

1 **PUB-IC-2** On pg. 9 Ms. Lee states that Hydro should be asked to review its records  
2 and provide options regarding the correction of what Ms. Lee states is an  
3 understatement of the depreciation reserve. Please explain in detail the  
4 options that Ms. Lee considers to be available to analyze and correct  
5 Hydro's depreciation reserve.

6 **RESPONSE:** One option of course, would be for the company to recalculate the correct  
7 depreciation expense and reserve for each account. However, considering the  
8 number of accounts involved and the fact that many accounts contain assets for  
9 which the straight line method of depreciation is used and other assets for which  
10 the sinking fund depreciation method is used, the number of calculations that  
11 would be required, the question could be raised whether the benefits outweigh  
12 the costs on the company. At the end of the day, any correction to the reserve  
13 could be written-off below the line. In other words, Hydro would receive no  
14 revenues for the additional depreciation expense that should have been recorded  
15 if the sinking fund method of depreciation had been used correctly. To this, Ms.  
16 Lee believes that an argument of fairness could be made. It could be argued that  
17 ratepayers benefited from the Company's mistake since customer rates were  
18 kept artificially lower than they would have been. Also, although Ms. Lee is not an  
19 attorney, she believes an argument of retroactive ratemaking might also be  
20 made.

21 Another option would be to accept the current account investment and reserve  
22 positions as beginning points and not bother to correct for any past  
23 misstatements.