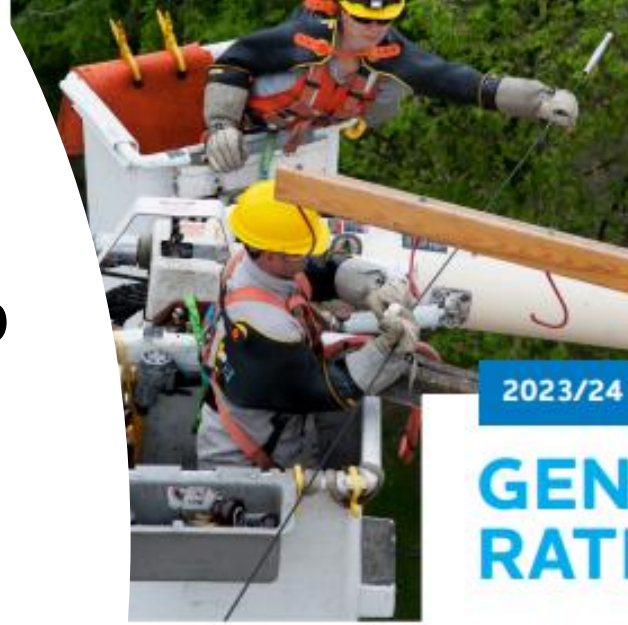


Manitoba Hydro Depreciation Position Overview

June 5, 2023



2023/24 & 2024/25

GENERAL RATE APPLICATION



Highlights

Key Objective:

Resolution of the depreciation matters in this proceeding, as there is sufficient information on record for the PUB to opine on depreciation matters.

- 1 RECOMMEND IFRS-ELG (ALTERNATIVE 1)**
Can be implemented immediately, no increase in O&A expenses or resources, no negative impact on customers and allows our employees to work on value added initiatives.
- 2 IFRS-ASL IS VIABLE BUT NOT PREFERRED (ALTERNATIVE 2)**
Resolves depreciation directive, delayed implementation due to additional work on componentization, IT system changes, training, data conversion, component implementation. There will be a permanent increase in O&A costs with no overall benefit to customers and reduced hands to tools for line staff.
- 3 ALTERNATIVES 3 & 4 NOT RECOMMENDED**
Sufficient information on depreciation matters has been provided for the PUB to opine on ELG or ALG for rate setting purposes. Directives 8 & 9 from Order 43/13 have been satisfied.

OUTLINE

- 
- 1 Position on the Six Policy Issues
 - 2 ALG is Viable but Not Preferred
 - 3 Manitoba Hydro Recommends ELG
 - 4 The Need for Amortization Periods
 - 5 Conclusion and Summary



Position on the Six Policy Issues

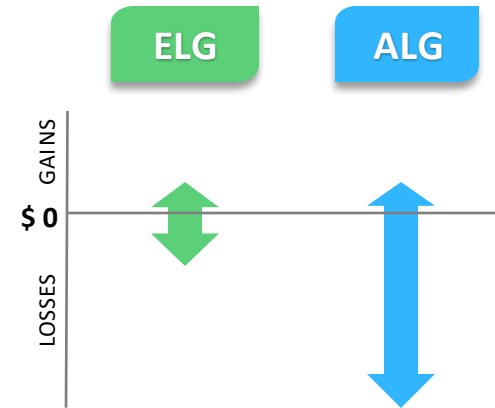
Depreciation Policy Issues

Manitoba Hydro & All Other Parties Agree:

- ✓ **IFRS** based depreciation improves comparability & understandability of the financial statements and is **preferred for rate-setting purposes**. Also removes need to maintain separate accounts for financial reporting and rate setting.
- ✓ **Whole-life technique should be maintained**. Manitoba Hydro did not intend to change its depreciation technique and has been using the whole-life technique since 2005.
- ✓ Componentization requires judgement and Management is responsible to determine level of componentization.
- ✓ It is necessary to have a **recovery mechanism** for existing regulatory deferral accounts.

Treatment of Interim Gains and Losses

- Manitoba Hydro's interpretation of IFRS is that gains and losses could not be retained within accumulated depreciation.
 - IAS 16.68 requires immediate recognition
- Magnitude of gains and losses is dependent on depreciation procedure.
- Recommended alternative (ELG) does not include deferral of gains and losses due to immateriality, but Manitoba Hydro is not opposed to continued deferral.
- Manitoba Hydro supports the deferral of gains and losses under ALG due to higher materiality and to ensure the expense pattern is reflective of the assets in service.



