Order No. 51/24

ORDER IN RESPECT OF AN APPLICATION BY MANITOBA HYDRO
TO
REVIEW AND VARY ORDER 101/23

April 30, 2024

BEFORE: Robert Gabor, K.C., Board Chair
Marilyn Kapitany, B.Sc., M.Sc., Vice Chair
George Bass, K.C., ICD. D., Member
Carol Bellringer, FCPA, FCA, Member

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1.0 EXECUTIVE SUMMARY

This order varies Directives 19(g) and (h) of Order 101/23, which state that:

> *g) until Manitoba Hydro's next depreciation study, Manitoba Hydro is to use the level of componentization in the utility's 2019 depreciation study prepared by Concentric Energy Advisors and determine depreciation expense for rate-setting purposes using the depreciation accrual rates based on the Average Service Life (ASL) methodology set out in that study;*
>
> *h) if the utility determines, through professional accounting advice, that determining depreciation expense in accordance with clause (g) is not compliant with International Financial Accounting Standards (IFRS), Manitoba Hydro is to write off any difference in depreciation expense and is directed not to establish a regulatory deferral account for the difference;*

Manitoba Hydro has determined that for the 2019 depreciation study to be IFRS-compliant, the utility requires an additional 43 asset component classes. The increase in components results in an annual increase in depreciation expense of approximately $35 million. It has applied to the Board for approval to establish a temporary regulatory deferral account in which to accrue these amounts over two years, until the next general rate application. As an alternative, Manitoba Hydro seeks confirmation from the Board that the utility may include the additional amount in depreciation expense for rate-setting purposes. The utility has advised that one of these two measures is required to allow it to reconcile the financial statements used for financial reporting purposes with the financial statements used for rate-setting purposes.

While the Board denies Manitoba Hydro's preferred relief of establishing a regulatory deferral account, it approves the alternate relief of allowing the utility to include the amount in depreciation expense for rate-setting purposes. This decreases net income and retained earnings by an equivalent amount and does not affect the rates the Board previously approved in Order 101/23. The Board finds the alternate requested relief to be a pragmatic solution that will allow Manitoba Hydro to consolidate the two separate sets of accounting records the utility has been keeping for financial reporting and rate-setting purposes since 2015.

2.0 BACKGROUND

2.1 The 2023/24 & 2024/25 General Rate Application

In 2023, the Public Utilities Board ("Board") heard Manitoba Hydro's 2023/24 & 2024/25 General Rate Application to approve electricity rates for the 2023/24 and 2024/25 fiscal years. Following the hearing, the Board issued Order 101/23 which approved a 1.0% average rate increase effective September 1, 2023 and another 1.0% increase effective April 1, 2024.

To set and approve electricity rates, the Board considers Manitoba Hydro's projected revenue requirement for each fiscal year. The utility's revenue requirement includes depreciation expense, by which the capital cost of Manitoba Hydro's infrastructure projects is recovered gradually over the expected life span of the assets. For this purpose, Manitoba Hydro contracts an external depreciation consulting firm to prepare a depreciation study that assesses the current condition of Manitoba Hydro's assets and the appropriate depreciation rates for those assets.

Depreciation studies are based on grouping assets and depreciating every group as a whole rather than separately depreciating each asset in the group. There are different methodologies to group assets. For many years, Manitoba Hydro has used the Average Service Life ("ASL") methodology, which groups assets by type and focuses on the average life span of those assets. In the 2012/13 & 2013/14 General Rate Application, Manitoba Hydro advised the Board that it intended to switch to the Equal Life Group ("ELG") methodology as part of the adoption of International Financial Reporting Standards ("IFRS"). In Order 43/13, the Board directed Manitoba Hydro to provide a comparison study between ELG and IFRS-compliant ALS and ruled that, until that time, Manitoba Hydro needed to continue to use the ALS methodology for rate-setting purposes.

In the 2014/15 and 2015/16 General Rate Application, Manitoba Hydro produced an extrapolation study instead of a full comparison study. The Board was not satisfied with the extrapolation study and, in Order 73/15, directed Manitoba Hydro to continue to use

ASL for rate-setting purposes until a full comparison study was filed. In the meantime, Manitoba Hydro began to use ELG for financial reporting purposes on April 1, 2015, the date the utility transitioned to IFRS accounting. Since then, it has maintained two separate sets of accounting records — one for financial reporting purposes and one for rate-setting purposes.

