

IN THE MATTER OF the *Electrical Power Control Act*, RSNL, 1994, Chapter E-5.1 (the EPCA) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the Act) as amended, and their subordinate regulations; and

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro, pursuant to section 68 of the Act, for the approval of changes in depreciation methodology and asset service lives.

Requests for Information by The Consumer Advocate

CA-NLH-237 to CA-NLH-275

September 5, 2012

- 1 CA-NLH-237 [Fully Accrued] - Please provide the portions of Canadian GAAP that specifically
2 authorizes the ceasing of the recording of depreciation expense on assets that
3 are still in service for a regulated utility (not an unregulated entity), but where the
4 utility believes the asset is fully accrued and where the regulator of that utility has
5 authorized a specific depreciation rate applicable to those assets.
6
- 7 CA-NLH-238 [Group Accounting] - Please provide a copy of all authoritative sources that
8 demonstrates the appropriateness of employing an average group basis for the
9 development of mortality characteristics (i.e., average service life and dispersion
10 pattern), but the application of the resulting average group basis developed
11 depreciation rate on an individual asset basis within the group.
12
- 13 CA-NLH-239 [Fully Accrued] - Please admit that when the investment in an asset has been
14 fully recovered, the asset still may not be fully accrued due to potential future

1 negative net salvage. If the response is anything other than to admit, provide
2 support and justification for any other response.

3
4 CA-NLH-240 [Fully Accrued] - Please provide the dollar amount of depreciation reserve by
5 account that would have been booked to the accumulated provision for
6 depreciation if Hydro had not ceased the booking of depreciation expense when
7 it believed an asset became fully accrued subsequent to the test year in its last
8 rate case that was not settled.

9
10 CA-NLH-241 [G03-Generators] - Please provide the dollar level of investment in Account G03
11 – Generators segregated between Hydroelectric Production and Other
12 Production functions.

13
14 CA-NLH-242 [Reserve] Please identify any portion of under depreciation reserves Hydro will
15 not be recovering from customers in the future as it converts to IFRS. To the
16 extent there is any portion of the amount that Hydro believes it will not collect
17 from customers, provide all support and justification for such claim including all
18 related documents.

19
20 CA-NLH-243 [Reserve] - Please explain any risk Hydro believes exists by extending average
21 service lives any further than it proposes in the Gannett Fleming study and how
22 that risk differs from the situation where the average service lives are too short.
23 To the extent Hydro believes it is subject to a risk that it will never recover its
24 capital investment, explain and justify such belief.

25
26 CA-NLH-244 [Reserve] - Please explain and justify why there is no reserve amount transferred
27 when plant is transferred to an account, an example of which is in response to
28 CA-NLH-235.

29
30 CA-NLH-245 [D01-Dams] - Please identify and fully support any claim that any of Hydro's
31 earthen dams have characteristics that would allow for a 100-year average
32 service life, but not a 110- or 120-year average service life due to:

- 33 a. Foundation bearing capacity, compressibility, and permeability,
34 b. Reliability of construction materials,

- c. Durability of construction materials,
- d. Construction conditions at the site,
- e. Structural stability,
- f. Pore pressure issues,
- g. Level of water,
- h. Monitoring equipment,
- i. Design safety factors,
- j. Erosion issues,
- k. Seepage and uplift issues, or
- l. Other considerations or issues.

CA-NLH-246 [D01-Dams] - Please segregate the investment in Account D01-Dams between earthen dams versus other types of dams and identify the other types of dams and the name of each facility. Further, within the earthen dam category segregate the investment between more permeate investment (e.g., rock cut, excavation, etc. and less permeate investment (e.g., piezometer installation, flow measuring devices, etc.), and to the extent any portion of rockfill is considered less permeate investment fully explain and justify such position.

CA-NLH-247 [D01-Dams] - Please provide all studies or analyses concerning moving the average service life of dams beyond 100 years. To the extent no studies or analyses regarding problems relating to further extension exist, specifically so state.

