THE 2013/2014 GENERAL RATE APPLICATION BY NEWFOUNDLAND POWER, INC.	§ § § §	**BEFORE THE NEWFOUNDLAND AND LABRADOR BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

Surrebuttal Testimony

of

Jacob Pous

On behalf of

The Consumer Advocate of Newfoundland and Labrador

Diversified Utility Consultants Inc.
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January 18, 2013

SURREBUTTAL TESTIMONY AND EXHIBITS OF JACOB POUS

ACRONYMS

2010 STUDY	Gannett Fleming 2010 Depreciation Study for Newfoundland Power, Inc.
ALG	Average Life Group
ASL	Average Service Life
BOARD	Board of Commissioners of Public Utilities
CA	Consumer Advocate of Newfoundland and Labrador
COMPANY OR NP	Newfoundland Power, Inc.
DUCI	Diversified Utility Consultants, Inc.
ELG	Equal Life Group
FCC	United States Federal Communications Commission
FERC	Federal Energy Regulatory Commission
OLT	Observed Life Tables

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	§	OF PUBLIC UTILITIES

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SECTION I: INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jacob Pous and my business address is 1912 W Anderson Lane, Suite 202, Austin, Texas 78757.

Q. ON WHOSE BEHALF ARE YOU PROVIDING THIS TESTIMONY?

A. I am testifying on behalf of the Consumer Advocate of Newfoundland and Labrador ("CA").

Q. ARE YOU THE SAME JACOB POUS THAT FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my surrebuttal testimony is to address various issues and statements made by Newfoundland Power Inc. (the "Company" or "NP") and Mr. Wiedmayer in rebuttal testimony. In particular I will address the equal life group ("ELG") versus average life group ("ALG") calculation procedure, the development of life parameters including original life tables ("OLT"), and the development of net salvage.

SECTION II: ELG VS. ALG DEPRECIATION

A. General

Q. WHAT IS THE ISSUE IN THIS PORTION OF YOUR SURREBUTTAL TESTIMONY?

A. This portion of my testimony addresses the various issues raised by the Company in its rebuttal regarding the equal life group ELG versus ALG calculation procedure.

Q. FROM A HIGH LEVEL PERSPECTIVE, WHAT IS THE IMPACT OF ELG VERSUS ALG DEPRECIATION?

A. In this proceeding, the adoption of the ALG procedure rather than the Company's proposed ELG procedure results in a $3.8 million annual reduction in depreciation expense.[1] Any impression left by the Company's rebuttal, as expressed in Table 3 at page 10 of 12 of Section I or in Exhibit R2, claiming there is a $3.670 increase in 2014 revenue requirements should be ignored as that presentation is illusionary at best and misleading at worst. The Company's presentation reflects the reversal of ELG based rates in the accumulated provision for depreciation since the late 1970s. This reversal will not transpire. In fact, not even the Company is proposing anything along those lines. Any concept that adapting the ALG calculation procedure will increase 2014 revenue requirements is completely inaccurate and bears no relationship to the actual impact of adopting the ALG depreciation procedure in this proceeding.

Q. AGAIN FROM A HIGH LEVEL PERSPECTIVE, DOES THE ELG CALCULATION PROCEDURE RESULT IN A FORM OF ACCELERATED DEPRECIATION?

A. Yes. While the Company's rebuttal testimony presents discussions differentiating between methods and procedures, not even the Company denies that the ELG calculation procedure results in higher or accelerated depreciation expense than the ALG procedure as reflected in customer annual rates. It is significant that no party in this proceeding claims that the ALG calculation procedure is not a straight-line form of depreciation. The same cannot be said for the ELG procedure. Therefore, based on simple logic and common sense, if a numeric procedure is concocted that results in capital recovery at a more accelerated pace than another procedure that is a straight-line procedure, then no matter what caveats may be strung together to leave a contrary impression, the actual result is accelerated depreciation. The ELG procedure is no different than other forms of accelerated depreciation such as sum of years digits, which results in a mathematical combination that recovers capital through depreciation on a more accelerated basis than through a straight-line method, approach, or procedure. In spite of the accelerated form of

[1] Company rebuttal Exhibit R2.

depreciation associated with the sum of years digits mathematical approach, caveats as applied to ELG, can also be concocted for the sum of years digits to show that the recovery is over a specific grouping of life characteristics. Simply put, when judging whether the ELG calculation procedure is a form of accelerated depreciation in comparison to the industry standard ALG calculation procedure, there can be no question of the results. The ELG calculation procedure recovers capital on a more accelerated basis than the industry standard ALG calculation procedure.

Q. PLEASE PLACE YOUR REFERENCE TO THE ALG CALCULATION PROCEDURE AS BEING THE INDUSTRY STANDARD IN PROPER PERSPECTIVE.

A. The initiation of the ELG calculation procedure into regulated utilities was heavily fostered by the telephone industry back in the 1970s. The telephone industry was experiencing changes which caused rapid turnover of capital investment over a short period of time. This was not the situation for the energy industry (i.e., electric and gas utilities). However, as regulatory commissions began to adopt ELG depreciation for telephone companies, certain electric and gas utilities took advantage of the situation and proposed implementation of the ELG procedure for their systems.

Indeed, in the 1970s the United States Federal Communications Commission ("FCC"), which regulated telephone companies, ordered the mandatory adoption of ELG depreciation to be utilized by state regulatory commissions. While United States regulatory commissions began the implementation of the ELG calculation procedure for telephone companies, several commissions challenged the FCC's authority on this matter. While it took several years, the United States Supreme Court ultimately overruled the FCC and many state commissions returned to the standard ALG procedure. However, a limited number of commissions continued to allow ELG depreciation, even for energy utilities, after accepting such calculation procedure for telephone utilities.

Q. IS THERE ANY QUESTION THAT THE ALG CALCULATION PROCEDURE IS BY FAR THE PREDOMINANT PROCEDURE UTILIZED IN THE UNITED STATES?

A. No. The Federal Energy Regulatory Commission ("FERC") does not allow ELG depreciation and most state commissions rely on the ALG calculation procedure. To my knowledge, there is but a handful of state regulatory commissions that allow the ELG calculation procedure for energy utilities. Indeed, the vast majority of depreciation cases in the United States where Gannett Fleming submits testimony on the topic of depreciation, it proposes the ALG procedure.[2]

Q. IS THE SAME TRUE FOR CANADA?

A. No. Depending on how one views the data, one could argue that approximately half to a slight majority of Canadian energy utilities rely on the ELG calculation procedure. Approximately half of the utilities listed on Exhibit R1 to the Company's rebuttal that rely on the ELG procedure are associated with the province of Alberta. In part, Alberta's reliance on the ELG calculation procedure stems from a former chairman of the Alberta regulatory commission whose background was in telephone depreciation and, as such, followed the standard telephone industry practice of requiring reliance on ELG depreciation. Based on comments from commissioners in Alberta during a recent proceeding, the Alberta commission may entertain investigation of whether a return to the ALG procedure may be warranted.

Q. BASED ON YOUR REVIEW OF THE INFORMATION, WHAT DO YOU CONCLUDE REGARDING THE INDUSTRY STANDARD FOR DEPRECIATION CALCULATION PROCEDURES?

A. As it applies to energy-related utilities such as electric and gas utilities, there is no question that the industry standard calculation procedure for depreciation purposes is the ALG calculation procedure. Even in Canada, where the ELG procedure appears to be used by a slight majority of gas and electric utilities, it can hardly be stated that the ELG calculation procedure is the standard. Moreover, this Board of Commissioners of Public

[2] Response to CA-NP-618.

Utilities ("Board") just adopted the ALG procedure for Newfoundland and Labrador Hydro.

Q. IS IT NECESSARY TO RAISE A FURTHER CONCERN REGARDING THE REVIEW OF THE ELG AND ALG CALCULATION PROCEDURES AS PRESENTED IN THIS PROCEEDING?

A. Yes. When viewing information, examples and testing associated with the ELG or ALG calculation procedures, it is concerning that the Company often utilizes the word "actual." While the data presented is the actual data in the example, it is not actual data corresponding to historical transactions of the Company or even what will transpire in the future. The "actual" data referenced in the examples are the assumed retirement pattern in the example. Therefore, they are the "actual" values for illustrative purposes in the example; they are not the real "actual" data that has transpired on the Company's system historically or will occur in the future.

Q. CAN YOUR PROVIDE A SIMPLE AND STRAIGHTFORWARD EXAMPLE OF THE DIFFERENCE?

A. Yes. Recall that the ELG calculation procedure assumes the ability to precisely predict annual levels of retirement activity by age in the future. These types of examples are set forth in Mr. Wiedmayer's rebuttal testimony and in Appendix B to my direct testimony. However, reality is different from informational examples. Presented on pages 15 to 27 of Appendix B to Mr. Wiedmayer's rebuttal testimony is Figure 7. That figure depicts the actual, not assumed theoretical, pattern of retirements that actually occurred for Account 361.2 and 367.2 – Underground Cable and Switches for the period 1969 through 2009.

The Company's selected 42R3 life-curve combination for these accounts predicts and relies on some level of retirement activity in every year for every age of prior vintage additions. This simply means that plant placed in service in 1972 would see some level of that plant retiring from age bracket 0.5-year through age bracket 76 years. The same would be true for plant placed in service in 1972, 1973, and so on. Therefore, it would be theoretically impossible for even a single year to pass where the Company did not retire

some investment in these accounts between 1972 and 2009, but that is exactly what transpired. As presented on Figure 7, the Company experienced approximately a decade long period where it did not retire a single dollar of investment in these accounts. For whatever reason, that pattern represents the real world of utility operation, yet the ELG calculation procedure assumed a significant level of retirement activity in each of those years and recovered the assumed level from customers as though that estimated recovery pattern happened. Obviously for these accounts, and realistically for all other accounts, actual retirement patterns did not and will not follow the assumed life-curve combination adopted by the Board.

Moreover, given that depreciation studies are performed approximately every 5 years, the recovery process is distorted to an even greater extent due to such timing events. In other words, the assumption of annual retirements reflected in the depreciation rate calculated for ELG purposes not only do not match reality, not only because the Company did not actually retire plant as predicted, but because the incorrect ELG rates are held constant at least for five-year increments between depreciation studies.[3] In other words, plant placed in service in 1999 for these accounts, which experienced no retirement activity through 2009, in conjunction with adoption of rates in this case, would have a non-representative ELG depreciation rate in place for approximately 20 years (e.g., through 2017), or for almost one-half of its estimated average service life ("ASL"). The need to correct for approximately 20 years of incorrect assumptions is greatly magnified due to the ELG calculation procedure.

Simply put, Gannett Fleming takes averages of many decades of data for accounts with non-homogeneous data (i.e., switches and cables for Accounts 361.2 and 367.2, which are combined for analysis purposes). Gannett Fleming then combines actuarial assumptions into an original life table as set forth on page A-72 of the 2010 Gannett Fleming Depreciation Study for Accounts 361.2 and 367.2. Gannett Fleming then assumes, through subjective interpretation, a life-curve combination that does not

[3] While ALG rates are also held constant for the same period, it is important to recall these are average rates rather than very time dependent rates that are expected to change annually.

necessarily fit the historical pattern. Yet in spite of all the averaging, assuming and subjective interpreting, Gannett Fleming believes that employing a precise annual future expectation of retirement activity for calculating an accelerated form of depreciation is appropriate. I submit that is simply not reasonable, logical, or appropriate to undertake such activity knowing that the degree of accuracy of the final ELG result is never going to be precise or even close to precise when compared to reality and that the only proper way to capture the future in an equitable manner to all customers is on an average basis.

