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CENTRA GAS MANITOBA INC.
2019/20 GENERAL RATE APPLICATION

COST OF SERVICE

1.0 OVERVIEW

Centra's total cost of service represents the total amount of revenue that Centra requires to recover all costs associated with the provision of natural gas service to its customers, as well as a contribution to retained earnings in the form of net income. The purpose of this Appendix is to provide Centra's total cost of service, including both a financial statement presentation and rate setting presentation (after the reclassification of the Net Movement Account into the applicable line items). A reconciliation is provided for the line items impacted by the reclassification of net movement for 2014/15 to 2019/20, as well as Centra's actual, forecast and weather normalized results by cost of service line item for the years 2011/12 to 2017/18.

2.0 COST OF SERVICE - FINANCIAL STATEMENT BASIS

Figure 1 provides Centra's actual and forecast cost of service for 2011/12 to 2019/20 based on the financial statement provided in Figure 5.2 of Appendix 5.13.

1 **Figure 1: Summary of Cost of Service, Financial Statement Presentation- 2018/19**
 2 **Current Outlook & 2019/20 Approved Budget**

CENTRA GAS MANITOBA INC.
 Summary of Cost of Service
 Based on the Statement of Income

	(\$000'S)									
	CGAAP				IFRS					
	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Test Year
7 Cost of Gas	197 099	181 638	251 733	273 904	273 904	214 500	199 221	193 185	193 053	173 667
9 Furnace Replacement Program	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	545
11 Other Income (incl. Late Payment and Broker Rev)	(990)	(1 296)	(1 599)	(1 543)	(2 617)	(2 439)	(2 315)	(2 380)	(2 474)	(2 366)
13 Operating & Administrative	62 117	63 735	66 810	67 458	70 355	66 607	65 384	63 113	63 315	61 250
15 Depreciation & Amortization	25 501	27 624	28 060	29 027	22 097	22 808	22 810	23 907	24 052	25 474
17 Capital & Other Taxes	19 274	18 263	19 755	19 461	15 538	15 824	15 488	15 731	16 578	17 119
19 Finance Expense	18 464	17 952	16 120	16 188	19 217	19 847	18 930	20 580	21 536	22 554
21 Other Expenses	-	-	-	-	10 480	10 791	11 566	14 507	12 124	10 674
23 Corporate Allocation	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000
25 Net Movement	-	-	-	-	(5 315)	(5 895)	(4 661)	(4 460)	(2 239)	(1 080)
27 Net Income (Loss)	(5 751)	7 808	19 794	10 207	11 042	(1 428)	3 876	6 763	4 434	2 894
29 Total Cost of Service	<u>331 513</u>	<u>331 523</u>	<u>416 474</u>	<u>430 501</u>	<u>430 501</u>	<u>356 415</u>	<u>346 098</u>	<u>346 746</u>	<u>346 179</u>	<u>322 730</u>
31 Less: Cost of Gas	197 099	181 638	251 733	273 904	273 904	214 500	199 221	193 185	193 053	173 667
33 Non-Gas Cost of Service	<u>134 415</u>	<u>149 885</u>	<u>164 741</u>	<u>156 597</u>	<u>156 597</u>	<u>141 915</u>	<u>146 877</u>	<u>153 561</u>	<u>153 127</u>	<u>149 064</u>
35 % Change		11.5%	9.9%	-4.9%	0.0%	-9.4%	3.5%	4.6%	-0.3%	-2.7%
37 <i>Reconciliation to Revenue:</i>										
38 Cost of Service	331 513	331 523	416 474	430 501	430 501	356 415	346 098	346 746	346 179	322 730
39 Furnace Replacement Program	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(545)
40 Other Income (Late Payment & Broker Rev)					1 131	929	678	629	662	636
41	<u>327 713</u>	<u>327 723</u>	<u>412 674</u>	<u>426 701</u>	<u>427 832</u>	<u>353 544</u>	<u>342 976</u>	<u>343 575</u>	<u>343 042</u>	<u>322 821</u>

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4
5 **3.0 COST OF SERVICE – FOR RATE SETTING PURPOSES**

6
7 Figure 2 provides Centra's actual and forecast cost of service for 2011/12 to 2019/20
 8 for rate setting purposes, after reclassification of the Net Movement account into
 9 the applicable line items. The 2019/20 Test Year figures form the basis for Centra's
 10 Cost Allocation Study which is summarized in Section 4 of the Supplement to the
 11 Application, filed on March 22, 2019.