CA-NLH-248 [D01-Dams] - Please provide all meaningful or significant information (e.g., size, age, construction, fill composition, location, specific failure, etc.) surrounding failures of major dams that Gannett Fleming or Hydro are aware of and fully explain and support why those events are not considered atypical events. Further, if Hydro believes its dams are likely to fail in a similar manner, fully explain and justify such belief.

CA-NLH-249 [D01-Dams] - Please identify the fill composition of each of Hydro's earthen dams. Further, compare the fill composition and construction to other Canadian earthen dams and US earthen dams. Provide all workpapers, assumptions,

1 considerations and material reviewed and relied on in sufficient detail to permit
2 verification of the response.

3
4 CA-NLH-250 [Curve Fitting] - Please identify and support the criteria for and the specific weight
5 assigned to the tail or end of a survivor curve in a curve fitting process that
6 recognizes maximum life considerations. Further, specifically respond to the
7 issues as it applies to accounts D01-Dams, F04-Footings, P10-Powerhouses,
8 and R12-Right-Of-Ways.

9
10 CA-NLH-251 [Sinking Fund] - Please provide the complete monthly calculation on electronic
11 medium in Excel format with all formulas in tack that supports the \$48 of reserve
12 as of December 31, 2009 for the \$14,504,952 investment made for Cat Arm Dam
13 4 on 8/2/1985 as noted on Attachment 1 page 1 of the response to CA-NLH-152.
14 The calculation should clearly note the change in interest rate in the early 2000's
15 from the previously employed 14% to the rate of return granted by Hydro's
16 regulator. Further, provide a detailed narrative explanation of each calculation
17 and input value along with supporting documentation.

18
19 CA-NLH-252 [Sinking Fund] - Please provide all support and justification for the uses of the
20 approved cost of capital as the interest rate used in the modified sinking fund
21 calculation. Further, specifically address and substantiate why the discount rate
22 used by Hydro for its ARO application is not an appropriate interest rate. Finally,
23 to the extent Hydro believes the sinking fund interest rate and the ARO discount
24 rate are for two different purposes, fully explain and justify such position.

25
26 CA-NLH-253 [Sinking Fund] - Please provide all support and justification for retaining the initial
27 interest rate in the sinking fund calculation after 1996 when Hydro became
28 subject to a rate of return calculation. The response should specifically address
29 why it was both necessary and appropriate for Hydro to wait until its next rate
30 case in 2001-2002. Finally, specifically note and support why Hydro could not
31 have used a proxy rate of return and why it did not file for a rate case for more
32 than 5 years.

33

1 CA-NLH-254 [Sinking Fund] - Please explain and fully substantiate the depreciation
2 percentage column in the Attachment to CA-NLH-152. To the extent the
3 percentage corresponds to debt or similar cost associated with the construction
4 and installation of the corresponding asset, specifically state if and when Hydro
5 refinanced any high cost debt and how and when the lower cost of debt was
6 reflected in the sinking fund calculation. If Hydro did not refinance high cost
7 debt (i.e., 14% issued in the mid 1980s) when rates dropped, fully explain and
8 justify such decision. If Hydro refinanced any debt, but did not change the
9 sinking fund interest rate, fully explain and justify such decision. Finally, provide
10 all supporting documents.

11
12 CA-NLH-255 [Sinking Fund] - Please fully explain and justify why the sinking fund relationships
13 are different with basically the same interest rate, same in-service date and the
14 same number of in-service months? For example, in response to CA-NLH-153
15 Attachment 1 page 4/4 second line with asset number 19004290 there is a
16 600-month service period, a 4/2/1983 in-service date with \$1,714 of depreciation
17 expense, \$12,017 of accumulated depreciation, and an associated net
18 depreciable cost of \$408,746. The accumulated depreciation represents 2.94%
19 of the net depreciation cost. Yet in response to CA-NLH-161 Attachment 3 page
20 1/1 second item Asset number 61488 with a January 21, 1983 in-service date
21 and a 600-month service period, the accumulated depreciation is 5.56%. Finally,
22 provide all supporting documents.

