

Manitoba Hydro

Centra Gas Manitoba Inc. 2019/20 General Rate Application
Appendix 5.10
1 of 106

Integrated Cost Allocation Methodology Technical Conference

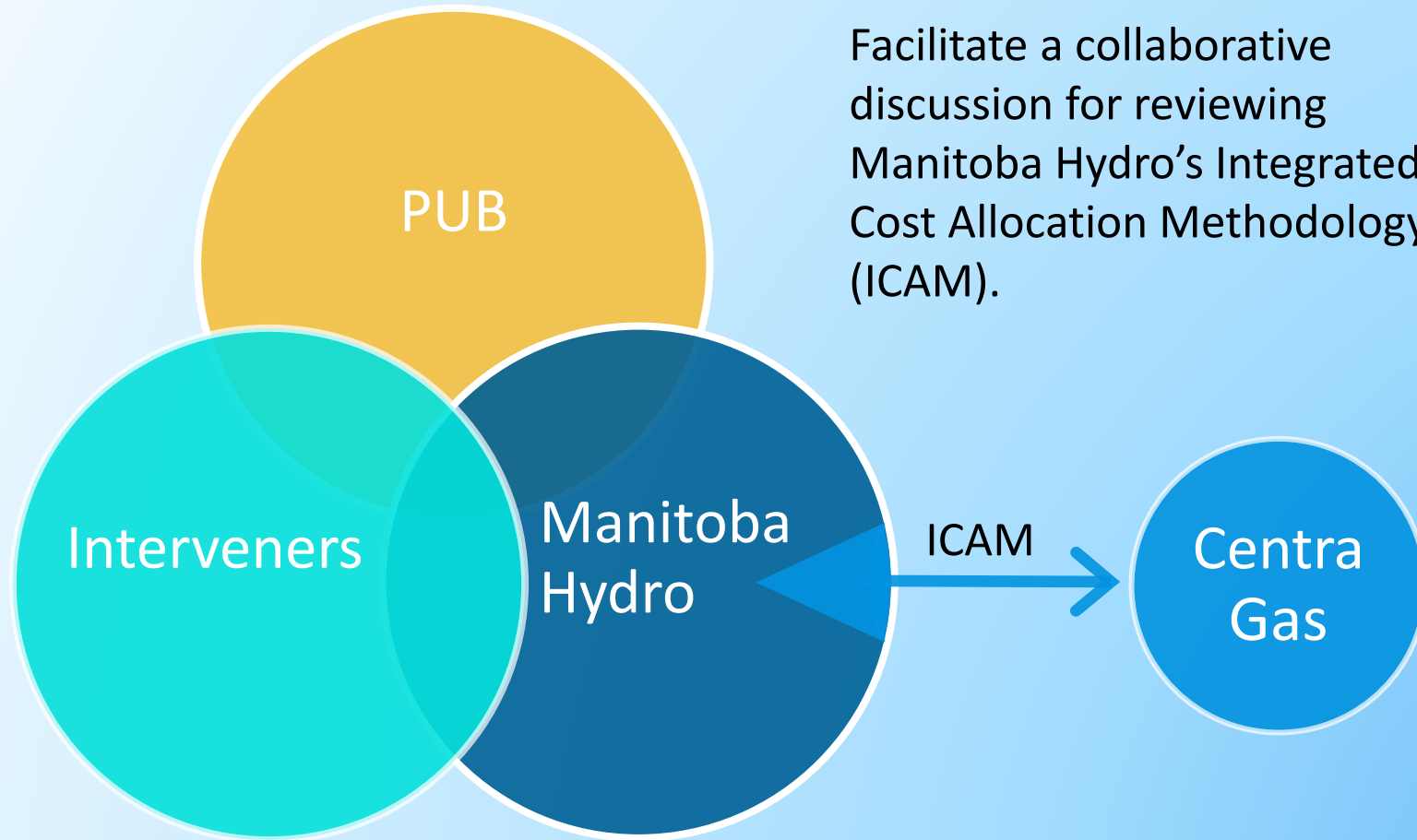


Manitoba Hydro

Integrated Cost Allocation Methodology Technical Conference

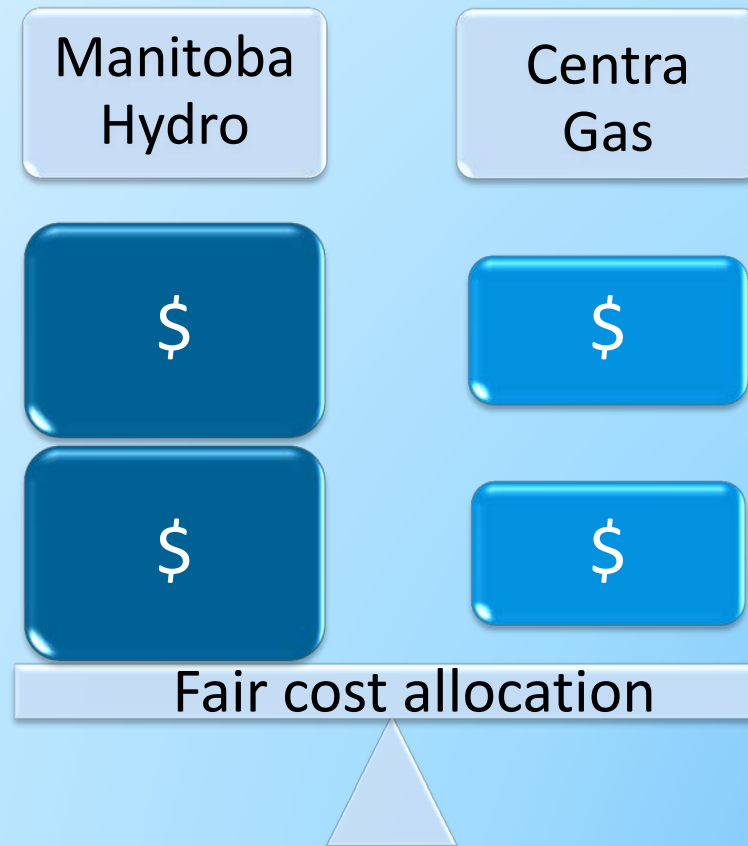
<u>Agenda</u>	<u>Description</u>
Introductions	
Terms of Reference	Purpose and scope of the technical conference.
Overview	High level overview of the ICAM.
Break	
Cost Components	Detailed review of the ICAM cost components including Operating & Administrative expenses and Finance, Depreciation & Taxes on common assets.
Allocations Break	Illustrations of the timecard, overhead, procurement and system posting processes used to allocate ICAM costs to the Natural Gas line of business. Also includes illustrations of the two methods used to allocate ICAM costs to the Natural Gas line of business: 100% gas allocations and shared allocations that use cost drivers.
Reporting	Review of ICAM Natural Gas Expense and Operating & Administrative program reporting.
Break	
Internal Controls	Review of the internal controls and framework designed to provide assurance that ICAM objectives are being achieved.

Purpose



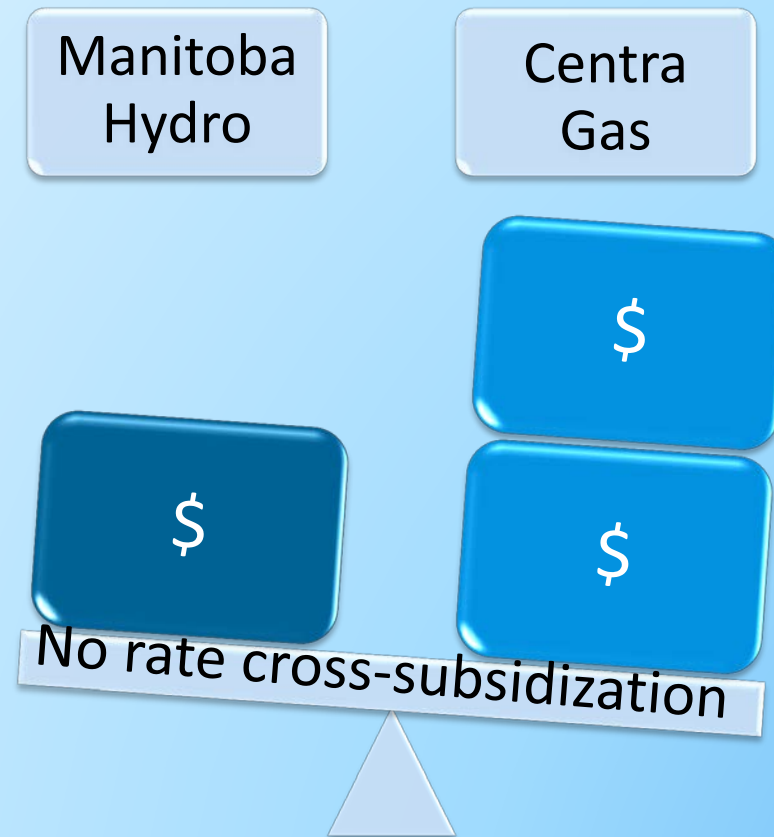
Purpose

Provide a better understanding of the ICAM to assess reasonableness.

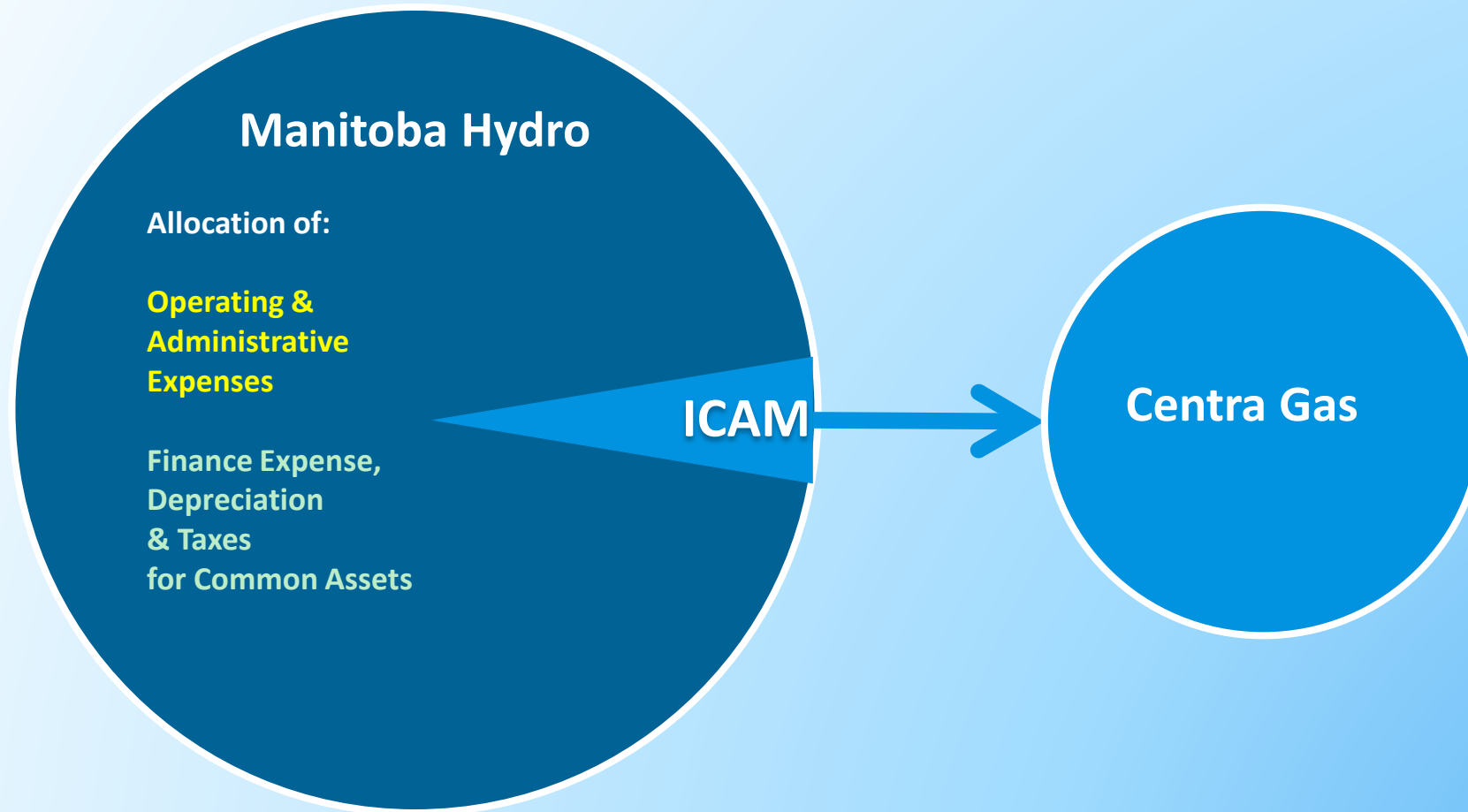


Purpose

Provide a better understanding of the ICAM to assess reasonableness.



Scope



Scope

Natural Gas Expense

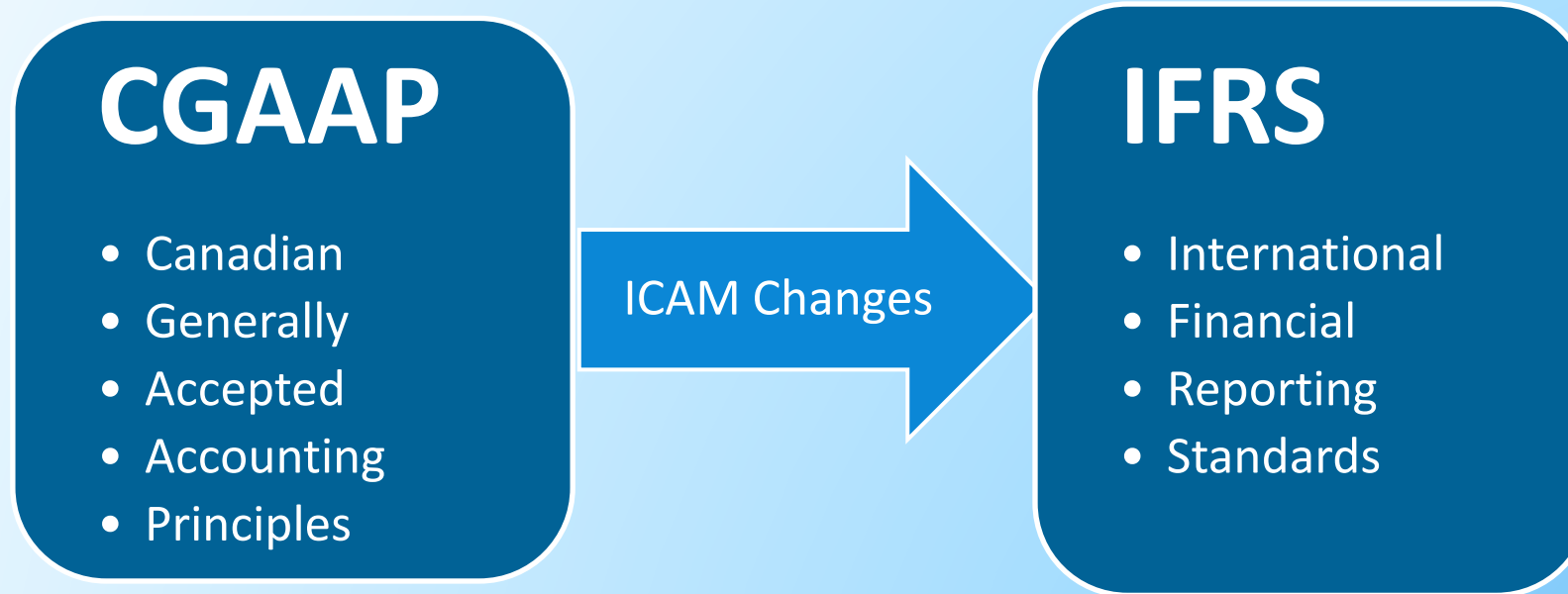
For the year ended March 31

millions of dollars

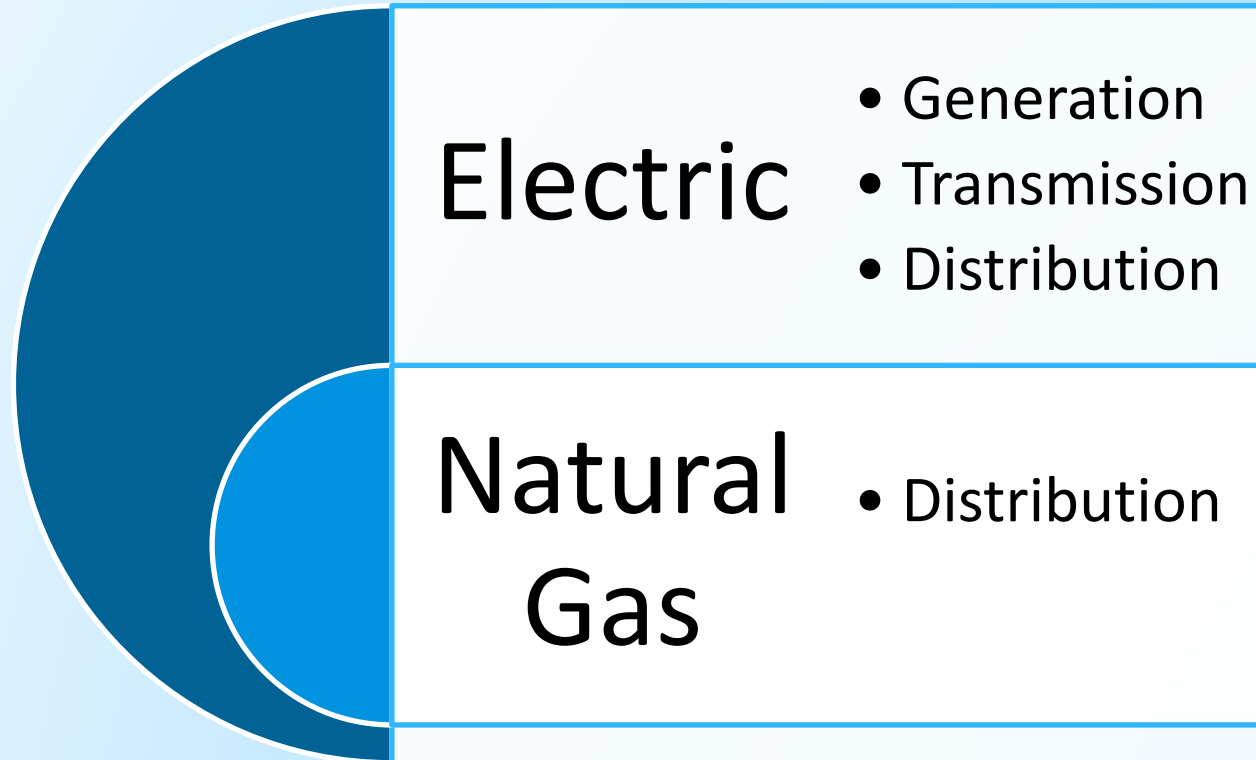
		ICAM	2016
Operating and administrative		67	67
Finance expense	Related to common assets	2	20
Depreciation and amortization		4	23
Capital and other taxes		13	16
Other expenses		-	10
Corporate allocation		-	12
		86	148

Manitoba Hydro-Electric Board 65th Annual Report For the Year Ended March 31, 2016.
Expenses attributable to the natural gas operations, excluding cost of gas sold.

