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April 4, 2024

THE PUBLIC UTILITIES BOARD OF MANITOBA
400-330 Portage Avenue
Winnipeg, Manitoba
R3C 0C4

ATTENTION: Dr. D. Christle, Board Secretary and Executive Director

Dear Dr. Christle:

RE: MANITOBA HYDRO REQUEST TO REVIEW & VARY DIRECTIVE 19 OF ORDER 101/23 ON DEPRECIATION MATTERS – REPLY TO INTERVENER PROCEDURAL COMMENTS

On March 22, 2024, the Public Utilities Board of Manitoba ("PUB" or "Board") invited approved interveners from Manitoba Hydro's 2023/24 & 2024/25 General Rate Application ("GRA") to provide procedural submissions on Manitoba Hydro's request to review and vary Directive 19 of Order 101/23 ("R&V Application"). Manitoba Hydro is in receipt of submissions from the Manitoba Industrial Power Users Group ("MIPUG"), the Assembly of Manitoba Chiefs ("AMC"), Manitoba Keewatinowi Okimakanak ("MKO"), and the Consumers Coalition ("Coalition"). Manitoba Hydro's reply to intervener submissions is provided herein.

MIPUG, AMC and MKO all recommended that the review process for the R&V Application be limited to written final submissions from interveners without the need for any evidentiary process. Notably, MIPUG, who together with the intervener GSS/GSM, and their respective independent experts, were most active on all depreciation matters throughout the GRA. Manitoba Hydro concurs with the proposed process of written final submissions recommended by these interveners, followed by a written reply by Manitoba Hydro.

Only the Coalition, whose intervention was more limited than other interveners at the GRA on depreciation matters, suggests that the R&V Application should be dismissed outright by the PUB, indicating that the relief sought by Manitoba Hydro has already been provided by the PUB in its letter of February 29, 2024 or, alternatively, that additional evidentiary process is required if the R&V Application is to be further considered on the basis that it is incomplete. The Coalition further suggests that the timelines for this process can be extended without impacting or prejudicing Manitoba Hydro and its required financial reporting.

Manitoba Hydro provides the following comments in reply to Coalition's submission.

Additional Clarity and Alternative Relief is Required

As noted on page 3 of the R&V Application, the direction to write off the difference in depreciation expense for rate setting purposes provided in Directive 19 h) and the Board's letter of February 29, 2024, is in direct conflict with Directive 19 g) of Order 101/23 to use the level of componentization in the Concentric Energy Advisors 2019 Average Service Life Depreciation Study ("2019 Concentric Study") to determine depreciation expense for rate-setting purposes, as the write-off would require Manitoba Hydro to increase depreciation expense for rate setting purposes to the amount recorded for financial reporting purposes.

The R&V Application was advanced to ensure that Manitoba Hydro can properly implement the direction from the PUB in Order 101/23 and in efforts to provide additional and final clarity for all parties without unintended consequences or additional confusion when depreciation matters are further addressed in the future by the PUB. As articulated in the R&V Application, Manitoba Hydro requires a PUB Order to confirm the intent of the direction in 19 h) to either allow the difference to be to written off for rate-setting purposes by increasing depreciation expense, or to permit the establishment of a regulatory deferral account to ensure depreciation expense for rate-setting reflects the PUB's direction in 19 g). Either option achieves the important objective, which all parties to the GRA agreed upon, of avoiding the need for two sets of accounting records in perpetuity that would otherwise result if depreciation expense is different for financial reporting and rate setting purposes. Manitoba Hydro strongly believes that this direction is essential in bringing necessary and final clarity to this issue for all parties prior to the next GRA.

