

Undertaking 33

Provide backup as to how the assertion was made that costs were tracking to inflation and what was included in Chart 1.13

Operating expenses have increased from \$100.4 million in 2007 to \$112.9 million in 2013, or an increase of 12.9% over the period. The detailed basis for these numbers is shown in the table below. Note that International Financial Reporting Standards adjustments are removed from 2013 in order to facilitate comparison to 2007 which is reported under Canadian Generally Accepted Accounting Principles in effect at that time.

	<u>Amount</u>	<u>Description</u>
<u>2007</u>	<u>(Millions)</u>	
Operating expenses (O&M)	98.6	Grant Thornton report, Table 36
Less: Loss on disposal	-0.9	Hydro does not include this expense in O&M
Add: IOCC Allocation	<u>2.7</u>	Add back to show gross O&M
2007 Operating expenses (Adjusted)	<u>100.4</u>	
<u>2013</u>		
Operating expenses	115.4	Grant Thornton report, Table 37
Less: Loss on disposal	-3.6	Hydro does not include this expense in O&M
Add: IOCC Allocation	1.9	Add back to show gross O&M
<u>IFRS Adjustments</u>		
Less: Overheads and training costs	-2.3	Deduct for comparison to 2007. See Note 1
Add: Major overhauls and inspections	3.5	Add back for comparison to 2007. See Note 2
Less: Holyrood extraordinary repairs and inspections	<u>-2.0</u>	Deduct for comparison to 2007. See Note 3
2013 Operating expenses (Adjusted)	<u>112.9</u>	
<u>Notes:</u>		
(1) Under IAS 16 Property, plant and equipment, these costs cannot be included in capital assets unless they are considered directly attributable to the asset. Refer to Hydro's IFRS filing December 23, 2011, Appendix A, page 7.		
(2) Under IAS 16 Property, plant and equipment, costs of major inspections and overhauls are capitalized and amortized over their estimated useful life. Refer to Hydro's IFRS filing December 23, 2011, Appendix A, page 7.		
(3) Hydro's practice has been to defer Holyrood major repairs and inspections for future recovery.		

Over the period 2007 to 2013, cumulative inflation has been 12.4% as shown in table below.

	Annual GDP Deflator	Cumulative Deflator (since 2007)
2007	0	0
2008	4.1%	4.1%
2009	-1.9%	2.1%
2010	2.9%	5.1%
2011	3.4%	8.7%
2012	1.4%	10.2%
2013	2.0%	12.4%