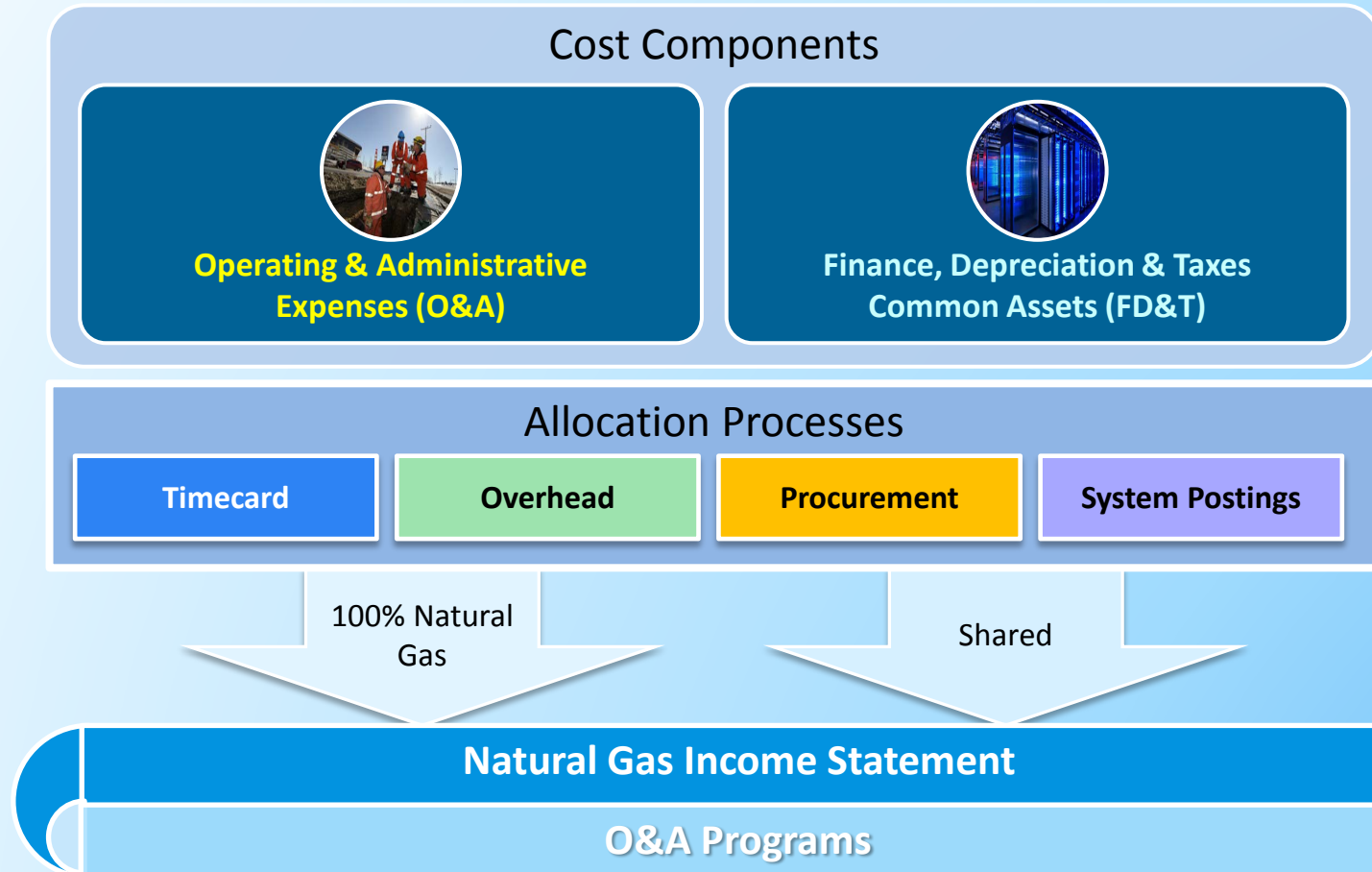
Scope



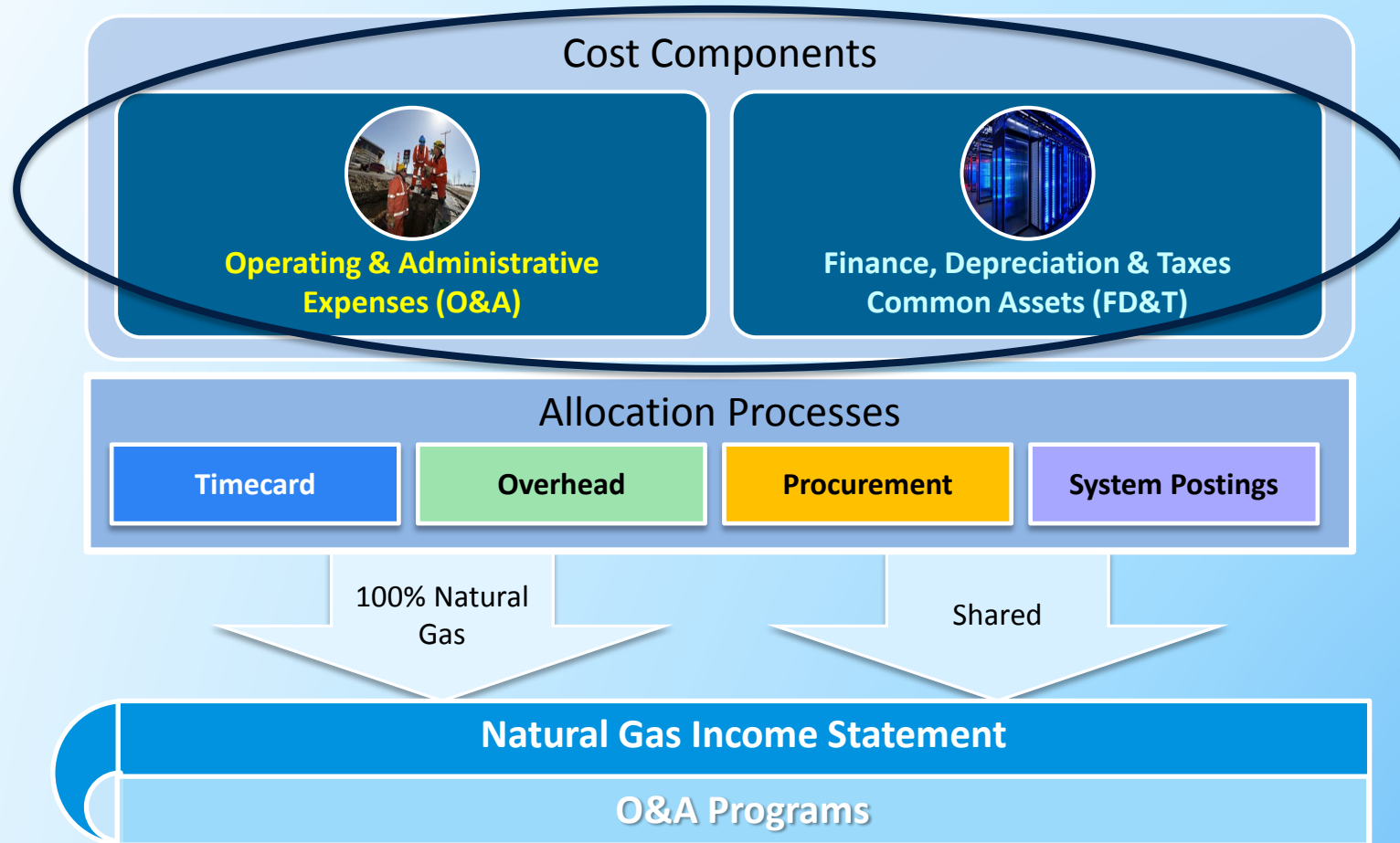
Lines of Business



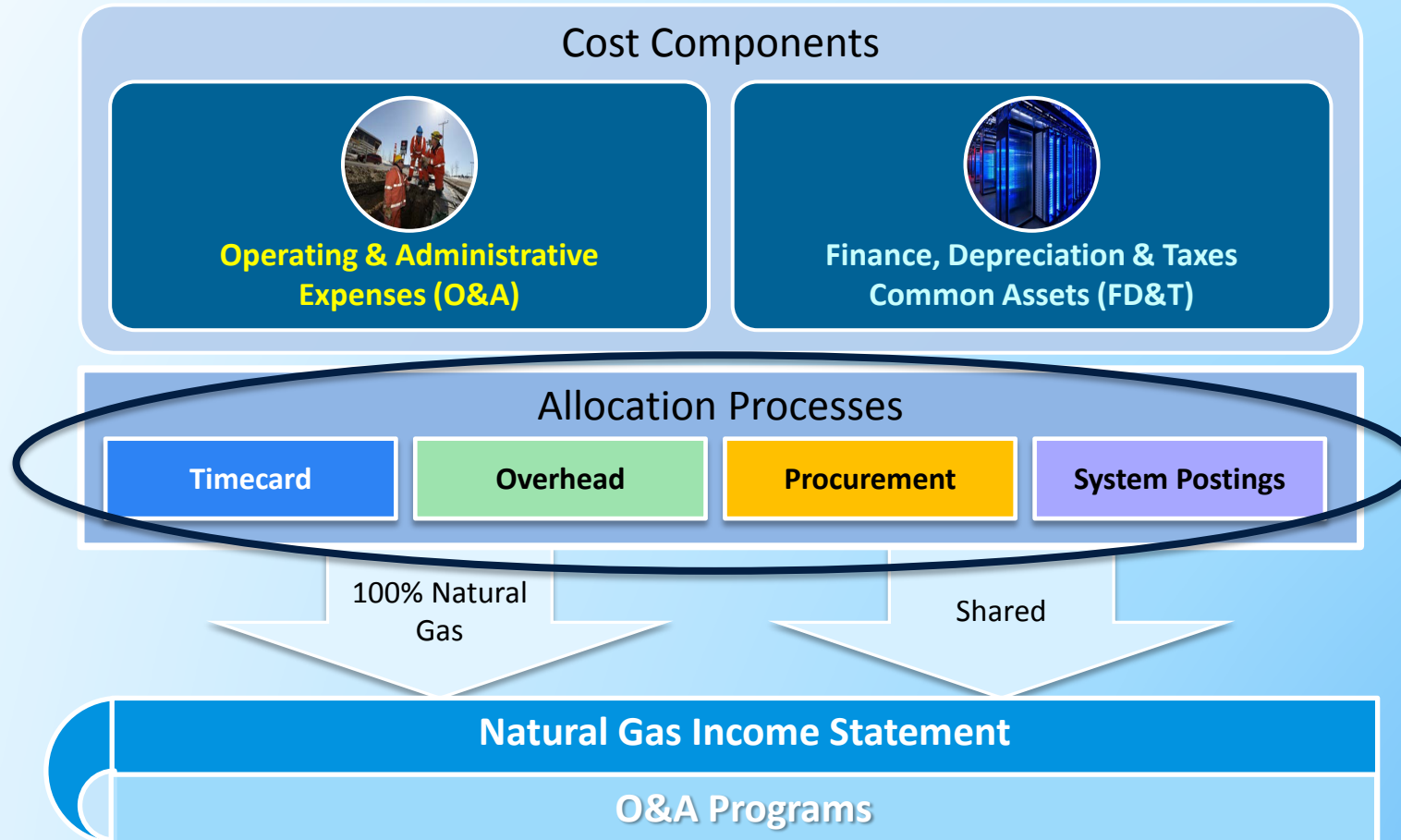
ICAM Overview



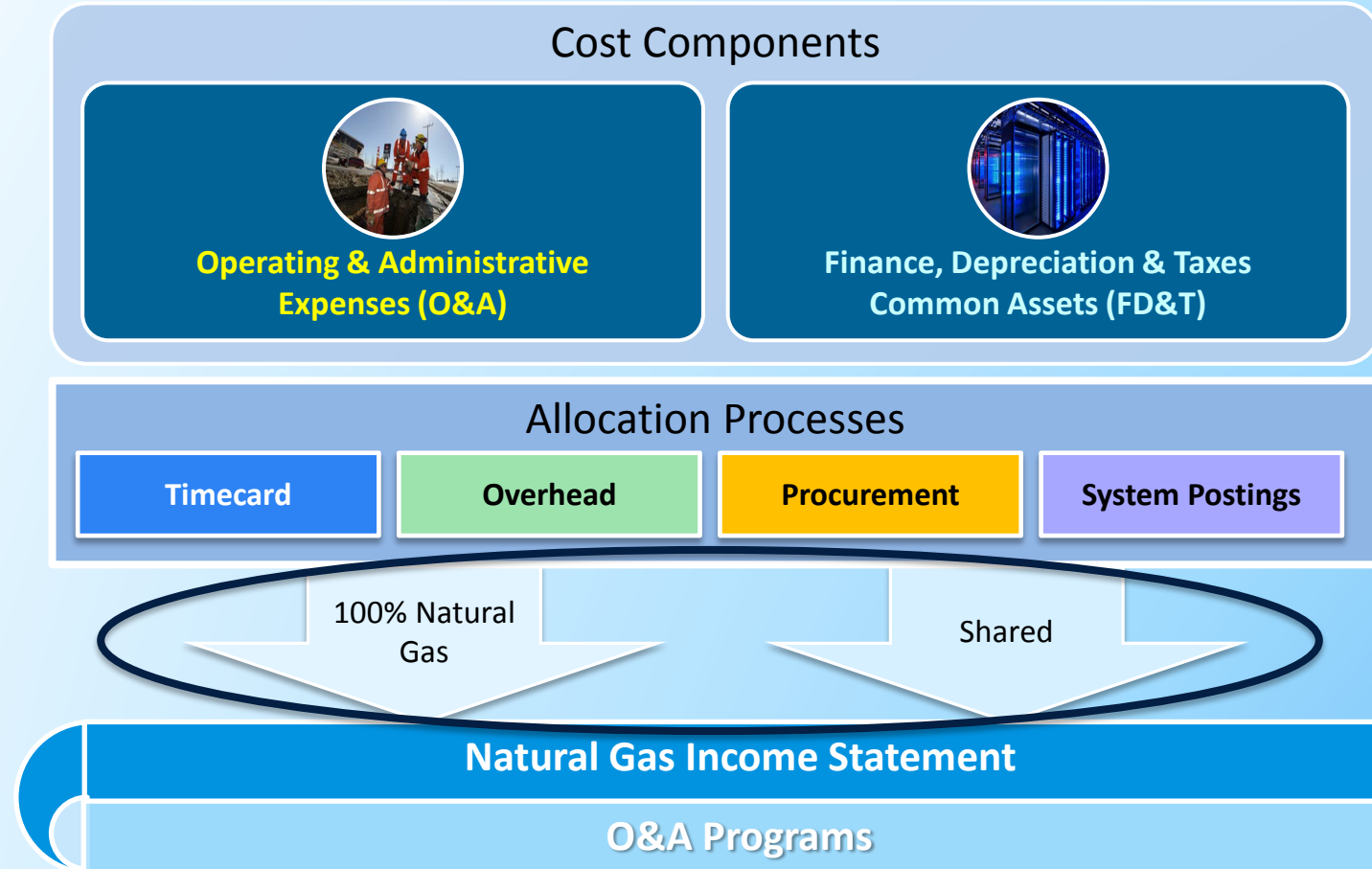
ICAM Overview



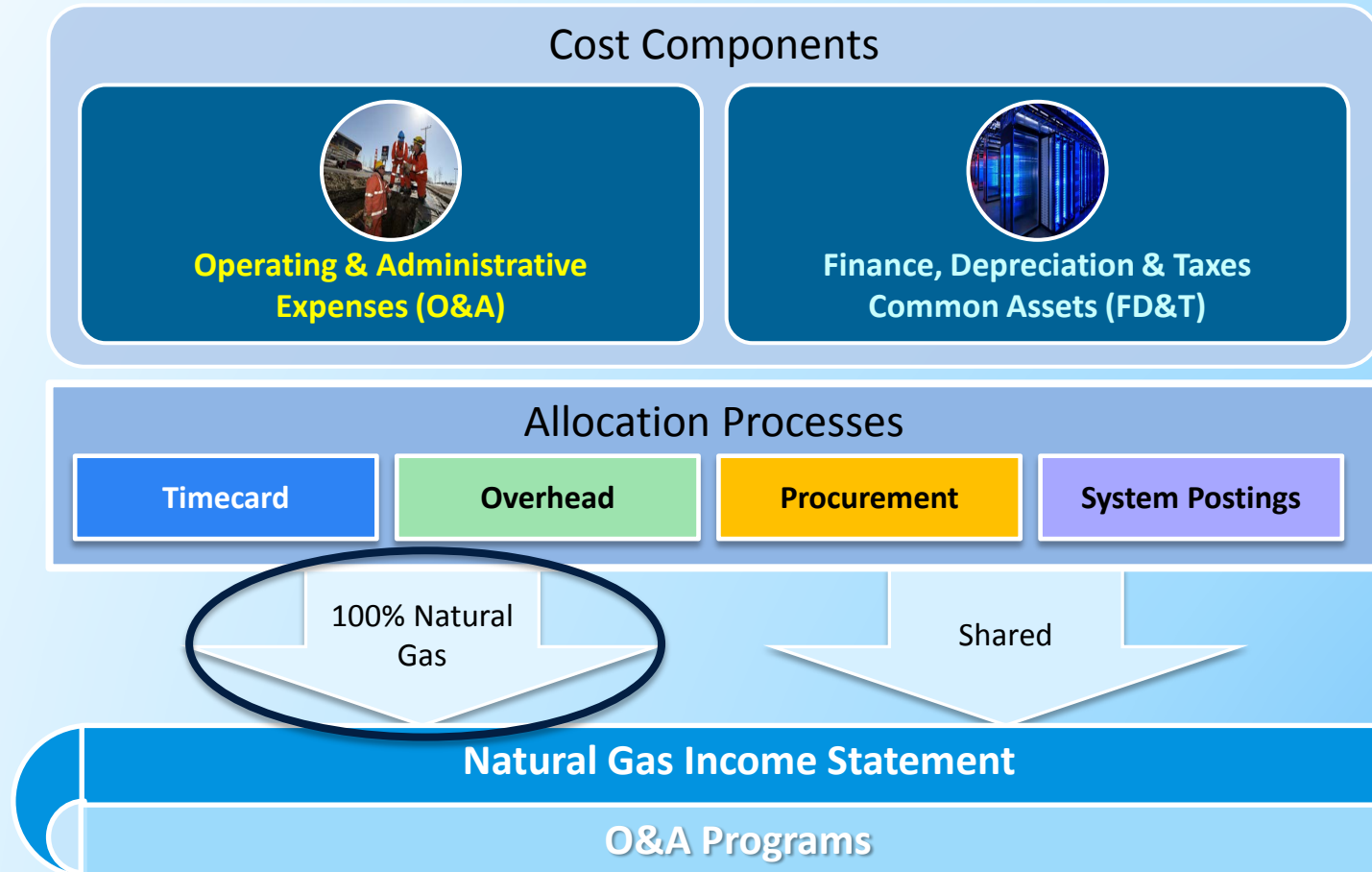
ICAM Overview



ICAM Overview



ICAM Overview



If an expense is 100% natural gas related it is charged 100% to the Natural Gas Income Statement.

ICAM Overview

100% Natural Gas Examples

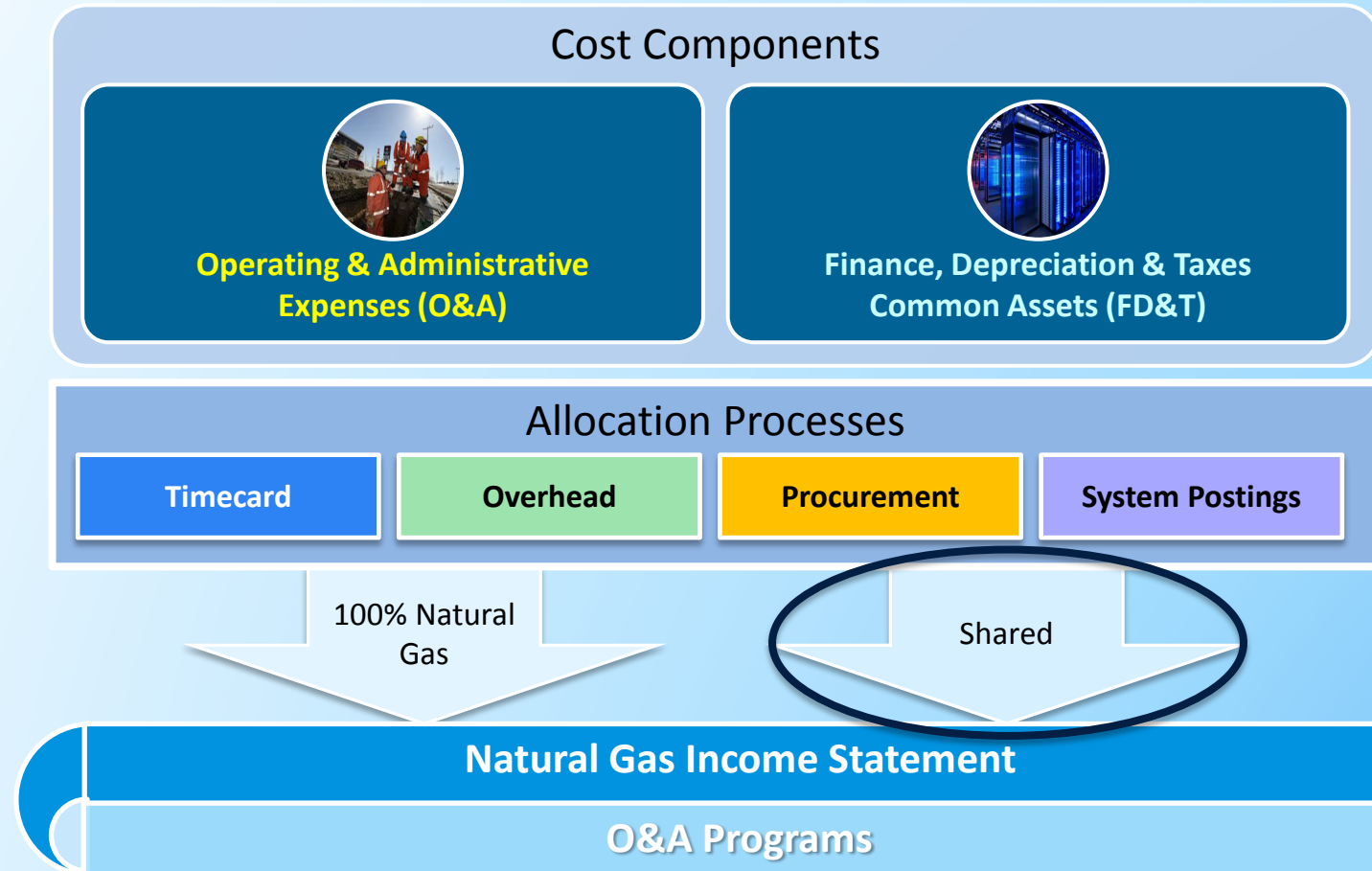


Natural Gas Pipeline
Cathodic Protection



Natural Gas System
Monitoring

ICAM Overview



If an expense is shared, a *cost driver* is used to allocate the costs to the line of business that causes the costs to be incurred.

ICAM Overview

Shared Examples

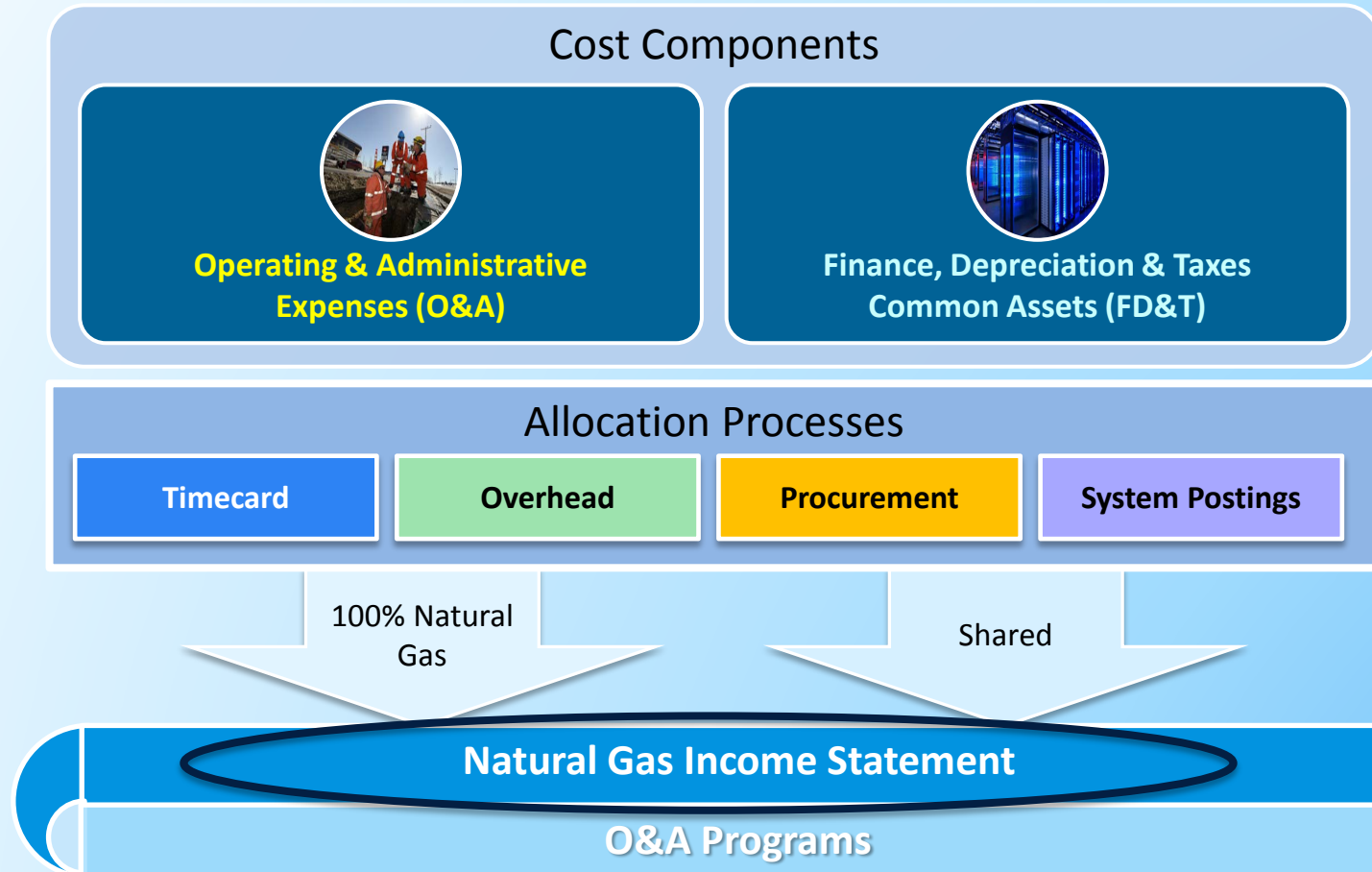


Customer Payment
Processing



Customer Contact Centre
Billing Inquiries

ICAM Overview



ICAM Overview

Natural Gas Expense

For the year ended March 31

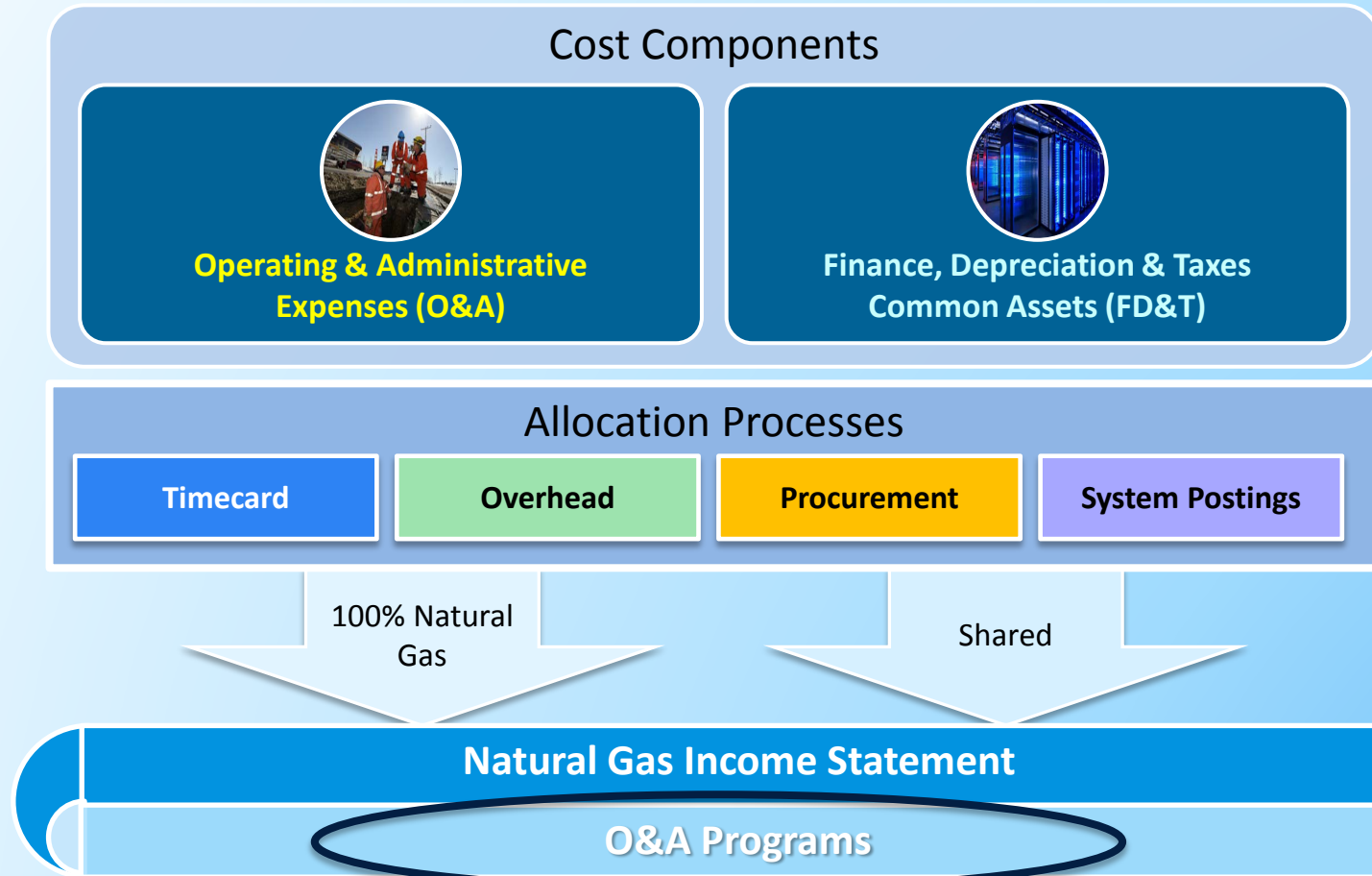
millions of dollars

Cost Categories

		ICAM	2016
Operating and administrative		67	67
Finance expense	Related to common assets	2	20
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Expenses attributable to the natural gas operations, excluding cost of gas sold.

