

1
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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 6th, 2007
Vol II
Pages 299 to 517

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 (np))J.R. Simplot
23
24
25

APPEARANCES (CONT)

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10
11
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18
19
20
21
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William Gange)TREE and Resource
Randall McQuaker)Conservation Manitoba
Peter Miller)

1	TABLE OF CONTENTS	
2		Page No.
3	List Of Undertakings	303
4		
5	Opening Comments	305
6		
7	CENTRA'S REVENUE REQUIREMENT PANEL, Continued	
8		
9	WILLY DERKSEN, Resumed	
10	DARREN RAINKIE, Resumed	
11	KELLY DERKSEN, Resumed	
12	DOUG KROEKER, Resumed	
13	VINCE WARDEN, Resumed (p.m. session only)	
14		
15	Continued Cross-Examination by Mr. Bob Peters	307
16	Cross-Examination by Mr. Karl Saxberg	371
17	Cross-Examination by Mr. Sandy Boyd	505
18		
19	Certificate of Transcript	517
20		
21		
22		
23		
24		
25		

LIST OF UNDERTAKINGS		
EXHIBIT NO.	DESCRIPTION	PAGE NO.
7	Find out how the Corporation plans to transition to that new headquarters in terms of headcount or EFT positions	309
8	Book of Documents, tab 15, last schedule, PUB 78(b) attachment, restate that schedule which would include a line item, perhaps under net income, to show the impact of weather in the years listed. Also note corporate allocation	312
9	To advise if Manitoba Hydro is preparing a position paper relative to the exposure draft for filing with the appropriate body	317
10	Advise if Manitoba Hydro plans to make submissions regarding raising rates	324
11	To advise what the staging plans are for the advanced meter infrastructure expenditures	343
12	So the \$1.8 million of internal costs relates to a part of the GRA in '05, that was held in '05 and the four (4) primary gas applications and if there's anything else included, to so advise	424

		LIST OF UNDERTAKINGS (cont'd)	
1	No.	Description	Page No.
2			
3	13	Provide perspective on the new	
4		building if it's assessed even at	
5		a low assessment of 200 million	473
6	14	To provide a calculation of the	
7		value of the income-generating	
8		potential for the new building	475
9	15	Report filed on January 04, 2006 with	
10		PUB and advise if it addressed safety	
11		concerns	512
12	16	To advise how many meters are planned	
13		in that 7.6 million for AMI	514
14	17	To advise as to the service life of the	
15		mechanical meters' battery.	516
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. We'll get an early start. Mr. Peters, do you
5 want to start up where you left off?

6 MR. BOB PETERS: I will and, Mr.
7 Chairman, if I could just do a housekeeping announcement,
8 if I could call it that?

9 The timetable that has been circulated,
10 there was also some narratives that have been provided to
11 the various parties and I just wanted to remind people --
12 and I do believe it's a reminder -- that tomorrow
13 morning being Thursday the Board will not be sitting in
14 the morning but the Board will be sitting starting at
15 1:30 and going a little later than normal in the
16 afternoon.

17 So I just wanted to make sure parties were
18 aware of that, if they weren't already, from what I had
19 said earlier and I neglected to mention that in my
20 opening comments, so, I apologize but I wanted people to
21 know that if they're here at nine o'clock tomorrow
22 morning they might be lonely so we'll -- we'll start at
23 1:30.

24 THE CHAIRPERSON: There's a lot of filing
25 we could involve them with.

1 MR. BOB PETERS: Thank you, Mr. Chairman.
2 A couple of matters and I also should indicate to the
3 Board by arrangement with Ms. Murphy, the Board will
4 notice that Mr. Warden is absent from the panel certainly
5 this morning and it was a prior scheduled committee of
6 the Board meeting and those things couldn't get adjusted
7 and it was necessary for him to be absent this morning.

8 So the arrangement is that to the extent
9 that Mr. Warden's not here and there's questions of
10 policy or questions on which he wanted to provide a
11 policy perspective to the Board, he certainly has that
12 opportunity by reading the transcript and then providing
13 his comments.

14 Mr. Warden will be captive on almost every
15 panel I believe in this Hearing, so, it's not that he's
16 going to be hard to get a hold of if -- if there's any
17 questions of him or if he has any comments that he wants
18 to provide to the Board.

19 So with those two (2) comments I want to
20 turn to the productivity savings. And, Mr. Derksen, I'm
21 going to start with you and then amongst the panel
22 members you can sort it out.

23

24 CENTRA'S GAS REVENUE REQUIREMENT PANEL, Resumed

25

1 WILLY DERKSEN, Resumed

2 DARREN RAINKIE, Resumed

3 KELLY DERKSEN, Resumed

4 DOUG KROEKER, Resumed

5

6 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

7 MR. BOB PETERS: My understanding from
8 Mr. Warden's evidence yesterday was that a couple of
9 things are happening in the Corporation, one (1) of which
10 is, there are some operational issues because of the need
11 to attract and retain employees and that may raise some
12 issues and also cost some dollars to -- to do that?

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

14 MR. BOB PETERS: And then I also -- I
15 also heard Mr. Warden say late in the day that one (1) of
16 the ways the Corporation is planning on attending to the
17 costs of the new Manitoba Hydro downtown office
18 headquarters is through productivity savings?

19 MR. WILLY DERKSEN: Yes.

20 MR. BOB PETERS: And can you tell me, Mr.
21 Derksen, whether or not the Corporation has planned a -
22 for lack of a better word - a headcount or an EFT count
23 as to how many are presently going to be in the positions
24 that would go into the headquarters downtown and to how
25 many will be there when the building actually opens and

1 is up and running?

2 MR. WILLY DERKSEN: I don't have that
3 information, Mr. Peters. I know there's work in progress
4 on floor planning and on employee counts and those sorts
5 of things but I don't have that information.

6 MR. BOB PETERS: All right. The point
7 I'm getting at, Mr. Derksen, and maybe I'm a little too
8 obtuse is that, if there's going to be productivity
9 savings I suggested to Mr. Warden yesterday that maybe
10 there's going to be a reduction in the number of
11 employees. Or maybe I said it more bluntly saying,
12 employees let go and he indicated that's not the problem
13 because of retirements that are happening. It's going to
14 be the attraction to replace those who are retiring;
15 that's going to be the issue.

16 MR. WILLY DERKSEN: Yes.

17 MR. BOB PETERS: Now, and I don't -- I
18 don't want to get into whether people are let go or who's
19 getting hired, but, the headcount number can be achieved
20 if people are retiring. There may be decisions not to
21 replace certain individuals or positions or realign them?

22 MR. WILLY DERKSEN: I believe that was
23 his point, yes.

24 MR. BOB PETERS: And -- and then my point
25 is to find out if -- if that can be demonstrated to the

1 Board in terms of actual numbers as to how the
2 Corporation plans to transition to that new headquarters
3 in terms of headcount or EFT positions.

4 MR. WILLY DERKSEN: Again, Mr. Peters, I
5 don't have that information. I -- I know that the
6 planning is in progress right now and -- but I don't have
7 that information.

8 MR. BOB PETERS: Could I ask it this way
9 then, Mr. Derksen? If that information is available in
10 your discussions with Mr. Warden could you undertake to
11 file that with the Board?

12

13 (BRIEF PAUSE)

14

15 MR. WILLY DERKSEN: Mr. Peters, I'm
16 advised really that there's nothing in this application
17 that relates to the new building but I will still confer
18 with Mr. Warden on that.

19 MR. BOB PETERS: Thank you, and your
20 point is noted.

21

22 --- UNDERTAKING NO. 7: Find out how the Corporation
23 plans to transition to that
24 new headquarters in terms of
25 headcount or EFT positions

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Derksen, still with
3 you, on Tab 17 of the book of documents that was handed
4 out yesterday, there's an extract and attachment to
5 PUB/CENTRA-9. And on this attachment to PUB/CENTRA-9
6 this shows the Board that even though your financial
7 statements are prepared on an actual basis, there is a
8 weather-normalized effect to your results?

9 MR. WILLY DERKSEN: I'm not sure what the
10 question is. This -- what this attachment is showing is
11 that if weather were normal, this would be the income
12 that would have been achieved by the Corporation.

13 MR. BOB PETERS: What you're saying - and
14 we'll look at the 2006 columns - that your actual
15 financial statement showed a loss of \$5.375 million?

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

17 MR. BOB PETERS: And if the weather had
18 been normal, you would have -- you would have had a net
19 income of \$2.189 million?

20 MR. WILLY DERKSEN: Yes, all things being
21 equal.

22 MR. BOB PETERS: And I suppose for 2005
23 you're actually se -- the Corporation had a natural loss
24 of 1.6 million, but had it been weather normal, it would
25 have been a \$4.2 million loss.

1 MR. WILLY DERKSEN: Yes, that's what it's
2 showing.

3 MR. BOB PETERS: Mr. Derksen, not because
4 Mr. Warden talked me out of some undertakings yesterday,
5 but I wonder if you could file a schedule, and I'm
6 thinking of similar to -- well, first of all, before we
7 leave that, Mr. Derksen, yesterday I was a little clumsy
8 in -- in the 2007 forecast year and asking an undertaking
9 of you.

10 We know that the Board, the last time
11 Centra came before them, approved a net income of \$3
12 million for the '07 year.

13 MR. WILLY DERKSEN: Yes, and upon review
14 of that question, I apologize, Mr. Peters, but the -- the
15 response to PUB/CENTRA-10 revised, page 3, I think,
16 provides the information that you were looking for
17 yesterday.

18 MR. BOB PETERS: Okay, thank you for that
19 then. The undertaking that I was thinking would be
20 helpful to the Board is if you turn back to PUB-15 -- I'm
21 sorry, to the Book of Documents, tab 15, and I'm looking
22 at the last schedule, which is PUB 78(b) attachment.

23 What you've shown on this schedule when we
24 get down to net income and retained earnings, you've
25 shown actual results up until the '06 fiscal year.

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

2 MR. BOB PETERS: I'm asking if you can
3 restate that schedule, Mr. Derksen, which would include a
4 line item, perhaps under net income, to show the impact
5 of weather in the years listed.

6 MR. WILLY DERKSEN: That would be all the
7 way through 1998 to 2005/'06?

8 MR. BOB PETERS: Yes.

9 MR. WILLY DERKSEN: I was just checking
10 to make sure we had that information and I'm advise that,
11 yes, we can provide that.

12 MR. BOB PETERS: Thank you very much.

13

14 --- UNDERTAKING NO. 8: Book of Documents, tab 15,
15 last schedule, PUB 78(b)
16 attachment, restate that
17 schedule which would include
18 a line item, perhaps under
19 net income, to show the
20 impact of weather in the
21 years listed. Also note
22 corporate allocation

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Mr. Derksen, on the

1 topic -- the new topic of capitalized O&A expenses, would
2 I be --

3 THE CHAIRPERSON: Mr. Peters --

4 MR. BOB PETERS: Yes.

5 THE CHAIRPERSON: If I could interject
6 for a second. Mr. Derksen, if I recall properly from the
7 last hearing, the results after the acquisition through
8 to and including 2000/2001, they were assisted by the
9 fact there was no corporate allocation paid to the
10 parent, isn't that correct?

11 MR. WILLY DERKSEN: Yes that's correct.

12 THE CHAIRPERSON: Maybe you could note
13 that on that schedule you're doing for Mr. Peters.
14 Because of the corporate allocation it paid, being paid
15 through that period, the retained earnings' situation
16 right now and going forward would be dramatically
17 different, would it not?

18 MR. WILLY DERKSEN: Yes it would have
19 been dramatically lower than what it is today.

20 THE CHAIRPERSON: Thank you. Sorry, Mr.
21 Peters.

22

23 CONTINUED BY MR. BOB PETERS

24 MR. BOB PETERS: Thank you for that
25 clarification. Mr. Derksen, turning to capitalized O&A

1 expenses, am I correct that direct labour, contract
2 services and a share of overheads are capitalized on
3 additions to property, plant and equipment?

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

5 MR. BOB PETERS: And you -- you're
6 telling the Board that that's in accordance with
7 generally accepted accounting principles?

8 MR. WILLY DERKSEN: Yes.

9 MR. BOB PETERS: Am I correct, Mr.
10 Derksen, that there is an exposure draft that deals with
11 the proposed changes for rate regulated utilities?

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

13 MR. BOB PETERS: And I'm sure you'll know
14 more about it than I, but if -- at the Book of Documents,
15 tab 16, you have the financial statements of the
16 Corporation and you turn to page 4. This is the page
17 that has note 1 on significant accounting policies.

18 While we're on these statements, Mr.
19 Derksen, yesterday you told me that your accountants
20 issue the -- the normal audit statements that reflect to
21 their -- the best of their knowledge and ability, the
22 allocation of costs is fair and reasonable, words to that
23 affect.

24 MR. WILLY DERKSEN: Yes.

25 MR. BOB PETERS: Can you show the Board

1 where in this document at tab 16 of the Book of Documents
2 that statement is found?

3 MR. WILLY DERKSEN: That would be in the
4 auditor's report which is the second page.

5 MR. BOB PETERS: Particularly the last
6 paragraph?

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

8 MR. BOB PETERS: All right, turning to
9 page 4 of those same -- that same document, there is a
10 note 1 that deals with significant accounting policies
11 related to rate regulated entities, correct?

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

13 MR. BOB PETERS: And this exposure draft,
14 can you explain to the Board what that -- what that is
15 about?

16 Well, let me come at -- let me come at it
17 this way, Mr. -- it may be bigger than I expect it to be
18 so.

19 I understand that for rate regulated
20 utilities there's consideration being given to changing
21 the method for accounting for deferred costs and credits.

22 MR. WILLY DERKSEN: Yes, there is an
23 indication that rate regulated accounting will no longer
24 form part of GAAP.

25 MR. BOB PETERS: And if rate regulated

1 accounting doesn't form part of GAAP, there's an
2 indication that the costs or credit would otherwise be
3 included in the determination of net income in the year
4 that those costs or credits are incurred.

5 MR. WILLY DERKSEN: That would be the
6 implications of that, yes.

7 MR. BOB PETERS: That has a significant
8 impact on Centra potentially; does it not?

9 MR. WILLY DERKSEN: Yes, it would unless,
10 of course, the rates were adjusted in accordance with
11 that change in accounting policies, so I think that's,
12 you know, something that we have to review and we have to
13 work with the -- with the Board in order to ensure that
14 the rates and the accounting are in sync with each other.

15 MR. BOB PETERS: Has Manitoba Hydro, your
16 parent company, prepared a position paper relative to the
17 exposure draft?

18 MR. WILLY DERKSEN: No, there is no
19 position paper that's been prepared yet.

20 MR. BOB PETERS: Do you know if Manitoba
21 Hydro is intending on filing one with the appropriate
22 body?

23 MR. WILLY DERKSEN: I think you would
24 have to check with Mr. Warden with that, I'm not certain
25 whether we are or not.

1 MR. BOB PETERS: Would you mind
2 undertaking to do that and I'm sorry to pile those on
3 you, Mr. Derksen, but you're seated close to him

4 MR. WILLY DERKSEN: Yes, we'll do that.

5
6 --- UNDERTAKING NO. 9: To advise if Manitoba Hydro
7 is preparing a position paper
8 relative to the exposure
9 draft for filing with the
10 appropriate body

11
12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: What -- in your answer
14 to me a couple answers ago, you suggested that there
15 could be a difference between the financial reporting and
16 the rate setting.

17 MR. WILLY DERKSEN: I think what I was
18 suggesting is that if we -- if the accounting standards
19 did change and we were forced to represent our financial
20 statements in accordance with GAAP without having
21 consideration to rate regulation, and, if the rate
22 setting process didn't change in accordance with that
23 change, there would be gaps between our financial
24 statements and it -- it may not -- may not reflect the
25 results of the organization in accordance with -- with

1 the rates that are -- it's being allowed to charge.

2 MR. BOB PETERS: Mr. Derksen, as I look
3 at page 4, if this exposure draft and if there are
4 changes to -- to GAAP such that the deferral -- the
5 deferred costs have to be taken into consideration in the
6 year that they're incurred, that will affect the net
7 income for that particular year, correct?

8 MR. WILLY DERKSEN: Yes.

9 MR. BOB PETERS: That -- what that really
10 means is -- is that all of the deferred items that are
11 listed such as deferred taxes, deferred peak shaving
12 facilities, rate hearing costs, vacation expense, PGVA
13 costs, those would have to be brought into the current
14 year?

15 MR. WILLY DERKSEN: That would be the
16 implication of the -- of that -- of the application of
17 that policy, yes.

18 MR. BOB PETERS: Sounds like that would
19 create a considerable net loss for the year, if that had
20 to be done, under the current regulatory regime?

21 MR. WILLY DERKSEN: Well, I suppose it
22 would depend at the time. The PGVA, for example, can be
23 either a debit balance or a credit balance, so, if at the
24 time when that -- when those proposals took place if
25 there was a significant credit balance and, again, you

1 know, all things being equal, it could result in a -- in
2 a income for the company. But most likely, deferred
3 charges under regulatory accounting tend to be debits,
4 so, it would be an expense.

5 MR. BOB PETERS: You then said that the
6 rate setting methodology would have to take into account
7 the change in accounting standards?

8 MR. WILLY DERKSEN: I don't think I said
9 it had to, I think that that would be a consideration
10 that we would have to make along with the Board.

11 MR. BOB PETERS: I'm not understanding
12 your answer, sir, in terms of, are you suggesting then
13 that there would have to be significant rate increases to
14 take into account the change in accounting standards?

15 MR. WILLY DERKSEN: Well, from my own
16 perspective, Mr. Peters, it -- not allowing rate
17 regulated accounting in a rate regulated enterprise
18 presents some significant problems for -- for many
19 companies.

20 Some companies would have very significant
21 stranded assets in the hundreds of millions of dollars
22 and a strict application of this provision, if it does --
23 if it does in fact get implemented, would involve those
24 huge writeoffs and -- and that would be problematic.

25 How it would work in this jurisdiction and

1 what we could do, we have not gone down that path yet, so
2 I don't know, you know, what the right answer would be.
3 But certainly one (1) answer would be having the rate set
4 in accordance with -- with the new GAAP requirements.

5 Which would mean that, you know, it --
6 want to just look at these examples here, that in order
7 to keep the company whole, if we had \$20 million of
8 deferred taxes, it would imply that for that particular
9 year that it was going to go in place, we'd have to
10 increase our rates by \$20 million for that -- deferred
11 taxes in order to keep the company whole.

12 And with respect to PGVA accounting, I
13 suppose we'd have to look at alternatives such as having
14 the costs being updated every month for the real costs
15 and -- and flowing through those costs to customers every
16 month. And -- and I understand they do that already in
17 some jurisdictions. I believe Alberta does that. But --
18 but we'd have to consider those types of things.

19 MR. BOB PETERS: When I turn to page 8 in
20 the Tab 16 financial statements, Mr. Derksen, and go down
21 to note Number 6, it appears to me that the differed
22 charges net out in 2006 to \$55 million.

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

24 MR. BOB PETERS: And if I understand and
25 follow what you were telling the Board, if the rate

1 regulated accounting is no longer a part of GAAP and you
2 change -- and this is longer allowed, this \$55 million
3 would have be taken into consideration in -- in one (1)
4 year, presumably resulting in a significant loss for the
5 Corporation.

6 MR. WILLY DERKSEN: I believe the
7 deferred debt costs would not follow that approach, so of
8 the fifty-five (55), probably only forty-nine (49) of it
9 would have to be written off at that point in time.

10 MR. BOB PETERS: But nevertheless, we're
11 looking at a \$50 million hit in one (1) year on account
12 of past deferrals of expenses.

13 MR. WILLY DERKSEN: That would be the
14 implications, yes.

15 MR. BOB PETERS: And when might this come
16 to bear?

17 MR. WILLY DERKSEN: I believe it's slated
18 for 2010, that's my understanding. It's moving to
19 international financial reporting standards, so I believe
20 it's -- it's 2010.

21 Mr. Peters, in addition to that, there is
22 a PGVA balance that's shown in note 9, which is a credit
23 balance of \$41 million at the end of 2006.

24 But again, I think your point is well
25 taken that PGVA balance that's a credit could just as

1 well be a debit at any given point in time. So of the
2 deferred charges that are somewhat stable, the \$50
3 million would be our writeoff that would be required and
4 the PGVA could be plus or minus in the order of 50
5 million itself.

6 MR. BOB PETERS: With the changes looming
7 as early as 2010, what is the time line for the Utility's
8 plans to respond to such changes if they are enacted?

9

10 (BRIEF PAUSE)

11

12 MR. WILLY DERKSEN: Mr. Peters, I think
13 there may be some transition provisions in that date, as
14 well, but, you know, that is up in the air. I believe
15 that there's -- there are things that are changing quite
16 rapidly with respect to how this will actually play out.

17 The Utility's plan in order to address
18 this, I -- I think I'd have to differ again to Mr.
19 Warden. I -- we have had a lot of discussions about
20 this, but we have not gone to the point of formulating a
21 plan as to how we need to proceed with respect to this
22 issue.

23 MR. BOB PETERS: Well if Mr. Warden and
24 the Corporation wants to supplement your answer in any
25 way, Mr. Derksen, certainly he's welcome to do that.

1 To bring this to my attention more
2 clearly, if I turn back to the IFF on Tab 13 of the book
3 of documents and I go to the balance sheet in the IFF
4 located on page 38 of the -- on page 38 of the IFF -- and
5 I'm going to go to 2010, Mr. Derksen, only because you
6 told me that would be perhaps the year in which this
7 issue becomes front and centre and it will hit the
8 balance sheet -- it looks to me that the retained
9 earnings line, and all other things being equal, is
10 sitting here at \$35 million and if the change in
11 accounting methodology comes to bear, that retained
12 earnings line gets wiped out and it becomes ostensibly a
13 negative number, negative \$15 million?

14 MR. WILLY DERKSEN: That would certainly
15 be a possibility, that's correct.

16 MR. BOB PETERS: And then in order to
17 deal with that your only response at this point in time
18 is to raise rates by \$15 million?

19 MR. WILLY DERKSEN: Mr. Peters, that was
20 my own personal view on one (1) thing that could be done;
21 that's not Manitoba Hydro's or Centra's view as to what -
22 - what steps could be taken in order to mitigate that
23 possibility.

24 THE CHAIRPERSON: We're talking
25 presumably about a one (1) time book counting change, not

1 cash? When you're talking rates, you're talking about
2 ongoing cashflow into infinity or somewhere?

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

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. -- Mr. Derksen, if
7 the Corporation -- did you know whether or not Manitoba
8 Hydro plans to make submission with respect to this
9 issue?

10 MR. WILLY DERKSEN: No, Mr. Peters, I
11 don't know whether or not it will.

12 MR. BOB PETERS: Okay. And -- and if I
13 didn't ask I'd ask you to let the Board know if you do
14 plan to. I would also ask you to advise through your
15 counsel by way of undertaking that in the event Manitoba
16 Hydro does make submission on this issue whether that can
17 also be provided to the Board at the -- at that time?

18 MR. WILLY DERKSEN: Yes, thank you.

19 MR. BOB PETERS: All right.

20

21 --- UNDERTAKING NO. 10: Advise if Manitoba Hydro
22 plans to make submissions
23 regarding raising rates

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. Derksen, I'm
2 probably getting a little ahead of myself but the -- one
3 (1) of the deferred costs that wasn't listed on page 4 of
4 the financial statements at Tab 16 were DSM costs.

5 Those costs are being amortized over I
6 believe fifteen (15) years presently by the Corporation?

7 MR. WILLY DERKSEN: There -- they are
8 listed on page 8 in note 6 as Power Smart programs.

9
10 (BRIEF PAUSE)

11
12 MR. BOB PETERS: Are those Power Smart
13 program deferred charges also going to be considered
14 assets such that they will have to be taken into
15 consideration in the year in which they are incurred
16 under the possibly proposed new changes to -- to GAAP?

17 MR. WILLY DERKSEN: For Centra Gas that's
18 correct, yes. For Manitoba Hydro there's -- there are
19 different economics at play.

20
21 (BRIEF PAUSE)

22
23 MR. BOB PETERS: Following that through,
24 Mr. Derksen, one-fifteenth (1/15th) of your actual
25 expenditures to-date will be carried through into current

1 expenses on DSM matters?

2 MR. WILLY DERKSEN: Yes, that's correct.
3 We are amortizing those DSM expenditures over fifteen
4 (15) years.

5 MR. BOB PETERS: But until 2010 and this
6 -- you would be enlarging the liability and -- and while
7 you show Power Smart programs of \$4 million on page 8 of
8 the note 6 of the documents I suspect Mr. Kuczek's going
9 to tell me that it's a multiple of that, perhaps as much
10 as four (4) times that?

11 MR. WILLY DERKSEN: I would think it
12 would be a higher number than that, Mr. Peters.

13 MR. BOB PETERS: Okay. So until -- until
14 that issue is resolved the Corporation plans to continue
15 to amortize the DSM expenditures over the fifteen (15)
16 year horizon?

17 MR. WILLY DERKSEN: Yes, that's our
18 policy.

19 THE CHAIRPERSON: How do DSM expenditures
20 in Centra Gas' case provide a future benefit to Centra?

21 MR. WILLY DERKSEN: I -- I think in
22 Centra Gas' case looking at the legal entity in itself
23 there is no cash future benefit that can be gleaned from
24 those expenditures. And those expenditures will be moved
25 into the regulated assets or section of the deferred

1 charges and they are moved for the 2007 fiscal year.
2 From a societal perspective, I think those DSM
3 expenditures have greater value, but we can't of course
4 consider that on our balance sheets.

5 MR. BOB PETERS: Do you have a
6 calculation, Mr. Derksen, as to what that balance for DSM
7 expenditures will be at 2010?

8 MR. WILLY DERKSEN: I'll just check on
9 the CEF itself. Give us a minute.

10

11 (BRIEF PAUSE)

12

13 MR. WILLY DERKSEN: Mr. Peters, our
14 capital expenditure forecast for demand side management
15 for gas is showing 8.6 million for 2007, 11.1 million for
16 2008 and eight point six/eight point seven (8.6/8.7) for
17 2009 and '10 respectively. So there's approximately \$35
18 million of costs that are proposed to be expended over
19 that period of time.

20 MR. BOB PETERS: And on top of that would
21 be the \$4 million that are shown on deferred charges,
22 note 6?

23 MR. WILLY DERKSEN: Yes, and deducted
24 from that would be amortization of those costs of -- at
25 one fifteenth (1/15th) per year.

1 MR. BOB PETERS: So in addition to those
2 items shown in deferred charging -- deferred charges on
3 note 6 of the financial statements, there would be an
4 additional approximate \$35 million for DSM recognizing
5 there's a netting of whatever's amortized between now and
6 2010 on DSM?

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

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Derksen, there's an
12 affordable energy fund that will talk about certainly
13 with Mr. Kuczek, you're aware of that?

14 MR. WILLY DERKSEN: Yes, I am.

15 MR. BOB PETERS: You funded that or Mr.
16 Rainkie probably takes credit for funding that?

17 MR. WILLY DERKSEN: I'll leave that to
18 Mr. Rainkie.

19 MR. BOB PETERS: My memory's a bit hazy,
20 but there was \$35 or \$36 million seeded into that fund
21 based on a percentage of Manitoba Hydro's export
22 revenues?

23 MR. WILLY DERKSEN: 35 million.

24 MR. BOB PETERS: And of that 35 million
25 some of that's going to be allocated, and I believe I

1 read, maybe your rebuttal, 16 million allocated to -- on
2 account of the gas side of the business?

3 Not meant to be a memory test, it's not --
4 let's not dwell on it, we'll come to that --

5 MR. WILLY DERKSEN: I don't expect that
6 we will be allocating any of those costs to the gas side
7 of the business. I -- my understanding of the use of
8 that fund is that it may benefit gas customers and oil
9 heat customers and wood heat customers and electric heat
10 customers and -- as well, but I believe all of the costs
11 will be incurred by Manitoba Hydro and included in their
12 financial statements.

13 MR. BOB PETERS: Okay. Perhaps not
14 clearly worded on my part in the question. I thank you
15 for that clarification.

16 Does that answer suggest to the Board, Mr.
17 Derksen, that none of that \$35 million in the affordable
18 energy fund will be available to assist on this DSM
19 balance that's accruing between now and 2010?

