Q. **Reference: Volume III, Exhibit 11 – Holyrood Thermal Generating Station Accelerated Depreciation Deferral Account**

a) Provide an explanation for the significant increase in the Actual Depreciation for the 2028F and 2029F in comparison to the 2027TY.

b) This deferral account has not been included in rate base in prior years. Provide Hydro's reasoning to support the inclusion of this deferral account in rate base for the 2027TY.

A. **a)** The increase in actual depreciation for 2028F and 2029F in comparison to the 2027TY is primarily due to the following:

- Prior-year additions will have a full year of depreciation in the year after the addition is in service in comparison to a few months of depreciation in the year it is put in service. For example, 2027 additions will depreciate for a full year in 2028 while only going in service late in the year in 2027.
- Due to the accelerated depreciation of Holyrood Thermal Generating Station ("Holyrood TGS") assets, any new additions will have a higher rate of depreciation the closer to the end-of-steam date of March 31, 2030 they go into service. For example, a $1,000,000 plant addition at December 31, 2026 will have a monthly depreciation of $25,000 ($1,000,000/40 months = $25,000), while a $1,000,000 plant addition at December 31, 2028 would have a monthly depreciation of $62,500 ($1,000,000/16 months = $62,500).
- There are a number of projects forecast to require sustaining capital in the next few years that impact the forecasted accelerated depreciation expense. For example, an estimated $33.3 million and $18.6 million in sustaining capital projects for Holyrood TGS in 2027 and 2028, respectively. These expenditures include projects such as boiler condition assessments, overhauls of turbines, generators and major pumps, and the Thermal In-Service Failures Program. Given the short remaining useful life of

these asset additions, sustaining capital costs drive significant increases in Holyrood TGS accelerated depreciation expense.

b) Please refer to Newfoundland and Labrador Hydro's response to PUB-NLH-100 of this proceeding.