

Section:	Appendix 11.49	Page No.:	13-14
Topic:	Depreciation		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide a copy of or link to the report mentioned on page 13 by Price Waterhouse Coopers from May 2014 titled “Financial reporting in the power and utilities industry, International Financial Reporting Standards, Identifying components of an asset”.

RATIONALE FOR QUESTION:

MIPUG would like to better understand IFRS implications for Hydro moving forward.

RESPONSE:

The May 2014 PriceWaterhouse Coopers report titled “Financial reporting in the power and utilities industry, International Financial Reporting Standards” can be found using the following link:

https://www.pwc.nl/nl_NL/nl/assets/documents/pwc-financial+reporting+energy+utilities.pdf

Section:	MIPUG/MH I-6a	Page No.:	
Topic:	EFTs		
Subtopic:			
Issue:	OM&A		

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) Please indicate when the change was made for EFT total hours per year and whether all evidence in this application uses the new definition (especially Appendix 5.5 pages 8-13 and related IRs that include EFTs).
- b) Please indicate how the change in total hours per year used in an EFT altered the total number of operational positions over the forecast period.
- c) Please indicate how the change in total hours per year used in an EFT altered the salaries and wages and overtime calculations in the OM&A forecast.

RATIONALE FOR QUESTION:

To review Hydro's OM&A forecast.

RESPONSE:

As indicated in MIPUG/MH-I-6a the change in hours was done to reflect a move to common hours of work for all employees. The change to the EFT calculation was made in conjunction with the implementation of the Human Resource Management System (HRMS) module of SAP in 2003/04; however the verbiage responses in previous GRA's were not updated to reflect this change. All evidence in this application uses 73.7 hours bi-weekly or 1,921 hours per year. As such, the EFT calculation did not alter the number of operational EFTs or the wages, salaries and overtime costs forecasted.

Section:	MIPUG/MH I-6b&c	Page No.:	
Topic:	EFTs		
Subtopic:	Vacancy Rate		
Issue:	OM&A		

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) Please provide the vacancy factor utilized in each year for forecast years 2014/15 to 2016/17.
- b) Please provide a rationale for why Hydro's forecast vacancy rates are consistently greater than actual vacancy rates.
- c) Please provide the approximate dollar value difference per forecast year between Hydro's forecast vacancy rate and the five year actual average vacancy rate of 8.2%?
- d) How many operational positions or EFTs, as may be the case, does the 8.1% vacancy rate represent for 2013/14?
- e) How many operational positions or EFTs, as may be the case, does the forecast vacancy rate represent in each of the forecast years from 2014/15 to 2016/17?

RATIONALE FOR QUESTION:

To review Hydro's OM&A forecast.

RESPONSE:

- a) As per the response to MIPUG/MH-I-6b, the average vacancy rate for the Corporation for the years 2014/15 to 2016/17 is approximately 4.5%.
- b) Please refer to the response provided in COALITION/MH-II-16a-b which describes why Manitoba Hydro's forecast vacancy rates for 2014/15 through 2016/17 are lower than vacancy rates experienced historically.

- c) Manitoba Hydro cannot provide an approximation of the dollar value impact on OM&A relating to an increase in the vacancy rate as this would require an assumption as to how the vacancy would be deployed between Manitoba Hydro's capital and/or operating programs. In addition, further assumptions would need to be made with respect to the impact of the vacancy on other employee related expenses such as overtime, benefits, and travel. To the extent that higher vacancy levels impact the Corporation's capital program, there would be no impact to OM&A.

- d) Manitoba Hydro cannot identify operational positions or EFTs that are representative of an 8.1% vacancy rate for 2013/14. In order to calculate the operational impact, Manitoba Hydro would have to make an assumption for each vacant position as to the projected deployment of the position between the Corporation's operating and/or capital programs. The deployment of resources between capital construction, operations & maintenance and governance, support and services varies throughout the year as a result of work requirements.

- e) Manitoba Hydro cannot project how many operational positions the forecasted vacancy rate represents. The Corporation recognizes that vacancies will occur throughout the year primarily as a result of retirements and turnover. Departmental forecasts incorporate a vacancy rate to reflect this assumption. The EFT levels, net of vacancy, are forecasted to be deployed to capital and/or operating programs based on current work requirements. Appendix 5.5, Figures 5.5.8 and 5.5.10 provides the categorization of EFTs between Capital Construction, Operations & Maintenance and Governance, Support & Services.

Section:	MIPUG/MH I-2	Page No.:	
Topic:	DSM		
Subtopic:	PAC Test		
Issue:			

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please confirm if the PAC test values are the combined metrics over the life of the DSM program in question, or only the PAC effects (including long-term effects) related to the program spending that actually occurs in 2015/16.
- b) Please confirm the PAC test approach is based on the present value (PV) of benefits comprising a mix of avoided supply cost and added export revenues.
- c) Please provide the PACT table results showing separate columns for each of the following in units of levelized cents/kW.h: (a) avoided supply/added export benefit (b) incentives, (c) program cost and (d) lost revenue.

RATIONALE FOR QUESTION:

MIPUG would like to test the economics of DSM programming planned for the years being reviewed in this GRA.

RESPONSE:

- a) Manitoba Hydro confirms that the PACT is calculated using a 30-year stream of savings and costs from 2014/15 to 2043/44 for the DSM program in question.
- b) Confirmed. Marginal costs used in the computation of all cost effectiveness metrics including the PACT currently incorporate both the incremental export revenues from surplus energy due to DSM programs, as well as the capacity value associated with deferral of transmission at the transmission and distribution level.

- c) The following table outlines separate columns for each of the inputs in the PACT presented as levelized costs in cents/kW.h. Lost revenue is not an input in the PACT.

PAC Test (2014/15 - 2028/29)

	(a) Avoided Marginal Benefit (cents/kW.h)	(b) Incentives (cents/kW.h)	(c) Program Costs (cents/kW.h)	(d) Lost Revenue (cents/kW.h)
Residential				
New Home Program	10.8	0.0	0.3	0.0
Home Insulation Program	13.4	1.5	1.7	0.0
Water and Energy Saver Program	7.8	1.7	1.3	0.0
Affordable Energy Program				
Affordable Energy Program - Insulation	12.9	2.1	1.3	0.0
Affordable Energy Program - Furnace	n/a	n/a	n/a	n/a
Affordable Energy Program - Total	12.9	2.1	1.3	0.0
Refrigerator Retirement Program	5.9	0.5	1.7	0.0
Residential LED Lighting Program	8.3	0.9	1.6	0.0
Community Geothermal Program	9.4	2.3	0.2	0.0
Residential Programs Total	10.4	1.3	0.9	0.0
Commercial				
Commercial Lighting Program	9.3	1.6	0.8	0.0
LED Roadway Lighting Conversion Program	8.0	2.7	0.6	0.0
Commercial Building Envelope - Windows Program	11.4	1.2	1.3	0.0
Commercial Building Envelope - Insulation Program	11.3	1.4	1.4	0.0
Commercial Geothermal Program	9.4	2.6	0.6	0.0
Commercial HVAC Program - Boilers	n/a	n/a	n/a	n/a
Commercial HVAC Program - Chillers	4.9	1.0	0.5	0.0
Commercial HVAC Program - CO2 Sensors	16.3	0.8	1.8	0.0
Commercial HVAC Program - Water Heaters	n/a	n/a	n/a	n/a
Commercial Custom Measures Program	9.7	1.4	1.9	0.0
Commercial Building Optimization Program	8.5	1.0	1.8	0.0
New Buildings Program	12.1	1.1	0.6	0.0
Commercial Refrigeration Program	6.7	0.4	0.6	0.0
Commercial Kitchen Appliance Program	21.3	0.6	0.1	0.0
Network Energy Management Program	10.6	0.7	0.2	0.0
Internal Retrofit Program	6.2	2.8	2.6	0.0
Power Smart Shops	9.4	1.5	1.2	0.0
Commercial Programs Total	9.5	1.6	0.8	0.0
Industrial				
Performance Optimization Program	7.9	1.5	1.1	0.0
Natural Gas Optimization Program	n/a	n/a	n/a	n/a
Industrial Programs Total	7.9	1.5	1.1	0.0
Energy Efficiency Subtotal	9.2	1.5	0.9	0.0
Load Management				
Curtable Rate Program	n/a	n/a	n/a	n/a
Load Management Programs Total	n/a	n/a	n/a	n/a
Load Displacement & Alternative Energy				
Bioenergy Optimization Program	6.6	1.2	0.2	0.0
Customer Sited Load Displacement	7.1	1.0	0.0	0.0
Load Displacement & Alt. Energy Programs Total	7.0	1.0	0.0	0.0
Conservation Rates				
Conservation Rates - Residential	7.2	0.0	0.8	0.0
Conservation Rates - Commercial	7.3	0.0	0.6	0.0
Conservation Rates Total	7.3	0.0	0.7	0.0
Fuel Choice				
Fuel Choice	9.7	1.2	0.1	0.0
Fuel Choice Total	9.7	1.2	0.1	0.0
Overall Portfolio Metric	8.8	1.1	0.7	0.0

Section:	MIPUG/MH I-3	Page No.:	
Topic:	DSM Programming		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) Please confirm Hydro has no confirmation or approval from the Provincial Government for any spending, nor even for pursuing in any manner, the topic of conservation rates (which also requires PUB approval) or Fuel Choice incentives. If this is not confirmed, please indicate what proportion of the \$26.3 million in conservation rates and \$55.1 million in added fuel choice relates to components that have been approved.

RATIONALE FOR QUESTION:

MIPUG to review DSM programming generally regarding the rate impacts, especially to GSL customers where possible.

RESPONSE:

The Provincial Government does not approve Manitoba Hydro's expenditures, including those related to Conservation Rates and Fuel Choice Programs.