ICAM Overview



O&A programs organize costs by nature rather than by cost category.

ICAM Overview

O&A Program Examples



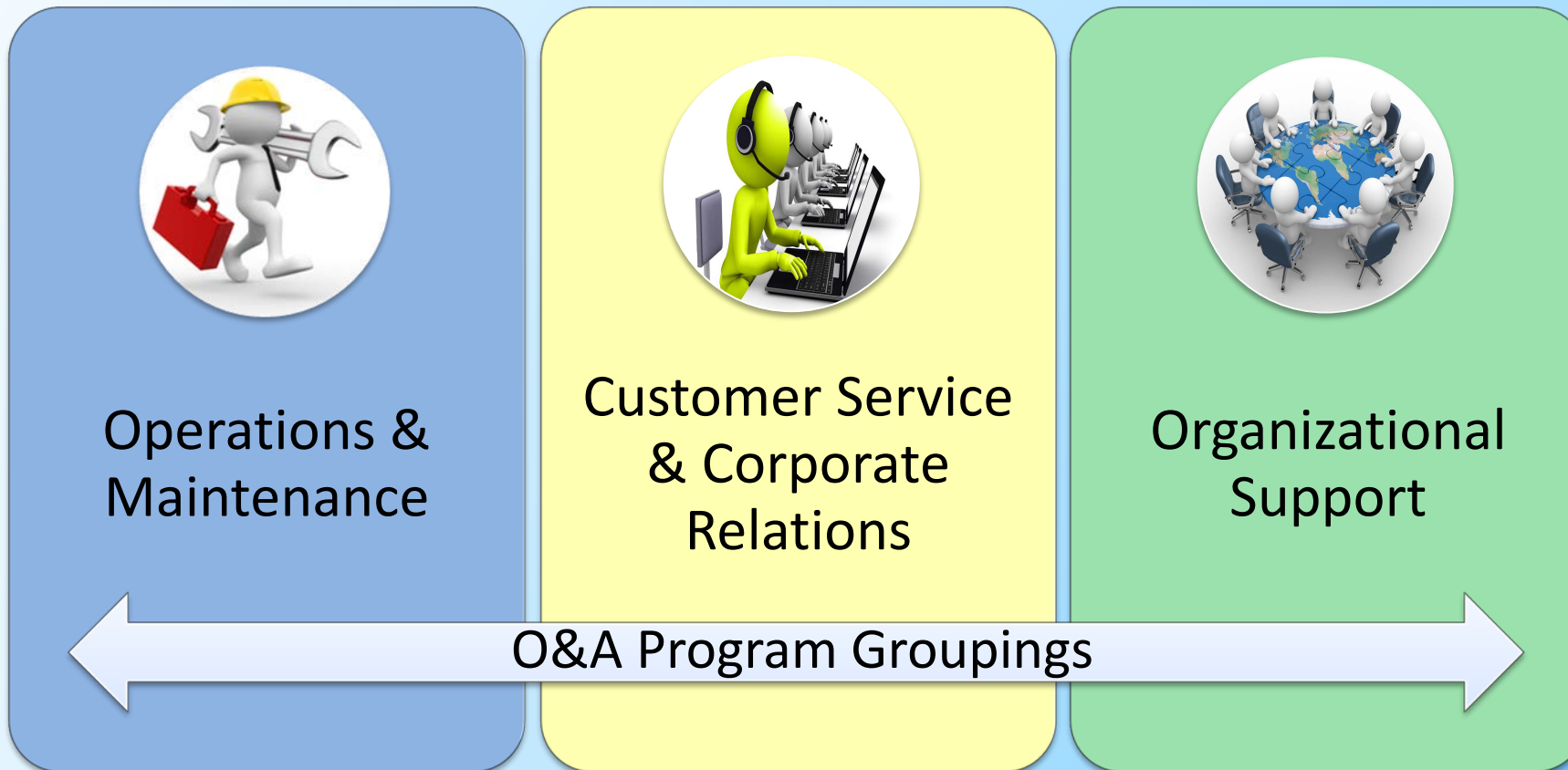
Customer Gas
Inspections



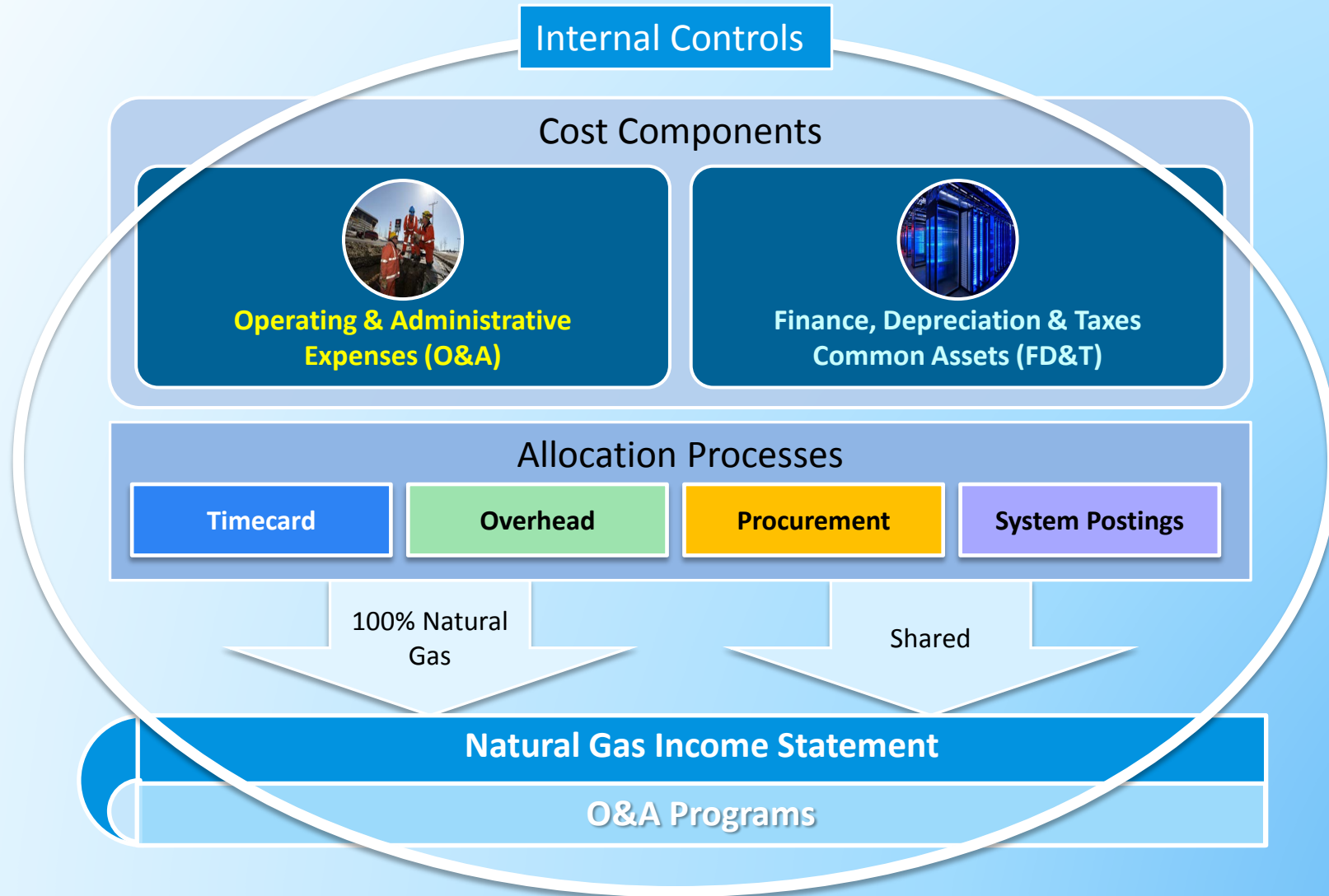
Energy Supply, Planning
and Support

ICAM Overview

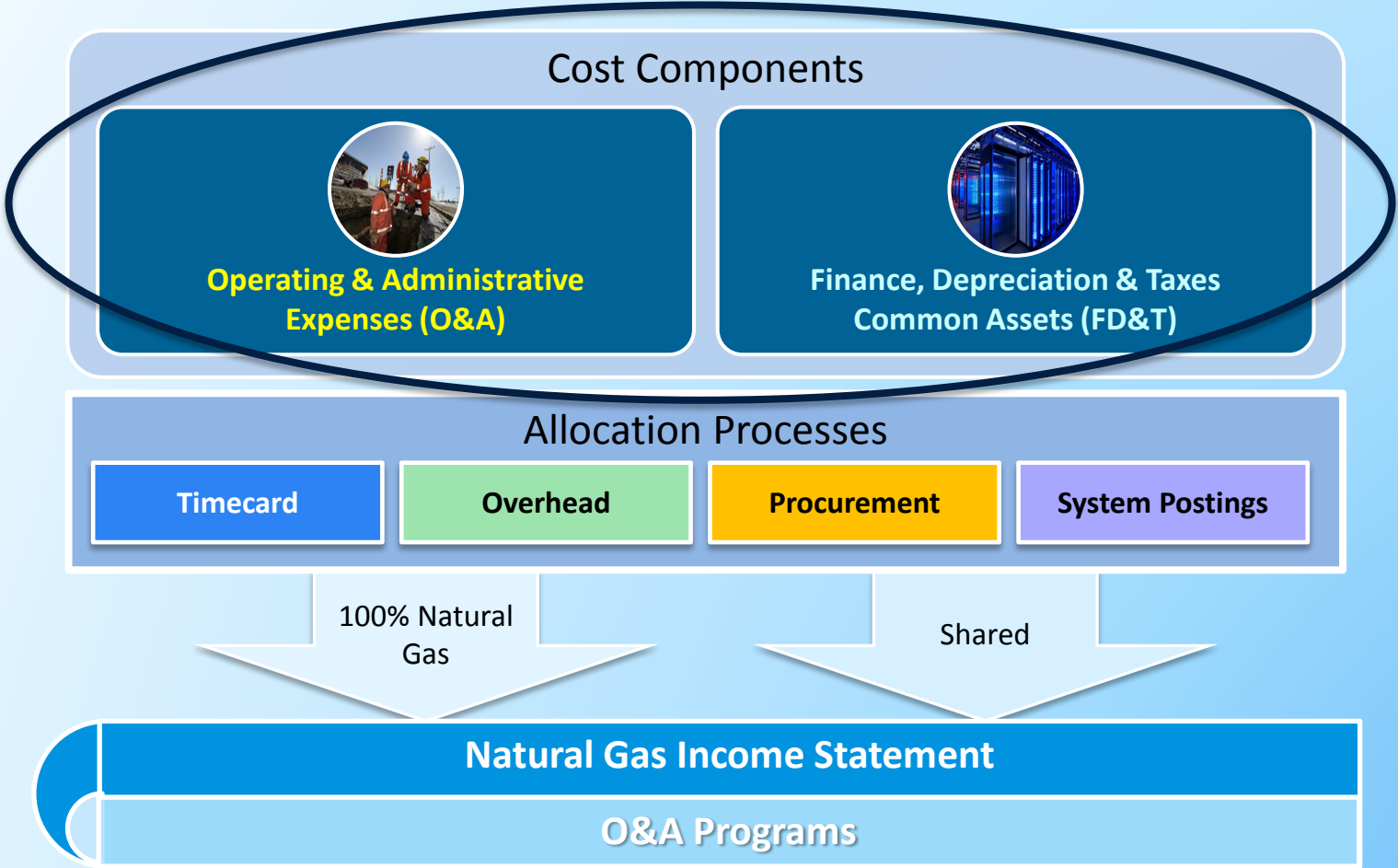
O&A Program View



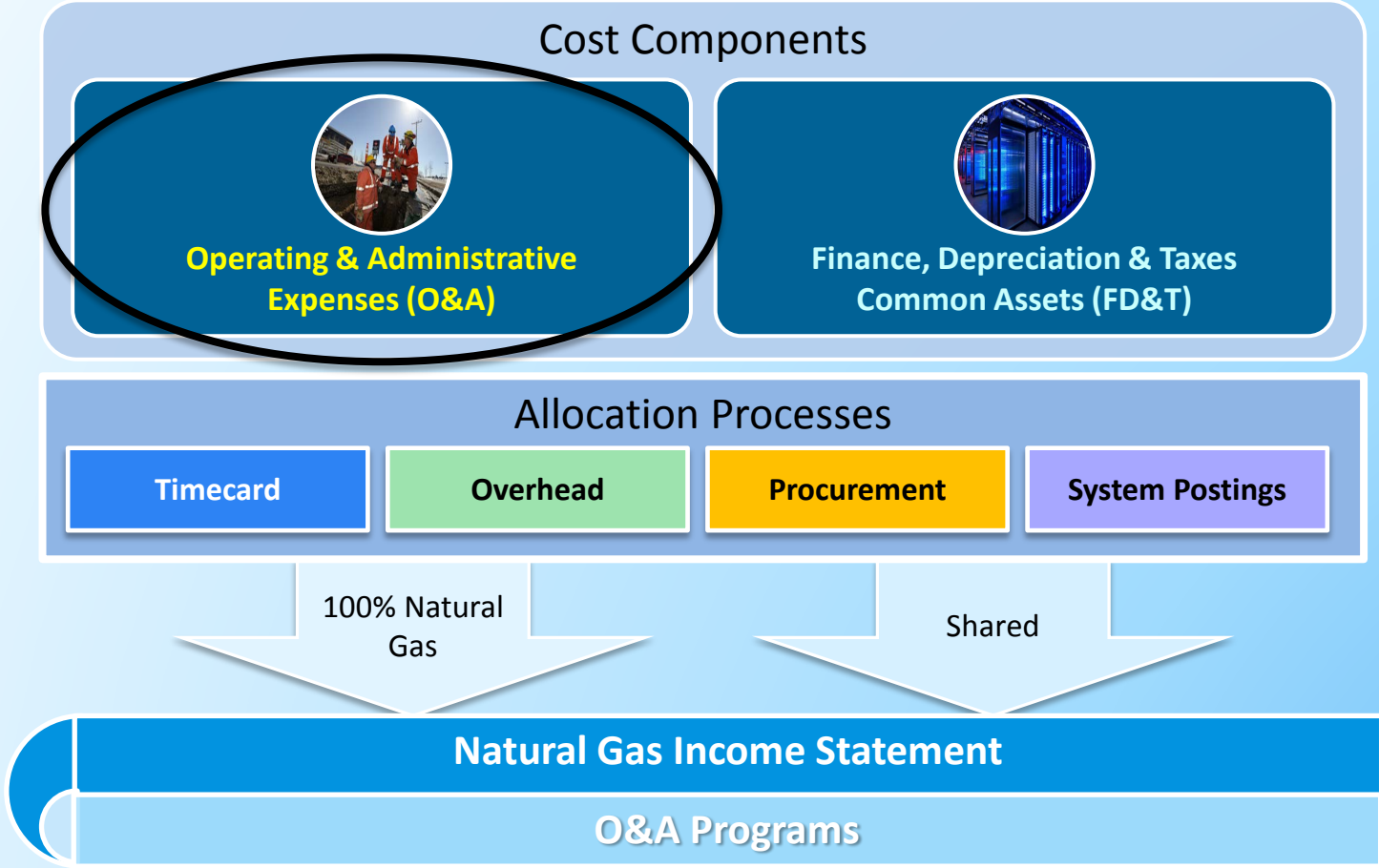
ICAM Overview



ICAM Cost Components



ICAM Cost Components



ICAM Cost Components



ICAM Cost Components



Operating & Administrative Expenses

Labor Related Costs

People and people related expenses such as:

- wages & salaries
- benefits
- motor vehicles
- small tools
- safety clothing

ICAM Cost Components



Operating & Administrative Expenses

Materials & Supplies

Inventory, supply & transportation of material and supplies such as:

- pipe
- valves
- regulators
- couplings

ICAM Cost Components



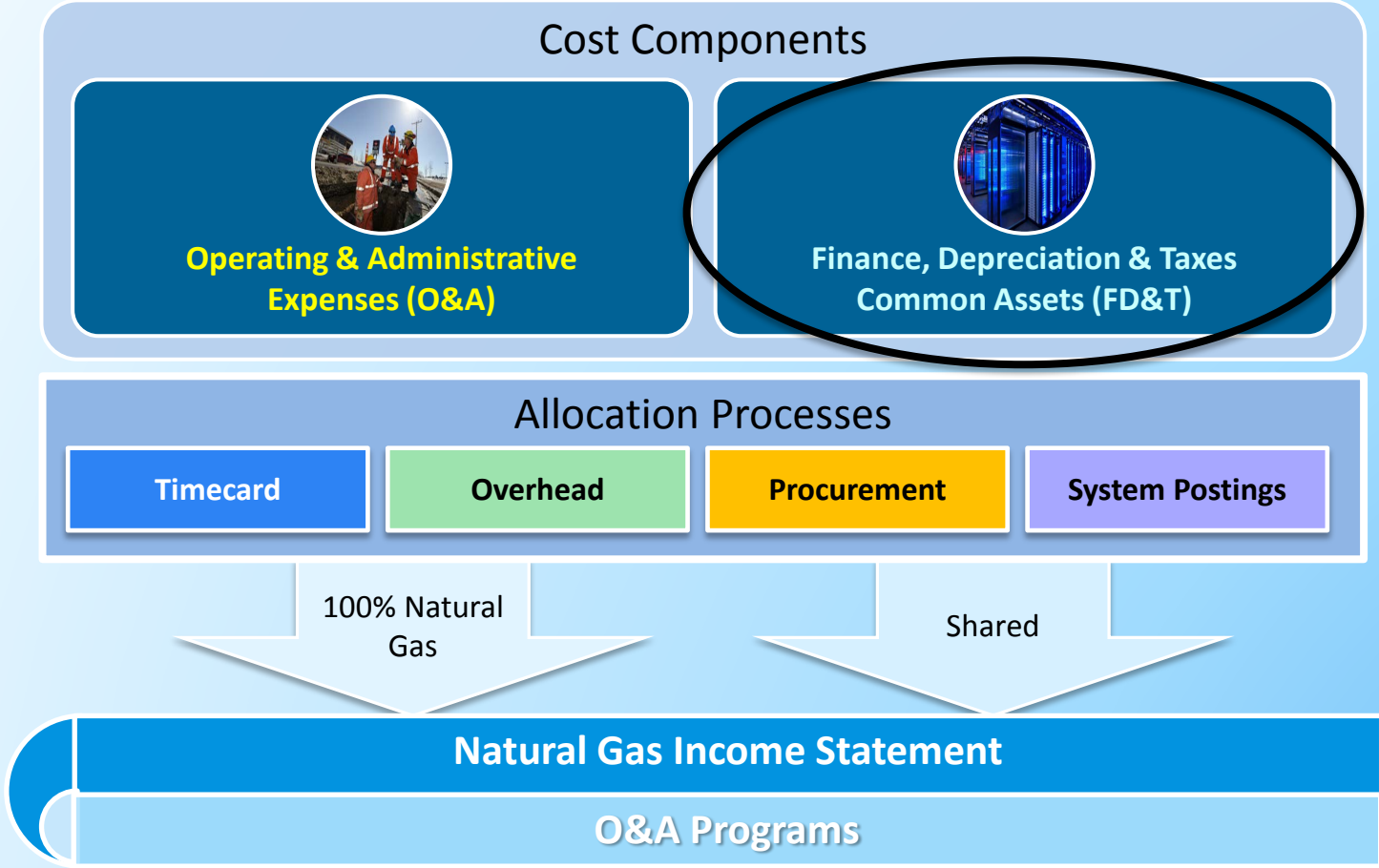
Operating & Administrative Expenses

External Services

Services provided by external vendors such as:

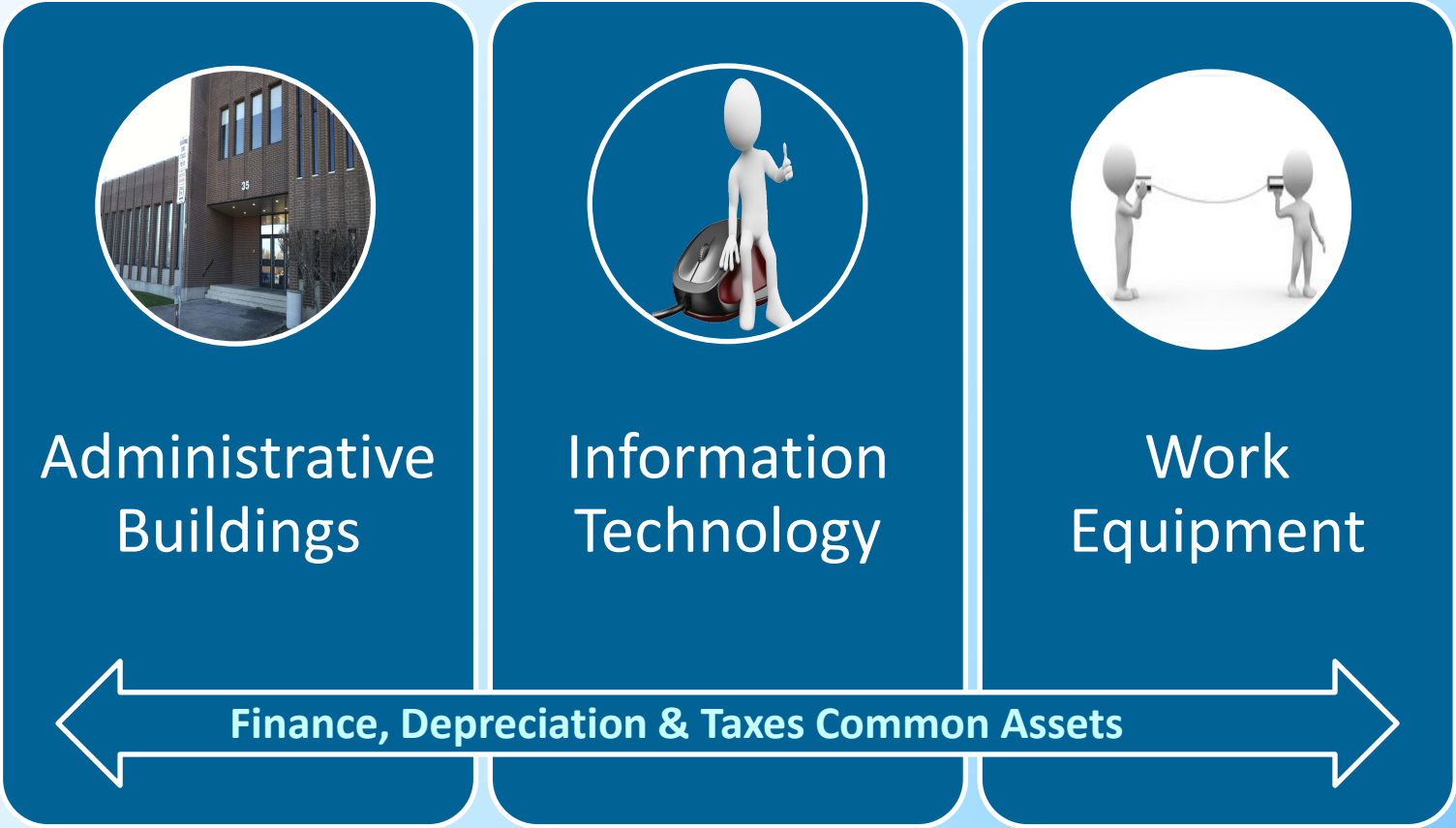
- leak surveys
- hydro-vac services
- janitorial contractor services

ICAM Cost Components



Comprised of finance, depreciation and tax expenses related to common assets that are used by employees that can work for the Electric and/or Natural Gas line of business.

