

## DEPRECIATION VARIANCE

Table 3 below provides a summary of the variances between actual depreciation as filed and the calculated amounts on the detailed schedules in Appendix 2M ("2-M").

Explanations of the variances follow table 1.

**Table 1: Depreciation Variances 2009 to 2013 (000's)**

Year	Description	Calculated Depreciation	Actual Depreciation	Variance	Notes
2009	CGAAP	43,191	44,419	(1,229)	1
2010	CGAAP	46,265	48,762	(2,497)	2
2011	CGAAP	47,364	48,643	(1,279)	3
2011	MIFRS	35,927	35,499	428	4
2012	MIFRS	38,298	33,916	4,382	5
2013	MIFRS	40,355	37,321	3,034	6
	<b>TOTAL</b>	251,400	248,561	2,839	

### Note 1: 2009 Depreciation Variance (\$000)

Explanations for the 2009 difference between 2-M calculated depreciation and the actual filed depreciation are as follows:

For 2009 the variance items are listed below:

- Recognition of smart meter depreciation for prior years upon OEB approval in 2009. (\$1,304)
  - Full year depreciation recorded on 2009 stranded meters, but only half year calculated on 2-M \$176
  - Actual vehicle depreciation has 3 subclasses with different rates while 2-M calculated depreciation applies a single rate (\$129)
  - Other minor differences \$28
- Total (\$1,229)

Note 2: 2010 Depreciation Variance

Explanations for the 2010 difference between 2-M calculated depreciation and the actual filed depreciation are as follows:

• Recognition of smart meter depreciation for prior years upon OEB approval in 2010	(\$1,855)
• Addiscott (capital lease) was in-service effective January 2010 so a full year depreciation was recorded	(\$366)
• Adjustment to contributed capital depreciation due to amendment to opening 2007 balances.	(\$246)
• No stranded asset depreciation expense on 2010 additions full year depreciation charged to account 5695	(\$155)
• PowerStream started calculating depreciation based on actual in-service month in 2010, not half year	(\$135)
• Actual vehicle depreciation has 3 subclasses with different useful lives. Calculated depreciation applies a single rate	\$111
• Office equipment dispositions occurred at beginning of year so no depreciation taken in 2010, 2-M assumes half year	\$97
• Leasehold improvements depreciation based on 3 months in-service rather than a half year assumed on 2-M	\$52
Total	(\$2,497)

Note 3: 2011 CGAAP Depreciation Variance

Explanations for the 2011 difference between 2-M calculated depreciation and the actual filed depreciation are as follows:

• Recognition of smart meter depreciation for prior years upon OEB approval in 2011	(\$1,117)
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• Actual vehicle depreciation has 3 subclasses with different useful lives. Calculated depreciation uses a single rate.	(\$141)
• Full year actual depreciation on 2011 stranded meters but only half year in 2-M calculated depreciation	(\$42)
• PowerStream bases depreciation on actual in-service month	\$21
Total	(\$1,279)

#### Note 4: 2011 MIFRS Depreciation Variance

Explanations for the 2011 difference between 2-M calculated depreciation and the actual filed depreciation are as follows:

• Recognition of smart meter depreciation for prior years upon OEB approval in 2011	(\$1,091)
• Assets with shorter useful became fully amortized on January 1, 2011 under IFRS requiring taking remaining net book value into depreciation	(\$3,169)
• Impact of longer useful life – see note 7 below	\$4,688
Total	\$428

#### Note 5: 2012 MIFRS Depreciation Variance

Explanations for the 2012 difference between 2-M calculated depreciation and the actual filed depreciation are as follows:

• Impact of longer useful life – see note 7 below	\$4,382
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#### Note 6: 2013 MIFRS Depreciation Variance

Explanations for the 2013 MIFRS difference between OEB calculated depreciation and the actual filed depreciation are as follows:

- Impact of longer useful life – see note 7 below \$3,034

#### Note 7: Impact of Longer Useful Life under IFRS

Actual depreciation expense under MIFRS will be lower than depreciation calculated on OEB Appendix 2-M when the useful life has increased under IFRS and conversely actual depreciation will be higher where the useful life has decreased under IFRS. On average useful lives have increased under IFRS, so that in total the actual MIFRS depreciation is lower than the depreciation calculated on 2-M.

PowerStream took the IFRS 1 deemed cost election and as a result the net book value ("NBV") as at December 31, 2010 becomes the opening 2011 cost in IFRS. Under MIFRS, PowerStream has calculated depreciation by dividing the NBV by the remaining useful life under IFRS. This will have a different result than dividing the original cost by the total useful life for each asset class as is done on 2-M.

For example account 1830 Poles, Towers and Fixtures had a useful life of 25 years under CGAAP and under IFRS has a useful life of 45 years. If there were poles costing \$10,000 that were 5 years old at December 31, 2010, this asset would have a NBV of \$8,000 (for illustration purposes, the half year rule is ignored). In 2011 under MIFRS, PowerStream would calculate depreciation as \$8,000 divided by the remaining useful life of 40 years, resulting in depreciation of \$200. On 2-M depreciation is being calculated as \$10,000 divided by 45 years resulting in depreciation of \$222. The actual depreciation takes into account that more depreciation was taken in the first 5 years under CGAAP.