

**Centra Gas Manitoba Inc.**

**2019/20 General Rate Application**

**CAC Undertaking #1 – Transcript Page 527 – CAC Exhibit # \_\_\_**

**CAC Undertaking #1**

**Please provide the Journal Entry to recognize the Regulated Liability associated with the gas meter exchange labour accounting change that occurred upon transition to IFRS.**

**Response:**

Mr. Rainkie’s recommendation to recognize the cumulative impact of the gas meter exchange labour accounting change (upon transition to IFRS) as a regulated liability would require that (1) an accounting entry be made to Manitoba Hydro’s Elimination Column to derecognize/reverse the property, plant & equipment, accumulated depreciation and retained earnings recorded in Manitoba Hydro’s consolidated financial statements between 2014/15 and 2018/19 and (2) an accounting entry be made to record the net property, plant & equipment and an associated regulated liability directly in Centra’s own financial statements.

The accounting journal entries to implement this recommendation are outlined below based on the cumulative amounts provided in the response to CAC/Centra I-6 (b) (also found at page 62 of the PUB Counsel Book of Documents) and assume that the PUB will approve Centra’s proposal that these costs be capitalized and depreciated for rate-setting purposes.

**Journal Entry to derecognize amounts previously recorded in the Elimination Column of Manitoba Hydro’s Consolidated Financial Statements effective April 1, 2019 (\$ 000’s):**

Debit: Retained Earnings \$15,342

Debit: Accumulated Depreciation \$5,883

Credit: Property, Plant & Equipment \$21,225

To derecognize the cumulative property, plant & equipment, accumulated depreciation and retained earnings that were recorded in the Eliminations Column of the MH consolidated financial statements upon transition to IFRS (between 2014/15 and 2018/19) as a result of the gas meter exchange labour accounting change – which was pending review & determination by the PUB of the appropriate rate-setting treatment at the subsequent GRA.

Journal Entry to recognize the appropriate amounts in Centra's Financial Statements effective April 1, 2019 (\$ 000's):

Debit: Property, Plant & Equipment \$21,225

Credit: Accumulated Depreciation \$5,883

Credit: Regulated Liability \$15,342

To recognize in Centra's financial statements (1) the cumulative property, plant & equipment and accumulated depreciation that results from the capitalization of gas meter exchange labour to harmonize the accounting treatment with Manitoba Hydro commencing in 2014/15 and (2) the regulatory liability that results from the cumulative over-recovery of costs from customers in rates (between 2014/15 and 2018/19) – which represents the difference between the recovery of costs from customers based on the prior accounting policy of expensing costs in O&A (\$21,225) and the required recovery of costs from customers in rates based on the revised accounting policy of capitalizing and depreciating (\$5,883) these costs (\$21,225 O&A expense - \$5,883 depreciation = \$15,342 regulated liability) – to reflect the PUB decision that these costs be capitalized and depreciated for rate-setting purposes.

As outlined on pages 523 to 526 of the transcript, Mr. Rainkie's recommendations are that (1) the property, plant & equipment recorded on Centra's financial statements be depreciated into rates over a useful life of 10 years as proposed by Centra and (2) the regulated liability be amortized into rates (as a reduction of revenue requirements) over a period of three (3) years to ameliorate the intergenerational inequity associated with the over-recovery of these costs in rates during the five (5) year period between 2014/15 to 2018/19.