Request to Set Aside 30-day Timeframe for R&V

Coalition submits that Manitoba Hydro's R&V Application does not provide sufficient information justifying why an extension beyond the 30-day timeframe outlined in the PUB's Rules of Practice and Procedure (the "PUB's Rules") should be granted. Manitoba Hydro commenced work on the transition to the ALG method of depreciation for financial reporting purposes shortly after Order 101/23 was issued and has completed detailed analysis to determine the minimum componentization required for compliance with International Financial Reporting Standards ("IFRS"). This necessary work could not be completed within the 30-day timeframe contemplated in the PUB's Rules. Accordingly, Manitoba Hydro was not in a position to request that Directive 19 be reviewed and varied until this work was completed.

Furthermore, once Manitoba Hydro determined that additional componentization would be required, it engaged directly with PUB representatives in an open and transparent manner attempting to clarify the intent of this Directive to reach a mutual understanding to ensure Manitoba Hydro would be complying without any potentially unintended outcomes or additional confusion for all parties moving forward. Following these discussions with PUB representatives and related correspondence, it became apparent that Manitoba Hydro would need to formally request to review and vary Directive 19 of Order 101/23 to establish a regulatory deferral account or alternatively, to seek the clarification on writing-off the difference in depreciation expense for rate-setting purposes.

Accordingly, within the R&V Application, Manitoba Hydro respectfully requested the PUB to exercise its discretion to set aside the 30-day requirement outlined in the PUB Rules to consider the R&V Application. Notably, the Coalition has not provided a reason as to why the PUB should not exercise its discretion in setting aside the 30-day requirement in these circumstances or cited any resultant prejudice to it if the PUB so orders such procedural relief. To reiterate, obtaining clear and additional formal clarification from the PUB on the intent of certain portions of Directive 19 as requested in the R&V Application is necessary and benefits all parties to the process now and moving forward.

Lastly, the PUB has routinely exercised its discretion to consider requests to review and vary directives outside of the 30-day timeframe, most recently in Order 106/23 where the PUB varied Directive 7 of Order 109/22 outside of the 30-day timeframe outlined in the PUB's Rules.

Information to Support Proposed Time-limited Deferral Account

Coalition submits that Manitoba Hydro's R&V Application is unclear on the grounds for the request to review and vary Directive 19 and should therefore be dismissed.

On page 4 of its submission, Coalition suggests that the PUB agreed with GSS/GSM's witness in its findings in Order 101/23 that there is no need for additional components for compliance with IFRS on transition to the ASL method for financial reporting. This characterization is misleading and incorrect. While the PUB placed weight on the evidence of Mr. Madsen, Order 101/23 is clear that the PUB finds that the level of componentization is the responsibility of Manitoba Hydro's management and contemplates that Manitoba Hydro would reassess the level of componentization and would include a reasonable increase if warranted:

> ***The Board finds that the appropriate degree of componentization is the responsibility of Manitoba Hydro's management.*** *It also agrees with the opinion of MIPUG's expert Patrick Bowman that* ***componentization should be a continuing activity****. As such, the Board will not prescribe an absolute level of componentization for Manitoba Hydro's ASL depreciation studies and* ***leaves this up to the utility's management****. However, the Board also places weight on the opinion of the GSS/GSM Representative's expert Dustin Madsen that the existing level of depreciation in the 2019 depreciation study is IFRS-compliant.*
>
> *…*
>
> *The Board accordingly directs that for regulatory purposes, depreciation in the test years is to be determined using the ASL rates set out in the 2019 depreciation study. However,* ***Manitoba Hydro is to reassess that level of componentization in its next depreciation study and include a reasonable increase in componentization, if such an increase is warranted based on professional accounting advice.***

As outlined in the R&V Application, based on detailed analysis performed by internal Chartered Professional Accountants and an internal Certified Depreciation Professional, Manitoba Hydro has determined the minimum level of componentization required for compliance with IFRS, which include select componentization changes from the 2019 Concentric Study. This new analysis was completed after the PUB issued its Order and is the basis for the proposed relief sought in Manitoba Hydro's R&V Application. In addition, in its R&V Application and discussed above, Manitoba Hydro has outlined the conflict and the necessary formal clarification requested between Directives 19 g) and 19 h) of Order 101/23 because of the potentially unintended consequence of having Manitoba Hydro needing to maintain two sets of accounting records in perpetuity.