Q. IS THE COMPANY HARMED BY THE ADOPTION OF THE ALG CALCULATION PROCEDURE?

A. No. The Company should be indifferent. It earns a return on its net investment. The return should make the Company indifferent as to whether recovering a dollar today versus a dollar sometime in the future.

Q. IS THE SAME TRUE FOR CUSTOMERS?

A. No. This is precisely where the regulatory matching principle and intergenerational inequity issues arise. If there were no concern regarding the matching principle or intergenerational inequity, there would be no reason to capitalize any asset since the maximum cash flow results when the Company expenses all of its investment in each year. Obviously, that is not fair, equitable or appropriate. Indeed, the benefit being realized by current and future customers due to prior implementation of the ELG procedure has been at the expense of historical customers, those customers paying the accelerated form of ELG depreciation-based rates beginning in the late 1970s through the present. Those historical customers have subsidized current and future customers and it is time to change the situation. Customers should pay their fair share of annual capital recovery. The most appropriate method for fair annual capital recovery is the ALG calculation procedure, based on real utility operations, not "the only mathematical correct procedure," as is stated by Robley Winfrey in his role as an academic. As an academic, Mr. Winfrey relied on the impossible assumption that one could actually predict with precision the annual level of retirement activity of a group of assets for 50 to 100 years into the future. Many things in the academic world are theoretically or mathematically

achievable, but do not reasonably transfer to the real world. The ELG procedure is one of them.

Q. PLEASE SUMMARIZE YOUR INTRODUCTION TO THE ELG VS. ALG ISSUE.

A. The Commission is faced with a decision whether to allow the Company to continue the ELG calculation procedure first adopted in the late 1970s, or to change to the industry standard ALG calculation procedure. The facts at hand are that the vast majority of energy utilities rely on the ALG calculation procedure. The Board just recently adopted the ALG calculation procedure for Newfoundland and Labrador Hydro. The ALG calculation procedure results in a lower level of revenue requirements for a decade or longer, but will ultimately result in increased rates later in the future. The eventual increase in rates is necessary since the recovery of capital investment through depreciation should be a zero sum situation. If one over recovers early and later corrects such situation, there will be a temporary lowering of depreciation expense until rate base builds to a point where it would have been absent the change in depreciation expense. The real issue is why is it appropriate to increase revenue requirements currently for customers due to reliance on a mathematical grouping that is opposed by customers given an industry standard calculation that is utilized extensively by Gannett Fleming elsewhere is available and which all parties agree is a form of straight-line depreciation. Given the real-world differences in retirement patterns of actual investment compared to theoretically assumed patterns that never transpire, there should be no reason to retain the ELG calculation procedure and every reason to adopt the ALG calculation procedure.

B. Reply to Acceptance of the ELG Procedure

Q. HOW TO YOU RESPOND TO THE COMPANY'S PRESENTATION THAT IN ORDER NO. P.U. (1977) THE BOARD NOTED THAT "THERE IS MERIT IN AMORTIZING THE COST OF BOTH SHORT-LIFE AND LONG-LIFE UNITS DURING THEIR RESPECTIVE SERVICE LIVES AS IS DONE BY THE UNIT SUMMATION PROCURE?"[4]

A. I do not disagree with the statement from a theoretical standpoint. However, presentation of the mathematical merits of the Unit Summation or ELG procedure is not at issue. If one could predict the future with absolute precision, there would be no issue in this proceeding regarding the ELG versus ALG procedure. However, as previously noted, real world operation of a utility system does not mirror or even remotely compare to a precise mathematical formula. Therefore, the theoretical merits of the ELG procedure are more than outweighed by the problems that it creates in the real world of utility operations.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S REFERENCE TO THE BOARD'S ORDER IN P.U. 20 (1978) NOTED ON THE BOTTOM OF PAGE 9 AND THE TOP OF PAGE 10 OF HIS REBUTTAL TESTIMONY THAT DEFERRING DEPRECIATION ON SHORT-LIFE PROPERTY GIVES CUSTOMERS INCORRECT INFORMATION ABOUT THE CURRENT COST OF ELECTRICITY?

A. As noted in the previous response, if one could capture accurately or even reasonably accurately the actual short-lived property for depreciation calculation purposes, there would be no issue in this proceeding regarding conversion from the ELG to the ALG procedure. However, the magnification of error caused by the ELG procedure when it is inaccurate in predicting the future creates more of a problem than beginning with and retaining the underlying assumption of <u>average</u> life, which is the basis for the assumed life-curve combination. Therefore, in reality there is no deferring the recovery of a short-lived asset because the assumed life-curve combination is based on an average process. In

[4] Mr. Wiedmayer's Rebuttal Testimony at page 9.

other words, the recovery pattern is consistent with the development of the life-curve combination in the first place.

Q. HOW DO YOU RESPOND TO THE CLAIM BY MR. WIEDMAYER THAT THE BOARD "WOULD CERTAINLY NOT HAVE FOUND ANY CLAIMS THAT ELG REPRESENTS ACCELERATED DEPRECIATION TO BE CONVINCING," AS REFERENCED ON PAGE 10 OF HIS REBUTTAL TESTIMONY?

A. Neither I nor the Company have been able to identify any claim made and corresponding support at the time of the prior decisions that ELG was a form of accelerated depreciation. Therefore, the Board would not have addressed this issue as it is being requested to address it in this proceeding. Moreover, even if the concept had been initially raised to some extent, it is clearly demonstrated in this proceeding that the ELG calculation procedure is a form of accelerated depreciation.

Q. IS MR. WIEDMAYER CORRECT WHEN HE STATES ON PAGE 10 OF HIS REBUTTAL TESTIMONY THAT "IT SHOULD BE CLEAR THAT THE ALG IS NOT USED BY THE 'VAST MAJORITY' OF UTILITIES?"

A. It is absolutely beyond me how Mr. Wiedmayer could possibly make such a statement, even taking into account reference to the telephone industry, which is not the issue raised in this proceeding. As noted elsewhere in my testimony, the ALG calculation procedure is utilized by the vast majority of energy utility companies and in fact is recommended by Gannett Fleming 80% of the time for energy utilities.[5]

Q. HOW DO YOU RESPOND TO THE COMPANY'S REFERENCE TO A SHORT TERM REDUCTION IN RATES DUE TO A CHANGE IN THIS PROCEEDING TO THE ALG DEPRECIATION RATES, AS SET FORTH ON PAGE 11 OF MR. WIEDMAYER'S REBUTTAL TESTIMONY?

A. The Company does not identify the number of years corresponding to its numerous references to short-term reductions in rates if ALG-based rates are adopted. However, depending on the capital structure, tax rate, return on equity, and capital additions, the

[5] Response to CA-NP-618.

"short-term" benefits would correspond to at least an 11- to 15-year period. I leave it to the Board's interpretation whether periods this long or longer constitute "short-term" reduction in rates.

C. Reply to the Impact of Depreciation Procedure on Customer Rates

Q. DO YOU AGREE WITH MR. WIEDMAYER'S CHARACTERIZATION OF YOUR TESTIMONY AS SET FORTH ON PAGE 11 OF HIS REBUTTAL CLAIMING THAT YOU FOCUSED SOLELY ON A SINGLE ISSUE, DEPRECIATION EXPENSE AT A SINGLE POINT IN TIME?

A. No. I am and was fully cognizant of the impact to customers over extended periods of time. As previously discussed, I rely on the matching principle and concepts of intergenerational inequity which, by definition, do not rely on a single point in time but all generations of customers. The reality is that for the past three decades customers have overpaid due to the implementation of ELG-based depreciation rates. Current customers and future customers will continue to receive this subsidy if the ELG calculation procedure is adopted. Alternatively, adoption of the ALG calculation procedure will result in a transition period of at least 11 to 15 years where customers during this period will receive lower levels of subsidies until they reach a level where they are back to paying the level of capital recovery they should have been paying all along, taking into account depreciation, return, and taxes.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT AT PAGE 12 OF HIS REBUTTAL TESTIMONY THAT THE BOARD'S DECISION IN 1978 TO USE ELG DEPRECIATION RATES PROVIDES A SIGNIFICANT BENEFIT TO CURRENT CUSTOMERS?

A. As previously noted, the adoption of ELG depreciation has resulted in prior customers overpaying and effectively subsidizing current and future customers. If the goal is to set aside the matching principle and intergenerational inequity and to create a significant benefit for customers in the future, then the question should be asked why stop at simply adopting ELG-based depreciation rates, but rather eliminate depreciation and simply

expense all capital additions. In other words, set the ELG calculation procedure to one year. I don't believe anyone seriously believes that it is fair and equitable to set aside the matching principle and fail to recognize intergenerational inequities. Indeed, even Mr. Wiedmayer recognizes the concept of intergenerational inequity at page 13 of his rebuttal testimony where he states, "it is not a proper practice to provide a short-term benefit to current customers at the expense of all others." The opposite is also true. It is not appropriate to improperly inflict a practice of harm to current customers for the benefit of all other customers.

Q. ARE MR. WIEDMAYER'S REFERENCES TO TEMPORARY OR RELATIVELY SHORT PERIODS OR SHORT-TERM BENEFITS DUE TO CONVERSION FROM THE ELG TO THE ALG CALCULATION PROCEDURES ON PAGE 13 OF HIS REBUTTAL TESTIMONY CORRECT?

A. No. Based on a one-time snapshot view of current assets, the crossover point is 11 to 15 years or longer, as previously identified. However in reality, as each new vintage addition occurs in the future, the conversion from ELG to ALG calculation procedure will have additional impacts. Therefore, the benefit to ratepayers of switching to the ALG procedure will far exceed the 11- to 15-year period as additional plant is added.

D. Reply to Appendix A: Straight Line vs. Accelerated Depreciation

Q. HOW DO YOU RESPOND TO THE VARIOUS STATEMENTS MADE BY MR. WIEDMAYER IN APPENDIX A, PAGES 1 THROUGH 5, THAT THE ELG PROCEDURE IS NOT A FORM OF ACCELERATED DEPRECIATION?

A. As previously noted, Mr. Wiedmayer attempts to rely on semantics or assumptions of precision to support his position. However, buried within his Appendix A is his own admission that "under the ELG procedure, the straight-line depreciation accruals for a group of assets, such as a property account, may be higher in the earlier periods and lower in the later periods."[6] (Emphasis added) It is an understatement when Mr. Wiedmayer claims that it "may be higher." It is in fact higher, not may be higher. This

[6] Mr. Wiedmayer's Appendix A at page 3.

admission counters Mr. Wiedmayer's various efforts at mental gymnastics that attempt to defend a basic claim that ELG depreciation is not a form of accelerated depreciation.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S ATTEMPTS TO DIFFERENTIATE ASSETS FROM GROUPS AT PAGES 1 THROUGH 5 OF APPENDIX A AS HIS DEFENSE AGAINST THE FACT THAT THE ELG CALCULATION PROCEDURE IS A FORM OF ACCELERATED DEPRECIATION?

