

1 Q. Please refer to the response to CA-NLH-214, Account S16, Studies. The response
2 states that historically, study costs have been capitalized as overhead cost but
3 recently these costs have been treated as intangible assets and amortized. Explain
4 when this change in accounting for studies went into effect and when the change
5 was approved by the Board.

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8 A. Parts (b) and (c) of the response to CA-NLH-214 refers to the treatment of studies
9 by the peer group and indicates that in recent years, based on the broad Canadian
10 experience of Mr. Kennedy, that studies have been treated as an intangible asset
11 and amortized.

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13 Hydro's response to CA-NLH-213 included a copy of Policy and Procedure No. ACC
14 14 Recording of Feasibility, Environmental and Pre-Engineering Studies. Hydro
15 distinguished between studies that related to future capital programs and
16 purchases from those that were carried out to determine the adequacy of existing
17 plant and equipment. The former type of studies were classified as deferred
18 charges and amortized whereas the latter were charged directly to operating
19 expenses as incurred. The policy indicated that the deferred charges were
20 amortized over a period of five years commencing on the date that the study was
21 completed. When a project to which a study relates officially commences, the
22 unamortized study costs were capitalized as part of the project costs.

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24 Hydro received approval under P.U. 13(2012) for the adoption of IFRS to account
25 for its regulatory assets, with a few exceptions. Under International Accounting
26 Standard 16, for a cost to be considered eligible for capitalization, it must be
27 directly attributable to bringing the asset to the location and condition necessary

for it to be capable of operating in the manner intended by management [IAS 16.16].

As stated in Hydro's response to CA-NLH-215, under IFRS, the cost of pre-engineering studies will be part of the cost of the capital project only if the capital project proceeds. These study costs will have to be directly attributable to the project, otherwise, it will be expensed unless specific regulatory approval is granted. Expenditure on general research shall be recognized as an expense when it is incurred. [IAS 38.54].