

1 Q. **Depreciation**

2 A mass property group account is typically defined as “An account consisting of
3 large numbers of similar units, the life of any one of which is not, in general,
4 dependent upon the life of any of the other units. For such classes of plant, the
5 retirement of a group of units occurs gradually until the last unit is retired. The
6 retirements and additions to the account occur more or less continually and
7 systematically.” (Public Utility Depreciation Practices manual produced in August
8 1996 by the National Association of Regulatory Utility Commissioners (NARUC),
9 page 322)

10 Please comment on the applicability of this definition to accounts D01, C13, B05,
11 G03, P03, P10, R13, and T09 with specific reference to the types of assets and the
12 additions and retirements that occur in each of the noted accounts.

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15 A. This response was provided by Concentric Advisors (Concentric).

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17 Concentric views that the current mass property approach is appropriate. The
18 above statement from the NARUC manual is, in Concentric’s view, a generalized
19 correct statement. However, Transmission and Production functions can be and are
20 generally lumpy by nature in that additions can be very high in a short period, with
21 subsequent periods of relatively low addition activity. Subsequently, the retirement
22 activity can also be lumpy in nature reflecting the replacement of facilities. Thus
23 while Concentric views the general statement of retirements “gradually” occurring
24 “continually and systematically”, as a correct statement, it also views that “lumpy”
25 nature accounts can still be accounted for as mass property accounts. The
26 alternative to a mass property approach is to account for these accounts using a
27 specific location property approach and likely combined with truncation options.

1 Hydro has indicated that specific property account is not being used for these
2 accounts and has been and currently is being accounted for as mass property
3 accounts. For the majority of these accounts, very little retirement activity has
4 occurred (B05 – 72% surviving, C13 – 93% surviving, D01 – 100% surviving, G03 –
5 89% surviving, P03 - 100% surviving , P10 – 100% surviving, R13 – 100% surviving,
6 and T09 91% surviving), and as such Concentric, with the exception of B05, has
7 recommended mainly high ordered R type Iowa curves (with 1 high ordered S type
8 Iowa curve) for this equipment to reflect the bulk of retirements occurring closer to
9 the end of each fixed asset account’s life. B05 has had some gradual retirement
10 experience and Concentric views that a mass property approach with a
11 recommended Iowa 50-R0.5 is appropriate for this account. For the remaining
12 accounts and at this point in time, Concentric views that mass property approaches
13 are appropriate. With each new depreciation study, Concentric and Hydro will re-
14 evaluate the appropriateness of a mass property versus location property approach
15 for each account to ensure the current approach is still appropriate.