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(9:00 a.m.)
CHAIRMAN:
Q. Good morning everybody.
KELLY, Q.C.:
Q. Good morning, Chairman.
MR. JOHNSON:
Q. Good morning.
CHAIRMAN:
Q. Now before we start with our first witness, I understand that there are some preliminary matters.
MS. GLYNN:
Q. Just some housekeeping items, Mr. Chair. Newfoundland Power has filed undertakings, 9, 11, 12 and 13 and Ms. Jocelyn Perry, in her evidence, had referred to an updated Moody's opinion and we do have that from Newfoundland Power and we'll enter that as JP No. 4. Those are all the housekeeping matters, Mr. Chair. We can get right into the depreciation evidence.
CHAIRMAN:
Q. Okay. I understand Mr. Wiedmayer, is that your name, sir?
MR. WIEDMAYER:

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A. Yes, sir.
CHAIRMAN:
Q. Is that pronounced with a W or a V?
MR. WIEDMAYER:
A. W.
CHAIRMAN:
Q. W. I'll swear you in, sir.
MR. JOHN WIEDMAYER, SWORN
KELLY, Q.C.:
Q. Thank you, Mr. Chairman. Mr. WIEDMAYER, perhaps we can begin by having you indicate your position with Gannett Fleming.
MR. WIEDMAYER:
A. Yes. I am the Project Manager of Depreciation Studies for the Valuation and Rate Division of Gannett Fleming Inc.
KELLY, Q.C.:
Q. And what are your professional qualifications as the Project Manager of Depreciation Studies?
MR. WIEDMAYER:
A. I received my undergraduate degree in engineering from LaFayette College in eastern Pennsylvania. I also have received a Masters in Business Administration from Pennsylvania

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State University. I'm a member of the National Society of Professional Engineers. I'm also a member of the Pennsylvania Society of Professional Engineers. I'm a certified depreciation professional which requires five years of work experience in depreciation matters, as well as passing a rigorous written examination. I am a member of the Society of Depreciation Professionals. In 2005, I was elected as the president of the Society of Depreciation Professionals which is an organization -- it's an international organization comprised of staff members from the utility industry, gas, water, telephone, electric, as well as consultants like myself, staff members from regulatory bodies in the US and Canada. There's members from both US and Canada in the Society of Depreciation Professionals.
KELLY, Q.C.:
Q. And you've previously testified before this Board as an expert witness in depreciation?
MR. WIEDMAYER:
A. Yes, I have. I've testified in Newfoundland in 2003.

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KELLY, Q.C.:
Q. And can you tell the Board, please, what does Gannett Fleming do?
MR. WIEDMAYER:
A. Gannett Fleming is an international consulting engineering firm that has been in existence since 1915. We have been conduct -- my division, the valuation and rate division, has been conducting depreciation and valuation studies since the firm's inception. We also prepare cost of service studies, rate of return studies and we present expert testimony in support of such studies.
KELLY, Q.C.:
Q. And I understand Gannett Fleming has done depreciation work for Newfoundland Power since late 1995, early 1996. Is that correct?
MR. WIEDMAYER:
A. Yes, Mr. Kelly, that is correct. We have prepared four different studies at five-year intervals for Newfoundland Power, starting in December of 1995.
KELLY, Q.C.:
Q. Okay. Now in your capacity as Project Manager of Depreciation Studies with Gannett Fleming,

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did you actually prepare the depreciation study that we're going to talk about here for Newfoundland Power, which was related to its electrical plant as of December 31st, 2010?

MR. WIEDMAYER:

A. Yes, I did.

KELLY, Q.C.:

Q. And that 2010 depreciation study has been filed with the Board. It is contained in Volume 3 of the application, correct?

MR. WIEDMAYER:

A. Yes, that's correct.

KELLY, Q.C.:

Q. And do you have any revisions to the 2010 study at this point in time?

MR. WIEDMAYER:

A. Well, as I was -- yes, I do. As I was perusing through the report, I found a couple of minor typographical errors that I would like to correct in the depreciation study that we've submitted.

KELLY, Q.C.:

Q. Volume 3.

MR. WIEDMAYER:

A. Volume 3 of the Application. On page II- 37

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there's three sets of formulas.

KELLY, Q.C.:

Q. II-37?

MR. WIEDMAYER:

A. Yes, right. That describe the calculation of the composite remaining life for each of the plan accounts. So, each one of those formulas have a numerator and denominator. What's missing in both the numerator and denominator for those three formulas -- it's being brought up on the screen. II-37.

KELLY, Q.C.:

Q. Bottom of the page?

MR. WIEDMAYER:

A. Yes, bottom of the page, the very bottom formula, the numerator should have a summation symbol in front and the denominator should have a summation symbol. In addition, that bottom formula where it says book cost and calculated reserve, there should be a minus sign in between book cost and calculated reserve.

KELLY, Q.C.:

Q. Okay. And perhaps we can, in due course, file a revision for that page then.

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MR. WIEDMAYER:

A. Yes. It was just a typographical error.

KELLY, Q.C.:

Q. Okay. Anything else?

MR. WIEDMAYER:

A. No, Mr. Kelly, that's -

KELLY, Q.C.:

Q. Thank you. And do you adopt the 2010 Depreciation Study and the expert rebuttal evidence as your sworn testimony in this proceeding?

MR. WIEDMAYER:

A. Yes, I do.

KELLY, Q.C.:

Q. Well, let's start with some basic concepts. Perhaps you can define the concept of depreciation.

MR. WIEDMAYER:

A. Yes, certainly. Depreciation refers to the loss in service value, not restored by current maintenance, incurred in the connection with the consumption or prospective retirement of a utility plant in the course of service from which causes that can be reasonably anticipated or contemplated and events which

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the company is not protected by insurance. Among the causes to consider are wear and tear of the assets, decay, action of the elements. Most of the plant is outside, so it's, you know, in the elements. Inadequacy, obsolescence, changes in the art, changes in technology, changes in the demand and requirements of public authorities. So the -

KELLY, Q.C.:

Q. And what do you mean -- sorry.

MR. WIEDMAYER:

A. Go ahead.

KELLY, Q.C.:

Q. What do you mean by service value?

MR. WIEDMAYER:

A. What I mean by service value is the original cost of an asset less its estimated net salvage. For example, a pole may initially cost a thousand dollars when it's installed but at the end of its life, there's a cost that the company is responsible for to remove that pole from service. So that cost at the end of its life needs to be recovered over the course of the asset and collected from customers that are benefitting from that

Page 9

asset. So the pole may initially cost a thousand dollars, but the removal cost for that pole that will be retired 30, 40, 50 years into the future also needs to be recovered over the course of its life. So that cost at the end of its life may be 200, 300, 400 dollars 40 years into the future.

KELLY, Q.C.:

Q. Okay. Now what then is the purpose of the depreciation study?

MR. WIEDMAYER:

A. The purpose of a depreciation study is to determine applicable depreciation rates for each of the various depreciation categories and we have broken the assets down into homogenous groupings or categories of assets. So we have a depreciable category for vehicles, which we depreciate over a life appropriate for vehicles, and we also have a depreciation category for poles, which are longer lived assets, and we have a specific life and net salvage estimate for that depreciation category. The annual depreciation rates are based on reasonable estimates of service lives of the company's

Page 10

assets. Revisions to the company's depreciation rates are necessary to ensure that the rates currently reflect current information and recent changes experienced by the company in relation to the service life of the assets and the net salvage for the assets. The depreciation rates are not intended to remain unchanged. We update these studies every five years. We take a look at the company's experience and what has occurred from an historical perspective in setting these depreciation rates that we feel are appropriate and the lives and salvage reasonably estimated. It's been the practice of Newfoundland Power to complete these studies and submit these studies every five years and that is consistent with industry practice. My firm has performed these studies in all ten Canadian Provinces, three Canadian territories and all 50 US States.

KELLY, Q.C.:

Q. Now what's the first step then in doing the depreciation study? How do you get this process started?

MR. WIEDMAYER:

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A. Well, the first step is to define a depreciation system. This involves several choices at the front end of the study where you're defining a depreciation method procedure, a depreciation calculation procedure and a depreciation technique.

KELLY, Q.C.:

Q. Okay. Let's take each of those three: method, procedure and technique. What's depreciation method?

MR. WIEDMAYER:

A. A depreciation method is the method of allocating the service value of the asset over its service life. So the method of allocation includes some accelerated forms or accelerated methods of decelerated and straight line methods. The most common method for depreciation -- the most common method of depreciation of utility plant is the straight line method and Newfoundland Power uses the straight line method of depreciation.

KELLY, Q.C.:

Q. And could you just explain and describe straight line depreciation method a little bit further?

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MR. WIEDMAYER:

A. Yes, certainly. The straight line method allocates the service value of the asset, the group of assets, equally over the life of the asset. So for example, that thousand dollar pole that I had indicated, we would try and take that pole and depreciate it over its life and assume that that life is 40 years, we would depreciate that at a rate of two and a half percent per year.

KELLY, Q.C.:

Q. Okay. Now what's depreciation procedure?

MR. WIEDMAYER:

A. Depreciation procedure refers to the grouping of assets. Assets can be depreciated either on a unit or group basis. A unit basis would be if we had a life for every unit of property out there and the company has millions of units of property if we count up all the meters and all the poles and all the line transformers, so most utilities, it's challenging to use the unit basis, so they use a group basis where they depreciate a group of assets over its average service life. The two most common depreciation procedures are the

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equal life group procedure and the average life group procedure. For utilities, both depreciation calculation procedures are normally used with the straight line method of depreciation. The equal life group procedure is a depreciation procedure approved by this Board for use by Newfoundland Power.

KELLY, Q.C.:

Q. Okay.

MR. WIEDMAYER:

A. I will discuss these procedures more in detail later in my testimony.

KELLY, Q.C.:

Q. Okay. The last of the two or the three items we had, method, procedure and then depreciation technique. Just explain to the Board what depreciation technique is.

MR. WIEDMAYER:

A. Yes. There are two depreciation techniques. One is the whole life technique and the other is the remaining life technique. Under the remaining life technique, depreciation expense is adjusted so that the undepreciated service value of the assets are recovered over the remaining life. Under the whole life

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techniques, such adjustments are not. Most utilities, including Newfoundland Power, use the remaining life technique. The characteristics of the remaining life technique are to adjust -- it's a method of adjustment so that if there are errors in the life and salvage estimates in our forecast that if depreciation from a -- if past levels of depreciation have either been too high or too low, it's a way to kind of correct over the remaining life, the undepreciated value of those assets. Newfoundland Power has this true-up adjustment that they make to their depreciation expense for accounts that either need to speed up the capital recovery process or slow down the capital recovery process.

KELLY, Q.C.:

Q. Now the next thing I'd like you to do is to take the Board through the process of conducting a depreciation study. How do you actually go about it?

MR. WIEDMAYER:

A. Okay. As I said earlier, the purpose of the depreciation study is to ensure that the company's depreciation rates appropriately

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allocate the service value of the assets over their reasonably estimated service lives. The principal components of performing a depreciation study is to conduct a service life study and a net salvage study. Both of these require consideration of historical information that I receive from the company that allows me to see what has occurred at the company from a historical perspective and based on the company's own data and experience how long the assets in Newfoundland last. I also consider current conditions and future plans regarding the company's assets.

KELLY, Q.C.:

Q. Okay. So we got historical information, current conditions and future plans, three items. Let's talk about historical information. What historical information do you consider when you're doing the depreciation study?

MR. WIEDMAYER:

A. Newfoundland Power maintains a fixed asset database which is a record from the time a plant's added to the time plant is retired. The fixed asset database includes other plant

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accounting transactions, such as plant acquisitions, transfers, additions, retirements that have been recorded throughout the company's history. It is a summation of those plan additions and retirements and other transactions that result in an ending plant balance as of the date of the calculation where we're trying to determine the depreciation expense at a specific point in time. This depreciation study relates to plant in service as of December 31st, 2010. To the information on plant additions and retirements I apply recognized analytical techniques to estimate an average service life for the various plan accounts.

KELLY, Q.C.:

Q. Okay. Now once you've looked at the historical data, what's your next step?

MR. WIEDMAYER:

A. Well, the historical indication provides -- the historical analysis of life and salvage provides an indication of service life and net salvage, however when you're trying to forecast things into the future, you'd want to make -- you want to make sure that the

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depreciation rates adequately reflect recent and expected changes that may affect service lives. So I also interview key engineering and operations staff from Newfoundland Power and I also tour a number of the company's facilities, such as their hydro plants, the service centres, office buildings, substations, take a look at some of the transmission lines that they may have recently worked on, so try and get out and see the property.

KELLY, Q.C.:

Q. And over the past 15 years, can you just give the Board a sense of the facilities you visited?

MR. WIEDMAYER:

A. Yes. I've mentioned I've conducted four depreciation studies for Newfoundland Power. We conducted one in 1996, updated another one in 2001, updated another one in 2006 and we updated this depreciation study in 2010. So in 1996, I saw mostly facilities on the Avalon Peninsula. So, we toured service centres, office buildings, hydro facilities in 1996. In 2001, I toured some facilities in western

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Newfoundland, starting in Deer Lake, travelled down to Corner Brook, visited the new -- at the time, the new hydro plant Rose Blanche, toured the Port aux Basques diesel plant, saw some substations along the way in Stephenville and made our way back to the Avalon in 2001. 2006 and 2010, we've also concentrated seeing sites throughout the Avalon Peninsula.

KELLY, Q.C.:

Q. And why do you do that? What's the purpose of visiting the company's facilities?

MR. WIEDMAYER:

A. The purpose of getting out and seeing the plants is to try and get a general understanding of Newfoundland Power's electrical system and the service territory in which the company operates. The other key reason is to assess the condition of the plant. The assessment helps me interpret the historical data that I have received from the company when I'm doing the analysis. I have a better understanding of the property that I receive in terms of the numbers related to plant additions and plant retirements and I actually see the property, see the condition

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of the property. So this assessment helps me interpret the historical service life indications provided by my analysis of historical data. It also provides a background for my discussions with the company's engineering and operations staff because as we're travelling along two or three days of a field trip, I'm in the car a lot with the engineering staff and get to ask questions that come up during these trips throughout Newfoundland.

KELLY, Q.C.:

Q. Can I get you to elaborate then on your discussions with the company's engineering and operations staff? Like what do you get out of that process?

