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MANITOBA PUBLIC UTILITIES BOARD

Re:                   CENTRA GAS MANITOBA INC.  
                          2007/'08 TO 2008/'09  
                          GENERAL RATE APPLICATION

Before Board Panel:

- Graham Lane           - Board Chairman
- Len Evans             - Board Member
- Eric Jorgensen       - Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba

June 5th, 2007

Vol I

Pages 1 to

APPEARANCES

1  
2 R.F. Peters )Board Counsel  
3  
4 Marla Murphy )Manitoba Hydro  
5  
6 Paul Kerr (np) )Coral Energy  
7  
8 Sandy Boyd )Communications, Energy  
9 )and Paper Workers  
10 )Local 681  
11  
12 Kris Saxberg )CAC/MSOS  
13  
14 Eric Hoaken (np) )Direct Energy Marketing  
15 Karen Melnychuk )Limited  
16  
17 Nola Ruzycki (np) )Energy Savings (Manitoba)  
18 )Limited Partnership  
19  
20 Dave Hill (np) )Koch Fertilizer  
21  
22 Nick Gretner )J.R. Simplot  
23  
24  
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APPEARANCES (CONT)

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William Gange )TREE and Resource  
Randall McQuaker )Conservation Manitoba  
Peter Miller )

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10	WILLY DERKSEN, Sworn	
11	DARREN RAINKIE, Sworn	
12	KELLY DERKSEN, Sworn	
13	DOUG KROEKER, Sworn	
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20		Centra Gas Manitoba Inc.'s	
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12		comparison to other jurisdictions	
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17		Response. EEA report - flexibility	
18		of gas supply contract - costs borne	
19		by system customers, prudence	
20		disallowances	
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1	LIST OF EXHIBITS (cont'd)		
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5		and Centra Gas Manitoba Inc.'s	
6		Response. EEA report - base vs	
7		swing volumes, changes to DCQ and	
8		MDQ, calculating the monthly	
9		AECO price.	
10	PUB/CENTRA-5-89	The Public Utilities Board's 1st	
11		Round - Vol II - Information Requests	
12		and Centra Gas Manitoba Inc.'s	
13		Response. EEA report - negotiating	
14		the RFP, milestones.	
15	PUB/CENTRA-5-90	The Public Utilities Board's 1st	
16		Round - Vol II - Information Requests	
17		and Centra Gas Manitoba Inc.'s	
18		Response. UFG - true-ups, impact	
19		on cost of gas	
20	PUB/CENTRA-5-91	The Public Utilities Board's 1st	
21		Round - Vol II - Information Requests	
22		and Centra Gas Manitoba Inc.'s	
23		Response. Proportion of primary	
24		vs supplemental gas	
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1	LIST OF EXHIBITS (CONT'D)	
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3	PUB/CENTRA-5-92	The Public Utilities Board's 1st
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5		and Centra Gas Manitoba Inc.'s
6		Response. ANR contract amendment,
7		US pipeline tolls, toll cap
8	PUB/CENTRA-5-93	The Public Utilities Board's 1st
9		Round - Vol II - Information Requests
10		and Centra Gas Manitoba Inc.'s
11		Response. Hedging - settled results
12	PUB/CENTRA-5-94	The Public Utilities Board's 1st
13		Round - Vol II - Information Requests
14		and Centra Gas Manitoba Inc.'s
15		Response. TCPL LBA charges
16	PUB/CENTRA-5-95	The Public Utilities Board's 1st
17		Round - Vol II - Information Requests
18		and Centra Gas Manitoba Inc.'s
19		Response. Forecast gas costs based
20		on existing Nexen contract terms.
21	PUB/CENTRA-5-96	The Public Utilities Board's 1st
22		Round - Vol II - Information Requests
23		and Centra Gas Manitoba Inc.'s
24		Response. New hedging policy,
25		calculations, volatility reduction

1	LIST OF EXHIBITS (CONT'D)	
2	EXHIBIT NO.	PAGE NO.
3	PUB/CENTRA-5-97	The Public Utilities Board's 1st
4		Round - Vol II - Information Requests
5		and Centra Gas Manitoba Inc.'s
6		Response. Capacity management
7		rolling five year average
8	PUB/CENTRA-5-98	The Public Utilities Board's 1st
9		Round - Vol II - Information Requests
10		and Centra Gas Manitoba Inc.'s
11		Response. Rate design - changes to
12		BMC, demand charges
13	PUB/CENTRA-5-99	The Public Utilities Board's 1st
14		Round - Vol II -Information Requests
15		and Centra Gas Manitoba Inc.'s
16		Response. Revenue-to-cost ratios.
17	PUB/CENTRA-5-100	The Public Utilities Board's 1st
18		Round - Vol II - Information Requests
19		and Centra Gas Manitoba Inc.'s
20		Response. Functionalization,
21		classification, and allocation
22		procedures.
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1	LIST OF EXHIBITS (CONT'D)	
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5		and Centra Gas Manitoba Inc.'s
6		Response. Impact on customer class
7		allocations if Rate Base, Rate of
8		Return method used
9	PUB/CENTRA-5-102	The Public Utilities Board's 1st
10		Round - Vol II -Information Requests
11		and Centra Gas Manitoba Inc.'s
12		Response. Functionally classified
13		costs - comparison with previous GRA
14	PUB/CENTRA-5-103	The Public Utilities Board's 1st
15		Round - Vol II - Information Requests
16		and Centra Gas Manitoba Inc.'s
17		Response. Cost of service allocation
18	PUB/CENTRA-5-104	The Public Utilities Board's 1st
19		Round - Vol II - Information Requests
20		and Centra Gas Manitoba Inc.'s
21		Response. Power station class -
22		volumes; why Centra does not supply
23		gas.
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1	LIST OF EXHIBITS (CONT'D)	
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5		and Centra Gas Manitoba Inc.'s
6		Response. Primary gas rate -
7		non-gas cost calculation
8	PUB/CENTRA-5-106	The Public Utilities Board's 1st
9		Round - Vol II - Information Requests
10		and Centra Gas Manitoba Inc.'s
11		Response. Classification and
12		allocation factors
13	PUB/CENTRA-5-107	The Public Utilities Board's 1st
14		Round - Vol II - Information Requests
15		and Centra Gas Manitoba Inc.'s
16		Response. Supplemental gas cost
17		for interruptible customers
18	PUB/CENTRA-5-108	The Public Utilities Board's 1st
19		Round - Vol II - Information Requests
20		and Centra Gas Manitoba Inc.'s
21		Response. Billing determinants
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5		and Centra Gas Manitoba Inc.'s
6		Response. Special contract and
7		power station class load factors
8	PUB/CENTRA-5-110	The Public Utilities Board's 1st
9		Round - Vol II - Information Requests
10		and Centra Gas Manitoba Inc.'s
11		Response. Allocation of rate riders
12		vs allocation of base rates
13	PUB/CENTRA-5-111	The Public Utilities Board's 1st
14		Round - Vol II - Information Requests
15		and Centra Gas Manitoba Inc.'s
16		Response. Disconnections
17	PUB/CENTRA-5-112	The Public Utilities Board's 1st
18		Round - Vol II - Information Requests
19		and Centra Gas Manitoba Inc.'s
20		Response. Bad debt - cost of
21		collection, number of accounts
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6		Response. Terms and conditions -	
7		consultation with brokers and T-	
8		service customers.	
9	PUB/CENTRA-5-114	The Public Utilities Board's 1st	
10		Round - Vol II -Information Requests	
11		and Centra Gas Manitoba Inc.'s	
12		Response. Gas Loan Valuation -	
13		difference between ABC and non-	
14		ABC service, free optionally	
15	PUB/CENTRA-5-115	The Public Utilities Board's 1st	
16		Round - Vol II - Information Requests	
17		and Centra Gas Manitoba Inc.'s	
18		Response. Designated receipt points	
19	PUB/CENTRA-5-116	The Public Utilities Board's 1st	
20		Round - Vol II - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. Company labour rates	
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6		Response. Special contract -	
7		differences between Koch and	
8		Simplot contracts	
9	PUB/CENTRA-5-118	The Public Utilities Board's 1st	
10		Round - Vol II - Information Requests	
11		and Centra Gas Manitoba Inc.'s	
12		Response. Treatment of broker-	
13		related costs	
14	PUB/CENTRA-5-119	The Public Utilities Board's 1st	
15		Round - Vol II - Information Requests	
16		and Centra Gas Manitoba Inc.'s	
17		Response. Main extensions,	
18		feasibility test, 4PT	
19	PUB/CENTRA-5-120	The Public Utilities Board's 1st	
20		Round - Vol II - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. Residential vs. commercial	
23		SGS customers; eligibility for	
24		residential rate	
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4		Round - Vol II - Information Requests
5		and Centra Gas Manitoba Inc.'s
6		Response. Lump sum refunds
7	PUB/CENTRA-5-122	The Public Utilities Board's 1st
8		Round - Vol II - Information Requests
9		and Centra Gas Manitoba Inc.'s
10		Response. Industrial Billing system.
11	PUB/CENTRA-5-123	The Public Utilities Board's 1st
12		Round - Vol II - Information Requests
13		and Centra Gas Manitoba Inc.'s
14		Response. DSM program project
15		concepts
16	PUB/CENTRA-5-124	The Public Utilities Board's 1st
17		Round - Vol II -Information Requests
18		and Centra Gas Manitoba Inc.'s
19		Response. Impact of federal government
20		green initiatives.
21	PUB/CENTRA-5-125	The Public Utilities Board's 1st
22		Round - Vol II - Information Requests
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24		Response. Total Resource Cost (TRC
25		and Rate Impact Measure (RIM)

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5		and Centra Gas Manitoba Inc.'s	
6		Response. Cost effectiveness cut-off	
7		of program expansions	
8	PUB/CENTRA-5-127	The Public Utilities Board's 1st	
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10		and Centra Gas Manitoba Inc.'s	
11		Response. Insulation program -	
12		forecasted vs actual participation	
13		rates	
14	PUB/CENTRA-5-128	The Public Utilities Board's 1st	
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16		and Centra Gas Manitoba Inc.'s	
17		Response. BioEnergy program.	
18	PUB/CENTRA-5-129	The Public Utilities Board's 1st	
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21		Response. DSM savings by customer	
22		class	
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5		and Centra Gas Manitoba Inc.'s
6		Response. GHG reductions, comparison
7		to 2005 plan.
8	PUB/CENTRA-5-131	The Public Utilities Board's 1st
9		Round - Vol II - Information Requests
10		and Centra Gas Manitoba Inc.'s
11		Response. TRC and RIM - 2005
12		vs 2006
13	PUB/CENTRA-5-132	The Public Utilities Board's 1st
14		Round - Vol II - Information Requests
15		and Centra Gas Manitoba Inc.'s
16		Response. Reconcile administrative
17		costs in schedules B.5 and B.7
18	PUB/CENTRA-5-133	The Public Utilities Board's 1st
19		Round - Vol II - Information Requests
20		and Centra Gas Manitoba Inc.'s
21		Response. Furnace replacement program,
22		custom program, commercial insulation
23		program
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6		Response. DSM program accounting	
7		treatment, administrative cost	
8		related to EFT	
9	PUB/CENTRA-5-135	The Public Utilities Board's 1st	
10		Round - Vol II - Information Requests	
11		and Centra Gas Manitoba Inc.'s	
12		Response. Low income DSM programs	
13	PUB/CENTRA-5-136 TO 173	The Public Utilities Board's	
14		1st Round - Vol II - Information	
15		Requests and Centra Gas Manitoba	
16		Inc.'s Response.	
17	PUB/CAC/MSOS-6-1 to 6-21	The Public Utilities Board's	
18		Information Requests and Consumers'	
19		Association of Canada (Manitoba) Inc.	
20		and Manitoba Society of Seniors'	
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4		Board's Information Requests and	
5		Resource Conservation Manitoba	
6		and Time to Respect Earth's	
7		Ecosystems Inc.'s Response	
8	CENTRA-1	Centra Gas Manitoba Inc. application	
9		dated January 19, 2007	
10	CENTRA-2	Affidavit of publication and service	
11		of Notice dated June 5, 2007	
12	CENTRA-3	Rebuttal Evidence dated ???	
13	CENTRA-4-1	Witness Qualification of	
14		Vince Warden	
15	CENTRA-4-2	Witness Qualification of	
16		Willy Derksen	
17	CENTRA-4-3	Witness Qualification of	
18		Darren Rainkie	
19	CENTRA-4-4	Witness Qualification of	
20		Kelly Derksen	
21	CENTRA-4-5	Witness Qualification of	
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23	CENTRA-4-6	Witness Qualification of	
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5	CENTRA-4-8	Witness Qualification of	
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7	CENTRA-4-9	Witness Qualification of	
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11	CENTRA/CAC/MSOS-5-1 TO 5-16	Centra Gas Manitoba	
12		Inc.'s Information Requests and	
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18		Inc.'s Information Requests and	
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1	LIST OF EXHIBITS (CONT'D)		
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7		and Centra Gas Manitoba Inc.'s	
8		Response. Provide electronic	
9		schedules for the entire application	
10	CAC/MSOS/CENTRA-1-2	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
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15		Response. Uniform System of	
16		Accounts (FERC)	
17	CAC/MSOS/CENTRA-1-3	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
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22		Response. Board Directives from	
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7	and Centra Gas Manitoba Inc.'s	
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9	schedules for the entire application	
10	CAC/MSOS-CENTRA-1-2 Consumers' Association of	
11	Canada (Manitoba) Inc. and Manitoba	
12	Society of Seniors' 1st Round -	
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17	CAC/MSOS-CENTRA-1-3 Consumers' Association of	
18	Canada (Manitoba) Inc. and Manitoba	
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7		and Centra Gas Manitoba Inc.'s	
8		Response. Dividends from Centra	
9		to Hydro	
10	CAC/MSOS-CENTRA-1-5	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. O&A allocations	
16		from Hydro to Centra; benchmarks	
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6		Volume I - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. New head office;	
9		expenditures, status, accounting	
10		treatment, cost comparison to	
11		existing offices.	
12	CAC/MSOS-CENTRA-1-7	Consumers' Association of	
13		Canada (Manitoba) Inc. and Manitoba	
14		Society of Seniors' 1st Round -	
15		Volume I - Information Requests	
16		and Centra Gas Manitoba Inc.'s	
17		Response. Corporate Star Strategic	
18		Plan: Retail rates target of "among	
19		the lowest in North America"	
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9		market share.	
10	CAC/MSOS-CENTRA-1-9	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. CSP: show gas targets,	
16		actual results and expected results	
17	CAC/MSOS-CENTRA-1-10	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
20		Volume I - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. CSP: strategy for	
23		developers to optimize existing	
24		electric and gas infrastructure.	
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7		and Centra Gas Manitoba Inc.'s	
8		Response. CSP: O&A costs per customer	
9	CAC/MSOS-CENTRA-1-12	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume I - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. Debt:equity - rcalc;	
15		use Matwichuks suggestions	
16	CAC/MSOS-CENTRA-1-13	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume I - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. Provide audited financial statements	
22		for 2006/07	
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4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
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7		and Centra Gas Manitoba Inc.'s	
8		Response. Capitalizing O&A - Compare Centra's	
9		and Hydro's policy	
10	CAC/MSOS-CENTRA-1-15	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Effect of weather on	
16		net income.	
17	CAC/MSOS-CENTRA-1-16	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
20		Volume I - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. Meter reading by MHUS	
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7		and Centra Gas Manitoba Inc.'s	
8		Response. O&A costs by	
9		customer past and forecasted	
10	CAC/MSOS-CENTRA-1-18	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. O&A for 05/06 actual vs.	
16		forecasted at last GRA.	
17	CAC/MSOS-CENTRA-1-19	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
20		Volume I - Information Requests	
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4		Canada (Manitoba) Inc. and Manitoba	
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7		and Centra Gas Manitoba Inc.'s	
8		Response. Cost of service summary	
9		Schedule 4.0.0 - add 2003/04 and	
10		any Board adjustments	
11	CAC/MSOS-CENTRA-1-21	Consumers' Association of	
12		Canada (Manitoba) Inc. and Manitoba	
13		Society of Seniors' 1st Round -	
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16		Response. O&A Schedule 4.7.0 -	
17		break down depreciation, interest	
18		and taxes.	
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CAC/MSOS-CENTRA-1-23	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume I - Information Requests and Centra Gas Manitoba Inc.'s Response. Amortization expense - update 2003/04 GRA CAC No. 52	
CAC/MSOS-CENTRA-1-24	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume I - Information Requests and Centra Gas Manitoba Inc.'s Response. Hearing costs, intervener costs	

1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-25	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume I - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Deferral account carrying	
9		costs.	
10	CAC/MSOS-CENTRA-1-26	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Capital and municipal taxes.	
16	CAC/MSOS-CENTRA-1-27	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume I - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. Corporate allocation -	
22		change from \$15m to \$12m	
23			
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1	LIST OF EXHIBITS (cont'd)		Page 52
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-28	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume I - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Other income - relate	
9		sales to late payment fees.	
10	CAC/MSOS-CENTRA-1-29	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Overhead rates - Hydro	
16		vs Centra O&A	
17	CAC/MSOS-CENTRA-1-30	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
20		Volume I - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. O&A schedule 4.7.1 -	
23		breaks down similar to 03/04 GRA	
24		CAC No. 42.	
25			

1	LIST OF EXHIBITS (cont'd)		Page 53
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-31	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume I - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Corporate allocations and	
9		adjustments PUB No. 1-25 historical	
10	CAC/MSOS-CENTRA-1-32	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Depreciation Study -	
16		terms of reference, costs.	
17	CAC/MSOS-CENTRA-1-33	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
20		Volume I - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. Revenue Requirement and	
23		Rate Base - Update Schedule 5.0.0 with	
24		02/03 and 03/04 GRA CAC No. 37, 38, 42	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-34	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume I - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. IT budget - update 05/06	
9		GRA CAC No., 25 and 03/04 GRA	
10		CAC No. 37, 38, 42	
11	CAC/MSOS-CENTRA-1-35	Consumers' Association of	
12		Canada (Manitoba) Inc. and Manitoba	
13		Society of Seniors' 1st Round -	
14		Volume I - Information Requests	
15		and Centra Gas Manitoba Inc.'s	
16		Response. Overall rate of return -	
17		basis of capital structure for test	
18		years, calcs for debt:equity from	
19		03/04 to 08/09	
20			
21			
22			
23			
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25			

1 LIST OF EXHIBITS (cont'd)

2 CAC/MSOS-CENTRA-1-36 Consumers' Association of  
3 Canada (Manitoba) Inc. and Manitoba  
4 Society of Seniors' 1st Round -  
5 Volume I - Information Requests  
6 and Centra Gas Manitoba Inc.'s  
7 Response. Cost of equity - adjust  
8 08/09 ROE;February consensus forecast

9 CAC/MSOS-CENTRA-1-37 Consumers' Association of  
10 Canada (Manitoba) Inc. and Manitoba  
11 Society of Seniors' 1st Round -  
12 Volume I - Information Requests  
13 and Centra Gas Manitoba Inc.'s  
14 Response. Degree day differential;  
15 restate 05/06 for normal weather

16 CAC/MSOS-CENTRA-1-38 Consumers' Association of  
17 Canada (Manitoba) Inc. and Manitoba  
18 Society of Seniors' 1st Round -  
19 Volume I - Information Requests  
20 and Centra Gas Manitoba Inc.'s  
21 Response. Banner recapitalization  
22 - reconcile actual computer system  
23 retirements with last GRA forecast;  
24 Q&A impacts, accounting summary of  
25 computer systems

1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-39	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume I - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Asset retirements greater	
9		than \$500,000	
10	CAC/MSOS-CENTRA-1-40	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume I - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Credit rating reports	
16	CAC/MSOS-CENTRA-1-41	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume II - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. TPL Capacity	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-42	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Basis	
9	CAC/MSOS-CENTRA-1-43	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume II - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. TCPL tolling and discounts	
15	CAC/MSOS-CENTRA-1-44	Consumers' Association of	
16		Canada (Manitoba) Inc. and Manitoba	
17		Society of Seniors' 1st Round -	
18		Volume II - Information Requests	
19		and Centra Gas Manitoba Inc.'s	
20		Response. Seasonal pricing.	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-45	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Michigan market liquidity	
9	CAC/MSOS-CENTRA-1-46	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume II - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. Traditional supply and	
15		LDC models	
16	CAC/MSOS-CENTRA-1-47	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume II - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. Nexen's swing service	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-48	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. AECO/NIT - Empress	
9		differential	
10	CAC/MSOS-CENTRA-1-49	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume II - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Delivered service.	
16	CAC/MSOS-CENTRA-1-50	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume II - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. Swing Service	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-51	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Swing Service	
9	CAC/MSOS-CENTRA-1-52	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume II - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. NGX pricing options	
15	CAC/MSOS-CENTRA-1-53	Consumers' Association of	
16		Canada (Manitoba) Inc. and Manitoba	
17		Society of Seniors' 1st Round -	
18		Volume II - Information Requests	
19		and Centra Gas Manitoba Inc.'s	
20		Response. TCPL parking and loan	
21		service rate	
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CAC/MSOS-CENTRA-1-54	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume II - Information Requests and Centra Gas Manitoba Inc.'s Response. Buying from producers - NIT pricing	
CAC/MSOS-CENTRA-1-55	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume II - Information Requests and Centra Gas Manitoba Inc.'s Response. RFP - details of terms, sole source	
CAC/MSOS-CENTRA-1-56	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume II - Information Requests and Centra Gas Manitoba Inc.'s Response. Backhaul capacity vs. storage withdrawal reconciliation	

1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-57	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Transport and storage -	
9		does Centra have right of first	
10		refusal when contracts expire	
11	CAC/MSOS-CENTRA-1-58	Consumers' Association of	
12		Canada (Manitoba) Inc. and Manitoba	
13		Society of Seniors' 1st Round -	
14		Volume II - Information Requests	
15		and Centra Gas Manitoba Inc.'s	
16		Response. TCPL settlement of rates	
17	CAC/MSOS-CENTRA-1-59	Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 1st Round -	
20		Volume II - Information Requests	
21		and Centra Gas Manitoba Inc.'s	
22		Response. Nexen term and conditions	
23		- resale, swing, intraday	
24		nominations	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-60	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. WTS supplies and nominations	
9	CAC/MSOS-CENTRA-1-61	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume II - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. Storage inventory and	
15		TCPL load factors	
16	CAC/MSOS-CENTRA-1-62	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume II - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. PGVA - update for March	
22		07 or carry forward	
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1	LIST OF EXHIBITS (cont'd)		Page 64
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-63	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume II - Information Requests and Centra Gas Manitoba Inc.'s Response. Capacity release transactions	
9	CAC/MSOS-CENTRA-1-64	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume II - Information Requests and Centra Gas Manitoba Inc.'s Response. Forward pricing	
15	CAC/MSOS-CENTRA-1-65	Consumers' Association of Canada (Manitoba) Inc. and Manitoba Society of Seniors' 1st Round - Volume II - Information Requests and Centra Gas Manitoba Inc.'s Response. Provide cost allocation studies	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-66	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Billing determinants	
9	CAC/MSOS-CENTRA-1-67	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume II - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. Terms and conditions -	
15		multiple broker agreement resolution	
16	CAC/MSOS-CENTRA-1-68	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume II - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. DSM - low income and	
22		residential programs	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-69	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Low income definition	
9	CAC/MSOS-CENTRA-1-70	Consumers' Association of	
10		Canada (Manitoba) Inc. and Manitoba	
11		Society of Seniors' 1st Round -	
12		Volume II - Information Requests	
13		and Centra Gas Manitoba Inc.'s	
14		Response. Residential programs and	
15		customer service initiatives	
16	CAC/MSOS-CENTRA-1-71	Consumers' Association of	
17		Canada (Manitoba) Inc. and Manitoba	
18		Society of Seniors' 1st Round -	
19		Volume II - Information Requests	
20		and Centra Gas Manitoba Inc.'s	
21		Response. Cost effectiveness of	
22		residential DSM	
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1	LIST OF EXHIBITS (cont'd)		Page 67
2	Exhibit No.	Description	Page No.
3	CAC/MSOS-CENTRA-1-72	Consumers' Association of	
4		Canada (Manitoba) Inc. and Manitoba	
5		Society of Seniors' 1st Round -	
6		Volume II - Information Requests	
7		and Centra Gas Manitoba Inc.'s	
8		Response. Federal Energuide	
9		cancellation effects	
10	CAC/MSOS-CENTRA-1-73	Consumers' Association of	
11		Canada (Manitoba) Inc. and Manitoba	
12		Society of Seniors' 1st Round -	
13		Volume II - Information Requests	
14		and Centra Gas Manitoba Inc.'s	
15		Response. Past DSM results	
16	CAC/MSOS-CENTRA-1-74 to 1-93 and 2-94 to 2-119		
17		Consumers' Association of	
18		Canada (Manitoba) Inc. and Manitoba	
19		Society of Seniors' 2nd Round	
20		Information Requests and Centra Gas	
21		Manitoba Inc.'s Response.	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
3	CAC/MSOS/RCM/TREE-3-1 TO 3-7		
4		Consumers' Association of	
5		Canada (Manitoba) Inc. and Manitoba	
6		Society of Seniors' Information	
7		Requests and Resource Conservation	
8		Manitoba/Time to Respect Earth's	
9		Ecosystems Inc.'s Response	
10	CAC/MSOS-4	Evidence of Dr. Roger Higgin	
11	ESMLP/CENTRA-1-1	Energy Savings (Manitoba) L.P.'s	
12		1st Round - Volume II Information	
13		Requests and Centra Gas Manitoba	
14		Inc.'s Response. EEA Report - costs	
15		to brokers, nominations, and gas	
16		contracting strategy	
17	ESMLP/CENTRA-1-2	Energy Savings (Manitoba) L.P.'s	
18		1st Round - Volume II Information	
19		Requests and Centra Gas Manitoba	
20		Inc.'s Response. Terms and conditions	
21		- gas loan valuation, receipt points,	
22		agency agreements, financial security,	
23		WTS.	
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1	LIST OF EXHIBITS (cont'd)		
2	Exhibit No.	Description	Page No.
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4		1st Round - Volume II Information	
5		Requests and Centra Gas Manitoba	
6		Inc.'s Response. Market survey	
7		plan	
8	ESMLP/CENTRA-1-4 to 1-7		
9		Energy Savings (Manitoba) L.P.'s	
10		1st Round - Volume II Information	
11		Requests and Centra Gas Manitoba	
12		Inc.'s Response	
13	KOCH/CENTRA-1-1	Koch Fertilizer Canada, Ltd.'s	
14		1st Round - Volume II Information	
15		Requests and Centra Gas Manitoba	
16		Inc.'s Response. A) Additional/	
17		change in service to warrant \$257,000	
18		increase in rates b) separate upstream	
19		and downstream rate/cost increases	
20	KOCH/CENTRA-1-2	Koch Fertilizer Canada, Ltd.'s	
21		2nd Round Information Request	
22		and Centra Gas Manitoba Inc.'s	
23		Response.	
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1	LIST OF EXHIBITS (CONT'D)		
2	Exhibit No.	Description	Page No.
3	RCM/TREE/CENTRA-1-1	Resource Conservation	
4		Manitoba and Time to Respect	
5		Earth's Ecosystems Inc.'s 1st	
6		Round - Volume I Information	
7		Requests and Centra Gas Manitoba	
8		Inc.'s Response. MB Hydro Board	
9	RCM/TREE/CENTRA-1-2	Resource Conservation	
10		Manitoba and Time to Respect	
11		Earth's Ecosystems Inc.'s 1st	
12		Round - Volume I Information	
13		Requests and Centra Gas Manitoba	
14		Inc.'s Response. Rate riders for	
15		transmission and distribution	
16		Corporate Strategic Plan 3-10	
17	RCM/TREE/CENTRA-1-3	Resource Conservation	
18		Manitoba and Time to Respect	
19		Earth's Ecosystems Inc.'s 1st	
20		Round - Volume I Information	
21		Requests and Centra Gas Manitoba	
22		Inc.'s Response. Communications	
23		strategy - billboards.	
24			
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1	LIST OF EXHIBITS (CONT'D)		
2	Exhibit No.	Description	Page No.
3	RCM/TREE/CENTRA-1-4	Resource Conservation	
4		Manitoba and Time to Respect	
5		Earth's Ecosystems Inc.'s 1st	
6		Round - Volume I Information	
7		Requests and Centra Gas Manitoba	
8		Inc.'s Response. Aboriginal	
9		employment targets	
10	RCM/TREE/CENTRA-1-5	Resource Conservation	
11		Manitoba and Time to Respect	
12		Earth's Ecosystems Inc.'s 1st	
13		Round - Volume I Information	
14		Requests and Centra Gas Manitoba	
15		Inc.'s Response. O&A targets	
16	RCM/TREE/CENTRA-1-6	Resource Conservation	
17		Manitoba and Time to Respect	
18		Earth's Ecosystems Inc.'s 1st	
19		Round - Volume I Information	
20		Requests and Centra Gas Manitoba	
21		Inc.'s Response. Fuel switching,	
22		CHP, NUGs	
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2	Exhibit No. Description	Page No.
3	RCM/TREE/CENTRA-1-7 Resource Conservation	
4	Manitoba and Time to Respect	
5	Earth's Ecosystems Inc.'s 1st	
6	Round - Volume I Information	
7	Requests and Centra Gas Manitoba	
8	Inc.'s Response. Employment targets	
9	RCM/TREE/CENTRA-1-8 Resource Conservation	
10	Manitoba and Time to Respect	
11	Earth's Ecosystems Inc.'s 1st	
12	Round - Volume I Information	
13	Requests and Centra Gas Manitoba	
14	Inc.'s Response. GHG emissions,	
15	building code changes, environmental	
16	costs from 117/06	
17	RCM/TREE/CENTRA-1-9 Resource Conservation	
18	Manitoba and Time to Respect	
19	Earth's Ecosystems Inc.'s 1st	
20	Round - Volume I Information	
21	Requests and Centra Gas Manitoba	
22	Inc.'s Response. Agency satisfaction	
23	goals	
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1	LIST OF EXHIBITS (CONT'D)		
2	Exhibit No.	Description	Page No.
3	RCM/TREE/CENTRA-1-10	Resource Conservation	
4		Manitoba and Time to Respect	
5		Earth's Ecosystems Inc.'s 1st	
6		Round - Volume I Information	
7		Requests and Centra Gas Manitoba	
8		Inc.'s Response. DSM achievements,	
9		price structure to encourage	
10		conservation, alternative energy	
11	RCM/TREE/CENTRA-1-11	Resource Conservation	
12		Manitoba and Time to Respect	
13		Earth's Ecosystems Inc.'s 1st	
14		Round - Volume I Information	
15		Requests and Centra Gas Manitoba	
16		Inc.'s Response. Power station class	
17		terms and conditions	
18	RCM/TREE/CENTRA-1-12	Resource Conservation	
19		Manitoba and Time to Respect	
20		Earth's Ecosystems Inc.'s 1st	
21		Round - Volume I Information	
22		Requests and Centra Gas Manitoba	
23		Inc.'s Response. Cost of gas	
24		update.	
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2 RCM/TREE/CENTRA-1-13 Resource Conservation  
3 Manitoba and Time to Respect  
4 Earth's Ecosystems Inc.'s 1st  
5 Round - Volume I Information  
6 Requests and Centra Gas Manitoba  
7 Inc.'s Response. IFF - debt;equity  
8 rescheduled for 75;25 by 2012  
9 RCM/TREE/CENTRA-1-14 Resource Conservation  
10 Manitoba and Time to Respect  
11 Earth's Ecosystems Inc.'s 1st  
12 Round - Volume I Information  
13 Requests and Centra Gas Manitoba  
14 Inc.'s Response. WTS enrollments  
15 - why and cost consequences  
16 RCM/TREE/CENTRA-1-15 Resource Conservation  
17 Manitoba and Time to Respect  
18 Earth's Ecosystems Inc.'s 1st  
19 Round - Volume I Information  
20 Requests and Centra Gas Manitoba  
21 Inc.'s Response. Average use  
22 forecast - price elasticity of demand,  
23 fuel switching, electric vs gas water  
24 heaters, weather-adjusted decline of 5.4  
25 percent gas vs. electric trends

1 LIST OF EXHIBITS (CONT'D)

2 RCM/TREE/CENTRA-1-16 Resource Conservation

3 Manitoba and Time to Respect

4 Earth's Ecosystems Inc.'s 1st

5 Round - Volume I Information

6 Requests and Centra Gas Manitoba

7 Inc.'s Response. Disconnection costs.

8 RCM/TREE/CENTRA-1-17 Resource Conservation

9 Manitoba and Time to Respect

10 Earth's Ecosystems Inc.'s 1st

11 Round - Volume I Information

12 Requests and Centra Gas Manitoba

13 Inc.'s Response. Regulatory - costs

14 impetus to file GRA, staff and

15 cost burden

16 RCM/TREE/CENTRA-1-18 Resource Conservation

17 Manitoba and Time to Respect

18 Earth's Ecosystems Inc.'s 1st

19 Round - Volume I Information

20 Requests and Centra Gas Manitoba

21 Inc.'s Response. Depreciation -

22 effect fuel switching has on service

23 life/salvage value; straight line

24 depreciation for assets with

25 decreasing volumes.

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9		security deposits.	
10	RCM/TREE/CENTRA-1-20	Resource Conservation	
11		Manitoba and Time to Respect	
12		Earth's Ecosystems Inc.'s 1st	
13		Round - Volume II Information	
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15		Inc.'s Response. Brokers and ABC -	
16		full billing provided to broker,	
17		multiple bills, matching demand	
18		to supply.	
19	RCM/TREE/CENTRA-1-21	Resource Conservation	
20		Manitoba and Time to Respect	
21		Earth's Ecosystems Inc.'s 1st	
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23		Requests and Centra Gas Manitoba	
24		Inc.'s Response. WTS receives benefits	
25		from capacity management	

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9	of swing service applies to system	
10	and WTS customers	
11	RCM/TREE/CENTRA-1-23 Resource Conservation	
12	Manitoba and Time to Respect	
13	Earth's Ecosystems Inc.'s 1st	
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16	Inc.'s Response. Volatility of	
17	revenue caused by weather, carrying	
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20	Manitoba and Time to Respect	
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12		Earth's Ecosystems Inc.'s 1st	
13		Round - Volume II Information	
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15		Inc.'s Response. 2004 Power Smart	
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6		Round - Volume II Information	
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8		Inc.'s Response. Feasibility	
9		screening for technologies, in-home	
10		monitoring, R&D architecture	
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12	RCM/TREE/CENTRA-1-28	Resource Conservation	
13		Manitoba and Time to Respect	
14		Earth's Ecosystems Inc.'s 1st	
15		Round - Volume II Information	
16		Requests and Centra Gas Manitoba	
17		Inc.'s Response. Interactive	
18		effects with electricity DSM	
19	RCM/TREE/CENTRA-1-29	Resource Conservation	
20		Manitoba and Time to Respect	
21		Earth's Ecosystems Inc.'s 1st	
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24		Inc.'s Response. Electric DSM	
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9		by industrial, commercial, residential;	
10		cost curves to select DSM	
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14		Round - Volume II Information	
15		Requests and Centra Gas Manitoba	
16		Inc.'s Response. DSM savings and	
17		costs - clarifying annual vs	
18		cumulative, life of DSM measures	
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RCM/TREE/CENTRA-1-33	Resource Conservation Manitoba and Time to Respect Earth's Ecosystems Inc.'s 1st Round - Volume II Information Requests and Centra Gas Manitoba Inc.'s Response. TRC and RIM; TSC (Total societal cost) and externalities	
RCM/TREE/CENTRA-1-34	Resource Conservation Manitoba and Time to Respect Earth's Ecosystems Inc.'s 1st Round - Volume II Information Requests and Centra Gas Manitoba Inc.'s Response. Avoided cost per m3 saved.	

