

1 Q. At page 7, Appendix A, Application for Adoption of IFRS, December 23, 2011, under  
2 the comments on "Capital Assets – Depreciation Methodology", Hydro asserts that  
3 "As the sinking fund method results in an increasing rate of depreciation over time,  
4 and the expected use of Hydro's assets are expected to be consistent over time,  
5 IFRS would not allow the use of the sinking fund methodology." [underlining of  
6 "use" added]. Please confirm the foregoing assertion by Hydro is based on equating  
7 the word "use" with "economic benefits". If not, please provide a detailed rationale  
8 why Hydro's expected consistent "use" of the assets means an expected consistent  
9 "economic benefit" of the assets.

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12 A. In the above context, "use of Hydro's assets" is more consistent with the  
13 consumption of the service life of the asset. In general, depreciation as used in  
14 regulatory circumstances relates to the concept of consumption of service value.  
15 While the concept of service value may have some relationship to both use of an  
16 asset and the economic benefit of an asset, it is noted that the sinking fund method  
17 of depreciation is not dependent upon either the use or economic benefit of an  
18 asset. As such, it is not an acceptable method of depreciation under IFRS. In  
19 contrast, straight line depreciation methods calculated in accordance with the ASL  
20 procedure (as included in this application) are dependent upon the timing of the  
21 use and the economic benefit of the assets. Please refer also to the response to CA-  
22 NLH-60.