ICAM Cost Components



ICAM Cost Components



Finance, Depreciation & Taxes
Common Assets

Administrative Buildings

Buildings that are used by Manitoba Hydro employees who can work on the electric and/or natural gas line of business:

- office buildings
- garages
- inventory storage facilities

ICAM Cost Components



Finance, Depreciation & Taxes
Common Assets

Information Technology

Computer applications and systems used by Manitoba Hydro employees who can work on the electric and/or natural gas line of business:

- personal computers
- networks
- databases
- software systems

ICAM Cost Components



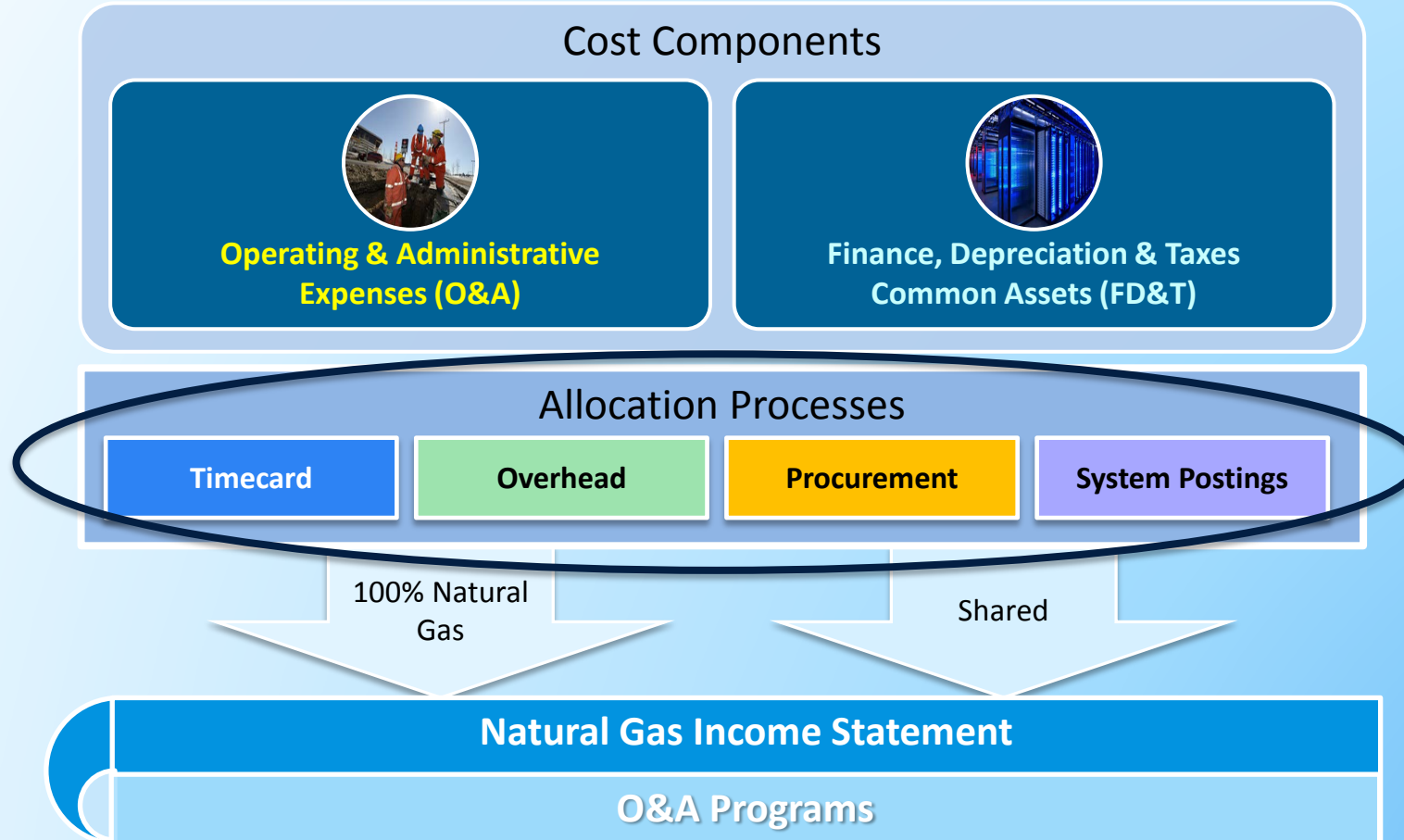
Finance, Depreciation & Taxes
Common Assets

Work Equipment

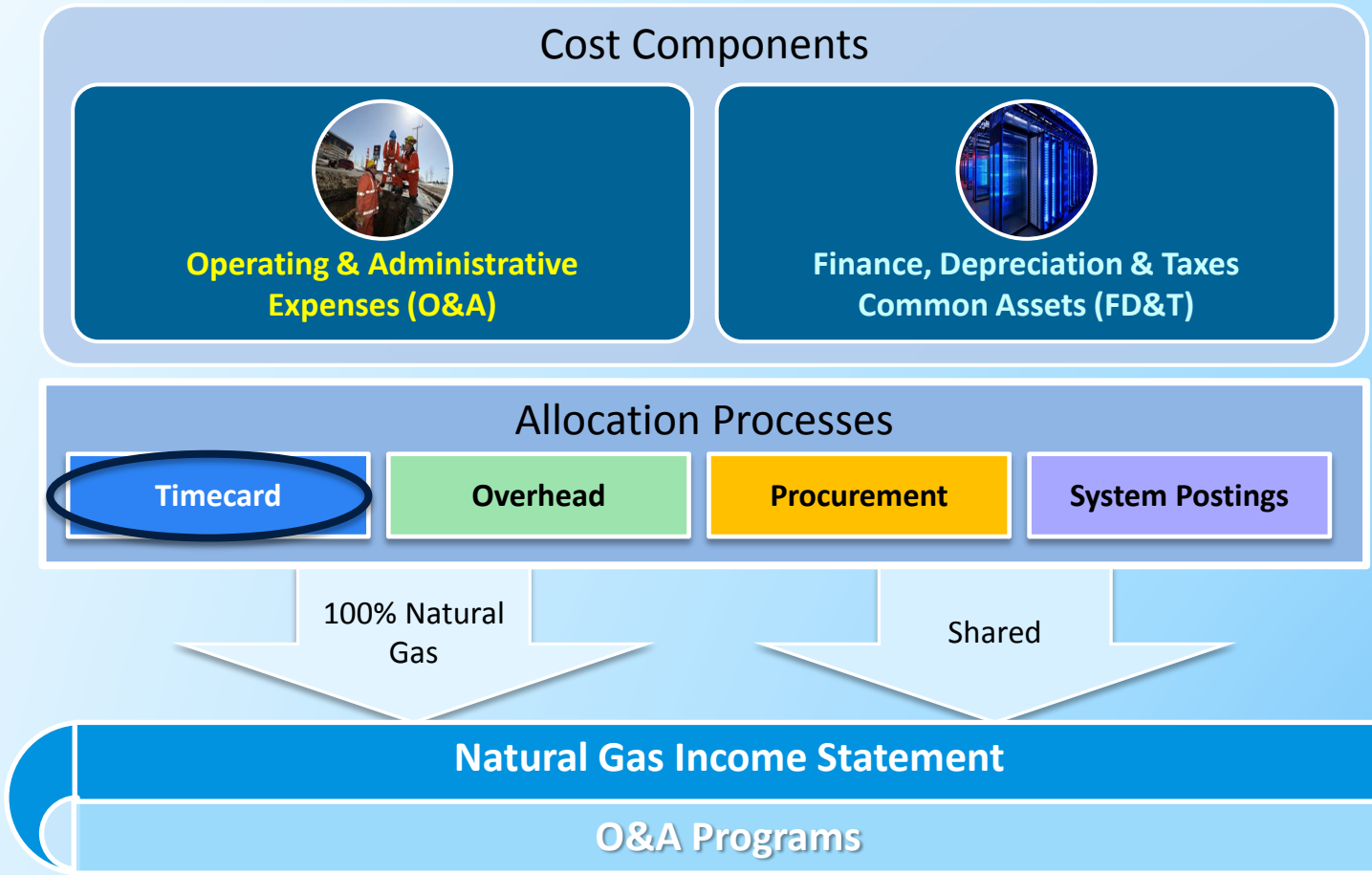
Tools and equipment used by Manitoba Hydro employees who can work on the electric and/or natural gas line of business:

- mobile radios
- office furniture
- eye wash stations
- video conference equipment

ICAM Overview



ICAM Allocations

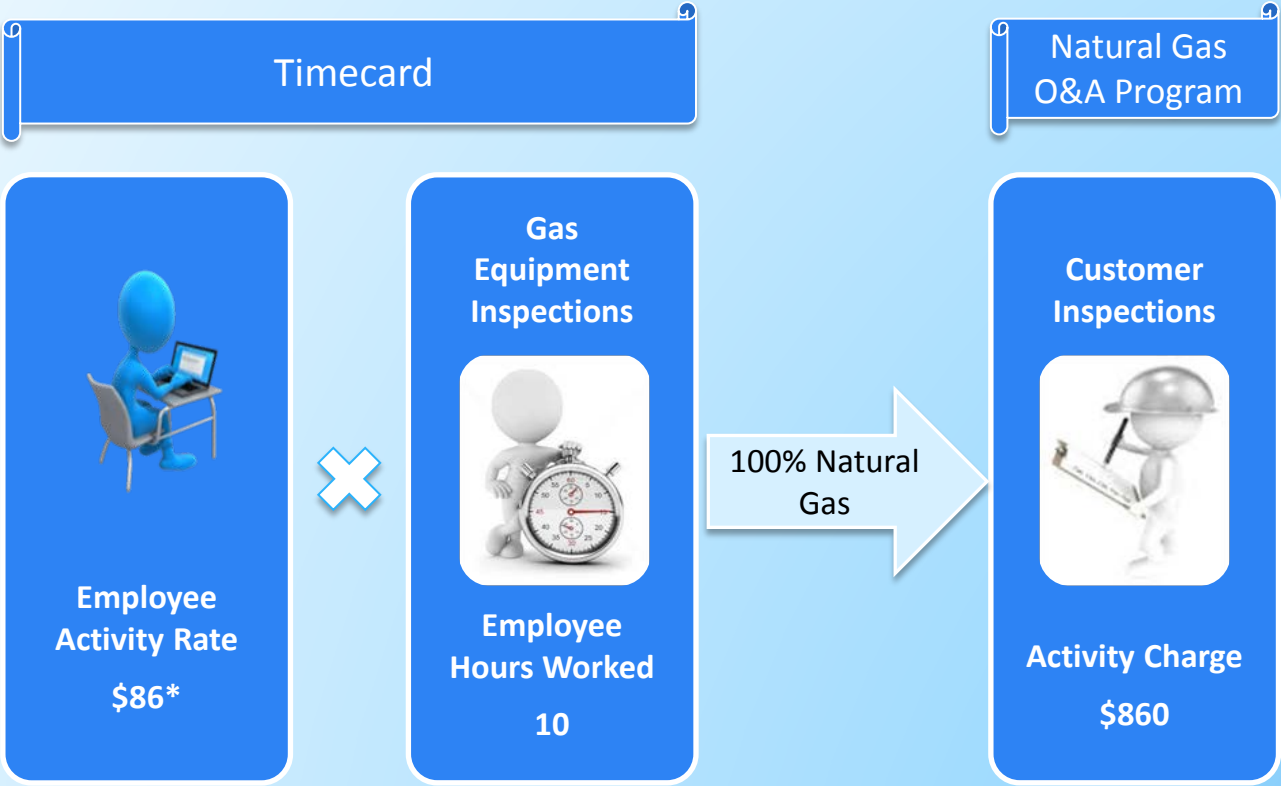


The timecard process allocates labor related costs to the Natural Gas Income Statement.



ICAM Allocations

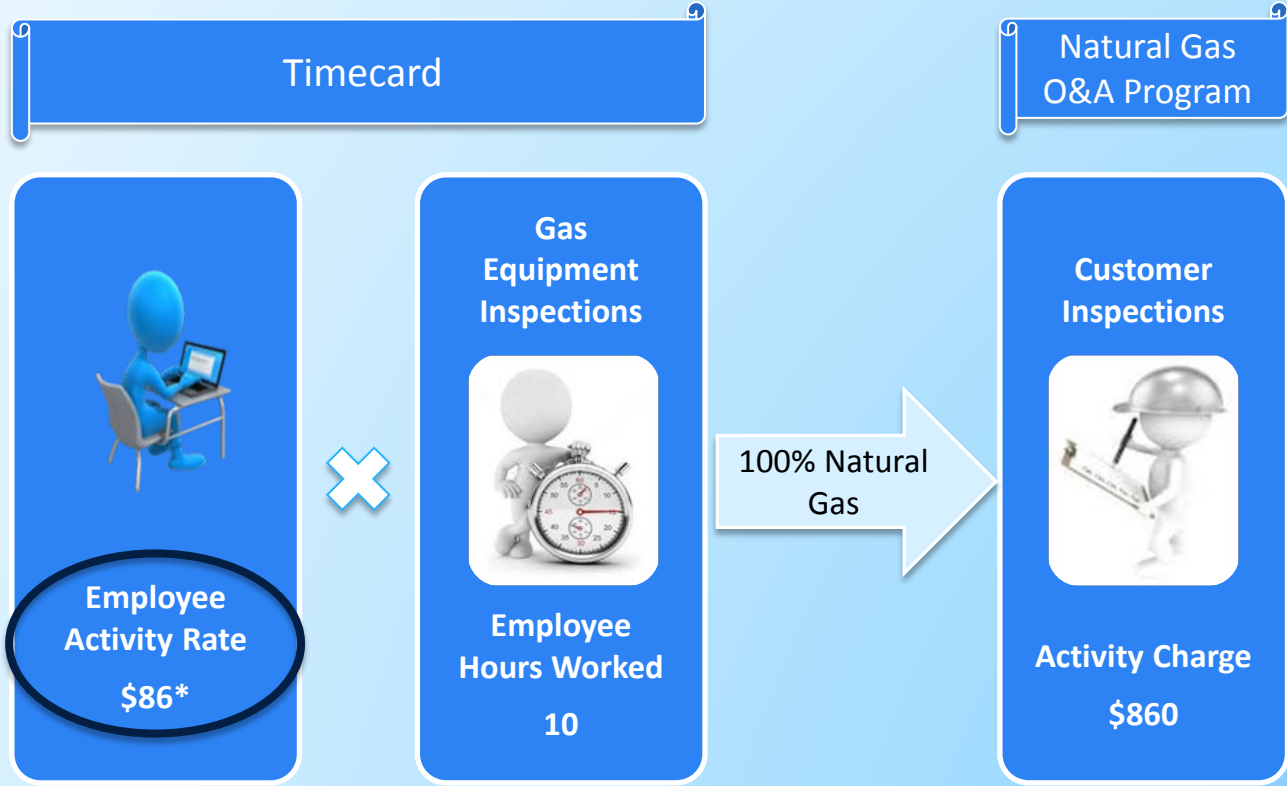
Time Card Illustration



*Sutherland Gas District regular time activity rate

ICAM Allocations

Time Card Illustration



*Sutherland Gas District regular time activity rate

An employee activity rate is calculated for work groups that perform common work.



ICAM Allocations

Natural Gas Distribution Asset Maintenance



Natural Gas
Maintenance & repairs

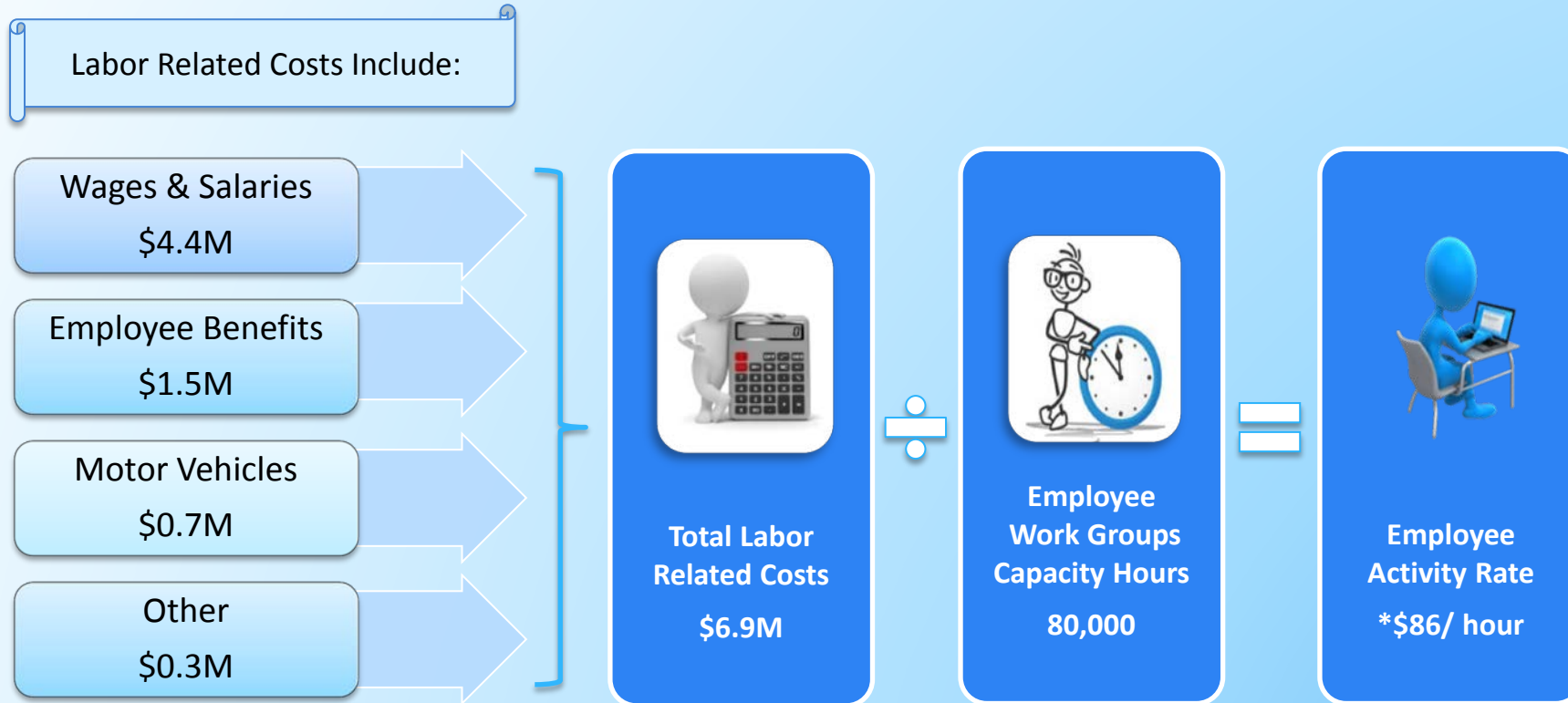


Natural Gas
Equipment inspections

Sutherland Gas District employees perform work of a similar nature and therefore use the same activity rate.

ICAM Allocations

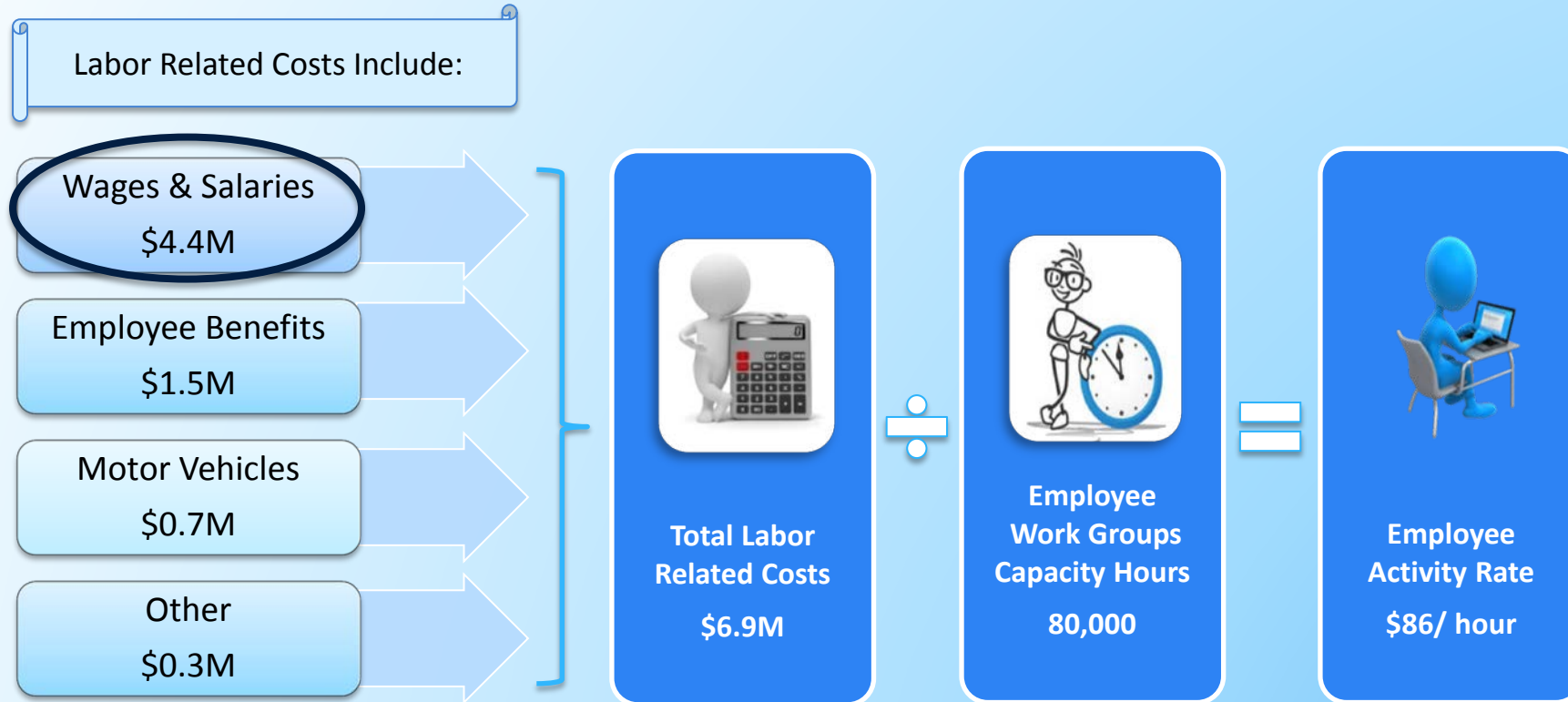
Activity Rate Illustration



*Sutherland Gas District regular time activity rate

ICAM Allocations

Activity Rate Illustration

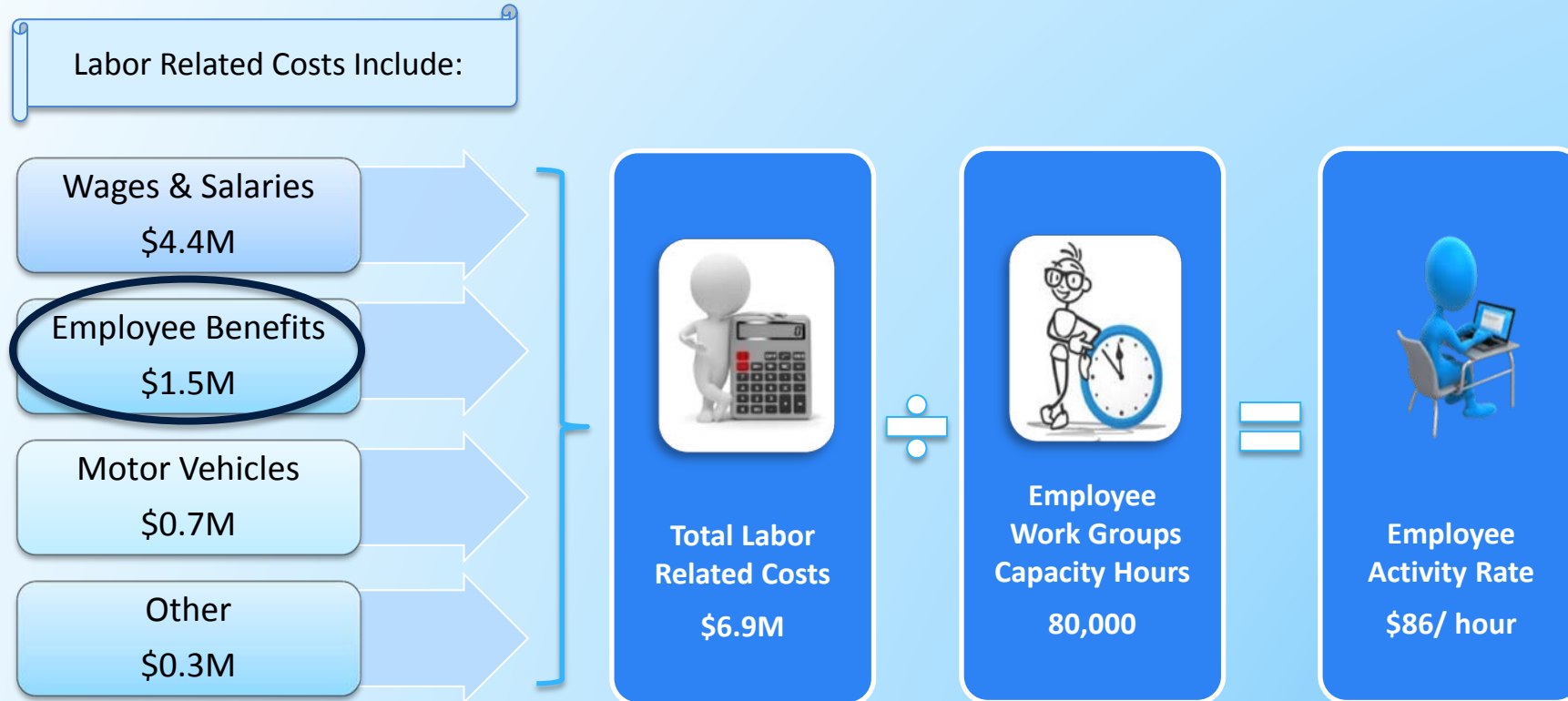


Includes:

- Wages and salaries for hourly and salaried staff
- Premiums & allowances such as lead hand pay, shift premium etc.

