

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 11th, 2007
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1
2
3
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1	TABLE OF CONTENTS	
2		Page No.
3	List of Exhibits	889
4	List Of Undertakings	890
5		
6		
7	CENTRA'S COST ALLOCATION & RATE DESIGN PANEL	
8	ROBIN WIENS, Resumed	
9	VINCE WARDEN, Resumed	
10	KELLY DERKSEN, Resumed	
11		
12	Cross-Examination by Mr. Bob Peters	892
13	Cross-Examination by Mr. Kris Saxberg	1000
14	Cross-Examination by Mr. William Gange	1016
15		
16	RCM/TREE PANEL:	
17		
18	STEVEN WEISS, Sworn	
19	(Voir Dire commenced)	
20	Examination-In-Chief by Mr. William Gange	1032
21	(Voir Dire Concluded)	
22	Examination-In-Chief by Mr. William Gange	1035
23		
24	Certificate of Transcript	1082
25		

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	RCM/TREE-3	Filed written evidence of Steven	
4		Weiss	1030
5	RCM/TREE-4	Winnipeg Free Press commentary,	
6		dated Saturday, June 9th, 2007 and	
7		entitled "What the Leaders of the G8	
8		Agreed To"	1037
9	TREE/RCM-5	National Roundtable document	1072
10	TREE/RCM-6	Document entitled, "Low Income Bill	
11		Payment Assistance	1072
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

	LIST OF UNDERTAKINGS		
	No.	Description	Page No.
1			
2			
3	25	Centra to provide Board with a	
4		comparison between gas rates in other	
5		major Canadian cities and Centra,	
6		and what they charge to their	
7		customers either by way of the rate	
8		itself or as it manifests itself	
9		in its annual bills	951
10	26	Centra to provide Board with the	
11		amounts to be charged and refunded	
12		to the special contract customer	994
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Mr. Peters, perhaps -
4 good morning, everyone - you could remind us where we are
5 and where we're going.

6 MR. BOB PETERS: This is Monday. We --
7 we must be with the Cost Allocation and Rate Design Panel,
8 Mr. Chairman, Board Members, ladies and gentlemen. Good
9 morning.

10 On Friday we concluded questioning of Mr.
11 Lloyd Kuczek who is a -- a member of this panel but we
12 focussed primarily on the areas of responsibility that Mr.
13 Kuczek had with respect to this application by Centra and
14 that was predominantly on demand side management and some
15 low income initiatives.

16 So this morning, subject to My Friend Ms.
17 Murphy's confirmation, I will continue with this panel on
18 cost allocation and rate design aspects of the filing and
19 after I've concluded, I will turn it over to My Friends
20 opposite who will ask their questions.

21 When this panel is finished, I see Mr.
22 Steven Weiss is in the -- in the room today and he is
23 scheduled to the -- the next witness on behalf of RCM/TREE
24 and he will also testify on some of the matters that were
25 related to the matters that Mr. Wiens and Mr. Kuczek spoke

1 to last Friday.

2 So I believe that's where we are at this
3 point in time.

4 THE CHAIRPERSON: Thank you, Mr. Peters.

5

6 CENTRA'S COST ALLOCATION & RATE DESIGN PANEL

7

8 ROBIN WIENS, Resumed

9 VINCE WARDEN, Resumed

10 KELLY DERKSEN, Resumed

11

12 CROSS-EXAMINATION BY MR. BOB PETERS:

13 MR. BOB PETERS: If I could then begin,
14 Mr. Chairman. Mr. Derksen, you sat on the revenue
15 requirement panel as well, correct?

16 MS. KELLY DERKSEN: I did.

17 MR. BOB PETERS: And the cost allocation
18 that this panel is discussing is a different cost
19 allocation from that which Mr. Derksen spoke primarily
20 about when he was on the revenue requirement panel, is
21 that correct?

22 MS. KELLY DERKSEN: I would agree, yes.

23 MR. BOB PETERS: Mr. Derksen was speaking
24 about the allocation of O&A costs and how it worked its
25 way through the internal integrated allocation systems at

1 Manitoba Hydro and Centra Gas?

2 MS. KELLY DERKSEN: That's correct.

3 MR. BOB PETERS: And this panel wants to
4 start with the approved revenue requirement, that is the
5 PUB approved revenue requirement, and then this panel will
6 explain how that is allocated through to the various rate
7 classes, am I correct?

8 MS. KELLY DERKSEN: Yes, sir.

9 MR. BOB PETERS: And this panel will deal
10 with all utility costs not just the O&A costs that Mr.
11 Derksen was primarily speaking about?

12 MS. KELLY DERKSEN: Correct.

13 MR. BOB PETERS: And once the costs of the
14 utility are allocated to the rate class then rates have to
15 be designed to recover the allocated costs from the
16 customers in each class?

17 MS. KELLY DERKSEN: Yes, sir, they do.

18 MR. BOB PETERS: From the materials that
19 have been provided, Mr. Derksen, it appears that the
20 Corporation uses a three-step process which is:
21 functionalization, classification and allocation.

22 Have I got that right?

23 MS. KELLY DERKSEN: Yes, you do.

24 MR. BOB PETERS: And in the first step is
25 the functionalization and that involves six (6) separate

1 functions that the Corporation functionalises the costs
2 into?

3 MS. KELLY DERKSEN: Yes, sir, the
4 functionalization phase is an attempt to categorize the
5 types of costs or service that the -- the organization or
6 that the Utility provides to its customers and those being
7 in -- at Centra's utility production pipeline storage,
8 transmission distribution and onsite.

9 So the first step in a cost allocation
10 study, in this cost allocation study that is, is to put
11 all of the Utility's costs into one (1) of those six (6)
12 buckets.

13 MR. BOB PETERS: And in those six (6)
14 buckets or functions that we refer to, the Corporation
15 considers them -- three (3) of them to be upstream and
16 three (3) of them to be downstream?

17 MS. KELLY DERKSEN: Yes, we do.

18 MR. BOB PETERS: Could you briefly explain
19 why you do that?

20 MS. KELLY DERKSEN: The three (3) upstream
21 -- the three (3) functions that we consider upstream,
22 which are production, pipeline and storage, recognize the
23 costs that the Utility incurs in providing service to
24 customers and the costs that the Utility incurs from third
25 party organizations upstream of Centra's system.

1 So typically those would be primary gas
2 costs, for example, supplemental, some of the costs that
3 you will discussing in a later panel with respect to the
4 renewed Nexen contract and so forth.

5 So we consider those upstream in that we
6 incur them from third parties and that they are to provide
7 services that are not within Centra Manitoba's service
8 territory.

9 MR. BOB PETERS: And that contrasts with
10 the downstream functions of transportation, distribution
11 and onsite which are within the Centra territory?

12 MS. KELLY DERKSEN: Within the Centra
13 territory and those are all the costs that we incur within
14 -- within Manitoba, the costs of the pipe, the costs of
15 people putting in that pipe and so forth.

16 MR. BOB PETERS: When we talk about the
17 upstream costs, Ms. Derksen, those costs are for all sales
18 customer and WTS customers, but those would exclude the --
19 the T-service customer?

20 MS. KELLY DERKSEN: I'll agree with your
21 statement with the exception of primary gas. Primary gas,
22 as you well know, Mr. Peters, for WTS customers is -- is
23 purchased by a broker for that customer.

24 MR. BOB PETERS: Thank you. And then in
25 terms of the downstream costs that are incurred and

1 functionalised by the Corporation, those would apply to
2 all customers including WTS customers, T-service
3 customers, interruptible customers?

4 MS. KELLY DERKSEN: Yes, sir. All
5 customers pay Centra's downstream costs.

6 MR. BOB PETERS: And, Mr. Derksen, once
7 you have functionalised all of the costs incurred by the
8 Corporation, the next step is a classification process, is
9 that right?

10 MS. KELLY DERKSEN: Yes.

11 MR. BOB PETERS: And as I understand the
12 materials, Centra attempts to identify the basis of
13 variability of the costs according to whether they're
14 volume related, the number of customers, or related to the
15 specific peak -- capacity requirements of a customer.

16 MS. KELLY DERKSEN: Yes. To say that
17 another way is that we attempt to determine what makes --
18 what drives costs; why do costs change in a utility. And
19 typically, the reason that costs change in a utility are
20 the number of customers on the system, the amount of
21 throughput or the amount of volumes that flow through the
22 pipes and the amount of peak demand.

23 MR. BOB PETERS: So the three (3)
24 classification steps where those costs that have been
25 functionalised go next then is to the commodity related

1 costs, or secondly, to customer related costs, or thirdly,
2 capacity related costs.

3 MS. KELLY DERKSEN: Yes.

4 MR. BOB PETERS: Following up on your
5 description of the classification process, Ms. Derksen,
6 once the costs are classified, then they flow to the
7 various customer classes by way of an allocation
8 methodology. And as I understand, the commodity costs
9 would be allocated according to the respective annual
10 class volumes.

11 MS. KELLY DERKSEN: Yes, the purpose of
12 the classification phase is to provide a basis on which
13 costs then get allocated. And as you state, Mr. Peters,
14 correctly, and that is if there is a cost that be --
15 varies by the total system throughput, an appropriate
16 allocation may be then to allocate those costs to a
17 customer class on the basis of that class's total
18 contribution to system throughput.

19 MR. BOB PETERS: And following that
20 further, if there is -- if costs are classified as
21 customer related costs, then they get allocated to the
22 various customer classes, relative to the weighted number
23 of customers that are determined that incur that cost.

24 MS. KELLY DERKSEN: Yes.

25 MR. BOB PETERS: When you -- we come to

1 capacity related costs, Ms. Derksen, capacity related
2 costs are also sometimes referred to as demand related
3 costs, have I got that right?

4 MS. KELLY DERKSEN: Yes, those words are
5 used interchangeably.

6 MR. BOB PETERS: And those capacity or
7 demand related costs are to reflect the costs incurred by
8 Centra to meet the demand or the capacity requirements of
9 all of your customers.

10 MS. KELLY DERKSEN: Yes, sir. In other
11 words, the amount of consumption that a customer uses at a
12 specified period of time and typically, in a natural gas
13 industry, that's over a twenty-four (24) hour period.

14 MR. BOB PETERS: And the twenty-four (24)
15 hour period, is that one where it's the highest demand in
16 the -- in the year or is it an average demand in the year?

17 MS. KELLY DERKSEN: It's the highest
18 demand in that twenty-four (24) hour period.

19 MR. BOB PETERS: And that's often referred
20 to as perhaps the peak day that the Utility incurs?

21 MS. KELLY DERKSEN: I think that's fair,
22 yes.

23 MR. BOB PETERS: When it comes to
24 allocation of the capacity or demand related cost, Ms.
25 Derksen, the allocation methodology used in Manitoba is

1 known as the -- the peak and average allocation
2 methodology.

3 MS. KELLY DERKSEN: It is.

4 MR. BOB PETERS: Can you explain briefly
5 to the Board what the peak and average allocation
6 methodology considers?

7 MS. KELLY DERKSEN: It's really nothing
8 more than a formula and that -- the very basics of it, and
9 it's a two (2) part formula that recognizes a customer's
10 contribution or a customer class's contribution to peak
11 day use, and as well, it recognizes that class -- customer
12 class's contribution to total system throughput.

13 MR. BOB PETERS: With peak and average
14 being the methodology, I take it that's not the only
15 methodology that could be used to allocate capacity or
16 demand related costs.

17 MS. KELLY DERKSEN: No, sir, there's --
18 there's a multiple of ways that demand related costs could
19 be allocated. The peak and average methodology was
20 previously established by the Board through a generic cost
21 allocation proceeding we had in 1996. And the methods
22 that I am aware of are; there's average and excess,
23 there's peak day method. There's -- there's a number of
24 different methods a utility could employ.

25 MR. BOB PETERS: Since 1996 then the

1 Corporation has had the Board approve a peak and average
2 allocation methodology of capacity costs and there's been
3 no request by the Corporation to change that methodology?

4 MS. KELLY DERKSEN: Correct. It was
5 established on the basis that it's not a purely cost
6 causal methodology in that it recognizes other factor --
7 non-cost causal factors if you will, and ultimately the --
8 the PUB approved the peak and average methodology, yes.

