

REFERENCE:

Tab 13 p. 13-14; 2013/14 GRA PUB/Centra I-23, I-34(c)

PREAMBLE TO IR (IF ANY):

“A review was conducted on the level of credit applied to Centra to ensure that no incremental costs are being allocated to the natural gas operations. As part of this review it was determined that the level of credit should be reduced, as consolidated administrative building costs have decreased, while the credit applied to Centra remained static. The level of the credit for 2019/20 is \$1.7 million, compared to the \$2.2 million credit discussed in the 2013/14 General Rate Application.”

QUESTION:

- a) Please file an update to the response to PUB/CENTRA I-23c (Revised) from the 2013/14 GRA.
- b) Please provide any supporting narrative, research and calculations underlying this reduction of the level of the credit from \$2.2M to \$1.7M.
- c) Please provide an update to the allocations to Centra for building and space costs for each year from 2012/13 to 2019/20.
- d) Please advise whether any depreciation costs in respect of Manitoba Hydro’s head office are being allocated to Centra in the test year. If so, please provide:
 - (i) The total depreciation expense in respect of Manitoba Hydro’s head office during the test year.
 - (ii) The percentage of that depreciation that is being allocated to Centra from 2012/13 to 2019/20.
 - (iii) Please explain and illustrate how the allocation of depreciation expense was determined in (ii).

RESPONSE:

- a) The 2018 444 St Mary Avenue lease cost assumptions are provided in the table below, representing market prices as at June 2018:

<u>444 St. Mary Ave Cost Assumptions</u>	<u>June 2018</u>
Leasehold Rentals	1,101
Building & Property Services & Taxes	<u>1,171</u>
<i>(in '000s)</i>	\$2,272
Square footage	<u>78,642</u>
Cost per square foot	<u><u>\$29</u></u>

The 360 Portage Avenue expenditures (below) are based on 2017/18 actuals to provide an equitable comparison to the lease cost assumptions for the 444 St. Mary Ave costs above. Total actual expenditures for 360 Portage Avenue are shown in the first column and the costs allocated to Centra are shown in the second column. A total of 8% of the total expenditures have been allocated to Centra, which is based on corporate activity charges as the cost driver.

<u>360 Portage Ave Expenditures</u>	<u>2017/18 Actual Expenditures</u>	<u>Centra's Allocated costs 2017/18</u>
Operating & Maintenance	4,137	331
Property Tax	3,980	318
Depreciation	4,307	345
Interest	<u>13,973</u>	<u>1,118</u>
<i>(in '000s)</i>	<u>\$26,396</u>	\$2,112
Offsetting credit		<u>(\$1,600)</u>
Allocated to Centra (in 000's)		<u>\$511</u>
 Square footage	 697,609	 55,809
 Cost per square foot	 <u>\$38</u>	 <u>\$9</u>

b) and c)

The 360 Portage credit was established in 2008/09 to keep Centra building costs in line with what they were prior to when the 360 Portage building went into service, as per Order 99/07 that states “no incremental costs associated with 360 Portage should be borne by Centra’s ratepayers”.

Since the credit was established in 2008/09, Centra gross facilities costs have declined significantly at an annualized compounded growth rate of -1.3% as per the schedule below. There are two reasons for this decline. Firstly, consolidated facilities costs have decreased from \$59.8 million in 2009/10 to projected costs of \$56.9 million in 2019/20. Secondly, the corporate activity allocation cost driver, utilized to allocate consolidated facilities costs to Centra, has decreased over the last 12 years from 10% to 8%.

<u>Analysis of Centra Gross Facilities Costs</u>	(\$ millions)													Annualized Compound Growth*
	2007/08 Actuals	2008/09 Actuals	2009/10 Actuals	2010/11 Actuals	2011/12 Actuals	2012/13 Actuals	2013/14 Actuals	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Actuals	2018/19 Forecast	2019/20 Test Year	
Consolidated Facilities Cost	\$ 33.3	\$ 52.4	\$ 59.8	\$ 59.3	\$ 58.5	\$ 57.5	\$ 55.5	\$ 55.7	\$ 56.4	\$ 57.1	\$ 56.2	\$ 55.8	\$ 56.9	0.7%
Corporate Activity Allocation %		10%	10%	10%	10%	10%	9%	9%	9%	8%	8%	8%	8%	
Centra Gross Facilities Costs	\$ 3.4	\$ 5.2	\$ 6.0	\$ 5.8	\$ 5.7	\$ 5.7	\$ 5.0	\$ 5.0	\$ 5.1	\$ 4.6	\$ 4.5	\$ 4.5	\$ 4.5	-1.3%

*Annualized compounded growth is calculated from 2009/09 to 2019/20

Given the significant decrease in Centra gross facilities costs, it was deemed appropriate to begin reviewing the credit to ensure Centra continues to pay its fair share of administrative building costs while also complying with Order 99/07. This review process started in 2017/18 and as part of the 2019/20 Test Year review, the annualized compound growth of Centra’s facilities costs was calculated assuming the 360 Portage credit was maintained at \$2.2 million as per the table below.

