

CAPITALIZATION POLICY

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3 In accordance with section 2.2.9 of the *Chapter 2 Filing Requirements for Electricity Distribution*
4 *Rate Applications - 2025 Edition for 2026 Rate Applications*, as dated on December 9, 2024, Hydro
5 Ottawa's Capitalization Policy is provided in this Schedule as Attachment 2-6-1(A) - Capitalization
6 Policy. Hydro Ottawa converted to International Financial Reporting Standards effective January 1,
7 2015. No changes have been made to Hydro Ottawa's capitalization policy since its last rebasing
8 application.¹

¹ Hydro Ottawa Limited, *2021-2025 Custom Incentive Rate-Setting Distribution Rate Application*, EB-2019-0261 (February 10, 2020).

HYDRO OTTAWA CORPORATE POLICY

Subject: Capitalization		
Category: Finance	Policy Number: POL-Fi-013.01	
Administrator: Director, Finance	Owner: Chief Financial Officer	Approver: President and Chief Executive Officer

1. PURPOSE

The purpose of this policy is to define the criteria for acquisition, capitalization, transfer and retirement of Hydro Ottawa capital assets.

2. SCOPE

This policy applies to Hydro Ottawa.

3. DEFINITIONS

Capital assets include tangible and intangible assets, exclusive of goodwill

Commissioned or energized, in the context of this policy, is when a capital asset is placed into service or when the enhancement or betterment to an existing capital asset is complete

Directly Attributable Costs are costs that bring the asset to the location and condition intended for use, and include direct labour, inventory, outside services, non-stock materials and specific burdens

Enhancement or Betterment is an expenditure that contributes towards improving an asset's productivity or output or useful life

Goodwill, as defined by IAS 38, is the difference between the purchase price of an asset and the net amount of the acquired asset and assumed liability

Grouped Assets are asset purchases that are pooled into a single capital asset category as, by their nature, it would be impractical to identify individual units. These grouped assets are managed as a single asset for the purposes of depreciation

Hydro Ottawa refers to Hydro Ottawa Holding Inc. and its affiliates

IAS refers to International Accounting Standards

IAS 16 refers to the International Accounting Standard titled Property, Plant and Equipment

IAS 23 refers to the International Accounting Standard titled Borrowing Costs

IAS 38 refers to the International Accounting Standard titled Intangible Assets

IASB refers to the International Accounting Standards Board

IFRS refers to International Financial Reporting Standards

Intangible Assets, as defined by IAS 38, are identifiable non-monetary assets without physical substance

OM&A refers to operating, maintenance and administrative expenses

PP&E refers to Property, Plant and Equipment or Tangible Assets

Readily Identifiable Assets are discrete capital assets that are easily identifiable, so the asset can be individually recorded and depreciated

Residual Value is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life

Tangible Assets, as defined by IAS 16, include PP&E that are used on a continuing basis in the production or supply of goods and services and are not intended for sale in the ordinary course of business

4. POLICY DIRECTIVES

- a) Hydro Ottawa will capitalize assets based on the standards established by the IASB under IAS 16 and IAS 38 whereby qualifying expenditures have to meet the following criteria:
 - i. It is probable that further economic benefits associated with the item, for more than one year, will flow to the entity; and
 - ii. the cost of the item can be measured reliably.
- b) Capital asset are recorded using the cost method, whereby the cost of a capital asset comprises:
 - i. its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