A. The simple answer to Mr. Wiedmayer's claim is the fact that each of his proposed life-curve combinations is based on an averaging of vintage additions of various groups and averages of groups of assets within an account. In other words, the development of his life-curve combination is not a function of retirement patterns of an individual asset, but rather the average retirement pattern of a group of assets. In this case, for accounts or combination of accounts, the proper measure of accelerated depreciation is against the average upon which it is calculated rather than an inconsistent assumption that one can precisely segregate retirement of a group of assets into individual one-year slices for 50 to 100 years in the future. While mathematical theory permits the segregation of a survivor curve into one-year age increments, that in no way supports the validity of the results. The results, as admitted to by Mr. Wiedmayer, are that higher depreciation amounts will be collected in earlier periods and lower amounts in later periods. This represents accelerated depreciation for the group to which it is applied.

E. Reply to Appendix A: Precision of Estimates Required for ELG and ALG

Q. HOW DO YOU RESPOND TO THE VARIOUS STATEMENTS MADE BY MR. WIEDMAYER ON PAGES 6 THROUGH 8 OF HIS APPENDIX A REGARDING THE PRECISION OF ESTIMATES REQUIRED FOR ELG AND ALG?

A. Mr. Wiedmayer's statement that the problems associated with the ELG depreciation due to the variance between precise future projections and actual future occurrences "is not a convincing argument," is puzzling.[7] The puzzling aspect is Mr. Wiedmayer knows that

[7] Mr. Wiedmayer's Appendix A at page 6.

the variance between forecasted annual predictions of retirement activity far into the future will not mirror actual events, as clearly demonstrated by the results set forth in Figure 7 of Appendix B to his rebuttal. In Figure 7, Mr. Wiedmayer clearly demonstrates that, for the combined Accounts 361.2 and 367.2 – Underground Cable & Switches, the Company has experienced an extensive period of time where it failed to retire a single dollar of plant. This real-world situation is in stark contrast to the predicted annual level of retirement activity upon which the ELG calculation is premised. Unfortunately, the ELG-based depreciation rates for this account, which were based on specific retirements during the past decade, may be in place for an extended period. Reliance on inaccurate ELG-based rates for long periods of time will occur in spite of the clear facts that the Company's actual historical retirement practices do not remotely compare to the assumptions in the ELG calculation procedure. This long and significant variance between forecasted and actual events, and the necessity to true-up the error between forecasts and actual, is the precision problem that is magnified by the ELG calculation procedure compared to the ALG calculation procedure.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT AT THE BOTTOM OF PAGE 6 OF APPENDIX A THAT THE "ONLY DIFFERENCE BETWEEN THE TWO PROCEDURES IS THE CALCULATION OF ANNUAL DEPRECIATION RATES AND EXPENSE ARE PERFORMED DIFFERENTLY"?

A. That is precisely the issue at hand. ELG calculates depreciation rates and expense in a manner that accelerates recovery based on the assumption that precise amounts of retirement activity will occur at age 1, age 2, age 3, etc. through 50 to 100 years of age. It is this accelerated recovery premised on an assumption that does not comport to reality that results in a magnification of error compared to the ALG calculation procedure.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT ON PAGE 7 OF APPENDIX A THAT THE "ALG RATES WILL NEVER MATCH THE ACTUAL CONSUMPTION OF THE ASSETS"?

A. I agree with Mr. Wiedmayer. However, what he fails to state is that the ELG calculation procedure will never actually match consumption of the asset either. However, the ELG procedure will result in a magnification of error as the difference between assumed annual patterns and actual annual patterns occur compared to the ALG procedure. Therefore, if one believes that actual annual levels of retirement activity in the future will not precisely match the forecasted life-curve combination, which it will not, then the industry standard ALG calculation procedure should be adopted.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT ON PAGE 8 OF APPENDIX A THAT THE "ALG DEPRECIATION RATES ARE SENSITIVE TO THE SURVIVOR CURVE JUST AS IS THE CASE OF THE ELG"?

A. The simple response to this statement and concept is that there would be no issue in this case if each calculation procedure were just as sensitive to the proposed life-curve combination. However, as Mr. Wiedmayer admitted earlier in Appendix A, the ELG calculation procedure will result in depreciation expense "higher in earlier periods and lower in later periods."

F. Reply to Appendix A: Forecast Error For ELG And ALG Calculation Procedures

Q. HOW DO YOU RESPOND TO THE VARIOUS STATEMENTS MADE BY MR. WIEDMAYER IN HIS APPENDIX A AT PAGES 8 THROUGH 13 REGARDING THE FORECAST ERROR IMPACT OF ELG VERSUS ALG CALCULATIONS?

A. It is surprising to see Mr. Wiedmayer disregard the results of a simple 2-unit example, which is presented to make the issue understandable, and then conclude that the results are "demonstrably false." Indeed, Mr. Wiedmayer's presentation of a more realistic analysis, for which he elected not to provide the underlying assumptions or data in his rebuttal, at best results in statements that the results "show a similar difference" or that his analysis "indicates there is no basis to conclude that ELG rates show a higher degree

of error." Neither of these statements or unidentifiable results reflected in various figures in any way demonstrably show that ELG does not in fact magnify the error, as demonstrated in the understandable 2-unit example.

Q. IS THERE ANOTHER CONCERN REGARDING MR. WIEDMAYER'S PRESENTATION ON THIS TOPIC?

A. Yes. As set forth on Figure 3 at page 12 of Appendix A, he presents the results of a contrived calculation of created data for the period 2010 through 2040. It must be questioned why an unrealistic future forecast of the magnification of error is presented in generic terms when historical analysis of actual events was disregarded. As set forth in Figure 7 at page 15 of Mr. Wiedmayer's Appendix A, the actual pattern of error between forecast and reality for Accounts 361.2 and 367.2 – Underground Cables & Switches demonstrates that when real-world events are modeled, the higher depreciation rate in the early years associated with ELG depreciation will magnify the degree of error and the level of true-up that is required in later years.

G. Reply to Appendix A: Time Sensitivity of ELG and ALG Procedures

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S CLAIM ON PAGE 13 OF APPENDIX A THAT YOUR ARGUMENT THAT ELG IS TIME-SENSITIVE AND MAY BE ALREADY OUT OF DATE BY MANY YEARS BY THE TIME IMPLEMENTED IGNORES PROPERTY ADDITIONS AND RETIREMENTS?

A. Mr. Wiedmayer is wrong. My position recognizes that there will be some level of retirement activity and additions, but the likelihood of those retirements and additions occurring in such a pattern that all ELG values would remain in proper relationships as each year passes is again an unrealistic assumption. As new plant is added each year and retirements from various vintages occur each year, such activity does not occur in a precise or even a close to precise pattern that would retain the appropriate relationship developed for ELG annual vintage rates on an annual basis. Mr. Wiedmayer's reference to "constant activity" at the bottom of page 13 of Appendix A is a generalized and misleading statement that does not meet reality. As previously noted, the retirements for

Accounts 361.2 and 367.2 clearly demonstrate that actual utility operations from year to year are anything but constant activity.

Q. DO YOU AGREE WITH MR. WIEDMAYER'S EXAMPLE AT PAGE 14 OF APPENDIX A THAT CLAIMS TO DEMONSTATE HOW STABLE ELG IS OVER TIME?

A. No. The example is based on an unrealistic estimated pattern of additions and retirements for the years 2010 through 2020. Indeed, when requested to provide the assumed additions and retirements used to conclude that "ELG depreciation rates are very stable," Mr. Wiedmayer identified an unrealistic pattern of assumed additions and retirements that does not remotely compare to any pattern that actually had occurred for any of the accounts at issue.[8] The example assumes a gradual increasing level of annual additions and retirements, a pattern not experienced historically. In my opinion, it is very telling that Mr. Wiedmayer used a forward-looking period where he created and selected a pattern of additions and retirements that met his ultimate goal rather than relying on the historical data for the precise same account in his example, which would have clearly demonstrated the opposite. In other words, my statement relating to the time sensitivity of the ELG procedure is accurate in the real world, while Mr. Wiedmayer's statement may only be correct in theory and require a next to impossible pattern of additions and retirements.

Q. WHAT RESPONSE DO YOU HAVE TO MR. WIEDMAYER'S CLAIM THAT THE REMAINING LIFE TECHNIQUE IS OFTEN MORE TIME-SENSITIVE THAN ANY CALCULATION PROCEDURE, AS NOTED ON PAGE 15 OF APPENDIX A TO HIS REBUTTAL TESTIMONY?

A. Again, I agree in part with Mr. Wiedmayer that remaining life technique does have time-sensitive aspects to it, yet the ELG calculation procedure produces a different remaining life than does the ALG calculation procedure. Therefore, the ELG procedure multiplies the time-sensitive aspect of the entire process. The goal in developing appropriate depreciation rates should be to minimize the time-sensitivity of any portion of the

[8] Responses to CA-NP-634 and 635.

calculation to the extent possible. In this instance, all parties utilize the remaining life technique and agree that it is appropriate. However, only the Company claims that the ELG calculation procedure is appropriate. Moreover, Mr. Wiedmayer's claim that the arguments against ELG for being time-sensitive are "without substance," as noted on page 16 of Appendix A to his rebuttal, is an incorrect statement made without basis. The time-sensitivity aspect of ELG versus ALG depreciation is not overstated and, in fact, is yet another major drawback to the adoption of ELG depreciation.

H. Reply to Appendix A: ELG vs. ALG Net Salvage

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGES 16 AND 17 OF APPENDIX A REGARDING THE INCONSISTENT APPLICATION OF THE ELG CALCULATION PROCEDURE WITH ALG NET SALVAGE?

A. While Mr. Wiedmayer effectively admits that such inconsistency does exist, I disagree with Mr. Wiedmayer's conclusion that it "is certainly not a strong enough reason to abandon the ELG approach." While Mr. Wiedmayer does admit that certain utilities do maintain net salvage on an age or vintage basis, he then attempts to direct attention from this fact by claiming that quantifying net salvage as a function of age is inherently difficult and imprecise. It is strange that Mr. Wiedmayer now becomes concerned with difficulty and impreciseness, but has no problems championing the ELG procedure even though it is much more complex and difficult, and as previously noted, imprecise in real utility operations.

I. Reply to Appendix A: Depreciation Reserve

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGES 17 AND 18 OF APPENDIX A ADDRESSING THE ISSUES YOU RAISED REGARDING DEPRECIATION RESERVE AND THE ELG PROCESS?

A. I disagree with Mr. Wiedmayer's characterization that the Company does not maintain its depreciation reserve on either an ELG or ALG basis. The ALG basis reflects the <u>average</u>

process for all vintages in an account. That is precisely how the Company maintains its depreciation reserve. Indeed, Mr. Wiedmayer continues in his rebuttal by admitting that, like other utility companies, Newfoundland Power maintains its reserve by asset group or plant account. That is precisely the equivalent of an ALG reserve process, definitely not an ELG reserve basis.

Q. HOW DO YOU REPLY TO MR. WIEDMAYER'S STATEMENT AT THE BOTTOM OF PAGE 17 OF APPENDIX A TO HIS REBUTTAL THAT THE CUMULATIVE DEPRECIATION ACCRUALS REFLECTED IN THE DEPRECIATION RESERVE WERE PRIMARILY BASED ON ELG DEPRECIATION ACCRUALS?

