Requests for Information

1 2 3	NP-CA-005	Reference: <i>Comments on Newfoundland Power's 2022 Capital Budget</i> <i>Application</i> , Elenchus Research Associates Inc., August 13, 2021, page 17, lines 22-25.
4		"In order to manage long term risk the economic analysis of alternatives
5		In order to manage long term risk, the economic analysis of alternatives could include scenario analysis that examines the implications of a
07		could include scenario analysis that examines the implications of a reasonable range of different assumptions regarding costs trands and the
/ 8		aconomic (as opposed to physical) life of the alternative assets being
9		evoluated."
10		
11	QUESTION:	How would the economic life of an asset be determined? Please provide
12		examples of regulatory guidance from other Canadian jurisdictions
13		that address economic life determination.
14		
15	Response:	The economic life of an asset is the expected number of years that it is likely
16		to be used and useful. Just as the actual physical life of any asset cannot be
17		known with certainty and must be estimated, so too must the economic life
18		be estimated. Estimating the economic life of an investment is standard
19		practice for non-regulated corporations. For example, most technology
20		purchases require an assessment of the period of time before it will be
21		economic to replace an asset because it is obsolete although still
22		operational. For example, computer hardware and software are frequently
23		replaced due to obsolescence.
24		
25		Many explanations can be found on the web. For example, CFI, a provider
26		of online courses and certifications has an <u>explanation</u> that includes the
27		following summary:
28		
29		Summary
30	•	Economic life is the length of time an asset is expected to be useful
31		to the owner.
32	•	Assumptions when calculating economic life are that the asset will
33		be operated at a normal level of usage and with preventative
34		maintenance.
35	•	Economic life can be reduced or ended by asset wear and damage,
36		asset obsolescence, and changes in business operations.
37		
38		Some of the projects included in NP 2022 CBA are likely to have economic
39		lives that are shorter than the physical life of the assets due to economic
40		obsolescence rather than imminent physical failure. These include:
41		• Substation Modernization,
42		• Distribution Reliability Initiative,
43		• St. John's Teleprotection System Replacement, and

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