

1 **Section 3: Finance/Fair Return**

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3 **Q. (Section 3, Table 3-4) Table 3-4 shows Newfoundland Power’s forecast depreciation**
4 **expense until 2026. Please provide the depreciation rate used for each year and**
5 **indicate whether it is fair to say that the depreciation rate applied to distribution**
6 **assets indicates the useful economic life of those assets?**

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8 A. Newfoundland Power’s forecast depreciation expense for 2022 to 2026 forecast, reflects
9 the methodology and depreciation rates established through a depreciation study
10 completed by Gannett Fleming Valuation and Rate Consultants, LLC, based on plant in
11 service as at December 31, 2019.¹ This depreciation study was approved by the Board as
12 part of Newfoundland Power’s *2022/2023 General Rate Application*.²

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14 Newfoundland Power’s depreciation rates are typically reviewed every four to five
15 years.³ The Company’s next depreciation study is anticipated to be completed in 2025
16 based on plant in service as at December 31, 2024.

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18 The composite depreciation rate used to determine depreciation expense for 2022 to 2026
19 forecast is 3.37%.⁴ Individual depreciation rates for differing asset classes may vary.

20
21 No, it is not fair to say that the depreciation rate applied to distribution assets indicates
22 the useful economic life of those assets. Newfoundland Power follows a group
23 depreciation methodology using the equal life group procedure.⁵ As a result, the
24 depreciation rates used were based on original cost, attained ages, and estimates of
25 service lives and net salvage.⁶

¹ See the *2022/2023 General Rate Application, Volume 3, Expert Evidence, Tab 1, Depreciation Study: Gannett Fleming Valuation and Rate Consultants, LLC*.

² See Order No. P.U. 3 (2022), pages 12 and 13.

³ The Company’s previous four depreciation studies were completed for plant in service as at December 31, 2001, 2005, 2010 and 2014.

⁴ See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3.2.3 Depreciation, Table 3-4*.

⁵ See the *2022/2023 General Rate Application, Volume 3, Expert Evidence, Tab 1, Depreciation Study: Gannett Fleming Valuation and Rate Consultants, LLC*, page iii.

⁶ See the *2022/2023 General Rate Application, Volume 3, Expert Evidence, Tab 1, Depreciation Study: Gannett Fleming Valuation and Rate Consultants, LLC*, page I-4.