To reconcile Manitoba Hydro's two sets of accounting records, the utility established a regulatory deferral account it called the Change in Depreciation Method Deferral Account. In the most recent general rate application, Manitoba Hydro sought the Board's approval to amortize that account.

While both the ELG and ASL methodologies are appropriate under IFRS, Manitoba Hydro maintained that its existing ASL methodology was not IFRS-compliant and that an IFRS-compliant ASL depreciation study would require a significant increase in the number of asset components.

In the 2023/24 & 2024/25 General Rate Application, Manitoba Hydro filed an IFRS-compliant depreciation study prepared by Alliance Consulting Group ("Alliance"). Manitoba Hydro also filed a comparison contrasting the IFRS-compliant ASL methodology to the ELG methodology. Manitoba Hydro's last depreciation study under the existing ASL methodology (without an increase in components) was a 2019 study prepared by Concentric Energy Advisors ("Concentric").

The 2019 Concentric depreciation study grouped assets into 371 component groups for both ELG and ASL depreciation. The 2022 Alliance study increased this by 410 components, to a total of 781. Largely as a result of this increase in components, depreciation expense under the proposed IFRS-compliant ASL methodology was approximately $40 million per year higher than under the 2019 Concentric study.

2.2 Directive 19 of Order 101/23

The Board, in Order 101/23, made a final determination directing Manitoba Hydro to continue to use the ASL methodology of depreciation for rate-setting purposes and denied the recovery of the amounts accumulated in the Change in Depreciation Method Deferral Account The Board also found that the 2022 IFRS-compliant ASL depreciation study contained "an excessive level of componentization intended to mimic the effect of an ELG methodology" and, in Directive 19 of Order 101/23, ruled that:

> *19. Manitoba Hydro's application to determine depreciation expense using the Equal Life Group (ELG) methodology while ceasing the deferral of interim gains and losses BE AND HEREBY IS DENIED. Instead, the Board directs that depreciation expense be determined using the following methodology:*
>
> > *a) Manitoba Hydro is to continue to use the Average Service Life (ASL) methodology, also known as the Average Life Group (ALG) methodology;*
> >
> > *b) Manitoba Hydro is to continue to use the whole life technique;*
> >
> > *c) interim gains and losses are to be deferred into the Loss on Retirement or Disposal of Assets Deferral Account and amortized over the respective weighted average remaining life of the Manitoba Hydro, KHLP and WPLP asset components contributing to the deferral balance;*
> >
> > *d) the portion of the existing balance in the Loss on Retirement or Disposal of Assets Deferral Account relating to the deferral of interim gains or losses is to be treated in the same manner as set out in clause (c);*
> >
> > *e) future terminal losses are not to be deferred without the prior approval of the Board;*
> >
> > *f) the portion of the existing balance in the Loss on Retirement or Disposal of Assets Deferral Account relating to terminal losses of approximately $43 million for the decommissioning of the Selkirk Generating Station is not to be amortized;*

g) until Manitoba Hydro's next depreciation study, Manitoba Hydro is to use the level of componentization in the utility's 2019 depreciation study prepared by Concentric Energy Advisors and determine depreciation expense for rate-setting purposes using the depreciation accrual rates based on the Average Service Life (ASL) methodology set out in that study;

h) if the utility determines, through professional accounting advice, that determining depreciation expense in accordance with clause (g) is not compliant with International Financial Accounting Standards (IFRS), Manitoba Hydro is to write off any difference in depreciation expense and is directed not to establish a regulatory deferral account for the difference;

i) in preparing Manitoba Hydro's next depreciation study, the utility is to re-evaluate the level of componentization reasonably required under an IFRS-compliant Average Service Life (ASL) methodology and make adjustments to the existing level of componentization if necessary;

j) in revising the level of componentization in accordance with clause (i), Manitoba Hydro is to avoid a level of componentization intended, or that could reasonably be constructed to be intended, to recreate the effect of using the Equal Life Group (ELG) methodology to determine depreciation expense;

k) Manitoba Hydro is to begin determining depreciation expense in accordance with this Directive on September 1, 2023, without a phase-in period or a deferral account in respect of a phase-in.

