

1 Q. **Depreciation**

2 *With respect to Granite Canal, please provide a copy of the business case analysis*
3 *supporting construction of the facility, showing year by year projections of the life of*
4 *the plant of*

5 *(a) load or generation,*

6 *(b) avoided diesel quantities (barrels),*

7 *(c) avoided diesel expense,*

8 *(d) annual operating costs, and*

9 *(e) depreciation, interest and return under each of the four approaches to*

10 *depreciation used, previously proposed or proposed by Hydro, that is i) the sinking*

11 *fund method, ii) the Gannett Fleming 2005 Study approach, iii) the Gannett Fleming*

12 *2009 Study approach and iv) the approach proposed by the present [2012]*

13 *Application.*

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15 Please file, and update as applicable, Hydro's response to IC-NLH-8 (pages 1-3) in
16 the 2012 Hydro Depreciation Methodology Application. Please provide a more
17 complete description of the depreciation expenses shown in the table at pages 2-3
18 of Hydro's response to IC-NLH-8) in the 2012 Hydro Depreciation Methodology
19 Application including the explanation as to (a) why sinking fund depreciation
20 expense begins and end in earlier years than the ASL and ELG approaches, and (b)
21 why ELG leads to higher depreciation expense in each year than ASL throughout the
22 horizon, notwithstanding the principle that the ELG procedure should lead to the
23 same lifetime depreciation expense as the ASL procedure.

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26 A. This response has been provided by Concentric Advisors (Concentric).

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1 The depreciation methods used in the current depreciation study are different from
2 those proposed in the 2012 Hydro Depreciation Methodology Application.

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4 Firstly, the Board, in its Decision related to the 2012 Depreciation Study, approved
5 the change from the Sinking Fund method based on what was agreed to in the
6 negotiated settlement process. As the Sinking Fund method is not used by any
7 Concentric (formerly Gannet Fleming) depreciation clients, the Sinking Fund
8 method was not considered in the current application. Given the absence of its use,
9 the depreciation software used by Concentric no longer calculates depreciation
10 rates on a sinking fund method.

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12 Secondly, in this current application, the calculation of the depreciation rate is
13 based on the ELG procedure only on plant installed in 2015 and thereafter. In
14 contrast, the ELG based depreciation expense that was calculated in the original
15 2012 response to IC-NLH-8, was calculated on all vintages using the ELG procedure.
16 As such, the calculation of the depreciation rates for year going out as far as 2070
17 based on all vintages using the ELG procedure has not been completed, and would
18 be extremely time consuming and costly to complete during the information
19 request response timeline.

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21 Given the above, Hydro notes that the completion of this information request is not
22 possible to complete without significant time and effort, and would not result in
23 appropriate or meaningful results given the changes in the depreciation methods
24 being proposed in this application.

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26 While only the total original cost (as adjusted for net salvage) will be recovered
27 under either the ASL or ELG procedures, the cross over point between the ELG and

1 ASL procedures will be many years into the future Concentric point out, that over
2 the total life of any asset group only the original (or deemed original cost) will be
3 recovered through depreciation rates with either the ASL or ELG procedures.