

1 Q. **Reference: Schedule 3 - Holyrood TGS Overview**

2 Hydro explains on page 11, lines 1-7, that if capital investments relating to the Holyrood TGS life  
3 extension are capitalized, depreciation is required to be calculated on an accelerated basis and,  
4 in the event that the investment does not meet the criteria for capitalization, the expenditures  
5 would be recorded as an expense in the year incurred. Hydro states in the Application that in  
6 Order No. P.U. 33(2021) the Board approved the deferral of expenditure variances (emphasis  
7 added) in excess of \$2.5 million above the test year to mitigate material increases in Holyrood  
8 assets due to the projected end of generation date.

9 a) Please confirm that the definition of the Holyrood TGS Accelerated Depreciation Deferral  
10 Account approved by the Board includes only the deferral of the variance of the accelerated  
11 depreciation expense in excess of + \$2.5 million.

12 b) Is Hydro of the opinion that the definition of this deferral account needs to be broadened to  
13 include expenditure variances related to generation-related capital investments as a result  
14 of Holyrood TGS life extension that do not meet the criteria for capitalization, in addition to  
15 the accelerated depreciation expense? If no, please explain why and if yes, please provide a  
16 revised definition for the Board's consideration.

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19 A. a) Newfoundland and Labrador Hydro ("Hydro") confirms that the definition of the Holyrood  
20 Thermal Generating Station ("Holyrood TGS") Accelerated Depreciation Deferral Account  
21 approved by the Board of Commissioners of Public Utilities ("Board") includes only the  
22 deferral of the variance of the accelerated depreciation expense in excess of +/- \$2.5  
23 million.

24 In the Supply Cost Accounting Application,<sup>1</sup> requesting approval of the Holyrood TGS  
25 Accelerated Depreciation Deferral Account, Hydro included both depreciation and the  
26 potential expenditures that are in-service for less than 12 months under the umbrella of

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<sup>1</sup> "Supply Cost Accounting Application," Newfoundland and Labrador Hydro, July 29, 2021; sch. 1, sec. 7.3, p. 27.

1 Holyrood TGS Accelerated Depreciation. The calculation of accelerated depreciation of  
2 assets in-service and the potential expense associated with assets with an expected life of  
3 less than 12 months was referred to as 'Accelerated Depreciation Expense'. The forecast of  
4 accelerated depreciation expense for 2022 of \$32.2 million included \$23.4 million of  
5 Holyrood TGS accelerated depreciation and \$8.8 million of capital costs that may be  
6 required to be treated as operating costs.<sup>2,3</sup>

7 **b)** Hydro's opinion is that the definition was approved to include both the expenditure  
8 variances related to generation-related capital investments as a result of Holyrood TGS life  
9 extension that do not meet the criteria for capitalization and the accelerated depreciation  
10 expense based on the evidence presented in the Supply Cost Accounting Application.

11 Hydro will file a revised definition if the Board feels a distinction between the two should be  
12 reflected in the account definition.

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<sup>2</sup> "Supply Cost Accounting Application," Newfoundland and Labrador Hydro, July 29, 2021; sch. 1, sec. 7.3, p. 28, Table 6.

<sup>3</sup> Please refer to Hydro's response to Request for Information PUB-NLH-023 of the Supply Cost Accounting Application.