Q. Hydro asserts that its proposed depreciation methodology utilizes "group accounting". Hydro's response to CA-NLH-63 states that the depreciation rate will be applied to each asset rather than making one calculation for the whole group (entire surviving investment for the given account). Additionally, the response states that the remaining life will be applied to each individual asset rather than the account as a whole. Determining an average life for the group and then applying that average to each individual asset is contrary to group accounting. Moreover, deriving a life for each asset is different and should be different than applying an average life designed for the entire group to each asset. In the average life procedure (which is what Hydro is proposing to use), the depreciation rate is applied to the total surviving account dollars. It is recognized that some items within the group or account will live shorter than the average life and some with live longer than the average life, but the account as a whole will tend to live the average. Can Hydro explain why its implementation of the group method of depreciation should be considered to be correct?

A. Mr. Kennedy notes that Hydro is proposing a group depreciation concept as compared to a group accounting concept.

The application of a common remaining life to each asset as identified in the plant accounting ledger is just a function of "ease of application." The resultant depreciation expense is virtually the same when a common remaining life is applied to many assets as it would be if the value of the assets was summed and the remaining life applied to the sum of the assets. In Canada, where the use of the Power Plan System (which is basically the only system that uses a true group depreciation and accounting concept) is limited, this is a common method of application.

Specifically, this concept has been accepted in Canada by a number of regulatory bodies, including the following:

- British Columbia Utilities Commission in all of the filings of BC Hydro;
- The Saskatchewan Public Utilities Board in all of the filings of SaskPower; and
- The Nunavut Utilities Rates Review Council in a filing of Qulliq Energy Corporation

Hydro notes that the implementation approach proposed will eliminate the requirement for a duplicate set of asset records which will be the case if a non-IFRS compliant depreciation practice is implemented.