In accordance with the *Energy Savings Act*, Manitoba Hydro must develop an energy efficient plan in consultation with the Minister responsible for Manitoba Hydro. The current approved energy efficiency plan developed in accordance with the *Energy Savings Act* does not include Conservation Rates or a Fuel Choice Program. Discussions on the merits and issues associated with contemplated Conservation Rate initiatives have not been held with the Provincial Government to date as Manitoba Hydro needs to undertake further study and

analysis. Discussions on the merits and issues associated with pursuing a Fuel Choice Program have concluded with Manitoba Hydro taking an educational campaign approach in pursuing the opportunities associated with fuel choice.

For long term planning purposes, a placeholder for these programs was included in Corporation's overall demand side management plan, the 2014 – 2017 Power Smart Plan – Supplemental Report: 15 year (2014 to 2029) included as Appendix 8.1 of this application.

As stated in Manitoba Hydro's responses to MIPUG/MH-I-3a and MIPUG/MH-I-3b, the program design details (including funding) associated with conservation rates and a Fuel Choice Program have not been finalized nor approved by Manitoba Hydro at this time.

Section:	MIPUG/MH I-3	Page No.:	
Topic:	DSM Programming		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

- b) Please confirm MIPUG's understanding that the pursuit of residential conservation rates will drive Present Value costs to Hydro of \$12.6 million and lost revenues of \$139.7 million (a combined \$152.3 million adverse financial impact) for present value benefits of only \$117.0 million, a net loss of \$22.7 million. Please provide the time horizon over which the Present Value of net impacts is expected to occur.

RATIONALE FOR QUESTION:

MIPUG to review DSM programming generally regarding the rate impacts, especially to GSL customers where possible.

RESPONSE:

- b) In Manitoba Hydro's proposed Energy Conservation Rate program, the intent is to design rates such that the Energy Conservation Rate program is revenue neutral. As such, there will be no expected lost revenue associated with the program. As an integral component of the Program design under this premise (i.e. revenue neutrality), overall rates will effectively and inherently need to be increased to offset for any lost revenue associated with consumers using less energy. Under these assumptions, the NPV of the Energy Conservation Rate program is \$104.4 million (\$117 million - \$12.6 million).

For the purposes of calculating the RIM associated with the Program, it is assumed that there will be lost revenue and a RIM of 0.8 is calculated. If rates weren't effectively increased to meet the "revenue neutral" assumption, then the NPV of the Energy Conservation Rate Program would be a net loss of \$35.3 million (\$117 million - \$12.6 million - \$139.7 million).

Section:	MIPUG/MH I-11b	Page No.:	
Topic:	Capital Expenditures Forecast		
Subtopic:	Major Projects		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide the quantification and a description for the capital reinvestment expected on Wuskwatim for the IFF period to 2025, including capital for the purposes of asset replacement, retirements, early equipment failures and disposals.

RATIONALE FOR QUESTION:

To better determine the drivers of depreciation and amortization expense and major project expenses.

RESPONSE:

The WPLP forecast (Appendix 11.6, pages 5 & 6) includes a provision for replacement of telecontrols (based on historical expectations) in 2022/23 and 2032/33 at a projected cost of \$3.5 and \$4 million, respectively. For CEF14 forecasting purposes, it is assumed that these projected expenditures will be incurred under the Generation Operations Base Capital forecast.

Section:	MIPUG/MH I-16a	Page No.:	
Topic:	Depreciation		
Subtopic:	Peer Reviewed Utilities		
Issue:			

PREAMBLE TO IR (IF ANY):

QUESTION:

Please provide, for each of the comparator utilities, the group procedure used (ELG, ASL, or other specified approach).

RATIONALE FOR QUESTION:

MIPUG is reviewing the depreciation study including any changes that have occurred since the 2010 depreciation study.

RESPONSE:

The following response was prepared by Gannett Fleming.

Group procedures used for each of the comparator utilities identified in MIPUG/MH I-16a are as follows:

Relevant Utility	Study	Group Procedure	Basis
Newfoundland & Labrador Hydro	2009	ELG	Whole Life for mass property; other property applied on a unit basis
BC Hydro	2005	ASL	Whole Life for mass property; other property applied on a unit basis
Ontario Power Generation	2012	ASL	Whole Life; applied on a unit basis
Fortis BC	2009	ASL	Remaining Life
Fortis Alberta	2011	ELG	Whole Life
SaskPower	2009	ASL	Whole Life applied on a unit basis
ATCO Electric	2008	ELG	Whole Life
AltaLink	2011	ELG	Whole Life

Section:	MIPUG/MH I-19a	Page No.:	
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):**QUESTION:**

Why is the year-over-year change column of the Depreciation and Amortization Expense tables showing new effects of the 2010 depreciation study in 2012/13, 2013/14 and 2014/15? Is this solely related to the net additions or does it also relate to new effects on the prior year actuals?

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

The 2010 Depreciation Study impacts shown in the response to MIPUG/MH-I-19a for the 2012/13, 2013/14 and 2014/15 fiscal years reflect the incremental impact on net additions of the 2010 Depreciation Study regarding the average service life and IOWA curve for the respective years, as well as the impact on depreciation expense of componentization adjustments to refine the 2011/12 estimates. These adjustments were made during implementation of the 2010 Depreciation Study changes into Manitoba Hydro's asset accounting system.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000A Dams Dikes and Weirs)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please confirm that Hydro is proposing no change to the ELG rate for this account (125-R4).
- b) Please confirm that since the 2010 study there has been \$0 of new retirements recorded in this account.
- c) Please provided the ELG predicted dollar value of retirements, given the plant-in-service as of the 2010 study (\$508 million per MIPUG-I-19c) and the age vintage of this plant.
- d) Please confirm that there has been approximately \$50 million in new assets added to this account (from \$508 million to \$557 million)
- e) Please explain why the 2014 Survivor Curve chart does not show the experience values down to the 88% range (consistent with the approach used in the 2010 study).

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

- a) Although the survivor curve of 125-R4 for Account 000A – Dams, Dykes & Weirs was retained in the 2014 Depreciation Study, depreciation rates for individual accounts within the account group have changed. The following table provides a

comparison of ELG no salvage depreciation rates for Account group 000A from the 2010 and the 2014 Depreciation Studies.

Account	Dams, Dykes & Weirs	Depreciation Rate (%)	
		2010	2014
		Depreciation Study	Depreciation Study
1105A	Great Falls	1.10	1.12
1110A	Pointe du Bois – Original	3.16	2.70
1111A	Pointe du Bois – New		0.85
1115A	Seven Sisters	0.88	0.90
1120A	Slave Falls	1.54	1.54
1125A	Pine Falls	1.07	1.12
1130A	McArthur Falls	0.82	1.00
1135A	Kelsey	0.96	1.03
1140A	Grand Rapids	0.88	0.90
1145A	Kettle	0.79	0.78
1150A	Laurie River	3.02	2.70
1155A	Jenpeg	0.86	0.84
1170A	Long Spruce	0.83	0.83
1175A	Limestone	0.85	0.85
1180A	Wuskwatim	0.80	0.87

- b) Manitoba Hydro confirms that since the 2010 study there has been \$0 of new retirements recorded in this account.
- c) The following response was prepared by Gannett Fleming:

In order to provide the ELG predicted dollar value of retirements, given the plant-in-service as of the 2010 study (\$508 million per MIPUG/MH-I-19c) and the age vintage of this plant, each vintage of additions for each Hydro plant would require specific review and calculation to determine the portion of each vintage at each operating hydro plant that would be expected to be retired over the period from original installation through to 2010. This alone would require an extensive number

- of individual manual calculations, which is considered onerous, and as such cannot be provided within the timeframe of responding to second round information requests.
- d) The \$50 million difference represents the difference in year 0.0 exposures reported in the 2010 and 2014 original life tables and is the result of a combination of a change in the experience band from 1952-2010 for 2010 to 1923 – 2014 for the 2014 study, as well as incremental account activity since the 2010 study. Upon further review of this account, Manitoba Hydro recognized that the 2013 Wuskwatim plant additions were inadvertently excluded from the life analysis in the 2014 Depreciation Study. Per discussions with Gannett Fleming, the inclusion of the Wuskwatim additions would not have impacted the average life or IOWA curve selection for this account.
- e) The following response was provided by Gannett Fleming:
The 2014 Survivor Curve chart has been truncated to show the portion of the observed life table that is considered to be the most relevant in the retirement rate analysis. Small levels of retirement dollars occurring near the end points of the observed life table have an exaggerated effect of the observed life table. As such, it is common practice by depreciation analysts to limit the reliance on observed life table data points when the plant exposed to retirement at any age interval becomes less than 1% of the plant exposed to retirement at age 0.0. Therefore the observed life table data points have been truncated below the percentage of 1 for the maximum exposure level. At age 67.5 the level of plant exposed to retirement equals 0.87% of the total plant exposed to retirement at age zero. Subsequently, after age 67.5 the level of retirement dollars is insignificant. The particular circumstances of this account, and the level of retirement activity in the tail portion was immaterial and therefore less weighting was given to the portion of the observed life table related to exposure that is less than 1% of the total exposures at age zero and thus not shown.

Since the 2010 depreciation study, Gannett Fleming has refined its software and now has an enhanced ability to truncate the display of the observed life data points. Notwithstanding that the 2010 depreciation study displayed data points after the 1% threshold was reached, virtually no consideration was applied to the data points at the tail end of the observed life table.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000B Powerhouse)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please confirm that Hydro is proposing no change to the ELG rate for this account (125-R4).
- b) Comparing the retirement histories, please confirm the following changes to retirement data since 2010:
 - i. Assets retired aged approximately 9 years of a value \$150,431 (the difference between \$77,663 and \$228,094).
 - ii. Assets retired aged approximately 10 years of a value \$37,505 (the difference between \$5,998 and \$43,503).
 - iii. Assets previously retired at ages 25 (value \$42,494), 34 (\$4,574), 42 (\$893,465) and 48 (\$739,929) were reversed. Please explain the situation that led to these asset retirements being reversed (e.g., were they put back into service?).
- c) With such a severe change in the retirement record (previously 3.65% of assets had a retirement history within 86 years, now only 1.14% do) why was there no change to the life or survivor curve chosen?

