

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.

1 **REQUESTS FOR INFORMATION OF THE ISLAND INDUSTRIAL CUSTOMERS**

2 **IC-NLH-1** Please provide a copy of the Gannett Fleming depreciation study
3 prepared for Hydro applicable to plant in service as of December
4 31, 2004 (the “2005 Study”).

5 **IC-NLH-2** Please provide a detailed calculation of the net impact of the
6 changes to depreciation proposed as of

7 (a) the Gannett Fleming 2005 Study which estimates the impact at
8 \$12 million (page II-7 of the 2005 Study),

9 (b) the 2006 GRA estimates of \$14.3 million per year (section 6.1 of
10 the 2006 GRA),

11 (c) the Gannett Fleming study of plant in service December 31,
12 2007 (the “2009 Study”) which estimates the impact at \$17 million
13 (page II-7 of the 2009 Study),

14 (d) the Gannett Fleming 2011 Study (Exhibit 1 to the present Hydro
15 Application), and

16 (e) the present Hydro application, which estimates the impact at
17 negative \$1.0 million (per Figure 2, page 2, Hydro Evidence).

18 For each set of the estimates, please provide detailed table(s)
19 detailing the calculation of the net impact broken down by asset
20 class and depreciation rate.

21 **IC-NLH-3** Please provide a detailed description of the “depreciation transition
22 deferral” as proposed by Gannett Fleming at page III-3 of the 2009
23 Study.

- 1 **IC-NLH-4** Please confirm that Hydro has rejected the recommendations of
 2 Gannett Fleming in the 2005 Study and the 2009 Study with
 3 respect to the use of the Equal Life Group method, and the
 4 depreciation transition deferral account.
- 5 **IC-NLH-5** Please provide a detailed explanation of the differences between
 6 the Average Service Life (ASL) method and the Equal Life Group
 7 (ELG) method, along with supporting calculations, and indicate why
 8 Hydro now proposes to adopt the ASL method of depreciation.
- 9 **IC-NLH-6** With reference to the Grant Thornton report on adoption of IFRS
 10 (dated January 20, 2012), please confirm Hydro is in agreement
 11 with Grant Thornton's statements on page 8 that: "IAS 16
 12 Paragraph 60 states '*The depreciation method used shall reflect
 13 the pattern in which the asset's future economic benefits are
 14 expected to be consumed by the entity*' ". Please also confirm that
 15 this specific IAS paragraph is the prime driver for Hydro's assertion
 16 that "As the sinking fund method results in an increasing rate of
 17 depreciation over time, and the expected use of Hydro's assets are
 18 expected to be consistent over time, IFRS would not allow the use
 19 of the sinking fund methodology" (page 7, Appendix A, Application
 20 for Adoption of IFRS, December 23, 2011). If not, please provide
 21 detailed references to the IAS in support of this assertion by Hydro.
- 22 **IC-NLH-7** At page 7, Appendix A, Application for Adoption of IFRS, December
 23 23, 2011, under the comments on "Capital Assets – Depreciation
 24 Methodology", Hydro asserts that "As the sinking fund method
 25 results in an increasing rate of depreciation over time, and the
 26 expected use of Hydro's assets are expected to be consistent over
 27 time, IFRS would not allow the use of the sinking fund
 28 methodology." [underlining of "use" added]. Please confirm the
 29 foregoing assertion by Hydro is based on equating the word "use"
 30 with "economic benefits". If not, please provide a detailed rationale
 31 why Hydro's expected consistent "use" of the assets means an
 32 expected consistent "economic benefit" of the assets.
- 33 **IC-NLH-8** With respect to Granite Canal, please provide a copy of the
 34 business case analysis supporting construction of the facility,
 35 showing year by year projections for the life of the plant of
- 36 (a) load or generation,
 37 (b) avoided diesel quantities (barrels),
 38 (c) avoided diesel expense,
 39 (d) annual operating costs, and

