

1 Q. Historically, if a capital upgrade to existing plant is made, how has Hydro accounted
2 for the new plant added? How has Hydro accounted for the plant replaced with the
3 upgrade? Is the historical accounting treatment expected to continue prospectively
4 or is the company planning on revising its accounting treatment? If there are plans
5 to revise the accounting treatment, please explain the new accounting and when it
6 is expected to be implemented.

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9 A. Historically, if a capital upgrade to existing plant was made, Hydro would have
10 capitalized the upgrade. If the upgrade resulted in the replacement of identifiable
11 asset components, Hydro would retire the net book value (cost less accumulated
12 depreciation) related to these assets from the plant records. If Hydro was unable to
13 identify specific components that were replaced, then it is probable that no
14 retirement would have been recorded in the asset records. Under IFRS,
15 implemented January 2011, Hydro is capitalizing the upgrade in the same manner
16 as under Canadian GAAP, however under IFRS, Hydro must derecognize a portion of
17 the old asset regardless of whether it had been identified as a component and
18 depreciated separately.