

1 **NLH-IC-15 The fourth observation indicates that “Hydro incorrectly ceases**
2 **depreciation on an individual asset when it becomes fully depreciated ...”**
3 **Does Ms. Lee accept that Hydro ceases depreciation on an individual asset**
4 **when it becomes fully depreciated as approved by the Board? If not,**
5 **please provide all documented justification that supports that response.**

6 **RESPONSE:** Ms. Lee notes that in response to RFI IC-NLH-73, Hydro states that the Board
7 has not specifically addressed ceasing the booking of depreciation to any asset
8 that is fully depreciated even though the related plant continues providing service
9 to the public. Hydro states that it believes such an order is unnecessary as it
10 believes that it is not permitted to accumulate depreciation in excess of costs
11 under Canadian GAAP or IFRS. In response to CA-NLH-237, Hydro states that
12 Canadian GAAP does not specify accounting requirements specific to a
13 regulated entity.

14 Regardless, the point is that applying group depreciation on an individual asset
15 basis is not normal depreciation practice. One either utilizes group depreciation
16 in determining depreciation parameters (average life for the group) and then
17 apply those on a group or account basis, or utilizes unit depreciation where the
18 depreciation parameters for each unit are determined and then applied on an
19 individual unit basis. If the Board accepts Hydro’s proposal to apply group
20 depreciation parameters on an individual unit basis, then it is the opinion of Ms.
21 Lee that it should be recognized that this is not in line with commonly accepted
22 depreciation procedures and principles.

23 Ms. Lee believes there is a disconnect between IFRS and group depreciation, at
24 least as interpreted by Hydro. Mr. Kennedy has stated that IFRS accepts group

1 depreciation. Given this, then development of average lives for each group or
2 account of given assets is accepted under IFRS. The quandary comes with a
3 seeming IFRS requirement that depreciation rates must be applied on an
4 individual asset basis. Ms. Lee believes that IFRS should be asked to reconcile
5 this discrepancy.

6