Illustration - Maintaining Credit of \$2.2M														(\$ millions)	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Annualized Compound Growth*	
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Test Year		
Consolidated Facilities Cost	\$ 33.3	\$ 52.4	\$ 59.8	\$ 59.3	\$ 58.5	\$ 57.5	\$ 55.5	\$ 55.7	\$ 56.4	\$ 57.1	\$ 56.2	\$ 55.8	\$ 56.9	0.7%	
Corporate Activity Allocation %		10%	10%	10%	10%	10%	9%	9%	9%	8%	8%	8%	8%		
Centra Gross Facilities Costs	\$ 3.4	\$ 5.2	\$ 6.0	\$ 5.8	\$ 5.7	\$ 5.7	\$ 5.0	\$ 5.0	\$ 5.1	\$ 4.6	\$ 4.5	\$ 4.5	\$ 4.5	-1.3%	
360 Portage Credit**	\$ -	\$ 1.9	\$ 2.7	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2		
Centra Facilities Costs After Credit	\$ 3.4	\$ 3.3	\$ 3.3	\$ 3.6	\$ 3.5	\$ 3.5	\$ 2.8	\$ 2.8	\$ 2.9	\$ 2.4	\$ 2.3	\$ 2.3	\$ 2.3	-3.0%	

*Annualized compound growth is calculated from 2008/09 to 2019/20

**The values for 2017/18 thru to 2019/20 are included for illustrative purposes to demonstrate a scenario in which the credit was maintained at \$2.2 million.

Under this scenario, Centra’s facilities costs after the credit would have had an annual compound growth of -3.0%, which would be significantly lower than the annualized compound growth of Centra gross facilities costs of -1.3%, thus resulting in a subsidy for Centra facilities costs over the same time frame.

In order to ensure that Centra pays its fair share of consolidated facilities costs while still complying with Order 99/07, the credit was decreased from \$2.2 million to \$1.6 million in 2017/18 and 2018/19 and to \$1.7 million in 2019/20, as shown in the table below. This aligns the annualized compound growth of Centra’s facilities costs after credit to -1.3% with the annualized compound growth of Centra’s gross facilities costs over the same timeframe.

Analysis of Centra Facilities Costs After Credit														(\$ millions)	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Annualized Compound Growth*	
	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Actuals	Forecast	Test Year		
Consolidated Facilities Cost	\$ 33.3	\$ 52.4	\$ 59.8	\$ 59.3	\$ 58.5	\$ 57.5	\$ 55.5	\$ 55.7	\$ 56.4	\$ 57.1	\$ 56.2	\$ 55.8	\$ 56.9	0.7%	
Corporate Activity Allocation %		10%	10%	10%	10%	10%	9%	9%	9%	8%	8%	8%	8%		
Centra Gross Facilities Costs	\$ 3.4	\$ 5.2	\$ 6.0	\$ 5.8	\$ 5.7	\$ 5.7	\$ 5.0	\$ 5.0	\$ 5.1	\$ 4.6	\$ 4.5	\$ 4.5	\$ 4.5	-1.3%	
360 Portage Credit	\$ -	\$ 1.9	\$ 2.7	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 1.6	\$ 1.6	\$ 1.7		
Centra Facilities Costs After Credit	\$ 3.4	\$ 3.3	\$ 3.3	\$ 3.6	\$ 3.5	\$ 3.5	\$ 2.8	\$ 2.8	\$ 2.9	\$ 2.4	\$ 2.9	\$ 2.9	\$ 2.8	-1.3%	

*Annualized compound growth is calculated from 2008/09 to 2019/20

- d) Under the current costing methodology, the corporate activity cost driver is utilized to allocate all administrative building costs, including depreciation, to Centra. This driver

was chosen, as it represents the relative amount of labour activity in each of the utilities. The table below shows the total depreciation for 360 Portage Avenue, the corporate activity cost driver percentage and the amount of depreciation charged to Centra from 2012/13 through to 2019/20.

<u>360 Portage Avenue Depreciation</u>	<u>(\$000's)</u>							
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Test Year
360 Portage Depreciation	\$3,630	\$3,743	\$4,178	\$4,286	\$4,304	\$4,307	\$4,305	\$4,391
Corporate Activity Cost Driver	10%	9%	9%	9%	8%	8%	8%	8%
Centra Depreciation Allocation	363	337	376	386	344	345	344	351
360 Portage Credit	(240)	(240)	(240)	(240)	(240)	(175)	(175)	(186)
Depreciation Allocation after Credit	123	97	136	146	104	169	169	165