9 MR. BOB PETERS: From a conceptual basis,
10 Ms. Derksen, does the -- does the peak and average
11 methodology then allocate some capacity costs to every
12 customer class?

13 MS. KELLY DERKSEN: Yes, it does.

14 MR. BOB PETERS: And that's because every
15 customer class will contribute to either the peak or the
16 average use of the Utility of maybe both?

17 MS. KELLY DERKSEN: Yes, one (1) of the
18 issues that Corporation had when it established the peak
19 and average methodology a number of years ago, was that if
20 the Utility did not use that two (2) part methodology and
21 use say, for example, a pure peak day methodology there
22 would be some customer classes and in particular the
23 interruptible customer class that would then not
24 contribute at all to the capacity-related costs of
25 Centra's system.

1 MR. BOB PETERS: All right. Just to
2 emphasize that point in your answer, Ms. Derksen, if
3 capacity-related costs and -- and approximately -- what's
4 the approximate amount of capacity-related costs of the
5 Corporation, just to give us a ballpark figure?

6 MS. KELLY DERKSEN: Are you asking of
7 downstream costs, Mr. Peters?

8 MR. BOB PETERS: Yes.

9

10 (BRIEF PAUSE)

11

12 MS. KELLY DERKSEN: Mr. Peters, in the
13 '07/'08 test year, for example, I'm looking on Schedule
14 9.1.1 at line 7 and of the hundred and -- excuse me just
15 one (1) moment.

16

17 (BRIEF PAUSE)

18

19 MS. KELLY DERKSEN: Approximately \$33.6
20 million are capacity related.

21 MR. BOB PETERS: In terms of total demand-
22 related costs of the Corporation how -- how much is that,
23 Ms. Derksen?

24 MS. KELLY DERKSEN: It would be in the
25 neighbourhood of about \$73 million, Mr. Peters.

1 MR. BOB PETERS: Okay. Thank you. Maybe
2 for the purpose of my discussion the Board could turn to
3 Tab 34 of the book of documents, Ms. Derksen, and we'll
4 look at Schedule 9.1.0, updated May 15th.

5 And if on Schedule 9.1.0 found at Tab 34 of
6 the book of documents, we look to the bottom right-hand
7 corner, the total demand costs there are in the range of
8 \$74/\$75 million and that would be the approximate total
9 amount of upstream and downstream demand-related costs?

10 MS. KELLY DERKSEN: Mr. Peters, I'm not
11 following you. Can you tell me where you're at?

12 MR. BOB PETERS: I'm sorry. I'm looking
13 in the bottom right-hand corner of Scheduled 9.1.0, down
14 on line 59, over on the right-hand side of the page.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: I'm sorry, it is line 89.

19 MR. WILLIAM GANGE: Mr. Peters, did you
20 say -- did you say document 34?

21 MS. KELLY DERKSEN: I'm still not
22 following you, Mr. Peters. I'm sorry.

23 MR. BOB PETERS: I'll just double-check my
24 reference here. Thanks.

25

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Does your Tab 34 have in
5 it Schedule 9.1.0, Ms. Derksen?

6 MS. KELLY DERKSEN: No, sir, it has
7 Schedule 7.0.0.

8 MR. BOB PETERS: I think we've found the
9 source of our concern, so -- and I think to My Friend, Mr.
10 Gange, as well, I may have the wrong...

11 MS. KELLY DERKSEN: It appears, Mr. Peters
12 that some of the docu -- some of your book of documents
13 have the correct schedule and others don't.

14 THE CHAIRPERSON: We have your --

15 MS. MARLA MURPHY: I was with you.

16 THE CHAIRPERSON: We have your schedule,
17 Mr. Peters.

18 MR. BOB PETERS: My apology's, Mr.
19 Chairman, Board Members and Mr Gange, will get you a
20 revised one if we have one available here.

21

22 (BRIEF PAUSE)

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Let me start again, Mr.

1 Derksen. Again, with apologies. Schedule 9.1.0, you now
2 have that document in front of you?

3 MS. KELLY DERKSEN: Yes.

4 MR. BOB PETERS: And I was looking down to
5 line item 89 at the far right-hand side of the page, and
6 looking under the total allocated costs by customer class
7 and there is an indication that demand costs are in the
8 range of \$74 to \$75 million?

9 MS. KELLY DERKSEN: Yes, sir, that's fair.

10 MR. BOB PETERS: And that would be both
11 upstream and downstream costs?

12 MS. KELLY DERKSEN: Upstream and
13 downstream, yes, sir.

14 MR. BOB PETERS: Now, when we look at
15 these costs, you indicated that if you used a different
16 methodology other than peak and average, there would be
17 some customer classes that wouldn't pay any of those
18 demand related costs, correct?

19 MS. KELLY DERKSEN: Yes, that's true.

20 MR. BOB PETERS: And from a conceptual
21 basis the Corporation does incur demand-related costs or
22 capacity costs to service even the interr -- interruptible
23 customers?

24 MS. KELLY DERKSEN: That was Centra's
25 viewpoint, yes.

1 MR. BOB PETERS: And in terms of other
2 classes, there would be other customers that may not
3 contribute that much to the peak because their load factor
4 is relatively constant over the course of a year?

5 MS. KELLY DERKSEN: That's likely one (1)
6 of the drawbacks of the peak and average methodology, yes.

7 MR. BOB PETERS: When you say drawbacks,
8 what your suggesting is then that a high load factor
9 customer would end up paying a portion of commodity
10 related costs when they don't contributed perhaps as much
11 to the peak as other classes would?

12 MS. KELLY DERKSEN: I -- I'll just clarify
13 what you stated. I am -- you meant to say "capacity
14 related costs" and yes, I agree with your statement.

15 MR. BOB PETERS: Yes, thank you. I did
16 mean capacity related costs. So for example, the high
17 load factor customers with -- that exist on your system,
18 are presently paying capacity related costs which would be
19 higher than what they would pay if the methodology was
20 perhaps an average in excess methodology of allocating
21 capacity related costs?

22 MS. KELLY DERKSEN: Mr. Peters, I have not
23 run that -- that calculation using an average in excess
24 methodology, so I -- I couldn't -- I couldn't comment on -
25 - on the outcome of it. The outcome of using perhaps a

1 peak day methodology, for example, would be that a high
2 load factor customer might pay less capacity related costs
3 than they do under a peak and average methodology.

4 MR. BOB PETERS: Okay, I'll accept that,
5 Ms. Derksen. When we talk about the functionalization,
6 the classification and the allocation process, that's
7 utilized for both O&A cost elements as well as rate-based
8 elements, is that correct?

9 MS. KELLY DERKSEN: Yes, sir.

10 MR. BOB PETERS: Is it correct that
11 certain of the revenue requirements elements including
12 finance expense, net income and corporate allocation are
13 allocated by Centra according to the rate-base allocation?

14 MS. KELLY DERKSEN: Yes. Total -- or rate
15 base is used to drive the allocations of those three (3)
16 cost components to finance expense, net income and
17 corporate allocation.

18 MR. BOB PETERS: So, Mr. Derksen, even
19 though Centra wants to calculate its revenue requirements
20 through a cost of service methodology, Centra would still
21 have to calculate and allocate the rate base?

22 MS. KELLY DERKSEN: Yes, sir. Given that
23 plant is -- is a driver of many of the costs that we incur
24 in providing service so that -- to customers that,
25 regardless of the rate setting methodology that we employ,

1 we would require to calculate some kind of -- of rate base
2 in order to allocate costs to customers.

3 MR. BOB PETERS: And when you allocate rate
4 base and you're talking about allocating your
5 undepreciated plant, Ms. Derksen, why do you use that
6 methodology for the three (3) revenue requirement items of
7 finance expense, net income and corporate allocation?

8 MS. KELLY DERKSEN: Could you ask me that
9 question again, Mr. Peters, please?

10 MR. BOB PETERS: Let me try it a different
11 way, Ms. Derksen. You've told the Board that you allocate
12 finance expense, net income and the corporate allocation
13 according to the same allocation to customer classes as
14 the rate base is allocated, is that correct?

15 MS. KELLY DERKSEN: Yes, sir.

16 MR. BOB PETERS: Can you explain why you do
17 that?

18 MS. KELLY DERKSEN: We view that those
19 three (3) cost components are driven by the amount of
20 plant or the net investment that we have in the Utility.

21 MR. BOB PETERS: Would it be fair to say
22 that you use the rate-base allocation as a proxy to
23 allocate these other revenue requirement items?

24 MS. KELLY DERKSEN: Are we again talking
25 about finance expense, corporate allocation and net

1 income, or the other component?

2 MR. BOB PETERS: No, talking about finance
3 expense, net income and corporate allocation.

4 MS. KELLY DERKSEN: I think that's a fair
5 statement, Mr. Peters.

6 MR. BOB PETERS: Would you also agree with
7 me, Ms. Derksen, that if I was to suggest to you that the
8 cost allocation that you do has the appearance of a
9 precise science, there are aspects of imprecision and
10 subjectivity included?

11 MS. KELLY DERKSEN: I would absolutely
12 agree with that, Mr. Peters.

13 MR. BOB PETERS: And in terms of some of
14 the areas of imprecision or subjectivity, would that --
15 would that exist in all three of the steps of the cost
16 allocation process; that is, in functionalization,
17 classification and allocation?

18 MS. KELLY DERKSEN: Yes, sir. The very --
19 the very reason we have a cost allocation study recognizes
20 the fact that there are, if we talk about non-gas costs,
21 all of those non-gas costs are shared, or many of them are
22 shared, and to the extent that we cannot identify one
23 particular customer or group of customers that cause for
24 those costs to incurred -- to be incurred.

25 We need a cost allocation study that helps

1 us to determine what portion of those costs that each
2 customer class should ultimately bear responsibility for.

3 MR. BOB PETERS: Do you accept that it
4 follows, Ms. Derksen, that inherent imprecision or
5 subjectivity can also result in cross-subsidization of
6 costs by one customer class to another?

7 MS. KELLY DERKSEN: I do agree with that,
8 Mr. Peters. The very virtue of the fact that we have a
9 utility, I think, imposes certain cross-subsidies to
10 exist. So yes, I -- I do agree with that.

11 MR. BOB PETERS: They're not shown as
12 express or intentional, necessarily, cross-subsidization,
13 but it can arise as a result of the process that you've
14 just explained to the Board?

15 MS. KELLY DERKSEN: Yes, and maybe to put
16 that in -- in a positive way, and that is I don't view
17 that all cross-subsidies that exist or that occur are
18 negative. We intentionally impose some cross-subsidies in
19 a utility.

20 For example, with respect to the concept or
21 the overall guiding framework by which rates are set in
22 this jurisdiction and many other jurisdictions, for
23 example, the -- the philosophy of postage stamp rates.
24 And we know that that overall guiding framework is going
25 to impose cross-subsidies. What that methodology says is

1 that regardless of where on the system that you reside,
2 you will pay the same rate for the same level of service.

3 And so a customer who lives very close to,
4 say, the Trans Canada takeoff point, versus a residential
5 customer, for example, who lives quite far away from that
6 takeoff point, will pay the same residential rates. And
7 we know that cross-subsidies exist, because it costs us
8 different amounts to put service in place for those two
9 (2) customers.

10 MR. BOB PETERS: Thank you, Ms. Derksen.
11 In terms of a summary of the cost allocation I wanted to
12 turn to Tab 34 of the book of documents as I attempted to
13 earlier, and this is to find Schedule 9.1.0.

14 And, Ms. Derksen, if you have the corrected
15 book of documents, the Tab 34 now contains the overall
16 summary of the allocated costs of the Corporation.

17 MS. KELLY DERKSEN: Yes, it does.

18 MR. BOB PETERS: When this schedule is
19 reviewed by the Board they're going to find and have seen
20 a primary gas class starting on approximately line 63 on
21 the left-hand side of the page as well as a supplemental
22 gas -- sorry, a primary gas class.

23 Can you explain to the -- to the Board why
24 you take primary gas as a customer class in this
25 allocation?

1 MS. KELLY DERKSEN: We put primary gas
2 costs in a cost -- in this cost allocation study for
3 example recognizing that we will not ultimately set rates
4 on -- on the basis of the allocations for primary gas
5 flowing out of this study and we -- we do that because it
6 drives certain allocations of cost within the study.