1	LIST OF EXHIBITS (CONT'D)		
2	Exhibit No.	Description	Page No.
3	RCM/TREE/CENTRA-1-35	Resource Conservation	
4		Manitoba and Time to Respect	
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6		Round - Volume II Information	
7		Requests and Centra Gas Manitoba	
8		Inc.'s Response. Reduced CO2	
9		emissions.	
10	RCM/TREE/CENTRA-1-36	Resource Conservation	
11		Manitoba and Time to Respect	
12		Earth's Ecosystems Inc.'s 1st	
13		Round - Volume II Information	
14		Requests and Centra Gas Manitoba	
15		Inc.'s Response. Appendix D -	
16		clarifying tables.	
17	RCM/TREE/CENTRA-1-37 to 1-48	Resource Conservation	
18		Manitoba and Time to Respect	
19		Earth's Ecosystems Inc.'s 1st	
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21		Requests and Centra Gas Manitoba	
22		Inc.'s Response	
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1	LIST OF EXHIBITS (CONT'D)		
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3	RCM/TREE/CENTRA-1-49 to 1-67	Resource Conservation	
4		Manitoba and Time to Respect	
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8	RCM/TREE/CAC/MSOS-2-1 to 2-6	Resource Conservation	
9		Manitoba and Time to Respect	
10		Earth's Ecosystems Inc.'s	
11		Information Requests and Consumer's	
12		Association of Canada (Manitoba)	
13		Inc and Manitoba Society of Seniors'	
14		Response	
15	CENTRA 7	Tables 1 and 2 presented in Centra's	
16		rebuttal evidence	123
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	LIST OF UNDERTAKINGS		
1			
2	NO.	DESCRIPTION	PAGE NO.
3	1	Indicate why forecast net income	
4		of \$3 million will not be achieved	
5		in the 2007 fiscal year	247
6	2	Indicate to Board why when they last	
7		set your rates, they were convinced	
8		to give you \$3 million of net income	
9		and in this application it's probably	
10		going to be closer to zero dollars	
11		of net income	248
12	3	To provide updated information that	
13		reflects a different trend as part	
14		of the competitive landscape materials	
15		filed	252
16	4	Indicate to the Board why; in reference	
17		to 2008/'09 test year, SGS residential	
18		on line 18 under direct purchase, a	
19		forecast of an increase of 6.2 percent,	
20		whereas in previous years it's always been	
21		double digit; that will be approximately	
22		half of the increase that has been	
23		forecast and seen in actual results in the	
24		prior years	253
25			

		LIST OF UNDERTAKINGS (cont'd)	
1	No.	Description	Page No.
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3	5	Indicate to Board if there's any	
4		basis in the forecasting for direct	
5		purchase customers using, on average,	
6		less gas than system supply and if	
7		so, what the basis of that would be	256
8	6	To file KPMG Report	271
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1 --- Upon commencing at 9:10 a.m.

2

3 THE CHAIRPERSON: Good morning, ladies  
4 and gentlemen. Welcome to the public hearing in respect  
5 to Centra Gas Manitoba Inc.'s 2007/'08 and 2008/'09  
6 General Rate Applications. I am Graham Lane, Chairman of  
7 the Public Utilities Board and I'm pleased to be joined  
8 on this panel by Dr. Len Evans and Mr. Eric Jorgensen.  
9 Also assisting the Board are Mr. Gerry Gaudreau, Board  
10 Secretary and Executive Director, and Mr. Hollis Singh,  
11 Associate Secretary.

12 Over the next two (2) weeks the Board will  
13 hear oral evidence from Centra and Intervenors related to  
14 Centra's General Rate Applications. Centra originally  
15 filed its applications earlier this year and on May 15th  
16 filed its pre-hearing updates.

17 Centra seeks the equivalent of a 2 percent  
18 overall revenue increase for the 2007/'08 test year;  
19 though the increase is to be effective as of May the 1st,  
20 2007, it will be charged to consumers beginning on August  
21 the 1st, 2007. If granted, a rate recovery rider will be  
22 required to recovery eleven (11) months of forecast  
23 revenue over the nine (9) month period to end before the  
24 proposed next rate increase of 1 percent. If the second  
25 increase were to be granted for 2008/'09, it would be

1 implemented on May 1st, 2008.

2                   The increase sought for 2007/'08 is to  
3 generate additional annual revenue 10.7 million. The  
4 increase sought for 2008/'09 is for an additional annual  
5 revenue amount of 5.4 million.

6                   The Board is also aware of the issues  
7 raised and positions taken by witnesses for CAC/MSOS and  
8 RCM/TREE. The Board has read volumes of evidence from  
9 Centra and the Intervenors, submitted both electronically  
10 and on paper, and I doubt that we were the only ones that  
11 have felt somewhat overwhelmed at times. The feeling I'm  
12 sure will dissipate.

13                   Over the next couple of weeks parties will  
14 have the opportunity to highlight and expand on their  
15 positions, to draw the panel's attention to specific  
16 aspects of the written evidence. That effort will be  
17 followed by closing submissions and then the Board's  
18 deliberations.

19                   To assist in our Hearing and our evidence,  
20 I'm now turning to Board counsel Mr. Peters for his  
21 introduction and opening remarks including the proposed  
22 procedures for this Hearing. Mr. Peters...?

23                   MR. BOB PETERS: Thank you. Good  
24 morning, Mr. Chairman. Good morning and welcome to Board  
25 Members Dr. Evans and Mr. Jorgensen as they embark on

1 this natural gas proceeding.

2                   For the record, my name is Bob Peters and  
3 I'm counsel to the Board. I am also assisting --  
4 assisted by and the Board is assisted by its accounting  
5 and engineering advisors Roger Cathcart of  
6 PricewaterhouseCoopers and Myron Kostelnyk and Brady Ryal  
7 (phonetic) of Energy Consultants International.

8                   As mentioned by the Chairman, Centra is  
9 requesting rate increases for two (2) test years. The  
10 first increase is sought to generate 2 percent additional  
11 annual revenue and the other to generate 1 percent of  
12 additional annual revenue. It appears that the majority  
13 of the amounts sought are for non-gas cost items and we  
14 will be exploring the details of the amounts sought,  
15 together with the other requests Centra is making of the  
16 Board in this Hearing.

17                   Mr. Chairman, ladies and gentlemen, in  
18 turning to the procedures for this Hearing I have  
19 circulated a draft of the procedures that I have proposed  
20 be followed and I circulated them earlier on green-  
21 coloured paper just for ease of reference and they  
22 represent the latest outline of procedures that I've  
23 prepared.

24                   And in terms of reviewing those, if I  
25 could just walk the Board and the parties through them I

1 just think it might help focus on where we're going, Mr.  
2 Chairman. We're at the opening comments stage as -- as  
3 you see on the outline of procedures. Following my  
4 opening comments, Mr. Chairman, I suggest it would be  
5 appropriate to turn to the Intervenors who have  
6 registered and ask for their introductions and just  
7 opening comments at this time.

8                   The first Intervenor that I have listed in  
9 my alphabetical listing is CAC/MSOS, that's the  
10 Consumers' Association of Mani -- of Canada, Manitoba  
11 chapter and the Manitoba Society of Seniors represented  
12 by Mr. Kris Saxberg who is present today.

13                   The Communications, Energy, and Paper  
14 Workers' Local 681 is represented by Mr. Sandy Boyd who  
15 is also present today.

16                   Coral Energy has registered to intervene  
17 in both this proceeding and also the landscape proceeding  
18 of the Board and I believe Mr. Paul Kerr is not here  
19 today but is monitoring the proceedings.

20                   In terms of Direct Energy Marketing  
21 Limited I know Mr. Eric Hoaken is -- is not here today  
22 but Karen Melnychuk is and I believe she'll have some  
23 opening comments.

24                   As for Energy Savings (Manitoba) Limited  
25 Partnership Ms. Nola Ruzycki is not in attendance today.

1 She's notified me that she wouldn't attend this morning,  
2 if that was appropriate and I suggested it was, that her  
3 issues will come later in the Hearing and she will arrive  
4 later, Mr. Chairman, so, when the cost of gas panel  
5 arrives I believe Ms. Ruzycki will also arrive.

6                   The next Intervenor that was registered  
7 was Koch Fertilizer and represented by Mr. Hill. The  
8 issues of Koch Fertilizer have narrowed, I believe,  
9 through the process and in an effort to assist the timing  
10 and assist Mr. Hill in asking the questions of the -- of  
11 the appropriate witnesses, I've agreed to assist on that  
12 regard and we'll raise those issues because I also have  
13 them as issues for the Board to consider.

14                   J.R. Simplot is I believe monitoring this  
15 process with Mr. Nick Gretner receiving the materials and  
16 again monitoring.

17                   In terms of the eighth Intervenor,  
18 Resource Conservation Manitoba and Time to Respect  
19 Earth's Ecosystems, I am pleased, Mr. Chairman, to  
20 introduce to the Board and welcome to these proceedings  
21 Mr. William Gange. William, or Bill as I have long  
22 called him, is a long colleague of the Bar and is working  
23 with Dr. Miller and Mr. McQuaker on preparing matters on  
24 behalf of their client.

25                   Then after the opening comments from those

1 Intervenor I suggest opening comments from -- from  
2 Centra's counsel Ms. Murphy would be appropriate.

3                   In addition to those matters, Mr.  
4 Chairman, there's been a motion filed that, I believe,  
5 the parties have seen from CAC/MSOS and the matter arises  
6 late yesterday and early this morning and it's a matter  
7 where the timing for the parties to prepare and to  
8 address it needs to be considered by the Board and it may  
9 be that the time for the argument could either be started  
10 to be heard from Mr. Saxberg's perspective after opening  
11 comments of Centra or the matter could be adjourned to a  
12 time that will afford Centra who will be looking for  
13 some additional time to -- to address those arguments.  
14 So we'll -- we'll hear from both Mr. Saxberg and Ms.  
15 Murphy on that in terms of timing.

16                   Following the opening comments and what  
17 the Board decides to do with respect to the motion in  
18 terms of whether it will be heard immediately or heard in  
19 stages, then Centra's revenue requirement panel is -- is  
20 up. The panel is before the Board today and the order of  
21 proceedings is set out on the schedule. It is hoped that  
22 after the revenue requirement panel of Centra, CAC/MSOS  
23 has a Witness speaking on revenue requirement matters,  
24 that's Mr. Matwichuk.

25                   He would be called and then following him

1 to facilitate scheduling, we would expect and we want to  
2 plan to have the evidence of at least Mr. Lloyd Kuczek  
3 heard this week on demand side management issues. Mr.  
4 Kuczek is a member of Centra's cost allocation and rate  
5 design panel.

6                   And while it appears on my outline of  
7 procedures that he will -- he will testify by himself, I  
8 would expect, and Ms. Murphy can decide at the time, that  
9 he may be joined on that panel by a couple of other  
10 members of the cost allocation and rate design panel.

11                   If we can finish Mr. Kuczek -- excuse me,  
12 Mr. Kuczek's evidence this week, I will feel a lot better  
13 in terms of our time line, Mr. Chairman. And that would  
14 let us start Monday off with Centra's cost allocation and  
15 rate design panel. We would hope to hear from, after  
16 following that panel, Mr. Steven Weiss, who will be a  
17 Witness on behalf of RCM and TREE either late Monday or  
18 first thing Tuesday morning.

19                   And he would also then be followed by  
20 CAC/MSOS's other witness Dr. Roger Higgin, and that would  
21 be on no later than Tuesday of June the 12th. Following  
22 Dr. Higgin, we would look to Centra's cost of gas panel  
23 for scheduling purposes next Wednesday and then that  
24 panel would be followed by CAC/MSOS's last witness Mr.  
25 Mark Stauff, who has evidence related to cost of gas

1 matters.

2                   Mr. Chairman, if scheduling the time isn't  
3 difficult enough, I find that we are -- we are at a  
4 disadvantage to have the luxury of time for closing  
5 submissions and we need to make some -- some plans as to  
6 when that would be for the convenience of the Board and  
7 also accommodate the schedules of the parties.

8                   It doesn't appear that there will be  
9 sufficient time following the hearing of the evidence and  
10 that means that we may have to interrupt the landscape  
11 hearing or as a, perhaps a last-case alternative, push  
12 the arguments and closing submissions related to the --  
13 to the General Rate Application over to the end of the  
14 landscape hearing which takes us probably into the first  
15 week of July.

16                   So, Mr. Chairman, that's a lot perhaps to  
17 digest and to -- to assimilate at this point in time, but  
18 the parties will endeavour to cooperate with the time  
19 line and we will try to get the witnesses heard in an  
20 orderly fashion to allow the Board to understand the  
21 evidence that's coming forward so the Board can  
22 deliberate on the decisions that it needs to make.

23                   Of course, other parties can comment on  
24 the procedures in their opening comments this morning,  
25 should they have any.

1                   As for the exhibits, Mr. Chairman, I want  
2 to thank Mr. Singh for preparing the initial exhibit list  
3 and rather than go through the thirty-one page exhibit  
4 list and go through all the exhibits, I propose that the  
5 exhibits, as listed, be accepted and given the exhibit  
6 numbers as written on the exhibit list that has been made  
7 available.

8                   The exhibits contain the application of  
9 Centra, the evidence of the Intervenor witnesses, the  
10 information request posed by all parties and the  
11 responses, as well as Centra's rebuttal evidence, which  
12 was filed on June the 1st.

13                   Should any party have comments on the  
14 exhibit list, they're invited to raise them during their  
15 opening remarks and I will indicate that even if the  
16 exhibit list is marked as an exhibit, there is a motion  
17 to have certainly parts of the rebuttal evidence that is  
18 an exhibit in these proceedings removed from the  
19 proceedings and that motion is the one (1) that I spoke  
20 of earlier made by CAC/MSOS.

21                   So Mr. Chairman, subject to any questions  
22 that you may have of me at this time, that will conclude  
23 my opening comments. I suggest, Mr. Chairman, that you  
24 turn to the Intervenors for their opening comments before  
25 turning to Centra's Counsel for her introductions and



1 client, I envision a highly-focussed intervention. I  
2 intend to cross-examine and test the evidence in support  
3 of Centra's application as it relates to the relevant  
4 areas of concern to my clients.

5                   The major issues, from our perspective,  
6 include the inclusion of the corporate allocation in the  
7 rate base rate of return revenue requirement calculation,  
8 the O&A forecast, the level of net income, aligning costs  
9 and benefits with respect to DSM programs, gas supply  
10 contracting, and capacity management issues, rate  
11 increase presentation and, in general, what we want to  
12 ensure is that Manitoba Hydro is subjected, as it always  
13 has been, to a principled regulatory approach applied  
14 rigorously and consistently.

15                   CAC/MSOS will adduce its own evidence in  
16 the form of three (3) experts: Greg Matwichuk on revenue  
17 requirement, Dr. Higgin regarding low-income DSM  
18 programs, and Mark Staft on gas supply and capacity  
19 management.

20                   Regarding the schedule of closing  
21 submissions, for myself personally I'm available at any  
22 time, including on the weekends, in June and I have some  
23 difficulties with July, however, and so from my personal  
24 perspective, I will do whatever it takes to ensure that  
25 the closing submissions in both the proceedings are heard

1 at some point in June.

2                   And I've reviewed Mr. Peter's schedule and  
3 it so far gives two (2) possible days for submissions at  
4 the end of the month -- sorry, and -- and one (1) on the  
5 15th of June. And my preference would be, though, to  
6 have the GRA closing interrupt at an appropriate time the  
7 competition hearing and, from my perspective, the best  
8 date would be for closing submissions in the GRA then to  
9 be on the 22nd or perhaps even the 21st if the first two  
10 (2) panels of the competition hearing are completed on  
11 the 20th.

12                   And - and then I would also be in favour  
13 of proceeding to closing arguments in the competition  
14 hearing on the 28th and 29th of June.

15                   It's a very ambitious schedule and it's  
16 been a difficult few months for all the parties to meet  
17 the deadlines with respect to this application and  
18 apropos that, I don't think we -- CAC -- made things any  
19 easier by filing a motion late last night to be heard  
20 this morning but I -- and I'm -- I'm going to make my  
21 comments on that later but I -- I just thought I'd say,  
22 for now, that the point of the motion is to streamline  
23 the proceedings so that this ambitious schedule goes from  
24 being only possible to realistic.

25                   And so I'll reserve comments on -- on the

1 timing as to why the motion came so late, until all  
2 parties have had their opportunity to make opening  
3 comments. So those are my comments, thank you very much,  
4 Mr. Chairman.

5 THE CHAIRPERSON: Thank you, Mr. Saxberg.  
6 Sandy Boyd...?

7 MR. SANDY BOYD: Good morning, Mr. Chair,  
8 Board, ladies and gentlemen. CEP is here, Local 681.  
9 I'm the Local President, Sandy Boyd. We're here as  
10 Intervenors primarily to gather info, maybe not eight (8)  
11 binders worth, but to gather info when it concerns  
12 operations primarily.

13 We'll probably have some questions for the  
14 revenue requirement panel and for the rest of the  
15 hearing, I'll be here intermittently, thank you.

16 THE CHAIRPERSON: Thank you, sir. Ms.  
17 Melnychuk for Direct Energy.

18 MS. KAREN MELNYCHUK: Good morning,  
19 Chairman and Board members. As you're aware, Direct  
20 Energy is actively involved in the competitive review  
21 hearing that's scheduled to begin on the 18th. We are  
22 taking a monitoring position in regards to this hearing  
23 at this time, but we do note that there are a few items  
24 that are on the agenda for this hearing in regards to the  
25 terms and conditions of service.

1                   And Direct Energy respectfully asks that  
2 those items be differed over to the competitive review  
3 hearing, that way we don't have to bring in extra staff  
4 at the moment and challenge them at this proceeding, as  
5 they are part of the review. Thank you.

6                   THE CHAIRPERSON: Thank you, Ms.  
7 Melnychuk. Mr. Gange...?

8                   MR. WILLIAM GANGE: Thank you, Mr. Chair,  
9 Board members, ladies and gentlemen. I -- my name is  
10 Bill Gange, I act on behalf of two (2) non-government  
11 organizations: Time to Respect Earth's Ecosystems, the  
12 acronym TREE and Resource Conservation Manitoba RCM.

13                   With me today are Dr. Peter Miller, the  
14 Vice-president of Tree, Carolyn Garlic (phonetic), a  
15 member of RCM and a Randall McQuaker, the Executive  
16 Director of RCM.

17                   With respect to this hearing, Mr. Chair,  
18 TREE and RCM are -- are organizations that are committed  
19 to the advancement of a more sustainable society in which  
20 our planet's nature endowments of living and nonliving  
21 systems and resources are valued, respected and  
22 conserved.

23                   Recognizing that this natural legacy is  
24 finite and subject to degradation and depletion, we  
25 promote eco efficiency, improving the ratio of social

1 benefits to environmental harms and resource depletion.  
2 As an essential pillar of a sustainable society.

3 Our objective in this, as in previous  
4 interventions before the Public Utilities Board, is to  
5 explore and urge the implementation of measures to make  
6 the production and use of energy in Manitoba more  
7 sustainable and just. The concept of sustainability is  
8 legal force in Manitoba through the Sustainable  
9 Development Act.

10 In orders 103/05 and 135/05, the Public  
11 Utilities Board confirmed that both the Public Utilities  
12 Board and Centra are subject to the Sustainable  
13 Development Act. Justice has a variety of dimensions,  
14 including fairness between current customers and fairness  
15 between present and future customers. Sustainability  
16 adds to this global perspective in which fairness goes  
17 beyond the Manitoba customer base.

18 Finally, Justice includes the recognition  
19 that a limited amount of energy is a basic and that a  
20 just society addresses the basic needs of its citizens.  
21 The latter principle is particularly important when  
22 considering special measures for low-income customers.

23 As you know, RCM and TREE were granted  
24 Intervenor status at the Centra rate hearing in 2005. At  
25 that time, our -- our expert witness, Mr. Steven Weiss,

1 introduced a variety of measures that are up for  
2 reconsideration in the current hearing.

3 As summarized in order 135/05, the Board  
4 held:

5 "The Board concludes that with  
6 commodity prices at an all time -- at  
7 all time highs, useful environmentally  
8 rate structure options, such as  
9 inverted rates, the marginal value of  
10 gas to consumers, decoupling and  
11 pricing and cost estimates of  
12 environmental externalities should be  
13 deferred for later consideration."

14 At this hearing we will, again, produce  
15 Mr. Weiss as an expert to review a number of aspects of  
16 the Centra Rate Application.

17 Before presenting the summary of the  
18 issues we will be addressing, it is our view that it is  
19 important to note that we are uncomfortable with the  
20 adversarial nature of the proceeding. For profit -- for-  
21 profit utility rate making is, by nature, adversarial.  
22 The interests of the customers are often opposed to those  
23 of the shareholders.

24 These parties will, by nature, be in  
25 conflict so the proceedings are unavoidably

1 argumentative. Centra, however, is a nonprofit entity  
2 whose fundamental interests are already aligned with  
3 those of the customers. Essentially, we are all on the  
4 same side, thus, the purpose should not be to win the  
5 arguments but to develop satisfactory and creative  
6 solutions to the utilities and the Intervenor's  
7 interests.

8                   We bring to this -- we bring this up at  
9 the beginning of the process in order to make clear the  
10 motivations of RCM/TREE; especially to note that our  
11 criticisms of current Centra policies are not attacks on  
12 the motivations, skills, or dedication of Centra staff.  
13 In all respects, our organizations believe that Centra is  
14 a well-run utility. Instead, what we seek are  
15 improvements and we hope that all parties will proceed  
16 from this common perspective.

17                   Our objectives in these interventions are  
18 to explore and urge the implementation of measures to  
19 make the production and use of energy in Manitoba more  
20 sustainable and just.

21                   Mr. Weiss' testimony will urge the Board  
22 to direct Centra to adopt full cost accounting,  
23 especially in regard to its analysis of conservation and  
24 cost -- conservation cost effectiveness and to develop an  
25 inverted rate for its small commercial and residential

1 customers.

2                   Secondly, RCM/TREE will urge the Board to  
3 review the -- the DSM planning process and programs to  
4 ensure best practices.

5                   As part of those best practices, Mr. Weiss  
6 will argue and urge the Board to consider that Centra  
7 should institute decoupling to reduce financial risk to  
8 both the Utility and the customers.

9                   Thirdly, RCM/TREE will urge the Board to  
10 direct Centra to institute more aggressive low-income  
11 programs providing both bill payment assistance and  
12 targeted conservation programs.

13                   In summary, the focus of our participation  
14 in these Hearings will be to ensure that the Sustainable  
15 Development Act is followed in a meaningful way by Centra  
16 and we look forward to this process. Thank you.

17                   THE CHAIRPERSON: Thank you, sir. Turn  
18 to Ms. Murphy for her opening comments and when she's  
19 finished, we will return back to Mr. Saxberg to just hear  
20 his motion and we'll hear again from Ms. Murphy and then  
21 we will take a break to consider the matter.

22                   Ms. Murphy...?

23                   MS. MARLA MURPHY: Good morning, Mr.  
24 Chair, Members of the Board, advisors, Intervenors,  
25 ladies and gentlemen.

1                   For the record, my name is Marla Murphy  
2 and I appear on behalf of Centra Gas Manitoba Inc. today.  
3 I'm going to take a moment just to introduce the panel  
4 that I have with me.

5                   To my immediate right is Mr. Vince Warden  
6 who is the Vice-President of Financial Administration and  
7 Chief Financial Officer for Centra Gas. Next to Mr.  
8 Warden is Mr. Willy Derksen who's the Manager of  
9 Corporate Accounting. Next we have Mr. Darren Rainkie  
10 who's Corporate Treasurer; Ms. Kelly Derksen who's the  
11 Manager of Gas Rates and Regulatory, and finally Mr. Doug  
12 Kroeker who is the Manager of Underground Construction  
13 and Services.

14                   I don't have any formal opening comments  
15 this morning. I did have a couple of matters to address  
16 and I'm not sure about the order you'd like me to address  
17 them in. I do have some comments to be made with respect  
18 to the motion that I received about five (5) to 9:00 this  
19 morning. I can reserve those if you'd like or I can deal  
20 with them now.

21                   THE CHAIRPERSON: If you'd just hold  
22 them. We'll come back to you on those shortly.

23                   MS. MARLA MURPHY: Certainly. With  
24 respect to the invitation to make comments with regard to  
25 closing submissions, I have communicated to Mr. Peters

1 that is -- it is the strong preference of Centra that the  
2 closing submissions on the GRA be heard as close to the  
3 end of the evidence in the GRA portion as possible.

4 I appreciate the schedule's very difficult  
5 and I imagine that there will be some discussions that go  
6 on in order to accomplish that, but, that is certainly  
7 our preference and we'd like to have that done in advance  
8 of the competitive landscape hearing if we can and  
9 certainly we'd be open to considering when that can fit  
10 in.

11 With respect to the suggestion made this  
12 morning by Ms. Melnychuk that the WTS terms and  
13 conditions of services be postponed out of this Hearing,  
14 that poses some difficulty to Centra. We have sought  
15 approval of changes to those T's and C's and those will  
16 be required in conjunction with the -- the implementation  
17 of the new Nexen contract. Given that that's the -- this  
18 is the hearing IN which we're proceeding and looking for  
19 approvals from the Board in respect to those items, we'd  
20 like to have them dealt with here.

21 We can certainly work with Ms. Melnychuk  
22 to talk about when those will be on. It's our intention  
23 that the cost of gas panel will speak to those matters  
24 and hopefully that can be coordinated and accomplished in  
25 this hearing. Other than with response to the motion, I

1 have no other opening comments and the panel is available  
2 for direct when you're ready.

3 THE CHAIRPERSON: Thank you, Ms. Murphy.  
4 Okay, Mr. Saxberg, if we could hear your  
5 comments on the motion that you received late last night.

6 MR. KRIS SAXBERG: Thank you, Mr.  
7 Chairman. And I think it'd be helpful to all parties to  
8 have a copy of the motion at hand. I have additional  
9 hard copies with me if -- if necessary. Mr. Chairman,  
10 Board members, do you have a copy before you? And I  
11 trust that the Centra group as the motion?

12 MS. MARLA MURPHY: Received it five to  
13 9:00 this morning, yes, we have it.

14 MR. KRIS SAXBERG: Okay. I'm not  
15 surprised that -- that you only received the motion at  
16 five to 9:00 because I sent it late last night and I was  
17 worried that you might not have even checked your email  
18 this morning. The reason for the late timing and that --  
19 of this motion is as follows, the rebuttal evidence from  
20 Centra was scheduled to be filed on -- last Friday and it  
21 was filed on Friday.

22 Later in the day, at least is when I  
23 received it. I reviewed the rebuttal evidence over the  
24 weekend and it was like, from my perspective, deja vu all  
25 over again but, nonetheless, I began preparation for the

1 hearing on Monday and -- to address these rebuttal issues  
2 and I started preparing my cross-examination on the  
3 subjects raised in the rebuttal evidence which,  
4 essentially, are, what would Centra be asking for in  
5 rates today if it wasn't owned by Manitoba Hydro?

6                   If there hadn't been an acquisition, what  
7 would the private owner of Centra be asking for in terms  
8 of revenue requirement? And the implication of that is  
9 that the analysis that's put forward is meant to give the  
10 Board comfort that the revenue requirements sought in  
11 this application is appropriate.

12                   But why I saw it's deja vu all over again  
13 is because that analysis was first done at the  
14 integration hearing in 2002 which was some three (3)  
15 years after the acquisition and the purpose of the  
16 integration hearing was to put to bed the question of  
17 whether or not ratepayers were held harmless as a result  
18 of the acquisition.

19                   And there was a very extensive hearing  
20 process that lead to a decision of the Board where the  
21 Board found that ratepayers had been held harmless and --  
22 and that the Board reviewed synergies and costs related  
23 to the transaction.

24                   The next hearing was the 2000 and -- the  
25 GRA held in 2003 for test years '03 and '04 and at that

1 hearing, once again, the Board reviewed the level of  
2 synergies and the costs related to the acquisition and  
3 the Board determined, in that proceeding, that ratepayers  
4 of both utilities were held harmless as a result of the  
5 transaction and put in place a measure to ensure that  
6 harm would not creep into the equation in the future.

7           The next GRA was in 2005 and this Board  
8 expanded and -- on the previous Board's directions and  
9 put in place a very simple straightforward test to  
10 determine whether or not there was harm to ratepayers as  
11 a result of the acquisition. And the -- throughout all  
12 three (3) of these proceedings, the Board has been very  
13 consistent in terms of its approach. And in the latter  
14 two (2) proceedings, the Board has made comments with  
15 respect to having to review synergies and costs again and  
16 the Board has cautioned that -- that because of the  
17 passage of time, going down that road is not helpful to  
18 the proceedings and -- and doesn't produce any -- any  
19 evidence that's -- that's of any value.

20           So just to turn back to the timing as to  
21 why the motion was late. I began preparation of my  
22 cross-examination, I reviewed previous transcripts and I  
23 started to craft the questions and I was doing that for  
24 about four (4) hours and I felt, at that -- at the end of  
25 that four (4) hour period, like pulling out my hair

1 because all of this information and all of the details  
2 had been covered so thoroughly in the past and are -- and  
3 are all over the record of all three (3) of those  
4 proceedings that it's, in -- in my view, and I don't want  
5 to use too strong of language, an absolute abusive  
6 process to go back and revisit these con -- these  
7 concepts again.

8 I mean, all of the evidence -- all of the  
9 questions have been asked, all of the answers have been  
10 given, the parties know exactly where -- where they  
11 stand, the Boards ruled on -- on this issue three (3)  
12 times and so it's time that we move on.

13 Now -- so it was only after re -- reaching  
14 that epiphany that I gave the matter consideration and --  
15 and reached the conclusion that perhaps the best way to  
16 deal with this would be, at the outset of the hearing, by  
17 presenting a motion wherein the Board could limit the  
18 scope of the hearing so that we don't spend needless --  
19 or we don't spend too much time on questions and answers  
20 related to what Centra would have looked like if there  
21 hadn't been a sale ten (10) years ago -- or close to ten  
22 (10) years ago.

23 So I crafted the motion and sent it out  
24 and I ackn -- I agree that it wasn't sent until probably  
25 around 9:00. And so I have asked for short leave for

1 this motion to be heard. What I say -- think would be  
2 appropriate would be for me to make my comments and to  
3 reiterate the points made in this motion and if Centra --  
4 I would welcome hearing from Centra immediately on it. I  
5 -- but I do, of course, have sympathy for My Friend and  
6 her plight in -- in not having time to prepare formal  
7 remarks.

8                   So I'll leave it up to the Board. Perhaps  
9 we could hear from Ms. Murphy on a preliminary basis and  
10 she could reserve additional time to speak -- to fully  
11 respond if -- if it needs to be the case.

12                   Now I -- I may be prejudging the matter  
13 because it may be that Centra is in -- in agreement with  
14 some of the points we're making, and the reason I say  
15 that is because Centra has its comments all over the  
16 record about the usefulness of -- of providing this kind  
17 of evidence and I'll point that out or reiterate that  
18 later in my presentation.

19                   But I -- I think that if -- if the --  
20 apropos of what Mr. Gange was saying -- Gange was saying,  
21 if the parties could come to some sort of consensus with  
22 respect to the -- the matter of -- of the scope of the  
23 hearing, I -- I think that will streamline the  
24 proceedings considerably and, from my perspective, reduce  
25 my cross-examination by at least half.

1                   So that's the context as to why it took so  
2 long for the motion to come to be. With respect to the -  
3 - to the content, what we're asking for -- and that's  
4 under the heading "The Motion Is For" and Number 2 is,  
5 we're asking that the Board restrict all of the parties  
6 from asking questions or reducing evidence related to  
7 this hypothetical assessment of what a private owner of  
8 Centra would be asking for if there had been no sale.

9                   And any matters and issues related -- or  
10 related to that presentation, for instance; the level of  
11 synergies in either organization, the costs of the  
12 synergistic measures and this may -- this may help Hydro  
13 somewhat -- the level of the -- from our perspective  
14 anyway -- the level of the corporate allocation. The  
15 level of the corporate allocation, the amount of the  
16 corporate allocation of \$12 million was dealt with  
17 extensively in 2005 in the last GRA.

18                   The Board accepted the amount and it did  
19 so because Manitoba Hydro Centra was saying, if you  
20 accept this \$12 million amount and you put it into rates,  
21 then we put this whole thing to bed. We don't have to go  
22 down the route of exploring synergies. We don't have to  
23 go down the -- the other side of the equation and  
24 consider the cost of the acquisition. We don't have to  
25 determine these same issues ad nauseam over and over

1 again. We can move on.

2                   And if -- if the Board has the opportunity  
3 during deliberations to reference Centra's closing  
4 argument in that GRA, at page 2456, beginning at line 3  
5 Centra is -- is indicating that if the \$12 million  
6 corporate allocation is accepted, then we no longer have  
7 to go down this road of synergies and costs and that --  
8 that the \$12 million will ensure that the risk of harm to  
9 gas and electric ratepayers would be avoided. So I -- I  
10 just give you that reference at page 2456, lines 3 to 16.

11                   But I know the -- that the Board is  
12 familiar with -- with the comments of Centra in past  
13 proceedings including the comments that I have quoted in  
14 the Notice of Motion at page 4, paragraph 3 which is a  
15 cross-examination conducted by Mr. Peters at the GRA that  
16 was held in 2003, more than four (4) years ago, where Mr.  
17 Peters asked, quote:

18                   "And when you say, 'bring closure to  
19 those matters,' that is you want to  
20 have those determined so they won't  
21 have to be reviewed every general rate  
22 hearing that the Gas Company has?"

23                   Mr. Warden answered:

24                   "Yes. I think the thought is that as  
25 time goes by it becomes more and more



1 synergy benefits therefrom should cease  
2 or be very limited."

3 The next quote I have is, quote:

4 "The Board believes that there is no  
5 merit in pursuing the elusive issue of  
6 estimating realized synergy benefits  
7 and projecting what would have been  
8 Centra's operating costs if the former  
9 private ownership had continued in  
10 future applications." End quote.

11 That's at page 78, Board Order 135/05.

12 Well, if you peruse the rebuttal evidence  
13 all you need to do is -- is flip to Attachment 1 of -- of  
14 the rebuttal, which is this so-called baseline of what  
15 would have occurred had the sale not taken place.

16 Now, it -- you would think that a -- if an  
17 interested observer walked into the room today, Joe  
18 average consumer, and heard us talking about an analysis  
19 of what would have occurred had a sale that took place  
20 almost ten (10) years ago not taken place, you'd -- one  
21 would think they'd be shaking their head, but --  
22 wondering what is the purpose of -- of -- and -- going  
23 such high speculation.

