CENTRA GAS MANITOBA INC.
2013/14 GENERAL RATE APPLICATION

VOLUME I

INTEGRATED FINANCIAL FORECAST & ECONOMIC OUTLOOK

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Appendices

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4.0 Overview of Tab 4

Tab 4 discusses the Integrated Financial Forecast ("IFF") for Gas operations (CGM12) and financial outlook of Centra Gas Manitoba Inc ("Centra"). Section 4.1 provides an overview of the 2012 Economic Outlook, and Section 4.2 discusses CGM12.

4.1 Economic Outlook

The corporate Economic Outlook is prepared in the spring of each year, which is the start of the annual forecasting cycle at Manitoba Hydro. The forecasts reported in the Economic Outlook are based on a consensus view of several independent sources including Canada's primary financial institutions in addition to several other independent sources, all of which are well known and respected. The most recent forecasts of each of the sources as of the end of Q1 of the 2012 calendar year are used in the spring Economic Outlook. The 2012 Economic Outlook report is provided in Appendix 4.1.

Centra uses the Economic Outlook to obtain a forecast of economic and financial variables that are used in business analyses and are inputs in other forecasts. Variables such as Manitoba Real Gross Domestic Product, Manitoba Population and Manitoba Hydro Residential Customers projections are inputs to the Load Forecast; interest, escalation and exchange rates are used in a number of component forecasts that are also inputs to the IFF.

Due to the continued uncertainty and volatility of the current economic environment, the forecasts of key near term variables including escalation rates, interest rates and exchange rates that impact the IFF were reviewed in the summer of 2012, with source forecasts available as of the end of Q2 of the 2012 calendar year. Under most conditions, the summer review is considered the last point in time in the annual planning cycle that new information can be incorporated into the annual IFF. In the event that a significant financial market event makes the more current quarterly forecasts for the near term materially different than the spring or summer forecasts, consideration is given to incorporating the more current forecasts for the near term into the IFF process.

This year, the continued falling forecasts of near term interest rates and changes to the forecasts of near term escalation rates over Q3 of the 2012 calendar year were considered materially different than the spring and summer forecasts and were therefore updated in fall 2012, with source forecasts available as of the end of Q3 2012.

As a result of these reviews, the values of certain variables that were used in the IFF were updated subsequent to the 2012 Economic Outlook, 2012-2033 report that was produced in the spring. The short-term and long-term interest rates (including the relevant spreads and the provincial guarantee fee) shown below are applicable to Centra's business planning for 2012/13 – 2014/15, and reflect the latest consensus of source forecasts for the near term as of October 2012:

	Canada CPI % change*	Canada GDP Deflator % change*	US GDP Deflator % change*	Short term Interest Rate	Long term Interest Rate
2012/13	1.8	1.9	1.6	2.00	4.15
2013/14	2.1	2.0	1.8	2.30	4.30
2014/15	2.1	2.2	2.0	3.10	4.85

*Note: Canada CPI and Canada & US GDP Deflator were updated as part of the 2012 summer review.

4.2 Integrated Financial Forecast

CGM12 sets forth the projected financial results and financial position of Centra for the ten-year period to 2021/22. The purpose of the IFF is to provide an indication of the Corporation's long-term financial direction and serves as the primary forecast to determine the need for rate increases. The detailed forecasts in the IFF form the basis of the revenue requirement portion of Centra's Application.

The forecast CGM12 can be found in Appendix 4.2 and was approved by Centra's Board of Directors on November 21, 2012.

This Application is seeking a general revenue increase for fiscal year 2013/14. Tab 5 of the Application provides detailed explanations of the actual and forecast revenues and expenses related to Centra for 2008/09 to 2013/14.

Table 4.1.1 below provides a comparison of CGM12 with CGM10 which shows a minimal increase in net income over the 10-year forecast period. A comparison to CGM10 is being presented as CGM10 is the forecast most recently provided to The

Public Utilities Board, on December 9, 2010, with respect to Centra's 2011/12 Cost of Gas Application.

