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MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

GENERAL RATE APPLICATION

2013/14

Before Board Panel:

Regis Gosselin - Board Chairman

Marilyn Kapitany - Board Member

Larry Soldier - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

July 9th, 2013

Pages 1721 to 1845

1 APPEARANCES

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1 LIST OF EXHIBITS

1 --- Upon commencing at 9:03 a.m.

2

3 THE CHAIRPERSON: Good morning. I

4 believe we're ready to resume today's proceedings or to

5 start today's proceedings. I believe we have one (1)

6 erratum to address.

7 MR. BRIAN MERONEK: And a mistake, as

8 well. On page 1,675, line 22, I misspoke. It's not

9 series CG-5. It should be series CG-15. Thank you.

10 THE CHAIRPERSON: Thank you. I believe

11 I can turn over the microphone to Ms. Boyd. Good

12 morning, Ms. Boyd.

13

14 CLOSING COMMENTS BY CENTRA GAS MANITOBA INC.:

15 MS. MARLA BOYD: Thank you. Good

16 morning, Mr. Chairman, Board members. Good morning,

17 Board counsel, Board advisors, CAC. I want to begin

18 noting that we have circulated a book of document and

19 authorities. I think there's copies all throughout the

20 room. And I would propose that it be marked as Centra

21 Exhibit 19.

22

23 --- EXHIBIT NO. CENTRA 19: Book of documents and

24 authorities

25

1 MS. MARLA BOYD: Centra filed its
2 2013/'14 General Rate Application on January 25th of
3 2013. An update of cost of gas materials was
4 subsequently filed on May 10th of 2013. The approvals
5 sought by Centra in this Application have been reviewed
6 by Board counsel on the record in his closing comments.
7 And for ease of reference, they have been provided at
8 Tab 1 of Centra's book of documents.
9 You will find also for ease reference,
10 at the last page of that tab, a list of the interim
11 orders, including those that have been issued by the
12 Board since the filing of the Application and for which
13 Centra is requesting approval.
14 Just to give you a bit of a roadmap of
15 where we intend to go this morning, we'll begin with a
16 discussion of the reasonableness of the revenue
17 requirement and to address cost-of-service matters,
18 including the drivers for cost changes associated with
19 OM&A and depreciation; the reasonableness of Centra's
20 finance expense, including the Corporation's
21 methodology to forecast interest rates and manage its
22 debt; and the rationale for Centra's requested net
23 income.
24 Mr. Czarnecki will then focus the
25 discussion on matters related to gas supply and costs.

1 We'll also address matters related to cost allocation,
2 the cost allocation study, and rates and bill impacts
3 flowing from the Application.
4 Centra will then address other approvals
5 requested in its Application, including the change for
6 the rate-setting methodology for fixed-rate primary gas
7 service, changes to the Customer Equipment Problem
8 Program, and new and updated activity rates for
9 chargeable services, among other things.
10 Finally, Centra will address the
11 Corporation's demand-side management programs generally
12 and the Low Income Efficiency Program specifically.
13 Centra will conclude by addressing its views on future
14 matters, including future rate applications.
15 So to begin with, addressing the request
16 with respect to the general revenue increases and non-
17 gas costs. In this Application -- my time's up
18 already?
19 In this Application, Centra is
20 requesting approval of a general revenue increase of
21 approximately 2 percent effective August 1st of 2013,
22 sufficient to generate additional revenue of $5.7
23 million and projected net income of $4.8 million in
24 2013/'14.
25 Centra has not sought an increase of its

1 non-gas revenue requirement since the 2009/'10 and
2 '10/'11 GRA. The rate changes flowing from Order
3 128/'09 resulted in approximately 8.08 percent general
4 revenue increase -- .8 percent, sorry, general revenue
5 increase for 2010/'11.
6 Centra did not request a general revenue
7 increase for 2011/'12 or the 2012/'13 fiscal years, and
8 as such, that .8 percent rate increase is the only
9 general revenue increase that Centra has received in
10 the past four (4) fiscal years.
11 The reasons for the requested increase
12 are outlined in Centra's evidence, in particular at
13 transcript pages 31 and 32. They include the need for
14 increased investment in property, plant, and equipment
15 to serve new customers and to maintain safe and
16 reliable service; increased investment in natural gas
17 demand-side management programs to promote energy
18 conservation; and continuing conservation measures by
19 customers that serve to reduce sales volume and
20 revenues, all of which contribute to the increased
21 revenue requirement.
22 In addition, operating and maintenance
23 costs have increased as a result of the normal cost
24 escalation and accounting changes. As noted by Mr.
25 Rainkie, retained earnings must be adequate to ensure

1 the -- that Centra has an adequate financial structure
2 to maintain the financial integrity of the Company and
3 to promote long-term stability for gas customers.
4 Without the general rate increase,
5 Centra is projecting a $1 million loss for 2013/'14.
6 And given that there has not been a general increase
7 since 2010, Centra views the requested 2 percent
8 increase as a modest increase which is mindful of the
9 impacts to customers, and at the same time helps to
10 ensure a financially stable utility.
11 As the Board is aware, Centra's mandate
12 is to acquire, manage, and distribute supplies of
13 natural gas to meet the requirements of Manitoba
14 consumers in a safe, cost effective, reliable, and
15 environmentally appropriate manner. In fulfilling this
16 mandate, Centra must consider the financial and other
17 risks facing the utility, and maintain a capital
18 structure and level of retained earnings sufficient to
19 meet those risks.
20 The Board's task in this process is to
21 set just and reasonable rates which will reflect the
22 appropriate balance between the interest of the
23 ratepayers and the ongoing need for a financially
24 stable utility. In a publically owned utility like
25 Manitoba Hydro and Centra, retained earnings are for

1 the protection of the customers in order to ensure rate
2 stability.
3 If there are variations between forecast
4 and actual results, the differentials flow to retained
5 earnings. There is no harm to the customer. If
6 results are better than forecast, the set -- the
7 Corporation would request lower rate increases in the
8 future. If they are lower than forecast, we can
9 gradually increase rates to make up the deficit. This
10 is the self-correcting nature of the cost-of-service
11 methodology.
12 While there's been much emphasis on the
13 accuracy of forecasts for items such as finance
14 expense, the onus on the Board is not to determine what
15 actual costs will be incurred by the Company in the
16 future test year with pinpoint accuracy. This is an
17 impossible task, especially when you consider that
18 weather is one (1) of the biggest impacts on Centra's
19 revenue.
20 We suggest that the Board must satisfy
21 itself that its rates -- the rates are based on
22 reasonable forecasted revenues, costs, and volumes
23 recognizing that there will be variations from the
24 forecast.
25 In this Application, Centra is

1 requesting approval of a non-gas revenue requirement of
2 $153.7 million for the '13/'14 test year. The non-gas
3 revenue requirement that was approved by the Board in
4 the '10/'11 test year was $147 million. The non-gas
5 revenue requirement components are outlined in Tab 2 of
6 Centra's book of documents.
7 The increase in non-gas revenue
8 requirement of approximately $6.7 million is partially
9 offset by approximately $1 million of additional
10 revenue that the Corporation will generate primarily on
11 account of customer growth. As such, Centra is
12 requesting a net revenue increase of $5.7 million in
13 this Application for 2013/'14.
14 Turning to the operating and maintenance
15 expenses, or OM&A, these costs are forecast at $68.8
16 million for the '13/'14 test year, which is an $8.5
17 million increase over the '10/'11 approved amount,
18 which was $60.3 million, as you can also see at Tab 2.
19 Centra has managed its cost increases
20 well, as was acknowledged by CAC in its closing
21 submissions at transcript page 1,639. It is important
22 to note that from an operational perspective, there are
23 a number of cost pressures facing the Company. Mr.
24 Prydun discussed these starting at transcript page
25 1,207.

1 Centra faces a number of technical
2 issues and risks that it intends to address through a
3 number of initiatives over the next two (2) to three
4 (3) years. Addressing these issues and risks will
5 exert pressure on Centra's operating costs and capital
6 expenditures. Contrary to what CAC told you on Friday,
7 some of these issues are new.
8 In particular, the change in gas supply
9 moisture content is posing operational challenges at
10 high-pressure regulating stations, which is something
11 that we've not experienced in the past. The costs to
12 manage this issue are not yet fully known, but they may
13 be significant.
14 In addition, the expansion of new
15 housing and businesses in and around Winnipeg has
16 increased the risk of encroachment by these
17 developments onto adjoining high-pressure pipelines.
18 This may require modifications or relocations in the
19 future in order to maintain safe and reliable supply.
20 Mr. Prydun also noted that Centra's
21 increased focus on pipeline integrity as the pipeline
22 infrastructure is aging, ensuring the reliability of
23 Centra's system by addressing and assessing system
24 vulnerabilities, providing necessary capacity to
25 accommodate accelerated growth in specific areas and to

1 meet future customer load growth, and the adoption of
2 work practices directed at public and employee safety
3 will all have operational and financial impacts on the
4 Company.
5 If we now move to Tab 3 of Centra's book
6 of documents. We have included page 2 of Appendix 5.7
7 from the Application. The is the appendix that
8 discussed OM&A costs. You will see from that schedule
9 that the total accounting changes that I'll discuss in
10 more detail in a moment are forecast at $7.8 million
11 for 2013/'14. There were no accounting changes
12 included in the 2010/'11 approved amount of OM&A and,
13 as such, $7.8 million, or 92 percent of the $8.5
14 million increase in OM&A is related to accounting
15 changes.
16 While we're on that schedule, you'll
17 also note that if we examine the five (5) year period
18 between 2008/'09 and 2013/'14, that once we remove the
19 accounting changes so that you can compare changes in
20 OM&A on a comparable basis, the average annual increase
21 over that five (5) year period was 1.39 percent. And
22 after adjusting the increase in -- in the number of
23 customers over that period the average annual increase
24 of cost per customer is only .63 percent.
25 Both of these metrics are well below the

1 average annual increase and the rate of CPI of 1.88
2 percent over that five (5) year period. We've also
3 included at Tab 4 the response to PUB/Centra-17B. That
4 graph will be familiar to the Board. It was provided
5 in the Board counsel's book of documents at Tab 47,
6 page 197.
7 This graph provides an analysis of
8 changes in Centra's OM&A for the period from 2003/'04
9 to '13/'14, both including and excluding accounting
10 changes, and it compares them to the changes in CPI
11 over the same time period. In that graph the red line
12 represents Centra's total OM&A cost including
13 accounting changes. The green line on the graph
14 represents Centra's total OM&A costs removing those
15 accounting changes. The purple line, or blue line,
16 depending on your colour perspective, represents the
17 2003/'04 OM -- OM&A escalated by Manitoba's CPI over
18 that time.
19 While it was acknowledged during the
20 hearing that OM&A amounts including accounting changes
21 are represented by the red line, and those are the
22 costs that are included in revenue requirement, Mr.
23 Rainkie explained that the purpose of this analysis was
24 to provide the PUB with perspective on the costs that
25 are controllable versus the costs that are outside the

1 control of the Utility, such as accounting changes, in
2 order to demonstrate the success which the Corporation
3 has had in terms of cost containment. You'll find that
4 discussion at pages 763 and 784 of the transcript.
5 This graph demonstrates that after
6 removing accounting changes in order to get an apples
7 to apples comparison of costs, the increase in Centra's
8 OM&A are below the rate of CPI over that ten (10) year
9 time frame from 2003/'04 to '13/'14. When you put all
10 of that information and analysis together, Centra
11 submits that there's no other conclusion, and certainly
12 no other evidence presented at the hearing, other than
13 that Centra has managed effectively its controllable
14 costs.
15 Turning for a moment to the accounting
16 changes that are included in the OM&A requested in this
17 Application, we have produced page 4 from Appendix 5.7,
18 at Tab 5 of Centra's book of documents.
19 From this schedule you will note that
20 the majority of the total accounting changes,
21 approximately 5 million of the 7.8 million relate to
22 reductions in cap -- costs capitalized as a result of
23 changes to the overhead capitalization practices.
24 There are also reductions in costs capitalized to
25 conform with changes in the Canadian Accounting

1 Standards with respect to intangible assets in the
2 order of 1.1 million; increased pension and benefit
3 costs due to the reduction in the discount rate, in
4 accordance with the recent guidelines from the Canadian
5 Institute of Actuaries, at -- also at 1.1 million; and
6 reclassifications of operating expense recoveries to
7 other income, six hundred thousand dollars ($600,000).
8 The change in overheads capitalized was
9 the subject of much discussion at the '12/'13, '13/'14
10 electric GRA that was recently completed. The
11 accounting changes that are included in this
12 application simply reflect the amounts related to those
13 same changes that have been applied on the gas
14 operations. These accounting changes were accepted by
15 the PUB in the -- in setting the electric rates.
16 As Mr. Rainkie testified in both the
17 electric GRA and the current gas GRA, historically
18 under Canadian GAAP, the Company utilized a full-cost
19 accounting approach to the capitalization of
20 administrative and overhead costs, which was consistent
21 with other Canadian utilities. And you'll find that at
22 transcript page 547. However, the interpretation and
23 the application of Canadian GAAP by utilities has
24 changed over the years, such that there's been a
25 reduction in the general and indirect overheads that

1 are being capitalized today, as compared to those in
2 the past.
3 The overhead capitalization changes
4 implemented to date by Manitoba Hydro and Centra
5 recognize the indusy -- industry trend to move away
6 from full cost accounting, and as a result these
7 changes have made the Corporation's practice more
8 consistent with those of other Canadian utilities.
9 These changens -- changes are fully compliant with
10 GAAP, and they've been endorsed by the Corporation's
11 auditors, Ernst & Young.
12 The response to PUB/Centra-1-31A
13 provides a good summary of the changes that have been
14 implemented since the last Centra GRA. And should you
15 wish to reference it, it's been reproduced in the Board
16 counsel's book of documents at Tab 48, pages 211
17 through 213.
18 There were a number of exchanges between
19 Mr. Peters and Mr. Rainkie, particularly on pages 746
20 to 752, and 763 to 772; and between Mr. Meronek and Mr.
21 Rainkie on pages 1,159 to 1,176 of the transcript, with
22 respect to whether or not these changes were voluntary
23 under Canadian GAAP and why they were being implemented
24 in advance of IFRS.
25 Mr. Rainkie explained that the CICA

1 accounting handbook did not provide any significant
2 guidance with respect to the types of overhead costs
3 that were acceptable to capitalize, as illustrated in
4 the excerpt from Section 306(1) of the CICA hand --
5 handbook, which was found at page 203, Tab 47 of the
6 Board counsel's book of documents.
7 Utility industry practice has evolved
8 over time, and these practices essentially represent
9 Canadian GAAP for utilities. As Manitoba Hydro and
10 Centra were reviewing their overhead capitalization
11 practices for the move towards IFRS, it became aware
12 that the Corporation's practices were aggressive.
13 Given this situation, the Company began to implement a
14 number of changes under Canadian GAAP to make its
15 practices more consistent with current industry
16 practices.
17 These changes do not represent an early
18 adoption of IFRS. These changes were made as a change
19 in accounting estimate under GAAP on a prospective
20 basis, and are not a change in accounting policy. The
21 Corporation's accounting policy is still to capitalize
22 a proportionate share of overheads. It has simply
23 adjusted the level of overheads being capitalized in
24 line with industry practices and, therefore, this
25 represents a change in estimate.

