



EMRYDIA

EMRYDIA CONSULTING CORPORATION PRESENTATION TO THE
MANITOBA PUB ON MANITOBA HYDRO 2023/24-2024/25 GRA
DEPRECIATION MATTERS – JUNE 5, 2023
TESTIMONY ON BEHALF OF THE GSS/GSM CUSTOMER CLASS
REPRESENTATIVES

Dustin Madsen, CPA, CA, CPA (IL,
USA), CDP, CRRA

DEPRECIATION EXPERIENCE OF DUSTIN MADSEN

More than 15 years of depreciation experience, excluding accounting experience at Deloitte.

Preparation of depreciation testimony on virtually every area of depreciation expense.

In-house and external experience managing depreciation calculations.

Active in the Society of Depreciation Professionals (instructor at Sept 2023 conference/Nominating Committee).

Created own depreciation model and have prepared depreciation studies utilizing the model.

Detailed understanding of calculations. In discussions with SDP to revise certain texts.

Have taught extensively on depreciation from the perspective of IFRS, CGAAP, and US GAAP.

SCOPE OF PRESENTATION

- Summary of process to date.
- International Financial Reporting Standards (IFRS).
- Equal Life Group (ELG) versus Average Life Group (ALG), which is also known as Average Service Life.
- Componentization
- Whole life versus remaining life.
- Determination of gains and losses and deferral of the same.
- Implementation costs and other efficiencies.

SUMMARY OF PROCESS



Manitoba Hydro filed extensive initial evidence including the traditional ELG and ALG based Concentric depreciation study and an “IFRS-compliant” average service life study.



Extensive additional information filed in response to interrogatories spanning hundreds of pages.



Collaborative and productive discussions took place between parties to resolve certain issues and identify alignment.

IFRS REQUIREMENTS FOR DEPRECIATION EXPENSE

- Depreciation expense is an estimate.
- IFRS is not prescriptive on the requirements to determine depreciation expense.
- Professional judgment, as in all things, is required and expected.
- IFRS and CGAAP are generally aligned. Nothing under CGAAP prohibited additional componentization.
- The concept of componentization stems from IAS 16.43:
 - 43. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- Gains and losses are expensed but judgment is required in the calculation.
- **Recommendation: Both ALG and ELG are “IFRS compliant”.**

ELG VERSUS ALG

- Which procedure is best?
- Both procedures will recognize the same amount of depreciation expense over the life of the assets.
- When asset accounts are growing ELG will realize greater depreciation expense than ALG, and vice versa.
- Parties agree that both procedures are acceptable and IFRS compliant.
- **Recommendation: The ALG procedure provides for a more balanced collection of costs over the life of the assets and can avoid the over collection of costs where future life extension is possible.**

COMPONENTIZATION

- Is additional componentization required to comply with IFRS? **No.**
- Would additional componentization result in a “significant” change in depreciation expense as determined under IFRS? **No.**
- Is there a benefit to refining componentization levels each test period? **Yes. IFRS requires depreciation expense to be assessed annually, and refinement is appropriate.**
- Is the level of componentization as proposed in the Alliance depreciation study necessary? **No.**
- **Recommendation: The existing level of componentization as proposed in the Concentric study is sufficient under either ALG or ELG. I am supportive of modifications as required by IFRS (i.e., either where significant or as part of the annual update process).**

WHOLE LIFE VERSUS REMAINING LIFE



Whole life and remaining life are calculated differently.



However, while the math differs the result is the same.



Use of the whole life technique in combination with the amortization of reserve account differences is easily understood and commonly applied in Canada.



Recommendation: Continue use of whole life technique in combination with the ALG procedure.

$$\text{Whole life depreciation expense} = \frac{\text{Cost} - \text{Net Salvage}}{\text{Average service life}}$$

$$\text{Remaining life depreciation expense} = \frac{\text{Cost} - \text{Net Salvage} - \text{Accum Depreciation}}{\text{Average remaining service life}}$$

DETERMINATION OF GAINS AND LOSSES

- Judgment required in determining the amount of gains and losses under either ALG or ELG.
- Deferral treatment for gains and losses is appropriate.
- The PUB should consider revisiting the issue of gains and losses in a future GRA once (or if) there is alignment of regulatory and financial reporting depreciation calculations.

IMPLEMENTATION COSTS AND EFFICIENCIES



Aligning financial reporting and regulatory reporting will save costs.



One time transition costs to implement additional componentization (if significant) are one time and should not be significant.



I disagree that Manitoba Hydro requires incremental FTEs if the ALG procedure is approved.



Reporting two different depreciation calculations and reconciling the same is the status quo and would be more onerous than alignment of the calculations as I propose.



Recommendation: Do not approve any incremental revenues for the adoption of the ALG procedure.