24 I mean, it's -- it -- it's like -- if this  
25 -- if this proceeding was trying to determine what

1 happened to Amelia Earhart, I mean it's -- it's all  
2 speculation there's -- going -- nothing good is going to  
3 come out of it. And what makes matters worse is that the  
4 Board already went down that road on three (3) occasions,  
5 probably the latter two (2) were -- were redundant in  
6 themselves.

7                   It does leave us with one (1) -- one (1)  
8 issue though that -- that sort of hangs out there and --  
9 and perhaps triggers us -- us being the Intervenors and  
10 Centra going down this -- this synergy road to nowhere  
11 and it's that we still want to ensure that the no harm  
12 principal is maintained.

13                   But on that front, my observation is that  
14 the Board has and perhaps -- and I've asked for  
15 confirmation on this notice -- Notice of Motion, set out  
16 a very simple test to ensure that ratepayers nine/ten  
17 (9/10) years down the road are not harmed as a result of  
18 the acquisition. And the test is as simple as this; the  
19 test is that before the acquisition the prior private  
20 owners made about \$14 to \$16 million in net income.

21                   That's -- that's the test and what this  
22 Board has said quite clearly is, if the corporate  
23 allocation plus the net income are within that range of  
24 fourteen (14) to sixteen (16), we know from our extensive  
25 examinations of synergies and costs that there is no

1 harm, so that is the only high level test that needs to  
2 be brought to bear here.

3 Now, the issue for this hearing is whether  
4 or not the net income plus the -- the corporate  
5 allocation, where it should be. As long as it's about --  
6 in between -- or when they're in the range of the 14 to  
7 16 million, we know there's no harm, but that doesn't  
8 mean that that's the appropriate revenue requirement for  
9 this General Rate Application.

10 So the subject of this General Rate  
11 Application is the appropriate net income plus the  
12 corporate allocation. It's -- it's not the no harm  
13 principal. And the Board said it best, I think, in the  
14 last quote that I have in the Notice of Motion, wherein  
15 the Board says:

16 "The final test to be applied is that  
17 of a combination of net income and  
18 charges to Centra by Manitoba Hydro do  
19 not result in higher rates for Centra  
20 customers than would've been the case  
21 under private ownership."

22 Now, I put in brackets there, "prior to  
23 the acquisition," that's certainly my interpretation of  
24 what the Board meant and I challenge anyone to say  
25 otherwise. So I think that the test, the no harm test,



1 when the motion was received, I would like an opportunity  
2 to review this with our witnesses and to be able to  
3 respond fully, perhaps after the lunch break, if that's  
4 appropriate. I do have a couple of comments to make  
5 immediately with respect to the manner in which I  
6 received this motion and the process that was followed in  
7 filing it.

8 I don't need to tell the Board that its  
9 rules for hearing a motion are much different than what  
10 you're seeing this morning. In fact, the rules  
11 contemplate six (6) days of notice and up to two (2) day  
12 response from the -- the party on whom the motion is  
13 served.

14 Now certainly given that rebuttal evidence  
15 was filed on Friday, I don't expect that six (6) days was  
16 appropriate, but I also do not expect that receiving a  
17 motion at five (5) to 9:00 in the morning on the  
18 commencement of the hearing is appropriate.

19 Mr. Saxberg's comments and his apology  
20 this morning are ironic, to say the least. He received  
21 this evidence on Friday. If he had a problem with it, if  
22 he had any concerns with it, he certainly knew where to  
23 reach me. I didn't have the courtesy of a phone call nor  
24 did I have the courtesy of him checking this morning to  
25 see if I had the motion. And those are kind of trial-by-

1 ambush tactics that are not appreciated and certainly.  
2 It'd be nice if others would take a page out of Mr. Gange  
3 and TREE's book this morning.

4                   With respect to the comments on the scope  
5 of the hearing, I find those also ironic. This rebuttal  
6 evidence was filed and was made necessary by the evidence  
7 that was filed on behalf of CAC. Mr. Matwichuk has put  
8 back into play all of the issues of harm that were talked  
9 about, I agree, ad nauseam in previous hearings. We'd  
10 certainly like to be able to put those issues to rest,  
11 but we are faced with proceeding those again and again.

12                   The IRs that were filed by CAC also  
13 indicate that. Mr. Saxberg suggested this morning that  
14 we ought not to look back; however, the IRs that were  
15 filed by CAC asked for information back to 1993 in some  
16 cases. So certainly there's an inconsistency in that  
17 message, as well.

18                   In respect of the rebuttal evidence that  
19 was filed, there's an attachment there that, as it turns  
20 out, is larger than it needed to be. It was intended to  
21 be an excerpt and what's been filed with the Board is a  
22 full copy of the rebuttal. We'll certainly remedy that  
23 and correct it on the record. But other than that, I  
24 would like to take an opportunity to collect my thoughts  
25 and to respond appropriately and fully after the lunch

1 break, if you consider that acceptable.

2 THE CHAIRPERSON: Thank you, Ms. Murphy.  
3 We're going to take a break now to think about Mr.  
4 Saxberg's motion. We'll come back at 10:15. Thank you.

5  
6 --- Upon recessing at 10:00 a.m.  
7 --- Upon resuming at 10:34 a.m.

8  
9 THE CHAIRPERSON: Okay, welcome back,  
10 everyone. CAC/MSOS has brought and supported a motion to  
11 clarify the scope of this hearing and strike out aspects  
12 of Centra's rebuttal and declare that the no harm test  
13 does not involve measuring Centra's current revenue  
14 requirement against a hypothetical calculation assuming  
15 private ownership of Centra.

16 The Board clearly understands CAC/MSOS's  
17 submissions and agrees that a detailed analysis of what  
18 the revenue requirement would be if Centra was privately  
19 owned would only be a hypothetical exercise. The Board  
20 has ruled before on this matter.

21 Centra's rebuttal makes high-level  
22 assumptions and for purposes of this Hearing such  
23 evidence should remain at a high level and parties should  
24 not drill down to the minutia. Centra's position is  
25 based on a proposed principle and not on detailed

1 calculations and should remain on that high level.

2                   The Board will allow Centra to present its  
3 case including rebuttal and will allow questions which,  
4 again, should be on a high level to clarify or challenge  
5 Centra's hypothetical calculations. Again, hypothetical  
6 is hypothetical; you can't prove or disprove but you can  
7 posit or argue.

8                   By denying CAC/MSOS' motion at this time,  
9 the Board is not necessarily disagreeing with CAC/MSOS,  
10 rather Centra's rebuttal on certain points raises a  
11 proposed principle that so long as there is no harm in  
12 the calculations of the revenue requirement, then the  
13 amount of the return to the shareholder is a redundant  
14 consideration. We cannot stress that enough.

15                   In closing submissions, the Board will  
16 hear the positions of the parties and will determine  
17 what, if any, weight to attach to Centra's rebuttal  
18 evidence.

19                   We will now turn to Ms. Murphy and her  
20 panel. She need not speak further to the CAC/MSOS  
21 motion.

22                   We are pleased by both CAC/MSOS' and  
23 Centra's wanting to be economical about this Hearing and  
24 we will also note, with pleasure, Mr. Gange's suggestion  
25 of a collegial approach to the Hearing.

1                   Ms. Murphy, do you want to begin the  
2 questions of the panel and, Mr. Singh, would you swear  
3 them in.

4

5 CENTRA'S REVENUE REQUIREMENT PANEL:

6

7                   VINCE WARDEN, Sworn

8                   WILLY DERKSEN, Sworn

9                   DARREN RAINKIE, Sworn

10                  KELLY DERKSEN, Sworn

11                  DOUG KROEKER, Sworn

12

13                   MS. MARLA MURPHY:    Thank you, Mr.  
14 Chairman, Members of the Board.  The panel which I've  
15 introduced to you this morning, their witness  
16 qualifications were filed.  We have the qualifications of  
17 Messrs. Warden, Derksen, Rainkie, Ms. Derksen, and Mr.  
18 Kroeker all marked as Centra Exhibits 4-1 through 4-5,  
19 respectively.

20                   These witness qualifications set out the  
21 positions of each of the panel member, their experience  
22 and educational qualifications, previous appearances  
23 before the Board, their areas of responsibility with  
24 respect to the application, their adoption of pre-filed  
25 evidence as it relates to their areas of responsibility.

1 Copies of those witness qualifications were sent to all  
2 parties on Friday, June the 1st and we do have extra  
3 copies available if anyone requires them.

4 With your permission, I'd like to proceed  
5 with direct examination of the panel.

6 THE CHAIRPERSON: Please.

7 MS. MARLA MURPHY: Thank you. Mr. Chair,  
8 Mr. Rainkie is going to be referring to Tables 1 and 2  
9 which are presented in Centra's rebuttal evidence. For  
10 ease of reference we've reproduced them and circulated  
11 them this morning and perhaps they could be marked as a  
12 standalone exhibit? I believe that would be Centra  
13 Exhibit 7?

14 THE CHAIRPERSON: Subject to check,  
15 that's fine.

16  
17 --- EXHIBIT NO. CENTRA-7: Tables 1 and 2 presented in  
18 Centra's rebuttal evidence

19

20 EXAMINATION-IN-CHIEF BY MS. MARLA MURPHY:

21 MS. MARLA MURPHY: Mr. Warden, would you  
22 please outline your areas of responsibility with respect  
23 to this panel?

24 MR. VINCE WARDEN: Yes, good morning, Mr.  
25 Chairman, Members of the Board, ladies and gentlemen.

1                   My testimony will be primarily related to  
2 policy issues with respect to Centra's General Rate  
3 Application.

4                   MS. MARLA MURPHY:    Would you please  
5 outline what Centra is seeking in this application?

6                   MR. VINCE WARDEN:    There are four (4)  
7 main components to Centra's application.  Number 1, we're  
8 requesting a 2 percent increase in overall revenue  
9 effective May the 1st, 2007, sufficient to generate  
10 additional revenue of approximately \$10.7 million per  
11 year.

12                   Number 2, a further increase of 1 percent  
13 in overall revenue effective May the 1st, 2008,  
14 sufficient to generate additional revenue of  
15 approximately \$5.4 million per year.

16                   Number 3, a refund to customers of \$9  
17 million of accumulated non-primary gas PGVA and other gas  
18 cost deferred accounts.  And number 4, an increase in  
19 non-primary gas costs of 1.1 million for the 2007/'08  
20 fiscal year.

21                   MS. MARLA MURPHY:    Mr. Warden, can you  
22 please outline for the Board why you've viewed Centra's  
23 proposed rate increases as reasonable?

24                   MR. VINCE WARDEN:    As stated in Centra's  
25 application, the mandate of Centra Gas is to acquire,

1 manage and distribute supplies of natural gas to meet the  
2 requirements of Manitoba in a safe, cost-effective,  
3 reliable and environmentally appropriate manner.

4           In assessing whether or not the requested  
5 rate increases of Centra are reasonable, each of the  
6 components of safety, reliability, cost-effectiveness and  
7 the environment must be considered.

8           In serving its customers, Centra also  
9 considers the long-term financial integrity of the gas  
10 utility to be very important. It is for these reasons,  
11 safety, reliability, cost-effectiveness, environment --  
12 environmental responsibility and financial integrity that  
13 Centra is requesting modest rate increases, a total of 3  
14 percent over two (2) years.

15           If Centra's requested rate increases are  
16 approved by the Public Utilities Board, net income is  
17 projected to be \$6 million in 2007/'08 and \$7 million in  
18 2008/'09. This level of net income will allow Centra's  
19 retained earnings to increase from the current level of  
20 approximately \$20 million to about \$33 million by March  
21 31st of 2009.

22           Retained earnings of 33 million will  
23 improve the debt:equity ratio of Centra to about eighty-  
24 five/fifteen (85/15), which is still a high debt ratio,  
25 but definitely moving in the right direction towards

1 Hydro's and Centra's target of seventy-five/twenty-five  
2 (75/25).

3 MS. MARLA MURPHY: Mr. Warden, there has  
4 been considerable discussion about the appropriate way to  
5 calculate the debt:equity ratio, can you comment on this  
6 please.

7 MR. VINCE WARDEN: Yes, I'd be pleased to  
8 because I do believe that this has become a somewhat  
9 larger issue than it perhaps should be. There are  
10 alternative and acceptable ways of calculating a  
11 debt:equity ratio, in fact, even credit rating agencies  
12 have their own ways of calculating this ratio.

13 The important point in calculating the  
14 debt:equity ratio is to use a consistent methodology so  
15 that progress towards a predetermined target can be  
16 consistently measured. Manitoba Hydro's method of  
17 calculating the debt:equity ratio is relatively simple.  
18 The numerator is long-term debt, the dedom -- denominator  
19 is long-term debt plus retained earnings plus  
20 contributions in aid of construction.

21 Manitoba Hydro has define the debt:equity  
22 ratio in this manner for at least twenty (20) years and  
23 we've clearly published it this way in our annual reports  
24 over this period of time, so, I think we've met the test  
25 of consistency. Not only do we calculate our actual

1 results in this manner, but we also calculate our  
2 seventy-five/twenty-five (75/25) debt:equity target in  
3 the same and consistent manner.

4                   Now, if we want to change the definition  
5 as to how the debt:equity ratio is calculated, that's  
6 okay, we can do that, but it stands to reason that we  
7 also have to change the target calculation. Because I  
8 don't think anyone has suggested that Centra shouldn't  
9 have retained earnings, it's just a question of agreeing  
10 of what the quantum of those retained earning should be  
11 and then having an appropriate formula for achieving  
12 those retained earnings in a reasonable, structure and  
13 customer sensitive way.

14                   Including a 121 million of shared capital  
15 in the denominator of the debt:equity ratio will yield a  
16 ratio of 70/30, that's just arithmetic.

17                   However, as stated in Centra's re --  
18 Centra's rebuttal evidence, a debt:equity ratio  
19 calculated in this manner would require a corresponding  
20 target ratio of 60/40. The end result of these two (2)  
21 different methodologies is that rate increases required  
22 to obtain each of these ratios are virtually identical.

23                   And as we've stated in the Board Order --  
24 and as was stated in the Board Order 135/05, the  
25 debt:equity discussion is only relevant in determining

1 the need for an appropriate level of any required rate  
2 increases.

3 MS. MARLA MURPHY: Mr. Warden, if there  
4 are -- are alternative acceptable ways of calculating the  
5 debt:equity ratio, why does Centra prefer the method that  
6 excludes a \$121 million of shared capital?

7 MR. VINCE WARDEN: In addition to the  
8 importance of consistency that I referenced earlier,  
9 Centra's preferred method recognizes the historical  
10 reality of the purchase of Centra Gas by Manitoba Hydro.  
11 The purchase of the Centra Gas was based on a share  
12 purchase agreement. The purchase of Centra shared  
13 capital was a 100 percent debt financed by Manitoba  
14 Hydro.

15 This makes the shared capital of Centra's  
16 -- on Centra's balance sheet to be more debt like than  
17 shared capital -- than the share capital that existed  
18 pre-acquisition. Unlike retained earnings, Centra's  
19 shared capital cannot be drawn down to offset operational  
20 losses.

21 Upon consolidation, the shared capital no  
22 longer exists and does not enter into the debt:equity  
23 calculation on a consolidated basis. Therefore, from the  
24 cost of service perspective and for Manitoba Hydro's  
25 consistent target setting purposes, it is most

1 appropriate to exclude shared capital from the  
2 debt:equity ratio calculation.

3 MS. MARLA MURPHY: Mr. Warden, are there  
4 any other issues you'd like to bring to the Board's  
5 attention at this time?

6 MR. VINCE WARDEN: There is one (1) issue  
7 related to Centra's operations that should be raised and  
8 it's a new one (1) for both Manitoba Hydro and Centra  
9 Gas. It's related to the looming labour and skill  
10 shortage that my counterparts and other utilities across  
11 Canada have been talking about for some time.

12 It's finally hitting home in Manitoba and  
13 I thought it important to flag this as an issue that will  
14 likely have some impact on Centra's operations and costs  
15 over the next several years. Manitoba Hydro and Centra  
16 Gas have been blessed with some exceptionally talented --  
17 talented and dedicated people over the years and whatever  
18 its success the Corporation currently enjoys, is largely  
19 due to those people.

20 In order to continue to attract and retain  
21 such talent in an increasingly competitive marketplace,  
22 we are going to have to be prepared to confront some new  
23 issues and some higher costs. This is happening at a  
24 time when both Centra and Hydro are seeing the effects of  
25 aging infrastructures and this will present increasing

1 challenges for both utilities in the future.

2 MS. MARLA MURPHY: Thank you, Mr. Warden.

3 Mr. Derksen, would you please outline your  
4 areas of responsibility with respect to this panel?

5 MR. WILLY DERKSEN: Yes, thank you. Good  
6 morning, Mr. Chairman, members of the Public Utilities  
7 Board, ladies and gentlemen. In my testimony I'll  
8 hopefully be responding to questions related to the  
9 integrated cost allocation methodology and its impacts on  
10 operating and administrative costs.

11 As well, I -- I will be providing evidence  
12 with respect to Centra's other income, depreciation and  
13 amortization expense and capital and other taxes.

14 MS. MARLA MURPHY: Mr. Derksen, could you  
15 please advise the Board whether there have been any  
16 changes to the integrated cost allocation methodology  
17 since it was accepted in order 118/03?

18 MR. WILLY DERKSEN: Since the last GRA,  
19 Manitoba Hydro and Centra have harmonized the overhead  
20 rates such that all projects, be they electric or gas,  
21 capital or operating, will absorb overhead at the same  
22 level. This enhancement provides for a greater  
23 understandability of charges, results in more efficient  
24 processes and has only a very minor impact on the amount  
25 of overhead allocated to Centra.

1                   There have been no other changes to the  
2 costing methodology.

3                   MS. MARLA MURPHY:   Mr. Derksen, would you  
4 please outline Centra's cost of operations for 2007/'08  
5 and 2008/'09, included in this application?

6                   MR. WILLY DERKSEN:   Yes, Centra's  
7 operating and administration costs for the 2007/'08 test  
8 year are forecast to be 56.6 million and for the 2008/'09  
9 test year, a forecast to 58 million. These amounts  
10 incorporate actual and expected changes to cost levels  
11 and to program requirements and are net of productivity  
12 improvements which are embedded in operating targets.

13                   The resultant increases requested for  
14 operating and administration costs are in line with  
15 inflation forecasts for Manitoba.

16                   MS. MARLA MURPHY:   Mr. Derksen, in order  
17 to properly assess the operating and administration costs  
18 incurred by and assessed to Centra, is it necessary to  
19 consider the totality of the operation -- operating and  
20 administration expenses incurred by the organization as a  
21 whole?

22                   MR. WILLY DERKSEN:   Centra reiterates its  
23 position that a global view of all of Hydro's costs is  
24 unnecessary, inappropriate, and would result in  
25 substantial extra time and costs with no commensurate

1 benefit in this proceeding. As outlined in the response  
2 to CAC/MSOS/Centra-84, Centra's allocation methodology is  
3 based upon causal principles and has undergone extensive  
4 review at previous proceedings and was found acceptable  
5 by the PUB in its order 208/02.

6 Further, when this same position was  
7 subsequently put before the Board by CAC/MSOS in Centra's  
8 2003/'04 test year GRA, the Board found that it was  
9 satisfied that it has sufficient information to rule on  
10 these matters and does not believe it necessary to  
11 analyse costs of operations on a global basis and that's  
12 from page 98 Board Order 118/03.

13 The cost allocation used by Centra  
14 continues to be appropriate for this purpose as it is  
15 based upon direct charging by departments responsible for  
16 gas operations and provides a high degree of transparency  
17 of the cost of operating a natural gas utility.  
18 Forecasts and actual results are shown on a comparative  
19 basis year over year with full disclosure as to the  
20 functions performed on behalf of the Utility.

21 The processes used and costs reported have  
22 appropriate system, process, and reporting controls that  
23 make them reliable and supportable. This is demonstrated  
24 by the consistency of the total charges to Centra and the  
25 substantial information that has been provided through

1 the -- this application and information exchange  
2 processes.

3 MS. MARLA MURPHY: Thank you, Mr.  
4 Derksen.

5 Mr. Rainkie, would you please outline your  
6 areas of responsibility with respect to this panel?

7 MR. DARREN RAINKIE: Good morning, Mr.  
8 Chairman, Members of the Public Utilities Board, ladies  
9 and gentlemen.

10 In my testimony I will be providing  
11 evidence related to the rate base and rate of return  
12 calculations for each of the test years including working  
13 capital, return on equity, and capital structure.

14 I will also be providing evidence with  
15 respect to Centra's finance expense under the cost of  
16 service methodology.

17 MS. MARLA MURPHY: Mr. Rainkie, could you  
18 please describe how Centra has approached the calculation  
19 of revenue requirement under the cost of service  
20 methodology?

21 MR. DARREN RAINKIE: The cost of service  
22 methodology includes all of the traditional costs of  
23 operating a gas utility, namely, cost of gas, operating  
24 costs, depreciation and amortization, and capital and  
25 other taxes offset by other income. The cost of service

1 methodology also includes finances and costs and the net  
2 income that is necessary to make steady progress towards  
3 the attainment of financial targets.

4           The cost of service methodology also  
5 includes a corporate allocation which represents Centra's  
6 share of the total annual costs required to amortize the  
7 cost incurred by Manitoba Hydro to acquire Centra in  
8 1999. Inherently Centra's presentation of the cost of  
9 service methodology is an integrated view of Centra's  
10 operations within the context with the consolidated  
11 operations of Manitoba Hydro.

12           Centra's cost of service proposals for  
13 2007/'08 and 2008/'09 are shown on column 1 of Tables 1  
14 and 2 which was just marked as Centra Exhibit Number 7.

15           MS. MARLA MURPHY: Can you please  
16 describe for the Board how Centra has applied the rate  
17 base rate of return methodology in this application?

18           MR. DARREN RAINKIE: The rate base rate  
19 of return methodology also includes the traditional costs  
20 of operating the Utility but differs in that it includes  
21 a provision for financing costs and net income through a  
22 return on rate base. The return on rate base is  
23 calculated by multiplying Centra's investment in plant  
24 and working capital which is known as rate base for  
25 regulatory purposes by the weighted average cost of

1 capital which is known as overall rate of return for  
2 regulatory purposes.

3                   Centra has also included the corporate  
4 allocation in the revenue requirement based on rate base  
5 rate of return as it recognizes the minimum synergy  
6 savings that -- which Centra customers have received the  
7 benefit of as a result of the acquisition.

8                   In contrast to the cost of service  
9 methodology Centra's calculation of the rate base rate of  
10 return methodology has been presented using the  
11 standalone methodology which includes shared capital as  
12 part of the equity of Centra on a standalone basis.  
13 Centra's rate base rate of return calculations for  
14 2007/'08 and 2008/'09 are shown on column 2 of Centra  
15 Exhibit Number 7.

16                   MS. MARLA MURPHY:   Mr. Rainkie, can you  
17 please outline for the Board the results of the  
18 comparison between the cost of service and rate base rate  
19 of return?

20                   MR. DARREN RAINKIE:   Certainly.   Centra  
21 calculated its 2007/'08 and 2008/'09 General Rate  
22 Application on the cost of service basis.   The Public  
23 Utilities Board can take comfort that the requested rate  
24 increases are below the maximum allowable under a rate  
25 base rate of return.   In 2007/'08 the revenue requirement

1 on -- under a cost of service basis is approximately \$6.4  
2 million lower than under a rate base rate of return  
3 methodology.

4 In 2008/'09, Centra's revenue requirement  
5 under cost of service is 5.7 million lower than -- than  
6 under a rate base rate of return methodology. This is  
7 consistent with the Board directive in order 103/05 and  
8 is demonstrated in column 3 of Centra Exhibit Number 7.

9 MS. MARLA MURPHY: There have been  
10 suggestions that Centra's requested rate changes could  
11 result in potential harm to its customers; can you please  
12 respond to that suggestion?

13 MR. DARREN RAINKIE: As Centra has  
14 outlined in its evidence at the 2003/'04 GRA and the  
15 2005/'06 and the 2006/'07 GRA, it strongly supports the  
16 principle that the rates charged under Manitoba Hydro  
17 ownership should not result in financial harm to Centra's  
18 customers as a result of the acquisition.

19 The disagreement is with respect to the  
20 proper basis on which to calculate no harm. In Centra's  
21 view, the proper basis for calculation on the no harm is  
22 that Centra -- is the rates that Centra customers would  
23 have been charged absent the acquisition of Centra by  
24 Manitoba Hydro. This calculation would be based on the  
25 revenue requirement under the rate base rate of return

1 methodology assuming West Coast Energy Inc. ownership.

2                   Centra has presented that calculation in  
3 column 4 of Centra Exhibit number 7. Based on the proper  
4 comparison of no harm, Centra concludes that its rate  
5 proposals that are derived from the cost of service  
6 methodology calculation are significantly lower than the  
7 absent acquisition no harm calculation.

8                   Centra's cost of service proposals are 7.7  
9 million and 7.0 million lower than the absent acquisition  
10 calculations for 2007/'08 and 2008/'09, which is  
11 demonstrated on column 5 of Centra Exhibit 7. These  
12 calculations and the fact that the absent acquisition  
13 calculations are conservative demonstrates that this --  
14 the cost of service proposal does not result in any hard  
15 to Centra's ratepayers.

16                   MS. MARLA MURPHY: Mr. Rainkie, can you  
17 please respond to the concern that Centra's cost of  
18 service revenue requirement proposals may represent  
19 excess return to Centra Gas?

20                   MR. DARREN RAINKIE: Yes, the paramount  
21 consideration for the Public Utilities Board in setting  
22 rates ought to be whether or not the requested revenue  
23 requirement exceeds the absent acquisition revenue  
24 requirement and not the specific components that make up  
25 either cost of service or rate base rate of return. In

1 Centra's view, this concern over excess return is  
2 redundant to the consideration of no harm.

3           As long as there is no harm to customers  
4 then the PUB has satisfied its mandate of ensuring just  
5 and reasonable rate and does not need to engage in  
6 comparisons of submission-components of the revenue  
7 requirement. In a publicly owned utility, retained  
8 earnings are accumulated for the benefit of customers and  
9 not the shareholders.

10           As such, the concept of excessive return  
11 to the shareholder is not congruent with the current  
12 ownership structure of Centra and appears to be a  
13 holdover from the private days of ownership of Centra.

14           MS. MARLA MURPHY: Thank you, Mr.  
15 Rainkie.

16           Ms. Derksen, would you please outline your  
17 areas of responsibility with respect to this panel?

18           MS. KELLY DERKSEN: Good morning, Mr.  
19 Chairman, members of the Public Utilities Board, ladies  
20 and gentlemen. In my testimony on this panel, I will be  
21 providing evidence relating to Centra's letter of  
22 application including the requested revenue requirement.

23           I will also be responding to questions  
24 related to the approvals Centra is requesting in its  
25 application with respect to rates and for final approval

1 of interim orders.

2 MS. MARLA MURPHY: Ms. Derksen, would you  
3 please outline for the Board what Centra is seeking in  
4 terms of a non-gas cost increase in this application?

5 MS. KELLY DERKSEN: Yes. Centra is  
6 seeking approval of a 2007/'08 non-gas cost revenue  
7 requirement of approximately a hundred and thirty-seven  
8 point seven million, which is a non-gas cost increase of  
9 six point five million when compared to non-gas costs  
10 currently embedded in rates.

11 For the 2008/'09 test year, Centra's  
12 requesting approval of a non-gas revenue requirement of a  
13 hundred and forty-three million. The details of these  
14 requests are provided in the cost of service materials at  
15 tab 4 of Centra's application.

16 MS. MARLA MURPHY: Mr. Derksen, can --  
17 can you please explain to the Board why there's a  
18 difference between the additional revenue the company is  
19 seeking and the proposed non-gas cost increase?

20 MS. KELLY DERKSEN: As Mr. Warden  
21 addressed this morning and as shown on the updated  
22 schedule 3.0.0, filed on May 15th, 2007, Centra's seeking  
23 approval of additional annualized revenue of  
24 approximately 10.7 million for the 2007/'08 test year.

25 Centra's also requesting additional annual

1 revenue of approximately 5.4 million in the 2008/'09 test  
2 year. The difference between the additional annualized  
3 revenue of 10.7 million and the 2007/'08 test year and  
4 the non-gas cost increase of 6.5 million amounts to the  
5 increase in rates the Company requires from the reduction  
6 in annual customer consumption.

7                   Given that Centra's rates, for the most  
8 part, recover fixed costs in a volumetric charge, if a  
9 customer's consumption declines, a -- as has been the  
10 case since the last General Rate Application, Centra will  
11 not recover the non-gas costs previously approved by the  
12 Board.

13                   As such, of the \$10.7 million increase in  
14 revenue the Company is proposing on an annualized basis  
15 for the 2007/'08 test year, approximately 4 million or 40  
16 percent relates to volume reductions.

17                   MS. MARLA MURPHY: Ms. Derksen, can you  
18 please outline for the Board, the interim orders for  
19 which Centra is seeking final approval?

20                   MS. KELLY DERKSEN: In addition to the  
21 final approvals -- to the final approvals related to the  
22 cost of gas, which will be addressed later in the  
23 proceeding, Centra is seeking final approval on an in --  
24 of interim ex parte Orders 5 of '07 and 60 of '07,  
25 related to the approval of interim primary gas rates

1 effective February 1, 2007 and May 1, 2007, respectively.

2 MS. MARLA MURPHY: Ms. Derksen, Centra is  
3 also seeking final approval of gas costs for the 2006/'07  
4 fiscal year. Can you please outline the twelve (12)  
5 month actual gas costs for 2006/'07 for which Centra is  
6 seeking approval?

7 MS. KELLY DERKSEN: Yes, and as Mr.  
8 Sanderson will speak to later on in the proceeding,  
9 Centra -- Centra is seeking final approval of gas costs  
10 in the amount \$419.2 million for the period of April 1st,  
11 2006 to March 31st, 2007.

12 MS. MARLA MURPHY: Thank you, Ms.  
13 Derksen.

14 Mr. Kroeker, would you please outline your  
15 areas of responsibility with respect to this application?

16 MR. DOUG KROEKER: Good morning, Mr.  
17 Chairman, members of the Public Utilities Board, ladies  
18 and gentlemen. In my testimony I will be responding to  
19 questions regarding the transmission and distribution  
20 business unit capital expenditures and cost of operations  
21 related to Centra. As well, I will be providing an  
22 update with respect to the four (4) party trenching  
23 initiative.

24 MS. MARLA MURPHY: Mr. Kroeker, would you  
25 please briefly outline the capital expenditures for

1 system load growth included in Centra's application?

2 MR. DOUG KROEKER: The installation of  
3 new services and distribution mains to attach new  
4 customers in the existing franchise area is Centra's  
5 largest capital investment on an annual basis. For the  
6 2006/'07 year, Centra anticipates attaching capital  
7 expenditures of approximately 10 million.

8 For the 2007/'08 test year, Centra  
9 anticipates capital expenditures of approximately 9.5  
10 million. And for the 2008/'09 test year, Centra  
11 anticipates capital expenditures of approximately 9.6  
12 million.

13 MS. MARLA MURPHY: Mr. Kroeker, could you  
14 please briefly update the Board with respect to the four  
15 (4) party trench initiative?

16 MR. DOUG KROEKER: The four (4) party  
17 trench -- trench installation program integrates Centra's  
18 gas installation into the former three (3) party, which  
19 is electric, telephone, and cable TV trench process.  
20 Centra continues with its four (4) party optimization  
21 efforts.

22 Centra has completed the purchase of the  
23 tools required to equip internal crews for the gas work.  
24 In April of this year, Centra completed practical field  
25 and classroom training for some staff of polyethylene

1 fusion. There is additional classroom training scheduled  
2 for mid-June of this year.

3           As planned, several in-house installation  
4 crews are now performing their own polyethylene fusions,  
5 thus displacing the contractor forces that previously  
6 performed these tasks. Centra is in the process of  
7 modifying construction inspection practices from a model  
8 designed for inspection of contractor construction crew  
9 to a model more suited to inspection of in-house crews  
10 performing the work.

11           Centra expects to implement the changes in  
12 the inspection practices in the latter part of 2007 and  
13 early 2008. Work to modify Centra's project estimating  
14 systems to account for internal crews performing the work  
15 is underway now.

16           MS. MARLA MURPHY: Could you please  
17 briefly describe this system integrity programs and  
18 projects currently in place at Centra?

19           MR. DOUG KROEKER: In Section 4.4.4 of  
20 the Application, Centra has outlined operating programs  
21 for cathodic protection monitoring, close interval  
22 surveys, A-frame surveys, pipeline and water crossings  
23 depth of cover surveys, development of welding  
24 procedures, and slope monitoring.

25           Other Centra operating programs pertaining

1 to system integrity which are covered on customer service  
2 and marketing operating programs include damage  
3 prevention programs, leak surveys, and right-of-way  
4 condition surveys and maintenance, and please refer to  
5 page 27 Tab 4 for details.

6 In Section 5.2 of the application several  
7 integrity-related capital programs are listed including  
8 the Riser Rehabilitation Program, LGS regular --  
9 regulator and relief vent piping upgrades, polyethylene  
10 butt fusion remediation project, below-grade entry  
11 rehabilitation project, outside meter set rehabilitation,  
12 mitigation of ground movement and erosion on transmission  
13 pipelines on Dunkirk Drive river crossing protection  
14 works.

15 MS. MARLA MURPHY: Mr. Kroeker, could you  
16 please briefly update the Board on the implementation of  
17 Centra's Riser Rehabilitation Program?

18 MR. DOUG KROEKER: The Riser  
19 Rehabilitation Program is a multi-year project involving  
20 the inspection of approximately sixty-six thousand  
21 (66,000) residential services where meters are installed  
22 inside the premises and can fail due to differential  
23 movement between the service riser and the building  
24 foundation.

25 These inspections assess the condition of

1 the regulator set and service riser and prioritize those  
2 requiring rehabilitation. For services that are  
3 determined to be a priority for rehabilitation the meter  
4 will be moved from the inside to the outside of the  
5 premises where possible.

6                   Since commencement of the program in  
7 2000/2001 approximately sixteen thousand (16,000) riser  
8 rehabilitations have been completed by the end of the  
9 2006/'07 year. The program's expected to continue to  
10 2008/'09 with plans to rehabilitate approximately five  
11 thousand (5,000) additional service risers.

12                   In connection with the Riser  
13 Rehabilitation Program a number of piping failures have  
14 occurred to residential service assemblies without  
15 outside meter sets due to soil settlement were  
16 identified.

17                   The analysis of these failures have shown  
18 that most failures were associated with the service riser  
19 assemblies where auxiliary piping downstream of the meter  
20 had limited the movement capability of the meter set  
21 piping.

22                   During the 2004/'05 and 2005/'06 year  
23 Centra identified and inspected approximately ten  
24 thousand (10,000) of these services to define the scope  
25 of the rehabilitation program and prioritize those sites

1 requiring rehabilitation.

2                   The rehabilitation phase of the project  
3 commenced in 2006/'07 with the rehabilitation of services  
4 at approximately two hundred (200) locations.

5                   MS. MARLA MURPHY:    Could you please  
6 briefly outline the work pertaining the mitigation of  
7 transmission pipeline ground movement and erosion?