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

- a) Although the survivor curve of 125-R4 for Account 000B – Powerhouse was retained in the 2014 Depreciation Study, depreciation rates for individual accounts within the account group have changed. The following table provides a comparison of ELG no salvage depreciation rates for Account group 000B from the 2010 and the 2014 Depreciation Studies.

Account	Powerhouse	Depreciation Rate (%) ELG no Salvage	
		2010 Depreciation Study	2014 Depreciation Study
1105B	Great Falls	1.09	1.07
1110B	Pointe du Bois – Original	3.91	2.55
1115B	Seven Sisters	0.75	0.74
1120B	Slave Falls	1.42	1.43
1125B	Pine Falls	0.71	0.71
1130B	McArthur Falls	0.74	0.72
1135B	Kelsey	0.80	1.08
1140B	Grand Rapids	0.81	0.81
1145B	Kettle	0.79	0.79
1150B	Laurie River	3.80	3.40
1155B	Jenpeg	0.83	0.83
1170B	Long Spruce	0.83	0.83
1175B	Limestone	0.85	0.85
1180B	Wuskwatim	0.80	0.87

- b) Comparing the retirement histories:
- i. Manitoba Hydro confirms a value of \$150,431 for assets retired aged approximately 9 years.
 - ii. Manitoba Hydro confirms a value of \$37,535 (\$5,968 and \$43,503) for assets retired aged approximately 10 years.
 - iii. The 2010 original life table for Account 000B included retirement entries in the amount of \$42,494 for age interval 25.5, \$4,574 for age interval 34.5 and

\$893,465 for interval 42.5 which pertain to Thermal Generation. For the 2014 Depreciation Study, Hydraulic and Thermal Generation were analyzed independently, and these retirements are included in the original life table for account 1200B – Powerhouse, as shown on page V-53 & V-54 of the response to MIPUG/MH I-19c, Attachment 3.

The 2010 original life table for Account 000B included a retirement entry in the amount of \$739,929 for age interval 48.5 resulting from modifications made to the Kelsey Powerhouse to accommodate turbine re-running. This entry was excluded from the 2014 analysis as it has been deemed to be an unusual, non-recurring item.

- c) The following response was prepared by Gannett Fleming:

The average service life and survivor curve for Powerhouses (Account 000B) remained consistent with the 2010 depreciation study based on the management and operational interviews indicating that a life of 125 years is still reasonable. Furthermore, Gannett Fleming views that there was no evidence to any change to an approved life and survivor curve of 125-R4. It is also noted that a 125-year life estimate is longer than any peer industry comparables.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000D Spillway)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please confirm that Gannett Fleming is proposing to revise the survivor curve for 000D Spillways from 75-R2 to 80-R3. Please provide a detailed rationale for both selecting the new 80 year value and for revising the curve from an R2 to an R3 with specific reference to the effect of each of the following: (i) the experience curve in MIPUG-I-19c, (ii) the Calculated versus Book Accrued Depreciation results from Appendix 5.6, (c) the rates selected by other comparable utilities (please specify the utility and any change that has occurred in the reference utility from 2010 to 2014), and (d) the specific comments of Manitoba Hydro staff and capital planning with regard to Spillway reinvestment.
- b) Please confirm that no new retirement events were recorded between 2010 and 2014, and the only retirement history recorded continues to be 3 assets with a total value of \$27,601 (on an asset base of \$383 million).
- c) Please provide the ELG predicted dollar value of retirements, given the plant-in-service as of the 2010 study (\$369 million per MIPUG-I-19c) and the age vintage of this plant.
- d) Please explain why the 2014 Survivor Curve does not show the experience values down to the 98% range (consistent with the approach used in the 2010 study).

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

a) The following response was prepared by Gannett Fleming:

The change in the average service life from 75 years to 80 years was based on a combination of the continued lack of retirement experience, a peer analysis of comparable Canadian utilities and on the views of the internal Manitoba Hydro operational staff. During the operational interviews, it was determined that a small increase to the life estimate should be made, however it was also noted that the spillways life should be shorter than the life of the dams. Gannett Fleming also specifically considered the following life estimates of Canadian peers:

- NALCOR – 100 years
- BC Hydro - 75 years
- Ontario Power Generation - 75 Years
- FortisBC – 70 Years
- SaskPower – 60 Years
- NWT Power Corporation – 100 Years

Based on the above, Gannett Fleming viewed that a life extension was warranted and that an extension of five years is reasonable at this time. The Iowa curve shape was moved from an R2 to an R3 to recognize the lack of retirement experience.

Please note that the calculated and book accrued depreciation are a consequence of the change in the service life/curve and are not a consideration in selecting the appropriate curve. In addition, the peer analysis considers the average service lives used by comparator utilities rather than their depreciation rates.

b) Manitoba Hydro confirms that that no new retirement events were recorded between 2010 and 2014, and the only retirement history recorded continues to be 3 assets with a total value of \$27,601

c) The following response was prepared by Gannett Fleming:

In order to provide the ELG predicted dollar value of retirements, given the plant-in-service as of the 2010 study (\$369 million per MIPUG/MH-I-19c) and the age vintage of this plant, each vintage of additions for each Hydro plant would require specific review and calculation to determine the portion of each vintage at each operating hydro plant that would be expected to be retired over the period from original installation through to 2010. This alone would require an extensive number of individual manual calculations, which is considered onerous, and as such cannot be provided within the timeframe of responding to second round information requests. It is noted, however, that Manitoba Hydro is anticipating retirements of \$7.8 million in this account in 2015/2016 related to replacement of the original Pointe du Bois spillway. Of this amount, over \$0.6 million relates to vintages less than 10 years old.

d) The following response was prepared by Gannett Fleming:

The 2014 Survivor Curve chart has been truncated to show the portion of the observed life table that is considered to be the most relevant in the retirement rate analysis. Small levels of retirement dollars occurring near the end points of the observed life table have an exaggerated effect of the observed life table. As such, it is common practice by depreciation analysts to limit the reliance on observed life table data points when the plant exposed to retirement at any age interval becomes less than 1% of the plant exposed to retirement at age 0.0. Therefore, the 2014 Survivor Curve chart does not show the experience values down to the 98% range since the values are below the percentage of 1 for the maximum exposure level. At age 53.5 the level of plant exposed to retirement equals 0.91% of the total plant exposed to retirement at age zero. Subsequently, after age 53.5 the level of retirement dollars is insignificant. The particular circumstances of this account and the level of retirement in the tail portion was immaterial and therefore less weighting is given to the portion of the observed life table related to exposure that is less than 1% of the total exposures at age zero and thus not shown.

Since the 2010 depreciation study, Gannett Fleming has refined its software and now has an enhanced ability to truncate the display of the observed life data points. Notwithstanding that the 2010 depreciation study displayed data points after the 1% threshold was reached virtually no consideration was applied to the data points at the tail end of the observed life table.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000E Water Control Systems)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please confirm that Hydro is proposing to revise the survivor curve from 50-S4 to 65-S4 (50 to 65 years).
- b) Please explain the retirement of 4 assets each with a value of precisely \$149,817 of ages 48, 49, 50 and 52 respectively.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

- a) Manitoba Hydro confirms that it is revising the survivor curve for account 000E Water Control Systems from 50-S4 to 65-R4.
- b) The retirement of 4 assets each with a value of \$149,817 of ages 48, 49, 50, and 52 represents work performed on the Kelsey Generating station with respect to the installation of more efficient turbine runners (also known as the Kelsey Re-running project). The multi-year retirement pattern of equal value reflects the same work that was performed on 4 different turbines over 4 separate years. The turbines were all originally in-service in 1961, the original in-service date of the plant.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000F Road and Site Improvements)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

The 2010 study indicates a retirement of a \$331,511 asset with a life of 8 years in Hydro's retirement history. Why is this retirement no longer included in the retirement history in the 2014 version?

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

The retirement for age interval 8.5 years of \$331,511 for the account 000F Road and Site Improvements from the 2010 study pertained to thermal generation. For the 2014 Depreciation Study, hydraulic and thermal generation were analyzed independently, and this retirement is included the original life table for account 1200F – Roads and Site Improvements as shown on page V-56 of Attachment 3 of the response to MIPUG/MH-I-19(c).

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000G Turbines and Generators)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please explain why a retirement of \$1.032 million of a 4 year old asset was included in the experience in the 2010 study but no longer included in the 2014 study?
- b) Please also explain the elimination of the history of retiring a \$1.013 million asset at 14 years old, a \$1.825 million asset at 16 years old, and two \$600,000 assets at 28 and 29 years old respectively.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

- a) The retirement for age interval 4.5 years of \$1.032 million for the account 000G Turbines and Generators from the 2010 study pertained to thermal generation. For the 2014 Depreciation Study, hydraulic and thermal generation were analyzed independently, and this retirement is included the original life table for the thermal account 1200G – Turbines and Generators as shown on page V-59 of Attachment 3 of the response to MIPUG/MH-I-19c.