MR. WIEDMAYER:

A. Each time I conduct a depreciation study for Newfoundland Power, I meet with senior engineering and operations staff who have responsibility for asset replacement. They know the assets well. They're responsible for maintaining the assets. They're responsible for the operations. They're responsible for the replacement of the assets eventually when

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it gets to the point where it needs to be replaced. So my discussions with the engineering and operations staff help me understand the major causes of past retirements, like why have line transformers or meters or poles, why have they been retired in the past. So, this discussion gives me insight into the past causes of retirements and then also, during these discussions, we identify factors that are likely to influence future retirements. Like we discuss the probable future causes of retirement for the plant assets. So the asset retirements can be influenced by a number of factors that are not necessarily evident in the historical data. Historical data is only helpful if the past causes of retirements are expected to be in effect in the future to the same degree and magnitude. So it helps me make an assessment as to whether past causes of retirements that have led to poles, meters, line transformers to be retired, whether or not in the future those same causes of retirements are likely to be in existence.

KELLY, Q.C.:

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Q. Probably you can give us a couple of examples?
MR. WIEDMAYER:
A. Yes. Well, I mentioned meters. So, for example, recent government regulations mandating stricter meter testing has led to an increase in meters. In addition, companies such as Newfoundland Power have installed AMR meters, automatic meter reading meters, which have a shorter -- tend to have a shorter life than the older style electromechanical meters. I've seen this in other jurisdictions for companies that have replaced their older style electromechanical meters with AMR or AMI meters, AMI meters being smart meters is the terminology that I've seen used. So on the basis of my discussions with the company engineering staff for meters, based on the fact that the historical data was not necessarily indicative of future conditions, I recommended a decrease in the service life of meters based on the fact that future conditions likely will be different than past history for meters because you're changing out older electromechanical meters and replacing them with new electronic meters that will be

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subject to a higher degree or technical obsolescence and generally get damaged more frequently than the older style electromechanical meters which could be repaired.

Another example of a change in the company practice that is expected to be different from the historical pattern of retirement that I've analyzed is in line transformers which you would see the cylindrical pieces of equipment up on the pole tops that are attached to the poles. These are what we call line transformers. These line transformers reduce the current so that the electricity into a residence or a commercial is at the appropriate voltage. The line transformers, the company has, in the last ten years or so, has embarked upon putting in a better line transformer for the environment that's experienced in Newfoundland. The coastal environment in Newfoundland is very corrosive to the steel tanks on those line transformers and those steel tanks corrode more rapidly in coastal environments than elsewhere. So obviously in

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Newfoundland, it's a significant problem. Corrosion of the steel is more significant than it would be in Saskatchewan or somewhere in the Prairies. So the historical data was indicating a shorter life of about 30 years, 30 or 35 years for line transformers, based upon history which included retirements of line transformers that had mild steel tanks. So, the company, in the last ten years or so, has been using stainless steel for their line transformers. The stainless steel tanks are more resistant to the corrosion problem that have caused shorter service lives to be experienced in Newfoundland than I see elsewhere. So this is a change in company policy that the company has embarked upon that I expect the future service life to be longer than what I've analyzed from a study of past retirements.

Study of past retirements has indicated a life of 30 to perhaps 35 years. I'm recommending, because the company has gradually been installing over the past ten years stainless steel tanks, I'm recommending a 40-year service life for these transformers.

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Five years ago when I did this study, back in 2005, the company had approximately 15 to 20 percent stainless steel. Now it's closer to 50 percent. So as that gradual increase, as the company replaces out the older steel tank line transformers, I would expect service lives for line transformers to increase. So I have reflected that in my life estimate.
KELLY, Q.C.:
Q. Okay. So we looked at the historical data. You've been at -- looked at the facilities and you've had these discussions with engineering. Then what's the next thing you do to complete the depreciation study?
MR. WIEDMAYER:
A. Well, much along the lines of what I've just explained with respect to the line transformers and the meters, so we gather information collected from the historical analysis and through our discussions with the company's engineering and operations staff, we combined the known past causes of retirements, the history, we combined that with expected future conditions and outlook based upon management's plans. Like I know that they're

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planning to continue to install stainless steel tanks on their line transformers and I combine that information and use professional judgment to prepare a service life and net salvage estimate.

KELLY, Q.C.:

Q. Okay now, how do you prepare the service life estimate? Let's take that component next.

MR. WIEDMAYER:

A. I base the service life estimate on engineering judgment which is based upon a consideration of a number of factors. These factors include the statistical analysis of historical company experience data, current company policies regarding operational or accounting policies and then future outlook as determined during my field reviews of the property and my conversations with company management and their engineering and operations staff. I also, in addition, as kind of a reasonableness check to see, once I do that and come up with an estimate, how does this compare with previous estimates that I've recommended and that have been approved by the Board and I also conduct a reasonableness

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check because Gannett Fleming has done a lot of depreciation studies over the course of our firm's existence in every jurisdiction in Canada and the US that I compare full reasonableness check. I also consider the survivor curve estimates used by other electric companies in Canada and the US.

KELLY, Q.C.:

Q. You're going to have to explain to us survivor curves. What's a survivor curve?

MR. WIEDMAYER:

A. Okay. Well, the survivor curve is -- the survivor curve graphically depicts the amount of property retiring at each age throughout the life of a group of assets. So from the survivor curve, the average life of the group can be calculated, as can the remaining life and the frequency curve can be calculated from the survivor curve. In utility depreciation studies, we use a system of survivor curves known as the Iowa type survivor curves. The Iowa curves were developed at the Iowa State College Engineering Experiment Station through an extensive process of observation and classification of the ages at which industrial

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and utility property had been retired. So it was based upon empirical studies of utility plant, industrial property, railroad property to form a basis of here are the life -- here are a generalized set of survivor curves that properly describes utility property.

So I'd like to ask Mr. Wells, at this point in time, to put up on the screen a graph of a survivor curve, of an Iowa type survivor curve.

KELLY, Q.C.:

Q. And this is in the report at page 2-4?

MR. WIEDMAYER:

A. Yes, it is, Mr. Kelly. Can you shrink it just a little bit? Yes, thank you, Mr. Wells. Just move it up a little bit. Okay, okay. So the survivor curve that's being displayed is labelled survivor curve. It starts out at 100 percent surviving age zero and then as you can see, it declines over time. The horizontal axis is labelled the age in years. So as we progress through its age, property gets retired and the survivor curve starts to decline or decrease. So you can see at about age 15, the survivor curve is down to

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approximately 82 or 83 percent surviving. That's just an extrapolation on my part, based on the visual. And if we go down to page 30, the survivor curve indicates on the vertical axis a percent surviving of about 30 percent surviving. And this survivor curve goes all the way out to about age 60 where it ends at zero percent surviving. So this is just a way to describe the survivor characteristics of an asset.

So the other point that I'd like to describe is that under the area of the survivor curve is how we determine the average life of a group of assets. We figure out the area underneath the curve. A computer does it these days. And that determines what the average life would be. Now this is just a typical survivor curve. It doesn't -- it's not for a specific depreciation category. So the other thing that you can derive from the survivor curve is the remaining life expectancy or the remaining life of an asset at any point in time. At any age, we can determine its remaining life based upon the area underneath that survivor curve. So at

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age 30, you'll see an area that's been shaded. If you figure out the area you can figure out the -- you can determine the area underneath that survivor curve and that will give you the remaining life at age 30 for that particular account. You could do it at any age. Figure out the area at any age.

Also we display on this chart the frequency curve. The frequency curve I believe is probably a little bit more familiar to people with a background in statistics that may have seen a bell-shaped curve. So the frequency curve shows the percent retired at each age. So some frequency curves, it expressed really the range of service lives that are expected to be incurred by a particular asset group. As you may imagine, an asset category or depreciation category like meters or poles -- a pole could be put in last year and it could be run into by a snow plough and at age one, the company has to retire the pole. Or a meter could be also similarly damaged at age one. Now, I'm not saying there's a large percentage of those early retirements but there are retirements

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that occur for mass property such as meters, poles, line transformers that occur at various ages from age zero to whatever the maximum age of a particular depreciation category is.

So that's what the survivor curve is trying to describe. So there's -- what I'm trying to convey is that there is a range of service lives typically experienced by utility property and when we talk about calculating a depreciation rate, we usually use a survivor curve that indicates an average service life, but the average service life can -- an average service life implies that there are a range of lives typically experienced by a particular depreciation category, such as meters or poles or line transformers that a substantial amount of those retirements don't occur at the average. So you may have poles with an average service life of let's just say 40 years but only about maybe two percent of the population of poles retire exactly at age 40. The other 98 percent occur at other ages. So we take into account that there is a range of service lives typically experienced for mass property because of the various causes of

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retirements that happen out in the real world that cause Newfoundland Power and other electric utilities to retire property either before the average and some, you know, property that gets retired after.

(9:45 a.m.)

KELLY, Q.C.:

Q. So that's a survivor curve. Do you do that for each of the accounts?

MR. WIEDMAYER:

A. Yes. Of the 57 mass property accounts, I recommend -- there's approximately 57 depreciation categories. For each of these depreciation categories, I recommend a survivor curve and the survivor curve describes an average service life. In addition to that, I also estimate the net salvage percent. So in this particular depreciation study that I've conducted, of the 57 mass property accounts that I've looked at, I recommended an increase for 27 of the accounts, a reduction in service life for five of the accounts and no change for the remaining 25.

KELLY, Q.C.:

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Q. Okay. So we have 57 of these mass accounts, in other words accounts with multiple items in them like poles, 27 have longer service lives in this study, five reduced and 25 the same, correct?

MR. WIEDMAYER:

A. Yes, correct.

KELLY, Q.C.:

Q. Okay. Now then we got to go to net salvage. What's net salvage and how is it determined?

MR. WIEDMAYER:

A. Net salvage is determined in a similar manner as I described with the life analysis. So the net salvage first of all refers to the salvage value for property retired less its cost of removal. For some retired assets, such as vehicles or automobiles, the salvage value upon retirement exceeds its removal cost. In this case, we generally refer to that as positive net salvage, when the salvage exceeds the removal cost. In this particular example of a vehicle, we would reduce depreciation expense or not try and recover the full cost of that vehicle because at the end of its live, we know there is some value for that

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vehicle. So we're only trying to collect through depreciation expense the original cost less the net salvage, that portion.

For other assets, such as poles, removal costs typically will exceed the salvage value. This is known as negative net salvage and it is a cost which is recovered through depreciation over the life of the asset in the manner that I've described. So net -- previously for poles. So net salvage will increase depreciation expense because in the example of the pole that I gave that was a thousand dollars to install, that's the initial cost, but then at the end of its life, 30, 40, 50 years into the future, there is going to be some expense that the utility incurs to remove and dispose of that pole which may be 300 or 400 dollars 40 years into the future and we express that end of life cost as a percent of the original cost. So $400 to remove it 40 or 50 years from now is expressed as a percent of the original cost. So $400 as a percent of the thousand dollars would be 40 percent and we call this negative net salvage and we say negative 40 percent net

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salvage.

So again, as with the life estimation process, the net salvage is determined individually for all depreciation categories for each of the company's 57 mass property accounts. The first step in determining what the appropriate net salvage percent should be involves an analysis of historical net salvage data experienced by the company. So, in addition to an analysis of past data that I make, I also have discussions with company engineering and operations staff to assess whether past experience is indicative of future expectations with respect to net salvage.

KELLY, Q.C.:

Q. When you get the service life and the net salvage estimates, how do you use those to calculate depreciation?

MR. WIEDMAYER:

A. The service life and net salvage are used to calculate annual and accrued depreciation on both an account basis, which we then sum up and determine the total depreciation for all of the depreciation categories.

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KELLY, Q.C.:

Q. Okay. There's numerous schedules which you have in your report which deal with all of these. Let's just go to the ultimate conclusion, just so the Board can kind of see this. Chris, if we go to page I-4 and we'll have the key findings summarized there. There you go. Stop probably about -- go up another little bit there. Sorry, other direction, Chris. There you go. That's probably a pretty good place to start. Mr. Wiedmayer, if you'd just summarize the results then of your study.

MR. WIEDMAYER:

A. Yes. So, in the second paragraph that's being displayed there, the calculated accrued depreciation as determined at a point in time, December 31st, 2010, is 563 million. So the calculated reserve is also referred to as the theoretical reserve and we compare the theoretical reserve with the company's book accumulated depreciation of 553 million and there's a difference of 9.9 million or 1.8 percent. So the calculated reserve or the theoretical reserve is used as a benchmark.

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It's not to be thought of as the correct reserve, but it's a benchmark that the company adjust their past levels of depreciation which are recorded to book accumulated depreciation and they true those numbers up over the remaining life of the various plant assets. So the 9.9 million dollar difference between the theoretical reserve and the book reserve is about a 1.8 percent difference.

When I first started doing studies for Newfoundland Power in 1996, the previous consulting engineering firm that did the studies and presented those to the Board was Montreal Engineering and they had a practice established with the Board that if the reserve variance, the difference between the book and theoretical, was less than five percent in total to make no adjustments to the depreciation expense. However, when Gannett Fleming started doing the -- and that's fine. I understand why that was done. That's reasonable because you're always going to have some forecasting errors. You're not going to always correctly estimate exactly what the future holds. So, the Board and Montreal

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Engineering, when Montreal Engineering would do the studies, established a five percent threshold at the total company level.

When I, Gannett Fleming, started performing the studies, we recommended that we take the five percent threshold down to the depreciation category level, so that if there is any accounts that are starting to get out of line that we can recognize that quickly and once it exceeds five percent of that threshold between the book reserve and the theoretical reserve, we'll correct any of that difference over the remaining life of the assets. So if there is, for any reason why our estimates are widely off, there is a correcting mechanism under the remaining life technique that adjust depreciation expense either upwards or downwards whether or not we've estimated service lives that in the past were too high or too low.

The 1.8 percent is -- the 1.8 percent difference is extremely small, based upon my experience in performing these studies and in the past, prior to Gannett Fleming doing the studies starting in 1995, the Board would not

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adjust depreciation expense because it would have been within the five percent threshold. I understand that the reasoning for that. That to me makes sense and I understand that would mean that the Board recognizes that there will be some slight variances from the model and that we've refined that in future studies, the four studies that Gannett Fleming has performed. We've taken it from the total company level and we've actually looked at it at a lower level. Like for each of the 57 property -- mass property accounts, we make this comparison at that level of detail. So for poles or meters or line transformers, we compare what has been collected in accumulated depreciation with what the theoretical reserve would indicate and if it's above the five percent threshold, we'll go ahead and amortize -- we'll go ahead and adjust depreciation expense up or down.