20 MR. WILLY DERKSEN: Mr. Kuczek will
21 probably be able to talk to that in greater detail, but
22 my understanding of -- of the affordable energy fund is
23 that it is to fund initiatives that were not eligible or
24 do not comply with DSM guidelines, i.e., they don't have
25 a sufficient benefit to them from a -- a cash perspective

1 to the customer or to the company that would allow them
2 to qualify as expenditures.

3 MR. BOB PETERS: All right. Thank you.
4 Mr. Derksen, I wanted to turn with you to Tab 24 of the
5 book of documents and talk a bit further about
6 capitalized O&A matters. And here on Tab 24 is a
7 reproduction PUB/CENTRA-22B and in that you're telling
8 the Board that the capitalized O&A cost is made up of
9 overheads on line 9 and activity charges on line 14. Do
10 I have that right?

11

12 (BRIEF PAUSE)

13

14 MR. WILLY DERKSEN: Yes, and the lines
15 that are beneath those lines as well.

16 MR. BOB PETERS: And the lines beneath
17 them contain some of the specifics of those -- of those
18 matters?

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

20 MR. BOB PETERS: And there was a
21 suggestion in certainly some of the IR questions and I
22 believe also in Mr. Matwichuk's evidence and I won't put
23 words into his mouth certainly, but, Mr. Saxberg will
24 correct me if I'm wrong, but there was a concern about
25 how the capitalized overheads was being calculated.

1 extent that this table was being used as a comparator of
2 pre-acquisition and post-acquisition, you're telling the
3 Board it wasn't comparable because the labour and
4 benefits was excluded under the private ownership
5 scenario?

6 MR. WILLY DERKSEN: Yes, that's correct.
7 All we're showing under the private ownership scenario is
8 the overhead capitalized number.

9 MR. BOB PETERS: All right. I think we
10 have your corrections and thank you for that.

11 Mr. Derksen, will Manitoba Hydro be paying
12 property taxes on the new Manitoba Hydro headquarters in
13 downtown Winnipeg?

14 MR. WILLY DERKSEN: Yes.

15 MR. BOB PETERS: Do you know how much?

16 MR. WILLY DERKSEN: I don't have that
17 number, no, sir.

18 MR. BOB PETERS: Does Manitoba Hydro
19 presently pay property taxes on account of their Taylor
20 Avenue headquarters?

21 MR. WILLY DERKSEN: Yes.

22 MR. BOB PETERS: In the -- in the
23 materials filed -- and I made a note here PUB/CENTRA-38F
24 -- you show \$9 million of municipal taxes to the City of
25 Winnipeg.

1 Can you tell the Board whether the taxes
2 will be increased as a result of the new headquarters and
3 if so, how much?

4 MR. WILLY DERKSEN: I expect they would
5 be increased but I can't give you an indication of how
6 much. I think there's a couple of things that are going
7 on there. As Mr. Warden indicated, we will incur new
8 costs for the new building and those will be offset by
9 reducing lease cost.

10 Now, included in lease cost is an element
11 of property taxes, so, there's a classification
12 difference. We were paying property taxes being
13 classified as lease costs previously but, as well, one
14 (1) of the other offsets will be productivity savings
15 and, so, although property tax costs will increase, there
16 will be a reduction in the labour and benefit costs.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Is it quantifiable in
21 terms of what you presently pay on account of head office
22 real property tax and what you will be paying in the new
23 tower?

24 MR. WILLY DERKSEN: The new tower would
25 not be quantifiable yet, no. The -- it's certainly

1 quantifiable what we pay with respect to 820 Taylor.

2 MR. BOB PETERS: I think we have that
3 information.

4 Mr. Derksen, moving along to tab 26 of the
5 Book of Documents, Centra Gas Manitoba Inc. makes various
6 payments to various levels of government, correct?

7 MR. WILLY DERKSEN: Yes.

8 MR. BOB PETERS: And specifically in this
9 application, there has been noted an increase in the debt
10 guarantee fee that is paid to the Province of Manitoba by
11 Centra Gas?

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

13 MR. BOB PETERS: And that debt guarantee
14 fee used to be decimal 0.95 percent and now it's 1
15 percent?

16 MR. WILLY DERKSEN: That's correct.

17 MR. BOB PETERS: So there's a 5 percent
18 increase in the debt guarantee fee?

19 MR. WILLY DERKSEN: I'm sorry, it's 5
20 percent increase approximately, that would be about
21 right.

22 MR. BOB PETERS: And so when the Board
23 looks at tab 26 of the Book of Documents and goes to
24 PUB/CENTRA-30 attachment and looks at the schedule, where
25 we have the test years and we go down to the -- line 10

1 of the debt guarantee fee and follow that across?

2 MR. WILLY DERKSEN: Yes.

3 MR. BOB PETERS: Of that \$3 million a
4 year paid to the province on account of the debt
5 guarantee fee, only a hundred and fifty thousand dollar
6 (\$150,000) increase is reflected in the -- in the test
7 years over what would otherwise be the case from the last
8 time the Board saw this?

9 MR. WILLY DERKSEN: About a hundred and
10 fifty thousand dollar (\$150,000) increase due to the
11 increase in PGF, that's correct.

12 MR. BOB PETERS: All right, thank you.
13 At tab 17 of the Book of Documents we get over to some
14 capital expenditures and rate base items and I think Mr.
15 Kroeker's waking up and enjoying this part of the -- the
16 hearing, but what we see here is, over the test years
17 Centra is proposing to spend some additional \$40 million
18 and \$34 million in the two (2) test years on capital
19 expenditures.

20

21 (BRIEF PAUSE)

22

23 MR. WILLY DERKSEN: Is that the increase
24 to plant that you're referring to, Mr. Peters?

25 MR. BOB PETERS: Yeah, it is.

1 MR. WILLY DERKSEN: Okay, the capital
2 expenditures would be a little bit different from that,
3 but that would be the increase to -- to gas plant and
4 service.

5 MR. BOB PETERS: And those expenditures
6 translate into the rate base items of the \$435 million
7 and the \$452 million shown on line 23?

8 MR. WILLY DERKSEN: Yes, they do. With
9 the ex -- yes, those ones would all be there, yeah.

10 MR. BOB PETERS: And Mr. Kroeker or Mr.
11 Derksen, one (1) of the capital projects included in the
12 test years is advanced metre infrastructure, is that
13 correct?

14 MR. WILLY DERKSEN: Yes, it is.

15 MR. BOB PETERS: And that's also known as
16 AMI?

17 MR. WILLY DERKSEN: That's correct.

18 MR. BOB PETERS: It used to be know as
19 AMR?

20 MR. WILLY DERKSEN: And OMR and a few
21 other names.

22 MR. BOB PETERS: It keeps -- it keeps
23 morphing into a new acronym.

24 MR. WILLY DERKSEN: Apparently, we were
25 discussing that this morning.

1 MR. BOB PETERS: The last time the Board
2 saw it, it was know as automa -- automated metre reading
3 or AMR.

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

5 MR. BOB PETERS: And included in rate
6 base in the two (2) test years on account of AMI is now
7 \$7.6 million, is that correct?

8 MR. WILLY DERKSEN: It sounds about
9 right, sir.

10 MR. BOB PETERS: Is it also right, Mr.
11 Derksen, that in Board Order 103/05, the Board disallowed
12 AMR's pilot project expenses from being put into rate
13 base until a satisfactory business case had been
14 prepared?

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

16 MR. BOB PETERS: Let's just talk about
17 that AMR pilot project for a second. As you -- as you
18 noted a couple answers ago, Mr. Derksen, the geneses of
19 AMI was back with when it was OMR?

20 MR. WILLY DERKSEN: Yes.

21 MR. BOB PETERS: What was OMR standing
22 for?

23 MR. WILLY DERKSEN: Offsite metre
24 reading.

25 MR. BOB PETERS: And that was in the late

1 1990s?

2 MR. WILLY DERKSEN: Yes, it was.

3 MR. BOB PETERS: Would you agree that
4 back then there were some issues as to the cost benefit
5 and safety analysis as to whether or not that item should
6 go forward?

7 MR. WILLY DERKSEN: I think that's fair,
8 Mr. Peters. I'm -- I wasn't specifically involved in
9 that project, but certainly the cost benefit wasn't there
10 or else we would have proceeded.

11 MR. BOB PETERS: And would you agree that
12 in the late 1990s there was a disallowance of
13 expenditures related to that item by the Public Utilities
14 Board?

15 MR. WILLY DERKSEN: Yes.

16 MR. BOB PETERS: And you've already
17 indicated that the last General Rate Application there
18 were some disallowed expenses related to the AMR pilot
19 project.

20 MR. DARREN RAINKIE: Mr. Peters, I'm not
21 sure characterizing it as disallowed, it was removed out
22 of rate base equivalent to the deferral account and at
23 some -- some interest rate which escapes me at this
24 point, but, you know, we're very careful when it's
25 disallowed.

1 I think the Board was saying until you've
2 done the full business case, place it in a different
3 account for rate setting purposes.

4 MR. BOB PETERS: That's fair, Mr.
5 Rainkie. It was disallowed from rate base, but it was
6 put into a different account, if I can try to salvage my
7 use of the word.

8 MR. WILLY DERKSEN: That's my
9 recollection from two (2) years ago, Mr. Peters.

10 MR. BOB PETERS: And, Mr. Rainkie, you
11 said that it was put in a different holding account
12 pending completion of a business case.

13 Can you provide the Board of the status of
14 that business case?

15 MR. DARREN RAINKIE: The ARM program has
16 been replaced with a different program that is AMI and
17 the pilot project is underway. There's been very little
18 expenditure that's taken place, especially on the gas
19 side as this point in time, but pending successful
20 completion of the pilot we would propose to proceed.

21 MR. BOB PETERS: Am I correct in reading
22 in materials that the cost of the business case is
23 dependent on an eight hundred thousand (\$800,000) dollar
24 pilot project?

25 MR. WILLY DERKSEN: That sounds about

1 right, yes.

2 MR. BOB PETERS: And of that eight --
3 eight hundred thousand (\$800,000) dollar pilot project,
4 am I correct that approximately half of that is going to
5 fall on the gas side of the ledger and the other half on
6 the electric side?

7 MR. WILLY DERKSEN: Could I get a
8 reference on that, Mr. Peters, 'cause I'm not absolutely
9 certain of -- of that fact?

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Perhaps the most
14 convenient reference, Mr. Derksen, would be if you turn
15 to tab 19 of the book of documents and there's a
16 reproduction of PUB-CENTRA-15, but please note and I -- I
17 now realize I misspoke yesterday when I told the Board
18 every document in this brief was from the filing. This
19 actually is from the filing for the '06 and '07 test
20 years.

21 So to that extent, this document goes back
22 to the prior time the GRA matters were before the Board
23 and that was -- that was what was indicated in a
24 PUB/CENTRA-15 at that time.

25 MR. WILLY DERKSEN: Yes, I see that and I

1 believe that the plans have changed since that time and
2 that's why I'm struggling a little bit with the numbers
3 that you put forward.

4 I see in the response to -- to PUB-67, we
5 talk about three hundred and forty-five thousand
6 (\$345,000) dollars of flowing to Centra Gas in '06/'07
7 relative to the pilot.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Derksen, that --
12 that amount is -- is for the pilot project? The three
13 hundred and forty-five thousand (\$345,000) dollars was to
14 finish the -- the project, the pilot project?

15 MR. WILLY DERKSEN: I believe that's
16 correct. That would be subject to check, Mr. Peters.

17 MR. BOB PETERS: And once the pilot
18 project was complete then it was going to be \$3.1 million
19 and \$4.2 million expended and included in rate base?

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

21 MR. BOB PETERS: And in terms of this and
22 I'm not sure I'm clear on this, Mr. Derksen, this pilot
23 project, wher -- what's the status of it at this point in
24 time?

25 MR. WILLY DERKSEN: It is in progress. I

1 -- I know that there are electric metres installed under
2 this pilot project and if I -- I -- I'm not sure if there
3 are any gas metres that are yet installed. If there are,
4 there are not very many of them.

5

6 (BRIEF PAUSE)

7

8 MR. WILLY DERKSEN: Okay. I've just been
9 advised there are no gas at all installed at this point
10 in time.

11 MR. BOB PETERS: But the three hundred
12 and forty-five thousand (\$345,000) dollars that's
13 included is an expenditure that will be for putting in
14 those gas metres for '06/'07?

15 MR. WILLY DERKSEN: That was our forecast
16 at the time, yes.

17 MR. BOB PETERS: And therefore, that
18 three hundred and forty-five thousand (\$345,000) dollars
19 did not get spent in the forecast year?

20 MR. WILLY DERKSEN: That's correct.

21 MR. BOB PETERS: Are there plans now to
22 spend that amount in the -- in the first test year?

23 MR. WILLY DERKSEN: I'm just checking.

24

25 (BRIEF PAUSE)

1 MR. WILLY DERKSEN: The -- the most
2 current plans that I see, Mr. Peters, suggest that we
3 will be spending that amount in 2007/'08 with respect to
4 gas.

5 MR. BOB PETERS: Does that suggest to the
6 Board, Mr. Derksen, that if you're a year behind in -- in
7 where you are in that project and, therefore, the -- the
8 \$3.1 million planned to be spent in the first test year
9 will now likely be put in the second test year, if the
10 project proceeds?

11 MR. WILLY DERKSEN: It would make sense
12 that that would be true but I don't know that for a fact.

13 MR. BOB PETERS: Perhaps that's another
14 matter that I could ask for your counsel to undertake to
15 find out what the staging plans are then for the advanced
16 meter infrastructure expenditures.

17

18 --- UNDERTAKING NO. 11: To advise what the staging
19 plans are for the advanced
20 meter infrastructure
21 expenditures

22

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: And I'm a little

1 confused, maybe more so than normal, Mr. Derksen, but
2 that three hundred and forty-five thousand dollars
3 (\$345,000) was included in rate base for the '07 fiscal
4 year?

5 MR. WILLY DERKSEN: Yes. I think our
6 application presumed that the pilot would be successful
7 and that we would put -- once it was successful and all
8 the approvals obtained -- necessary approvals obtained,
9 it would form part of the rate base because it is a
10 legitimate part of the cost of -- of implementing that
11 technology for the Company.

12 MR. BOB PETERS: Well then you've
13 answered my next question. If -- if the Board
14 disallowed, in my words, that item from rate base and put
15 it into the account that Mr. Rainkie collect -- correctly
16 reminds us of, the Corporation has put it back into rate
17 base for the '07 year and they've included the better
18 part of \$7 million in the two (2) test years on account
19 of the same project, correct?

20 MR. WILLY DERKSEN: Yes, that's correct.
21 I want to remind you, though, that the three hundred and
22 forty-five thousand (345,000), putting it into rate base
23 actually has a much lower impact on the revenue
24 requirement than deferring it and amortizing it over five
25 (5) years.

1 MR. BOB PETERS: While the math may be
2 correct on that last answer, Mr. Derksen, procedurally
3 Centra wouldn't do that because -- because the project
4 hasn't been implemented and -- and you wouldn't take
5 items from capital expenditures and put them into rate
6 base until -- until the project is a go; wouldn't that be
7 correct?

8 MR. WILLY DERKSEN: Yes, that would be
9 correct but, again, this is a forecast that we're dealing
10 with here and that was our forecast at that time.

11 MR. BOB PETERS: In a couple of answers
12 ago you told me that this item was included, again, in
13 rate base on the assumption that the project would prove
14 viable or successful and would proceed.

15 Have I got that right?

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

17 MR. BOB PETERS: And before it's
18 considered viable and -- and appropriate, the pilot
19 project has to be complete?

20 MR. WILLY DERKSEN: That's correct.

21 MR. BOB PETERS: And after the pilot
22 project is complete then the business case has to be
23 prepared and -- and reviewed?

24 MR. WILLY DERKSEN: Yes.

25 MR. BOB PETERS: And in addition to the

1 business case being reviewed, is there an intention to
2 file that business case with the Board?

3 MR. WILLY DERKSEN: I believe we've been
4 directed to file it, Mr. Peters, so I -- I would say the
5 answer would have to be "yes" on that.

6 MR. BOB PETERS: And I -- I just want to
7 make sure we're on the same page on that, Mr. Derksen.

8 If that is the case and it needs approval
9 by the Board, why would you include it in rate base for
10 the test years at this point in time?

11 MR. WILLY DERKSEN: Well, again we've --
12 at the time the forecast was done we anticipated that the
13 pilot would be complete, successful, and all necessary
14 approvals would be obtained and, therefore, the forecast
15 properly includes it as rate base, as a capital addition
16 to rate base.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Can you indicate to this
21 Board whether the Centra Gas Manitoba Inc. Board of
22 Directors has approved the \$7 million expenditure at the
23 point in time?

24 MR. WILLY DERKSEN: Yes, they have.

25 MR. BOB PETERS: Did they approve it

1 without a pilot program being run?

2 MR. WILLY DERKSEN: The context of the
3 approval I'm not familiar with, but I -- the Company's
4 intent is certainly to have the pilot completed first.
5 The were aware that a pilot was to be completed on this
6 project prior to its moving ahead. So I would -- I would
7 suggest that implicit in their approval is the
8 requirement for the -- for the pilot.

9 MR. BOB PETERS: And if the pilot hasn't
10 been done yet, there's no business case, either, that
11 would have gone to the Centra Board of Directors.

12 MR. WILLY DERKSEN: That's correct.

13 MR. BOB PETERS: So when you say the
14 context in which the Centra Board would have approved it,
15 it may have approved it only on a conceptual basis.

16 MR. WILLY DERKSEN: They've approved the
17 Company to proceed with this project and in anticipation
18 of -- of the benefits that it can bestow upon the
19 Company and its customers. But the project will not
20 proceed unless the business case is positive and the
21 necessary approvals have been obtained.

22 MR. BOB PETERS: Okay, thank you. And at
23 that point in time, the out of pocket costs -- the
24 additional out of pocket costs will be that extra three
25 hundred a forty-five thousand dollars (\$345,000), but --

1 but no more?

2 MR. WILLY DERKSEN: That is the forecast,
3 that's correct.

4 MR. BOB PETERS: All right. Thank you
5 for that, Mr. Derksen.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: I want to turn to the
10 integrity management system next. And this is a system
11 that I understand is used to identify high risk areas of
12 the -- of plant?

13 MR. DOUG KROEKER: Yes.

14 MR. BOB PETERS: Thank you, Mr. Kroeker.
15 And -- and this I -- since we're using acronyms,
16 integrity management system or IMS, it uses computer
17 software to identify where the existing plant of the gas
18 company may be at risk for failure?

19 MR. DOUG KROEKER: We do have some risk
20 assessment software, yes.

21 MR. BOB PETERS: And that's part of the
22 IMS program, sir?

23 MR. DOUG KROEKER: It is, yes.

24 MR. BOB PETERS: And it's used to
25 prioritize integrity issues through a proactive approach;

1 that is to be proactive in doing repairs and maintenance
2 rather than waiting for something to develop?

3 MR. DOUG KROEKER: Yes, that software is
4 used along with the judgment of the engineers to develop
5 the priorities.

6 MR. BOB PETERS: And right now, the IMS
7 system is used only on the transmission lines that Centra
8 operates, have I got that right?

9 MR. DOUG KROEKER: That's right, our
10 program has been designed for the transmission system.

11 MR. BOB PETERS: It deals with
12 maintenance and system betterment on the transmission
13 line then?

14 MR. DOUG KROEKER: Yes.

15 MR. BOB PETERS: Can you tell the Board
16 briefly how this IMS system benefits ratepayers compared
17 to what used to be the system?

18 MR. DOUG KROEKER: I think that the --
19 the IMS helps the ratepayers in that it -- it provides us
20 with a -- with another tool and a formal program to help
21 us assess our aging infrastructure, assess the weak
22 points in it and develop remedial action steps.

23 MR. BOB PETERS: When -- when I hear, Mr.
24 Kroeker, the aging infrastructure description, Centra's
25 infrastructure is always aging, isn't it?

1 MR. DOUG KROEKER: Yes, as time goes on
2 it certainly does.

3 MR. BOB PETERS: And it will always be
4 considered aging infrastructure, there's no -- it's not
5 going to be refreshed or renewed so that it's -- it's
6 always going to be about the same vintage, depending on
7 the depreciation of the assets?

8 MR. DOUG KROEKER: Yes, I would suggest
9 that from the day that the new installation takes place,
10 that it ages from that point on.

11 MR. BOB PETERS: I understand from the --
12 from the filing, Mr. Kroeker, that you presently have
13 seven (7) projects that fall under the IMS banner, does
14 that sound approximately correct?

15

16 (BRIEF PAUSE)

17

18 MR. DOUG KROEKER: Do you have a
19 reference on that, Mr. Peters?

20 MR. BOB PETERS: It might be PUB/CENTRA-
21 58, but don't hold me to it.

22

23 (BRIEF PAUSE)

24

25 MR. DOUG KROEKER: Yes, in PUB/CENTRA-58

1 we do list seven (7) projects in there, two (2) of those
2 are related to the IMS and the transmission system and
3 the remaining five (5) are on the distribution system.

4 MR. BOB PETERS: And I need some help on
5 that, Mr. Kroeker, which two (2) are on the distribution
6 system?

7 MR. DOUG KROEKER: Sorry, there's two (2)
8 on the transmission system. Items number 4 and 5 are
9 related to the transmission system, the remainder is for
10 the distribution.

11 MR. BOB PETERS: And do I -- and -- and
12 the capital projects expended here under integrity
13 management are 1.3 million, about 1.1 million in the test
14 years, correct?

15 MR. DOUG KROEKER: Yes.

16 MR. BOB PETERS: And you're now saying
17 that in addition to using IMS on the transmission lines,
18 you're going to use IMS on the distribution system?

19 MR. DOUG KROEKER: There's currently, in
20 the new code that's coming out that we don't have yet, we
21 -- we are aware that they are proposing implementing or
22 requiring LDC's to implement IMS on the distribution
23 side, but we're not there yet.

24 MR. BOB PETERS: Does this information
25 you provide on PUB-CENTRA-58 suggest that you will be

1 there in the test years, next year and the year after?

2 MR. DOUG KROEKER: Even -- even in
3 absence of a formal documented integrity management
4 system for the distribution, part of our system, we still
5 do have a number of programs in place to address certain
6 areas of the distribution system that needs some
7 rehabilitation. And so some of those projects are
8 forecasted on this page for the future test years.

9 MR. BOB PETERS: Are they forecasted with
10 the use of the IMS software or is it independent of that?

11 MR. DOUG KROEKER: It is independent of
12 that.

13 MR. BOB PETERS: It's -- it's the old-
14 fashioned way?

15 MR. DOUG KROEKER: That's right.

16 MR. BOB PETERS: You -- you referenced
17 new standards coming out and let's not go too far there,
18 but the PUB approves standards to be utilized by Centra
19 and presently the CSA-Z662 is the -- is the standard?

20 MR. DOUG KROEKER: That's right.

21 MR. BOB PETERS: And there's a new
22 addition coming out in this year or next?

23 MR. DOUG KROEKER: That's correct, yes.

24 MR. BOB PETERS: And you're telling the
25 Board that as a result of that new addition, there will

1 be a requirement on Centra to establish an integrity
2 management program for its distribution system?

3 MR. DOUG KROEKER: We haven't seen the
4 new code yet. As we understand it, it will be an annex
5 of the code, but it is -- integrity management system for
6 the distribution system will be included as a annex of
7 that code.

8 MR. BOB PETERS: And it'll all be known
9 in Centra as IMS?

10 MR. DOUG KROEKER: Probably.

11 MR. BOB PETERS: All right. Can you
12 explain to the Board whether this integrity management
13 system will then be part of the capital project
14 justification process?

15 MR. DOUG KROEKER: We will still use the
16 capital project justification process to advance projects
17 that may be identified under the IMS for the distribution
18 system.

19 MR. BOB PETERS: But will the IMS
20 identify under your capital project justification items
21 as a major or domestic or how will it be used to
22 differentiate between which ones are needing the urgent
23 attention compared to those that can wait a little
24 longer?

25

1 (BRIEF PAUSE)

2

3 MR. DOUG KROEKER: The IMS will, through
4 the assessments that we do under that program, it will
5 help us to identify the -- the urgency and priorities in
6 those that we will then advance as projects. If that was
7 your question?

8 MR. BOB PETERS: Yeah, and if they're
9 identified then they become major projects in -- in terms
10 of requiring first priority?

11 MR. DOUG KROEKER: In our CPJ system a
12 major project identifies one that hits a hurdle of a
13 certain dollar value.

14 MR. BOB PETERS: You also cross-
15 reference, though, to the essential necessary and
16 justifiable capital project justification system that's
17 been used by the Board?

18 MR. DOUG KROEKER: Yes.

19 MR. BOB PETERS: Can you remind me what
20 the -- the dollar hurdle is for projects to be considered
21 major?

22 MR. DOUG KROEKER: It's \$2 million.

23 MR. BOB PETERS: I'd like to turn to an
24 aspect that I will see if Ms. Murphy will let me get to
25 on terms and conditions, specifically new labour rates.

1 Is that a matter this panel's comfortable
2 speaking to?

3 MS. MARLA MURPHY: Here I am. We'd
4 actually prefer that that be dealt within the cost
5 allocation panel. We have a filing to make of the
6 updated schedule but not in that panel. We are prepared
7 to speak to if you like.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Thank you. This last
12 area's probably one that has no right or wrong answer so
13 it's, again, open to all. It's on electronic filings.

14 There's been some suggestion that
15 electronic filings will make this process -- the
16 regulatory process more efficient and effective and I
17 know Centra has taken a position that they don't
18 necessarily agree with -- with that.

19 Can you explain, generally, your reasons
20 for that?

21 MS. KELLY DERKSEN: I think I'll -- I'll
22 handle this, Mr. Peters. Just to be clear when we're
23 talking about electronic filings, what we're talking --
24 talking about it releasing the electronic models with all
25 of the links and the underlying data and that's what the

1 essence of the issue is.

2 And I make that clarification because
3 we're already down the path of providing most of our --
4 our data electronically to the Board and interested
5 stakeholders. And so I -- I make that note of -- of
6 clarification.

7 We've put on the record on a number of
8 occasions through this proceeding our position with
9 respect to electronic filings. Ms. Murphy responded to
10 issues raised by Mr. Meronek at the pre-hearing
11 conference and through that process she put our
12 position on the record and, again, in CAC Number 1 and
13 Number 74 Information Requests through this GRA process.

14 So I don't really have a lot more to add
15 other than one (1) -- one (1) point, Mr. Peters, and --
16 and that -- that has to do with a concern that the
17 Company has as it relates to -- on two (2) circumstances
18 through the Competitive Landscape Proceeding, number 1,
19 and then through the G -- the GRA.

20 There was Information Requests posed of
21 Direct Energy and of Energy Savings through the
22 Competitive Landscape Proceeding and when the Company
23 received their responses my staff, in particular, Mr.
24 Peters, spent an entire day simply trying to -- to
25 determine which attachment belonged to which Information

1 Request.

2 And again, with the Consumers'
3 Association's material that was filed last Thursday, my
4 staff spent another several hours trying to determine
5 which attachment belonged to which Information Request.
6 And while it's a little of a different topic, I think the
7 point is well taken. Our -- our position has been that
8 we don't see that electronic filings as I -- I clarified
9 what they meant would provide efficiencies in -- in terms
10 of this proceed -- these types of proceedings and I think
11 a -- a case in point is -- is what we experienced through
12 these proceedings.

13 MR. BOB PETERS: Thank you, Ms. Derksen,
14 I take from your answer that you see it as -- there's two
15 (2) issues there, one (1) is, the overall regulatory
16 filings to the Board and other parties and the second is,
17 the specifics to which Centra should expose its
18 spreadsheets when doing -- when doing calculations and --
19 and providing information.

20 MS. KELLY DERKSEN: I agree there are two
21 (2) issues here.

22 MR. BOB PETERS: And -- and on the issue
23 of I call it exposing Centra's spreadsheets, there are --
24 -- there may be information on those spreadsheets that
25 Centra wants to retain as proprietary, including any

1 notes or comments or other references.

2 MS. KELLY DERKSEN: I would agree with
3 that and, in addition, Mr. Peters, some of the -- those
4 electronic mile -- models are not under the ownership of
5 -- of Manitoba Hydro and Centra Gas.

