

1 Q. **Re: Section 6.2, page 6.2 and 6.3**

2 Citation:

3 Nalcor's accounting requirements relating to the recognition of depreciation and
4 interest expense on the LIL and LTA assets during the interim use period prior to full
5 commissioning of the Muskrat Falls Project are currently under review and Nalcor is
6 actively working on this issue. Should Nalcor be required to recognize these costs as
7 an expense as a result of transmission assets being used in advance of the full
8 project completion, it would be reasonable for Hydro to reimburse Nalcor for those
9 costs associated with Hydro's use of the assets. In this circumstance, Hydro will file
10 an application to the Board seeking to place these costs in a separate cost deferral
11 account for future recovery from customers.

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13 a) What entity is reviewing Nalcor's accounting requirements with respect to
14 the recognition of depreciation and interest expense on the LIL and LTA
15 assets during the interim use period?

16 b) Why should the accounting practices of a non-regulated entity affect
17 Hydro's obligations to it?

18 c) Please identify and quote any provisions of the Muskrat Falls Power
19 Purchase Agreement or any other agreement between Nalcor and Hydro
20 that suggest that, should Nalcor be required to recognize depreciation and
21 interest expense prior to full commissioning of the Muskrat Falls Project as a
22 result of transmission assets being used in advance of the full project
23 completion, Hydro should reimburse Nalcor for these costs, despite the
24 provisions of OC2013-343.

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- 1 A. a) Hydro has been informed that Nalcor is reviewing this matter, from an
2 accounting standards perspective, with its external auditors, Deloitte.
- 3 b) Nalcor's accounting policies do not create obligations for Hydro. The Muskrat
4 Falls Power Purchase Agreement and other agreements between Nalcor and
5 Hydro do not have specific provisions that deal with the potential depreciation
6 and interest issues at hand. However, if Nalcor's accounting policies determine
7 that depreciation and interest costs must be recognized during the interim
8 period prior to full commissioning of the Muskrat Falls Project as a result of the
9 use of the Labrador-Island Link and Labrador Transmission Assets during that
10 period, and given that OC2013-343 requires Hydro to recover the costs of these
11 assets, then consideration of a deferral account may be appropriate and could
12 be the subject of a future application to the Board.
- 13 c) Please refer to Hydro's response to part b).