

1 **Q. Reference: Justification Report, page 11, lines 7 – 15**

2 On a monthly basis, a fee will be charged to Hydro for its share of the depreciation costs  
3 related to the BST Program assets on a pro rata basis. Are Hydro's customers being asked  
4 to pay depreciation expense for assets owned by Nalcor, not Hydro? If so, please explain  
5 why this is appropriate.

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8 **A.** Newfoundland and Labrador Hydro's ("Hydro") customers will pay depreciation expense for  
9 assets related to the Business Systems Transformation Program which are owned by Nalcor  
10 and benefit Hydro's customers. Although ownership of the assets resides with Nalcor, it is  
11 appropriate for Hydro to pay for its share of the depreciation expense because Hydro will  
12 be using and receiving the benefits of the assets under the shared services model. The  
13 depreciation charges represent Hydro's share of the capital costs associated with the  
14 Business Systems Transformation Program. These costs are not charged to Hydro as  
15 incurred; rather, they are charged over the service life of the assets. This methodology is  
16 consistent with Hydro's Intercompany Transaction Costing Guidelines, which were provided  
17 as "2017 General Rate Application," Vol. II, Ex. 5.