

1    Q.    **Reference:    Inspect Fuel Storage Tanks, Volume I, Section D, Page D-114**

2           Please explain Newfoundland and Labrador Hydro's policy for either expensing or  
3           capitalizing equipment inspections.

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6    A.    Hydro's policy for expensing or capitalizing equipment inspections is based on the  
7           level or extent of the condition inspection as well as the materiality limit and is  
8           evaluated on a job by job basis. Costs associated with Level 1 condition  
9           assessments are expensed as operating costs while Level 2 condition assessments  
10          are usually eligible to be capitalized. Any inspections less than \$50,000 would  
11          generally be expensed. Definitions of the types of condition assessments are  
12          provided below.

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14          Level 1

15          A Level 1 condition assessment is defined as a visual, external inspection providing  
16          sufficient detail by the assessor to clearly define the work required to address  
17          identified deficiencies, to enable an accurate cost estimate to be made and to give a  
18          clear description of the scope of the required follow-up work to be completed.  
19          Where the assessor does not have the ability to clearly define the deficiencies and  
20          associated corrective work, it would indicate that the deficiencies require more  
21          rigorous assessments or specialist knowledge and would generally be flagged by the  
22          Level 1 Assessor for a Level 2 Assessment to be undertaken.

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24          Level 2

25          A Level 2 Condition Assessment is an assessment undertaken by a professional or  
26          certified specialist having the knowledge, skill and experience in the design,  
27          construction and operation of the facility type and may require knowledge and use

- 1 of specialized equipment in the assessment of the facility. These inspections will
- 2 generally involve the dismantling of equipment in order to assess its condition.