

1 Q. In his evidence, Mr. Glenn Mitchell refers to International Accounting Standard 16
2 and its requirement that the residual value and useful life of an asset are to be
3 reviewed at each financial year end. Please provide an estimate of the cost of
4 complying with the requirements of IAS 16 regarding the annual review of residual
5 values and useful life.

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8 A. The requirements of IAS 16 with respect to the annual review of the useful lives and
9 residual values of assets are stated in Paragraph 51:

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*“The residual value and the useful life of an asset shall be
reviewed at least at each financial year end and, if expectations
differ from previous estimates, the change(s) shall be accounted
for as a change in accounting estimate in accordance with IAS 8,
Accounting Policies, Changes in Accounting Estimates and Errors.”*

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The following factors to be considered in determining the useful life of an asset are
provided in IAS, Paragraph 56:

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- a) *“Expected usage of the asset. Usage is assessed by reference to the
asset’s expected capacity or physical output.*
- b) *Expected physical wear and tear, which depends on operational
factors such as the number of shifts for which the asset is to be used
and the repair and maintenance programme, and the care and
maintenance of the asset while idle.*

- 1 c) *Technical or commercial obsolescence arising from changes or*
2 *improvements in production, or from a change in the market demand*
3 *for the product or service output of the asset.*
4 d) *Legal or similar limits on the use of the asset, such as expiry dates of*
5 *relates leases.”*
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7 IAS 36, Paragraph 9 requires an entity, at the end of each reporting period, to
8 assess whether there is any indication that an asset may be impaired. If such an
9 impairment exists, an entity must then estimate the recoverable amount of the
10 assets.

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12 A significant input into the review of the residual values and useful lives of the
13 assets at year end will be the knowledge of Hydro’s engineers and other regulated
14 operations staff. These individuals will be able to provide insight into whether
15 there have been any differences between actual and expected wear and tear as
16 well as usage of the assets and will be able to provide details on maintenance of the
17 physical assets and their condition. The Hydro legal group will also be consulted to
18 determine if there are any legal issues with any of the assets which may impact
19 their useful lives or residual value. Furthermore, the retirement activity of the
20 assets during the year as well as the vintage of the retired assets will need to be
21 reviewed to determine if there were any situations that were considerably different
22 from expectations. The amount of gains/losses that are recorded on an annual
23 basis to the income statement will also be reviewed. If unexpected results are
24 obtained from these discussions and reviews, the assistance of an outside expert
25 may be required to determine whether a change is required in the useful lives or
26 residual value of the assets.

1 Hydro's depreciation expert will also be consulted to verify whether there are any
2 changing trends in the industry but it is not felt that an extensive expert review will
3 be required each year, provided the results of the internal review are consistent
4 with expectations. Should it become evident that changes are required and a more
5 extensive review is necessary, the cost of that review is estimated to be in the range
6 of \$15,000 to \$25,000.

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8 As discussed in the response to IC-NLH-14, the service lives and rates will be studied
9 periodically, generally every three to five years. Given that the study was updated
10 in 2010 based on 2009 data, it is likely that there will be an update in the 2013 to
11 2015 time period.