

1 Q. Re: Page 2, lines 36-37. It is stated that the power industry in Canada has seen
2 movement away from the ELG procedure. Page 15 of the report provides recent
3 examples of regulatory proceedings dealing with the ELG procedure.

4 Please provide any additional regulatory precedents that address the
5 appropriateness of the ELG or the ASL procedure for Canadian utilities.

6 A. The pre-filed testimony summarizes the recent Canadian experience with ELG with
7 which Mr. P.Bowman and Ms. Lee are most familiar through direct experience in
8 the jurisdiction (Yukon Energy (Mr. P.Bowman), and Alberta and Manitoba (both
9 Mr. P.Bowman and Ms. Lee)). The specific references for the Alberta decisions
10 are provided in footnotes. For the specific references on Manitoba and Yukon
11 Energy note the following:

12 **Manitoba:** As indicated in Mr. P.Bowman's evidence [page 15, lines 17-22] in 2012
13 and 2015, Manitoba Hydro attempted to adopt ELG for regulatory purposes and
14 was rejected by the Manitoba Public Utilities Board. Specifically, Manitoba Public
15 Utilities Board in its Order No. 43/13 [April 26, 2013, Page 18 of 62]¹ noted the
16 following regarding Manitoba Hydro's 2012/13 and 2013/14 GRA depreciation
17 proposal (after a lengthy revenue requirement hearing, including multiple days of
18 testimony on depreciation):

19 The Board also is concerned that not enough information has been
20 provided to date to assess the true impact on ratepayers of a switch to
21 Equal Life Group. As such, the Board will require Manitoba Hydro to file
22 additional information, including a determination of depreciation rates and
23 schedules based on the Average Service Life methodology, to provide a
24 meaningful comparison between the two approaches.

25 In the subsequent review Manitoba Hydro sought to similarly adopt the ELG
26 procedure (Manitoba Hydro's 2014/15 and 2015/16 GRA). The Manitoba PUB by
27 its Order No. 73/15 [July 24, 2015, Pages 8 and 9 of 108]² denied approval of use
28 ELG again on the basis of concerns that the change to the ELG procedure would
29 be costly for ratepayers, and that the impacts were not fully and properly
30 understood, and indicated Manitoba Hydro would be required to provide significant

¹ <http://www.pubmanitoba.ca/v1/pdf/13hydro/43-13.pdf> [accessed on December 15, 2017].

² <http://www.pubmanitoba.ca/v1/pdf/15hydro/73-15.pdf> [accessed on December 15, 2017].

1 further evidence if it sought to implement the ELG procedure in future (including
2 an analysis that Manitoba Hydro indicated would cost \$2.5 million to complete –
3 no evidence other than statements of Hydro staff was provided to substantiate this
4 estimate). This decision followed a second lengthy GRA including multiple days of
5 testimony on depreciation methods and competing testimony specifically on the
6 issue of the merits of ELG and the likely impacts (in Mr. P.Bowman’s view, more
7 information than has been provided in Newfoundland and Labrador to date, despite
8 Requests for Information seeking the information³).

9 **Yukon Energy:** Yukon Energy received approval to convert from the ELG
10 procedure to the ASL procedure in Decision 2005-12.

11 The following provides an additional list of relatively recent regulatory submissions
12 and/or findings regarding the ELG and ASL procedures for Canadian utilities which
13 Mr. P.Bowman is at most generally aware. This only includes studies where the
14 depreciation procedure (ASL/ELG) is discussed in terms of the merits/drawbacks
15 – it does not include studies where there is a simple statement of which procedure
16 is used.

17 1. In British Columbia, the issue of ELG was at least briefly mentioned in respect
18 of recent FortisBC filings. For example, FortisBC Energy Inc. May 9, 2016
19 letter⁴ to British Columbia Utilities Commission (BCUC) states the following:

20 In FEI’s submission, the IRs have not revealed any material issues with the
21 proposed depreciation and net salvage rates. The one caveat may be if the
22 Commission is considering directing FEI to adopt the Equal Life Group
23 (ELG) procedure. While the ELG procedure is an acceptable depreciation
24 method, it entails significant rate impacts, complexity and additional cost.

³ Consider that the evidence provided to date in the current hearing on the supposed merits of the ELG procedure are largely outlined in the response to PUB-NLH-071 (effectively all RFIs asked by parties on the merits or advisability of ELG were referred to this response) which has, at most, very limited comments from the Corporation (primarily the response is comments from the consultant, despite the selection of procedure being a matter of policy and not solely technical merit). There would also appear to be effectively no information about the timing for transition to the ELG procedure today as opposed to alternatives. Further, the PUB has been given incomplete information about the impacts of ELG in the test years (see Bowman/Lee pre-filed testimony section 3.2.1) and no information about the impacts of ELG once fully implemented for all assets.

⁴ Available at: http://www.bcuc.com/Documents/Proceedings/2016/DOC_46266_B-4_FEI-Submission-on-Process.pdf [accessed on December 15, 2017].

