

1 Q. Hydro cross-referenced the response to IC-NLH-044 to the response to NP-NLH-145.  
2 NP-NLH-145 does not appear to be fully responsive to this question.

3 Particularly:

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5 IC-NLH-044 requested clarification as to why any net salvage is recommended if the  
6 test is to only establish net salvage amounts for assets that will not be replaced at  
7 the same site, and it is likely that D01 assets (dams) will be replaced at the same  
8 site. The response to NP-NLH-145 appears to indicate that there are no plans to  
9 decommission existing dams, and if so a replacement will be located in the same  
10 location, specifically by the statement, per Attachment 1, page 2 of 5: “Not hearing  
11 that there is an end of life. Will be a structure there.” If this is Hydro’s evidence,  
12 please provide a full answer and explanation as to why this account would have any  
13 net salvage associated with the account.

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

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18 As noted in response to Hydro’s response to IC-NLH-159, the cost of removal data  
19 has not historically been tracked by unit of property (UOP), given that the costs of  
20 removal were charged to the income statement in the year of occurrence.

21 Therefore, while a 5-year history of actual income statement inclusions was  
22 available, an allocation (as described in Hydro’s response to IC-NLH-159) was  
23 required. As part of this allocation, a portion of the historic costs of removal were  
24 allocated (for analysis purposes only) to all UOP accounts that: (1) had historic  
25 retirement activity over the past 5 -year period; and (2) where Newfoundland  
26 Power had an approved net negative salvage percentage for a similar account.

1           On a go forward basis, all costs of removal will be tracked to the appropriate UOP  
2           such that future depreciation studies will be able to develop net salvage  
3           percentages by UOP in accordance with the capitalization and net salvage practices  
4           of Hydro. At that time, the net negative salvage percentages will be revised and any  
5           historic collections (from 2018 forward) will be trued-up to the percentages as  
6           determined in the next study.

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8           Concentric and Hydro acknowledge that the allocation process as described in  
9           Hydro's response to IC-NLH-159 results in circumstances where, given the  
10          differences in the capitalization policies between Newfoundland Power and Hydro,  
11          a net salvage percentage is being requested in a limited number of accounts where  
12          there may not be future cost of removal expenditures. However, it is stressed that  
13          overall the procedures followed are based on the actual level of historical cost of  
14          removal expenditures in total, and will result in the collection of expected future  
15          cost of removal amounts in total. As such, while there may be some accounts that  
16          have a higher than required net negative salvage percentage, they are offset by  
17          accounts that have a lower than required net negative salvage percentage. Further,  
18          as described above, future depreciation studies will ensure that a true-up of the  
19          collected amounts are reflected in the net salvage percentages going forward.  
20          Concentric notes that the true-up as contemplated in future years is no different  
21          than the accumulated depreciation true-up that have been, and will continue to be  
22          included in depreciation studies (including Newfoundland Power) for virtually all  
23          utilities throughout North America.