

Q. Would maintaining its long-standing practice of using beginning-of-the-year depreciation impose undue or higher accounting costs on Newfoundland Power?

A. Newfoundland Power's continued use of the full-year depreciation convention would not impose undue or higher accounting costs on the Company.

As noted on Page 33 of Grant Thornton's 2001 Annual Financial Review of Newfoundland Power Inc., "This change resulted in a decrease in depreciation expense of approximately \$864,000, which is a benefit to the consumer." For the 2003 test year, application of the mid-year convention results in a reduction in the Company's revenue requirement of approximately \$625,000, which again represents a benefit to the consumer.

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

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

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