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- ii. any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. This shall include borrowing costs, in accordance with IAS 23, to finance capital projects with a duration greater than six months and accumulated cost is in excess of \$100,000.
 - iii. the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- c) Contributed plant that meets the definition of a capital asset is measured at fair value.
- d) The following cost allocation rates included in directly attributable costs are based on management's best estimates of the applicable cost allocation determinants:
 - i. Direct Labour - The hourly rate recovers direct labour and benefits costs. It will be applied to all direct labour hours through timesheet reporting.
 - ii. Vehicle and Equipment - Vehicle and equipment hourly rates capture the directly attributable costs associated with fleet usage. Individual rates are developed for major vehicle classifications based on expected utilization. Charges will be accomplished through vehicles timesheet reporting.
 - iii. Supervision Burden - The supervision burden rate recovers the directly attributable costs associated with the supervision of internal labour and outside services.
 - iv. Engineering Burden - The engineering burden rate recovers the directly attributable engineering costs. It will be applied to Distribution Capital projects where applicable.
 - v. Supply Chain Burden - The supply chain burden rate recovers the directly attributable procurement and warehouse costs.
 - vi. These rates are reviewed and monitored on an annual basis. Material adjustments for over or under recoveries will also be recorded at the end of the fiscal year.
- e) Subsequent enhancement or betterment costs which are incurred after the original asset is available for use will be capitalized based on the same criteria as the initial capital investment.
- f) The materiality value for capitalizing newly acquired readily identifiable assets or additions to existing assets will be \$500.
- g) The materiality value for capitalizing grouped assets will be \$1,000.
- h) Equipment such as switchgear, transformers and meters that are reserved for emergency (capital spares) should be accounted as capital assets otherwise these items will be accounted for as inventory.
- i) Depreciation of capital assets is based on the straight-line method in accordance with IAS 16 and 38. The useful lives of assets are reviewed annually.
- j) Costs that are incurred to maintain the existing service potential of capital assets should be considered repairs and will be recognized in the profit or loss in the period in which they occur.
- k) Hydro Ottawa may incur expenditures for amounts paid to other distributors or transmitters for capital projects. These expenditures, once available for use, should be recorded as Intangible Assets – Capital Contributions Paid.
- l) Customer contributions associated with capital projects will be treated as deferred revenue and amortized to income over the life of the assets to which they relate.
- m) When assets are retired from service, the capital cost and accumulated depreciation will be removed from Hydro Ottawa's financial statements with any gain or loss (after salvage proceeds, if applicable) charged to OM&A in the period in which the decommissioning occurs.

5. RELATED POLICIES, PROCEDURES AND REFERENCE DOCUMENTS

Hydro Ottawa Code of Business Conduct

6. EXCLUSIONS

There are no exclusions from this policy

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7. ADDITIONAL POLICY ELEMENTS

There are no additional policy elements

8. COMPLIANCE

Employees must report incidents of non-compliance relating to this policy in a timely manner to the Policy Owner.

All instances of non-compliance shall be addressed immediately and may result in progressive disciplinary action. All members of the work group who had prior knowledge of the non-compliance may also be subject to progressive discipline. Repeat instances of non-compliance, or those that appear to be of a serious nature, must be immediately reported directly to the Director, Finance.

9. APPROVAL HISTORY

Revision	Effective Date	Description of Changes	Policy Owner:	Approved by:
.00	January 2015	Supersedes Policy FIN5-001-02 published on January 1, 2009	G. Simpson, Chief Financial Officer	B. Conrad, President and CEO
.01	October 2019	Minor updates to wording to match IFRS Standards and clause added regarding CCRA payments	DocuSigned by: <i>Goff Simpson</i> 43DC885CF33E43F... G. Simpson, Chief Financial Officer	DocuSigned by: <i>Bryce Conrad</i> 8EDB4595749C4E3... B. Conrad, President and CEO
Scheduled Re-affirmation Date: October 2022		Responsibility: Chief Financial Officer		
<i>Signatures on original only; original retained by Chief Financial Officer Division</i>				

10. POLICY EXCEPTIONS

Exceptions to the above directives and/or changes to this policy must receive written pre-authorization from the President and CEO. For clarification on any aspect of this policy, contact the Director of Finance.

CAPITALIZATION OF OVERHEAD

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Effective January 1, 2012, Hydro Ottawa revised its capitalization methodology used to apply overhead costs to property, plant, and equipment and intangible assets to be in accordance with International Financial Reporting Standards (IFRS). Under IFRS, International Accounting Standard 16 – *Property, Plant and Equipment* (IAS 16) and International Accounting Standard 38 – *Intangible Assets* (IAS 38) prohibit the capitalization of administration and other general overhead costs. As a result, the amount of capitalized overhead was significantly reduced as many of the costs that were capitalized prior to the revision of the policy were considered administrative or other general overhead. There have been no changes to Hydro Ottawa’s capitalization of overhead since January 1, 2012 (and thus there have likewise been no changes since the utility’s last rebasing application).

Hydro Ottawa applies overhead costs to capital through three separate burden rates: Supervision burden, Engineering burden, and Supply Chain burden. The use of multiple burden rates allows overhead costs to be applied more precisely to the particular projects that are associated with the various types of overhead costs. Please refer to Attachment 2-6-1(A) - Capitalization Policy for Hydro Ottawa’s capitalization policy.

As shown in Attachment 2-6-2(A) - OEB Appendix 2-D - Overhead Expenses, the overhead costs capitalized (including labour and fleet) from 2021-2026 are in the range of 19 - 26%.

Attachment 2-6-2(A) - OEB Appendix 2-D - Overhead Expense

(Refer to the attachment in Excel format)

DEPRECIATION, AMORTIZATION DISPOSAL

1. INTRODUCTION

In accordance with section 2.2.4 of the *Chapter 2 Filing Requirements for Electricity Distribution Rate Applications - 2025 Edition for 2026 Rate Applications*, dated December 9, 2024, this Schedule demonstrates that Hydro Ottawa's proposed levels of depreciation and amortization expenses appropriately reflect the useful lives of the utility's assets and the OEB's accounting policies.