6 They've been prepared by external
7 consultants and to release that information, we would
8 need to seek approval by the owners of those models and
9 one (1), in particular, I'm most familiar with, which is
10 the -- the cost allocation model that I work -- the I
11 work extensively in and that model wa -- is the owner's -
12 - the owners of that model is R.J. Rudden and I'm sure
13 that I would have difficulty releasing that information
14 given that that's their business line.

15 MR. BOB PETERS: All right, so you
16 operate some of your spreadsheets under a license from
17 the -- from the owners.

18 MS. KELLY DERKSEN: Yes, sir.

19 MR. BOB PETERS: All right, just to bring
20 this to a close on -- Ms. Derksen, I recall reading, and
21 I think it was in response to your answer to CAC/MSOS's
22 question 74, that while your first position is, no, you
23 don't want to expose your spreadsheets, an alternative
24 position is that there might be a collaborative process -
25 and dare I use the words pilot project - possible to --

1 to see if it has merit next time around, but it would
2 have to be structured and -- and collaborated on before
3 it got that far.

4 MS. KELLY DERKSEN: Yes, that's what we
5 responded, yes.

6 MR. BOB PETERS: Okay, and in terms of
7 the -- the bigger issue in terms of filing with the Board
8 and where parties can post their electronic responses,
9 that's a separate issue and that -- that one (1) may
10 involve, as well, in addition to the parties, it may also
11 then at that point involve the Board itself in terms of
12 how the documents should be and where they should be
13 posted for -- for all parties to access.

14 MS. KELLY DERKSEN: That's a fair
15 statement. I -- I think my -- my staff and I have spent
16 some time talking about that and that's certainly an
17 issue that we could address if it were agreeable by all
18 parties at -- at a future opportunity.

19 MR. BOB PETERS: Mr. Kroeker, not because
20 I haven't asked you too many questions up until now, but
21 I often ask the panel what the market penetration rate is
22 of natural gas in new housing developments in Winnipeg.

23 Is that something with which you're
24 familiar?

25 MR. DOUG KROEKER: I don't have those

1 figures at hand, no.

2 MR. BOB PETERS: Is that something that
3 this panel will deal with or is it something that another
4 panel might be more conversant with?

5 MS. MARLA MURPHY: I think Mr. Kuczek is
6 probably the appropriate person to answer those kinds of
7 questions.

8 MR. BOB PETERS: All right, let me -- let
9 me push further from the engineering side, Mr. Kroeker.
10 One (1) of the major expansions which I'm only aware of
11 through the media is a project that I understand called
12 Waverley West; you're familiar with that?

13 MR. DOUG KROEKER: Yes.

14 MR. BOB PETERS: And there's an
15 indication that that was going to be using some new
16 technology, particularly geothermal -- I shouldn't miss -
17 - necessarily call it new, but different technology,
18 geothermal to heat and cool homes; are you familiar with
19 that?

20 MR. DOUG KROEKER: Yes, I'm familiar that
21 that's an option being clearly considered for Waverley
22 West.

23 MR. BOB PETERS: And if that option is
24 being clearly considered, how does that impact Centra's
25 engineering plans to provide service to that Waverley

1 West area?

2

3

(BRIEF PAUSE)

4

5 MR. DOUG KROEKER: Our current
6 understanding of the Waverley West development is that
7 there are a number of parties that own land in there and
8 a number of developers and that there is currently only
9 one (1) section of it that has been designated as
10 geothermal and the remainder of that subdivision could go
11 conventional for the utilities.

12 MR. BOB PETERS: When you talk about one
13 (1) section of a development being designated for
14 geothermal, approximately how many single family homes is
15 that?

16 MR. DOUG KROEKER: Again, this -- the
17 program falls under Mr. Kuczek's area. You probably
18 should refer these questions to the panel when he's
19 available.

20 MR. BOB PETERS: Can you tell the Board -
21 - and I will talk to Mr. Kuczek about those items, but
22 can you tell the Board whether there are any capital
23 costs for expansion in the two (2) test years that the
24 Board is considering that are related then to,
25 specifically, Waverley West?

1 MR. DOUG KROEKER: Not specifically the
2 Waverley West. We do have blanket expenditures in there
3 for new residential services, new commercial and
4 distribution names. Based on our forecast of new
5 housing, some of that money could get spent on Waverley
6 West, but it's not identified separately.

7 MR. BOB PETERS: And, Mr. Kroeker, that
8 answer, I take, is that you include capital dollars for
9 expansion, but you don't know specifically which -- which
10 projects and what part of the city they're going to end
11 up in.

12 MR. DOUG KROEKER: That's correct. We do
13 a forecast based on a number of services we expect to
14 install and the amount of distribution main we expect to
15 install in a given year, but we don't identify the
16 specific projects that that money is for in advance.

17 MR. BOB PETERS: Leaving the City of
18 Winnipeg aside, Mr. Kroeker, you're also responsible for
19 the underground construction services in other areas of
20 the province; would that be correct?

21 MR. DOUG KROEKER: That's correct.

22 MR. BOB PETERS: Can you indicate to the
23 Board if there are any major new expansions of Centra
24 system planned to occur over the next, say, five (5)
25 years outside of the City of Winnipeg?

1 MR. DOUG KROEKER: There isn't any firm
2 projects in place now, there isn't any communities that
3 I'm aware of that we're planning in the next five (5)
4 years to expand to, that are firm at this point.

5 MR. BOB PETERS: And what is the reason
6 for -- for there being no expansions to other
7 communities, Mr. Kroeker; do you know?

8 MR. DOUG KROEKER: I can give you my
9 opinion of it but, again, probably to speak to Mr. Kuczek
10 when he's here, it might be the better thing to do.

11 MR. BOB PETERS: Okay. And I -- I do and
12 I'm sure the Board does value your -- your opinions as
13 well, but we do want them to be the Corporation's answers
14 and not necessarily the individual perspectives.

15 But, would it be correct to say that the
16 economics of expansion haven't manifest themselves and
17 shown themselves to be viable to expand to other
18 communities, based on the feasibility tests that the
19 Corporation runs?

20 MR. DOUG KROEKER: No, that's -- that is
21 certainly the -- the underlying reason for that with the
22 increase in -- in the commodity prices for financial gas,
23 the differential margin isn't there with other sources of
24 energy and it's curtailed some expansion.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Derksen, Mr.
4 Rainkie, when we talk about expansions of projects, we
5 can agree that the costs to expand the projects today
6 cost a lot more than they would've, say, ten (10) years
7 ago.

8 Do you accept that as a premise?

9 MR. DARREN RAINKIE: I think that's an
10 acceptable premise, Mr. Peters.

11 MR. BOB PETERS: And, Mr. Rainkie, given
12 Centra's rates are cost driven, cost would include the
13 amortization of old plant and that would all be included
14 in existing rates, correct?

15 MR. DARREN RAINKIE: That's right, I
16 mean, I guess in terms of plant we call it depreciation,
17 but that's -- depreciation is included in rates, yes.

18 MR. BOB PETERS: Yes. And so when new
19 customers or new developments come onside, they have to
20 have Mr. Kroeker's new construction techniques employed,
21 which are more expensive today than they were ten (10)
22 years ago?

23 MR. DARREN RAINKIE: I'm not sure the
24 construction techniques are different, but certainly the
25 plant and the ground and the labour is more expensive I

1 think.

2 MR. BOB PETERS: All right. The plant
3 itself and the labour's more expensive, whether the
4 technique's are different, let's not go there.

5 MR. DARREN RAINKIE: Not with me.

6 MR. BOB PETERS: Okay. Does that imply -
7 - does that imply, Mr. Rainkie, that new customers are
8 getting the benefit of existing customers to help, if you
9 will, spread out or subsidize the economic impact of new
10 construction?

11 MR. DARREN RAINKIE: Sorry, Mr. Peters,
12 are we talking about if we add new customers and we run a
13 feasibility test, if the -- if the present value of the
14 costs of that expansion/extension are less than the
15 expected reve -- present value of the expected revenue,
16 we'd collect a contribution from that customer which is -
17 - or set of customers, if it's a project as opposed to an
18 individual, that would be designed to hold the existing
19 customer, at least, even if you like longer than the
20 timeframe of the plant. I'm not sure if I'm on the same
21 page as you.

22 MR. BOB PETERS: Well, I'm -- I'm going to
23 suggest a premise, Mr. Rainkie, that new customers today
24 have their costs effectively diluted or subsidized by
25 long-standing members of Centra's distribution system,

1 who got on when the costs were cheaper.

2 Is that correct?

3 MR. DARREN RAINKIE: I'm having a hard
4 time getting there with you, Mr. Peters, because we --
5 because of the test that we use to add new customers to
6 the distribution system.

7 And I don't know, I think over the life of
8 assets, I think there's pluses and minuses but don't they
9 net over the lifetime -- I mean, we've gone over this at
10 several past expansion hearings, who's subsidizing who
11 but I thought we came to the conclusion that, you know,
12 as long as we have appropriate feasibility tests and
13 extension policies that -- that everybody's paying the
14 freight. I thought that's what we came to.

15 MR. BOB PETERS: And I take from your
16 answer that that is still Centra's position is that the
17 economic feasibility test that's been approved by this
18 board using a 30-year net present value approach is
19 designed to ensure that the existing customers do not
20 subsidize new customers certainly past the fifth year of
21 them being on stream.

22 MR. DARREN RAINKIE: That's correct. For
23 the incremental plant that's put in place to serve those
24 customers --

25 MR. BOB PETERS: Now, in that first five

1 years, Mr. Rainkie, were there maybe some cross-
2 subsidization from existing customers to new customers,
3 is that cross-subsidization eventually netted out to zero
4 over the thirty (30) year life of the -- of the
5 feasibility test?

6 MR. DARREN RAINKIE: That's correct,
7 because we are looking for a zero-net present value over
8 thirty (30) years that swings the other way and back
9 twenty-five (25), if you like, and on a net present value
10 basis nets out.

11 MR. BOB PETERS: And just to conclude the
12 loop on that feasibility test, Mr. Rainkie, if the net
13 present value doesn't net out positive over the thirty
14 (30) years, there's a contribution required upfront?

15 MR. DARREN RAINKIE: That's correct.
16 That's the --

17 MR. BOB PETERS: And that contribution is
18 either by the customer or by some third party?

19 MR. DARREN RAINKIE: That's correct.

20 MR. BOB PETERS: And we talked about these
21 feasibility tests. Mr. Kroeker, are you aware of whether
22 Centra runs a feasibility test when it does a new
23 expansion in the City of Winnipeg franchise territory?

24 MR. DOUG KROEKER: Yes, a feasibility test
25 is run.

1 MR. BOB PETERS: So when we -- when I
2 talked to you earlier about Waverley West and you had
3 made mention that there may be one section that's
4 thinking of geothermal, can you tell the Board whether
5 that project is sufficiently advanced such that a
6 feasibility test has been conducted?

7 MS. MARLA MURPHY: You're asking with
8 respect to the gas expansion?

9 MR. BOB PETERS: Well, let's start with
10 the gas expansion, yes ,yes.

11 MR. DOUG KROEKER: The feasibility tests
12 have not been run yet.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: When you expand into new
16 communities, Mr. Kroeker, and you run your feasibility
17 test and -- am I correct that, generally speaking, no
18 contributions are required, because there's sufficient
19 volumes that flow?

20 MR. DOUG KROEKER: Inside -- generally
21 speaking, inside the city of Winnipeg for new
22 subdivisions, there isn't a contribution requirement,
23 there's sufficient revenue to cover the capital and the
24 operating expenses. But when we expand to new
25 communities, like we did recently to Shoal Lake, there

1 certainly is contributions required.

2 MR. BOB PETERS: Then let's keep it with
3 new subdivisions within Winnipeg.

4 If there was a contribution required, is
5 that extracted from the developer, or do you go to the
6 individual homeowners?

7 MR. DOUG KROEKER: It generally comes from
8 the developer.

9 MR. BOB PETERS: And you would expect the
10 developer would pass that along to the companies who
11 purchased the lots, and build the homes and then they'll
12 probably get charge through to the homeowner eventually?

13 MR. DOUG KROEKER: That would be my
14 expectation, yes.

15 MR. BOB PETERS: And in the Shoal Lake
16 example you provided, you have me at a disadvantage
17 because I don't recall specifically the contribution
18 required.

19 But that contribution, was that paid by a
20 third party or by the customers?

21

22 (BRIEF PAUSE)

23

24 MR. DOUG KROEKER: I've been advised for
25 Shoal Lake that there was no connection fees for the

1 individual customers, but that the Provincial/Federal
2 Government, municipalities, community kicked in money for
3 that project.

4 MR. BOB PETERS: All right, thank you
5 with that.

6 Mr. Chairman, I wonder if this would be an
7 appropriate time to take the morning recess for me to go
8 over my notes and with the expectation that if I have any
9 further questions, they'll be short after the break and
10 then I would be pleased to turn the microphone over to
11 Mr. Saxberg and allow him to proceed.

12 THE CHAIRPERSON: Very good, Mr. Peters.
13 We'll be back in fifteen (15) minutes, thank you.

14
15 --- Upon recessing at 10:24 a.m.

16 --- Upon resuming at 10:50 a.m.

17

18 THE CHAIRPERSON: Okay, folks, let's
19 return to the work. Mr. Peters, you have a few more
20 questions and then over to Mr. Saxberg and Mr. Vince
21 (phonetic).

22 MR. BOB PETERS: Thank you, Mr. Chairman.
23 I used the -- the recess to go through my notes and I've
24 actually, with the assistance of Ms. Murphy, concluded
25 that we have the answer that we were looking for and it

1 has been revised and we're satisfied with the information
2 is self explanatory.

3 So with that, I'm pleased to conclude my
4 cross of this panel and I would like to thank Mr.
5 Kroeker, Ms. Derksen, Mr. Rainkie, Mr. Derksen and also
6 Mr. Warden for their cooperation and their answers and I
7 will pass it off to Mr. Saxberg who -- whose colleague,
8 Mr. Vince, maybe has left him in fear that he might have
9 to be on the microphone this morning.

10 THE CHAIRPERSON: Mr. Saxberg...?
11

12 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

13 MR. KRIS SAXBERG: Thank you, Mr.
14 Chairman, Board members, ladies and gentlemen. A book of
15 documents has been circulated and I don't intend to have
16 it marked as an exhibit, it's simply to facilitate the
17 process, so have that handy.

18 But I'm going to been -- begin with a
19 question that at first blush may sound like a legal
20 question, but in fact it's -- it's a regulatory question
21 that's been asked in these proceedings on a regular basis
22 and I simply want to get the obvious answer on the record
23 for my purposes.

24 And that is, does Centra accept that it
25 bears the burden of proving that its forecasted revenue

1 requirement on a test year basis will result in rates
2 that are just and reasonable?

3 MS. MARLA MURPHY: I think there's a -- a
4 provision in the PUB Act, I'm not sure what you've cited
5 exactly, but certainly the -- the Corporation accepts the
6 obligations that are put forward in the Public Utilities
7 Board Act as they're put forward in that Act.

8 MR. KRIS SAXBERG: Thank you. And just
9 in terms of discharging that regulatory burden, and this
10 seems obvious, but would you agree that the company has
11 to demonstrate this through real evidence as opposed to,
12 say, anecdotally?

13 MS. MARLA MURPHY: I think the company
14 will put its best case forward and the Board will decide.

15

16 CONTINUED BY MR. KRIS SAXBERG:

17 MR. KRIS SAXBERG: I want to talk about
18 the presentation of the rate increase that's sought.
19 Now, regarding the first test year, '07/'08, the request
20 is for 10.7 million in annual additional revenue,
21 correct?

22 MS. KELLY DERKSEN: Based on the pre-
23 hearing update, that's correct.

24 MR. KRIS SAXBERG: And the company wants
25 to cast that as a 2 percent overall revenue requirement

1 increase?

2 MS. KELLY DERKSEN: I think the company
3 has asked for a 2 percent overall-annualized increase
4 which equates to the -- to the \$10.7 million increase and
5 -- but over and above that there are changes occurring on
6 account of gas costs, which have not been incorporated in
7 that amount and which will, ultimately, result in rates
8 to customers that differ from the 2 percent.

9 MR. KRIS SAXBERG: Ultimately, you're
10 going to have to communicate the results of the Board's
11 determination to your customers, correct?

12 MS. KELLY DERKSEN: Ultimately, it's the
13 intention of the company to communicate through a bill
14 over bill annualized impact as a result of all changes
15 that flow from this proceeding.

16 MR. KRIS SAXBERG: So when you
17 communicate the results of this application to your
18 customers, what will you be saying in terms of the
19 percentage rate increase?

20 MS. KELLY DERKSEN: If the Board were to
21 accept our case, as filed, or our materials as filed and
22 approved, what we've applied for we've outlined the
23 individual customer class by customer class bill impacts
24 as part of, I believe, tab 10 materials.

25 MR. KRIS SAXBERG: Okay. And that's all

1 I wanted to -- to get straight on the record. If I go to
2 tab 10 and look at the annualized bill impacts, that's
3 the information that's going to be conveyed if, as you
4 say, the application is approved in total?

5 MS. KELLY DERKSEN: It -- it's not if, it
6 has already in fact occurred that as part of the public
7 notice that went in the paper just about a week ago, we
8 have provided that detail in -- in that notice should the
9 Board approve Centra's application, as filed, that's what
10 the customer can anticipate. Of -- of course, excluding
11 what might occur with respect to primary gas rates at
12 that time.

13 MR. KRIS SAXBERG: Sorry, did you say
14 excluding what's going to occur with primary gas rates or
15 will it be inclusive to that?

16 MS. KELLY DERKSEN: I'm sorry, I'm -- I
17 wasn't overly clear about that. We intend to include
18 primary gas impacts, but obviously we don't know what
19 those impacts will be, so, in the public notice that went
20 in the paper about a week and a half ago, those impacts
21 did not include what we -- what primary gas impacts might
22 be for August 1.

23 MR. KRIS SAXBERG: So is it fair to say
24 then that we know one (1) thing, that rates are going to
25 change on August 1st of this year?

1 MS. KELLY DERKSEN: We anticipate or
2 we're -- our -- our proposal is that they will change on
3 August 1 either through this process and possibly in
4 addition with respect to primary gas, quarterly rate
5 setting mechanism as well.

6 MR. KRIS SAXBERG: And what's going to be
7 communicated to the customers of Manitoba Hydro will be
8 that cumulative impact on an annualized basis of all of
9 those different changes in rates?

10 MS. KELLY DERKSEN: That is our plan at
11 this time, yes, Mr. Saxberg.

12 MR. KRIS SAXBERG: And would you agree
13 with me just, you know, on a simplified basis that the
14 two (2) major elements of charges from Centra are the
15 commodity charge, on the one hand, and then the -- the
16 charge associated with running the company which we are
17 calling here the non-gas revenue requirement?

18 MS. KELLY DERKSEN: Yes, and I'm not sure
19 what more is in rates, but yes, that's correct.

20 MR. KRIS SAXBERG: Now, so I take it then
21 that the increase in the company related cost, the non-
22 gas revenue requirement cost, as an individual rate
23 increase it will be not be discreetly communicated to the
24 customers.

25 MS. KELLY DERKSEN: No, Mr. Saxberg, that

1 would be like me telling a customer that 25 percent of
2 their bill is increasing 10 percent or 5 percent and I'm
3 not sure what meaningful information that provides to
4 anyone.

5 MR. KRIS SAXBERG: Now, out of the 10.7
6 million in increased revenue requirement for non-gas
7 matters, you identified 4.2 million as relating solely to
8 lower consumption than forecast, correct?

9 MS. KELLY DERKSEN: The \$4.2 million they
10 specified is on account of lower volumes. As you know --
11 that a rate is simply a revenue requirement divided by
12 sum units and it's those sum units that have declined,
13 and because of that decline we're no longer collecting
14 the revenue requirement that we were approved to collect
15 through Board Order 640 of 06.

16 MR. KRIS SAXBERG: Thank you. And to put
17 it simply then, in the last rate case the Board approved
18 a non-gas revenue requirement of \$131.2 million.

19 MS. KELLY DERKSEN: I believe that's
20 correct, yes, Mr. Saxberg.

21 MR. KRIS SAXBERG: But the rates that
22 were designed and approved and put in place in '06/'07
23 only collected on an annualized basis, 127 million?

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

25 MR. KRIS SAXBERG: Now was that -- that

1 was that the rates in that specific year, ie. '06/'07,
2 with that specific weather and amount of consumption
3 produced 127 million, is that correct?

4

5

(BRIEF PAUSE)

6

7 MS. KELLY DERKSEN: I think I need to
8 make a little bit of a clarification, Mr. Saxberg. The
9 127 million that I put on the record was generated by
10 taking the rates that are currently in effect and
11 multiplying by forecasted 2007/'08 test year consumption.

12 MR. KRIS SAXBERG: Okay. So -- and that
13 test year, consumption would be on a weather normalized
14 basis, correct?

15 MS. KELLY DERKSEN: The 2007/'08 volume
16 forecast is weather normalized, yes.

17 MR. KRIS SAXBERG: And that's because the
18 -- and the weather normalization formula gets updated and
19 it would have -- it would have been updated to include
20 warmer temperature, essentially.

21 MS. KELLY DERKSEN: It's based on a ten
22 (10) year rolling average, so to the extent that, for
23 example, the 1996 year, which was one (1) of the coldest
24 years on record, fell off of that ten (10) year rolling
25 average and we included then other years, in that we are

1 seeing a decline in annual -- or a forecasted decline in
2 annual consumption for customers.

3 MR. KRIS SAXBERG: Do you know offhand
4 what the actual revenues were then for '06/'07 based on
5 those rates that were in place?

6

7 (BRIEF PAUSE)

8

9 MR. WILLY DERKSEN: Are you looking for
10 the actual revenue, Mr. Saxberg?

11 MR. KRIS SAXBERG: Yes.

12 MR. WILLY DERKSEN: I don't we're allowed
13 to release that information at this point in time.

14 MR. KRIS SAXBERG: Okay, well I'm going
15 to come to that a little later.

16 Isn't it the case that the Company does an
17 analysis every month where you look at what the most
18 recent forecast and most recent actuals of revenue are
19 and you compare that to the most recent forecast and
20 actuals of what the costs are and you determine where you
21 are.

22 MS. KELLY DERKSEN: We do a -- we do
23 variance analysis month by month. We do, yes.

24 MR. KRIS SAXBERG: And, for example, in
25 terms of the -- what was approved at the last GRA, we

1 mentioned the \$131 million in revenue requirement,
2 correct?

3 MS. KELLY DERKSEN: In non-gas cost
4 revenue requirement, yes.

5 MR. KRIS SAXBERG: But the actual costs
6 of the Utility in that year were different than 131
7 million, correct?

8 MS. KELLY DERKSEN: Presumably so, yes.

9 MR. KRIS SAXBERG: And if you flip to Tab
10 1 of my book of documents, there are two (2) information
11 request there. And it's the -- the second page, PUB-140,
12 where the Board asked for a clarification between the
13 \$131 million figure and \$127.3 million figure for cost of
14 service, and the answer given was that the 127.3 was the
15 more recent forecast of the costs for that year.

16 Is that fair?

17

18 (BRIEF PAUSE)

19

20 MS. KELLY DERKSEN: I think that's what
21 this information request suggests, Mr. Saxberg, but the -
22 - the calculations that I've done happened to
23 coincidentally be 127 million which is very close to the
24 amount specified in PUB-140 and it's been kept the way
25 that I've calculated it.

1 And you can see in some of the cost
2 allocation materials that have been filed is the \$127
3 million that has been calculated, from my perspective,
4 was based on current rates at forecasted volumes. So
5 this is a calculation that happens to be similar but done
6 on a -- on a different basis.

7 MR. KRIS SAXBERG: Then maybe I wasn't
8 being clear. I -- what I meant was is that not the
9 calculation of what the most recent forecast of costs in
10 the '06/'07 test year were; that would have been compared
11 with the most recent information with respect to actual
12 revenues in that year?

13 MR. DARREN RAINKIE: Sorry, Mr. Saxberg.
14 We're -- not sure we're following. The -- the one
15 twenty-seven (127) is the margin that we expect to earn
16 2006/'07 which was contained in the forecast and it's
17 through GM '06 -- what we call the IFF; that's the one
18 twenty-seven (127). I think the non-gas costs would be
19 one thirty-one (131), which is what's forecast below the
20 finance expense.

21 It's page 37 of the IFF. It was filed in
22 Tab 3 of the application. I don't know if you have it in
23 your book of documents anywhere.

24 But, if I understand your question, our
25 current forecast is that we'll have a gross margin of 127

1 million, which is the same as what they -- saying that's
2 what non-gas cost rates will generate and that the
3 forecast of those non-gas costs is 131 million if you
4 look at the total of the expense line under 2006/'07; the
5 PUB book of documents numbered thirteen (13). That's the
6 difference between one twenty-seven (127) and one thirty-
7 one (131).

8 MR. KRIS SAXBERG: Well, no. I mean
9 isn't the difference between one twenty-seven (127) and
10 one thirty-one (131), one thirty-one (131) was the number
11 that you got approved by the Board based on a whole set
12 of forecasts back in 2005, the one twenty-seven (127)
13 represents what were really happening with costs in
14 '06/'07.

15 And -- and just maybe to assist, we could
16 start by one (1) example, for instance, being that
17 municipal taxes that are imbedded in rates are actually
18 collecting \$1.9 million more than they needed to in
19 '06/'07, and that's at Tab 2.

20 MR. DARREN RAINKIE: I'm not sure about
21 the individual components, Mr. Saxberg, but if I've got
22 our forecast right for 2006/'07 we expect to have non-gas
23 expenses of 131 million. I think that's probably just a
24 coincidence. It's the same amount as the non-gas cost
25 that was approved in 2000 -- in 2006/'07 test year.

1 But it's clearly what happens on a actual
2 basis is based on the margin that we derive between gas
3 sales and cost of gas less our non-gas costs and that's
4 just --

5 MR. KRIS SAXBERG: Right.

6 MR. DARREN RAINKIE: -- how basically
7 accounting -- the accounting statements work.

8 MR. KRIS SAXBERG: The revenues and the
9 costs. If -- if the revenues are more than the costs,
10 you've got a plus, and we heard yesterday that you do
11 have a plus for that year '06/'07.

12 MR. WILLY DERKSEN: Yeah. So -- so the
13 other -- the other element in here I missed was other
14 income which is netted against the non-gas costs. So
15 what we're seeing pretty much is the -- the margin that
16 we derived in 2006/'07 pretty much covering off the non-
17 gas costs with a little bit left over at the end of the
18 day and Mr. War -- Warden mentioned.

19 MR. KRIS SAXBERG: Thank you. Need to
20 flip to Tab 2; that if we did look at it very briefly on
21 an individual item basis you could confirm that the
22 municipal tax forecast -- sorry, the total capital and
23 other taxes forecast back in 2005 turned out to be too
24 rich to the tune of 1.9 million.

25 MR. DARREN RAINKIE: Yes, that's correct.

1 MR. KRIS SAXBERG: And -- and what that
2 means is that rates were designed to collect the
3 additional -- the 1.9 million that was expected to be a
4 cost, that turned out not to be a cost because thankfully
5 the provincial assessors didn't increase property taxes
6 by 10 percent.

7 MR. WILLY DERKSEN: Yes, Mr. Saxberg, but
8 I think what the other panel members are trying to
9 represent to you is that on an overall basis there were
10 other factors as well such as reduced consumption by
11 customers and that have offset those -- that -- that
12 change.

13 MR. KRIS SAXBERG: No, I -- I know that.
14 What I'm -- I'm just conveying is that even though the
15 forecast was 131 million for non-gas revenue requirement,
16 in that year the actual was lower?

17 MR. WILLY DERKSEN: I think the forecast
18 for non-gas revenue requirement that you're referring is
19 our forecasted margin which turned out to be lower as
20 well.

21 MR. KRIS SAXBERG: And -- and that may
22 well -- very -- that may very well be the case.

23

24

(BRIEF PAUSE)

25

1 MR. KRIS SAXBERG: If you turn to the
2 last page of Tab 2 it may facilitate things because you
3 can see fairly quickly where the differences are between
4 the approved and the latest forecast and that's in the --
5 the last column on CAC-20.

6 So -- do you see that?

7 MR. WILLY DERKSEN: Yes, I've got that.

8 MR. KRIS SAXBERG: So if you go down you
9 see other income. Other income was less than -- than
10 forecast which would tend to increase costs, correct?

