General Expenses Capitalized (GEC)

On December 11, 1995 Board Order P.U. 3 (1995-96) was issued as a result of an application made by the Company. As part of our procedures we assessed the Company's compliance with this Order.

More specifically, with respect to GEC we have determined:

- The accounting policy applied for the purpose of capitalization of general expenses is the incremental basis, subject to the phase in requirements, which has resulted in the allocation to capital assets of only those costs which are incremental costs of capital projects.
- Overhead costs are considered to be incremental costs of capital projects to the extent they vary with the level of construction, as compared to no capital projects whatsoever. Otherwise the costs are expenses of the period in which they are incurred.
- The guidelines for capitalization of general expenses, as approved by Board consultants NKHK Chartered Accountants in letters dated January 17, 1996 and January 30, 1996, have been followed to the extent practicable.
- GEC have been allocated to hydro assets, diesel assets, substations, transmission, general property, transportation, communication, computer and software assets, and distribution assets through a flat rate.
- The change in accounting policy for GEC to the incremental basis, from the full cost method, is being phased-in over the period January 1, 1995 to December 31, 1999. In 1999, GEC has been accounted for using the incremental basis at 100% with no adjustment for the difference between full cost and the incremental amount as this is the final year of the phase-in period.

This change in accounting policy, from full cost to incremental allocation, directly impacts the level of net operating expenses and net earnings through a reduction of transfers to GEC. The impact of this change on the financial results of the Company is as follows:

	(000)'s			
	1996	1997	1998	1999
Transfers to GEC/DSM/Stores				
Full Cost Accounting	$ 7,913	$ 7,362	$ 6,970	$ 5,162
Incremental Cost Accounting (Phase-in)	5,317	4,103	2,718	2,073
Increase in operating expenses	$ 2,596	$ 3,259	$ 4,252	$ 3,089

Based upon the results of our review and assessment, we have determined that the Company is in compliance with Board Order P.U. 3 (1995-96) for 1999.