On page 5 of its letter, Coalition submits that Manitoba Hydro has not provided sufficient justification for the $35 million difference in depreciation expense for 2023/24, indicating that Manitoba Hydro's proposed level of depreciation expense is greater than the increase recommended in the Alliance study[1]. To clarify this point, the level of componentization referenced by Coalition from the Alliance study of $28 million is related to the impact of IFRS-compliant ALG componentization based on asset balances as of March 31, 2019 ($23 billion gross plant and intangible assets in service) whereas depreciation expense associated with additional sub-componentization recommended by Manitoba Hydro of $35 million is

[1] CAC to PUB, March 28, 2024 (Page 5 – bullet ii.).

estimated based on asset balances as at March 31, 2024 (approximately $34 billion gross plant and intangible assets in service).

Manitoba Hydro reiterates that it is not seeking approval of the additional select componentization changes for rate-setting purposes as part of this R&V Application. As specified in the R&V Application, this will be reviewed following the completion and filing of Manitoba Hydro's next deprecation study as part of Manitoba Hydro's next GRA. Should the PUB approve the establishment of a time-limited regulatory deferral account, it would determine the appropriate disposition of the deferral account and amortization period following its review at the next GRA.

While Manitoba Hydro does not know the exact amount of the difference in depreciation expense due to additional componentization between the 2019 Concentric Study and the upcoming 2024 Depreciation Study at this time, it expects it will be approximately $35 million. The final impact is subject to recommendations made by the consultant engaged to conduct the 2024 Depreciation Study, and would include the impact of componentization differences, as well as recommended changes in asset service lives and Iowa curve selections. Once the 2024 Depreciation Study is complete, Manitoba Hydro could provide the PUB with updated information regarding the impact.

In the PUB's letter of February 29, 2024, it confirmed that it is not making a ruling at this time as to whether the revised methodology and resulting depreciation expense is appropriate, which may require evidence from an accounting expert, and possibly Manitoba Hydro's auditor, at the next GRA. In addition, the PUB confirmed that it is not providing direction on depreciation for financial reporting purposes.[2] Coalition's suggestion that Manitoba Hydro's R&V Application lacks sufficient information to justify the proposed relief of a time-limited regulatory deferral appears to have disregarded this confirmation by the PUB.

The proposed regulatory deferral would enable Manitoba Hydro to maintain depreciation expense for rate-setting purposes based on the 2019 Concentric Study for 2023/24 and 2024/25 in accordance with Directive 19 g), while avoiding the need to maintain two sets of accounting records in perpetuity, so that the PUB may review and make a determination on the appropriate level of componentization for rate-setting purposes at the next GRA as contemplated in its February 29th letter. As such, Manitoba Hydro does not believe a detailed

[2] PUB to MH, February 29, 2024 (page 3, bullets 2 and 3).

examination on the select componentization is warranted at this time, and that Coalition's recommendation for one round of information requests is not required.

Manitoba Hydro has requested a decision from the PUB on the R&V Application by April 30, 2024, to allow the corporation time to implement the PUB's direction in its financial statements, note disclosures and analytic files and provide time for subsequent audit steps to be completed prior to submission of the financial statements to the Manitoba Hydro-Electric Board by June 14th, one week prior to them meeting to review the Annual Report. A decision cannot wait until mid-July as suggested by the Coalition. Manitoba Hydro believes that final written submissions on the R&V Application, as agreed by all parties with the exception of Coalition, can be accommodated within or about the timeframe respectfully requested in the Application.

Manitoba Hydro appreciates the opportunity to provide these reply comments to intervener submissions on the process to consider its R&V Application. Should you have any questions with respect to the foregoing, please do not hesitate to contact the writer at 204-360-3257.

Yours truly,

MANITOBA HYDRO LEGAL SERVICES
Per:

Brent A. Czarnecki
Senior Counsel