1 **Figure 2: Summary of Cost of Service, Rate Setting Purposes- 2018/19 Current**
 2 **Outlook & 2019/20 Approved Budget**
 3

CENTRA GAS MANITOBA INC.
Summary of Cost of Service
For Rate Setting Purposes

(\$000'S)

	CGAAP				IFRS						
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Forecast	2019/20 Test Year	
1											
2											
3											
4											
5											
6											
7	Cost of Gas	197 099	181 638	251 733	273 904	273 904	214 500	199 221	193 185	193 053	173 667
8											
9	Other Income (incl. Late Payment and Broker Revenue)	(990)	(1 296)	(1 599)	(1 543)	(2 617)	(2 439)	(2 315)	(2 380)	(2 474)	(2 366)
10											
11	Operating & Administrative (Net of Net Movement)	62 117	63 735	66 810	67 458	69 655	65 907	64 684	62 413	62 615	60 550
12											
13	Depreciation & Amortization (Net of Net Movement)	25 501	27 624	28 060	29 027	26 957	26 913	28 249	29 629	31 554	33 480
14											
15	Capital & Other Taxes (Net of Net Movement)	19 274	18 263	19 755	19 461	19 461	19 607	19 119	19 216	19 917	20 312
16											
17	Finance Expense (Net of Net Movement)	18 464	17 952	16 120	16 188	16 201	17 470	17 231	19 092	20 408	21 603
18											
19	Other Expenses (Net of Net Movement)	-	-	-	-	97	85	234	3 028	872	46
20											
21	Corporate Allocation	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000
22											
23	Furnace Replacement Program	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	545
24											
25	Net Income (Loss)	(5 751)	7 808	19 794	10 207	11 042	(1 428)	3 876	6 763	4 434	2 894
26											
27	Total Cost of Service	331 513	331 523	416 474	430 501	430 501	356 415	346 098	346 746	346 179	322 730
28											
29	Less: Cost of Gas	197 099	181 638	251 733	273 904	273 904	214 500	199 221	193 185	193 053	173 667
30											
31	Non-Gas Cost of Service	134 415	149 885	164 741	156 597	156 597	141 915	146 877	153 561	153 127	149 064
32											
33	% Change		11.5%	9.9%	-4.9%	0.0%	-9.4%	3.5%	4.6%	-0.3%	-2.7%
34											
35	Reconciliation to Revenue:										
36	Cost of Service	331 513	331 523	416 474	430 501	430 501	356 415	346 098	346 746	346 179	322 730
37	Furnace Replacement Program	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(3 800)	(545)
38	Other Income (Late Payment & Broker Rev)					1 131	929	678	629	662	636
39		327 713	327 723	412 674	426 701	427 832	353 544	342 976	343 575	343 042	322 821

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 5
 6 Centra's 2015/16 transition to IFRS resulted in several changes to Centra's financial
 7 reporting, including the requirement to isolate the impacts of rate regulation. To
 8 meet this requirement, annual additions to and amortization of regulatory deferral
 9 accounts were isolated in the new Net Movement in the Regulatory Balances section
 10 of the Statement of Income. Centra implemented these changes for financial
 11 reporting purposes starting in its 2015/16 fiscal year. For rate setting purposes, net
 12 movement has been reclassified to the applicable Cost of Service line items.

13
 14 Figure 3 provides a reconciliation for Cost of Service line items impacted by the
 15 reclassification of net movement for 2014/15 to 2019/20.
 16

1 **Figure 3: Reconciliation of Cost of Service line items- 2018/19 Current Outlook &**
 2 **2019/20 Approved Budget**

CENTRA GAS MANITOBA INC.