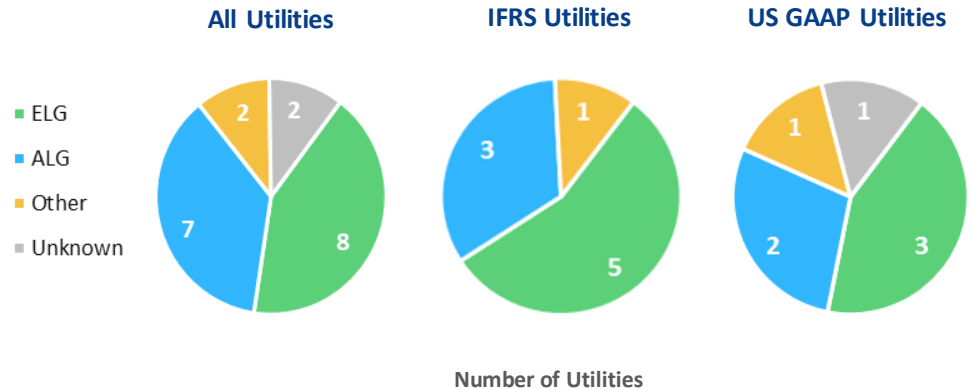
Decision to Defer or Not Defer has:
No impact on proposed customer rates
No impact on achievement of debt ratio

Use of Equal Life Group (ELG) vs Average Life Group (ALG)

Area of Divergence

- Both methods provide a rational and systematic approach to determining depreciation and both are acceptable under IFRS
- ELG is complex in theory and model development, but is not complicated once implemented
- Choice of depreciation method impacts net income but does not impact proposed customer rates
- Use of a phase-in supports reduces impact to revenue requirement, but does not change proposed rate path under either procedure

Use of ELG in Canada is Now Well Established



*Based on Manitoba Hydro research PUB/MH II-37 (statistics exclude Manitoba Hydro)
Separate pie chart not depicted for utilities using PSAS (2 utilities) or CPE GAAP (1 utility)*

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ALG is Viable but Not Preferred

ALG is Viable but Not Preferred

ALG would resolve the depreciation issues and is IFRS compliant



RATES

No reduction in proposed customer rates
No change to proposed differential rates by customer class



FINANCIAL

No change to the achievement of 70% debt ratio target by 2039/40



RESOURCES & EFFORT

Additional FTE's (operating costs) to implement and maintain the higher level of componentization
Reduced time on tools for line staff

IMPLEMENTATION REQUIRED

ALG IMPLEMENTATION REQUIREMENTS

ACCOUNTING

ASSET MANAGEMENT

FINANCIAL FORECAST

SYSTEM PROCESSING

IMPLEMENTATION REQUIREMENTS:

- Determine level of componentization
- Complete depreciation study
- Implement IT changes to SAP, C55, RUCES, CSI and RMS
- Convert all active and future capital project estimates to new subcomponents
- Provide company-wide employee training
- Develop and maintain accruals and offline spreadsheets from effective date until all data conversion is complete

Implementation delayed until 2026/27

PROJECT MANAGEMENT

PROJECT DESIGN

PROCUREMENT

TIME CAPTURE

3

Manitoba Hydro Recommends ELG

Manitoba Hydro Recommends ELG

IMMEDIATE IMPLEMENTATION

Manitoba Hydro is already using ELG for financial reporting purposes.

Implemented immediately with no additional O&A costs or resources.

ELG IS ACCEPTABLE FOR RATE SETTING

There has been a shift in Canadian electric utility depreciation practices.

Five out of Nine Canadian electric utilities reporting under IFRS use ELG.

NO FINANCIAL IMPACTS

No material impact to the proposed rate path or differential rates.

No material impact to achievement of 70% debt ratio target by 2039/40.

PHASE-IN

Increased depreciation expense is phased-in over time to smooth the impact to revenue requirement.

4

The Need for Amortization Periods

Amortization Periods are Needed

- Existing depreciation related method deferral accounts have grown to greater than \$355 million as at March 31, 2022.
- IFRS 14 requires a mechanism to recover these costs.
- Recommend using the weighted average remaining life of assets that have contributed to the accounts.
- The following depreciation deferral accounts need amortization periods:
 - Change in depreciation method deferral account
 - Loss on retirement or disposal of assets deferral account

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Conclusion and Summary

Conclusion and Summary

DECISION

There is enough information on record for the PUB to opine on depreciation matters.

Alternatives 3 & 4 are not recommended.

DEPRECIATION IS AN ESTIMATE

Asset service lives continuously change due to asset health, new technology and maintenance programs and depreciation ensures we recover the cost of our assets from our customers.

ALG IS VIABLE BUT NOT PREFERRED

Resolves depreciation directive but has a delayed implementation. There will be a permanent increase in O&A costs with NO overall benefit to customers in addition to reduced hands to tools for our line staff.

RECOMMEND ELG

ELG can be implemented immediately, has no impact on O&A, will allow our employees to work on value added initiatives and has NO impact on customers.