8                   MR. DOUG KROEKER:    In 2004/'05 Centra  
9 conducted a comprehensive geotechnical and hydrotechnical  
10 review of all its transmission pipeline right-of-ways to  
11 assess the potential for slope movement, erosion, or a  
12 combination of both of these factors that could adversely  
13 impact pipeline integrity. The study identified  
14 mitigation recommendations and options for a number of  
15 sites.

16                   Mitigation options include installation of  
17 slope monitoring equipment, slope grading and  
18 installation, erosion protection measures, and  
19 topographic surveys to allow remedial measures to be  
20 planned or assist in the future assessment of the ground  
21 movement potential.

22                   During 2005/'06 and 2006/'07 Centra  
23 conducted topographic surveys and plans to implement the  
24 selected remedial measures over a three (3) year period  
25 commencing in 2007/'08.

1                   MS. MARLA MURPHY:    Thank you, Mr.  
2 Kroeker.  Mr. Chair, that concludes our direct  
3 examination and the panel is available for cross-  
4 examination.

5                   THE CHAIRPERSON:    Thank you, Ms. Murphy.  
6 Thank you, panel.  Mr. Peters, whenever you're ready.

7

8 CROSS-EXAMINATION BY MR. BOB PETERS:

9                   MR. BOB PETERS:    Thank you, Mr.  
10 Chairman, Board Members, panel members.

11                   Mr. Cathcart is assisting in handing out a  
12 book of documents.  Mr. Boyd said this morning that he  
13 wasn't sure he was fully needing the eight (8) binders of  
14 material from Centra plus the Intervenors, so I thought  
15 I'd maybe provide him with another -- another book of  
16 documents to add to his collection.

17                   I will say at the outset, Mr. Chairman,  
18 Board members and Panel members, that every document in  
19 this book of documents is found elsewhere in the eight  
20 (8) volumes of material that Centra has provided to us.  
21 So, if you feel more comfortable searching the other  
22 paper or perhaps the hard drives on your computer, you  
23 can.  But it's intended that these documents aren't a  
24 surprise, and I don't suggest any of them need to be  
25 marked, Mr. Chairman, as an extra exhibit because they

1 are all already are marked as exhibits in other matters.

2                   So, with that brief introduction and the  
3 usual reminder to the Panel that the questions are  
4 addressed to the Panel, not to individual individuals.  
5 So that if -- if somebody else has a comment or wants to  
6 address it, from where the pattern has been going, I'm  
7 not opposed to that.

8                   I will also remind the Panel that the  
9 Board is looking for answers on behalf of the Utility  
10 Centra Gas Manitoba, Inc. and not necessarily your  
11 personal views. So we'll -- we'll keep it on the same  
12 level.

13                   I'd like to start with tab 1 of the book  
14 of documents, and I wanted to go with some pace through  
15 the application, but I do want the Board to know exactly  
16 what's being asked of them at the end of the day.

17                   Mr. Warden, to start with, you asked and  
18 indicated in your opening comments to Ms. Murphy that the  
19 first thing that you were seeking was a 2 percent  
20 increase -- you used the words, interestingly; 2 percent  
21 increase in overall revenue commencing May 1st, 2007.

22                   Did I have that right, Mr. Warden?

23                   MR. VINCE WARDEN: Yes, the rate increase  
24 is based on Centra's total revenue and, therefore, that's  
25 why we linked the rate increase with the objective of how

1 much we're trying to generate, because, as you know, that  
2 base continues to change depending on the changing price  
3 of gas. So, therefore, the amount we're attempting to  
4 generate with 2 percent is equivalent to 10.4 million in  
5 the first year.

6 MR. BOB PETERS: It was ten point four  
7 (10.4) in the -- in the application as filed, and I'm  
8 sure Ms. Derksen will -- will help the Board that if they  
9 could pencil in where it says 10.4 million under point A,  
10 that really now becomes 10.7 million under the cost of  
11 gas update. Would that correct, Ms. Derksen?

12 MS. KELLY DERKSEN: That's fair, Mr.  
13 Peters. Yes.

14 MR. BOB PETERS: And -- and, Mr. Warden,  
15 you were right on the point I was wanting to -- to focus  
16 on, and that is the way the application is presented, it  
17 seeks approval of a 2 percent rate increase but, in fact,  
18 what it's seeking is approval of additional annual  
19 revenue equal to 2 percent of the Corporation's annual  
20 revenue. Would that be a better way of stating it?

21 MR. VINCE WARDEN: Yes, I'll agree with  
22 that. Yes.

23 MR. BOB PETERS: Would it be factually  
24 correct, Mr. Warden or Ms. Derksen, that another way to  
25 say that was you're looking for an average 2 percent rate

1 increase effective May 1st? Because if you have -- if  
2 every rate was increased on an average of 2 percent, you  
3 would still generate the \$10.7 million.

4 MS. KELLY DERKSEN: I would agree with  
5 that, Mr. Peters. Yes.

6 MR. BOB PETERS: All right. When we talk  
7 about \$10.7 million, what the Board has to understand is  
8 that is to be recovered on an annual basis; that would be  
9 an annualized number. Would that be correct?

10 MS. KELLY DERKSEN: Yes, sir.

11 MR. BOB PETERS: And what you mean by  
12 that, Ms. Derksen, is that would be \$10.7 million over a  
13 twelve-month calendar period?

14 MS. KELLY DERKSEN: Correct.

15 MR. BOB PETERS: And you're asking that  
16 the Board implement new rates if your application finds  
17 favour in whole or in part with the Board, effective  
18 August the 1st?

19 MS. KELLY DERKSEN: Yes, we are, Mr.  
20 Peters. Yes.

21 MR. BOB PETERS: And you picked August  
22 the 1st, Ms. Derksen, because that is one of the  
23 quarterly dates where this Board will, in the normal  
24 course, adjust the primary gas rates for the Gas Company?

25

1 MS. KELLY DERKSEN: Yes, it's the  
2 Company's preference to link those two (2) together so  
3 customers don't see rate -- back-to-back rate -- rate  
4 changes, month over month.

5 MR. BOB PETERS: When I do the math on  
6 the fingers that I have, Ms. Derksen, the application is  
7 from May the 1st to March 31st of '08, and that's --  
8 that's eleven (11) months of revenue that would be left  
9 in your fiscal year to recover and -- and that would only  
10 be 9. -- approximately \$9.9 million in your fiscal year?

11 MS. KELLY DERKSEN: I -- I haven't  
12 confirmed the number, but your methodology is -- is  
13 correct, we are seeking approval of eleven (11) months  
14 worth of -- of revenue for the '07/'08 test year. And  
15 the way that we accomplish that is, we intend to  
16 implement rates on August 1st and we have a rate delay  
17 rider that then takes us between May 1st of '06 -- sorry,  
18 of '07 and August 1st of '07, that allows us to  
19 incorporate into rates, eleven (11) months worth of  
20 revenue.

21 MR. BOB PETERS: All right, just to break  
22 that down just so the Board is clear, and I believe the  
23 Chairman alluded to this in his opening comments, you're  
24 seeking eleven (11) months of revenue and you only have  
25 nine (9) months in which to collect it.

1                   And because you can't then match it up  
2 month over month, you're going to have a rate rider that  
3 will be added on top of the -- the base rates to recover  
4 the amount for which there is no time left to recover it.

5                   MS. KELLY DERKSEN:   Maybe I'll say it in  
6 my words, Mr. Peters.   The Corporation is seeking  
7 approval of eleven (11) months worth a revenue in the  
8 '07/'08 test year and it intends to implement that eleven  
9 (11) months worth of revenue effective or implement it on  
10 August 1st of 2007 to be recovered over nine (9) months  
11 to conclude April 30th of 2008.

12                   MR. BOB PETERS:   I think you said it more  
13 eloquently than I, Ms. Derksen.   And the reason you want  
14 to recover it by April 30th, 2008 is that on May the 1st,  
15 2008, you're asking, in this application, for a further  
16 increase in average annual revenue of approximately 1  
17 percent.

18                   MS. KELLY DERKSEN:   Yes, correct.

19                   MR. BOB PETERS:   Ms, Derksen, in the book  
20 of documents, tab 2, if we could just quickly turn to  
21 that, I've reproduced PUB Centra 11 and there is an  
22 attachment to that that we appreciate the Corporation  
23 revising on May the 25th, 2007.

24                   In looking at that busy document, Ms.  
25 Derksen, column 1 speaks to what this Board approved the

1 last time it had Centra before it on a General Rate  
2 Application, would that be correct?

3 MS. KELLY DERKSEN: I want to answer yes.  
4 The reason I'm hesitating is that I -- I want to respond  
5 to your question by indicating that I agree with your  
6 statement as it relay -- as it relates to the non-gas  
7 cost portion of that column Number 1.

8 MR. BOB PETERS: Okay, and -- and thank  
9 you for the clarification, Ms. Derksen. What you want  
10 the Board to be aware is that that large number on the  
11 cost of gas line -- line 8, I believe, that number has  
12 been influenced by this Board's orders subsequent to the  
13 last General Rate Application.

14 MS. KELLY DERKSEN: It has been, yes.

15 MR. BOB PETERS: All right. The reason I  
16 wanted you to turn to this document with the Board is  
17 that your request before this Board is found in column 2,  
18 would that be correct?

19 MS. KELLY DERKSEN: I'm going to have to  
20 qualify that -- that answer again, Mr. Peters. I'll say  
21 yes with this qualification, in that I'd like to focus on  
22 the non-gas costs portion of that column Number 2 because  
23 the ga -- cost of gas that we're seeking approval of is  
24 not the cost of gas that's been identified in column 2.

25 MR. BOB PETERS: All right, and we'll

1 have another panel to talk to about cost of gas, so  
2 you'll -- you're comfortable with our excluding most of  
3 the cost of gas items from our discussion with this  
4 panel?

5 MS. KELLY DERKSEN: My preference would  
6 be to focus on the non-gas costs in this -- in this  
7 panel, Mr. Peters, please.

8 MR. BOB PETERS: I'm -- I'm going to do  
9 mostly that, Ms. Derksen, but I have to cor -- I think I  
10 have to correct you on something you told us in your  
11 direct evidence that I'm not sure is correct.

12 You're telling the Board in your direct  
13 evidence that the -- let me turn to my notes from the  
14 other Derksen here -- your non cost of gas items, I think  
15 you told the Board, was \$6.5 million, approximately.

16 MS. KELLY DERKSEN: The non-gas cost  
17 increase over what's currently embedded in rates is  
18 approximately \$6.5 million, yes.

19 MR. BOB PETERS: And to calculate that  
20 the Board could look at column 3 in tab 2 of the book of  
21 documents and it could add up the non-gas cost items that  
22 are found from lines 9 through 15 on that schedule?

23 MS. KELLY DERKSEN: Yes, sir, that's  
24 correct.

25 MR. BOB PETERS: And if the Board had

1 their calculators out they would come out to  
2 approximately 6.5 million for non-gas cost increases from  
3 the last time the Board approved non-gas cost increases?

4 MS. KELLY DERKSEN: Yes, sir.

5 MR. BOB PETERS: Now, where I want the  
6 Board to -- to be clear, Ms. Derksen, is that it appears  
7 on line 22 that the revenue deficiency that you're  
8 seeking in this application, as confirmed by yourself and  
9 Mr. Warden, was \$10.7 million found on line 22, column 2?

10 MS. KELLY DERKSEN: Yes, that's what we  
11 are seeking.

12 MR. BOB PETERS: Okay. We take the \$10.7  
13 million that you're seeking and you subtract the \$6.5  
14 million of the non-gas cost items and we're left with  
15 approximately \$4.2 million, correct?

16 MS. KELLY DERKSEN: Yes, sir.

17 MR. BOB PETERS: Now, Mr. Derksen, would  
18 I be correct that some of that \$4.2 million is related to  
19 gas costs, but the gas costs that this Board has learned  
20 to call non-primary gas costs?

21 MS. KELLY DERKSEN: No, that's not  
22 correct, Mr. Peters. The \$4.2 million residual, which is  
23 the difference between the 10.7 million and the increase  
24 in non-gas costs of 6.5 million, relates solely on  
25 account of this volume issue that I identified in my

1 opening remarks.

2 I think where the confusion lies is that  
3 the \$10.7 million has been calculated on a -- the basis  
4 of total revenue which does include gas costs, but that  
5 \$10.7 million is an increase related to two (2) issues,  
6 the increase in non-gas costs and the increase in rates  
7 the Company requires as a result of lower system  
8 throughput.

9 MR. BOB PETERS: Thank you, Ms. Derksen.  
10 If I could ask you turn to tab 3 of the book of  
11 documents, you'll find schedule 8.1.4 dated May 15th from  
12 your application reproduced. Have you that document?

13 MS. KELLY DERKSEN: Yes.

14 MR. BOB PETERS: And in that document,  
15 there is a breakdown of gas costs including primary gas,  
16 supplemental gas, transportation, there is some  
17 distribution and there's another item called base load  
18 volume price. I'm suggesting to you, Ms. Derksen, that  
19 if the Board goes down to line number 9 and finds the  
20 non-primary gas totals and follows it over to the far  
21 right-hand column, there's about \$1.2 million of non-  
22 primary gas cost totals that are being asked for in this  
23 application as well?

24 MS. KELLY DERKSEN: I agree and we need  
25 to sort of delink these -- these two (2) issues, if -- if

1 you can. This is over and above the -- the 10.7 million  
2 that we talk about on the -- on your previous tab, PUB  
3 Centra number 11.

4 MR. BOB PETERS: Thank you. Then let's  
5 now focus on the approximate \$4.2 million that you have,  
6 for ease of reference called -- is necessary because of a  
7 volume metric adjustment. Would that be a summary?

8 MS. KELLY DERKSEN: Yes, what I would  
9 say, Mr. Peters, is that if we are allowed to recover ten  
10 (\$10) dollars in rates and we set that rate at -- over  
11 ten (10) volumes, we're going to set it at a (\$1) dollar  
12 per volume. And if we're no longer collecting ten (10)  
13 volumes of gas, which is the case what we're experience -  
14 - experiencing at Centra Manitoba, we're no longer going  
15 to collect the ten (\$10) that's been previously approved  
16 to be collected and that's what this issue is about.

17 MR. BOB PETERS: Okay. Maybe put another  
18 way for the Board's benefit, is that if the Board denied  
19 your application totally and left you with last year's  
20 rates for non-gas cost items, the Corporation would  
21 expect to lose approximately \$4.2 million on a normalized  
22 basis?

23 MS. KELLY DERKSEN: I might phrase that a  
24 bit differently. I would suggest that we have been  
25 allowed to recover \$131.2 million in non-gas costs

1 flowing out of the '06/'07 General Rate Application and  
2 in absent of any rate change flowing out of this  
3 application Centra would recover approximately \$127  
4 million, so that difference would be unrecovered and  
5 ultimately would hit net income.

6 MR. BOB PETERS: That was a long "yes" but  
7 I won't keep score, Ms. Derksen. What your point is to  
8 demonstrate to the Board is that Centra has come before  
9 this Board at a previous General Rate Application and had  
10 certain non-gas cost expenses approved which totalled  
11 \$131.2 million, correct?

12 MS. KELLY DERKSEN: Yes.

13 MR. BOB PETERS: And if the rates didn't  
14 change for the non-gas cost items, Centra doesn't believe  
15 that it would recover that full \$131.2 million of non-gas  
16 costs because the volumes from customers have declined  
17 since the last General Rate Application?

18 MS. KELLY DERKSEN: Correct, yes.

19 MR. BOB PETERS: Let me try it this way,  
20 Ms. Derksen or other panel members. If the Board only  
21 approved a \$4.2 million increase in Centra's revenue  
22 requirement, and all other things were going to be equal  
23 -- except for the volumes that you are forecasting -- the  
24 build impact the customers would see would be zero on an  
25 annualized basis?

1 MS. KELLY DERKSEN: I think there's some  
2 pretty big "ifs" in there but I think the answer to your  
3 question is all else equal, I would agree with your  
4 statement.

5 MR. BOB PETERS: So what you're telling  
6 the Board is you need a \$4.2 million increase in your  
7 revenue requirement just to be kept at the same level you  
8 were at following the last Board GRA hearing and order?

9 MS. KELLY DERKSEN: Yes, sir.

10 MR. BOB PETERS: All right. Thank you.

11 Let's turn with a bit more pace to Item B  
12 in your application; that is, you want approval of  
13 adjustments to rates to reflect changes in supplemental  
14 gas, transportation and unaccounted-for gas to be  
15 effective August 1st, '07. That specifically relates to  
16 the items on Tab 3 that I drew your attention to and  
17 which total for non-primary gas costs \$1.2 million?

18 MS. KELLY DERKSEN: Yes.

19 MR. BOB PETERS: And just -- I know we  
20 throw nomenclature around fairly freely and there's  
21 always new acronyms and the like. But when we talk about  
22 gas costs that generally includes all of the costs of the  
23 utility that relate to gas, including the primary gas,  
24 supplemental gas, transportation and unaccounted-for gas.

25 MS. KELLY DERKSEN: Generally, when I talk

1 about gas costs I mean those all. If I say non -- non-  
2 primary gas costs, I really do mean everything excluding  
3 non -- excluding primary gas.

4 MR. BOB PETERS: When you say "excluding  
5 primary gas costs," this is the item that brings us to  
6 1(B) of your application that you have quantified at \$1.2  
7 million of additional costs?

8 MS. KELLY DERKSEN: Of additional non-  
9 primary gas costs, yes.

10 MR. BOB PETERS: Again, just for a little  
11 bit of background, Ms. Derksen. The primary gas rates  
12 that Centra has in place are not expected to change as a  
13 result of this application before the Board, correct?

14 MS. KELLY DERKSEN: I'm going to have to  
15 qualify that again, Mr. Peters, I'm sorry. As it relates  
16 to gas costs, I agree with your statement, but we are  
17 proposing changes to the overhead component in the  
18 primary gas rate flowing out of this General Rate  
19 Application and so to the extent that we have proposed  
20 changes to that rate, primary gas rates will change  
21 flowing out of this application on account of that issue.

22 MR. BOB PETERS: "That issue" just being  
23 the change in the overhead rates that the cost of gas  
24 panel will speak to?

25 MS. KELLY DERKSEN: The change in the

1 primary gas overhead rates, yes, that -- that I will be  
2 speaking to, Mr. Peters.

3 MR. BOB PETERS: All right. I don't want  
4 to go into it in any depth, but since you brought it up.  
5 The current primary gas overhead rate is one dollar and  
6 seventy-one (\$1.71) cents, is that correct?

7 MS. KELLY DERKSEN: Yes.

8 MR. BOB PETERS: And you're asking that  
9 that overhead rate become one (\$1.64) dollar and sixty-  
10 four cents?

11 MS. KELLY DERKSEN: Yes, we are.

12 MR. BOB PETERS: And that's for the first  
13 test year and that's to be implemented August 1st?

14 MS. KELLY DERKSEN: Yes, sir.

15 MR. BOB PETERS: And you're also asking  
16 that the primary gas overhead rate then change for the  
17 second test year to a (\$1.68) dollar sixty-eight?

18 MS. KELLY DERKSEN: Yes.

19 MR. BOB PETERS: All right. We'll --  
20 we'll talk about that later then. When the Board looks  
21 at tab 3 to assess the non-primary gas cost increases and  
22 it looks at the difference in column 3, it will appear  
23 that the supplemental gas costs in this application are  
24 twenty-four thousand (\$24,000) dollars more than they  
25 were last time; would that correct?

1 MS. KELLY DERKSEN: Sorry, Mr. Peters, I  
2 think we did forecast some supplement gas costs as part  
3 of the '06/'07 non-primary gas cost application, but what  
4 you're seeing on this schedule, it reflects the fact that  
5 we're not billing any supplemental out to customers, so  
6 while we have a rate, a supplemental gas rate that was  
7 determined following out of the '06/'07 non-primary gas  
8 cost application, we're billing it out at a zero -- zero  
9 (0) billing percentage, so of course we're not going to  
10 recover any -- any of those costs.

11 MR. BOB PETERS: In terms of  
12 transportation, your transportation costs have gone up  
13 approximately \$1.3 million, you're seeking recovery of  
14 that?

15 MS. KELLY DERKSEN: Yes.

16 MR. BOB PETERS: And the gas -- the cost  
17 of gas panel will speak to that?

18 MS. KELLY DERKSEN: Yes, they will.

19 MR. BOB PETERS: And in terms of  
20 distribution, there appears that the distribution rate as  
21 it relates to non-primary gas, it's for that elusive  
22 concept of unaccounted for gas; would that correct, Ms.  
23 Derksen?

24 MS. KELLY DERKSEN: That is correct.

25 MR. BOB PETERS: And what this shows the

1 Board is that the existing recovery of unaccounted for  
2 gas in current rates will exceed what is forecast, so  
3 there's approximately a two hundred and five thousand  
4 dollar (\$205,000) refund netting in that net calculation?

5 MS. KELLY DERKSEN: I agree with that,  
6 yes, Mr. Peters.

7 MR. BOB PETERS: All right. And just to  
8 save the suspense from later, line item 5, this base load  
9 volume price increment charges, that's a new concept that  
10 appeared for the first time on the May 15th update of  
11 schedule 814; is that correct?

12 MS. KELLY DERKSEN: Yes, it is, Mr.  
13 Peters.

14 MR. BOB PETERS: Can you explain briefly  
15 to the Board what that is meant to indicate, Ms. -- Ms.  
16 Derksen?

17 MS. KELLY DERKSEN: As a result of the  
18 recently renegotiated Nexen contract, the Corporation has  
19 negotiated with -- with Nexen the opportunity to be able  
20 to enroll -- this isn't my words Mr. Stephens and -- and  
21 Ms. -- Ms. Stewart will certainly speak to the details of  
22 it.

23 It is to allow the Corporation monthly  
24 enrollments of broker customers as opposed to quarterly  
25 enrollments of broker customers and this is the

1 forecasted price tag in the current test year on account  
2 of that issue.

3 MR. BOB PETERS: I think I winged that  
4 very well, Ms. Derksen. The -- my understanding is that  
5 in the Nexen supply contract there's been a renegotiation  
6 and one of the points we negotiated will allow for, as  
7 you called it, monthly enrollments as opposed to the  
8 present quarterly enrollments of customers who wish to  
9 leave system supply and proceed on direct purchase gas.

10 MS. KELLY DERKSEN: Yes, sir.

11 MR. BOB PETERS: The annualized cost is  
12 approximately a hundred and sixty thousand dollars  
13 (\$160,000) for that flexibility; do you agree with that?

14 MS. KELLY DERKSEN: It's based on volume,  
15 so it's been forecasted based on a -- a certain volume,  
16 so it will fluctuate from year to year, but es --  
17 essentially in the first test year or in a fiscal period,  
18 let's call it that, based on current forecasted volumes,  
19 we anticipate that cost to be approximately a hundred and  
20 sixty thousand dollars (\$160,000).

21 MR. BOB PETERS: And when you say charged  
22 on a volume-metric basis, what you're telling the Board  
23 is that starting November 1st of 2007 there will be one  
24 half (1/2) of one (1) cent per gigajoule charged to the  
25 Corporation for the flexibility of enrolling direct --

1 having direct purchase customers leave system supply on a  
2 monthly enrollment basis?

3 MS. KELLY DERKSEN: Yes, I agree with  
4 that.

5 MR. BOB PETERS: And in terms of the  
6 annualized cost being approximately a hundred and sixty  
7 thousand (160,000), you're forecasting eighty-seven  
8 thousand dollars (\$87,000) of that to occur in the first  
9 test year, that is between now and I guess between  
10 November 1st and April 31st -- I'm sorry, March 31st?

11 MS. KELLY DERKSEN: Okay.

12 MR. BOB PETERS: All right. And, Ms.  
13 Derksen, the issue of who's going to pay that eighty-  
14 seven thousand dollars (\$87,000), that's an issue that is  
15 going to be decided at a later date; is that your  
16 understanding?

17 MS. KELLY DERKSEN: My understanding is  
18 that's an issue that will be vetted through the  
19 Competitive Landscape Hearing to eventually be  
20 adjudicated by this Board, yes.

21 MR. BOB PETERS: All right. Just on the  
22 mechanics of that so this Board knows what workload it  
23 has that eighty-seven thousand dollars (\$87,000) starts  
24 to accumulate November 1st; we've agreed on that?

25 MS. KELLY DERKSEN: We do, yes.

1                   MR. BOB PETERS:     So the Board has  
2 between now and then to hear all the evidence, the  
3 various cases, and decide how that it's going to be --  
4 how that amount is going to be recovered; do you agree?

5                   MS. KELLY DERKSEN:    I agree with that and  
6 in fact I would -- as we suggested in our materials  
7 either as part of this proceeding or the other proceeding  
8 we suggested that in the event that there isn't a  
9 decision made by that time that we would capture it in a  
10 -- a deferral account and deal with it at a subsequent  
11 period but it would be our hope that it could be dealt  
12 with in advance of November 1.

13

14   (BRIEF PAUSE)

15

16                   MR. BOB PETERS:     Moving to the next  
17 application or the next item in the application it deals  
18 with the further approval of a 1 percent rate increase  
19 effective May 1st, 2008, sufficient to generate annual  
20 revenues of approximately \$5.3 million.

21   Does, you know, what we've talked about  
22 earlier with Mr. Warden, what the Corporation is seeking  
23 then is a further increase in overall annual revenues of  
24 approximately 1 percent effective May 1st and that  
25 quantifies still to approximately 5.3 or \$5.4 million?

1 MS. KELLY DERKSEN: Yes, on an -- on an  
2 annualized basis, Mr. Peters, recognizing again that our  
3 fiscal year begins on April 1st and that we intend to  
4 implement rates on -- on May 1st so in the -- in the  
5 second test year we will implement something that's  
6 lesser than the 5.4 million or the 5.3 million that's  
7 identified here.

8 MR. BOB PETERS: Thank you. In  
9 Application Item Number D you want final approval of  
10 April 1, 2006 to March 31/'07 gas costs and in your  
11 direct evidence through Ms. Murphy you've told the Board  
12 that those total \$419.2 million; am I correct?

13 MS. KELLY DERKSEN: Yes.

14 MR. BOB PETERS: And the Board will find  
15 that at Tab 4 of the book of documents in Schedule 7.0.0  
16 dated May 15th and specifically if they go down to line -  
17 - item 58 in the centre column under 06/'07 actual there  
18 you've set out your actual gas costs ending in your  
19 fiscal '07?

20 MS. KELLY DERKSEN: yes.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: In your application at  
25 Tab 1 of the book of documents in Item Number E you're

1 asking to have final approval of the balances and the  
2 disposition of the various non-primary gas purchased gas  
3 variance accounts and other gas cost deferral accounts  
4 and I believe it was Mr. Warden who indicated that that  
5 total was a refund of approximately \$9 million for the  
6 rates that are to go into effect, they should carry a  
7 refund rider in the approximate amount of \$9 million?

8 MS. KELLY DERKSEN: Yes.

9 MR. BOB PETERS: That, Ms. Derksen, is  
10 found at Tab 5 of the book of documents and the details  
11 of the various rate riders and specifically going down to  
12 line item 15, the total of all non-primary account  
13 forecast balances as at July 31st, '07 is to be \$8.972  
14 million.

15 MS. KELLY DERKSEN: Correct. Yes.

16 MR. BOB PETERS: And any differences or  
17 changes in that number would accrue in a prior period  
18 deferral account to be refunded or captured at a later  
19 date?

20 MS. KELLY DERKSEN: Yes.

21 MR. BOB PETERS: And the only difference  
22 is that there could be now, Ms. Derksen, would be on  
23 account of carrying costs or interest that you're paying  
24 back to consumers?

25 MS. KELLY DERKSEN: I would agree and add

1 that to the extent that we add that to rates and  
2 calculate it either over volumes or demand, which is on a  
3 forecast basis, to the extent that we don't fully refund  
4 that amount in -- in this fiscal period, there still  
5 could be some residual next year of that amount.

6 MR. BOB PETERS: And any time the  
7 Corporation doesn't fully recover or fully refund these  
8 deferral accounts, it gets put into the pot known as  
9 prior period deferral accounts?

10 MS. KELLY DERKSEN: Yes.

11 MR. BOB PETERS: And the notion being  
12 that at some point the Corporation and the consumers will  
13 be kept whole and nobody will -- will benefit or lose as  
14 a result of the gas cost the Corporation has incurred?

15 MS. KELLY DERKSEN: Yes, that's the  
16 theory, Mr. Peters.

17 MR. BOB PETERS: And nowhere in this  
18 application are you proposing to refund any primary gas  
19 purchased gas variance account, because that's a matter  
20 that you deal with on a quarterly basis?

21 MS. KELLY DERKSEN: Yes.

22 MR. BOB PETERS: Mr. Derksen, maybe to  
23 give Ms. Derksen a rest, one of the items for approval  
24 in the application, item 1F, is approval of new  
25 depreciation rates effective April 1st, 2007. I believe

1 you -- you were going to speak to those in general.

2 MR. WILLY DERKSEN: Yes, that's correct.

3 MR. BOB PETERS: And in -- at this point,  
4 Mr. Derksen, we'll come to some specifics later, but  
5 suffice it to say at tab 6, I believe, of the book of  
6 documents, you'll see a snapshot of the Corporation's  
7 request and that is depreciation expense is going to  
8 increase in this application?

9 MR. WILLY DERKSEN: Yes, that's correct.

10 MR. BOB PETERS: And, more specifically,  
11 I should have drawn your attention to tab 2 and the  
12 table. The depreciation expense increase is  
13 approximately \$2.4 million, correct?

14 MR. WILLY DERKSEN: Yes, that's correct.

15 MR. BOB PETERS: And that \$2.4 million,  
16 Mr. Derksen, is made up of at least two (2) components,  
17 the first and largest of which is new depreciation rates  
18 that have been recommended by your external consultant?

19 MR. WILLY DERKSEN: Yes, that's correct.

20 MR. BOB PETERS: And that recommendation  
21 from the consultant increases depreciation expense by  
22 about \$2.1 million per year?

23 MR. WILLY DERKSEN: Yes, for 2006/'07,  
24 '07/'08, that would be right.

25 MR. BOB PETERS: And that \$2.1 million is

1 one (1) of the items included in the non-gas costs that  
2 Ms. Derksen spoke about?

3 MR. WILLY DERKSEN: Yes, that's correct.

4 MR. BOB PETERS: And the balance of the  
5 depreciation expense increase, Mr. Derksen, will be a  
6 function of the Corporation having more plant in the  
7 ground on which depreciation expense is charged?

8 MR. WILLY DERKSEN: It would be those  
9 factors as well as some depreciation being charged from  
10 Manitoba Hydro, which is now acquiring all of its general  
11 plant assets on behalf of Centra.

12 MR. BOB PETERS: Don't want to lose that,  
13 but I don't want to go deep on it this time, but what  
14 you're telling the Board is that in calculating the  
15 depreciation expense, some of that depreciation expense  
16 flows through from -- from the corporate entity that  
17 acquires the common assets?

18 MR. WILLY DERKSEN: Yes, that's correct.

19 MR. BOB PETERS: In continuing with the  
20 Board's homework assignment here in terms of what they  
21 have to attack, item 1G of the application talks about  
22 final approval of interim orders related to approval of  
23 interim primary gas sales rates. And, Ms. Derksen,  
24 perhaps back to you on this, there have been, is it three  
25 (3) orders that the Corporation is seeking final approval

1 on? Or do you have them at -- at your fingertips?

2 MS. KELLY DERKSEN: Yes. It's actually  
3 two (2), Mr. Peters. It's the order --

4 MR. BOB PETERS: 5/07 and 60/07?

5 MS. KELLY DERKSEN: Yes, correct.

6 MR. BOB PETERS: I'll have to check, Ms.  
7 Derksen, but was Board Order 175/06, which was an interim  
8 ex parte on primary gas, did that approve the November  
9 1st of '06, gas rates?

10 MS. KELLY DERKSEN: Yes it did.

11 MR. BOB PETERS: It did, okay. So  
12 there's two (2) primary gas orders that you're seeking  
13 the Board to approve on a final basis and it is, I  
14 believe, the Corporation's position on the record that if  
15 the Board makes any adjustments to the hedging impacts on  
16 primary gas, those changes can be made in the deferral  
17 accounts even if the primary gas order is made final.

18 MS. KELLY DERKSEN: Yes, the -- the  
19 Company's position is that this is really an issue of the  
20 procedure and that we're seeking final approval of those  
21 interim orders and should the -- the Board find that some  
22 of the hedging impacts, for example, are imprudent at a  
23 later time that it would then adjust at the PGV account  
24 on a -- on account of that decision.

25 MR. BOB PETERS: Thank you, Ms. Derksen.

1 Item 1-H talks about final approval of any other interim  
2 orders issued by the Board prior to the conclusion of the  
3 hearing of this application. Presently, are there any  
4 such orders?

5 MS. KELLY DERKSEN: There are not, no.

6 MR. BOB PETERS: Any planned?

7 MS. KELLY DERKSEN: Not to my knowledge,  
8 no, Mr. Peters.

9 MR. BOB PETERS: All right. And lastly,  
10 but not least, the approval to changes in terms and  
11 conditions of service and the WTS and ABC changes, I  
12 believe, will be directed through to the cost of gas  
13 panel, that would be the preference of the Corporation?

14 MS. KELLY DERKSEN: Yes, it is.

15 MR. BOB PETERS: And in terms of labour  
16 rates or construction -- or contributions in aid of  
17 construction, territories served, that would be the  
18 revenue requirement panel?

19 MS. KELLY DERKSEN: I think it'd be  
20 preferable that the -- the labour rate issue be punted to  
21 the cost allocation panel, but everything else could be  
22 dealt with by this panel.

23 MR. BOB PETERS: Included in your  
24 application is an indication that the Corporation has  
25 responded to various directives that the Board has issued

1 in past orders, correct?

2 MS. KELLY DERKSEN: Yes.

3 MR. BOB PETERS: And would it be a  
4 correct summary of that, Ms. Derksen, to suggest that the  
5 Board is going to hear your report and has received your  
6 written reports on those items, but Centra is not asking  
7 for any express approvals from the Board at this time on  
8 any of those directives?

9 MS. KELLY DERKSEN: Correct, sir, yes.

10 MR. BOB PETERS: Okay, well thank you for  
11 that. Let's -- now that we've go the -- the summary  
12 outlined, I want to turn to what might be one (1) of the  
13 most contentious issues in this proceeding, and that  
14 deals with the comparison of cost of service regulation  
15 and rate base rate of return regulation.

16 Let me start out by asking if we can go  
17 through a -- maybe a refresher in the few minutes we have  
18 left before lunch.

19 Does Centra agree that the Board decided  
20 to permit Centra to use cost of service regulation to  
21 calculate a revenue requirement in General Rate  
22 Applications? Mr. Rainkie...?

23 MR. DARREN RAINKIE: Yes, Mr. Peters.

24 MR. BOB PETERS: Do you agree with that?

25 MR. DARREN RAINKIE: I do.

1                   MR. BOB PETERS:    And do you also agree on  
2   behalf of the Corporation that the rate base rate of  
3   return methodology was also going to be used as a test  
4   relative to the cost of service methodology?