- 1 (e) depreciation, interest and return under each of the four
 2 approaches to depreciation used, previously proposed or proposed
 3 by Hydro; that is i) the sinking fund method, ii) the Gannett Fleming
 4 2005 Study approach, iii) the Gannett Fleming 2009 Study
 5 approach and iv) the approach proposed by the present
 6 Application.
- 7 **IC-NLH-9** Please confirm that the primary economic benefit or justification for
 8 construction of Granite Canal is avoidance of Holyrood or other
 9 thermal generation.
- 10 **IC-NLH-10** With reference to the Gannett Fleming 2011 Study (page I-4),
 11 please confirm Hydro is in agreement with the statement that: "Use
 12 of the ASL procedure represents a change from the sinking fund
 13 method which will not result in an appropriate matching of
 14 depreciation expense with **the estimated consumption of service**
 15 **value** of electric property" (emphasis added). Please provide a
 16 detailed definition and explanation of the concept of the "estimated
 17 consumption of service value", as referred to in Gannett Fleming
 18 2011 Study.
- 19 **IC-NLH-11** Please provide a detailed description of the benefits to ratepayers
 20 of adoption of the new depreciation methods proposed by the
 21 present Application as compared to retention of the existing
 22 approach for rate setting purposes. To the extent the benefits relate
 23 to future reductions in costs, please provide a projection of cost
 24 savings by year, taking into account ongoing capital investment
 25 requirements.
- 26 **IC-NLH-12** Please indicate whether Gannett Fleming has determined that the
 27 peer Canadian utilities referred to in Schedule 2 (Part III of the 2011
 28 Study) are considered comparable utilities to Hydro.
- 29 **IC-NLH-13** Please provide copies of the life estimates (along with copies of the
 30 studies, if publicly available) Gannett Fleming has prepared in the
 31 last 5 years for other major Crown hydro-based utilities with large
 32 (>\$1 billion) assets in service, such as Manitoba Hydro, BC Hydro
 33 and Hydro Quebec.
- 34 **IC-NLH-14** As clarification, what is the date that Hydro is requesting to
 35 implement revised depreciation rates for accounting purposes?
 36 The data underlying the proposed remaining lives appears to be as
 37 of December 31, 2009. This would imply an implementation date of
 38 January 1, 2010. However, Appendix C of Hydro's Evidence
 39 implies a January 1, 2011 implementation date. The present
 40 Application was filed in December 2011. Will Hydro be seeking to
 41 retroactively book revised depreciation rates back to January 1,
 42 2011? If Hydro is seeking implementation in 2012, will the

- 1 proposed remaining lives and resulting rates be updated to reflect
2 data as of December 31, 2011?
- 3 **IC-NLH-15** Is Hydro contending that all of the recommendations made in the
4 Gannett Fleming 2011 Study are compliant with IFRS? If
5 affirmative, please explain in detail the specific reasons supporting
6 this contention. Specifically, please explain the basis for Gannett
7 Fleming's view that group accounting using the average service life
8 procedure complies with IFRS. Also, please provide all supporting
9 documentation for Gannett Fleming's assertion that the sinking fund
10 method of depreciation does not comply with IFRS.
- 11 **IC-NLH-16** Please indicate the depreciation methods acceptable under IFRS
12 and provide the source documentation supporting the response.
- 13 **IC-NLH-17** Paragraph 5 of the Application states that the proposed "change in
14 depreciation methodologies will result in a more appropriate
15 collection of depreciation costs which would be consistent with
16 methodologies more commonly used by other regulated utilities."
17 Please provide all documents relied upon that support the
18 contention that the proposed change in depreciation methodologies
19 will be more consistent with methodologies used by other regulated
20 utilities.
- 21 **IC-NLH-18** Please identify the Canadian electric utilities that utilize the average
22 service life (ASL) depreciation procedure and those that do not. If
23 Hydro or Gannett Fleming have not obtained this information,
24 explain why it cannot now be obtained for the purposes of this
25 Application.
- 26 **IC-NLH-19** Page 1 of Hydro's Evidence and Figure 1 on that page both
27 indicate that Hydro is currently using unit depreciation. Unit
28 depreciation typically means that each asset is depreciated
29 separately based on its own service life and the reserve is
30 maintained by asset. As clarification, is unit depreciation used for
31 each and every Hydro asset? Please explain in detail the intended
32 process of moving from unit depreciation to group depreciation.
- 33 **IC-NLH-20** The Application indicates the financial and rate impacts of the
34 proposed depreciation rates but does not include any of the
35 supporting documentation/calculations showing those impacts.
36 Page 3 of Hydro's evidence states that the estimated impact of
37 changing depreciation methodologies will be a 0.5% increase on
38 retail customers and a 2% increase on industrial customers.
- 39 (a) Please provide in Excel format with formula intact the financial
40 impact of moving from present depreciation methodologies to
41 straight line methodology proposed by this Application, for every
42 account.


