

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-46** IFRS and regulatory accounting

3 Has Hydro considered how the implementation of IFRS for
4 regulatory accounting can be achieved on a revenue neutral
5 basis?

6 **IC-NLH-47** Depreciation studies

7 Is it anticipated that Hydro will submit depreciation studies on a
8 regular cyclical basis? If so, what will be the cyclical period for
9 filing of such studies? Or if there are changes to average service
10 life/remaining life, will Hydro change them automatically without
11 the Board's approval? [see IC-NLH-63, IC-NLH-19]

12 Dismantlement/cost of removal

13 **IC-NLH-48** Hydro's response to NP-NLH-3 states that dismantlement is
14 generally expensed as incurred. Have all removal costs generally
15 been expensed as incurred? Have removal costs ever been
16 recovered through depreciation expense?

17 **IC-NLH-49** It is proposed that in the future, dismantlement will be recognized
18 as a legal or constructive asset retirement obligation. What are
19 the revenue impacts of the new treatment? Has Hydro considered
20 how this can be implemented on a revenue neutral basis?

21 **IC-NLH-50** In Hydro's response to IC-NLH-10, Hydro references the definition
22 of service value provided by the Federal Energy Regulatory
23 Commission in part 101 of its Uniform System of Accounts.
24 Explain how this definition is applicable when service value is
25 equal to the difference between original cost and net salvage
26 value given that Hydro does not recognize net salvage value in its
27 depreciation rate calculations.

IC-NLH-51Group Accounting

Hydro asserts that its proposed depreciation methodology utilizes "group accounting". Hydro's response to CA-NLH-63 states that the depreciation rate will be applied to each asset rather than making one calculation for the whole group (entire surviving investment for the given account). Additionally, the response states that the remaining life will be applied to each individual asset rather than the account as a whole. Determining an average life for the group and then applying that average to each individual asset is contrary to group accounting. Moreover, deriving a life for each asset is different and should be different than applying an average life designed for the entire group to each asset. In the average life procedure (which is what Hydro is proposing to use), the depreciation rate is applied to the total surviving account dollars. It is recognized that some items within the group or account will live shorter than the average life and some will live longer than the average life, but the account as a whole will tend to live the average. Can Hydro explain why its implementation of the group method of depreciation should be considered to be correct?

IC-NLH-52

Please refer to the response to CA-NLH-63. The response states that even though Hydro proposes to move to a group method of depreciation, the intent is that unit or asset depreciation will continue. Explain what are the advantages of moving to a group method of depreciation, if depreciation rates will continue to be applied on an individual asset basis. Explain how an average service life of 20 years for the group where lives may range from 10 years to 40 years depending on the account make-up is appropriate to apply on an individual asset basis, and why this approach should be considered to be consistent with group accounting.

IC-NLH-53Accounting

Please refer to the response to CA-NLH-151, Attachment 1. Some assets show net depreciable cost, others show accumulated depreciation. What is the difference between asset addition and additional cost added? A footnote states that prior to 2005, Hydro maintained two sets of books – one for operations and one for financial information. In 2005 the financial information was transferred resulting in one set of books. What information was maintained on the set of books for operations? What information was maintained on the set of books for financial information? For items noted as Asset Transfer there is net depreciable cost but no reserve transferred. Why not? Hydro needs to explain further what the "Asset Split" was. Page 2 of 4, Attachment 1, shows negative net depreciable cost. Hydro should explain this – what does this mean and what was the cause?

IC-NLH-54

Please refer to the response to CA-NLH-152. The request asked for the applicable depreciation rate applied to the gross investment by month. Attachment 1, asset number 58556 indicates a depreciation rate of 5%. Does this rate include any provision for gross salvage or cost of removal? If so, how much? Explain how the depreciation expense of \$1,142 is calculated when $5\% * \$441,000$ yields \$22,050 or \$1,837.50 monthly. Explain why, for some assets, no accumulated depreciation or depreciation expense is shown.

IC-NLH-55

Please refer to the response to CA-NLH-161, Attachment 2. Asset numbers 60910 – 62907 show no depreciation expense for the months January – April 2005 but a large amount of depreciation expense is shown in May 2005. Explain why no expense was apparently recorded for 4 months and what caused the large expense in May 2005. Asset numbers 99004003 – 99005621 seem to indicate negative depreciation expense for May 2005. Explain how and why this happened. Asset number 304240, Snook's Arm Steel Penstock, shows no applicable depreciation rate but yet depreciation expense of \$42,949 is shown. Explain how this is possible.