(10:00 a.m.)

KELLY, Q.C.:

Q. If we come down that page a little further, and then go on to the next page - there you go, don't go too far, Chris. How much of that

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did you get down to the plant level - sorry, to the mass account level for reserve variance 5 percent?

MR. WIEDMAYER:

A. Could you repeat the question?

KELLY, Q.C.:

Q. Well, you've talked about the 9.9 in total.

MR. WIEDMAYER:

A. Yes.

KELLY, Q.C.:

Q. If I take you down to the bottom of page 4, you've explained the 5 percent tolerance.

MR. WIEDMAYER:

A. Yes.

KELLY, Q.C.:

Q. How much of - how much does that 5 percent tolerance actually work out to here?

MR. WIEDMAYER:

A. Yes, okay. The 9.9 actually is the total difference between the book and theoretical. However, when we drill down to the depreciation category level and the plant account level for poles and meters, the reserve variance that exceeds the 5 percent tolerance threshold at the individual plant

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account level is actually 2.6 million, and that number is set forth on Schedule 2, Column 7, Part III of my report.

KELLY, Q.C.:

Q. And how does that -

MR. WIEDMAYER:

A. So it's an even smaller reserve variance when we just look at the 5 percent threshold at the plant account level.

KELLY, Q.C.:

Q. Exactly. How then does that get recovered? Just elaborate on that for the Board.

MR. WIEDMAYER:

A. Okay. So that gets recovered over the remaining life for each of those depreciation categories. So my recommendation that's shown in Schedule 2 in Part III of the report, I recommend an additional increase to depreciation of 51,541, and that's shown, as I mentioned, in Schedule 2, Part III of the report, on page III-14, Column 9.

KELLY, Q.C.:

Q. Okay, do you want Chris to bring that up just to -

MR. WIEDMAYER:

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A. Yeah, he can bring that up, yes, because it's a very, very small adjustment because the reserve variance is very small. So it's - yeah, as I mentioned, the total reserve variance of 9.9 million was 1.8. You know, I performed these studies for other companies. I usually see a much larger difference than 1.8 percent. So some are 25 percent. Even more than that for some companies.

KELLY, Q.C.:

Q. Are we on the right Schedule here now, Mr. Wiedmayer?

MR. WIEDMAYER:

A. Yes, we are. So that's Column 9 -

KELLY, Q.C.:

Q. The last column over on the right then?

MR. WIEDMAYER:

A. Right. So what - yes.

KELLY, Q.C.:

Q. And the number you want to take us to is which one?

MR. WIEDMAYER:

A. At the very bottom of Column 9, 51,541.

KELLY, Q.C.:

Q. Okay, so that's the addition to - just explain

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what that number means again?

MR. WIEDMAYER:

A. Yes, that is the addition to depreciation expense. This is the remaining life technique adjustment to depreciation expense related to whether or not past recoveries of depreciation expense were either too high or too low, and this is an adjustment mechanism that provides, like, a feedback loop into the depreciation calculation that if past recoveries are either too high or too low, depreciation expense will be adjusted so that the proper amount will be collected, and this adjustment is amortized over the remaining life. That's what I'm recommending.

KELLY, Q.C.:

Q. Okay, so a very small adjustment to be made here?

MR. WIEDMAYER:

A. Very, very small. I mean, it's 2/10ths of 1 percent.

KELLY, Q.C.:

Q. Now the methods and procedures used to -

MR. WIEDMAYER:

A. Mr. Kelly, may I -

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KELLY, Q.C.:

Q. Sorry, I didn't mean to cut you off.

MR. WIEDMAYER:

A. That's okay, yes. So in addition to this adjustment there's also on Schedule I, I recommend what the depreciation expense should be for each of the plant accounts. When I compare my recommendations in this study with the rates that have been approved by the Board in previous studies, again the total increase based upon what I've recommended, the rates that were approved in last study versus the rates that were approved - or that I'm recommending in this study is approximately a $97,000.00 increase, which again is a very small increase of less than - it's about 2/10ths of 1 percent of the total depreciation expense.

KELLY, Q.C.:

Q. Okay.

MR. WIEDMAYER:

A. Which is a very minor increase.

KELLY, Q.C.:

Q. Now the methods and procedures used to do this study, the 2010 study, are those the same as

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used to do the 2005 depreciation study, the previous one?

MR. WIEDMAYER:

A. Yes, they are.

KELLY, Q.C.:

Q. And are the methods and procedures used to do this study in accordance with the Board's Orders relating to the calculation of depreciation for Newfoundland Power?

MR. WIEDMAYER:

A. Yes, they are.

KELLY, Q.C.:

Q. Now

KELLY, Q.C.:

Q. Now Mr. Wiedmayer, the next area I want to turn to is the consumer advocate has made certain proposals in this proceeding relating to the company's depreciation, and the first proposal is to change the company's depreciation procedure from the equal life procedure to the average life procedure, and the first question then is do you agree with that proposal or not?

MR. WIEDMAYER:

A. No, I don't.

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KELLY, Q.C.:
Q. Okay, can you explain what this is all about and why you don't agree with the proposal?
MR. WIEDMAYER:
A. Okay, sure. First of all, both the equal life group and the average life group procedures are accepted depreciation procedures in utility rate making. I have conducted numerous studies for utility companies using both procedures. Equal life group procedure has been used in Newfoundland for Newfoundland Power for over 30 years. Equal life group procedure is used by a majority of Canadian electric and gas studies based upon my knowledge of what other utilities are using, and we've provided a list of approximately 34 Canadian utilities in the exhibits that we filed, and a slight majority use the equal life group procedure in Canada. I believe the equal life group procedure provides a more accurate estimate of the actual consumption of the service value of the property. The major advantage of equal life group procedure is that it more closely matches the depreciation charge with the service rendered during the

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life of the property than does the average life group procedure. I think when this Board approved equal life group procedure back in the early 80s, its order stated that it agreed that the rates of depreciation based on the equal life group procedure is the best method of recovering invested capital over the useful life of the plant. What the Board had concluded was that deferring depreciation on short lived assets, that is the assets that are retired prior to the average service life, gives users incorrect information about the current cost of electric energy because it's deferring to future customers the under collections of assets that get retired prior to the average service life.
KELLY, Q.C.:
Q. Perhaps next you can describe the differences between the ELG procedure and the ALG procedure, and take your time and walk us through this a bit?
MR. WIEDMAYER:
A. Okay. So can we go to page 4 of the expert rebuttal evidence.
KELLY, Q.C.:

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Q. That should be on page 4, Chris. Are we on - a little bit further back, Chris. There you go. Just go to the top of that page. Perhaps we need to go back even to page 3.
MR. WIEDMAYER:
A. Page 3, yes, page 3.
KELLY, Q.C.:
Q. About half way up the page there. There you go, let's start there.
MR. WIEDMAYER:
A. Okay. So here we have a simple example where two assets which form a group, each cost $1,000.00, Unit A will be in service for five years, and Unit B will be in service for fifteen years. So under the average life group procedure, what would be done for this two unit group is we would take the service lives for those two assets, and we would average the five and the fifteen together to come up with ten years, and that would become the service life for the group - this two unit group. So the annual depreciation rate would be based upon, you know, 1/10 or 10 percent rate under the average life group procedure. Even though neither one of the assets will

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live ten years, we're depreciating both of the assets over ten years. That's a characteristic of the average life group procedure. So for the first five years of the life of this group, we're going to take 10 percent on $2,000.00. $2,000.00 is the two units, each costing $1,000.00, and then if we depreciate that at a 10 percent rate, we recover $200.00 a year in depreciation expense. That's shown by 2000 times 10 percent. So at the end of year five, the total accruals that have been accumulated for this group is $1,000.00, $200.00 a year for five years. So what happens at the end of age five is that Unit A is retired, which results in a deduction of $1,000.00 from the book accumulated depreciation. So we've accrued $1,000.00, and now when we retire Unit A, $1,000.00 is deducted from accumulate depreciation. So we've built up to $1,000.00, and then Unit A gets retired, and we take out $1,000.00. So we're left with zero dollars in accumulated depreciation. Remember accumulated depreciation is a deduction from original cost, which that forms the basis

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primarily of rate base; original cost less accumulated depreciation. So at the start of year six, we have zero dollars in accumulated depreciation for Unit B. That's the asset that lasts fifteen years. So we're one third through its life, and we have zero dollars in accumulated depreciation for Unit B under the ALG procedure. So now - can we get one more page, Chris. So for the next ten years, from year 6 to 15 under the average life group procedure, the annual depreciation expense of $100.00 is charged, so that when Unit B is retired at age 15, you've kind of built back up to $1,000.00, and at age 15 you retire, you're down to zero. So the under recovery for Unit A is made up by the over collection on Unit B, because Unit B, we've collected $100.00 for 15 years, or $15,000.00. Because we've under recovered on Unit A, we collected $500.00 for Unit A when it was retired after five years. So that it was under recovered by $500.00. So the under recovery of $500.00 on Unit A is made up by the over collection of $500.00 for Unit B under the average life group procedure.

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KELLY, Q.C.:

Q. So on the average life process, it didn't accrue enough accumulation in the early part of the period. Is that essentially correct?

MR. WIEDMAYER:

A. That's essentially correct.

(10:15 a.m.)

KELLY, Q.C.:

Q. Okay. Continue.

MR. WIEDMAYER:

A. So now we'll turn to - we'll contrast that with the equal life group procedure. So what I've mentioned that the depreciation determined using the equal life group procedure, the pattern of cost recovery better matches the actual consumption of the service value of the assets because we know that not every asset is going to retire exactly on its average, and in this example, none of the two assets lived its average life. So let's take a look at what happens under the equal life group procedure. Unit A has a life of five years and Unit B has a life of fifteen years. So for the first five years, Unit A gets depreciated over its service life of five

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years. So we're taking $200.00 for Unit A, and Unit B gets depreciated over its life of fifteen years. So we're taking approximately $66.66 say $67.00. Let's just round that, so $67.00 for Unit B over fifteen years. So you're recovering annually in years 1 through 5, $200.00 on Unit A, $67.00 on Unit B, or $267.00 in total. So at the end of year five, $267.00 a year if you add that up for five years, you get $1,333.33. So what happens at the end of year five; well, Unit A gets retired. So $1,000.00 is debited to accumulated depreciation or subtracted from the - what's gotten built up in accumulated depreciation based on the past depreciation expense charges of $1300.00 over the first five years of its life, at the end of year five you have a retirement of $1,000.00, leaving you with $333.33 and in accumulated depreciation. If you think about the fifteen year service life of Unit B, at the end of five years, we're 1/3rd through its life, and we're 1/3rd through recovery. So we've matched - that's why I say, and also Robley Winfrey, who developed the survival curves

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back in the 20s and 30s - yeah, Chris, do you want to go back to page 3. That paragraph there, he referred to equal life group procedure as the only mathematically correct procedure, and that's what I've just tried to demonstrate. So, Chris, go back to 4. Robley Winfrey called the equal life group procedure the unit summation procedure, and in early Board orders that's the way it was referred to, unit summation, because it mirrors - closely mirrors unit depreciation without the trouble of having to maintain property records for millions of - depreciation schedules for millions of units of property.

KELLY, Q.C.:

Q. Okay. Now how does that relate to what happens with the company's rate base? Can you just tough on that briefly?

MR. WIEDMAYER:

A. Yes. Chris, could you go to page 6, Figure I. So the example that I've just described, what we're graphically displaying here is this two unit example, a comparison of the accumulated depreciation, which is an offset to - which gets subtracted from the original cost of

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electric plant service and which forms the bulk of the rate base. So accumulated depreciation, being that it's the depreciation charges, as I think both parties have agreed is the most mathematically correct procedure in that it matches the consumption of the service value better than the average life group procedure. So if you look at age five for the ELG procedure and the average life group procedure, there is a difference between where ELG and ALG is. So ALG, after five years shows that there's zero dollars in accumulated depreciation for Unit B, meaning that we're 1.3rd through its life and we haven't recovered anything. So $1,000.00 would be gross plant subtracted by - you would subtract accumulated depreciation of zero dollars, the rate base would be $1,000.00 in this example. Conversely, if you look at the red line for the equal life group procedure, we're still left with Unit B, which is 1/3rd through its life, $1,000.00 cost unit, we're recovered 1/3rd of its service value, $333.00 after year five. So it provides a better indication of the depreciation charges that get credited to

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accumulated depreciation as well, and that's - therefore, the rate base is calculated correctly.

KELLY, Q.C.:

Q. Anything else you want to add on ELG and ALG?

MR. WIEDMAYER:

A. No, I think we've sufficiently covered it.

KELLY, Q.C.:

Q. Let me ask you this question. There's some discussion about whether ELG is an accelerated procedure of depreciation or not. Can I have you address that issue?

MR. WIEDMAYER:

A. Yes, I will address it. No, it is not an accelerated procedure, no. The equal life group is a group procedure that is used in conjunction with a straight line method of depreciation, as we've gone through and defined what a depreciation method, a depreciation procedure, and depreciation technique are. Equal life group and the average life group are procedures that can be used in conjunction with a method, and the method that we're using for this case is the straight line method. Equal life group and

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average life group procedure can be combined with an accelerated method of depreciation, such as the sum of the year's digits - it's not typically used for utility rate making practices, but we use a straight line method under the equal life group procedure, as well as I've also used the average life group procedure using a straight line method. So each equal life group is treated as a unit of property and its depreciation using a straight line method of allocation. As I've shown in this two unit example, for each unit, the five and the fifteen year, the depreciation expense is the same amount for each year over its respective - over their respective service lives for each of the two units.

KELLY, Q.C.:

Q. Now in the proposals that the consumer advocate has put forward, he's proposed that the service life estimates for seven of Newfoundland Power's plant accounts be extended beyond your recommendations, and I'm going to get you to comment on those proposals and perhaps if we start by looking at Appendix B, page 1 of the expert rebuttal evidence.