7 For example, there might be certain O&M
8 costs or O&A costs that are driven by total primary gas
9 costs. I'm thinking of the Gas Supply Department in -- in
10 particular. And we use then the amount of primary gas
11 costs to drive allocation of the Gas Supply Department's
12 costs which ultimately then either flow into the primary
13 gas class as an overhead rate or into other components on
14 the bill.

15 MR. BOB PETERS: But before you're
16 finished with your cost allocation you have to then take
17 the primary gas allocated costs and put them back into
18 their respective customer classes?

19 MS. KELLY DERKSEN: I do it a little bit
20 differently than what you've suggested. I ultimately zero
21 out the rate, Mr. -- Mr. Peters, because I know that the
22 primary gas rate is established through the quarterly
23 rate-setting mechanism, that I will allow all of the costs
24 -- all the primary gas costs -- to flow through to the
25 cost alloc -- through the cost allocation study but

1 ultimately I will not accept its rate because it's pre-
2 determined through the quarterly rate setting mechanism.

3 MR. BOB PETERS: Okay. Perhaps a better
4 explanation for the -- for the process, Ms. Derksen.
5 Thank you.

6 In what you have done for the -- for this
7 application, Ms. Derksen, you have had to allocate an
8 additional \$10.7 million of revenue requirement over the
9 volumes that you forecast to be used; am I correct?

10 MS. KELLY DERKSEN: I suppose in -- in
11 concept you're correct, but I don't ultimately accomplish
12 it that way. I don't look at the incremental revenue that
13 the Company wants to generate as the basis from this
14 application, but what I do do is I look at total revenue
15 requirement which includes the additional \$10.7 million of
16 revenue that the Company is -- is projecting for the
17 forecast year.

18 MR. BOB PETERS: So when we look at Tab 34
19 of the book of documents, Schedule 9.1.0, you allocate the
20 total costs, not just the incremental costs, and the
21 incremental costs -- additional costs -- are included in
22 the -- in the totals that you're allocating?

23 MS. KELLY DERKSEN: Yes, on this schedule,
24 for example, we're showing, including primary gas and
25 supplement gas costs, a total revenue requirement of 546

1 million. And embedded in that \$546 million is the \$10.7
2 million of additional annual revenue that the Company is
3 seeking.

4 MR. BOB PETERS: And where would -- where
5 would the additional gas costs -- non-primary gas costs be
6 found in this schedule, Ms. Derksen?

7 MS. KELLY DERKSEN: They are embedded in
8 the cost of gas line, line number 5 for example, line
9 number 20, line number 35; it's embedded in -- in that
10 component for each of the customer classes. So for
11 example, for non-primary gas costs for the SGS customer
12 class we are proposing to recover \$24.988 million from --
13 of non-primary gas costs from the SGS class.

14 MR. BOB PETERS: And we heard from Mr.
15 Kuczek on Friday that -- that the demand side management
16 costs are allocated 60 percent to the SGS residential and
17 then, I believe, 40 percent goes to the commercial
18 customers at either the SGS class or the LGS class, is
19 that correct?

20 MS. KELLY DERKSEN: Yes, sir.

21 MR. BOB PETERS: And those allocated costs
22 of DSM are not done volumetrically over all customer
23 classes, correct?

24 MS. KELLY DERKSEN: Correct. The -- the
25 Company does not view that as an appropriate allocation of

1 DSM costs.

2 MR. BOB PETERS: And I think we talked
3 about that briefly on Friday and you -- you referenced
4 your rebuttal evidence and you showed what the impact
5 would be on a volumetric adjustment as compared to a
6 customer class allocation.

7 MS. KELLY DERKSEN: Yes, we have.

8 MR. BOB PETERS: And just to remind the
9 Board, the reason the costs were allocated to the SGS
10 residential and also to the commercial customers was
11 because those were the classes that would potentially
12 receive the benefits of the DSM programs.

13 MS. KELLY DERKSEN: Yes, the DSM programs
14 are targeted to those customer classes.

15 MR. BOB PETERS: And I'm -- I wasn't
16 clear, Ms. Derksen, from your evidence on Friday, whether
17 the sixty/forty (60/40) split was to recognize the actual
18 uptake of the various programs by 60 percent residential,
19 40 percent by commercial, or was the sixty-forty (60/40)
20 split to show what the target uptake was to be?

21 MS. KELLY DERKSEN: It would be that
22 target update, Mr. Peters.

23

24

(BRIEF PAUSE)

25

1 causal perspective you would be allocating costs to
2 customer classes that have no opportunity to participate
3 in those programs and therefore, don't benefit from those
4 -- those programs.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: When it comes to deciding
9 whether the cross subsidy is good or bad, Ms. Derksen, the
10 primary motivation then that I hear you telling the Board
11 is you don't allocate DSM costs volumetrically because you
12 would be having customers pay for the costs with -- of the
13 DSM programs, yet they've had zero opportunity to
14 participate in the programs themselves.

15 MS. KELLY DERKSEN: Yes. I think -- I
16 think the whole concept of the DS -- DSM program is to
17 help customers conserve. And if customers who are paying
18 for those costs have -- don't have that opportunity,
19 they're not benefiting from -- from lower reduced bills.

20 MR. BOB PETERS: Has the Corporation
21 incurred DSM costs for the higher volume customer classes?

22 MS. KELLY DERKSEN: We don't have any
23 programs in place for larger volume customers at this
24 time, Mr. Peters.

25 MR. BOB PETERS: So any demand side

1 management or energy conservation programs would have to
2 be developed and funded entirely by the customer in those
3 higher volume classes?

4 MS. KELLY DERKSEN: Yes, and I'm aware
5 that there are customers. There are many large volume
6 customers who already undertake their own energy
7 efficiency programs.

8 MR. BOB PETERS: But those energy
9 efficiency programs are funded entirely by that customer
10 and not by all customers through a volumetric charge?

11 MS. KELLY DERKSEN: Yes. Your -- your
12 point is well taken, yes, sir.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: Ms. Derksen, one (1) of
17 the requests of the Corporation before the Board is to
18 change the primary gas overhead rate, correct?

19 MS. KELLY DERKSEN: I'm going to take you
20 back to your last question to me because I think that I
21 need to add something on the record, if you -- if you
22 don't mind, and that is the purpose of a cost allocation
23 study is to first make an attempt to allocate costs to
24 those who cause for those costs to be incurred.

25 And the second intent of a cost allocation

1 study then is to the extent that those costs cannot be
2 directly assigned to customers, or in other words that we
3 don't know of those costs which belong specifically to
4 customers, at that point then we attempt to allocate costs
5 on some reasonable basis to customers.

6 So in addition to my previous response I
7 wanted to add that to the record to acknowledge that
8 that's exactly what we have done with respect to DSM
9 costs.

10 With respect to primary gas overhead rate,
11 we are seeking a -- a change in the overhead rate
12 resulting from this application.

13 MR. BOB PETERS: Not to confuse the record
14 too much, Ms. Derksen, but let's go back to the DSM
15 allocation of costs.

16 Your supplemental answer to me is, in
17 summary, to reflect that you -- you are able to identify
18 the cost causation source of the DSM costs incurred and
19 therefore you want to allocate those to the classes that
20 caused the cost?

21 MS. KELLY DERKSEN: Yes, sir.

22 MR. BOB PETERS: All right. I think we
23 have your point on that so let's switch gears to the gas -
24 - the primary gas overhead rates.

25 And earlier on, on the -- in the Hearing,

1 Ms. Derksen, you corrected me yet again on my suggestion
2 to you that nothing before this Board was going to impact
3 on primary gas rates, and you told -- told me that I was
4 wrong and that there was a -- an attempt to change the
5 primary gas overhead rate.

6 Am I correct?

7 MS. KELLY DERKSEN: Yes, you are.

8 MR. BOB PETERS: I'm correct this time.
9 And the primary gas overhead rate -- and I've circulate
10 this morning, Mr. Chairman and Board Members, a -- just a
11 copy of PUB/CENTRA-105 from the current application.

12 You'll recognize that document, Ms.
13 Derksen?

14 MS. KELLY DERKSEN: Yes, sir, I do.

15 MR. BOB PETERS: You probably prepared it?

16 MS. KELLY DERKSEN: I did, yes.

17 MR. BOB PETERS: And this is your
18 calculation showing the Board how you came up with a
19 primary gas overhead rate that you want to use in the two
20 (2) test years; am I correct?

21 MS. KELLY DERKSEN: Yes. And just to be
22 clear we've asked for approximately \$137 million in non-
23 gas costs as part of the '07/'08 test year. And of that
24 \$137 million approximately 1.9 million on the first test
25 year finds its way into the primary gas rate.

1 MR. BOB PETERS: To come up with that 1.9
2 million, you go through the various cost components that
3 give rise to it on PUB/CENTRA-105; am I correct?

4 MS. KELLY DERKSEN: I start at the
5 functionalization phase and I go through each rate base
6 item and I say, of each of those costs, where does -- what
7 function does that belong into and ultimately, as a result
8 of that process, these are some of the costs that flow
9 into the primary gas class, if you will.

10 MR. BOB PETERS: The looking at
11 PUB/CENTRA-105, could you explain by way of an example,
12 how costs incurred in the business unit, the President and
13 Ceo would translate down into primary gas costs?

14 What types of costs, for example, would
15 that include?

16 MS. KELLY DERKSEN: This is sort of an
17 indirect allocation that occurs, Mr. Peters. The
18 President and CEO's costs have been allocated on the basis
19 of total operating and maintenance costs, so to the extent
20 that I have identified, other operating expense costs
21 belonging to the primary gas overhead. For example, like
22 I mentioned to you earlier, gas supplies costs, some of
23 the operating and admin. costs with respect to that
24 department, I ultimately allocate to the primary gas
25 overhead rate.

1 And because that some of those types of
2 costs find themselves in the primary gas rate ultimately,
3 if I ulti -- if I allocate the President and CEO costs on
4 the basis of total O&A, then it will -- it will find
5 itself into the primary gas class as a result of an
6 indirect allocation.

7 MR. BOB PETERS: And I suppose similar --
8 a similar explanation can be provided for the other --
9 other areas in which O&A costs are allocated through and
10 end up in the primary gas rate?

11 MS. KELLY DERKSEN: Yes, sir.

12 MR. BOB PETERS: And is it correct to
13 interpret PUB/CENTRA-105 is that in the first test year of
14 2007/'08 \$1.86 million of costs are incurred by Centra,
15 related to primary gas, that are non-gas costs?

16 MS. KELLY DERKSEN: Yes, and -- and what
17 this stems from, Mr. Peters, is from the WTS application
18 and -- and hearing in 1999 and -- and ultimately Order,
19 prior to it, 15, of 1998, which allowed -- which -- in
20 which the Company suggested that it would recover some of
21 the very direct costs, if you will, of providing primary
22 gas services to the primary gas overhead rate.

23 A very strict interpretation of fifteen
24 ninety-eight (1598) could be that the Company did not have
25 to do that, but it chose to so that it could create,

1 ultimately, a primary gas rate for a system supply that
2 was consistent or more of an apples to apples comparison
3 with what a broker cust -- a broker would be offering to
4 its customers.

5 MR. BOB PETERS: Well, let's just talk
6 about that for second, Ms. Derksen. Your suggestion in
7 that answer is that these \$1.86 million incurred by Centra
8 would be incurred for the primary gas that Centra supplies
9 to its system customers and not to any broker's customers.

10 MS. KELLY DERKSEN: Yes, sir.

11 MR. BOB PETERS: And you're suggesting in
12 your answer that to allow a fair comparison in costs to
13 the customer, you've added these overhead costs to primary
14 gas system supplied customers because, at least
15 inherently, similar costs of some magnitude would be
16 incurred by the brokers when they're arranging primary gas
17 for their customers.

18 MS. KELLY DERKSEN: Correct. And I -- I
19 don't want to get too down -- too down this path given
20 that we have an upcoming hearing to -- which will deal
21 with some of these issues, but a strict interpretation of
22 Order 15/98 would suggest that all of these types of costs
23 be recovered from all customers through the distribution
24 rate.

25 But the Company elected, in light of your

1 comments, to put some of these O&A type costs or
2 administrative type costs in to the primary gas class in
3 recognition that it wanted to create a level playing --
4 playing field with a broker's offering.

