Q. Re: Sinking Fund: Please identify each different decelerated, as referenced on page II-3 of Exhibit 1, and non-decelerated method of depreciation currently used in the industry. Further, explain and justify why each is decelerated or not.

A. As indicated at page II-3 of the Gannett Fleming depreciation study, decelerated methods of depreciation are methods in which the calculations are designed to result in an increased amount of depreciation expense as the asset ages. In contrast, accelerated methods are designed to result in a reduced amount of depreciation expense as the asset ages. Straight-line or non-decelerated methods are designed to depreciate assets evenly through the consumption of the assets service life or consumption of units.

Examples of decelerated methods would be the sinking fund methods and the reverse of the sum of the year's digits. Both of these methods are structured such that the smallest amount of depreciation expense occurs in the first year of the depreciation schedule and the largest in the last year. As described in the Gannett Fleming report starting at page II-4, the use of the sinking fund method gained prominence in the nuclear industry in the 1970s. However, given a Security Exchange Commission (SEC) mandate, most utilities reporting to the SEC discontinued its use in by the mid 1980s. Gannett Fleming is aware of only a very limited number of regulated Canadian utilities that were using the Sinking Fund method under Canadian GAAP. However, given the implementation of IFRS, Gannett Fleming is not aware of any regulated Canadian utility that still uses the sinking fund method since it is no longer acceptable. Even in the circumstance where a Canadian regulated utility has elected to report financial statements in accordance with US GAAP, the prohibition of the sinking fund method by the SEC

has precluded the use of the sinking fund method for those Canadian utilities as well.

The reverse of the sum of the year's digits was used by a limited number of small utilities in the 1980s and 1990s, in circumstances where a start-up entity such as a pipeline was trying to attract long term contracts. In these circumstances the long term contracts usually provided for a significant exit penalty if the term of the contract was not sufficient to offset the decelerated depreciation mechanisms. Gannett Fleming is not aware of any regulated Canadian utility currently using this method of depreciation. The reverse of the sum of the year's digits is not acceptable under IAS 16.

Examples of accelerated methods of depreciation would include the declining balance method, the sum of the year's digits method and in certain circumstances the unit of production method (if the production to which the asset is linked is estimated to decline over time). In these methods, the largest amount of depreciation expense would be in the asset's first year of service and the smallest amount would be in the asset's final year of the estimated depreciation schedule. The unit of production method is used by some natural resource based pipelines and gathering systems where the consumption of the service value of the asset is based on a depleting natural resource. Gannett Fleming is aware of at least one National Energy Board of Canada pipeline system that incorporates the use of the unit of production method. Additionally, it is noted that the unit of production method is specifically allowed by paragraph 62 of IAS 16 of the IFRS. The declining balance method is widely used in Canada as the basis for the Capital Cost Allowance deductions for Canadian income tax. Gannett Fleming is not aware of its use in the determination of revenue requirement by any regulated Canadian utility. Likewise

Gannett Fleming is not aware of any regulated Canadian utility that uses the sum of the year's digits method for revenue requirement purposes.

It is the experience of Gannett Fleming that virtually all regulated Canadian utilities use a straight line (or non-decelerated) method of depreciation for regulatory purposes. The straight line method would incorporate the ASL (or average group life) procedure, the equal life group (ELG) procedure, amortization (or direct life method), and in most cases, the unit of production method. In general, the ASL procedure is used in British Columbia, Manitoba (however, Manitoba Hydro has applied to start using the ELG Procedure for both its electric and gas assets), and Ontario, some utilities in Quebec, the Northwest Territories, and one utility in the Yukon. The ELG procedure is used in Alberta, Saskatchewan, and Manitoba (as recently applied for), Quebec, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, the Yukon and Nunavut. The use of amortization accounting methods is common for certain general plant accounts across Canada.