- b) Consistent with the response to part (a) above, the 2010 original life table for Account 000G included retirement entries in the amounts of \$1.013 million for age interval 14.5, \$1.825 million for age interval 16.5 and \$0.6 million for each of age intervals 28.5 and 29.5 which pertain to Thermal Generation. For the 2014 Depreciation Study, hydraulic and thermal Generation were analyzed independently, and these retirements are included in the original life table for account 1200G – Turbines and Generators, as shown on page V-59 of the response to MIPUG/MH-I-19c, Attachment 3.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 000X Support Buildings)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

Please explain why the survivor curve does not show any experience data beyond approximately 50 years when the experience tables indicate data through a 90 year horizon.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

The following response was provided by Gannett Fleming:

The 2014 Survivor Curve chart has been truncated to show the portion of the observed life table that is considered to be the most relevant in the retirement rate analysis. Small levels of retirement dollars occurring near the end points of the observed life table have an exaggerated effect of the observed life table. As such it is common practice by depreciation analysts to limit the reliance on observed life table data points when the plant exposed to retirement at any age interval becomes less than 1% of the plant exposed to retirement at age 0.0. Therefore, the 2014 Survivor Curve chart does not show the experience values down to the 98% range since the values are below the percentage of 1 for the Maximum Exposure level. At age 53.5 the level of plant exposed to retirement equals 0.81% of the total plant exposed to retirement at age zero. Subsequently, after age 53.5 the level of retirement dollars

is insignificant. The particular circumstances of this account, and the level of retirement in the tail portion was immaterial and therefore less weighting was given to the portion of the observed life table related to exposure that is less than 1% of the total exposures at age zero and thus not shown.

Since the 2010 depreciation study, Gannett Fleming has refined its software and now has an enhanced ability to truncate the display of the observed life data points. Notwithstanding that the 2010 depreciation study displayed data points after the 1% threshold was reached, virtually no consideration was applied to the data points at the tail end of the observed life table.

Section:	MIPUG/MH I-19c	Page No.:	Attachments 2 & 3 (Account 4000J Distribution Poles and Fixtures)
Topic:	Depreciation		
Subtopic:	Comparison to 2010 Depreciation Study		
Issue:	Overview of Depreciation Method Changes		

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please confirm that for the 2014 study, Hydro’s actual retirement experience was used (per Appendix 5.6 Attachment 2 page II-14).
- b) Please confirm that this is a change from the 2010 study when a synthetic hypothetical retirement history was used in the Gannett Fleming study for this account.
- c) Please reconcile the retirement history that shows very few poles in Hydro’s system that are over 65 years (only \$5 million of original cost) and of this only less than 1/3 still surviving with the Iowa curve selected which hypothesizes 50% of poles currently in service will attain this age.
- d) Similarly, please provide a reconciliation of Hydro’s experience which is effectively no poles of age 80 or older with Gannett Fleming’s Iowa curve which is based on approximately 1/3 of poles expected to exceed a life span of 80 years.
- e) Please provide specific reference to any Hydro documentation that indicates an expectation that 1/3 of distribution poles will exceed 80 years in service, almost 15% to exceed 100 years in service, and 5% exceed 110 years in service, as predicted by the curve selected by Gannett Fleming.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

- a) Manitoba Hydro confirms that for the 2014 study, Manitoba Hydro's actual retirement experience was used for account 4000J – Poles and Fixtures.

- b) The retirement history in the 2010 study was based on a statistical analysis of expected retirements for each vintage as determined by Gannett Fleming. This is an industry accepted method for depreciation studies when the historical accounting records are not sufficiently detailed to support a depreciation study analysis of actual retirements. Since the 2010 study, new data has become available as a result of recent operational efforts to inventory existing poles in combination with asset condition assessments. Manitoba Hydro has leveraged this new data to enhance its accounting records such that sufficient actual retirement information was available to support the 2014 Depreciation Study analysis.

- c-d) The reconciliations as requested in questions c-d appear to stem from the fact that the IOWA 65-S0.5 survivor curve chosen by Gannett Fleming indicates a longer life than the plotted data points would indicate. The reason for the difference is that the placement points and the information provided in the Original Life Tables represent Manitoba Hydro's actual exposures and retirements for each vintage whereas the IOWA 65-S0.5 curve is based on judgment applied by Gannett Fleming. Such judgment considers historical information, management's best estimates, general knowledge of the industry and represents the estimated retirement profile going forward.

Depreciation is a forward looking concept as it represents the future depletion of an asset's service life. The 65 year service life curve reflects the many programs (e.g. Integrated Pole Maintenance Program, Integrated Pole Reinforcement Program) Manitoba Hydro has implemented over the years to extend the lives of its distribution poles. As per page 62 of Appendix 4.2, approximately 30% of Manitoba Hydro's distribution poles are within the age of 40-60 years and given current replacement rates, it is reasonable to expect wood poles to last at least 65 years and possibly up to 75 years.

Given that rural electrification occurred between the years of 1940 to 1960 and the balance of Manitoba Hydro's distribution system was constructed between the years of 1960 to 1990, the majority of distribution poles have yet to reach end of life. As indicated on page 62 of Appendix 4.2 of the application, only 11% of Manitoba Hydro's total wood poles are over the age of 60 years. As such, the asset population for this account has yet to mature to the point where the accounting records reflect full life cycle activity.

For the 2014 Depreciation Study, the service life of wood poles was extended from 55 to 65 years. This increase in service life is reflective of information recently collected in asset condition assessments. As time goes on and more actual information becomes available, service life estimates will be further refined.

Specific to the questions in c-d:

- The original asset life table shows only \$4.8 million of poles at age interval 66.5 as many of Manitoba Hydro's distribution system poles have yet to reach an age of 65 years.
 - The placement (historical data) on the survivor curve at the 66.5 age interval reflects a survivor rate of approximately 33% and the placements at the 80 year age interval reflect a survivor rate of approximately 10%. This is lower than the 50% survivor rate at 65 years of age and 30% survivor rate at 80 years of age represented by the IOWA 60-S0.5 curve due to the differences between the historical records and the latest estimates of the service life of wood poles as reflected in the curve.
- e) Given that the majority of Manitoba Hydro's distribution poles have yet to reach 65 years of age, Manitoba Hydro specific documentation that indicates an expectation that 1/3 of distribution poles will exceed 80 years in service, almost 15% to exceed 100 years in service, and 5% exceed 110 years in service is not available. These indications are reflective of the IOWA curve selected for estimating the service life and retirement expectations for this account and are based on the latest information available. In recognition of the fact that depreciation rates represent estimates, Manitoba Hydro conducts depreciation studies every five years at which time estimates of service lives are updated for the latest information available.

Section:	Appendix 5.6 Attachment 2 IV-23 and MIPUG-I-20(c)	Page No.:	
Topic:	Depreciation		
Subtopic:	WPLP Depreciation		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please confirm that under the proposed ELG rates, the WPLP depreciation charged to the financials through March 31, 2014 is \$42.571 million but that only \$38.274 million is actually required, for a net excess depreciation variance of \$4.3 million. Please explain how such an extreme variance (over 10%) can occur over less than 5 years.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study and implications on rate payers.

RESPONSE:

The actual depreciation expense charged on WPLP assets was correctly calculated for financial reporting purposes from the time each unit was placed into service using the depreciation rates in place for the 2013 and 2014 fiscal years.

The book accumulated depreciation balance for WPLP at March 31, 2014 was \$42.6 million. Under the ELG method, the calculated accrued depreciation balance shown in the 2014 Depreciation Study is \$38.3 million, which results in a reported accumulated depreciation variance of \$4.3 million, of which \$3.0 million results from the use of a simplifying assumption in the depreciation study whereby a half-year rule is used to calculate depreciation on additions for each year.

It should be noted that this variance equates to approximately 2 months of depreciation expense for WPLP, which, when amortized over the remaining life of the facilities, results in a small reduction in annual depreciation expense of \$75,000, which has a composite impact on WPLP's 2014 depreciation rates of -0.005%.

Section:	MIPUG/MH I-20b&c	Page No.:	
Topic:	Depreciation Expense		
Subtopic:	Depreciation Variances		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide any references in IFRS standards or other generally accepted standards that the acceptable approach to “true-up” depreciation variances is over the probable remaining life of the assets.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study and implications on rate payers.

RESPONSE:

The following paragraphs from IFRS section *IAS 16 Property, Plant & Equipment* are relevant with respect to the “true up” to annual depreciation expense over the probable remaining life of an asset:

Depreciable amount and depreciation period

50 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

57 The useful life of an asset is defined in terms of the asset's expected utility to the entity,.....The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

Depreciation method

- 60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.**

Recognizing that depreciation rates are based on an estimate of the useful life of a PP&E asset, the following paragraphs from IFRS section *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* are relevant with respect to the “true up” to annual depreciation expense over the probable remaining life of an asset:

- 32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:
- (a) bad debts;
 - (b) inventory obsolescence;
 - (c) the fair value of financial assets or financial liabilities;
 - (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
 - (e) warranty obligations.
- 33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- 34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
- 36 The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:**
- (a) the period of the change, if the change affects that period only; or**
 - (b) the period of the change and future periods, if the change affects both.**

- 38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. ,..., However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

Section:	MIPUG/MH I-21a	Page No.:	
Topic:	Depreciation		
Subtopic:	Asset Accounts Illustration		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) Please confirm that the total reinvestment in the Limestone spillway in the 24 years since it was placed into service is less than \$400,000, or less than 0.2% of the original investment. Please indicate if this reinvestment was in the form of replacements of 1991 vintage assets, or was in the form of facility improvements.
- b) Please confirm that under the Iowa curve selected by Gannett Fleming for spillways, the retirements expected over 24 years approximately 4% of the original investment by age 24, or over 20 times as large as the actual reinvestment that has been required.
- c) Please confirm that under the ELG approach to depreciation, this 4% of the original spillway investment of \$200 million (a full \$8 million) will be 100% depreciated by year 24, and the remaining \$192 million of original investment will be partly depreciated in the first 24 years.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study and implications on rate payers.