ICAM Allocations

Activity Rate Illustration

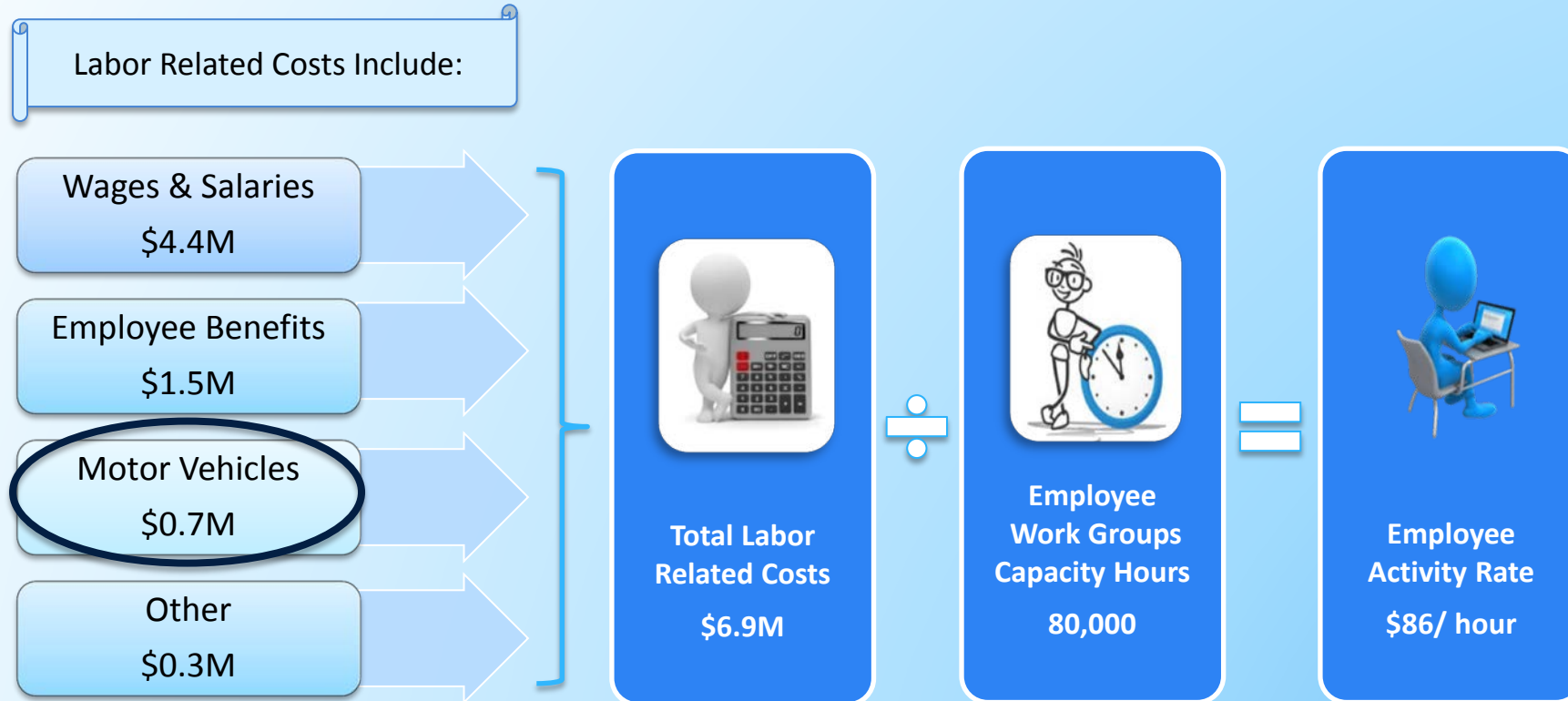


Includes:

- Legislated – CPP, EI, workers comp and payroll taxes
- Non Legislated – health & dental, pension, disability insurance, etc.

ICAM Allocations

Activity Rate Illustration

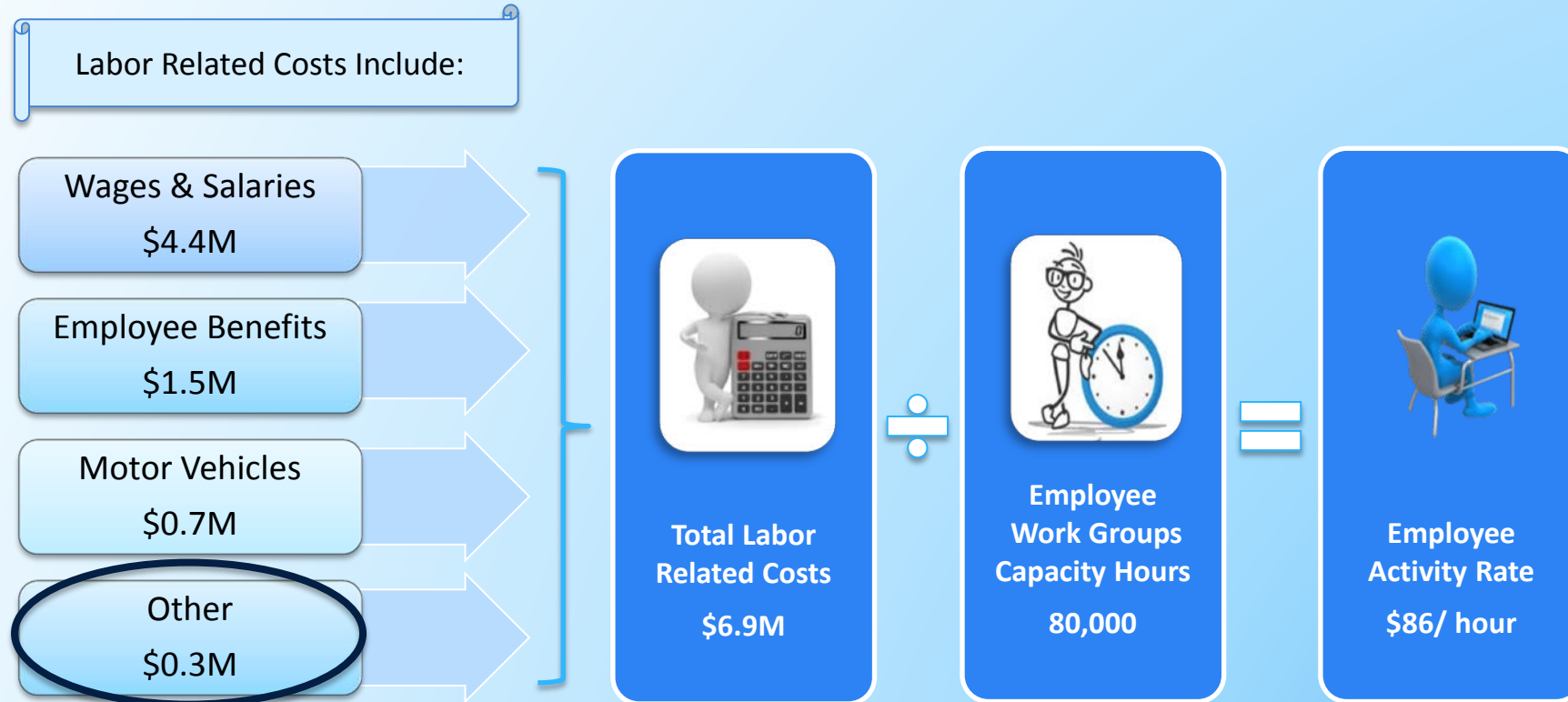


Includes:

- Insurance
- Repairs and maintenance
- Depreciation

ICAM Allocations

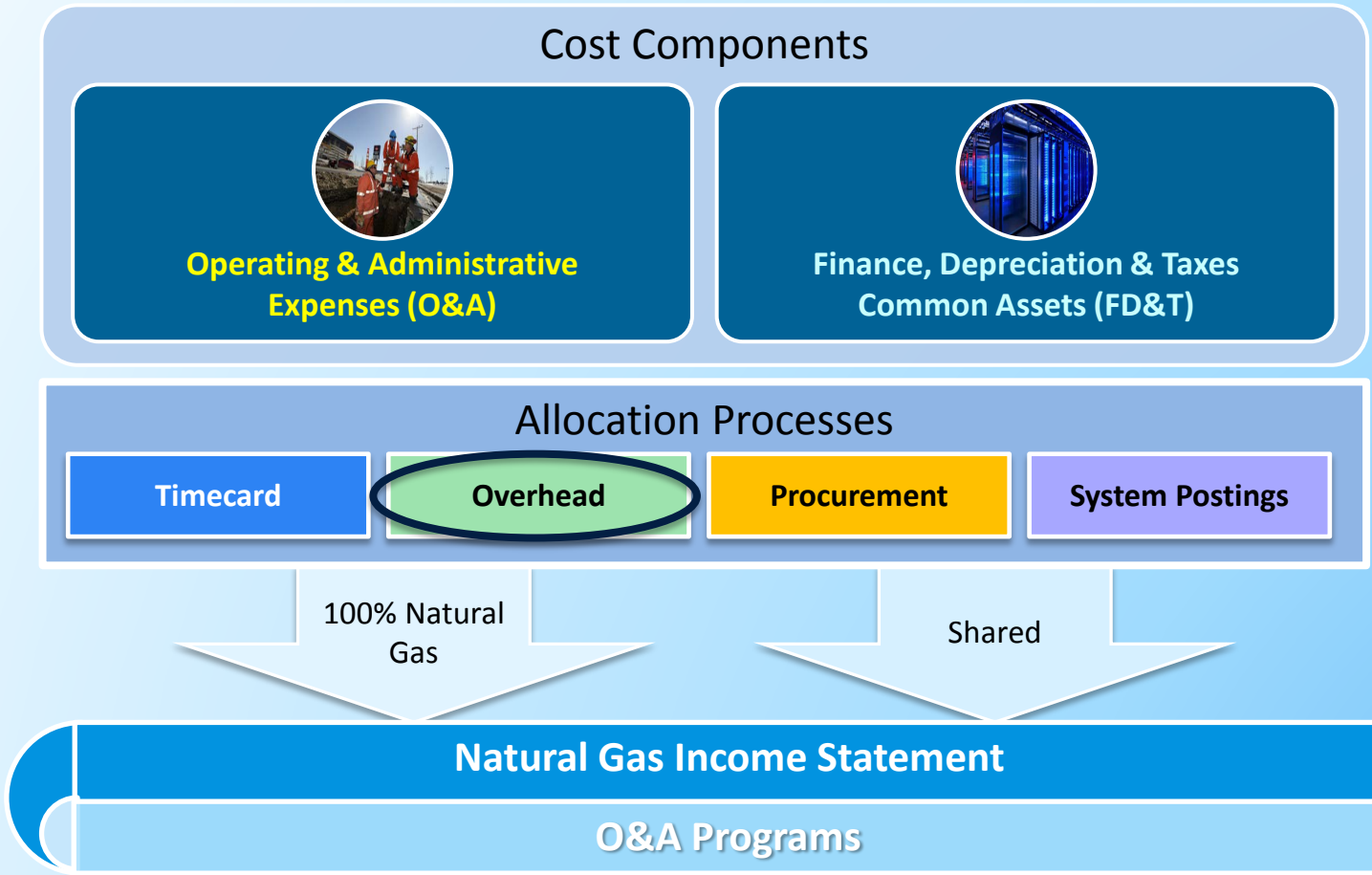
Activity Rate Illustration



Includes:

- Travel and accommodations
- Small tools and equipment
- Safety clothing and footwear

ICAM Allocations



The overhead process allocates costs that are not directly attributable to a specific job.

ICAM Allocations

Types of Overhead

Manitoba Hydro
Common Overhead



Manitoba Hydro
Material Handling Charge



ICAM Allocations

Common Overhead Costs



Corporate Governance

- Executive
- Internal audit
- General counsel etc.



Corporate Infrastructure

- Administrative buildings
- IT systems and infrastructure
- Communication systems

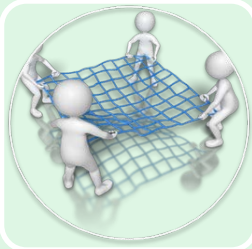
ICAM Allocations

Common Overhead Costs



Corporate Services

- Human resources
- Financial services etc .



Departmental Support

- Training
- Administrative support

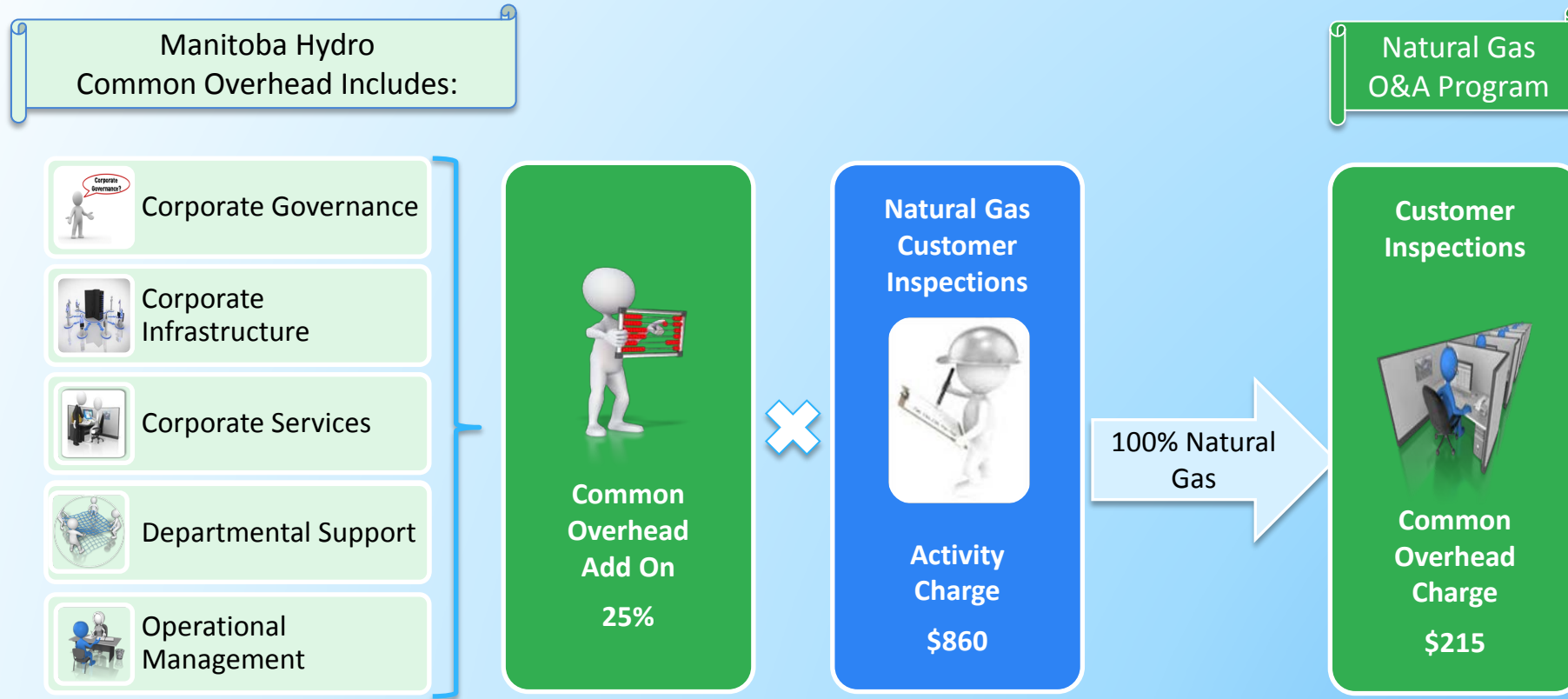


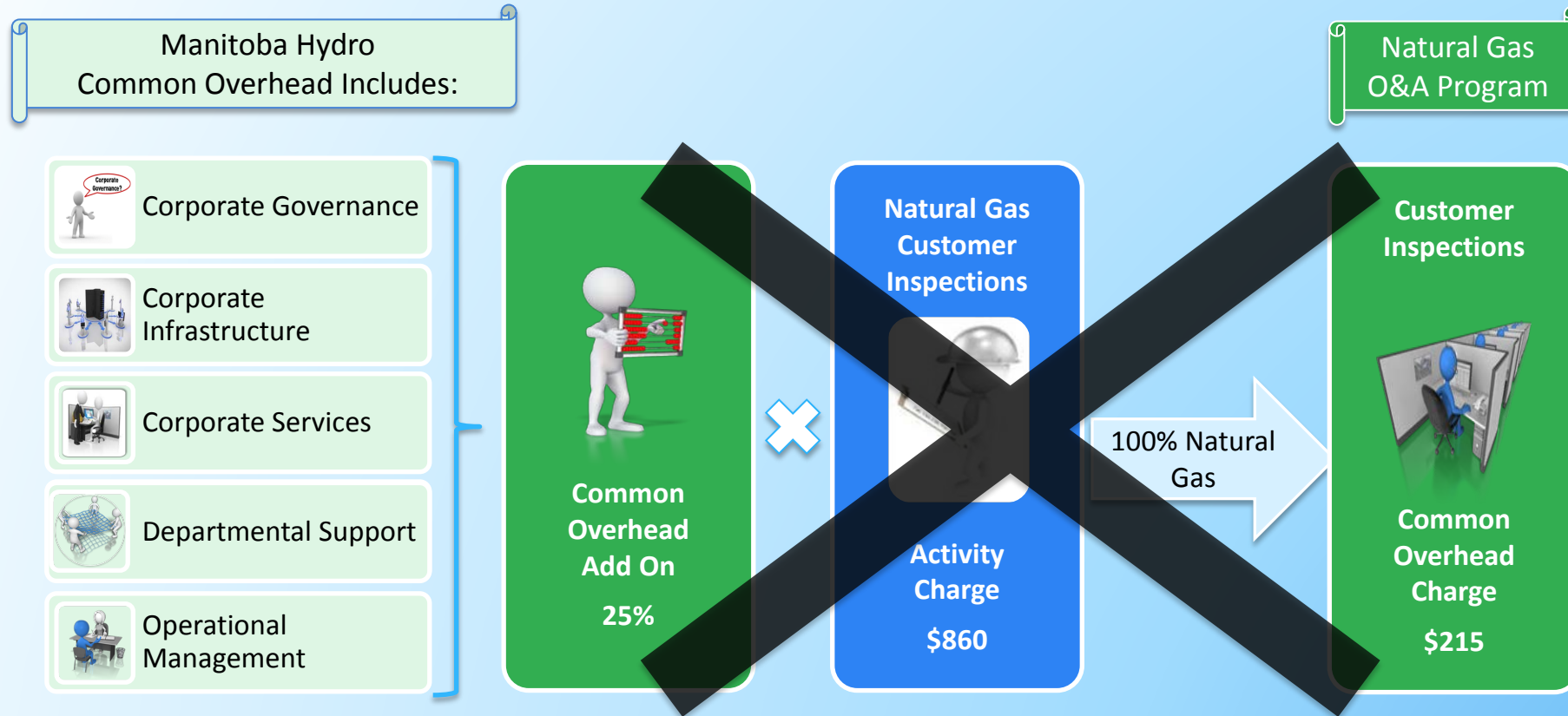
Operational Management

- Division managers

ICAM Allocations

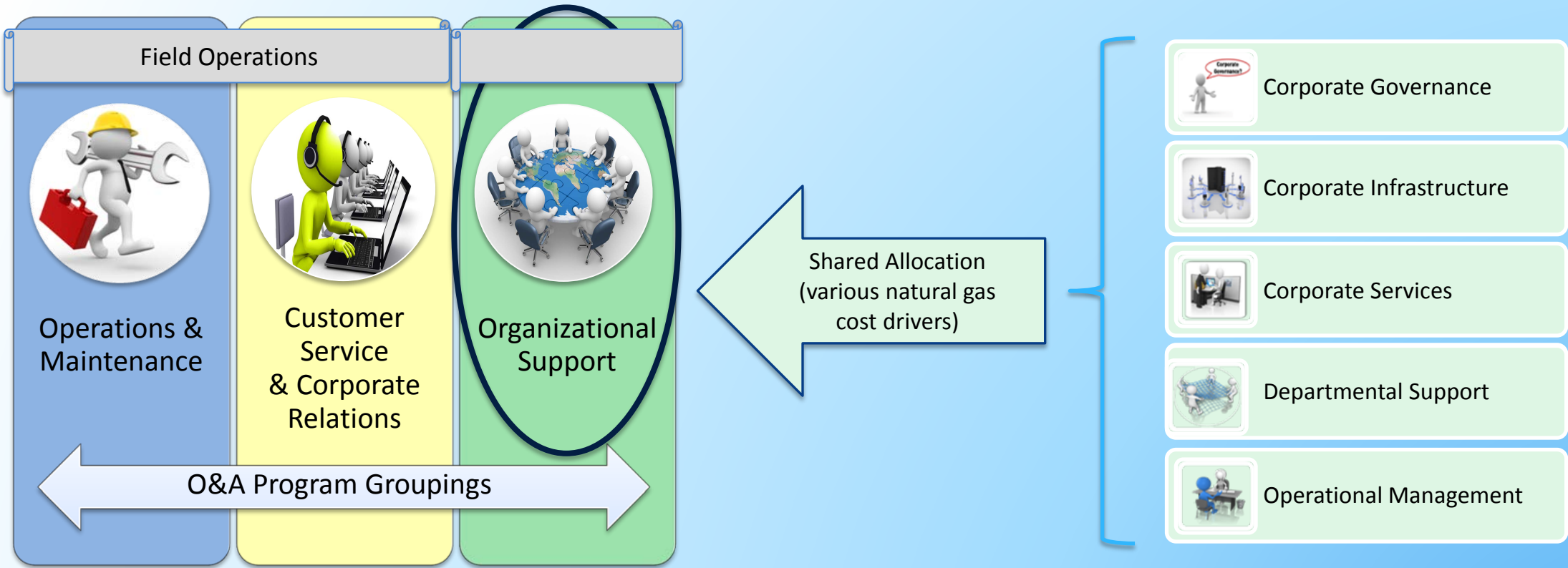
Common Overhead Illustration





During the transition to IFRS, the process of allocating common overhead to Natural Gas Programs as a percentage add-on to activity charges was discontinued.