2.3 Manitoba Hydro's Application to Review & Vary Directive 19

Following the release of Order 101/23, Manitoba Hydro conducted an internal analysis on what minimum level of depreciation would be required for an IFRS-compliant ASL methodology. Based on an analysis conducted by an in-house Certified Depreciation Professional employed by Manitoba Hydro, the utility determined that a minimum increase of 44 components would be required for compliance with IFRS. Manitoba Hydro plans to implement the increased componentization for the 2023/24 fiscal year.

To determine the minimum number of components, the utility analyzed different componentization scenarios of several asset categories against what the utility calls “coverage”, meaning how closely the outcome of the approach mirrors the financial outcome of Alliance’s IFRS-compliant ASL depreciation study. For this purpose, 100% “coverage” would be equal to the financial outcome of the Alliance study. Manitoba Hydro considers it appropriate to achieve a “coverage” of at least 80%. For each major component category, Manitoba Hydro analysed three different componentization scenarios, ultimately settling on those scenarios that met the self-imposed 80% test. Figure 1.1 illustrates how the resulting increase of 44 components is divided among Manitoba Hydro’s asset categories:

ALG Depreciation Methodology Number of Components	Existing ELG & CGAAP	Alliance Proposed IFRS-ALG	Alliance Proposed Net Increase	Minimum Component IFRS-ALG	Minimum Component Net Increase
Hydraulic Generation *	218	531	313	255	37
Thermal Generation	21	30	9	20	-1
Diesel Generation	5	10	5	6	1
Transmission Lines	7	9	2	8	1
Substations	20	40	20	21	1
Distribution Lines	18	21	3	19	1
Distribution Meters	4	4	0	4	0
Communication	10	23	13	11	1
Motor Vehicles	7	7	0	7	0
Buildings	5	7	2	5	0
General Equipment	4	6	2	4	0
Easements	1	1	0	1	0
Computer Software & Development	5	9	4	5	0
Manitoba Hydro	325	698	373	366	41
Wuskwatim Power Limited Partnership	22	40	18	23	1
Keeyask Hydropower Limited Partnership	24	43	19	25	1
Total - Electric Operations	**371**	**781**	**410**	**414**	**43**
Centra Gas	24	27	3	25	1
Minell Pipelines	6	6	0	6	0
Total - Consolidated	**401**	**814**	**413**	**445**	**44**
* Hydraulic Generation - max per GS	14	42	28	18	4
Not all components are currently in use at every GS. Component use is site specific based on nature of existing assets.					

Figure 1.1 — Proposed Increase in Componentization

The financial outcome of the increased componentization is an anticipated annual increase in depreciation expense of $35 million, as illustrated in Figure 1.2.

Manitoba Hydro Consolidated Electric Operations
Impact of 2019 CGAAP ASL to IFRS ALG
2023/24 Depreciation & Amortization for Rate Setting Purposes
Fall 2023 Preliminary Forecast
(millions)

	Compliance Filing CGAAP-ASL	Minumum Component IFRS-ALG *	Difference IFRS-ALG vs CGAAP-ASL
Depreciation & Amortization	$ 574	$ 609	$ 35

* Minumum component depreciation expense has been estimated by extrapolating the impacts determined for assets in service as at March 31, 2019. This estimate will be updated once work has been completed to determine current balances for accounts impacted by IFRS-ALG componentization.

Figure 1.2 — Anticipated Increase in Depreciation Expense

Manitoba Hydro is taking the position that the 2019 ASL depreciation rates cannot be used for financial reporting purposes. The utility is concerned that if it must use those rates for rate-setting purposes, it will continue to have to maintain two sets of accounting records to reconcile the $35 million annual difference in depreciation.