Table 4.1.1 - Comparison of Centra Gas CGM12 to CGM10
Increase/(Decrease)
(millions of $)

	2013-2014			2013 - 2022		
	CG12	CG10	Variance	CG12	CG10	Variance
Revenue at projected rates	638	934	(297)	3,526	4,723	(1,198)
Cost of Gas	344	630	(286)	1,965	3,071	(1,106)
Gross Margin	294	304	(11)	1,561	1,653	(92)
Other	4	4	-	19	18	1
Total Revenues	297	308	(11)	1,579	1,671	(91)
Operating, Maintenance and Administrative	136	132	4	768	715	53
Finance Expense	35	41	(6)	232	234	(2)
Depreciation and Amortization	58	62	(4)	238	358	(120)
Capital and Other Taxes	37	40	(2)	165	205	(39)
Corporate Allocation	24	24	-	120	120	-
	290	298	(8)	1,523	1,632	(109)
Net Income	7	10	(3)	56	39	17

Gross Margin is lower primarily due to a reduction in the additional revenue requirement resulting from lower projected rate increases. These decreases are partially offset by a reduction in Furnace Replacement Program ("FRP") funding over the forecast period. In CGM12, it is assumed the FRP will be fully funded and that commencing in 2015/16, this revenue will be utilized to cover operating costs from that year forward.

The operating, maintenance and administrative expense increase, compared to CGM10, is primarily related to costs that are no longer eligible for capitalization and will be expensed in accordance with International Financial Reporting Standards ("IFRS").

Depreciation and amortization expenses are lower than CGM10 due to the removal of asset retirement costs from depreciation rates and the elimination of the amortization of rate-regulated assets under IFRS, partially offset by the change to the Equal Life Group methodology for calculating depreciation rates. Additionally, depreciation and amortization expenses are lower due to increases in estimated asset service lives, particularly with respect to Distribution assets.

Finance expense is slightly lower primarily due to a decrease in interest on both short term debt and long term debt due to the forecast of lower interest rates. This decrease is partially offset by ceasing the capitalization of carrying costs on deferred income taxes as a result of the implementation of IFRS. In addition, carrying costs on the FRP are higher due to a more gradual drawing down of the liability in CGM12.

Capital and Other Tax expenses are lower primarily due to the write-off of deferred income taxes in accordance with IFRS, as well a decrease in capital taxes due to the IFRS retained earnings write-off.

Centra's financial statements will be prepared in accordance with IFRS beginning in 2014/15. The transition to IFRS has a minor impact on the overall revenue requirement as the increases in OM&A expenses will be more than offset by decreases in depreciation & amortization and capital & other taxes. However, there will be a significant impact to Centra's retained earnings (a reduction of approximately $77 million) resulting from the retrospective application of changes in accounting between IFRS and current Canadian Generally Accepted Accounting Principles. The following table summarizes the 2014/15 retained earnings and net income impact of IFRS for Centra.

IFRS Impacts - Gas
Increase / (Decrease)

(Millions of $)	Retained Earnings at April 1, 2014	Net Income 2014/15	
Power Smart Programs	(48)	-	*
Site Remediation	(2)	-	*
Regulatory Costs	(1)	-	*
Deferred Taxes	(27)	2	**
Capital Taxes	-	-	
Administrative Overhead and Other	(2)	(2)	
Removal of Net Salvage Depreciation	5	5	
Change to Equal Life Group Depreciation	(2)	(2)	
Total IFRS Impact	**(77)**	**3**	

*Net income amounts for rate-regulated accounts include the additional operating & administrative expense net of the offsetting reduction to amortization expense.

**Net income amounts for rate-regulated accounts include the additional finance expense net of the offsetting reduction to tax expense.

Centra is projecting indicative general revenue increases that are designed to gradually eliminate the retained earnings deficit of $27 million that is caused by the write-off associated with the implementation of IFRS in 2014/15. These general revenue increases are projected to eliminate the retained earnings deficit over a 5 year period to 2019/20 and result in a small surplus position by the end of the forecast period in 2021/22. The projected level of retained earnings in CGM12 versus CGM10 is summarized in the table below.

Table 4.2.1 - Retained Earnings CGM12 vs. CGM10

	2013	2014	2015	2020	2022
CGM12	36	41	(27)	4	13
CGM10	48	53	56	73	82
Increase(Decrease)	(12)	(11)	(83)	(69)	(69)

The general revenue increase proposed for 2013/14 has been approved by Centra's Board of Directors. Proposed general revenue increases subsequent to 2013/14 may be changed in subsequent forecasts and are presented for illustrative purposes only. Each year's revision to the IFF is based on the current year's assumptions including gas demand, projected gas prices, projected interest and escalation rates, operating and capital forecasts and other factors. Changes in any of these assumptions will have an impact on the projected future results. Actual rate applications made in future years will depend upon the circumstances and outlook at that time and will be subject to the review and approval of Centra's Board of Directors.