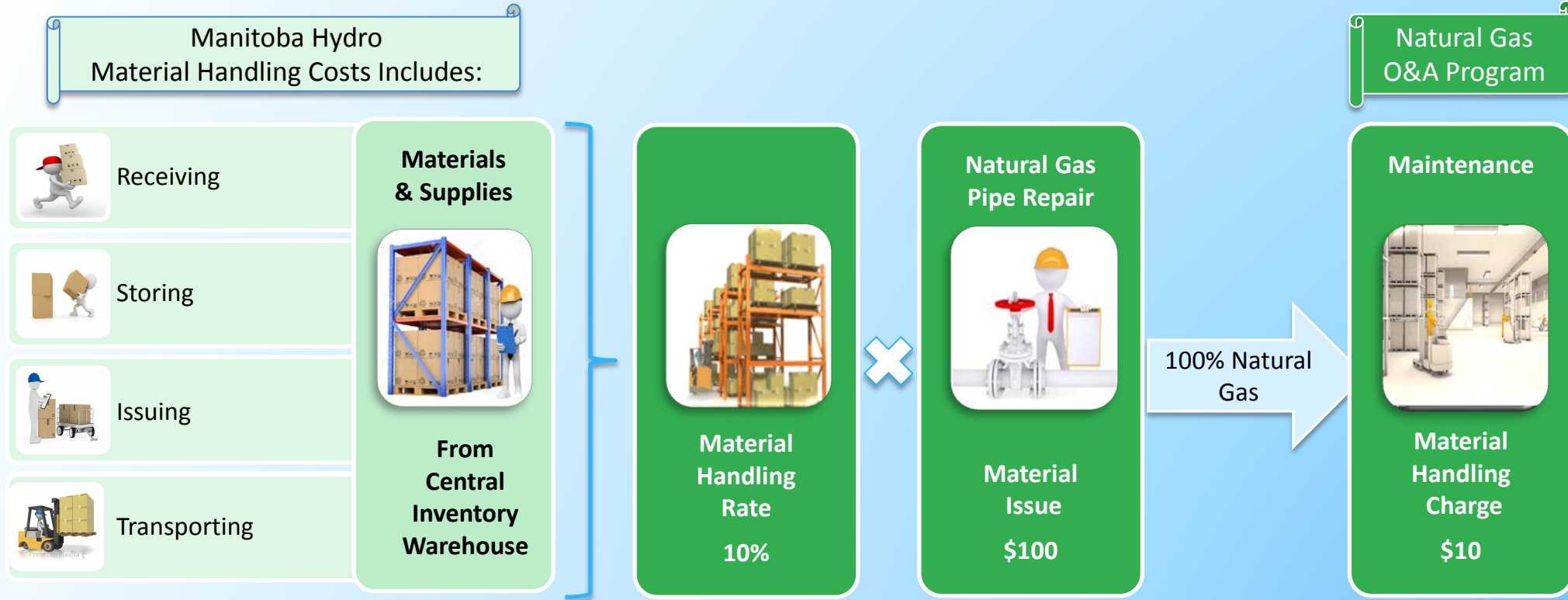
ICAM Allocations Common Overhead



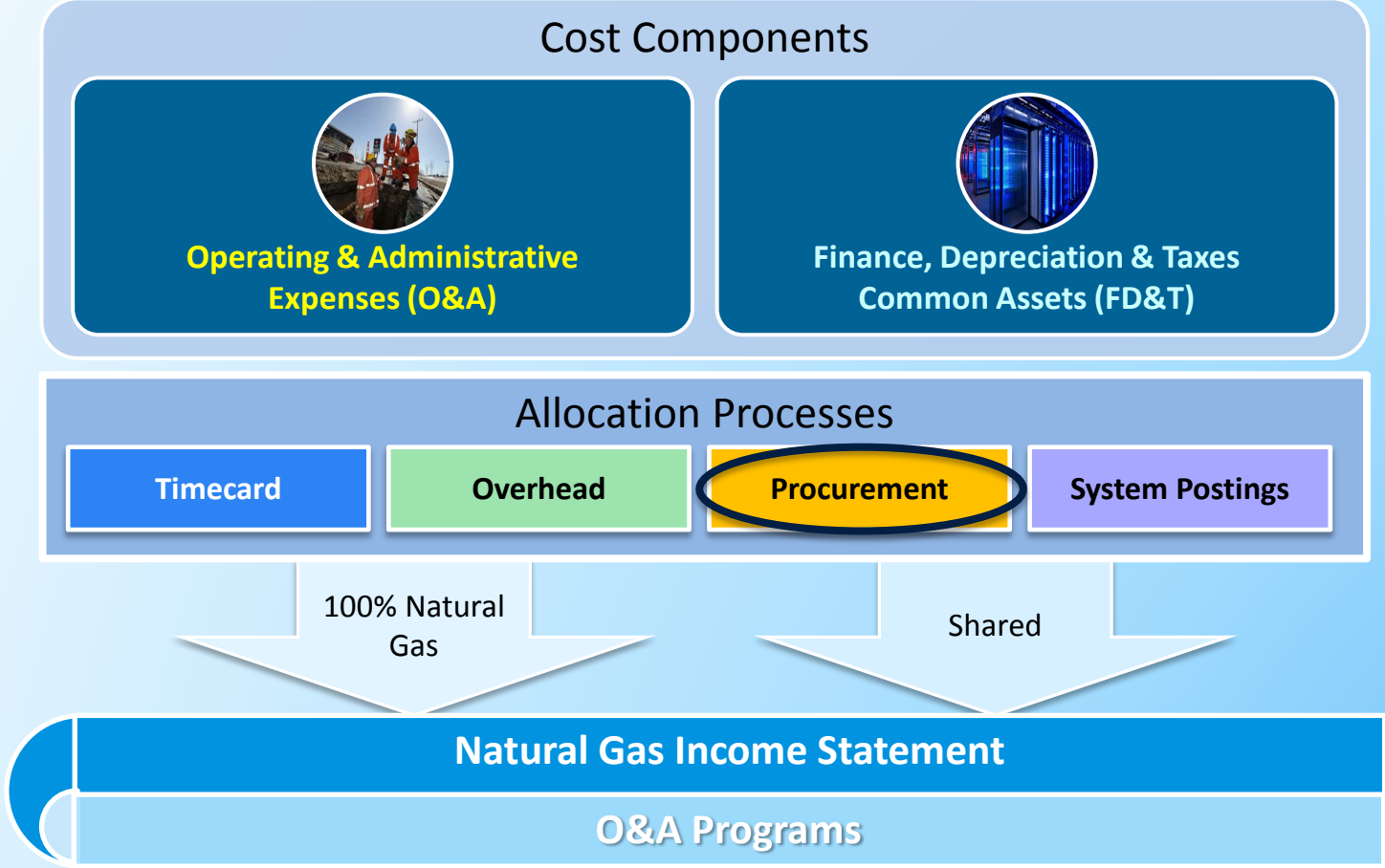
Common overhead costs are now reported as their own programs which provides a more transparent view of the various functions performed for the Natural Gas line of business.

ICAM Allocations

Material Handling Charge Illustration

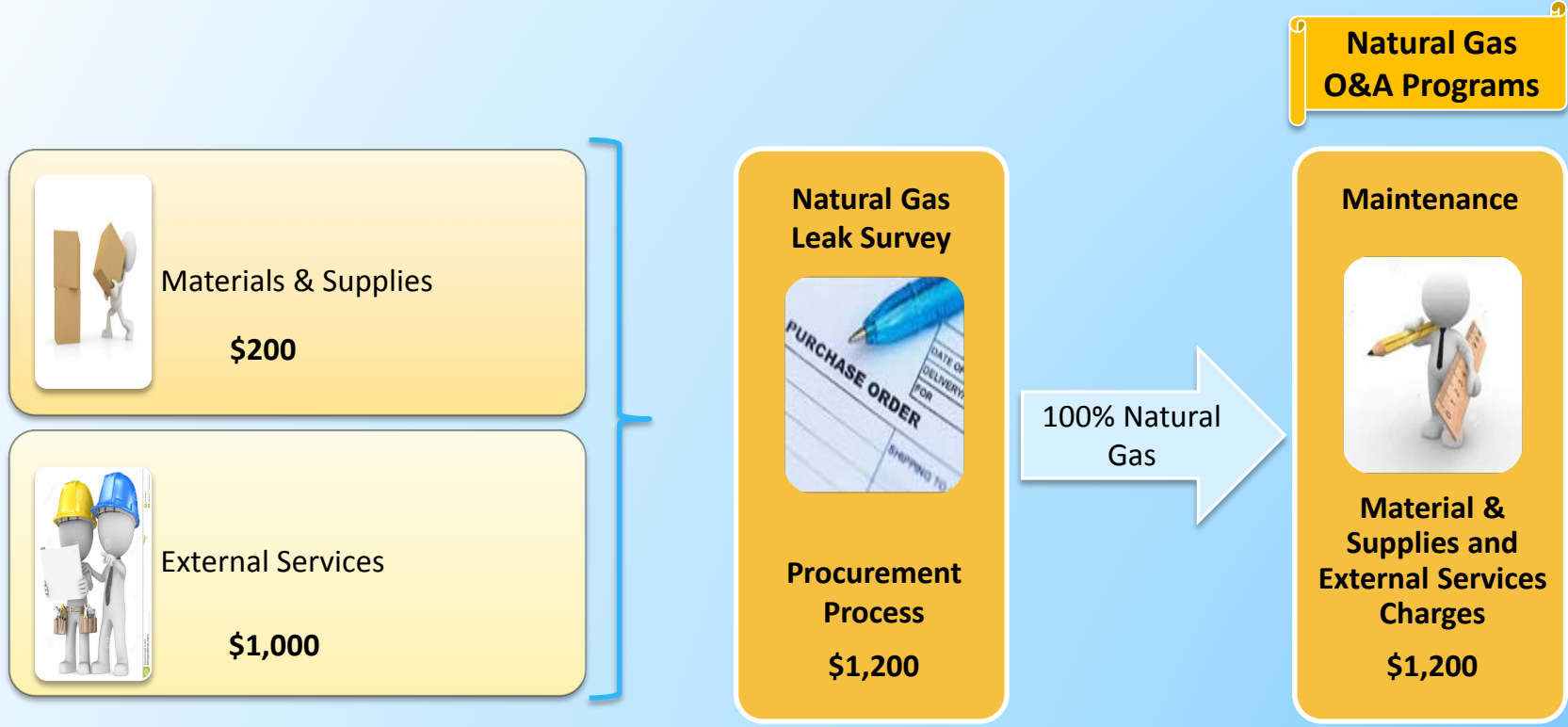


ICAM Allocations

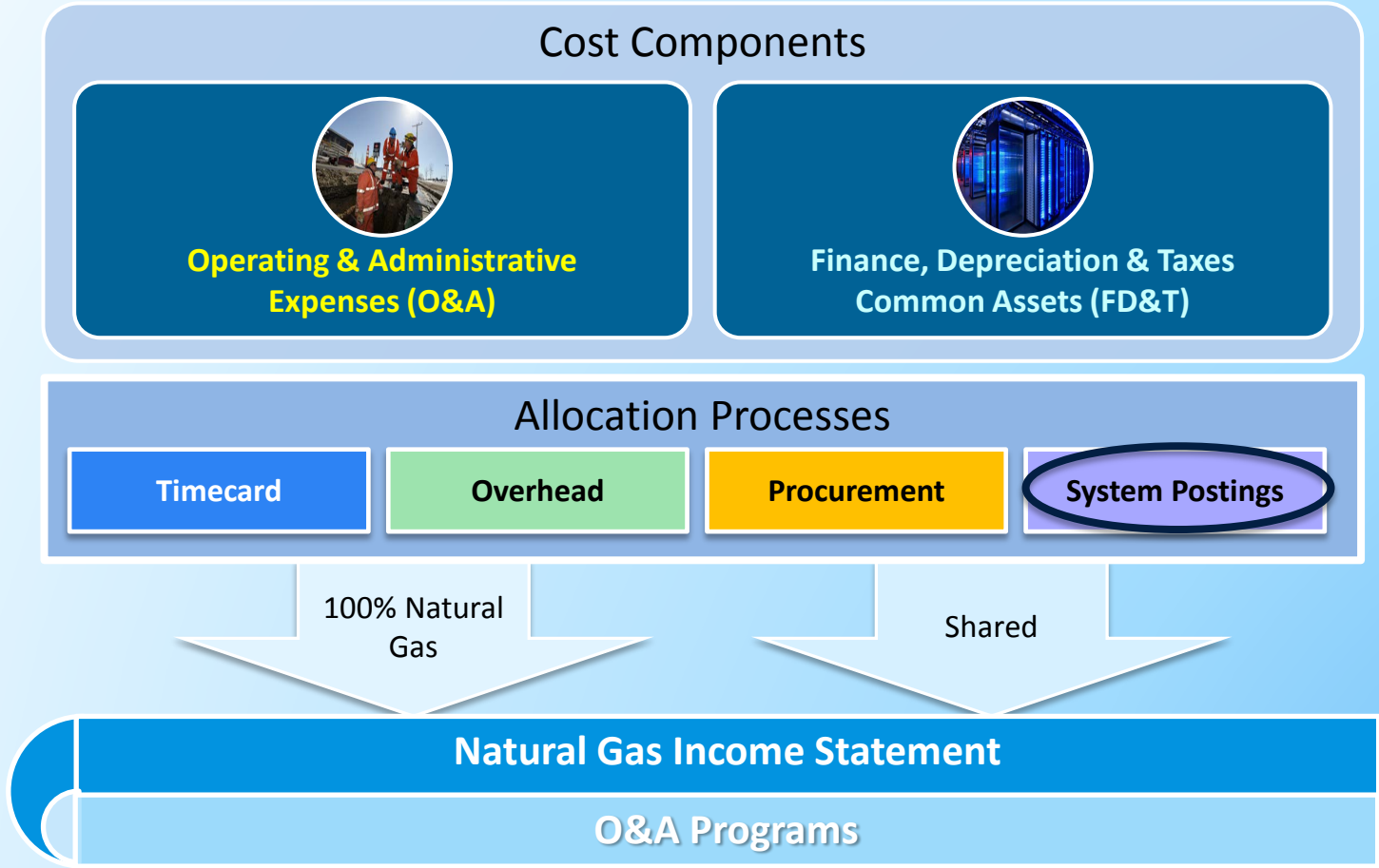


ICAM Allocations

Procurement

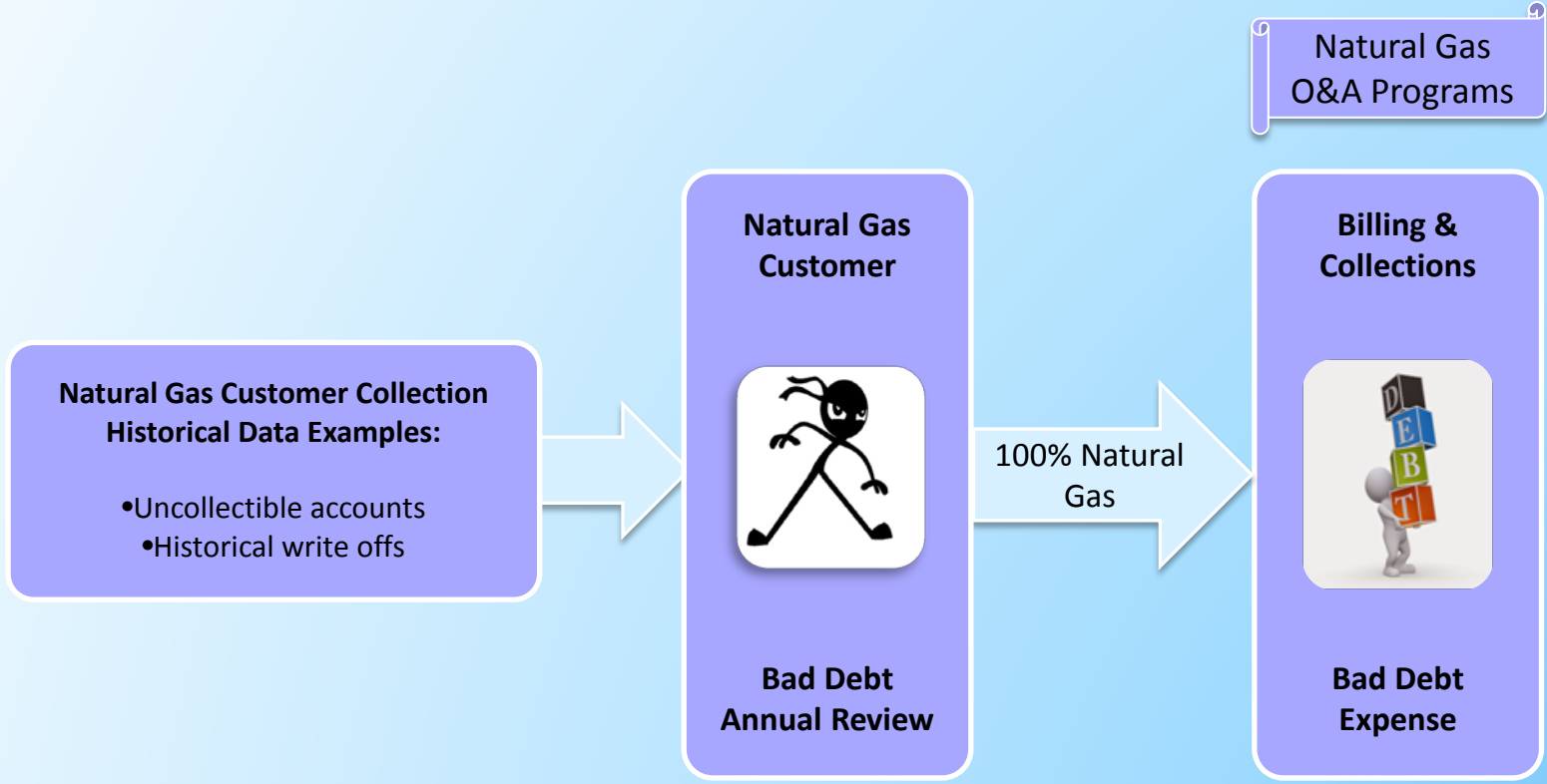


ICAM Allocations



System postings are used to allocate certain cost components to the Natural Gas Income Statement using estimates based on annual studies.

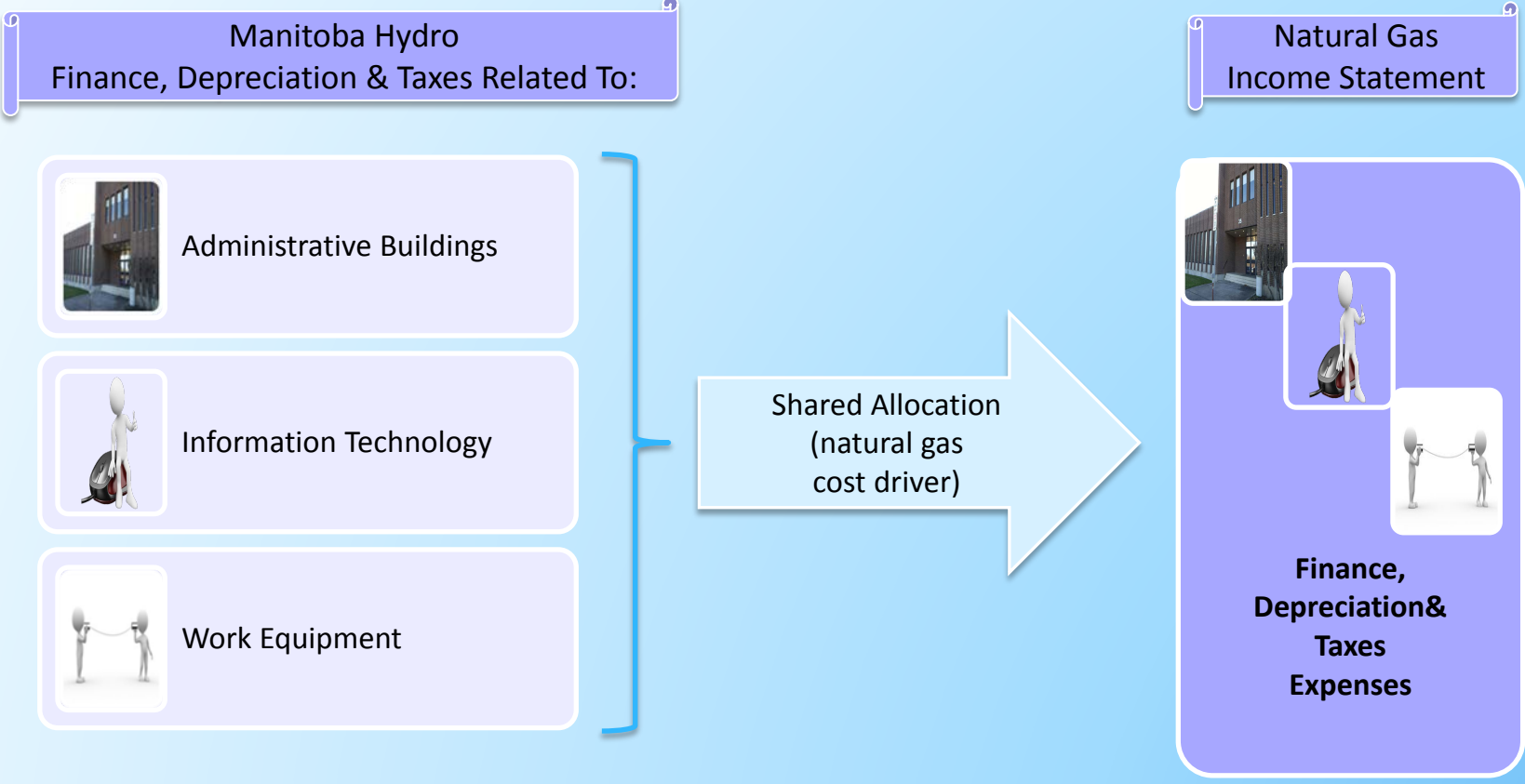
ICAM Allocations System Postings

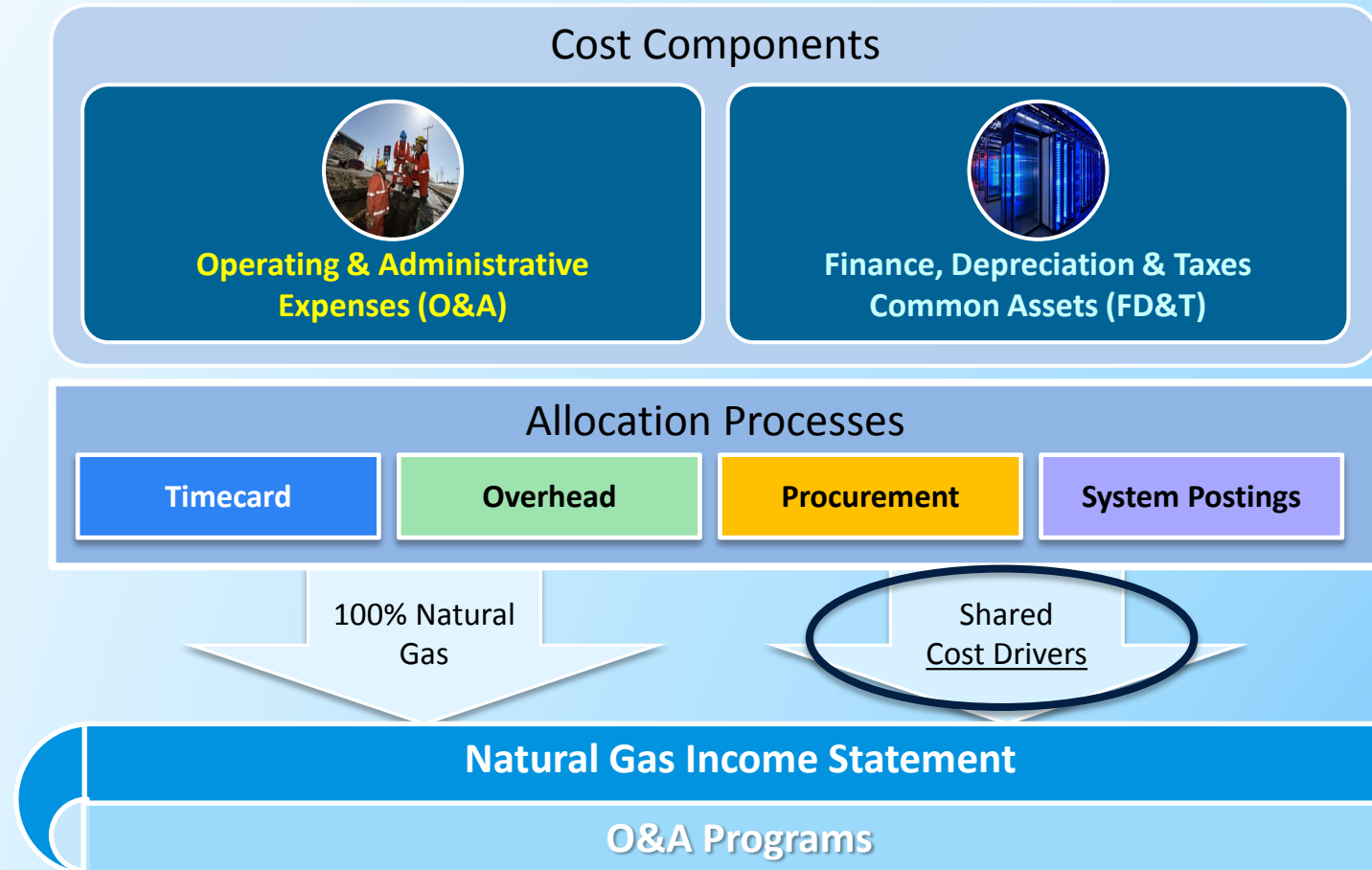


Bad Debt is the estimated cost of not collecting on natural gas customer bills.

ICAM Allocations

System Postings





ICAM Allocations

Shared Cost Drivers



Number of Customers



Corporate Assets



Corporate Activity Charges



Management Estimates

ICAM Allocations

Shared Cost Drivers



Represents total number of customers of which 33% are Natural Gas customers.

ICAM Allocations



**Number of
Customers**



Costs for the customer information system are allocated using the number of customers driver.

ICAM Allocations

Shared Cost Drivers



Represents the percentage of total assets of the corporation of which 4% are directly related to the Natural Gas line of business.

ICAM Allocations



Kelvin Shepherd, President & CEO

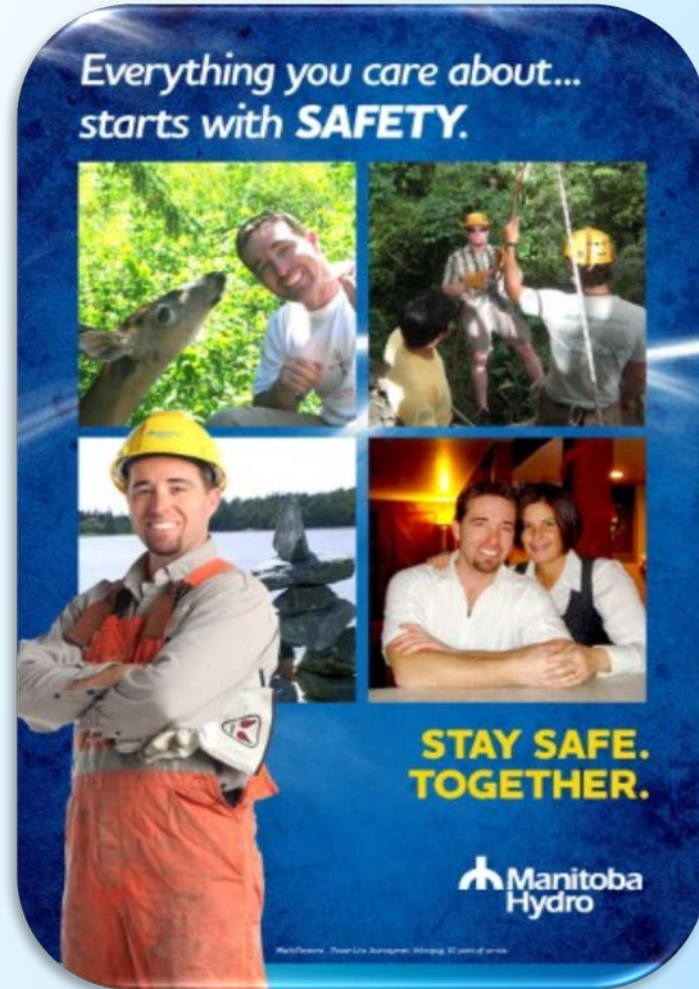
Executive functions are allocated using the corporate asset driver.

