

**IN THE MATTER OF**

the *Electrical Power Control Act*, SNL 1994,  
Chapter E-5.1 (the "*EPCA*") and the  
*Public Utilities Act*, RSNL 1990,  
Chapter P-47 (the "*Act*"), as amended;

**AND**

**IN THE MATTER OF**

an Application by Newfoundland and Labrador Hydro for the approval  
of changes in depreciation methodology and assets service lives,  
pursuant to s. 68 of the *Act*.

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**PUBLIC UTILITIES BOARD  
REQUESTS FOR INFORMATION**

**PUB-CA-1 to PUB-CA-19**

**Issued: October 12, 2012**

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**DIRECT TESTIMONY OF JACOB POUS**

- PUB-CA-1** On pg. 17, line 27 Mr. Pous states that it is appropriate to use a compounded monthly interest rate instead of a simple interest rate. Please provide justification for this statement.
- PUB-CA-2** On pg. 18, lines 27-29 Mr. Pous states "*it is unknown to what degree Hydro in effect has over recovered from customers*". Please fully explain how there could have been an overcharge situation.
- PUB-CA-3** On pg. 19, lines 20-24 Mr. Pous states that the analysis required to restate the appropriate level of the reserve would require "*...massive levels of human resources and data, and numerous assumptions*". Please fully explain the type of analysis that would be required and provide an estimate of time involved to complete such analysis.
- PUB-CA-4** On pg. 19, lines 27-30 and pg. 20, lines 1-6 Mr. Pous states that Hydro should be directed to investigate and present alternatives on appropriate solutions to address the problems Mr. Pous sees with Hydro's practices for calculation of sinking fund depreciation. Please explain in detail what are the alternatives that could be considered by Hydro.
- PUB-CA-5** On pg. 30, lines 8-11 Mr. Pous recommends that the Board should order Hydro to continue to apply the approved group depreciation rate to the plant balance as long as that plant remains in service. In Mr. Pous' opinion is this recommendation compliant with IFRS?
- PUB-CA-6** Please confirm that, by using a methodology whereby an initial interest rate was assigned to an asset for the full life of the asset instead of using a methodology whereby Hydro would have revised its sinking fund calculation as debt was retired and debt cost changed over time, Hydro did not, in Mr. Pous' opinion, sufficiently accumulate over time the reserve related to each asset.
- PUB-CA-7** Please confirm that Hydro's method of calculating the sinking fund depreciation referred to in PUB-CA-6 resulted in an under-accumulation of the total reserve of the utility, in Mr. Pous' opinion.
- PUB-CA-8** Please confirm that the inadequate accumulation of the reserve over time referred to in PUB-CA-6 was directly related to the failure to adequately record depreciation expense, and therefore to adequately recover in the revenue requirement the related write-off of the assets of the utility.
- PUB-CA-9** Please confirm that if the reserve was not adequately accumulated the net book value of the remaining assets would exceed the amount that would have been recorded using the appropriate interest rates.

**PUB-CA-10** Please confirm that the impact of an over-valued net book value would be to inflate the value of the rate base in each year that this incorrect calculation occurred.

**PUB-CA-11** If the impact of using an initial interest rate over the life of an asset results in an under-collection of the depreciation expense and an over-collection of the return on rate base, is it possible to estimate, at this point, whether the net impact would have caused rates to customers over this period to be less than they would otherwise have been?

**PUB-CA-12** According to s. 80(1) of the *Public Utilities Act*:

*"A public utility is entitled to earn annually a just and reasonable return as determined by the board on the rate base as fixed and determined by the board for each type or kind of service supplied by the public utility..(2) The return shall be in addition to those expenses that the board may allow as reasonable and prudent and properly chargeable to operating account..."*

Is it your opinion that the re-calculated depreciation expense and return on rate base, if found to be under-collected by the utility, is a just and reasonable expense that is recoverable by the utility?

**PUB-CA-13** If the variance between the collected expense and the adjusted expense is to be recovered by the utility, would it not be reasonable to assume that it would be collected over the remaining service life of the asset?

**PUB-CA-14** Please confirm that you believe that there would be a net benefit to future ratepayers of restating *"the reserve to reflect lower interest rates due to refinancing of high-cost debt and to reflect the WACC after the completion of Hydro's first General Rate Application before the Board"*, as stated on pg. 19, lines 12-14, despite the fact that *"such analysis would require massive levels of human resources and data, and numerous assumptions"*, from pg. 19, lines 23-24, and that a past under-collection of revenue may also be collected from future ratepayers.

**PUB-CA-15** In the response to RFI IC-NLH-51 Mr. Kennedy, the expert for Hydro, explains, when discussing the group depreciation concept (not group accounting), where the average life for the group is applied to each individual asset, that:

*"...this concept has been accepted in Canada by a number of regulatory bodies, including the following:*

- *British Columbia Utilities Commission in all of the filings of BC Hydro;*
- *The Saskatchewan Public Utilities Board in all of the filings of SaskPower;*
- *The Nunavut Utilities Rates Review Council in a filing of Qulliq Energy Corporation."*

Is Mr. Pous aware of the related decisions of these regulatory bodies?

1 **PUB-CA-16** If Mr. Pous is aware of the use of the group depreciation concept in British  
 2 Columbia, Saskatchewan and Nunavut, and its acceptance by the regulatory  
 3 bodies of these jurisdictions, would he consider the methodology and the  
 4 rationale used to be similar to that employed by Hydro?

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 6 **PUB-CA-17** If Mr. Pous believes the group depreciation concept employed and accepted in  
 7 British Columbia, Saskatchewan and Nunavut to be different than that  
 8 employed by Hydro, can he please outline the differences?  
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 11 **DIRECT TESTIMONY OF PATRICIA LEE**  
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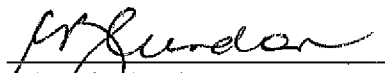
13 **PUB-CA-18** On pg. 8 of her Direct Testimony, Ms. Lee, the expert for the Industrial  
 14 Customers, states that Hydro does not include interest on the reserve in the  
 15 determination of depreciation expense and it should be included. Does Mr.  
 16 Pous agree with this statement? If yes, why and if not, why not?  
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18 **PUB-CA-19** On pgs. 11-12 of her Direct Testimony, Ms. Lee, the expert for the Industrial  
 19 Customers, states that Hydro, by restating the original cost of its assets to net  
 20 book value in January 1, 2011 as part of implementing IFRS and moving to a  
 21 remaining life technique, understates the depreciation rate and resulting  
 22 depreciation expense. Does Mr. Pous agree? Provide a detailed explanation  
 23 in the response.

**DATED** at St. John's, Newfoundland this 12<sup>th</sup> day of October, 2012.

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

Per

  
 Cheryl Blundon  
 Board Secretary