant to Subsection 41 (3) of the Act for approval of changes in depreciation methodology and asset service lives.**

Further to your request, please find attached an amended letter, the original of which was enclosed as part of the Gannett Fleming Depreciation Study forwarded on December 3, 2012. This amended letter outlines a number of issues from the Settlement Agreement on which the parties have agreed and which affect Hydro's application of group depreciation to its assets.

Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**

  
\_\_\_\_\_  
Geoffrey P. Young  
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power  
Paul Coxworthy – Stewart McKelvey Stirling Scales

Thomas Johnson – Consumer Advocate  
Dean Porter – Poole Althouse



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December 14, 2012

Nalcor Energy  
Hydro Place, 500 Columbus Drive  
PO Box 12400  
St. John's, NL  
A1B 4K7

Attention:  
Mr. Rick Green  
Divisional Controller Electric Utilities, Nalcor

Ladies and Gentlemen:

Pursuant to your request, we have conducted a depreciation study related to the electric generation, transmission and distribution systems of Newfoundland and Labrador Hydro ("NL Hydro") as of December 31, 2009. The original report presented a description of the methods used in the estimation of depreciation, the statistical analyses of service life estimates and the summary and detailed tabulations of annual and accrued depreciation.

This revised report incorporates a number of corrections and changes that were identified during the Request for Information process. In all circumstances the changes have been previously identified in the responses to the requests for information, or in subsequent filing of errata.

Additionally this revised report includes the impacts and changes as agreed to by parties as part of the October negotiated settlement process. The accounts for which average service life parameters were changed as part of the negotiated settlement process and for which updated lowa curve fits, and revised detailed depreciation calculations have now been provided are as follows:

- Account B01 - Battery and Power Systems
- Account F04 - Footings and Foundations
- Account G03 - Generators
- Account P03 - Penstock
- Account P10 - Powerhouse
- Account R12 - Right-of-Ways
- Account R13 - Roads
- Account S05 - Software
- Account W01- Water Regulating Structures

Gannett Fleming also notes that the Settlement Agreement, negotiated as part of the depreciation proceeding, outlines the following regarding Hydro's application of group depreciation to its assets:

- I. Hydro's proposal to use the average life group procedure applied on a remaining life basis with effect from January 1, 2011 is appropriate to determine depreciation expense from January 1, 2012 on a go forward basis with the corresponding adjustment for 2011 to be made to opening retained earnings (Subsection (c) of the Agreement);
- II. Hydro's proposal to apply group depreciation rates to individual assets, rather than to total group investment, is acceptable (Subsection (f) of the Agreement);
- III. Hydro's current practice and proposal for the future to stop accruing depreciation once an asset is fully accrued is acceptable until varied by further Order of the Board (Subsection (g) of the Agreement); and
- IV. Hydro's current practice and proposal to continue to book, to its income statement, gains and losses related to asset retirements is acceptable until varied by further Order of the Board (Subsection (h) of the Agreement).

The calculated annual depreciation accrual rates presented in the report are applicable to plant in service as of December 31, 2009. The depreciation rates are based on the straight-line remaining life method using the average service life procedure. An annual review of the depreciation rates using the same estimates and methods is recommended.

Respectfully submitted,

GANNETT FLEMING CANADA ULC



LARRY E. KENNEDY  
Vice President

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