A. The Company's reserve is based on the accumulation of depreciation accruals, actual retirement experience, gross salvage, and cost of removal. The values are combined to reflect the total or average group level. No assignment of reserve is made to individual age brackets consistent with the development of ELG-based depreciation accruals. In other words, Mr. Wiedmayer's observation again attempts to detract from the central issue as to whether the reserve is maintained on an ELG basis. Rather, Mr. Wiedmayer attempts to direct attention to the level of accruals that have occurred historically associated with the Company's use of the ELG-based depreciation rates. Mr. Wiedmayer is attempting to mix apples and oranges and his presentation does not further the record.

Q. IN THE 1970S, WHEN THE FCC ADOPTED THE ELG-BASED DEPRECIATION RATES FOR TELEPHONE COMPANIES, DID IT RAISE CONCERNS REGARDING MAINTAINING THE DEPRECIATION RESERVE ON AN ELG BASIS?

A. Yes. As set forth in Appendix B to my direct testimony, I referenced this particular fact. It is telling that Mr. Wiedmayer chose to ignore this particular fact, and attempts to change the issue to the type of depreciation "accruals" that are entered into the depreciation reserve rather than how the reserve is maintained. The "accruals" do not set the character of the reserve, it is whether all values are maintained as a whole or by vintage and age that set the character of the reserve.

J. ELG vs. ALG Summary and Conclusion

Q. IS THERE ANYTHING PRESENTED BY THE COMPANY OR MR. WIEDMAYER IN REBUTTAL THAT CAUSE YOU TO CHANGE YOUR POSITION REGARDING THE INAPPROPRIATENESS OF THE ELG CALCULATION PROCEDURE FOR UTILITY RATE MAKING PURPOSES?

A. No. In fact, both the Company's and Mr. Wiedmayer's efforts to mischaracterize facts and situations in their attempt to support the ELG procedure only reinforces the inherent infirmities of the ELG calculation procedure in the real world of utility operations. There is no disagreement that the ELG calculation procedure is the "mathematically" or "theoretically" most correct procedure, but only under the very unrealistic and restrictive assumption that one can predict, with precision, the future in annual one-year slices by age brackets for as far as 50 to 100 years in the future. This is simply not possible or realistic. The difference that will occur between forecasted and actual events are magnified through the ELG calculation procedure when compared to the ALG calculation procedure. Moreover, given the array of averaging of many decades of vintage additions of differing types of investment, even within an account, and then applying subjective interpretations of both OLTs and ancillary information applicable to accounts, an average or single set of parameters is ultimately derived. It is inappropriate and inconsistent to apply great levels of precision to a grouping process (i.e., the ELG calculation procedure) that is not widely used, when the input value is based on a broad brush average. For the most part, the industry has evolved by recognizing the manner in which depreciation parameters are developed and has relied on a consistent application of the ALG calculation procedure to best reflect the overall results in depreciation rates. The Board should deny the accelerated ELG calculation procedure in favor of the industry standard ALG calculation procedure. The adoption of the ALG procedure will result in lower revenue requirements for an extended period of time in order to return rate base to a level where it should have been in order to comply with the matching principle and eliminate intergenerational inequity.

SECTION III: MASS PROPERTY LIFE ANALYSIS

A. General

Q. WHAT ISSUES DOES THIS PORTION OF YOUR SURREBUTTAL ADDRESS?

A. This portion of my surrebuttal addresses the Company's rebuttal evidence as it applies to proposed life-curve combinations for certain of the Company's mass property accounts (i.e., transmission and distribution functions).

Q. ARE THERE INITIAL ISSUES OR CONCEPTS THAT NEED TO BE ADDRESSED PRIOR TO YOUR ACCOUNT SPECIFIC REPLIES?

A. Yes. Mr. Wiedmayer makes numerous introductory and unsupported statements regarding my analyses that are simply not accurate. In addition, he attempts to create a picture whereby he creates a standard of evidence that must be met in order for an alternative recommendation to his proposal to be accepted. This approach not only is inconsistent with the normal regulatory regime where the Company has the burden of proof, but it is one-sided in that it requires a higher level of evidence for alternative proposals than the Company presents in its testimony. In reviewing the position of the parties, I encourage the Board to look closely at the consistency of positions and the reliance on specific facts and logic where they exist, rather than on the Company's unsupported generalized claims.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S GENERAL CLAIMS THAT YOUR PROPOSED CHANGES ARE "DRAMATIC" AND REQUIRE "OVERWHELMING EVIDENCE" IF THEY ARE TO BE ADOPTED?

A. Mr. Wiedmayer's presentation is an example of an inconsistency in his approach and an attempt to establish a higher standard for alternative recommendations to his proposal than he meets for establishing his proposed parameters in the first place.

Q. PLEASE EXPLAIN MR. WIEDMAYER'S CONCEPT OF "DRAMATIC" AND HOW IT SHOULD BE VIEWED IN THIS PROCEEDING.

A. I recommend a 4-year increase in ASL for Accounts 355.1 and 355.2 above Mr. Wiedmayer's proposal of 47 years. He labels such recommendation as a "dramatic increase."[9] In particular, Mr. Wiedmayer is referring to the increase from the existing approved ASL of 44 years. In other words, the 51-year ASL I recommend is seven years, or 16% greater than the existing approved ASL.

Mr. Wiedmayer's characterization of a 16% increase in ASL as being dramatic is curious at best, given he recommends a 13% increase in ASL for Account 365.1 without labeling that level of increase as being dramatic, nor does Mr. Wiedmayer find his proposal for a negative net salvage for Accounts 362.1 and 362.2 – Distribution Wood Poles 250% the level of the existing value to be "dramatic."[10] In addition, it appears that Gannett Fleming does not have the same qualms as Mr. Wiedmayer in identifying dramatic levels of increase. For example, Gannett Fleming, in a recent Florida Power & Light Company study, proposed a 60-year ASL for Account 358 – Transmission Underground Conductors and Devices while the existing ASL was only 35 years. In this instance, a 71% increase above the existing ASL was not referenced as a "dramatic" increase.

In summary, it appears the concept of identifying a proposed change in depreciation parameters as being dramatic is only applicable to parties who propose an alternative to what Gannett Fleming proposes.

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. WIEDMAYER'S REBUTTAL TESTIMONY AT PAGES 17 AND 18 REFERENCING THE CONCEPT OF THE MOST REPRESENTATIVE PORTION OF THE SURVIVOR CURVE?

A. First, it should be noted that Mr. Wiedmayer agrees with my position that the dollar level of exposure is an important consideration. However, at the bottom of page 17 of his

[9] Mr. Wiedmayer's rebuttal Appendix B, page 2 of 27.

[10] In Gannett Fleming's last depreciation study performed by Mr. Wiedmayer, he recommended a -10% net salvage for distribution wood poles, yet now he proposes a -25% net salvage, or a level 2.5 times the existing level.

rebuttal testimony he continues by saying that the dollar level of exposures is only one consideration and it is just as important to recognize which portion of the curve provides the most information about the retirement pattern for a group of assets. Mr. Wiedmayer continues on page 18 of his rebuttal by claiming that generally the portion between 80% and 20% surviving is the most representative portion of the survivor curve. He also, incorrectly states that I tend to ignore data points that provide important indications of the survivor curve and claims that I contend that the head and upper portion of the survivor curve are the most important portions in the curve-fitting process.

In response to these misleading claims, I direct the Board's attention to the actual wording in the quoted authoritative source and ultimately the underlying logic of the curve-fitting process.[11] The difference in position is that I recognize that the reference in the sources to the 80% to 20% of the curve being the most important portion of the curve is prefaced by the word "often" or "generally," and relies on a set of assumptions that often do not occur for the utility data being analyzed. In other words, the literature provides generalized expectations. If actual retirement patterns always declined to 20% surviving, then the most important portions of the curve might likely be between 80% and 20% surviving. In those instances, I most likely would rely on the same important portion of the curve as Mr. Wiedmayer would. However, review of the actual information for the accounts at issue demonstrates that Mr. Wiedmayer's attempts to generalize the curve-fitting for all accounts with one generalized statement is simply incorrect. For example, as shown in the table below, for the seven accounts at issue in this proceeding Mr. Wiedmayer's curve-fitting ends in a range of a low of 49% and a high of 83% surviving.

[11] Depreciation Systems by Wolf and Fitch where it is presumed "that middle section [of the OLT] is relatively straight" and that the majority of retirements occur in the middle section (see response to CA-NP-641).

TABLE 1

Account	Lowest Percent Surviving
355.1 – Transmission Poles	49%
355.2 – Transmission Poles and Fixtures	49%
361.12 – Distribution Bare Aluminum	79%
361.2 – Distribution Underground Cables	83%
362.1 – Distribution Poles (Under 35')	72%
362.2 – Distribution Poles (35' and Over)	72%
365.1 – Services Overhead	57%

As can be seen in the table above, limited, if any, portion of the curve-fitting process is below 80% with none of the accounts being analyzed ending below 49% surviving. Therefore, the most important or significant data points do not correspond with the generalized statement that often the curve pattern between 80% and 20% is the most important portion of the process.

Q. IS MR. WIEDMAYER'S PRESENTATION AT PAGES 17 AND 18 OF HIS REBUTTAL ALSO INACCURATE DUE TO HIS ASSUMPTION THAT THE MAJORITY OF THE RETIREMENTS OCCUR IN THE MIDDLE SECTION OF THE OLT?

A. Yes. Mr. Wiedmayer places importance on the area of the curve where he claims the majority of retirements occur.[12] Once again, when the retirement activity for the accounts at issue is analyzed, it is clear that the vast majority of the retirements occurred before 80% surviving for each and every account. Indeed, as shown in the table below for the accounts at issue, there is simply no comparison between the dollars of retirement below 80% surviving versus those prior to 80% surviving.

[12] Mr. Wiedmayer's Rebuttal Testimony at page 18 and response to CA-NP-641.

TABLE 2

Account	Retirement Dollars 80% and Above	Retirement Dollars Below 80%
355.1 – Transmission Poles	$5,602,409	$1,353,552
355.2 – Transmission Poles and Fixtures	$5,602,409	$1,353,552
361.12 – Distribution Bare Aluminum	$5,779,389	$33,990
361.2 – Distribution Underground Cables	$817,115	$0
362.1 – Distribution Poles (Under 35')	$48,257,233	$812,559
362.2 – Distribution Poles (35' and Over)	$48,257,233	$812,559
365.1 – Services Overhead	$7,551,830	$1,389,422

In summary, Mr. Wiedmayer clearly has misinterpreted or misapplied the generalized statements from publications in his efforts to support his proposals. As clearly demonstrated above, whether viewed from the standpoint of investment exposed to retirements or dollars of retirements, Mr. Wiedmayer's curve-fitting process does not properly capture the most significant or more important portions of the curve-fitting process. Generalized concepts which attempt to capture the appropriate criteria for curve-fitting in a theoretical manner must be applied correctly to the data at issue for a specific account. Mr. Wiedmayer's attempt to rely on generalized rules for his criticism of my curve-fitting process is erroneous and should be rejected.

Q. PLEASE DISCUSS YOUR CONCERN REGARDING MR. WIEDMAYER'S CLAIMS OF LITTLE OR NO EVIDENCE IN SUPPORT OF ALTERNATIVE POSITIONS.

