

NP CA 07

1 Q. Page 19, lines 9 to 16 and Page 31, lines 1 to 13.

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3 Mr. Pous indicates that the appropriate corrective action associated with Hydro's
4 historical sinking fund practices is to restate the depreciation reserve which
5 would, in effect, reduce Hydro's rate base. Mr. Pous also indicates that Hydro's
6 annual depreciation expense should be reduced by \$3,104,518 which would, in
7 effect, increase Hydro's rate base from what it otherwise would be.

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9 Please explain in full why these two recommendations should not be viewed by
10 the Board as contradictory.

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12 A. The appropriate corrective action associated with Hydro's historical sinking fund would
13 reduce rate base to recognize the appropriate historic level of depreciation expense that
14 should have been recorded in the depreciation reserve. Alternatively, the proposed
15 reduction in depreciation expense will not change rate base until it has been recorded in
16 the accumulated provision for depreciation after it has been applied sometime in the
17 future. That proposal is a prospective analysis and is necessary to correct for
18 inappropriate life estimations reflected in the current Gannett Fleming depreciation
19 study. In other words, both actions are consistent as they are necessary to correct either
20 historic errors or current proposed artificially short average service lives.