RESPONSE:

- a) No physical modifications have been made to the Limestone spillway since it was originally placed into service. A total of \$340,207 has been capitalized since original construction as follows:

- Limestone GS Spillway Stilling Basin Engineering Study: \$164,599 was capitalized in the 2007-2010 fiscal years. Related physical modifications to the spillway are expected to occur during the 2015/16 fiscal year which, when complete, will trigger a partial retirement of the original construction costs.
 - License Finalization: \$175,608 was capitalized in the 2011-2014 fiscal years. These are incremental costs relating to the original construction of the facility, and as such no retirements were recorded as a result of these capital expenditures.
- b) Not confirmed. An Iowa 80-R3 Iowa curve would anticipate 1.58525% of the original investment to be retired by age 24 (30% of its average service life expectation).
- c) Not confirmed. Under the ELG approach to depreciation, at age 24 years, 1.58525% of the original investment (approximately \$3 million) will be fully depreciated, and the remainder of the investment will be partially depreciated.

Section:	PUB/MH I-42b	Page No.:	
Topic:			
Subtopic:	Financial Results & Forecast		
Issue:	Depreciation Expense		

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide Gannett Fleming's reference indicating the use of the ELG procedure by Qulliq Energy.

RATIONALE FOR QUESTION:

To assess impacts and usage of ELG methodology and ASL methodology for regulatory purposes in other jurisdictions.

RESPONSE:

The reference to Qulliq Energy using the ELG method in response to PUB/MH I-42b was incorrect. Qulliq Energy uses the ASL procedure for determining depreciation.

Section:	PUB/MH I-43b	Page No.:	
Topic:			
Subtopic:	Financial Results & Forecasts		
Issue:	Depreciation & Amortization		

PREAMBLE TO IR (IF ANY):**QUESTION:**

Does the table provided in this response indicate, for example, that there was a rate established for Grand Rapids licence renewal in 2010, but there were no costs in that category at that time; however in the 2014 study the rate was not changed by there are now costs in that category (\$83 million)? If not, what do the dollar values in the right hand side columns represent?

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

During the 2010 Depreciation Study, a depreciation rate was established for the Grand Rapids License Renewal account in anticipation of licensing activities occurring prior to the next depreciation study. Manitoba Hydro confirms that \$83 million of costs have been capitalized since the 2010 Depreciation Study.

Section:	Appendix 11.49	Page No.:	1
Topic:			
Subtopic:	Response to PUB Order 43/13, Directives 8 & 9		
Issue:	Depreciation		

PREAMBLE TO IR (IF ANY):

The text states, “Manitoba Hydro estimates it would take at least two years to identify and implement the new asset components required to continue with the ASL method under IFRS at a cost in excess of \$2 million. These costs can be avoided and compliance with IFRS achieved by adopting the ELG method which calculates depreciation at a more granular level within existing asset component groups; satisfying the componentization requirements of IFRS.”

QUESTION:

Please provide all documentation from auditors explicitly indicating that the stated \$2 million in “costs can be avoided and compliance with IFRS achieved by adopting the ELG method” and that the ELG method satisfies “the componentization requirements of IFRS”.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

Manitoba Hydro has held discussions with Ernst & Young regarding the change in its level of asset componentization as performed in Manitoba Hydro’s 2010 depreciation study and its change to the ELG method upon transition to IFRS. While Manitoba Hydro does not have formal documentation, Ernst & Young has verbally confirmed that the ELG method is an acceptable method of depreciation to use under IFRS assuming an appropriate level of asset componentization and the appropriate recognition of gains and losses on asset retirements in net income. Ernst & Young has also verbally confirmed that IFRS is more strict in terms of

the level of asset componentization required for calculating depreciation expense and that to continue to use ASL under IFRS, it is likely further componentization would be required; the extent of which they are unable to comment on without performing the necessary audit procedures. Ernst & Young's comments are consistent with the interpretations of other accounting firms with respect to the level of componentization required under IFRS as noted in the response to MIPUG/MH-I-17a. Ernst & Young will not be in a position to opine on the acceptability of Manitoba Hydro's proposed change to the ELG method until they perform the necessary audit procedures. Manitoba Hydro developed its level of componentization to be used with the ELG method with the assistance of Gannett Fleming and has relied on Gannett Fleming's extensive experience in performing depreciation studies for Canadian utilities in determining whether or not the level of componentization developed will be compliant with the requirements of IFRS while applying the ELG method.

Section:	Appendix 11.49	Page No.:	1
Topic:			
Subtopic:	Response to PUB Order 43/13, Directives 8 & 9		
Issue:	Depreciation		

PREAMBLE TO IR (IF ANY):

The text states, “Manitoba Hydro estimates it would take at least two years to identify and implement the new asset components required to continue with the ASL method under IFRS at a cost in excess of \$2 million. These costs can be avoided and compliance with IFRS achieved by adopting the ELG method which calculates depreciation at a more granular level within existing asset component groups; satisfying the componentization requirements of IFRS.”

QUESTION:

Please provide all documentation from auditors explicitly indicating that the ASL method, absent a spending of \$2 million costs to implement the new asset components, would not satisfy “the componentization requirements of IFRS”.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

Please see the response to MIPUG/MH-II-22.

Section:	Appendix 11.49	Page No.:	Section 4.3 (pg. 8 – 9)
Topic:	Response to PUB Order 43/13, Directives 8 & 9		
Subtopic:	Depreciation		
Issue:	ELG		

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide a copy of IASB published “*Clarification of Acceptable Methods of Depreciation and Amortization Amendments to IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets*”.

RATIONALE FOR QUESTION:

To review the 2014 Depreciation Study the implications on rate payers and how those implications have changed since the 2012/13 & 2013/14 GRA.

RESPONSE:

The referenced materials are protected by copyright and as such Manitoba Hydro is not able to provide copies. Access to the requested document requires subscription to eIFRS and payment of a subscription fee which can be done at the following site: <http://shop.ifrs.org/ProductCatalog/Product.aspx?ID=1595>

In order to assist in the understanding of the Amendments to IAS16 and IAS 38, Manitoba Hydro is providing links to the IASB project page for this issue, as well as links to various CA firm documents explaining the IASB changes:

IASB project page:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Depreciation-and-Amortisation/Pages/Depreciation-and-Amortisation.aspx>

Deloitte's IAS plus:

<http://www.iasplus.com/en/projects/completed/assets/ias-16-ias-38-depreciation>

Ernst & Young, IASB prohibits revenue-based

depreciation: [http://www.ey.com/Publication/vwLUAssets/IFRS_Developments_Issue_78_IASB_prohibits_revenue-based_depreciation/\\$File/Devel78-IntAssets-PPE-May2014.pdf](http://www.ey.com/Publication/vwLUAssets/IFRS_Developments_Issue_78_IASB_prohibits_revenue-based_depreciation/$File/Devel78-IntAssets-PPE-May2014.pdf)

Deloitte's IASB amends IAS 16 and IAS 38 to clarify acceptable methods of depreciation and amortization:

<http://www.google.ca/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=10&ved=0CFEQFjAJ&url=http%3A%2F%2Fwww.deloitte.com%2Fmultifiledownload%3FsolutionName%3Ddeloitte.com%26fileIds%3De6895740d4506410VgnVCM2000003356f70aSTFL&ei=m vUjVeuVJoOOyATH3YDYCw&usg=AFQjCNEHxgY5lixuzLWm2vJckUh6XHJPWw>

BDO Clarification of Acceptable Methods of Depreciation and Amortisation:

[http://www.bdointernational.com/Services/Audit/IFRS/Documents/Clarification%20of%20Acceptable%20Methods%20of%20Depreciation%20and%20Amortisation%20\(Amendments%20to%20IAS%2016%20and%20IAS%2038\).pdf](http://www.bdointernational.com/Services/Audit/IFRS/Documents/Clarification%20of%20Acceptable%20Methods%20of%20Depreciation%20and%20Amortisation%20(Amendments%20to%20IAS%2016%20and%20IAS%2038).pdf)

Section:	Appendix 11.49	Page No.:	10
Topic:	Response to PUB Order 43/13, Directives 8 & 9		
Subtopic:	Depreciation		
Issue:			

PREAMBLE TO IR (IF ANY):

A simple example is provided in Figure 1 that demonstrates the difference in the calculation between the ELG and ASL methods of depreciation.

QUESTION:

Please provide examples of any utilities that adopt the ASL method as set out in the example – that is, with an ASL approach, with an excessively broad grouping assets with initial life expectations that vary by 200% within the same class, and with gain/loss on disposal recognized.

RATIONALE FOR QUESTION:

MIPUG is reviewing the depreciation study including any changes that have occurred since the 2010 depreciation study.

RESPONSE:

The simple example provided in Figure 1 in Appendix 11.49 is for illustrative purposes only to assist the reader in understanding at a high level, the differences in applying the ASL and ELG methods. The dollar values and service lives provided in the example were selected so that the reader could easily follow the calculations/methodology. The Gannett Fleming report included in Appendix 11.49 provides a more detailed comparison of the two methods as applied to a representative sample of Manitoba Hydro's assets.

Section:	Appendix 11.49	Page No.:	
Topic:	Depreciation		
Subtopic:	Capitalization of Assets		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide a copy of Hydro's accounting policy for capitalization of assets. Please specifically note the framework for decisions regarding replacement of capital property and whether such replacement leads to:

- i. New capital assets being placed into service.
- ii. Charges against the reserve for Net Salvage (and the scope of all such charges).
- iii. Asset removal or site restoration costs that become part of the capital cost of the replacement asset (such as described at page 1754 of the 2012 GRA transcript).
- iv. Asset removal or site restoration costs that are expensed in the year
- v. Asset removal or site restoration costs that are offset against the Asset Retirement Obligation provision.
- vi. Any recording of gains and losses on disposal in the year.
- vii. Charges to maintenance (e.g., replacement below a given dollar threshold, or routine replacements such as described in at page 4585 of the 2012 GRA transcript).