A. I will use Accounts 355.1 and 355.2 to place Mr. Wiedmayer's generalized and unsupported statements of no evidence into proper perspective. I use these combined accounts for illustrative purposes, given that this is the only account that Mr. Wiedmayer discussed in his depreciation study.[13]

Mr. Wiedmayer provides three paragraphs of narrative discussion regarding how he conducted his life analysis for this account. The first paragraph beginning on page II-25 of his depreciation study simply discusses the concept of the data necessary to perform actuarial analyses. Mr. Wiedmayer's second paragraph identifies causes of retirement,

[13] Gannett Fleming 2010 Depreciation Study for Newfoundland Power, Inc. at pages II-25 and 26.

but only in the most general sense, by referencing inadequacy, deterioration, and pole relocations. His second of the three paragraphs further states that the enumerated causes of retirements are expected to continue in the foreseeable future. Thus, Mr. Wiedmayer's second paragraph provides no specific evidence regarding the establishment of a specific ASL.

Mr. Wiedmayer's third and last paragraph regarding these accounts does provide some additional information that would warrant a longer ASL. Indeed, Mr. Wiedmayer states that there have been many improvements and enhancements made to this system, and that design and material standards are better, maintenance programs have improved, and there is focus on rebuilding deteriorated lines. Again, while these items of information provide consideration for longer ASLs, there are no specifics provided, and the information can support many different ASLs. The final generalized item of information provided by Mr. Wiedmayer is that the Company uses larger class poles and fixtures in areas prone to high winds and severe icing loads that exceed normal construction standards and are therefore expected to result in longer lives. From these generalized statements, Mr. Wiedmayer concludes that his proposed 47R2 life-curve combination "is based on the statistical indication of the period 1975-2009. The Iowa 47-R2 is a good fit of the significant portion of the original survivor curve as set forth in Appendix A and is within the typical service life range of 35 to 50 years for transmission poles and fixtures."

The information noted above is essentially the same as the Company's response to CA-NP-084, where it was specifically requested to provide a detailed narrative along with the steps undertaken to arrive at the proposed ASL, and any other information that was specifically relied upon to make modifications from the actuarial results in order to establish an actual proposed life. The only other items of information provided were in response to CA-NP-088, which sought supplemental information obtained from operating personnel of the Company. In response to that request, the additional information provided was that most of the underground cable is direct buried and that the Company used XLPE cable in the 1970s through the 1980s and now is relying on concentric neutral

conductors. Finally, in response to CA-NP-090, the Company admitted that there is no additional basis for its life proposals.

Q. DOES ANY OF THE INFORMATION PROVIDED IN THE COMPANY'S DEPRECIATION STUDY, INTERVIEW NOTES, OR RESPONSES TO INFORMATION REQUESTS PROVIDE EVIDENCE THAT SUPPORTS THE COMPANY'S 47-YEAR PROPOSED ASL OR ANY OTHER VALUE?

A. No. The most definitive item of information is the Company's actuarial results. Mr. Wiedmayer's interpretation of those results resulted in a life around 45 years without any further explanation or support.

Q. IS THE LEVEL OF EVIDENCE PROVIDED BY MR. WIEDMAYER GREATER FOR THE EXAMPLE NOTED ABOVE IN COMPARISON TO OTHER ACCOUNTS?

A. Yes. The combined analysis for Accounts 355.1 and 355.2 – Transmission Poles and Fixtures is the only account for which Mr. Wiedmayer provided this level of detail. As noted above, even the example with the greatest level of detail does not provide evidence supporting his proposed 47-year ASL in comparison to my recommended 51-year ASL. Therefore, it is unreasonable and inappropriate for Mr. Wiedmayer to claim that my recommendations are not supported by a standard of evidence that appears only applicable to an alternative position contrary to what he has proposed.

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. WIEDMAYER'S VARIOUS CLAIMS IN REBUTTAL THAT YOU IGNORED INFORMATION?

A. This is again an area where Mr. Wiedmayer makes unsupported statements that are factually incorrect. For example, on page 2 of Appendix A to his rebuttal testimony, Mr. Wiedmayer states that I must have ignored significant data points that provide important information about the dispersion pattern for Accounts 355.1 and 355.2. He further claims that my presentation "only shows the survivor curve estimates through age 46.5 and shows no information for percents surviving below 50%."

Q. DID YOU IGNORE DATA AND DID YOU PROVIDE ANY MISLEADING PRESENTATIONS?

A. No. I reviewed and took all the data into account. However, as did Mr. Wiedmayer, I gave different points of information different weightings. For example, when Mr. Wiedmayer claims that I only show data points through 46.5 years of age for my graphical presentation associated with Accounts 355.1 and 355.2, he fails to note that his graphical presentation provided only two additional data points, and failed to present the remaining 31 data points reflected in his database.[14] Moreover, it must be noted that the two additional points on Mr. Wiedmayer's graph compared to my graph, which he claims are significant data points I ignored, correspond to dollar levels of exposure that are significantly below the 1% rule of thumb threshold he identifies elsewhere in his testimony, that should be given little significance, if any, in the analysis process.[15] In other words, my graphical presentation conforms with Mr. Wiedmayer's rule of thumb, yet without any support, narrative justification, or any other item of information, Mr. Wiedmayer violates his own rule of thumb in an attempt to capture what he now claims are significant data points. If there are any claims of ignoring information, it is Mr. Wiedmayer who has ignored his stated rule of thumb without any explanation or support.

B. Account Specific

Accounts 355.1 and 355.2

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 2 OF APPENDIX B TO HIS REBUTTAL TESTIMONY?

A. First, I have previously addressed Mr. Wiedmayer's characterization of my proposal as being a "dramatic increase." There is no need to repeat the response. As it pertains to Mr. Wiedmayer's statement that I ignored significant data points that provide important information, I have also previously addressed this, but it warrants summary again as it clarifies how Mr. Wiedmayer has taken liberties with facts in rebuttal testimony.

[14] 2010 Study at pages A-53 through A-55.
[15] Mr. Wiedmayer's rebuttal testimony at page 19.

In particular, the important significant data points he claims that I ignored, which I did not, are two additional data points corresponding to the 47.5 and 48.5 age brackets. My presentation corresponds with Mr. Wiedmayer's rule of thumb that data become insignificant in the curve-fitting process once it reaches 1% of the original exposure level. That rule of thumb identifies data beyond 46.5 years of age as being insignificant. It is Mr. Wiedmayer who has added additional data points beyond his own rule of thumb from where the data should be cut off without any explanation. Moreover, to claim these two additional data points are significant truly mischaracterizes the curve-fitting process. Indeed, the beginning dollar level of exposure for this account is approximately $60 million, while the dollar level of exposures at age brackets 47.5 and 48.5 years are $431,000 and $385,000, respectively.[16] Moreover, it is worth noting that when Mr. Wiedmayer presented his graphical presentation for these combined accounts, his plot of points excluded the last 31 years of data.[17] In other words, deciding not to plot points that are insignificant in the curve-fitting process is appropriate; only the quantity of points not included in the plot are at issue. As previously noted, the plot I presented in my testimony precisely conforms with Mr. Wiedmayer's rule of thumb, while Mr. Wiedmayer's decision process violates his own rule of thumb without any explanation.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 3 OF APPENDIX B REGARDING SIGNIFICANT DATA POINTS AND DEVIATIONS IN THE CURVE-FITTING PROCESS?

A. First, when Mr. Wiedmayer claims that my estimate begins to deviate from the original curve around age 40, my recommendation is as close or closer to the OLT value as Mr. Wiedmayer's proposal is through approximately 44.5 years of age.

Next, Mr. Wiedmayer claims it is important to note that my recommendation does not follow the trend of the dispersion pattern that is apparent between 80% and 45% surviving. First, relying on Mr. Wiedmayer's own rule of thumb of where data points become insignificant, the OLT is valid only through 52% surviving rather than his claim

[16] 2010 Study at pages A-54 an A-55.
[17] *Id.*

of 45%. With this in mind, a review of his Figure 1 does not support his claim that my recommendation does not follow the trend of the pattern presented. Moreover, his claim that I ignored the meaningful portion of the curve below 80% surviving is just not correct, as not only did I present that portion of the curve-fitting process on page 26 of my direct testimony, but my recommendation is a better fit from approximately 35 year of age through 43 years of age.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 4 OF APPENDIX B THAT YOU DID NOT PRESENT NEW INFORMATION, BUT RATHER RELIED ON COMPANY PROVIDED INFORMATION?

A. Mr. Wiedmayer begins with the concept that somehow because I relied on the information presented by the Company that my recommendation is not as accurate as his recommendation. In reality, as noted in my direct testimony, when the curve fits between various selections are similar, which they are in this case, review of other non-actuarial information can be helpful. In this case, the actuarial data dates back to 1928 with a retirement experience from 1948 through 2009. In other words, the curve-fitting process that both Mr. Wiedmayer and I performed is to data that includes activity associated with much older design standards than the more recent improvements since the Company's last depreciation study, and for longer periods associated with industry recognized improvements. As I noted in my direct testimony, 25% of the investment in this account has been added in the last five years, which represents 40% of the investment at issue. Placing undue reliance on the actuarial results, which reflects over 80 years of vintage additions, understates the longer life expectancy that should transpire due to more current system improvements. Properly taking this type of information into consideration is analogous to an insurance company setting current premiums based on mortality experience heavily impacted by data dating back to people born in 1928. We know that there have been significant improvements in health-related matters such as prescription drugs, food, and exercise, which have extended the life expectancy of individuals born in the 1950s, 1960s, 1970s, or later. Insurance premiums are currently not set based heavily on life expectancy experienced by people during the 1930s and neither should the life

expectancy of transmission poles. This is especially true given the Company's admission of system improvements.

As it relates to Mr. Wiedmayer's statement that he has already taken system improvements into account and given them the "proper" weighting, I can find no evidence of such claims in either Mr. Wiedmayer's testimony, responses to data requests, or even in his rebuttal testimony. Obviously, his simple statement that he took information into account and gave it the proper weight does not rise to the level of evidence he would have the Board apply to my testimony. In other words, it is inadequate when I rely on changing life characteristics of newer plant that reflects the benefits of newer design and material standards because I did not provide a numerical calculation in support of my judgmental analysis, but it is adequate for Mr. Wiedmayer to state he gave "proper weight to this information"[18] without providing any numerical calculation.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S CLAIM THAT THE COMPANY'S NEW INSPECTION PROGRAMS ARE GEARED TOWARDS RELIABILITY AND DO NOT LEAD TO INCREASED SERVICE LIFE FOR ASSETS?

A. This is the first utility that I am aware of that claims no life related benefits relating to inspection programs. Indeed, even Mr. Wiedmayer noted in response to CA-NP-084 that the new testing programs allow the Company to better target replacements and maintenance. In other situations, utilities are able to extend service lives for poles due to better maintenance practices. In addition, while inspection programs normally do result in an initial wave of retirements because they identify poles that will have a higher probability of failure in the future and proactive steps are taken to replace those most at risk, they also result in longer life expectancy for the remaining poles that, absent the inspection, would eventually fail earlier than they would otherwise. For example, poles that are still in reasonable condition that are experiencing a level of degradation can be banded or treated. Indeed, in a recent Nova Scotia Power case, Mr. Wiedmayer recognized that inspection programs resulted in reinforcement and banding of poles near

[18] Mr. Wiedmayer's rebuttal testimony at Appendix B page 4.

the ground when that utility found poles in fair condition. Mr. Wiedmayer further noted that such activity increases the physical integrity of the pole for an additional 10 to 15 years. This type of result is what the industry appears to be experiencing and it would be unusual for Newfoundland Power to have the opposite effect. This is precisely why Mr. Wiedmayer's failure to provide any analysis associated with his claim of "proper weight" being given to the additional facts, cannot be accepted as support for an ASL as short as 47 years.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT ON PAGE 4 OF APPENDIX B THAT THE USE OF CCA-TREATED POLES HAVE A SHORTER LIFE EXPECTANCY THAN OTHER TREATED POLES?