2. ANNUAL DEPRECIATION AND AMORTIZATION

In Tables 1 and 2 below, Hydro Ottawa provides details for depreciation by asset group for the Historical Years 2021-2023, Bridge Years 2024-2025, and 2026-2030 Test Years.

Table 1 – Depreciation Expense - Historical & Bridge Years (\$'000s)

Asset Group	Historical Years			Bridge Years	
	2021	2022	2023	2024	2025
Land and Buildings	\$ 3,448	\$ 3,548	\$ 3,620	\$ 3,918	\$ 3,974
TS Primary Above 50	\$ 4,005	\$ 4,575	\$ 4,659	\$ 4,720	\$ 4,785
Distribution Stations	\$ 4,045	\$ 4,012	\$ 4,124	\$ 4,283	\$ 4,286
Poles, Wires	\$ 21,508	\$ 23,557	\$ 25,543	\$ 27,961	\$ 30,443
Line Transformers	\$ 3,461	\$ 3,742	\$ 4,036	\$ 4,337	\$ 4,651
Services and Meters	\$ 6,622	\$ 5,969	\$ 5,593	\$ 5,592	\$ 5,949
General Plant	\$ 1,796	\$ 2,684	\$ 2,703	\$ 2,639	\$ 2,691
Equipment	\$ 3,111	\$ 3,101	\$ 3,369	\$ 3,396	\$ 3,344
IT Assets	\$ 7,645	\$ 8,120	\$ 8,408	\$ 9,845	\$ 11,177
Other Distribution Assets	\$ 1,434	\$ 1,602	\$ 1,562	\$ 1,408	\$ 1,450
Sub-Total	\$ 57,074	\$ 60,911	\$ 63,616	\$ 68,097	\$ 72,750
Contributions and Grants	\$ (6,383)	\$ (7,124)	\$ (7,955)	\$ (9,309)	\$ (10,815)
TOTAL	\$ 50,690	\$ 53,786	\$ 55,661	\$ 58,788	\$ 61,936

1 **Table 2 – Depreciation Expense - Test Years (\$'000s)**

Asset Group	Test Years				
	2026	2027	2028	2029	2030
Land and Buildings	\$ 4,164	\$ 4,393	\$ 4,778	\$ 4,979	\$ 5,118
TS Primary Above 50	\$ 5,368	\$ 6,598	\$ 8,654	\$ 9,047	\$ 9,065
Distribution Stations	\$ 4,473	\$ 4,719	\$ 5,237	\$ 5,247	\$ 5,156
Poles, Wires	\$ 33,263	\$ 36,958	\$ 40,935	\$ 44,460	\$ 48,261
Line Transformers	\$ 5,008	\$ 5,392	\$ 5,782	\$ 6,169	\$ 6,605
Services and Meters	\$ 6,614	\$ 7,648	\$ 9,006	\$ 10,486	\$ 12,135
General Plant	\$ 2,826	\$ 3,028	\$ 3,292	\$ 3,213	\$ 3,498
Equipment	\$ 3,252	\$ 4,671	\$ 6,131	\$ 7,240	\$ 8,120
IT Assets	\$ 12,910	\$ 14,145	\$ 12,451	\$ 13,021	\$ 13,367
Other Distribution Assets	\$ 1,590	\$ 1,845	\$ 2,042	\$ 2,035	\$ 2,170
Sub-Total	\$ 79,467	\$ 89,396	\$ 98,308	\$ 105,897	\$ 113,493
Contributions and Grants	\$ (12,262)	\$ (14,005)	\$ (16,052)	\$ (17,533)	\$ (19,083)
TOTAL	\$ 67,205	\$ 75,392	\$ 82,256	\$ 88,364	\$ 94,410

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 3 For detailed depreciation and amortization expenses, please see the following Excel Attachments:

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- 5 ● Attachment 2-7-1(A) - OEB Appendix 2-BB - Service Life Comparison
 - 6 ● Attachment 2-7-1(B) - OEB Appendix 2-C - 2021-2025 Depreciation and Amortization
 - 7 Expense
 - 8 ● Attachment 2-7-1(C) - OEB Appendix 2-C- 2026-2030 Depreciation and Amortization
 - 9 Expense

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11 **3. DISPOSITIONS BY ASSET GROUP**

12 In Tables 3 and 4 below, Hydro Ottawa provides details of amortization related to disposals by asset

13 group for the Historical Years (2021-2023), Bridge Years (2023 and 2024), and Test Years

14 (2026-2030).