Also please provide (a) any changes to these policies in recent years, and (b) any changes planned, as part of transitioning to IFRS, adopting ELG, and eliminating the Net Removal Reserve.

RATIONALE FOR QUESTION:

MIPUG is reviewing the depreciation study including any changes that have occurred since the 2010 depreciation study.

RESPONSE:

Manitoba Hydro capitalizes expenditures for established depreciable plant asset components. Such components are considered a physically distinct, complete structure of plant, and sufficient to warrant separate accounting in the capital system. A component may also be established for significant asset inspection and overhaul costs where such costs are material and follow a planned schedule. Plant asset components have been established based on criteria including the nature of the item, the materiality of the cost of the item, and the term of benefit to be received from the item. Only expenditures on plant assets that result in identifiable benefits for a period greater than one year are capitalized. Identifiable benefits may include the following:

- An increase to the service capacity of the asset;
- An extension of the service life of the asset; or
- A reduction in the future operating costs of the asset or related assets.

If an expenditure relating to an item of PP&E does not satisfy Manitoba Hydro's criteria for capitalization, the expenditure is charged to income as incurred. Expenditures of this nature do not result in identifiable future benefits and are thus considered maintenance. Such maintenance related expenditures typically include corrective repairs or minor replacements which are made to restore and keep capital assets in good operating condition so as to maintain the asset's existing service potential. The accounting for charges associated with maintenance activities will be the same under both CGAAP and IFRS.

Manitoba Hydro capitalizes all project costs related to plant asset component additions, including direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Capital project costs are charged to Construction Work in Progress until the corresponding asset becomes available for use, at which time the transfer to in-service property plant and equipment is made, interest expense allocated to construction ceases, and depreciation and finance expense charged to operations commences.

Over the past several years, Manitoba Hydro has reduced certain administrative costs included as part of capital costs so as to be consistent with the capitalization practices of other Canadian utilities. Such costs are identified on pages 35-36 of the IFRS Status Update

Report (Appendix 5.4) as filed in the Application. All such changes were accounted for prospectively as updates to estimates and were accepted by Manitoba Hydro's auditors Ernst & Young. Upon transition to IFRS, Manitoba Hydro will further reduce overheads included in the cost of self constructed assets by \$58 million as identified on page 36 of the IFRS Status Update Report. The additional changes to be implemented upon transition to IFRS will also be given prospective accounting treatment as IFRS allows a first time adopter to carry forward the net book value of its PP&E assets.

Net salvage represents the costs to be incurred to remove an asset from service. Under CGAAP, Manitoba Hydro included a reserve for net salvage related costs in depreciation rates whereby a plant asset's depreciation rate was increased by a fixed percentage so that over the life of the asset, the future costs of retiring that asset is recovered from the customers that benefited from the service it provided. As such, the recovery of negative salvage in customer rates supported intergenerational equity. When an asset was retired the cost of removing the asset from service (negative salvage costs) was charged against the accumulated depreciation account. This accounting treatment was common industry practice for utilities in Canada reporting under CGAAP and occurred regardless of whether or not the asset was terminally retired or was being replaced with a new asset.

The pre-recovery (i.e. inclusion in depreciation rates) of negative salvage costs is not permitted under IFRS. Consistent with the comments on page 1754 of the transcripts from the 2012 GRA, the accounting for costs to remove an asset from service under IFRS depends on the circumstances under which the asset is retired. The following identifies the circumstances and related accounting treatments Manitoba Hydro will follow upon its transition to IFRS:

1. Asset removal costs will be recognized immediately to net income in the year incurred where an asset is terminally retired (i.e. the retired asset is not replaced with a similar asset);
2. Asset removal costs will be recognized as part of the cost of the replacement asset when an asset is retired and replaced with a new asset; and
3. Asset removal costs will be charged against an asset retirement obligation where one exists for the asset being retired. To the extent that the costs to remove the asset from service are greater than or less than the amount in the obligation, a loss or gain for the difference will be charged to income in the period the expenditures are incurred. This treatment is consistent with Manitoba Hydro's existing treatment under CGAAP.

Recognizing asset removal costs as part of the cost of a replacement asset is as documented in KPMG's Insights into IFRS (11th Edition, 2014/15) page 419, *“An entity may buy land with the intention of constructing a new building on the site. In our view, the cost of demolishing any existing building on the site should be capitalized as part of the cost of the property,.....,the costs should be capitalized to the cost of the building because the demolition is a direct result of the decision to construct a new building.”*

Upon Manitoba Hydro's April 1, 2015 transition to IFRS, existing negative salvage amounts included in accumulated depreciation will be carried forward as part of the opening IFRS net book value of Manitoba Hydro's PP&E. Going forward, negative salvage costs will no longer be included in depreciation rates for PP&E assets. Although, the inclusion of negative salvage supports intergenerational equity, Manitoba Hydro is making this change as a means to offset other accounting related impacts associated with the transition to IFRS.

With respect to the accounting for asset retirement gains and losses, under CGAAP, all gains and losses associated with the retirement of an asset were recognized in the accumulated depreciation account for the asset pool in which the asset belonged. Under IFRS, all gains or losses associated with the retirement of an asset will be recognized immediately to net income in the year the asset is retired.

Section:	2012/13 & 2013/14 GRA Transcript from January 14, 2013	Page No.:	Transcript Pages 3396-3397
Topic:	Depreciation		
Subtopic:	Depreciation Methodology for Regulatory Purposes		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide the uniform system of accounts related to Ontario's OEB regulated utilities for which Mr. Kennedy performs depreciation studies (if any) along with a copy of the latest depreciation study available to Mr. Kennedy.

RATIONALE FOR QUESTION:

To assess depreciation methodology for regulatory purposes in other jurisdictions.

RESPONSE:

Mr. Kennedy performs the depreciation study for Ontario Power Generation Inc. (OPG). As OPG is not an electricity distributor, it is not required to follow the uniform system of accounts set forth in the OEB's Accounting Procedures Handbook for Electricity Distributors. Manitoba Hydro and Mr. Kennedy are not aware of an OEB uniform system of accounts for electricity generators.

Please see the response to PUB/MH-II-69 for the Gannett Fleming Depreciation Study for Ontario Power Generation Inc. including the listing of depreciation accounts.

Section:	2012/13 & 2013/14 GRA Transcript from January 14, 2013	Page No.:	Transcript Pages 3397 - 3398
Topic:	Depreciation		
Subtopic:	Depreciation Methodology for Regulatory Purposes		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide Mr Kennedy's current understanding of the implementation of IFRS among the utilities regulated by the Ontario Energy Board, or other generators in the province, specifically addressing the extent to which the OEB Uniform System of Accounts has or has not been accepted or "vetted by any of the large four (4) accounting firms" for the purposes of IFRS.

RATIONALE FOR QUESTION:

To assess depreciation methodology for regulatory purposes in other jurisdictions.

RESPONSE:

As a depreciation professional, Mr. Larry Kennedy from Gannett Fleming is aware at a high level, the degree of asset componentization used by some of the larger Ontario based utilities regulated by the Ontario Energy Board (OEB). Having performed the depreciation study for Ontario Power Generation Inc. (OPG), Mr. Kennedy is more knowledgeable as to the make-up of OPG's asset accounts.

It would not be realistic, however, to expect Mr. Kennedy, or any representative from the large four accounting firms, to be in a position to know how all utilities (including other generators in the province) regulated by the OEB implemented IFRS, and the extent to which the OEB Uniform System of Accounts has been accepted/vetted by the utilities' auditor for IFRS purposes. Only to the extent that this information was made public, would someone other than the utility and its auditor be aware of such information.

Section:	Appendix 11.25	Page No.:	MFR 5, page 2
Topic:	OM&A		
Subtopic:	Average Salaries per EFT by Division		
Issue:			

PREAMBLE TO IR (IF ANY):

The Schedule on page 2 of Appendix 11.25 lists Manitoba Hydro Average Salary per EFT by Division for 2009/10 to 2016/17. For some specific divisional categories the actual and/or forecast growth in specific years does not follow a linear growth trend.

QUESTION:

Please provide individual explanations with respect to the above average growth in average salary per EFT for the following:

- i. President & CEO - President & CEO Administration increases of over \$10,000 per year per EFT from the period 2011/12 to 2016/17 (especially from 2013/14 to 2014/15 where the amount jumps by almost \$25,000).
- ii. Corporate Relations – Corporate Planning & Strategic Review increase from forecast 2014/15 to 2015/16.
- iii. Finance & Regulatory - VP Admin Finance & Regulatory increase from forecast 2014/15 – 2015/16.
- iv. Generation Operations – VP Generation Operations Administration for the decrease from actual 2012/13 to 2014/15 followed by a large increase from forecast 2014/15 to 2015/16.
- v. Generation Operations – Power Planning for the increase between forecast 2014/15 and 2015/16
- vi. Generation Operations – Generation North for the above average growth between forecast 2014/15 and 2015/16
- vii. Major Capital Projects – Licensing & Relationship Management Division for above average growth from 2013/14 to the forecast years 2014/15, 2015/16 and 2016/17.
- viii. Major Capital Projects – Portfolio Projects Management for the forecast increase between 2014/15 and 2015/16.

- ix. Transmission – Transmission Planning & Design for the forecast increase between 2014/15 and 2015/16.
- x. Customer Services & Distribution – VP Cust. Service & Distribution Admin for the forecast increases from 2014/15 to 2015/16 and 2016/17.
- xi. Customer Care & Energy Conservation – Gas Supply for the above average forecast increase from 2014/15 to 2015/16.