ICAM Allocations

Shared Cost Drivers



Represents the total corporate activity charges of which 9% are directly related to the Natural Gas line of business.



Functions such as corporate safety are allocated using the corporate activity driver.

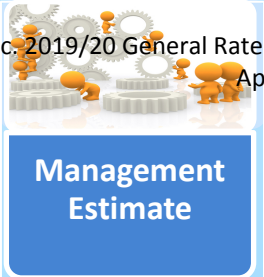
ICAM Allocations

Shared Cost Drivers



Where gas and electric functions are performed simultaneously, a cost driver based upon the relative estimate of time required and/or the frequency of a task performed is calculated.

ICAM Allocations



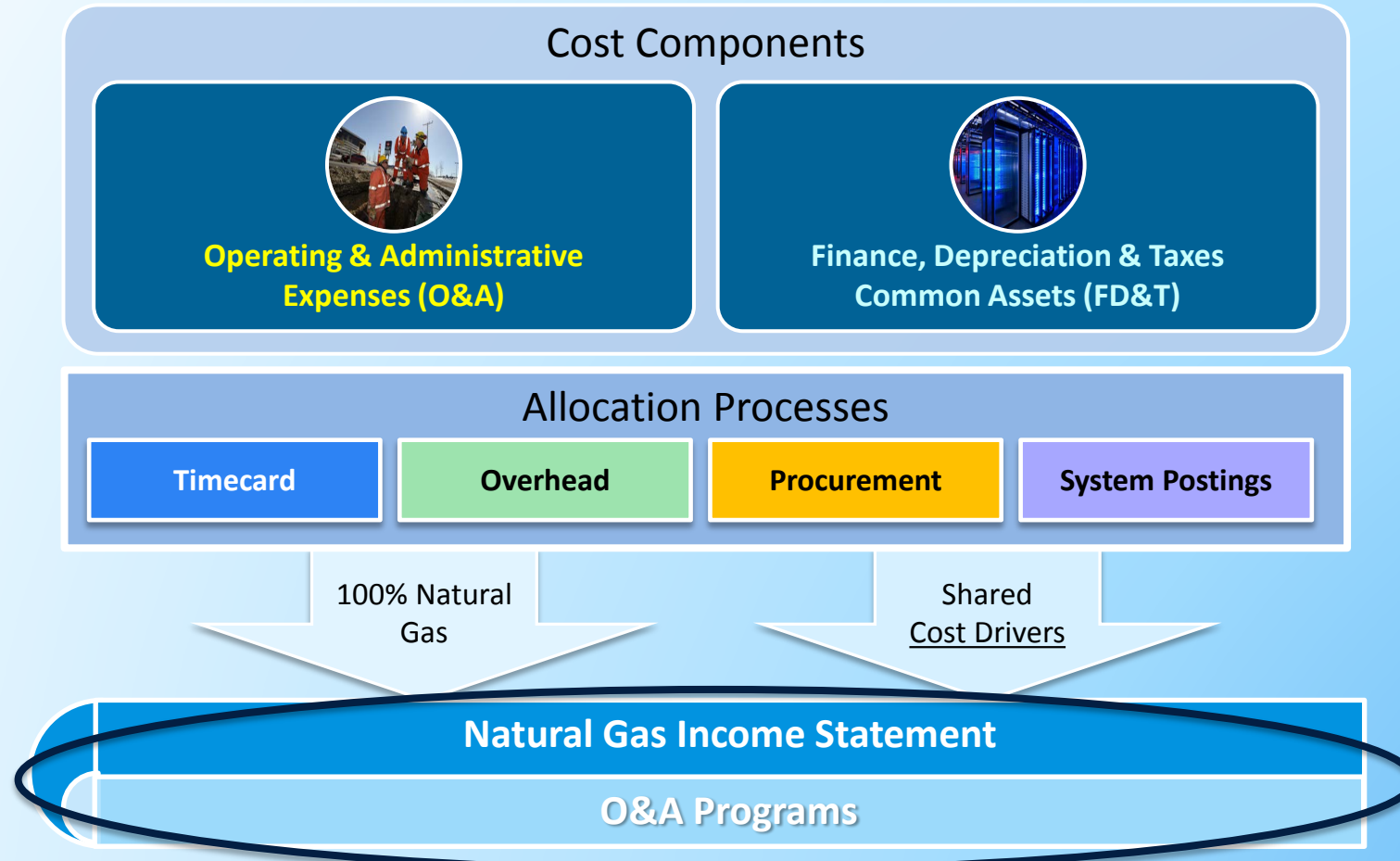
Functions such as line locates are allocated 50% to the Natural Gas Income Statement.

ICAM Allocations



Manitoba Hydro’s comprehensive general liability insurance costs are allocated 55% to the Natural Gas Income Statement.

ICAM Reporting



ICAM Reporting

OPERATING AND ADMINISTRATIVE EXPENSES BY CATEGORY

Salaries and benefits

External services

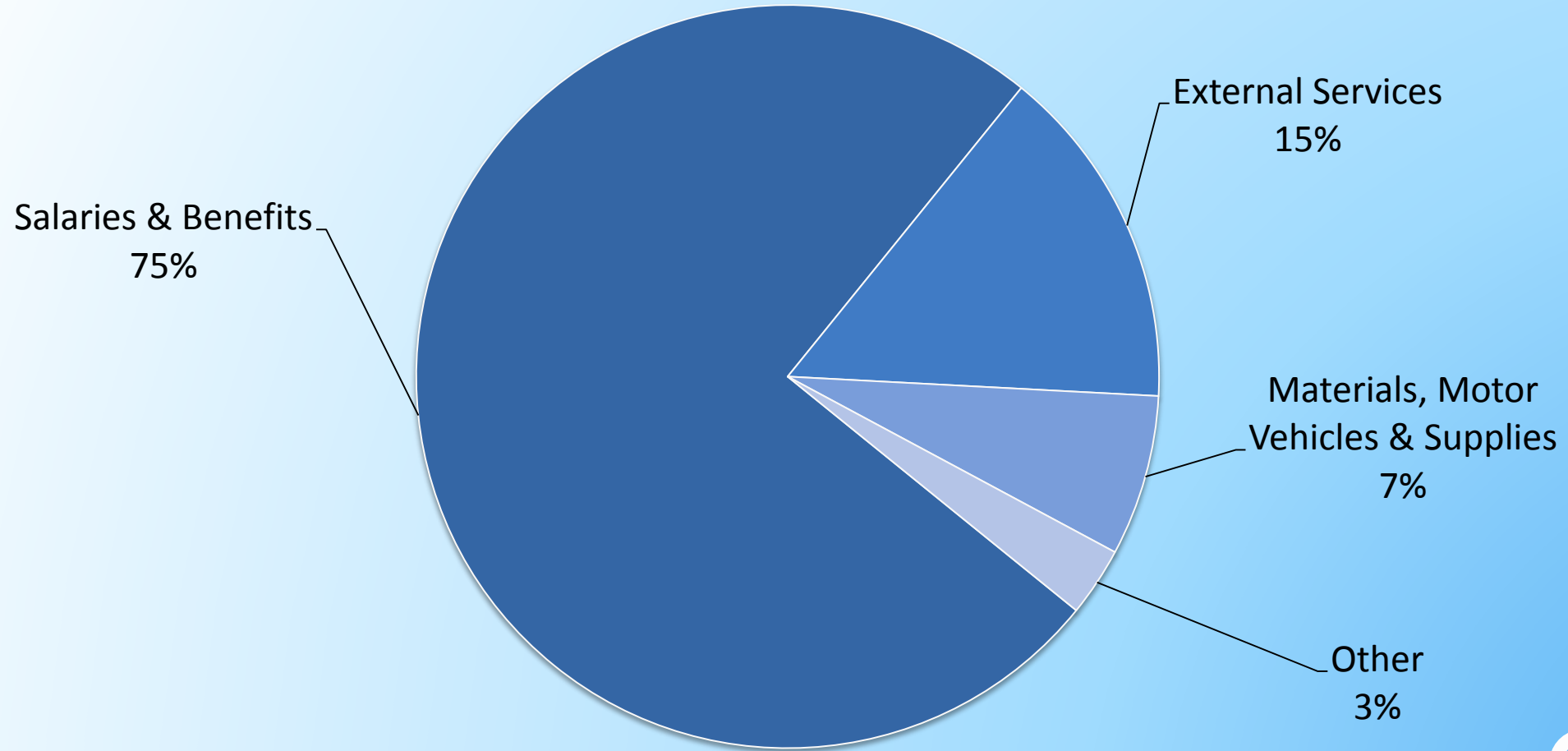
Materials, motor vehicles and supplies

Other

NOTE 8 Centra Gas Manitoba Inc. Financial Statements March 31, 2016

ICAM Reporting

OPERATING AND ADMINISTRATIVE EXPENSES BY CATEGORY



ICAM Reporting

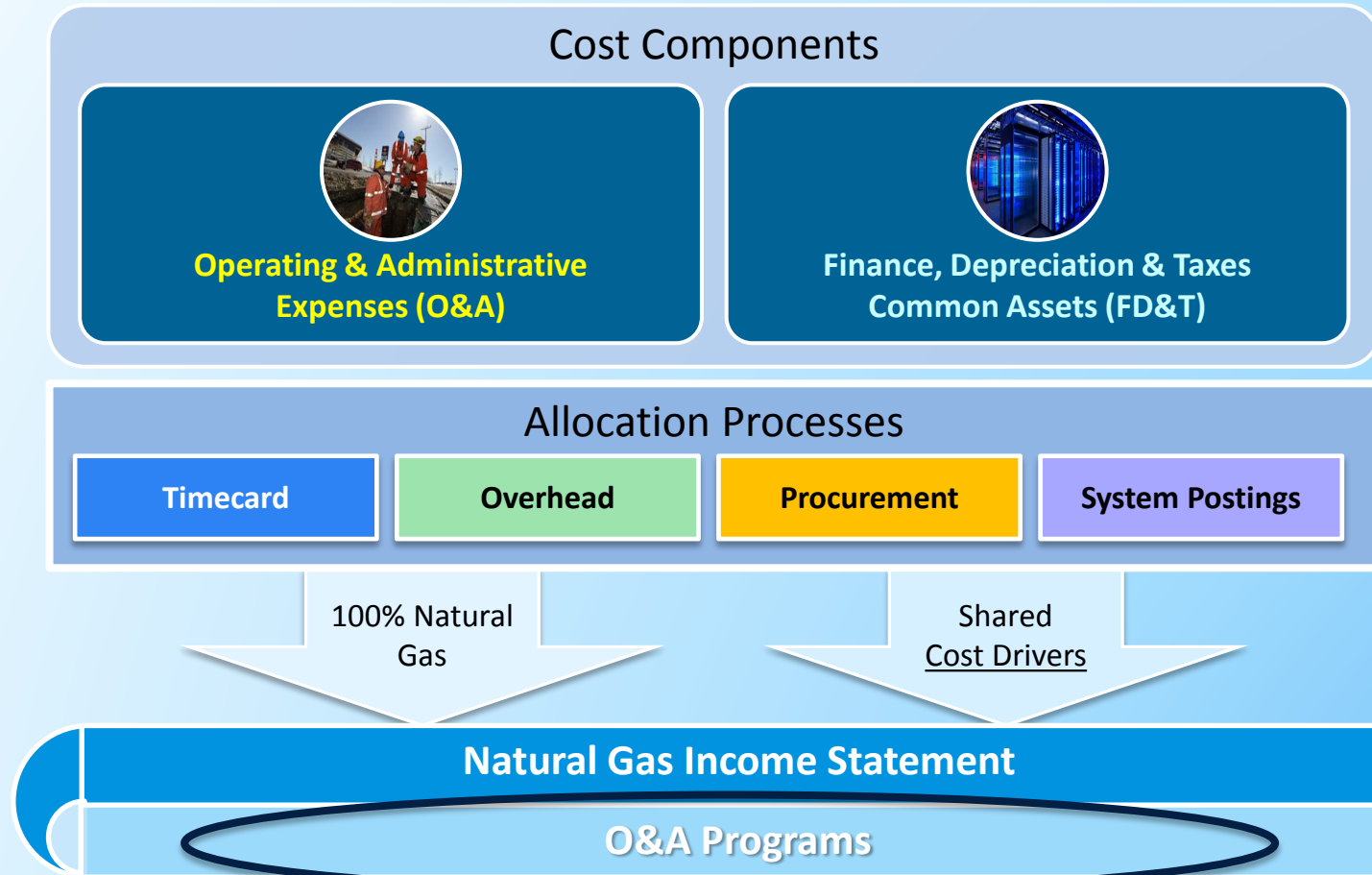
Natural Gas Expense

For the year ended March 31

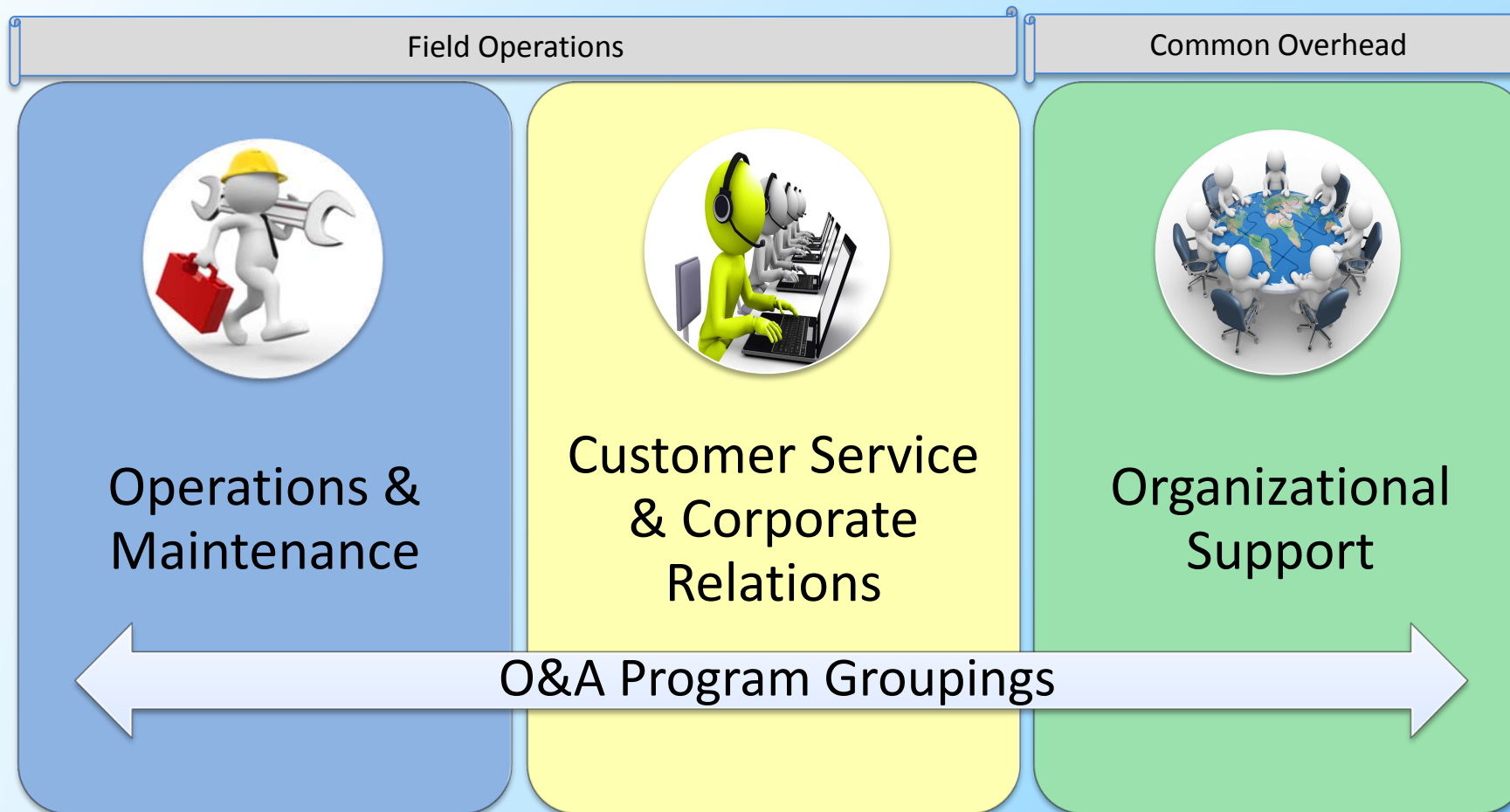
millions of dollars

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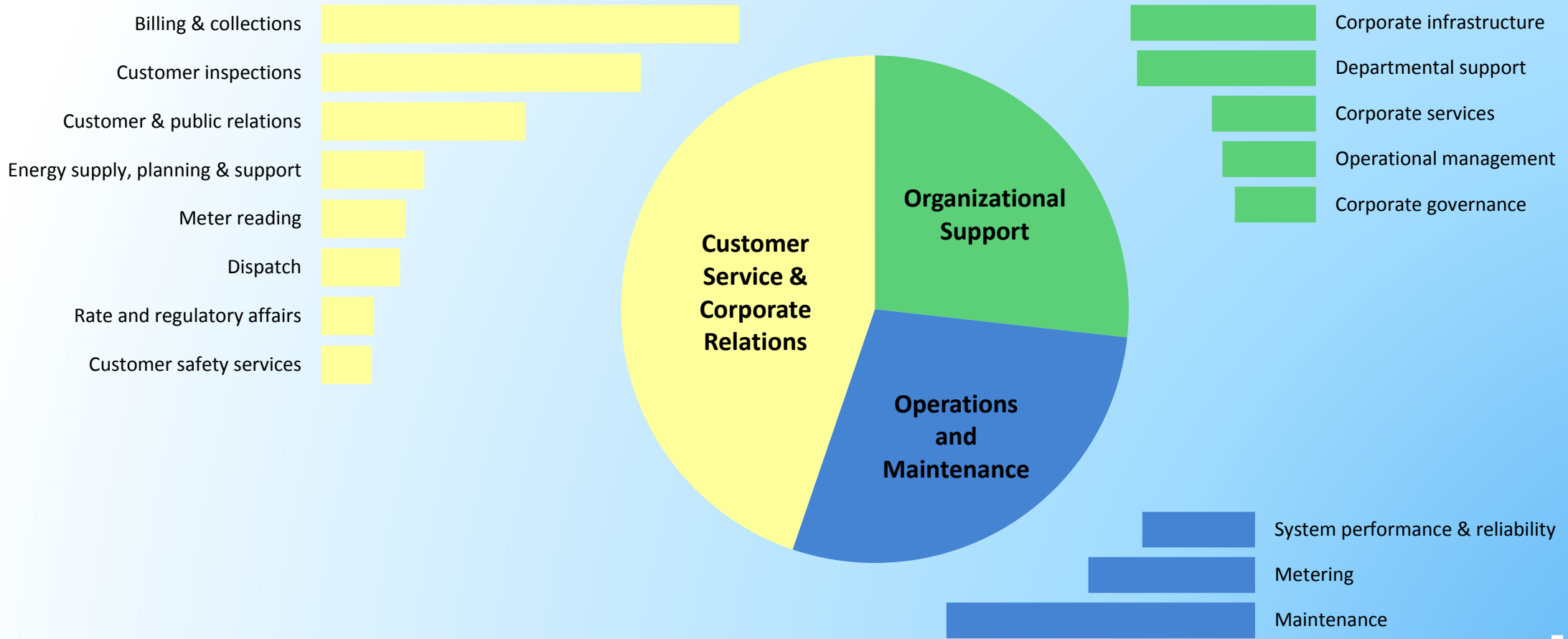
Manitoba Hydro-Electric Board 65th Annual Report For the Year Ended March 31, 2016.
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ICAM Reporting O&A Program View



ICAM Reporting O&A Program View



ICAM Reporting Program View



Operations &
Maintenance



Maintenance



System performance & reliability (load)

ICAM Reporting Program View



Customer Service &
Corporate Relations



Billing & collections



Customer & public relations



Customer safety services

ICAM Reporting Program View



Customer Service &
Corporate Relations



Energy supply, planning & support



Meter reading



Rate and regulatory affairs

ICAM Reporting Program View



Organizational
Support



Corporate governance



Corporate infrastructure



Corporate services



Departmental support



Operational management

ICAM Reporting

Natural Gas O&A Program View	
For The Year Ended March 31	
<i>millions of dollars</i>	
	2016
Operations & Maintenance	
Maintenance	10.2
Metering	5.5
System performance & reliability (load)	3.7
	<u>19.4</u>
Customer Service & Corporate Relations	
Billing & collections	9.7
Customer inspections	7.5
Customer & public relations	4.8
Customer safety services	1.2
Dispatch	1.8
Energy supply, planning & support	2.4
Meter reading	1.9
Rate and regulatory affairs	1.2
	<u>30.5</u>
Organizational Support	
Corporate governance	2.3
Corporate infrastructure	5.3
Corporate services	3.0
Departmental support	5.1
Operational management	2.6
	<u>18.3</u>
Total Program Costs	<u>68.2</u>
Corporate Allocations & Adjustments	<u>(1.6)</u>
Total Operating & Administrative Costs	<u>\$ 66.6</u>

ICAM Reporting

Natural Gas Expense

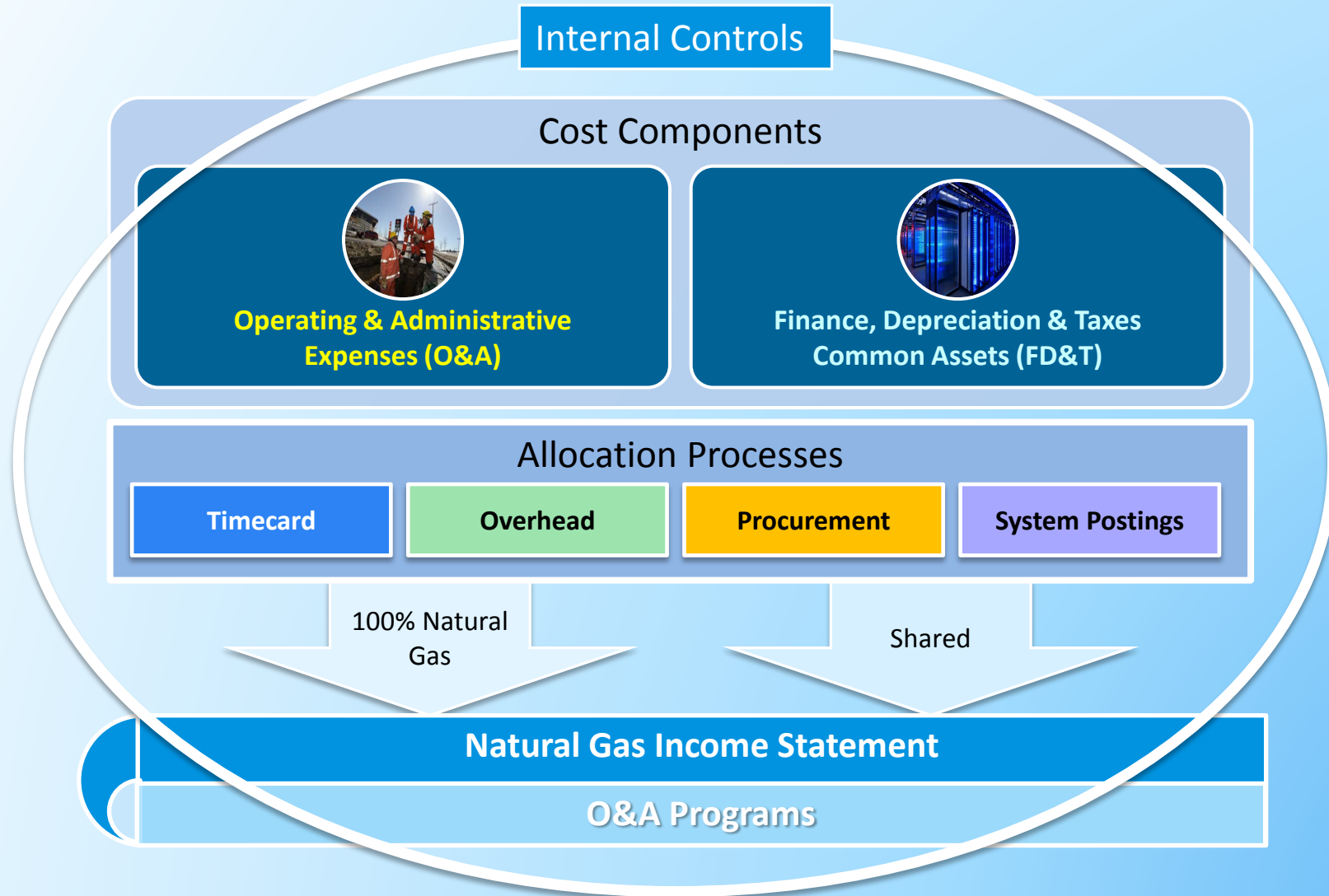
For the year ended March 31

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ICAM Internal Controls



ICAM Internal Controls

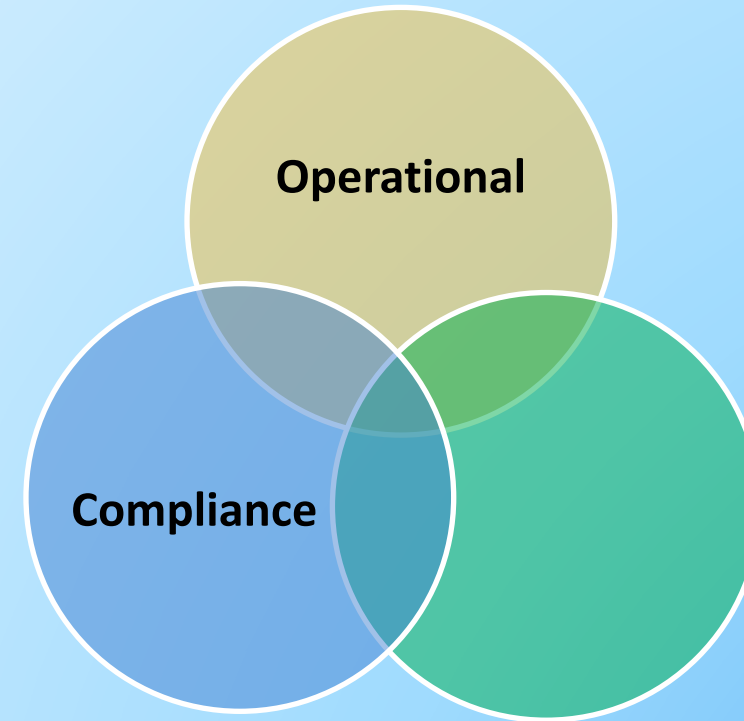
Overview



ICAM internal controls are not one event or circumstance but a series of actions that permeate our activities.