1 As Mr. Rainkie noted, when dealing with
2 accounting estimates like overheads and depreciation,
3 when you receive information that it's necessary to
4 make a change to an estimate, professionally there's an
5 obligation to act on that information. As previously
6 mentioned, these changes have been encouraged and
7 endorsed by the Corporation's auditors.
8 It's also important to note that these
9 changes are permissible under Canadian GAAP and they're
10 consistent with changes which will be required under
11 IFRS. And, as such, they will not have to be unwound
12 on transition to IFRS. The Corporation has been making
13 the necessary changes on a gradual basis in order to
14 progressively bring them into the revenue requirement
15 and lessen the impact on customers.
16 CAC has recommended that the PUB not
17 accept these overhead changes for rate setting
18 purposes, on the basis that the PUB had denied the
19 inclusion of a general $5 million provision for IFRS
20 in Order 128/'09, and that Centra should not follow the
21 pack. And you'll find that at page -- transcript page
22 1,640.
23 The overhead changes that Centra has
24 implemented under Canadian GAAP, and are included in
25 this application, are not the same animal as the high

1 level provision for IFRS accounting changes that was
2 denied in the last Centra GRA. CAC's recommendation is
3 inconsistent with the past findings and recommendations
4 of the PUB.
5 On pages 96 and 97 of Order 116/'08, the
6 PUB expressed concern over the aggressive deferral and
7 capitalization of operating costs under the full
8 accounting approach that was previously employed by
9 Manitoba Hydro, and recommended at paragraph 2 of page
10 30 -- 340 of that order, that the Corporation consider
11 early adoption of less aggressive IFRS overhead
12 capitalization practices. And we have included at Tab
13 6 of Centra's book of documents the relevant expert --
14 excerpts from that order.
15 Mr. Meronek spoke on Friday about
16 matters which are res judicata, or which have already
17 been decided, and suggested that Centra ought not to be
18 raising such matters again before the Board. However,
19 some of this panel, at least, may recall that both CAC
20 and MIPUG argued this issue in February 2013 at the
21 last electric GRA, and they were rejected by the PUB in
22 Order 43/'13.
23 We have included at Tab 7 of the book of
24 document the relevant excerpts of that order, and I'll
25 just quote from it:

1 "The Board understands that Manitoba
2 Hydro has been making changes to its
3 accounting policies since 2007/'08 to
4 be more consistent with other
5 electric utilities, as well as to be
6 consistent with International
7 Financial Reporting Standards.
8 The Board, in past orders, has
9 expressed concern with the level of
10 capitalization, and Manitoba Hydro
11 has begun to address these concerns.
12 In the Board's view, Manitoba Hydro's
13 proposed accounting changes are
14 appropriate for the test years."
15 Close quote. Clearly, in making these
16 recommendations and finding, the PUB has determined
17 that these changes were both necessary and reasonable
18 for rate-setting purposes and that the Corporation was
19 not simply following the pack.
20 Mr. Chairman and Board members, this was
21 a very recent determination of the Board. It was made
22 only a few months ago. There is no evidence on the
23 record to support Mr. Meronek's suggestion that these
24 accounting changes ought not be accepted for rate-
25 setting purposes.

1 As Mr. Rainkie stated at page 768 of the
2 transcript, there are no differences between the gas
3 and electric operations that would result in different
4 overhead allocation practices between the two (2)
5 utilities. And as a result, these changes should be
6 accepted by the PUB for rate-setting purposes related
7 to gas operations for the same reasons that they were
8 accepted with respect to electric operations.
9 CAC also takes issue with Centra's
10 longstanding accounting policy to expense the labour
11 costs associated with gas meter exchanges and is
12 recommending that they be capitalized for rate setting
13 purposes for the '13/'14 test year, given that this has
14 been the longstanding accounting policy on the electric
15 side of the business.
16 There's some confusion on the record
17 regarding -- regarding the capitalization practices for
18 meter exchanges. And to be clear, the only difference
19 between gas and electric utility is the treatment of
20 meter exchange activities. Labour on the meter
21 exchange is capitalized on the electric side and is
22 expensed on the gas side.
23 As was outlined in the response to
24 PUB/Centra-2-154A, which is included in Board counsel's
25 book of documents at Tab 48, page 214, the need to

1 select a common accounting policy with respect to
2 labour on meter exchanges is driven by the requirement
3 to harmonize the accounting policies of a parent and
4 its subsidiary upon transition to IFRS.
5 As Centra outlined in its evidence, the
6 accounting of treatment of labour costs for gas meter
7 exchanges is a matter that's currently at the
8 preliminary review stage as the Corporation considers
9 which policy to adopt upon harmonization -- or upon
10 transition to IFRS as the harmonized policy of the
11 Corporation.
12 Mr. Rainkie indicated on pages 719 and
13 720 of the transcript that the assumption that the
14 labour on gas meter exchanges would be capitalized upon
15 IFRS was only a simplify -- a simplifying assumption at
16 the point of preparation of IFF-12 and that this
17 assumption should not be taken as the final
18 determination of the issue, given that there are valid
19 arguments for both accounting treatments and that this
20 issue is still under active consideration by the
21 Corporation.
22 Mr. Rainkie testified at pages 720 and
23 21 of the transcript that it was still unclear whether
24 or not the best accounting policy is to expense or to
25 capitalize the labour costs on meter exchanges.

1 As was noted in the transcript, it's
2 consistent in the gas industry to expense the labour on
3 meter exchanges. For the PUB's information, we have
4 included at Tab 8 of Centra's book of documents an
5 extract from the uniform system of accounts for OEB,
6 which is 5065 (phonetic) operation and maintenance
7 meter expense, and the AUC just behind the blue sheet,
8 which specify that the activities associated with
9 exchanging of the meter are to be expensed.
10 While Centra is not suggesting that this
11 would represent the final policy choice by Manitoba
12 Hydro and Centra, it clearly demonstrates why it's not
13 wise to simply manoeuver Centra's accounting policies
14 to manufacture lower rates, as CAC is recommending.
15 As Mr. Rainkie testified at transcript
16 page 1,158, we can't just simply harmonize to an
17 accounting policy of a parent, but rather first we have
18 to pick the right policy and then harmonize both sides
19 of the business to the right policy. That is what Mr.
20 Rainkie called the appropriate order of operations.
21 As Mr. Rainkie outlined on pages 722 to
22 25 and 1,153 to 59 of the transcript, if Centra were to
23 implement a change before the adoption of IFRS, this
24 would definitely be considered a change in accounting
25 policy, which would require retrospective restatement

as far back as the Company had records.

The Corporation has indicated on a number of occasions that it is avoiding making any accounting policy changes in advance of IFRS that would require retrospective restatement so as to take advantage of the exemption granted to rate-regulated utilities to carry forward the net book value of their assets on transition to IFRS.

In summary, as it relates to the issues of the accounting treatment of labour on gas meter exchanges, the Corporation believes it is appropriate to set rates for the 2013/'14 test year based on its long-standing accounting policy of expensing these costs. This policy has been accepted by the PUB as being reasonable in the past.

CAC has offered no evidence that supports the capitalization of these costs as a better accounting policy. Such support is required under GAAP in order to validate a change in accounting policy that would require retrospective application.

The Board ought not accept CAC's invitation to manufacture an accounting policy change to reduce the rate increase, and allow the Corporation the opportunity to consider the merits of the various accounting treatments available under IFRS, as it is

1 doing in a number of other accounting issues that are
2 under review as a result of the transition to IFRS.
3 Turning to depreciation and
4 amortization, depreciation and amortization is forecast
5 at $30.1 million for the '13/'14 test year, which is a
6 $2.7 million increase over the '10/'11 approved amount
7 of 27.4 million, which you'll also find in Tab 2 of our
8 book of documents.
9 Of the $2.7 million increase in
10 depreciation and amortization, 2.3 million, or 85
11 percent of that increase, is attributable to the
12 additional amortization related to natural-gas DSM
13 program costs. The remainder of the increase is due to
14 additional plant in service since 2009/'10 and '10/'11
15 GRA, offset by the reduction in deprecia --
16 depreciation expense as a result of the new
17 depreciation study.
18 In preparation for the conversion to
19 IFRS, and as part of Centra's regular depreciation
20 review, a new depreciation study was initiated in 2009
21 and was completed in October of 2011. And that was
22 based on depreciable assets in service as of March
23 31st, 2010. The previous depreciation study for Centra
24 was completed in July of 2006, with resulting
25 depreciation rates being implemented effective April

1st of 2007.

As was outlined in Appendix 5.8 of the Application, which contains the new depreciation study, the depreciation rates that flow from this study are being implemented in two (2) phases. Ms. Jacobs discussed the first phase at transcript page 548. She indicated that:

> "Centra implemented new service life estimates effective April 1st, 2011, and made some minor additions and deletions to the asset components."

The net effect of the new service life estimates is a decrease in the weighted average depreciation rate from 2.8 to 2.62 percent, and that results in a depreciation expense decrease of $1.2 million for the '13/'14 test year. Based on the record of the proceeding there appears to be no issue with the changes that have been implemented to date and that form part of this Application.

In the second phase, Centra plans to implement IFRS-compliant depreciation rates effective April 1st of 2015, which would include a change in the depreciation methodology to the Equal Life Group method, and removal of asset retirement cost from depreciation rates.

1 Centra had indicated in written
2 correspondence subsequent to pre-hearing conference on
3 May 1st -- sorry, March 1st of 2013 that:
4 "Given that Centra's transition to
5 IFRS is well beyond the test year and
6 that uncertainty exists with respect
7 to the requirements for the potential
8 interim standard on rate-regulated
9 accounting under IFRS, Centra is not
10 seeking any approvals from the PUB in
11 this proceeding relating to the
12 implementation of IFRS."
13 In response to a question from you, Mr.
14 Chair, which is at page 785 of the transcript, Mr.
15 Rainkie indicated that:
16 "Given the recent developments with
17 respect to an interim standard on
18 rate-regulated accounting, the
19 removal of asset retirement costs or
20 net salvage value from depreciation
21 rates, as well as the move from
22 Average Service Life to Equal Life
23 Group, will have -- will have to be
24 further considered by Centra and
25 brought back to the PUB at a future

1 rate application for inclusion in
2 rates."
3 In its closing submission, CAC did not
4 take issue with leaving net salvage value in rates
5 until further review in consideration of the adoption
6 of IFRS.
7 I would note that in the April 26, 2013,
8 decision of the PUB with respect to Manitoba Hydro's
9 '12/'13 and '13/'14 electric GRA, the PUB found at page
10 18 of Order 43/'13 as follows, and I quote:
11 "The Board also accepts Manitoba
12 Hydro's position that net salvage
13 value should be removed from
14 depreciation rates when IFRS
15 reporting standards are implemented,
16 rather than during the test years."
17 Close quote. And we have included that
18 excerpt at Tab 7 of the book of documents as well.
19
20 (BRIEF PAUSE)
21
22 MS. MARLA BOYD: Moving now to finance
23 expense, these costs are forecast at $17.3 million for
24 the '13/'14 test year, which is a $1.8 million decrease
25 from the '10/'11 approved amount of 19.1 million.

1 CAC's emphasis on finance expense in this proceeding
2 has not been focussed on the reduction in actual
3 expense and its beneficial impact to ratepayers, but
4 rather on a microscopic re-examination of the
5 Corporation's interest rate forecasting methodology.
6 And while we'll address that interest
7 rate forecasting and debt management recommendation a
8 bit later, I think it's important first for the Board
9 to recognize some of the significant financing benefits
10 that Centra's ratepayers have acquired during the past
11 few years.
12 Since the height of the financial crisis
13 the global economy has witnessed numerous ongoing
14 challenges and the economic downturn has become pro --
15 more prolonged than originally anticipated. With the
16 extraordinary intervention of central banks, actual
17 interest rates have fallen in the past few years to
18 historic low levels. Centra has been able to
19 successfully take advantage of this prolonged low
20 interest rate environment in the following ways.
21 Turning to Tab 9 of our book of
22 documents, you'll see that Centra's actual finance
23 expense from 2006/'07 through to '13/'14 is -- is
24 included. As we've highlighted on the bottom of that
25 page, the total finance expense has gone down nearly $3

1 million from 20.1 million for 2008/'09 to 17.3 million
2 for the '13/'14 test year.
3 The reduction in actual finance costs
4 through the past years has been to the benefit of all
5 Centra ratepayers, for in the absence of these
6 advantageous results, Centra may have had to seek more
7 frequent or higher rate increases. So how is that
8 achieved?
9 If you turn to Tab 10 of Centra's book
10 of documents you'll find page 16 from Centra's rebuttal
11 evidence. It outlines that since April of 2009 first
12 Centra has refinanced $155 million of its legacy debt
13 issues, that's CG-1, 4, and 5, which had existing
14 interest rates ranging from between 5 1/2 to 6.3
15 percent, with new lower interest rates ranging from 3.3
16 to 4.6 percent.
17 Second, these financings -- or
18 refinancings minimize the concentration of interest
19 rate refinancing risk by subdividing the $60 million
20 and $75 million lump sum amounts from CG-1 and CG-5
21 into smaller segments with different maturity dates.
22 And third, Centra also rebalanced its
23 overall debt portfolio by converting balances from
24 short-term to long-term debt, as well as introducing
25 floating rate long-term debt into Centra's debt

1 portfolio.
2 The detailed written descriptions of
3 these financings can be found on pages 17 through 23 of
4 Centra's rebuttal evidence, which is Exhibit 4-2. The
5 graphical depiction of these ratepayer advantages is
6 clearly evident by reviewing Charts 5 and 6, which are
7 on page 16 of the rebuttal evidence.
8 Chart 5 shows that Centra's actual
9 weighted average interest rate has gone down
10 significantly with the transactions from nearly 6.75
11 percent in 2007/'08 to below 5 1/2 percent for
12 2012/'13. The weighted average interest rate is
13 further projected to decrease to approximately 5
14 percent for the '13/'14 test year. That represents a
15 total reduction since 2007/'08 of nearly 1.75 percent.
16 Looking at Chart 6, Centra also made
17 these benefits more permanent for ratepayers by fixing
18 more of its debt portfolio and significantly increasing
19 the weighted average term to maturity. During this
20 time Centra was able to significantly reduce its
21 ratepayer's interest ri -- rate risk by extending the
22 term to maturity and by subdividing the large lump sum
23 amount from CG-1 and CG-5 into smaller segments with
24 different maturity dates.
25 Given the extremely challenging backdrop

1 of the financial crisis and the prolonged economic
2 downturn, Centra considers the attainment of these
3 benefits to be a significant achievement. During CAC's
4 closing submission, CAC made seven (7) recommendations
5 regarding interest rate forecasting and debt management
6 matters. For the benefit of the Board, I'll address
7 each of those in turn.
8 The first recommendation pertains to
9 interest rate forecast updates and CAC's recommendation
10 that updates be provided as a matter of course. And
11 that's from transcript page 1,655. The Corporation has
12 already provided interest rate updates as a matter of
13 course since the economic downturn. The Corporation
14 filed its economic outlook, and provided requested
15 updates to its base case forecast interest rate at each
16 of the last two (2) electric and gas GRAs, and will
17 continue to do so in future GRA filings.
18 During this proceeding the Board had
19 forecasts that were representative of the interest rate
20 environment at the time they were produced, and they
21 received formal updates along with the financial
22 implications. In addition, the Board received real-
23 time Bloomberg information up to, and including, the
24 time of the hearing. In their recommendations, CAC is
25 asking for something that is already routinely

1 performed.

2 In terms of the materiality of this

3 updated information, the response to PUB/Centra-1-9B

4 revised is provided at Tab 11 of the book of documents.

5 This demonstrates that changes to interest rate

6 forecast would result in a change in finance expense,

7 included in the revenue requirement in the order of two

8 hundred thousand dollars ($200,000).

9 This, in the context of a $300 million

10 revenue requirement, would not have a noticeable impact

11 on rates. In fact, I note that even CAC's witness Mr.

12 Oppenheim characterized an increase of three hundred

13 thousand dollars ($300,000) in revenue requirement as

14 representing, and I quote:

15 "Such an infinitesimal increase in

16 rates that it would be acceptable."

17 Close quote. You'll find that at

18 transcript page 1,454. Mr. McCormick also noted in

19 response to questions by Board counsel that the two

20 hundred thousand dollars ($200,000) was, "not material

21 in and of itself," as you'll find at transcript page

22 1,366.