RATIONALE FOR QUESTION:

MIPUG is reviewing cost control measures undertaken by Hydro with regard to OM&A.

RESPONSE:

Parts i), iii), iv) and x)

President & CEO Admin, VP Finance & Regulatory Admin, VP Generation Operations Admin and VP Customer Service & Distribution Admin represent divisions which include members of Manitoba Hydro Executive staff. As described in COALITION/MH-I-48, the Manitoba Hydro Electric Board approved performance based, salary market adjustments for Manitoba Hydro's executives in order to improve its competitive executive compensation positioning among large Manitoba companies and utilities across the country. As these divisions are relatively small, the proportional impact on the division as compared to other larger divisions is much higher.

The noted decrease in the VP Generation Operations Administration division from 2012/13 to 2014/15 relates to a transfer of division managers to other business units as a result of a reorganization of the former Power Supply business unit into the Generation Operations and Major Capital Projects business units.

Parts ii), v), vi), vii), viii), ix) and xi)

The forecast increases between 2014/15 and 2015/16 are primarily as a result of higher wages and salaries due to contract settlements greater than inflation as well as the impacts of merit and progression.

The increase from 2013/14 to 2014/15 and 2015/16 to 2016/17 for the Licensing and Relationship Management Division is also primarily as a result of higher wages and salaries due to contract settlements greater than inflation as well as the impacts of merit and progression.

Section:	Appendix 11.31	Page No.:	MFR 14, page 1
Topic:	OM&A		
Subtopic:	Centra Gas and Other Affiliates		
Issue:	Overhead Charges		

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) From the Centra Gas Program Costs by Cost Elements table please explain why starting in forecast 2015/16 there is no charge to Centra Gas and Other Affiliates for Overhead in OM&A.
- b) From the Centra Gas Program Costs by Cost Elements table please explain why Corporate Allocations & Adjustments substantially increases starting in forecast 2015/16.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

In 2014/15 the overhead rate applied to both operating programs and capital projects is 25%. With the implementation of IFRS in 2015/16, only 5% of the overhead costs remain eligible for capitalization and will continue to be applied to capital projects. A decision was made to no longer apply overhead to operating programs beginning in 2015/16. As a result, overhead costs have been removed from existing operating programs and is reported in Corporate Allocations & Adjustments (CAA).

Section:	PUB/MH I-35a & b	Page No.:	
Topic:	OM&A		
Subtopic:	EFTs		
Issue:	Conawapa		

PREAMBLE TO IR (IF ANY):

QUESTION:

With respect to the 70 EFT's allocated to Conawapa for 2013/14, there are 60 EFT's that, as of 2015/16, were reassigned (Hydro uses "redeployed" in MIPUG/MH-I-6d) to other projects and/or other responsibilities. Were most of them reassigned to another specific project? Did they fill positions which would otherwise have been filled by new hires?

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

With respect to the 70 EFTs allocated to Conawapa in 2013/14, there are approximately 60 EFTs projected to be redeployed by 2015/16 to support either the Corporation's capital investment requirements or address operational priorities and other work demands. It is anticipated that some of the redeployment will reduce the number of external hires necessary to meet the capital construction demands over the next few years.

Section:	Appendix 11.15 & PUB/MH I-12a	Page No.:	
Topic:	OM&A		
Subtopic:	Conawapa		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please update the response provided for Conawapa to include ongoing expenditures as well as the sunk costs already provided.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

MH14 assumes that activities related to Conawapa are suspended and there are no further expenditures projected beyond 2016/17. The finance and amortization expenses included in Appendix 11.15 for Conawapa reflect the total sunk costs of \$397 million projected to August 2016 (including projected expenditures of \$43.4 million in 2014/15, \$31.4 million in 2015/16 and \$21.0 million in 2016/17).

Section:	Appendix 5.4	Page No.:	52
Topic:	Depreciation		
Subtopic:	Depreciation Methodology for Regulatory Purposes		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) Please define the term ‘Activity Rate’ and provide details on the respective activity rates of staff throughout the Corporation. If possible, provide an example of a staff position and how they would utilize their respective activity rates to assist in the understanding of when they charge to specific projects.
- b) How were activity rates changed to comply with IFRS for capitalization purposes.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A changes for the forecast period regarding IFRS and otherwise.

RESPONSE:

- a) Activity rates are hourly labour rates calculated for workgroups that perform a common set of functions. Each department has one or more activity rates depending on the number of common functions performed. Activity rates include staff related costs associated with providing a pool of resources required for the operation, maintenance and capital construction activities of the Corporation. Activity rates include costs such as wages and salaries, benefits, overtime, travel and motor vehicles. As illustrated below, when an employee works on a specific project or program, they timecard the hours worked through the time allocation system using the calculated activity rate.

Activity Charge Illustration

Employee Activity Rate \$50	X	Employee Hours Worked 5	=	Project or Program Activity Charge \$250
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- b) Activity rates are calculated for use in both capital projects and operating programs. In order to comply with IFRS, activity rates were changed to exclude costs no longer eligible for capitalization including costs associated with division and department management, clerical support, employee training and information technology support.

Section:	MIPUG/MH I-37b & MIPUG/MH I-38a & b	Page No.:	
Topic:	OM&A		
Subtopic:	Cost Controls and Budgeting		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

- a) Please identify if there were any other targets developed for OM&A cost containment for OM&A expenditures outside of staffing, salaries and wages.
- b) Is the target of approximately 300 operational positions over the forecast period a reduction to overall Hydro staff or merely a repositioning of staff to capitalized projects?
- c) Were any external consultants used in the review? If so, please provide the terms of reference for their engagement.
- d) Does Manitoba Hydro have any longer-term objectives for cost controls within OM&A, including operational and capitalized costs?

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

- a) The OM&A target has been established below inflationary levels at 1% through the forecast years. The Corporation has committed to a reduction of approximately 300 operational positions or equivalent cost reductions in order to achieve the 1% average annual increase in OM&A costs over the 2014/15 to 2016/17 period.
- b) The target reduction of approximately 300 operational positions over the forecast period is a reduction of existing positions. The elimination of positions will be

achieved as a result of attrition, through the application of technology and the consolidation and elimination of work processes where appropriate. Please refer to PUB/MH-II-42 which provides a summary by business unit of the actual position reductions achieved to December 31, 2014.

- c) External consultants were not utilized in the position management review undertaken by the Corporation.

- d) As per IFF14 (Appendix 3.3, page 11), Manitoba Hydro is committed to limiting the average annual increase in OM&A to 1% through to 2021/22, excluding accounting changes and in periods where major new generation and transmission comes into service.

The Corporation is implementing a number of cost containment initiatives which focus primarily on reductions of staff positions in order to achieve the committed 1% average annual increase over the 2014/15 to 2016/17 period. Tab 5, Section 5.14 Cost Saving Initiatives, describes a number of initiatives being undertaken by the Corporation that will result in long term operating and capital cost savings. In addition, Manitoba Hydro will be reviewing options, including additional staff reductions in order to meet the forecasted 1% average annual increases in OM&A costs to 2021/22.

Section:	MIPUG/MH I-38a	Page No.:	2
Topic:	OM&A		
Subtopic:	Cost Controls and Budgeting		
Issue:	Manitoba Hydro has responded in part: “Following the analysis, each Business Unit provided their recommendations to Executive Committee to ensure alignment with overall corporate objectives and to maximize efficiencies across the corporation”.		

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please advise whether the recommendations to Executive Committee are in writing and, if so provide a copy. If there is a document provided to the Business Units or persons responsible to provide recommendations which sets out directives or corporate directives on objectives, please provide a copy.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

As discussed in MH/MIPUG-I-38a, each Business Unit evaluated the level of staff reductions that could be achieved over the three year forecast period. Following this evaluation, each Vice-President recommended to Executive Committee the total number of reductions that could be achieved in their respective Business Unit for each fiscal year. A copy of the recommended reductions by Business Unit is provided in Appendix 5.5, Figure 5.5.3.

Through various discussions, Executive Committee established the corporate direction to identify and implement the necessary cost containment measures in order to limit OM&A expenditures to below inflationary levels. As discussed in MH/MIPUG-I-38a, each member

of the Executive Committee worked with their respective senior management team to identify and evaluate the measures required to achieve the objective.

Section:	PUB/MH I-30	Page No.:	19
Topic:	OM&A		
Subtopic:	Cost Controls and Budgeting		
Issue:			

PREAMBLE TO IR (IF ANY):

At line 53 “New Generation Construction” there are 10 new positions created plus 2 others under Overtime and Vacancies, with a justification that “Positions for engineering and construction activities for new generation projects such as Pointe Du Bois Spillway, Keeyask and Conawapa.”

QUESTION:

Please advise which of these new positions is created in 2014/15 for Conawapa

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

The position forecast in the New Generation Construction Division was prepared in the spring of 2014/15, prior to the conclusion of the NFAT hearing. As a result of the decision to suspend construction activities, the 2 positions forecast for Conawapa engineering activities were not filled.

Section:	PUB/MH I-32d & e, MIPUG/MH I-38b	Page No.:	
Topic:	OM&A		
Subtopic:	Cost Controls and Budgeting		
Issue:			

PREAMBLE TO IR (IF ANY):

QUESTION:

Manitoba Hydro references “industry standards” in its filings and above responses. Provide any documents or sources of information evidencing such “industry standards” relied on to support this position.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

The ‘industry standards’ were filed in response to a Pre-Ask question from the 2012 GRA and represents the information Manitoba Hydro continues to reference regarding its overhead capitalized. The response to MIPUG/MH-PRE-ASK-13 from the 2012 GRA is attached.

