PUB-IC-1 **On page 6 Ms. Lee states that Hydro's 2009 Depreciation Study is devoid of any support or justification for proposed life/curve combinations. What additional information should have, in Ms. Lee's opinion, been provided?**

RESPONSE: As stated in Ms. Lee's testimony, the only information given in the originally filed depreciation study was the results of the statistical analyses performed by Gannett Fleming. Ms. Lee opines that the goal of a depreciation study is to attain appropriate depreciation components and resulting depreciation rates. The Board-approved depreciation rates should then be used by the Company in calculating the monthly depreciation expenses. At a minimum, Ms. Lee believes the following information should have also been provided in the depreciation study:

1. A general narrative describing Hydro's service environment and the factors, e.g., growth, technology, physical conditions, necessitating a revision in currently authorized depreciation rates.

2. Detailed account or category narratives describing the contained assets and specifically explaining why a change in depreciation components and resulting rates is warranted.

3. An explanation and justification for each account or study category of depreciable plant defining the specific factors that justify the life components and rates being proposed. Each explanation and justification should include the specific substantiating factors utilized in the design of the proposed depreciation rates for the specific account or category, e.g., company planning, growth, technology, physical conditions, trends, governmental requirements, shortcomings of current materials and technologies. If

company planning is used, the account narrative should discuss the specific planning, if that planning has changed since the last study, how the planning has changed, specifically what caused the changes in planning, and finally how the planning was used in determining the proposed life expectations. Any other company input used in life development should be specifically stated and explained with reasoning supporting the input and how that input was used in the account life determinations (estimates of engineers, consultants, and even manufacturers, results of which are influenced by the biases and foresight, or lack, of the individuals). Reasons can include, but not be limited to, specific maintenance experience. If growth is used as support for a change in current depreciation components and resulting rates, there should be specificity at to what is causing the growth and if and why the growth is expected to continue. If there is reliance on industry or peer group lives, Ms. Lee believes this should be noted in each account where such is used, along with a comparison with lives approved by regulatory agencies not simply those proposed by a consultant, with an explanation regarding how Hydro compares with those companies, and why. Account narratives should discuss the specific pressures or problems facing the company and its equipment, and describe how the company is reacting to those pressures or problems.

4. If the results from statistical analyses are solely relied on for curve shape determinations, statements whether the observed data was fit by mathematical or visual fitting for the best fit curve should be included. If mathematical fitting is used, the statistics supporting all curves with an explanation why the curve selected is considered to be the best fit should be included in the account narratives. Specific reasons leading to and

supporting the selection of one curve shape versus another should be included, especially when there are few or erratic retirements.

5. The filing should contain all calculations, analyses and numerical basic data used in the design of the proposed depreciation rate for each category of depreciable plant. Numerical data should include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, [salvage and cost of removal, if applicable], adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. Data involving retirements should ideally be aged.

6. Unusual transactions not included in life studies, e.g., sales or extraordinary retirements, should be specifically enumerated and explained.