23 I should also note that finance expense

24 is but one (1) line item in the revenue requirement.

25 There are several other line items which would also be

1 subda -- subject to updating. As Mr. Rainkie noted at
2 page 939, there are changes to pension adjustments
3 which would have been required since the preparation of
4 IFF-12, and they would result in a $1 million
5 deficiency in the current revenue requirement.
6 There's no adjustment being sought by
7 Centra for this deficiency, recognizing that these
8 pluses and minuses will result in an overall forecast
9 that's reasonable for setting rates, and that
10 differentials, either positive or negative, will flow
11 to retained earnings and be adjusted in future rate
12 cases.
13 On the topic of bias, CAC has repeated
14 the -- repeatedly made the assertion that there is a
15 chronic, uncorrected upward bias in the results of the
16 forecast methodology when compared with actual results,
17 and suggested that, I quote:
18 "The Board should remove Informetrica
19 from its calculation of forecast
20 interest rates used to derive near-
21 term interest rate forecasts."
22 Close quote. With any forecast,
23 differences between forecast and actual will and do
24 occur. With respect to interest rate forecasters,
25 forecaster opinions do change through time in response

1 to changing market conditions. As described by Mr.
2 Schulz in his direct evidence on transcript pages 911
3 and 912, virtually all forecasters missed both the
4 timing and magnitude of the economic downturn.
5 Further, the economic downturn has
6 become more prolonged than originally anticipated, and
7 in response central bankers have undertaken
8 extraordinary monetary policy interventions. The
9 Corporation's forecast is intended to provide a
10 representative interest rate forecast at the time it's
11 produced, and it is not developed with the intent of
12 selecting or encouraging one (1) outcome over the
13 others.
14 During the hearing, Mr. McCormick moved
15 away from the suggestion that Centra's methodology was
16 biased and instead pointed to an upward biased (sic) in
17 all interest rate forecasters. And you'll find that at
18 transcript page 1,325. CAC appears to have ignored the
19 impact that the unanticipated and prolonged economic
20 downturn may have had upon externally produced
21 forecasts.
22 To suggest that the Board should
23 disregard all of the forecasting firepower of the
24 national banks and other experts, and choose an
25 interest rate for rate-setting purposes that is less

1 than Centra's rate, and not more than Mr. McCormick's
2 rate, is arbitrary. It's unsupported by empirical
3 evidence and it's unreasonable.
4 CAC suggested at transcript page 1,659
5 that it recommended to remove one (1) or more of the
6 high forecaster's data points simply as an effort to
7 base the Centra forecast on a more representative or
8 accurate data sample.
9 In essence, this is an attempt by CAC to
10 impose Mr. McCormick's opinion on a Centra forecast --
11 on a consensus forecast, gathered from professionally
12 trained economists on the assumption that his market
13 view would result in a superior methodology. Even CAC
14 has acknowledged that Centra has a "pool of respected
15 forecasters." You'll find that at transcript page
16 1,659.
17 In order to have internal consistency
18 with our multi-purpose economic outlook, the
19 Corporation selects forecasters that have a full range
20 of economic data points. It's not just about interest
21 rates. The Corporation gathers information from a
22 variety of sources to develop its ec -- economic
23 outlook, which results in a consensus view of several
24 independent sources, including Canada's primary
25 financial institutions and other independent sources.

1 The data gathered provides useful
2 insight not only to derive a consensus forecast, but to
3 assist with risk mitigation efforts as it identifies a
4 range between the highest and the lowest projections
5 within the forecast and a distribution within the
6 range. We have also sought forecasts with extended
7 time frames in order to deepen the forecast.
8 Turning to Tab 12 in the Centra book of
9 documents, as you can see from the updated response to
10 PUB/Centra-141D, the various combination of -- of
11 interest rate forecasters result in only a few basis
12 points differential in the forecast. The magnitude of
13 these variations are not significant in the context of
14 far larger basis point swings which are regularly seen
15 in the financial markets over short periods of time.
16 As described by Mr. Schulz on page 910
17 of the transcript, and I quote:
18 "For example, during the past month,
19 Benchmark Government of Canada ten
20 (10) and thirty (30) year bond yie --
21 yields have increased over thirty
22 (30) basis points with movement
23 within a single day of five (5) to
24 ten (10) basis points being a common
25 occurrence."

1 Close quote. The second recommendation
2 made by CAC is that, quote:
3 "The Board should order Centra to
4 have retrospective testing performed
5 by an outside consultant for the next
6 GRA so that the Board can establish
7 some parameters around what type of
8 routine testing should be implemented
9 going forward and in place prior to
10 the next GRA."
11 Close quote. That's from transcript
12 pages 1,669. Although CAC has repeated its
13 recommendation that retrospective testing of
14 forecasters be undertaken, when Mr. McCormick was asked
15 how he would undertake such a review he did not offer
16 any specific methodology.
17 In our respectful submission, a
18 consensus forecast derived from a respected fool of --
19 pool of forecasters will, in the long run, result in
20 more representative forecasts than attempting to
21 determine who is closest to actual at any given point
22 in time and following their forecasts until they go
23 amiss.
24 In fact, Mr. McCormick's recommendation
25 to consider using only one (1) forecaster until that

1 forecaster goes amiss is contrary to the established
2 theory and best practice, which is evidenced by the
3 Bank of Canada in their working paper which is entitled
4 'Combining Canadian Interest-Rate Forecasts'.
5 On page 2 of that paper the authors
6 state, and I quote, this is from PUB/Centra-141B:
7 "The concept of model averaging has a
8 relatively long history in the
9 forecasting literature. Indeed,
10 there is evidence dating back to
11 Bates and Granger (1969) and Newbold
12 and Granger (1974) suggesting that
13 combination forecasts often
14 outperform individual forecasts."
15 Close quote. The Corporation will
16 continue to review and enhance its forecasting
17 methodology as part of its efforts at continuing
18 improvement. For example, as Mr. Schulz testified on
19 pages 1,269 and 70 of the transcript, the Corporation
20 is presently considering enhancements, such as Olympic
21 averaging.
22 The preliminary results using this
23 approach for the spring economic outlook 2013 can be
24 seen on page 10 of the revised response to CAC --
25 sorry, PUB/Centra-141D, which is included in our book

1 of documents.
2 Centra submits that its interest rate
3 forecasting methodology is a sound and reasonable basis
4 for determining the appropriate level of finance
5 expense within Centra's revenue requirement.
6 At the end of our -- at the end of the
7 day, in our respectful submission, CAC's re-examination
8 of the corporate interesting -- interest rate
9 forecasting methodology is much ado about nothing.
10 While finance expense is certainly an important
11 component of the revenue requirement, any over-
12 collection or under-collection of finance expense, as
13 well as many other expenses, will flow through to
14 retained earnings.
15 And as we've discussed, those retained
16 earnings are held for the benefit of ratepayers and
17 they'll impact our future rate decisions as to whether
18 our rate increase is warranted. This self-correcting
19 methodo -- methodology will adjust for variations that
20 may occur between forecast and actual results.
21 On the topic of the usefulness of
22 retrospective testing and the suggestion that Centra
23 was trying to re-argue a case already decided, Mr.
24 Meronek suggested that the Board ought to prefer the
25 evidence of Mr. McCormick over that of Mr. Schulz.

1 Centra certainly rejects the suggestion
2 that Mr. Schulz's evidence should be measured with any
3 less regard than that of Mr. McCormick. We submit that
4 the evidence of Mr. McCormick is telling. When he was
5 asked how he would retrospectively test forecast --
6 forecasters he didn't provide a useful answer. He was
7 unable to provide a concise explanation to the Board of
8 how this would be done or how the results of such analy
9 -- analysis might be used to improve future forecasts.
10 We respectfully submit that any further
11 debate or discussion on the topic of retrospective
12 testing of the Corporation's interest rate forecasts is
13 unnecessary. However, in the interest of all parties
14 having a clear understanding of the Board's desires in
15 this regard, and to bring closure to the debate, we
16 request that the Board specifically find that it's not
17 required in its order.
18 "The Board should reduce the forecast
19 of long-term and short-term rates in
20 these proceedings to a more
21 representative number for the fixing
22 of just and reasonable rates, a
23 number less than forecast by Centra
24 and no greater than forecast by Mr.
25 McCormick."

1 And you'll find that at transcript page
2 1,670.
3 As previously stated, it is
4 inappropriate for the Board to disregard all of the
5 forecasting firepower of the national banks and other
6 experts, and to substitute an arbitrary rate for one
7 derived from a sound methodology.
8 With respect to the forecast rates to be
9 included in Centra's revenue requirement, Mr. McCormick
10 acknowledged on cross-examination that his recommended
11 government of Canada ten (10) year plus interest rate
12 for the '13/'14 test year of 2.36 percent does not
13 include the credit spread between Canada and Manitoba
14 rates or transaction costs.
15 While Mr. McCormick had not made any
16 assessment of credit spreads in this Application, the
17 Board has before it Mr. Schulz's testimony that:
18 "The appropriate spread is currently
19 ninety-four (94) basis points."
20 You'll find that at transcript page 978.
21 And that, "transaction costs are in the order of six
22 (6) basis points."
23 Overall, taking into account the
24 addition of credit spread and transactions costs, Mr.
25 McCormick's forecast ten (10) year plus rates for

1 Centra would be in the order of 3.36 percent. By
2 comparison the Bloomberg information, included on page
3 51 of Mr. McCormick's evidence, would produce a similar
4 result of 3.27 percent.
5 Centra's interest rate forecasting
6 methodology used in IFF-12 produced a rate of 3.30
7 percent. Although the spring economic outlook
8 generated a forecast of 3.5 percent, Centra has not
9 considered it necessary to update its Application. The
10 short-term interest rates calculated using May and June
11 data are not dissimilar to those from the 2013 spring
12 economic outlook and, as I noted, the variation between
13 these rates and those included in the Application are
14 not material.
15 The fourth recommendation made by CAC is
16 that: "The Board reflect in the reasonable
17 interest cost for the '13/'14 test
18 year: 1) a twenty (20) to thirty (30)
19 basis point reduction in the annual
20 interest cost in respect of the
21 outstanding $35 million principal in
22 series CG-10; and 2) a thirty-eight
23 (38) basis point reduction to
24 interest cost in respect of the
25 outstanding $20 million principal of

1 series CG-5."
2 And you'll find that at transcript page
3 1,675.
4 All of the interest rates assigned to
5 Centra's long-term advances are based on actual
6 Manitoba Hydro electric Board financings, as indicated
7 in the long-term debt -- debt term sheets which are
8 provided in our response to PUB/Centra-43. Basing
9 Centra's long-term advances on actual Manitoba Hydro
10 long-term debt issues ensures fair and equitable
11 treatment for both gas and electric ratepayers through
12 a cost recovery mechanism.
13 Specifically, CAC has stated through its
14 witness that, "the interest rate fore" -- "interest
15 rates on CG-10 and CG-15 were unreasonable." However,
16 as was evidenced in Centra's Rebuttal, CG-10 and CG-15
17 were part of portfolio refinancings.
18 In accordance with best practices, the
19 measure of -- measurement of these types of financing
20 utilizes an effective interest rate method, which
21 you'll see in our response to CAC/Centra-16, and a
22 portfolio basis. It's important for the Board to
23 recognize that these re -- through these fin --
24 refinancings Centra was able to outperform indicative
25 market conditions in effect on the assignment date for

1 the weighted average interest rates and the weighted
2 average term to maturity.
3 For example, as evidenced on page 19 of
4 the rebuttal which you'll find at Tab 13 of our book --
5 book of documents:
6 "Using assigned interest rates and
7 terms to maturity, Centra reduced the
8 concentration of interest rate
9 refinancing risk by subdividing the
10 $75 million lump sum amount into
11 smaller maturity segments with
12 different maturity dates, and lowered
13 its relative cost of financing by
14 approximately forty-five (45) basis
15 points."
16 Similarly, as you'll see from pages 22
17 and 23 of the rebuttal, with the refinancing of CG-1
18 which included CG-15 along with CG-16 and 17:
19 "Using assigned interest rates and
20 terms to maturity Centra reduced the
21 concentration of interest rate
22 refinancing risk by subdividing the
23 $60 million lump sum amount into
24 smaller maturity segments with
25 different maturity dates, and again

1 lowered its relative cost to
2 financing by approximately twenty
3 (20) basis points."
4 In addition to extending the term to
5 maturity of Centra debt portfolio, CG-1 refinancing
6 also reduced the overall weighed interest rate as the
7 5.98 percent yield for CG-1 was refinanced on September
8 18th of 2012 with an effective yield rate of 3.329
9 percent. That represents further actual interest
10 savings of 2.65 percent to Centra's ratepayers on this
11 $60 million refinancing.
12 The fifth recommendation made by CAC is
13 that: "the Board be mindful of the tendency
14 to pre-fund long-term debt."
15 You'll find that at transcript page
16 1,676.
17 Centra interprets this recommendation to
18 be relating to Centra's use of short-term debt. For
19 the record, and as stated on page 7 of our rebuttal
20 evidence, Centra will continue to utilize short-term
21 debt to borrow money for temporary purposes in
22 accordance with the Manitoba Hydro Act, including
23 supporting Centra's seasonal working capital
24 requirements and to bridge the timing between long-term
25 debt issues. But it will not expose ratepayers to

1 additional rate -- interest rate risk by failing to
2 take advantage of opportunities to increase the
3 weighted average term to maturity at beneficial rates.
4 The sixth recommendation made by CAC is
5 that: "The Board indicate its concern with
6 the concentration of debt and require
7 Centra to bring forward a broader
8 debt concentration policy at the next
9 GRA."
10 That's from transcript pages 1,679 and
11 80.
12 Centra submits that there is no need for
13 a broader debt concentration policy. Should the Board
14 seek further information on this matter the Board can
15 review the debt management strategy documents that were
16 filed as part of Centra's response to CAC/Centra-14, as
17 well as page 9 of Centra's rebuttal evidence.
18 The seventh recommendation made by CAC
19 is that:
20 "The Board direct Centra to avoid
21 clustered maturities and obtain the
22 interest rate benefit of lower cost
23 issues at the shorter end of the
24 yield curve."
25 That's from transcript page 1,682.