In Order 43/13, the PUB accepted the accounting policy changes that have been made by Manitoba Hydro to 2013/14 for the purposes of rate setting when it found at pages 14 & 15 that:

The Board understands that Manitoba Hydro has been making changes to its accounting policies since 2007/08 to be more consistent with other electric utilities as well as to be consistent with International Financial Reporting Standards. The Board in past orders had expressed concern with the level of capitalization and Manitoba Hydro has begun to address these concerns. In

the Board's view, Manitoba Hydro's proposed accounting changes are appropriate for the test years.

MANITOBA HYDRO

2012/13 & 2013/14 ELECTRIC GENERAL RATE APPLICATION

MANITOBA INDUSTRIAL POWER USERS GROUP (“MIPUG”) PRE-ASK QUESTIONS OF MANITOBA HYDRO

MIPUG/MH/PRE-ASK-13

Question: PUB/MH II-52(b)

Please provide a copy of the survey request that was sent out, as well as indicating the form that it was sent out (e.g., email). Please indicate the utilities to which the survey was sent, and the date sent.

For each category of response please indicate which of the individual utilities did respond. The request is not to identify the specific response of any individual utility, just which utilities responded to each question.

If not able to identify which utilities responded to each question individually due to CEA convention, please identify which utilities provided any response (versus those that provided no response).

Response:

During the period, August 2008 through to June 2011, Manitoba Hydro conducted two surveys with respect to overhead capitalization practices from members of the Canadian Electrical Association (CEA). The surveys were distributed to the full CEA membership through an email originated by Manitoba Hydro to the CEA representative responsible for the administration of the Finance & Accounting Committee of the CEA (Please see Attachment #1 to this response for a list of the Finance & Accounting Committee CEA membership). As indicated in the response to PUB/MH II-52, Manitoba Hydro also held verbal discussions with some of the utilities that responded to the surveys so as to confirm our understanding of their responses. Verbal discussions with some of the utilities occurred beyond the June 2011 date.

Due to CEA convention, MH is not in a position to provide each utilities response, as well as which utilities responded to each survey. Please note that the response to PUB/MH II-52 provides where all respondents were or were not capitalizing certain costs. To provide a list of the utilities that responded to each survey would thus make public an individual utilities capitalization practices which would violate CEA convention. Manitoba Hydro can, however, provide a list of which utilities provided a response to either both or one of the surveys. The list of utilities is as follows: BC Hydro, Hydro One, Ontario Power Group (OPG), Hydro Quebec, Newfoundland Power, Newfoundland & Labrador Hydro, Nova Scotia Power (Emera), New Brunswick Power, Fortis Alberta, Hydro Ottawa, EPCOR, Toronto Hydro, Horizon Utilities, Enmax, Yukon Energy, EPCOR

Overall, responses to the surveys identified that:

- Utilities were not capitalizing depreciation or finance charges on common buildings such as head offices;
- Utilities were not capitalizing finance charges on fleet vehicles;
- The majority of utilities were not capitalizing executive costs where a relationship to capital could not be made; and
- The majority of the indirect IT related costs that were capitalized involved support costs for systems involved in the development of plant capital assets or in the development of specific IT assets.

In addition to the surveys, Manitoba Hydro held discussions with its external auditor and IFRS consultant so as to confirm its understanding of the responses and to confirm that Manitoba Hydro's proposed changes would comply with the requirements of CGAAP and the requirements of IFRS upon transition. The changes implemented to date by Manitoba Hydro are compliant with CGAAP and have been fully endorsed by our external auditor Ernst & Young.

The following pages provide the survey questions issued by Manitoba Hydro to the CEA members:

Information Request #1:

Date: August 2008

Distributed to full CEA membership as it pertained to CGAAP

At Manitoba Hydro (MH) we capitalize the following direct and indirect costs:

- Direct wages for planning, engineering, and constructing assets.
- Direct Benefits (such as pension costs, health benefits, insurance, etc.)
- Indirect Benefits (such as vacations, sick time, staff training time).
- Departmental administrative costs (such as office costs, facilities, administrative support).
- Direct and General Supervisory costs for capital programs.
- Information Technology costs (project management, time capture, capital reporting, etc.)
- Vehicle and work equipment costs.
- Tools and work equipment costs.
- Depreciation & finance costs for facilities, vehicles, heavy work equipment, computer systems, etc. used in/for capital projects- allocated via one corporate overhead rate.
- Procurement, warehousing, and transportation costs for materials - allocated via one Corporate overhead rate.
- Overheads, including executive, accounting, human resources and other administrative and general costs are allocated via one corporate overhead rate.

Please identify any items on the above list that you do not capitalize or any items not identified on the list that you do capitalize.

Information Request #2:

Date: June 2011

Distributed to full CEA membership as it pertained to CGAAP and IFRS

**MANITOBA HYDRO CEA SURVEY
 Overhead Costs Capitalized in PP&E**

Manitoba Hydro is investigating the capitalization of certain overhead charges. We have identified the following charges as potentially ineligible for capitalization under IFRS. Previously, Manitoba Hydro charged a percentage of these costs to capital projects under CGAAP.

Please review and indicate if your company is charging capital projects with the costs of such activities and if so, please identify the method for the allocation of such costs (eg. time carding, % of labour hours charged to a project, etc.)

- Y - Yes
- N - No
- P - Partially

Department	Activity	Capitalize under Canadian GAAP (Y/N/P)	Capitalize Under IFRS (Y/N/P)	If any of the activities identified are partially capitalized, please explain nature of costs capitalized
Human Resource Services	Recruitment, termination, disciplinary advisory related services			
	Contract negotiations/collective agreements			
	Compensation and benefit management			
	Payroll processing			
Financial services	Management accounting and reporting			
	Budget processing and reporting			
	Long-term planning and forecasting			
	Taxation			
Corporate Planning	Corporate Strategic planning			
Facility Management – Office Buildings	Management of office space planning and related furniture requirements			
	Maintenance on buildings (office and operational)			
	Depreciation on buildings			
	Internal, external mail management			
	Print and Graphic services			
Environmental Services	Ensure compliance with environmental regulations and ISO certification			
Corporate IT systems - Depreciation and Support costs	Human Resource systems			
	Corporate Financial systems (SAP)			

Attachment # 1

The following is a list of utilities participating in the Finance & Accounting Committee of the Canadian Electrical Association:

Finance & Accounting Committee Members
CEA MEMBERS
1. Altalink
2. Algonquin Power
3. ENMAX
4. Nalcor
5. Hydro Ottawa
6. Fortis Alberta
7. Maritime Electric
8. TransCanada
9. NB Power
10. Toronto Hydro
11. Hydro One
12. Manitoba Hydro
13. BC Hydro
14. OPG
15. Northwest Territories Power Corporation
16. Fortis Inc.
17. Fortis BC
18. Newfoundland and Labrador Hydro
19. ATCO Power Ltd
20. Emera Inc.
21. Yukon Energy Corporation
22. TransAlta Corporation
23. Hydro Quebec
24. EPCOR
25. Newfoundland Power
26. Capital Power Corporation
27. Horizon Utilities
28. SaskPower

Section:	PUB/MH I-35b	Page No.:	
Topic:	OM&A		
Subtopic:	EFTs		
Issue:	Conawapa		

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please provide Conawapa EFTs and Payroll Cost by Business Unit as they exist for forecast years past 2016/17.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

As discussed in the response to PUB/MH-I-23d, IFF14 was prepared based on the assumption that Manitoba Hydro would not proceed with any further activities associated with the Conawapa Generating Station after 2016/17. As such there are no EFTs or payroll costs in the forecast beyond 2016/17 for Conawapa.

Section:	Appendix 5.5	Page No.:	Figures 5.5.1, 5.5.13
Topic:	OM&A		
Subtopic:	Accounting Changes		
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

Please advise on the approximate amount of additional time and effort required by Manitoba Hydro to produce tables and financial analysis showing results before and after accounting changes. Does a “before and after accounting” analysis exist for all financial information produced in support of the GRA? Please provide the approximate amount of additional time and effort to have prepared that analysis. If it has not been done, approximately how much additional time would be required to produce a “before and after accounting” analysis for any other parts of the financial information produced in support of the GRA?

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A changes in forecast years.

RESPONSE:

Manitoba Hydro has quantified and provided analyses of all accounting changes in order to provide an understanding of the impact of these changes on the financial results of the Corporation. Please see Tab 5, Schedule 5.1.4 and Schedule 5.1.6 for the OM&A and Depreciation & Amortization presentation of ‘before and after accounting’ changes. Also, please see Appendix 5.7 for a summary of the accounting policy and estimate changes in MH14.

Various analyses was undertaken in order to determine the impact of accounting changes as the data is not segregated in the Corporations accounting systems. The time and effort required varies dependant on the complexity of the analysis and is not separately tracked.

Section:	Tab 5, Sections 5.14.7 & 5.14.8	Page No.:	OM&A
Topic:	Cost Controls and Budgeting		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):**QUESTION:**

With respect to cost savings initiatives for Asset Management Strategies and Technology Modernization Initiative for Better Capital Investment Decisions, there is reference to analysis and detailed investigation. Please advise if reports exist or are expected to be produced with respect to such analysis and detailed, and if so when? If they provide recommendations or options on cost savings which are not included in 5.14.7 and 5.14.18, please provide a copy of any such recommendations or options on cost saving and the expected amount of those savings.

RATIONALE FOR QUESTION:

MIPUG is reviewing OM&A charges in forecast years.

RESPONSE:

Specific reports pertaining to cost saving initiatives related to Asset Management or Technology Modernization are not available or are in progress as the initiatives evolve. While these initiatives are intended to support the Corporation's effective management of its operating and capital costs, and reduce expenditures where possible, they are long term process improvements where precise cost savings are difficult to quantify.

As noted in the response to PUB/MH-I-70a, expected savings from cost containment initiatives that seek to streamline processes through the use of technology or other measures are not easily quantifiable.