

1 Q. Is Hydro familiar with any methods used by other utilities to normalize
2 overhaul costs? Does Hydro believe there could be benefits to developing
3 methods to normalize or smooth the impact of overhaul costs?
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6 A. While Hydro has not conducted formal research on the subject, Hydro is
7 aware that the following utilities do not normalize overhaul costs:

- 8 • NWT Power Corporation
- 9 • BC Hydro
- 10 • BC Transmission Corporation
- 11 • Fortis BC
- 12 • Fortis Alberta
- 13 • ATCO Electric
- 14 • EPCOR
- 15 • Enmax
- 16 • Hydro One
- 17 • Ontario Power Generation
- 18 • Hydro Ottawa
- 19 • Hydro Quebec
- 20 • Maritime Electric
- 21 • Nova Scotia Power

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23 Yukon Energy does defer and amortize overhaul costs.
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25 Hydro's policy as approved by the Board in relation to maintenance or repair
26 work which does not meet the criteria for capitalization requires that a repair
27 meet the definition of "Major Extraordinary", which is as follows:

1 An expenditure having all of the following characteristics:

- 2 1. It does not result in the replacement or betterment of a unit or portion
3 of a unit of property;
4 2. It is not typical of the normal repair expenditures incurred for such
5 property; and
6 3. The cost per occurrence exceeds \$500,000.

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8 This policy is consistent with the recommendations contained in the PMSK
9 Report, Accounting for Major Plant Replacements and Repairs, which were
10 recommended for adoption and implementation by the Public Utilities Board
11 in its 1992 report, dated April 13, 1992.

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13 As overhauls are typical of normal repair expenditures that can be
14 anticipated to be incurred over the life of the asset - they are not considered
15 for deferral and amortization.

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17 There will be variations in operating expenses from year-to-year which may
18 arise from a multitude of factors in the operation of a utility, in addition to
19 overhaul expenses. Hydro believes its current policy is appropriate to
20 address the concerns of both potential rate and earnings impacts which may
21 flow from significant extraordinary events.