1 When future long-term debt issues are
2 secured Centra will of course seek open locations
3 within its debt maturity schedule. Centra will
4 continue to favour fixed long -- fixed rate long-term
5 financings with extended terms to maturity. The
6 benefits associated with fixing debt at -- at historic
7 low levels and reducing the negative impact associated
8 with higher interest rates in the future is made all
9 the more apparent when considering recent trends within
10 the interest rate environment.
11 Centra provided evidence on pages 12
12 through 15 of its rebuttal evidence describing the
13 rising long-term interest rates during the period from
14 May 11th to June 11th, as well as forward Bloomberg
15 financial market information for the March 31st, 2014,
16 on page 6 of the rebuttal evidence.
17 Further, as was stated by Mr. Schulz in
18 his direct evidence, Centra notes that the actual long-
19 term interest rates have been moving upward in the past
20 year and again most recently in the past few weeks.
21 This suggests that the period of historically low
22 interest rates may be coming to an end.
23 In this context, Mr. McCormick's
24 proposed strategy to seek near term cost savings by
25 maintaining a higher weighting of shorter dated debt

1 is, in our respectful view, both risky and ill timed,
2 given the current expectation of interest rate -- rates
3 rising.
4 I conclude the discussion with -- of
5 finance expense with two (2) thoughts. First, the
6 reduction in actual finance expense and debt management
7 activities have been to the advantage of Centra's
8 ratepayers. And second, a reminder that the goal of
9 the Board is not to predict with perfect accuracy what
10 the interest rates will be in the coming year.
11 The Board can be satisfied that the
12 interest rate forecast put forward by the Corporation
13 is based on a sound methodology that takes the best
14 information available in the market at the time in
15 order to make a reasonable determination of the level
16 of finance expense likely to be incurred. This is the
17 appropriate amount to be included in rates and is fair
18 treatment for both Centra and its ratepayers.
19 I'll now turn to the Corporate
20 allocation. Since 2005/'06 Centra's rates have been
21 set on the basis of a cost-of-service methodology where
22 the annual revenue requirement used to determine rates
23 includes the costs incurred by the Utility on a
24 forecast basis plus a sufficient contribution to
25 retained earnings. This methodology is also used to

1 determine rates for Manitoba Hydro's electric
2 operations and as Mr. Rainkie explained at transcript
3 page 881, the cost-of-service methodology is more
4 consistent with a Crown corporation, which does not
5 have private shareholders and whose retained earnings
6 are held for the benefit of all Manitobans.
7 Section 127(1) of the Public Utilities
8 Board Act provides that in connection with determining
9 rates the Board shall determine, among other things,
10 the rate base and the rate of return on shareholder
11 equity. The Board is not required by legislation to
12 set rates using the rate base rate of return
13 methodology. And since 2005/'06, has been using the
14 determination of rate base as a shoulder-check for
15 comparison purposes while setting rates on a cost-of-
16 service methodology.
17 The corporate allocation does not, in
18 Centra's submissions, form part of the return to
19 Manitoba Hydro. Mr. Rainkie testified at pages 650 to
20 652 that Manitoba Hydro does not consider the Corporate
21 allocation to be a return, but rather a fair
22 apportionment of the cost of the acquisition of Centra
23 in accordance with the benefits received by both the
24 gas and the electric customers.
25 The costs underpinning this allocation

1 are real costs that Manitoba Hydro has paid and must
2 finance. These costs have resulted in savings to gas
3 and electric ratepayers, and as such -- as a result of
4 the acquisition of Centra by Manitoba Hydro. As such,
5 the Corporate allocation is in reality an investment
6 made by Manitoba Hydro to achieve substantial savings
7 on behalf of both gas and electric customers. This is
8 no different than any other investment, such as
9 computer systems, tools, or vehicles that are made by
10 Hydro or Centra in order to achieve cost savings or
11 service for customers.
12 The corporate allocation is an
13 allocation of costs and not a return. There is no
14 dividend payment to owners and no bonuses paid on net
15 income. As Mr. Rainkie noted at page 652:
16 "If we didn't allocate these costs to
17 Centra, then Centra customers would
18 be getting a huge chunk of the
19 benefits of the integration to the
20 detriment of the electric customers.
21 There isn't a shareholder bogeyman in
22 the middle here."
23 Contrary to Mr. Meronek's assertion at
24 transcript page 1,649, if one takes this simple but
25 factual perspective on the issue, there's no double-

1 counting in including the corporate allocation in the
2 yardstick calculation of revenue requirement under the
3 rate base rate of return methodology.
4 Turning to taxes and other income, there
5 appear to be no issues with capital or other taxes,
6 which have decreased by $5.2 million from the last
7 approved in 2010/'11, or with other income, which is
8 $1.9 million for the test year.
9 I'll simply note for your information
10 that the reduction to capital and other taxes is
11 primarily as a result of the provincial-wide property
12 tax reassessment that occurred in 2010 and a reduction
13 in carrying costs on deferred income taxes.
14 As part of its revenue requirement,
15 Centra is requesting the PUB to approve a 2013/'14 net
16 income of approximately $4.8 million given that the
17 rates requested will be implemented on August 1st of
18 2013. This will generate a level of net income of
19 approximately $5.6 million on an annualized basis.
20 At the time of the preparation of the
21 gas integrated financial forecast for 2012 and the
22 filing of the '13/'14 GRA, it was projected that Centra
23 would be required to write off rate-regulated assets of
24 approximately $77 million to retained earnings upon the
25 adoption of IFRS in 2014/'15, which would result in a

1 retained earnings deficit of approximately $27 million.
2 As Mr. Rainkie outlined on pages 33 and
3 34 of the transcript, since the filing of the
4 application in late January of 2013 there have been two
5 (2) notable developments on this issue. First, in
6 February of 2013, the Accounting Standards Board of
7 Canada approved a further optional one (1) year
8 deferral of IFRS for Canadian rate-regulated entities.
9 Centra qualifies for this deferral and will now
10 transition to IFRS in 2015/'16.
11 Second, in la -- in late April of 2013
12 the International Accounting Standards Board released
13 an exposure draft on regulatory deferral accounts. It
14 proposed an interim standard that, if approved, would
15 continue to allow the recognition of regulatory
16 accounting for first time adopters of IFRS while its
17 longer term rate regula -- rate-regulated activities
18 project continues.
19 The International Accounting Standards
20 Board is not expected to make a decision on the
21 proposed interim standard until at least December of
22 2013. If the interim standard is approved Centra may
23 be able to avoid having to write off its rate-regulated
24 assets in 2015/'16.
25 However, what happens over the long term

is still uncertain until such time as the International Accounting Standards Board completes its rate-regulated activities project, which is not expected until at least 2016.

While this issue is less pressing than it was at the time of the filing of the application, there is still a risk that Centra will have to write off a significant amount of rate-regulated assets either in two se -- 2016 or later, and this will place the Company in a deficit position in terms of retained earnings.

If this writeoff occurs, in order to move to a positive retained earnings balance it would require either a significant rate increase or a series of rate increases over a sustained period of time, as is demonstrated in Centra's IFF.

Even if we assume for a moment that the writeoff never occurs and we look to the forecast scenario, which assumes the deferral of IFRS to 2015/'16, the continuation of rate-regulated accounting until the end of the forecast period, the 2 percent general revenue increase requested in this application, and future indicative rate increases assumed in the forecast, retained earnings are only forecast to grow marginally by $7 million to 2021/'22.

1 If you wish to refer to it, that
2 scenario is provided in the response to PUB/Centra-7C,
3 which you can find at Tab 44, pages 159 and 160, of
4 Board counsel's book of documents.
5 This marginal growth in retained
6 earnings stands in contrast to the future projected
7 growth in plant and service to $883 million in
8 2021/'22. As Mr. Rainkie testified on pages 1,129 and
9 30 of the transcript, as the size and scale of your
10 operations grow you have more assets, more customers,
11 and more risk, you would expect that the amount of your
12 retained earnings would grow as well regardless of the
13 rate-setting methodology used to set rates.
14 As was discussed at pages 34 to 36 of
15 the transcript, and in response to PUB/Centra-1-16A,
16 Centra has been regulated on the basis that it would be
17 allowed to earn a $3 million annual net income since
18 2003/'04. However, Centra's retained earnings have
19 remained relatively flat over that time, increasing
20 only $7 million from 35 million at the beginning of
21 2003/'04 to 42 million at the end of 2012/'13. Centra's
22 retained earnings have remained relatively flat despite
23 the growth of plant in service from $503 million to
24 $661 million over that time frame.
25 As Mr. Rainkie explained at transcript

1 page 663, the practice of -- over the last decade of
2 allowing a net income of only $3 million provides for a
3 very threadbare net income. It quite often results in
4 the occurrence of a loss and a reduction of retained
5 earnings, or at the very least, minimal retained
6 earnings growth.
7 This has been true for the past decade,
8 as well you could have expected that Centra would have
9 earned $27 million more in retained earnings over that
10 nine (9) year period. This has not occurred under the
11 current framework. As such, it's our view that it's
12 time to reconsider the $3 million net income level.
13 The original derivation of the $3
14 million of net income by the PUB was based on the
15 notion that the total of the corporate allocation of 12
16 million and a net income of 3 million would be
17 approximately equal to the 14 to $16 million of allowed
18 return on equity of the former private owner of Centra
19 at the time of the acquisition by Manitoba Hydro. And,
20 as such, it represented no harm to the customers in
21 terms of the rate impacts of the acquisition.
22 Applying that logic to the current rate
23 base of Centra would support a net income in the order
24 of $6 million. Mr. Rainkie explained, on transcript
25 pages 663 and 664, that considering the current rate

1 base of Centra as approximately $500 million, and
2 Centra's previously approved equity ratio under private
3 ownership was 40 percent, and that the current ROE
4 formulas in Canada are yielding a return on equity of
5 around 9 percent, then a private owner would currently
6 be earning a return on equity of approximately $18
7 million.
8 As such, the total of a corporate
9 allocation of 12 million and an annualized net income
10 of 6 million, as requested in the Application, is
11 consistent with the no-harm principle that was
12 previously adopted by the PUB. Moreover, it's
13 important, or appropriate, that the $3 million not be
14 frozen in time, but rather be reconsidered and updated
15 as circumstances dictate, which is consistent with the
16 PUB finding at page 78 of Order 135/'05, when the Board
17 found, and I quote -- you'll find it at Tab 14 of our
18 documents:
19 "The Board expects that the
20 appropriate net income level will be
21 revisited in future Centra GRA
22 applications if circum -- if current
23 circumstances change materially."
24 Centra submits that the increase in
25 assets in service and the fact that the $3 million net

1 income has not succeeded in growing the retained
2 earnings of the Company at a rate commensurate with the
3 assets and the risks constitutes a change in
4 circumstances sufficient to warrant review of the
5 appropriate net income level for the company.
6 From the perspective of maintaining an
7 adequate financial structure and promoting long-term
8 rate stability for gas customers, Centra believes that
9 increasing the level of net income is appropriate in
10 this Application, to allow for some moderate growth in
11 retained earnings as the size of the Company's asset
12 base increases. And that's consistent with the
13 principle of no harm to customers.
14 I encourage the PUB to review the
15 exchange between Mr. Meronek and Mr. Rainkie on pages
16 1,129 through 1,143 of the transcript, as it provides a
17 good summary of the reasons for the net income
18 requested in this Application.
19 Mr. Peters also reviewed, during the
20 course of this hearing, with Mr. Rainkie a theoretical
21 calculation of retained earnings for the '03/'04 to
22 '12/'13 period, assuming weather normalized net income,
23 as opposed to actual net income. That was contained in
24 Tab 45, page 184 of Board counsel's book of documents.
25 Mr. Rainkie confirmed at pages 678 to

1 680 of the transcript that this theoretical calculation
2 has not been used to regulate Centra in the past, and
3 that the actual retained earnings of $42 million at the
4 end of '12/'13 would be the basis on which future
5 financial and rate decisions would be made.
6 In its closing submission, CAC seems to
7 be under the perception that Centra conceded that if it
8 gets into financial difficulty, it can just rely on its
9 parent, Manitoba Hydro, to bail it out of trouble,
10 because Centra is, in its words, "a fictional legal
11 entity." Mr. Rainkie discussed this issue with Mr.
12 Meronek at pages 1,122 through 1,131 of the transcript.
13 And he indicated that it's contrary to long-established
14 regulatory principles and past directives of the PUB to
15 cross-subsidize between electric and gas customers.
16 Mr. Rainkie indicated that:
17 "While Manitoba Hydro's balance sheet
18 offers protection to gas customers,
19 it's like fire insurance on your
20 house. It's something you never want
21 to have to use."
22 Mr. Rainkie explained very clearly at
23 transcript page 1,124 that:
24 "While retained earnings are not a
25 cash reserve, they are an absence of

1 debt. The lower the retained
2 earnings, the higher the debt. And
3 debt requires principal and interest
4 payments to be borne by ratepayers.
5 This fact cannot be assumed away as
6 being unimportant or a notional
7 concept. Additionally, in a
8 publically owned utility retained
9 earnings serve as a buffer against
10 adverse financial effects, and serve
11 to protect customers against rate
12 shock. This is certainly not
13 unimportant or a notional concept."
14 As Mr. Rainkie discussed at page 651 of
15 the transcript:
16 "The PUB is responsible for setting
17 fair rates to both gas and electric
18 customers, and must take care not to
19 cross-subsidize between the two (2)
20 groups of customers. It is important
21 that Centra have a level of retained
22 earnings to maintain its financial
23 integrity, and to ensure rate
24 stability for customers, and that
25 that not be on the backs of electric

1 ratepayers."
2 Mr. Chairman, I'm going to turn the mic
3 over to Mr. Czarnecki. I wonder if you might want to
4 take a break in the interim or -- we're -- we're at
5 your disposal, whichever you prefer.
6 THE CHAIRPERSON: Yeah, let's take ten
7 (10) minutes, please.
8
9 --- Upon recessing at 10:04 a.m.
10 --- Upon resuming at 10:18 a.m.
11
12 THE CHAIRPERSON: Mr. Czarnecki...?
13 MR. BRENT CZARNECKI: Yes, thank you.
14 Good morning, Mr. Chairman and members Kap -- member
15 Kapitany and member Soldier, Board counsel, Board
16 advisors, and Board staff, counsel for CAC. I'm just
17 going to shortly just try and reorientate ourselves
18 after the break. Instead of maybe a roadmap and
19 because Thomas the Train is somewhat fresh in my mind
20 from some late-night reading I did to my son last
21 night, I'm going to try to tell you that I'm going to
22 cover five (5) different tracks and hopefully those
23 tracks will intersect with some concluding remarks.
24 And had I been creative, I could have maybe had Mr.
25 Cathcart ring a bell when I was about to change tracks,

1 but we'll leave that for another day.
2 The five (5) tracks that I will address
3 are the gas supply, transporta -- transportation and
4 storage costs; matters relating to cost allocation and
5 the actual rate matters of this Application; other
6 approvals, more of the miscellaneous variety; DSM
7 matters, including the recommendations that we heard
8 from CAC; and some comments on regulatory efficiency.
9 And then as I said, I will try and wrap up with some
10 concluding remarks.
11 So first I will address Centra's gas
12 supply, transportation, and storage arrangements. As
13 indicated by Mr. Sanderson at transcript pages 57 and
14 58, in this Application Centra is seeking final
15 approval of actual gas costs incurred for the two (2)
16 previous gas years. The actual gas costs for the
17 period from November 1st, 2010, through Octu -- October
18 31st, 2011, totalled $251.3 million. And the actual
19 costs for the period of November 1st, 2011, through to
20 October 31st, 2012, totalled $160.1 million.
21 Centra is also seeking approval of PGVA
22 and related gas cost deferral account balances,
23 totalling a net amount, as of October 31st, 2012, of
24 approximately fourteen thousand dollars ($14,000) owing
25 from customers, which includes the related carrying

costs to July 31st, 2013. For the current 2012/'13 gas year, Centra's updated forecasts of costs filed on May the 10th, 2013, is $199.8 million, of which $73.5 million constitute non-primary gas costs.

As indicated at Tab 10 of Centra's application, the forecast 2012/'13 gas year costs reflect the operation of two (2) US transportation and storage portfolios. In Order 112/'12 Centra received approval for the fixed costs arising from the US natural gas storage and related interstate pipeline transportation contractual arrangements that took effect April 1st, 2013.

The features of the new transportation and storage por -- portfolio were discussed by Ms. Stewart at transcript pages 64 through to pages 66.

The gas costs that Centra incurred in the 2010/'11 and '11/'12 gas years include costs associated with primary gas supply acquired from ConocoPhillips under a three (3) year contract that came into effect on November 1st, 2009. Centra received approval of the gas cost under the contract for the 2009/'10 gas year in Order 65/'11.