Reconciliation of Cost of Service Line Items

Reclassification of Net Movement

(\$000'S)

	IFRS 2014/15 Actual	IFRS 2015/16 Actual	IFRS 2016/17 Actual	IFRS 2017/18 Actual	IFRS 2018/19 Forecast	IFRS 2019/20 Test Year
1						
2						
3						
4						
5	Total Net Movement (IFRS)	5 315	5 895	4 661	4 460	2 239
6						
7	Operating & Administration (IFRS)	70 355	66 607	65 384	63 113	63 315
8	Additions/Reversals:					
9	Deferred ineligible overhead	(700)	(700)	(700)	(700)	(700)
10	Operating & Administration (Rate Setting)	69 655	65 907	64 684	62 413	62 615
11						
12						
13	Other Expenses (IFRS)	10 480	10 791	11 566	14 507	12 124
14	Additions/Reversals:					
15	Demand Side Management programs	(9 442)	(9 964)	(10 708)	(10 999)	(9 367)
16	Site restoration	-	-	-	(47)	-
17	Regulatory costs	(940)	(742)	(625)	(433)	(1 885)
18	Other Expenses (Rate Setting)	97	85	234	3 028	872
19						
20						
21	Depreciation & Amortization (IFRS)	22 097	22 808	22 810	23 907	24 052
22	Additions/Reversals:					
23	Loss on disposal of assets	(2 781)	(3 017)	(2 679)	(2 484)	(1 768)
24	Change in depreciation method	(1 993)	(2 144)	(2 228)	(2 366)	(2 375)
25	Change in depreciation rate - meters	-	(471)	(474)	(485)	(499)
26	Impact of 2014 depreciation study	963	901	892	942	1 020
27		(3 812)	(4 731)	(4 490)	(4 393)	(3 622)
28	Amortization:					
29	Demand Side Management programs	7 768	7 878	8 874	8 990	10 090
30	Site restoration	324	327	327	328	314
31	Regulatory costs	580	632	728	725	629
32	Loss on disposal of assets	-	-	-	-	374
33	Change in depreciation method	-	-	-	-	-
34	Deferred ineligible overhead	-	-	-	72	93
35	Change in depreciation rate - meters	-	-	-	-	96
36	Impact of 2014 depreciation study	-	-	-	-	(139)
37		8 673	8 837	9 929	10 115	11 125
38						
39	Depreciation & Amortization (Rate Setting)	26 957	26 913	28 249	29 629	31 554
40						
41						
42	Capital & Other Taxes (IFRS)	15 538	15 824	15 488	15 731	16 578
43	Amortization:					
44	Deferred income taxes amortization	3 923	3 783	3 631	3 485	3 339
45	Capital & Other Taxes (Rate Setting)	19 461	19 607	19 119	19 216	19 917
46						
47						
48	Finance Expense (IFRS)	19 217	19 847	18 930	20 580	21 536
49	Additions:					
50	Deferred income taxes carrying costs	(2 119)	(1 978)	(1 827)	(1 681)	(1 535)
51	PGVA carrying costs	(897)	(399)	128	193	407
52	Finance Expense (Rate Setting)	16 201	17 470	17 231	19 092	20 408
53						
54						
55	Total Net Movement (Rate Setting)	-	-	-	-	-

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1 **4.0 FORECAST, ACTUAL & WEATHER NORMALIZED COST OF SERVICE**

2

3 Figures 4 and 5 provide a comparison of the actual, forecast and weather normalized
4 results by cost of service line item for the years 2011/12 to 2014/15 under CGAAP,
5 and for the years 2015/16 to 2017/18 under IFRS respectively.