5                   MR. DARREN RAINKIE:    I think we've all  
6   agree -- agreed on that principle.

7                   MR. BOB PETERS:    I wasn't sure where the  
8   agreement lay after Mr. Saxberg's motion this morning,  
9   but let me continue.  I have included in the Book of  
10  Documents at tab 7, extracts from the Board order 103/05,  
11  pages 34 and 35, and looking at approximately the middle  
12  of the page, the Board indicates that in this order, the  
13  Board considers rate base rate of return as the absolute  
14  limit for a return to Centra, whether that return be by  
15  way of net income and dividend or by corporate  
16  allocation.

17                   I've read that correctly, Mr. Rainkie?

18                   MR. DARREN RAINKIE:    As in the past, Mr.  
19  Peters, you're very good at reading these things into the  
20  record, yes.

21                   MR. BOB PETERS:    All right, I thought I'd  
22  save you from that, but do -- does Centra agree that the  
23  Board has determined that collecting both an equity  
24  return -- a full equity return, and a corporate  
25  allocation would amount to an excessive return.

1                   MR. DARREN RAINKIE:    I'm not sure that I  
2 can agree with that perspective, Mr. Peters, because as  
3 Mr. Saxberg mentioned this morning the Board's earlier  
4 decision seemed to indicate that in our range of  
5 earnings, if you like, if you want to use that term -- of  
6 14 to 17 million in past decisions, I think when you look  
7 at the growth in rate base that's happened since Manitoba  
8 Hydro has purchased Centra -- and you'll see that in PUB-  
9 42A which I think is at Tab 27 of your book of documents  
10 -- you're going to see that there's been a substantial  
11 growth in the investment in -- in Centra that Manitoba  
12 Hydro has.

13                   Now, if rate base rate of return is going  
14 to set the maximum, then surely you don't think anybody  
15 would disagree that the Board's earlier range should be  
16 adjusted for the increase in plant that's occurred since  
17 1999 given that rate base rate of return, the very  
18 essence of it is based -- that return is based on the  
19 level of plant that you have.

20                   So I think that we still have some  
21 dissension in the ranks, if you like, in terms of how to  
22 appropriately calculate rate base rate of return for the  
23 purposes of the comparison. I don't think anybody  
24 disagrees that it sets a maximum but I still think the  
25 Company has a different perspective than the Intervenors

1 and perhaps the Board in certain circumstances on what  
2 that might be. I think if you correct for that increase  
3 in rate base, that you'll find that the Board's range of  
4 14 to 17 million is more like 19 to 21 million. And I  
5 can certainly take you through those calculations because  
6 I was just doing them as you were engaging with, you  
7 know, Ms. Derksen.

8                   And if you look at what we've asked for on  
9 a cost of service basis we've asked for a \$12 million  
10 corporate allocation and on average between two (2) test  
11 years a \$6 million net income. That totals 18 million,  
12 Mr. Peters.

13                   So I would argue that our cost of service  
14 proposals are well within the Board's formula as Mr.  
15 Matwichuk has called it if you adjust for changes in  
16 investment since the time of the -- of the acquisition.  
17 And as I just said I don't know why you wouldn't do that  
18 given the rate base rate of return is based on -- the  
19 very essence of calculating return is taking your  
20 investment in plant times your rate of return. Long  
21 answer, Mr. Peters, to a short question but I can take  
22 you through the math if you'd like.

23                   MR. BOB PETERS: Well, I'm -- I'm going  
24 to give you that opportunity because I want the Board to  
25 fully understand the Corporation's position and I'm sure

1 other parties want to be clear as well.

2                   But can I distill from your evidence so  
3 far, Mr. Rainkie, you're suggesting to the Board that if  
4 the equity return that would be available to a privately  
5 owned -- a private owner of Centra is going to be the --  
6 is going to be the limit on the return then the Board  
7 should stay contemp -- contemporary with the actual rate  
8 base investments of the Company and increase that amount  
9 as rate base increases?

10                   MR. DARREN RAINKIE:   What I'm saying, Mr.  
11 Peters -- I'm agreeing with you, yes, but with one (1)  
12 tack-on. I think that the Board should be adjusting its  
13 range from previous orders to keep up with the increase  
14 in investment since the acquisition. I think that would  
15 only be fair if we're using the rate base rate of return  
16 methodology as a test.

17                   Mr. Peters, another way of saying that is  
18 I don't think we can freeze things in time. You know,  
19 July 1st I think it was, in 1999 we used that formula  
20 forever. If that that indeed is the formula that the  
21 Board wants to use, I think we could -- we should adjust  
22 it for increases in plant over time.

23

24

(BRIEF PAUSE)

25

1                   MR. BOB PETERS:    Mr. Rainkie, let's  
2 follow on your point just because I want the Board to be  
3 clear.  When I look to see what you're suggesting and I  
4 turn to Tab 10 of the book of documents, I see Schedule  
5 5.9.3 reproduced and let me put it this way:

6                   If -- if the rate base rate of return  
7 methodology was the primary focus and Schedule 5.9 is  
8 looked at -- 5.9.3 -- for the first test year it appears  
9 that the return on equity would be in the range of -- or  
10 approximately \$10.5 million that would be -- that would  
11 be due -- the owner or the -- the Utility paid for by  
12 consumer rates.

13                   Do you agree with that?

14                   MR. DARREN RAINKIE:    Mr. Peters, that's  
15 what's on this calculation and we can talk why we've  
16 presented -- about why we presented that calculation in  
17 the way we have.  I don't think, though, that's the  
18 proper perspective on what a return to Manitoba Hydro is,  
19 if we want to debate that.  I think we've said here many  
20 times, we don't want a return but if you need to go there  
21 we can go there.

22                   But, Mr. Peters, the purchase of Centra by  
23 Manitoba Hydro was at a \$250 million purchase price which  
24 was reviewed by the Board and I think accepted, if I can  
25 use those terms, in Order 146/99.

1                   Now, that's consisted of an acquisition  
2 premium of a hundred and thirty million (130,000,000) and  
3 net book value of the assets of a hundred and twenty  
4 million (120,000,000), Mr. Peters, to get you up to your  
5 \$250 million dollar number.

6                   Now, the way I think about this -- because  
7 I like to simplify things when I come to the hearing  
8 because there is eight (8) volumes of material out there.  
9 And believe me, I feel for the Board in trying to go  
10 through it and o I like to distill these things into some  
11 high-level numbers.

12                   But if you consider that the corporate  
13 allocation is there to pay for the costs of the  
14 acquisition premium, then I think one -- and that's the  
15 \$12 million that we've included in cost of service then I  
16 think what -- it's not a double return to say okay, now  
17 what type of return would be there to cover off the net  
18 book value of the assets, which at the time of the  
19 acquisition was \$120 million. And, as I've indicated,  
20 has risen fairly significantly in the last seven (7) or  
21 eight (8) years since acquisition.

22                   So, if I can say that the corporate  
23 allocation is there to pay for Centra's fair share of the  
24 acquisition premiums because there are synergies to cover  
25 off that -- that -- you know, that -- that corporate

1 allocation that are embedded in O&A and taxes and return,  
2 then I say to myself, Okay, what's the appropriate return  
3 the pay versus the net book value?

4                   Now, if you look at column 1 of Centra  
5 Exhibit 7, line 14 of column 1, we're asking for a net  
6 income of \$5.3 million in 2007-08.

7                   If you slide over to column 4 under the  
8 "Absent Acquisition" calculation, Mr. Peters, probably if  
9 you were to look at the private corporation perspective,  
10 which is really on what rate -- base rate of return is  
11 based on, at a 40 percent equity ratio -- because that's  
12 what a private company would have -- and a return of  
13 eight point two-one (8.21), you see a return of \$14  
14 million, Mr. Peters.

15                   Now, I would suggest to you that us asking  
16 for five point two -- \$5.3 million net income is well  
17 under a \$14 million, you know, return on equity. But if  
18 you don't want to go to there with me, Mr. Peters, we can  
19 slip back to column 2 and we can calculate that at a 30  
20 percent ratio, which gives me the \$10.5 million and the  
21 \$5.3 million is still less than the \$10.5 million, Mr.  
22 Peters.

23                   So we don't really need to go to the  
24 Absent Acquisition calculations to prove our point that  
25 our rates are fair, we can stop at column 2. Because,

1 Mr. Peters, the synergies that are now inherent in Centra  
2 and have been given back to the customers through O&A,  
3 through taxes and through return, did not come without a  
4 cost, Mr. Peters. There was an acquisition premium that  
5 was paid based on a fair market value transaction.

6 So I think that's part of the equation  
7 that has been lost since day one is that those synergies  
8 are not free. So if we look at it from the perspective  
9 that the corporate allocation is there to pay for the  
10 acquisition premium, and that the net income that we're  
11 looking for is there to cover off the net book value  
12 that's required on Centra statements, then in terms of  
13 excess return there is none, Mr. Peters. We are asking  
14 for something that's less than what a proper return would  
15 be under rate base rate of return.

16 MR. BOB PETERS: Just a point of  
17 clarification, then, in your last answer, Mr. Rainkie.  
18 Under your Centra Exhibit 7, column 2, the corporate  
19 allocation showing up under the rate base rate of return.

20 As I understood the Corporation's  
21 position, that \$12 million is included there because I  
22 think, in your words, synergies are not free; that's what  
23 it's to reflect?

24 MR. DARREN RAINKIE: That's correct, Mr.  
25 Peters. On my way of thinking on this is regardless of

1 the methodology that you're going to use to set the rates  
2 for Centra, you have to deal with the fact that there was  
3 an acquisition. I don't care if it's cost of service or  
4 rate base rate of return, Mr. Peters.

5 So I believe that the corporate allocation  
6 is an appropriate item to include in rate base rate of  
7 return. The synergies were not free.

8 MR. BOB PETERS: Were the acquisition  
9 premiums allowed to be recovered through -- from Centra's  
10 shareholders, Mr. Rainkie -- Centra's ratepayers.

11 MR. DARREN RAINKIE: I'm not sure what you  
12 mean: Were they allowed to be recovered?

13 MR. BOB PETERS: Well, didn't the Board  
14 exclude recovery of the premiums in your acquisition from  
15 what should be paid for by Centra Gas ratepayers?

16 MR. DARREN RAINKIE: I'm not sure they  
17 did, Mr. Peters. Going back to what was being referred  
18 to as the Board's formula, I think the \$14 million to \$17  
19 million range at that point, I thought included the  
20 acquisition premium.

21 MR. BOB PETERS: Perhaps, Mr. Chairman,  
22 this might be an appropriate time for the lunch recess  
23 and we'll regroup after?

24 THE CHAIRPERSON: Excellent idea. Okay.  
25 We will see you all back at 1:15. Thank you.

1 --- Upon recessing at 12:00 p.m.

2 --- Upon resuming at 12:23 p.m.

3

4 THE CHAIRPERSON: Okay. Welcome back,  
5 everyone. First off before we return to Mr. Peters just  
6 to comment, Ms. Melnychuk's request with respect to  
7 process, we also understand apparently that Energy  
8 Savings had some desire to actually proceed within this  
9 particular segment of the Hearing, so, what we're going  
10 to suggest is that Bob Peters work with Ms. Murphy and  
11 yourself to see whether you can work out something that  
12 will work for everyone hopefully.

13 Mr. Peters...?

14 MR. BOB PETERS: Thank you, Mr. Chairman.

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Mr. Rainkie, still  
18 talking about rate base rate of return regulation  
19 compared to cost of service regulation, in the rebuttal  
20 evidence filed by Centra there were two (2) general  
21 concepts to consider -- one was the no harm concept to  
22 ratepayers and the other one was the Corporation's view  
23 relative to the excess return suggestions; do you agree?

24 MR. DARREN RAINKIE: I agree, Mr. Peters.

25 MR. BOB PETERS: And the Corporation's

1 position on the no harm principle is that is the  
2 paramount consideration the Board should now have; that  
3 is, the Board should give more credence to whether there  
4 is harm to Centra's ratepayers and it need not concern  
5 itself with respect to the excess return because one will  
6 answer the other?

7 MR. DARREN RAINKIE: That's a fair  
8 summarization, Mr. Peters.

9 MR. BOB PETERS: And would it be a fair  
10 summary to suggest that -- and perhaps it was even in  
11 your direct evidence through Ms. Murphy that -- that  
12 there was a suggestion that the excess return  
13 consideration really becomes redundant if you -- if you  
14 have as a paramount concern the no harm principle?

15 MR. DARREN RAINKIE: I think we used  
16 those words in rebuttal, yes, Mr. Peters.

17 MR. BOB PETERS: And that no harm  
18 principle, generally speaking, Mr. Rainkie, would be that  
19 so long as the revenue requirement which will include any  
20 and all returns under cost of service regulation does not  
21 violate the no harm principle, then -- the -- the  
22 ratepayers are -- are better off and that's what the  
23 Board should focus on.

24 MR. DARREN RAINKIE: Yes, Mr. Peters, I  
25 think the focus of the Board should be on the overall

1 revenue requirements.

2 MR. BOB PETERS: And that leads then to  
3 the concern that the Board has to determine how to fairly  
4 calculate or perform a test for the no harm principle?

5 MR. DARREN RAINKIE: I'll go with you on  
6 this one, Mr. Peters, and let's -- let's go to the next  
7 question.

8 MR. BOB PETERS: Okay. Well, I thought  
9 that was pretty benign, but --

10 MR. DARREN RAINKIE: Well, yeah. I -- I  
11 agree with your proposition, but I was just thinking  
12 about the discussion we had this morning.

13 MR. BOB PETERS: Okay. And I thought  
14 about it over lunch too, Mr. Rainkie, so I thought I'd --  
15 I'd try it this way with you.

16 If the no harm principle is passed then  
17 it's Centra's position that the Board ought not to bog  
18 down with a - an examination of the submission-components  
19 of the revenue requirement?

20 MR. DARREN RAINKIE: Yes, Mr. Peters,  
21 that was our evi -- rebuttal evidence.

22 MR. BOB PETERS: Would you agree with me,  
23 Mr. Rainkie, that if -- if the Board was to follow that  
24 through and looking at the no harm principle, the revenue  
25 requirement under cost of service could contain both a

1 \$12 million corporate allocation, plus net income that  
2 would be somewhere close to \$10 million and there would  
3 still be no harm under the Centra test?

4 MR. DARREN RAINKIE: I agree, Mr. Peters,  
5 yes.

6 MR. BOB PETERS: So from a conceptual  
7 basis, Mr. Rainkie, a \$12 million corporate allocation  
8 and, let's say, a \$10 million net income would notionally  
9 provide \$22 million that could be used by the  
10 shareholder, if that was the maximum amount granted?

11 MR. DARREN RAINKIE: I agree with your  
12 math, Mr. Peters.

13 MR. BOB PETERS: And we heard from Mr.  
14 Warden that 12 million would go to -- to Manitoba Hydro  
15 to assist in the payment of the purchase of Centra gas,  
16 \$12 million a year?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BOB PETERS: And in addition to the  
19 \$12 million a year that Centra is paying to Manitoba  
20 Hydro, Manitoba Hydro has also achieved internal synergy  
21 benefits, at least \$9 million worth, which are also used  
22 to pay the annual \$21 million cost of acquisition of  
23 Centra?

24 MR. WILLY DERKSEN: The numbers that  
25 we're using currently, Mr. Peters, is \$7 million of the

1 allocations going to Manitoba Hydro and the total costs  
2 are 19 million. Whether or not hydro has \$9 million is -  
3 - we think that there is that amount there, but it -- we  
4 are not measuring those synergies directly any longer.  
5 We certainly know that they're sufficient to cover the \$7  
6 million that's being allocated to them.

7 MR. BOB PETERS: Let me just understand  
8 that, Mr. Derksen. Of the \$12 million corporate  
9 allocation that is being paid for by Centra ratepayers,  
10 how much of that 12 million is going to be going over to  
11 the parent company, Manitoba Hydro?

12 MR. WILLY DERKSEN: All of it.

13 MR. BOB PETERS: And if all \$12 million  
14 goes over, are you now telling the Board that only \$7  
15 million of that is used for payment on account of the  
16 acquisition cost of Centra?

17 MR. WILLY DERKSEN: No, I'm not. What --  
18 what I was intending to say was that the total costs  
19 relative to the acquisition annually are in the order of  
20 \$19 million, so if \$12 million is brought over from  
21 Centra then Hydro has to pay 7 million, not 9 -- not 9.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: And the \$7 million that

1 is being used -- that -- funded by Manitoba Hydro  
2 relative to the acquisition costs of Centra, you're  
3 telling the Board that came from synergies that were of  
4 at least that amount?

5 MR. WILLY DERKSEN: Yes, that's correct.

6 MR. BOB PETERS: And it'd be fair to say  
7 that on the Manitoba Hydro side, you're not actively  
8 tracking the synergies year over year, are you?

9 MR. WILLY DERKSEN: That's correct. We're  
10 absolutely satisfied that it exceeds that value, but  
11 we're no longer tracking them specifically.

12 MR. BOB PETERS: The same would be said  
13 relative to the Centra Gas side? You're confident that  
14 there have been synergies, but you're not actively  
15 tracking them?

16 MR. WILLY DERKSEN: That's correct.  
17 We've exceeded the threshold that was necessary to make  
18 the acquisition pay for itself and we've ceased tracking  
19 since then.

20 MR. BOB PETERS: Mr. Rainkie, back to  
21 you, sir.

22 The disagreement that I understand Centra  
23 has with Mr. Matwichuk is how to properly calculate the  
24 rate base rate of return revenue requirement for  
25 comparison purposes with the cost of service revenue

1 requirement

2 MR. DARREN RAINKIE: That's correct, Mr.  
3 Peters.

4 MR. BOB PETERS: And if I understood what  
5 you told me before lunch today and that -- that started  
6 with an if, Mr. Rainkie, the Board was to look at Centra  
7 Exhibit 7.

8 I understood you to be telling the Board  
9 there are two (2) ways that the Board could view that  
10 calculation of whether the revenue requirement under rate  
11 base was greater than the revenue requirement under cost  
12 of service and there were two (2) calculations that you  
13 presented, correct?

14 MR. DARREN RAINKIE: That's correct.

15 MR. BOB PETERS: And I'll call the first  
16 one, Mr. Rainkie, on Centra Exhibit 7, Column 1 versus  
17 Column 4 because that was one (1) of the basis of  
18 comparison that -- that you wanted the Board to consider  
19 in determining whether there has been harm to the Centra  
20 ratepayer, correct?

21 MR. DARREN RAINKIE: That's correct.

22 MR. BOB PETERS: And when we look at  
23 Column 1 versus Column 4 for comparisons, the bottom line  
24 number found at line 16 demonstrates that the absent  
25 acquisition revenue requirement for non-gas cost items is

1 \$144 million and that is greater than the \$137.7 million  
2 under the cost of service column?

3 MR. DARREN RAINKIE: Sorry, Mr. Peters, I  
4 -- I lost track of your column 4. I think it was \$145.4  
5 million versus 137.7 million?

6 MR. BOB PETERS: I'd accept those. And  
7 you're telling the Board that because the hundred and  
8 thirty-seven point seven (137.7) is lower than the  
9 hundred and forty-five point four (145.4) there is no  
10 harm?

11 MR. DARREN RAINKIE: That's right, Mr.  
12 Peters.

13 MR. BOB PETERS: And to come to that  
14 consideration -- and I want to be mindful of the -- the  
15 Board's ruling relative to CAC/MSOS' motion and keep this  
16 at a high level, you've had to make a couple of  
17 assumptions in column 4, one (1) of which is you had to  
18 calculate out what you say the O&A costs would be if  
19 Centra was owned by somebody other than Manitoba Hydro?

20 MR. DARREN RAINKIE: That's correct.

21 MR. BOB PETERS: And generally speaking,  
22 you're showing that the costs of O&A would be greater  
23 because they would be different programs that may have  
24 been used and also there would be higher -- higher costs  
25 put through because there wouldn't be as effective

1 synergies as have existed as between Hydro and Centra?

2 MR. DARREN RAINKIE: That's correct.

3 MR. BOB PETERS: And, Mr. Rainkie, down  
4 to line item 14 on Net Income/Return on Equity under the  
5 rate base rate of return calculation the return on equity  
6 is approximately \$13.9 million in your presentation at  
7 column 4, correct?

8 MR. DARREN RAINKIE: That's correct.

9 MR. BOB PETERS: And I think one (1) of  
10 the points you were trying to make to me before lunch was  
11 you calculated that amount, \$13.9 million on the  
12 assumption that the capital structure was 60/40?

13 MR. DARREN RAINKIE: That's correct, Mr.  
14 Peters, we used the long -- the long-term capital  
15 structure of Centra Gas.

16 MR. BOB PETERS: And you did use the 8.21  
17 percent return on equity?

18 MR. DARREN RAINKIE: That's correct.

19 MR. BOB PETERS: Okay. I've -- I've got  
20 your point. Thank you for that.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Mr. Rainkie, one (1)  
25 point that I do want you to leave with the Board is the

1 Company's explanation for looking at the corporate  
2 allocation in column 1, plus the net income you are  
3 asking of \$5.3 million, that totals approximately 15 --  
4 or, sorry, \$17.3 million, correct?

5 MR. DARREN RAINKIE: That's correct.

6 MR. BOB PETERS: And when the Board calls  
7 that a return, that return is available for use by the  
8 shareholder?

9 MR. DARREN RAINKIE: I'll accept that  
10 terminology. I think we put it a little bit differently  
11 and I see Mr. Warden wanting to get up to the mic here.

12 MR. VINCE WARDEN: Well, I do want to  
13 make it clear that Manitoba Hydro has not taken one (1)  
14 nickel out of Centra Gas, nor does it intend to beyond  
15 the \$12 million corporate allocation. The -- all the  
16 income -- net income of Centra has remained in Centra for  
17 purposes of building retained earnings to the extent that  
18 we have a net income and that's the plan to do so in the  
19 future.

20 MR. BOB PETERS: Thank you. I have your  
21 point, Mr. Warden, and -- and I hope my question didn't  
22 suggest that the money had been taken out or net income  
23 had been taken out other than the corporate allocation.

24 But I was suggesting that -- that the net  
25 income plus the corporate allocation is a return that is

1 available to the shareholder?

2 MR. VINCE WARDEN: No, no, I don't agree  
3 with that. It's not -- Manitoba Hydro is not seeking any  
4 kind of a return from Centra Gas. Centra Gas is -- we're  
5 only looking to recover the costs of -- of operating  
6 Centra Gas and are attempting to build a reasonable level  
7 of retained earnings over a reasonable -- reasonable time  
8 period but, no, we have -- we have not taken any money  
9 out of Centra Gas, nor do we intend to so I don't like to  
10 characterize that as a return.

11 MR. BOB PETERS: The message I take from  
12 your last two (2) answers to me, Mr. Warden, is that  
13 while you call it net income, you're not suggesting that  
14 it's going to leave the Corporation. When it goes from  
15 net income into retained earnings, it's going to stay  
16 there.

17 MR. VINCE WARDEN: It's going to stay in  
18 Centra Gas and I -- I'm going beyond suggesting, I -- I'm  
19 telling you that is the case; it's -- it's staying in  
20 Centra Gas.

21 MR. BOB PETERS: All right, I've got your  
22 point. Let me -- let me go on and say that if you sum  
23 those two (2) together, that is 12 million plus 5.3, we  
24 have \$17.3 million and, Mr. Rainkie, how do you defend  
25 against the suggestion that that's in excess of the \$13.9

1 million found under column 4, which would be the return  
2 on equity if it was -- if it was an absent acquisition?

3 MR. DARREN RAINKIE: Mr. Peters, it's  
4 based on the belief that regardless of the methodology  
5 that we employ to set rates at the Corporation allocation  
6 is a legitimate part of that equation.

7 MR. BOB PETERS: All right, and even  
8 though the Corporate allocation and net income is a  
9 greater number than the return on equity under column 4,  
10 you're saying so long as the revenue requirement amounts  
11 of cost of service are less than rate base rate of  
12 return, there's no harm and the Board ought not to get  
13 concerned about the -- the submission allocation of the  
14 non-gas revenue requirement.

15 MR. DARREN RAINKIE: That's right, Mr.  
16 Peters. We're not trying to be flippant about it in  
17 terms of not being concerned, we're just trying to say  
18 that the focus should be on the overall revenue  
19 requirement.

20 MR. BOB PETERS: All right, the -- the  
21 second view that I think you left us with before lunch  
22 today was that if the revenue requirement for non-gas  
23 items in column 1, line 16, was less than the non-gas  
24 revenue requirement at line 16, column 2, again, there is  
25 no harm.

1 MR. DARREN RAINKIE: That's correct.

2 MR. BOB PETERS: And one (1) of the  
3 points you were making just before lunch was that under  
4 the rate base rate of return, you have -- Centra has  
5 again included a \$12 million Corporate allocation and  
6 that is, I think your words before lunch that I had  
7 jotted down, if I have them right, Mr. Rainkie, is that  
8 you have to -- the Corporation believes, reflect that  
9 synergies are not free.

10 MR. DARREN RAINKIE: That -- that's  
11 right, Mr. Peters. I mean, we bo -- the synergies -- let  
12 -- let's make sure that we were clear before lunch.

13 The synergies are in excess of the  
14 Corporate allocation, but they're -- they're not free,  
15 there's a cost to them and that Corporate allocation  
16 reflects Centra's fair share of the costs.

17 When you look over to column 4 in the  
18 absent acquisition calculation, we still believe that  
19 there are benefits of the acquisition that reside with  
20 the customers of Centra. I just wanted to make that  
21 clear, it's not all costs. There's costs and benefits  
22 here and I think, to a certain extent, the benefits have  
23 been left out of the equation in the past discussions.

24 MR. BOB PETERS: All right, well then the  
25 benefits you talk about from column 4 compared to column

1 1 would -- would primarily relate to the O&A Cost for  
2 which you say they are synergy achieve -- achievements.

3 MR. DARREN RAINKIE: They relate to O&A  
4 costs, taxes, and I think to a certain extent, return if  
5 you accept the proposition that a private company would  
6 con -- continue to have a 40 percent equity ratio.

7 MR. BOB PETERS: Okay, I think we've got  
8 your point, Mr. Rainkie. One (1) point that I do want to  
9 follow up with you on was, you invited us to turn to Tab  
10 27 of the Book of Documents and, as usual, you've been  
11 reading ahead and there's a reproduction of PUB/CENTRA-  
12 42A and your drawing this to the Board's attention was to  
13 suggest that the Company has grown its rate base as a  
14 result of hooking on new customers, primarily.

15 MR. DARREN RAINKIE: It might be hooking  
16 on new customers or replacing old plant but, yes, sir,  
17 our investment in our assets has increased over the last  
18 seven (7) years.

19 MR. BOB PETERS: And would you agree with  
20 me that -- that there's been a growth in capital financed  
21 primarily with debt?

22 MR. DARREN RAINKIE: It's financed with  
23 debt and with equity, Mr. Peters, as -- unless I don't  
24 understand your question.

25 MR. BOB PETERS: Well, in -- in terms of

1 -- I didn't want to get into percentages because I think  
2 there's still some disagreement about that, but it's  
3 primarily financed by debt.

4 MR. DARREN RAINKIE: Predominance, yes.

5 MR. BOB PETERS: And -- and just to make  
6 sure the Board understands your point, if -- if the  
7 consolidated -- if the consolidated corporate view is  
8 taken, it's -- is it 86/14; 86 percent debt/14 equity?

9 MR. DARREN RAINKIE: That's the range,  
10 Mr. Peters, yes.

11 MR. BOB PETERS: And if it was on a  
12 standalone basis, it would be 70/30?

13 MR. DARREN RAINKIE: If it was on a  
14 standalone basis, it would be 60/40.

15 MR. BOB PETERS: But in terms of if  
16 Centra's actual -- actual finances were stated on a -- on  
17 a standalone basis, it would be 70/30 not the 60/40 that  
18 would hypothetically exist if there was an absent  
19 acquisition scenario?

20 MR. DARREN RAINKIE: Yes, Mr. Peters,  
21 when we do the calculation based on today's parameters  
22 it's 70/30; on a standalone basis which is different than  
23 Mr. Warden talked about on the --

24 MR. BOB PETERS: Yes, and I'll come back  
25 with that as well.

1                   And you'd agree with me, Mr. Rainkie, that  
2 most of the cost of borrowed money is already recovered  
3 in the finance expense of the Corporation?

4                   MR. DARREN RAINKIE:    I'm -- I'm confused  
5 where we're going here, Mr. Peters, because if we're  
6 going to use rate base as the test, then when you put a  
7 dollar's worth of plant into the ground, we're going to  
8 have to either assume that it's financed 70/30 or 60/40  
9 and I'm not -- I'm confused by you.

10                  I think your proposition is that we're  
11 financing it all by debt. Like, if we're going to use  
12 those standalone rate base rate of return calculations,  
13 let's use them consistently.

14                  MR. BOB PETERS:    I've got the point that  
15 you and Mr. Warden are making, Mr. Rainkie, and your  
16 point is that if you're going to use standalone, then the  
17 Board should go all the way and assume that the debt eq -  
18 - the capital structure is 60/40 debt:equity?

19                  MR. DARREN RAINKIE:   I think that's fair,  
20 Mr. Peters, under the circumstances.

21                  MR. BOB PETERS:    I'm sure we're going to  
22 hear that argument from your counsel, Mr. Rainkie, and  
23 I've -- I've certainly think we've heard it from you.

24                  Mr. Rainkie, before lunch you talked about  
25 a premium of acquisition and -- and I'm not sure if this

1 addresses the point, but, on the book of documents 27  
2 line 21 and we look in the columns for '01 and '02  
3 actuals, we see on line 21 acquisition adjustments of  
4 \$130 million.

5 Is that the \$130 million, Mr. Rainkie,  
6 that you told us existed as the premium that Manitoba  
7 Hydro paid over and above book value of the assets of  
8 Centra?

9 MR. DARREN RAINKIE: That's correct, Mr.  
10 Peters.

11 MR. BOB PETERS: And is it correct, Mr.  
12 Rainkie and Mr. Derksen, that the acquisition premium was  
13 not allowed to be carried through into rate base?

14 MR. DARREN RAINKIE: That's correct, Mr.  
15 Peters, if we've dealt with that through the corporation  
16 allocation.

17 Mr. Peters, the point I was trying to make  
18 earlier, though, is if you look at the total purchase  
19 price of 250 million and you compare that to the -- to  
20 the 6 million of net income, plus the 12 million of  
21 corporate allocation which is 18 million, I -- we don't  
22 want to characterize that as a return but even if you  
23 have to go there, I wouldn't characterize that as an  
24 accessory term for a \$250 million investment.

25 MR. BOB PETERS: And that was the point

1 you wanted to make to demonstrate to the Board the  
2 numbers as to how you would justify a higher return if  
3 the rate base rate of return methodology was going to be  
4 given heavier weight?

5 MR. DARREN RAINKIE: Yes, Mr. Peters,  
6 we're try -- we're trying to provide the Board with a  
7 number of perspectives here, you know, in terms of  
8 looking at this on a high-level basis.

9 MR. BOB PETERS: Well, then let's --  
10 let's follow that through, Mr. Rainkie, and let's show  
11 the Board how the Corporation implemented the Board Order  
12 from the last GRA and I think that's located in the book  
13 of documents Tab 9, Mr. Chairman and Board Members, and  
14 in usual fashion I haven't numbered the pages and I  
15 apologize. It's on the fifth page in. It's a schedule  
16 that's headed, "Schedule 3.1.0" reflecting Order 103/05.

17 And, Mr. Rainkie, am I correct that in  
18 column 4 on Schedule 3.1.0 that was the application that  
19 was last made to the Board at a GRA? And we can exclude  
20 the gas costs as Ms. Derksen has told us before not to  
21 get too bogged down with that, but, those were the non-  
22 gas cost requests found in column 4?

23 MR. DARREN RAINKIE: Yes, Mr. Peters.

24 MR. BOB PETERS: And specifically when we  
25 got down to lines 19 and 21, the request from the

1 Corporation was a \$12 million corporate allocation, as  
2 well as a net income of \$14.4 million?

3 MR. DARREN RAINKIE: That's correct.

4 MR. BOB PETERS: And the next column 5 is  
5 what the Company included in its rates and that was a  
6 recovery of the non gas cost items and the corporate  
7 allocation of \$12 million was carried through, but the  
8 net income was reduced from 14.4 million down to \$3  
9 million, correct?

10 MR. DARREN RAINKIE: That's correct.

11 MR. BOB PETERS: Now, under that  
12 situation, Mr. Rainkie, is it the company's position that  
13 if the Board had approved a \$12 million corporate  
14 allocation, plus a \$14 million net income, it would've  
15 passed the no harm test so that Centra payer -- Centra  
16 ratepayers would not be harmed?

17 MR. DARREN RAINKIE: I'm trying to recall  
18 our calculations on the '06/'07 test year. My  
19 recollection from two (2) years ago is that there was --  
20 there was a significant amount of no harm in 2005/'06 and  
21 with the 14.4 million in 2006/'07 there was a couple  
22 hundred thousand dollars of harm essentially rounding  
23 within Centra's revenue requirement. But the -- the  
24 overall application, if you looked at the two (2) years,  
25 was well under the no harm test.

1                   MR. BOB PETERS:    And even though the  
2 application may have been under the no harm test, at  
3 least on the two year outlook, Mr. Rainkie, the Board  
4 reduced the net income down to \$3 million making it a  
5 total return of approximately \$15 million?

6                   MR. DARREN RAINKIE:   Yes, Mr. Peters, the  
7 Board allowed 12 million plus three (3) in rates, whether  
8 we call that a return or not is another matter.

9                   MR. BOB PETERS:    I didn't mean to  
10 aggravate Mr. Warden again, but I've got -- I've his  
11 point and I -- I wasn't suggesting that it was taken out  
12 by the parent and I hope that's clear.

13                               So when the Board, Mr. Rainkie, and you've  
14 read the Board orders, when the Board suggested that in  
15 doing its calculation the fair return on equity was going  
16 to be a cap or an absolute limit on the return to  
17 Centra's shareholder, what did the Corporation understand  
18 that to mean?

19                   MR. DARREN RAINKIE:    Well, I think, Mr.  
20 Peters, at the time of preparing this material, we were  
21 focussed on what the Board allowed us in rates, which was  
22 the \$12 million corporate allocation, plus a provision  
23 for net income.

24                               So I think we understood the Board's  
25 policy to be, you can have a net income and, you know,

1 and the discussion is, I guess, what level of net income  
2 is appropriate.

3 MR. BOB PETERS: And so from Tab 9,  
4 schedule 3.1.0, the requested net income of \$14.449  
5 million was reduced by 11.449 million and allowed only at  
6 \$3 million?

7 MR. DARREN RAINKIE: That's correct, Mr.  
8 Peters. My memory is coming back. I think the reason  
9 that 14.4 was high was that in the middle of the hearing  
10 we reduced the corporate allocation from 15.1 down to 12  
11 million, which -- which on -- increased that number to  
12 14.4 from around 11 million, so I think that's where some  
13 of the confusion is here on the numbers.

14 MR. BOB PETERS: But, Mr. Rainkie, the --  
15 the corporate allocation plus a net income if -- when you  
16 add them together that number didn't -- didn't change  
17 much if at all?