23
24 CA-NLH-256 [Industry] - Please identify the average service life reflected in response to
25 CA-NLH-156 by company by account where earthen dams are included in the
26 investment.

27
28 CA-NLH-257 [Industry] - Please provide the specific utility name, corresponding date of study,
29 and docket number or other means of identifying the regulatory jurisdiction and
30 timing of study listed in response to CA-NLH-156 so that the comparability of
31 data can be undertaken.

32
33 CA-NLH-258 [Operational Personnel] - Please provide the underlying support and justification
34 for each agreement or disagreement by operational personnel with the

1 preliminary life estimates submitted by Gannett Fleming. The response should
2 provide all underlying analyses performed or reviewed by each separate and
3 identified operational person by account. The response should also identify the
4 range around the point estimate ultimately determined and the level of
5 confidence in both the range and point estimate by account along with all
6 supporting documentation.

7
8 CA-NLH-259 [Holyrood] - Please provide a continuity schedule that identifies additions,
9 retirements, depreciation expense and rate, and accumulated depreciation by
10 month for the Holyrood plant on electronic medium in Excel format. Further,
11 identify the dollars by account from which is was removed in the depreciation
12 study.

13
14 CA-NLH-260 [Capital Budgets] - Please provide the capital budget in place at the time the
15 Gannett Fleming 2009 depreciation study was developed and the current capital
16 budget.

17
18 CA-NLH-261 [B01-Batteries] - Please provide the level of investment in Account B01-Batteries
19 segregated between old versus new type of both batteries and battery chargers.

20
21 CA-NLH-262 [I03-Insulators] - Please provide all meaningful or significant basis for operating
22 personnel's position that a 30-year average service life for Account I03-Insulators
23 is reasonable, but that a 35-year value is not. Provide all analyses, studies or
24 other documents that demonstrates the validity of such position.

25
26 CA-NLH-263 [P03-Penstocks] - In response to CA-NLH-163, reference is made to other
27 factors such of peer group and views of internal staff regarding the average
28 service life estimate for Account P03-Penstocks. Please fully explain and justify
29 the penstocks life for Hydro. Further, identify what percentage of the investment
30 in the Hydro category identified as Canals, Penstocks, Surge Tanks and Trail
31 Races is actually reflected in penstocks for the other peer groups. Further,
32 provide all support and justification for the views of internal operating staff that
33 would find a 70R4 life-curve is acceptable, but not a 90R4 or 100R4 life-curve
34 combination for penstock investment.

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CA-NLH-264 [P07-Wood Poles] - Please provide the approximate dollar amounts and ages of the 48 poles sold in 2010 referenced in response to CA-NLH-188 for Account P07-Poles. Next, state if the referenced possible sale of joint-use poles did transpire in 2011 or later, and provide the dollar value of such sale. Also, provide all support and justification why an additional 5-year or even 3-year extension in life expectation as requested in CA-NLH-189 is not also reasonable, along with all basis. Further, provide all support and justification why only a 40-year life is in agreement with Hydro's expectations.

CA-NLH-265 [P10-Powerhouses] Please fully explain and justify why powerhouses in Account P10 are expected to have average service lives 25 years shorter than the investment in Account D01-Dams, including any claim that powerhouse not integrated in with the dam structure are different than those integrated into the structure. Provide all workpapers, assumptions, considerations and material reviewed and relied on in sufficient detail to permit verification of the response.

CA-NLH-266 [P10-Powerhouses] - Please identify any powerhouses associated with hydroelectric facilities that were relocated that Gannett Fleming or Hydro are aware of. For each relocation, specifically identify the facility, location, size, type of construction, owner, year built and relocated, and the specific reason for relocation.