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Bring up the table there on that - there we go. Perhaps you can start, Mr. Wiedmayer, by explaining this table, what your proposals and recommendations, why, and how that contrasts with those of the consumer advocate?

MR. WIEDMAYER:

A. Okay. So as I mentioned, there is 57 mass property groups or depreciation categories that I studied as part of my depreciation study. 27, we extended the service lives, 25 remained the same, five decreased. Of those 57 mass property groups - and there are other depreciation categories that I'm not classifying as mass property groups, such as the office buildings, and such. There are seven mass property groups that are being contested in this proceeding, and that's what's shown on page 1 of Appendix B. The group of seven depreciation categories are plant accounts, including things such as transmission poles, the overhead conductors which is what's labelled there as distribution bare aluminum, the underground conductors, which is the distribution underground cables, and there's two groups for the distribution

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poles, one depreciation category for poles under 35 feet, another category for poles 35 feet and over, and the services overhead which is the overhead wire that connects to a customer's meter that drops down from the pole to the customer's connection at the meter, that wire is called a service line. So the columns show the approved survival curve in the first column after the account description. In the second column would be my recommendations, the Newfoundland Power survivor curves, and in the far right column is the consumer advocate's proposed survivor curves. The number in those columns, like, for example, under the approved survivor curve for account 351 - 355.1, excuse me, the approved survivor curve is 44R-2.5. The 44 represents the average service life expected for that depreciation category.

KELLY, Q.C.:

Q. So on that particular one we're looking at, the 44 is the service life from the last study, correct?

MR. WIEDMAYER:

A. That is the last - that is the service life

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from the last study, that is correct.

KELLY, Q.C.:

Q. 2005?

MR. WIEDMAYER:

A. Right, from the 2005 study that was approved.

(10:30 a.m.)

KELLY, Q.C.:

Q. Okay. So your recommendation then is - walk us through this. Your recommendation is what?

MR. WIEDMAYER:

A. My recommendation for account 355 transmission poles is the 47R-2; 47 being the average service life for transmission poles. That is what I'm estimating.

KELLY, Q.C.:

Q. So you're extending that out three years?

MR. WIEDMAYER:

A. Extending that out three years, that is correct.

KELLY, Q.C.:

Q. Okay.

MR. WIEDMAYER:

A. The consumer advocate has proposed a survivor curve of 51 years for transmission poles, using the survivor curve of 51S-0.5.

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KELLY, Q.C.:

Q. So that would extend it out seven years?

MR. WIEDMAYER:

A. Seven years from the approved -

KELLY, Q.C.:

Q. From what was previously approved?

MR. WIEDMAYER:

A. From what was previously approved, yes.

KELLY, Q.C.:

Q. And can I get you to comment on your views with respect to what you've proposed and the consumer advocate's proposal?

MR. WIEDMAYER:

A. Yes. Both the consumer advocate and I have recognized that the services lives for these accounts are lengthening. As can be seen under my recommendations is that I have extended the lives for the seven plant accounts at issue that are being contested. For each one of those accounts, there is a reduction in depreciation expense that I show, as well as the consumer advocate shows. So there is a difference between the consumer advocate's proposal and my proposal because of his extension of lives are longer than what

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I'm proposing. So generally for these type of assets, we're looking at outside poles, wire, the service lines to the houses, overhead service lines, so we're dealing with poles, overhead wire and underground cable. These are assets that typically have lives ranging from somewhere in the 30s to somewhere in the 50s. So they're fairly long lived lives. The company, when they retire these assets, they do it on a gradual replacement. I mean, there's no wholesale replacement of going out and changing out the entire population of poles because you have a layer of poles that some are one year old out there, some are ten years old, twenty - they're good poles, so as you replace poles, you're only replacing poles or services or overhead conductor, you're only replacing one or two percent of the total population each year. So even if you were making improvements to the system, usually those improvements, from my experience, tend to show up gradually over time for these types of assets without any wholesale changes planned by the company. For example, when I did learn about the line transformers, or even

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on the meters, there are some examples of where you would maybe want to differ from the history, but when we're into certain accounts where through my discussions with the engineering group that the past is reasonably representative of the future, that the causes of past retirements will be similar to future retirements for these accounts, I typically don't see when I do studies for other electric utilities any substantial extensions in lives absent any information or plans from the company they tell me they're going to make wholesale changes. So usually I see either gradual shortening of the lives or lengthening of the lives, based upon the historical data, especially for accounts where the operational engineering staff have indicated to me that they don't expect the causes of retirements in the future to be materially different than what has occurred in the past.

KELLY, Q.C.:

Q. Okay. Anything else you want to add with respect to that, or can we move to -

MR. WIEDMAYER:

A. Well, yes. These are the seven accounts where

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there's differences between my proposal and the consumer advocate's proposal. However, I've performed a complete study where I've looked at all of the assets that are not listed on this, and that make up the 57 different depreciation categories of mass property groups, mass property accounts, and in that context of performing a full blunt study for all of the assets, not just six or seven of the assets, I've determined depreciation expense in total for the company, and my recommendations were that a slight increase was warranted, and I show that on Schedule I and 2 of my depreciation study report.

KELLY, Q.C.:

Q. Okay.

MR. WIEDMAYER:

A. In addition, I perform these studies periodically for Newfoundland Power every five years in accordance with industry practice, and, you know, I've gotten to - I have seen a gradual lengthening of the service lives for these accounts over time since taking over from the Montreal engineering consulting firm

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that performed these studies back in the 70s, 80s, and early 90s. They did a study in 1990 or 1991. So what I'm seeing is similar to what I see elsewhere, and I think it's also part of the total depreciation study that I've performed for all asset classes.

KELLY, Q.C.:

Q. What do you think of the magnitude of the change in these seven accounts that is being proposed here?

MR. WIEDMAYER:

A. I think it's unreasonable to expect for mass property assets such as poles, overhead conductor, underground conductor services, to change as significantly as what the consumer advocate is proposed for these types of assets in one study over a five year period of time. I believe there's some risk that his - are maybe overstating the lives and in one study, I typically don't see that magnitude of change when I do studies for other utilities.

KELLY, Q.C.:

Q. Now the next area just to touch on is the consumer advocate has also proposed a change in the net salvage estimate overhead services

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from negative 60 percent to negative 40 percent. I'll get you to comment on that proposal.

MR. WIEDMAYER:

A. Yes. My recommendation of negative 60 is unchanged from the 2005 study for this particular account for overhead services. The negative 60 percent is based upon historical analysis that I've included in my study, which includes both the overhead and underground services. The analysis reflects company practices based upon my discussions with company staff. They've indicated to me that they don't intend to change their practices, and I felt that the historical indications were a sound basis for the net salvage estimate that I've recommended in this case.

KELLY, Q.C.:

Q. Thank you, Mr. Wiedmayer. Does that conclude your testimony?

MR. WIEDMAYER:

A. Yes, it does.

KELLY, Q.C.:

Q. Thank you very much, Mr. Chairman.

MR. JOHN WIEDMAYER - EXAMINATION BY MR. JOHNSON:

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MR. JOHNSON:
Q. Good morning again, Mr. Wiedmayer.
MR. WIEDMAYER:
A. Good morning, Mr. Johnson.
MR. JOHNSON:
Q. Mr. Wiedmayer, your home office is in Pennsylvania?
MR. WIEDMAYER:
A. Yes, that is correct.
MR. JOHNSON:
Q. And you work out of - is it Valley Forge?
MR. WIEDMAYER:
A. Yes, that is correct.
MR. JOHNSON:
Q. The first thing I want to address with you is the predominance aspect of ELG and ALG. I understand that FERC which regulates electric and gas wholesale transactions in the United States, they have denied the use of equal life group for electric and gas wholesalers, would that be correct?
MR. WIEDMAYER:
A. I'm not exactly aware of what FERC policy would be.
MR. JOHNSON:

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Q. Okay.
MR. WIEDMAYER:
A. I would -
MR. JOHNSON:
Q. You would have to defer to Mr. Pous on that because he's aware of it.
MR. WIEDMAYER:
A. Okay.
MR. JOHNSON:
Q. And Mr. Wiedmayer, would you -
MR. WIEDMAYER:
A. Before I - I mean, that policy from FERC is under review, from my understanding. In addition, the utilities that FERC has jurisdiction over is just utilities that engage in interstate commerce. So that would be referring to, like, pipelines, transmission companies that transmit electricity across state boundaries. My understanding with FERC is that the reason why they're opposed to equal life group back in the 90s was that they didn't have the software capable of calculating equal life group depreciation rates, but I'm not sure what their current policies and practices are.

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MR. JOHNSON:
Q. You would agree with me that your firm, Gannet Fleming, I take it that would be one of the bigger depreciation firms in North America, I take it?
MR. WIEDMAYER:
A. Yes, we have four offices; one in Calgary, one in Valley Forge, my office, an office in Nevada, and an office in - home office in Camphill, Pennsylvania, which is a suburb in Harrisburg.
MR. JOHNSON:
Q. And would you accept that Gannet Fleming over the last ten years, your own estimate would be that 80 percent of the depreciation studies that Gannet Fleming has performed in the United States for utilities of all sorts, that in 80 percent of those studies, the ALG procedure was used by Gannet Fleming?
MR. WIEDMAYER:
A. That's about the right number. I'll agree to that. As I mentioned, we have four offices. I haven't precisely calculated that number.
MR. JOHNSON:
Q. It sounds about right, though?

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MR. WIEDMAYER:
A. Sounds about right.
(10:45 a.m.)
MR. JOHNSON:
Q. And in these jurisdictions in the United States where Gannet Fleming has performed depreciation studies in which it has used the average life group procedure, the ALG, I take it you would agree with me that that was an election made by the utility and that Gannet Fleming had no difficulty supporting and recommending the ALG procedure?
MR. WIEDMAYER:
A. Our preference would be to recommend equal life group procedure because we believe it to be the most mathematically correct procedure, and it properly matches the consumption of the service value of the asset over the life of the asset.
MR. JOHNSON:
Q. So you're putting forward studies that you don't prefer 80 percent of the time?
MR. WIEDMAYER:
A. There are certain jurisdictions that hadn't fully been open to a comparison of the two, so

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there are some difficulties in certain jurisdictions in getting equal life group procedure adopted, but the ones that have considered it, and considered it carefully, have recognized that it better matches the consumption of the service value of the asset, and that the depreciation expense is properly calculated to match the consumption of the service value of the asset. For example, in Newfoundland Hydro, there are certain extenuating circumstances, the fact that they were using the sinking fund, the change from a decelerated method sinking fund to the equal life group procedure would have been significant, so even though we recommended that equal life group procedure be used, the company chose to go a different route, with considerations of the rate impact on customers.

MR. JOHNSON:

Q. So if Gannet Fleming is putting forward -

MR. WIEDMAYER:

A. It was already a big increase to go from sinking fund to ALG.

MR. JOHNSON:

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Q. Yes. In cases in the United States, for instance, where Gannet Fleming is putting forward ALG on behalf of its client 80 percent of the time, you're not telling me that you're disagreeing with your client or not supporting the recommended use of ALG?

MR. WIEDMAYER:

A. That's what I'm saying, yeah.

CHAIRMAN:

Q. You're saying that if a client wants an ALG study done, you'll do it, but it's not your preference?

MR. WIEDMAYER:

A. That's what I'm saying, yes.

MR. JOHNSON:

Q. And in terms of - we talked about Gannet Fleming, but would that include your own depreciation work that predominantly you're putting forward ALG, not just the firm, but yourself personally?

MR. WIEDMAYER:

A. Well, as I've explained and we've presented, ELG is more commonly accepted in Canada than the US. So our Calgary office has predominantly Canadian clients, and from that

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office, I would say that they would recommend a lot more than 20 percent. I do work in Nova Scotia where ELG is used. I do work in Newfoundland where ELG procedure is used. So it depends on what office of Gannet Fleming you're looking at. My recommendation probably would be higher than 20 percent from my office. The 20 percent is the total of the four offices.

MR. JOHNSON:

Q. And out of that 20 percent, I take it, that would include not just - that would be water utilities and telecomms and things like that as well?

MR. WIEDMAYER:

A. Water utilities, yes, telecomms - we don't have an extensive relationship with telecomms, although it is - equal life group procedure was originally put forth by the telephone companies as a procedure to appropriately recover the cost of their assets. So it was very widely used in the telephone industry, probably every state and province.

MR. JOHNSON:

Q. And in terms of the number of - how many

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studies would you have done over, say, the last ten years?

MR. WIEDMAYER:

A. I would say probably it works out to, say, eight to twelve a year.

MR. JOHNSON:

Q. About a hundred or so?

MR. WIEDMAYER:

A. About a hundred or so, yes.

MR. JOHNSON:

Q. Okay, and how many in Canada over that period?

MR. WIEDMAYER:

A. Over the past ten years?

MR. WIEDMAYER:

A. Yeah.

MR. JOHNSON:

Q. I do work in Newfoundland, Nova Scotia, PEI, so over ten years, let's say three studies for each -

MR. JOHNSON:

Q. About nine, and for PEI, that would have been ALG?

MR. WIEDMAYER:

A. We looked at both. They went off of cost of service rate making back in the 90s.

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Currently, they're using ALG.
MR. JOHNSON:
Q. That would be Maritime Electric?
MR. WIEDMAYER:
A. Maritime Electric, yes.
MR. JOHNSON:
Q. And turning back to, say, the United States, you've mentioned some states where, I think, ELG has been accepted in the United States, but I think, to your knowledge, there would only be about eight states where ELG has been accepted by a utility coming under their jurisdiction?
MR. WIEDMAYER:
A. I think we've provided that information. I don't recall exactly how many states there are. It was predominant in -
MR. JOHNSON:
Q. Just for the record, if we could bring up 618, CA-NP-618. If you see starting at line 15, Gannet Fleming estimates that approximately 25 percent of depreciation studies performed in the United States in the past ten years, the ELG procedure was used. ELG has been accepted in Pennsylvania, Texas, Oregon, Arkansas,

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Louisiana, Alaska, Kentucky, and Indiana. So those would be the only states you'd be aware of where ELG would have been accepted?
MR. WIEDMAYER:
A. I believe to this list you would add Wyoming, Idaho.
MR. JOHNSON:
Q. Did you prepare this list?
MR. WIEDMAYER:
A. It was prepared under my supervision.
MR. JOHNSON:
Q. And the fact that Texas is listed there, that would not be to imply that all of Texas is ELG because, in fact, you're aware that ALG is used in Texas as well by the Public Utility Commission of Texas?
MR. WIEDMAYER:
A. Yes, that's correct.
MR. JOHNSON:
Q. And the companies in the United States that are using ALG, they would have adopted US GAP? Would they be under US GAP?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:

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Q. Okay. I guess we're coming up to five minutes to. It might be convenient to break now if the Chair is okay with that.
(10:54 a.m.)
CHAIRMAN:
Q. Oh, yes.
(RECESS)
(11:30 a.m.)
CHAIRMAN:
Q. Now, sir.
MR. JOHNSON:
Q. Thank you, Mr. Chairman. If you want to see a half hour go quickly, just know that at the end of it, you're going to have to start cross-examining on depreciation. You indicate in your report, Mr. Wiedmayer, that in Canada more utilities use the ELG than the ALG, and I take you're referring in that regard to the Newfoundland Power survey that was conducted?
MR. WIEDMAYER:
A. Yes, that's correct.
MR. JOHNSON:
Q. And if you can turn to the Newfoundland Power Survey that's Exhibit R1 of their evidence. I'm sorry, the rebuttal evidence. Mr.