Figure 4: Actual, Forecast & Weather Normalized Cost of Service 2011/12 to 2014/15 under CGAAP

CENTRA GAS MANITOBA INC.
Summary of Cost of Service

(\$000'S)
November 30, 2018

	2011/12			CGAAP 2012/13			2013/14			2014/15		
	Approved - FILED	Actual	Weather Normal	Approved - FILED	Actual	Weather Normal	Approved - FILED	Actual	Weather Normal	Forecast	Actual	Weather Normal
Cost of Gas	197 098	197 099	227 169	175 576	181 638	172 601	168 279	251 733	218 359	269 683	273 904	272 282
Other Income	(896)	(990)	(990)	(1 705)	(1 296)	(1 296)	(1 866)	(1 599)	(1 598)	(1 482)	(1 543)	(1 543)
Operating & Administrative	62 371	62 117	62 117	67 300	63 735	63 735	68 800	66 810	66 810	67 829	67 458	67 458
Depreciation & Amortization	25 504	25 501	25 501	27 620	27 624	27 624	30 091	28 060	28 060	29 174	29 027	29 027
Capital & Other Taxes	19 411	19 274	19 274	18 334	18 263	18 263	18 750	19 755	19 755	19 122	19 461	19 461
Finance Expense	18 395	18 464	18 464	17 901	17 952	17 952	17 296	16 120	16 120	16 218	16 188	16 188
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Allocation	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000
Furnace Replacement Program	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800
Net Movement					-	-						
Net Income (Loss)	(6 170)	(5 751)	7 166	1 562	7 808	3 736	4 821	19 794	5 315	6 636	10 207	9 380
Total Cost of Service	331 513	331 513	374 500	322 388	331 523	318 414	321 971	416 474	368 622	422 980	430 501	428 052
Less: Cost of Gas	197 098	197 099	227 169	175 576	181 638	172 601	168 279	251 733	218 359	269 683	273 904	272 282
Non-Gas Cost of Service	134 415	134 415	147 332	146 812	149 885	145 813	153 692	164 741	150 263	153 297	156 597	155 770

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Figure 5: Actual, Forecast & Weather Normalized Cost of Service 2015/16 to 2017/18 under IFRS**CENTRA GAS MANITOBA INC.
Summary of Cost of Service**

		(\$000'S)								
		November 30, 2018								
		2015/16			IFRS 2016/17			2017/18		
		Forecast	Actual	Weather Normal	Forecast	Actual	Weather Normal	Forecast	Actual	Weather Normal
1										
2										
3										
4										
5										
6										
7	Cost of Gas	221 059	214 500	236 818	242 382	199 221	218 639	212 127	193 185	192 259
8										
11	Other Income	(2 513)	(2 439)	(2 439)	(2 501)	(2 315)	(2 315)	(2 603)	(2 380)	(2 380)
12										
13	Operating & Administrative	66 691	66 607	66 607	67 818	65 384	65 384	66 640	63 113	63 113
14										
15	Depreciation & Amortization	22 901	22 808	22 808	23 209	22 810	22 810	23 199	23 907	23 907
16										
17	Capital & Other Taxes	15 918	15 824	15 824	16 497	15 488	15 488	16 257	15 731	15 731
18										
19	Finance Expense	19 896	19 847	19 847	19 527	18 930	18 930	19 980	20 580	20 580
20										
21	Other Expenses	10 608	10 791	10 791	13 703	11 566	11 566	16 245	14 507	14 507
22										
23	Corporate Allocation	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000	12 000
24										
25	Furnace Replacement Program	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800	3 800
26										
27	Net Movement	(35 659)	(5 895)	(5 895)	(6 778)	(4 661)	(4 661)	(4 361)	(4 460)	(4 460)
28										
29	Net Income (Loss)	7 831	(1 428)	9 253	8 043	3 876	12 754	(862)	6 763	6 205
30										
31	Total Cost of Service	<u>342 533</u>	<u>356 415</u>	<u>389 414</u>	<u>397 700</u>	<u>346 098</u>	<u>374 394</u>	<u>362 422</u>	<u>346 746</u>	<u>345 262</u>
32										
33	Less: Cost of Gas	221 059	214 500	236 818	242 382	199 221	218 639	212 127	193 185	192 259
34										
35	Non-Gas Cost of Service	<u>121 474</u>	<u>141 915</u>	<u>152 596</u>	<u>155 318</u>	<u>146 877</u>	<u>155 755</u>	<u>150 295</u>	<u>153 561</u>	<u>153 003</u>
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