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

12 MR. KRIS SAXBERG: Operating and
13 administrative, we're going to get to that a bit later
14 but I mean the number that's on here shows an identical
15 match which -- which wasn't the case though, you'll
16 agree?

17 MR. WILLY DERKSEN: It would be very
18 unlikely that it would be the case.

19 MR. KRIS SAXBERG: Right. and in fact --
20 and we'll go through the documents but and -- and they'll
21 show us that the -- the actual turned out to the lower
22 than \$55.2 million. I -- I know you're at this point not
23 wanting to release that information but directionally you
24 could confirm that?

25 MR. WILLY DERKSEN: Yes.

1 MR. KRIS SAXBERG: Depreciation and
2 amortization, there's another million dollars there that
3 would have reduced costs?

4 MR. WILLY DERKSEN: Yes, that's correct;
5 nine hundred thousand (900,000).

6 MR. KRIS SAXBERG: And capital and --
7 capital and other, that's what we already spoke of, the
8 1.9 million reduction costs, correct?

9 MR. WILLY DERKSEN: That's correct.

10 MR. KRIS SAXBERG: Now, all -- those
11 positives are offset by the increase in finance expense?

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

13 MR. KRIS SAXBERG: And ultimately the
14 difference is -- is netted out in the net income line and
15 as we heard yesterday that's now positive?

16 MR. WILLY DERKSEN: Yes. and that
17 difference is \$4 million and that's due to volumetric
18 reductions from our customers and it basically is not a -
19 - a weather-related change. This -- these will both be
20 on normal weather. It would be another forecasting
21 difference that flows the other way.

22 MR. KRIS SAXBERG: Volumes were lower, so
23 revenues were lower, but thankfully the cost was lower.

24 MR. WILLY DERKSEN: The costs were not
25 lower. The costs were approximately zero I think is what

1 you've shown here. The finance expense was up and that
2 was offset by some cost reductions in the other areas.

3 MR. KRIS SAXBERG: But -- we'll get to it
4 later -- our dispute is going to be what the actual O&A
5 was in that year. That's missing from this, correct?

6 MR. WILLY DERKSEN: The actual O&A is not
7 part of this proceeding, that's correct.

8 MR. KRIS SAXBERG: Now, the current rates
9 based on the '07/08 test year forecasted volumes, will
10 generate \$127 million in revenue, that's your evidence?

11 MS. KELLY DERKSEN: Yes.

12 MR. KRIS SAXBERG: May 1st, 2008, which is
13 eleven (11) short months from now, you want new rates to
14 collect \$142.6 million in revenue requirement, correct?

15 MS. KELLY DERKSEN: Approximately \$143
16 million is what we are proposing in this proceeding to
17 collect, beginning May 1st of 2008.

18 MR. KRIS SAXBERG: And my math tells me
19 that that is an increase of 12 percent; does that sound
20 right?

21 MS. KELLY DERKSEN: I'm not sure what 12
22 percent that you've calculated on. If I accept your
23 math, that 12 percent could be on account of both cost
24 changes as well as volume reductions.

25 MR. KRIS SAXBERG: Well, maybe you can --

1 if my math is wrong and all I'm doing is determining the
2 percentage increase between the 127 million and the 142.6
3 million, will you --

4 MS. KELLY DERKSEN: Yes, and my previous
5 point then stands as well because if I am forecasting to
6 recover 127 million and I ought to be recovering 131
7 million, then that 12 percent, indeed, reflects both cost
8 changes as well as increase and rates on account of
9 reduced volumes.

10 MR. KRIS SAXBERG: Okay. Well, you're
11 just explaining that some of that 12 percent isn't
12 related to the company's expenses going out, but some of
13 it's related to lower consumption having -- and that's --
14 and that's your qualification?

15 MS. KELLY DERKSEN: That is my
16 qualification, yes.

17 MR. KRIS SAXBERG: If we were to look at --
18 -- go back to the '03/'04 non-gas revenue requirement, I
19 have that at 120.3 million. And that's at Tab 21 of the
20 materials. It's from the compliance order flowing from
21 that GRA.

22

23 (BRIEF PAUSE)

24

25 MS. KELLY DERKSEN: Yes, my numbers show

1 approximately 120 million.

2 MR. KRIS SAXBERG: And the reason why I
3 want to -- I wanted to understand what the revenue
4 requirement was back in '03/'04 is because that was the
5 last revenue requirement before a series of rate
6 increases that Centra has filed, which, if this
7 application is approved, will amount to four (4) rate
8 increases in four (4) years. Correct? For non-gas
9 revenue requirement.

10 MS. KELLY DERKSEN: That may be fair. And
11 prior to that time we hadn't sought an increase since --
12 since 1999. So, on a net basis, we're doing pretty good.

13 MR. KRIS SAXBERG: Yeah, and I'll be --
14 I'll be going through that later on.

15 But, just in terms of -- what my clients
16 want to know is, they now are directed with all of the
17 filings from these proceedings, they automatically go to
18 their e-mails as you indicated with this electronic
19 filing system now, and their e-mails are inundated with
20 materials and they -- and -- and they're very involved in
21 these proceedings and they know that last -- that four
22 (4) years in a row we've got non-gas -- in other words,
23 Company, revenue requirement increases and you've
24 confirmed that.

25 If this application's approved, sorry.

1 MS. KELLY DERKSEN: There at -- we have
2 received an increase as part of the '03/'04 GRA, the
3 '05/'06 and the '06/'07, so this will be our fourth.

4 MR. KRIS SAXBERG: Right, and then it'll
5 go into '08/'09, so that'll be five (5) -- five (5) years
6 in total.

7 MS. KELLY DERKSEN: Fair.

8 MR. KRIS SAXBERG: And wha -- what I'm
9 trying to get a handle on is at least between the '03/'04
10 revenue requirement of a hundred and twenty (120) and
11 what will be included in rates May 1st, 2008, is, what's
12 the impact, what's the percentage increase, that I could
13 explain, has happened over those -- over that period?

14 And is it fair then for me to take the
15 hundred and twenty (120) and compare it to the 143
16 million and do simple percentage?

17 MS. KELLY DERKSEN: Not at all, Mr.
18 Saxberg. Our position is that telling a customer that
19 their non-gas cost increases are 12 percent or 18 percent
20 or 2 percent, you pick the number, is completely
21 meaningless to them. What they want to know at the end
22 of the day is how much am I paying today for my total
23 natural gas bill and how much will I pay tomorrow.

24 That, in our opinion, is the most relevant
25 piece of information. You tell a customer that their

1 bill is going to increase -- their non-gas cost bill is
2 going to increase 12 percent, I can -- I can assure you
3 because I've had this conversation with my mother and my
4 grandmother, they assume that their bill is going to go
5 up 12 percent and that's an unfair statement.

6 MR. KRIS SAXBERG: I -- I may want to
7 subpoena them as witnesses for the gas panel because
8 whenever that panel testifies, and I say to them, the
9 only thing the customers care about is the bottom line,
10 they say, no, you can't -- you got to be fair here.
11 Primary gas costs are one (1) thing and that's a
12 commodity cost and it's a passthrough and the other costs
13 are another thing.

14 MS. KELLY DERKSEN: I'm not sure that
15 they would have made that statement. I -- I believe that
16 what we've stated previously on the record is the end
17 bill to the customer, which includes gas costs and non-
18 gas costs, is what's important to the customer.

19 MR. KRIS SAXBERG: Because when we talk
20 about hedging and we talk about only telling customers
21 that impact on primary gas costs, so with respect to
22 that, we are -- the -- the Company is able to see a
23 distinction, would you agree with that?

24 MS. KELLY DERKSEN: I don't ever recall
25 wanting to tell the customer what their hedging impact is

1 as a re -- as a result of the total primary gas rates,
2 no, I -- I don't agree with that, Mr. Saxberg.

3 MR. KRIS SAXBERG: Okay, well, I think
4 the record's clear on that and it's unfair to you,
5 because you're -- I know you don't participate on that
6 panel.

7 But would you not agree though, that if
8 the -- if customers wanted to know how much the Company's
9 costs have been increasing overall with these rate
10 increases, that the best answer, though, would be that
11 comparison of the hundred and twenty (120) revenue
12 requirement versus a hundred and forty-two (142)?

13 MS. KELLY DERKSEN: I don't agree, Mr.
14 Saxberg. I mean, you have to put it into context. If
15 you tell them, well, the Company's costs are changing 12
16 percent, what does that really mean? The -- if -- if
17 that's 25 percent of the bill, that's a much different
18 perspective than saying, your costs are in -- the
19 Company's costs are increasing 12 percent. I -- I just --
20 -- I -- I'm sorry, I just -- I can't agree.

21 MR. KRIS SAXBERG: Okay, I'll move on. I
22 think we've agreed to disagree.

23 MR. WILLY DERKSEN: Mr. Saxberg, I just
24 want to add something to that. In the '03/'04 approved,
25 which you're talking about, the \$120 million, as the

1 Chairman noted this morning, there was no corporate
2 allocation to Centra in that number at all and subsequent
3 to that, of the \$12 million corporate allocation has been
4 approved as being appropriate that Centra customers pay
5 their fair share of the acquisition and integration costs
6 because they're receiving benefits that exceed that
7 value.

8 MR. KRIS SAXBERG: Well, let's just talk
9 about that for a moment. When the acquisition occurred,
10 it was July 1st, 1999, correct?

11 MR. WILLY DERKSEN: I think it was the
12 31st.

13 MR. KRIS SAXBERG: Okay, July 31st, 1999.
14 And there were already rates that had been set based on
15 the 1998 GRA, correct?

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

17 MR. KRIS SAXBERG: And you were a part of
18 Centra Gas under West Coast ownership, correct?

19 MR. WILLY DERKSEN: Me, personally?

20 MR. KRIS SAXBERG: Yeah. I mean, you're
21 familiar with what I'm talking about?

22 MR. WILLY DERKSEN: Yes, I am.

23 MR. KRIS SAXBERG: And the rates that were
24 set had in them an amount to collect for income taxes,
25 correct?

1 MR. WILLY DERKSEN: Yes, they did.

2 MR. KRIS SAXBERG: Around \$11 to \$12
3 million?

4 MR. WILLY DERKSEN: That sounds about
5 right.

6 MR. KRIS SAXBERG: But July -- sorry
7 August 1st, 1999, income taxes of that amount, were not
8 paid?

9 MR. WILLY DERKSEN: Yes, but in lieu of
10 paying that amount, a \$58 million, one-time payment had
11 to be made to -- to the Federal and Provincial
12 governments in order to remove the requirement to pay
13 taxes in the future.

14 MR. KRIS SAXBERG: Yeah. but it didn't
15 completely offset the gain that -- that occurred as a
16 result of not having to pay Federal income taxes for you.
17 I mean, right? We know that. It's \$4 million or \$5
18 million.

19 MR. WILLY DERKSEN: Yes, the amount that
20 we're amortizing into expense each year is lower than
21 that \$10 or \$12 million, that's right.

22 MR. KRIS SAXBERG: So, to that extent, the
23 costs that were approved in 1998 were lower than -- by
24 that amount, of the difference?

25 MR. WILLY DERKSEN: Well, the costs

1 approved in 1998 -- in 1998 we still paid taxes, so for
2 that particular year everything matched up appropriately.

3 MR. KRIS SAXBERG: That's -- that's my
4 fault for loose language. I meant August 1st, 1999.

5 MR. WILLY DERKSEN: In August 1st, 1999,
6 the rates that were in place at point in time were
7 designed to collect income taxes. However, I believe at
8 that point in time we were also charging income tax at a
9 similar level. We were amortizing at a different rate at
10 that point in time. so I think that at that particular
11 point in time we had a match of the income tax expenses
12 flowing to our income statement as relative to what was
13 included in rates. subsequently, that was amended.

14 MR. KRIS SAXBERG: And also in rates was a
15 return of between \$14 and \$16 million, correct?

16 MR. WILLY DERKSEN: Subject to check, I
17 believe that's the number we've been talking about.

18 MR. KRIS SAXBERG: So, and that \$14 to \$16
19 million is the proxy that this Board has used for the
20 corporate allocation. So in that sense, was the
21 corporate allocation not included as part of the rates?

22 MR. WILLY DERKSEN: I don't accept that
23 they've used that as a proxy for the corporate
24 allocation. I -- I haven't seen that in the Board order.

25 MR. KRIS SAXBERG: And what's more is did

1 Manitoba Hydro not push down the \$19 million in costs
2 from the acquisition onto the books of Centra Gas in
3 those years, 1999 through till the decision in 2002, so
4 that \$19 million in costs was being paid?

5 MR. WILLY DERKSEN: That's been
6 subsequently restated.

7 MR. KRIS SAXBERG: It was restated but
8 wasn't it restated just back to 2002?

9 MR. WILLY DERKSEN: What happened was it
10 wasn't the \$19 million that was pushed down into Centra,
11 it was the fair market value adjustments and the excess
12 of purchase price over -- over net book value of the --
13 of the company that was pushed down into Centra. And the
14 logic behind that, which still stands today, is that
15 there were sufficient synergy savings in Centra to --
16 that would be achieved to compensate for those costs.

17 And in the subsequent restatement, those
18 were removed back and placed back on the books of
19 Manitoba Hydro, and a corporate allocation was
20 implemented, I believe it was effective '03/'04.

21 MR. KRIS SAXBERG: Mr. Derksen, there's
22 \$19 million of costs associated with the transaction that
23 has to be recovered somewhere, correct?

24 MR. WILLY DERKSEN: That's correct.

25 MR. KRIS SAXBERG: But you're not

1 suggesting that Centra Gas wasn't contributing its fair
2 share of the payment of that \$19 million between 1999 and
3 2003/'04?

4 MR. DARREN RAINKIE: Mr. Saxberg, as I
5 explained yesterday, the return on equity that imbedded
6 in Centra's rates at that time was compensating Manitoba
7 Hydro for the risk of the net book value that it had --
8 of the assets that it had invested in Centra. There was
9 no charge up and above that for the acquisition costs.
10 That was the problem. All the benefits were going, you
11 know, into Centra, and there was none of the costs that
12 were going to Centra.

13 The corporate allocation was there to
14 recognize that deficiency, if you like, and to rectify
15 the situation. But I don't accept that the return that
16 was imbedded in rates before we looked at 2003/'04 test
17 year was there to pay the acquisition costs. It was
18 there to compensate for the net book value of the assets
19 on Centra's balance sheet.

20 MR. KRIS SAXBERG: We'll -- we'll just --
21 just make it simple, if -- well, forget 1999 cause it was
22 a stub year, but in 2000, did Centra Gas contribute
23 anything towards the payment of the \$19 million in costs
24 related to the acquisition?

25 MR. DARREN RAINKIE: In that year, Centra

1 earned a return on its assets, it didn't pay anything to
2 Manitoba Hydro to pay down the acquisition costs, so my
3 answer is, no.

4 MR. KRIS SAXBERG: But that's because
5 those -- a portion of those acquisition costs, not all
6 of them, were in Centra, correct?

7 MR. WILLY DERKSEN: They've been
8 subsequently removed from Centra and the books, the
9 income statement from those years were restated, so, the
10 retained earnings do not reflect that.

11 MR. KRIS SAXBERG: I'm going to move
12 back, I'll move to a different area. And I will, later
13 though, come back to talk about those \$19 million in
14 costs and who should be paying them.

15 But for now, I -- I want to talk about
16 '06/'07 actuals and just to confirm a few facts on the
17 record; first being, that Centra has the final gas costs,
18 gas costs now, for '06/'07 and that's been filed in the
19 update, correct?

20 MS. KELLY DERKSEN: Correct.

21 MR. KRIS SAXBERG: And those gas costs
22 are a significant number, I think it's 419 million,
23 something like that?

24 MS. KELLY DERKSEN: You're correct, yes.

25 MR. KRIS SAXBERG: Now, have they -- have

1 those gas costs and the -- the finalization of them been
2 approved by the Board of Directors at Manitoba Hydro?

3 MR. WILLY DERKSEN: Why would the
4 Manitoba Hydro Board of Directors approve that?

5 MR. KRIS SAXBERG: I -- that's a
6 rhetorical question, I guess, right?

7 MR. WILLY DERKSEN: Well, I'm asking you
8 why --

9 MR. KRIS SAXBERG: I -- I'll take that as
10 a no and -- and it's not necessary, is what you're
11 saying?

12 MR. WILLY DERKSEN: That's right.

13 MR. KRIS SAXBERG: Okay. And certainly
14 wouldn't be necessary for the Minister to have to approve
15 those costs, final costs, correct?

16 MR. WILLY DERKSEN: To approve the costs?
17 Well, the costs incurred have been incurred by Centra,
18 certainly.

19 MR. KRIS SAXBERG: And now I'm going to
20 flip over to the corporate costs, company costs, which
21 you also have the actuals for and have been finalized,
22 correct?

23 MR. WILLY DERKSEN: They have not been
24 finalized.

25 MR. KRIS SAXBERG: But you have the

1 actuals, you have the information?

2 MR. WILLY DERKSEN: We're in the process
3 of finalizing them and until they're final, they're not
4 final.

5 MR. KRIS SAXBERG: But I -- what I heard
6 was that there was some sort of necessity for those
7 actuals to be approved by the executive and the Minister
8 before they're released?

9 MR. WILLY DERKSEN: That's correct and
10 then they'll be final after they're released.

11 MR. KRIS SAXBERG: So why is that the
12 final gas costs which are 419 million, far more
13 significant, don't have to be approved by anybody to be
14 released publically, but these company costs, which we're
15 reviewing in this proceeding, have to be?

16 MR. WILLY DERKSEN: I think what the --
17 and -- and this is my own speculation and maybe I
18 shouldn't do that, but I know that the -- we are required
19 to not disclose our financial statements until such time
20 as the Minister approves that and that's the obligation
21 that we have.

22 With respect to individual components of
23 it, I don't know that that obligation exists with respect
24 to gas costs and I -- I guess that's as far as I can take
25 this.

1 MR. KRIS SAXBERG: And when you say that
2 -- that there's that obligation to not disclose certain
3 information before it's reviewed by the Minister, you're
4 really talking about the Manitoba Hydro annual report?

5 MR. WILLY DERKSEN: I think it's the
6 financial results of -- of Manitoba Hydro and all of its
7 subsidiaries that I'm talking about.

8 MR. KRIS SAXBERG: And -- and that's the
9 -- the larger picture of the consolidated entity,
10 correct?

11 MR. WILLY DERKSEN: And the components.

12 MR. KRIS SAXBERG: Well, as you said,
13 you're not sure that all components are in the -- are --
14 are covered by that same restriction, for instance, the
15 cost of gas?

16 MR. WILLY DERKSEN: I am not sure, but I
17 know that the financial results of the individual
18 companies are covered by that restriction.

19 MR. KRIS SAXBERG: Now, if --

20 THE CHAIRPERSON: With the cost of gas,
21 of course, you got the quarterly process that is going on
22 where you are divulging actual data on, for example, May
23 1st we just finished going through that process.

24 MR. WILLY DERKSEN: Yes, thank you for
25 that; that's very true. We have a separate process that

1 requires us, through the regulatory process, to divulge
2 the actual gas costs every quarter.

3 THE CHAIRPERSON: Part of the reason
4 presumably that it's not causing any problems is that
5 you're passing through those costs with no markup; it's
6 the cost that you're incurring.

7 On another front, if it helps, Mr.
8 Saxberg, for example, in 2004 the Manitoba Hydro hearing
9 became important from the Board's perspective to
10 understand what Manitoba Hydro's results were because of
11 the nature of that particular order at the time we asked
12 for and received, in confidence, a draft copy to assure
13 ourselves of what the numbers were.

14

15 CONTINUED BY MR. KRIS SAXBERG:

16 MR. KRIS SAXBERG: Thank you for that,
17 Mr. Chairman, and -- and that may ultimately be the
18 solution to my -- my issue.

19 But one (1) thing that I just want to
20 confirm then, is if we looked at Tab 16 of Mr. Peters'
21 book which is the financial statements of Centra Gas, and
22 if we flip to page 2 there is the auditor's report from
23 Ernst & Young LLP, coincidentally dated June 6th, 2006 --
24 coincidentally because today is June 6th, 2007 -- so does
25 that tell me that we have the or should have the

1 financial statements at hand at this time?

2 MR. WILLY DERKSEN: I'm not sure what it
3 tells you. It means that they've completed their
4 procedures and are ready to sign off on them but I still
5 -- I still -- I -- you have to acknowledge or we have to
6 acknowledge that we can't release this information until
7 such time as the Minister approves that.

8 MR. KRIS SAXBERG: Could you -- could you
9 just -- apropos of what the Board has indicated, perhaps
10 it could review them in confidence -- could you confirm
11 on the record as to whether or not the -- the March 31st,
12 2007 financial statements have been completed and -- and
13 signed off by the auditor?

14 MR. WILLY DERKSEN: I can't confirm that,
15 no.

16 MR. KRIS SAXBERG: That's you personally?

17 MR. WILLY DERKSEN: That's right, yes.

18 MR. KRIS SAXBERG: Is there anyone in the
19 -- out of the eight (8) of you that -- that knows that
20 information on behalf of the Company?

21 MS. MARLA MURPHY: Mr. Chairman, I'm not
22 sure what road we're going down here. I think Mr. Warden
23 put Hydro's position and Centra's position on this matter
24 on the record yesterday and I'm not sure what we're
25 gaining in terms of -- of this.

1 As is known Mr. Warden is not here this
2 morning. He's not here for a reason very similar to what
3 Mr. Saxberg is inquiring of and we're not in a position
4 to put anything further on the record at this point.

5 THE CHAIRPERSON: I think, Mr. Saxberg,
6 it would probably be wise to wait till Mr. Warden returns
7 and see whether he wants to put anymore on the record. I
8 can --

9 MR. KRIS SAXBERG: Well --

10 THE CHAIRPERSON: -- understand Mr.
11 Saxberg's point. I mean, he's dealing with forecasts and
12 estimates and it's important from his perspective as to
13 what the relative rate of the increase is. I can
14 remember a past hearing where Mr. Warden was a little bit
15 more explicit with respect to his guesstimate as to what
16 the result would be.

17 The other thing I would imagine is if your
18 forecast on which your application is based is
19 dramatically different than the actual results that you
20 already know presumably you'd find a way to tell the
21 Hearing.

22 MS. MARLA MURPHY: I think Mr. Warden
23 indicated yesterday where the financial results were in
24 in a ballpark kind of fashion and I'm not sure that we
25 can do any better than that today.

1 THE CHAIRPERSON: He brought it down to
2 fairly close range.

3 MR. KRIS SAXBERG: I -- I think what I'll
4 do is carry on and -- because in some of the other areas
5 that I'm going to get into there'll be some further
6 information about -- from my perspective anyway, why I
7 think that that information would be very helpful to the
8 Board and to this process. So I'll wait until that
9 unfolds and then -- then perhaps wait for Mr. Warden to
10 come back on the scene --

11 THE CHAIRPERSON: We --

12

13 CONTINUED BY MR. KRIS SAXBERG:

14 MR. KRIS SAXBERG: -- before I make any
15 formal request with respect to production.

16 Now, along those same lines the next area
17 then that I want to deal with is the objection that
18 Manitoba Hydro has to producing total cost information in
19 these Centra GRA proceedings.

20 If you turn in my book of documents to Tab
21 5 you'll see a listing of -- of expenditures that I
22 believe Manitoba Hydro's confirmed in this proceeding are
23 maintained for the consolidated entity.

24 Can you confirm that the consolidated
25 entity keeps track of these other expenditures and -- and

1 these categories of costs?

2 MS. MARLA MURPHY: Mr. Chairman, I'm not
3 sure why this is relevant given the objection that Centra
4 has put on the record already; the reasons that it gave
5 in terms of analysing consolidated expenses. A schedule
6 that's apparently been produced in 2004 by Manitoba Hydro
7 is -- is really stretching the relevance to the Centra
8 Gas proceeding we're here on today.

9 MR. KRIS SAXBERG: Well, there's -- we
10 asked the question in an IR. I can just go to the IR
11 where you confirmed that these cost items are in fact
12 kept of and you listed them. So I'm just asking for that
13 confirmation.

14 MS. MARLA MURPHY: If you'd like to put
15 an IR that's on the record in this proceeding before the
16 panel, that's fine.

17 MR. KRIS SAXBERG: I'm not going to be
18 challenging the totals at all and I'm not going to be
19 getting into them at all. I just want to know about what
20 information the Company tracks in terms of their costs
21 and a simple confirmation that they track items as listed
22 on -- on this schedule.

23 MS. MARLA MURPHY: Do you have the
24 reference, Mr. Saxberg, to the IR in this proceeding?

25 MR. KRIS SAXBERG: I don't think I need

1 to go there, but I'll -- I'll go there. I just think we
2 can save a lot of time as opposed to me going back to
3 these volumes and leafing through to find which one it
4 was.

5 I believe it's in the 3A. It's CAC-86,
6 page 2 of 5.

7 MS. MARLA MURPHY: I think the
8 information that's there speaks for itself. It contains
9 a listing of the information in response to Part C.

10

11 CONTINUED BY MR. KRIS SAXBERG:

12 MR. KRIS SAXBERG: That's right. I just
13 wanted you to confirm that that's a -- and maybe you just
14 have; that that's a -- that's a list of major elements
15 that are tracked on a consolidated basis.

16 And the question then becomes, the
17 allocation of these costs, is it tracked to Centra?

18 MR. WILLY DERKSEN: We've described quite
19 fully how the costs to Centra are calculated and tracked,
20 and they are based upon activity charges which involves
21 rolling several of these cost elements together in order
22 to get an appropriate labour rate per hour.

23 It's kind of like when you go to a -- a
24 garage to get your car fixed. You get a charge of
25 whatever it is -- eighty-eight (88), ninety (90), a

1 hundred (\$100) dollars an hour and you don't need all of
2 the details in order to support that cost, but you
3 understand that that cost, that charge per hour, covers a
4 whole number of cost elements.

5 MR. KRIS SAXBERG: So that's "no"?

6 MR. WILLY DERKSEN: We do not track, in
7 this specific detail, the allocation to Centra. That's
8 correct.

9 MR. KRIS SAXBERG: Now, Centra doesn't
10 want to provide the total Manitoba Hydro costs that CAC
11 has requested And I just -- I just want to understand the
12 -- the basis for the objection.

13 And does Centra understand that what Mr.
14 Matwichuk wants to do is to challenge the appropriateness
15 of those total costs?

16 MR. WILLY DERKSEN: Okay. and that's
17 maybe what our objection is about. Reviewing the global
18 costs of Manitoba Hydro is not necessary in order to
19 ascertain what an appropriate operating cost to Centra
20 is.

21 The operating costs of Hydro are
22 substantially greater and the operating requirements of
23 Centra are substantially different than those of Centra
24 and the vast majority of those costs have no relevance
25 whatsoever to this proceeding.

1 MR. KRIS SAXBERG: Perhaps, then, there
2 is a miscommunication or misunderstanding between the
3 parties.

4 Would Centra still object if -- if their
5 understanding was that the costs would be taken as given,
6 in terms of the total costs, but the information that is
7 -- to be sought is the allocation of those total costs to
8 Centra and the allocation to the electric side of the
9 business and the drivers.

10 MR. WILLY DERKSEN: I think we've been
11 abundantly clear about what the drivers are and how we
12 calculate the costs being allocated to Centra. I'm not
13 sure what added value, other than taking a lot of time
14 and effort, that this would provide to this proceeding.

15 MR. KRIS SAXBERG: And perhaps we could
16 flip to the next page, then, in Tab 5.

17 Now, for O&A we have a breakdown of the
18 program view of costs into activity charges as one
19 component, correct?

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

21 MR. KRIS SAXBERG: Primary costs is
22 another component?

23 MR. WILLY DERKSEN: Yes, sir.

24 MR. KRIS SAXBERG: Overhead costs is the
25 third component?

1 MR. WILLY DERKSEN: Yes.

2 MR. KRIS SAXBERG: And then the allocation
3 and adjustment component, correct?

4 MR. WILLY DERKSEN: Yes.

5 MR. KRIS SAXBERG: Now, the question that
6 I have is there -- these are the total -- if you look at
7 line 6, these are the total activity charges to Centra
8 from '01-'02, right through to the forecast in the
9 '08/'09 test year, correct?

