Q. Re: Account G06: Please fully explain and justify the selection of a 45S4 life-curve combination for Account G06 – Governors. The response should specifically address the curve fit set forth on page IV-88 of Exhibit 1 and why a longer life is not appropriate. The response should also present the specific steps and corresponding information and documents relied on to arrive at the proposed life-curve combination.

A. The retirement rate analysis for this account has indicated that historically, virtually no significant retirement activity has occurred. As such, Gannett Fleming developed a preliminary life estimate of the 55-S4 Iowa curve. This preliminary estimate was discussed with the operations staff who viewed it as much too long. The operations group indicated that a 55-year life may be appropriate for older technology mechanical governors, however, newer vintages of governors are digital and would have a life of 15 to 20 years. Gannett Fleming confirms that this view is consistent with a number of Canadian electric generation operators. It is also consistent with the newer digital technology in a number of accounts such as control equipment and metering.

The operations staff indicated during the interviews that approximately 1/3 of the governors in the system would be of a newer vintage digital technology. Gannett Fleming confirmed this estimate through a review of the aged plant balances as provided at page V-43 of the Gannett Fleming report, where $3.5 million of the total account investment of $7.6 million has been installed over the past eight years (2002 through 2009) representing 45% of the investment balance. In order to develop a weighted average of the investment by technology the 20-year life estimate was applied to the 45% of plant installed since 2002 and the 55-year life

estimate was applied to the pre-2002 investment resulting in a weighted average life estimate of 40 years. However, if the estimated percentages of digital plant were 33% as estimated by the operations staff, a weighted average life estimate of 44 years would result.

Giving consideration to the above and to the fact that the current life estimate is 50 years, Gannett Fleming viewed that a five-year reduction in the average service life is appropriate at this time, and that a further reduction may be required in future studies. As such the 45-S4 Iowa is recommended for this account.