

1 Q. **Re: Finance Evidence** Provide Hydro's policies defining which  
2 expenditures are regarded as Capital and which are regarded as Operating,  
3 together with any comments from Hydro's auditors or any external consultant  
4 who has reviewed such policy or policies.

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7 A. Hydro's Capitalization Policy, which is consistent with Generally Accepted  
8 Accounting Principles, is to record as "Capital Assets", the acquisition costs  
9 of assets that are of a permanent or lasting nature whose useful service life  
10 is expected to extend over several years.

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12 To assist in the implementation of the policy, the Corporation has defined two  
13 levels of classification.

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15 Our highest level of classification of our Fixed Assets is called Prime Assets  
16 which represent major functional parts of the Corporation's property, plant  
17 and equipment. Examples being each generating station, each transmission  
18 line, each sub-station and each diesel plant.

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20 Our next level of classification is called Units Of Property which represent  
21 the main units of equipment or property contained within each Prime Asset  
22 and are established to complement and assist in defining the accounting  
23 control boundaries relative to procurement, operating, transfer and retirement  
24 of property, plant and equipment. A unit of property is defined as that which  
25 is independently operational, readily separable from the Prime Asset and  
26 useful in its own right. Examples being building foundation, dam, turbine,  
27 runner, wood pole structure, conductor, metal tower foundation, transformer,  
28 regulator, circuit breaker, diesel engine, and generator.

1 Overhauls or major repairs would not normally be capitalized unless  
2 considered as a replacement or betterment of a unit or portion of a unit of  
3 property. Subject to Board approval, the cost of major extraordinary repairs  
4 are recorded as a deferred charge and amortized on the straight line method  
5 over five years.