10 MR. WILLY DERKSEN: That's correct.

11 MR. KRIS SAXBERG: And what I want to know
12 is, is there a larger pool of activity charges that --
13 from which an allocation occurred? In other words, is
14 there a similar table that could be provided with these
15 four costs of the allocated charges to electric?

16 MR. WILLY DERKSEN: No, there's not.

17 MR. KRIS SAXBERG: And is that because
18 when you talk about time sheeting, what employees are
19 doing is simply noting the time that they spend on gas.
20 They don't have to then do a time sheet that allocates to
21 electricity.

22 Is that correct?

23 MR. WILLY DERKSEN: For operational
24 purposes, many of the departments time sheet for electric
25 activities as well and that's used in order to manage the

1 costs and those are recorded and used to manage the
2 departments and its functions.

3 MR. KRIS SAXBERG: Well, is there an
4 electricity activity rate then that is applied to those
5 charges?

6 MR. WILLY DERKSEN: Activity rates. It's
7 not an electricity activity rate. There are activity
8 rates that are applied to charges there as well. In
9 fact, that's how they're capitalized under both electric
10 and gas operations.

11 It's the same process that we fully
12 described in our cost allocation methodology and we've
13 gone through in great detail. An activity rate is
14 developed and the activity charges are -- are created
15 through the time spent on projects or programs and
16 charged to either operating capital or to, in this case,
17 gas.

18 Now, they aren't charged back to electric
19 per se, it's just a different view of departmental costs
20 for electric managers to use. For the Hydro managers to
21 use.

22 And the reason for that is that imbedded
23 in these activity charges are a number of other costs
24 that are not purely operating; there's depreciation,
25 interest and taxes is what I'm referring to.

1 And if you're managing a department, those
2 particular costs are not particularly relevant to how we
3 are going to manage that department, so, we try and keep
4 the accounting and accountability model simple and
5 understandable for those department managers.

6 And when we get to the cost of operating
7 gas, we've set the standard of activity charges which
8 allows a continuity of understanding how much time and
9 effort is being spent on different functions in support
10 of the gas operations. Both versions make sense but they
11 are not interchangeable.

12 MR. KRIS SAXBERG: The activity rate is
13 the same for the particular function that is being
14 carried out, I think that's what you said. If there's
15 one (1) employee doing something that relates to gas,
16 that activity -- the activity rate for that function is
17 charged and the ultimate amount goes to the gas ledger,
18 correct?

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

20 MR. KRIS SAXBERG: But then now you've
21 also confirmed that on the time sheet, that same employee
22 may, at that same activity rate, be doing a function that
23 will then be charged to the electric side and then --
24 then on to the electric ledger, correct?

25 MR. WILLY DERKSEN: Yes, that's correct --

1 MR. KRIS SAXBERG: So --

2 MR. WILLY DERKSEN: -- but not in all
3 instances.

4 MR. KRIS SAXBERG: Oh, okay. So then you
5 would be able to have a line 6 on this document before us
6 that would be total activity charges then electric; would
7 you not?

8 MR. WILLY DERKSEN: No, you wouldn't
9 because as I said it's not complete in the electric
10 world. It's not necessary in order to ascertain what the
11 costs are for the electric operations and that's not
12 specifically needed information for various components of
13 the electric company.

14 MR. KRIS SAXBERG: But wouldn't that
15 information help us understand the total activity charges
16 and the allocation of those total activity charges
17 between gas and electric?

18 MR. WILLY DERKSEN: I don't see that, no,
19 sir. I -- I think that what we have got going in this
20 organization is the work that's being spent on gas is
21 being charged -- is recorded as gas time and it's -- and
22 it's being charged at this activity rate.

23 And primarily, most of the work that's
24 being done with respect to gas is done by a few
25 departments that are predominantly gas and, so, to the

1 extent that those departments have greater or lesser
2 costs or that activity rates are -- are -- don't fully
3 absorb those departmental costs, the residuals are
4 appropriately charged to gas as well so that we're
5 getting program information but we're also collecting an
6 appropriate total cost level information.

7 MR. KRIS SAXBERG: But aren't we only
8 seeing half the picture though?

9 MR. WILLY DERKSEN: Well, about 11
10 percent of the picture I think.

11 MR. KRIS SAXBERG: Ah --

12 MR. DARREN RAINKIE: Mr. Saxberg, I think
13 the Board sees the other 89 percent of the picture in
14 another form as well as Mr. Warden noted yesterday.

15 MR. KRIS SAXBERG: No, and I -- and I'm
16 trying to convey that we're not interested in challenging
17 the total costs. So, I'll say that as clearly as
18 possible.

19 What -- what I think I heard you saying,
20 though, is that of that other 89 percent, there's a
21 percent that -- there's a portion of that that arose as a
22 result of allocations done in the same way that -- that
23 are done on the gas side.

24 And then there's another portion of that
25 89 percent that's just pure electric and -- and it's --

1 it's got nothing to do with any of this allocation
2 business at all.

3 MR. WILLY DERKSEN: Indirectly that's
4 true but let me just take you through a departmental
5 allocation and, let's say, we have a department that is
6 responsible for both gas and electric operations.

7 What happens from a total company
8 perspective is that the details are tracked in the manner
9 that is shown in our response to that IR and in your
10 schedule here and deducted from those total of operating
11 -- total costs are the amounts charged to capital
12 projects and the amounts charged to Centra.

13 So from a Hydro perspective, what's viewed
14 is -- from a department perspective is their total costs
15 by those cost elements and the charges to Centra and the
16 charges that are capitalized are shown separately. They
17 do not receive activity charges and are accountable for
18 activity charges emanating from their department for
19 electric operations. They are responsible for the
20 overall department.

21 MR. KRIS SAXBERG: What you're saying
22 also holds true then with respect to primary costs, the
23 other element of this allocation, that -- in other words,
24 that I couldn't -- you wouldn't be able to produce to me
25 a total primary cost number and then show the allocation

1 of that total primary cost number to Gas and the drivers?

2 MR. WILLY DERKSEN: Predominantly the
3 primary costs are not allocated, they're direct charged
4 to Gas. You know, if I think of the types of -- of costs
5 that would be in primary, there would be materials and
6 services, there would be bad debt expense and those types
7 of things.

8 So, the vast majorities are germane
9 specifically to gas operations as the -- as the vast
10 majority belongs to electric and pertains specifically to
11 electric operations.

12 Any -- any percentage allocation that we
13 might show on a -- on a schedule would not necessarily
14 provide any further information because of -- of
15 particular circumstances relative to each of those
16 companies.

17 MR. KRIS SAXBERG: Well, if -- maybe we
18 can just look at the list and see which ones would be
19 common then. That would be at Tab 12?

20

21 (BRIEF PAUSE)

22

23 MR. KRIS SAXBERG: You have to go eight
24 (8) pages in to PUB-28A right-hand corner, activity
25 charges. That's page 2 of 2 under primary costs.

1 Do you see that?

2 MR. WILLY DERKSEN: I have that.

3 MR. KRIS SAXBERG: Now one (1) of the
4 primary costs -- the first one (1) is external courses
5 and awards. That would be something that the electric
6 and gas side would -- would be involved in, right?

7 MR. WILLY DERKSEN: Yes, but let me just
8 explain this. Some element of the amounts that were in
9 the consolidated company relative to that cost element
10 would be embedded in activity charges or overheads.

11 So if we gave the total of the company and
12 provided here's the amount that's charged to gas, you
13 would imply that the residual was charged to electric.
14 But that's not necessarily true because it would be a
15 fairly substantial component of that total amount that
16 would flow to gas through either activity charges or
17 through overhead charges.

18 MR. KRIS SAXBERG: So what you're saying
19 is, just to use this external courses and awards' item,
20 that there is no tracking of the total cost for external
21 courses and awards, and then no tracking of the
22 allocation of those total costs to gas and electric and
23 the reason why it was allocated in the way that it was?

24 MR. WILLY DERKSEN: That's not what I'm
25 saying at all. There's absolute tracking of the total

1 costs by each cost centre and department that incurs
2 those costs.

3 Through the integrated cost allocation
4 methodology, certain of those costs are rolled up into
5 department costs and charged through as overhead and
6 certain of those costs are rolled up into activity rates
7 and charged through as activity charges. And certain
8 others of those costs are directly pertaining to Centra,
9 itself, and charged to Centra as a primary cost.

10 MR. KRIS SAXBERG: I'm -- I don't mean to
11 be obtuse. I'm just trying to understand it in terms of
12 -- of some of the recommendations that my clients made to
13 improve or increase, from our perspective, the
14 transparency of -- of the -- of the presentation of this
15 information.

16 If -- if you could -- and maybe this would
17 assist, if we went to tab number 19 of my book of
18 documents and this tab deals with regulatory costs which
19 are certainly common to both -- both utilities. Correct?

20 MR. WILLY DERKSEN: Both utilities incur
21 regulatory costs, yes.

22 MR. KRIS SAXBERG: There's only one (1)
23 regulatory department and it serves both electric and
24 gas?

25 MS. KELLY DERKSEN: There are two (2)

1 regulatory departments; one (1) serves electric and one
2 (1) gas. That's as of about last year, Mr. Saxberg.

3 MR. KRIS SAXBERG: So they were separated
4 then?

5 MS. KELLY DERKSEN: Last year they were
6 separated, correct.

7 MR. KRIS SAXBERG: So there's no need for
8 any allocation to go on with respect to the two (2)
9 departments then, I suppose.

10 MS. KELLY DERKSEN: I wouldn't ever rule
11 it out because, you know, sometimes I will need to use
12 resources from the electric side and vice versa. So, to
13 the extent that we provide services either to the
14 electric side or the electric people provide services to
15 the gas side, we would have to charge our time
16 accordingly.

17 MR. KRIS SAXBERG: Could you flip --
18 since we're here and I -- and I won't have to come back
19 to it after -- to CC-24-C which is seven (7) or eight (8)
20 pages in? It's a listing of regulatory costs.

21 Now, the -- the forecast for '07/'08 for
22 internal regulatory costs is indicated to be nine hundred
23 and fifteen thousand dollars (\$915,000).

24 Do you see that?

25 MS. KELLY DERKSEN: Yes.

1 MR. KRIS SAXBERG: And that's not
2 regulatory costs for the -- for the whole year. This is
3 specifically with respect to proceedings that will occur
4 in that year?

5 MS. KELLY DERKSEN: Can you help me
6 understand the distinction that you're trying to make?

7 MR. KRIS SAXBERG: Well, what I want to
8 know is, is the nine hundred and fifteen thousand dollars
9 (\$915,000) is that the total regulatory costs of forecast
10 for internal labour that will be allocated to Centra Gas
11 in the whole year?

12 MR. WILLY DERKSEN: Maybe I can help with
13 that. That would include all of the regulatory gas
14 department, plus it would include other -- individuals
15 from other departments that are involved in regulatory
16 proceedings and regulatory matters throughout the year.

17 So there would be activity charges
18 generated not only from the regulatory department, but
19 from other departments as well and the other departments
20 would be primarily during regulatory proceedings.

21 MR. KRIS SAXBERG: Okay. And -- and the
22 -- the forecast there is -- is with respect to the
23 proceeding then as opposed to the -- the department
24 itself and it's for company wide, all the people that
25 will be involved in whatever proceedings have been

1 forecast for '07/'08, obviously the GRA; is that right?

2 MR. WILLY DERKSEN: The forecast would be
3 for both of those factors. The department itself plus
4 other de -- employees from the company that are involved
5 in the proceedings and it would not only be the -- the
6 GRA itself, there would be cost of gas hearings and --
7 and other matters that occur from time to time.

8

9 (BRIEF PAUSE)

10

11 MR. KRIS SAXBERG: It's noon.

12 THE CHAIRPERSON: Good time for a break.

13 MR. KRIS SAXBERG: Yes.

14 THE CHAIRPERSON: See you all back at
15 1:15.

16

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

18 --- Upon resuming at 1:30 p.m.

19

20 THE CHAIRPERSON: Okay. Sorry for the
21 delay. As you get older you need a little bit of time to
22 sort of regroup, not speaking for Mr. Jorgensen of
23 course.

24 The Court Reporter kindly reminds us if we
25 could all speak a little bit louder. It makes it easier

1 for her to record. Mr. Saxberg, back to you.

2 MR. KRIS SAXBERG: Thank you, Mr.
3 Chairman.

4

5 CENTRA'S REVENUE REQUIREMENT PANEL

6 VINCE WARDEN, Resumed

7

8 CONTINUED BY MR. KRIS SAXBERG:

9 MR. KRIS SAXBERG: I want to pick up
10 where we left off on Tab 19, that table that had the
11 regulatory costs summarized. It's CAC-24C attachment
12 about seven (7) or eight (8) pages into my Tab 19.

13 Do you have that, Ms. Derksen?

14 MS. KELLY DERKSEN: Yes, sir.

15 MR. KRIS SAXBERG: This is -- these all
16 relate to -- to your department; that's correct?

17 MS. KELLY DERKSEN: All of these costs
18 are -- are not incurred by my department as you can tell
19 that there's external fees but this is what we do in our
20 department. We track these types of costs, yes.

21 MR. KRIS SAXBERG: And I want to look at
22 the '05/'06 actuals. Can you confirm that my
23 recollection is correct that in '05/'06 there was only
24 one (1) major public hearing and that was the GRA that
25 occurred in late May and June 2005?

1 MS. KELLY DERKSEN: I can confirm that's
2 the -- the major of the hearings. There were other
3 applications, obviously, that would have gone to the
4 Board during that fiscal period.

5 MR. KRIS SAXBERG: Yeah, and they would
6 be the quarterly rate setting matters so there'd be four
7 (4) of those?

8 MS. KELLY DERKSEN: To my recollection
9 there would have been four (4) primary gas rate setting
10 applications. What I'm struggling with is if there were
11 any expansion submissions at that time and I -- I can't
12 recall off the top of my head.

13 MR. KRIS SAXBERG: And the estimate of
14 internal costs for the gas side of Manitoba Hydro is \$1.8
15 million; do you see that -- actual, yes, sorry. Thank
16 you.

17 MS. KELLY DERKSEN: I do see that, yes.

18 MR. KRIS SAXBERG: Well, that's the
19 actual but it's an estimate of the amount of time others
20 were spending on the GRA or were -- were these costs time
21 coded?

22 MR. WILLY DERKSEN: It would all be
23 actual based upon time charged.

24 MS. KELLY DERKSEN: Mr. Saxberg, as well
25 this is coming back to me as -- as we -- as we speak.

1 There was also the hearing that we had that resulted in
2 the Court of -- Court of Appeal decision, the -- the
3 hearing that we had before the -- the regulator in
4 January of 2005 that I believe would have been included
5 in -- in that total. There may have been also some costs
6 that stem from four-party trench issues as they related
7 to regulation embedded in -- in this -- in this total as
8 well.

9 MR. KRIS SAXBERG: I -- I don't want to
10 get into too much detail but I don't think that ex-parte
11 hearing would have been included in there because that
12 would have been part of the year ending in '05 since it
13 was in February, correct?

14

15 (BRIEF PAUSE)

16

17 MS. KELLY DERKSEN: I think, subject to
18 check, yes, I'll -- I'll agree with that.

19 MR. KRIS SAXBERG: The -- the costs that
20 are listed as actuals here begin April 1st, 2005 and at
21 that point the GRA application had already begun,
22 correct? I mean, the application had been filed and
23 probably well past second round of Information Request,
24 correct?

25

MS. KELLY DERKSEN: I agree. I agree

1 with your statement, we were probably in -- in the
2 process of second round Information Request, so maybe
3 half way through at that point.

4 MR. KRIS SAXBERG: So the \$1.8 million of
5 internal costs relates to a part of the GRA in '05 --
6 that was held in '05 and the four (4) cost of gas -- or
7 four (4) primary gas applications and if there's anything
8 else, could you just undertake to -- to let me know what
9 else was included?

10 MS. KELLY DERKSEN: There may have been
11 Shoal Lake in there, as well, so I'll -- I'll -- I'll
12 confirm for you, though, Mr. -- Mr. Saxberg.

13

14 --- UNDERTAKING NO. 12: So the \$1.8 million of
15 internal costs relates to a
16 part of the GRA in '05, that
17 was held in '05 and the four
18 (4) primary gas applications
19 and if there's anything else
20 included, to so advise

21

22

23 CONTINUED BY MR. KRIS SAXBERG:

24 MR. KRIS SAXBERG: Now the 1.8 million is
25 a fairly high number related to the cost that's listed

1 above it -- I think -- would you agree with that?

2 MS. KELLY DERKSEN: They are more than
3 the other costs above it, yes, sir.

4 MR. KRIS SAXBERG: What steps have been
5 taken at Manitoba Hydro re gas with respect to reducing
6 those labour costs for regulatory matters?

7 MS. KELLY DERKSEN: I think in fairness
8 to the Company, Mr. Saxberg, they are Centra's
9 applications. Centra spends a significant time preparing
10 those submissions even advan -- in advance of submitting
11 its application to -- to the regulator, so, if you're
12 suggesting that there is a lack of efficiency on our --
13 on our party, I don't -- I don't agree.

14 There are a significant number of
15 individuals who spend time devoted to this proceedings,
16 even behind the scenes, and so those individuals that are
17 here before the Board today are just some of the
18 individuals involved.

19 And, you know, to the extent that there
20 are significant amounts of Information Requests and those
21 sorts of -- of matters will affect how much time that we
22 need to devote to those particular proceedings.

23 MR. KRIS SAXBERG: And I -- I'm not
24 casting aspersions or trying to be too critical. I know
25 what it's like to have your regulatory efforts

1 scrutinized.

2 But I just wanted to know, on the record,
3 if there were any specific steps or measures that were
4 taken in order to -- to try to do anything to -- to see
5 if those costs could be reduced.

6 MS. KELLY DERKSEN: Off the top of my
7 head, I could think of issues bringing to the attention
8 of the Board, issues such as when Intervenors pose to us
9 questions from materials fifteen (15) years ago, we
10 suggest that that's maybe not the most efficient way to
11 proceed through a regulatory proceedings, so, we do bring
12 those issues to the attention of the Board to the extent
13 that we can fo -- focus on -- on the materials in the
14 current dates.

15 MR. KRIS SAXBERG: Okay, thank you for
16 that. I -- I want to move on to the comparison of the
17 cost of service versus the rate base rate of return and
18 the topic of synergies.

19 Rate base rate of return, I think it was
20 agreed, is to be the measure at which will be the high
21 water mark for revenue requirement, correct?

22 MR. DARREN RAINKIE: I think that's what
23 the Board stated in its last GRA Order, yes.

24 MR. KRIS SAXBERG: And really, the issue
25 in this hearing is whether or not, within that

1 calculation on rate base rate of return, we should
2 include the \$12 million corporate allocation.

3 MR. DARREN RAINKIE: Correct, if we're
4 going to include all the benefits from the acquisition,
5 should we also include the costs through the form of the
6 corporate allocation.

7 MR. KRIS SAXBERG: Right.

8 MR. DARREN RAINKIE: That's how I would
9 put it forward, Mr. Saxberg.

10 MR. KRIS SAXBERG: And -- and you said
11 yesterday that the reason is because the synergies
12 achieved in Centra aren't free, they come at a cost.

13 MR. DARREN RAINKIE: That's right, Mr.
14 Saxberg.

15 MR. KRIS SAXBERG: And the last count of
16 synergies -- all right, let me back up and start that
17 again.

18 I think the evidence is, that Centra
19 stopped tracking synergies.

20 MR. DARREN RAINKIE: Yes, that's correct.

21 MR. WILLY DERKSEN: And so the last
22 evidence on the matter was the evidence that -- that you
23 gave, Mr. Derksen, at the 2005 GRA that I -- I did
24 include in the material that said that the estimate was
25 between 6 and 8 million. And I can take you to that if

1 it's necessary.

2 MR. WILLY DERKSEN: That would not be the
3 total synergies, that would be our estimate of how much
4 the operating cost reductions were on Centra as a result
5 of the acquisition and integration.

6 MR. KRIS SAXBERG: If you just quickly
7 turn to Tab 6 I just want confirmation that this
8 information that you provided in -- at the last GRA is
9 the most recent assessment of synergies in -- in Centra.

10 MR. WILLY DERKSEN: That was the most
11 recent assessment of synergies in Centra. We no longer
12 track them.

13 MR. KRIS SAXBERG: And here would you
14 agree with me that you said, Well, the range is six (6)
15 to eight (8), let's -- let's go with seven (7), that's
16 the safe -- safe estimate?

17 MR. WILLY DERKSEN: Yes, that's what I
18 said.

19 MR. KRIS SAXBERG: Now, the other benefit
20 from the transaction that's still around is the reduction
21 in taxes, correct?

22 MR. WILLY DERKSEN: That's one (1) of the
23 other benefits, yes.

24 MR. KRIS SAXBERG: And the reduction in
25 taxes if you could -- if you could turn to the next page

1 in Tab 6, the taxes that would otherwise have been
2 payable as set out here at 7.76 million for the first
3 test year; do yo see that?

4 MR. WILLY DERKSEN: I see that.

5 MR. KRIS SAXBERG: And that would be
6 offset against if you flip to the next page the one (1)
7 time tax amortization payments in the test year of 4.95
8 million?

9 MR. WILLY DERKSEN: Yes.

10 MR. KRIS SAXBERG: So now the net saving
11 is about 2.7 million; do you agree with that math?

12 MR. WILLY DERKSEN: Yeah, I'd agree with
13 the math, yes.

14 MR. KRIS SAXBERG: So -- and -- and we
15 know that the estimate of synergies is -- is just that,
16 it's a high-level estimate, and so if we were being
17 cautious we would go with the -- with the lower of the
18 estimated numbers, and just for the purpose of this
19 hypothetical if you could indulge me and agree that if we
20 took the 6 million in synergies, added it to the 2.7
21 million in avoided taxes, that's only 8.7 million of
22 synergies against a \$12 million hard cost every year.

23 So using that analogy would you not agree
24 that synergies aren't free, they -- they may also not be
25 a very good deal?

1 MR. DARREN RAINKIE: Well, Mr. Saxberg,
2 you're leaving one (1) line out of the equation; that's
3 the return of 13.9 million versus a requested net income
4 of 5.3, so there's another \$8.6 million or \$8.7 million
5 for you in terms of benefits which I think, if my math is
6 correct, clears the \$12 million hurdle. By the way the
7 Board can find that calculation on Centra Exhibit 7
8 column 5 line 14.

9 MR. KRIS SAXBERG: And -- and by return
10 you -- you mean the 10.5 million if at the 30 percent
11 equity --

12 MR. DARREN RAINKIE: No, I -- I mean the
13 13.9 million if -- if West Coast owned the company and
14 had a 40 percent equity ratio.

15 MR. KRIS SAXBERG: But let's leave West
16 Coast aside for the moment. If Manitoba Hydro is
17 calculating rate base rate of return on the actual equity
18 then the figure is 10.5 percent and you've produced
19 information to that effect in your application, correct?

20 MR. DARREN RAINKIE: That's correct but
21 you're making a comparison of the benefit of the
22 transaction and the previous owner was West Coast not
23 Manitoba Hydro, so I know we don't want to go too far
24 down the no harm zone but I think you have to do a proper
25 comparison if you're going to engage in this discussion,

1 Mr. Saxberg.

2 MR. KRIS SAXBERG: Okay. And now let's -
3 - let's flip over to the costs of \$19 million. Every
4 year at the -- \$19 million has to be recovered from
5 somewhere and at current it's -- the allocation is 12
6 million to Centra and 7 million to Electric, correct?

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

8 MR. KRIS SAXBERG: Now, of that 19
9 million will you confirm for the record that there was a
10 portion of that -- there is a portion of that -- of that
11 19 million that relates to the premium that was paid and
12 the net writeup or the writeup of assets that was part of
13 the purchase price?

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

15 MR. KRIS SAXBERG: And just so that it's
16 clear, the -- the net book value of Centra was \$121
17 million at the time of the acquisition, correct?

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

19 MS. KRIS SAXBERG: And that net book
20 value equates to the historic cost of assets?

21 MR. WILLY DERKSEN: It -- it equates to
22 the historical shareholder investment in Centra that is a
23 function of the investment in assets and the debt that
24 the Corporation had taken on at that time.

25 MR. KRIS SAXBERG: And just while we're

1 on that, if you flip over to Tab 7 and the second page,
2 there's a -- a excerpt from the -- from the Public
3 Utilities Board Act and a section that I'm sure you --
4 you guys are very familiar with that requires that when
5 you're setting rates on rate base rate of return you have
6 to look at the historic costs, the original or historic
7 cost of assets, correct?

8 MR. WILLY DERKSEN: That's correct.

9 MR. KRIS SAXBERG: And so that would be
10 the \$121 million of -- in -- in the purchase price --
11 price, roughly speaking?

12

13 (BRIEF PAUSE)

14

15 MR. WILLY DERKSEN: The 121 million
16 again, is the shareholder investment in those assets,
17 it's not the value of the assets themselves.

18 MR. KRIS SAXBERG: Yeah, yeah, but
19 roughly speaking in terms of -- it relates to the
20 historic original cost of the assets?

21 MR. WILLY DERKSEN: There would be no
22 provision in that amount for a fair market value
23 adjustment related to the acquisition, that's correct.

24 MR. KRIS SAXBERG: Okay. And then -- and
25 that's what happened though when -- when the purchase

1 occurred, the assets were written up by approximately 73
2 million?

3 MR. WILLY DERKSEN: That sounds correct,
4 yes.

5 MR. KRIS SAXBERG: And then the
6 liabilities were written up and that reduced things by 17
7 million? You can take that subject to check.

8 MR. WILLY DERKSEN: The liabilities were
9 written up, there was -- the long-term debt was revalued
10 at fair market value which I think was about 17 million
11 and I believe the contributions were written down by
12 about 30 million, so I'm not sure where you get that
13 number from.

14 MR. KRIS SAXBERG: It's Board Order 208.
15 I'll just move on. And the goodwill portion was 65
16 million, do you agree with that?

17 MR. WILLY DERKSEN: That's correct, yes.

18 MR. KRIS SAXBERG: The total of all those
19 numbers was 241 million, correct?

20 MR. WILLY DERKSEN: Two forty-one/two
21 forty-two (241/242).

22 MR. KRIS SAXBERG: And then integrations
23 costs were -- were capitalized and added to the figure
24 and we wound up with a total of \$254 million.

25 MR. WILLY DERKSEN: That sounds correct,

1 yes.

2 MR. KRIS SAXBERG: And then \$19 million
3 is the payment for that 254 million over -- over thirty
4 (30) years, correct?

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

6 MR. KRIS SAXBERG: And what I -- what I
7 wanted to -- to just get on the record was that the Board
8 in Order 118/03 had recognized that of that 19 million
9 then a portion relates to a component, quote:

10 "Component related to purchased
11 goodwill and writeup of the net assets
12 to fair value." End quote.

13 And the Board suggested in its decision
14 that it was arguable that Centra ratepayers shouldn't
15 have to pay that based on regulatory principals be -- and
16 that they shouldn't have to contribute to that portion of
17 the 19 million, do you agree with that?

18 MR. DARREN RAINKIE: That's what it says,
19 Mr. Saxberg, but I think since then we've been through
20 the 2005 hearing and the whole notion of a corporate
21 allocation of \$12 million has been put on the table.

22 I mean, if you're going to suggest to me,
23 Mr. Saxberg, that the rate base rate of return
24 methodology isn't robust enough to let the costs of the
25 acquisition in, I'm going to suggest to you it's not

1 robust enough to let the benefits in either.

2 MR. KRIS SAXBERG: Well, if you were
3 looking at the costs and benefits on an integrated basis
4 as -- and I think that's what -- what you're suggesting,
5 correct?

6 MR. DARREN RAINKIE: I'm not sure about
7 an integrated basis, but I think we're looking at the
8 impacts as they -- as they affect Centra, yeah.

9 MR. KRIS SAXBERG: Well, on the cost side
10 you're looking at it on an integrated basis because
11 you're considering the debt incurred by Manitoba Hydro to
12 purchase.

13 MR. DARREN RAINKIE: That's correct.

14 MR. KRIS SAXBERG: So on the benefit
15 side, why wouldn't we be looking at the -- all of the
16 synergy benefits then?