During this hearing, a theoretical commodity cost comparison was discussed in relation to Centra's previous commodity supply gas contract. An

1 attempt was made at comparing the results in term of --
2 in terms of commodity cost that Centra would have
3 obtained had it contracted with Proponent B for the
4 previous commodity supply contract.
5 Centra notes that a commodity cost
6 comparison of the ConocoPhillips contract to other
7 proposals can only be made on a theoretical basis and
8 with trepidation for the reasons cited by Ms. Stewart
9 at pages 134 through 136 of the transcript and in
10 Information Response PUB-Centra-91E.
11 From a theoretical perspective, it would
12 appear that Party B would have resulted in lower costs.
13 However, the ConocoPhillips contract resulted in
14 reliable supply from a creditworthy counterparty, and
15 it afforded Centra the flexibility to respond to market
16 circumstance at the time, including reducing its contr
17 -- contracted firm capacity on a TCPL mainline and
18 replacing it with more economic options.
19 These portfolio changes resulted in
20 significant cost savings for Centra's customers and
21 were only possible as a result of the considerable
22 volumetric optionality embedded in the ConocoPhillips
23 contract. The benefit of this flexibility is not
24 reflected in the theoret -- theoretical cost comparison
25 with the other proponents.

1 The Board, in fact, noted this advantage
2 to the previous ConocoPhillips contract in Order 65/'11
3 at page 23 stating:
4 "The Board also recognizes the
5 additional flexibility in the
6 ConocoPhillips contract that allowed
7 Centra to adjust its gas supply
8 portfolio to take advantage of
9 delivered service. That flexibility
10 was not embedded in the previous
11 Nexen supply contract."
12 Mr. Chairman, it is important to note
13 that the section -- selection of ConocoPhillips as the
14 successful proponent was the result of an analysis of
15 the information that was known at the time in 2009 when
16 Centra examined all proposals and subsequently
17 completed negotiations. It was a point-in-time
18 decision.
19 We know that after a decision is made,
20 market conditions change and circumstances transpire
21 which impair the meaningfulness of a theoretical
22 hindsight review. There are limitations inherent --
23 inherent in such a review.
24 The appropriate test for the Board to be
25 -- to apply is whether Centra's selection of the

1 proponent was reasonably prudent based on the
2 information that was known at the time of the
3 evaluation. From Centra's perspective, entering into a
4 contract with ConocoPhillips was the optimal choice, as
5 it provided the best combination of supplier and
6 proposal attributes resulting from the RFP process.
7 Centra's view is that the contract has
8 proven to be an excellent choice for Manitobans due to
9 ConocoPhillips's record of flawless supply as well as
10 the volumetric optionality that the contract afforded
11 Centra and its ratepayers.
12 Given that ConocoPhillips's contract was
13 a three (3) year arrangement, it expired on October
14 31st, 2012. With respect to the new commodities supply
15 arrangement that took effective on November 1st, 2012,
16 Centra issued a request for a proposal for Western
17 Canadian gas supply in April of 2012, and proposals
18 were received in May of 2012.
19 Centra identified a short list of
20 proposals based on established criteria and pursued
21 negotiations with those proponents. As a result of the
22 negotiations, a two (2) year contract was executed with
23 the successful proponent, ConocoPhillips.
24 Gas commenced flowing under the new
25 contract with ConocoPhillips effective November the

1st, 2012. The features of the new contract were described by Ms. Stewart at transcript page 62.

As indicated by Ms. Stewart at transcript page 63 and in Information Response PUB-Centra-91D, the forecast savings associated with the ConocoPhillips's contract for the 2012/'13 gas year relative to the other proponents ranged from three hundred thousand (300,000) to $1.2 million.

ConocoPhillips also received the highest score among the proponents with respect to both reliability and cost minimization. As Ms. Stewart testified at pages 449 and 450 of the transcript, reliability of supply is Centra's number 1 evaluation criteria. Centra gave credit where it was due on this factor based on ConocoPhillips's flawless performance during the previous three (3) year gas supply contract, including meeting Centra's challenging intra-day swing requirements.

At transcript page 1,604, CAC raised the concern that it would be very difficult to overcome the incumbent supplier of gas. It is useful to note, however, that as recently as 2009 Centra, did just that. Centra transitioned its Western Canadian supply contract from Nexen Marketing to ConocoPhillips, even though Nexen Marketing had performed flawlessly over

1 the period of time that it served Centra's supply
2 needs.
3 Centra's evaluation criteria and process
4 clearly provides the opportunity for a co --
5 combination of supplier and proposal attributes which
6 can overcome then incumben -- incumbent supplier of
7 gas.
8 In closing on the new supply agreement,
9 Centra conducted an open and fair process in requesting
10 proposals for market participants, evaluated all of the
11 qualifying proposals in accordance with the same
12 objective criteria, and ultimately selected
13 ConocoPhillips as the proponent which scored the
14 highest. The actual gas cost consequences of the
15 current supply agreement with ConocoPhillips will be
16 reviewed with the PUB in future cost-of-gas
17 proceedings.
18 Now, with respect to transportation
19 matters, as indicated during the proceedings, the
20 National Energy Board issued a decision respecting
21 TransCanada's restructuring proposal application on
22 March the 27th, 2013.
23 TransCanada made its compliance filing
24 on May the 1st, 2013, which included tolls to take
25 effect on July the 1st, two thir -- 2013, as well as a

1 Review and Vary Application which was subsequently
2 dismissed by the NEB in a letter issued June the 11th,
3 2013.
4 While the NEB ordered a reduction in
5 annual firm transportation tolls, the net results of
6 the toll and service changes for the 2012/'13 gas year
7 is uncertain. At transcript page 168, Centra
8 quantified the savings of the toll changes for the
9 remaining months of the gas year to be approximately
10 $1.5 million.
11 However, as discussed by Mr. Sanderson,
12 the $1 1/2 million amount was calculated leaving all
13 other variables unchanged. More detailed discussion
14 can be found on transcript pages 167 through 169 on
15 this topic.
16 As discussed by Ms. Stewart, the NEB's
17 decision resulted in the elimination of the risk
18 alleviation mechanism, or the acronym 'RAM', and
19 changes in rules that provide more flexibility to
20 TransCanada in the pricing of short-term or
21 discretionary services.
22 The impact that these changes may have
23 on the capacity level Centra requires and the
24 applicable tolls, as well as the impact on Centra's
25 opportunity to earn capacity management revenues,

1 remains to be seen. As such, it is premature to speak
2 of the impact that these changes may have on the
3 2012/'13 gas year costs.
4 We concur with CAC that the interim
5 tolls should remain in the rates with any additional
6 costs or benefits flowing to the PGVA -- PGVA account
7 accordingly for disposition at the next cost-of-gas
8 application.
9 On June 17th, 2013, TransCanada filed an
10 application with the NEB for approval of certain tariff
11 change proposals. Centra will participate in the
12 upcoming NEB hearing process and provide its position
13 on the proposed tariff amendments to the NEB in the
14 coming months.
15 Centra is of the view that firm shippers
16 on the mainline should continue to have access to
17 diversions in their current form to provide for the
18 opportunity to mitigate utilized demand charges,
19 particularly given the elimination of RAM and the fact
20 that Centra may need to hold more FT than it otherwise
21 would have as a result of the reason -- recent
22 decision.
23 Centra would like to clarify the
24 impression left by CAC at transcript page 1,610 that it
25 would only use any additional annual firm

1 transportation for which it may contract for in the
2 coming months for only two (2) or three (3) months in
3 the middle of the winter. In fact, new FT
4 transportation will be required by Centra for the
5 entire winter, as well as any of the shoulder months.
6 THE CHAIRPERSON: You said, "The impact
7 of changes in '12/'13." You meant '13/'14 remain to be
8 seen. Just a paragraph above that, when you talked
9 about the -- just --
10 MR. BRENT CZARNECKI: It -- Mr.
11 Chairman, it would include both '12 and '13 --
12 THE CHAIRPERSON: Okay.
13 MR. BRENT CZARNECKI: -- depending on
14 how the tolls are actually set and adjusted. Centra
15 would also like to reassure the Board that its
16 portfolio and supply plans are not unworkable, as was
17 suggested by CAC, and need not be abandoned. Centra's
18 portfolio includes its US transportation and storage
19 assets, as well as its Western Canadian supply contract
20 with ConocoPhillips, both of which are integral
21 components in serving the load in Manitoba.
22 There is no doubt that adaptions to
23 current strategies, as well as new approaches, will be
24 required by Centra given the new Mainline market
25 paradigm, however it plays out. The potential clearly

exists for higher Canadian transportation costs. Centra will continue to address these challenges and expects that the landed cost of gas for Manitobans will remain reasonable.

Now addressing capacity management. Centra's actual capacity management revenues, excluding carrying costs, totalled $5.3 million for the 2010/'11 gas year, as shown on Schedule 10.6.1, in Tab 10 of the application. This amount was $1.6 million less than the forecast amount of $6.9 million for that year. Centra's actual at-capacity management revenues, excluding carrying costs, for the 2011/'12 gas year totalled $6.4 million, as shown on Schedule 10.9.1 of Tab 10 of the application.

These amounts have been included in the transportation PGVA and form part of the balance for which Centra seeks final approval of, in order to incorporate these amounts into rates.

For the current 2012 gas year, Centra has forecast capacity management revenues at $6.3 million, based on the five (5) year rolling average of Centra's historic capacity management results. These forecast amounts have been included on Schedule 10.12.3(b), line 56, provided with the May 10th, 2013 update.

1 Due to the difficulty in forecasting
2 capacity management revenues, Centra uses the five (5)
3 year rolling average of actual capacity management
4 revenue as an estimate of the capacity managed --
5 management credit. This estimate is then embedded
6 prospectively in rach -- rates each year, in advance of
7 the realization of those revenues.
8 However, with the elimination of RAM
9 effective July 1st, 2013, and other potential
10 TransCanada tariff changes, Centra's opportunity to
11 generate capacity management revenues may be negatively
12 impacted. As discussed at transcript pages 99 and 100,
13 RAM constitutes the largest source of Centra's capacity
14 management revenues at $3.9 million for the 2010/'11
15 gas year, and $4.9 million for the 2011/'12 gas year.
16 As discussed further by Mr. Sanderson at
17 transcript pages 6 -- 176 and 177, under the new
18 Mainline market paradigm, the historic five (5) year
19 rolling average may no longer be an appropriate
20 representation of what Centra can achieve in capacity
21 management revenues going forward. Centra will monitor
22 the market conditions as they evolve and consider
23 whether any changes ought to be proposed in a
24 subsequent application to this Board.
25 Now, switching tracks to the cost

1 allocation and rates. In terms of cost allocation and
2 rates, Centra's proposed rates reflect a non-gas
3 revenue requirement of $154.5 million, non-primary gas
4 costs of $73.5 million, and a recovery on a net basis
5 of fourteen thousand (14,000) through various rate
6 riders, as found at Tab 15 of Centra's book of
7 documents.
8 Please note that the $154.5 million of
9 non-gas costs included in the cost allocation study
10 includes a $5.6 million annualized net income. The
11 proposed rates in this application reflect Centra's
12 changes in revenue requirement as previously discussed
13 by Ms. Boyd, changes in fo - the forecast of non-
14 primary gas costs for the setting of base rates, and
15 the establishment of several rate riders to accomplish
16 the recovery of certain types of deferred gas costs,
17 while refunding other types of deferred gas costs.
18 In addition to the changes to non-gas
19 revenue requirement, Centra is seeking approval of base
20 rates that reflect a new non-primary gas cost forecast.
21 Centra is proposing a reduction of approximately $19
22 million in its forecast of non-primary gas costs down
23 to $73.5 million.
24 The non-primary gas reduction relates to
25 an approximate $15 million reduction in the forecast of

1 supplemental gas costs and an approximate $4 million
2 reduction in the forecast of upstream transportation
3 costs, which is found at Schedule 10.12.4(b), filed as
4 part of the May 10th, 2013 cos -- cost of gas update.
5 Centra is not proposing to change the
6 primary gas rate in this Application. Centra will seek
7 approval of new primary gas rates for August 1st, 2013,
8 in accordance with the primary gas rate setting
9 methodology. That application will reflect the
10 proposed change in the overhead cost component of
11 primary gas addressed in this Application of eighty-
12 eight (88) cents per cubic metre, found at page 14 of
13 Tab 2 of the May 10th, 2013, cost of gas update.
14 Centra is also proposing to implement a
15 number of rate riders to recover on a net basis
16 approximately fourteen thousand (14,000) beginning Oct
17 -- August 1st, 2013. As identified at Tab 9 of the
18 Board's book of documents, this fourteen thousand
19 dollars ($14,000) is made up of:
20 1. A $10.5 million refund to customers
21 of the supplemental gas PGVA;
22 2. A $13.2 million recovery from
23 customers of the transportation PGVA, this PGVA relates
24 primarily to under-recoveries of upstream TransCanada
25 costs;

1 3. A $2.2 million refund to customers
2 of the distribution PGVA and;
3 4. An approximate half-million dollar
4 refund to customers of prior period gas cost and
5 heating value margin deferrals.
6 Now, the result of this General Rate
7 Application is that all rates will change with the
8 exception of the basic monthly charge for the SGS and
9 LGS customer classes, as referenced in Tak -- Tab 16 of
10 Centra's book of documents.
11 The level of rates is not only
12 influenced by changes in costs, but is also influenced
13 by changes in the forecasted number of customers and
14 changes in the forecast of consumption and demand for
15 each customer class. Rates represent the cost divided
16 by the number of units. Therefore, if either costs
17 change or the number of customers and forecast of
18 volume and demand changes, then so too will the rate.
19 The bill impact associated with the
20 change in supplemental gas rates is a good illustration
21 of this. While supplemental gas costs are forecasted
22 to decrease by approximately $15 million, supplemental
23 gas usage is forecast to decline in this Application.
24 As a result, lower costs divided by even lower volumes
25 result in a unit base rate that is actually higher than

1 the last approved supplemental gas base rate.
2 As Ms. Derksen outlined in cross-
3 examination with Mr. Peters at page 1,071 of the
4 transcript, and as found at Tab 28 of the Board's book
5 of documents, a 2 percent general revenue increase
6 cannot simply be added to each rate. It is important
7 to note that Centra does not allocate an incremental
8 increase in costs, rather it allocates the total
9 revenue requirement, which is made of increases in some
10 types of costs, and decreases in other types of costs,
11 and is also influenced by changes in load forecasts
12 from those currently embedded in rates.
13 The SGS class is Centra's largest
14 customer class in that it represents 97 percent of
15 Centra's customers and more than a third (1/3) of the
16 total annual volumes, and consists of not only of
17 residential customers but also small commercial
18 customers as well. As Mr. Barnlund stated at page
19 1,091 of the transcript, they have a low load factor in
20 that they have very low consumption in the summertime
21 and a very high consumption in the wintertime.
22 In this Application the SGS classes bill
23 impact of 2.6 percent results from base rate impacts
24 related to the average non-gas increase of
25 approximately 2 percent, an increase in supplemental

1 gas base rates, and rate rider impacts related to the
2 recovery of transportation PGVA amounts. This is
3 slightly offset by the supplemental gas PGVA refund and
4 a reduction in forecast upstream transportation costs.
5 The LGS class is made up of
6 approximately seven thousand eight hundred (7,800)
7 customers, while there are approximately a hundred and
8 fifty (15) customers in the High-Volume Firm, Mainline,
9 Interruptible, Special Contract, and Power Station
10 class. These customer classes will almost all
11 experience overall decreases to their bills, assuming
12 this application is approved as filed. The individual
13 rate changes can be quite variable given that there are
14 relatively few customers and the relatively greater
15 variability of usage and demand between customers.
16 From a base rate impact perspective,
17 some of the larger volume customer classes allocation
18 of the general revenue -- revenue increase, including
19 increases in OM&A, net income, and DSM expense, is
20 offset by the reduction in property taxes, fina --
21 finance expense, depreciation expense, upstream
22 transportation costs, and unaccounted-for gas.
23 From a billed rate impact perspective,
24 these larger volume customer classes make more
25 efficient use of Centra's upstream transportation