5 MR. BOB PETERS: And not to look too far
6 ahead, Ms. Derksen, but the Corporation will be asking
7 this Board to consider what of its costs should be charged
8 through to the brokers or broker customers who get direct
9 purchase gas, at the next hearing.

10 MS. KELLY DERKSEN: Yes, I'll just leave
11 it at that for now, yes.

12 MR. BOB PETERS: Now, the current primary
13 gas overhead rate is one dollar and seventy-one cents
14 (\$1.71) per thousand cubic metres?

15 MS. KELLY DERKSEN: Correct.

16 MR. BOB PETERS: And so as a result of
17 your application the primary gas overhead rate will go
18 down in the first test year to a dollar sixty-four (\$1.64)
19 per thousand -- per thousand cubic meters and then up to
20 a dollar sixty-eight (\$1.68) in the second test year?

21 MS. KELLY DERKSEN: Yes, sir.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Can you explain in

1 general terms, Ms. Derksen, why when -- when the
2 Corporation's non-gas costs are -- are increasing as they
3 have in this application we find those non-gas costs
4 related to primary gas decreasing such that the overhead
5 rate would decrease?

6 MS. KELLY DERKSEN: Yes. And I had a look
7 at that myself and I've concluded that two (2) things are
8 happening, Mr. Peters:

9 One (1) is that there was a reduction in
10 the costs -- the president and CEO costs -- allocated to
11 Centra in the '07/'08 test year from that approved in the
12 '06/'07 test year.

13 And in addition, there was a fairly
14 significant decline in total operating and maintenance
15 costs of Mr. Stephens' division and those two (2) things
16 are more than offsetting the increases in the other cost
17 components.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Ms. Derksen, thank you
22 for that answer. But further complicating that issue is
23 you've told the Board that your volumes for the test years
24 are going to be lower than they what -- what they are
25 presently in the approved rates and if volumes are

1 decreasing, wouldn't the unit cost have to increase to
2 recover again a similar amount?

3

4 (BRIEF PAUSE)

5

6 MS. KELLY DERKSEN: I think there's a
7 couple of things happening here and first if -- if the
8 costs are not decreasing more than the volumes then that
9 would not be a true statement. But we also refresh or
10 true-up our volumes with respect to primary gas on an
11 annual basis and so I think it would have less of an
12 impact than other cost components or other rates.

13 MR. BOB PETERS: I'm not sure I understand
14 that answer, Ms. Derksen. Is it suggesting that even
15 though the volumes are decreasing which would in and of
16 itself cause the unit rate to rise, all things being
17 equal, the cost reductions found in the Corporation for
18 these items shown on PUB/CENTRA-105 are of greater
19 magnitude and therefore offset the increase that would be
20 required due to the lower volumes?

21 MS. KELLY DERKSEN: Yes, sir.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Ms. Derksen, in the cost

1 allocation summary that you have can you confirm to the
2 Board that there are no costs that you have allocated that
3 relate to the new Manitoba Hydro head office building in
4 downtown Winnipeg?

5 MS. KELLY DERKSEN: I can confirm that,
6 yes.

7 MR. BOB PETERS: And, Mr. Warden, just
8 going through the transcript from last week could you
9 remind the Board why Manitoba Hydro is building a new
10 headquarters in downtown Winnipeg?

11 MR. VINCE WARDEN: Yes, Mr. Peters, it was
12 part of the purchase agreement with Winnipeg Hydro.

13 MR. BOB PETERS: What you're telling the
14 Board is that one (1) of the terms and conditions of
15 Manitoba Hydro acquiring Winnipeg Hydro was that a new
16 Manitoba Hydro office headquarters had to be located in
17 the downtown Winnipeg area?

18 MR. VINCE WARDEN: That's correct, yes.

19 MR. BOB PETERS: And there was a time
20 limit on the construction, if I recall.

21 MR. VINCE WARDEN: Yes. Excuse me, it was
22 with -- within five (5) years of the date of purchase.

23 MR. BOB PETERS: All right.

24 MR. VINCE WARDEN: That is, construction
25 was to commence within five (5) years of the date of

1 purchase.

2 MR. BOB PETERS: Mr. Warden, would you
3 agree that a new office was not needed for the Centra Gas
4 Manitoba Inc. operations?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: Well, at the time of
9 acquisition of Centra Gas Manitoba, a long term lease had
10 been entered into, prior -- just prior to that acquisition
11 for the facilities at 444 St. Mary, so I do agree that the
12 facilities for Centra Gas would not have required in the
13 near term.

14 MR. BOB PETERS: Is it correct that the
15 only head office space for Centra Gas prior to Manitoba
16 Hydro's acquisition was in the 444 St. Mary's property?

17 MR. VINCE WARDEN: That was the location
18 of the head office of Centra Gas Manitoba, yes.

19 MR. BOB PETERS: And I was just trying to
20 confirm that there were no other head office functions
21 performed at a different location other than 444 St. Mary.

22 MR. VINCE WARDEN: Well, I think it
23 depends how head office functions are defined. There were
24 other office locations with management personnel located
25 at those locations, so -- but the official head office was

1 at 444 St. Mary.

2 MR. BOB PETERS: Is it generally correct,
3 Mr. Warden or Ms. Derksen, that since Manitoba Hydro's
4 acquisition of Centra's shares in 1999, the total
5 throughput has plateaued, that is Centra's throughput?

6 MS. KELLY DERKSEN: I wouldn't say
7 plateaued, I would say it's declined.

8 MR. BOB PETERS: Would you agree -- sorry,
9 did you wish to respond further?

10 MS. KELLY DERKSEN: I think I'm okay, Mr.
11 Peters.

12 MR. BOB PETERS: All right. So volumes
13 have, if not plateaued, they've declined, as you suggest,
14 slightly?

15 MS. KELLY DERKSEN: Yes.

16 MR. BOB PETERS: And would you also agree
17 that the head office personnel has also plateaued, or at
18 least not increased?

19

20 (BRIEF PAUSE)

21

22 MS. KELLY DERKSEN: It's probably a fair
23 statement, Mr. Peters.

24 MR. BOB PETERS: I've reviewed in the
25 materials, and I don't have a reference handy, although I

1 can provide it, but the Centra equivalent full time
2 positions back in 2001/'02 was approximately three hundred
3 and seventeen point five (317.5) and for the '08/'09 test
4 years it's forecast to be approximately three hundred and
5 twelve point two (312.2).

6 Does that sound reasonable?

7 MS. KELLY DERKSEN: Subject to check, Mr.
8 Peters.

9 MR. BOB PETERS: And would you have any
10 idea, Mr. Warden or Ms. Derksen, how many of those three
11 hundred and twelve point two (312.2) EFTs would be
12 considered head office personnel?

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: The majority would not
17 be classified as head office personnel, but I haven't
18 really -- I'd have to go through the numbers to come to a
19 conclusion on that, Mr. Peters.

20 MR. BOB PETERS: I'm not going to ask you
21 to do that, Mr. Warden, if you agree with me that the --
22 the need for increased head office personnel has not
23 increased since Manitoba Hydro has acquired Centra's
24 shares.

25 MR. VINCE WARDEN: I will agree with that.

1 MR. BOB PETERS: And, Mr. Warden, on the
2 transcript -- just for a reference, it was on pages 150
3 and 151 last week -- I tried to get you to agree with me
4 that there would be zero impact on the gas ratepayers as a
5 result of Manitoba Hydro moving into a new office tower
6 and you wouldn't agree with me that zero impact would
7 result and I believe your words were that there would be a
8 "minimal impact" on the gas and electric customers.

9 Do you recall words to that effect?

10 MR. VINCE WARDEN: I do.

11 MR. BOB PETERS: And what troubles me is I
12 wasn't able to get you to quantify what "minimal impact"
13 is on the gas customers or on gas rates. And I'm
14 wondering if you're able to provide any further evidence
15 to the Board as to what that minimal impact might be?

16 MR. VINCE WARDEN: Mr. Peters, I really
17 don't think I can elaborate much on my previous comments.
18 I think we're all expecting that, as Manitoba Hydro's
19 expecting, productivity improvements as a result of
20 construction of a new head office.

21 Exactly what those productivity
22 improvements will be remains to be seen, so we're
23 optimistic we'll achieve our goals of -- of minimal impact
24 or perhaps even positive impact on costs.

25 But probably it's best an answer I can

1 provide at this time.

2 MR. BOB PETERS: In a previous answer this
3 morning, Mr. Warden, you'd indicated that when Centra was
4 privately owned it had entered into a long-term lease for
5 its head offices premises at 444 St. Mary's Avenue?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And I take it there may
8 have to be some -- that -- that lease may have to be
9 broken which would include the payment of penalties if
10 you're going to vacate that building before the expiration
11 of the lease term?

12 MR. VINCE WARDEN: Well, the rental rate,
13 my understanding is, compared to other rates in downtown
14 Winnipeg, is very attractive so we don't anticipate any
15 problems in -- in subletting that property if -- if we
16 decide to do that.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: When does the long-term
21 lease on the 444 St. Mary Avenue property expire, Mr.
22 Warden, if you're aware?

23 MR. VINCE WARDEN: Yes, subject to check
24 it's 2010/2011, right in that timeframe.

25 MR. BOB PETERS: And from your previous

1 answer you're indi -- you're indicating an expectation
2 that you would be able to sublease the premises and not
3 incur any penalties to the landlord?

4 MR. VINCE WARDEN: Yes.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: Are you aware of the
9 square footage under lease and the -- and the rate being
10 paid, Mr. Warden?

11 MS. MARLA MURPHY: Mr. Peters, we're
12 getting a little far down a road here that doesn't really
13 relate to the application before us.

14 As we've confirmed this morning there isn't
15 costs related to this application here. I appreciate
16 there's a level of interest in the new building but -- but
17 these are sort of beyond the scope of what the witnesses
18 are here to speak to.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Thank you. I'll move on
22 to a new topic, Mr. Chairman. I want to speak with Ms.
23 Derksen about rate design.

24 And, Ms. Derksen, once you have completed
25 your cost allocation, your numbers will look a lot like

1 they are on Tab 34 of the book of documents, Schedule
2 9.1.0, where you've allocated the costs down to the
3 specific customer classes, correct?

4 MS. KELLY DERKSEN: Yes.

5 MR. BOB PETERS: And once you get the
6 costs down to the specific customer classes, you then want
7 to design rates that will recover 100 percent of those
8 costs, correct?

9 MS. KELLY DERKSEN: Yes, I do.

10 MR. BOB PETERS: And the rates that you
11 design are the rates for the customers within those
12 classes and that would include all aspects of the rates?

13 MS. KELLY DERKSEN: Yes, we attempt to
14 recover 100 percent of the cost that's been allocated to
15 each of the customer classes.

16 MR. BOB PETERS: And when you do recover
17 100 percent of the costs allocated to the customer classes
18 from the rates, you have achieved a revenue-to-cost ratio
19 of one point zero (1.0); am I correct?

20 MS. KELLY DERKSEN: Yes.

21 MR. BOB PETERS: And would I be also
22 correct to say that on a class basis your target is for an
23 RCC of one point zero (1.0), but as between customers
24 within a class there may be some cross-subsidization of
25 costs?

1 MS. KELLY DERKSEN: Yes, I agree, sir.

2 MR. BOB PETERS: Would you agree that that
3 cross-subsidization is not an express cross-subsidization,
4 but more implicit in the way the rates are designed?

5 MS. KELLY DERKSEN: Yeah. Yes, I -- I
6 would agree with that. It's -- it's a balancing act in
7 try -- in terms of trying to establish a rate design to
8 recover costs from a -- a cust -- a customer class. From
9 one (1) customer's perspective, rates may ultimately fair
10 out well. From another customer's perspective, they may
11 pay more or less than their fair -- fair share of costs.

12 But it's implicit in -- in a -- in a rate
13 design structure and specifically, I'm thinking about a
14 low basic monthly charge that we currently have for, say
15 the -- the SGS customer class. We recognize that there
16 are some cross-subsidy issues that occur with that.

17 MR. BOB PETERS: Well let's -- let's go to
18 the various rate classes, Ms. Derksen, and you would agree
19 that the rate designs or the rate structures are not the
20 same for all of your customer classes?

21 MS. KELLY DERKSEN: Correct.

22 MR. BOB PETERS: And the SGS class and the
23 LGS class, as an example, have what the Corporation
24 considers to be two (2) part rates.