17 MR. WILLY DERKSEN: Well, I think we are.

18 MR. KRIS SAXBERG: And, Mr. Rainkie, when
19 you indicated that the \$12 million that had now been set
20 as a result of the 2005 GRA took into account the
21 premium, then were you suggesting then that there was no
22 -- in determining the \$12 million corporate allocation
23 amount there was no consideration of this component of
24 the 19 million that related to the premium that the Board
25 had said shouldn't be paid by Centra ratepayers?

1 (BRIEF PAUSE)

2

3 MR. WILLY DERKSEN: Mr. Saxberg, are you
4 asking did we stream and make sure that of the 12 million
5 allocated to Centra out of the nineteen (19) that none of
6 that 12 million related to the premium? Is that what
7 your question is?

8 MR. KRIS SAXBERG: Yes, did you calculate
9 the 12 million in accordance with what Centra's fair
10 share of its component of the \$19 million was pursuant to
11 Board Order 118/03?

12 MR. WILLY DERKSEN: We certainly
13 calculated the 12 million with respect to its fair share
14 of what the 19 million would be, yes.

15 MR. KRIS SAXBERG: Yeah, of the total 19
16 million as opposed to 19 million minus the premium
17 component, correct?

18 MR. WILLY DERKSEN: The way the
19 allocation works and the way that it should work is that
20 we need to look at the costs and benefits incurred by
21 each utility and maybe -- and I'll just use this as an
22 example; I think Mr. Rainkie has gone over this before.

23 If -- if Manitoba Hydro can acquire Centre
24 and if Centra can get, let's say \$10 million of annual
25 benefits, as a result of that reduce its operating costs

1 by 10 million and the present value of that 10 million
2 let's say for the purpose of -- of this discussion is
3 \$150 million and if Hydro pays something less than that
4 \$150 million it's getting a good deal for its customers.

5 And you're suggesting that Centra
6 customers should get the full benefit of that \$10 million
7 annually in cost reductions but they should pay no part
8 of -- of the extra cost that was incurred to acquire
9 Centra so you're saying that should all go to electric
10 customers and I -- and I think that just doesn't make
11 sense.

12 MR. KRIS SAXBERG: Let me just try it
13 like this at a high level -- at a higher level.

14 If Centra had been purchased by a company
15 that wasn't publicly owned, another private company,
16 under regulatory principles that are fairly well
17 enshrined, that purchaser would have had to have absorbed
18 all the acquisition costs, correct?

19 MR. DARREN RAINKIE: Okay, Mr. Saxberg,
20 I'm -- I'm glad you asked me that because my question
21 would be why? Why would somebody pay \$250 million for
22 the equity of Centra for a \$12 million return? Certainly
23 I would not be investing my money in that company. I
24 mean, if somebody's going to pay \$250 million in the
25 first place, they're going to expect to get the return of

1 Centra plus the synergies.

2 Now, the problem in a regulated utility is
3 that the synergies don't go the shareholder as they would
4 if they just privately bought the company; they go back
5 to the customer. So there's always been something
6 missing in this equation in terms of, you know, keeping
7 everybody whole and that was the corporate allocation
8 which we put in place.

9 So, you know, I know there's regulatory
10 precedent but if I bought the company I couldn't generate
11 and pay \$250 million. I couldn't generate any synergies.
12 It would be senseless for the Board to allow the
13 customers to pay for the acquisition premium.

14 But Manitoba Hydro is in a unique
15 situation. We've got offices within two (2) blocks of
16 each other. We've got head office staff within several
17 blocks of each other in Winnipeg. It generated the
18 synergies. It's only fair that if it can generate that
19 level of synergies that it recovers the cost.

20 And if you're telling me that rate base
21 rate of return methodology isn't robust enough to be able
22 to, you know, cover off basic fairness then I think we
23 should throw it in the garbage and start again, Mr. --
24 Mr. Saxberg. Or we should go to column 4 on Centra
25 Number 7 and Manitoba Hydro can allocate \$65.9 million of

1 operating costs to Centra. I mean those are really the
2 only two (2) fair equations on -- on either side.

3 The -- the one in the middle is a mixed
4 where the customers get all the benefits but don't pay
5 any of the costs of the acquisition. I think that's
6 unfair and regardless of what section of any act that you
7 want to read to me.

8 MR. KRIS SAXBERG: All of that is
9 premised on the fact that the two hundred and fifty
10 dollar (\$250) -- \$250 million dollar price is a good deal
11 because it was two (2) times net book value, wasn't it?

12 MR. DARREN RAINKIE: It was. And the
13 Board hear extensive testimony from Nesbitt Burns. They
14 heard a fairness opinion from another accounting firm; I
15 forget ex -- if it was KPMG. I think that the Board, if
16 they felt that the purchase price was unreasonable,
17 wouldn't have approved the sale of Centra to Manitoba
18 Hydro in the first place.

19 At, at least, three (3) or four (4)
20 proceedings after order 146/99 we've reviewed the
21 synergies. I think the Board concluded in order 135/05
22 or 103/05 that the transaction was a success. So -- and
23 I think that was in your argument on your motion
24 yesterday, in fact, Mr. Saxberg, so I guess we can go
25 down that line again, but that's what the record shows.

1 MR. KRIS SAXBERG: Well the -- the
2 question though that -- that I asked before that was just
3 a simple one and it was -- you're a regulatory
4 aficionado, you -- you've been doing this for a lot
5 longer than I have, and the question is about regulatory
6 principles and the point is:

7 If a private purchaser had purchased the
8 utility, then the regulatory principles are that the
9 costs that would have been borne by that private
10 purchaser would never have been able to find their way
11 into rates.

12 MR. DARREN RAINKIE: I think, Mr.
13 Saxberg, you're talking about the regulatory principles
14 that have been developed when a company buys another
15 company without any synergies being developed because if
16 you simply buy the shares of Manit -- of Centra and put
17 them in your vault, you're not creating any synergies.

18 In this case, Manitoba Hydro, because of
19 its unique opportunity being involved in the same service
20 territories as Centra, had the opportunity to develop
21 substantial synergies. I mean, the regulatory principle
22 that I'm relying on is the one (1) of fairness.

23 Certainly when Centra makes an expenditure
24 and if that expenditure has a net book value -- sorry, a
25 net present value to customers, we're allowed to recover

1 the associated cost in rates. That's well-established
2 regulatory principle.

3 So I would suggest to you that your
4 precedent is -- is outdated or, at the very least,
5 doesn't take into consideration the unique circumstances
6 that's happened in this jurisdiction.

7 MR. KRIS SAXBERG: Let me try this one
8 with you. You agree that utility owners are paid based
9 on the amount of equity that they invest in the utility?

10 MR. DARREN RAINKIE: Yes, under rate base
11 rate of return, that's true.

12 MR. KRIS SAXBERG: And that's because
13 equity is worth more than debt, correct?

14 MR. DARREN RAINKIE: Well if they have an
15 investment -- if you have an investment in any asset you
16 would expect a return, it's not because of the
17 differential between -- that -- that -- would you
18 mentioned is the reason for the difference between the
19 cost of debt and the cost of equity, Mr. Saxberg. The
20 reason they expect a return is because they have an
21 investment in assets.

22 MR. KRIS SAXBERG: But if you're
23 investing your equity in anything, then you want to make
24 sure that the return that you're getting from that
25 investment is -- is better than other opportunities.

1 MR. DARREN RAINKIE: That's correct.

2 MR. KRIS SAXBERG: And so that drives the
3 amount of profit or return that utility owners receive,
4 correct? It's a component that drives that?

5 MR. DARREN RAINKIE: That's correct.

6 MR. KRIS SAXBERG: Now, right now under
7 the rate base rate of return methodology and the actual
8 calculation of debt:equity, Manitoba Hydro has 30 percent
9 equity in Centra?

10 MR. DARREN RAINKIE: Based on the
11 standalone calculation, yeah.

12 MR. KRIS SAXBERG: But what you're saying
13 is you want -- regardless of the fact that Manitoba Hydro
14 has 30 percent equity, you want this Board to give it a
15 return as though it had 40 percent equity. Isn't that,
16 by definition, an excessive return?

17 MR. DARREN RAINKIE: No, clearly our cost
18 of service proposal, as Mr. Warden outlined yesterday, is
19 to recover the acquisition costs, which I consider to be
20 a cost recovery, not a return, and then to make a
21 provision for net income so that we can have retained
22 earnings that, in a public company, or for the benefit of
23 the customer, that they're not planning on paying in
24 terms of a dividend to Manitoba Hydro.

25 That is what we're asking for. You are

1 taking me to a comparison of a private view of the world
2 and I'm going there with you on return, but it's clearly
3 not our application, Mr. Saxberg.

4 MR. KRIS SAXBERG: No and I'm --

5 MR. DARREN RAINKIE: It's a dif -- it's a
6 difference between column 1 and column 4 and Centra --
7 lucky Centra Exhibit Number 7. I mean clearly what we're
8 asking for is column 1. Clearly what a shareholder would
9 be asking for is column 4. We can't get past that point.

10 MR. KRIS SAXBERG: And -- and I -- I
11 think well all understand the -- the application before
12 us, but I think you agreed with me that a calculation
13 based on rate base rate of return is supposed to set the
14 high water mark and now we're talking about the
15 appropriate calculation of rate base rate of return --

16 MR. DARREN RAINKIE: Mr. Saxberg, I can't
17 agree with you because our proposal is that we're not
18 getting a return. We're collecting \$12 million as
19 Centra's fair share of the acquisition costs and we want
20 a provision for net income to build retained earnings in
21 Centra, you know, based on financial integrity of the
22 Corporation. That is our proposal.

23 I can't I don't think characterize it as a
24 return. You want to calculate a rate base rate of return
25 as a comparison purpose and we have done that in column 4

1 under, I guess, private ownership structures or -- or
2 principles. But I don't think we can mix and match the
3 two (2). That's the problem, Mr. Saxberg, is mixing and
4 matching of the two (2); excepting the benefits of the
5 integrated approach but then standing behind the
6 standalone when it comes to return.

7 MR. KRIS SAXBERG: I -- I agree with you.
8 One (1) of us is definitely mixing and matching. I'm not
9 sure who it is but it's definitely one (1) of us.

10 And so if we -- if I took you to that
11 column 4 then that -- that shows that there would be a
12 return on equity of 14 million for the absent acquisition
13 scenario; do you see that?

14 MR. DARREN RAINKIE: Yes, I do.

15 MR. KRIS SAXBERG: And what I was putting
16 to you was if this absent acquisition owner only held 30
17 percent equity and yet they were being paid as though
18 they had 40 percent equity wouldn't that be an excess
19 return?

20 MR. DARREN RAINKIE: No, I -- I don't
21 believe that's the case. Most jurisdictions with a rate
22 of return formula have a deemed equity ratio because the
23 recognize the interconnection between rate of return and
24 the capital structure. So we seem to have a fixation in
25 this jurisdiction for actual capital structure which I --

1 I don't know why. But -- but I think that when you're
2 looking at column 4 you really have to look at what a
3 private owner would require as a debt to equity ratio and
4 that's 40 -- 40 percent.

5 THE CHAIRPERSON: Seem to be wandering
6 back into the hypothetical again. I'm just wondering,
7 Mr. Saxberg, I think we understand the point which you're
8 trying to get across, and just to remind you if I could
9 to ensure that you separate cross-examination from
10 argument because we just seem to be sort of playing
11 volleyball with each other.

12 MR. KRIS SAXBERG: Yes, and I was getting
13 that sense myself.

14

15 CONTINUED BY MR. KRIS SAXBERG:

16 MR. KRIS SAXBERG: Let me move on then
17 and ask a question that may -- that may be easily
18 explained by you.

19 But what is the long-term borrowing rate
20 for Manitoba Hydro?

21 MR. DARREN RAINKIE: The long-term
22 borrowing rate for thirty (30) year debt would be about a
23 hundred and forty (140) basis points over long Canada.

24 MR. KRIS SAXBERG: I -- I have it as 7.42
25 percent under Schedule 5.8.2; does that sound right?

1 actually result in Manitoba Hydro earning a higher --
2 earning money by virtue of that investment of 100
3 million; by virtue of the return equity component of
4 eight two one (821) being higher than the cost of the
5 debt?

6 MR. DARREN RAINKIE: Well, that's a very
7 hypothetical opposition, Mr. Saxberg, but -- and I'm
8 conscious of Mr. Warden's words yesterday that we're not
9 -- that Manitoba Hydro is not seeking a return but once
10 again if we need to go to the private way that things
11 work, if somebody puts a \$100 million into the equity of
12 a corporation from a private perspective, of course, it
13 -- it expects a higher rate of return than that of debt;
14 that's just basic finance principles.

15 MR. KRIS SAXBERG: So the -- the an -- an
16 investment in Centra could come by way of an equity
17 infusion in the -- from Manitoba Hydro and it -- it would
18 -- it may be a good investment, is what you're saying?

19 MR. DARREN RAINKIE: I don't know why we
20 would want to do that, first off. Second off, I'm not
21 even sure if legally we have the ability to do that. I'm
22 not -- I'm not sure. I'm not a lawyer, Mr. Saxberg.

23 MR. KRIS SAXBERG: But it was something
24 that West Coast, you had said, was going to do and wanted
25 to do.

1 MR. DARREN RAINKIE: Well, that's correct
2 because the longstanding capital structure target under
3 West Coast ownership and predecessor companies was 40
4 percent. That's what we needed to get the types of bond
5 ratings that we had to issue debt at a favourable rate,
6 was that fact that the small utility, you know, in -- in
7 relation to Union Gas and Enbridge had a -- a 40 percent
8 equity ratio and a fairly good interest coverage ratio of
9 two and a half (2 1/2) to three (3) times.

10 Keep in mind, in the Centra days we had a
11 debt covenant such that we couldn't issue one dollars
12 (\$1) of debt -- one dollar (\$1) of debt unless our
13 interest coverage was at least two (2) times. We had to
14 have interest coverage about two point five (2.5) to
15 three (3) times to issue, you know, \$40/\$50 million of
16 long term debt back in those days, Mr. Saxberg.

17 MR. KRIS SAXBERG: Thank you, sir. I --
18 I want to quickly ask you about weather normalized net
19 income. Would you agree that for the year ending '05,
20 the weather normalized net income is 2.6 million?

21 MS. KELLY DERKSEN: Can you provide us a
22 -- a reference for that, Mr. Saxberg, please?

23 MR. KRIS SAXBERG: Yes.

24 MR. WILLY DERKSEN: It's Tab 8 in your
25 materials.

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(BRIEF PAUSE)

MR. KRIS SAXBERG: Thank you. The weather impact for the year ending '05 was 2.6 million at line 8; do you see that?

MR. WILLY DERKSEN: Yes, sir.

MR. KRIS SAXBERG: And for '06 it's a negative 6. -- 7.6 million, correct?

MR. WILLY DERKSEN: Yes, it impacted the actual results negatively by that amount.

MR. KRIS SAXBERG: So if we -- if we move to the year ending in 2006 on a weather normalized basis, Centra had a profit -- or net return of 2.2 million, correct?

MR. WILLY DERKSEN: That's what the table shows, yes.

MR. KRIS SAXBERG: And in 2007, based on what we heard -- for 2007, based on what we heard yesterday, there will also be a positive net income. My question is: What would the positive net income look like on a weather normalized basis?

(BRIEF PAUSE)

1 MR. KRIS SAXBERG: And, you know, I'm
2 satisfied if you want to take that as an undertaking.

3 MR. WILLY DERKSEN: If you could just
4 give me a minute, please.

5

6 (BRIEF PAUSE)

7

8 MS. KELLY DERKSEN: Mr. Saxberg, maybe
9 while there's a -- a lull in the conversation here, I can
10 draw your attention to an undertaking that I took of you
11 earlier. In your book of documents. Actually, if you go
12 to -- pardon me.

13

14 (BRIEF PAUSE)

15

16 MR. WILLY DERKSEN: Mr. Saxberg, 2007
17 actual was 1.7 percent warmer than normal, which equates
18 to approximately a million dollars.

19 MS. KELLY DERKSEN: Excuse me, I was
20 going to just finish off with -- with my comment as well.
21 You'd asked me this morning what made up the -- or sorry,
22 this afternoon, what it -- made up, in terms of
23 applications before the Board, for the 2005/'06 period
24 and it's actually on -- in your book of documents at Tab
25 19 and it's several pages in and it's a response to

1 CAC/MSOS/CENTRA-24. -- part E.

2 And there Gen -- a General Rate
3 Application, Quarterly Rate Applications, a Royal
4 Expansion Application and Shoal Lake.

5 MR. KRIS SAXBERG: Thank you for that.
6 Then just to get back to Mr. Derksen's last comment. The
7 weather was warmer, thank God, and that would mean that
8 you'd get a less revenue than you would in a normal year,
9 correct?

10 MR. WILLY DERKSEN: That's correct, yes.

11 MR. KRIS SAXBERG: But the figure that
12 you gave us the other day about there being a positive
13 net income for '07 was not on a weather normalized basis,
14 that was on act -- that was on in terms of what the
15 actual net income was, correct?

16 MR. WILLY DERKSEN: That's correct.

17 MR. KRIS SAXBERG: So on a weather
18 normalized basis then we may very well have been close to
19 the \$3 million net income that was forecast in rates, is
20 that correct?

21 MR. WILLY DERKSEN: I think what Mr.
22 Warden said is that there was a very moderate positive
23 income and so if you add \$1 million to a very moderate
24 one, it will be something more than moderately positive,
25 but I don't know about three (3).

1 MR. KRIS SAXBERG: That -- that net
2 income is becoming more and more of a mystery, but at --
3 but at least it's -- it's moving upwards. So we --

4 THE CHAIRPERSON: I thought '05/'06 was
5 the warmer, the very warm period. Like, '06/'07 was a
6 lot closer to normal, was it not? The one that we just
7 concluded?

8 MR. VINCE WARDEN: It was closer to
9 normal, but as Mr. Derksen just indicated, it was one --
10 still 1.6 -- 1.7 percent warmer than normal. The -- the
11 year before though, the -- the winter of 2005/'06, that
12 was the third warmest winter on record and therefore had
13 a significant impact on earnings in that year.

14 MR. KRIS SAXBERG: So I -- I just wanted
15 to establish that on a weather normalized basis the last
16 two (2) years of net income are positive?

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

18 MR. KRIS SAXBERG: And -- and I want to
19 skip to -- to O&A now and -- and try to shorten things up
20 and jump right into -- to this -- the O&A that was
21 actually in -- cost that was actually incurred '05/'06
22 was lower than what was approved by at least \$1 million?
23 Do you need a -- a reference for that?

24 MR. WILLY DERKSEN: It sounds correct,
25 Mr. Saxberg.

1 MR. KRIS SAXBERG: And I think I put it
2 to you earlier that the O&A that was actually in --
3 incurred in the '06/'07 year was below the amount that
4 was approved again, but you're not telling us the -- the
5 specific number, would you agree with that?

6 MR. WILLY DERKSEN: Yes.

7 MR. KRIS SAXBERG: So the last two (2)
8 years of actuals, we know one (1) thing and that's that
9 we beat the approved O&A forecast, correct?

10 MR. WILLY DERKSEN: Well, we know that,
11 Mr. Saxberg, but I just want to remind you, we did talk
12 about earlier that in warmer years there was a -- a redu
13 -- a reduced pressure on O&A as well; that was discussed
14 yesterday, I believe. And so that's one (1) of the
15 things that's going on.

16 So in the -- in the '05/'06 year when we
17 lost 7.5 million on weather there was some offset to that
18 related to the warmer weather; it does result in a lower
19 O&A cost.

20 Now, there are other factors as well that
21 Mr. Warden talked about and we are dealing with some
22 vacancy issues that we're -- we're struggling with and
23 although in the interim they do result in -- in lower O&A
24 costs that doesn't translate into that in the long-run.

25

1 (BRIEF PAUSE)

2

3 MR. KRIS SAXBERG: Could I take you to
4 Tab 12 and I'm flipping to CAC/CENTRA-79. And I'm
5 looking for the comparison between the '06...sorry, one
6 (1) moment.

7

8 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: Sorry, I -- I meant
11 PUB/CENTRA-28B which is just -- it's in the same tab but
12 it's closer to the middle of the documents and I'm
13 looking at the last approved for '06/'07 versus the most
14 recent forecast of those costs which is page 5 of 6 in
15 PUB/CENTRA-28B.

16 And maybe you can confirm that what we're
17 looking at here is the last approved forecast of costs,
18 activity charges, primary costs, and overhead compared to
19 the more recent forecast of those same costs that was
20 done some -- at some point subsequent to the GRA,
21 correct?

22 MR. WILLY DERKSEN: Yes, that's what
23 we're looking at.

24 MR. KRIS SAXBERG: Because what happens
25 is at the -- at the last GRA you had a high level

1 estimate of these O&A costs that would be incurred in
2 '06/'07. You presented the best evidence you had
3 available at that time but then since then, as you've
4 indicated, you've been updating your forecasts on a
5 regular basis and the most recent updated forecast that
6 we see is the one that's included in this -- in this
7 document, correct?

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

9 MR. KRIS SAXBERG: And when I look at it,
10 let's look at activity charges first and go right down to
11 the bottom line which is line 48 and what we see is that
12 the new forecast of total activity charges is lower than
13 the approved forecast by just over \$1 million, correct?

14 MR. WILLY DERKSEN: That's what it shows,
15 yes.

16 MR. KRIS SAXBERG: And then if we flip
17 the page to primary costs, we're going to see that with
18 respect to primary costs, again, we have the more recent
19 forecast disclosing a lower total charge than the last
20 approved primary cost; do you see that?

21 MR. WILLY DERKSEN: Yes, sir.

22 MR. KRIS SAXBERG: And the news keeps
23 getting better when we move to the "Overhead" line where
24 we have, again, a lower overhead than was approved by the
25 Board, correct?

1 MR. WILLY DERKSEN: Yes.

2 MR. KRIS SAXBERG: Altogether then we
3 have -- what -- sorry, and then we get to the corporate
4 allocations and adjustments line; do you see that?

5 MR. WILLY DERKSEN: I see it.

6 MR. KRIS SAXBERG: And we have a big
7 swing there of about \$2.3 million; would you agree with
8 that?

9 MR. WILLY DERKSEN: Yes.

10 MR. KRIS SAXBERG: So what we have are
11 lower actual -- lower forecast costs, the most recent
12 forecast which is now actual and they are better than the
13 forecast to the tune of about \$2.3 million but where it's
14 all made up for is in this adjustment to the corporate
15 allocations line; do you see that?

16 MR. WILLY DERKSEN: Well, that's exactly
17 what I've been telling you. That's exactly how this
18 should be working.

19 What the executive does when they set a
20 target is they set a high level target and to the extent
21 that the details are in excess of that high level target,
22 a contingency is put in and that contingency is meant to
23 be filtered down into the departments themselves such as
24 -- so that they achieve the total cost level.

25 If the contingency were not put in there

1 in the last approved, the number would have been in the
2 order of 57 million rather than 55 million, so, you would
3 have seen this reduction going from fifty-seven (57) down
4 to fifty-five (55).

5 So what this represents is that, in fact,
6 the plans within the operating divisions have been
7 modified such that they could reduce their costs in order
8 to meet the EC's expectations with regards to operating
9 costs.

10 MR. KRIS SAXBERG: Just to break that
11 down, there is an Information Request at the next tab
12 dealing with how the corporate allocation is determined.
13 And if you flip to page 2 of 2, you'll see that
14 forecasted contingencies represent the difference between
15 the approved target for Centra and the detailed operating
16 budgets, that's correct, right?

17 MR. WILLY DERKSEN: That's what I just
18 said, yes.

19 MR. KRIS SAXBERG: And the fort -- the
20 approved target, in this case, was the O&A that was
21 approved by the Board, correct?

22 MR. WILLY DERKSEN: Well, the O&A was
23 approved, first of all, by EC and subsequently went to
24 the Public Utilities Board for their endorsement and then
25 it was approved by the PUB, that's correct.

1 MR. KRIS SAXBERG: That's right, and
2 after the Board approved its number, which was the \$55.2
3 million number for '06/'07, sometime subsequent to that,
4 detailed budgets were drafted, correct?

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

6 MR. KRIS SAXBERG: And the detailed
7 budgets that were drafted then included targets that were
8 more detailed and refined and represented current
9 information about what was achievable and what was
10 appropriate, correct?

11 MR. WILLY DERKSEN: I'm just balking at
12 your word "included targets." It included direction to
13 achieve the overall corporate target and the departments
14 that make up the costs are -- are responsible for the
15 cost chargeable to the gas operation were able to achieve
16 that cost reduction.

17 MR. KRIS SAXBERG: Yeah, but in this
18 case, it's working the op -- the exact opposite because
19 there's a target or approved number of 55.1, but months
20 after that, maybe even more than a year, correct, because
21 here we would have been talking about the winter of 2006
22 when detailed budgets would be prepared; is that correct?

23 MR. WILLY DERKSEN: Yes, that would be
24 correct.

25 MR. KRIS SAXBERG: So in the winter of

1 2006, we're preparing detailed budgets as opposed to what
2 the Board had reviewed in June of 2005, correct?

3 MR. WILLY DERKSEN: I'm sorry, these
4 budgets -- these detailed budget would have been prepared
5 in the February/March of 2006 time frame, not the winter
6 of 2006.

7 MR. KRIS SAXBERG: February being part of
8 the winter of 2006.

9 MR. WILLY DERKSEN: Okay, yes.

10 MR. KRIS SAXBERG: And all I'm saying is
11 that the Board had the best information it had available
12 to it at the time it set the rate, the O&A at 55.1
13 million; but subsequent to that, in February of 2006
14 detailed budgets were drafted on a department -- by a
15 department level and those detailed budgets were -- were
16 set at an amount that was appropriate to the conditions
17 of the time, correct, and -- and is that -- is that fair?

18 MR. WILLY DERKSEN: Yes.

19 MR. KRIS SAXBERG: And those conditions
20 at the time resulted in lower total costs than the
21 approved.

22 MR. WILLY DERKSEN: When I look at that
23 schedule it looks like the same number, 55.2 and 55.2.

24 MR. KRIS SAXBERG: But that's only
25 because you've made -- you took out the corporate

1 allocation number and -- took out the minus and added a
2 positive to the tune of 2.3 million.

3 MR. WILLY DERKSEN: But what I was trying
4 to explain, Mr. Saxberg, is that in the initial go-
5 around, the budgets were higher than what the executive
6 committee thought was appropriate for gas and they sought
7 a lower number when we went to the GRA with respect to
8 the operating cost for gas and they gave direction to the
9 departments to seek efficiencies where possible and --
10 and let's try and achieve that lower number.

11 And so that negative contingency, if you
12 like, translated itself into lower activity costs because
13 in an actual basis you will not -- there is no such
14 actual cost as a contingency. But it is a -- a
15 motivating factor, a directional indicator to them to --
16 to -- to suggest that they needed to review their budgets
17 and see what they could do to come in at a lower number
18 and they've done that.

19 MR. KRIS SAXBERG: And can they maintain
20 that?

21 MR. WILLY DERKSEN: Well, Mr. Warden
22 represented earlier that there are some other cost
23 pressures that are going on and that we will be feeling
24 the -- the implications of those cost pressures and so
25 I'm sure that the Company will be trying to do what it

1 can in order to provide the service required in the most
2 economical manner but whether it can maintain that level,
3 that's not our forecast. It -- we're forecasting for it
4 to increase.

5 MR. KRIS SAXBERG: But what you're
6 telling me is that in the -- in the last instance you
7 were forecasting it to decrease to the -- by about 1.6
8 million in the negative contingency, correct?

9 MR. WILLY DERKSEN: What we were saying
10 was that the detailed budgets, the extrapolation of the
11 detailed budgets that were prepared previously, was at
12 too high a level to be acceptable by EC and they were
13 instructed to reduce those budgets and so they did that.

14 MR. KRIS SAXBERG: And...

15

16 (BRIEF PAUSE)

17

18 MR. KRIS SAXBERG: They were successful
19 in being able to achieve those reduced budgets so much --
20 so much so that -- that the costs, the activity charges,
21 primary costs, and overhead as we went over them were
22 reduced by about 2.3 million though, correct?

23 MR. WILLY DERKSEN: Yes, but the total
24 cost stayed at the -- came at the approved level with
25 commensurate plans in order to achieve that level.

1 MR. KRIS SAXBERG: So what you're saying
2 is notwithstanding that you made the savings and that the
3 actual costs went down by 2.3 million, there is --
4 there's no savings to be passed on?

