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Q. 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.

A. There is a distinction between the depreciation rate reflected in revenue requirements of a base rate case and the requirement to record the appropriate depreciation provision to the accumulated provision for depreciation, also identified as the reserve. When Hydro changed interest rates applicable to a specific asset, the actual amount of depreciation expense recorded to the accumulated provision for depreciation should have also changed in order to maintain consistency with the sinking fund depreciation approach. In fact, the changing of the interest rate effectively resulted in a new depreciation rate for the specific asset. The results of a new depreciation rate for the specific assets at issue should have reflected the recalculation of the monthly depreciation expense based on the new interest rate. Therefore, when each refinancing or change to prior interest rates associated with sinking fund calculations were made, Hydro failed to record the higher monthly depreciation expense in the reserve and therefore, when Hydro ultimately performed more comprehensive and formal depreciation analyses, such analyses were based on incorrect and understated levels of reserve. The under reported reserve resulted in not only excessive new depreciation rates, but a situation where customers will have to pay more than 100% of the capital recovery if the situation is not corrected.