1 **Q.   [ELG] – Please provide a detailed narrative explanation of specifically what is**
2 **reflected on Figure 3 on page 12 of Appendix A and specifically what each value is**
3 **intended to represent, as well as all assumptions, considerations, and material**
4 **reviewed and/or relied upon in sufficient detail to permit replication. Further,**
5 **specifically state and justify why the period 2010 through 2040 was relied upon.**
6
7 A.   The five scenarios presented in Figure 3, page 12, Appendix A, are as follows:
8
9   (i)   40-R2: the service life estimate is the 40-R2 survivor curve for the period 1990 to
10   2040, which matches the actual experience for the account
11   (ii)   35-R2: the service life estimate is the 35-R2 survivor curve for the period 1990 to
12   2040, which is a shorter service life than the actual experience for the account
13   (iii) 45-R2: the service life estimate is the 45-R2 survivor curve for the period 1990 to
14   2040, which is a longer service life than the actual experience for the account
15   (iv)   Change from 35-R2: the service life estimate is the 35-R2 from 1990 to 2009, and is
16   then corrected to the 40-R2 survivor curve in 2010. The 40-R2 survivor curve
17   remains from 2010 to 2040, which matches the actual experience for the account.
18   (v)   Change from 45-R2: the service life estimate is the 45-R2 from 1990 to 2009, and is
19   then corrected to the 40-R2 survivor curve in 2010. The 40-R2 survivor curve
20   remains from 2010 to 2040, which matches the actual experience for the account.
21
22   The "Average Error ELG" and "Average Error ALG" columns in Figure 3 represent the
23   average of the error calculated for each procedure for the period 2010 through 2040. This
24   is measured as the absolute value of the difference between the depreciation rate
25   calculated for the given scenario and the depreciation rate calculated for the 40-R2
26   survivor curve scenario, based on the same calculation procedure. This is consistent with
27   Mr. Pous' measure of error in Appendix B of his testimony.
28
29   The "Average Error ALG to Correct ELG Rate" column in Figure 3 is the average of the
30   error calculated for the period 2010 through 2040. This is measured as the absolute value
31   of the difference between the depreciation rate calculated for the given scenario using the
32   ALG procedure and the depreciation rate for the 40-R2 survivor scenario based on the
33   ELG procedure. This comparison is actually the most appropriate measure of error.
34   Since the account is known to have retirements that occur in accordance with the 40-R2
35   survivor curve, the depreciation rates based on the 40-R2 survivor curve and the ELG
36   procedure are equivalent to depreciating each unit over its actual life. Thus, the ELG
37   depreciation rates based on the 40-R2 survivor curve in this example are the depreciation
38   rates that correctly match the cost of each asset to its consumption.
39
40   The 2010 to 2040 period was selected for Figure 3 to show the average error that results
41   after the correction to the 40-R2 survivor curve occurs.
42
43   Material reviewed and/or relied upon for Figure 3 has been provided in the response to
44   Request for Information CA-NP-632.