5 MR. WILLY DERKSEN: I think the savings
6 were put in the initial application. The total budgets
7 came in at 57 million. Executive Committee reduced that
8 to 55 million; that's where the savings were achieved and
9 then the subsequent detailed budgets confirmed that the
10 55 million was a -- a reasonable target for operating the
11 gas utility for that year.

12 MR. KRIS SAXBERG: Okay. But earlier you
13 did confirm with me that the actual O&A for that year is
14 going to be less than 55.1 million?

15 MR. WILLY DERKSEN: Yes.

16 MR. KRIS SAXBERG: So that's two (2)
17 years in a row where we -- where Centra has to its -- and
18 to be congratulated for doing this, has reduced its O&A
19 from the Board-approved level?

20 MR. WILLY DERKSEN: That's correct.

21 MR. KRIS SAXBERG: But going forward is
22 it fair to say you want to measure the test years based
23 on the Board-approved level rather than the actuals in
24 the last two (2) years?

25 MR. WILLY DERKSEN: The targets have been

1 set for Centra based upon the circumstances that were
2 relevant at the time and as, again, Mr. Warden and I
3 indicated yesterday, there are some cost pressures now
4 that weren't prevalent at the time the previous targets
5 were set and those cost pressures relate to things like
6 fuel cost increases, labour increases, the difficulty of
7 attracting skilled employees with the right skill sets,
8 providing training programs for employees, commodity cost
9 increases, and other things.

10 MR. KRIS SAXBERG: And maybe we can just
11 look at the -- the test year estimates and they are at
12 PUB-19A. It's the same tab that we've been working with
13 but if you go to the very beginning and you flip two (2)
14 pages to PUB-19A we can compare the '06/'07 forecast to
15 the first test year.

16 And I just wanted to note a couple of
17 items. In terms of saving between the '06/'07 forecast
18 and the first test year, if we look at this first page
19 which deals with president and CEO, there there's --
20 there's a small savings in audit -- very small but
21 otherwise there are some cost -- very, very minor, minor
22 cost increases, do you see that?

23 MR. WILLY DERKSEN: Yes.

24 MR. KRIS SAXBERG: And in finance and
25 administration there are some cost reductions related to

1 IT banner, IT distribution, gas regulatory and gas
2 supply.

3 Those are cost reductions in the forecast?

4 MR. WILLY DERKSEN: Yes.

5 MR. KRIS SAXBERG: And there's no cost
6 savings in tran -- in -- in transmission on the next page
7 there's a minor cost savings in the system -- well,
8 there's a -- a cost savings with system integrity.

9 MR. WILLY DERKSEN: Yes, I see that.

10 MR. KRIS SAXBERG: It's been forecast.
11 No savings in power supply and no savings forecast in
12 customer service and marketing. And if we -- is that
13 correct?

14 MR. WILLY DERKSEN: That's correct.

15 MR. KRIS SAXBERG: Now if we change to
16 the other side of the equation and -- and -- and just
17 look through these same estimates, but this time with a
18 view to identifying significant cost increases.

19 And I've looked through it and I see that
20 the only real significant cost increase that's forecast
21 between this '06/'07 year that we've been talking so much
22 and the first test year, the only significant cost
23 increase is the corporate allocation.

24 MR. WILLY DERKSEN: Yes.

25 MR. KRIS SAXBERG: And that is a cost

1 increase of, under my calculation, \$1.34 million.

2 MR. WILLY DERKSEN: Your math looks
3 pretty reasonable.

4 MR. KRIS SAXBERG: And so on an
5 individual-by-individual basis, no real significant cost
6 increases, in fact, some -- some cost savings. But, on
7 the corporate allocation line you've got a major cost
8 increase, correct?

9 MR. WILLY DERKSEN: Yes, but, Mr.
10 Saxberg, we have talked about this already. These --
11 these detailed budgets were prepared over a year ago and
12 times have changed and there are some factors that need
13 to be taken into consideration.

14 When the target was set, which was
15 subsequent to these detailed budgets, there was more
16 information available and a -- as I said yesterday, the
17 higher target was -- was put in place such to recognise
18 these additional cost pressures.

19 It -- in this case it results in a
20 positive contingency rather than the negative contingency
21 that happened previously. But in looking over the re-
22 budgeting that our departments are doing at this point in
23 time, those cost increases are real.

24 MR. KRIS SAXBERG: But none of those --
25 this new information and -- and new -- these new factors

1 that you're describing, I think the -- the largest one
2 (1) being this pending skills deficit, there -- there's
3 no -- those weren't factored into the information that
4 we're looking at now.

5 MR. WILLY DERKSEN: They weren't factored
6 into the details, but they would have been factored into
7 the total target setting process.

8

9 (BRIEF PAUSE)

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11 MR. KRIS SAXBERG: And have you done any
12 quantifiable -- an -- any quantification of the impact of
13 this skills deficit that -- that you've spoken about?

14 MR. WILLY DERKSEN: Well, I think what I
15 said yesterday was right now there is a plan for fourteen
16 (14) or fifteen (15) new trainees and some of them have
17 been hired.

18 And if you look at a cost per trainee of
19 let's -- let's throw seventy-five thousand (75,000),
20 although I think it would be something greater than that
21 because not only do you have to pay the salary and wages
22 of those trainees, you also have to provide instruction
23 to them.

24 You know, even at seventy-five thousand
25 dollars (\$75,000), we're talking in excess of a million

1 dollars related to that program.

2 MR. KRIS SAXBERG: Now for the next test
3 year you've just inflated everything by 2.5 percent,
4 correct?

5 MR. WILLY DERKSEN: Yes, the details have
6 been inflated by 2.5, that's right.

7 MR. KRIS SAXBERG: And then you've also
8 added another \$1.7 million corporate allocation, correct?

9 MR. WILLY DERKSEN: That's not another
10 1.7 million, that is another function of the same
11 calculation. If the details in the total are inflated by
12 2.5 percent, it would make sense that the contingency
13 would also maintain that same 1.7 million, and it's not
14 additive, it is the same 1.7 million, just brought a year
15 later.

16 MR. KRIS SAXBERG: So if we were just to
17 focus on these new cost items that you're speaking of,
18 the total amount between the two (2) years of this
19 contingency is approximately \$3 million.

20 Would you agree?

21 MR. WILLY DERKSEN: Well, 1.7 million
22 annual. Each year has 1.7 million and if you incur an
23 annualized expense of 1.7 million the first year, it's
24 likely you'll incur it the second year.

25 MR. KRIS SAXBERG: Okay. So, 3.4 million

1 between the two (2) years relates to this high-level
2 estimate of the impact of the skills deficiency.

3 MR. WILLY DERKSEN: Well, it's not only
4 the skills deficiency, Mr. Saxberg; that's just an
5 example of the types of cost increases that we're
6 incurring. Other items include wage settlements that are
7 above the levels previously included in detailed budgets.

8 Fuel costs, which I think we all realize
9 have gone up dramatically. There are labour costs that
10 are going up for contracted services. Odorant costs are
11 going up. There's additional requirements relative to
12 integrity management on the distribution side and -- and
13 more intense CSA standards, I understand, and other
14 things. Prices are going up.

15 MR. KRIS SAXBERG: That's a long list.
16 And are you suggesting that each item on that list that
17 you just presented was not included into the detailed
18 budgets previously?

19 MR. WILLY DERKSEN: Those are items that
20 were not included in the detailed budgets previously,
21 that's correct.

22 MR. KRIS SAXBERG: Well, one (1) of the
23 items I think you mentioned was labour costs going up;
24 that certainly must have been included in budgets before.

25

1 MR. WILLY DERKSEN: What I indicated was
2 that the actual wage increases were above what was
3 imbedded into the detailed budgets.

4 MR. KRIS SAXBERG: And you're forecasting
5 that it will again then be above what's imbedded in the
6 detailed budgets?

7 MR. WILLY DERKSEN: Well, we are
8 forecasting that. Yes, that's correct.

9 MR. KRIS SAXBERG: I just want to get my
10 finger on what's in this \$3.4 million, because we've got
11 a lot of detail about the individual programs, the
12 allocations, the forecast. There's a lot of detail for
13 us to -- to chew on in terms of determining if the O&A's
14 appropriate.

15 But with respect to all of the increase,
16 the 3.4 million, we -- this is all new evidence that's
17 been presented at this hearing and -- and only orally and
18 none in documentary form. Would you agree with that?

19 MR. WILLY DERKSEN: I believe our
20 rebuttal did talk about a few of these items. But they
21 are not in the details that have been imbedded in the
22 application specifically or in the detailed program
23 budgets, that's correct.

24 And I -- I think we should be talking
25 about 1.7 million annually, not -- not the total. I

1 think that misrepresents the number.

2 MR. KRIS SAXBERG: Well, it's one point
3 three (1.3) the first year that I identified as part of
4 the contingency, and then it's one point seven (1.7) in
5 the next year.

6 MR. WILLY DERKSEN: All right.

7 MR. KRIS SAXBERG: Doesn't this -- using
8 this -- this corporate allocation cushion, if I can call
9 it that without getting anyone upset, doesn't it sort of
10 fly in the face of what's happened in terms of the
11 actuals in the last two (2) years that we went over?
12 That the actuals were under what the budgets had -- had
13 progressed then that trend?

14 MR. WILLY DERKSEN: Well, as I mentioned
15 before, one (1) of the reasons for the budgets being
16 under was the warmer weather in the first year. It was
17 substantially warmer than normal and that did give a -- a
18 reduction.

19 But, you know, there are a lot of things,
20 I guess, that fly in the face of past trends. I mean if
21 you look at gas prices around you. If you look at what
22 they're calling the Alberta Factor in terms of -- of wage
23 demands and contractor charges and commodity prices.
24 Those things are real and they're happening.

25 MR. KRIS SAXBERG: Do you have a forecast

1 for the weather next year?

2 MR. WILLY DERKSEN: I'm sure we do have a
3 forecast for the weather for next year. Yes.

4 MR. KRIS SAXBERG: So you're telling us
5 it's going to be colder?

6 MR. WILLY DERKSEN: I'm telling you it's
7 going to be normal; that's what our forecast would say at
8 this point.

9 MR. KRIS SAXBERG: I just want to, before
10 the break, talk about the new building. And I think that
11 this is clear, but just for my -- my sake, can you
12 confirm that there's no impact as a result of the new
13 building on the revenue requirements for either test
14 year?

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

16 MR. KRIS SAXBERG: And, notwithstanding
17 that the -- the building is going to come on line at the
18 end of May in 2008?

19 MR. WILLY DERKSEN: That's correct.

20 MR. KRIS SAXBERG: And the -- the
21 building will -- will result in -- in additional property
22 taxes that will have to be paid to the city and I think
23 you've already spoken to that, but the question that I
24 have is:

25 Was there any special arrangement made in

1 relation to the purchase of Winnipeg Hydro with respect
2 to property taxes?

3 MR. VINCE WARDEN: No, there was not.

4 MR. KRIS SAXBERG: So the property taxes
5 will be set in accordance with the regular procedure that
6 the city assessor will determine an -- an assessed value
7 of that building, it may or may not be contested by
8 Hydro, but ultimately that assessed value will drive a
9 particular tax in each -- in each year, correct?

10 MR. VINCE WARDEN: Yes.

11 MR. KRIS SAXBERG: And the value -- the
12 building is \$278 million at cost as the -- the most
13 recent estimate; is that right?

14 MR. VINCE WARDEN: That is the most
15 recent estimate, yes.

16 MR. KRIS SAXBERG: And if we were to
17 assume that Manitoba Hydro hires a really good property
18 tax consultant in terms of negotiating the value of this
19 building -- or determining the assessed value of this
20 building, and was able to have the assessed value
21 determined at 200 million, we'll say, for the sake of --
22 of argument, would you agree then the way to calculate
23 the yearly taxes on the building would be that it would
24 be the 200 million times the commercial portioning of
25 point six five (.65), 65 percent, you agree that that's

1 the appropriate commercial portioning?

2 And -- and perhaps I'll just put it on the
3 record, and you can take it subject to check, times the
4 mill rate which my information tells me is point zero six
5 nine two nine two (.069292) for downtown for the 2007
6 year and if you do the math there, and I have, it
7 generates taxes in -- in the range of \$9 million a year.

8 Could you take that, subject to check, or
9 could you check on that and give me your perspective on
10 the building if it's assessed even at a low assessment of
11 200 million?

12 MR. VINCE WARDEN: We'll do that.

13

14 --- UNDERTAKING NO. 13: Provide perspective on the
15 new building if it's assessed
16 even at a low assessment of
17 200 million.

18

19 CONTINUED BY MR. KRIS SAXBERG:

20 MR. KRIS SAXBERG: And I know that you
21 had indicated that well, you know, there would be some
22 offset because in the leases that -- that you have at
23 present, there would be a -- a component of property tax,
24 but would you agree with me that that property tax
25 component would relate to the value of the building at

1 which you're leasing, correct?

2 MR. VINCE WARDEN: That would seem
3 reasonable, Mr. Saxberg, yes.

4 MR. KRIS SAXBERG: And there's going to
5 be a big difference between the building leased on St.
6 Mary's Avenue and this new headquarters, which is going
7 to be a -- a landmark for Winnipeg in the future, in
8 terms of value, you'd agree with that?

9 MR. VINCE WARDEN: Again, I would agree,
10 yes.

11 MR. KRIS SAXBERG: Now, however the
12 property taxes are -- or whatever they come out to be,
13 how are they going to be apportioned between gas and
14 electric?

15 Do you know the driver yet?

16

17 (BRIEF PAUSE)

18

19 MR. WILLY DERKSEN: The approach that's
20 taken right now with building costs is that it's flowed
21 through overhead. Centra gets approximately 11 percent
22 of the total overhead costs of the company.

23 MR. KRIS SAXBERG: And that's because the
24 -- Centra represents about 11 percent of the total
25 activity?

1 MR. WILLY DERKSEN: That's correct.

2

3 (BRIEF PAUSE)

4

5 MR. KRIS SAXBERG: Is this going to be a
6 single occupant building or there'll be tenants to -- to
7 offset some of these costs?

8 MR. VINCE WARDEN: There will be tenants.

9 MR. KRIS SAXBERG: So that's a factor
10 that we could add to the -- the productivity side of the
11 equation that would pay down at least a portion of the
12 annual \$21 million in costs? Has there been a
13 calculation of the -- of the value of the income-
14 generating potential for the building?

15 MR. VINCE WARDEN: There has. I -- I
16 don't have that number immediately with me, but we could
17 get that.

18 MR. KRIS SAXBERG: If you would I -- I
19 think that would be helpful.

20

21 --- UNDERTAKING NO. 14: To provide a calculation of
22 the value of the income-
23 generating potential for the
24 new building

25

1 MR. VINCE WARDEN: Mr. Saxberg, I
2 should mention that contracts have not been fully
3 negotiated in that regard, so, it may be difficult to put
4 it on the record, however, we could probably give an
5 order of magnitude.

6

7 CONTINUED BY MR. KRIS SAXBERG:

8 MR. KRIS SAXBERG: Is it -- is it
9 possible to track between now and the next GRA the
10 productivity gains that flow to Centra because of the new
11 building which would include some share of -- of these
12 tenant leases on the one (1) hand and the allocation of
13 the yearly costs on the other to be reviewed down the
14 road?

15 Is it something that's possible?

16 MR. VINCE WARDEN: Well, I think we've --
17 well, in fact, we have indicated that a new building will
18 be -- is expected to be cost neutral, so, we would not
19 expect to see any substantial change in the costs of
20 Centra or -- or Manitoba Hydro.

21 MR. KRIS SAXBERG: But one (1) thing I
22 just wanted to -- to be clear on, in 2008 property taxes
23 will be -- will be borne by Centra Gas and if it's 11
24 percent of \$9 or \$10 million, that's a million dollars
25 additional money that we'll -- that we'll see in the

1 overhead rate for that year?

2 MR. VINCE WARDEN: Well, assuming the
3 numbers that we've assumed earlier are -- are correct,
4 then sure.

5 MR. KRIS SAXBERG: But that would be on
6 an actual basis because you haven't forecast that into
7 the rates you're applying for, correct?

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: Again, Mr. Saxberg, we
12 were saying this is going to be cost neutral, so, to the
13 extent there is any increase as a result of property
14 taxes or other costs, they'll be offset by productivity
15 savings.

16 MR. KRIS SAXBERG: I -- I could carry on
17 and -- and attempt to finish in the next fifteen (15) or
18 twenty (20) minutes or we could take a break?

19 THE CHAIRPERSON: I think we'll take a
20 break. So we'll be back a few minutes after 3:00.
21 Thanks.

22

23 --- Upon recessing at 2:49 p.m.

24 --- Upon resuming at 3:09 p.m.

25

1 THE CHAIRPERSON: Okay, Mr. Saxberg, any
2 time.

3 MS. MARLA MURPHY: Excuse me, Mr. Chair,
4 just before we begin?

5 THE CHAIRPERSON: Yes, Ms. Murphy?

6 MS. MARLA MURPHY: Ms. Derksen has a
7 correction she'd like to make to an answer she gave to
8 Mr. Saxberg just before the break.

9 THE CHAIRPERSON: Ms. Derksen...?

10 MS. KELLY DERKSEN: Thank you. Mr.
11 Saxberg, I -- I took subject to -- to check and I
12 provided an answer to you which you questioned me about
13 some regulatory costs for the '05/'06 fiscal year and I
14 suggested to you that they were only the costs related to
15 that fiscal period and, in fact, for any application that
16 you see on that particular page of the attachment 24 part
17 E out of Tab 19 that span more than one (1) fiscal year.

18 What -- what I've done for this schedule
19 is I've actually included it in the fiscal year in which
20 it ended. So for example, the General Rate Application
21 for the 2005/'06-'06/'07 proceeding began in 2004 --
22 preparation of that application began in -- in 2000 --
23 late 2004. All of those costs would ultimately flow into
24 the -- the line item that you see on that page.

25

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: Okay. Thank you
3 for that. So -- so it's -- it's all based on hearings
4 that occurred within that year, all the costs related to
5 hearings that -- that occurred within the '05/'06 year.

6 MS. KELLY DERKSEN: For that year, that's
7 fair, yes.

8 MR. KRIS SAXBERG: Mr. Derksen, if I
9 could get you to turn to Tab 17. There's a transcript of
10 the -- from the GRA held in 2003 and under my scribbling
11 overhead there's some evidence from you indicating that
12 there was an expectation that overhead would decline in
13 '03/'04 because of the acquisition of Winnipeg Hydro, do
14 you see that?

15 MR. WILLY DERKSEN: Yes, sir.

16 MR. KRIS SAXBERG: And you're saying that
17 the overhead charged to Centra Gas was forecasted as
18 grease -- de -- decreased because there will be more
19 operational hours to spread over that overhead rate? But
20 as it turns out the overhead didn't decrease, it
21 increased in that year and -- and I just want your
22 confirmation of that.

23 That's the next page over.

24

25 (BRIEF PAUSE)

1 MR. KRIS SAXBERG: Line 28. the '04/'05
2 actual was \$11.7 million for overhead whereas the
3 forecast that we're talking about at that previous
4 hearing was nine point six (9.6) -- I'm sorry, nine point
5 nine six (9.96); do you see that?

6 MR. WILLY DERKSEN: Yes, sir, I see that.

7 MR. KRIS SAXBERG: Now, would that be --
8 do have an explanation for that?

9 MR. WILLY DERKSEN: Well, specifically
10 the overhead rate would've gone down for the factors that
11 I represented in that hearing. If given the same amount
12 of overhead in a broader number of hours to spread it
13 over, the overhead rate would drop and it has dropped as
14 a result of that.

15 Now, the reasons for the total overhead
16 charges to Centra increasing, I'd have to research that,
17 but I would think it would likely be related to possibly
18 other costs flowing into overhead that weren't there
19 previously -- some cost increases -- and possibly
20 increased activity charges being made to Centra.

21 I think in '03/'04 we had understated in
22 our forecast the amount of activity charges or the total
23 costs that would be flowing to Centra's as forty-nine
24 (49) whereas I think the actual is more like fifty-two
25 (52). So I think that overhead -- dollars being charged

1 would be related -- the increase would be related to
2 those other factors. However, what I did represent would
3 in fact have been the case.

4 MR. KRIS SAXBERG: Could you turn to Tab
5 12 and the second page in which is PUB-19A. And I want
6 to look at line 32 and that is the operating and
7 administrative expense before depreciation, interest and
8 taxes, correct?

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

10 MR. KRIS SAXBERG: And the question I
11 have is, should -- when we're comparing trends in O&A,
12 should we be looking at the number on line 32 before
13 depreciation to have a more accurate reflection of what's
14 happening in terms of O&A costs?

15 MR. WILLY DERKSEN: I don't think that
16 line 32 would give you any better indication than line 36
17 would. What line 34 does is remove the amount of
18 depreciation and interest and taxes that's already
19 embedded in line 32, so I think conceptually they'd be
20 similar numbers, but we focus on the line 36.

21 MR. KRIS SAXBERG: But where the
22 depreciation rates have been changed, wouldn't that
23 affect the presentation of the O&A numbers?

24 MR. WILLY DERKSEN: Well, it wouldn't
25 affect the presentation, it would affect, first of all,

1 if for example there was ten thousand (\$10,000) dollars
2 more depreciation that went into overhead and the
3 overhead rates were adjusted in accordance with that,
4 then the activity charges would -- and overhead charges
5 would go up by ten thousand (10,000) and we would remove
6 that ten thousand (10,000) in line 34. So in fact that
7 ten thousand dollar (\$10,000) in depreciation would -- if
8 you're looking at line 37 -- would not show up and it
9 shouldn't show up.

10 MR. KRIS SAXBERG: Okay. Thank you for
11 that. So if we're calculating percentage increases your
12 view is it's fine to use the -- the line 36?

13 MR. WILLY DERKSEN: Line 36 is our
14 preference, yes.

15 MR. KRIS SAXBERG: Now, the primary means
16 to ensure that cost of operations is restrained at
17 Manitoba Hydro is through the budgeting process; would
18 you agree with that?

19 MR. WILLY DERKSEN: I think, Mr. Saxberg,
20 that would be one (1) of the means but it's certainly not
21 the only means. A budgetary process is important for --
22 for that reason but I think operational planning,
23 strategic planning, and -- and those sorts of things are
24 very important; and managerial discretion on operating
25 costs and understanding, you know, what the drivers are.

1 There's -- there's lots of aspects that flow into cost
2 control.

3 MR. KRIS SAXBERG: But the budgeting
4 process, would you agree, is probably the most important?

5

6 (BRIEF PAUSE)

7

8 MR. WILLY DERKSEN: I think -- I think
9 the planning process is probably the most important
10 aspect of it. The -- the budgeting process represents
11 those plans. It quantifies those plans and -- and allows
12 a basis upon which to measure the -- the achievement of
13 those plans and -- and discrepancies -- identified
14 discrepancies. But I think operational planning would be
15 a more important aspect of cost control.

16 MR. KRIS SAXBERG: Just quickly turn to
17 Tab 16, the second page?

18 And I was just referencing the Board's
19 decision in 143/04 where the Board stated:

20 "Manitoba Hydro indicated that its cost
21 control procedures encompass monitoring
22 and process controls with its primary
23 tool being departmental budgets."

24 Are we just talking semantics here?

25 MR. WILLY DERKSEN: Well, I believe we

1 are because budgets do represent the quantification of
2 operational plans.

3 MR. KRIS SAXBERG: Now, if you could flip
4 back to Tab 12 my question relates to PUB-28B; it's page
5 6 of 6 which is -- I apologize, next time I'll number
6 these pages but it's close -- somewhere in the middle.
7 It's PUB/CENTRA-28B page 6 of 6.

8 And, Mr. Derksen, here we're comparing the
9 last approved '06/'07 O&A with the latest '06/'07
10 forecast and this is what we have discussed earlier. And
11 I just want to ask you about line 28 so that I understand
12 what it is that you were telling me earlier.

13 You were suggesting that the last approved
14 contained a corporate allocation which was a \$1.7 million
15 reduction target; is that fair?

16 MR. WILLY DERKSEN: Yes, that's fair.

17 MR. KRIS SAXBERG: And you achieved it at
18 least as far as this forecast goes but not only did you
19 achieve it, you exceeded it to the tune of seven hundred
20 and thirty-one thousand dollars (\$731,000); is that fair?

21 MR. WILLY DERKSEN: I'd have to check on
22 the 1.7 million. In corporate allocations and
23 adjustments one (1) of the components and normally the
24 only credit component is the corporate allocation and
25 adjustment. So the corporate allocation and adjustment

1 amount that was embedded in that one point six (1.6)
2 negative was probably something greater than that. The
3 other components that are in the corporate allocations
4 and adjustments include over/under absorptions from
5 departments and some benefit costs that are related to
6 past service, Centra employees.

7 MR. KRIS SAXBERG: But, generally
8 speaking, not only did you achieve those reductions, you
9 did exceed them though. And that's -- I was just trying
10 to put a number on it. You're suggesting that number of
11 seven hundred and seventy-one thousand (771,000) may not
12 be the -- the -- the right number, but you've earlier
13 stated that you've exceeded those --

14 MR. WILLY DERKSEN: Oh, you're suggesting
15 that the '06/'07 actuals being favourable to this fifty-
16 five, one eighty-two (55,182) demonstrates that we've
17 exceeded that corporate contingency. Is that what your
18 question is?

19 MR. KRIS SAXBERG: Yes.

20 MR. WILLY DERKSEN: Yes.

21 MR. KRIS SAXBERG: Thank you for that.
22 And I think that that's best shown on tab 14 which is
23 CAC-93. CAC-93 was a request to explain an earlier IR
24 and a calculation of a two hundred and two dollar (\$202)
25 cost per customer figure.

1 Am I correct that this IR response
2 indicates that the actual O&A as at December 31st, 2006
3 was more favourable than the forecast or approved O&A
4 such that the cost per customer was two hundred and two
5 dollars (\$202)?

6 MR. WILLY DERKSEN: Can you give me a
7 minute with that, please?

8 MR. KRIS SAXBERG: Sure.

9

10 (BRIEF PAUSE)

11

12 MR. WILLY DERKSEN: Well, there's a few
13 things going on with this calculation, Mr. Saxberg. One
14 (1) of them is that this is an interim calculation that I
15 don't really think provides a good insight as to what's
16 being achieved on an annual basis.

17 And the second thing is that January,
18 February, March are typically higher operating cost
19 months than the rest of the year.

20 MR. KRIS SAXBERG: I just want to make
21 sure I understand the information on this IR. What it's
22 saying though is that the actual O&A as of December 31st,
23 2006 was \$2.8 million less than what was forecast.

24 MR. WILLY DERKSEN: That's what it's
25 saying, yes.

1 MR. KRIS SAXBERG: And that, then,
2 generated a cost-per-customer of two hundred and two
3 dollars (\$202) compared to the corporate strategic target
4 of two hundred and thirteen (213). Correct?

5 MR. WILLY DERKSEN: That calculated a
6 variance amount of eleven dollars (\$11), and if you
7 subtract that eleven dollars (\$11) from the two thirteen
8 (213), you came up with two hundred and two (202).

9 MR. KRIS SAXBERG: Now a -- another
10 quarter has passed and if we updated this Information
11 Request with that evidence, what would it tell us?

12 MR. WILLY DERKSEN: Well, I think what
13 you're trying to get at is for me to tell you what the
14 annual operating costs are again for the actual 2007.
15 And I haven't got that information with me, and I don't
16 believe I'm at liberty to provide it to you.

17 MR. KRIS SAXBERG: And I'll just ask, why
18 is it that the actuals at December 31st, 2006 can be
19 presented in this public forum, but the actuals three (3)
20 months later, at March 31st, 2007, which would complete
21 the loop and give us all the information on the year, are
22 somehow private?

23 MR. VINCE WARDEN: Well, Mr. Saxberg, we
24 have an obligation to adhere to a certain protocol in the
25 release of actual results for the fiscal year end. And

1 if we give you all the pieces, obviously, you can add
2 them up and come to the total and that wouldn't be
3 appropriate.

4 THE CHAIRPERSON: Mr. Warden, haven't you
5 already given them the total? You've said the net
6 result --

7 MR. VINCE WARDEN: Well --

8 THE CHAIRPERSON: -- technically, within
9 a million dollars anyway.

10 MR. VINCE WARDEN: -- yes, within a
11 million dollars is -- I thought was -- for purposes of
12 this proceeding, was close enough for -- for what we have
13 to do, so, yes, we've given him that -- that much of a --
14 of an answer.

