Q. **(Reference PUB-NP-001) PUB-NP-001 explains that NP uses group depreciation and that actual retirement experience is incorporated into subsequent depreciation studies. It further acknowledges that systematic changes in actual service lives relative to the lives assumed for depreciation purposes could affect future depreciation rates and customer costs. For assets accounted using group depreciation that are retired before their original cost has been fully recovered through depreciation:**

a) **Please describe the accounting entries made upon retirement, including the treatment of: i) original cost; ii) accumulated depreciation; iii) salvage and cost of removal; and iv) any remaining unrecovered investment.**

b) **Please confirm whether any unrecovered investment associated with the retired asset continues to be recovered from customers through depreciation expense or otherwise following retirement and, if so, please explain how.**

c) **In evaluating the financial consequences of replacing an asset before the end of its assumed service life, please explain whether NP includes the customer cost associated with any unrecovered investment in the asset being replaced. If yes, please describe how that cost is reflected in the analysis and provide an example from a 2027 capital project or program involving the replacement of existing assets. If not, please explain why not.**

A. a) When an asset accounted for under group depreciation is retired, the accounting treatment is as follows:

i) **Original Cost -** The original cost of the retired asset is removed from plant in service, and the corresponding amount is removed from accumulated depreciation.

ii) **Accumulated Depreciation -** Accumulated depreciation is reduced by the original cost of the retired asset, consistent with group depreciation accounting. Under this method, gains or losses are not recognized on the retirement of individual assets.

iii) **Salvage and Cost of Removal -** Any salvage proceeds received upon retirement are credited to accumulated depreciation. Costs incurred to remove the asset are charged against the future site restoration liability.

iv) **Remaining Unrecovered Investment -** Under group depreciation accounting, the retirement of an individual asset does not result in the recognition of a separate gain or loss. Rather, the effects of asset retirements are reflected in the accumulated depreciation reserve and, over time, incorporated into depreciation studies used to establish depreciation rates for the asset group.

This treatment is consistent with the principles of group depreciation whereby the accumulated depreciation reserve reflects the combined effects of depreciation accruals, asset retirements, salvage values, and removal costs across the asset group.

b) Any unrecovered investment associated with a retired asset does not continue to be recovered from customers through depreciation expense following the retirement of that asset.

Under Newfoundland Power's approved equal life group depreciation methodology, the effects of asset retirements are reflected in the accumulated depreciation reserve and are considered in subsequent depreciation studies used to establish depreciation rates for the applicable asset group.

c) Newfoundland Power does not separately quantify or include a customer cost associated with any unrecovered investment in an individual asset being replaced as part of its replacement project evaluations.

Under the Company's approved equal life group depreciation methodology, the financial effects of asset retirements are reflected through the accumulated depreciation reserve and are considered in subsequent depreciation studies used to establish depreciation rates for the applicable asset group. Replacement evaluations focus on factors such as safety, reliability, asset condition, operating performance, maintenance requirements, and the provision of least-cost service to customers.