- 1 (b) Please provide a detailed schedule showing the rate impact of
 2 the change in depreciation methodology and service life
 3 changes in Excel format with formulae intact and showing all
 4 assumptions. The schedule should clearly show the
 5 calculations for the impacts on each customer group.
- 6 **IC-NLH-21** Please explain in detail why the Board should approve depreciation
 7 changes that will result in higher customer rate impacts on
 8 industrial customers than on retail customers. How is this
 9 consistent with “rates that are just and reasonable” (per paragraph
 10 5 of the Application)?
- 11 **IC-NLH-22** With reference to Schedule 2 of Exhibit 1 to the Application,
 12 showing a summary of average service life estimates of peer
 13 Canadian electric utilities, please provide a schedule that shows a
 14 summary of net salvage estimates by account of peer Canadian
 15 electric utilities. If Hydro or Gannett Fleming have not obtained this
 16 information, explain why it cannot now be obtained for the purposes
 17 of this Application.
- 18 **IC-NLH-23** On page II-31 of the 2011 Study, one of the locations visited during
 19 the 2005 Study is said to be a typical inventory and warehouse yard
 20 and an asset recovery yard. As clarification, what were locations of
 21 the typical inventory and warehouse yard and asset recovery yard
 22 visited during the 2005 Study? What made these sites “typical?”
- 23 **IC-NLH-24** Explain the types of assets collected at an asset recovery yard.
 24 What is the purpose of an asset recovery yard?
- 25 **IC-NLH-25** With reference to the discussion in the 2011 Study of the Holyrood
 26 Thermal Generation Plant (at pages II-32 and 33), if these assets
 27 are expected to retire in 2020, will the related investments be fully
 28 recovered? If no, please indicate the unrecovered costs that will
 29 exist at retirement. Provide the calculations of the unrecovered
 30 costs. How does Hydro plan to recover these unrecovered costs?
- 31 **IC-NLH-26** With reference to Part IV of the 2011 Study, Account A01 – Aircraft
 32 Landing Strip [pages IV-2 and 3 of Exhibit 1], please describe the
 33 investments contained in this account.
- 34 **IC-NLH-27** With reference to Account A04 – Auxiliary Power Systems [page
 35 IV-5 of Exhibit 1], please provide a detailed explanation of the
 36 retirement at age interval 0.0 in the amount of \$56,321 including but
 37 not limited to a detailed description of what was retired along with
 38 the corresponding dollars, what caused the retirement at age 0.0,
 39 and all documents supporting the transaction. Further, please
 40 explain why such activity should be considered representative of
 41 future expectations for the remaining account investment.