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Wiedmayer, in this exhibit R1 that Newfoundland Power prepared, they indicate that in December of 2012, they conducted a survey of Canadian utilities to determine the relative use of the ELG and ALG procedures, and they provided a table, Table 1, which groups the utilities under ELG and ALG and other. You're familiar, obviously, with that survey, right?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Were you involved in any way in the development of the survey?
MR. WIEDMAYER:
A. Yes. My firm assisted with this.
MR. JOHNSON:
Q. Okay.
MR. WIEDMAYER:
A. Because some of these are clients of ours.
MR. JOHNSON:
Q. Okay, and in terms of - did you have clients under the ALG list, for instance?
MR. WIEDMAYER:
A. Yes.

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MR. JOHNSON:
Q. Who would be clients of Gannet Fleming?
MR. WIEDMAYER:
A. Maritime Electric, Newfoundland and Labrador Hydro, Fortis BC. Some of these our Calgary office does, so I'm not 100 percent familiar.
MR. JOHNSON:
Q. Terasen Gas is listed there. That's now a Fortis company. Is that a client?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. And in terms of this, Mr. Wiedmayer, I take it that on the ELG column, there was clients over there as well?
MR. WIEDMAYER:
A. Yes, that is correct.
MR. JOHNSON:
Q. And we see that there's quite a representation there from the Province of Alberta, with Alta Gas, AltaLink, ATCO Electric, etc, going all the way down to Fortis Alberta. Would there be companies in the Alberta group that are clients of Gannet?
MR. WIEDMAYER:

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A. Yes.
MR. JOHNSON:
Q. Would they all be clients of Gannet?
MR. WIEDMAYER:
A. Yes, I believe so.
MR. JOHNSON:
Q. And in terms of other companies listed on the ELG side, other than the Alberta ones, for instance, Gaz Metro, would that be a client?
MR. WIEDMAYER:
A. Mr. Kennedy from our Calgary office does the majority of work in Canada. I believe Gaz Metro is a new client, yes.
MR. JOHNSON:
Q. And New Brunswick Power, do you know if they're a client?
MR. WIEDMAYER:
A. New Brunswick Power, Mr. Kennedy from our Calgary office also performs studies for them, and I think they are a recent client as well.
MR. JOHNSON:
Q. And Northland Utilities, North West Territories, and Northland Utilities, Yellowknife, they're clients?
MR. WIEDMAYER:

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A. I'm not certain - the utilities companies change names frequently. I would say I believe they are.
MR. JOHNSON:
Q. Nova Scotia Power, you indicated was one, right, or is one?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. And SaskEnergy?
MR. WIEDMAYER:
A. I'm not certain of SaskEnergy. I don't know if they're a client of ours or not.
MR. JOHNSON:
Q. How about the final two, TransCanada and Yukon, do you know?
MR. WIEDMAYER:
A. I believe they are clients of ours.
MR. JOHNSON:
Q. So this would not be, obviously, a complete survey of Canadian utilities operating in this country, you'll accept that?
MR. WIEDMAYER:
A. I'll accept that.
MR. JOHNSON:

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Q. Okay. If you look at - in terms of going back to the ALG list, you mentioned some were clients. Do you know if BC Hydro is a client?
MR. WIEDMAYER:
A. Again Mr. Kennedy from our Calgary office conducts most of the studies in Canada.
MR. JOHNSON:
Q. Maybe to short circuit it, I wonder if you could provide an undertaking as to which of the companies under each column would be clients of Gannet Fleming, just for the record, just to make sure we're solid on it?
MR. WIEDMAYER:
A. Yeah, sure.
MR. JOHNSON:
Q. Okay. Mr. Wiedmayer, I guess one thing that you do note that even though the number of utilities listed in the ELG column would be numerically larger than the number of utilities listed in the ALG column, it seems to me that the ALG column has some very big interests, and I'd just invite you to comment as to whether you think based upon the companies in this listing, that there's, in fact, more customers who rates reflect ALG

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procedure on this list than customers whose rates reflect the ELG procedure. Would that be fair, in your view?

MR. WIEDMAYER:

A. I don't believe I could comment on that at this particular point in time, since I don't - they're not clients of mine, and I don't really know the number of customers each serves, so I could provide that as an undertaking, if perhaps that's something that you're interested in.

MR. JOHNSON:

Q. That would be fine, thank you. Turning now to the ELG in terms of the mathematical approach of ELG and its accuracy for a moment, as I understand it, Mr. Wiedmayer, at the core of the equal life group procedure is the segmentation of the retirement of plant based on one year increments. Would that be more or less correct?

MR. WIEDMAYER:

A. Yes, more or less correct, yes.

MR. JOHNSON:

Q. Would it be more correct than less correct?

MR. WIEDMAYER:

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A. It would be more correct, yes. You could subdivide it -

MR. JOHNSON:

Q. All right.

MR. WIEDMAYER:

A. Infinite ways, but generally one year increments is probably more correct.

MR. JOHNSON:

Q. So if we could turn up your rebuttal report for illustrative purposes, Figure 2, which appears at 8 of 30. I'm going to ask you a number of questions around this to see if we can understand how it works. As I understand this figure, Figure 2, this graph is a presentation of what the equal life group procedure assumes will transpire by way of retirements for this account for every vintage addition. Would that be accurate so far?

MR. WIEDMAYER:

A. Yes, it would - for every vintage, yes, there is a dispersion of lives laid out in accordance to this frequency curve.

MR. JOHNSON:

Q. And the 48 in the title that we see, based on the 48R-1.5 survivor curve in the title, that

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would tell us, as I think you indicated earlier this morning, the average service life of each addition of property.

MR. JOHNSON:

Q. It represents the range of service lives experienced for an asset under using a 48R-1.5 survivor curve. Implicit under that 48 year average service life is a dispersion of service lives ranging from age 0 to approximately 95 or 96 years.

MR. JOHNSON:

Q. The 48, though, does refer to the average service life. There's no dispute about that between yourself and ourselves, I take it?

MR. WIEDMAYER:

A. That's correct.

MR. JOHNSON:

Q. And, for instance, if this related to poles, this would tell us that for each dollar invested in poles, that the retirement of that investment will follow an annual retirement pattern which corresponds to the values on this graph, for instance. Would that be fair?

MR. WIEDMAYER:

A. What would - the way I think of this is that

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if you installed a thousand poles in a given year, this would lay out the number of retirements that would occur by age for this particular survivor curve.

MR. JOHNSON:

Q. Okay.

MR. WIEDMAYER:

A. And it shows that there is a range of lives experienced by utility property, not just everything lasts exactly the average service life.

MR. JOHNSON:

Q. So to make it simpler for me, if no one else, if we have over 100 years - let's say we have 10,000 poles, okay, and they're $100.00 each, and I know that's unrealistic, but it's a million dollars in poles that we put into operation, are used and useful, okay. This ELG method would tell us that you would predict, and I'm looking on the left hand column of your graph, and that's on the vertical axis of percent retired, so in year one, I take it, that what ELG would predict would be something approximating 4/10ths of 1 percent of that value would retire in year

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one?
MR. WIEDMAYER:
A. Yes, that's correct.
MR. JOHNSON:
Q. And so that would be 4/10ths of 1 percent of a million, would be $4,000.00 worth, subject to check?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. And in year two, we see that the bar graph is going up just very slightly above the initial year. So that would be a little smidge more, and by the time we get out all the way over to the peak of the graph, by that time we're out around the mid 50 years, okay, and at that time when you get up to the peak of the graph or handy to it, you'd be up around an expected retirement of approximately 2 percent of that million dollars to retire at that age. Would that be about right?
MR. WIEDMAYER:
A. Yes, that's about right.
MR. JOHNSON:
Q. And again looking at the graph, by the time we

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get out to year 90 or so, almost all of the entire original investment would have been obviously retired and at year 90, we would be then retiring approximately 2/10ths of a percent on that account. Would that be about right?
MR. WIEDMAYER:
A. Yes. So if you added 10,000 poles, 2/10ths of 1 percent, you would be retiring about 20 poles at age 90.
MR. JOHNSON:
Q. So about $2,000.00 out of the million at that stage?
MR. WIEDMAYER:
A. Subject to check, yes.
(11:45 a.m.)
MR. JOHNSON:
Q. Okay, and in terms of the ELG procedure in terms of the example that we're discussing here, I'm sort of interested in knowing what we're going to charge, say, the customer for the depreciation expense under the ELG, okay, and so in - again for illustration, we've got the million dollars worth of poles, and let's assume we didn't buy any more poles

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thereafter, okay.
MR. WIEDMAYER:
A. Okay.
MR. JOHNSON:
Q. And so on year one when we're retiring 4/10ths of a percent or approximately $4,000.00, that $4,000.00 would need to be recovered over a one year slice, would that be right?
MR. WIEDMAYER:
A. Yes, over its service life.
MR. JOHNSON:
Q. Over its service life?
MR. WIEDMAYER:
A. Yes, that's right.
MR. JOHNSON:
Q. And for the next age level, the two year age level, we talked about that extra smidge, a little bit above 4/10ths of a percent, and let's say it's about $100,00 more, would that be about right?
MR. WIEDMAYER:
A. Yeah, okay.
MR. JOHNSON:
Q. In the grand scheme of things - so that would be about $4,100.00 that would need to be

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recovered over its assumed equal life group which would be two years? Would that be right?
MR. WIEDMAYER:
A. Right, right. So you might have 41 poles out of 10,000 get retired at age two.
MR. JOHNSON:
Q. Okay, or another way of putting it is $4100.00, which you divide by two, because that would be your two year equal life group, and it would be $2050.00 in terms of expense for deprecation in year two?
MR. WIEDMAYER:
A. Yes, that's correct.
MR. JOHNSON:
Q. And that $2050.00, that would be the amount that we would need to recover annually for the two years?
MR. WIEDMAYER:
A. Right.
MR. JOHNSON:
Q. Okay, because again -
MR. WIEDMAYER:
A. So once you get to age two, the first equal life group drops off. So you've fully

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recovered its cost in the first year.
MR. JOHNSON:
Q. Okay, the full $4,000.00?
MR. WIEDMAYER:
A. Yeah.
MR. JOHNSON:
Q. And again just for illustrative purposes, at age three, we see that there's a further smidge up again, call it another $100.00, so by now we're up to $4200.00 and we divide that number by three, three being again the age bracket, and then the expense would be $1400.00, which is $4200.00 divided by three, and so on it goes and it gets smaller over time?
MR. WIEDMAYER:
A. Correct, because once you've fully recovered the cost of the equal life group, one year, then when that vintage is two years old, you don't have to recover that.
MR. JOHNSON:
Q. Right.
MR. WIEDMAYER:
A. Same when you get to year three, you've recovered the full cost of the first two equal

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life groups. So you're only recovering from age three to age 96 in year three.
MR. JOHNSON:
Q. Now if you summed up - and I understand that this figure is representative of a 3 percent appreciation rate. Would that be about right, and the reason I say that is that this 48R-1.5 survivor curve is found at C-58 and 59 of your expert report, and by the time you reduce - take out the salvage rate, you're down to about 3 percent? That's why I suggested that the depreciation rate here is about 3 percent.
MR. WIEDMAYER:
A. Do you want to -
MR. JOHNSON:
Q. We can go to C-58.
MR. WIEDMAYER:
A. The "C" is the actual company's investments, so we're getting away from your example.
MR. JOHNSON:
Q. Okay. Let's put it this way. If you - this is the 48R-1.5 survivor curve, okay, and there's company accounts that correlate to the 48R-1.5 survivor curve?
MR. WIEDMAYER:

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A. Yes.
MR. JOHNSON:
Q. And could you turn to C-58 and C-59 in that regard, and again not taking anything away from the illustrative value of the figure, if we look at this particular account, this is account 362.20 distribution poles, and you see the survivor curve, the Iowa 48R-1.5, which corresponds to the figure that we've been discussing, and over on page C-59, we're seeing a net salvage percent of a negative 25, and then we're seeing for 2010 a rate of 3. 69 for that amount. So we take the salvage off your 3.69 and get something approximating 3 percent for the annual depreciation rate as shown in the figure. That's the basis upon which you're looking at it for a one year vintage. Would that be fair?
MR. WIEDMAYER:
A. Yeah, I understand the concept, yes. These rates are include the salvage percent of negative 25.
MR. JOHNSON:
Q. Right.
MR. WIEDMAYER:

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A. It makes the math a little bit less straightforward.
MR. JOHNSON:
Q. Yes, okay. So just going back to our figure for a second, I understand from Mr. Pous that as we've been discussing, the depreciation expense gets smaller over time, but if you summed up the one year depreciation expense up to the year 100, to the far right of your graph, that it would total approximately $30,000.00, assuming a million dollar initial investment, and again assuming a 3 percent depreciation rate. Would that be fair?
MR. WIEDMAYER:
A. I would say subject to check, yes, that would be fair.
MR. JOHNSON:
Q. And again this is illustrative, and I know you have identified real life accounts that we can talk to, but trying to get a sense of this.
MR. WIEDMAYER:
A. I mean, the arithmetic is to do all these equal life groups, which there are approximately 96 of and summed them up, so there's - I mean, the arithmetic is relatively

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straightforward. It's just you'd have to do 96 calculations, which the computer does readily, but - subject to check, 3 percent I'll accept.