A. Mr. Wiedmayer failed to place his statement in the proper context. Poles treated with "through-boring" chemical treatment can have life expectancies of 70 years or longer. Poles treated with Penta, when properly inspected and maintained, can have service lives between 60 and 80 years. Therefore, while CCA-treated poles may have a shorter life expectancy, the life expectancy can easily be greater than 50 years. Indeed, Wolmanized CCA-treated poles are backed by a 50-year warranty against damage from termites and fungal decay.[19] If a manufacturer is willing to provide a 50-year warranty, then the real life expectancy for CCA-treated poles should easily exceed the 50-year warranty period on average. Therefore, it appears Mr. Wiedmayer's undocumented, "proper treatment" of other factors is not substantiated.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 5 OF APPENDIX B WHERE HE CLAIMS THE MORE RECENT PLACEMENT BAND ACTUALLY SHOWS A SHORTER LIFE THAN THE OVERALL BAND?

A. This is not surprising, but not indicative of the overall life characteristics. First, it must be noted that a very short 10-year band analysis is not statistically robust and most analysts do not rely on 10-year bands because they provide limited useful information when dealing with long-lived property. Notwithstanding the 10-year band issue, the

[19] http://www.wolmanizedwood.com/Docs/Original/CCA_Pole_brochure.pdf.

implementation of the inspection programs as previously noted will result in an initial wave of accelerated retirements. Those are precisely the retirements that one would expect in the recent 10-year band. However, the initial wave of retirements associated with an implementation of a new inspection program does not continue to reoccur at the same level. The inspection programs, combined with proper maintenance, identifies potential problems in time for corrective action to be taken, which should result in longer overall expected ASLs for the remaining poles. This situation corresponds to the "other factors" that Mr. Wiedmayer refers to that contribute to the trend. Therefore, when Mr. Wiedmayer's generalized reference to "other factors" is given definition, it results in a contrary position to his statements on this matter.

Q. IS THERE ANY INFORMATION PRESENTED BY MR. WIEDMAYER IN REBUTTAL THAT CAUSES YOU TO RECONSIDER OR CHANGE YOUR RECOMMENDATION?

A. No. Mr. Wiedmayer's statements are misleading, incomplete, and do not adequately support his proposal.

Account 361.12 – Bare Aluminum Cables

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 7 OF APPENDIX B RELATING TO THE CONCEPT THAT VERY FEW DATA POINTS EXTEND BELOW 80% SURVIVING REQUIRING THE RELIANCE ON JUDGMENT AND THAT BOTH CURVE FITS ARE FAIRLY SIMILAR?

A. First, it must be noted that the generalized reference that 80% to 20% providing the most significant information is couched by the author's own statement that it is "often" the case. That does not mean you ignore information before or after 20%, it depends on other factors such as the magnitude of exposures and the overall length of the stub curve. In this case, Mr. Wiedmayer wants to ignore even those points below 80% surviving because his proposal deviates from the actual values from 40 through 44 years of age, where my recommendation fits the data points very well. Moreover, these data points do provide significant information based on Mr. Wiedmayer's 1% rule of thumb criteria.

Again, Mr. Wiedmayer wants to ignore his own criteria because it does not fit his proposal. Moreover, it is odd that Mr. Wiedmayer claims that his proposal and my recommendation are "fairly similar" for this account, yet for the previous account (Combined Accounts 355.1 and 355.2 – Transmission Poles & Fixtures) he stated that my curve fit does not "represent a similar fit."[20] I encourage the Board to review the graphs on Figure 1 and Figure 3 of Appendix B to Mr. Wiedmayer's Rebuttal Testimony and see if it can consistently reach a conclusion that my recommendation in Figure 1 does not reasonably fit the data while Mr. Wiedmayer's curve-fit does similarly fit my recommendation as set forth in Figure 3. Moreover, it is helpful to review the graphs presented in my testimony as they magnify the actual comparative portions of the curve rather than viewing Mr. Wiedmayer's figures which shrink the meaningful comparative area to limited quadrants of the entire graph, thus making it difficult to make valid comparisons.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS AT THE TOP OF PAGE 8 OF APPENDIX B THAT CHANGE IN DISPERSION IS THE KEY DIFFERENCE AND THAT GIVEN THE LIMITED DATA POINTS, ADDITIONAL JUDGMENT IS REQUIRED?

A. Additional judgment is always required. However, reliance on the dispersion pattern from the last case is not an important item of additional information. Indeed, when Mr. Wiedmayer made his 50R2.5 proposal in the last proceeding, he had even less information upon which to base his proposal. Therefore, limited to no credence should be given to the proposal in the last proceeding as providing any support for the selection for an R2 versus an R2.5 dispersion pattern. Moreover, the two dispersions are in the same family of curves and represent a 1/2 of one modal movement, or the smallest level of movement possible between curves. Mr. Wiedmayer's attempt to create an issue where one does not exist should be set aside.

[20] Mr. Wiedmayer's Rebuttal Testimony at page 2 of Appendix B.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGES 8 AND 9 OF APPENDIX B TO HIS REBUTTAL REGARDING INSPECTION PROGRAMS?

A. As previously noted, the industry and Newfoundland Power now rely on proactive inspection programs to identify problem, issues or situations. Proactive inspection programs will result in some early retirement of assets. However, proactive inspection programs should also result in better maintenance on a more timely basis and ultimately yield a longer life expectancy for associated assets. It must also be noted that Mr. Wiedmayer relies on phrases such as will "likely" lead to higher retirements of overhead cable, and "will tend" to result in retirements of more cable, but then changes the possibilities implied by the word "likely" and the phrase "will tend" to the word "will" at the top of page 9 of Appendix B. The Company has not and cannot demonstrate that its inspection programs will in fact, over the long run, result in a shorter overall ASL.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S REFERENCES TO THE COD FISH MORATORIUM IMPACTS BEING A PRIMARY DRIVER OF RETIREMENTS REFLECTED IN THE COMPANY'S HISTORICAL DATA?

A. This <u>new</u> position is very curious. Nowhere in the Company's depreciation study, interview notes, or summaries is there a reference to the cod fishing moratorium in the 1990s. Indeed, Mr. Wiedmayer was specifically requested to provide all additional bases, evidence, opinions, assumptions, documents, analyses, etc. that either describes, explains, supports, and/or justifies the specific life and net salvage parameters proposed for each separate account or subaccount that has not already been provided.[21] Mr. Wiedmayer and the Company were very clear in their response. They state that there are no "additional bases" or other information "of a material nature to be provided."[22] Now for the first time, the Company in rebuttal latches on to an item of information it claims is a primary driver of retirement activity. It must further be noted that Mr. Wiedmayer relied on the actual retirement activity for his analysis, even during the cod fishing moratorium of the 1990s. There is no reference to modification of the results of the actuarial analyses due to

[21] Request CA-NP-090.
[22] Response to CA-NP-090.

such concerns. Moreover, Mr. Wiedmayer's reference to the 10-year experience band (2000 through 2009) for any support for his proposal reflects a period too short to provide statistically credible results. That is why most depreciation analysts do not place great credence on 5- or 10-year bands of data for life analysis purposes when dealing with long-lived assets.

Q. IN SUMMARY, IS THERE ANY INFORMATION PRESENTED BY MR. WIEDMAYER IN HIS REBUTTAL TESTIMONY THAT CAUSES YOU CONCERN OR TO CHANGE YOUR RECOMMENDATION?

A. No. Again, Mr. Wiedmayer's presentation is long on accusations and short on evidence. Moreover, he incorrectly relies on a concept that inspection programs will in the long run result in a shorter ASLs for assets. In addition, he relies on a 10-year historical analysis as the only basis to demonstrate a shorter ASL expectancy when 10-year analyses are not considered appropriate when dealing with long-lived assets such as the 55- to 60-year ASL associated with this account. Moreover, it is significant to recognize the lack of interest Mr. Wiedmayer has demonstrated associated with the actual data, including those data points below 80% surviving. Placing any degree of reliance on actual data specific to the Company further supports my recommendation.

Accounts 361.20 and 367.20 – Underground Cable & Switches

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. WIEDMAYER'S STATEMENT AT THE BOTTOM OF PAGE 14 OF APPENDIX B TO HIS REBUTTAL TESTIMONY REFERENCING A GRADUAL INCREASE IN ASL FROM THE PREVIOUS ASL ESTIMATE?

A. Mr. Wiedmayer's reference that his proposal is a gradual increase from this existing ASL simply means he significantly underestimated the life expectations for this account in the last case. For example, a review of page A-73 through A-75 of the Gannett Fleming 2005 Depreciation Study demonstrates that Mr. Wiedmayer attempted to fit the OLT only through 21.5 years of age when reliance on his 1% rule of thumb would have required

fitting the curve through 38.5 years of age.[23] Had Mr. Wiedmayer plotted the additional points and attempted to match those points in his actuarial analysis in the previous case, we would not be starting from a 40-year ASL in this case, but rather something closer to 50 years. Therefore, any claim of a gradual increase as a basis for support of his 45-year ASL is misleading given that the existing 40-year ASL was not based on proper analysis of the prior facts presented by Mr. Wiedmayer.

Moreover, proper review of the prior information in conjunction with the current information would further support a much longer ASL. In the last case, the survivor curve declined to approximately 73% at the age where Mr. Wiedmayer's 1% rule of thumb would have indicated that the data had become insignificant. Yet in this case, applying the same rule of thumb yields the result that the OLT declined to only 83% surviving. In other words, the additional data has caused the tail end of the OLT to become further elevated, implying a longer ASL.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 15 OF APPENDIX B TO HIS REBUTTAL THAT THE OLT DOES NOT PROVIDE ENOUGH RETIREMENT ACTIVITY FOR THE ACCOUNT TO REACH THE 80% TO 20% SURVIVING PORTION OF THE CURVE THAT PROVIDES THE MOST INFORMATION?

A. First, as previously noted, Mr. Wiedmayer inappropriately applies the 80% to 20% surviving portion criteria. The authors of such statement indicate that the movement between 80 and 20% surviving "often" provides the most meaningful information. In this case, the meaningful information, while not declining below 80% surviving, still provides valuable information upon which to derive an ASL. In other words, if after 40 years of experience the OLT has only declined to 83% surviving, then one can reasonably assume that we are dealing with a long-lived asset. Indeed, in the prior depreciation study, Mr. Wiedmayer chose not to even mention any reference to an 80% to 20% surviving portion of the curve as providing meaningful or any other type of information. He simply presented the OLT that only declined to 95% surviving. It is Mr. Wiedmayer's

[23] Response to CA-NP-017 Attachment G2.

inconsistent efforts to defend his artificially short ASL proposal that causes him to now inconsistently create new positions in defense of his proposal.

Q. HOW DO YOU RESPOND TO THE STATEMENTS AT THE TOP OF PAGE 16 OF APPENDIX B TO MR. WIEDMAYER'S REBUTTAL TESTIMONY THAT THE LIMITED LEVELS OF RETIREMENT ACTIVITY IN THE PAST 10 YEARS IS A TREND THAT CANNOT CONTINUE INDEFINITELY?