- 1 **IC-NLH-28** With reference to Account A04 – Auxiliary Power Systems [page
2 IV-6 of Exhibit 1], considering that there have only been two
3 retirements in the 42 years of data shown, please explain why
4 statistical analysis used to develop a curve shape should be
5 considered valid support.
- 6 **IC-NLH-29** With reference to Account B02 – Boiler System [page IV-8, Exhibit
7 1], the stub curve indicates 80% of the investment surviving.
8 Please explain the validity of smoothing a sub curve with such little
9 data.
- 10 **IC-NLH-30** With reference to Account B03 – Booms – Timber [pages IV-10 and
11 11, Exhibit 1], please explain in detail the basis for selecting a 40-
12 R1 life/curve combination as being appropriate for this account.
- 13 **IC-NLH-31** With reference to Account B04 – Bridges [pages IV- 12 and 13,
14 Exhibit 1], age intervals 29.5 to 40.5 each show exposures at the
15 beginning of the interval as “5,021-“. What is the meaning of the “-“
16 in “5,021-“? Considering the lack of retirement data shown, please
17 explain the basis for the selection of the 60-R4 life/curve
18 combination.
- 19 **IC-NLH-32** With reference to Account B06 – Buildings – Metal [pages IV-16
20 and 17, Exhibit 1], please explain in detail the basis for selecting a
21 45-R3 life/curve combination for this account. Please explain how
22 the selection is a good fit with the account data.
- 23 **IC-NLH-33** With reference to Account B07 – Bus Duct Generator [pages IV- 18
24 and 19, Exhibit 1], please explain in detail the basis for selecting a
25 35-R3 life/curve combination for this account when there have been
26 no retirements. Please explain how statistical analysis for the
27 determination of life/curve characteristics is meaningful or valid with
28 the lack of retirement activity.
- 29 **IC-NLH-34** With reference to the calculation of remaining life accruals, Part V
30 of the 2011 Study, pages V-1 to V-131, please explain the meaning
31 of the heading to each column (1) – (7). Please identify the source
32 of the data contained in each column (1) – (7). Please show the
33 underlying calculations, if any, of the information contained in each
34 column (1) – (7).
- 35 **IC-NLH-35** With reference to Account B06 – Buildings – Metal [page V-8,
36 Exhibit 1], each of the vintages 1967 – 1978 show no future book
37 accruals, no remaining life, and no remaining life accruals.
38 However, these vintages indicate dollars still in service. Please
39 explain the logic supporting that plant investments continuing to
40 provide service to the public have no remaining life.

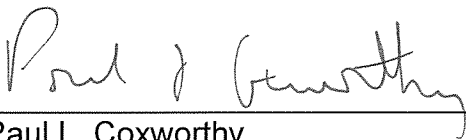
- 1 **IC-NLH-36** Does Hydro maintain depreciation reserve by vintage for each
2 account? If affirmative, please indicate how long that data has
3 been maintained.
- 4 **IC-NLH-37** Please identify the estimated date the Holyrood plant assets, other
5 than the Holyrood Synchronous assets, are currently planned to no
6 longer provide service to the public.
- 7 **IC-NLH-38** Please identify whether the Holyrood plant assets, other than the
8 Holyrood Synchronous assets, are planned for retirement. If the
9 assets will not retire, please discuss their future use.
- 10 **IC-NLH-39** Please provide the January 1, 2012 investment, associated
11 reserve, and unrecovered net investment attributable to the
12 Holyrood plant assets currently planned for retirement in the year
13 identified by the response to IC-NLH-37.
- 14 **IC-NLH-40** Please discuss how recovery of the unrecovered net investment
15 identified by the response to IC-NLH-39 will be achieved.
- 16 **IC-NLH-41** For the Holyrood plant assets planned for retirement, please
17 discuss if they will be physically removed or simply retired for
18 accounting purposes with physical removal planned for a later date.
- 19 **IC-NLH-42** Please identify the life over which the Holyrood plant assets are
20 currently being depreciated.
- 21 **IC-NLH-43** Please provide the capital addition dollars made to the Holyrood
22 Plant in 2011 and estimated/budgeted for 2012 and 2013. Please
23 provide the specific reasons justifying the need for the Holyrood
24 plant additions made/budgeted in each year 2011, 2012, and 2013.
25 Please identify the portion of the additions made in 2011 and
26 planned/budgeted for each year 2012-2013 that are not expected to
27 live beyond the date the plant will no longer provide service.
- 28 **IC-NLH-44** If unrecovered net investments exist at the time of retirement,
29 should ratepayers continue to pay for plant for which they are not
30 receiving service? Please explain your answer.

DATED at St. John's, in the Province of Newfoundland and Labrador, this 30th day of March, 2012.

POOLE ALTHOUSE

Per: 
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