Manitoba Hydro proposes that the issue of componentization be explored more fully at the next general rate application and seeks the following through its application to review and vary Directive 19 of Order 101/23:

- approval to establish a time-limited regulatory deferral account to record the difference between depreciation expense calculated using the 2019 ASL Concentric study and IFRS-compliant depreciation expense calculated using Manitoba Hydro's proposed methodology; or

- in the alternative, confirmation from the PUB that writing off any difference in depreciation expense would increase actual depreciation expense for rate-setting purposes, resulting in higher book-accumulated depreciation and lower retained earnings for the test years in the 2023/24 & 2024/25 General Rate Application.

Manitoba Hydro indicates that the alternative relief would allow the utility to modify its net income for rate-setting purposes to match financial reporting.

2.4 The Board's Authority to Review and Vary an Order

Subsection 44(3) of *The Public Utilities Board Act* allows the Board to review, rescind, change, alter, or vary any decision or order made by it. This provision applies to Order 101/23 by virtue of the former subsection 25(3) of *The Crown Corporations Governance and Accountability Act*. While that Act no longer applies to Manitoba Hydro rates, a transitional provision included as section 65 of *The Manitoba Hydro Amendment and Public Utilities Board Amendment Act*, S.M. 2022, c. 42 made it apply to the 2023/24 & 2024/25 General Rate Application.

The Board's process for an application to review and vary an order is set out in section 36 of the Board's *Rules of Practice and Procedure*. The relevant provisions state as follows:

> *(3) An application for a review must be filed and served on the parties to the proceeding for which the order or decision of the Board was made within 30 days of the date of the order or decision.*
>
> *(4) The Board shall determine, with or without a hearing, in respect of an application for review, the preliminary question of whether the matter should be reviewed and whether there is reason to believe the order or decision should be rescinded, changed, altered or varied.*
>
> *(5) After determining the preliminary question under subsection (4), the Board may:*
>
> *a) dismiss the application for review if,*
>
> *i) in the case where the applicant has alleged an error of law or jurisdiction or an error in fact, the Board is of the opinion that the applicant has not raised a substantial doubt as to the correctness of the Board's order or decision; or*
>
> *ii) in the case where the applicant has alleged new facts not available at the time of the Board's Hearing that resulted in the order or*

decision sought to be reviewed or a change of circumstances, the Board is of the opinion that the applicant has not raised a reasonable possibility that the new facts or the change in circumstances as the case may be, could lead the Board to materially vary or rescind the Board's order or decision;

or

b) grant the application; or

c) order a hearing or proceeding be held.

2.5 Procedural Submissions

After receiving Manitoba Hydro's application, the Board sought procedural submissions from parties to the 2023/24 & 2024/25 General Rate Application. Three interveners (the Assembly of Manitoba Chiefs, the Manitoba Industrial Power Users Group, and Manitoba Keewatinowi Okimakanak) recommended that the Board receive written submissions from the parties. In contrast, the Consumers Coalition submitted that Manitoba Hydro provided insufficient evidence as to why the Board should grant an extension to the 30-day deadline set out in Rule 36(3) and how the application passes the threshold test set out in Rule 36(4). The Consumers Coalition points out that Order 101/23 arose from a lengthy hearing with thousands of pages of evidence, and that the Board specifically directed Manitoba Hydro not to establish a deferral account.

As an alternative recommendation in case the Board is prepared to consider Manitoba's application on its merits, the Consumers Coalition recommends a limited round of written information requests to Manitoba Hydro because, in its view, the application lacks sufficient information to justify Manitoba Hydro's preferred relief of a deferral account. The Consumers Coalition submitted that it was unnecessary for the matter to be decided by April 30, 2024 because the issue qualifies as an "adjusting event" under International Accounting Standard 10. As such, the financial statements could be adjusted up to the time those statements are approved by Manitoba Hydro's board of directors.

In reply, Manitoba Hydro reiterated that a decision of the Board was required to avoid two sets of accounting records, and that direction from the Board is essential in bringing necessary and final clarity to the issue. With respect to the 30-day deadline set out in Rule 36(3), Manitoba Hydro submitted that the Consumers Coalition equally did not provide a reason as to why the Board should refuse to exercise its discretion, nor did it cite any resulting prejudice. Manitoba Hydro pointed out that the Board has previously exercised its discretion to extend the 30-day timeframe, most recently in Order 106/23. Manitoba Hydro suggested that information requests were not necessary because the Board could review componentization and make a determination on the issue at the next general rate application.

