

1 Q. Re: Account R14: Please fully explain and justify the selection of a 5SQ life-curve  
2 combination for Account R14 – Routers & LAN. The response should specifically  
3 address the vintage surviving balances that exceed 5 years as set forth on page V-92  
4 of Exhibit 1 and why a longer life is not appropriate give the number and magnitude  
5 of surviving vintages. The response should also present the specific steps and  
6 corresponding information and documents relied on to arrive at the proposed life-  
7 curve combination. Finally, provide the dollars retired with the corresponding  
8 vintage year of installation that have occurred for both 2010 and 2011.

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11 A. The selection of the 5-SQ life estimate for Routers & LAN was based on the  
12 judgment and experience of Mr. Kennedy; review of the peer life estimates used for  
13 this equipment; and on information regarding company practices gained through  
14 the management and operations interviews as summarized in CA-NLH-12  
15 Attachment 1. As indicated in the interview notes, Hydro's practice is to replace  
16 computer hardware by the fifth year.

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18 The aged plant balances as shown at page V-92 of the Gannett Fleming report  
19 indicate plant surviving at ages that exceed five years. These plant balances  
20 represent investment that, due to small dollar values, should be retired but for  
21 which retirement orders have not been issued. It has been the experience of Mr.  
22 Kennedy that these types of general plant accounts are often overlooked in the  
23 retirement order process, resulting in unretired investment remaining in the plant  
24 accounting ledgers.

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26 Review of the average service life estimates of the peer group for this equipment  
27 indicates life estimates of five and six years, with most peers using five years.

1           Additionally, all of the peers use amortization accounting for this account.  
2           Accordingly, the recommended 5-SQ curve is consistent with both the approach  
3           used by the peers and the approved life estimates.  
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5           There have been no retirements for account R14 in 2010 or 2011. Even though  
6           routers have been replaced, the old ones are kept as spares.