CA-NLH-267 [P10-Powerhouses] - Please provide the size, type of construction, specific location in relationship to dam, and other meaningful physical aspects of each of Hydro's powerhouses.

CA-NLH-268 [R12-Right-of-Ways] - Given the peer group information ranges between 65 and 70 year as set forth in CA-NLH-190 and no documents were produced in support of internal staff's belief that 45 to 50 years is reasonable for the investment in Right-of-Ways, please fully explain and justify why a 65-, 70-, or 75-year average service life is not also reasonable, as requested in CA-NLH-191.

1 CA-NLH-269 [R12-Right-Of-Ways] - Regarding the response to CA-NLH-192, statements are
2 made that when right-of-ways are renewed that a longer life can be recognized at
3 that time, please provide information regarding how many right-of-ways have
4 expired without renewal, the corresponding cost of such right-of-ways, the
5 renewal periods, and the additional cost associated with renewals. Finally,
6 reconcile internal staff expectations for shorter lives and retirement expectations
7 from the 55R4 life-curve combination with the actual retirement activity.
8

9 CA-NLH-270 [R13-Roads] - Please fully explain and justify why a 50-year ASL is appropriate
10 for Account R13 – Roads, specifically recognizing that \$61 million out of the \$81
11 million of investment is associated with roads to CAT Arm facility. Further explain
12 and justify the proposed ASL in light of peer group information for Gannett
13 Fleming, not just limited to Canada. To the extent IFRS considerations form a
14 portion of the basis for the proposed life, demonstrate why future capital
15 upgrades would have the level of impact necessary to result in a 50-year ASL,
16 but not a longer ASL.
17

18 CA-NLH-271 [R13-Roads] - Please identify and describe the road to CAT Arm from the
19 standpoint of its construction, use, as well as any problems that have transpired
20 on the road in the last 25 years that would material impact a 10- and 15-year
21 longer life expectation than the 50-year proposed ASL. Further, provide all
22 supporting documents and assumptions associated with the response.
23

24 CA-NLH-272 [R15-Runners] - Please identify and describe the physical characteristics of
25 runners in Account R15, which would limit the life expectation by Hydro
26 personnel to 33 years rather than 37 or 38 years. Further, explain what retired
27 historically in this account and why the limited level of retirement activity is
28 supportive of only a 33-year ASL.
29

30 CA-NLH-273 [S05-Software] - Please fully explain and justify why new versions or upgrades to
31 major software systems do not result in a minimum of a 12- or 15-year ASL due
32 to the architecture and scalability of the major software systems. Also, explain
33 why other utilities now are utilizing periods up to 20 years for investment in SAP
34 and other similar systems yet Hydro's utilization practices for similar software

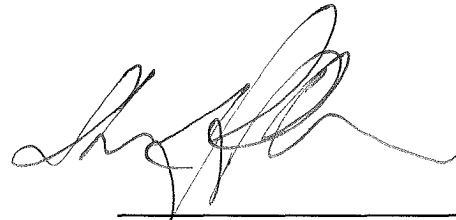
1 appears to be noticeably shorter. Finally, explain and justify why the largest
2 investment in software was made in 1999 and has not been retired supports a
3 7-year life as proposed by Hydro.
4

5 CA-NLH-274 [T09-Turbines] - Please provide all basis and corresponding support why a
6 50-year ASL is appropriate for Account T09 – Turbines rather than a 55- or
7 60-year ASL. Further, provide the investment level and number of hours of
8 operation for each of the units. Finally, identify any physical or operating
9 problems with each turbine and how each specifically impacts life expectations.
10

11 CA-NLH-275 [W01-Water Regulating Structures] - Please identify the different types of assets
12 and corresponding expected life of each from an internal staff standpoint that
13 would justify a life as short as 55 years compared to a 65-, 85-, or 95-year life for
14 investment in Account W01.
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17 Dated at St. John's in the Province of Newfoundland and Labrador, this 5th day of September, 2012.
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