

ENGAGEMENT N° 12

Régie de l'énergie
DOSSIER: R-3752. 2011 Phase 2
DÉPOSÉE EN AUDIENCE
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Référence : E-12 (GM), Notes sténographiques du 9 septembre 2011, volume 3, page 167

Demande : « Effectuer une comparaison des durées de vie proposées par le témoin Kennedy et des durées de vie utilisées par les autres distributeurs gaziers, et ce pour chacune des catégories suivantes, soit Z1100, Z1102, Z1150 et Z1151. » (demandé par la Régie)

Réponse :

GAZ METRO

GANNETT FLEMING, INC. RESPONSES TO UNDERTAKING

Summary of Peer Utilities Average Service life Estimates and Deprecation Rates

As indicated by Mr. Kennedy during cross-examination, a number of factors impact on both the average service life estimates and depreciation rate calculations that result in differences when comparing the average service lives and depreciation rates among peer utilities. The answer to the Régie's Engagement N° 11 provides a chart indicating the average service life estimates and depreciation rate calculations for the asset categories for each of the peer utilities which relate to the assets that are included in the Gaz Metro Accounts Z1100, Z1102, Z1150, and Z1151.

As indicated in the attached chart, few utilities have componentized the services and mains accounts to the same degree as have Gaz Metro. Only EnbridgeGas Distribution has the mains account broken into plastic and steel pipe. Additionally, EnbridgeGas have undertaken additional componentization, however the results have not yet been disclosed in public regulatory proceedings and therefore cannot be disclosed here. The following is a brief discussion of each of the peer utilities with a high level review of the reasons that the depreciation rates vary from those recommended by Gannett Fleming in the current Gaz Metro proceeding.

FORTIS BC ENERGY, INC.

The Fortis BC Energy average service life estimates are slightly longer than the proposed life estimates for Gaz Metro. In a recently completed depreciation study for Fortis BC Energy, Gannett Fleming proposed a reduction in average service life estimate for Services to 50 years from the previously used 55 years. This reduction has brought the Fortis BC Energy life more in line with the peer utility group.

The Fortis BC average service life estimate for Mains account have been extending in recent years given the increased use of certified plastic pipe. This is consistent with the testimony of Mr. Kennedy in this proceeding that life estimates for plastic have been extending within the industry. It should also be noted that the Fortis BC Energy study has anticipated that major programs to retire steel Mains are being considered which may limit the life estimates for steel mains in future studies.

Fortis BC Energy, like all utilities in British Columbia, incorporate the use of the ASL procedure, which has had a moderating influence on the depreciation rates, and in particular on the depreciation rate for the Mains account.

ENBRIDGE GAS DISTRIBUTION

The average service life estimates and depreciation rates currently in use by Enbridge Gas Distribution are based on a study performed in the 2000 on 1999 investment. The depreciation rates were approved for use starting in the year 2001. As such these life estimates and depreciation rate calculations are over 10 years old and require updating through a new study. As indicated by Mr. Kennedy in cross-examination, it would be expected that the plastic pipe accounts would have a longer life and steel pipe would have a shorter life estimate if an Enbridge study were to be completed. Additionally the Enbridge depreciation rate calculation does not include any of the companies investment since the year 1999 and therefore the weighting by vintage would significantly change in the circumstances of a new study.

GAZIFERE INC.

The average service life indications on the Gazifere system were reviewed by the Regie in 2010. Gannett Fleming had recommended an average service life of 39 years for services, however based on the evidence of intervening parties the Regie ordered an increase in the average service life estimate to 50 years. As such the proposed life estimates of Gaz Metro for both the plastic and steel Services Accounts are the same or near to the average service life estimate of the Regie ordered Services account.

The average service life indications for the Gazifere Mains account were much longer than the Gaz Metro retirement experience is indicating. The Gazifere use of a 75 year life is longer than any of the peer group reviewed; however Gazifere is the smallest of the utilities within the peer group. Given the size of the system, Gazifere has not been subjected to many significant retirement programs of its Distribution mains. In the view of Mr. Kennedy, future Gazifere studies may provide for indications of shorter life estimates once the system begins to incur retirement programs.

The depreciation rate for the Gazifere Services account is 4.52% as compared to 2.66% and 3.19% for Gaz Metro. The largest factor in this higher rate is the much more negative net salvage indications used by Gazifere of -115% as compared to the -25% (plastic pipe) and -40% (steel pipe) indications for Gaz Metro.

The depreciation rate for the Gazifere Mains account is 2.22% as compared to 2.82% and 1.98% for Gaz Metro, placing the Gazifere depreciation rate in the middle of the Gaz Metro recommendations. The Gazifere depreciation rates are impacted by the longer life indications as discussed above. However, the impact of the longer life indications are partly offset by much more negative net salvage indications used by Gazifere of -70% as compared to the -10% (plastic pipe) and -25% (steel pipe) proposed by Gaz Metro.

ATCO GAS

The ATCO Gas average service life estimates are slightly longer than the Gaz Metro average service life estimates. The ATCO Gas system average service life estimates were based on the historic life indications which were confirmed by management and operating

staff. It is the view of Gannett Fleming that the longer life indications on the ATCO Gas system are caused by the capitalization and retirement policies within the ATCO Gas system which have tended to leave assets in physical service longer than most peer utilities.

The depreciation rate for the ATCO Gas Services account is 4.03% as compared to 2.66% and 3.19% for Gaz Metro. The largest factor in this higher rate is the much more negative net salvage indications used by ATCO Gas of -100% as compared to the -25% (plastic pipe) and -40% (steel pipe) proposed by Gaz Metro. The more negative net salvage rates were, in the circumstances of ATCO Gas, based on actual cost of removal experience which has been providing long term indications of much more negative net salvage requirements. Additionally, the wide spread use of uncertified plastic in Alberta is causing complete removal and re-piping of services through much of the ATCO Gas service area, during a time where the cost of labour in Alberta has dramatically increased causing the requirement for more negative cost of removal estimates.

The depreciation rate for the ATCO Gas Mains account is 2.94% as compared to 2.82% and 1.98 % for Gaz Metro. The largest factor in this higher rate is the much more negative net salvage indications used by ATCO Gas of -75% as compared to the -10% (plastic pipe) and -25% (steel pipe) proposed by Gaz Metro. The more negative net salvage rates were, in the circumstances of ATCO Gas, based on actual cost of removal experience which has been providing long term indications of much more negative net salvage requirements. Additionally, the wide spread use of uncertified plastic in Alberta is causing complete removal and re-piping of services through much of the ATCO Gas service area, during a time where the cost of labour in Alberta has dramatically increased causing the requirement for more negative cost of removal estimates.

ALTAGAS UTILITIES INC.

The AltaGas average service life estimates are within the range of the Gaz Metro proposed lives when it is considered that the AltaGas steel and plastic pipes are merged into one account. The 48 year life estimate for AltaGas Services is in the middle of the 45 year life estimate for Gaz Metro's Steel pipe and the 50 year life estimate for Gaz Metro's Plastic services. AltaGas also incorporates the use of the ELG procedure in their depreciation rate calculations.

The higher depreciation rate for AltaGas distribution services is caused, in part, by the use of a much more negative net salvage value of -75% as compared to the -25% and -40% proposed by Gaz Metro. The more negative net salvage rates were, in the circumstances of AltaGas, based on actual cost of removal experience which has been providing long term indications of much more negative net salvage requirements. Additionally, the wide spread use of uncertified plastic in Alberta is causing complete removal and re-piping of services through much of the AltaGas service area, during a time where the cost of labour in Alberta has dramatically increased causing the requirement for more negative cost of removal estimates.

