

1 **Q. Please provide details of the Company's administrative accounting guidelines used**
2 **to determine whether an expenditure is categorized as capital or operating.**

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4 A. The guidelines used by Newfoundland Power to determine whether an expenditure is
5 categorized as capital or operating expense are described in Section 2.01 of the
6 Company's System of Accounts that is approved by the Public Utilities Board.

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8 Section 2.01 of the Company's approved System of Accounts indicates that:
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10 For the purpose of avoiding undue refinement in accounting for additions to and
11 retirements and replacements of electric plant, all property shall be considered as
12 consisting of (1) units of property and (2) minor items of property.

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14 When a unit of property is added to electric plant, the cost thereof shall be
15 capitalized.
16

17 When a minor item of property which did not previously exist is added to plant,
18 the cost thereof shall be accounted for in the same manner as for the addition of a
19 unit of property, if a substantial addition results, otherwise the charge shall be to
20 the appropriate operating expense account.
21

22 When a minor item of depreciate property is replaced independently of
23 the unit of which it is a part, the cost of replacement shall be charged to
24 the maintenance account appropriate for the item, except that if the
25 replacement effects a substantial betterment (the primary aim of which
26 is to make the property affected more useful, more efficient, of greater
27 durability, or of greater capacity), the costs associated with the
28 additional expenditure shall be capitalized.