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Table 3 – Disposals - Historical Years (\$'000s)¹

Asset Group	Historical Years			Bridge Years	
	2021	2022	2023	2024	2025
Land and Buildings	\$ (12)	\$ (1)	-	-	-
TS Primary Above 50	\$ (85)	\$ (483)	\$ (12)	\$ (36)	\$ (35)
Distribution Stations	\$ (139)	\$ (139)	\$ (76)	\$ (76)	\$ (72)
Poles, Wires	\$ (41)	\$ (187)	\$ (147)	\$ (146)	\$ (139)
Line Transformers	\$ (247)	\$ (189)	\$ (155)	\$ (206)	\$ (196)
Services and Meters	\$ (293)	\$ (161)	\$ (337)	\$ (250)	\$ (239)
General Plant	-	-	-	-	-
Equipment	\$ (160)	\$ (864)	\$ (528)	\$ (460)	\$ (438)
IT Assets	-	-	-	-	-
Other Distribution Assets	-	-	-	\$ (3)	\$ (3)
Sub-Total	\$ (976)	\$ (2,025)	\$ (1,255)	\$ (1,176)	\$ (1,122)
Contributions and Grants	-	-	-	-	-
TOTAL	\$ (976)	\$ (2,025)	\$ (1,255)	\$ (1,176)	\$ (1,122)

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¹ Totals may not sum due to rounding.

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Table 4 – Disposals - Test Years (\$'000s)²

Asset Group	Test Years				
	2026	2027	2028	2029	2030
Land and Buildings	-	-	-	-	-
TS Primary Above 50	\$ (34)	\$ (34)	\$ (34)	\$ (34)	\$ (34)
Distribution Stations	\$ (71)	\$ (71)	\$ (71)	\$ (71)	\$ (71)
Poles, Wires	\$ (136)	\$ (136)	\$ (136)	\$ (136)	\$ (136)
Line Transformers	\$ (192)	\$ (192)	\$ (192)	\$ (192)	\$ (192)
Services and Meters	\$ (1,299)	\$ (3,211)	\$ (3,726)	\$ (4,665)	\$ (5,650)
General Plant	-	-	-	-	-
Equipment	\$ (430)	\$ (430)	\$ (430)	\$ (430)	\$ (430)
IT Assets	-	-	-	-	-
Other Distribution Assets	\$ (3)	\$ (3)	\$ (3)	\$ (3)	\$ (3)
Sub-Total	\$ (2,166)	\$ (4,077)	\$ (4,593)	\$ (5,532)	\$ (6,516)
Contributions and Grants	-	-	-	-	-
TOTAL	\$ (2,166)	\$ (4,077)	\$ (4,593)	\$ (5,532)	\$ (6,516)

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3 **4. DEPRECIATION AND AMORTIZATION RATES**

4 Table 5 below provides detailed rates of depreciation and amortization by Uniform System of
 5 Accounts (USofA). Depreciation and amortization rates remain unchanged between the
 6 Historical/Bridge Years and the Test Years for all Accounts.

² Totals may not sum due to rounding.

1 **Table 5 – Property, Plant, and Equipment Depreciation Rates 2021-2030³**

USofA		Depreciation Rate
1609	Capital Contributions Paid*	2.20%
1611	Computer Software	10% - 20%
1612	Land Rights*	2%
1805	Land	N/A
1808	Buildings	1.3% - 3.3%
1815	Transformer Station Equip. >50 kV	2.2% - 6.7%
1820	Distribution Station Equip. <50 kV	2.2% - 6.7%
1825	Storage Battery Equipment	5% - 10%
1830	Poles, Towers & Fixtures	2.20%
1835	Overhead Conductors & Devices	2.2% - 4%
1840	Underground Conduit	2.50%
1845	Underground Conductors & Devices	1.7% - 4%
1850	Line Transformers	2.90%
1855	Services (Overhead & Underground)	2.20%
1860	Meters	6.70%
1905	Land	N/A
1908	Buildings & Fixtures	1.3% - 5%
1915	Office Furniture & Equipment	10%
1920	Computer Equipment - Hardware	10% - 25%
1930	Transportation Equipment	6.7% - 12.5%
1935	Stores Equipment	10%
1940	Tools, Shop & Garage Equipment	10%
1945	Measurement & Testing Equipment	10%
1950	Power Operated Equipment	6.7% - 8.3%
1955	Communications Equipment	4% - 12.5%
1960	Miscellaneous Equipment*	10%
1970	Load Mgmt Controls Customer Premises*	10%
1975	Load Mgmt Controls Utility Premises*	10%
1980	System Supervisor Equipment	6.70%

³ USofAs in this table with an asterisk (*) are not included in the Kintectrics study referenced in this Schedule.