2.6 The Board's Ruling on Procedural Matters

The Board considered the procedural submissions of the parties and, on April 15, 2024, advised the parties by letter that the Board was prepared to consider Manitoba Hydro's application on its merits based on written submissions from the parties but no information requests. The Board limited the written submissions to the following issues:

- Does the party agree that under either of Manitoba Hydro's proposed approaches, there is no impact on 2023/24 and 2024/25 rates that have already been fixed by the Board?
- If not, please explain the party's rationale and its recommendation on how the Board should resolve the rate impact (including denying Manitoba Hydro's application, if applicable).

The submissions received in response to the Board's April 15, 2024 letter are summarized in section 3.0 of this order.

3.0 SUBMISSIONS OF THE PARTIES

In response to the Board's letter of April 15, 2024 described in section 2.6 of this order, the Board received submissions from the Consumers Coalition, the Representative of the General Service Small & General Service Medium Customer Classes ("GSS/GSM Representative") and the Manitoba Industrial Power Users Group ("MIPUG"). Manitoba Hydro also filed reply submissions. The submissions of the various parties are summarized below.

3.1 Consumers Coalition

The Consumers Coalition reiterates its earlier procedural submission that the Board should dismiss Manitoba Hydro's application. In the view of this intervener, the Board already provided the alternative relief sought by Manitoba Hydro in Directive 19(h) of Order 101/23. Dismissing the application would efficiently resolve the process and provide Manitoba Hydro with sufficient audit evidence with respect to its 2023/24 financial statements.

The Consumers Coalition acknowledges that Manitoba Hydro's proposal does not have a rate impact for 2023/24 and 2024/25. However, it cautions that Manitoba Hydro's preferred relief will cause significant costs to be borne by consumers in future years when the utility will want to recover the deferred amounts through rates. It emphasizes that the account will accrue at least $70 million that will have to be paid by future ratepayers. This compounds the uncertainty of existing rate pressures. In the submission of the Consumers Coalition, the alternate relief sought by Manitoba Hydro would avoid the imposition of upward rate pressure because the expense would be merely written off.

3.2 GSS/GSM Representative

The GSS/GSM Representative indicates that it supports taking a pragmatic approach that minimizes additional costs to be incurred by the parties while ensuring that no party is prejudiced from taking a position contrary to Manitoba Hydro's proposed componentization and other related issues.

The GSS/GSM Representative acknowledges that neither of Manitoba Hydro's proposals has a rate impact for 2023/24 and 2024/25. However, it prefers Manitoba Hydro's alternate option because it avoids the need to address a deferral account balance in the next general rate application. In the view of this intervener, the Board should weigh the costs involved in maintaining two sets of accounting records and states that deferring the issue to the next general rate application will be procedurally efficient.

3.3 Manitoba Industrial Power Users Group

MIPUG emphasizes that it participated in the Depreciation Working Group established during the last general rate application and that the group accepted measures akin to Manitoba Hydro's proposed deferral account as part of a permanent resolution of the depreciation issue. However, considering that the Board specifically rejected this aspect of the conclusions reached by the Depreciation Working Group, MIPUG supports the alternate option proposed by Manitoba Hydro. In MIPUG's view, neither option would affect 2023/24 and 2024/25 rates, but the alternate option would reduce future depreciation expense because a larger accumulated depreciation expense would exist at the start of the next general rate application.

4.0 BOARD FINDINGS

4.1 Extension of the 30-Day Timeline

In the 2023/24 & 2024/25 General Rate Application, the Board directed a collaborative process to resolve the longstanding issues relating to the depreciation methodology. This included a final determination of whether Manitoba Hydro should use the ELG or ASL methodologies and how to treat the existing deferral accounts Manitoba Hydro had established prior to its anticipated Board approval. Through a facilitator appointed by the Board, the parties ultimately proposed two alternative approaches. The ASL option as discussed by the parties envisioned a transition period that the Board did not include in Directive 19 of Order 101/23. The Board accepts that, following Directive 19, Manitoba Hydro had to seek accounting advice on implementing the directive and conduct additional analysis. While it is likely that the utility could have brought its application to review and vary Directive 19 earlier, the Board considers it appropriate to exercise its discretion to receive Manitoba Hydro's application outside the 30-day timeline set out in Rule 36(4).