25 MS. KELLY DERKSEN: A bit -- a bit funny,

1 given at the level of unbundling that we have, but yes,
2 that's what we consider it to be.

3 MR. BOB PETERS: And when you say "two (2)
4 part rates," the first part is the basic monthly charge
5 and the second part is a volumetric charge.

6 MS. KELLY DERKSEN: Yes.

7 MR. BOB PETERS: And the basic monthly
8 charge is the ten dollars (\$10) a month for the
9 residential customers or a hundred and twenty dollars
10 (\$120) a year?

11 MS. KELLY DERKSEN: Yes, it is.

12 MR. BOB PETERS: And that basic monthly
13 charge is designed to recover some of the customer costs
14 that incurred by that class of customer?

15 MS. KELLY DERKSEN: Correct. If we're
16 looking still at schedule 9.1.0, Mr. Peters, I have
17 decided that \$77.5 million worth of the costs allocated to
18 the SGS customer are driven by the number of customers in
19 that class and the ten dollars (\$10) goes to partially
20 recover that \$77 million.

21 MR. BOB PETERS: And while we're focussing
22 on that class and looking at Tab 34 of the book of
23 documents and Schedule 910, Ms. Derksen, if you were to
24 recover all of the \$77.5 million of customer costs from
25 the SGS residential customers, then the basic monthly

1 charge would increase from a hundred and twenty dollars
2 (\$120) a year to three hundred and six dollars (\$306) a
3 year.

4 MS. KELLY DERKSEN: That's correct, yes.

5 MR. BOB PETERS: Yet you don't do that, do
6 you?

7 MS. KELLY DERKSEN: We do not.

8 MR. BOB PETERS: And that's a long -- how
9 long has the ten dollar (\$10) monthly charge been in
10 existence, are you aware?

11 MS. KELLY DERKSEN: My recollection is
12 that may have been around 1990, sir. Just a qualifier on
13 that, I think the City of Brandon may have been about
14 eight dollars (\$8) at that time.

15 MR. BOB PETERS: The purpose of the basic
16 monthly charge is to recover some of the customer costs
17 that are not dependant on volume.

18 MS. KELLY DERKSEN: Correct.

19 MR. BOB PETERS: And the Corporation has,
20 since approximately 1990, determined that a hundred and
21 twenty dollars (\$120) a year is as much as the customers
22 will accept as a basic -- basic monthly charge, would that
23 be true?

24 MS. KELLY DERKSEN: I think so. I think
25 it's a policy decision that the Corporation has made. We

1 would like to move likely beyond the ten dollars (\$10),
2 but we're satisfied that the ten dollars (\$10) is
3 reasonable at this -- at this point in time.

4 MR. BOB PETERS: You've never made an
5 application to this Board to increase the basic monthly
6 charge beyond the ten dollars (\$10), have you?

7 MS. KELLY DERKSEN: I'm -- I'm not 100
8 percent sure, but I don't believe we have, Mr. Peters.

9 MR. BOB PETERS: And the Corporation has
10 done a report to this Board, it may have been at the last
11 cost of hearing, Ms. Derksen, where the Corporation has
12 concluded that the basic monthly charge should remain at
13 the hundred and twenty dollars (\$120) a year.

14 MS. KELLY DERKSEN: I think for now we're
15 satisfied with the ten dollars (\$10), yes.

16 MR. BOB PETERS: And, Ms. Derksen, if
17 we're looking again at Tab 34 of the book of documents and
18 we look at the costs to the SGS class, if the Corporation
19 wanted to recover not only 100 percent of the customers'
20 costs -- the customer costs, but also all of the capacity-
21 related costs, that would mean a basic monthly charge in
22 the range of \$453 a year for the typical residential
23 customer.

24 MS. KELLY DERKSEN: I believe that's
25 correct, yes, sir.

1 MR. BOB PETERS: And again, those would be
2 recovering costs for customer costs and capacity costs,
3 which are incurred but not volume-dependent and variable
4 by volume.

5 MS. KELLY DERKSEN: Correct. One of them
6 would be dependent on the number of customers, and one of
7 those cost items would be dependent on the peak demand of
8 that class.

9 MR. BOB PETERS: When we look at the other
10 customer classes, including the HVF, or the High Volume
11 Firm customer, the mainline customer, the special
12 contract, the power stations and the interruptible, those
13 customers have three (3) part rates; would that be
14 correct?

15 MS. KELLY DERKSEN: With the exception of
16 the special contract class, that is correct. the special
17 contract class has a two (2)part rate. They have a very
18 large monthly basic charge that recovers both the
19 customer-related and the demand-related costs and they
20 have a small volumetric charge that essentially recovers
21 the costs of unaccounted for gas.

22 MR. BOB PETERS: The -- the third -- the
23 three (3) part rate structure for the high-volume firm and
24 the mainline and other customers also includes a basic
25 monthly charge, but in that case the basic monthly charge

1 recovers 100 percent of the customers costs?

2 MS. KELLY DERKSEN: Correct.

3 MR. BOB PETERS: It also has a volumetric
4 charge and a demand or capacity charge as well?

5 MS. KELLY DERKSEN: Yes.

6 MR. BOB PETERS: When we talk about the
7 high-volume firm in the mainline class, the capacity costs
8 or the demand costs are interchangeably referred to,
9 you're not recovering 100 percent of those costs through
10 the demand rate?

11 MS. KELLY DERKSEN: We are for mainline,
12 but we are not for the high-volume firm and the
13 interruptible customers classes. Currently we are -- we
14 are recovering 65 percent of the demand-related costs in
15 the demand rate for those two (2) customer classes and the
16 residual flows through to the volumetric charge.

17 MR. BOB PETERS: Do you agree with me, Ms.
18 Derksen, that that again would be an example of a -- an
19 interclass cross-subsidization of the capacity costs?

20 MS. KELLY DERKSEN: I agree, sir, yes.

21 MR. BOB PETERS: Would it generally be the
22 case that the -- the low load factor customers being
23 subsidized or cross-subsidized by the higher load factor
24 customer in those instances?

25

1 (BRIEF PAUSE)

2

3 MS. KELLY DERKSEN: I think that's true,
4 Mr. Peters, yes.

5 MR. BOB PETERS: Does the Corporation have
6 any plans to change the percentage of demand costs
7 recovered through the demand rate for the high-volume firm
8 and the interruptible customer?

9 MS. KELLY DERKSEN: Certainly not as part
10 of this application, as you are aware. But in future, we
11 would be reconsidering a change in the capacity-related
12 costs that are recovered in the capac -- or in the demand
13 rate; whether that moved up to 100 percent or moved up
14 from the 65 percent to something else, or even potentially
15 lower, is -- is not yet decided.

16 MR. BOB PETERS: Do you recall, Ms.
17 Derksen, and can you tell the Board when the Corporation
18 went to a 65 percent demand cost recovery through the
19 demand rate?

20 MS. KELLY DERKSEN: Well, it sort of
21 happened in two proceedings, Mr. Peters: One was through
22 the 2003/'04 GRA and -- and the second was through the
23 '04/'05 cost-of-gas proceeding.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: If we turn to the bill and
2 the rate impacts, Ms. Derksen, you'll find at Tab 35 of
3 the book of documents some extracts from your application.
4 And rather than put in the detailed schedules, I guess I -
5 - I went with a summary of the bill impacts.

6 And these are the bill impacts that the
7 corporation is proposing would be implemented on August
8 the 1st, '07; am I correct?

9 MS. KELLY DERKSEN: As a result of this
10 application, yes.

11 MR. BOB PETERS: And that timing would
12 coincide with whatever the bill impact change would be
13 related to primary gas?

14 MS. KELLY DERKSEN: Correct.

15 MR. BOB PETERS: And at this time can you
16 tell the Board whether the August 1st primary gas rate
17 will go up or go down?

18 MS. KELLY DERKSEN: I don't know. Mr.
19 Sanderson may have a better idea of that.

20 MR. BOB PETERS: Well, if you could ask of
21 him what his present views are and the magnitude if he's
22 able to -- to provide that, that would be something of
23 interest, I'm sure, to the Board.

24 But the Board would also be receiving the
25 primary gas application some time in the month of -- or

1 early in the month of July I take it?

2 MS. KELLY DERKSEN: Yeah, I'm hesitating a
3 little bit, Mr. Peters, because we can provide you a
4 number at this time, in terms of whether primary gas costs
5 are going to increase or decrease, but I certainly
6 wouldn't want to hang my hat on it because, as you know,
7 it changes daily and the application that will ultimately
8 flow to this -- to this Board in early July may be very
9 different than what we would provide you now.

10 MR. BOB PETERS: I think that's understood
11 and thank you, Ms. Derksen.

12 When we look at the book of documents, Tab
13 35 and look at the extract from Tab 3 page 16 of 19 of
14 your filing, we see in the middle column the annual
15 impacts billed rates, and there's two (2) columns there of
16 dollar impact and percent change, correct?

17 MS. KELLY DERKSEN: Yes.

18 MR. BOB PETERS: And I think you and Mr.
19 Saxberg or the panel members and other witnesses and Mr.
20 Saxberg, have discussed how to present the bill impacts,
21 but what you are showing here for most customer classes is
22 the impact billed rate to billed rate changes will have on
23 an annualized basis?

24

25

(BRIEF PAUSE)

1 MS. KELLY DERKSEN: Yes, that's what we
2 have shown.

3 MR. BOB PETERS: And when we talk about
4 billed rates, Ms. Derksen, one (1) of the factors that is
5 included in billed rates is whether or not there are any
6 rate riders to be added to the base rates?

7 MS. KELLY DERKSEN: Correct.

8 MR. BOB PETERS: And the base rates are
9 the rates shown in the last two (2) columns of the tables
10 at Tab 35 of the book of documents and they contain no
11 rate riders?

12 MS. KELLY DERKSEN: Correct.

13 MR. BOB PETERS: So to the extent that the
14 base rate differs from the billed rate impacts the answer
15 can be found for the reason for that, to be in rate riders
16 that would be attached to the billed rates?

17 MS. KELLY DERKSEN: Yes, I would say
18 attached to the base rates, yes.

19 MR. BOB PETERS: Thank you. When we talk
20 about rate riders, at Tab 36 -- no, let me go back to Tab
21 5 of the book of documents.

22 Ms. Derksen, at Tab 5 of the book of
23 documents you should have a copy of Schedule 7.1.0, I
24 believe?

25 MS. KELLY DERKSEN: Yes, I do.

1 MR. BOB PETERS: And this is the schedule
2 that is explaining to the Board as of May 15th what the
3 expected deferral account balances will be as at July
4 31st, 2007.

5 MS. KELLY DERKSEN: Yes, and as shown on
6 line 15, sir.

7 MR. BOB PETERS: Line 15 middle column
8 there's an \$8.972 million to be refunded in total in this
9 application?

10 MS. KELLY DERKSEN: On account of non-
11 primary gas costs, yes.

12 MR. BOB PETERS: And while the next panel
13 of Centra's witnesses can explain any specific details of
14 that, suffice it say that it's the \$8.972 million number
15 that concerns this panel because that will be the amount
16 of the rate riders that are put into effect to refund to
17 customers, is that right?

18 MS. KELLY DERKSEN: My previous answer
19 qualified that statement to say on account of non-primary
20 gas costs. And I intentionally said that because we are
21 also proposing a rate delay rider that would offset this
22 amount to be refunded to customers somewhat.

23 MR. BOB PETERS: The rate delay rider, can
24 you just briefly explain to the Board what you are
25 attempting to accomplish through that rider?

1 MS. KELLY DERKSEN: What we're attempting
2 to accomplish is, as a result of the fact that the Company
3 has proposed rates go in effect on May 1 and as a result
4 of the fact that we're now beyond May 1 and still would
5 like to be able to recover those monies from customers, we
6 implement a rate delay rider that will collect from
7 customers the amount as if it had been in -- in place
8 since May 1, even though recognizing that we won't likely
9 get rates flowing out of this application until August
10 1st.

11 MR. BOB PETERS: If we turn to Tab 36 of
12 the book of documents, we have some -- some coloured --
13 Attachment 10 -- I'm sorry, Attachment 1 from Tab 10 of
14 the application and this information, Ms. Derksen, is to
15 graphically demonstrate to the Board when the various
16 rates and rate riders would go into effect, correct?