1 FortisBC Energy Inc.'s letter also states that:

2 FEI has also described the additional complexity and cost of adopting the
3 ELG procedure in the response to BCUC IR 1.2.1.1. FEI therefore
4 concludes that the ELG procedure is impractical to implement. This is
5 especially so given that the current Average Service Life (ASL), or Average
6 Life Group (ALG), procedure is also an acceptable depreciation method,
7 which is used by the other major utilities in BC and in other jurisdictions in
8 Canada. FEI, therefore, submits that there is no need for process to explore
9 further the relative merits of the ELG and ASL procedures.

- 10 2. Also in British Columbia, Pacific Northern Gas – West (PNG-West) had
11 discussion of the ELG procedure at its 2011 Revenue Requirement Application.
12 The following Information Request #26.5 exchange is noted (note that Gannett
13 Fleming is the predecessor firm to Concentric Energy Advisors in respect of the
14 Canadian depreciation practice)⁵:

15
16 Preamble to the question: “Although, in the opinion of Gannett Fleming, the
17 equal life group (“ELG”) procedure is superior to the [average service life]
18 ASL procedure in matching depreciation expense and consumption of
19 service value, the average service life procedure is appropriate and
20 conforms to past practices.” (Tab 7, p. I-4)

21 Question 26.5: Why did PNG determine that the ASL procedure was more
22 appropriate than ELG even though the depreciation expert advised
23 otherwise?

24 Response: The ASL procedure was proposed in the recent depreciation
25 study based on a number of factors, including:

- 26
- 27 • The ASL procedure has historically been used by PNG;
 - 28 • The depreciation expert considered the depreciation rates that result
29 from the use of
 - 30 • the ASL procedure to be reasonable and appropriate for IFRS
31 purposes; and
 - 32 • Historically, there has been a lack of support and approval for the ELG
procedure in North America:

⁵ http://www.bcuc.com/Documents/Proceedings/2011/DOC_27100_B-8_PNG-Resp-BCUC-IR-1-.pdf

- 1 o the Commission has never approved an application for depreciation
2 rates based on the use of the ELG procedure; and
3 o While there are pockets of jurisdictions throughout Canada that
4 endorse the use of the ELG procedure (Alberta, Saskatchewan,
5 Yukon, NWT, Nova Scotia and Newfoundland), most regulatory
6 jurisdictions throughout North America do not approve of it.
7

8 Further with respect to PNG, note the responses to Information Requests
9 number 26.7 and 26.8⁶:

10
11 Preamble to the question: “Additionally Gannet Fleming understands that
12 the ASL procedure is acceptable for the determination of the annual
13 depreciation accruals for IFRS purposes.” (Tab 7, p. II-27)
14

15 Question 26.7 Please provide support for this statement referencing the
16 Handbook?
17

18 Response: Per IAS 16:
19

20 60. The depreciation method used shall reflect the pattern in which
21 the asset’s future economic benefits are expected to be consumed
22 by the entity.

23 61. The depreciation method applied to an asset shall be reviewed
24 at least at each financial year-end and, if there has been a
25 significant change in the expected pattern of consumption of the
26 future economic benefits embodied in the asset, the method shall
27 be changed to reflect the changed pattern. Such a change shall be
28 accounted for as a change in an accounting estimate in accordance
29 with IAS 8.

30 62. A variety of depreciation methods can be used to allocate the
31 depreciable amount of an asset on a systematic basis over its
32 useful life. These methods include the straight-line method, the
33 diminishing balance method and the units of production method.
34 Straight-line depreciation results in a constant charge over the
35 useful life if the asset’s residual value does not change. The
36 diminishing balance method results in a decreasing charge over the

⁶ http://www.bcuc.com/Documents/Proceedings/2011/DOC_27100_B-8_PNG-Resp-BCUC-IR-1-.pdf

1 useful life. The units of production method results in a charge based
2 on the expected use or output. The entity selects the method that
3 most closely reflects the expected pattern of consumption of the
4 future economic benefits embodied in the asset. That method is
5 applied consistently from period to period unless there is a change
6 in the expected pattern of consumption of those future economic
7 benefits.

8
9 It is PNG's assessment that the straight-line method reflects the expected
10 pattern of consumption of the assets' future economic benefits.

11
12 Question 26.8 Have PNG's auditors agreed that the ASL procedure is
13 acceptable under IFRS?

14
15 Response: It is not expected that PNG's independent auditors will conclude
16 separately on the use of ASL as appropriate upon IFRS conversion. In
17 other words, PNG has not requested its independent auditors to opine on
18 this matter.

- 19
20 3. Maritime Electric filed a depreciation study as part of a 2014 application. Mr. P.
21 Bowman noted the following exchange:

22
23 The Company has chosen to apply the Average Service Life Methodology
24 as recommended by Gannett Fleming, a firm with expertise in preparing
25 depreciation studies for utilities. The Average Service Life Methodology is
26 a commonly used depreciation calculation procedure that is widely
27 accepted in jurisdictions throughout North America⁷.

7

http://www.maritimeelectric.com/documents/about_us/FINAL%20Rate%20Depreciation%20Application%20and%20Appendices.pdf