

1 **Q. [Life] – Regarding the statement on page 19 of Mr. Wiedmayer’s rebuttal testimony**
2 **that there is an accepted rule of thumb regarding excluding data points where the**
3 **level of exposures become insufficient, please provide all support and justification**
4 **for the stated rule of thumb of 1% of the largest dollar level of exposures for the**
5 **account, including all underlying documentation.**

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7 A. The 1% exposure criterion is an established guideline for curve fitting utilized by Gannett
8 Fleming based on our experience in performing hundreds of depreciation studies and
9 analyzing thousands of life tables. It is Mr. Wiedmayer’s experience that this is an
10 accepted guideline.

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12 It should be noted that Mr. Pous has also considered the 1% criterion acceptable, as he
13 responded in an Information Response to the Alberta Utilities Commission that “Mr.
14 Pous generally relies on a 1% criterion for the cutoff of where data becomes insufficient.”
15 Attachment A provides the referenced Alberta Utilities Commission Information
16 Response.

Information Request AUC

AUC-UCA-12

Reference: Exhibit 71.03, Direct Testimony of Jacob Pous, page 6, Q12/A12

Quote: “Mr. Kennedy has subsequently attempted to state that his curve-fitting criterion is professional judgment, but he also admitted that professional judgment is a process, not a criterion. Professional judgment does not represent or present a criterion upon which any particular value has been determined. Professional judgment must rely on various criteria such as when Mr. Kennedy relied on a “1% of the original cost” criteria to determine in the professional judgment process that plant exposed to retirement was insignificant.”

Request:

- (a) Please describe and discuss the criteria and process that Mr. Pous uses in arriving at his conclusions. Where possible, please provide the range of options available for each criteria and what information is used, and the weighting given to each criteria.
- (b) Beyond the criteria listed in part (a) above, are there other considerations or factors a depreciation professional should use in determining the appropriate weight for each criteria?
- (c) Are discussions with management and/or operations staff part of the process of reaching a professional judgment? To what degree do discussions with management and/or operations staff affect the resultant depreciation rate?

Response:

- (a) Mr. Pous first investigates the type of investment in an account so as to better understand the results of statistical analyses. Mr. Pous then reviews the level of exposures at different age brackets within the actuarial results. Mr. Pous generally relies on a 1% criterion for the cutoff of where data becomes insufficient. Mr. Pous also investigates unusual patterns of retirement activity reflected throughout age brackets. For example, if what appears to be a disproportionate level of retirement activity for retirement of poles occurs at an early age, and Mr. Pous can obtain the underlying basis for the disproportionate level of retirement activity at early age brackets, it may be determined that there was an unusual set of events (e.g., a major firestorm) that occurred in an area shortly after such investment was placed into service. While the possibility does exist that another set of circumstances identical to those may arise in the future, the likelihood of such an identical event is not that great, and therefore such facts should be taken into account.

An example of why Mr. Pous attempts to understand the type of investment within each account is previously noted for mains. There are normally different types of investments in mains, and the timing within a type of investment may also make a difference. For example, early generation plastic pipe exhibited early retirements due to poor chemical composition as well as poor glue and joint fittings. Newer generations of plastic pipe have solved problems that previously existed and have much longer life expectancy. Therefore, one of the criteria

would be to determine what aspects of the observed life table correspond to what type of asset and what caused what would appear to be unusual retirement activity at various age brackets. Another criterion is the movement of the observed life table based on shorter experience bands. Experience bands are employed in an attempt to determine whether there are trends in the data caused by changing policies, practices, laws, or other circumstances associated with the investment in a particular account. If the observed life table becomes more elevated as shorter experience bands are investigated, then one can take into consideration that there may be a trend towards longer life expectancy as more current practices, laws, and other factors are allowed to be reflected in the retirement forces applicable to the asset. While it is difficult to give a generic answer as to weighting given to each criterion, the less specific individual items of knowledge that would distinguish different generations of investment are available, then the dollar level of exposures and the fitting of the observed life table during periods corresponding to higher dollar level of exposures should be given greater weight in the curve-fitting criteria process.

- (b) See the response to subpart (a) above. In addition, more detailed causes of retirement and better categorization of plant and of retirements within an account provide information that can change the weighting of the various criteria employed in the development of the final result.
- (c) Information from Company management is often helpful. However, it is also often misleading. The information obtained from Company management must be supported by facts and documentation rather than pure opinion, as certain Company personnel may only be exposed to limited levels of meaningful depreciation-related information associated with a particular asset. Moreover, often information obtained from Company personnel is of such a generalized nature that it could support a wide array of results. For example, if Company personnel indicate that there have been very limited levels of retirements of pipe younger than 50 years due to factors other than relocations or dig-ins, one might conclude that the average life is greater than 50 years. However, without more definition and support for the information and basis for the generalized opinion, the same statement could support a 60-year life, or even a 70-year life. The best example of why discussions with management cannot be blindly relied upon without further investigation and support is the fact that in the late 1960s and early 1970s, when nuclear plants were being placed into service, discussions with management yielded life expectancies of approximately 25 to 30 years. While that was an opinion based on general thoughts of utility managements at that time, without any meaningful underlying analyses, it has been proven to be woefully in error. Later, the life expectancy for nuclear power plants was increased to 40 years, and in approximately the last 15 years, the life expectancy for nuclear power plants has been increased to 60 years. Thus, discussions with management or operations staff may provide useful information, but it may also provide misleading information based on unsupported or erroneous opinions or impressions. Therefore, any meaningful or significant items of information obtained from management personnel should be clearly stated and supported so as to determine the appropriate use in the development of appropriate depreciation rates.