

1 **Q. Page I-7 of the depreciation study by Gannett Fleming states that in 1996 the Board**  
2 **decided, in Order No. P.U. 7 (1996) that the correction of the reserve variance**  
3 **should occur over a five-year period. What is the rationale for your request to**  
4 **amortize the current variance of \$17.2 million over three years?**  
5

6 A. The rationale for the Company's request to amortize the reserve variance of \$17.2 million  
7 over three years is contained on pages 57 through 59 of the *Finance & Accounting*  
8 *Evidence*.  
9

10 Newfoundland Power is proposing in this proceeding that the reserve variance in excess  
11 of 5 per cent be amortized over this three-year period to coincide with the timing of the  
12 next depreciation study, which in accordance with the historical five-year cycle is  
13 required in 2006, based on plant in service as of December 31, 2005.  
14

15 While amortization of the reserve variance over a five-year period, similar to that  
16 determined by the Board in Order No. P.U. 7 (1996), would result in a full amortization  
17 of the accumulated reserve variance over the five years, the accumulated reserve variance  
18 would not be fully amortized before the completion of the next depreciation study in  
19 2006, based on plant in service as of December 31, 2005.  
20

21 The three-year amortization period: (1) results in a net reduction of depreciation expense  
22 over the three-year period, (2) reduces the costs borne by Newfoundland Power's  
23 customers for that period, and (3) reflects the Board's view of the imprecise nature of  
24 depreciation true-up and the principles of intergenerational equity which were relied upon  
25 by the Board in Order No. P.U. 7 (1996-97).