

1 **Q. Page I-5 of the depreciation study by Gannett Fleming states that retroactive**  
2 **application of the mid-year convention has resulted in a decrease to the calculated**  
3 **accrued depreciation by approximately 12 million. Does this mean that the rate**  
4 **base has increased by approximately 12 million? If not, please explain why?**  
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6 A. No. This does not mean that the rate base has increased by approximately \$12 million.  
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8 On page I-5 of the depreciation study filed with Newfoundland Power's 2003 General  
9 Rate Application, Gannett Fleming states:

10  
11 *"The retroactive application of the mid-year convention has resulted in a*  
12 *decrease to the calculated accrued depreciation by approximately \$12M.*  
13 *The reduction of the theoretical reserve corresponds to a \$12.0 million*  
14 *increase to the reserve variance. The amortization amount will reduce*  
15 *depreciation expense since the Company's book accumulated depreciation*  
16 *currently exceeds the calculated accrued depreciation."*  
17

18 The calculated accrued depreciation is a measure to assess the adequacy of the  
19 Company's actual book accumulated depreciation amount. The calculated accrued  
20 depreciation is a tool used by depreciation professionals to assess the standing of the  
21 book accumulated depreciation amount based on the most recent available information.  
22

23 The calculated accrued depreciation is determined in the Gannett Fleming study based on  
24 the rates of depreciation recommended for use by Newfoundland Power on a go-forward  
25 basis, and based on the retroactive application of the mid-year convention. A comparison  
26 of calculated accrued depreciation determined on this basis as of December 31, 2001 of  
27 \$398.6 million to the Company's book accumulated depreciation as of that same date of  
28 \$415.8 million indicates that the reserve is theoretically overstated by approximately  
29 \$17.2. This difference is referred to in the study as the reserve variance, and results in the  
30 Company's proposal to reduce depreciation expense by \$5.8 million in each of the years  
31 2003-2005 ("true-up").  
32

33 Accumulated depreciation is deducted from plant investment in the calculation of rate  
34 base, as shown in Exhibit BVP-9. The theoretical overstatement of book accumulated  
35 depreciation, as referred to above, implies that rate base is theoretically understated as of  
36 December 31, 2001, and will remain understated until the reserve variance has been  
37 eliminated by way of proposed true-up in 2003-2005.