ICAM Internal Controls

Overview



Internal Controls are designed to provide reasonable assurance to achieve three objectives.

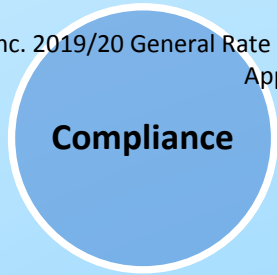
ICAM Internal Controls Overview

Operational



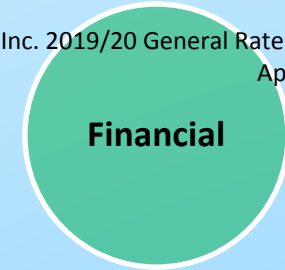
Provide reports to management to understand the effective use of resources.

ICAM Internal Controls Overview



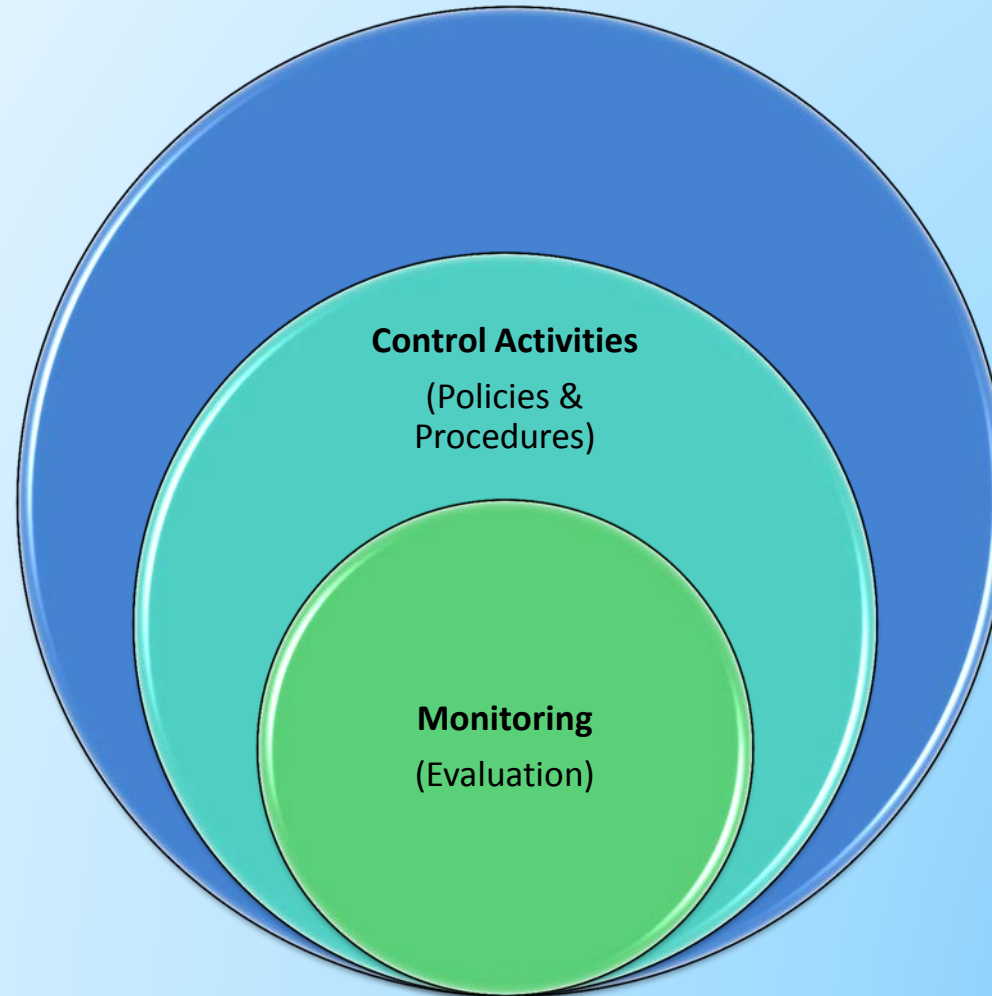
Ensure compliance with IFRS accounting standards.

ICAM Internal Controls Overview

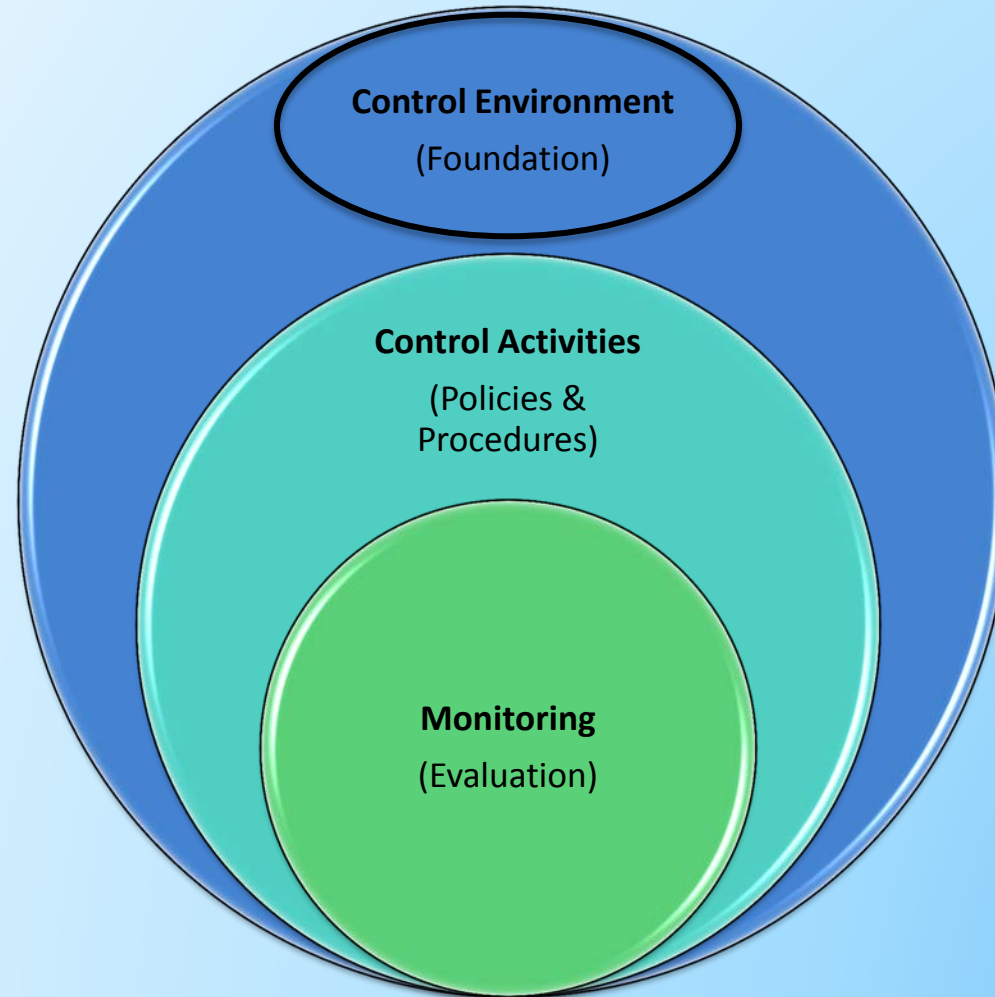


Ensure accurate and complete financial and management reports.

ICAM Internal Controls Framework

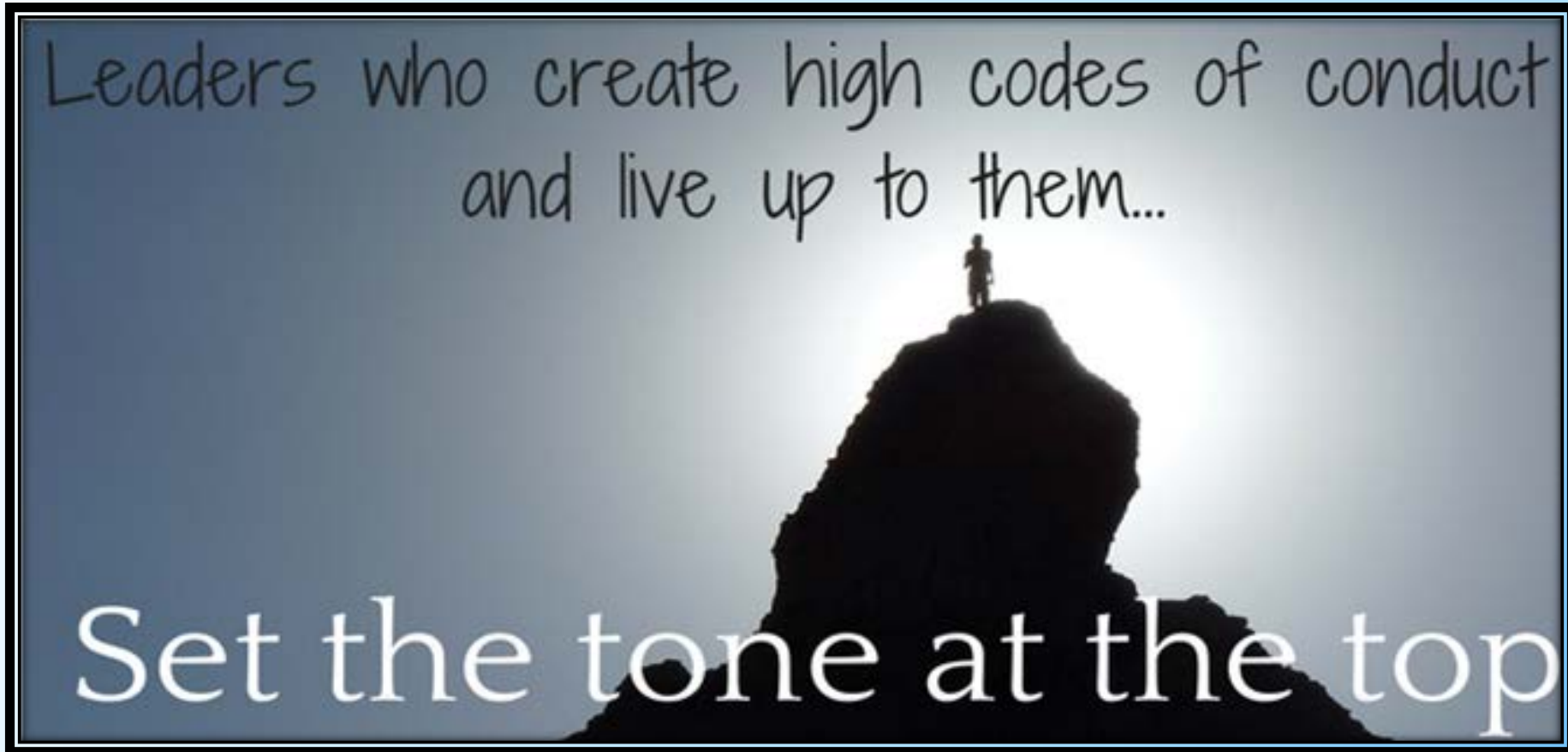


ICAM Internal Controls Framework



ICAM Internal Controls

Control Environment



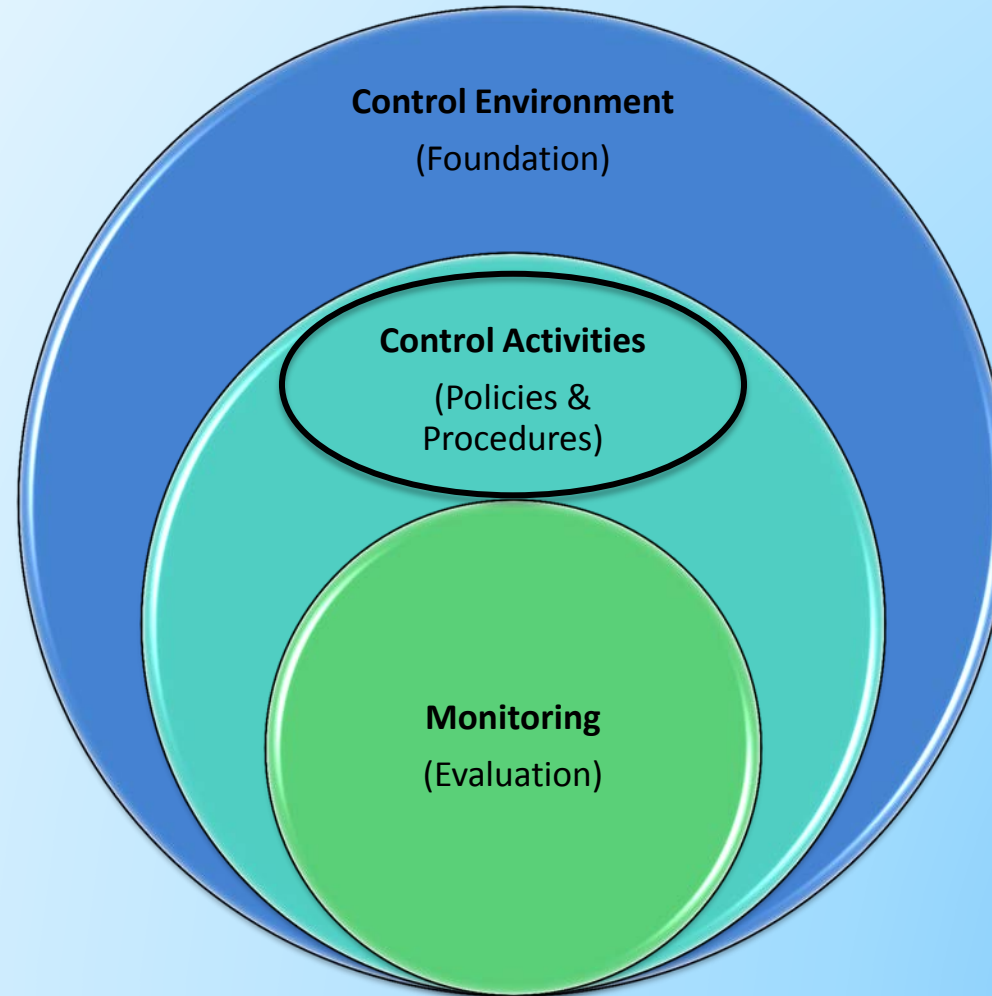
ICAM Internal Controls

Control Environment

- Independent and active Board of Directors and Audit Committee
- Corporate code of conduct
- Ethics hotline



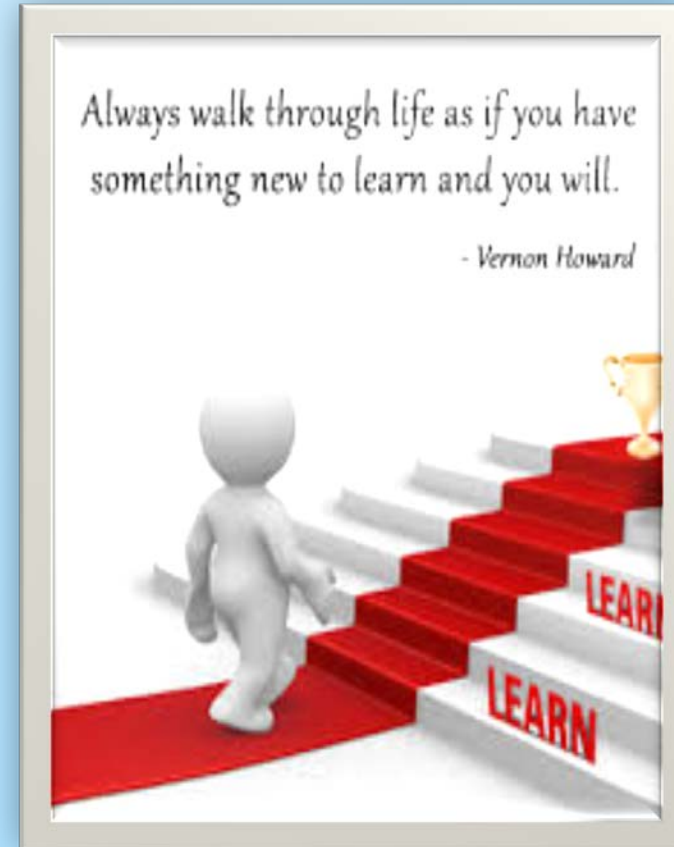
ICAM Internal Controls Framework



ICAM Internal Controls

Control Activities

Education & training is provided on applicable policies and procedures.



ICAM Internal Controls

Control Activities

Top Level Reviews:

- Variance Analysis
 - Actual to budget
 - Year over year



ICAM Internal Controls

Control Activities

Management & Supervisory Controls:



- Employee timecard entries are approved by the Supervisor.
- Activity rates are reviewed and approved by Department Managers and Finance Department Supervisors.

ICAM Internal Controls

Control Activities



Management & supervisory controls:

- Overhead studies are reviewed and approved by management including the VP of Finance & Regulatory and CFO.



Internal Controls

Control Activities



Information Processing

Controls:

- Month end processing checks
- System validations

Internal Controls

Control Activities

System Controls:

- Restricted access to allocation processes.
- Unique user name and password assigned to each employee for:
 - Allocation processes
 - Role within the allocation process

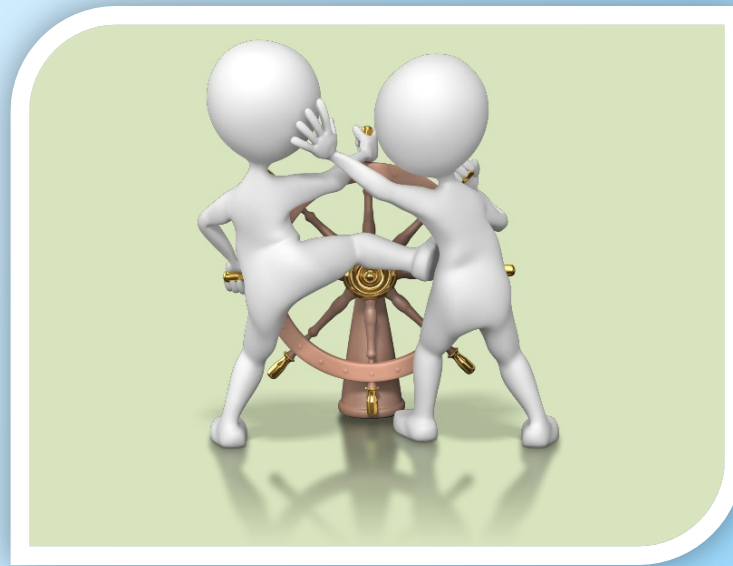


Internal Controls

Control Activities

Segregation of duties

- The employee entering hours worked in the timecard process can not approve their own entries.



Internal Controls Control Activities

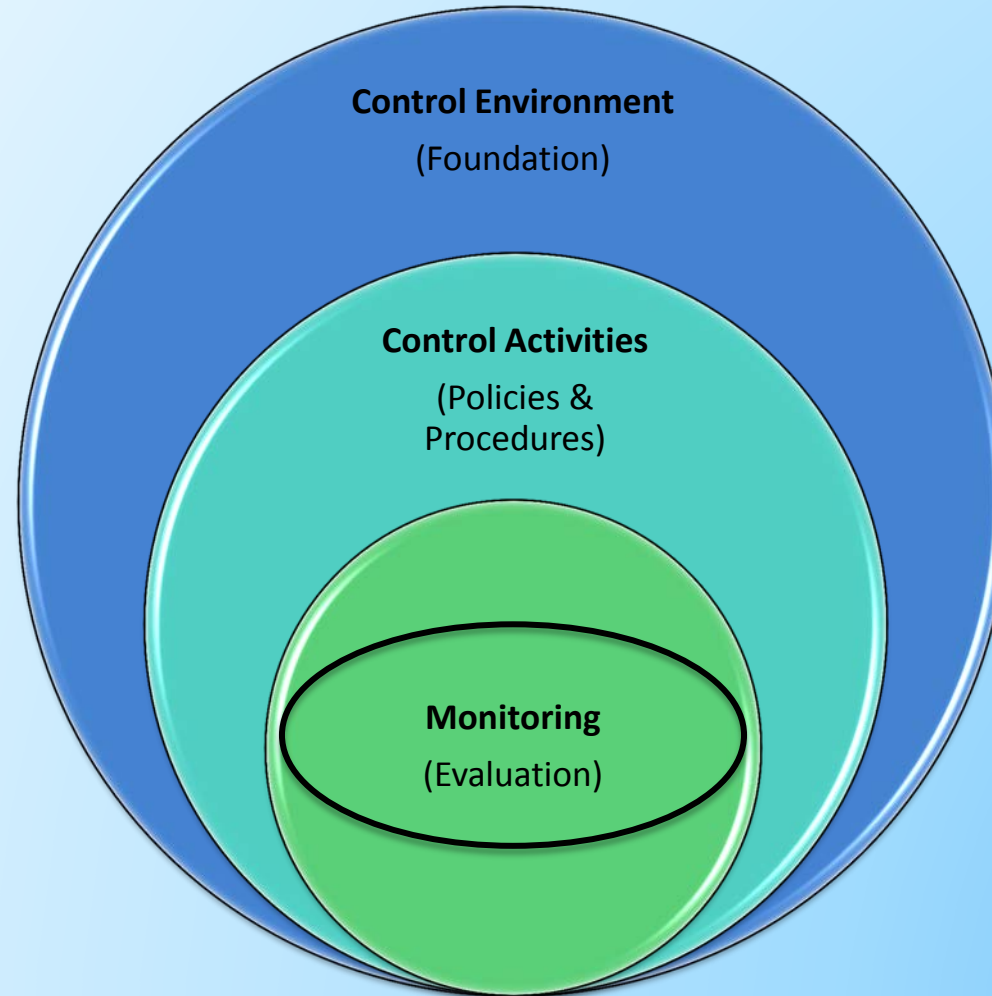


Evaluation Criteria Examples

- Cost causation
- Cost effectiveness
- Transparency

A formal evaluation process is applied to assess changes to the ICAM.

ICAM Internal Controls Framework



ICAM Internal Controls

Monitoring

Reflect on the quality of internal controls



ICAM Internal Controls

Monitoring

- Throughout our day to day activities, we are reviewing the control activities performed to ensure that they continue to operate effectively.



Internal Controls External Monitoring



The External Auditor has continued to provide a clean audit opinion on Centra Gas Financial Statements.

Internal Controls External Monitoring



Implementation of auditor recommendations to strengthen internal controls.

Manitoba Hydro

Centra Gas Manitoba Inc. 2019/20 General Rate Application
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Integrated Cost Allocation Methodology Technical Conference



thank you!