MR. JOHNSON:

Q. Okay.

MR. WIEDMAYER:

A. And that's lot including salvage.

MR. JOHNSON:

Q. Okay, and that again would be about $30,000.00 if you look at the whole piece, correct. Okay, and so in terms of the overall piece of the $30,000.00, the initial piece, the initial $4,000.00 piece is a - would be a fairly significant percentage of the $30,000.00 in the grand scheme of things, would it not? I mean, it would be about 13 percent of the total $30,000.00 is in that first year, $4,000.00 charge. Would that be right?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Is the math right?

MR. WIEDMAYER:

A. Yes.

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MR. JOHNSON:

Q. Okay. Again going back to that table in Figure 2, this is - the depreciation rate that we are arriving at, that is predicated or based very precisely on the assumed annual pattern of predicted retirements, right?

MR. WIEDMAYER:

A. Yes, the rate is based on that curve, the Figure 2.

MR. JOHNSON:

Q. Okay. So if the actual - and that's the mathematical piece. If the level of retirement that was predicted in age [one], that bracket being about 13 percent of the total expense, did not, in fact, happen and none of the poles, in fact, retired until, say, age [six], okay, then it would be fair to say, I take it, that the depreciation rate derived from the assumed pattern of retirements would not be accurate. In fact, it would have over collected. Would that be correct?

MR. WIEDMAYER:

A. For that first equal life group, that would be correct.

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MR. JOHNSON:

Q. And I understand that over that five year period, again using the million dollar example, and assuming no retirements in actual fact, that the total amount paid by way of depreciation over the full five years would be about $150,000.00. Would that be fair?

MR. WIEDMAYER:

A. No, it would not.

MR. JOHNSON:

Q. Okay. Would it not be $30,000.00 - would it not be about $30,000.00 per year, times the five years?

MR. WIEDMAYER:

A. No, because if you look at the characteristic of equal life group procedure, if you look also on C-59, the annual accrual rates for each vintage as it ages decreases over time.

MR. JOHNSON:

Q. So in terms -

MR. WIEDMAYER:

A. And the theoretical reserve makes the assumption that you have fully collected that first equal life group amount. So that's built into the theoretical reserve. So -

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MR. JOHNSON:

Q. So - sorry.

MR. WIEDMAYER:

A. So if the retirement did not occur, the theoretical reserve would also reflect the fact that it had lived through its first equal life group and that the theoretical reserve would recognize that.

MR. JOHNSON:

Q. If we were collecting the full one million over the scenario that we see in Figure 2, over the first five years would we not be collecting $150,000.00 based on 3 percent rates?

MR. WIEDMAYER:

A. The 3 percent rate that you're using is the rate for age one vintage, and now you're out five or six years, so the rate - as the property ages, as you can see on page C-59, if you want to bring that up, the rate decreases as the property moves through those equal life groups, and the first - its age one rate is different than its age two rate, and it's different than its age three rate. We take all of those vintage rates, multiply it by a

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vintage balance to come up with accrual rate by vintage, and we sum up the total of those vintages to come up with a composite accrual rate that we then apply to the total balance for book depreciation purposes.

MR. JOHNSON:

Q. But in the context of the real world in terms of what happens, we're only doing an appreciation study every five years, right, and so the rate that would be established for the initial five year period under the scenario of a million dollars at a 3 percent depreciation, that would collect the $150,000.00 in the first five year period, would it not?

MR. WIEDMAYER:

A. You're mixing apples and oranges because first you're talking about the 3 percent rate is the year one rate, okay, but the composite rate is not 3 percent. The composite rate is less than that because there's vintages that - if you were to go back a page, you could see -

MR. JOHNSON:

Q. But in this example, we've just got one vintage. I think we've got one vintage, and so

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that's what - I'm focusing in on this one vintage for that initial five year period, and what I'm asking is whether under that scenario the first five years, $150,000.00 of the million would be collected, on the assumption of just one vintage?

MR. WIEDMAYER:

A. Yes, at a 3 percent rate, that would be correct.

MR. JOHNSON:

Q. Now looking at the ALG procedure for a moment, if we look again, say, at Figure 2, just to keep it up on the screen there, we again would be looking at a 48R survivor curve, none of that would change, but we would be establishing the depreciation rate in that instance by taking the million dollar investment and dividing it by 48, the average service life, to arrive at the rate that you would charge to collect depreciation expense, right?

MR. WIEDMAYER:

A. Yes, that is correct. Again, you know, the shape of the survivor curve comes into play.

MR. JOHNSON:

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Q. Right, right, the shape definitely comes into play, but I take it that in the context of the million dollar example, and in the context of the average life group procedure, that as opposed to the $30,000.00 that we spoke about in the ELG, the ALG would be down around $20,833.00, and you can take that subject to check, that $20,833.00 would be what you would get by taking your - by dividing that figure by a million, and then you get a rate of 2. 08 percent as a depreciation rate under the average life group. Would that be about right?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay, and again under this example, as opposed to collecting the $150,000.00 over five years under ELG, you'd collect about $104,000. 00 under ALG, or the $20,800.00 per year. Are we right so far on that?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. And the difference between the $150,000.00 and

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the $104,000.00, that difference arises, as I understand it, due to the equal life group's assumed ability to make precise annual expectations of retirements, and the recovery of those amounts over the assumed precise one year increments. Would that be the theoretical basis behind the difference?

MR. WIEDMAYER:

A. I believe you have it backwards.

MR. JOHNSON:

Q. That could well be.

MR. WIEDMAYER:

A. You estimate the survivor curve first, and then the survivor curve, you can determine the percent retired by age for particular account. So when you have the survivor curve, this Figure 2, the curve that we show here indicates the percent retired by age, which you then gives you a way to determine the equal life group rates for a particular vintage. A characteristic of the equal life group procedure is that the vintage - the rates will vary by vintage. So once you've already collected for that age one equal life group, you're just left with ages two through

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90, and then once you're collected for that, you're left - so if you were to look at page C-59 and 58, you can determine that the rates by vintage are not the same as they would be under the average life group procedure. So the accrual rates, if we can go back one more page, that are shown in Column 3, decrease as we collect fully for the equal life group units that last one year. As we've indicated, a very small percent of poles, like, 4/10ths of 1 percent will be retired in those early years, 1 through 5 approximately.

MR. JOHNSON:

Q. Right.

MR. WIEDMAYER:

A. So the - what we do for every vintage is we come up with a composite rate for that vintage, and then we composite all vintages down on page - C-9, we come up with a depreciation rate applicable to all vintages.

MR. JOHNSON:

Q. But in my -

MR. WIEDMAYER:

A. And that's shown here on - yeah, right there, the bottom line, composite annual accrual rate

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is 3.02, and that includes salvage of 25 percent negative.

MR. JOHNSON:

Q. Just coming back to the example that we've been discussing, the difference between the 150 and the 104,000 that would have been collected in that example over the five year period, does that not arise because of the fact that the ELG's assumed ability to make precise annual expectations of retirement, and the recovery of those amounts over the assumed precise one year increments, turned out to be not accurate?

MR. WIEDMAYER:

A. In your hypothetical example, I'll accept that.

MR. JOHNSON:

Q. And I guess what we could do is turn to a real life account that Newfoundland Power has, and if I could direct you to Appendix B of your rebuttal at page 15 of 27, and I'm focusing specifically on Figure 7 which gives the accounts numbers mentioned there for underground cables and switches, and shows annual retirements over the period 1969 to

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2009, and in terms of the size of this account, Mr. Wiedmayer, I think this is a fairly sizeable account of Newfoundland Power, about 22 million, I think.

MR. WIEDMAYER:

A. Yes, it's underground conductor cable, yes.

MR. JOHNSON:

Q. Okay, and I guess -

MR. WIEDMAYER:

A. Relative to other jurisdictions, this is not that significant relative to other jurisdictions.

MR. JOHNSON:

Q. Okay, but if we see the retirements going along there, I take it that we'd have no disagreement with each other than the reality of this particular account in terms of the retirements does not correspond to the ELG's assumed life curve combination. Would that be pretty patent?

MR. WIEDMAYER:

A. Well, this is a particular account where what has occurred out in the field. For underground cable there has been retirements, and we've answered this in some of the RFIs. The

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retirements that occurred in the field did not get properly recorded back to accounting, and the company, based on my understanding, is planning to correct for retirements that actually occurred but did not get booked, and that's one of the RFI responses that we've answered. I'm not sure of the number. If you want to turn to the number - 70.

MR. JOHNSON:

Q. Number 70.

MR. WIEDMAYER:

A. It's not that the retirements didn't occur, they did occur; it's just the accounting didn't properly reflect. My understanding in discussions with the company is that they're going to adjust that in the 2013.

MR. POUS:

Q. 7 or 70?

MR. JOHNSON:

Q. 70.

MR. WIEDMAYER:

A. Table 1. Yeah, there you go, underground cable retired by year. So for those years where we had no retirements was not reasonable to expect underground cable not to be retired.

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MR. JOHNSON:
Q. So these retirements for underground cable, they're identified by meters, but not dollar amounts, but your graph, Figure 7, page 15 of your Appendix B in your rebuttal, reports them by dollar amount?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. I wonder could we get -
MR. WIEDMAYER:
A. Well, there's attachment A -
MR. JOHNSON:
Q. Okay. Attachment A, that doesn't state the retirements, that just states the investment, I understand.
MR. WIEDMAYER:
A. Yes, yes, that's the investment by type and year.
MR. JOHNSON:
Q. And dollar amount. Where do the - there's no retirement dollars listed, would that be right, in CA-NP-70?
MR. WIEDMAYER:
A. I believe there is an RFI response. I'm not

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recollecting the number. Perhaps there isn't, but the company has informed me that they have made the retirements - this RFI response, CA-NP-070 indicates the meters of underground cable retired for the years that the dollars that are missing from the fixed asset database. The company should have made the retirements.
MR. JOHNSON:
Q. But your study in relation to underground cables and switches, I guess when you did your rebuttal testimony, you set out what your knowledge was of what the retirements were, and, I guess, the question I would have, is your recommendation to the Board in terms of the underground cables and switches, accounts 360.20 and 367.20, is that reflective of the appropriate data or what you thought was the retirement situation?
MR. WIEDMAYER:
A. The historical data that I had to base the estimate on for that particular account was relatively inconclusive. If you tried to fit the company's datapoints, they - I would say it didn't have enough to fit, so we used

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informed judgment to come up with a survivor curve estimate for underground cables.
MR. JOHNSON:
Q. So the information that you had at your disposal when you did your life curve analysis, etc, for these two accounts was based upon the retirement activity as set out in your Figure 7 of your rebuttal?
MR. WIEDMAYER:
A. Yes.
(12:15 p.m.)
MR. JOHNSON:
Q. But you're saying that that is not the correct information?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. So the rebuttal that you've put forward in relation to your discussion about Figure 7 would not be correct, we should not regard it?
MR. WIEDMAYER:
A. It represents what has occurred and what I'm trying to say is that from 1999 forward where there has been little or no retirements is not realistic. It's what has been recorded in the

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accounting database, and what I studied, however; what has actually occurred is that there has been retirements for underground cable. It just was not recorded properly.
MR. JOHNSON:
Q. Do you now have the knowledge as to what the actual retirement should be in terms of dollar exposures for this account?
MR. WIEDMAYER:
A. I do not. The company is working on that.
MR. JOHNSON:
Q. So have you been made aware of any further inaccuracies in the company's books that would fall under a category such as the one we've been discussing, or any other category subsequent to your doing your depreciation report?
MR. WIEDMAYER:
A. That's the only one that comes to mind, Mr. Johnson.
MR. JOHNSON:
Q. I wonder if you could undertake to file a revised Figure 7 outlining what you now believe to be the true retirement picture for underground cables and switches?

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MR. WIEDMAYER:
A. Yes, we'll undertake that.
MR. JOHNSON:
Q. Can we agree that whilst the retirement activity as put forward in Figure 7 is not accurate, that to your knowledge the retirement activity for this account would not in any way mirror what retirement activity as would be predicted under the ELG would be?
MR. WIEDMAYER:
A. No.
MR. JOHNSON:
Q. Pardon me?
MR. WIEDMAYER:
A. Are you asking a hypothetical question? I mean, the survivor curve that we've estimated is the - does describe the survivor characteristics that I would expect to occur for this account.
MR. JOHNSON:
Q. But you don't know whether it mirrors the actual retirement activity, the - on an annual vintage basis, would that be right?
MR. WIEDMAYER:
A. What's shown here on Figure 7 are the dollars

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retired each year. It does not show the dollars that are retired by vintage for each year.
MR. JOHNSON:
Q. Okay.
MR. WIEDMAYER:
A. So it's different than the other example that we had for poles.
MR. JOHNSON:
Q. Do you believe that this sort of pattern as set out here in Figure 7 could be indicative of any vintage investment in terms of the retirement -
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Mr. Wiedmayer, we thought we were dealing with a real life example in Figure 7 of actual retirements on one of Newfoundland Power's accounts in your testimony, but I guess we're not because it's not based on the accurate information. Do you acknowledge that your rebuttal evidence does not provide a single example of actual historically based comparisons of ELG retirement predictions

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versus actual retirements that transpired for any account that Newfoundland Power has on its books? Would that be a fair statement?
MR. WIEDMAYER:
A. Yeah, we've modelled - when asked, we've tried to model equal life group procedure, and in doing so, we've used forecasted data.
MR. JOHNSON:
Q. Okay, but we - I guess to my point, we have no example to look to in your evidence as to whether what ELG predicted by way of retirement predictions actually stacked up to the reality in any one of the dozens of accounts that Newfoundland Power has, and has recorded retirement activity in, right?
MR. WIEDMAYER:
A. No, we've provided RFI responses that we have provided you with the same data that I had to use, that indicates the age at which property is retired. So if you had the same data that I used in performing the life analysis - so if you wanted to make a comparison of how it stacked up, you had all the data necessary to do that because the company's data provides the age at which the property is retired. So

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if you wanted to make the comparison for each equal life group, you have the information to do so.
MR. JOHNSON:
Q. I guess you can provide us no further assistance or guidance as to whether the ELG predicted retirement patterns compared to the Newfoundland Power's actual retirements as shown on its books. Would that be right?
MR. WIEDMAYER:
A. No, that would not be right.
CHAIRMAN:
Q. You're saying you got actuals, I mean, that you -
MR. WIEDMAYER:
A. Yeah, the whole - yeah, I mean, this whole report has the age at which property is retired.
MR. JOHNSON:
Q. But just to clarify, you have actuals, but that's not a comparison of how ELG predicted retirements versus what the company's books and accounts actual reflect as actual retirements over this period of time, over the long period of time.

