

1 **Q. Have regulatory agencies elsewhere in Canada required utilities to use the “mid-**
2 **year” convention? If so which ones?**

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4 A. No. Canadian and U.S. regulatory agencies set depreciation rates based on certain
5 underlying depreciation parameters, i.e., service lives, survivor curves and net salvage
6 percents. However, regulatory agencies generally allow the utility company to decide the
7 manner in which depreciation accruals are determined for book purposes. Regulatory
8 agencies expect the utility company to provide an accurate determination of annual
9 depreciation.

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11 Regulatory agencies defer to the accounting principle that depreciation systems be
12 rational and systematic. Typically, they do not stipulate the manner in which annual
13 depreciation accruals are determined for book purposes.

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15 Gannett Fleming is not aware of any utility that does not use the mid-year or half-year
16 convention (or a similar derivation thereof) for purposes of calculating book depreciation.

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18 Gannett Fleming recommends that Newfoundland Power switch to the mid-year
19 convention for purposes of calculating book depreciation since this accounting practice is
20 more representative of the assumption that all plant added (or retired) during the calendar
21 year was installed (or removed), on average, on July 1. Gannett Fleming's
22 recommendation is also based on the fact that the mid-year convention is consistent with
23 accounting practice used by other electric utilities.

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25 Please refer to the Company's response to Request for Information CA-582 for additional
26 information and references with respect to the mid-year convention.