17 MS. KELLY DERKSEN: Correct, yes.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: When we talk about the
22 existing riders that are on the rates, there is a rider
23 that -- or riders that cumulatively are refunding
24 approximately \$13 million to consumers?

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

1 MR. BOB PETERS: And, Ms. Derksen, if
2 there's a rider that's refunding \$13 million and that
3 rider comes off, all things being equal, consumers would
4 see a \$13 million hit on their gas bills.

5 MS. KELLY DERKSEN: That's correct.

6 MR. BOB PETERS: So even though the -- the
7 base rates may not change, the effect of a rider coming
8 off will give the appearance of rates increasing.

9 MS. KELLY DERKSEN: Yes, that's the -- the
10 ending of a good thing, yes.

11 MR. BOB PETERS: Well -- and in this
12 scenario, the \$13 million rate rider that is coming off
13 will be replaced by an approximate \$9 million rate rider.

14 MS. KELLY DERKSEN: Yes. And so the net
15 effect to the customer is still a \$4 million increase to
16 rates.

17 MR. BOB PETERS: And that's the point that
18 customers will, on a build-to-build basis, see that impact
19 even it wasn't visible on base rates.

20 MS. KELLY DERKSEN: That's correct.

21 MR. BOB PETERS: Ms. Derksen, we've talked
22 with the revenue requirement panel about Centra's actual
23 financial results being impacted by weather, you're
24 familiar with that?

25 MS. KELLY DERKSEN: Yes.

1 MR. BOB PETERS: And that raises the issue
2 of whether or not Centra favours a decoupling mechanism in
3 its rates to de -- to decouple the rate increases from the
4 weather impacts that have led to the those rate increases.

5 MS. KELLY DERKSEN: I think I might
6 describe it a little bit differently than you. A rate
7 decoupling mechanism, regardless of the mechanics, RCM and
8 TREE have proposed one (1) set of mechanics, and there's
9 many others to accomplish the same thing.

10 But I would suggest that a rate decoupling
11 mechanism decouples a utility's recovery of fixed costs
12 from the volumes that customers consume.

13 MR. BOB PETERS: With that definition, Ms.
14 Derksen, one (1) decoupling mechanism would be for Centra
15 to charge through, in a basic monthly charge, all of the
16 customer related costs so that the basic monthly charge
17 increases from a hundred and twenty dollars (\$120) a year
18 to three hundred and six (\$306) a year.

19 MS. KELLY DERKSEN: Yes. And taking that
20 one (1) step further you could then add in the demand
21 related costs into that, which are also fixed to nature,
22 and that is a -- another -- like I said, it's the
23 mechanics of how you get there, but that accomplishes the
24 same outcome, Mr. Peters.

25 MR. BOB PETERS: If the -- if the rates

1 were going to include a mechanism to decouple the fixed
2 costs from the volumetric recovery of those fixed costs,
3 would that be that be tantamount to a distribution
4 deferral account?

5 MS. KELLY DERKSEN: I'm not sure what you
6 mean by distribution deferral account.

7 MR. BOB PETERS: Well of the costs that
8 are not being recovered volumetrically when the weather is
9 warmer than normal, the ones with which the Corporation
10 has the most risk are those that are related to
11 distribution costs?

12 MS. KELLY DERKSEN: We're getting in a
13 little bit of the -- the difficulties in the -- the
14 current unbundled rate structure that we have, but if we
15 talk for example for the -- with respect to the \$137
16 million of non-gas costs that Company is proposing in this
17 application, and if that's the issue, that the Company is
18 not being able to recover that \$137 million, a rate
19 decoupling mechanism could help the Company ensure that it
20 could recover that amount.

21 Unfortunately, Mr. Peters, that \$137
22 million is not solely in the distribution rate. It's
23 disbursed in the primary gas rate, as you and I have
24 talked about this morning, it's in the transportation
25 rate, it's in the distribution rate, and it's in the

1 supplemental rate and so we get into a bit of a complexity
2 there because of the unbundled nature of our rates.

3 MR. BOB PETERS: All right. But
4 recognizing that decoupling is -- is a concept and it can
5 be achieved through various mechanisms, presently the
6 Corporation already had mechanisms to recover the fixed
7 costs related to gas costs, correct?

8 MS. KELLY DERKSEN: I agree. The -- the
9 Company trues those up annually on account of weather and
10 other issues and so the Company is held harmless and the
11 customer, for that matter as well, is held harmless with
12 respect to those costs.

13 MR. BOB PETERS: And then -- doesn't it
14 then leave only the distribution costs where the
15 Corporation has the risk of impact through weather?

16 MS. KELLY DERKSEN: I would say non-gas
17 costs, Mr. Peters.

18 MR. BOB PETERS: Yes. Thank you for that
19 correction.

20 And if -- if you were going to then address
21 the recovery of those non-gas costs in the distribution
22 rate by way of a decoupling mechanism, would it amount to
23 a distribution deferral account?

24 MS. KELLY DERKSEN: Again that -- those
25 mechanics haven't obviously been ironed out. It's not the

1 -- the Company's preference to go down that road at that -
2 - at this time, although it certainly wants to remain open
3 to the -- the idea. But it could include that deferral
4 account in the distribution rate, for example.

5 It could also spread that among each of the
6 rates that contributes to non-gas costs. So it could have
7 a deferral account for each of the rates that include non-
8 gas costs which in fact are all of the rate.

9 MR. BOB PETERS: Does it end in a
10 conclusion, Ms. Derksen, that the decoupling mechanism
11 that may be proposed by the Intervenor to be considered
12 in Manitoba, would amount to adjusting rates every month
13 to compensate for actual weather?

14 MS. KELLY DERKSEN: There are -- my
15 understanding, Mr. Peters, is that there's a number of
16 ways to accomplish that. This Intervenor has proposed one
17 (1) methodology which is a monthly true up for a portion
18 as it relates to weather and an annual true up as it
19 relates to conservation issues.

20 Others do it different. For example, I
21 know that Terasen Gas has an annual true-up which is then
22 amortized over a three (3) year time period. Gas Metro
23 has an annual true-up that's amortized over a five (5)
24 year time period, and I know that there are many areas
25 within the United States that deal with it differently, as

1 well.

2 MR. BOB PETERS: All right. Thank you for
3 that.

4 I want to turn with you, Ms. Derksen, to a
5 snapshot of the gas rates in other major Canadian cities.
6 And I'm wondering if the Corporation could file some
7 materials with the Board related to that on a basis that
8 allows comparisons to be made as between the different
9 jurisdictions?

10 MS. KELLY DERKSEN: Can you help me
11 understand what you mean by gas costs, Mr. Peters?

12 MR. BOB PETERS: I'm -- I'm actually
13 specifically talking about gas rates in other major
14 Canadian cities and what they charge to their customers
15 either by way of the rate itself or maybe as it manifests
16 itself in its annual bills?

17 MS. KELLY DERKSEN: I think that can be
18 managed, Mr. Peters, yes.

19 MR. BOB PETERS: Thank you for that, Ms.
20 Derksen.

21

22 --- UNDERTAKING NO. 25: Centra to provide Board with a
23 comparison between gas rates
24 in other major Canadian cities
25 and Centra, and what they

1 charge to their customers
2 either by way of the rate
3 itself or as it manifests
4 itself in its annual bills

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: In the materials, the
8 corporation was going to consider a separate residential
9 customer class and to that end gave consideration to that,
10 Ms. Derksen?

11 MS. KELLY DERKSEN: I would suggest that
12 we were directed to consider a residential class, and we
13 have given consideration to it.

14 MR. BOB PETERS: Perhaps better words than
15 mine. And having given consideration to it, the
16 conclusion is that it's not necessary.

17 MS. KELLY DERKSEN: It sounds so negative.
18 I would say that we are satisfied with the current rate
19 structure -- or the customer class that we have in
20 existence today as demonstrated by the fact that the
21 revenue to costs are fairly closely aligned between the
22 two (2) customer types embedded with the SGS class. So I
23 would suggest from that perspective we are not seeking a
24 change.

25 MR. BOB PETERS: That answer suggests that

1 one (1) of the reasons you don't seek a change is because
2 the costs are almost the same to serve residential
3 customers as it is with SGS commercial customers.

4 MS. KELLY DERKSEN: Yes, the whole premise
5 behind a customer class is to identify those customers
6 that impose, on the Centra system, similar types of costs.
7 And our analysis is suggesting that residential and small
8 commercial -- it could be a local mom and pop store that
9 uses 2800 cubic metres of gas a year, uses an AL225 metre
10 (phonetic) and a 3/4 inch service line that connects them
11 to Centra system is -- does not cost anything different
12 than a typical residential customer.

13 So we've satisfied ourselves that from a
14 cost perspective that there is no justification to split
15 those two types of customers.

16 MR. BOB PETERS: Would I be correct, Ms.
17 Derksen, that even though there's no justification in your
18 view to split those two customer designations into
19 separate classes, you are able, through your cost
20 allocation methodology, to do just that. And that is to
21 separate those two (2) different demographics.

22 MS. KELLY DERKSEN: We have done that,
23 yes.

24 MR. BOB PETERS: And you do that in your
25 Cost Allocation Study primarily for the Provincial Sales

1 Tax to apply to one (1) set of customers but not the
2 other?

3

4

(BRIEF PAUSE)

5

6 MS. KELLY DERKSEN: This Board, through
7 Order -- I believe it was 107/96 -- required or directed
8 the Company to track for cost allocation purposes, the
9 difference between residential and commercial customers
10 within the SGS Class. But in terms of taxes, we make that
11 distinction for billing purposes and not on account of the
12 Cost Allocation Study.

13 MR. BOB PETERS: But you do track the
14 costs separately in the Cost Allocation Study but prefer
15 to keep them in one (1) class, albeit two (2) sub-classes?

16 MS. KELLY DERKSEN: Yes, because
17 essentially what that would amount to is if I were to
18 separate those customer classes, I would have a
19 residential customer class that would have exactly the
20 same rates, from a distribution perspective, as a
21 commercial customer who is currently embedded in the SGS
22 Class. So I would have one (1) rate schedule with two (2)
23 rate classes that had the same rates.

24 MR. BOB PETERS: All right. Thank you. I
25 have your point.

1 Turning to the issue of lump sum payments
2 and the study done and filed in Tab 12, Attachment 3 of
3 the materials, Ms. Derksen. The Lump Sum Payment Study
4 was to consider when, if at all, to refund or collect
5 monies from consumers on a lump-sum basis rather than by
6 way of a rate rider.

7 MS. KELLY DERKSEN: Correct.

8 MR. BOB PETERS: And when material
9 differences arise between the forecast and actual gas
10 costs, Centra's preference is to use rate riders over a
11 lump sum mechanism to refund the money.

12 MS. KELLY DERKSEN: That's correct.

13 MR. BOB PETERS: What's the primary
14 motivation for that conclusion, Ms. Derksen?

15 MS. KELLY DERKSEN: I think that rate
16 riders have served us well and I think that they're easy
17 to administer. They provide a reasonable balance between
18 refunding monies to customers who have either caused them
19 to be imposed or have overpaid the Corporation over a
20 reasonable amount of -- of time. And I think that lump
21 sum payments would be more cumbersome to implement,
22 certainly more time consuming.

23 And from those two (2) perspectives I think
24 it's the preference of the Organization to continue using
25 rate riders as we have done so for the last many years.

1 MR. BOB PETERS: Would it be correct to
2 say that in certain circumstances, and perhaps one will
3 have to go with greater detail through your report, there
4 may be circumstances where in total a refund is being made
5 to a customer class, but amongst the different customers
6 within the class some would get a refund and some would
7 perhaps have to even pay money?

8 MS. KELLY DERKSEN: Yes. I -- I would
9 suggest that the Corporation is much more open to -- to
10 lump sum refunds or payments prior to rate unbundling.
11 But with rate unbundling it's become fairly complicated
12 and one (1) of the reasons is as you suggest.

13 MR. BOB PETERS: Now, even though the
14 Corporation doesn't prefer the lump sum refund
15 methodology, before I leave this topic, I should maybe ask
16 you to alert the Board, Ms. Derksen, that one (1) of your
17 requests in this filing is to make a lump sum refund to
18 one (1) of the customers if your application is approved?

