Q. [S05-Software] - Please fully explain and justify why new versions or upgrades to major software systems do not result in a minimum of a 12- or 15-year ASL due to the architecture and scalability of the major software systems. Also, explain why other utilities now are utilizing periods up to 20 years for investment in SAP and other similar systems yet Hydro's utilization practices for similar software appears to be noticeably shorter. Finally, explain and justify why the largest investment in software was made in 1999 and has not been retired supports a 7-year life as proposed by Hydro.

A. As explained in detail in in response to CA-NLH-126, large or major software applications historically were maintained through operating cost dollars and typically had average life estimates of over ten years. However, with the move to third party vendor supplied software packages, updates, enhancements and maintenance to the systems are now handled through the installation of new releases of system versions. As these are capital in nature, the new releases or versions are replacing a significant part of the functionality of the originally installed system, resulting in the circumstance where major portions of the systems are replaced within five to seven years of the original installation. As a result very little, if any of the original installation remains unaltered by the tenth year, and a significant portion is altered by updates within the first five years of installation. As such, Mr. Kennedy views seven years to be a very reasonable life estimate.

This question has indicated that other utilities are using a period of up to 20 years for investment in SAP. Firstly, the SAP financial reporting systems are much larger than the JD Edwards system currently used by Hydro. Mr. Kennedy is aware of many SAP installations that have resulted in capitalized costs far exceeding $100

million. As a comparison, all of the software capitalized in Account S05 – Software totals approximately $24 million. Mr. Kennedy does not view that the SAP systems and the JD Edwards systems are comparable. However, notwithstanding the fact that an SAP system is not comparable to the JD Edwards and other smaller systems, Mr. Kennedy notes that a review of the software accounts included in the Attachment 1 to CA-NLH-156 indicate only one utility using a life of 20 years. In fact, the most commonly used life estimates are five years (used by 16 utilities) and ten years (used by 15 utilities). The next most commonly used estimate is seven years used by six utilities and 15 years used by six utilities. It is also noted that a life estimate as short as three years was used by three utilities, and eight years by two utilities. As such, the recommended seven years is in the middle of the two most commonly used life estimates and well within the range of most of the estimates. Mr. Kennedy views the use of 20 years by only one utility to be the exception rather than the norm. Furthermore, Mr. Kennedy is not familiar with the circumstances leading to the use of the 20 year life estimate.

Mr. Kennedy notes that the 1999 investment that is not yet retired will likely be retired within the near future as the Company retires plant in accordance with the requirement of the IFRS, in particular IAS 16, which requires the retirement of plant in the circumstances of new system releases.