

1 **Q. Evidence of Ms. McShane, business risk, Pages 12-18: Ms. McShane mentions long**
2 **term risk as changes that may affect the long run viability of the utility. Please**
3 **confirm that the long run risk of stranded assets or the viability of the utility is**
4 **normally assessed in determining the useful life of the assets through a depreciation**
5 **study.**

6
7 A. Confirmed in the sense that depreciation studies utilize an estimate of the economic or
8 service life of the utility's assets to which the depreciation rate is to be applied. These
9 estimates are subject to error. As the National Energy Board found in *Reasons for*
10 *Decision, TransCanada Pipelines Limited, RH-2-2004, Phase II*, April 2005 the cost of
11 capital is intended to compensate for the risk that the best estimate of the economic life as
12 reflected in the depreciation rates may ultimately prove to be wrong.