IC-NLH-56

Please refer to the response to CA-NLH-235 – Revised [Reserve] – Reconciliation of reserve from 2007 to 2009. This request for information asked for an identification of the applicable depreciation rate applied to the specific monthly plant balances for 10 given accounts. The response states that asset disposals could affect reserve levels from 2005 to 2009. Explain the meaning of asset disposals, as used in Hydro's response. The attachments to the response do not identify depreciation rates but rather service life in months. Identify the applicable depreciation rates. For investments transferred to other accounts, how was the appropriate amount of reserve associated with those investments determined? For items shown as "Asset Transfer," explain why no reserve was also transferred. Explain the meaning of "Cost Assigned to Asset." For Attachment 2-10, explain the source of the depreciation expense amounts for each year 2004 – 2009.

IC-NLH-57Holyrood

Please refer to the response to CA-NLH-173. Attachment 1 itemizes the non-synchronous condenser Holyrood assets. On page 2 of 2, to what does the 2006 depreciation expense relate? Asset number 9904121, Bypass Structure, shows negative investment and reserve. Explain what caused this negative investment and reserve. It appears that assets 99000093 and 99000108 are not fully recovered. Explain how Hydro will ensure that all non-synchronous assets will be recovered by the date of retirement, 2020. On Attachment 2, asset number 60318 shows a service life of 1044 months or 87 years. Explain how zero depreciation expense has been calculated.

- 1 **IC-NLH-58** Please refer to the response to CA-NLH-236 – Holyrood. The
 2 request asks for the applicable depreciation rate for each asset.
 3 The response does not identify the applicable depreciation rate,
 4 but identifies only the service life in months. Identify the
 5 applicable depreciation rates.
- 6 **IC-NLH-59** Insulators
- 7 Please refer to the response to CA-NLH-182. The response states
 8 that Ohio Brass polymer horizontal line post insulators were
 9 subject to continuous failures. Have all insulators of this type
 10 been replaced? If no, what percent of the investment in Account
 11 I03, Insulators, is associated with these insulators? Does Hydro
 12 have any plans for replacing the remaining Ohio Brass insulators?
- 13 **IC-NLH-60** Right of Ways
- 14 CA-NLH-193 requested an explanation and justification why a
 15 longer average service life with a different curve shape would not
 16 be more appropriate than the 55 year, R4 curve being proposed.
 17 The response did not address this request for information.
 18 Hydro's response, fully addressing the request for information, is
 19 requested.
- 20 **IC-NLH-61** Account P03 - Penstocks
- 21 Please refer to the response to CA-NLH-161, Attachment 2. Asset
 22 numbers 60910 – 62907 show no depreciation expense for the
 23 months January – April 2005 but a large amount of depreciation
 24 expense is shown in May. Explain why no expense was
 25 apparently recorded for 4 months and what caused the large
 26 expense in May. Asset numbers 99004003 – 99005621 seem to
 27 indicate negative depreciation expense for May. Explain how and
 28 why this happened. Asset number 304240, Snook's Arm Steel
 29 Penstock, shows no applicable depreciation rate but yet
 30 depreciation expense of \$42,949 is shown. Explain how this is
 31 possible.
- 32 **IC-NLH-62** Account S05 - Software
- 33 Please refer to the response to CA-NLH-210, Account S05,
 34 Software. Are software upgrades capitalized or expensed? What
 35 criteria does Hydro use?
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1 **IC-NLH-63** Account S16 - Engineering Studies

2 Please refer to the response to CA-NLH-214, Account S16,
3 Studies. The response states that historically, study costs have
4 been capitalized as overhead cost but recently these costs have
5 been treated as intangible assets and amortized. Explain when
6 this change in accounting for studies went into effect and when
7 the change was approved by the Board.

8 **IC-NLH-64** Account W01 - Water Regulating Structures

9 (a) Please refer to the response to CA-NLH-231 – Account W01,
10 Water Regulating Structures. Explain the basis for Gannett
11 Fleming's view that control structures, hoists, gates, and
12 compensation structures experience a shorter life than Dams,
13 Dykes or Intake Structures.

