Q. **Depreciation**

Exhibit 11, page 39 of 628. Please provide a full description of the excerpt: "Additionally, the impacts of the conversion to traditional group accounting will also require the tracking of gains or losses on retirements through the reporting as directed under IFRS 147", in light of the statement at Exhibit 11, page 37 of 628 which notes:

> *"Under group depreciation no gain or loss is recognized for retirement of individual assets, as only one depreciation calculation is made on the entire group. Upon retirement of an asset from the group, the total original cost of the asset is debited to the accumulated depreciation account and credited to the asset account. Gross salvage received (if applicable) for the retired asset is credited to the accumulated depreciation account and cost of removal is debited to the accumulated depreciation account. Under group depreciation, since the accumulated depreciation relates to the entire group rather than to specific assets within the group, no gain or loss is recognized."*

These two statements appears internally inconsistent or one is incorrect, in that "gains" and "losses" are only quantifiable if an individual retirement unit is retired with less or more accumulated amortization than gross book value. To even know if this arises, the accumulated depreciation must be tracked at the retirement unit level, and not at the group level, as is asserted at Exhibit 11, page 37 of 628. Please provide a full reconciliation and description of the process as to how gains and losses could ever be calculated, much less recognized, in a group depreciation environment.

A. This response has been provided by Concentric Advisors (Concentric).

These two quotes illustrate the need for a regulatory asset in accordance with IFRS 14 and IAS 16. The IAS 16 requires an entity to book a gain or loss related to retirement to the income statement if it is determined that a material gain or loss occurs. However, IFRS 14 provides the mechanism to achieve this goal using a regulatory deferral amount.

Throughout the period of 2011 through 2015, regulated entities that were reporting under IFRS generally were required to track the retirement by age and undertake an estimate of the difference between the percentage of original cost that was expected to be surviving at each age interval (thereby providing the theoretical accrued depreciation on the retirement asset) as compared to the actual age and percentage of the investment retired at each age interval. In this manner, an estimate of the accuracy of the Iowa expected retirement pattern can be made. Based on these calculations, a one-time entry to the income statement is required for total gain or loss for the year. In circumstances where the company is using the ALG procedure, the gain or loss is booked to the income statement. However, where the ELG procedure is used, the gain or loss is calculated only after consideration is given to the fact that each a specific amount of investment at each age interval based on the estimated Iowa curve (for each vintage) is fully depreciated. Therefore, the gain or loss is based on the delta of the anticipated amount of retirement at each age interval as compared to the actual amount of retirement at each age interval. When the difference is material, an entry is made to the income statement. Over the period since 2012, it has been Concentric's experience that adjustment entries related to gains/losses are not usually required for company's using the ELG procedure.

For rate regulated entities adopting IFRS 14, the amount of the adjustment related to gains and losses can be booked to a regulatory deferral account and amortized over the estimated remaining life of the asset group, rather than through a charge of the whole amount to the income statement.