18 MR. DARREN RAINKIE: That's correct, they  
19 were the same total.

20 MR. BOB PETERS: And the corporate  
21 allocation came down from 15 million to 12 million at the  
22 request of the Corporation?

23 MR. DARREN RAINKIE: That's correct.

24 MR. BOB PETERS: And if my memory is not  
25 too bad on that, Mr. Rainkie, it came down the \$3 million

1 because at least those \$3 million of synergies were found  
2 in the parent corporation, over and above what had  
3 otherwise been expected?

4 MR. DARREN RAINKIE: Sorry, Mr. Peters,  
5 I'm not following you. I thought -- sorry, you're -- are  
6 you saying that that would have met the test of no harm,  
7 the 12 million plus the 3 million?

8 MR. BOB PETERS: No, I wasn't suggesting  
9 that, I was suggesting, Mr. Rainkie, that the reason the  
10 Corporation asked for the corporate allocation number to  
11 be reduced from 15 million to 3 million is that -- I'm --  
12 I've misspoken and misthought here, let me start over.

13 Mr. Warden, you're going to have to help  
14 the Board out here because I think it was your evidence,  
15 sir, that -- when you first came to the Board with a --  
16 Mr. Saxberg and I will remember this, an interim ex parte  
17 application for -- for gas rates in February of '05,  
18 there was a \$15 million corporate allocation included in  
19 your interim ex parte application; would you agree with  
20 that?

21 MR. VINCE WARDEN: Yes, Mr. Peters, and I  
22 -- I do agree with your -- the way you characterized it  
23 previously, that is, we determined that there were  
24 greater synergies within the electricity side of our  
25 business than we had previously anticipated such that we

1 could well absorb another \$3 million in synergies on the  
2 electricity side, so therefore, we did reduce the  
3 corporate allocation from fifteen (15) to twelve (12).

4 MR. BOB PETERS: Thank you, Mr. Warden.  
5 In an attempt to assuage your concerns and -- and make  
6 peace with you, sir, at Tab 8 of the document -- Book of  
7 Documents is an extract from a Board order 135 of '05 and  
8 I'm looking at the last sentence on that page and that  
9 indicates the --

10 "that limit applies whether the return  
11 be by way of net income, [open  
12 brackets] (and potentially subsequent  
13 dividend) [closed brackets] or by  
14 Corporate allocation." closed quotes.

15 And so when I was referring to a return, I  
16 was thinking of it, at least generically, in a sense that  
17 it was either by way of net income or by Corporate  
18 allocation and you obviously have a different  
19 interpretation of what the return is considered.

20 MR. VINCE WARDEN: Well, I -- I have no  
21 issue with the \$12 million. The \$12 million is required  
22 to pay the gas companies their share of the acquisition  
23 costs. It was the characterization of the net income,  
24 beyond the \$12 million, that I had some issue -- some  
25 issue with, but I think that point was made.

1                   MR. BOB PETERS:    Okay, and -- and you  
2 don't want to call it a return if -- if return implies  
3 that it's going to leave Centra Gas Manitoba Inc.?

4                   MR. VINCE WARDEN:    Yes, and as we all  
5 know, under the previous ownership, West Cost Energy did  
6 have that right. They could take a dividend out of the  
7 Company and they did. Manitoba Hydro has not done that,  
8 nor does it intend to.

9

10   (BRIEF PAUSE)

11

12                   MR. BOB PETERS:    Mr. Rainkie, would you  
13 agree with me that what Mr. Matwichuk has suggested to  
14 the Board in his evidence is -- and -- and the  
15 significant point there is that the \$12 million that  
16 exists under the rate base rate of return calculation by  
17 the Utility, ought not to be included as a corporate  
18 allocation under a rate base rate of return methodology?  
19 That's his primary difference from where the Corporation  
20 sits?

21                   MR. DARREN RAINKIE:    That's my  
22 understanding of his evidence is that he would take our  
23 rate base rate of return number that you see on column 2  
24 of our day -- our Centra Exhibit 7 and deduct \$12  
25 million.

1 (BRIEF PAUSE)

2  
3 MR. BOB PETERS: And Mr. Rainkie, where  
4 the Board -- where the Board, in Tab 8, PUB Order 135 of  
5 '05, indicates -- indicates on page 76 in the middle of  
6 the page, that there is an agreement with CAC/MSOS that  
7 providing in Centra's revenue requirement annual net  
8 income of 14 to 16 million, along with a Corporate  
9 allocation by Manitoba Hydro of 12 million, would amount  
10 to an excessive return.

11 It's now the Corporation's position that  
12 that \$14 to \$16 million number needs to be reevaluated in  
13 light of the capital growth of the Company.

14 MR. DARREN RAINKIE: That's one (1) of  
15 the ways of looking at it that I presented earlier, Mr.  
16 Peters, in terms of this whole issue about an excess  
17 return, if I can use that term loosely.

18 MR. BOB PETERS: Okay, now I think I've -  
19 - I've got your points. Let's turn to the capital  
20 structure and, Mr. Rainkie, how fortunate are we to have  
21 the treasurer of the Corporation with us today and, by  
22 the way, a public congratulations on -- on your being  
23 promoted to that position.

24 But you can confirm to the Board that  
25 Centra does not independently source its own debt, does

1 it?

2 MR. DARREN RAINKIE: No, it sources it  
3 through the parent company ul -- and ultimately through  
4 the province.

5 MR. BOB PETERS: And -- so if Centra  
6 needs any capital, Manitoba Hydro and its treasurers make  
7 those arrangements and they make them through the  
8 province of Manitoba's facilitation?

9 MR. DARREN RAINKIE: For long-term debt,  
10 Mr. Peters, and on -- for short-term debt we make those  
11 arrangement through our own operating line and then we  
12 provide that Cent -- a share of that to Centra.

13 MR. BOB PETERS: Okay. Let me see if I  
14 understand the difference. You have a short-term -- a  
15 short-term borrowing capacity of what, approximately \$75  
16 million?

17 MR. DARREN RAINKIE: Our corporate  
18 facility is 500 million for Manitoba Hydro Consolidated.

19 MR. BOB PETERS: But I was suggesting for  
20 Centra gas or do you have a limit on Centra Gas's short-  
21 term debt capabilities?

22 MR. DARREN RAINKIE: No, we don't have a  
23 limit. The seventy-five (75) was the limit under the  
24 West Coast ownership.

25 MR. BOB PETERS: No longer a limit?

1                   MR. DARREN RAINKIE:   Well, there's an  
2 overall corporate limit, Mr. -- Mr. Peters, and we have  
3 to fund the electric side of the business as well, so I  
4 guess we couldn't use \$500 million for Centra, is what  
5 I'm telling you.

6                   MR. BOB PETERS:   All right. I've got  
7 your point, Mr. Rainkie, thank you. In terms of long-  
8 term arrangements, again, the treasury department of  
9 Manitoba Hydro would secure the debt of Manitoba Hydro  
10 and the -- and then forward a certain amount to Centra  
11 gas?

12                   MR. DARREN RAINKIE:   Yes, there's  
13 intercompany advances to Centra gas.

14                   MR. BOB PETERS:   And -- and, Mr. Rainkie,  
15 you do all that work for Centra gas for the -- for the  
16 princely sum of a 1 percent debt guarantee fee?

17                   MR. DARREN RAINKIE:   That's correct.

18                   MR. BOB PETERS:   And that 1 percent debt  
19 guarantee fee is on top of the cost of debt that Centra  
20 is charged, whether that be short-term debt or long-term  
21 debt?

22                   MR. DARREN RAINKIE:   That's correct. It  
23 forms part of the cost ultimately.

24                   MR. BOB PETERS:   And -- and am I correct  
25 in my general understanding, Mr. Rainkie, that Manitoba

1 Hydro's debt is also guaranteed by the province of  
2 Manitoba?

3 MR. DARREN RAINKIE: Everything with the  
4 exception of a small sliver, 99.9 percent of it is, Mr.  
5 Peters.

6 MR. BOB PETERS: That invites the next  
7 question, Mr. Rainkie, but is that the .1 percent in any  
8 way related to Centra?

9 MR. DARREN RAINKIE: No, it isn't.

10 MR. BOB PETERS: All right. We'll leave  
11 your salary out of this then. The -- the cost of  
12 Manitoba Hydro's debt is determined then by the credit-  
13 worthiness of the province of Manitoba?

14 MR. DARREN RAINKIE: That's correct.

15 MR. BOB PETERS: And currently, the  
16 province has its debt rated as, I believe, A-high; would  
17 that be your understanding?

18 MR. DARREN RAINKIE: Yes.

19 MR. BOB PETERS: And you would agree that  
20 Manitoba Hydro's consolidated balance sheet also impacts  
21 the province's credit-worthiness?

22 MR. DARREN RAINKIE: I think there's been  
23 a lot of discussion on the record in past electric  
24 proceedings to that effect, but --

25 MR. BOB PETERS: And in -- in the

1 discussion to reflect that, is it now greater than 50  
2 percent of the debt of the province of Manitoba is  
3 attributable to Manitoba Hydro?

4 MR. DARREN RAINKIE: Yes, I think that --  
5 we believe that to be true, Mr. Peters.

6 MR. BOB PETERS: And on a consolidated  
7 balance sheet basis, Manitoba Hydro presents it  
8 debt:equity as 81/19 currently; are you aware of that?

9 MR. DARREN RAINKIE: That was the number  
10 at March 31st, 2006.

11 MR. BOB PETERS: You're correct. I --  
12 I'll take that as subject to any check or other amount.  
13 And Manitoba Hydro has a target debt:equity that it wants  
14 to achieve of 75/25; you're aware of that?

15 MR. DARREN RAINKIE: That's correct.

16 MR. BOB PETERS: You've conceded to me  
17 that based on the numbers in Centra's application on a  
18 stand-alone basis, Centra would be considered 70/30  
19 debt:equity structure at this time?

20 MR. DARREN RAINKIE: Based on the way the  
21 PV has instructed up to do the calculations, yes.

22 MR. BOB PETERS: And -- and that's a  
23 significant caveat, Mr. Rainkie. The -- the way you've  
24 been instructed would be found at Tab 8 of the book of  
25 documents and the very last page, page 100 of order

1 135/05, is that at point 12 in future rate applications  
2 Centra is to file a debt:equity calculation based on a  
3 stand alone methodology and -- and that's what you're  
4 referring to is you're being at 70/30 on that basis at  
5 this time?

6 MR. DARREN RAINKIE: That's right, Mr.  
7 Peters. Now, just to be clear, we use that calculation  
8 in our rate base rate of return calculations back in the  
9 2005 GRA as well, so this is not -- we're not -- there's  
10 not been a change in the way we presented our rate base  
11 rate of return calculations. We always used the  
12 standalone method, if you like, for those calculations  
13 but we use the consolidated calculation with respect to  
14 cost of service and that's what gives us the 86/14.

15 MR. BOB PETERS: Mr. Rainkie, at Tab 13  
16 of the book of documents is the integrated financial  
17 forecast for the gas operations, and for rate setting  
18 purposes you don't calculate the debt:equity on a  
19 standalone basis and you calculate it more on the  
20 consolidated basis for, I would suggest, the very reasons  
21 that Mr. Warden gave to Ms. Murphy in his direct  
22 evidence?

23 MR. DARREN RAINKIE: That's correct, Mr.  
24 Peters.

25 MR. BOB PETERS: I take from the rebuttal

1 evidence and also the direct evidence of Mr. Warden that  
2 the Corporation's position is -- and these are my words -  
3 - all right, if we are to -- if we are to present our  
4 information as a standalone corporation for Centra Gas,  
5 then we have to use the targets that are appropriate for  
6 a standalone utility?

7 MR. DARREN RAINKIE: That's correct, Mr.  
8 Peters. The very premise of the standalone basis or the  
9 standalone methodology in the first place is that you  
10 don't look to the parent company in setting the rates of  
11 the subsidiary company. So if we're not looking at  
12 Manitoba Hydro then I think we would revert to the  
13 longstanding capital structure of Centra Gas Manitoba at  
14 60/ 40.

15 MR. BOB PETERS: And so in -- in -- these  
16 are my words now, Mr. Rainkie, that instead of bringing -  
17 - if -- if 70/30 is the -- sorry, let me start again. If  
18 the corporate target is 75/25 for a debt:equity ratio and  
19 on a standalone basis Centra is at 70/30 then we can all  
20 cheer because we've already reached at least the target  
21 and we've actually done 5 percentage points better?

22 MR. DARREN RAINKIE: No, I don't think  
23 we're cheering about that. What -- what we're saying is,  
24 is that if you are going to employ a methodology be  
25 consistent about it so that if you want to do a

1 standalone calculation that says your current equity is  
2 70/30 then at least have the fairness to compare that to  
3 a standalone debt to equity of 60/40. And lo and behold,  
4 if you look at the rate increases that are required in  
5 the next ten (10) years to get you to either the  
6 integrated target of 75/25 or the standalone target of  
7 60/40 applied on a consistent basis they're very similar.

8 MR. BOB PETERS: All right. And -- and  
9 you filed materials with respect to that, Mr. Rainkie,  
10 but the -- the point that you want to stress then is that  
11 on a standalone basis 70/30 may exist today, but don't  
12 measure that against 75/25; the Board should out of  
13 fairness measure that against 60/40 as a debt:equity?

14 MR. DARREN RAINKIE: I couldn't have said  
15 that better myself, Mr. Peters.

16 MR. BOB PETERS: Well, you'd say that,  
17 Mr. Rainkie, even though Centra is now Crown owned and  
18 not privately owned; even though Centra doesn't have to  
19 arrange for its own money but it's done by the parent?  
20 All of those factors that you and I have talked about  
21 would mitigate against having to go to a -- to a 60/40  
22 structure, would they not?

23 MR. DARREN RAINKIE: All those factors  
24 that you and I just discussed would be violating the  
25 standalone principle, Mr. Peters, by looking to the

1 parent company and saying let's look at its financing  
2 arrangements. If you -- if you want to use a standalone  
3 calculation then we should go back to how Centra would  
4 have borrowed on a standalone basis.

5 It's a -- it's a matter of Mr. -- as Mr.  
6 Warden had talked about in his direct, consistency and  
7 fairness in application.

8 MR. BOB PETERS: But in -- in saying  
9 that, Mr. Rainkie, you're ignoring the reality that  
10 Centra can't borrow its own money, that it relies on the  
11 parent and that's its reality even if it is to be  
12 considered, for regulatory purposes, standalone?

13 MR. DARREN RAINKIE: In your proposition,  
14 Mr. Peters, you're ignoring the reality that the equity  
15 in Centra is financed by debt at the Manitoba Hydro  
16 level. So if we want to go to the Manitoba Hydro level,  
17 if we're -- if we're looking at reality or we're doing a  
18 fictional standalone calculation, let's be consistent.  
19 This is -- we're not picking cable TV channels from one  
20 (1) bundle and another bundle, Mr. Peters, we're trying  
21 to fairly apply a methodology or two (2) methodologies  
22 consistently.

23 MR. BOB PETERS: Your -- your comment  
24 about looking to the parent company for -- for the  
25 borrowing help, your -- your comment meant that the \$121

1 million of shareholder's equity that has been imputed or  
2 financed through debt by Manitoba Hydro should be  
3 considered then as debt if you're going to -- if you're  
4 going to look to the -- the parent as -- as financing the  
5 subsidiary.

6 MR. DARREN RAINKIE: Yes, in fairness we  
7 believe that's the case.

8 MR. BOB PETERS: I think I've got your  
9 point, Mr. Rainkie. Perhaps a point not be lost, Mr.  
10 Rainkie, in that last answer, is that of the \$121 million  
11 of -- of share capital, there was -- two-thirds (2/3rds)  
12 of that was -- was, I think, retained earnings that  
13 existed when Manitoba Hydro acquired Centra, isn't that  
14 correct?

15 There was \$82 million of retained earnings  
16 that existed when you bought the Corporation and you now  
17 have financed, you've -- you've taken that off the  
18 balance sheet and substituted debt because that's how  
19 Manitoba Hydro paid for it?

20 MR. DARREN RAINKIE: I think we'll agree  
21 with those numbers, subject to check. I'm not quite sure  
22 where you're going, Mr. Peters, but I think those  
23 retained earnings were the property of West Cost Energy  
24 Inc., were they not, and -- and when Manitoba Hydro came  
25 on the scene, we reset the retained earnings to zero, as

1 Mr. Warden indicated earlier today in his direct.

2                   And that's what we're talking about right  
3 now, is we have a Corporation with \$20 million of  
4 retained earnings and a fairly modest net income request  
5 that will get us up to \$33 million in net of retained  
6 earnings that -- how that can be characterized as ex --  
7 excess return, is beyond me.

8                   MR. BOB PETERS: Mr. Rainkie, I -- I  
9 don't think you heard the words "excess return" in my  
10 question, relative to that amount. But if we look back  
11 and I'm -- I'm now looking at Tab -- book of documents  
12 Tab 15, PUB/CENTRA 78B attachment, it happens to be the  
13 last page in -- in the Tab 15 of the book of documents,  
14 I'm looking at the retained earnings line, which is  
15 approximately halfway down, just below the solid line on  
16 the -- on the chart, and in July '09 in actual there was  
17 \$82 million of retained earnings.

18                   And I think that's the \$82 million that  
19 you've agreed has -- was -- was there when you bought the  
20 company, but it was taken out and debt was substituted?

21                   MR. VINCE WARDEN: Maybe I can answer  
22 that, Mr. Peters. It wasn't actually there when we  
23 bought the Company. At the point of purchase. It was  
24 part of the purchase agreement that that amount would be  
25 converted to share capital by the owner, by West Coast

1 Energy.

2                   There were tax advantages to West Coast of  
3 doing that and when we bought the Company that was  
4 totally converted into share capital.

5                   MR. BOB PETERS: I appreciate that, Mr.  
6 Warden. I think you and Mr. Rainkie may have been on  
7 opposite sides of the boardroom table back then, I'm not  
8 sure.

9                   MR. VINCE WARDEN: I didn't see Mr.  
10 Rainkie --

11                   MR. BOB PETERS: Just if you can  
12 probably --

13                   MR. DARREN RAINKIE: Probably thankful  
14 for that, too.

15                   MR. VINCE WARDEN: After all is treasurer  
16 now.

17                   MR. BOB PETERS: If we can turn back in  
18 Tab 15 to PUB/CENTRA 78A attachment; it's the second last  
19 page in that tab. Mr. Rainkie, what we do see here under  
20 the equity line 21, is that when West Coast was -- was  
21 the owner of the shares, the actual equity was  
22 approximately 36 percent and since then we can see how  
23 the equity has gone down on a standalone basis, if I may,  
24 down to 30 percent.

25                   MR. DARREN RAINKIE: Mr. Peters, that

1 actual equity ratio was so low because of the loss that  
2 Centra incurred in 1998 as a result of the '98 GRA Board  
3 Order. I think Mr. Derksen and myself have testified on  
4 numerous occasions that it was the intention of West  
5 Coast to do an equity infusion to ma -- to Centra Gas to  
6 increase that ratio to 40 percent before the acquisition  
7 actually occurred.

8 So I think in reality -- I mean, if you're  
9 -- if you were to point out to me that 36 percent is  
10 lower than 40, the Corporation had every intention to  
11 refresh that back to 40 percent.

12 MR. BOB PETERS: Okay. And we'll --  
13 we'll take that as a hypothetical and maybe some insider  
14 knowledge that that was to be the reality. The point  
15 you're making there is twofold, Mr. Rainkie.

16 One is, it would have been 40 percent, but  
17 for a Board Order that disallowed certain expenditures of  
18 the Corporation?

19 MR. DARREN RAINKIE: A very large amount  
20 of expenditures of the Corporation.

21 MR. BOB PETERS: And secondly it would  
22 have -- it would be 40 percent because had West Coast  
23 continued in ownership there would have been an  
24 expectation of an infusion up to 40 percent equity to  
25 allow them to return -- to earn a return on equity as

1 large as they could have?

2 MR. WILLY DERKSEN: That's correct, Mr.  
3 Peters. In fact the arrangements had been made to make  
4 that infusion prior to the negotiations with Manitoba  
5 Hydro.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: My point, on the book of  
10 documents Tab 14, Mr. Rainkie, is -- on Tab 14 of the  
11 book of documents is an IFF that Centra had run in  
12 response to an Information Request by the PUB-137C and  
13 what we see on the line 29 is that getting your capital  
14 structure to 75 percent debt and 25 percent equity by  
15 2017 you've had to make some assumptions as to what the  
16 various rate increases would be, correct?

17 MR. DARREN RAINKIE: Yes, Mr. Peters.  
18 This scenario imposes the standalone -- sorry, integrated  
19 equity target on the standalone equity calculation.

20 MR. BOB PETERS: Can you explain to the  
21 Board, Mr. Rainkie, why under the '08 and '09 years you  
22 show the rate increases which are the 2 percent sought  
23 and the 1 percent sought, and then later on in the IFF  
24 you have to -- you have net income losses -- actually net  
25 losses of \$11 million dollars to -- to get down to the

1 75/25. That's a fairly bumpy ride, is it not, as  
2 presented?

3 MR. DARREN RAINKIE: Well, Mr. Peters, I  
4 -- I suppose we could have spread that 3 percent out  
5 later. I -- I think we believe that our -- our proposals  
6 for '08/'09 -- '07/'08 and '08/'09 are reasonable so I --  
7 I suppose we kept the 2 percent and the 1 percent in the  
8 front end and the variability was in the back end of the  
9 forecast.

10 MR. BOB PETERS: Mr. Rainkie, can I ask  
11 an undertaking, of actually two (2) then of the -- of the  
12 Company?

13 One would be to prepare an IFF which shows  
14 equal annual percentage rate increases or decreases to  
15 get to 75/25 by 2017.

16 And on that note, another IFF which shows  
17 equal annual percentage rate increases to maintain the  
18 70/30 structure that's calculated in this -- in this IR?

19 MR. DARREN RAINKIE: We can do that, Mr.  
20 Peters. I'm not sure if we're going to have opportunity  
21 to talk about PUB-137B which I wish we -- was in this  
22 book, Mr. Peters, which would show that if you -- if you  
23 used a standalone debt:equity calculation and compared  
24 that against the standalone capital structure target of  
25 60/40 that we'd come to pretty much the same rate

1 increases as our application. And I hope that that  
2 doesn't get lost in the volumes of document that are --

3 MR. BOB PETERS: Well, that's a good  
4 point, Mr. Rainkie, and while we just bring it off the  
5 memory stick here to -- to look at it, your point to the  
6 Board is that over the horizon of the IFF, whether it's  
7 75/25 on a standalone basis -- I'm sorry, whether it's  
8 75/25 on the consolidated or 60/40 on the standalone, the  
9 percentage of rate increases over that horizon would be  
10 approximately the same?

11 MR. DARREN RAINKIE: That's correct. I  
12 think the integrated 75/25 IFF results in about 6.1  
13 percent cumulative rate increases over ten (10) years and  
14 the response to PUB-137B shows cumulative rate increases  
15 of 6.9 percent if we compare standalone versus  
16 standalone. So our -- our applica -- sorry, the -- this  
17 -- the IFF actually is a little bit less than what the  
18 proper application of the standalone method would show.  
19 But it's 0.8 percent difference.

20 MR. VINCE WARDEN: Mr. Peters, can I  
21 maybe suggest that -- and we can certainly run an IFF  
22 with those smooth rate increases, if you like, but we're  
23 going to get to 75/25 at the end in 2017, and if you just  
24 flip over the page over to the balance sheet, the  
25 projected balance sheet, you can see that retained

1 earnings are \$11 million at that point in time.

2 So we're going from \$20 million today to  
3 \$11 million in 2017, under this scenario, whether you  
4 have the rate increases upfront or whether you want to  
5 smooth them, that's where you're going to be.

6 And the whole point of, I think, Centra's  
7 presentation is that that's just not adequate. We -- we  
8 can't survive with that kind of a capital structure.  
9 It's not resp -- it's not fiscally responsible to put  
10 forward any kind of a scenario that has retained earnings  
11 that low.

12 Our retained earnings are all -- are  
13 already too low and the -- the point of whether we use a  
14 methodology based on 70/30 assumed debt:equity ratio or  
15 the 86/14 that we are under cost of service, the whole  
16 point of all that is how do we get those retained  
17 earnings up to a target level?

18 So we can target an absolute number for  
19 the retained earnings and you can use whatever  
20 methodology you want to get -- you want to get there.  
21 You can smooth it however you like, but those retained  
22 earnings have to increase one (1) way or another and  
23 we're doing that through a, what we think, is a logical  
24 target.

25 MR. BOB PETERS: If we continue your

1 discussion, Mr. Warden, and look back to Tab 13 of the  
2 Book of Documents and the balance sheet attached to the  
3 IFF that formed part of your application, instead of \$11  
4 million of retained earnings, you want that to get up to  
5 \$85 million by the 2017 target.

6 MR. VINCE WARDEN: That's correct.

7 MR. BOB PETERS: And -- and --

8 MR. VINCE WARDEN: I'm sorry. Yes, I  
9 was going to add, just -- if we're -- since we're talking  
10 of retained earnings, we're trying to up 80 -- into the  
11 85, \$90 million range and if you look -- if you use a  
12 60/40 type of scenario that Mr. Rainkie was just  
13 referring to, we get up to around \$108 million under --  
14 with that scenario.

15 So very close to the same end result for  
16 retained earnings but, certainly, not a lot -- a long  
17 ways away from \$11 million.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Mr. Warden, you've  
22 successfully talked me out of, at least for the moment,  
23 pressing you for those IFFs with that explanation as to  
24 where the retained earnings number will come and we won't  
25 lose track of the one (1) that Mr. Rainkie wanted us to

1 look at, either, when we -- when we consider all of them,  
2 but if -- if I do want a further request on that, I'll --  
3 I'll get back to the panel or through Ms. Murphy.

4 And put another way, Mr. Warden, in terms  
5 of net income, we've already acknowledged the Board  
6 awarded \$3 million of net income last General Rate  
7 Application, correct?

8 MR. VINCE WARDEN: Correct, that was  
9 based on the application at that time. We didn't -- we  
10 didn't achieve the \$3 million of net ec -- income for  
11 reasons that Ms. Derksen referred to in her direct  
12 testimony, but that was the target and we did not achieve  
13 that target.

14 MR. BOB PETERS: And you're asking for 77  
15 percent more retained earnings this time around, you want  
16 to go up to \$5.3 million, have I got that right?

17 MR. VINCE WARDEN: Oh, I think you said  
18 retained earnings, you meant net in -- net income?

19 MR. BOB PETERS: I did mean net income,  
20 sorry. But you'd agree with me that the -- the request  
21 now relative to that is 77 percent more.

22 MR. VINCE WARDEN: Well it is higher, but  
23 it does recognize the fact that we have incurred losses.  
24 We've incurred losses going back for at least five (5)  
25 years with Centra now and at some point we have to start

1 recouping those losses and at -- start building those  
2 retained earnings that I referred to earlier.

3 MR. BOB PETERS: Would you agree with me,  
4 Mr. Warden, that it then becomes a question of management  
5 judgment as to how quickly you recoup those losses?

6 MR. VINCE WARDEN: Absolutely.

7 MR. BOB PETERS: Would you agree with me  
8 as well, Mr. Warden, or other members of the panel, that  
9 if those losses are as a result of warm weather, they  
10 should not be allowed to the Corporation because under a  
11 weather normalized structure you will be kept whole over  
12 time.

13 MR. VINCE WARDEN: Yes, I would agree to  
14 that -- with that, to some extent. The -- certainly the  
15 losses of \$5 million that we incurred last year, in  
16 2005/'06 that is, were largely weather related.

17 Had we had normal weather, I believe -- we  
18 believe we had the third warmest winter on record during  
19 that year; had we had normal weather, we would've been  
20 very close to breakeven or perhaps better than breakeven.

21 MR. DARREN RAINKIE: Just so that -- Mr.  
22 Peters, sorry, you weren't suggesting in your question  
23 that our revenue deficiency is a function of past weather  
24 losses, were you? I think Ms. Derksen explained this  
25 morning that was lower volumes and higher non-gas costs.

1 I just want to make sure we're clear here.

2 MR. BOB PETERS: I didn't suggest that  
3 and I don't think Mr. Warden was assuming I suggested  
4 that, but I will be clear.

5 What Ms. Derksen testified to this  
6 morning, to put it from my side of the table, is that  
7 going forward the company could expect, if all things are  
8 equal, except for the volumes that you're now  
9 forecasting, you're going to lose \$4 million going  
10 forward because the revenues are down and you're not  
11 going to recover the margin that would be built into  
12 those revenues to recoup these non-gas cost items.

13 MS. KELLY DERKSEN: I think we're on the  
14 same page now, Mr. Peters, yes.

15 MR. BOB PETERS: Okay. And if we're on  
16 the same page, let's get Mr. Rainkie with us.

17 Where that would show up, Mr. Rainkie,  
18 would be the -- the retained earnings' line that -- that  
19 Mr. Warden just showed to the Board, is that that line is  
20 going to be affected by what the weather does.

21 MR. DARREN RAINKIE: Yes, that's actual.

22 MR. BOB PETERS: And --

23 MR. DARREN RAINKIE: What actually  
24 happened--

25 MR. BOB PETERS: And -- and so my

1 question is: If the weather actually causes your  
2 retained earnings to go down, is that a ground for you to  
3 come to the Board and ask for a rate increase?

4 MR. VINCE WARDEN: No, but it -- it does  
5 demonstrate, though, the very -- one (1) of the very real  
6 needs to have retained earnings; that's part of the  
7 reason for having an adequate level of retained earnings  
8 to -- to be able to absorb those weather fluctuations.

9 MR. BOB PETERS: I hear in that answer,  
10 Mr. Warden, you're telling the Board that you need a  
11 cushion on your retained earnings so that Centra stays --  
12 stays whole and it doesn't have to come in with negative  
13 retained earnings and get money from the parent company  
14 to continue to operate?

15 MR. VINCE WARDEN: We -- we definitely  
16 don't want to see that scenario, yes.

17 MR. BOB PETERS: And how big of a cushion  
18 is a debate that has been ongoing and presumably will  
19 continue to -- to go as to what would be the appropriate  
20 amount and -- and how quickly to get there?

21 MR. VINCE WARDEN: And I think that is  
22 the appropriate way to look at this, Mr. Peters, rather  
23 than us debating about whether it should be sixty/forty  
24 (60/40) or seventy-five/twenty-five (75/25) under def --  
25 different assumptions of how that formula should be

1 constructed. What is the dollar amount of retained  
2 earnings that we should be striving to achieve?

3 As our application has indicated, that  
4 dollar amount, ultimately, over the term of the ten (10)  
5 year forecast should be approximately \$85 million.

6 MR. BOB PETERS: And over the ten (10)  
7 years, Mr. Warden, if any of the reductions from that 85  
8 million are attributed to weather, that's just part of  
9 the risk that the Corporation has to bear as a gas  
10 utility in the prairies?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: All right. Just for the  
13 benefit of the Board and I -- I didn't want to take,  
14 maybe I did, but I didn't want to take too big of a leap  
15 there, but costs of Centra Gas are relatively unaffected  
16 by weather except for the variable cost of gas items;  
17 would that be correct?

18 MR. VINCE WARDEN: I think there are  
19 costs. We -- we certainly see in customer service costs  
20 and there's others that can speak to that probably better  
21 than I can, but for example, the TIPP program, certainly  
22 a lot more activity in that during the -- the very  
23 extremely cold weather.

24 So when we have mild weather, as we did in  
25 the 2005/'06 winter, we did see a significant decrease in

1 our costs of operations for that reason.

2 MR. BOB PETERS: Conceptually, if the  
3 weather is colder than normal that would yield a higher  
4 than forecast earnings?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: And conversely, warmer  
7 than normal, be lower than forecast earnings.

8 MR. VINCE WARDEN: Correct.

9 MR. BOB PETERS: But you told Mr. Gange  
10 in one (1) of his IRs that it's not symmetrical because  
11 on the coldest year you could expect, I think, a \$12  
12 million higher than forecast earnings, but on the warmest  
13 year that loss would be approximately \$7 million; unless  
14 I've transposed those two (2).

15 Don't -- let me just -- I don't want to  
16 bog down on that. My reference was an R -- an RCM/TREE  
17 Interrogatory Information Request 23. And what I'm  
18 trying to suggest then is that -- that there will be  
19 swings and -- and due to the weather and -- but they're  
20 not symmetrical.

21 MS. MARLA MURPHY: Could you just give us  
22 a moment, Mr. Peters, please?

23

24

(BRIEF PAUSE)

25

1                   MR. WILLY DERKSEN:    Mr. Peters, what  
2 we're talking about is whether the peaks maybe  
3 asymmetrical, but the averages should be symmetrical over  
4 the time period by virtue of how the degree days are  
5 calculated.  A normalized degree day does take an  
6 averaging into consideration, so the peaks may not be,  
7 but we believe the averages should be.

8                   MR. BOB PETERS:    Okay, that's -- that's a  
9 fair refinement on that, Mr. Derksen.  What you're  
10 telling the Board is that for setting rates in this  
11 application, you have come to the Board and you have to  
12 make an assumption that the weather over the next couple  
13 of years is going to be normal.

14                  MR. WILLY DERKSEN:    Yes, that's correct.

15                  MR. BOB PETERS:    And to define normal,  
16 you do a calculation based on degree day deficiencies and  
17 you -- you come up with what, over a ten (10) year  
18 period, is -- is considered to be the average normal  
19 year.

20                  MR. WILLY DERKSEN:    Yes, that's correct.

21                  MR. BOB PETERS:    And the only thing you  
22 know for sure is that you're going to be wrong, you're  
23 just not sure if it's going to be colder or warmer.

24                  MR. WILLY DERKSEN:    Virtually certain of  
25 that.

1                   MR. BOB PETERS:    Virtually certain of  
2   that.  And -- and my point -- and I -- I wanted to not  
3   bog down on it as much as I have -- is that weather  
4   fluctuations are expected to even out over time.

5                   MR. WILLY DERKSEN:    If one gives regard  
6   to trends, warming and -- a global warming and so on, I'm  
7   not sure that that's true, but that's not the argument  
8   that you're putting forth.

9                   MR. BOB PETERS:    No, I'm not putting that  
10  forward, but -- but didn't Centra used to have a thirty  
11  (30) year normalization horizon?

12                  MR. WILLY DERKSEN:    Yes, that's correct.  
13  And that was changed to a ten (10) year and the Board  
14  approved that change because there were trends that were  
15  developing in that timeframe towards warmer weather than  
16  had experienced previously and that was accepted by the  
17  Board.

18                  MR. BOB PETERS:    But the theory behind  
19  it, Mr. Derksen, is that over the ten (10) years what you  
20  lose on the swings you're going to make up on the merry-  
21  go-round.

22                  MR. WILLY DERKSEN:    That would be the  
23  theory, yes.

24                  MR. BOB PETERS:    Okay, that -- that I  
25  understand.  Now with -- with your cost of gas items

1 you've convinced the Board over the years to put in  
2 deferral accounts and purchase gas variance accounts for  
3 various expenditures because you have certain costs that  
4 you're going to have to pay. Whether it's -- whether  
5 it's the coldest year or the warmest year, there's going  
6 to be some fixed costs that have to be paid.

