

1 Q. Please explain in detail why the Board should approve depreciation changes that
 2 will result in higher customer rate impacts on industrial customers than on retail
 3 customers. How is this consistent with "rates that are just and reasonable" (per
 4 paragraph 5 of the Application)?

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7 A. The revenue requirement for Newfoundland Power and Industrial Customers,
 8 based on the current and proposed depreciation methodology, is shown in the
 9 following table:

	Current Methodology (\$ million)	Proposed Methodology (\$ million)	Increase (Decrease) (\$ million)	Increase (Decrease) (%)
Newfoundland Power				
Cost of Service	271.5	276.3	4.8	1.8%
Rural Deficit	35.6	32.5	(3.1)	(8.7%)
Revenue Requirement	307.1	308.8	1.6	0.5%
Industrial Customers				
Revenue Requirement	14.8	15.2	0.3	2.2%

10 The increase in Newfoundland Power's revenue requirement of 0.5% is lower than
 11 the Island Industrial increase of 2.2% mainly as a result of the decrease in the rural
 12 deficit paid by Newfoundland Power. The rural deficit decrease is mainly
 13 attributable to the longer service lives recommended for many of the Rural asset
 14 classes.

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16 At the wholesale rate level, both Newfoundland Power and Island Industrial rates
 17 are estimated to increase by approximately the same amount of 2% as a result of
 18 depreciation methodology changes and thus, based on this outcome, can be
 19 considered to be a just and reasonable rate change.