

1 **Q. [Account 361.2] – In response to CA-NP-111, the Company states that the historical**
2 **data indicates a longer life than the 40-year estimate in the 2005 study. However, it**
3 **also claims that an increase beyond 45 years is not warranted at this time. Given the**
4 **observed life table at page A-72 of the Gannett Fleming Study which includes the**
5 **retirement activity associated with the underground conductors that experience**
6 **premature failures, provide all support and justification why an average service life**
7 **beyond 45 years is not warranted at this time. To the extent the Company relies on**
8 **expectations that at some point in the future retirements will return to their pre-**
9 **1990 levels, provide all support and justification for such position, along with all**
10 **analyses performed to demonstrate the validity of such claim.**

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12 **A.** As indicated in the response to Request for Information CA-NP-111, the 45-R3 survivor
13 curve represents an increase over the existing estimate, is at the upper end of the industry
14 range for this type of property, and is consistent with the estimate for underground
15 services. Due to these considerations, a gradual increase of five years is more appropriate
16 than a more dramatic increase. This is consistent with the approach used throughout the
17 Depreciation Study, in which gradual changes *increases or decreases* were favoured over
18 significant changes.¹

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20 Other considerations support a more gradual change in this case. For the 45-R3 survivor
21 curve, approximately 70% of retirements will occur after age 40, and approximately 80%
22 will occur after age 35. However, of the underground services in service at the time of
23 the Depreciation Study, approximately 97% were younger than age 40 and approximately
24 94% were younger than age 35. Thus, the vast majority of the property in this account
25 had not been in service long enough to provide a definitive life indication. Further, since
26 the 1990s there have been very few retirements in this account. This is likely a result of
27 the relatively young age of the property in this account. However, based the experience
28 of other utilities and a general knowledge of the type of property in this account it is
29 likely that as more of the assets in this account approach ages 40 to 50 the Company will
30 start to experience higher levels of retirements.

31
32 All of these considerations support a more gradual increase in service life, and provide
33 evidence as to why a larger increase is not warranted at this time.

¹ For example, higher net salvage data for substations supported much higher net salvage percentages than the 15 percent used in the Depreciation Study. However, a more gradual increase in negative net salvage was used for the Depreciation Study.