

2015 COST OF SERVICE METHODOLOGY REVIEW

Manitoba Hydro Undertaking # 19

Manitoba Hydro to indicate how the direct and indirect costs are calculated and the incremental costs are calculated; what methodology does Manitoba Hydro use to be able to calculate those costs; if those incremental costs are included in the cost of service study, and if so, how they're included in the cost of service study.

Response:

Manitoba Hydro determines the cost of serving a new or increased customer load by pricing the materials and labor to provide the required infrastructure. Materials are priced at their current cost plus applicable overheads. Labor for Manitoba Hydro personnel is charged at the activity rate plus applicable overheads. Manitoba Hydro also recovers indirect overhead costs which were previously capitalized with the project but are now expensed. The amount of investment allowance is determined and applied as per Manitoba Hydro customer policy. The investment allowance is an offset to the cost of service extension. The amount of labor and material cost in excess of the investment allowance is recovered from the customer by way of a payment prior to the construction of the facilities.

When these assets are put in service, the material and labor cost of these facilities are capitalized in accordance with current accounting policy. Contributions in Aid of Construction are also recorded and serve to offset the gross plant investment by the amount of the Contribution. From a cost of service perspective, the net investment (to the extent it has not been fully funded by contributions) is functionalized based on asset type and added to rate base which is used to allocate costs such as Finance Expense and Net Income. Depreciation expense is consistently functionalized based on asset type and classified and allocated accordingly.

The indirect costs associated with the project and paid by the customer which are now expensed are included as other revenue and applied as an offset to operating costs in cost of service.