Q. Re: Net Salvage: If an item or a plant is retired with a replacement addition occurring and an outside party provides $1,000 associated with the replacement, how is the $1,000 accounted for (e.g., $1,000 gross salvage, $1,000 reduction to replacement addition cost, a 50/50 split of the $1,000, etc,) Further, please provide full justification for whatever methodology is employed. In addition, identify when the Company first implemented such policy.

A. If an item or a plant is retired with a replacement addition occurring and an outside party provides $1,000 associated with the replacement, the $1,000 would be recorded as a contribution in aid of construction (CIAC), reducing the capital cost of the replacement. Under Canadian generally accepted accounting principles, CIACs are treated as a reduction to property, plant and equipment and the net property, plant and equipment is amortized over the estimated useful life of the asset. This policy has allowed Hydro to reflect in its accounting records the actual cost it has incurred for the replacement addition. This policy has been in use since the inception of the Company.

With the conversion to IFRS effective January 1, 2012, Hydro has applied to change its accounting policy for regulatory purposes related to contributions in aid of construction. CIACs received from customers will be treated as deferred revenue and amortized to income over the period in which the service is provided (i.e. the useful life of the underlying asset). This change will not result in any change in the revenue requirement as it is a presentation change only. Furthermore, Hydro, in its calculation of rate base, will offset the deferred liability against the net book value of the replacement asset to which the CIAC specifically relates, resulting in no impact on the calculated rate base. Depreciation expense will likewise be offset in Hydro's Cost of Service studies.

In determining the appropriate accounting treatment under IFRS, IFRIC 18 and IASs 16 and 18 were considered.

As the CIACs are provided by customers in accordance with Hydro's approved CIAC or specific plant assignment rules, related to assets with specific service lives, recognition of revenue will occur over time. Given that the expected period of service is equal to the expected useful life of the asset, the revenues would be deferred and amortized to income over the expected useful life of the underlying asset.