A. I agree with Mr. Wiedmayer's statement, however, a review of the graph on page 32 of my direct testimony demonstrates that my recommendation still falls below the actual OLT. Therefore, when retirement activity does begin to pick up in the future, the OLT can decline significantly between ages 20 and approximately 40 years and still result in the 57-year ASL I recommend. In other words, Mr. Wiedmayer's statement of future retirement activity has no impact on my recommendation.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT AT THE BOTTOM OF PAGE 16 OF APPENDIX B TO HIS REBUTTAL TESTIMONY THAT, INDUSTRY COMPARISONS BECOME MORE IMPORTANT WHEN UTILITY SPECIFIC DATA ARE NOT AVAILABLE?

A. What Mr. Wiedmayer fails to note is that we have a significant magnitude of Newfoundland Power specific data, over 40 years worth. This is more than adequate to provide meaningful information in the life estimation process. Industry comparisons are helpful for confirmational purposes. In this case, my recommendation falls well within industry levels, even those proposed by Gannett Fleming elsewhere. In other words, Newfoundland Power specific data dictates a long life for this asset, one much longer than 40 years, or even the 45-year level proposed by the Company. Company specific information easily supports a 57-year ASL, and the reasonableness of this recommendation is confirmed by industry expectations.

It must be reemphasized that in the Gannett Fleming 2005 study, Mr. Wiedmayer presented a survivor curve that only declined to approximately 95% surviving, yet his 2005 study made no reference to the need for industry comparisons to support his

position for this particular account. Rather, Mr. Wiedmayer inconsistently truncated a number of data points reflected in his curve in order to fit a 40-year ASL. This artificial truncation occurred even though the plotted points fell approximately 20 years short of Mr. Wiedmayer's own rule of thumb for significant data. Mr. Wiedmayer's new presentation relying on industry comparative data as support for a shorter ASL than is warranted is simply inappropriate. Both Mr. Wiedmayer's and my recommendations fall within industry bounds and provide confirmational merit only if necessary. In this case, the confirmational information does not override the longer ASL indicated by a proper view of Company specific actuarial results.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT ON PAGE 18 OF APPENDIX B TO HIS REBUTTAL THAT YOUR PROPOSAL "IS OUTSIDE THE TYPICAL EXPERIENCE OF MOST COMPANIES"?

A. Notwithstanding the fact that actuarial basis provides a superior basis for establishing life parameters for this account, Mr. Wiedmayer's statement is still rather skewed. Gannett Fleming makes it a practice of establishing industry ranges in support of values it proposes. However, in this case, Mr. Wiedmayer now creates a new standard associated with "most" companies in order to claim that even though my recommended value is within the industry range, it is not in the range of "most" companies. This constantly shifting standard is not a valid basis upon which to judge my recommendation.

In addition, Mr. Wiedmayer's statement that there is no specific reason that Newfoundland Power's underground cable should have lives longer than others in the industry is also a skewed statement. First, as admitted to by Gannett Fleming, the industry range exceeds the 57-year life I recommend.[24] Second, Company specific data demonstrates what is happening to its plant, and the Company has not offered any valid basis to artificially cut life expectations short. Indeed, only by artificially manipulating the bounds of the industry comparative data does one create the false perception that the life for the Company's investment in this account is longer than the lives of equivalent investments experienced by other utilities.

[24] Mr. Wiedmayer's rebuttal testimony Appendix B at page 17 Figure 8.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS BEGINNING AT THE BOTTOM OF PAGE 18 OF APPENDIX B TO HIS REBUTTAL THAT THE COMPANY SHOULD EXPERIENCE A SHORTER ASL SINCE ONLY 20% OF ITS UNDERGROUND CONDUCTOR IS IN CONDUIT?

A. First, it must be noted that Mr. Wiedmayer does not say that 20% of the investment in underground conductor is in conduit. This potential difference between property record units and dollars can be significant as the percent of dollars of investment in underground direct buried cable may not be as great as the percent of the quantity of cable directly buried. Second, Mr. Wiedmayer has chosen not to provide any information regarding the other utilities in his industry sample. Those other utilities may have even a greater percentage of their conductor directly buried. Without a specific analysis, such comparisons can be misleading. Finally, when Mr. Wiedmayer's reference that Newfoundland experiences a harsher freeze and thaw cycle than other utilities, it must be noted that Mr. Wiedmayer did not identify the depth to which other utilities bury their lines. Normally, the depth a line is buried is a function, in part, of the harshness of the freeze and thaw cycles. Indeed, assuming that all utilities normally bury their cable to depths appropriate to their location, such factors should not have a major impact on life expectation from one utility to another.

Q. DOES ANY OF THE INFORMATION PRESENTED BY THE COMPANY OR MR. WIEDMAYER CAUSE YOU TO HAVE CONCERNS OR CHANGE YOUR RECOMMENDATION?

A. No. Again, Mr. Wiedmayer's presentation only reinforces my position. His efforts to discount Company specific data and rely on industry information, without indications of the type of cable or generation of cable reflected in those companies' depreciation analyses, appears to be more of an effort to direct attention away from approximately 40 years of actual data for this Company. Even though that 40 years of experience does not result in an OLT that declines below 80% surviving, it is not necessary for that situation to occur for the results to provide meaningful indications of a long life.

Accounts 362.1 and 362.2 – Wood Poles and Fixtures

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGES 20 THROUGH 22 OF APPENDIX B TO HIS REBUTTAL TESTIMONY REGARDING THE IMPACT OF AN ACCOUNTING CHANGE ON LIFE ESTIMATION?

A. In rebuttal, Mr. Wiedmayer present a position that changes in the data capture procedures for the period 2004 through 2009 has had a material and significant impact on the life estimation process for the investment in Distribution Wood Poles. Mr. Wiedmayer contends that "the Company clearly explained that much of the increase in service life reflected in the life tables for the distribution poles was due to changes in the data capture procedures for the period 2004-2009."[25] (Emphasis added) The clear explanation referenced by Mr. Wiedmayer is supposedly presented in response to Requests for Information CA-NP-084, 088, and follow-up Request for Information CA-NP-546. However, review of these data responses in no way corresponds to a clear explanation or substantiation that "much" of the increase was attributable to the change in data capture procedures.

For example, in response to CA-NP-084, the Company states that a somewhat longer life expectation "appears to be related in part to the accounting change referenced above." (Emphasis added)[26] In other words, the Company assumes, without any analysis or underlying support, that the change in the OLT may be related to the data capture procedure.

Due to the vagueness of the reference, a follow-up request was submitted. The Company was given the opportunity in CA-NP-546 to further specifically identify referenced accounting changes and provide meaningful information associated with the change and the new replacement accounting procedure. Unfortunately, the Company chose to correct its prior position of identifying the change as an accounting policy change to that of a

[25] Mr. Wiedmayer's Rebuttal Testimony Appendix B at page 20.
[26] Response to CA-NP-084 at page 15.

data capture change. The remainder of the Company's response failed to provide clarification as to the impact on ASL due to the Company's new implementation of a GPS-based pole survey. In other words, while the Company identified the need for a longer ASL in the current case, without any quantifiable basis it assumed that the change in ASL "appears" to be due to some extent to the different data capture procedures, but then in rebuttal elevates such casual appearance to a major concept. It is significant that in rebuttal the Company had every opportunity to demonstrate that the Company's decision to change to a different data capture procedure in fact had the claimed apparent life impacts, yet chose not to do so. Mr. Wiedmayer's rebuttal testimony on this matter again is not factual or evidence-drive, but rather opinion-driven without any support.

Q. DID MR. WIEDMAYER SPECIFICALLY REFUTE HIS REBUTTAL POSITION IN RESPONSE TO REQUEST FOR INFORMATION CA-NP-084?

A. Yes. Mr. Wiedmayer now claims in rebuttal that "much of this [ASL] change was due to the poles database used to price retirements," and that the "historical data for the period 2004-2009 does not provide the best representation of future expectations for this account."[27] Contrary to such new found positions, Mr. Wiedmayer specifically stated that the "1967-2009 band represents the data since the merger of Newfoundland Power's predecessor utilities, and is considered the most representative of future life expectations for this account." (Emphasis added) The database relied upon in the depreciation study as presented to the Board and to intervenors cannot be considered the most representative of future expectations and then without any changes to history produce results that do "not provide the best representation of future expectations for this account." The inconsistency is unacceptable.

Q. DID YOU IN FACT IGNORE THE INFORMATION PROVIDED BY THE COMPANY AS STATED BY MR. WIEDMAYER AT THE BOTTOM OF PAGE 22 OF APPENDIX B TO HIS REBUTTAL TESTIMONY?

A. No. As indicated by my follow-up Request For Information CA-NP-546, I attempted to obtain a better understanding of the impact of a vaguely identified accounting change.

[27] Mr. Wiedmayer's Rebuttal Testimony Appendix B at pages 21 and 22.

The responsive information in no way demonstrates anything other than conjecture by the Company that there "appears" to be an impact. Absent anything other than this vague and unsubstantiated reference in a response to a request for information, it is more appropriate to recognize the results of the most representative band analysis of future expectations as stated by Mr. Wiedmayer in response to CA-NP-084.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS ON PAGE 23 OF APPENDIX B TO HIS REBUTTAL TESTIMONY THAT, AS A RESULT OF RELIANCE ON CCA-TREATED POLES RATHER THAN PENTA-TREATED POLES, THERE IS A TREND TO A SHORTER ASL ON A GOING FORWARD BASIS?

A. This statement by Mr. Wiedmayer represents yet another statement without any supporting analysis, documentation, or evidence. As previously discussed under the section for transmission poles, while CCA may not produce as long a life expectancy as Penta, it still produces a longer life expectancy than reflected in Mr. Wiedmayer's analyses. Moreover, the Company failed to provide any information identifying the quantity of pole investment associated with CCA versus Penta versus non-treated poles. Absent such information and analysis, no meaningful conclusion can be reached to support Mr. Wiedmayer's generalized statement.

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. WIEDMAYER'S STATEMENT ON PAGE 23 OF APPENDIX B TO HIS REBUTTAL TESTIMONY REGARDING THE CLAIM THAT THE COMPANY'S INSPECTION PROGRAMS HAVE NOT LED TO A LONGER ASL?

A. My response to this matter is the same as discussed for transmission poles. There will be an initial surge of early retirements associated with the implementation of an inspection program. However, in the long run, the opposite should be true. In fact, the Company states that the inspection programs have "shown positive results and have become the primary method for reviewing the upgrading the distribution system."[28] It is inconsistent to believe that inspection programs will result in the upgrading of distribution systems yet

[28] Response to CA-NP-088 under the subsection titled Routine Inspections (Rebuild Distribution Lines).

end up with shorter ASLs. In addition, the Company stated that its inspection practices are implemented "to ensure the prudent maintenance of the existing distribution assets."[29] Again, if the inspection programs ensure prudent maintenance is performed on distribution assets, then it would be inconsistent to assume that such emphasis on maintenance practices will result in a shorter ASL in the long run. Finally, the inconsistency in Mr. Wiedmayer's position on this matter is reinforced in the Company's Annual Report for 2011. There, the Company states that its approach to asset management involves identifying deficiencies in its system through inspections and repairing assets before they yield negative results or early retirement. The Company goes on to state that it dedicated approximately 60% of its capital expenditures to strengthening aging components of its electric system.[30] One would expect the strengthening process and the capital expenditure to perform such activity to aging components would result in longer ASLs rather than shorter ASLs.