15 THE CHAIRPERSON: If I could, Mr.
16 Saxberg, just returning to it. I guess I don't
17 understand something.

18 When you were talking about your tab 12,
19 you were suggesting to Mr. Derksen that they had exceeded
20 their target? Actually, isn't the opposite on PUB-28B of
21 page 6 of 6 You had a corporate allocation credit of
22 1.662, which would have meant that your actual goal would
23 have been about 10.8 million and that you came in,
24 eventually, at 11.5, isn't that correct, Mr. Derksen?

25 I was wondering if Mr. Saxberg has

1 misunderstood the table, or I have.

2 MR. WILLY DERKSEN: I've just got the
3 reference in front of me, could you repeat that again,
4 please?

5 THE CHAIRPERSON: Well Mr. Saxberg was
6 suggesting, he was looking at your 2006/'07 last
7 approved, it came down to primary costs of (11,481,000),
8 then on line 28 had a corporate allocation and
9 adjustments of a minus sixteen sixty-two (1662), which
10 was -- he described it as a reduction target and then
11 suggested that you'd more than exceeded it, but I read it
12 the opposite.

13 I read it that at the end of the day you
14 have to add the ten eight sixteen (10816) to the seven
15 thirty-one (731), which is more than what you would
16 forecast including the credit, isn't that correct?

17 Not a huge difference, but it's not
18 exceeding your target, it's a reverse to some degree.

19 MR. WILLY DERKSEN: Mr. Chairman, The --
20 the credit that's in the last approved reflects a target
21 reduction that should flow into the details on the
22 previous page and so to the extent that the overall
23 reduction is achieved, the total of the activity charges
24 and the primary costs should be reduced and that credit
25 that's in line 28 would be eliminated.

1 And so I believe, in fact, that, yes, our
2 re-budgeting has -- has met that goal of reducing costs
3 in -- in accordance with that contingency and I believe
4 what -- what I understood, and I tried to clarify this on
5 the record, what Mr. Saxberg was saying, well that you
6 would have -- if you would have met your goal, your
7 actual costs for the year would have been 55,182,000.

8 But because your actual costs were
9 something lower than (55,182,000), you have exceeded the
10 target of reducing costs that you had implicitly placed
11 in that in that corporate allocations and adjustment
12 line.

13 THE CHAIRPERSON: Okay. It's not a big
14 deal, but I was just saying that when you come down to
15 your total program cost, the actuals slightly -- the
16 forecast anyway, is slightly higher than the approved
17 line by about four hundred and some thousand (400,000)
18 before you get into the deduction for appreciation
19 interest and taxes. Or am I misunderstanding this?

20 MR. WILLY DERKSEN: The forecast is -- is
21 a little bit lower in both cases. On page 5 of 6 and 6
22 of 6 --

23 THE CHAIRPERSON: Oh, but when you come
24 down to the total program cost on line 31 the forecast is
25 sixty-six, six three nine (66,639) and the 2006 last

1 approved is sixty-three, two one three (66,213), is it
2 not?

3 MR. WILLY DERKSEN: Oh, I see what you're
4 saying. Yes, and then DIT reduction subsequent to that
5 brings it down to be an -- an equal amount. So the net
6 operating cost, the fifty-five one eighty-two (55,182) is
7 equal to what we had forecasted in the last approved or
8 had -- had included in the last approved and so our
9 forecast achieved our targeted cost reductions, is -- is
10 what we're saying.

11 THE CHAIRPERSON: Okay, thank you. All
12 right, Mr. Saxberg.

13

14 CONTINUED BY MR. KRIS SAXBERG:

15 MR. KRIS SAXBERG: I think we were
16 discussing in CAC-93 and -- and I take it it's not
17 possible to get an update of -- of that information; just
18 in terms of a cost per customer without per -- seeing the
19 underlying calculations?

20 MR. VINCE WARDEN: Well as Mr. Derksen
21 indicated, the quarter is typically higher cost than the
22 previous nine (9) months on average, so the -- the cost
23 per customer wouldn't go up from the two-o-two (202)
24 that's referenced in the CAC/IR.

25 So it would be in the -- in the -- it

1 wouldn't -- not be as high as the two thirteen (213)
2 forecast but it would be higher than the two-o-two (202).
3 I think in the -- it ended up in the range of two-o-six
4 (206), two-o-seven (207); somewhere in that range.

5 MR. KRIS SAXBERG: Okay. Well, that's
6 helpful because the -- the actual -- and you can take
7 this subject to check, but, the actual cost per customer
8 for '05/'06 was two-o-six (206) and the actual cost per
9 customer at December '06 was two-o-two (202) and now
10 you're saying that if we follow that through right to the
11 end of March, it's around two-o-six (206) again?

12 MR. VINCE WARDEN: In that range, yes.

13

14 (BRIEF PAUSE)

15

16 MR. KRIS SAXBERG: I want to ask some
17 questions about the savings that are included in the
18 forecast as a result of the integration of the billing
19 system and the information that I want to reference is at
20 Tab 18.

21

22 (BRIEF PAUSE)

23

24 MR. KRIS SAXBERG: Now, PUB-44 says that
25 the cost to integrate the billing systems was \$21

1 million; is that correct?

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

3 MR. KRIS SAXBERG: And the cost will be
4 split between electric and gas one-third to gas, two-
5 thirds (2/3s) to electric based on customers?

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

7 MR. KRIS SAXBERG: And that \$21 million,
8 is that above the initial cost to repeat -- repatriate
9 banner?

10 MR. WILLY DERKSEN: Yes, it would be
11 above the initial cost to repatriate it and the initial
12 costs to implement it.

13 MR. KRIS SAXBERG: And the -- the
14 benefits that are forecast are a reduction in gas O&A of
15 about 1.2 million?

16 MR. WILLY DERKSEN: I'm sorry, could you
17 just give us a minute, please?

18 MR. KRIS SAXBERG: Sorry.

19

20 (BRIEF PAUSE)

21

22 MR. WILLY DERKSEN: Sorry, please
23 proceed.

24 MR. KRIS SAXBERG: The -- the costs are
25 21 million; the benefits are going to be approximately

1 1.2 million in gas and four hundred thousand (400,000) in
2 electric?

3 MR. WILLY DERKSEN: Yes.

4 MR. KRIS SAXBERG: And when -- when the
5 planning process was underway to determine whether to
6 move to a common billing system, I understand that there
7 were two (2) separate business cases that were made, one
8 (1) for gas and one (1) for electric?

9 MR. WILLY DERKSEN: Do you have a
10 reference for that, Mr. Saxberg?

11 MR. KRIS SAXBERG: Yeah, it's in the same
12 tab. There's a transcript of your evidence from the
13 integration hearing held in April of 2002.

14

15 (BRIEF PAUSE)

16

17 MR. WILLY DERKSEN: So you're referring
18 to one (1) -- one (1) of the cost benefits to repatriate
19 it and the second one to integrate it; is that your
20 reference?

21 MR. KRIS SAXBERG: I'm at page 294. It's
22 the second page of the transcript line 18 where you
23 indicate that the costs as shown are justified on the
24 basis for each of the respective utilities themselves.

25

1 (BRIEF PAUSE)

2

3 MR. KRIS SAXBERG: And what I'm -- the --
4 the point that I'm getting to is that Manitoba Hydro had
5 to decide whether it would incur costs to move to the
6 banner system based on its own business considerations
7 and that an analysis of that sort was conducted?

8 MR. VINCE WARDEN: Yes, an analysis of
9 options was conducted as to whether or not the move to
10 banner was the best option for the electricity customers,
11 yes, that was done.

12 MR. KRIS SAXBERG: And -- and I think at
13 that time, the cost was estimated to be 10.5 million and
14 -- and that's what -- what's mentioned in this -- in this
15 transcript, at the time?

16 MR. VINCE WARDEN: Yes.

17 MR. KRIS SAXBERG: And the potential
18 savings, based on this electric business case, were
19 forecast to be \$4 million and I get that from the Ford
20 (phonetic) decision which is also in this tab at page 26
21 under the heading CIS. And for the -- for the benefit of
22 the record, I'll quote under CIS page 26 quote:

23 "As discussed previously, Hydro is
24 evaluating the possibility of
25 transferring its electric customers to

1 the banner CIS system. The annual
2 operating cost reduction associated
3 with the migration of electric
4 customers to banner was forecast to be
5 \$4 million."

6 End quote. Do you see that?

7 MR. VINCE WARDEN: I see that, Mr.
8 Saxberg.

9 MR. KRIS SAXBERG: And the total costs of
10 the -- of the migration which -- and let me just make
11 sure I've got this straight. The migration doesn't
12 necessarily mean full integration, is that correct?

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Well, I think migration
17 assumed full integration, so I -- I don't think it was
18 ever contemplated to migrate without integrating.

19 MR. KRIS SAXBERG: Okay. So the ten
20 point five (10.5) then ultimately cost 21 million and --
21 is that fair?

22 MR. VINCE WARDEN: That is correct. The
23 ultimate cost was 21 million.

24 MR. KRIS SAXBERG: And -- but the
25 projected savings that are set out in this application

1 are 1.2 million whereas if you look at the electric side
2 alone on a -- based on the business case that was done at
3 the time where the integration was being considered,
4 produced a savings of 4 million for electric; do I have
5 that right?

6 MR. VINCE WARDEN: I'm -- I'm just trying
7 to get my time frames right on this as well re -- recall
8 that we acquired Winnipeg Hydro in September of 2002 and
9 they had yet another billing system that we had to
10 consider integrating into in either banner or Manitoba
11 Hydro system.

12 So, the numbers that we're referencing
13 here, I -- I don't believe at that time contemplated
14 Winnipeg Hydro into the integration which, ultimately,
15 became part of that 21 million that we're talking about.

16 MR. KRIS SAXBERG: Okay. But just -- in
17 terms of savings, is it fair to say that looking at it
18 from a purely electric point of view that the move to an
19 integrated billing system saved operations \$4 million?

20 MR. VINCE WARDEN: Well, like I say, that
21 was what was obviously referenced at the time and I don't
22 necessarily dispute that number, but I would have to
23 update myself as to whether or not that was based on what
24 ultimately came to pass; whether that's the savings that
25 were realized by the electric side of the business.

1 MR. KRIS SAXBERG: So would it be fair to
2 add those savings to Manitoba Hydro's tally of -- of
3 benefits that flow as a result of the transaction; put
4 that on that side of the ledger?

5 MR. VINCE WARDEN: Well, that was all
6 part of the synergy benefit tabulation that we did and I
7 think we talked about, at length, in -- in these
8 proceedings and I think the last tabulation we did was at
9 March 2005. And the savings -- any savings related to
10 electric billing integration with banner would've been --
11 would've been captured at that time.

12 MR. KRIS SAXBERG: My understanding from
13 reading the record is that that's not the case, including
14 the information that was conveyed at the last hearing.
15 But if you look in the Board orders with respect to this,
16 which suggested that those savings wouldn't be achieved
17 until -- until the actual integration occurred and that
18 they weren't included as part of the \$16 million in
19 synergies.

20 And I -- I believe if you look at that
21 second page of the transcript, two (2) -- page 295,
22 there's a discussion of that very issue. But to save
23 time, perhaps, you know, and -- and I'm -- I appreciate
24 I'm -- I'm springing all this stuff on you and -- and
25 this is over a long -- a while back.

1 Maybe you could just undertake to -- to --
2 to confirm, my understanding from the record, that the \$4
3 million of synergies related just to the electric side as
4 a result of the decision to integrate, to banner, have
5 not been included in the last tally of synergies being in
6 or around 16 million.

7 MR. VINCE WARDEN: Yes, Mr. Saxberg.
8 Actually I can -- I can confirm that now, you are
9 correct, we did not include that in the 16 million tally
10 that was prepared as of March of 2005.

11 MR. KRIS SAXBERG: Thank you for that.
12 And just going back to the wo -- the -- the -- the
13 additional 1.2 million of -- of benefits that are flowing
14 from that integration that really relate to -- to -- to
15 ongoing maintenance of the -- of the CIS system, what --
16 I just want to make sure I understand what Centra's
17 saying.

18 Those savings have already been put into
19 effect because the people that were working on the
20 project, their operating cost weren't going into --
21 weren't being expensed, they were being assigned to a
22 capital order, correct?

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

24 MR. KRIS SAXBERG: So whenever you have
25 any employee at -- at Manitoba Hydro working on a capital

1 project, that's going to obviously reduce the expenses
2 for that year.

3 MR. WILLY DERKSEN: Not necessarily at
4 all, sir, no.

5 MR. KRIS SAXBERG: In this case, though,
6 those -- those IT people were assigned to the project and
7 all of your costs were -- were considered on account of
8 capital.

9 MR. WILLY DERKSEN: Yes, in this case,
10 those people that would normally be supporting and
11 maintaining and enhancing the system, instead of -- which
12 we call operating activities, instead of doing that work
13 they were assigned to the capital project to integrate
14 the system.

15 MR. KRIS SAXBERG: Okay, and they're
16 going to go back to their support duties now on an
17 expense basis and -- and -- but there will be this
18 additional \$1.2 million in -- in -- in savings.

19 MR. WILLY DERKSEN: That's right, the
20 \$1.2 million would be measured from what it otherwise
21 would have been, so if, for example, our support costs
22 were, let's say \$2 million a steady state and then for a
23 period of -- of -- of two (2) or three (3) years our
24 operating costs were reduced down to \$1 million because
25 those people, instead of supporting the system, were

1 working on the capital project, then implicit in this
2 response is that the new operating costs would be at --
3 somewhere around that lower level of -- of a million or
4 eight hundred thousand dollars (\$800,000).

5 MR. KRIS SAXBERG: And -- and the only
6 reason I -- I -- I go down this road is -- is because
7 that \$1.2 million of savings was already included in the
8 \$16 million synergy tally, that portion?

9

10 (BRIEF PAUSE)

11

12 MR. WILLY DERKSEN: I -- I believe it was
13 included in as a component of the early retirement and
14 other savings as -- on there because in the schedule I
15 think we showed actual savings and then we had a
16 component of early retirement people that were not yet
17 replaced at that point in time and so we were having
18 lower operating costs, so I think that was the context.

19 MR. KRIS SAXBERG: Okay, thank you for
20 that. Moving on, I -- I just want to ask about --
21 there's a -- there's a -- a most current lead/lag study -
22 - I'm not sure if it's presented in the materials or not,
23 but my question is, if Centra went to a EPP, Equal
24 Payment Plan, as the default position, would that effect
25 the ru -- the results of the lead/lag study?

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(BRIEF PAUSE)

MR. WILLY DERKSEN: Yes, I believe it should affect the lead/lag calculation.

MR. KRIS SAXBERG: Can you -- can you elaborate on how?

MR. WILLY DERKSEN: Well, the lead/lag calculation's intended to determine the amount of investment required in order to support working capital, so if for example a customer was billed twelve hundred (\$1,200) dollars for the year and they paid us in the middle of each month their hundred (\$100) dollars then there would be no lead or lag.

Our -- the revenue into cash would've been -- the revenue reflected in the statements and the cash received would've been at the same time. The actual billings process as the revenue being recognized over the month and then being collected approximately, I think, it's twenty (20) days later or something like that, so there's a lead or a --a lag of -- of around thirty-five/forty (35/40) days during a normal billing process.

If we had an EPP plan going for customers presumably their -- the revenue inflows would be at a different time than the -- approximately the 20th of the

1 following month.

2 And so one would have to calculate
3 throughout the year what impact that would have on the
4 lead/lag study, but it would change the calculation
5 because of the different pattern of -- of receiving the
6 cash.

7

8 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: Would -- it would --
11 it would affect the amount of working capital that was
12 necessary?

13 MR. WILLY DERKSEN: It would affect the
14 amount of working capital that's necessary, but I don't
15 know if it would be positive or negative at this point in
16 time.

17 MR. KRIS SAXBERG: Could I ask you to
18 undertake to provide that?

19 MR. WILLY DERKSEN: To perform a lead/lag
20 study?

21 MR. KRIS SAXBERG: No, just to
22 directionally -- or you're -- you're saying that that's
23 something that would require that level of analysis, a
24 full level of analysis to determine?

25 MR. WILLY DERKSEN: Well, from our

1 experience, the last time we did it, it was a very
2 comprehensive effort in order to make sure that we had
3 the correct numbers in place, so I -- I believe it would
4 take an -- an - inordinate amount of time, yes.

5 MR. KRIS SAXBERG: Okay. It's -- it's
6 ten (10) to 4:00 and I think I've worn out my welcome
7 with this panel, so I'm going to conclude my questioning.
8 Thank you panel and Mr. Chairman, Board Members.

9 THE CHAIRPERSON: Thank you, Mr.
10 Saxberg. Mr. Peters, I imagine we should, do you have
11 any suggestions?

12 MR. BOB PETERS: I always have
13 suggestions, some of them are -- are even good ones, but
14 Mr. Gange would be next up, I believe, according -- well,
15 unless having said that I see Mr. Boyd is here, so Mr.
16 Boyd may have questions and -- and then Mr. Gange and I -
17 - I don't think we'll finish those before the working
18 time of today.

19 But I don't expect the combination of the
20 two (2) gentlemen to be lengthy in their questions and
21 that could be the start of our 1:30 tomorrow.

22 THE CHAIRPERSON: Maybe we will just ask
23 Mr. Boyd if he has any questions for this panel?

24 MR. SANDY BOYD: Yes, I do, probably ten
25 (10) or fifteen (15) minutes.

1 THE CHAIRPERSON: Well, we might as well
2 do it then for ten (10) or fifteen (15) minutes if you
3 think you can hold it there, Mr. Boyd.

4 Thanks, Mr. Peters.

5

6 (BRIEF PAUSE)

7

8 THE CHAIRPERSON: Are you okay to
9 starting now, Mr. Boyd, or would you prefer to wait till
10 tomorrow?

11 MR. SANDY BOYD: No, I'll try to muddle
12 through here.

13 THE CHAIRPERSON: Okay.

14

15 CROSS-EXAMINATION BY MR. SANDY BOYD:

16 MR. SANDY BOYD: Might get Doug into the
17 picture here. The metre readers, they're trained to do
18 other things other than read a metre, is that correct?

19 MR. DOUG KROEKER: Yes, it is, Mr. Boyd,
20 yes.

21 MR. SANDY BOYD: Do you know what other
22 functions they perform for the Corporation when they're
23 on customer's property and could you let the Board know
24 what they are?

25 MR. DOUG KROEKER: I'm aware of some of

1 them. I know that they're trained to inspect the meter
2 sets and in some of our facilities to look for
3 abnormalities and then to notify our operations group of
4 same if they find something.

5 MR. SANDY BOYD: Some of those things
6 would be risers in concrete, the shutoff valve buried,
7 leaks, iced over rigs, those sorts of things?

8 MR. DOUG KROEKER: Yes.

9 MR. SANDY BOYD: The -- and I'll get the
10 title wrong here but -- the integrity folks, they're also
11 -- they've used the meter readers to conduct surveys for
12 the Corporation in the recent past?

13 MR. DOUG KROEKER: Yes, they have.

14 MR. SANDY BOYD: Do you know what kind of
15 surveys they were?

16 MR. DOUG KROEKER: I'm aware of some of
17 them. I may forget all of them so you feel free to add
18 to the list and I'm sure you're aware of them or, Mr.
19 Boyd, I'm sure you're aware of them as well but I know
20 most recently they were helping us with our outside meter
21 set and the strain piping. They were doing a survey of
22 some ten thousand (10,000) meter sets there to identify
23 those outside meters that would be under strain.

24 MR. SANDY BOYD: And if we didn't have a
25 staff of forty-five (45) meter readers out there on

1 residential property every second month gathering that
2 info would be an additional labour-intensive exercise?

3 MR. DOUG KROEKER: Certainly if we
4 couldn't rely on the meter readers to do that we would
5 have to find other ways. Depending on the time
6 sensitivity of it we could have when our leak surveys are
7 done every three (3) years we can rely on some of that
8 for surveys and -- or we would need to send other
9 personnel out.

10

11 (BRIEF PAUSE)

12

13 MR. SANDY BOYD: I think in PUB-154
14 there's the MHUS contract there, Schedule D?

15

16 (BRIEF PAUSE)

17

18 MR. DOUG KROEKER: Okay, I have the
19 reference.

20 MR. SANDY BOYD: So on there the cost
21 that Hydro gets charged for reading a residential
22 electric meter sixty (60) cents a read and the cost is
23 eight-eight (88) cents for a gas read.

24 And I understand they read residential
25 customers six (6) times a year; is that correct?

1 MR. DOUG KROEKER: That's my
2 understanding.

3 MR. SANDY BOYD: So for simple math again
4 it's three dollars and sixty cents (\$3.60) for the
5 electric side annual cost to get their meter read and
6 five dollars and twenty-eight cents (\$5.28) annual cost
7 to get a gas meter read and all those ancillary benefits,
8 safety concerns and surveys get done as sort of a bonus;
9 would that be fair?

10 MR. DOUG KROEKER: I think that would be
11 a fair comment, yes.

12 MR. SANDY BOYD: Okay, and PUB Order
13 135/05 Directive Number 14, they were going to get back
14 with the business case to run the pilot and I think they
15 were asked to include in there how they were going to
16 handle some of the safety concerns and I can't recollect
17 seeing them in there but maybe I didn't get the whole
18 report.

19

20 (BRIEF PAUSE)

21

22 MR. DOUG KROEKER: Sorry, Mr. Boyd, I've
23 just been advised that we did file that report and we
24 also responded in one (1) of the Information Requests.
25 We're just looking for that reference now.

1 (BRIEF PAUSE)

2

3 MR. DOUG KROEKER: Yes, we did file some
4 additional information in PUB/CENTRA-67, as well, on
5 costs.

6

7 (BRIEF PAUSE)

8

9 MR. SANDY BOYD: Di -- does that address
10 the -- how the Corporation was going to handle the safety
11 issues with AMI?

12 MR. DOUG KROEKER: No, PUB-67 does not
13 address these safety issues.

14

15 (BRIEF PAUSE)

16

17 MR. DOUG KROEKER: Yeah, I've been advise
18 that the discussion of some of the safety concerns may be
19 in that report that was filed on January the 4th of 2006
20 with PUB, but I -- I don't have that report here.

21 MR. SANDY BOYD: And I'm not sure if I
22 read it or not, I think I did. But it seemed to talk
23 about dollars and numbers and I don't ever recollect
24 anything addressing the safety concerns in there.

25

1 (BRIEF PAUSE)

2

3 MR. DOUG KROEKER: Yes, and without
4 having that report here I'm -- I'm unaware of its
5 contents, I haven't read it either.

6 MR. SANDY BOYD: I wonder if there's a
7 way to check and just see if it did address the safety
8 concerns.

9 MR. DOUG KROEKER: Yeah, we'll check on
10 that and report back.

11 MR. VINCE WARDEN: Mr. Boyd, could --
12 could we just be clear as to what you mean by "safety
13 concerns"?

14 MR. SANDY BOYD: We've heard that metre
15 readers do a few other functions other than just read
16 metres and if you install an electronic device, you're
17 not going to have corporation personnel on a residential
18 property six (6) times a year to observe things like
19 pipes drain, settling of soil, tho -- those sort of
20 things.

21 And I -- at the last hearing, unless I'm
22 off base, these concerns were raised and in the directive
23 fro -- that the PUB gave, I thought the Corporation was
24 supposed to address how they'd handle that --

25 MR. VINCE WARDEN: Yes, and Mr. Boyd, I'm

1 just referring to PUB Order Number 135/05 and if I can
2 just quote from that:

3 " It's Centra consider alternative
4 means to address its problem of
5 accessing metres for reading and
6 safety purposes."

7 Now the safety that we were talking about,
8 as I recollect, is the safety of the people that were
9 entering premises that could be dangerous in terms of
10 access, that is hazards that might be encountered in
11 entering a customer's premises.

12 That was the safety issue, as I recall,
13 that we were discussing in that hearing and I -- I -- I
14 think that's partly what AMI is doing, is addressing --
15 is addressing that particular safety issue.

16 MR. SANDY BOYD: And I guess I have a
17 disconnect there.

18 MR. VINCE WARDEN: You know, we -- we --
19 we may both have a d -- or I may have a disconnect, as
20 well, and we might have to do a little more research on
21 that, but that's certainly the way I interpreted that
22 order, it was that safety of -- of the metre readers
23 themselves.

24 THE CHAIRPERSON: Mr. Peters, you might
25 want to...

1 circumstances by having the material in front of us.

2 So with that, we'll adjourn for the day
3 and we'll see you all tomorrow at 1:30 tomorrow
4 afternoon.

5 Mr. Peters...?

6 MR. BOB PETERS: Mr. Chairman, I was
7 making the assumption Mr. Boyd might have been finished
8 with that last question but unless he has just a couple
9 of minutes more...

10 MR. SANDY BOYD: Just a couple of more
11 questions.

12 THE CHAIRPERSON: Yes, go ahead. Sorry.

13

14 CONTINUED BY MR. SANDY BOYD:

15 MR. SANDY BOYD: Okay. With the pilot
16 itself and I think at the last hearing we were talking
17 two thousand (2,000) gas meters; has that number changed?

18 MR. DOUG KROEKER: The recent estimate or
19 the recent information that I saw was for one thousand
20 (1,000) gas meters for the pilot.

21 MR. SANDY BOYD: Okay. So the three
22 hundred and forty-three thousand (343,000), has that
23 changed or is that still the cost for the re -- the
24 reduction of the meters?

25 MR. DOUG KROEKER: That is still the

1 estimated cost we have for the pilot project.

2 MR. SANDY BOYD: And the business case
3 that would come from running a pilot and the data that's
4 collected, is the plan still to let it go through a full
5 winter season to see the effectiveness of these
6 electronic devices throughout our winter?

7

8 (BRIEF PAUSE)

9

10 MR. DOUG KROEKER: Yes, that is the
11 intent.

12 MR. SANDY BOYD: So with that in mind the
13 business case probably wouldn't be ready until the spring
14 at the earliest of '08?

15 MR. DOUG KROEKER: The timing would seem
16 about right -- spring or summer of '08.

17 MR. SANDY BOYD: So right -- right now in
18 the forecast years we've got 7.6 million for AMI and the
19 business case won't come forward till the spring of '08.

20 How many meters are planned in that 7.6
21 million; do we know?

22 MR. DOUG KROEKER: I don't have that
23 information here but I can gather that for you.

24

25 --- UNDERTAKING NO. 16: To advise how many meters are

1 anywhere between eight (8) and ten (10) years?

2 MR. WILLY DERKSEN: Well, I think the
3 depreciation rates that you're talking about are based
4 upon the existing plant that Centra has and I'm not sure
5 that that's similar to these new modules that are being
6 contemplated.

7 So, it would seem reasonable that you
8 could -- they -- they would be similar but I don't know
9 that I think we'd have to refer to the -- to information
10 supplied by the manufacturer and by others who are using
11 it to -- to get a better assessment of what the service
12 life might be.

13 MR. SANDY BOYD: Okay. These things have
14 a battery in them and I'm just going to make an
15 assumption that it's going to be less than twenty-six
16 (26) years that they've got to be attended to.

17 MR. WILLY DERKSEN: Is that a question?

18 MR. SANDY BOYD: Well, I don't know.
19 Maybe someone in the meter shop would be able to give us
20 the answer. I mean, they've got this stuff in stock
21 right now.

22 MR. WILLY DERKSEN: You know, what?
23 We'll find out, Mr. Boyd, and get back to you on that.

24

25 --- UNDERTAKING NO. 17: To advise as to the service

1 life of the mechanical
2 meters' battery.

3
4 MR. SANDY BOYD: Okay. That concludes my
5 questions.

6 THE CHAIRPERSON: Thank you, Mr. Boyd.
7 Perhaps you could pool the area that Mr.
8 Boyd was testing into sort of one (1) response, various
9 items?

10 MR. WILLY DERKSEN: Yes, sir, we'll do
11 that.

12 THE CHAIRPERSON: Okay. Thanks again
13 everyone. Have a good night, we will see you tomorrow at
14 1:30.

15
16 --- Upon adjourning at 4:06 p.m.

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19 Certified Correct,
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21
22 _____
23 Ashley Guillemin, Ms.

24
25