

1 Q. Please provide the criteria that Hydro uses to differentiate between a capex and an  
2 operation or maintenance expense.

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5 A. The criteria that Hydro uses to differentiate between a capex and an operation or  
6 maintenance expense include the following:

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- 8 • Costs are recognized as a capital expenditure if it is probable that future  
9 economic benefits associated with the cost will flow to Hydro and that the  
10 benefit period will exceed a one-year period.
    - 11 ○ Day to Day Servicing - The cost of day to day servicing (including labour  
12 and consumables) is not recognized in the carrying amount of an item of  
13 property, plant and equipment. Rather, these costs are recognized in  
14 profit or loss as incurred, generally as System Equipment Maintenance  
15 expense.
    - 16 ○ Replacement parts - Parts of some items of property, plant and equipment  
17 may require replacement at regular intervals or may also be acquired to  
18 make a less frequently recurring replacement, such as replacing the  
19 interior walls of a building, or to make a nonrecurring replacement.  
20 Hydro recognizes in the carrying amount of an item of property, plant and  
21 equipment the cost of replacing part of such an item when it is probable  
22 that future economic benefits associated with the expense will flow to  
23 Hydro. The carrying amount of those parts that are replaced is  
24 derecognized.
  - 25 • The criteria used by Hydro to determine whether a major inspection will  
26 qualify for capitalization are described in the response to NP-NLH-14.

- Hydro also uses the following materiality limits by class in its determination of eligibility for capitalization:

<u>Materiality Limit</u>	<u>Fixed Asset Group</u>
\$20,000	Transmission Lines
10,000	Distribution
15,000	Diesel Generation
15,000	Substations
50,000	Hydraulic Generation
50,000	Thermal Generation
50,000	Gas Turbines
20,000	Telecontrol
10,000	Land Improvements and Buildings
1,000	General Properties