Q. IS THERE ANYTHING IN MR. WIEDMAYER'S REBUTTAL THAT CAUSES YOU CONCERN OR TO CONSIDER REVISIONS TO YOUR RECOMMENDATION?

A. No. Mr. Wiedmayer's rebuttal represents a continued effort to mischaracterize my position and the evidence that has been presented. In fact, Mr. Wiedmayer's rebuttal testimony is inconsistent with information previously provided in response to requests for information. Moreover, it is illogical and unsupported that capital expenditures to strengthen the aging infrastructure and to provide better maintenance practices will not result in a longer life expectancy than what might occur absent such efforts. Indeed, the Company has not been able to show that its changing data capture practices has in fact shortened the life expectancy for the investment in these accounts rather than lengthening them. There is nothing that Mr. Wiedmayer has presented from a factual standpoint that demonstrates that his proposal is appropriate.

[29] *Id.* under the subsection titled Maintaining the Existing Distribution System.
[30] Response to CA-NP-127 at page 11.

Account 365.1 – Overhead Services

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. WIEDMAYER'S STATEMENT ON PAGE 24 OF APPENDIX B TO HIS REBUTTAL TESTIMONY THAT HIS CURVE FIT TO THE OLT IN HIS DEPRECIATION STUDY IS A MUCH BETTER FIT OF THE DATA?

A. I agree and I stated in my direct testimony that the presented he made in his depreciation study "appears to be a good fit of the data."[31] However, a proper analysis of the information for this account does not stop at the one actuarial analysis presented in the depreciation study. Indeed, the historical data relied upon for that presentation dates back to 1933 and does not adequately reflect trends in the data over time. Indeed, Mr. Wiedmayer admits on page 25 of Appendix B to his rebuttal testimony that different experience and placement bands can reveal trends in the data, but he chose to ignore the analyses he performed that revealed trends for this account. In fact, for this particular account, the Company does not identify plant in service dating past 1968. Therefore, the inclusion of activities associated with plant dating back to 1933 can be misleading and should be tested, as Mr. Wiedmayer did, but chose to ignore such results.

Over 90% of the investment in this account has been placed in service since the 1980s. Given that depreciation is a projection of what is expected to occur for current plant in service, relying a 1967-2009 band rather than a 1933-2009 band is imminently more appropriate. However, again Mr. Wiedmayer simply claims that emphasis on the shorter-term trends "are not representative" without any substantiation or basis. If the Board believes that data applicable to plant placed in service in the 1930s, 1940s, and 1950s is more indicative of life characteristics than for plant placed in service from the 1980s through 2009, then Mr. Wiedmayer would be more correct. However, I believe such assumption would be incorrect and ill-advised. Indeed, one must question why Mr. Wiedmayer developed more current placement and experience bands if he believed that sole reliance on the overall band was appropriate.

[31] Mr. Pous' Direct Testimony on page 39.

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. WIEDMAYER'S STATEMENTS ON PAGE 25 OF APPENDIX B TO HIS REBUTTAL TESTIMONY REFERENCING THE COD FISHING MORATORIUM?

A. As previously noted, neither Mr. Wiedmayer nor the Company mentioned the cod fishing moratorium as any basis for the establishment of life characteristics for this account prior to rebuttal. Moreover, the analysis underlying my recommendation includes data from 1967 through 2009 and is not based on a 1990 through 2009 experience band. Therefore, any reference by Mr. Wiedmayer to impacts of the cod fishing moratorium that began in 1992 as a basis to ignore a 1967 data band are misplaced.

Q. IS THERE ANYTHING IN MR. WIEDMAYER'S TESTIMONY THAT CAUSES YOU CONCERN OR TO CONSIDER A REVISION TO YOUR RECOMMENDATION?

A. No. Mr. Wiedmayer developed and analyzed various actuarial analyses but elected to rely on the full band analysis dating back to 1933. Alternatively, he attempts to characterize a 43-year (1967-2009) band analysis as being too short. Such consideration is inconsistent with the fact that the current investment in the account only dates back to 1968 with 90% of the investment being placed into service subsequent to 1980. There is nothing in Mr. Wiedmayer's rebuttal testimony that would support the reliance on an analysis dating back to 1933 and ignoring the trend in the data as reflected in the Company's actual historical activity. Mr. Wiedmayer's criticism of my recommendation should be rejected.

SECTION IV: NET SALVAGE

Q. HAVE YOU REVIEWED MR. WIEDMAYER'S REBUTTAL TESTIMONY AND APPENDIX C AS IT RELATES TO NET SALVAGE?

A. Yes. I will address the major points raised by Mr. Wiedmayer as it relates to the issue of net salvage. However, it must be noted that Mr. Wiedmayer's mechanical approach of averaging historical data in 3- and 5-year bands without further underlying analyses can be misleading.

Q. WHY DO YOU BELIEVE MR. WIEDMAYER'S MECHANICAL ANALYSIS OF HISTORICAL DATA CAN RESULT IN MISLEADING RESULTS?

A. Mr. Wiedmayer states at page 28 of his rebuttal testimony that most of the Company's retirement of services are due to the replacement of existing services. He further indicates at page 29 of his rebuttal that the replacement of services "are a result of specific trouble calls for services that need immediate attention." In other words, the historical data reflects a cost basis associated with emergency situations. It normally costs more to perform replacement activity when unknown situations at potentially after hour periods occur. Emergency situations often require overtime expense and reflect lack of efficiency due to lack of preplanning for the actual replacement activity. While the historical data may reflect a high proportion of emergency transactions, future expense of retirements for all services will not be associated with emergency transactions to the same extent. In other words, realistic future expectations for the majority of the investment will not merit the same transactional practice experienced by the Company historically.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENTS REGARDING ECONOMIES OF SCALE ON PAGES 27 AND 28 OF HIS REBUTTAL TESTIMONY AND IN HIS APPENDIX C?

A. Economies of scale have transpired on the system due to improvements in items such as power lifts versus an individual climbing a pole to perform work. The decision to expend capital in order to purchase vehicles with power lifts was made on a cost-benefit basis, which occurred due to the number of services and other height-related retirement, maintenance, and replacement activities. In other words, if Company personnel rarely were required to work at heights that required either manual climbing of poles or ladders, then economies of scale would have driven the decision not to purchase vehicles with power lifts. The concept of economies of scale is not limited to the number of individual retirements, but also the number of events that require expenditure of cost either through maintenance or capital. In addition, as older vintages begin to experience a higher level of problems that transpire due to the aging process, a more planned replacement on a larger scale undoubtedly will transpire. This is yet another form of economies of scale that will result in less overtime and more efficient replacement activity.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S REFERENCE TO REPLACEMENT COSTS AS REFERENCED ON PAGES 28 AND 29 OF HIS REBUTTAL TESTIMONY?

A. The Company arbitrarily and without support allocates 50% of the labour cost between a new addition and the retired service when replacement activity occurs. Given that the majority of events on the Company's system are associated with replacement activity, this process has a major impact on cost of removal and net salvage. Statements that the allocation "represents a reasonable representation" or that the "crew doing the work does on average spend a similar amount of time on each activity" are not supported and appear to be incorrect. For example, the cost and time to drop an old service should be noticeably shorter than the time to string new cable and connect the new service. Obviously, there is no need to measure the length of the old service to remove it, yet it is necessary to measure the length associated with replacement service in order to ensure that when cable is cut it is not too short and thus must be discarded. Moreover, the old cable can be cut, while the new cable must be spliced. I cannot recall another utility that allocates as high a percentage as 50% to cost of removal associated with replacement activity for services. Indeed, the analyses of cost allocations are precisely the investigations one would expect in a net salvage analysis rather than just reliance on mechanical calculations of 3- and 5-year averages.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S CLAIMS IN APPENDIX C THAT YOU IGNORE A NUMBER OF FACTORS THAT WILL LEAD TO HIGHER COST OF REMOVAL IN THE FUTURE SUCH AS INFLATION?

A. First, it must be noted that inflation is already reflected in the historical data being analyzed, so inflation has not been ignored. However, fixation on inflation is misplaced. It is more important to understand the cause of retirement associated with replacement activity in order to determine whether the historical events are indicative of future expectations. Indeed, the degree of difficulty, the degree of overtime, and the specific problems associated with major retirements far exceed the impact of inflation. For example, the negative net salvage percentage for a service that fails on an emergency basis during a storm on a 3-day weekend at 2 a.m. where the dispatch crew does not

know in advance what it is looking for or necessarily the exact location is noticeably different than the retirement of a service at a location next to the Company's service center that is observed in advance such that all components of the replacement service are identified in advance. In that instance, the location is identified, the travel time is minimized, all equipment and materials are scheduled in advance, and the work can be done without overtime. The cost differential and the resulting percent net salvage would be tremendously different for the retirement of two services.

Another consideration associated with inflation is that the analysis Mr. Wiedmayer performed fails to properly capture the more rapid escalation of gross salvage for raw materials that have transpired since the early 2000s in comparison to inflation associated with labour costs. For example, the scrap value for copper has increased many hundreds of percent in the last five to 10 years, while inflation related to labour costs has been but a mere fraction of such escalation.

Q. HOW DO YOU RESPOND TO MR. WIEDMAYER'S STATEMENT IN APPENDIX C AT PAGE 7 TO HIS REBUTTAL TESTIMONY THAT YOU IGNORED INFORMATION WHILE MR. WIEDMAYER CONSIDERED A NUMBER OF FACTORS?

A. First, it is necessary to place Mr. Wiedmayer's statements in proper context. Mr. Wiedmayer has presented his depreciation study, his interview notes, responded to numerous data requests seeking information, and has presented rebuttal testimony without ever enumerating the "number of factors" that were considered. Nor does Mr. Wiedmayer address how he considered each of the number of unidentified factors that are presented. Yet in spite of his future to present specifics, he feels comfortable in stating I ignored factors or placed too great a weight on other factors. Such presentation does not support the Company's position. Rather, it highlights the lack of support the Company has for its own presentation.

As it relates to other facts, it should be noted that neither Mr. Wiedmayer nor the Company could identify the number of retirements associated with emergency

transactions or the level of overtime included in cost of removal on an annual basis.[32] Moreover, Mr. Wiedmayer failed to investigate and present evidence that the allocation of costs between cost of removal and cost of new installations represented a fair and realistic level. This failure is significant given the Company allocates 50% of such costs to cost of removal. In summary, the only evidence presented by the Company is the actual historical transactions that range on an annual basis from a -29% to a -217% for the one account at issue.[33] Variances of this magnitude should be investigated before placing blind reliance on mechanical averaging of historical data.

Q. IS THERE ANY INFORMATION PRESENTED BY MR. WIEDMAYER IN HIS REBUTTAL THAT CAUSES YOU CONCERN OR TO CHANGE YOUR RECOMMENDATION?

A. No. In fact, the claim that 50% of labour costs associated with replacement activity are considered cost of removal and the lack of justification for such allocation further reinforce the need for a less negative level of net salvage than proposed by the Company.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. However, given the magnitude of the Company's rebuttal and the allotted period of time to respond, to the extent I have not addressed any specific individual item should not be taken as my agreement with Mr. Wiedmayer's position taken in rebuttal.

[32] Response to CA-NP-044 through 046
[33] 2010 Depreciation Study at page B-25.