1 assets due to their higher annual load factor compared
2 to the smaller volume customers, which means that fewer
3 transportation costs are allocated to these larger
4 classes.
5 These customer classes will collectively
6 be responsible for less of the recovery of the
7 transportation PGVA, and due to their higher volumetric
8 consumption stand to be refunded amounts of other
9 PGVAs, including heating value, distribution, and
10 supplemental gas.
11 In this application, Centra modified its
12 allocation process related to DSM amortization expense.
13 Centra continues to assign DSM amortization expense,
14 which is forecast at $7.2 million, on the basis of
15 anticipated forecast for each customer class.
16 Centra has assigned the cost differently
17 so that those costs flow through the variable
18 distribution to Centra rates rather than through the
19 basic monthly charge. There is no impact to the SGS
20 and LGS customer classes as a result of this change as
21 these costs flow through the variable distribution to
22 Centra rates because of -- the basic monthly charge is
23 set independently.
24 However, for the larger volume customer
25 classes these costs will now be recovered

1 volumetrically from each customer within a class rather
2 than through a fixed, monthly, per-customer charge that
3 does not vary with consumption. The larger volume
4 customers stand to benefit to a greater extent from DSM
5 opportunities, and, therefore, DSM costs recovered
6 volumetrically will align more directly with its cost
7 recovery.
8 As noted in the transcript at pages
9 1,039 and 1,040, the impact of this change in concert
10 with all other changes in this application result in
11 relatively neg -- negligible bill impacts to the
12 customers subject to this change.
13 Turning to the discussion of the power
14 station class. In this application, Centra has
15 allocated approximately three hundred and eighty-nine
16 thousand dollars ($389,000) to the power station class
17 which reflects their allocated portion of Centra's
18 proposed revenue requirement. This allocation is based
19 on a forecast of their usage and demand for the
20 2013/'14 test period.
21 The revenue requirement allocated to
22 this class has declined compared to what is currently
23 reflected in rates due to a number of factors,
24 including a decline in usage on the peak day which
25 results in few transmission demand related costs

1 allocated to them; a reduction in property taxes
2 overall and, therefore, less cost allocated to this
3 class; a reduction in depreciation expense; and a
4 reduction in UFG costs, which means fewer costs
5 allocated to this class. These reductions are
6 partially offset by an increase in the allocation of
7 net income to this class.
8 Separate and apart from the revenue
9 requirement allocated to this class, the power stations
10 are also contractually obligated to pay Centra a
11 minimum margin guarantee. The power station contracts
12 were previously approved by the PUB in Order 118/'03.
13 This minimum margin amount was determined as the
14 revenue to be collected to secure the level of
15 contribution from this class in 2003, when the
16 feasibility for natural gas extension was being
17 evaluated.
18 Now, CAC has argued at page 1,647 of the
19 transcript that Centra's revenue requirement be reduced
20 by approximately six hundred and eighty-three thousand
21 dollars ($683,000). It is premature to order any such
22 treatment because we do not know what actual revenue
23 will be generated by the power stations for the
24 upcoming year.
25 Furthermore, and in accordance with the

1 contracts, there is an ex -- is an impending true-up to
2 be completed that will consider the revenues and cost
3 experienced over the ten (10) year period of the true-
4 up to determine what, if any, refunds are owing to the
5 power stations or whether additional monies may be
6 owing to Centra from the power stations at the time of
7 the true-up.
8 In Centra's view, a determination on
9 this matter should be made after the final true-up is
10 completed once all of this relevant information is
11 known.
12 Centra is also seeking approval of a new
13 fixed rate primary gas rate service program cost rate
14 of three point one-four (3.14) cents per cubic metre,
15 which is found at Schedule 11.1.2 of Centra's May 10th
16 cost of gas update.
17 This program cost rate has been
18 allocated two hundred and forty-three thousand dollars
19 ($243,000) which relates to Centra's expectations of
20 the costs to be incurred in providing this service in
21 the test year for marketing, call centre, gas supply,
22 IT, gas accounting, regulatory program costs, as well
23 as the unamortized regulatory and startup costs.
24 As Ms. Derksen testified at page 1,103,
25 those forecasted costs have been allocated to the

1 program based on last year's budget, actual results of
2 the internal cost of providing that service, and also
3 based on, as Mr. Barnlund testified to at page 1,102,
4 Centra's expectations that the ongoing regulatory costs
5 associated with the service will be minimal.
6 Before I move on to address other
7 approvals sought by Centra, I'd like to briefly discuss
8 weather normalization and how it fits into the rate-
9 setting process.
10 Centra's natural gas volume forecast is
11 developed using normal weather conditions. For
12 financial business planning and rate-making purposes,
13 it is necessary to prepare forecasts based upon normal
14 or average weather conditions. Of course we know that
15 weather is seldom normal, and therefore extremes in
16 Manitoba's weather can lead to swings in Centra's
17 actual revenue.
18 The Board may recall that in its
19 2011/'12 cost of gas application Centra proposed a
20 change in its methodology used to determine normal
21 weather for forecasting purposes. Centra proposed to
22 calculate normal weather degree days heating, or DDH,
23 using a twenty-five (25) year average instead of using
24 a ten (20) year average as had been previously used.
25 In its finding on page 54 of Order

1 65/'11 the PUB stated:

2 "Because each methodology captures
3 the warming trends, the Board has no
4 objection to Centra switching to the
5 twenty-five (25) year average. The
6 Board agrees that stability in the
7 annual weather normal DDH, and thus
8 annual load forecast, is desirable
9 and, therefore, approve Centra's
10 application to adjust its methodology
11 for calculating the weather normal
12 DDH."

13 At transcript page 581, Mr. Barnlund
14 indicated that:

15 "Centra manages its business on a
16 cost of service basis and as such the
17 Corporation's financial objectives
18 focus on a longer-term horizon. The
19 move to a weather normalization
20 methodology that provides greater
21 stability in the volume forecast is a
22 better fit for the Corporation as it
23 will reduce volatility in the revenue
24 forecast."

25 The graph provided at Tab 16, page 69 of

1 the PUB's book of documents, demonstrates that the
2 twenty-five year average methodology smooths the
3 forecast of normal weather compared to the ten (10)
4 year average method. The twenty-five (25) year rolling
5 average methodology provides a good overall balance
6 between reducing volatility and achieving accuracy.
7 At transcript page 592, Mr. Chairman,
8 you inquired what impact the forecast of higher volumes
9 would have on the rate requested in this Application.
10 Generally, the use of the twenty-five (25) year method
11 would result in a higher forecast of DDH, that is
12 colder than normal weather, than the ten (10) year
13 average and, correspondingly, higher natural gas volume
14 forecast. Higher forecast volumes, all else being
15 equal, would result in lower rates. If actual volumes
16 are lower than expected Centra will generate less
17 revenue.
18 So, Mr. Chairman, if your concern was
19 that Centra was disadvanting -- disadvantaging the
20 ratepayer financially by moving to the twenty-five (25)
21 year rolling average, that is not the case. The
22 slightly higher volume forecast means that the unit
23 rate for gas will be lower.
24 Now switching tracks to other approvals
25 sought by Centra in this Application. With respect to

1 Centra's fixed rate primary gas service, or the acronym
2 FRPGS, Centra seeks approval of a new rate-setting
3 methodology that incorporates a self-insurance premium
4 instead of the use of financial derivative instruments
5 to manage price risk.
6 In the summer of 2011, Centra was
7 informed by its financial counterparties that they
8 would refuse to continue to engage in derivative
9 transactions on the small volumes that had been
10 characteristic of this program.
11 Centra sought and received approval from
12 the PUB to employ a proxy rate-setting methodology for
13 the fixed rate primary gas service offerings for
14 November 1st, 2011, and all subsequent offerings until
15 such time as Centra filed an application with the PUB
16 for an alternative rate-setting methodology.
17 Under the proposed methodology, Centra
18 would calcuwa -- calculate a forecasted weighted
19 average cost of primary gas, or WACoG, for each
20 contract term being offered, as is shown in Tab 13 of
21 this application on pages 7 and 8. This WACOG would
22 incorporate the forecast effects of storage withdrawals
23 on the average cost, and allowance for costs from the
24 AECO 'C' hub to Empress, and the cost of compressor
25 fuel in the TransCanada Mainline.

1 In addition, an 8 percent risk premium
2 is added to determine the commodity price for the RSM
3 calculation. The approved program cost rate will then
4 be incorporated to determine the billed rate to be
5 charged to customers for each contract term.
6 As discussed by Mr. Sanderson at
7 transcript pages 60 and 61, the process to determine
8 the 8 percent self-insurance risk premium involved
9 conducting randomized market simulation studies in
10 order to determine the estimated ranges of financial
11 results that would have been experienced over the
12 historical period of May 2000 through March 2011, the
13 assumed -- range of very different -- under a range of
14 very different self-insurance risk premiums.
15 The study results led Centra to conclude
16 that a self-insurance risk premium of 8 percent would
17 be appropriate, given that it would be -- given that it
18 would have generated a positive, cumulative realized
19 risk margin in approximately 51 percent of the months
20 during the period studied, while also being
21 sufficiently robust to manage the risks associated with
22 the sustained upward market price volatility --
23 volatility experienced over the 2000 through to 2005
24 historical period.
25 In addition to the inclusion of the

1 self-insurance risk premium, Centra has established a
2 series of measures to manage risk as discussed at pages
3 9 to 11 of Tab 13 of the application.
4 Centra will review the program when
5 certain preset thresholds are reached. This review
6 would be undertaken in order to determine whether new
7 customer enrollments should be accepted or whether a
8 moratorium on new enrollment would be merited. In the
9 event that such a review is triggered, Centra would
10 examine the situation and report to the Board as to its
11 intended course of action.
12 Centra's proposal has been supported by
13 CAC, and has not been contested by any Intervenor in
14 this proceeding. As such, Centra requests the Board's
15 approval to implement this proposal for Centra's next
16 offering, to be marketed as early as August of 2013.
17 Centra is seeking approval to vary
18 Directive 8 of Order 95/'00, requiring the pre-approval
19 of feasibility tests for attachments greater than 500
20 metres in the RMs of Bifrost and Woodlands. The
21 removal of this directive would allow Centra to treat
22 all main extensions over 500 metres consistently across
23 all of Centra's franchise areas. Centra will continue
24 to file feasibility studies for all main extensions
25 over 500 metres on a post-facto basis in conjunction

1 with subsequent GRAs, as testified to at transcript
2 pages 567 and 568.
3 At this point I would like to address
4 matters associated with two (2) PUB directives:
5 Directive 11 of Order 128/'09, requiring Centra to file
6 a terms-of-reference for a study to review the
7 integrated cost allocation methodology; and the
8 requirement flowing from Orders 99/'07 and 128/'09,
9 that no incremental costs are to be allocated to Centra
10 related to the corporate head office.
11 First, the allocation of costs between
12 Centra and Manitoba Hydro. Centra acknowledges that
13 the PUB has directed that the cost allocation
14 methodology undergo an objective review. As noted by
15 Mr. Rainkie at transcript pages 709 and 710, Centra is
16 of the view that it would be appropriate at this
17 juncture to implement IFRS and review the current cost
18 allocation methodology with a view to simplifying the
19 methodology prior to reviewing the matter further with
20 the PUB and Intervenors.
21 As indicated by Centra during the
22 hearing, rather than engaging in an external review of
23 the methodology, which could result in substantial
24 costs, Centra believes that the intent of this
25 directive could be addressed by way of a collaborative

1 process in order to achieve a better understanding of
2 the issues among stakeholders.
3 As noted by Mr. Rainkie at transcript
4 pages 796 through 800, Centra would like to engage in
5 more collaborative processes with the PUB and
6 Intervenors to address technical matters, in an attempt
7 to achieve a better understanding of the issues by all
8 parties and improve the overall efficiency of the
9 regulatory process. Such a process may include
10 workshops to assist all parties in understanding the
11 issues and participant's positions on these matters
12 through informal presentations and discussions.
13 Centra notes that such processes are
14 extensively used in other jurisdictions. And in
15 Manitoba a collaborative process was successfully used
16 by the PUB in 1999 with regards to matters arising from
17 an application by Centra for approval of the Western
18 Transportation Service.
19 In its closing submission at pages 1,644
20 and 1,645 of the transcript CAC indicates that it's --
21 it is supportive of eng -- of engaging in a
22 collaborative process to satisfy this directive, but
23 owing to the passage of time is recommending to the PUB
24 that it start this process now. Centra appreciates CNC
25 -- CAC's endorsement of an alter -- alternate and less

1 adversarial approach to this directive. However, CAC's
2 suggestion with respect to timing is problematic.
3 The crux of Mr. Rainkie's proposition on
4 this issue is to first simplify the integrated cost
5 allocation methodology to make it more understandable
6 to the PUB and to other stakeholders. This
7 simplification also requiles -- requires final
8 decisions with respect to overhead capitalization
9 practices under IFRS, which is going to require a
10 significant effort on the part of the Corporation prior
11 to 2015 and '16.
12 To engage in a collaborative review
13 before the Corporation has these critical elements in
14 place will only result in an inefficient and frustrated
15 process that will put us back in the very situation
16 that resulted in the directive in the first place.
17 Centra remains confident that at this
18 time its methodology is sound and continues to produce
19 reasonable and accurate cost allocations, such that the
20 cost for each utility are appropriate. As such, there
21 is no urgency to review this methodology immediately as
22 suggested by CAC.
23 Regarding the directive pertaining to
24 the allocation of head office costs to Centra, as noted
25 in its closing argument in the 2009/'10 and 2010/'11

1 GRA, and in response to IR PUB/Centra-122B filed in
2 this proceeding, Centra suggests that it is not
3 appropriate to continue to treat the costs associated
4 with Manitoba Hydro's downtown head office differently
5 than other costs incurred by the Corporation.
6 Centra and Manitoba Hydro operate as an
7 integrated utility. They share employees, office
8 space, and allocate the costs fairly between them. The
9 lease of Centra's former office space in downtown
10 Winnipeg expired in January of 2009. To continue to
11 presume that Centra would not have faced different and
12 higher costs indefinitely into the future ignores
13 reality and, in effect, results in Manitoba Hydro
14 ratepayers paying a portion of costs which should be
15 properly allocated to Centra ratepayers.
16 Centra therefore respectfully requests
17 that the PU -- PUB provide direction in the order
18 flowing from this proceeding that will permit the
19 Corporation to treat the costs of the head office as it
20 does all other costs, and to allocate them fairly among
21 gas and electric ratepayers.
22 Now, moving to changes to customer
23 equipment problem program and third-party damages. In
24 addition to responding to customer calls regarding
25 safety-related matters, Centra has also provided

1 customers with a level of in-rates appliance service
2 under the customer equipment problem program.
3 Centra is applying to modify the terms
4 of the customer program to focus on providing service
5 to residential and commercial customers, primary space
6 and water heating equipment, as well as appliance
7 considered fundamental to a customer's safety and well-
8 being. Centra will continue to respond to any and all
9 safety-related concerns a customer may experience
10 regardless of the type of natural-gas-burning equipment
11 involved.
12 Centra is proposing to discontinue
13 servints -- service of all appliances such as
14 fireplaces, clothes dryers, pool heaters, and
15 barbeques. In the event that a customer calls Centra
16 about service for one (1) of these appliances, Centra
17 would advise the customer to contact a heating dealer
18 of their own choice to perform this work.
19 As discussed by Mr. Prydun at transcript
20 page 988, the variety and complexity of non-primary
21 natural gas appliances continues to grow, which puts
22 pressures on Centra's ability to train field employees
23 to competently service these appliances, resulting in
24 an upward trend in training costs.
25 As shown in the response to PUB/Centra-

1130 on page 2, the number of customer calls received for this type of service on non-primary appliances has declined over the past five (5) years. In the 2007/'08 fiscal year, non-primary appliance calls represented about 10 percent of the total service calls made while in the last fiscal year this had dropped to approximately 7 percent.

While the percentage of calls in this category is relatively small, Centra's preference is to focus its efforts on higher priority safety matters and have customers rely on the heating-dealer community to provide service to those non-primary appliances.

