

1 Q. [Account S16 - Studies] - In CA-NLH-19, the Company states that it is its practice and
2 Mr. Kennedy's experience to use a 5-year amortization period for the investment in
3 Account S16 - Studies. At this time, provide any written policies along with the
4 support for the development of the policy associated with the amortization period
5 for studies.

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8 A. Please see CA-NLH-213 Attachment 1 for Hydro's written policy regarding studies in
9 effect at the time of Gannett Fleming's study. In the future, under IFRS, the cost of
10 pre-engineering studies will be part of the cost of the capital project if the project
11 proceeds, otherwise the costs will be expensed unless specific regulatory approval
12 is granted.



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POLICY:

Feasibility, Environmental and Pre-Engineering Studies which relate to potential future capital programs and purchases shall be recorded as deferred charges.

PROCEDURE:

1. Definition

The Corporation distinguishes between studies which relate to potential future capital programs and purchases and those which are carried out to determine the adequacy of existing plant and equipment. The former being classified as deferred charges and are amortized over a period of time whereas the latter are charged directly to Operations as costs are being incurred.

Initiator of Studies/Project Reports Supervisor

2. A capital work order will be prepared to accumulate the Costs of Feasibility, Environmental and Pre-Engineering Studies which are classified as deferred charges. The work order shall be prepared in accordance with P&P No. ACC 9 and approvals as required by P&P No FIN 3 and shall exclude provisions for IDC and Corporate overheads.

Project Manager/ Project Reports Supervisor/Plant Ledger Supervisor

3. Completion of the study will be reported to the Projects Reports Supervisor by preparing a Project Completion Certificate. (Form #60-536)

Project Reports Supervisor

- 3.1 At this time the work order is closed and costs are transferred to the deferred charge account.

Plant Ledger Supervisor

4. Deferred charges are normally amortized over a 5 year period, on a straight-line method, commencing on the date the study is completed. When the corporate capital budget indicates the related project will commence within 2 years of completion of the study, amortization of the study costs will not take place during this two year period. If the project to which the study

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relates has not commenced at the end of this two year period, the cost will be amortized over the following five years.

Project Manager/ Plant Ledger Supervisor/ Project Reports Supervisor

5. When a project to which a study relates is officially commenced, whether within the two year period or beyond, the unamortized study costs will be capitalized as part of the project costs

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