# SECTION 7: DEPRECIATION

## 7.1 Summary

1. AEY engaged Concentric Advisors, ULC (Concentric) to complete a study and recommend depreciation parameters for the 2023-2024 General Rate Application based on asset plant balances as of December 31, 2022 (Concentric Depreciation Study). AEY has updated the depreciation rates and parameters as per the recommendations of the Concentric Depreciation Study (please refer to Attachment 1).

2. The outcome of the Concentric Depreciation Study resulted in a slight reduction in overall rates for the amortization of life balances, from 2.75 percent to 2.67 percent, as well as reinstatement of Net Salvage utilizing a phased in approach resulting in a 0.47 percent Salvage rate.

3. The updated depreciation expenses included in this Application are outlined in Schedules 7.1 through 7.4 and are summarized below in Table 7.1.

**Table 7.1: Depreciation**
**($000)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | | | | | | Test Period | |
| Depreciation Expense - Life | 5,835 | 6,115 | 6,293 | 6,382 | 6,707 | 6,950 | 7,343 | 6,687 | 8,471 |
| Net Salvage[1] | - | - | - | - | - | - | - | 2,008 | 2,103 |
| Total Deprecation Expense | 5,835 | 6,115 | 6,293 | 6,382 | 6,707 | 6,950 | 7,343 | 8,695 | 10,574 |

4. The annual increases in depreciation expense from 2018 to 2022 are due to growth in property, plant and equipment. The increases in depreciation expense in the Test Period compared to 2022 are mainly driven by the restart of the Net Salvage collection, which is explained further below in Section 7.2, partially offset by a reduction in the overall Life amortization rates. In addition, the depreciation expense increases from 2023 to 2024 are due to the full year depreciation of the CIS Program, the capitalization of large renewable projects (which are contributed projects and the expense is offset by the

1 Subject to change based on the results of the Concentric Depreciation Study.

Amortization of Contribution, as reflected in Table 7.2), as well as the increase in customer base resulting in increased distribution improvements.

**Table 7.2: Amortization of Contributions ($000)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | | | | | | Test Period | |
| Amortization | (1,499) | (1,525) | (1,538) | (1,635) | (1,754) | (1,877) | (2,033) | (2,159) | (2,528) |

5. The depreciation rates used to calculate actual amounts for 2018 through to 2022 were determined by a Depreciation Technical Update conducted in 2018, based on Depreciation Parameters approved in Board Orders 2014-06 & 2017-01. The forecast 2023-2024 depreciation expense amounts are calculated using the rates provided by Concentric in the 2022 Depreciation Study.

## 7.2 Negative Net Salvage

**Table 7.3: Negative Net Salvage ($000)**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | | | | | | Test Period | |
| Opening Net Salvage | (3,692) | (3,469) | (3,286) | (2,846) | (2,158) | (1,661) | (1,351) | (477) | (1,542) |
| Removals | 223 | 183 | 440 | 688 | 497 | 310 | 874 | 1,000 | 1,264 |
| Salvage Depreciation | - | - | - | - | - | - | - | (2,008) | (2,103) |
| **Ending Net Salvage** | **(3,469)** | **(3,286)** | **(2,846)** | **(2,158)** | **(1,661)** | **(1,351)** | **(477)** | **(1,485)** | **(2,381)** |

6. AEY discontinued collection of Future Removal and Site Restoration, or Negative Net Salvage as directed in Board Orders 2009-2 and 2014-06. Current reserve balances are not sufficient to fund planned salvage over the next several years.

7. As AEY's current assets continue to age there is an increase in the amount of salvage work and site restoration required, as reflected in the increased forecast of removals in the table above. In addition, there are larger projects that will require salvage work, such as the Old Crow Project. If AEY does not build up this reserve to address aging assets, the funding will not be available when the work is required and there is a

risk of generational inequity where future customers will be funding the salvage of assets from which previous customers benefitted.

8. AEY is requesting Board approval to resume collection of Negative Net Salvage in revenue requirement. Concentric confirmed the need for Negative Net Salvage in order to minimize future intergenerational equity issues, as well as to reduce the risk of larger-scale increases in net salvage rates being necessary in the future.[2] The current reserve balance of $0.5 million is not enough to fund upcoming retirements and salvage work.[3] These identified factors support AEY's position that the collection of Negative Net Salvage should be restarted during this Test Period. The estimates for salvage depreciation included in this Application have been updated to the final Concentric Depreciation Study balances. AEY requested that Concentric consider a phase-in approach to the re-instatement of Negative Net Salvage to mitigate rate pressures in the Yukon, while ensuring the appropriate funding is collected for future salvage and restoration work.

[2] Concentric Depreciation Study, PDF pages 13-14.
[3] Ibid.