1 The useful lives of Hydro Ottawa's assets and components have been determined based on
2 experience, professional judgement, failure data, and local conditions. Some useful lives differ when
3 compared to the useful life range noted in the Kinectrics Report.⁴ However, the useful lives of Hydro
4 Ottawa's assets have been approved in previous rate applications. The utility has therefore
5 continued to depreciate its fixed assets using the same methodology and useful lives as in prior
6 years.

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8 For further details on the useful lives of Hydro Ottawa's assets, please reference Attachment
9 2-7-1(A) - OEB Appendix 2-BB - Service Life Comparison.

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11 There are variances between the depreciation and amortization calculated using the formulas in the
12 annual Appendix 2-C⁵ and those presented in the annual Appendix 2-BA.⁶ Hydro Ottawa uses the
13 half-year rule for calculating depreciation/amortization in the year that capital additions are added to
14 the rate base, for both actual and budgeted pooled assets. However, in the case of discrete material
15 assets (e.g. a station, major investment in IT assets, and so forth), the actual or forecasted
16 in-service month would be used to calculate the depreciation/amortization. This is consistent with
17 Hydro Ottawa's historical practices for these types of assets, for both rate application and financial
18 reporting purposes.

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20 Hydro Ottawa uses its financial system to calculate depreciation and amortization expense on
21 assets that are already in service, and uses a depreciation forecast model to calculate depreciation
22 and amortization on budgeted capital additions. Both the financial system and forecast model
23 incorporate actual in-service dates of discrete material assets in the calculation. Hydro Ottawa
24 proposes to continue this method of calculating depreciation for the 2026-2030 period.

⁴ Kinectrics Inc., *Asset Depreciation Study for Use by Electricity Distributors*, EB-2010-0178 (July 8, 2010).

⁵ The OEB's Appendix 2-C for the years 2021-2030 can be found in Attachments 2-7-1(B) and (C), respectively.

⁶ The OEB's Appendix 2-BA for the years 2021-2030 can be found in Attachments 2-2-1(A) and (B), respectively.

5. NET GAIN/LOSS ON DISPOSITION

In Hydro Ottawa's last rebasing application,⁷ the OEB approved the establishment of USofA 4362 Loss from Retirement of Utility and Other Property to record the difference between the forecast and actual loss on the disposal of fixed assets related to retirement of assets or damages to plant. Table 6 provides the balance in USofA 4362 for the Historical Years (2021-2023) and Bridge Years (2024 and 2025).

Table 6 – Loss from Retirement of Utility and Other Property (\$'000s)

Us of A	Net (Gain)/Loss	Historical Years			Bridge Years		TOTAL
		2021	2022	2023	2024	2025	2021-2025
4362	OEB Approved	\$ 389	\$ 751	\$ 323	\$ 336	\$ 445	\$ 2,243
4362	Actual (gain)/loss	\$ (202)	\$ 1,234	\$ (897)	\$ (368)	\$ (273)	\$ (506)
1508	Variance	\$ (590)	\$ 483	\$ (1,220)	\$ (704)	\$ (718)	\$ (2,749)

The increased loss in 2022 is as a result of the Derecho and the higher number of assets that were derecognized during this storm.

Hydro Ottawa is seeking the continuance of the net gain/loss on fixed assets variance account in Schedule 9-1-3 - Group 2 Accounts and Schedule 6-3-5 - Other Income & Deductions. Table 7 provides the annual forecast amounts for the 2026-2030 Test Years.

Table 7 – Loss from Retirement of Utility and Other Property (\$'000s)

Net (Gain)/Loss	Test Years					TOTAL
	2026	2027	2028	2029	2030	2026-2030
Forecast	\$ 167	\$ 636	\$ 596	\$ 609	\$ 576	\$ 2,583

⁷ Hydro Ottawa Limited, 2021-2025 Custom Incentive Rate-Setting Distribution Rate Application, EB-2019-0261 (February 10, 2020).

Attachment 2-7-1(A) - OEB Appendix 2-BB - Service Life Comparison

(Refer to the attachment in Excel format)

**Attachment 2-7-1(B) - OEB Appendix 2-C - 2021 Depreciation and
Amortization Expense**

(Refer to the attachment in Excel format)

**Attachment 2-7-1(C) - OEB Appendix 2-C - 2022 Depreciation and
Amortization Expense**

(Refer to the attachment in Excel format)