

1 Q. [Reserve] - Please explain any risk Hydro believes exists by extending average
2 service lives any further than it proposes in the Gannett Fleming study and how that
3 risk differs from the situation where the average service lives are too short. To the
4 extent Hydro believes it is subject to a risk that it will never recover its capital
5 investment, explain and justify such belief.

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8 A. Hydro is proposing to implement the composite remaining lives resulting from the
9 depreciation study on an "asset by asset" basis. As part of this implementation,
10 gains and losses on retirement will be charged as an income statement item.

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12 The overriding goal of the average service life study is to get the life estimate
13 correct. In the circumstance where the estimate is correct, there would be no
14 charge to the income statement (and revenue requirement) to deal with gains or
15 losses on retirement. However, in the circumstances where the average service life
16 estimate is extended and ends up being too long, future revenue requirements will
17 be charged with more significant amounts of Losses on Retirement. If future
18 depreciation studies indicate that the extended life is too long, future toll payers
19 will be faced with picking up a larger share of the unrecovered depreciation.
20 Conversely, if the average service life estimates as indicated in the Gannett Fleming
21 studies are too short, future depreciation studies will lengthen the life estimates
22 resulting in a lower depreciation rate.

23 It is the view of Gannett Fleming that the significant life extensions already
24 provided for in the Gannett Fleming study, cannot be further extended without
25 placing a significant amount of risk of depreciation increases to future toll payers.