Q. **Volume II, Exhibit 11: Depreciation Study**

Please explain why Losses on Retirements of ($4,969,000) for the period 2012-2015 is included in the estimation of the total change in annual depreciation expense of $810,055. (Volume II (1st Revision), Exhibit 11: Depreciation Study, Page 7 of 628)

A. This response was provided by Concentric Advisors (Concentric).

Historically, Hydro has followed the unit depreciation and accounting method. Consistent with this approach, at the time of the retirement of assets, removal costs, loss of disposal and disposal proceeds were calculated and charged to income. An estimate of these amounts was included in the revenue requirement. In Order No. P.U. 40(2012), the Board noted that Hydro had agreed to provide a report in the next depreciation study comparing the agreed to methodology (the historically used unit approach) to the application of depreciation on a pure group basis. The results of this study were provided as Appendix 1 to the Concentric Depreciation Study Report.

The results of the study provide a recommendation to move to a pure group accounting and depreciation approach. As such, if approved by the Board, Hydro will no longer calculate removal costs, loss of disposal and disposal proceeds transactions (except those deemed to be considered Extra-Ordinary), but will rather consider the retired asset as fully depreciated in accordance with regulated group accounting practices. This change results in any over/under recovery of depreciation on any asset being embedded in Hydro's Accumulated Depreciation account. Therefore, when a comparison of the depreciation expense is made between the current Concentric depreciation parameters as compared to the currently approved depreciation parameters and practices, this change to group accounting needs to be recognized. The adjustment as noted as page iv of the depreciation report represents the average of the average annual amount of losses on retirement[1] that have been booked to the income statement for the 2012-2015 period. As such, this amount needs to be considered when the revenue requirement impact of the changes resulting from the depreciation study are reviewed.

[1] Includes loss on disposal, removal costs and disposal proceeds.