14 (b) Please refer to the response to CA-NLH-232 – Account W01,
15 Water Regulating Structures. The request asked for support and
16 justification for the previous study's 45-year life estimate. Hydro
17 did not respond except to say that the assets in this account were
18 studied as part of another account. Hydro's response, fully
19 addressing the request for information, is requested.

20 (c) Please refer to the response to CA-NLH-234 - Account W01,
21 Water Regulating Structures. The response indicates that the
22 original investment placed in 1967 in this account should be
23 expected to begin to retire in 2009. Considering it is now 2012,
24 have retirements occurred? If so, how many in 2010 and 2011?

25 **IC-NLH-65** Hydro's 2009 depreciation study reflects both a change in
26 depreciation methodology from sinking fund to straight line
27 depreciation and a change in account life and curve
28 characteristics. Please quantify the change in depreciation
29 expense from currently prescribed depreciation rates based on
30 December 31, 2009 plant investment that relates only to the
31 proposed change from sinking fund methodology to straight line
32 methodology and that relates only to the change in life and curve
33 projections.

34 **IC-NLH-66** For clarification, does the original cost at December 31, 2009
35 shown in Exhibit 1, page III-4 of the 2009 depreciation study,
36 reflect a restatement of original cost to net book value as
37 permitted by IFRS? If no, does Hydro still plan to record a
38 restatement? Will the restatement essentially put the reserve for
39 each asset as zero? What impact will restating original cost have
40 on depreciation expense? Does Hydro plan on restating its
41 remaining life depreciation rates to reflect zero restated reserve?
42 If no, please explain why not.

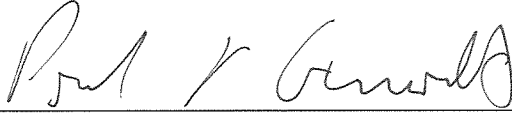
1	IC-NLH-67	For clarification, please explain in detail Hydro's current
2		accounting approach for gross salvage and cost of removal for
3		financial accounting purposes.
4	IC-NLH-68	For clarification, please explain in detail Hydro's current
5		accounting approach for gross salvage and cost of removal for
6		regulatory purposes. Please describe if the Company plans to
7		continue this accounting approach prospectively. If not, please
8		describe the changes that Hydro is anticipating. Does Hydro
9		currently or historically track gross salvage or cost of removal? If
10		negative, is this something Hydro is planning on implementing? If
11		yes, please explain when and how.
12	IC-NLH-69	As clarification, is Hydro proposing zero net salvage for all
13		accounts in the 2009 depreciation study? If no, please explain.
14	IC-NLH-70	As clarification, does Hydro's approach in developing an average
15		service life for any given account in the 2009 depreciation study
16		utilize the group depreciation method in which an average life is
17		determined for each account? If no, please explain.
18	IC-NLH-71	As clarification, is it Hydro's proposal that the resulting
19		depreciation rates recommended in the 2009 depreciation study
20		for each account be applied on an individual asset basis within
21		each account? If no, please explain.
22	IC-NLH-72	Please explain if Hydro's application of an account depreciation
23		rate to each asset within the account is the same or different from
24		the historical application of an approved depreciation rate.
25	IC-NLH-73	Please identify any Board order or other regulation that permits
26		Hydro to cease the booking of depreciation and no longer apply
27		the Board-approved depreciation rate to any asset within an
28		account that is fully depreciated even though the associated plant
29		is still providing service to the public and the total account is not
30		yet fully depreciated.
31	IC-NLH-74	Some accounts are noted to contain assets with sinking fund
32		depreciation currently approved and other assets having straight
33		line depreciation currently approved. Please identify the
34		applicable Board orders approving straight line depreciation for
35		certain assets.
36	IC-NLH-75	Under Hydro's regulatory accounting procedures, either current or
37		proposed prospectively, when an asset is retired, please explain
38		what dollars are charged to the reserve. (In other words, is the
39		retired asset in the group treated as being fully depreciated with
40		the full cost charged to the reserve or is only the asset's
41		depreciated value charged to the reserve?)