19 MS. KELLY DERKSEN: Agreed. We've
20 negotiated with the special contract customer lump
21 payments. The ownership of that customer has changed in
22 the last year and they are reconsidering that right now so
23 this -- we are proposing it in this application. I'm not
24 sure how much longer that that will continue though.

25 MR. BOB PETERS: Mr. Chairman, recognizing

1 the time, this might be an appropriate time for the
2 morning recess. I will look at my notes over the recess
3 and I believe I have -- I think I have two (2) issues left
4 with this panel and then I'll turn the microphone over to
5 My Friend's opposite.

6 THE CHAIRPERSON: Thank you, Mr. Peters.
7 We'll come back then in fifteen (15) minutes.

8

9 --- Upon recessing at 10:39 a.m.

10 --- Upon resuming at 11:03 a.m.

11

12 THE CHAIRPERSON: Any time, Mr. Peters.

13 MR. BOB PETERS: I will defer to my
14 colleague Ms. Murphy and -- one of her witnesses wants to
15 update or clarify a response given earlier this morning.

16 MR. MARLA MURPHY: Thank you. Mr. Warden
17 used his time very well over the break and would like to
18 just clarify one (1) of the items that he took subject to
19 check this morning.

20 MR. VINCE WARDEN: Yes, and I did -- thank
21 you, Ms. Murphy, and I did double check the expiry date of
22 the lease at 444 St. Mary. So all 68,000 square feet at
23 444 St. Mary, the expiry date is January 31, 2009, and not
24 2010 as I indicated earlier.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Appreciate your updating
3 the Board on that, Mr. Warden. Thank you very much.

4 Mr. Chairman, three (3) issues to cover.
5 One briefly, Waverley West; second one, inverted rates,
6 not quite as briefly; and the third one would be the
7 special contract customer class.

8 So in dealing with the first issue on
9 Waverley West, I do appreciate that Mr. Kuczek is not
10 here, so I want to approach this perhaps with Mr. Wiens on
11 a -- a higher level than I might with Mr. Kuczek.

12 And, Mr. Wiens, in Waverley West we heard
13 evidence that one (1) of the phases being developed by
14 MHRC was going to have geothermal in it to approximately
15 25 percent?

16 MR. ROBIN WIENS: I have that
17 recollection.

18 MR. BOB PETERS: And can you indicate to
19 the Board that if a development is going to use geothermal
20 whether gas infrastructure is still put into the ground up
21 to all of these homes in the residential development even
22 if geothermal was going to be the energy source of choice?

23 MR. ROBIN WIENS: My understanding is that
24 as you state approximately 25 percent of the homes in that
25 phase are likely to be geothermal. The remainder would be

1 conventionally heated. And so gas infrastructure will go
2 through that -- will be distributed throughout that phase.

3 MR. BOB PETERS: And when you say "gas" --
4 when you say "gas infrastructure will be put throughout
5 that phase," you're suggesting that there will be no
6 difference in the infrastructure that is put into the
7 ground in an area where geothermal will be the energy
8 source of choice to that of where natural gas would be the
9 energy source?

10 MR. ROBIN WIENS: That is my
11 understanding, Mr. Peters, that -- that because of the
12 fact first that most of the homes will not be geothermal
13 and second because some of those homes which are
14 geothermal may want to elect to take natural gas for other
15 purposes that the infrastructure will be placed in and gas
16 will be available.

17 MR. BOB PETERS: And that -- and, Mr.
18 Wiens, that answer implies that even if a home was going
19 to use geothermal as its energy source for space heating
20 and water heating that homeowner may also want natural gas
21 for other purposes such as a fireplace, a range, or a pool
22 heater?

23 MR. ROBIN WIENS: Possibly even for backup
24 heating.

25 MR. BOB PETERS: So that suggests that

1 from the Corporation's point of view even if geothermal is
2 the energy source of choice, the Corporation will have to
3 insert in the ground the same infrastructure as if
4 geothermal was not the energy source of choice?

5 MR. ROBIN WIENS: Mr. Peters, if the
6 developer of -- of the -- of the subdivision requests
7 natural gas service and is prepared to pay whatever costs
8 are associated with it, Centra will put gas service
9 throughout the subdivision.

10 THE CHAIRPERSON: Mr. Wiens, in that case
11 is that an argument for a higher basic monthly charge?

12 MR. ROBIN WIENS: It means that we set up
13 a Waverley rate zone and put a higher monthly basic charge
14 in at that -- in that rate zone.

15 I'm -- I'm not certain if -- if it were to
16 become widespread that we were looking at situations in
17 which Centra was -- was installing plant that was used to
18 a significantly lesser degree than plant typically is
19 used, we may want to look at other possibilities.

20 My understanding, though, is that this --
21 this extension has been feasibility tested and has been
22 found to be feasible.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: And that feasibility test

1 though, Mr. -- Mr. Wiens, suggests that the developer is
2 not going to pay any money; it's all going to be paid for
3 out of customer rates?

4 MR. ROBIN WIENS: That is correct.

5 MR. BOB PETERS: So if the developer wants
6 gas in the area, there's really no cost to the developer
7 to get it there because the feasibility test shows that
8 it's going to be economical according to the feasibility
9 test?

10 MR. ROBIN WIENS: In this particular case,
11 yes.

12 MR. BOB PETERS: Mr. Wiens, let's go
13 hypothetical to a new subdivision where it's 100 percent
14 geothermal.

15 Would it be the Corporation's expectations
16 to -- to still put gas infrastructure in the ground in --
17 in those instances?

18 MR. ROBIN WIENS: Mr. Peters, if Centra
19 were to receive a request to install gas in that type of a
20 subdivision, Centra would undertake a feasibility test and
21 given that you're looking at 100 percent of the homes
22 being heated geothermally, that would very likely affect
23 the outcome of the test.

24 MR. BOB PETERS: And that answer suggests
25 that you can't give a definitive answer to the Board

1 because you'd have to go specifically by the volumes that
2 are forecast to be utilized before you can decide whether
3 it will be feasible without contribution?

4 MR. ROBIN WIENS: The number of customers
5 that could be expected to connect to a gas system and the
6 volumes that they could be expected to use.

7 MR. BOB PETERS: And, Ms. Derksen, just
8 back to you. In the instance where an area has geothermal
9 as an energy source and yet the Corporation still installs
10 the regular and usual gas infrastructure, all of those
11 costs of the gas infrastructure are then allocated amongst
12 the SGS customers in total?

13 MS. KELLY DERKSEN: They are allocated to
14 all customer classes on the basis of load and usage
15 characteristics.

16 MR. BOB PETERS: And in this case if it's
17 for a residential development it will end up on the SGS
18 residential -- or SGS side?

19 MS. KELLY DERKSEN: Not necessarily, it's
20 -- it's integrated. I can't tell which pipe belongs to
21 which customer or group of customers. So it goes in and
22 gets commingled with all of the other transmission and
23 distribution plant and will be allocated to each customer
24 class on that class' contribution to peak day as well as
25 annual throughput.

1 MR. BOB PETERS: Thank you. Mr. Wiens,
2 perhaps turning to you, sir, on the topic of inverted
3 rates and I want to just go over some areas that maybe of
4 assistance to the Board.

5 From the inverted rate study that you did
6 file at Tab 12 and Attachment 7 to the materials am I
7 correct in concluding that it is Centra's position that
8 there is no economic justification to go to inverted rate
9 structure for the Gas Company?

10 MR. ROBIN WIENS: Yes, sir.

11 MR. BOB PETERS: And is it the conclusion
12 of the Corporation that it is not economically justified
13 to go to inverted rate structure because the marginal cost
14 of natural gas is, if not the same, very close to being
15 the same as the average cost of natural gas?

16 MR. ROBIN WIENS: Correct.

17 MR. BOB PETERS: In terms of inverted
18 rates, Mr. Wiens, you have before the Board before
19 indicated that inverted rates may send a price signal to
20 consumers?

21 MR. ROBIN WIENS: Any price you set will
22 send a signal to consumers.

23 MR. BOB PETERS: And if you invert the
24 rate you're sending a price signal that the inverted rate
25 block is costing more than the first rate block and

1 therefore consumers should take whatever steps they can to
2 not consume as much or any in this -- in the inverted
3 block?

4 MR. ROBIN WIENS: They should exercise
5 their preferences with respect to the price signals that
6 they're receiving.

7 MR. BOB PETERS: Do you agree that your
8 existing rate structure does not send such a rate signal?

9 MR. ROBIN WIENS: The existing rate
10 structure passes on all the costs of acquiring,
11 transporting, and distributing the natural gas to the
12 customer.

13 MR. BOB PETERS: But there is no signal
14 being sent as to a certain threshold after which gas will
15 cost more?

16 MR. ROBIN WIENS: Not currently, no.

17 MR. BOB PETERS: In your direct evidence
18 to Ms. Murphy last Friday there was an indication that the
19 Corporation is of the view that there's approximately five
20 cents (.05) per cubic metre already embedded in the cost -
21 - in the variable costs of gas that recovers fixed costs,
22 and do I understand your evidence to be that would be a
23 proxy for a price signal to consumers?

24 MR. ROBIN WIENS: It takes the volumetric
25 charge above the level that the volumetric charge would be

1 if we only included the costs that vary with volume in
2 that charge.

3 MR. BOB PETERS: And maybe back to one (1)
4 of the questions the Chairman had just after the morning
5 recess.

6 To the extent that the basic monthly charge
7 is increased, it is removing that fixed cost from the
8 volumetric recovery mechanism?

9 MR. ROBIN WIENS: That would be true.

10 MR. BOB PETERS: And that would take away
11 the inherent price signal that you referenced?

12 MR. ROBIN WIENS: That would take the
13 volumetric charge down to the level of the costs that
14 Centra incurs on a volumetric basis.

15 MR. BOB PETERS: Thank you, Mr. Wiens. I
16 also understand your evidence to suggest that Centra does
17 not need inverted rates to comply with the Sustainable
18 Development Act; would you agree with that?

19 MR. ROBIN WIENS: I think that's probably
20 more a question for -- for argument, but if I can state
21 it, yes, that's what I do believe.

22 MR. BOB PETERS: Well, in terms of the
23 evidence that Centra relies on to support its position
24 that it complies with the Sustainable Development Act, Mr.
25 Wiens, what -- what evidence does the Corporation rely on?

1 MR. ROBIN WIENS: The corporation relies
2 principally on the fact that it has -- in terms of meeting
3 the heating requirements of its customers, it basically
4 has two choices:

5 It can procure gas and supply it to them.

6 Or it can undertake measures related to
7 conservation and assist customers to be able to use less.

8 Those -- there are other options but in
9 terms of customers who do use natural gas, those are the
10 two (2) options that are available. Centra does build in
11 a factor for environmental impacts into its decision to
12 invest in conservation and we've provided that evidence to
13 you that we do that.

14 MR. BOB PETERS: And because of your
15 assertion, Mr. Wiens, that you include those societal
16 costs presently in rates, then that's one of the reasons
17 Centra is opposed to an adder in the most expensive rate
18 block?

19 MR. ROBIN WIENS: We don't believe that
20 it's necessary.

21 MR. BOB PETERS: It's not necessary
22 because it's already included?

23 MR. ROBIN WIENS: It's not necessary
24 because when Centra makes -- does the analysis that
25 assists in making its determination of the level in which

1 it will invest in conservation, it incorporates an adder
2 into that calculation to determine what programs -- what
3 conservation programs will be cost-effective.

4 In terms of the rate design itself.
5 Although, as we have stated, the current method of
6 collecting some of the fixed costs was not developed with
7 respect to sending a price signal with regard to possible
8 externalities; it does in fact have that effect.

9 MR. BOB PETERS: All right. I've got your
10 point.

11 In terms of inverted rates for Centra, if I
12 correctly understand the evidence from Mr. Weiss, he is
13 suggesting that before Centra embarks on an inverted rate
14 structure, there should also be one for the electric side
15 of the business.

16 Do you have the same understanding of his
17 evidence?

18 MR. ROBIN WIENS: No, Mr. Peters, I don't.
19 I'm sure Mr. Weiss' evidence is that this would be
20 desirable but I don't know that he has set out that one is
21 a quid pro quo for the other.

