



*Excellence Delivered **As Promised***

PRESENTATION TO THE RÉGIE DE L'ÉNERGIE

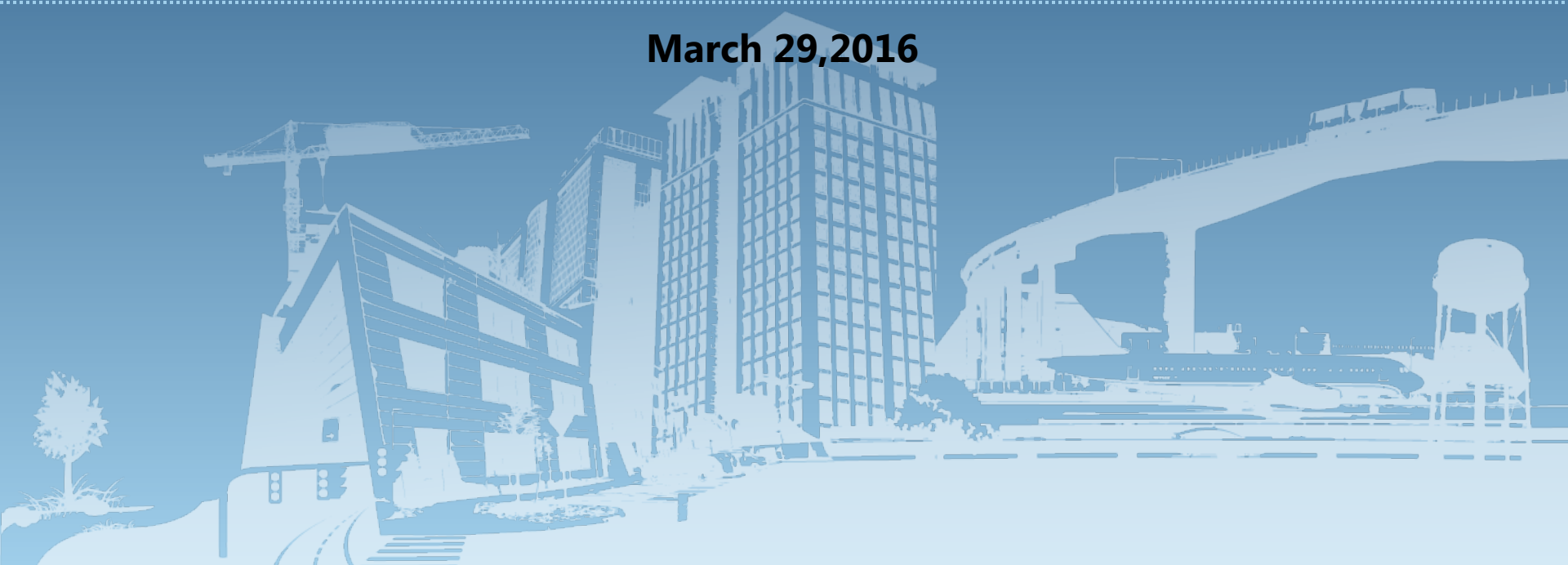
LARRY KENNEDY
VICE PRESIDENT, GANNETT FLEMING CANADA ULC



*Excellence Delivered **As Promised***

THE 2015 GAZIFÈRE INC. DEPRECIATION STUDY

March 29, 2016



PURPOSE OF DEPRECIATION FOR RATE REGULATED UTILITIES

- **To properly align the consumption of the service value of utility assets to the recovery of the investment of the asset in the revenue requirement.**
- **Toll payers should be responsible for the recovery of the investment of utility assets for which they have had the benefit of having the assets providing utility service.**
 - Generational Equity
- **Depreciation must recover the service value of the assets providing utility service – nothing more - nothing less.**
- **Service Value = Original Installed Cost of Asset +/- Estimated Sales Proceeds or Costs of Removal at the end of the asset's life.**

ROLE OF GANNETT FLEMING

- **Gannett Fleming was retained by Gazifère to prepare an independent expert study and report detailing the following:**
 - Estimate average service life and retirement dispersion of the Gazifère assets as of December 31, 2013;
 - Estimate of the salvage proceeds and costs of removal at the end of the asset's service life;
 - Provide recommendation of the appropriate depreciation calculation procedures and policies.
- **Gannett Fleming – Who are we?**
 - Celebrated our 100th anniversary of providing engineering expertise in August 2015;
 - Have provided regulatory valuation and depreciation expertise since the 1930's;
 - Have prepared depreciation studies for clients in every Canadian province and territory.

THE 2015 GAZIFÈRE STUDY

- **TIMELINE**

- Gannett Fleming first contacted in March 2014
- Plant Accounting data received in June 2014
- Preliminary results provided in December 2014
- Management and Operational staff discussions in January 2015
- Final report delivered in May 2015

- **CONSIDERATIONS**

- Reviewed prior study and Decisions
- Completed a peer analysis related to average service life and net salvage estimates
- Reviewed plant accounting information through December 31, 2013 (Additions, retirements by install date, and balances by install date)

THE 2015 GAZIFÈRE STUDY (cont'd)

- **RESULTS of Average Service Life Study**

- Extended average service life in two accounts:
 - A/C 475 Mains from 75 to 80 years
 - A/C 485.01 – Heavy Work Equipment - Post 2006 from 12 to 15 years
- Shortened average service life in one account:
 - A/C 488 – Communication Equipment from 10 to 8 years
- Aligned the amortization period of Contributions In Aid of Construction to the Life of the related asset accounts for the installed assets (as explained in response to information request 3.2 of demande de Régie no 8 de la Régie a Gazifère)

THE 2015 GAZIFÈRE STUDY (cont'd)

- **RESULTS of the Net Salvage Study**
 - More Negative Net Salvage in three accounts
 - Account 473 – Services from -100% to -115%
 - Account 475 – Mains from -70% to -100%
 - Account 477 – Regulating Equipment from 0% to -5%
- **RECOMMENDED depreciation methods and procedures**
 - Gannett Fleming recommends the continuation of depreciating the Gazifère assets using a straight line method which is applied on a remaining life basis
 - The inherent true-up mechanisms of the application of the straight line method on a remaining life basis best assure the recovery of the service value of the assets –“nothing more, nothing less”, over the time the assets are in utility service.