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MR. WIEDMAYER:
A. We didn't do that comparison because it's not necessary to do the study. The information is available to do that. If you would want to do that comparison, that is available and has been provided.
MR. JOHNSON:
Q. Mr. Wiedmayer, you indicated that -- or in fact, Mr. Ludlow indicated, as I recall in his opening statement to the Board when this hearing got underway, that by switching to ALG you can get a short term reduction today by reducing depreciation expense, but it comes at the price of higher rates tomorrow and on into the future and the short term reduction was used, and Mr. Wiedmayer, you similarly state, at page 11 of your rebuttal evidence, 11 of 30, you state that -- up towards the top of page 11 of 30, you say "further, while a change in this proceeding to ALG depreciation rates would provide a short term reduction in rates, the impact would be short lived and customers would pay higher rates going forward once the short term effect is exhausted." And you've indicated as well in your rebuttal that

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"Mr. Pous' proposal to use ALG can only result in a narrow short term benefit to customers." But you don't quantify anywhere in your evidence, either on direct or certainly more particularly on rebuttal, what you are quantifying to be a narrow and short time span. You don't do that in your evidence, right?
MR. WIEDMAYER:
A. That's correct. I believe Mr. Ludlow had addressed it.
MR. JOHNSON:
Q. And were you meaning to indicate by a short time span two, three, four years? What did you have in mind by short?
MR. WIEDMAYER:
A. Well, I was aware of the 11 to 15-year crossover -- now, when I was considering short lived, I was not -- Mr. Lorne Henderson had prepared a schedule that detailed when the crossover would take effect and that crossover period varies based upon some assumptions as regarding the rate of return that's used. So there are some assumptions. When I wrote short lived, it was based on a more simplistic

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model than the one that Mr. Henderson has provided to you where he includes the impact of taxes. Mine was more just focused on depreciation and the reduction in rate base and when I was considering the term "short lived" we have done similar calculations in the past when the rate of return was higher and if the rate of return is higher, the crossover period happens more rapidly.
MR. JOHNSON:
Q. Right. So you would not regard, I take it from your comments, 11 to 15 years as being a short term issue?
MR. WIEDMAYER:
A. 11 to 15 years -- well, first of all, short term is a relative term, but I would say 11 to 15 years is more than I had calculated when I did a more simple calculation of just looking at the return and depreciation expense. Mr. Henderson's calculation included other things with regard to taxes and the 11 to 15 years should speak for itself.
MR. JOHNSON:
Q. Pardon me?
MR. WIEDMAYER:

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A. The 11 to 15 years is 11 to 15 years. That's a quantification of -
MR. JOHNSON:
Q. But certainly, in your discipline as a depreciation expert, that would not be considered by any definition a short term amount of time, right?
MR. WIEDMAYER:
A. Yes, I would say it was longer than what I had originally thought. Sometimes when I've done that calculation, the crossover occurs somewhere in the seven-year time frame, and of course it does depend on the assumptions as to what the return is.
MR. JOHNSON:
Q. Right, and as you understand it, the 11 to 15 years, that would be predicated on Newfoundland Power's request for return on equity, for instance, of 10.4 percent, right?
(12:30 p.m.)
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Right. And I take it from your comments a few moments ago that if that rate of return was

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less than the assumed 10.4 percent that it would elongate the period of 11 to 15 to something longer?

MR. WIEDMAYER:

A. Well, I think that's what the 15 -- yes, the 15, the upper bound of that range is -- yes.

MR. JOHNSON:

Q. So you think the 15 falls out of something lower than 10.4 being assumed?

MR. WIEDMAYER:

A. You'd have to ask Mr. Henderson on that. I'm not certain as to all the assumptions of the model.

MR. JOHNSON:

Q. I thought that the 11 to 15 percent was premised on the difference between the assumed growth rate in net plant from two percent to four percent. In other words, with two percent growth in net plant, it would be 11 years, but at four percent growth it would be 15 years?

MR. WIEDMAYER:

A. There were two models calculated, yes, under two assumptions.

MR. JOHNSON:

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Q. No, my understanding it had nothing to do with the change in return on equity. Maybe I could get you to turn up CA-NP-620. This question asked "regarding the statements on page 11 of 12 of the introduction to the rebuttal, that adoption of the ALG procedure would reduce revenue requirements over a transitional period, that over time the change would result in overall revenue requirement increases. Please provide the number of years between the change from ELG to ALG until the crossover to an increase in revenue requirements based on the rate base requested in the current filing with the ALG rates held constant." Are you familiar with this reply?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay. And can you confirm for us, once you've had a chance to look at it, that the difference between 11 and 15 years, in terms of the crossover period, that has nothing to do with a reduced assumption for return on equity, but that is dependent on the two net plant growth scenarios of two percent and four

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percent?

MR. WIEDMAYER:

A. Yes, I can confirm that.

MR. JOHNSON:

Q. What I understand would be correct?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay. And so then to get back to my point, if the Board were not to approve 10.4 percent for return on equity but something less than that, that would tend to increase the 11 to 15 to something higher?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay. I'd like to turn to the lives issue, Mr. Wiedmayer. As you outline in your direct, Mr. Pous has commented on several of the accounts that are part of your depreciation study and maybe in that regard if I could bring you to II page 24 and 25.

MR. HAYES:

Q. Is that of the depreciation study, Mr. Johnson?

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MR. JOHNSON:

Q. Yes, it is. Okay, and that's page 25. If you could come back to page 24? Okay. You start by indicating that "for most of the mass plant accounts and subaccounts, the statistical analysis resulted in good to excellent indications of complete survivor patterns. Generally, the information external to the statistics led to no significant departure from the indicated survivor curves for the accounts listed below." And then you provide the accounts under various headings, like hydro production, substation, transmission and distribution, and can you confirm for us that the accounts that Mr. Pous is commenting upon are within the transmission and distribution section on page 25 that follow that statement we just read? Is that right?

MR. WIEDMAYER:

A. Yes, I can confirm that, yes.

MR. JOHNSON:

Q. Okay. And at the bottom of page II-25 where you start the narrative of your report again, you state "accounts 355.1 poles and 355.2 pole fixtures are used to illustrate the manner in

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which the study was conducted for the group of accounts in the preceding list. These depreciable groups were combined for life analysis purposes." And is there any other narrative explanation in your report filed with the Board to explain how you arrived at the service lives for the accounts that Mr. Pous has questioned in this proceeding?

MR. WIEDMAYER:

A. There are numerous RFI responses.

MR. JOHNSON:

Q. Okay. But not in the report itself obviously. I take it you'll agree?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay. Now we've already read your statement on page II-24 where you indicated that "for most of the mass plant accounts and subaccounts, the statistical analysis resulted in good to excellent indications of complete survivor patterns" and you went on to say that "information external to the statistics led to no significant departure from the estimated survivor -- from the indicated survivor curves

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for the accounts listed below." So would it be fair to say that the real driver for your life curve proposals for the accounts in issue in this case is your interpretation of the actuarial analysis?

MR. WIEDMAYER:

A. Can you repeat the question?

MR. JOHNSON:

Q. Would it be fair to say that the real driver for your life curve proposals for the accounts that are in issue in this proceeding is your interpretation of the actuarial analysis?

MR. WIEDMAYER:

A. No.

MR. JOHNSON:

Q. That would not be fair?

MR. WIEDMAYER:

A. Well, when you say "real driver" I would say that I've considered other -- you know, I have considered several factors.

MR. JOHNSON:

Q. But your statement would indicate, at page II-24, that "generally the information external to the statistics led to no significant departure from the indicated survivor curves

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for the accounts listed below."

MR. WIEDMAYER:

A. Right.

MR. JOHNSON:

Q. And that's a true statement, I take it?

MR. WIEDMAYER:

A. That's a true statement, yes, but I did consider, as I've outlined earlier today, several other factors that I considered.

MR. JOHNSON:

Q. But those -- not to interrupt you.

MR. WIEDMAYER:

A. Yes, okay, thank you. There is a statistical basis to the estimates is what I'm trying to describe here. That I just didn't come up with it without relying on the history of the company's accounting data. That the age at which their property has been retired is reflected in my service life estimates but I also have confirmed with the engineering group is it reasonable to use history to make a forecast in the future.

MR. JOHNSON:

Q. But you do not resile from your statement in your report that information -- "generally

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information external to the statistics led to no significant departure from the indicated survivor curves." You don't resile from that statement, do you?

MR. WIEDMAYER:

A. No.

MR. JOHNSON:

Q. And -

MR. WIEDMAYER:

A. Well, yeah, I mean, that's true. Now that I know -- well, underground conductors, I would not include on this list.

MR. JOHNSON:

Q. That would be the only one?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay. And you referenced information requests that we have made and I wonder if you could turn up CA-NP-084?

MR. HAYES:

Q. Mr. Chairman, the witness would like a break for a couple of minutes.

MR. JOHNSON:

Q. Sure.

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MR. HAYES:
Q. If that's all right?
CHAIRMAN:
Q. Oh, absolutely.
MR. WIEDMAYER:
A. Thank you.
(BREAK - 12:43 p.m.)
(RESUME - 12:50 p.m.)
MR. JOHNSON:
Q. Mr. Wiedmayer, we had, just before the break, turned up CA-NP-084 and in this question, we asked that you "provide a detailed narrative for each account identifying what steps were undertaken to arrive at the proposed average service life and corresponding dispersion curve" and the question said "the response should identify specifically what information was relied upon, what life analysis procedure was utilized, including clear identification of the experience band, placement band and intervals and if the best fitting curve and life combination were not chosen, what other information was specifically relied upon to make modifications in order to establish the actual proposed life parameters." And it was

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asked, "please provide all work papers, assumptions, considerations, material reviewed and relied upon in sufficient detail to permit replication of the company's proposed average service life and dispersion curve combination by account."
And behind the cover page, there is an attachment which includes the detailed narrative for each account and then there's also reference in the answer to Volume 3, which says "you can look to II-19 through II-29 as well" of your report. And I guess my question would be did the information that you provided in Attachment A provide the detailed narrative account that would tell us how you specifically arrived at your proposals by account?
MR. WIEDMAYER:
A. Generally, yes, that is true.
MR. JOHNSON:
Q. Okay. And one of the accounts that's in issue in this case is the overhead services account and if you could turn to page 15 of the attachment or the Attachment A, and you see towards the bottom of page 15 -- page 15, need

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to go further, yeah. A bit further still. There you go. Thank you. At the bottom here, there's a discussion of accounts which include the 365.1 overhead services account and the discussion continues on from 15 over to the top of page 16 and I take it that's the narrative telling us how you arrived at your recommendations for that account? Would that be accurate?
MR. WIEDMAYER:
A. Yes, that is accurate. We would look at historical data to get a statistical basis for the estimate, as well as speak to the engineering and operations group to assess whether or not the indications from the historical analysis are in line with their expectations for that particular asset and whether or not the future causes of retirement should be similar to the past causes of retirement. So -
MR. JOHNSON:
Q. If I could ask you specifically, you indicate at the bottom of page 15 that the three accounts that we're talking about were combined for life analysis, but you note that

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"the majority of the dollars in these accounts is in relation to overhead services." And you state "the primary causes of retirements for services are similar to those of conductor and include damage, ice storms, load growth and reliability reasons." And I take it that what causes these retirements to take place doesn't let us know how you arrived at your particular 44-year recommendation for depreciation rates on that account, right?
MR. WIEDMAYER:
A. No, I would say that that doesn't.
MR. JOHNSON:
Q. Right. And you indicate as well that bands -- in the second paragraph, "bands analyzed for this account include the overall experience, as well as the most recent 30, 20 and 10 year bands. A band with placement since 1967 was also analyzed. The life indication for the overall band are 42 to 47 years. Most recent bands indicate longer average service lives." Is there anything there that tells us specifically how you arrived at your recommendation for overhead service lives? Like versus any other service life, for

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instance?
MR. WIEDMAYER:
A. Well, as I explained the process, we analyze the historical data. We look at the past causes of retirements. We discuss with the engineers what are those past causes of retirements. We also ask about the future causes -- expected future causes of retirements. If they're to be similar to the past, we generally feel comfortable relying on the results of the life analysis based upon -- which shows the age at which property has been retired from a historical perspective.
MR. JOHNSON:
Q. But there's nothing specifically there to tell us why another average service life wasn't appropriate?
MR. WIEDMAYER:
A. That's correct. I mean, there's an infinite combination of curves that could be selected, survivor curves that could be, so I did not make a comparison of why I didn't select certain curves.
MR. JOHNSON:
Q. Under your recommendation, you indicate "the

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data indicates longer lives for this account" and then you say "the 44-R2 survivor curve represents a very good fit of the significant data points" and did you identify and justify here what you consider to be the significant data points?
MR. WIEDMAYER:
A. In this response to this RFI, I did not. But the significant data points is a term that depreciation professionals use and are aware of and would understand the meaning of that phrase.
MR. JOHNSON:
Q. You make the comment, at the top of page 16, that "the bands analyzed for this account included the overall experience." And in that regard, could I ask you to turn up page A-62 of your study? And I take it this would be the -- what would be known as the observed life table for this account, right, the overhead services account?
(1:00 p.m.)
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:

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Q. Okay. And up at the top of your graph, under original curve, there's a reference to 1948 2009 experience and 1933 to 2009 placements, and so you would have, I take it, analyzed data in the company's records for assets placed in service over the period 1933 to 2009. Would that be right?
MR. WIEDMAYER:
A. Yes, that's what that -- that's what the 1933 to 2009 placement band indicates. These are the installation years when services were added during the observation period.
MR. JOHNSON:
Q. Okay.
MR. WIEDMAYER:
A. 1948 to 2009.
MR. JOHNSON:
Q. Okay. But I think you will agree with me that there is -- in relation to this account, the oldest plant that Newfoundland Power actually has as of the date of your study that comes under the category of overhead services would be 1968 onwards. So would that be accurate?
MR. WIEDMAYER:
A. Can you repeat the question, please?

