Q. Please provide a detailed description of the "depreciation transition deferral" as proposed by Gannett Fleming at page III-3 of the 2009 (sic) Study.

A. The general approach was described at pages III-3 and III-4 of the 2007 Gannett Fleming report. However, in order to be responsive to this request for information, the following additional context is provided.

The 2007 depreciation study was recommending the use of the Equal Life Group (ELG) procedure as compared to the currently recommended Average Service Life (ASL) procedure. Additionally, in the circumstances of many large generation accounts, the depreciation rates prior to 2007 were calculated in accordance with the sinking fund method. One of the attributes of the ELG procedure is that over time the annual depreciation accrual rate will decline as groups of shorter life assets become fully depreciated and retired. In contrast, one of the concepts of the sinking fund method is that the depreciation expense should increase over time as the debt financing matures, resulting in a levelized overall toll.

The recommended transitional approach as developed in the 2007 study sought to soften the increased depreciation expense resulting from the implementation of the ELG procedure through deferring a portion of the increase outside of the revenue requirement for a short period of time. Over time, as the assets age, it was anticipated that the deferral account could be drawn down as the ELG reduces in the future. The Gannett Fleming recommendation did not set any precise amount of deferral to be recognized in future years, rather it was anticipated that the deferral amount would be established by Hydro at the time of a General Rate Application.