4.2 The Preliminary Question

The Board similarly finds that Manitoba Hydro's application meets the preliminary threshold test set out in Rule 46(5). While the Board provided a specific directive prohibiting Manitoba Hydro from establishing a deferral account, the Board issued the directive without the benefit of any analysis of depreciation rates under a minimum-componentization IFRS-compliant ASL methodology. The choice of depreciation methodology has been an issue since Manitoba Hydro's 2012/13 and 2013/14 General Rate Application. The emphasis in the most recent general rate application was on making a final determination of this issue that would allow the utility to reconcile and consolidate the financial statements used for financial reporting purposes with the statements used for rate-setting purposes. If an additional ruling or clarification from the Board can achieve this purpose, the Board should consider the issue rather than dismiss it summarily.

4.3 Treatment for Rate-Setting Purposes

The Board denies Manitoba Hydro's request to establish a deferral account but approves the utility's alternate request for a confirmation that any increase in depreciation expense as a result of the utility's re-componentization increases depreciation expense for rate-setting purposes. This decreases net income and retained earnings by an equivalent amount and does not affect the rates the Board previously approved in Order 101/23.

When the Board issued Order 101/23, Manitoba Hydro was not in a position to determine the impact of a minimum-componentization approach to the ASL methodology. In the general rate application, the Board received competing submissions on the level of componentization required, including evidence from an intervener expert that no additional componentization was necessary. As indicated in MIPUG's submissions, the Board considered the option of establishing a deferral account but rejected that approach in Directive 19 of Order 101/23.

While Manitoba Hydro has now provided submissions on the utility's interpretation of a minimum-componentization approach, it is apparent that componentization will be an issue in the next general rate application and that any temporary deferral account may not be reflective of actual depreciation that should accrue in 2023/24 and 2024/25. In light of this uncertainty, the Board finds that Manitoba Hydro's alternate request best reflects the spirit of Directive 19, namely a write-off of any additional depreciation amounts that accrue between now and the next general rate application.

The Board further finds that on an annualized basis, the additional depreciation expense of $35 million estimated by Manitoba Hydro is within a reasonable range of uncertainty. While it represents an approximate 6% increase to Manitoba Hydro's projected depreciation expense for the year, considered against the utility's overall revenue requirement of over $2.5 Billion, the additional amount represents an increase of less than 1.5% to the potential revenue requirement. The amount must also be contrasted against the accumulated depreciation variance of approximately $1.25 Billion in Manitoba Hydro's 2019 ASL depreciation study.

The Board agrees with Manitoba Hydro that it is preferable to maintain a single set of accounts and accordingly confirms that any increase to depreciation expense resulting from Manitoba Hydro's attempt to create a minimum-componentization approach to ASL is to be included in depreciation expense for rate-setting purposes.

This order is the culmination of a lengthy period of Manitoba Hydro maintaining separate books of account for financial reporting and rate-setting purposes. The two-books approach resulted from Manitoba Hydro's unilateral decision to implement the ELG methodology for rate-setting purposes on April 1, 2015. The Board considers its ruling in this order to be a pragmatic approach to enable the consolidation of the two sets of accounting records and move forward based on the Board's final determination of the depreciation methodology issue in Order 101/23.

5.0 IT IS THEREFORE ORDERED THAT:

1. Manitoba Hydro's application to review and vary Order 101/23 to approve the establishment of a temporary depreciation deferral account **BE AND HEREBY IS DENIED**.

2. Manitoba Hydro's application to review and vary Order 101/23 to approve the inclusion of any additional depreciation expense resulting from the utility's approach to minimum-componentization Average Service Life in the depreciation expense category used for rate-setting purposes during the 2023/24 and 2024/25 test years **BE AND HEREBY IS APPROVED**. For certainty, this directive results in net income and retained earnings being reduced by an equivalent amount and does not affect the rates approved in Order 101/23.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Robert Gabor, K.C."
Board Chair

"Rachel McMillin, B.Sc., MPA"
Associate Secretary

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issued by The Public Utilities Board

R McMillin
Associate Secretary