

1 **Q. Page 16, lines 1 to 7.**

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3 **Does s. 17 (1) (a) of the Hydro Corporation Act and Order No. P.U.7 (2002 – 2003)**
4 **justify Hydro's current depreciation practices? If not, why not?**

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6 A. Based on Mr. Pous' understanding of the two referenced items, no. First, Order No. P.U.7 (2002-
7 2003) references a number of changes associated with the depreciation study that addressed
8 "accounting for net salvage value of assets, changing the service life of assets and the need for
9 condition surveys of various assets." P.U. No. 7 (2002-2003) also references acceptance of
10 "policies," not "practices." There is no identifiable reference to the practice applicable to sinking fund
11 as referenced by Mr. Pous at page 16 lines 1-7 of his direct testimony.

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13 Further, Section 17 (1) of the Hydro Corporation Act references policies which correspond to the
14 references in Order No. P.U. 7 (2001-2003). As further referenced by the Board in P.U No. 7 (2002-
15 2003), depreciation "is the portion of previously capitalized costs that are included in revenue
16 requirement." The policy appears to be to establish depreciation rates for calculating a particular
17 revenue requirement to be included in the test year for ratemaking purposes. The focus on policy
18 relating to revenue requirement does not correspond to the practice referenced by Hydro as referred
19 to by Mr. Pous on page 16 lines 1-7 of his direct testimony. Hydro's practice at issue, to the best of
20 Mr. Pous' knowledge, has never been specifically identified to the Board through depreciation studies,
21 as noted by its absence in Gannet Fleming's depreciation studies. Indeed, it took several rounds of
22 discovery to uncover the problem.

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24 The Hydro Corporation Act and Order No. P.U. 7 (2002-2003) addressed the concept of depreciation
25 at a very high level and in no way reflect detailed calculation and practices, some of which are
26 reflected only in the accounting practices employed by Hydro to book depreciation expense to the
27 accumulated provision for depreciation. Mr. Pous is unaware of any indications that Hydro has
28 informed the Board of its specific accounting practices associated with sinking fund depreciation.
29 Indeed, even when Hydro was requested to explain and fully substantiate the depreciation
30 percentages associated with its sinking fund depreciation practices, it made no reference to either
31 the Hydro Corporation Act or Order No. P.U. 7 (2002-2003) as having any bearing on the matter (see
32 CA-NLH-264). In other words, Hydro itself does not believe that the Hydro Corporation Act or Order
33 No. P.U. 7 (2002-2003) shed any light in any manner associated with its proposed practice.