1	IC-NLH-76	Please identify all regulated Canadian companies that develop depreciation lives on a group or account basis but apply the approved depreciation rates on an individual asset basis.
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4	IC-NLH-77	According to Hydro's response to CA-NLH-159, Gannett Fleming did not utilize life span in the determination of the recommended life for each account. Hydro states that as such, "the maximum life indications become an important consideration in the lowa curve selection, given that the recovery of some investment is extended over the period to the maximum life of the account." Please explain with specificity the standard used in the 2009 depreciation study in determining the acceptability of a maximum life under the theory that the maximum life is an important consideration in determining life characteristics in this study.
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14	IC-NLH-78	Historically, if a plant experienced an overhaul, how has Hydro accounted for the new plant added? How has Hydro accounted for the plant replaced during the overhaul? Is the historical accounting treatment expected to continue prospectively or is the company planning on revising its accounting treatment? If there are plans to revise the accounting treatment, please explain the new accounting and when it is expected to be implemented.
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21	IC-NLH-79	Historically, if a capital upgrade to existing plant is made, how has Hydro accounted for the new plant added? How has Hydro accounted for the plant replaced with the upgrade? Is the historical accounting treatment expected to continue prospectively or is the company planning on revising its accounting treatment? If there are plans to revise the accounting treatment, please explain the new accounting and when it is expected to be implemented.
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29	IC-NLH-80	For each account in which judgment and input from Hydro personnel formed the foundation and basis for life recommendations, please explain in detail what led to the conclusion that Mr. Kennedy's study analyses results were reasonable or not reasonable. Was only the life resulting from Mr. Kennedy's statistical analysis presented to the operations personnel to review? While there may not be specific documentation, please provide specificity regarding the internal expertise and system knowledge. Please explain with specificity what the operations group's check of reasonableness of Gannett Fleming's recommended lives entailed.
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40	IC-NLH-81	<u>Account G03 – Generators.</u>
41		Please identify the percent of the 2009 depreciation study investment in Account G03 that is associated with hydro generators and that portion that is associated with other production generators.
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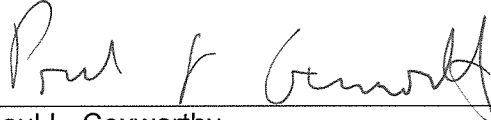
- 1 **IC-NLH-82** Account D01 – Dams & Dykes.
- 2 Please explain specifically why Hydro's operations personnel do
- 3 not think it is likely for dams to live more than 100 years.
- 4 **IC-NLH-83** Account D01 – Dams & Dykes.
- 5 Please explain with specificity what is unusual in the construction
- 6 of Hydro's dams that make these dams dissimilar from other
- 7 Canadian dams and from other North American dams for life
- 8 determination purposes.
- 9 **IC-NLH-84** Account D01 – Dams & Dykes.
- 10 Please refer to Hydro's response to CA-NLH-152, Attachment 1.
- 11 Please explain how the depreciation percentage column was
- 12 calculated. Please show all formulae, calculations, and
- 13 assumptions used in deriving the rates shown in the depreciation
- 14 percentage column, including the assumed interest rate. Please
- 15 identify the source of each assumption.
- 16 **IC-NLH-85** Account D01 – Dams & Dykes.
- 17 Please identify the applicable docket number, order number, if
- 18 applicable, and State regulatory agency for each of the cases
- 19 identified in CA-NLH-156, Attachment 1. Please identify the
- 20 applicable docket number, order number, if applicable, and
- 21 Canadian regulatory agency for each of the cases identified in CA-
- 22 NLH-156, Attachment 2.
- 23 **IC-NLH-86** Account P03 – Penstocks.
- 24 Please refer to Hydro's response to CA-NLH-173, Attachment 2.
- 25 Please explain how the depreciation percentage column was
- 26 calculated. Please show all formulae and calculations used in
- 27 deriving the rates shown in the depreciation percentage column.
- 28 Some asset numbers have depreciation rates of 0.00%. Please
- 29 explain why many of the assets show 0.00% depreciation rate.
- 30 Please identify the Board Order authorizing a 0.00% depreciation
- 31 rate. By way of example, please provide all calculations and
- 32 assumptions used in calculating the sinking fund 2009
- 33 depreciation expense for a given asset, including the assumed
- 34 interest rate. Please identify the source of each assumption.

DATED at St. John's, in the Province of Newfoundland and Labrador, this 5th day of September, 2012.

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Per: 
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