7 MR. WILLY DERKSEN: Yes, that's correct.

8 MR. BOB PETERS: And so while that gas  
9 costs seem to have some -- some degree of protection from  
10 the consumers paying too much or too little, there is in  
11 the distribution costs -- the non-gas items we're talking  
12 about in this hearing -- there is some exposure to the  
13 Corporation to either do better than they forecast for  
14 net income or worse than they forecast for net income.

15 MR. WILLY DERKSEN: Yes, that's correct.

16 MR. BOB PETERS: All right. And to the  
17 extent that -- that the weather is warmer than normal and  
18 the Corporation loses -- either loses income or doesn't  
19 make as much net income as they would otherwise, I  
20 believe Mr. Warden you've agreed that should not be a  
21 ground for you to come back before the Board and ask for  
22 a rate increase because you would expect to recover that  
23 over a period of time?

24 MR. VINCE WARDEN: I agree with that,  
25 yes.

1                   MR. BOB PETERS:    Mr. Warden, I think in  
2 one (1) of the answers you gave me a few minutes ago, you  
3 looked at last year 2005/'06, you forecast weather normal  
4 net income of 1.8 million, but your actual results were a  
5 loss of \$5.4 million?

6                   MR. VINCE WARDEN:    Yes.

7                   MR. BOB PETERS:    And that reduced the  
8 retained earnings by the \$5.4 million?

9                   MR. VINCE WARDEN:    It did.

10

11                                   (BRIEF PAUSE)

12

13                   MR. BOB PETERS:    Mr. Warden and Mr.  
14 Derksen, if you could return -- if you could turn to Tab  
15 17. I was just looking at my notes here, Mr. Warden, I  
16 wonder if -- if I've misstated that, you were forecasting  
17 a \$1.8 million of net income for the 2006 year and I --  
18 and -- and that's now shown on the -- on that table, but  
19 you'll recall that from the previous...?

20                   MR. VINCE WARDEN:    Yes.

21                   MR. BOB PETERS:    Okay. And then we see  
22 here in the column under actual 2006, the net income is a  
23 negative \$5.4 million?

24                   MR. VINCE WARDEN:    Yes.

25                   MR. BOB PETERS:    And so while -- while I

1 guess you were correct that retained earnings was reduced  
2 by \$5.4 million, the weather impact was actually \$7.5  
3 million to the negative?

4 MR. VINCE WARDEN: That's correct, yes.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: It you can assist the  
9 Board, in the 2007 year, Mr. Derksen and Mr. Warden,  
10 you'll recall that in the numbers we looked at, the Board  
11 allowed a net income of \$3 million for the fiscal year  
12 ending in 2007, correct?

13 MR. WILLY DERKSEN: Yes, that's correct.

14 MR. BOB PETERS: And we see here on  
15 PUB/CENTRA-9 found at Tab 17 of the book of documents,  
16 that the '07 year looks like it's coming in at a loss of  
17 \$1.286 million?

18 MR. WILLY DERKSEN: That's the current  
19 forecast or that was the forecast at the time that this  
20 was prepared.

21 MR. BOB PETERS: And -- and I appreciate,  
22 Mr. Derksen, that we're in June, your year ended at the  
23 end of March and as you testify here today that \$1.286  
24 million is still your best guesstimate of what that net  
25 income or loss was for the year?

1 MR. WILLY DERKSEN: Well, no. We know  
2 what the net income was for the year ended 2006/'07.

3 MR. BOB PETERS: And, Mr. Warden, has  
4 that information been publicly released?

5 MR. WILLY DERKSEN: No, it hasn't. It  
6 still has to go to Manitoba Hydro's Board and from there  
7 to the Minister responsible for Manitoba Hydro, before  
8 it's publicly released.

9 MR. BOB PETERS: Can you provide this  
10 Board with a time line as to when the audited financial  
11 statements of Manitoba Hydro including Centra Gas  
12 Manitoba Inc. will be made available?

13 MR. VINCE WARDEN: July 31st is typically  
14 the date at which those statements are released.

15 MR. BOB PETERS: And you're asking for  
16 the Board in this Order to give August rates, which won't  
17 give a lot of time for the turnaround and -- and looking  
18 at your audited financial statements, sir -- but are you  
19 able to tell the Board with any degree of accuracy  
20 whether the net income line found here at PUB/CENTRA-9  
21 should be adjusted upwards or downwards or the magnitude  
22 of which without -- without getting into territory that  
23 you ought not to put on the public record at this time?

24 MR. VINCE WARDEN: Yes, I can -- I can  
25 tell you that there was a slight positive net income for

1 '06/'07 so good news. It's again somewhat weather  
2 related. There was a significant swing from the previous  
3 year because of the extremely mild weather of '05/'06.  
4 '06/'07 was colder -- quite a bit colder -- so we did  
5 have a small positive net income but not significant but  
6 at least it was positive.

7 MR. BOB PETERS: And I know we're --  
8 we're dancing here on eggshells apparently, Mr. Warden,  
9 but a small positive net income to you might be a huge  
10 net income to -- to me.

11 Is it -- is it -- and there's a lot of --  
12 a lot of numbers before the decimal point here but what  
13 you're telling the Board is you've done at least \$1.3  
14 million better than presented for the '07 fiscal year?

15 MR. VINCE WARDEN: Yes, I can tell you  
16 it's huge to us, too. It's very nice to finally see some  
17 -- a positive net income for Centra after five (5) plus  
18 years of losses so we're very pleased with that outcome  
19 but, yes, it's -- it's very marginally above the positive  
20 line.

21 MR. BOB PETERS: All right. I -- I think  
22 I've pushed you as much as you want me to push you and  
23 I'll leave it at that unless I'm instructed otherwise,  
24 quite frankly, but the -- the point when you just said  
25 five (5) years of consecutive losses you were talking on

1 an actual basis, not on a weather-normalized basis?

2 MR. VINCE WARDEN: That's correct, yes.

3 MR. BOB PETERS: Because we see on Centra  
4 -- PUB/CENTRA-9 that in the '06 year on a weather-  
5 normalized basis you made money?

6 MR. VINCE WARDEN: Yes, the -- the  
7 reality is of course, though, that retained earnings as  
8 precarious as it is has been going down for five (5)  
9 years and it couldn't continue on that track but I do  
10 agree weather played -- played a big part of that.

11 MR. BOB PETERS: Mr. Chairman, if it  
12 pleases the Board this might be -- well, in two (2)  
13 minutes this might be an appropriate time to have a  
14 break. I just have one (1) more thought that I wanted to  
15 cover before I left this if I could?

16 MR. BOB PETERS: Mr. Warden, Mr. Derksen,  
17 panel members, you've explained to the Board that the  
18 Corporation has some risks as a result of weather related  
19 to their non-gas cost items and that can cause on a -- on  
20 an actual basis to be different than what would happen on  
21 a weather-normalized basis, correct?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: One (1) of the  
24 Intervenors and I believe it was Mr. Steven Weiss,  
25 RCM/TREE's witness has suggested that Centra could

1 decouple its rates from the weather and you're familiar  
2 with the request made by Mr. Weiss?

3 MS. KELLY DERKSEN: Yes, we are, sir.

4 MR. BOB PETERS: And I take it this  
5 panel's prepared to address that, Ms. Derksen?

6 MS. KELLY DERKSEN: We are.

7 MR. BOB PETERS: Okay. And -- and the  
8 decoupling is really -- would you agree with me that it's  
9 -- it amounts to a deferral account for non-gas cost  
10 items and it's -- when you boil it down?

11

12 (BRIEF PAUSE)

13

14 MS. KELLY DERKSEN: Sorry, Mr. Chairman,  
15 the reason we're debating is that I was asked earlier  
16 today if this matter would be addressed with the Monday  
17 panel, the cost allocation panel, and I confirmed that in  
18 fact it would be so I don't know whether it's appropriate  
19 to split that at this point or if Mr. Peters questions  
20 can go over to the cost allocation panel or how you might  
21 best choose to deal with that?

22 MR. BOB PETERS: I say we have coffee and  
23 defer the questions.

24 THE CHAIRPERSON: Well, we'll take Mr.  
25 Peters' advice.

1 --- Upon recessing at 2:39 p.m.

2 --- Upon resuming at 3:02 p.m.

3

4 THE CHAIRPERSON: Okay, if we could  
5 conclude the day on a high note, Mr. Peters.

6 MR. BOB PETERS: Thank you, Mr. Chairman.

7 THE CHAIRPERSON: If there is such a  
8 thing in these proceedings.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: There will be. And I  
12 wanted to just go back to Tab 17 of the Book of Documents  
13 with Mr. Warden, Mr. Derksen and the panel members. And  
14 I understood from the exchange with Mr. Warden that under  
15 the 2007 year there's a number that is forecast at \$1.286  
16 million on line Number 18 of a loss that the gas company  
17 would -- was forecast to incur and the good news is that  
18 there will be -- and I don't have the exact words, but I  
19 think Mr. Warden's were a -- a -- a modest surplus for  
20 the '07 year.

21 And Mr. Warden, recognizing with that  
22 preface, would you agree with me that even with that  
23 modest surplus for the 2007 year, the Corporation will --  
24 will be down approximately \$3 million from what was  
25 forecast and put into rates the last time you were before

1 the Board?

2 MR. VINCE WARDEN: I think, Mr. Peters,  
3 we were in accordance with the Board directive we were  
4 looking for a net income of \$3 million. At the time,  
5 though, that we came to update our forecast in the fall  
6 of 2006, we realized we wouldn't meet that forecast and  
7 therefore, had a forecast of -- of this 1.286 that you  
8 see here, so, you know, a difference of -- of \$4 million  
9 from -- from what was forecast at the last time we  
10 appeared before this Board.

11 Is that -- is -- I'm sorry, was that what  
12 -- your question?

13 MR. BOB PETERS: Well I think we're on  
14 the right track. The result is, before these were  
15 updated, that there could be a \$4.3 million reversal of -  
16 - of expected positions, you'd agree with that?

17 MR. VINCE WARDEN: I would agree with  
18 that, yes.

19 MR. BOB PETERS: And then when we look  
20 and we -- we take into account now what you've told the  
21 Board just before the afternoon recess and that, in my  
22 words, that net income line will look -- will have a  
23 slight positive number in it rather than a negative  
24 number.

25 MR. VINCE WARDEN: Correct.

1 MR. BOB PETERS: You -- you'll go that  
2 far with me?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: You won't tell me how  
5 much positive, but you tell me it's slightly positive.

6 MR. VINCE WARDEN: Slightly, it's not the  
7 3 million that we had.

8 MR. BOB PETERS: All right, so for the  
9 purpose of my question, I'm going to assume that the  
10 Corporation did not earn its \$3 million of net income,  
11 but maybe came in \$3 million lower than forecast, so it -  
12 - it, in essence, broke even, that's the premise of my  
13 question; will you accept that?

14 MR. VINCE WARDEN: That's reasonable,  
15 yes.

16 MR. BOB PETERS: All right, with -- with  
17 that being the premise of my question and -- and  
18 reasonable in -- in that regard, the Board wants to know  
19 why the Corporation is \$3 million worse off in actual  
20 terms than it was when the Board set the rates.

21 And to that end, in that Book of  
22 Documents, Tab 18, we find an answer to Information  
23 Request PUB/CENTRA-141 and I turn to the -- to the "D"  
24 part of the question on page 2 of 2, and it explains that  
25 some things have happened and I -- I want to make sure

1 the Board understands why the \$3 million of net income  
2 that was projected is not going to appear on the bottom  
3 line.

4 And one (1) of the excuses -- I'm sorry,  
5 one (1) of the -- one (1) -- that sounded worse than I  
6 intended. One (1) of the reasons --

7 THE CHAIRPERSON: That wasn't the high  
8 note I was suggesting.

9  
10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: I apologize, I didn't --  
12 I meant one (1) of the reasons is that finance expense is  
13 higher than -- than what is -- what was thought it was  
14 going to be, correct?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And that's simply a  
17 function of the interest rate being greater than what it  
18 was when this was forecasted?

19 MR. DARREN RAINKIE: Mr. Peters, there's  
20 -- there's a number of reasons, but I think the biggest  
21 chunk of it is short-term interest rates going up  
22 significantly from what was originally forecasted.

23 MR. BOB PETERS: Can you put some  
24 parameters around that, Mr. Rainkie, in terms of what do  
25 you recall being the original expectation and what --

1 what does it look like it's coming in at?

2 MR. DARREN RAINKIE: Mr. Peters, maybe  
3 you could continue and I'll pull out a binder and see if  
4 I can help you out.

5 MR. BOB PETERS: Okay. The -- the --

6 MR. DARREN RAINKIE: Or I could undertake  
7 one or the other, but why don't I search for it if -- I  
8 don't know if it's important to your next question or  
9 not, but...

10 MR. BOB PETERS: What I -- if you can  
11 quantify that I'd like to know how much of the \$3 million  
12 or worse off the Corporation's going to be, under my  
13 assumed questioning, is attributable to increased finance  
14 expense.

15 I also want Mr. Derksen to explain to the  
16 Board what it is an increased interest on common assets,  
17 is that -- is that as a result of the same interest rate  
18 going higher and you're having to pay a portion of that  
19 through Manitoba Hydro as a common asset?

20 MR. WILLY DERKSEN: That would be due to  
21 that reason; that would also be due to increased  
22 investment by Manitoba Hydro to support -- to acquire  
23 assets that support both Centra and Hydro operations. It  
24 -- it finances the purchases of those assets and charges  
25 Centra for its fair share of those financing costs.

1 MR. BOB PETERS: What that answer  
2 suggests, Mr. Derksen, is that Manitoba Hydro has gone  
3 out and purchased new common assets and the share that's  
4 going to be allocated to Centra is higher than what you  
5 thought it was going -- it's -- the amount is higher than  
6 what you thought it would be.

7 MR. WILLY DERKSEN: Yes, that's correct.

8 MR. BOB PETERS: And then the -- if I --  
9 if I glean from the answer that -- that O&A expenses are  
10 going to be \$2.1 million higher than what was forecast?

11 MR. WILLY DERKSEN: Mr. -- Mr. Peters,  
12 it's 141D that you're looking at, is that right?

13 MR. BOB PETERS: Yes, sir.

14 MR. WILLY DERKSEN: And -- and you're  
15 looking at, I think, actuals versus the '06/'07 forecast.  
16 I -- I don't think this is a forecast to forecast  
17 comparison.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Your -- your point, Mr.  
22 Derksen, is -- is that I was asking questions and looking  
23 at an answer that dealt with a forecast '06 to actual '06  
24 and -- and I was transposing that into the '07 year and  
25 trying to find out the reasons why the '07 net income is

1 down \$3 million from what the Board set it at the General  
2 Rate Application.

3 MR. WILLY DERKSEN: And -- and I don't  
4 think this answers going to give you the complete story  
5 on that.

6 MR. BOB PETERS: All right. And -- and  
7 you will?

8 MR. WILLY DERKSEN: If you give me a few  
9 minutes?

10 MR. BOB PETERS: Okay. Thank you.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Mr. Derksen, recognizing  
15 I'm on the clock, I wonder if I could ask you to do some  
16 homework on that and maybe come back tomorrow with an  
17 indication to the Board as to why the forecast net income  
18 of \$3 million will not be achieved in the 2007 fiscal  
19 year?

20 MR. WILLY DERKSEN: Why it was not  
21 forecast to be achieved? I'll do that, sir.

22

23 --- UNDERTAKING NO 1: Indicate why forecast net  
24 income of \$3 million will not  
25 be achieved in the 2007

1 fiscal year

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: I'm not sure we're  
5 splitting hairs and I have precious few, Mr. Derksen, but  
6 the -- the -- I'm not sure it's -- it's why the forecast  
7 didn't pan out, but you now have the benefit of -- of  
8 actual information and I'm not asking you to disclose any  
9 proprietary numbers or confidential numbers at this  
10 point, but if you could explain to the Board why when  
11 they last set your rates, they -- they were convinced to  
12 give you \$3 million of net income and in this application  
13 it's probably going to be closer to zero dollars of net  
14 income. That would be my -- my request.

15 MR. WILLY DERKSEN: I'll take that, sir.

16

17 --- UNDERTAKING NO. 2: Indicate to Board why when  
18 they last set your rates,  
19 they were convinced to give  
20 you \$3 million of net income  
21 and in this application it's  
22 probably going to be closer  
23 to zero dollars of net income

24

25 CONTINUED BY MR. BOB PETERS:

1                   MR. BOB PETERS:    Okay.  Thank you.  I'd  
2    like to turn to Tab 20 of the book of documents and look  
3    at some -- some schedules with the witness panel under  
4    gas volumes and gas numbers or customer numbers, sorry,  
5    what you're telling the Board here in PUB/CENTRA-13 is  
6    you have filed some of the demographics of the  
7    Corporation and that would be yours, Ms. Derksen?

8                   MS. KELLY DERKSEN:    I'll see how far I  
9    can go with you on this, Mr. Peters.

10                  MR. BOB PETERS:    Well, there's no trick  
11    questions let me assure you but what you've tried to show  
12    the Board here is a history of the Company on the actual  
13    number of customers by class, correct?

14                  MS. KELLY DERKSEN:    Yes.

15                  MR. BOB PETERS:    And when we talk actual  
16    customer numbers, is that an average number over a course  
17    of twelve (12) months or is it year end numbers or do you  
18    -- do you know at this point in time?

19                  MS. KELLY DERKSEN:    I understand that it  
20    would be an average over the course of a -- a year for  
21    each of the respective years.

22                  MR. BOB PETERS:    And whatever the answer  
23    is to that question, Ms. Derksen, these are the numbers  
24    that would be used in terms of the development of the  
25    rates that you prepare?

1 MS. KELLY DERKSEN: Yes.

2 MR. BOB PETERS: And in terms of  
3 attachments the one (1) headed in the top left "Number of  
4 Customers by Customer Class," what we see in the top half  
5 of the page on lines -- let's -- let's focus on maybe  
6 line 2 for example you've taken the SGS class and you've  
7 made it into two (2) subclasses -- one (1) is residential  
8 and one (1) is commercial, correct?

9 MS. KELLY DERKSEN: Yes.

10 MR. BOB PETERS: But the rate is the same  
11 charge whether they're residential or commercial?

12 MS. KELLY DERKSEN: Correct.

13 MR. BOB PETERS: And what the Board will  
14 see in terms of the residential customers is that  
15 Centra's number of residential customers at least from  
16 2004 starts to decline down to a hundred and seventy  
17 thousand (170,000) in the second test year of '08/'09?

18 MS. KELLY DERKSEN: Yes, I'm following  
19 you.

20 MR. BOB PETERS: And part of the reason  
21 for that decline when the system is growing is because  
22 customers are going to direct purchase available under  
23 the Western Transportation Service offered by the  
24 Corporation?

25 MS. KELLY DERKSEN: That's likely the

1 case, yes, Mr. Peters.

2 MR. BOB PETERS: And specifically we can  
3 see that in the 2003/'04 there were thirty-five thousand  
4 seven hundred and ninety (35,790) direct purchase  
5 customers and you're forecasting here to be sixty-five  
6 thousand (65,000) by the end of the '09 test year?

7 MS. KELLY DERKSEN: I'll agree with it.  
8 This is what this particular attachment identifies. I  
9 think we've prepared information as part of the  
10 competitive landscape proceeding that provides a  
11 different forecast in terms of the level of WTS  
12 customers. I -- I think it's just more updated, Mr.  
13 Peters, is all I'm trying to say.

14 MR. BOB PETERS: Okay. I can look for  
15 that separate if -- if it becomes an issue, Ms. Derksen,  
16 but when we turn the page and look at the customer  
17 percentage change year over year what we're seeing is  
18 Centra is losing SGS residential customers to direct  
19 purchase and Centra's losses are in the magnitude of, you  
20 know, 2 to 3 percent a year of residential customers that  
21 are migrating year over year to direct purchase?

22 MS. KELLY DERKSEN: Based on this  
23 forecast I agree, Mr. Peters.

24 MR. BOB PETERS: And -- and then if we  
25 look at the -- and recognizing the denominators are

1 different -- but when we look down to the line 18 the SGS  
2 residential under Western Transportation Service we see  
3 that year over year the public consumers of gas are going  
4 with direct purchase anywhere from 10 to 20 percent,  
5 maybe averaging 15 percent a year?

6 MS. KELLY DERKSEN: Again I'll preface my  
7 answer on -- based on this forecast. I think there's  
8 updated information that reflect a different trend as  
9 part of the competitive landscape materials that we  
10 filed.

11 MR. BOB PETERS: Okay. And -- and maybe  
12 what you can do is if you could bring that with you  
13 tomorrow and we could -- we could have that as an  
14 undertaking to review that if it -- if it's available.

15  
16 --- UNDERTAKING NO 3: To provide updated  
17 information that reflects a  
18 different trend as part of  
19 the competitive landscape  
20 materials filed

21  
22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: Ms. Derksen, you may not  
24 know the answer to this if you didn't prepare the table  
25 but when I go to the 2008/'09 test year and I go down to

1 SGS residential on line 18 under direct purchase you --  
2 there's a forecast here of an increase of 6.2 percent  
3 whereas in previous years it's always been double digit.

4 Can you explain to the Board why that  
5 will be approximately half of the increase that has been  
6 forecast and -- and seen in actual results in the prior  
7 years?

8 MS. KELLY DERKSEN: I have some thoughts  
9 about why that might be happening, but I don't know with  
10 100 percent certainty, so I'd have to undertake to get  
11 you that information, Mr. Peters.

12

13 --- UNDERTAKING NO. 4: Indicate to the Board why; in  
14 reference to 2008/'09 test  
15 year, SGS residential on line  
16 18 under direct purchase, a  
17 forecast of an increase of  
18 6.2 percent, whereas in  
19 previous years it's always  
20 been double digit; that will  
21 be approximately half of the  
22 increase that has been  
23 forecast and seen in actual  
24 results in the prior years

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Okay, that's fair. If  
3 you could, that would be appreciated.

4 While we -- if we turn the page to the  
5 volumes by customer class, and not unexpectedly, after  
6 looking at the customer numbers, Centra's volumes for the  
7 SGS residential on line 2, declines in their absolute  
8 numbers and when we go down to lines Number 10, under  
9 Western Transportation Service, the volumes for those  
10 customers increases and that's simply a reflection on  
11 more WTS customers and fewer system supply customers,  
12 would you agree?

13 MS. KELLY DERKSEN: That's likely the  
14 case, yes.

15 MR. BOB PETERS: Look at the next page --  
16 excuse me, the next page is the -- actually, I'd like to  
17 go to the average vol -- average use per customer. It's  
18 a couple of pages hence and it happens to be the second  
19 last page in the Tab 20.

20 Ms. Derksen, line 2 shows on the SGS  
21 residential system supply customers, an average decline  
22 in volumes used by each customer, correct?

23 MS. KELLY DERKSEN: On average there's a  
24 decline in that class as the an -- averages suggest.

25 MR. BOB PETERS: And when we look at the

1 Western Transportation customers under line 18, would I  
2 be correct in saying we don't see the same decline as we  
3 see with system supplied customers; would you agree with  
4 that?

5 MS. KELLY DERKSEN: For the residential  
6 customers imbedded in the SGS class, I'm seeing a trend  
7 that's along the same lines, Mr. Peters, based on what  
8 I'm looking at.

9 MR. BOB PETERS: Would you agree with me  
10 that it appears that the Western Transportation  
11 customers, those are the direct purchase customers, on  
12 average, use less gas than those who are connected to  
13 system supply?

14 MS. KELLY DERKSEN: I don't know that I  
15 could answer that, Mr. Peters. I -- I -- I just don't  
16 think that -- I'm hesitating because I -- I'm not sure  
17 that that's a -- a fair statement.

18 MR. BOB PETERS: But you'd agree with me  
19 that numerically it's correct.

20 MS. KELLY DERKSEN: Based on the numbers  
21 that are presented in front of us, yes.

22 MR. BOB PETERS: Okay, but you're not  
23 sure why direct purchase customers would use on average  
24 less gas than system supply customers?

25 MS. KELLY DERKSEN: I don't know the

1 basis of the forecast, so I, you know, I -- I'm  
2 struggling here a little bit. Mr. Kuzsek is the person  
3 responsible for these forecasts, so if we need to get  
4 into some of the details here, he's likely the best  
5 person to respond to these types of questions.

6 MR. BOB PETERS: If -- if you have time  
7 to speak to him between now and your answering the  
8 undertaking that you're giving, maybe you can find out if  
9 there's any basis in -- in the forecasting for direct  
10 purchase customers using on average less gas than system  
11 supply and if so, what the basis of that would be.

12

13 --- UNDERTAKING NO. 5: Indicate to Board if there's  
14 any basis in the forecasting  
15 for direct purchase customers  
16 using, on average, less gas  
17 than system supply and if so,  
18 what the basis of that would  
19 be

20

21 MS. KELLY DERKSEN: That's fair, yes.

22 MR. BOB PETERS: Okay, well thank you  
23 very much for that.

24

25

(BRIEF PAUSE)

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: In the direct evidence  
3 from Ms. Murphy, I had forgotten who was going to speak  
4 to the other income, was that Mr. Derksen?

5 MR. WILLY DERKSEN: The components of it,  
6 yes, but I think on the penalty income, Mr. Rainkie may  
7 speak to part of that, as well.

8 MR. BOB PETERS: The penalty income, the  
9 penalty being late payment charge.

10 MR. WILLY DERKSEN: Yes, that's the, I  
11 think, more correct term for it.

12 MR. BOB PETERS: All right, and when I  
13 look back to the Book of Documents, and I don't want to  
14 make it seem like we're losing ground, but back in  
15 document Number 2, you tell us that the other income is  
16 approximately \$2.2 million for the first test year, do I  
17 recall that correctly?

18 MR. WILLY DERKSEN: Yes, that's correct.

19 MR. BOB PETERS: And in an IR, it may  
20 have been PUB/CENTRA-18 if it's important to you to find,  
21 you broke it down and -- and rental income was -- was a  
22 very small portion of that.

23 Do you recall that, Mr. Derksen?

24 MR. WILLY DERKSEN: Yes.

25 MR. BOB PETERS: Can you explain to the

1 Board what is the rental income that Centra receives from  
2 its customers?

3 MR. WILLY DERKSEN: Centra still has  
4 conversion burner in place in many households and those  
5 conversion burners we do charge a rental fee for.

6 MR. BOB PETERS: Becoming fewer and  
7 fewer?

8 MR. WILLY DERKSEN: That's correct.

9 MR. BOB PETERS: Approximate number do  
10 you know?

11 MR. WILLY DERKSEN: Seventeen hundred  
12 (1,700).

13 MR. BOB PETERS: And for those of us who  
14 may not know a conversion burner is -- is what?

15 MR. WILLY DERKSEN: A conversion burner  
16 is a natural gas burner unit that takes the place of the  
17 previous oil-fed burner unit that was replaced in older  
18 furnaces.

19 MR. BOB PETERS: The other two (2)  
20 components, one (1) of them is broker revenue in the  
21 other income, correct?

22 MR. WILLY DERKSEN: Yes, that's right.

23 MR. BOB PETERS: And with respect to  
24 broker income there's about -- is it a hundred and  
25 seventy-five thousand dollars (\$175,000) a year of -- of

1 fees paid to Centra from the brokers?

2 MR. WILLY DERKSEN: That sounds about  
3 right, yes.

4 MR. BOB PETERS: And can you explain to  
5 the Board what that hundred and seventy-five thousand  
6 dollars (\$175,000) is for?

7 MS. KELLY DERKSEN: Mr. Peters, I'll  
8 respond if you don't mind. That is currently reassessed  
9 at twenty-five (25) cent per customer per month ABC fee  
10 to recollect -- excuse me just one (1) moment.

11

12 (BRIEF PAUSE)

13

14 MS. KELLY DERKSEN: I'm sorry, it  
15 reflects the twenty-five (25) cent per customer per month  
16 fee that we collect for agent billing and collection  
17 services that we provide to the brokers with respect to  
18 the WTS service.

19 MR. BOB PETERS: Would it be fair to  
20 suggest this is also an issue that is likely to be  
21 canvassed at the landscape hearing?

22 MS. KELLY DERKSEN: That's fair, yes.

23 MR. BOB PETERS: Would it be fair to say  
24 that Centra is reevaluating its position in terms of the  
25 recovery of the cost it expends on direct purchase items?

1 MS. KELLY DERKSEN: Yes, and the ABC fee  
2 is one (1) component of that that we are reassessing and  
3 put position on the record --

4 MR. BOB PETERS: All right.

5 MS. KELLY DERKSEN: -- as part of the  
6 other proceeding.

7 MR. BOB PETERS: All right. And we'll  
8 address it at that forum then.

9 In terms of the remaining charge, the late  
10 payment charge, that's approximately 2 million a year of  
11 the \$2.2 million, Mr. Derksen, am I correct?

12 MR. WILLY DERKSEN: Yes, that's correct.

13 MR. BOB PETERS: And that \$2 million of  
14 other income a year is as a result of consumers not  
15 paying their bills on time and being assessed interest or  
16 at least carrying costs on that amount?

17 MR. WILLY DERKSEN: Yes, that's correct.

18 MR. BOB PETERS: And the amount that you  
19 charge them annually is 16.08 percent I understand, Mr.  
20 Rainkie?

21 MR. DARREN RAINKIE: That's the effective  
22 interest rate, yes, if you take the 1.25 percent monthly  
23 and put it into an annual basis, yes, Mr. Peters.

24 MR. BOB PETERS: How did you come up with  
25 1.25 percent a month, Mr. Rainkie?

1 MR. DARREN RAINKIE: How do I get to that  
2 from sixteen point zero eight (16.08) or --

3 MR. BOB PETERS: No, no, I can do that  
4 math. I was just wondering how do you -- how did the  
5 Corporation seize upon a late payment charge of 1-1/4  
6 percent per month?

7 MR. DARREN RAINKIE: Mr. Peters, it -- it  
8 takes a cost of financing plus the cost of administration  
9 plus a deterrent to get to the -- to the 15 percent and I  
10 think we divided that by twelve (12) to get to the 1.25  
11 percent per month and then when you effective -- do  
12 effective interest calculation on that you get to the  
13 16.08 percent.

14 MR. BOB PETERS: Mr. Rainkie, does the  
15 approximate \$2 million a year recovered in other income  
16 on account of late payment charges, what does it pay for?  
17 What does the Corporation use it for?

18 MR. DARREN RAINKIE: Well, I think it --  
19 it uses it to -- it uses it to pay for the financing  
20 costs and the fact that we don't collect their money on  
21 time from late paying customers as well as the costs of  
22 administration of collecting payments from those  
23 customers.

24 MR. BOB PETERS: Does it fully recover  
25 your costs?

1 MR. DARREN RAINKIE: I think we've  
2 alluded to various calculations in our rebuttal evidence  
3 with Mr. Weiss and we indicate that it -- it doesn't  
4 cover all of the costs, no.

5 MR. BOB PETERS: Perhaps I'll leave it at  
6 that for -- for Mr. Gange and his witnesses to -- to look  
7 at further.

8 Mr. Derksen, in terms of allocating,  
9 operating and administration costs we see back on Tab 2  
10 of the book of documents under the first test year that  
11 the -- that the O&A costs, as they are called, are going  
12 to go up approximately \$1.4 million for each of the test  
13 years, correct?

14 MR. WILLY DERKSEN: Yes, sir.

15 MR. BOB PETERS: And in terms of the O &  
16 A costs, would it be correct to say that the O&A costs  
17 are all incurred by Manitoba Hydro and then they flow it  
18 through an integrated cost allocation methodology down to  
19 Centra?

20 MR. WILLY DERKSEN: Yes, sir.

21 MR. BOB PETERS: In -- and when -- when  
22 the integrated cost allocation methodology is used, there  
23 are direct allocations and there are indirect  
24 allocations, correct?

25 MR. WILLY DERKSEN: Yes, that's correct.

1                   MR. BOB PETERS:    And on Tab 21 of the  
2 book of documents, you'll see a response to PUB/CENTRA-20  
3 on page 2 of 3 and we'll just pick the '07/'08 forecast  
4 year, you're forecasting that there will be \$52 million  
5 of direct costs and \$10.559 million of indirect costs?

6                   MR. WILLY DERKSEN:    Yes, sir.

7                   MR. BOB PETERS:    Can you briefly explain  
8 to the Board how a direct cost and indirect cost is  
9 different?

10                  MR. WILLY DERKSEN:    Yes, a direct cost is  
11 -- is a charge based on a -- an order and I'll use the  
12 term order, it's an account that's specifically related  
13 to the operating and maintenance of -- of Centra Gas  
14 facilities.

15                         So, for example, if we had somebody  
16 working on our natural gas system and they coded their  
17 time, it's all based upon time reports, and they coded  
18 their time into a -- an account that was expressly for  
19 natural gas operations, that would be called a direct  
20 charge.

21                         As well, there'd be disbursement that  
22 would be specifically related to natural gas, for exam --  
23 and -- and other expenses as well, for example, the  
24 purchase of odorant would be a direct cost in -- to  
25 Centra.  The bad debt expense related to Centra's

1 receivables would be a direct cost to Centra.

2 Indirect costs are those that are where  
3 the account is a shared -- a shared cost, for example,  
4 currently the operation of the Banner System where we  
5 have the information technology folks that are supporting  
6 a common system to support -- that's used to bill and --  
7 and service both gas and electric customers.

8 They code their time into an order that  
9 collects the costs to support the Banner System and then  
10 those costs would be allocated based upon an appropriate  
11 ratio to both gas and electric customers. And the ratio  
12 that we use for banner is thir -- is -- is equivalent to  
13 the number of customers that each utility has, so it's  
14 approximately a 33/67 split, thirty-three (33) being gas  
15 customers and 67 percent being electric customers.

16 So if they had incurred \$1 million of  
17 support costs, Centra Gas would get a charge of three  
18 hundred and thirty thousand (\$330,000) dollars and  
19 Manitoba Hydro would retain the residual of that amount.

20 MR. BOB PETERS: On the very last page of  
21 Tab 21, Mr. Derksen, is a attachment to PUB/CENTRA-20,  
22 submission A, page 2 of 2 and when the Board looks at  
23 this information and let's -- not because he's not here,  
24 but because it's the first one on the sheet, that we look  
25 at the president and the CEO line item. We see in the

1 middle of the page total operating costs Manitoba Hydro  
2 '07/'08 test year of \$22.366 million, on page 2 of 2 of  
3 Centra attachment 20A.

4 MR. WILLY DERKSEN: I'm sorry, what was  
5 the number again?

6 MR. BOB PETERS: \$22.4 million.

7 MR. WILLY DERKSEN: Yes, sir.

8 MR. BOB PETERS: And what you're telling  
9 the Board here is that the total costs of the utility  
10 that are -- that are charged through to that business  
11 unit of president and CEO are \$22.4 million and 4.1  
12 percent of that gets allocated over to Centra, whether it  
13 be by direct or indirect?

14 MR. WILLY DERKSEN: That's correct.

15 MR. BOB PETERS: And so all this table  
16 tells us then, are the percentages relative to the total  
17 amounts that Manitoba Hydro incurs?

18 MR. WILLY DERKSEN: The -- the individual  
19 rows do tell you that, that's right, but the bottom, I  
20 believe, you'll see in the Manitoba Hydro column that it  
21 is net of the charges to Centra and so the percentage  
22 shown at the bottom, the 16 percent would be, represent  
23 that Centra's costs were 16 percent of Hydro's costs.

