

1 Q. **Exhibit 11 – Depreciation Study**

2 Page 13 of 628 – Explain whether Hydro’s policy to capitalize the cost of removal to
3 the new asset in replacement projects is followed by other utilities and whether it is
4 an acceptable regulatory practice followed in the calculation of depreciation
5 expense.

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

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10 The approach proposed by Hydro is currently used by Manitoba Hydro. In a 2015
11 General Rate Application, Manitoba Hydro proposed to continue the practice of
12 including net salvage estimates into the depreciation rate calculations. However,
13 the Manitoba Public Utilities Board mandated that net salvage related to
14 replacement projects be included as a cost of the replacement project. Concentric
15 also believes that this practice is also currently followed by BC Hydro.

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17 Concentric Advisors note that this policy of charging costs of removal of retired
18 assets into the capital cost of a replacement asset is the procedure mandated by
19 the IFRS, and as such is used by a few regulated Canadian companies. Concentric
20 also notes that several regulated Canadian utilities that report under IFRS also
21 include net negative salvage estimates into the depreciation expense included in
22 the revenue requirement for regulatory purposes. As such Concentric notes that
23 both methods are accepted by regulators and that the specific approach is a matter
24 of Company policy.