This proposal will allow Centra to target its core business by providing service to the residential and commercial customers, primary space and water heating equipment with a focus towards customer safety, well being, and health.

As no -- noted in Tab 14 of the application, Centra is also seeking approval of company labour rates for chargeable services. The proposed company labour rates are listed in Appendix 14.3 of the application and, if approved, will form Appendix B of Centra's terms of conditions of service.

In previous GRA applications Centra has received approval for company labour rates for service

1 line alterations, metering services, gas pipeline
2 operational services, and damage repairs. In addition
3 to revising these rates Centra is also seeking approval
4 to introduce three (3) new chargeable services, namely
5 damage investigation, appliance re-lights associated
6 with third-party damages and as-built plans.
7
8 Centra has used internal activity in
9 over rates -- overhead rates to calculate company
10 labour rates for third-party billings. Due to changes
11 in Centra's overhead capitalization policies, some cost
12 components have been eliminated from common overhead.
13 To appropriately recover the costs incur
14 -- incurred in providing the service, the Utility has
15 included a provision in the calculation of the company
16 labour rates to reflect the same costs that were
17 included in previously approved rates. The proposed
18 company labour rates for service line alterations,
19 metering services, and gas pipeline operational
20 services have been updated to reflect the cost and cost
21 drivers forecast for the 2013/'14 test year.
22 With respect to damage repairs, Centra
23 is seeking approval of a revised rate for damage repair
24 activities. The current approved damage repair rates
25 vary by district in Manitoba. Centra proposes that the

1 activity rates for damage repairs be unified to a
2 single rate for all service areas.
3 The application of a single province-
4 wide rate is consistent with Centra's other chargeable
5 services and reflects the Corporation's policy that, to
6 the extent possible, similar customers should pay the
7 same rate for similar services.
8 Centra is also seeking approval of rates
9 for plant damage investigations and customer appliance
10 re-lights occurring when service is interrupted due to
11 damages to Centra's plant. The largest component of
12 reported damages is related to third-party damages. It
13 is, therefore, important to continue to encourage
14 professional contractors to avoid damaging Centra's
15 facilities by adhering to safe excavation practices.
16 Currently, a contractor that damages
17 Centra's plant is charged for the cost of materials and
18 the cost of gas lost during the incident. The
19 contractor is also charged for the labour to repair the
20 damage at the damage repairs chargeable service rate.
21 However, Centra may incur additional
22 costs to investigate, document, assess, and report on
23 the in -- incident and to re-light customer appliances
24 when gas service is interrupted by an outage. At the
25 present time, the cost of incident investigation and

1 customer appliance re-lights are borne by the Utility.
2 Centra is proposing two (2) new activity
3 rates to recover these costs directly from the party
4 responsible for the damage incident. This cost
5 recovery would provide added incentive to excavators to
6 adhere to safety practices by increasing the direct
7 financial consequences of improper excavation
8 practices.
9 Centra is requesting approval of a new
10 labour rate for the supply of as-built plans to
11 requesting municipalities. Centra will provide
12 municipalities with up to two (2) complete sets of as-
13 built drawings of the existing gas infrastructure, free
14 of charge, in any twelve (12) month period.
15 In Order 159/'11, the PUB directed that
16 a municipality seeking to obtain more than two (2)
17 complete as-built plans in any twelve (12) month period
18 would be allowed to do so but would be required to pay
19 PUB-approved rates for the provision of additional as-
20 built plans within that twelve (12) month period. The
21 proposed activity rate for as-built plans is provided
22 in Appendix 14.3 of the application.
23 Lastly on -- in this section, Centra is
24 also seeking approval of a series of interim orders
25 relating to primary gas sales rates and franchise

1 agreements and feasability tests. These were
2 enumerated in Mr. Barnlund's direct evidence and are
3 also listed at Tab 1 of Centra's book of documents.
4 Now switching tracks, Mr. Chairman and
5 Board members, to the issues related to Centra's
6 demand-side management program, or DSM.
7 The Corporation's DSM initiative, Power
8 Smart, consists of energy conservation and load-
9 management activities designed to meet the energy needs
10 of Manitobas -- of -- of Manitobans in a more
11 sustainable manner while assisting customers to use
12 more energy efficient measures to reduce their energy
13 bills.
14 The Corporation has a strong commitment
15 to DSM, with a focus on pursuing all cost-effective
16 energy efficient opportunities while continually
17 monitoring the marketing -- the market for emerging
18 trends and opportunities. Such initiatives enable
19 Centra to serve domestic customers with less energy
20 based on reduced domestic load requirements, which
21 results in a reduction in the volume of greenhouse gas
22 emissions produced through the use of natural gas.
23 The Corporation has been aggressively
24 pursuing natural gas efficiency for a number of years.
25 To date, Centra's investment in natural gas

1 conservation has been significant, with over $100
2 million spent in fiscal year ending March 31st of 2013.
3 These investments have assisted
4 participating customers in reducing their natural gas
5 needs by 84 million cubic metres annually, resulting in
6 over $142 million in bill reductions annually for
7 participating customers.
8 Centra remains committed to pursuing
9 economic ener -- energy efficiency opportunities in the
10 future and has filed its 2013 through to 2016 Power
11 Smart Plan, which outlines the Corporation's plans over
12 the next three (3) years.
13 A number of natural gas energy efficient
14 -- efficiency initiatives are offered as part of the
15 Power Smart program, including but not limited to
16 Centra's Commercial Boiler Program, the Home Insulation
17 Program, the Water and Energy Saver Program, the
18 Commercial Building Envelope Program, the Industrial
19 Natural Gas Optimization Program, and the Lower Income
20 Energy Efficiency Program, or what we refer to as
21 LIEEP.
22 LIEEP includes the installation of low-
23 cost measures at no cost to participants, the
24 opportunity to upgrade the customer's furnace to a
25 high-efficiency furnace at a considerable discount to

1 the actual cost, and free insulation upgrades. The
2 component related to the furnaces is also referred to
3 as the Furnace Replacement Program, or FRP.
4 Through the LIEEP, a certified energy
5 advisor conducts a pre-inspection of the home to
6 determine what opportunities might be available for
7 qual -- for a qualifying customer. At the conclusion
8 of the pre-inspection, the energy service advisor
9 provides the low-income customers with a report clearly
10 indicating what measures are eligible for installation
11 under the LIEEP program.
12 As of March 31st, 2013, LIEEP has
13 assisted six thousand six hundred and sixteen (6,616)
14 customers -- and this number is opposed to the
15 incorrect number of six thousand one hundred and sixty-
16 six (6,166) cited at transcript page 52 -- in approving
17 those customers' energy efficiency and comfort of their
18 homes through four thousand seven hundred and thirty-
19 seven (4,737) free installation upgrades and two
20 thousand five hundred and twenty-five (2,525) high-
21 efficiency natural gas furnace replacements under the
22 FRP.
23 Launched in 2007, the program has been
24 very well received and was subsequently featured in
25 Chartwells's best practices summit in April of 2009.

1 Dunsky Engineering Consulting also classified this
2 program as a leader in the review of the Corporation's
3 Power Smart portfolio in 2009. Feedback from customers
4 has been very positive, with many indicating high
5 levels of satisfaction.
6 As Ms. Morrison testified at transcript
7 page 53:
8 "Because of the unique barriers to
9 participation in this demographic,
10 LIEEP is delivered through a multi-
11 pronged approach, which includes
12 participation directly through
13 Manitoba Hydro, participation through
14 community and neighbourhood
15 initiatives, and through a customized
16 First Nations approach."
17 The program continues to evolve,
18 building on community networks and partnerships to
19 expand the reach within this hard-to-reach market
20 sector. The recent introduction of the Power Smart
21 neighbourhood approach in November of 2012 is expected
22 to further increase customer awareness and
23 participation, although it is clear that the community-
24 led initiatives will need time to mature.
25 CAC presented the evidence of Mr. Gerald

1 Oppenheim to comment on Centra's low-income DSM
2 programs. You will recall -- you will recall that
3 Centra raised concerns with respect to Mr. Oppenheim's
4 qualifications, which concerns are found at pages 1,439
5 and 1,440 of the transcript.
6 It is clear that Mr. Oppenheim is a
7 long-standing advocate and activist in the general
8 arena of consumer and low-income issues, almost
9 exclusively within the borders of the United States.
10 He lacks the ability to see with an independent expert
11 lens and has virtually no direct experience in Canada.
12 He is not an expert in the regulation and
13 implementation of public utility Low Income Energy
14 Efficiency Programs in Canadas -- in Canada. There is
15 a sig -- there are significant differences between the
16 United States and Canada on these issues.
17 I remind you that in the late evening
18 prior to the day Mr. Oppenheim's pre-filed written
19 evidence was to be submitted, and two (2) pri -- two
20 (2) nights prior to when his evidence was actually
21 fired -- filed, Mr. Oppenheim sent a general email
22 query to his counterparts, searching for Canadian
23 content, asking for links to websites as, and I quote:
24 "Experience in Canada would obviously
25 be more relevant to cite than the

1 experience down here in the US."
2 End quote. Now, what to make of this?
3 Again, firstly, Centra submits Mr. Oppenheim lacks
4 knowledge and expertise in Canada. Secondly, his US
5 experience is not specifically relevant or applicable
6 to the unique situation we have in Manitoba.
7 As Mr. Oppenheim acknowledged, "every
8 place is different," even noting that:
9 "Arkansas, in many ways, could not be
10 more different than Massachusetts."
11 Likewise, Centra submits that Manitoba
12 could not be more different than Massachusetts, where
13 Mr. Oppenheim's general experience is primarily rooted.
14 As such, the general comparisons or lessons that he
15 attempts to have you take from his experience at LEAN,
16 including the formation of an external agency, have
17 very little, if any, relevance to Centra's unique
18 situation of being a wholly owned subsidiary of a Crown
19 agency energy provider here in Manitoba.
20 Due to his lack of expertise, Centra
21 submits that the Board should afford very little, if
22 any, weight to the evidence he provided in this
23 proceeding, which was ultimately relied upon by CAC in
24 making their recommendations as part of Mr. Masi's
25 closing submission. We urge the Board to be very

1 mindful of these limitations as it deliberates on these
2 DSM matters. You should not be persuaded by Mr.
3 Oppenheim.
4 I do not intend on reviewing Centra's
5 position on each of Mr. Oppenheim's recommendations, as
6 contained in Centra's rebuttal evidence, which is found
7 at his Centra Exhibit 4-2 of the record, and as
8 addressed by Mr. Kuczek and Ms. Morrison in oral
9 testimody -- in testimony, sorry. Instead, I will
10 briefly touch upon the specific recommendations made by
11 CAC as part of its closing submission.
12 After brief credit was given by Mr. Masi
13 to Centra for its LIEEP and FRP program, the remainder
14 of his submission was based upon the so-called
15 "sluggish pace" of Centra's LIEEP and FRP program.
16 However, and surprisingly, the issue of cost
17 effectiveness was absent from CAC's submission on these
18 matters.
19 Before addressing CAC's recommendations,
20 it is important to pause and reflect upon Centra and
21 the Board's obligation to consider both the success of
22 the LIEEP and FRP programs, and the overall cost
23 effectiveness of those programs. Increasing
24 participation in these programs, or any DSM program for
25 that matter, should not come at any cost. The dollars

1 funding the LIEEP and FRP are ratepayer dollars, and
2 Centra and the Board have an obligation to ensure these
3 funds are spent in a fiscally responsible manner.
4 Making changes to the LIEEP or FRP
5 programs based solely on the objective to increase the
6 pace of participation, without regard for cost
7 effectiveness, is fiscally irresponsible. Ironically,
8 one (1) of the fundamental principles of CAC's
9 interventions, as Centra understands them, is cost
10 effectiveness.
11 For unknown reasons, it appears CAC has
12 abandoned the cost effectiveness principle with its
13 recommendations pertaining to the LIEEP and FRP
14 program. Mr. Oppenheim's recommendations are more
15 consistent with those of an advocate and activist in
16 the general area of low-income issues, without regard
17 to cost effectiveness -- to -- to the principle of cost
18 effectiveness.
19 The evidence demonstrates that Centra
20 has and continues to aggressively pursue the lower-
21 income market. It must be recognized that this market
22 is hard to reach, and in some cases may be impossible
23 to reach, as the evidence notes that some customers
24 will simply refuse to participate. In an effort to
25 address this barrier, Centra has undertaken extensive

1 efforts to encourage participation through partnerships
2 with community and neighbourhood groups, and with
3 extensive marketing efforts.
4 As stated by Mr. Kuczek at transcript
5 page 499:
6 "We're never satisfied that we're
7 doing all we can. We're always
8 looking to do more, in terms of
9 making improvements. And I think we
10 have evidence to demonstrate that
11 within -- and I think we have
12 evidence to demonstrate that within
13 the Lower Income Program."
14 Although the awareness levels of LIEEP
15 and FRP, are high at approximately 76 percent, as is
16 indicated in the FRP/LIEEP report for the third quarter
17 of 2012/'13, filed as attachment to PUB/Centra-159B,
18 Centra is continuously looking for ways to increase
19 participation in the LIEEP Program.
20 Centra disagrees with Mr. Oppenheim's
21 assertion that there is no commitment by Centra to
22 successfully deliver the LIEEP and FRP. Centra has
23 undertaken extensive efforts to increase participation
24 through the use of marketing efforts and program
25 partners, as evidenced in Centra's response to

1 CAC/Centra-120B. These include copies of the extensive
2 and diverse marketing materials that have been used in
3 developing -- developed in promoting LIEEP. In
4 addition, the Corporation is leveraging community
5 organizations and partnerships in efforts to further
6 increase participation in LIEEP.
7 Now, as a result of CAC's concern with
8 the pace of the program, it recommends a radical
9 approach of searching for an external energy efficiency
10 agency to deliver and implement the LIEEP program,
11 including the FRP in Manitoba.
12 Centra strongly disagrees with this
13 recommendation, as it is not based on sound rationale
14 or any detailed assessment and would result in an
15 inefficient and uneconomic delivery model. Again, this
16 position simply adopts a recommendation of Mr.
17 Oppenheim, who has a very limited knowledge of Manitoba
18 and the success of the Power Smart efforts in the
19 province.
20 Manitoba Hydro and the government have
21 already reviewed the merits of creating a separate
22 agency to deliver all of the energy efficiency
23 programming in Manitoba. Based on this review, it was
24 concluded energy efficiency programming is best
25 delivered through Manitoba Hydro. This finding is

1 referenced at pages 493 and 494 of the transcript.
2 Specific to the LIEEP, Mr. Oppenheim's
3 recommendation seems to ignore the merits of Centra's
4 multi-prong delivery model, which is expected to
5 capture the same benefits Mr. Oppenheim suggests come
6 with contracting the LIEEP to an external community
7 agency. In fact, Centra's multi-prong delivery model
8 captures both those benefits and the synergies
9 associated with delivering the program through the
10 utility.
11 Centra currently works with the Brandon
12 Neighbourhood Renewal Corporation, the Northend
13 Community Renewal Corporation, and will be seeking to
14 expand these partnerships to offer community and
15 neighbourhood groups. As testified by Mr. Kuczek at
16 transcript pages 21 through 24, Centra recognizes the
17 value in engaging with community groups to further
18 reach this hard-to-reach market and will continue to do
19 so.
20 During his cross-examination, Mr.
21 Oppenheim was unable to identify any community group
22 capable of operating a program such as LIEEP or FRP in
23 Manitoba. Instead, Mr. Oppenheim, and now CAC, at
24 transcript page 1,502 recommend that Centra issue an
25 RFP to allow smaller organizations to get together to