24 MR. BOB PETERS: Not of -- not of total  
25 costs.

1                   MR. WILLY DERKSEN:   Not of the total  
2 costs, that's right.

3                   MR. BOB PETERS:    I've got the point.  The  
4 last time the Board reviewed this matter in terms of how  
5 these costs were allocated was back in the 2002 GRA, is  
6 that right?

7                   MR. WILLY DERKSEN:    I think that was the  
8 Integration hearing, Mr. Peters.

9                   MR. BOB PETERS:    The -- the Status Update  
10 Hearing, is that what we called it?

11                   MR. WILLY DERKSEN:    Yes, that's correct.

12                   MR. BOB PETERS:    It just seemed like a  
13 GRA.

14                   MR. WILLY DERKSEN:    It was longer,  
15 though.

16                   MR. BOB PETERS:    And at that time, the  
17 Corporation explained to the Board what its methodology  
18 was and there was a review from the Manitoba Hydro  
19 numbers as to what was being allocated either directly or  
20 indirectly through to the gas company.

21                   MR. WILLY DERKSEN:    Yes, sir, there was a  
22 review at that point.

23                   MR. BOB PETERS:    Would you agree with me  
24 that some of the drivers, at least the percentages of  
25 them attributed have changed in terms of what gets

1 allocated through to the gas company?

2 MR. WILLY DERKSEN: Yes, certainly the  
3 percentages would have changed, I mean, the Company has  
4 changed since that point in time. Hydro has acquired  
5 Winnipeg Hydro, which would result in some substantial  
6 changes in allocation factors.

7 MR. BOB PETERS: All right, that may be  
8 an example of why they would change, but who made the  
9 determination on changing the percentage of the  
10 allocation factors?

11 MR. WILLY DERKSEN: Well these allocation  
12 factors that you're -- that are shown here are basically  
13 the result of direct and indirect allocations and the  
14 direct ones are based upon the time spent into Centra,  
15 and so nobody has made a specific decision as to why  
16 should the percentages change, rather the percentages  
17 changes as a result of the operating costs of Centra  
18 relative to the total operating costs of Manitoba Hydro.

19 At least for the most part, that would be  
20 the explanation.

21 MR. BOB PETERS: Mr. Derksen, have the  
22 internal or external auditors of Manitoba Hydro confirmed  
23 the rational for the drivers and any changes in them and  
24 their reasonableness?

25 MR. WILLY DERKSEN: The external auditors

1 have to assure themselves that the processes that way --  
2 we use properly allocate costs from Manitoba Hydro to  
3 Centra, and they have satisfied themselves of that.

4 MR. BOB PETERS: And you're aware of  
5 their satisfaction by way of any -- by way of a report  
6 they've issued, Mr. Derksen?

7 MR. WILLY DERKSEN: Yes, that would be  
8 their support for the financial statements.

9 MR. BOB PETERS: You're saying that there  
10 would be comments in the fin -- audited financial  
11 statements that would provide the assurance that the  
12 external auditor is satisfied as to the proper allocation  
13 of costs?

14 MR. WILLY DERKSEN: Yes, they satisfy  
15 themselves that the financial statements properly reflect  
16 the financial -- the results of the financial operations  
17 of -- of the company that they're attesting to and  
18 they've done that in every year for Centra.

19 MR. BOB PETERS: Would it be fair to call  
20 that the -- the auditor's general report that they give  
21 in almost all audited assignments?

22 MR. WILLY DERKSEN: That would be fair,  
23 yes.

24 MR. BOB PETERS: All right. In terms of  
25 the -- this issue for the Board, one (1) of the

1 Intervenor Witnesses, and I believe it's Mr. Matwichuk,  
2 is taking the position that it's -- it's not transparent  
3 because Manitoba Hydro's expenses and justification isn't  
4 on the table, do you have that understanding that's the  
5 position he's taking?

6 MR. WILLY DERKSEN: Yes, sir.

7 MR. BOB PETERS: And Mr. Matwichuk would  
8 be correct then, wouldn't he, because it's not  
9 transparent from the point of view that this Board at  
10 this time is reviewing all of the costs incurred by  
11 Manitoba Hydro and then looking to see which ones get  
12 allocated over to Centra Gas.

13 MR. WILLY DERKSEN: No, I don't believe  
14 that he is correct. I think the transparency that's  
15 necessary for this Board and for our auditors and for  
16 others is to demonstrate that the costs associated with  
17 operating the gas utility are properly charged to the gas  
18 utility.

19 MR. BOB PETERS: And to demonstrate that,  
20 you're relying on the past approval of the Board and the  
21 annual audited report from your external auditor?

22 MR. WILLY DERKSEN: Those are two (2) of  
23 the -- of the -- of the facts that we -- that give us  
24 some allia -- reliance, that's correct. But I think, you  
25 know, ourselves, we rely on the integrity -- of the

1 processes that we use in order to charge those costs and  
2 so we're very satisfied that it is an appropriate  
3 representation.

4 MR. BOB PETERS: In terms of the  
5 integrity of the processes, Mr. Derksen, I'm not  
6 suggesting that they are or are not appropriate, but have  
7 you -- have you had your auditors attest to the  
8 correctness of the specific allocations by way of a  
9 specified procedure report or some other accounting  
10 report?

11 MR. WILLY DERKSEN: For the Status Update  
12 Hearing we did engage KPMG to review our cost allocation  
13 methodology and practices and they did perform a very  
14 thorough review of -- of the -- of the methodology and  
15 how it was operating.

16 And they were satisfied that the -- that  
17 it was an appropriate methodology and that it re -- and -  
18 - and it -- the results of applying that methodology was  
19 appropriate for determining the costs of Centra Gas.

20 MR. BOB PETERS: You haven't had that  
21 procedure repeated since the Status Update Hearing, have  
22 you?

23 MR. WILLY DERKSEN: We have not.

24 MR. BOB PETERS: And would that update --  
25 would that report from KPMG -- is that what's referred to

1 as a specified procedure report or are you aware of what  
2 it's called?

3 MR. WILLY DERKSEN: I think that  
4 terminology is used, yes.

5 MR. BOB PETERS: And because it may  
6 become an issue, could you undertake to file a copy of  
7 that in these proceedings, certainly before Mr. Matwichuk  
8 testifies?

9  
10 --- UNDERTAKING NO. 6: To file KPMG Report

11  
12 MS. MARLA MURPHY: I think, Mr. Peters,  
13 we can -- we can make an undertaking that that be  
14 provided. The concern, I suppose, is that at the time  
15 that we did that with the status update, we had the  
16 experts who had repaired -- prepared that report here and  
17 testifying, so I'm a bit concerned that we start down a  
18 path of -- of canvassing through a report that we've  
19 already had an expert appear and testify on.

20 MR. BOB PETERS: I was simply wanting to  
21 bring this panel of the Board up to date in terms of  
22 where that issue last was from an external accountants  
23 point of view. I'm not looking to go deeper into the  
24 report than that.

25 I think -- I think we'll hear it from Mr.

1 Matwichuk from where that point is, I'm not sure if he's  
2 aware of that or where it -- where the company is today  
3 in terms of what should or shouldn't be done to provide  
4 what he's arguing for in terms of greater transparency.  
5 So it was really just to set that before the Board.

6 MS. MARLA MURPHY: I think with that  
7 understanding we're prepared to file.

8 MR. VINCE WARDEN: I think though, Mr.  
9 Peters, that report that was prepared by KPMG did form a  
10 base from which future operating costs could be assessed,  
11 so that if -- if you set that as the base and then you  
12 look at the reasonableness of costs going forward, it  
13 seems to me that's a reasonable way to look at the costs.

14 And because this Board looks at both gas  
15 costs and electricity costs, you're looking at both  
16 sides. They can -- they can assure themselves that  
17 neither the -- the gas ratepayers are harmed nor are the  
18 electricity ratepayers harmed.

19 So even though we don't bring the totality  
20 of those costs to this proceeding, this Board certainly  
21 does look at the totality of the costs through both  
22 proceedings.

23 If we look back at the -- at the costs of  
24 Centra Gas over the last five (5) years, we know that  
25 they've gone up by approximately half (1/2) the rate of

1 inflation, so that in itself should give this Board and  
2 others great comfort that those costs are -- are well  
3 within reason.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: I have your point, Mr.  
7 Warden, and -- but you will also acknowledge that between  
8 when that report was done and now systems have changed,  
9 circumstances have changed and -- and --

10 MR. VINCE WARDEN: But despite all the  
11 changes that have occurred costs have remained at a level  
12 which is extremely low.

13 MR. BOB PETERS: And I appreciate that's  
14 your position in -- in terms of how you assess the  
15 overall impact, but in terms of providing options to make  
16 assessments on the reasonableness of the costs incurred  
17 or the methods they are assigned, I suppose one (1) of  
18 the methods to -- to -- to deal with that, as you've  
19 said, is start from the baseline that you've done and  
20 work your way forward and that's where we are today.

21 A second option would be, every time we  
22 have a General Rate Application, whether it's the gas  
23 company or the electric company, each and every expense  
24 by the electric company is put forward and you funnel it  
25 down to see how much of that ends up on the gas company's

1 side of the revenue requirement or perhaps alternatively,  
2 an auditor's a -- attestation as to the correctness or  
3 reasonableness of it is a -- is another way to look at  
4 it; would you agree with that?

5 MR. VINCE WARDEN: Yes, I would. I think  
6 though having appeared before this Board with the Rate  
7 Application a short time ago if we look at what the costs  
8 have done since that previous appearance before this  
9 Board that's another way of doing it so that we can --  
10 this Board can satisfy itself that year over year cost  
11 increases are what they should be.

12 MR. BOB PETERS: All right, fair. Just  
13 to close the loop on that, Mr. Derksen, there was  
14 obviously an external cost relative to the report  
15 prepared by KPMG that Mr. Warden referenced.

16 Any idea of the magnitude of that?

17 MR. WILLY DERKSEN: From memory it was in  
18 the several hundred thousand dollar range.

19 MR. BOB PETERS: If between now and  
20 providing a copy of it you can be more specific please  
21 feel free to let us know that as well.

22 MR. WILLY DERKSEN: Yes, sir.

23 MR. BOB PETERS: And -- and, Mr. Warden,  
24 following it up further, Mr. Matwichuk in looking at the  
25 O&A expenses did some baseline perspective analysis from

1 where the Board approved rates and then brought them  
2 forward with inflation as well as a productivity factor,  
3 correct?

4 MR. VINCE WARDEN: Yes. Yes, I recall  
5 saying that.

6 MR. BOB PETERS: Would that be another  
7 way to look at the reasonableness of the -- of the O&A  
8 costs and what's transpired by starting with the baseline  
9 and working forward?

10 MR. VINCE WARDEN: Yes, I agree, as long  
11 as we can agree on the baseline and -- and the  
12 methodology that's used to bring that forward sure,  
13 that's one (1) way of looking at it.

14 MR. BOB PETERS: All right. Well, if --  
15 if the methodology in bringing that forward includes an  
16 inflation factor you're not disagreeing with that being  
17 included?

18 MR. VINCE WARDEN: No, not at all.

19 MR. BOB PETERS: And if that inflation  
20 factor is offset by a productivity index, that would also  
21 be reasonable?

22 MR. VINCE WARDEN: That would be  
23 reasonable and I think as a matter of fact we have filed  
24 information that has shown the impact of changes that  
25 have occurred -- significant changes -- and we haven't

1 gone into a lot of detail but we do know since the  
2 acquisition there's been such things as the introduction  
3 of WTS which is added to the costs. There's been a new  
4 billing that's been introduced which in fact have reduced  
5 costs.

6 So taking into account all -- all of those  
7 factors, sure, I think that's a good way of looking at it  
8 and bringing those costs forward to test the  
9 reasonableness.

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: I recall reading and I  
14 hope you don't ask me to put my finger on it but, Mr. --  
15 Mr. Warden, Centra indicates in its filing that they have  
16 an annual productivity factor. My memory says it was  
17 between 1 and 2 percent.

18 Do you recall that being in the filing  
19 first of all?

20 MR. VINCE WARDEN: Yes, I do recall that.

21 MR. BOB PETERS: And -- and are my  
22 numbers correct between 1 and 2 percent?

23 MR. VINCE WARDEN: Yes, that's what we'd  
24 use.

25 MR. BOB PETERS: So in terms of a

1 productivity factor that's not something against which  
2 the Corporation has any issue because it already has one?

3 MR. VINCE WARDEN: Correct.

4 MR. BOB PETERS: Another suggestion that  
5 might be taken from -- from some of the Intervenors'  
6 evidence, specifically Mr. Matwichuk's, is that you could  
7 baseline the O&A costs on a cost per customer basis and  
8 try to manage and meet that on a dollar per customer  
9 basis per year?

10 MR. VINCE WARDEN: Yes, and we -- we  
11 track that on a monthly basis.

12 MR. BOB PETERS: And -- and while you  
13 track it, Mr. Warden, what amount should that baseline be  
14 if the Board was to -- was to assess O&A against a  
15 baseline cost per customer?

16 MR. VINCE WARDEN: Well, I think in  
17 constructing that cost per customer we did go right back  
18 to the pre-acquisition cost per customer and I don't have  
19 that right in front of you but it was approximately two  
20 hundred dollars (\$200) per customer and it has been  
21 escalated up for the reasons we've talked about and is in  
22 the range of approximately two hundred and nine (209) --  
23 two hundred and ten dollars (\$210) per customer today.

24 MR. BOB PETERS: And I made a note here  
25 that I -- I read somewhere where it was going to go to

1 two sixteen (216) in '08 and maybe two twenty (220) in  
2 '09; is that -- is that consistent with your  
3 recollection?

4

5 (BRIEF PAUSE)

6

7 MR. WILLY DERKSEN: Yeah, it sounds  
8 right, Mr. Peters.

9 MR. BOB PETERS: In the corporate  
10 strategic plan there was reference to two hundred and  
11 thirteen dollars (\$213) per customer which I took to be  
12 for O&A costs as of March of '07.

13 Is that a number that the panel's  
14 familiar with in terms of a target -- O&A per customer?

15 MR. VINCE WARDEN: Yeah, that cost per  
16 customer was calculated based on the forecast -- both the  
17 forecast number of customers and -- and the forecast O&A  
18 at that point in time and it's -- yeah, just what results  
19 from -- from that calculation at that time.

20 MR. BOB PETERS: Mr. Warden, I just want  
21 to go back to a couple of answers ago. You told me that  
22 the -- the cost per customer would increase over time for  
23 the various reasons that we talked about and as I'm  
24 processing that in terms of the various reasons, I had  
25 understood the cost per customer to be up from

1 approximately \$200 per customer in 2005 and then it -- it  
2 inflates and it goes up and it could be as high as \$220  
3 in 2009.

4                   What would be the costs, to your thinking,  
5 that would cause the cost per customer to escalate that  
6 quickly?

7

8                   (BRIEF PAUSE)

9

10                   MR. VINCE WARDEN:    The -- number in the  
11 forecast in 2008/'09 is a calculated number based on --  
12 on the forecast of the numbers of customers and the O&A  
13 cost forecast for that period in time.  I think I  
14 referenced earlier in my direct that -- that there is  
15 some likelihood that costs will increase at a -- at a --  
16 at a rate above what we experienced in the past because  
17 of such things as aging infrastructure and staff  
18 attraction, so I guess I'm -- well, I'm -- I'm not  
19 surprised that we would see an increase in -- in that  
20 order of magnitude.

21                   MR. BOB PETERS:    When you talked to -- to  
22 Ms. Murphy in direct evidence, Mr. Warden, you wanted to  
23 alert the Board to an operating concern that you had  
24 about forthcoming labour costs.

25                   Do I -- would it be correct for the Board

1 to take from that -- from that evidence that you see a  
2 significant increase in labour costs coming down the pipe  
3 for -- for the utility in the test years that are before  
4 the Board?

5 MR. VINCE WARDEN: Yes I do. We're --  
6 we're seeing competition for labour now in the trades and  
7 the professions like we've never seen before, so costs  
8 are going to increase, there -- there's just no doubt  
9 about that. And we will have to pay more to attract the  
10 type of people that are so important to the -- to the  
11 utility.

12 MR. BOB PETERS: Is it of such  
13 significance, Mr. Warden, that your application before  
14 the Board for O&A costs needs to be amended?

15 MR. VINCE WARDEN: No, no I wouldn't go  
16 that far, not at this time. Again though, another reason  
17 for having adequate retained earnings, it's those types  
18 of events and unforeseen events in the future that the  
19 utility -- the kinds of risks the utility faces that  
20 indicates a need for having a retained earnings that are  
21 adequate for those types of events that -- that can't  
22 reasonably be predicted with certainty at this time.

23 There's -- so there's uncertainty out  
24 there, but no, I would not amend the application for that  
25 reason at this time.

1 MR. BOB PETERS: Mr. Warden, that is a  
2 perfect segue into my next line of questioning found at  
3 Tab 25 of the Book of Doc -- I'm sorry, Tab 22 of the  
4 Book of Documents, PUB/CENTRA-25B.

5 Mr. Derksen, Mr. Warden has just kind of  
6 forewarned the Board that there may be some unforeseen  
7 expenses out there and therefore, he needs larger  
8 retained earnings, but I see in PUB/CENTRA-25B, you're  
9 trying to help by including a contingency fee of 100 --  
10 I'm sorry, of \$1.7 million, correct?

11 MR. WILLY DERKSEN: There is a  
12 contingency in there, that's correct.

13 MR. BOB PETERS: That contingency, would  
14 I be correct in saying never before has the Board seen a  
15 contingency fee of this magnitude?

16 MR. WILLY DERKSEN: I think we've had  
17 negative contingencies of that magnitude previously.  
18 That's where the EC felt that we needed to take steps to  
19 reduce costs because there was opportunities available  
20 there and so the individual budgets, they felt were too  
21 high and the contingency was there to provide that  
22 motivation and target to reduce those costs.

23 This contingency this time is in the  
24 opposite direction for reasons that I think Mr. Warden's  
25 already talked about.



1 comfort from that, but, relatively small comfort. The --  
2 there -- there's a lot of other pressures on costs. Fuel  
3 costs, for example, are -- are certainly on the increase  
4 and we talked earlier about the effects of weather. If  
5 we get a really cold weather -- cold winter coming up,  
6 costs can be considerably higher, so, that amount of  
7 contingency is not extreme by any means.

8 MR. WILLY DERKSEN: Just to add to that,  
9 Mr. Peters, in reviewing the details of the operating  
10 costs that are submitted we find that the regulatory  
11 costs are likely understated as a result of timing of GRA  
12 proceedings. We know that we will incur more costs than  
13 what has been forecasted and -- and we're thinking in the  
14 order of five hundred thousand dollars (\$500,000) might  
15 be the shortfall in the -- in the detailed budgets.

16 There is an increased emphasis on  
17 integrity management and there are some new standards  
18 coming out, I understand, that will cause some cost  
19 increases in the T&D area.

20 There is a trainee program -- again, this  
21 is what Mr. Warden just talked about, the staff  
22 shortages, and they have implemented a trainee program  
23 that's not in the detailed budgets and I believe there's  
24 in the order of fourteen (14), fifteen (15) staff that  
25 are going to be hired as a result of this trainee

1 program. And -- and, you know, the cost of -- of that  
2 would be in the order of a million dollars or so for the  
3 -- for the test years.

4                   There are fuel cost increases and there  
5 are other commodity cost increases that have not been  
6 factored into these budgets as -- into the detailed  
7 budgets as well. So I think, you know, all in all we're  
8 satisfied that the \$1.7 million that's in here will be  
9 required in order to operate the Utility effectively and  
10 appropriately.

11                   MR. BOB PETERS: Well, two (2) questions,  
12 Mr. Derksen, why -- why wasn't -- why weren't those  
13 amounts factored into the detailed budgets that you've  
14 just enumerated?

15                   MR. WILLY DERKSEN: Well, it's a timing  
16 issue. The detailed budgets that are included in this  
17 application were of a -- were prepared about a year ago  
18 already and based upon more updated circumstances they've  
19 re-planned and -- and reconsidered requirements and are  
20 in a re-planning process and what we've identified as a  
21 gap between the last year's planning process and this one  
22 are those types of things.

23                   MR. BOB PETERS: All right. The second  
24 question then is: How can you forecast a contingency  
25 amount of 1.7 million when -- when, in essence, at the

1 time you forecasted you didn't know what it was for? How  
2 did you come up with that number?

3 MR. WILLY DERKSEN: The contingency  
4 amount, and I think we've explained this before, is that  
5 the -- the Executive Committee, in their deliberations in  
6 September and September of each year just prior to the  
7 IFF, they review the detailed budgets that have been put  
8 forth before them and they assess and look at other cost  
9 factors and -- and cost pressures and operating pressures  
10 that are in place and in -- they set a target for the  
11 Centra Gas operating costs.

12 And the contingency just represents,  
13 really, the mathematical difference between that target  
14 and the details that were previously prepared subsequent  
15 to EC setting targets, new budgets are struck, and  
16 there's not time in between the approval of -- of the  
17 target setting and the -- and the filing of this  
18 application to fully update all of those budgets.

19 So, to some extent, that 1.7 million would  
20 reflect new information, new expectations, different  
21 expectations by executive committee and the realization  
22 of -- of some of the cost pressures that are going to be  
23 incurred by the Utility.

24 MR. BOB PETERS: Okay. I thank you for  
25 your answer.

1                   Mr. Chairman, Board Members, I'd like to,  
2 with your permission, just continue on and cover two (2)  
3 more topics before the Board considers adjourning for the  
4 day, if -- but you can cut me off at any time, of course.

5                   THE CHAIRPERSON:   How much longer do you  
6 think you will take?

7                   MR. BOB PETERS:     I want to talk about  
8 the new office tower and that might take ten (10) minutes  
9 and then less than five (5) minutes on the capitalized  
10 O&A costs.  If that's too tight, I can -- I can pick that  
11 up tomorrow morning.

12                  THE CHAIRPERSON:   Okay.  We will just do  
13 the head office and then we will stop.

14                  MR. BOB PETERS:   Okay.  I'll --

15                  THE CHAIRPERSON:   It is looming, I think,  
16 I you look out one of the windows.  I did not mean that  
17 in a negative sense, by the way.

18

19 CONTINUED BY MR. BOB PETERS:

20                  MR. BOB PETERS:   Mr. Warden, when I think  
21 back, I think I have you to thank for the learning of the  
22 new word "placeholder" because in your past you became  
23 before this Board and you had a budget you put forward  
24 for capital expenditures included with \$75 million for a  
25 new office tower for the headquarters of the Manitoba

1 Hydro; do you recall back then?

2 MR. VINCE WARDEN: Yes, I'm sorry I used  
3 that word, it's used all over the place now.

4 MR. BOB PETERS: Well, and I -- I  
5 appreciate back then it was simply a number put on a page  
6 to indicate there was something coming down on the -- on  
7 that amount, but that was back in 2002; is that your  
8 recollection?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: And back then I think I  
11 understand the Corporation was planning on building a  
12 four hundred (400) square foot office tower in downtown  
13 Winnipeg?

14 MR. VINCE WARDEN: Yes, the --

15 MR. BOB PETERS: 400 -- 400,000 square  
16 foot.

17 MR. VINCE WARDEN: The plans, Mr. Peters,  
18 were very indefinite at that time, but I think that's  
19 what the 75 million -- I think even at that, we knew that  
20 \$75 million was a low number so, yeah, I -- I hope that  
21 at the time I've got a lot of qualifications around --  
22 around that number because --

23 MR. BOB PETERS: I have -- I have no  
24 doubt you did, Mr. Warden. Can you tell me,  
25 approximately how big is the office on Taylor Avenue? Do

1 you know the square footage of that -- that plate?

2 MR. VINCE WARDEN: Yes, 200,000 square  
3 feet.

4 MR. BOB PETERS: And the \$75 million  
5 placeholder doubled to \$150 million in 2005, if my dates  
6 are right, and then the building was also up-sized to  
7 approximately 600,000 square feet; would that be true?

8 MR. VINCE WARDEN: Yes, it's I believe  
9 the number is 650,000 square feet at this time.

10 MR. BOB PETERS: Mr. Warden, in addition  
11 to your property on Taylor, you also lease premises. Do  
12 you have also a working knowledge of how many square feet  
13 you have under lease for Manitoba Hydro and Centra Gas?

14 MR. VINCE WARDEN: I think the total  
15 number and -- and this is subject to check, but I do  
16 recall a number in the -- in the order of magnitude of  
17 275,000 square feet.

18 MR. BOB PETERS: And that's related to  
19 the Winnipeg area?

20 MR. VINCE WARDEN: That's the Winnipeg  
21 area only, yes.

22 MR. BOB PETERS: All right. And how many  
23 employees were -- are envisioned to be into the new  
24 office tower?

25 MR. VINCE WARDEN: Approximately twenty-

1 one hundred (2,100).

2 MR. BOB PETERS: And has that number  
3 changed over the years?

4 MR. VINCE WARDEN: It has been refined  
5 over the years -- over those years that we were talking  
6 about, yes.

7 MR. BOB PETERS: I understand in June of  
8 '05 the final design was pretty much committed, the price  
9 tag would be approximately \$258 million and that was a  
10 695,000 -- 695,000 square foot building; would that sound  
11 right?

12 MR. VINCE WARDEN: Well, that -- it was  
13 subsequently updated again, but I think you're getting to  
14 that, yes.

15 MR. BOB PETERS: Okay. And -- and  
16 updated to \$278 million and that's the latest number that  
17 we are working with?

18 MR. VINCE WARDEN: It is.

19 MR. BOB PETERS: And in terms of square  
20 footage, I'm not sure that it makes a big difference, but  
21 has it stayed at two hundred and ninety-five thousand  
22 (295,000) or has it changed from that; do you know? You  
23 mentioned a smaller number earlier and I wondered if --

24 MR. VINCE WARDEN: Six hundred and --

25 MR. BOB PETERS: I'm suggesting to you it

1 was 695,742 square feet?

2 MR. VINCE WARDEN: I'll go with that,  
3 yes.

4 MR. BOB PETERS: Okay. And of the  
5 twenty-one hundred (2,100) employees that are going to  
6 occupy the new tower, are all twenty-one hundred (2,100)  
7 coming from the Taylor Avenue?

8 MR. VINCE WARDEN: No, no, there's about  
9 -- there's only about eight hundred (800) people in the  
10 Taylor Avenue building, so, they'll -- they're coming  
11 from -- from Taylor, they're coming from 444 St. Mary,  
12 they're coming from the lease premises on Waverley, so,  
13 they'll be coming from various locations around the city.

14 MR. BOB PETERS: In terms of the impact  
15 on the gas customer of the new office tower, put a  
16 document in at Tab 23 of the Book of Documents, and would  
17 the Board take it -- I think it -- yes, Tab 23, it's  
18 PUB/CENTRA-146, would it be correct to suggest that  
19 Centra is telling the Board that there will be zero  
20 impact on gas ratepayers for the new office tower?

21 MR. VINCE WARDEN: Well, I think we --  
22 we're saying there'll be minimal impact on -- on gas and  
23 electricity ratepayers as a result of the tower.

24 MR. BOB PETERS: Okay, "minimal" suggests  
25 something different than zero, Mr. Warden. I had

1 understood that this \$278 million building was going to  
2 be, I suppose, amortized over a sixty (60) year expected  
3 lifespan at an assumed interest rate of 7 1/2 percent  
4 requiring \$21 million a year of -- of payment.

5 MR. VINCE WARDEN: Yes, that's right.

6 MR. BOB PETERS: And -- and in terms of  
7 how that \$21 million is going to be paid, it was going to  
8 be paid by way of savings on the lease premises that you  
9 have, that you longer need the leased space and also,  
10 that you expect there to be productivity savings?

11 MR. VINCE WARDEN: Correct.

12 MR. BOB PETERS: Now anywhere in there,  
13 is there any costs going to flow through to the Centra  
14 Gas ratepayer?

15 MR. VINCE WARDEN: Our -- our position on  
16 this has been, I think, quite consistent. We are -- as -  
17 - as I mentioned earlier, the impact is expected to be  
18 minimal and I think we do use that kind of language in  
19 the -- in the answer to 146A. So we -- we -- the -- the  
20 unknown in this is -- is the amount of productivity  
21 savings.

22 We've used, for this purpose, an  
23 assumption of 10 percent productivity savings. We have  
24 literature that -- that shows that productivity savings  
25 can range up to 30 percent, but it really does depend on

1 the extent to which those productivity savings can be  
2 captured, so, I wouldn't go so far as to say zero at this  
3 point.

4 I don't think we can make that commitment,  
5 but I -- I -- I think it will be, as we say in the  
6 response to this IR, the costs will be largely offset.

7 MR. BOB PETERS: Are you able to tell the  
8 Board, in terms of the \$5 million per year lease payment  
9 savings, how much of the \$5 million is related to Centra  
10 Gas lease premises?

11 MR. VINCE WARDEN: Well, we don't have  
12 any specifically identified Centra Gas leased premises  
13 because of the integrated nature of -- of our operations  
14 now. All costs are allocated to Centra Gas, so there --  
15 there's no facilities that we would identify as being  
16 Centra Gas facilities.

17 MR. BOB PETERS: Mr. Derksen, would this  
18 be a direct cost allocated to Centra or would this be an  
19 indirect cost allocated to Centra?

20 MR. WILLY DERKSEN: This would be  
21 overhead cost charged to Centra and it would be overhead  
22 on direct costs, so I believe that we would have  
23 classified it as a direct charge, it would be part of the  
24 labour cost.

25 MR. BOB PETERS: And Mr. Derksen, you're

1 not able to do better than Mr. Warden in terms of  
2 quantifying how much is in current rates or at least  
3 revenue requirement for Centra on account of lease  
4 payments?

5 MR. WILLY DERKSEN: No, sir, I can't  
6 because we do allocate it as overhead.

7 MR. BOB PETERS: And because it's  
8 allocated as overhead, it's caught up in the allocations  
9 of the -- of the labour costs or the human resource  
10 costs.

11 MR. WILLY DERKSEN: Yes, that's correct.

12 MR. BOB PETERS: Mr. Warden, the 10  
13 percent productivity savings, my reading of the answer  
14 found at Tab 23 of the Book of Documents, suggests that  
15 you're bringing over a payroll in the neighbourhood of  
16 \$200 million and you'd have a 10 percent savings to give  
17 you \$20 million a year; is that the back-of-the-envelope  
18 calculation?

19 MR. VINCE WARDEN: That's the  
20 calculation, yes.

21 MR. BOB PETERS: And if you say a \$200  
22 million payroll, the corporate payroll is -- is at least  
23 twice that, correct?

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: In terms of the

1 productivity improvements, do you have any written  
2 analysis presently as to -- as to what -- how that is  
3 calculated and how that is determined and how that is  
4 implemented within a utility?

5 MR. VINCE WARDEN: No, the -- the only  
6 documentation we have at this time is the experience of  
7 others who have gone through similar centralization of  
8 staff into a facility that we're -- we're moving into,  
9 so, it's based on -- on that kind of -- kind of  
10 information but we don't have a study per se.

11 MR. BOB PETERS: Can you tell me who came  
12 up with the -- the 10 percent number?

13 MR. VINCE WARDEN: Well, it's Manitoba  
14 Hydro's number.

15 MR. BOB PETERS: But it came from an  
16 external consultant or was it an internal work-up of what  
17 the productivity could be?

18 MR. VINCE WARDEN: It was an internal  
19 estimate of what those -- those productivity savings  
20 would be.

21 MR. BOB PETERS: How would that  
22 productivity savings be measured when we meet again in a  
23 couple of years, Mr. Warden?

24

25 (BRIEF PAUSE)

1                   MR. VINCE WARDEN:   Well, we -- we have  
2   extracted costs out of our forecast budget, so, we've  
3   taken -- we've made some assumptions about what those  
4   productivity savings will -- will be and we have removed  
5   those directly from the forecast budgets of the combined  
6   Utility so -- or I should say both electricity and  
7   natural gas utilities.

8                   So, to the extent that we -- we meet those  
9   budgets, those targets, we can say we've met those  
10  productivity savings. It's going to be a difficult thing  
11  to track precisely because there's going to be other  
12  pressures on cost that we talked about earlier but, all  
13  other things being equal, we should be able to achieve  
14  the savings that we have built into the budgets of  
15  Manitoba Hydro.

16                  MR. BOB PETERS:    Is that \$200 million a  
17  year payroll related to the twenty-one hundred (2,100)  
18  employees that are coming over?

19                  MR. VINCE WARDEN:   Yes, that's -- that's  
20  right.

21                  MR. BOB PETERS:    Okay. So the straight  
22  math on that could be ninety-five thousand dollars  
23  (\$95,000) a year per employee?

24                  MR. VINCE WARDEN:   Correct, that's --  
25  that would be an average of labour and benefits which

1 probably is somewhat on the high side.

2 MR. BOB PETERS: When you -- when we talk  
3 about productivity savings, you're suggesting it's  
4 measurable and you're suggesting it's measurable to the  
5 extent that you can embed that into your forecast  
6 budgets?

7 MR. VINCE WARDEN: Yes, we -- we are  
8 going to -- as we -- to some extent it's not too  
9 dissimilar from what we did with Centra. We -- when we  
10 acquired Centra Gas, we did pull the synergy savings out  
11 of the budgets and we insisted that those targets be met  
12 with Centra Gas and I think we've been largely  
13 successful, in fact, probably even exceeded our -- our  
14 budget forecast in that regard. So we've done the same  
15 thing here. We pulled costs out of our budgets to  
16 reflect the savings that we expect with the -- with the  
17 new head office.

18 MR. BOB PETERS: Can I conclude from your  
19 answer, Mr. Warden, that presently there's no plan to --  
20 to make up that 10 percent productivity savings by  
21 reducing EFT positions or reducing the number of  
22 employees?

23 MR. VINCE WARDEN: Well, ultimately it  
24 could translate into some of that as well because we  
25 won't have near the travel costs that we're having going

1 back and forth between offices and that should translate  
2 into EFT savings ultimately.

3 MR. BOB PETERS: Your answer didn't -- I  
4 don't understand your answer, Mr. Warden. Will employees  
5 be let go for the Corporation to achieve their 10 percent  
6 productivity savings?

7 MR. VINCE WARDEN: No. No, I didn't mean  
8 to imply that at all but we have a -- our problem is in  
9 the other direction. We have a huge outflow of employees  
10 over the next five (5) years in terms of retirements, so,  
11 letting employees go will not be a problem at all; it  
12 will be attracting employees to replace those that leave.

13 MR. BOB PETERS: While you talked about  
14 this productivity showing itself in -- in your forecast  
15 budgets to what is actually approved, there's nothing in  
16 the test years related to inclusion of -- of the cost for  
17 the head office building in the O&A costs; am I correct  
18 on that.

19 MR. VINCE WARDEN: The -- as far as the  
20 Centra O&A costs are concerned, there's no cost, no  
21 savings incorporated at this time.

22 MR. BOB PETERS: Thank you. Mr.  
23 Chairman, with that it may be an appropriate time to  
24 adjourn for the day.

25 THE CHAIRPERSON: Very good. Good start,

1 thanks everyone, we will see you tomorrow morning.

2

3 --- Upon recessing at 4:12 p.m.

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7 Certified Correct,

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Ashley Guillemin

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