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February 25, 2016

Mr. D. Christle  
Secretary and Executive Director  
Public Utilities Board  
400-330 Portage Avenue  
Winnipeg, Manitoba  
R3C 0C4

Dear Mr. Christle:

**RE: MANITOBA HYDRO - ACCOUNTING TREATMENT OF PUB FINDINGS ON  
DEPRECIATION AND OVERHEADS**

In advance of the closing of its financial statements for the 2015/16 fiscal year, Manitoba Hydro is requesting confirmation from the Public Utilities Board of Manitoba (“PUB”) that the Corporation’s proposed accounting treatment as outlined below is consistent with the intent of the findings in Order 73/15 with respect to depreciation and overheads ineligible for capitalization.

On July 24, 2015, the PUB issued Order 73/15 with respect to Manitoba Hydro’s 2015/16 & 2016/17 Electric General Rate Application (“GRA”). In that Order at page 46, the PUB found that Manitoba Hydro should retain its existing Canadian Generally Accepted Accounting Principles (“CGAAP”) Average Service Life (“ASL”) methodology for rate-setting purposes until Directives 8 and 9 from Order 43/13 have been complied with and the PUB has been provided with an IFRS-compliant depreciation study based on ASL. At page 45 of Order 73/15, the PUB accepted Manitoba Hydro’s proposal to remove negative salvage from its depreciation rates effective April 1, 2015.

Additionally, at pages 35-36 of Order 73/15, the PUB noted that overheads no longer eligible for capitalization have increased since the 2012/13 & 2013/14 GRA and the PUB indicated that the additional \$20 million of ineligible overheads should continue to be capitalized for 2015/16 for rate-setting purposes.

Consistent with the accounting treatment proposed by Manitoba Hydro and confirmed by the PUB for the Demand Side Management Deferral Account established in Order 43/13, Manitoba Hydro’s proposed accounting treatment for the 2015/16 fiscal year is as follows:

1. Record the difference between depreciation expense calculated for financial reporting purposes based on International Financial Reporting Standards (“IFRS”) compliant

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Equal Life Group depreciation rates and depreciation expense calculated for rate-setting purposes based on CGAAP ASL depreciation rates (excluding negative salvage), as a regulated liability along with a corresponding regulated asset; and,

2. Record the difference between Operating & Administrative ("O&A") expense calculated for financial reporting purposes and O&A expense excluding the additional overheads to be capitalized (i.e. \$20 million), as a regulated liability along with a corresponding regulated asset.

Manitoba Hydro is respectfully seeking the PUB's confirmation that its proposed accounting treatment is consistent with the intent of the findings in Order 73/15, which will allow Manitoba Hydro to close its financial statements for the 2015/16 fiscal year. A review of the disposition of the proposed regulated liability and asset balances can be considered at the next GRA.

Given that the amounts in question are material to the financial statements and that the Corporation is preparing for its year-end audit process, Manitoba Hydro respectfully requests that confirmation be provided by the PUB by March 24, 2016.

Should you have any questions with respect to the forgoing, please do not hesitate to contact the writer at 204-360-3633 or Shannon Gregorashuk at 204-360-4270.

Yours truly,

**MANITOBA HYDRO LAW DIVISION**

Per:



**ODETTE FERNANDES**  
Barrister & Solicitor



April 4, 2016

Manitoba Hydro  
Legal Department  
22<sup>nd</sup> Floor, 360 Portage Avenue  
Winnipeg, MB R3C 2P4

**Attention: Odette Fernandes**

**VIA EMAIL**

Dear Madam:

**Re: Manitoba Hydro  
March 10, 2016 Request for Accounting Clarification**

The Board is in receipt of Manitoba Hydro's correspondence of February 25, 2016 (a copy of which is attached) seeking the Public Utilities Board's ("Board") clarification with respect to the 2015/16 fiscal year treatment of various accounting matters in light of Manitoba Hydro's implementation of International Financial Reporting Standards ("IFRS") and the Board Directives issued in Order 73/15.

Order 73/15 stated, in part, as follows:

8. The removal of net salvage from 2015/16 depreciation rates in the 2014 Depreciation Study **BE AND IS HEREBY APPROVED.**
9. The incorporation of the use of the Equal Life Group methodology to set depreciation rates in 2015/16 as set out in the 2014 Depreciation Study **BE AND IS HEREBY DENIED.**
10. Manitoba Hydro is to continue to use its existing Average Service Life Methodology for calculating depreciation rates for rate-setting purposes until the Board is satisfied that a change in methodology is warranted.

The Board further stated that:

At the last General Rate Application (GRA), the Board agreed that the accounting changes were appropriate for 2012/13 and 2013/14 and that no further accounting changes be made for rate-setting purposes until the Board had received an IFRS status update. The Board understood that with the adoption of IFRS, additional overhead costs of \$36 million per year would no longer be capitalized. The quantum of those costs has increased materially in Manitoba Hydro's IFRS Status Update, by \$20 million per year.

The Board understands that Manitoba Hydro has made changes in 2012/13 to its integrated cost allocation methodology and overhead rates in its compliance with IFRS. The increases in overhead costs have been primarily attributed to changes in capital activity and overhead allocations. The Board will not accept the higher level of OM&A costs requested in this application but will allow \$36 million of additional costs to be expensed for 2015/16 as indicated in the last GRA. The remaining administrative costs will continue to be capitalized as per existing practices.

In its February 25, 2016 correspondence, Manitoba Hydro seeks confirmation from the Board that the following proposed accounting treatment is consistent with the intent of the findings in Order 73/15:

1. Record the difference between depreciation expense calculated for financial reporting purposes based on International Financial Reporting Standards ("IFRS") compliant Equal Life Group depreciation rates and depreciation expense calculated for rate-setting purposes based on CGAAP ASL depreciation rates (excluding negative salvage), as a regulated liability along with a corresponding regulatory asset.
2. Record the difference between Operating & Administrative ("O&A") expense calculated for financial reporting purposes and O&A expense excluding the additional overheads to be capitalized (i.e. \$20 million), as a regulated liability along with a corresponding regulated asset.

At the outset, the Board clarifies that its mandate with respect to prescribing accounting methods is limited to determining the appropriate accounting for rate-setting purposes, but not for financial reporting purposes. While in the Board's view, it would be preferable for Manitoba Hydro's financial statements to be consistent with the Board-approved rate-setting methodology, the Board cannot provide the requested guidance as to how Manitoba Hydro should prepare its financial statements for financial reporting purposes. As such, both Manitoba Hydro and Centra should seek the appropriate guidance from their internal and external accounting advisors with respect to their options and obligations under IFRS to comply with the directives of Board Order 73/15. This should include a consideration of whether there is any risk of the utility having to re-state its financial statements in the future if the financial reporting methodology does not align with the Board-approved rate-setting methodology.

With respect to accounting adjustments used in the preparation of financial forecasts for rate setting purposes, the Board does not understand Manitoba Hydro's proposed accounting treatment to be consistent with the Board's intent in Order 73/15. For rate-setting purposes, the Board considers Attachment 46 Scenario 2 filed by Manitoba Hydro in its recent application for interim April 1, 2016 rates to be consistent with intent of Order 73/15.

This matter will be further reviewed at the next Manitoba Hydro General Rate Application. For financial reporting purposes, the Board encourages Manitoba Hydro to seek appropriate accounting advice as to the options and to determine how the Board's previous rulings should be reflected in the Utility's 2015/16 fiscal year financial statements.

Yours truly,

*"Original Signed By"*

Kurt Simonsen  
Associate Secretary

Attachment

c.c. Interveners of Record