

1 Q. Please confirm the noted approach by Manitoba Hydro (the removal of cost of
2 removal from depreciation expense) was in fact a part of Manitoba Hydro’s
3 proposed implementation of IFRS, and Manitoba Hydro did not in fact propose “to
4 continue the practice of including net salvage estimates into the depreciation rate
5 calculations” as suggested by the response.

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7 If needed, please refer to the following reference:
8 <http://www.pub.gov.mb.ca/pdf/13hydro/43-13.pdf> which is the Board Order from
9 Manitoba Hydro’s 2012 GRA, section 6.1.3, which appears to note:

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11 *“Manitoba Hydro’s current depreciation rates include a provision for net salvage,
12 representing the cost of decommissioning and disposal of an asset when taken out
13 of service. The rationale for including net salvage in depreciation rates is to ensure
14 that ratepayers benefitting from the use of the asset over time are shouldering the
15 burden of paying for the eventual decommissioning costs.*

16
17 *Mr. Kennedy advised that International Financial Reporting Standards would no
18 longer permit the inclusion of net salvage in depreciation rates. Manitoba Hydro
19 plans to remove net salvage from depreciation rates at the same time as it switches
20 to the Equal Life Group methodology in 2015/16. Manitoba Hydro indicated the
21 impact of removing net salvage would lower depreciation expense by approximately
22 \$56 million in 2013/14, \$63 million in 2014/15, and \$66 million in 2015/16.”*

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1 A. This response has been provided by Concentric Advisors.

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3 The premise of this question is not correct. Manitoba Hydro applied for the use of
4 depreciation parameters that would make the depreciation rate calculations used
5 for regulatory purposes consistent with the manner in which the International
6 Financial Reporting Standards (IFRS) was implemented by Manitoba Hydro.

7 Consistent with this approach, Manitoba Hydro requested the Manitoba Public
8 Utilities Board authorize the use of the Equal Life Group (ELG) Procedure and the
9 elimination of the provision for net salvage, to be consistent with the accounting
10 ledgers used for external financial reporting. However, Manitoba Hydro was clear
11 that if the ELG procedure was not approved by the Manitoba Public Utilities Board,
12 they would be required to maintain two sets of records for financial reporting
13 purposes.¹ As a result, Manitoba Hydro proposed that if they were mandated to use
14 the Average Service Life (ASL) procedure for regulatory depreciation rate
15 calculations then Manitoba Public Utilities Board should also continue to allow
16 Manitoba Hydro the inclusion of a provision for net salvage within the depreciation
17 rate calculations. The Rebuttal Evidence of Larry E. Kennedy (EX. MH-29) indicated
18 the following:

19

20 *Q16. Based on the above, did Gannett Fleming include the recovery of net*
21 *salvage into the depreciation rate calculations in this study?*

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23 *A16. The choice to include or exclude the recovery of net salvage into the*
24 *depreciation rates is a policy decision made by each company. While*
25 *Gannett Fleming recommends the concept of inclusion of net salvage,*

¹ Manitoba Hydro's ASL was less componentized than Hydro's and as a result, did not qualify under IFRS.

1 *Manitoba Hydro implemented a policy decision in 2010 to exclude net*
2 *negative salvage from the depreciation rate calculations in order to*
3 *reduce the impact of the implementation of the ELG procedure to*
4 *customers. Manitoba Hydro has continued this policy decision to this*
5 *current depreciation study and asked that Gannett Fleming remove the*
6 *recovery of net salvage from the depreciation rate calculations. As such,*
7 *the depreciation rates as calculated using the ELG procedure have not*
8 *included a provision for net salvage. However, it is noted that consistent*
9 *with the above policy decision, in the submission of depreciation rates*
10 *calculated in accordance with the ASL procedure, the recovery of net*
11 *salvage was included.* [Emphasis added]

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13 However, Manitoba Hydro's proposed net salvage treatment is not applicable to
14 this proceeding nor is it a good basis of comparison. Please refer to Hydro's
15 response to IC-NLH-025 for further information regarding the timing of IFRS
16 implementation.