

1 Q. Please explain how Hydro forecasts loss on disposal costs. The explanation should
2 consider the variability of the cost on an annual basis. (Volume I, Section 3:
3 Finance, Schedule 1, page 1 of 11, line 8)

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6 A. The "loss on disposal costs" or "other income and expenses" noted in Hydro's
7 Amended Application, Volume I, Section 3: Finance, Schedule 1, Page 1 of 11, line 8
8 is primarily comprised of loss on disposal, removal costs and insurance proceeds.

9

10 The budgeted "other income and expenses" is completed as part of the capital
11 budgeting process on a project-by-project basis. Since there is variability in the
12 capital plan from year to year, there will be variability in "other income and
13 expenses" as well.

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15 Any capital projects that replace, upgrade or overhaul existing assets will result in
16 the retirement of existing assets. The loss on disposal on those assets will be
17 determined based on their net book value at the time they are budgeted to be
18 retired from service.

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20 Assets that are at the end of their useful life and are permanently removed from
21 service will be evaluated to determine if there are associated removal costs.
22 Removal costs are determined based upon the estimated costs to remove physical
23 material from its location such as contract labour, lease costs for equipment and
24 transportation charges.

25

26 Hydro records the portion of insurance proceeds that are applied to the income
27 statement in "other income and expenses". If there are any insurance proceeds

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1 forecasted, they would reduce "other income and expenses". Hydro budgets
2 insurance proceeds on known projects that are expected to receive insurance
3 proceeds.