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Q. On pgs. 11-12 of her Direct Testimony, Ms. Lee, the expert for the Industrial Customers, states that Hydro, by restating the original cost of its assets to net book value in January 1, 2011 as part of implementing IFRS and moving to a remaining life technique, understates the depreciation rate and resulting depreciation expense. Does Mr. Pous agree? Provide a detailed explanation in the response.

A. It depends on Hydro's timing of the development of depreciation rates and the conversion allowed by IFRS. Normally depreciation rates are calculated on dollars and remaining years of service. For example, if gross plant is $10 with a $1 reserve and a 9-year remaining life, the annual rate is 10% ((10-1)/9/10=10%). Now, if Hydro under IFRS converts the $9 net plant to $9 gross plant, but sets the reserve to $0, then the new annual rate increases to 11.11% ((9-0)/9/9=11.11%) to recover the investment. Both approaches, in theory, produce the same $1 expense but with different annual depreciation rates. If Hydro calculated the rate before the conversion, but applies it after the conversion, a disconnect will occur.

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