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MR. JOHNSON:
Q. In this particular account, the overhead services account, the plant, the oldest plant that Newfoundland Power has remaining on its books is from 1968 onward. In that regard, maybe you could turn to C-71. C-71 of your expert report.
KELLY, Q.C.:
Q. In the evidence, Chris.
MR. JOHNSON:
Q. If you scroll up to the top of page C-71? Are you there now, Mr. Wiedmayer?
MR. WIEDMAYER:
A. Yes, I am.
MR. JOHNSON:
Q. Okay. Can you confirm for us by looking at the 1968 line, we have no years prior to 1968? So you can confirm for us, can you, that we have no plant in service under overhead services that was prior to 1968 vintage? Would that be right?
MR. WIEDMAYER:
A. Yes, as of December 31st, 2010.
MR. JOHNSON:
Q. Okay.

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MR. WIEDMAYER:
A. That would be correct.
MR. JOHNSON:
Q. Okay. So the life indications, I think that you indicated that the overall life indications for the overall band is from 42 to 47 years. Is that right?
MR. WIEDMAYER:
A. Could you repeat the question again, sir?
MR. JOHNSON:
Q. I think you indicated that the overall band of experience indicates a life experience -- a life expectancy, to put it that way, from the overall band of about 42 to 47 years, in that range.
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Okay. But to be perfectly clear, that includes 35 years of plant additions that no longer exist on Newfoundland Power's system?
MR. WIEDMAYER:
A. Yes, the vintages that were added between 1933 and 1967 -
MR. JOHNSON:

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Q. Are all gone.
MR. WIEDMAYER:
A. - have all been retired, yes.
MR. JOHNSON:
Q. Okay. Now I think you also indicated that the more recent bands indicated a longer average service life, and by that you mean longer than the 42 to 47 year life expectancy that you determined based on the full 1933 to 2009 record? Would that be right?
MR. WIEDMAYER:
A. I believe we provided this as an RFI response as well.
MR. JOHNSON:
Q. So are you aware of what the longer life expectancy would be for the more recent band, just from 1967 to 2009? I didn't see it in the answers.
MR. WIEDMAYER:
A. I mean, I'm aware of it, but I had -
MR. JOHNSON:
Q. It's not in CA-NP-084?
MR. WIEDMAYER:
A. No, it's as a response to another RFI. We provided the life tables for all of these

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bands.
MR. JOHNSON:
Q. Yes, you've provided the life tables, but what was your interpretation of the life tables from '67 to 2009 in terms of the longer life expectancy?
MR. WIEDMAYER:
A. I don't recall. Subject to check, I could provide that.
MR. JOHNSON:
Q. Maybe you could provide what the longer life expectancy would be for the 1967 to 2009 band? Okay.
MR. WIEDMAYER:
A. But again, all the data that I had analyzed, that same data is available to the Consumer Advocate. I can do the analysis of the more recent bands, but the same information has been provided as an RFI response, and if the Consumer Advocate would like to make that analysis -
MR. JOHNSON:
Q. But we don't have your interpretation of that band.
MR. WIEDMAYER:

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A. Okay.
MR. JOHNSON:
Q. Right?
MR. WIEDMAYER:
A. Is that what you want?
MR. JOHNSON:
Q. Pardon me?
MR. WIEDMAYER:
A. My interpretation?
MR. JOHNSON:
Q. Yes.
MR. WIEDMAYER:
A. Okay. Because that was not the band that I ended up relying upon in the report and we'd run multiple bands for each particular plant account and we'd kind of look at a longer period of time and then we'd try to look at maybe the more recent 30-year, more recent 20-year band, as well as look at maybe information from the 60s forward.
MR. JOHNSON:
Q. Could I turn you to page 40 of Mr. Pous' report where he shows a graph for the distribution overhead services? And you might want to start actually at the bottom of page

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39.
MR. WIEDMAYER:
A. This is direct testimony?
MR. JOHNSON:
Q. This is direct testimony.
MR. WIEDMAYER:
A. Page 40?
MR. JOHNSON:
Q. 39 and then we'll go to 40. Okay. On this page, he's discussing his basis for his recommendations for the services overhead and he indicates that he relies on the results of -- and I'm reading from line 18. He "relies on the results of historical actuarial analysis. However, unlike Gannett Fleming's presentation in its 2010 study, I base my analysis on more current information that approximately reflects trends in the data. Gannett Fleming's proposal as set forth at page A-62 of its study appears to be a good fit of the data, however corresponds to a 1933 to 2009 placement band and a 1948 to 2009 experience band. In other words, Gannett Fleming's presentation depicts retirement patterns over the past approximately 60

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years." And he indicates "turning this time frame, the industry has experienced changes in design, installation and materials and the proper analysis dictates review of additional and more current placement and experience bands in order to determine whether there are changes in life characteristics."

And then he goes over on the next page to actually show what the 1967 band, I take it, demonstrates -- the 1967 to 2009 demonstrates on the survivor curve, if you will, and you'll note that using the 1967 to 2009 data, you are -- it would indicate a life in excess of the average that you found over the 1933 to 2009 period, does it not?
MR. WIEDMAYER:
A. Are you asking if this band indicates a longer life than -
MR. JOHNSON:
Q. A longer average service life than the 42 to 47. It does.
MR. WIEDMAYER:
A. The '48 to 2009? Are you asking does the more recent band -
MR. JOHNSON:

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Q. The 1967 to 2009 band -
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. - indicates a higher average service life than the longer band, 1933 to 2009, right?
MR. WIEDMAYER:
A. I believe it does, yes.
MR. JOHNSON:
Q. Right. Can you indicate what the average service life as indicated by the more recent data would be on this account? Because I think you indicated, when we asked you for material in CA-NP-084, that the more recent band indicated a higher average service life.
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Recall that?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Okay. I'll just -- wanting you to confirm what the average service life is, indicated by the more recent band.

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MR. WIEDMAYER:
A. I mentioned that I would provide that to you.
MR. JOHNSON:
Q. Okay.
MR. WIEDMAYER:
A. What my interpretation was, but I also indicated that the data to perform the analysis has also been provided to the CA, Consumer Advocate.
MR. JOHNSON:
Q. And you know, this graph is based upon the data that we were provided. Mr. Pous got this data from -- in the RFI process, right?
MR. WIEDMAYER:
A. Exactly right.
MR. JOHNSON:
Q. Okay. But you would at least confirm that the more recent data gives an average service life in excess of the 1933 to 2009, okay.
MR. WIEDMAYER:
A. Well, when you say 1933, you're talking about the placement band.
MR. JOHNSON:
Q. Placement band, okay.
MR. WIEDMAYER:

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A. Now, you want me to -
MR. JOHNSON:
Q. And then the experience band would be different, but the experience band from 1948 onward -
MR. WIEDMAYER:
A. Okay.
MR. JOHNSON:
Q. - would pick up the 1933 material that doesn't exist any more.
MR. WIEDMAYER:
A. Okay. So you want a comparison between the 1948 to 2009 experience band compared with the '67 to 2009 experience band?
MR. JOHNSON:
Q. Yes, that'll be fine. Placement and the experience band for 1967 to 2009.
MR. WIEDMAYER:
A. Okay. So all services that have been added since '69.
MR. JOHNSON:
Q. Right. '67.
MR. WIEDMAYER:
A. '67, I'm sorry.
MR. JOHNSON:

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Q. So the range you went to, you indicate that the range on the overall was 42 to 47 and you went to the middle of the range? Would that be right?
MR. WIEDMAYER:
A. Yes.
MR. JOHNSON:
Q. Okay. So how did you reflect the more recent experience in your recommendation?
MR. WIEDMAYER:
A. We previously were using an average service life of 39 years that was approved by the Board. So the indications were that the lives were lengthening and we reflected that change from 39 to 44 years. Discussions with engineering did not indicate that there would be any significant changes in the future so that I felt that the historical data provided reasonable basis for making an estimate for this particular account.
(1:15 p.m.)
MR. JOHNSON:
Q. Mr. Wiedmayer, in your rebuttal evidence to Mr. Pous' report, you made certain statements about Mr. Pous, his recommendations in your

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judgment. You called them dramatic, right? And they would all be dramatic to you, would they?
MR. WIEDMAYER:
A. Well, the ones that he agreed with me there would be no changes. The increases that Mr. Pous has prepared?
MR. JOHNSON:
Q. Yes, that's what I'm getting at.
MR. WIEDMAYER:
A. Yes, the ones that he has -- seven or so accounts where he's recommended changes, they have increased somewhere between 15 and 40 percent and I think for one, for a five-year study that to me seems to be a substantial change absent any substantial evidence to the contrary, other than the historical data.
MR. JOHNSON:
Q. And in terms of you've indicated that Mr. Pous' recommendations would have to be supported by overwhelming evidence, I think is the way you put it in your report, right?
MR. WIEDMAYER:
A. When you want to make a change from 40 years as an average -- or I'm sorry, from 39 years

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to 51 years for services, since we're talking about overhead services, that's a 30.8 percent increase and to me, that doesn't seem reasonable given the nature of the account that we're talking about for overhead services, which is the wire to the customer home, a 12-year increase or a 30 percent increase in the service life of that particular account over a five-year course of study seems to be unreasonable, based on my experience in doing these studies. Mr. Pous has found a curve that fits a different band, like when -- the reason why we run multiple bands is to see if there are any particular trends in the data and I've reflected that myself in increasing the life from 39 to 44 years for this overhead -- for overhead service wire.
MR. JOHNSON:
Q. And would you consider that what you put forward to the Board in terms of your recommendations, whether they're a bit above your last study or a bit below your last study or the same as your last study, would that be subject to the need for overwhelming evidence

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like your report seems to suggest that Mr. Pous is held to?

MR. WIEDMAYER:

A. If I were making a 40 percent change or a 30 percent change, I would be held to the same standard of providing a solid reason for making a change other than having one of the periods of time that you look at support your recommendation. So, yes, if I were making a substantial change in the magnitude of 30 to 40 percent increase or decrease, there should be reasons to why that is occurring for mass property.

MR. JOHNSON:

Q. So your position is that you're not making any major changes in anything you're doing? Would that be right?

MR. WIEDMAYER:

A. No.

MR. JOHNSON:

Q. Is that not right or right?

MR. WIEDMAYER:

A. That's not right.

MR. JOHNSON:

Q. Okay. How am I wrong?

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MR. WIEDMAYER:

A. Well, if you want to look at the line transformers, the indications for line transformers is 30 years and I've recommended a 40-year average service life.

MR. JOHNSON:

Q. And so that would be major, and I take it -

MR. WIEDMAYER:

A. And meters is another example.

MR. JOHNSON:

Q. And would that be something that you would have had to put forward overwhelming evidence on, to satisfy your standard?

MR. WIEDMAYER:

A. Substantial evidence.

MR. JOHNSON:

Q. Substantial?

MR. WIEDMAYER:

A. Yes.

MR. JOHNSON:

Q. Okay. Did you discuss those accounts where you've made those major changes in your depreciation study at all?

MR. WIEDMAYER:

A. Yes.

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MR. JOHNSON:

Q. Where would you have discussed them?

MR. WIEDMAYER:

A. In numerous RFI responses.

MR. JOHNSON:

Q. Oh, I'm talking about your report that you filed.

MR. WIEDMAYER:

A. If you go to page II-27 of the depreciation study report, we can go down to the last paragraph, Chris, where it starts with "another plan account" and I'm reading from this. Are you there, Mr. Johnson?

MR. JOHNSON:

Q. Yes, I am. I am.

MR. WIEDMAYER:

A. Okay. "Another plan account where the future service life expectations differ from the historical life indication is pole-top line transformers. One of the primary causes of retirement for line transformers was due to rust on the steel tank of the line transformer. In coastal areas, the corrosion of the steel tank was so significant that some of the line transformers needed to be replaced

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after ten years or less. Typically a line transformer can expect to live -- can expect to be in service 35 to 40 years." That's based on other jurisdictions in my experience in doing these studies. That's an aside. "The historical life indications for line transformers at Newfoundland Power were 30 to 35 years. Engineering management expects the service lives of line transformers to increase based upon changes that they have implemented in the past ten years or so. Since 2001, the company has been installing line transformers with stainless steel tanks and has concentrated the installation of line transformers with stainless steel tanks in areas where the corrosion effect is the greatest, mostly in coastal areas."

MR. JOHNSON:

Q. And -

MR. WIEDMAYER:

A. I could go on.

MR. JOHNSON:

Q. And that would constitute your substantial evidence for an elongation of the average service lives for that account?

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MR. WIEDMAYER:
A. Well, if you want me to read further, what I had mentioned was in the previous study, approximately 20 percent of the transformers had stainless steel tanks. Now 50 percent of the line transformers attached to the poles have stainless steel tanks and the expectation of the engineering group, as they've told me, they would expect to see a significant increase, especially for those tanks that were being replaced much earlier than 30 years, to lengthen.
MR. JOHNSON:
Q. Mr. Wiedmayer, you stated at page II-24 of your report that -- starting at the line "for most", that "for most of the plant accounts and subaccounts, the statistical analysis resulted in good to excellent indications of complete survivor patterns." Again, would this statement apply to the seven accounts that we are questioning in this case?
MR. WIEDMAYER:
A. As I mentioned, with the exception of underground cable.
MR. JOHNSON:

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Q. Okay. And -- are we shutting at 1:30?
MS. GLYNN:
Q. Yes, we are.
MR. JOHNSON:
Q. I'm about to go on to another area and it might be -- I'm not going to conclude it in five minutes.
CHAIRMAN:
Q. Okay. We shall adjourn until tomorrow morning at 9.
MS. GLYNN:
Q. 9:00.
(ADJOURNED AT 1:24 p.m.)

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CERTIFICATE
I, Judy Moss, hereby certify that the foregoing is a true and correct transcript of Newfoundland Power Inc.'s 2013 General Rate Application, heard on the 23rd day of January, A.D., 2013 before the Newfoundland and Labrador Board of Commissioners of Public Utilities, 120 Torbay Road, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.
Dated at St. John's, Newfoundland and Labrador
this 23rd day of January, A.D., 2013
Judy Moss

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