1 offer a bid. There are a number of reasons why this is
2 ill advised, including the fact that Centra has a much
3 simpler structure than what exists at LEAN and within
4 Massachusetts, as found at transcript pages 1,492.
5 To follow through on such a
6 recommendation would be a complete duplication of
7 effort and resources, as well as a source of potential
8 confusion for participants to run the Centra program in
9 parallel with a new program while it ramps up, as
10 recommended by CAC at transcript pages 1,479 and 1,458.
11 Mr. Oppenheim's evidence is inconsistent
12 as he states that his model would require few resources
13 from the Utility. However, he then goes on to state
14 that the organizations would require planning grants
15 and that this initiative would require enormous effort,
16 as contained at transcript page 1,456.
17 Now, importantly, CAC recommends that
18 the Board oversees the contractual arrangement with the
19 separate community-based energy efficiency agent --
20 agency to implement the lower-income programs.
21 It should be noted that the Public
22 Utilities Board Act does not provide the PUB with the
23 power to control, direct, or enforce the activities of
24 such a community agency. As such, Centra is very
25 concerned that this would vest a significant amount of

1 ratepayer dollars in the hands of an unregulated
2 agency.
3 For all these reasons, CAC's
4 recommendation for the creation of an external energy
5 efficiency agency should not be adopted by the Board.
6 Now turning to CAC's recommendation to
7 reduce the customer co-payment by half. There has been
8 no evidence adduced by CAC that decreasing the co-
9 payment would meaningfully increase participation in
10 FRP. Further, this recommendation ignores any
11 consideration for the cost effectiveness of increasing
12 the incentive, and as such Centra does not support this
13 recommendation.
14 Mr. Oppenheim is wrong in his assertion
15 at transcript page 1,532 that there is no benefit to
16 the customer until year 6 of the program. In fact,
17 customers receive an immediate benefit of a high
18 efficient natural gas furnace at a discounted cost of
19 one thousand one hundred and forty dollars ($1,140) at
20 the nineteen dollar ($19) per month over five (5) year
21 charge. This immediate benefit is the avoided cost of
22 a furnace upgrade of approximately four thousand
23 dollars ($4,000), as noted in Mr. Kuczek's testimony at
24 transcript page 267, or financing it through a
25 financial institution. Furthermore, the nineteen

1 dollar ($19) a month payment is offset by the lower
2 energy bills which continue for the life of the
3 furnace.
4 CAC's recommendation has no regard for
5 cost effectiveness, especially considering that the
6 levelized utility cost of the conserved energy through
7 FRP is over one hundred (100) cents per cubic metre.
8 Centra simply cannot support further increasing the
9 levelized costs of the FRP program.
10 By comparison, and as an order of
11 magnitude for the Board, the cost of primary gas,
12 including transportation and delivery costs, is
13 approximately thirty-three (33) cents per cubic metre.
14 In other words, the levelized costs of the conserved
15 energy through the FRP is three (3) times the delivered
16 cost of gas to the customer.
17 CAC also states that the only reliable
18 method to determine the baseline insulation levels is
19 to complete a physical survey of a sampling of
20 insulation conditions and recommends at transcript page
21 1,710 that the Board requires Centra to hire an
22 independent engineering contractor to conducting a
23 physical survey of the present condition of lower
24 income household insulation. This recommendation is
25 again made without balancing the incremental value of

1 this information against the substantial costs which
2 would be incurred to obtain a statistically
3 representative sample from across the province.
4 In terms of value, Centra notes that
5 since undertaking the demographic survey, it has -- it
6 has already gathered detailed information for over six
7 thousand (6,000) homes, being those which participated
8 in Centra's LIEEP Program. As such, Centra questions
9 what incremental value is there in now pursuing an
10 intement -- in -- an independent contractor to survey
11 more homes. Aside from the lack of value, Centra notes
12 the cost to conduct such an assessment would be
13 substantial.
14 The first challenge is iden -- is
15 identifying these households which are lower income.
16 Customers will likely be reluctant to simply provide
17 this information without some reason to do so. The
18 second challenge is being able to obtain physical
19 access to a customer's home in order to complete the
20 physical survey.
21 Irrespective of the costs associated
22 with this undertaking, Centra seeks no relevance or
23 additional value in obtaining the incremental data.
24 Centra would not envision making any changes to the
25 LIEEP based on having this additional information. The

1 Board should not adopt this recommendation from CAC.
2 Centra has already improved the ener --
3 energy efficiency levels of some lower income renters
4 through initiatives with community groups and social
5 hou -- housing groups, such as Kanata, Kinew, Dakota
6 Ojibwa First Nations Housing Authority, and Manitoba
7 Housing. CAC is incorrect in stating that Kinew is the
8 only one Centra has assisted, when in fact Centra has
9 assisted approximately nine hundred (900) renters in
10 the lower-income market. And that reference is at
11 CAC/Centra-120E-3.
12 Centra's LICO-125 natural gas rental
13 market is approximately 10 percent of the lower income
14 population, not 10 percent of the total population, as
15 Mr. Oppenheim stated in his testimony at transcript
16 pages 4 -- page 1,459. Centra is aware of the unique
17 issues that have to be addressed in order to reach this
18 market, including managing the approximately sixty
19 dollars ($60) per month in perpetuity for a high
20 efficient natural gas upgrade, as found at transcript
21 page 284. With this option available to landlords, it
22 is questionable whether landlords will be interested in
23 participating under Centra's FRP where rent increases
24 will not be allowed.
25 As noted in Mr. Kuczek's testimony at

1 transcript pages 282 and 285, Centra is currently
2 holding discussions with landlords to consider a design
3 option through the LIEEP program that would be more
4 attractive to them and that ensures low-income
5 customers realize a significant portion of the benefit.
6 Now turning to process and impact
7 evaluations. As noted at page 6 of Centra's Rebuttal
8 evidence to Mr. Oppenheim, the LIEEP impact evaluation
9 plan has been conducted in a manner consistent with the
10 impact evaluations undertaken in other jurisdictions in
11 North America. Centra agrees that there is value in a
12 process evaluation and continuously works to improve
13 the LIEEP and FRP in order to improve services and
14 increase participation as evidenced by the number of
15 initiatives undertaken to be -- to improve the
16 effectiveness of the program which are outlined at page
17 7 of Centra's rebuttal evidence to Mr. Oppenheim's
18 evidence. As noted in Mr. Kuczek's testimony at page
19 534, Centra will undertake a billing analysis of LIEEP
20 participants as Centra is best situated to undertake
21 the work.
22 Regarding the recommendation for a need
23 for independent assessment of engineering estimates,
24 Centra disagrees with this recommendation. Programs
25 such as LIEEP involve straightforward energy efficiency

1 measures, and fairly homogeneous consumption patterns.
2 In Centra's opinion, the use of deemed savings to
3 measure the impact of the program is appropriate and
4 consistent with sound engineering practice. CAC's
5 recommendation to contract a consultant to undertake
6 impact and process evaluations appears to be based on
7 the value in having an independent assessment. This
8 recommendation doesn't appear to be based on any
9 evaluation or consideration of cost effectiveness.
10 Centra has considered hiring an
11 independent consultant in the past, and has concluded
12 the value is marginal relative to the costs. Centra
13 has the experts available internally to complete both
14 impact and process evaluations and, therefore,
15 questions the value in spending ratepayer dollars
16 ranging from one hundred thousand dollars ($100,000) or
17 more for each assessment, as noted by Mr. Kuczek's
18 testimony at page 531 of the transcript. Again, CAC's
19 recommendation in a -- in this area appears to ignore
20 the principle of cost effectiveness without any
21 demonstrable benefit to the program or the ratepayers.
22 Lastly, on DSM matters, turning to CAC's
23 recommendation that bill assistance needs to be further
24 investigated by Centra. Centra already has a
25 comprehensive bill assistance program. As outlined in

1 the Corporation's response to CAC-MSOS/MH-1-100D from
2 the 2010/'11 and '11/'12 electric GRA:
3 "Payment arrangement guidelines
4 encourage flexibility in working
5 around customer's paydays and other
6 sources of income, and allows for
7 changes to the previously agreed upon
8 arrangements. Centra's staff works
9 with the customer's ability to pay,
10 taking into consideration family
11 circumstances such as unexpected
12 health concerns, economic changes, or
13 family emergencies. Customers
14 experiencing financial difficulties
15 are also advised of the various
16 social agencies that might be able to
17 help such as the Neighbours Helping
18 Neighbours, employment and income
19 assistance, or community financial
20 counselling services."
21 The evidence of Mr. Oppenheim was
22 somewhat confused with regard to bill assistance
23 available in Manitoba. At page 28 of his evidence he
24 recommends an energy discount rate for lower-income
25 customers, and this -- at page 1,467 of the transcript,

1 as well. However, during his appearance before the
2 panel he narrowed his recommendation to the provision
3 of an arrears management program. Mr. Oppenheim does
4 not appear to recognize the assistance provided to
5 Centra's customers under the Neighbours Helping
6 Neighbours Program, which has been in place since 2004
7 and '05, and that's contained at CAC/Centra-120FF(b),
8 and has been seen -- and has seen over 70 percent of
9 participating customers experience improvements in
10 their arrears situation as found in CAC/Centra-276.
11 More importantly, Mr. Oppenheim's recommendations on
12 bill assistance didn't appear to be based on any
13 detailed analysis of the cost effectiveness of his
14 recommendation.
15 CAC suggests that an arrears management
16 program will reduce collection costs. I note that Mr.
17 Oppenheim's assertion in his evidence at page 27 that
18 Centra's arrears have jumped 25 percent in the last
19 twelve (12) months is incorrect. Centra's response to
20 CAC/Centra-120FF(c) demonstrates the percentage of
21 customers in arrears and indicates that for all
22 residential customers arrears have remained at
23 approximately 10 percent since 2010.
24 Further, as noted in PUB/Centra-148A,
25 Centra's greater than sixty (60) days receivables have

1 been declining since 2009, and Centra's administrative
2 collection costs for past due accounts have dec --
3 decreased during the last five (5) years by $1.5
4 million, or 30 percent, as noted in PUB/Centra-148F.
5 Centra submits that its energy
6 efficiency programs and flexible bill management
7 options, combined with the strong support of the
8 Neighbours Helping Neighbours Program, assists
9 customers in an effective way, while balancing Centra's
10 financial responsibility to all ratepayers.
11 For all of the above reasons, in closing
12 out on the topic of DSM, Centra does not support CAC's
13 recommendation that bill assistance needs to be further
14 investigated.
15 Now, switching tracks to regulatory
16 efficiencies. How efficient can we collectively be on
17 the regulatory front in the future? There was a
18 significant amount of discussion during this proceeding
19 with respect to regulatory efficiency. While there is
20 some discussion at each GRA on this topic, this was
21 made all the more urgent given the regulatory schedule
22 in the coming year.
23 The regulatory schedule going forward is
24 not easy. From Centra's perspective, it would be
25 preferable if Centra could plan on not seeking a

1 general revenue increase in 2014 and '15. Whether this
2 is possible will depend on a number of factors,
3 including the outcome of the present application.
4 The Corporation will be fully engaged in
5 the needs for and alternatives to, or the NFAT process,
6 in the very near future. As such, the Corporation may
7 propose that an interim or paper process be considered
8 to address any required rate changes for both gas and
9 electric operations for the 2014/'15 fiscal test year.
10 This will enable the proper allocation of resources
11 within the Corporation to the NFAT matters that are so
12 critical to the future of the Corporation, while also
13 addressing revenue requirements necessary for the
14 financial integrity of the Corporation.
15 Centra recognizes that in the next year
16 or two (2) another rate application is likely. And, as
17 Mr. Rainkie discussed:
18 "We view the next regulatory filing
19 on behalf of Centra and Manitoba
20 Hydro to be an excellent opportunity
21 to combine the rate hearings for the
22 two (2) companies into an integrated
23 hearing process."
24 Common issues, such as IFF, or the inten
25 -- the financial forecast, forecast of financing, debt

1 management, depreciation, IFRS, cost allocation, and
2 other -- and other matters, can and should be
3 considered on a consolidated basis, and appropriate
4 rates for each company set thereafter.
5 Centra was concerned to hear the remarks
6 of CAC that a generic review should occur before an
7 integrated gas and electric hearing is held. Mr.
8 Meronek suggested that PU -- the PUB was previously
9 opposed to a combined gas and electric hearing. This
10 was in the context of the need for a hearing if there
11 were to be a legal merger between Centra and Manitoba
12 Hydro. This is an entirely different matter.
13 There is certainly no need to have a
14 hearing about how to have an integrated hearing for the
15 gas and electric segments of the Corporation.
16 Certainly, it would be appropriate to have some
17 stakeholder meetings to discuss how this process could
18 be undertaken. But, again, there is no need for a
19 generic hearing to consider how this process might
20 unfold.
21 Mr. Chairman and Board member Soldier,
22 you have had the benefit, if I may be so bold in
23 suggesting, of sitting through a back-to-back electric
24 and gas hearing process in the last thirteen (13)
25 months. It's been your own marathon of sorts. You

have had the opportunity to see for yourself the many areas of commonality between the two (2) hearings and both utilities. We hope you also see the potential benefits of combining those two (2) proceedings to improve on regulatory efficiency. We certainly do.

To conclude, Mr. Chairman and members of the Board, on an administrative note, Centra will be filing its next quarterly primary gas rate application with the Board shortly. In order to implement rates arising from this proceeding on August 1st, 2013, Centra respectfully requests that the Board issue its order in respect of these matters on or before July 26, 2013, in order to confirm final rate schedules in advance of the first August billing run.

If the Board is not in a position to issue its reasons for decision at that time, Centra respectfully requests the Board issue a separate order confirming revenue requirement and rates in order to enable Centra to implement the new rates flowing from this application at the same time as the quarterly primary gas rate adjustment. Thereafter, the Board could issue its full decision with its reasons.

In conclusion, during the past few years Centra's ratepayers have had the benefit of decreases in actual interest rates, lower property taxes, changes

in depreciation rates, and ongoing cost containment with respect to operating and administrative costs. Accordingly, Centra has not sought a general revenue increase since the 2009/'10 and 2010/'11 GRA.

The .8 percent rate increase for -- for 2010/'11 is the only general revenue increase Centra has received in the last four (4) fiscal years. The present need for increased investment in property, plant, and equipment to service new customers, and to maintain safe and reliable service, increased investment in the natural gas Demand-Side Management Program, continuing conservation measures by customers, and increases in operation costs as a result of normal escalation and accounting changes, all contribute to an increases revenue requirement.

Moving forward, adequate retained earnings are required to ensure that Centra has an appropriate financial structure to maintain the financial integrity of the company and to promote the long-term rate stability for natural gas customers in Manitoba. Centra views the requested 2 percent general revenue increase as a modest increase which strikes the appropriate balance between the impacts to customers and the need for a financially stable utility.

Thank you, Mr. Chairman and Board

1 members, Board counsel, advisors, Board staff,
2 Intervenors, for your patience and attention throughout
3 this process. Subject to any questions you may have of
4 Ms. Boyd or myself, that concludes Centra's remarks.
5 THE CHAIRPERSON: Unless there are
6 matters to attend to, I will bring these proceedings to
7 a close. I would like to thank the -- all those who
8 contributed to this process, including the
9 representatives from CAC, Mr. Masi, Mr. Meronek. Thank
10 you very much.
11 I thank the -- the staff from Centra,
12 Ms. Boyd and Mr. Czarnecki for leading us, and all of
13 you that participated from Centra. And I also want to
14 tank -- thank the -- the staff of Digi-Tran who
15 provided the transcripts. And finally to thank the
16 staff and advisors of PUB who contributed throughout
17 the proceedings.
18 So I'm mindful of what you just said,
19 Mr. Czarnecki, regarding the desire to issue a timely
20 decision, and we'll certainly strive to do that.
21 Unless there are any other business to attend to I'd
22 like to thank you all and wish you all a good summer.
23 Thank you.
24
25 --- Upon adjourning at 11:39 a.m.

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4 Certified correct,
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10 Lorraine Douglas, Ms.
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