

1 **Q. Reference: Volume III, Exhibit 8 - 2024 Technical Update page 1-1**

2 Hydro reports an annual depreciation expense of approximately \$78.2 million reflecting updated
3 plant balances, depreciation parameters, and assumptions as of December 31, 2024. Compare
4 the annual depreciation expense between 2019TY and 2027TY and identify the specific factors
5 contributing to that increase.

6 Of the total change, how much is attributable to:

- 7 • new plant additions;
- 8 • changes in average service life assumptions;
- 9 • changes in survivor curve selections;
- 10 • changes in net salvage assumptions;
- 11 • updates to plant balances; and
- 12 • any other material factors.

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15 **A. *This response was provided by Concentric Advisors, Inc. ("Concentric").***

16 Newfoundland and Labrador Hydro ("Hydro") is unable to completely isolate the impact of any
17 single change on the total depreciation rate, as any one change impacts the others. For
18 example, an increase in the average service life of a unit of property by five years will result in a
19 decrease in the net salvage recovery, even if the net salvage estimate stays the same, as there
20 are now five more years to accumulate the necessary net salvage amounts. This is particularly
21 important when considering a system that has had the amount of growth in new additions that
22 has been seen in Hydro since the 2019 Test Year. The changes in vintaging and new additions
23 results in significant increases in accrual amounts, regardless of the depreciation parameters
24 selected.

To provide a response, Concentric has calculated the impacts of a variety of changes on the total depreciation rates, combining the impacts of new plant additions with the changes in plant balances.

The currently recommended depreciation accrual amount is \$78,211,656. Concentric tested the currently approved 2019 Test Year depreciation parameters as provided in the 2016 Depreciation Study on the 2024 balances to see the impact of the updated plant balances and additions since the last depreciation study. When these calculations were conducted, it was found that the currently approved 2019 Test Year average service lives, Iowa curves, and net salvage estimates using 2024 balances produce a total depreciation accrual amount of \$81,773,023. As such, it can be assumed that the majority of the increase in depreciation expense is due to additions and changes in vintaged plant balances. Updating the recommended average service lives while maintaining the currently approved Iowa curves and net salvage estimates results in a total accrual amount of \$81,760,175, a reduction of \$12,848. Updating the Iowa curve recommendations to the current study, while maintaining the currently approved average service lives and net salvage estimates, results in a total accrual amount of \$81,216,812, a reduction of \$556,211. Updating the net salvage recommendations while maintaining the currently approved lives and Iowa curves results in a total depreciation accrual of \$79,035,470, a reduction of \$2,737,553. The remaining \$254,755 difference is due to the overlapping nature of each depreciation parameter.

Table 1: Depreciation Scenarios (\$)

Scenario	Total Accrual	Difference From Base Case
Base case – 2024 balances with 2019 Test Year approved parameters	81,773,023	-
As filed in 2024 Technical Update	78,211,656	-3,561,367
2024 Balances with updated average service lives, currently approved Iowa curves and net salvage	81,760,175	-12,848
2024 Balances with updated Iowa curves, currently approved average service lives and net salvage	81,216,812	-556,211
2024 Balances with updated net salvage, currently approved average service lives and Iowa curves	79,035,470	-2,737,553
Overlapping Impact		-254,755

1 This provides detail on the variances between the 2016 Depreciation Study and 2024 Technical
2 Update on the December 31, 2024 capital asset depreciation balances. For a further comparison
3 of the \$31.1 million variance between the 2019 Test Year and 2027 Test Year Depreciation
4 Expense, please refer to Hydro's response to part a) of CA-NLH-090 of this proceeding.