22 MR. BOB PETERS: All right. We'll have
23 that benefit to --

24 MR. ROBIN WIENS: Mr. Weiss could perhaps
25 speak for himself.

1 MR. BOB PETERS: -- to discuss that with
2 him later today.

3 But, Mr. Wiens, one of the concerns if you
4 do not have an inverted rate structure on the electric
5 side of the operations, but you do on the gas side, is
6 that it may entice customers to switch fuels.

7 Would you agree with that?

8 MR. ROBIN WIENS: That is a possibility.

9 MR. BOB PETERS: And the argument being if
10 you switch from natural gas to electricity, while that may
11 have less of an impact on the environment in Manitoba, it
12 is not on a global basis assisting in the reduction of
13 greenhouse gases and other externalities.

14 MR. ROBIN WIENS: That link is a bit more
15 tenuous. But we do accept the proposition that if
16 electricity is consumed in Manitoba that would otherwise
17 be sent into the export markets -- to the extent that that
18 electricity is replaced in those markets -- the chances
19 are pretty good it's going to be done with generation,
20 based on fossil fuel. So to that extent, yes, we would
21 agree with that.

22 MR. BOB PETERS: Is another method to
23 avoid fuel switching from gas to electricity providing an
24 incentive in the areas in which fuel switching is most
25 likely, such as hot water tanks?

1 MR. ROBIN WIENS: That -- that is a
2 possibility. What you want to do is, I guess, to have
3 customers face the real prices of their decision. And if
4 there was an incentive in place to either penalize a
5 choice that we didn't want them to make or to subsidize a
6 choice that we did want them to make, that could be
7 effective.

8 MR. BOB PETERS: Mr. Wiens, in turning to
9 a low income rate, does the Corporation find merit with an
10 inverted rate only for low income customers in the event
11 that it doesn't support an inverted rate for all
12 customers?

13 MR. ROBIN WIENS: I don't know, Mr.
14 Peters. The Corporation does not believe that it is the
15 role of Centra's other customers to subsidize certain
16 customers based on some definition of income.

17 MR. BOB PETERS: Mr. Wiens, just a
18 conversion question. Is there a standard conversion that
19 the Board should use when converting from dollars per ton
20 of greenhouse gases to cents per cubic meter of gas?

21 MR. ROBIN WIENS: You know, offhand --
22 yes, there is, but offhand I cannot tell you what it is.
23 I can tell you that we concluded that the five (5) cents
24 per cubic meter was equivalent to twenty-seven (\$27)
25 dollars per ton of PHG, so there's -- I'm sure we can work

1 it out from there.

2 MR. BOB PETERS: And as can we Mr. Wiens,
3 but is -- is that a standard conversion or is there still
4 issues of -- of debate around what the proper conversion
5 would be?

6

7 (BRIEF PAUSE)

8

9 MR. ROBIN WIENS: We believe it would be
10 standard, Mr. Peters.

11 MR. BOB PETERS: Okay, thank you, Mr.
12 Wiens.

13 Mr. Chairman, I've located one (1) extra
14 topic for this panel. My Friend, Ms. Murphys, agrees this
15 is the appropriate panel and that has to do with the
16 schedule of labour rates.

17 Is that this panel's responsibility?

18 MS. MARLA MURPHY: Yes, I believe Mr.
19 Wiens is prepared to speak to that.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: All right. And last week
23 there was a handout, which was a revised Tab 11,
24 Attachment 4 Terms and Conditions of Service, page 13 of
25 13, containing a new labour rate. And then there was also

1 an Appendix B filed June 8th, marked as Centra Exhibit 8.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: Mr. Wiens, is that one of
6 the areas you're speaking to?

7

MR. ROBIN WIENS: Yes.

8

9 MR. BOB PETERS: And when I look at Tab 29
10 of the book of documents that's been circulated -- and I'm
11 hoping everybody's Tab 29 of the book of documents,
12 there's an extract of PUB/CENTRA-116 and the attachment.

13

MR. ROBIN WIENS: Well, Mr. Peters, you'll
14 be pleased to know that mine is.

15

16 MR. BOB PETERS: And when I did check this
17 weekend, Mr. Wiens, as to whether Centra Exhibit 8 lined
18 up with that attachment, I found that it did, and so am I
19 -- is it -- this simply the Company's completion of the
20 request to have a revision to the terms and conditions, or
21 have there been any changes since the PU/CENTRA-116 was
22 filed?

23

24 MR. ROBIN WIENS: Mr. Peters, I'm advised
25 that what we did was we added the gas pipeline operational
26 services, which you'll see at the -- at the bottom of the
27 table in Exhibit 8.

28

MR. BOB PETERS: Thank you. Mr. Wiens, is

1 this now a complete listing of the labour rates used by
2 the Corporation or proposed to be used by the Corporation?

3 MR. ROBIN WIENS: It is.

4 MR. BOB PETERS: And when we look at --
5 when we look at the PUB/CENTRA-116 found at Tab 29, the
6 regular time/labour rate goes up two (\$2) dollars an hour,
7 and the overtime goes up three (\$3) an hour, is what's --
8 what's indicated, correct?

9 MR. ROBIN WIENS: You're looking at the
10 rates for service line alterations?

11 MR. BOB PETERS: Yes, I am.

12 MR. ROBIN WIENS: That's correct.

13 MR. BOB PETERS: And can you explain to
14 the Board how those amounts were calculated; how you
15 determined the regular time and the overtime rates?

16

17 (BRIEF PAUSE)

18

19 MR. ROBIN WIENS: This is a fairly simple
20 procedure, Mr. Peters, we look at the appropriate activity
21 rates and we divide by the number -- we divide by the
22 number of -- and -- and we compute the budget and we
23 divide by the number of hours that we expect staff will be
24 working on these projects.

25 MR. BOB PETERS: And the activity rates

1 includes not only the -- not only the direct labour costs,
2 but also the Corporation's overhead costs.

3 MR. ROBIN WIENS: Yes it does.

4 MR. BOB PETERS: All right. So to the
5 extent that those overhead costs and those direct labour
6 costs change, so should the labour rates that are charged
7 out by the Corporation?

8 MR. ROBIN WIENS: That's correct.

9 MR. BOB PETERS: Can you explain to the
10 Board when these service line alterations or damage
11 repairs or -- or gas pipeline operational services would
12 be charged to a customer?

13

14 (BRIEF PAUSE)

15

16 MR. ROBIN WIENS: Mr. Peters, the service
17 line alterations would be applied in situations where, for
18 example, a customer would request that the gas line be
19 moved in order to facilitate some construction on the
20 customer's premises or in the event that we had some
21 damage occur, caused by a third party, this is -- this
22 would be billed to the third party.

23 In the case of the gas pipeline operational
24 services you'll see that it only has an East Manolo
25 (phonetic) location and this is a service that's provided

1 to a third party outside of Manitoba.

2 MR. BOB PETERS: That's an intriguing
3 answer on the last point, Mr. Wiens. This suggests that
4 Centra assists in the gas line operation for a customer
5 not resident in Manitoba?

6

7 (BRIEF PAUSE)

8

9 MR. ROBIN WIENS: Mr. Peters, there's a
10 takeoff around Spruce Siding in Eastern Manitoba that goes
11 into the United States and serves the -- the customer
12 involved is Spectra Energy. Centra simply provides
13 maintenance and repair services to that entity. But it's
14 to the line in Manitoba, it's not outside Manitoba.

15 MR. BOB PETERS: All right, and the
16 services provided to the line in Manitoba, it's on a cost
17 recovery basis then.

18 MR. ROBIN WIENS: That is correct.

19 MR. BOB PETERS: Thank you, sir. And when
20 we talk about regular time and overtime, does that refer
21 to the hours that the employee has already worked in the
22 day or does that im -- does that refer to the number of
23 hours worked on that particular project?

24 MR. ROBIN WIENS: Typically, employees
25 will have to be called out overtime at certain times and

1 that's when these overtime rates will apply.

2 MR. BOB PETERS: But for example, if -- if
3 a customer asks for the service line alteration because
4 they want to put a pool in their backyard and the Centra
5 employees get there at 3:00 in the afternoon, will they be
6 working at regular time if it takes four (4) hours to
7 complete the project or would they then have to revert to
8 some overtime to catch the last hour or two (2)?

9

10 (BRIEF PAUSE)

11

12 MR. ROBIN WIENS: I'm advised that
13 typically the overtime rate would apply if the customer
14 requested that the work be done outside of normal working
15 hours; for example, they had a facility they didn't want
16 to shut down during their regular daytime hours.

17 MR. BOB PETERS: Mr. Wiens, when I was
18 asking you about a possible inverted rate for low income
19 customers, the answer I took from you was to -- to, in
20 essence, that you don't support the express cross
21 subsidization from one (1) customer class to another for
22 this purpose, would that be fair?

23 MR. ROBIN WIENS: That's correct.

24 MR. BOB PETERS: And if that's the case,
25 sir, you recognize that there is an express cross-

1 subsidization available to Centra through the Winter Home
2 Heating Act and the Affordable Energy Fund that's being
3 established, correct?

4 MR. ROBIN WIENS: Yes, through the Fund
5 that was established pursuant to legislation, yes.

6 MR. BOB PETERS: Now, Mr. Wiens, I
7 recognize that that was established pursuant to
8 legislation, but those are monies that the Corporation is
9 prepared to use to cross subsidize programs to low income
10 consumers.

11 MR. ROBIN WIENS: Yes, that's true.

12 MR. BOB PETERS: Do I take then the point
13 of differentiation is that if the monies are coming by way
14 of third party or discreet legislation, then from a rate
15 design principle those monies can be incorporated to
16 provide a cross-subsidy, but Centra doesn't support an
17 express cross-subsidy amongst customer classes for that
18 purpose of low income?

19 MR. ROBIN WIENS: I -- I think you've put
20 it correctly, Mr. Peters.

21 MR. BOB PETERS: I'd like to turn with the
22 Panel, Mr. Chairman and Board Members, to a discussion
23 about the special contract customer class.

24 And in terms of the record, it's already
25 been indicated the -- the name of the customer that is in

1 this class but you can confirm to me, Ms. Derksen, or Mr.
2 Wiens, that there is only one (1) customer in the special
3 contract customer class?

4 MS. KELLY DERKSEN: That's correct.

5 MR. BOB PETERS: And from information
6 provided, I think back at the pre-hearing conference
7 before this Board, relative to this hearing, there was an
8 indication that the previous customer that occupied that
9 class, sold its assets to a new purchaser, effective
10 approximately September of '06?

11 MS. KELLY DERKSEN: Yes, I believe that's
12 correct, sir.

13 MR. BOB PETERS: And you corrected me a
14 few minutes ago before the break, Ms. Derksen, that the
15 special contract customer is located in -- in Brandon,
16 Manitoba area?

17 MS. KELLY DERKSEN: They are.

18 MR. BOB PETERS: And they have a what we
19 would call a two (2) part rate with a basic monthly charge
20 and a volumetric charge.

21 MS. KELLY DERKSEN: Yes, they do.

22 MR. BOB PETERS: And the point you made to
23 me a few minutes ago was that the basic monthly charge was
24 to recover 100 percent of the customer costs and 100
25 percent of the commodity related costs.

1 MS. KELLY DERKSEN: The demand related
2 costs and then the second part of the rate is the
3 commodity charge.

4 MR. BOB PETERS: I'm sorry, I misspoke.
5 Let's clear that up. I was turning to tab 34 of the Book
6 of Documents while I was speaking and at tab 34 of the
7 Book of Documents we see starting on line 32, on the right
8 hand side of the page, the special contract customer class
9 allocated costs, correct?

10 I'm sorry, Ms. Derksen, you don't have the
11 special Tab 34 that some of us have.

12 MS. KELLY DERKSEN: It's special now, yes,
13 I have it.

14 MR. BOB PETERS: All right. And -- and
15 it's -- it contains Schedule 910, dated May 15th?

16 MS. KELLY DERKSEN: Yes.

17 MR. BOB PETERS: And so when you -- when
18 you tell the Board that the rates for this customer, they
19 are designed to recover 100 percent of the demand costs
20 and 100 percent of the customer costs, that equates to the
21 \$1.36 million plus the hundred and twenty-one thousand
22 dollars (\$121,000) of customer costs?

23 MS. KELLY DERKSEN: Correct.

24 MR. BOB PETERS: And that's recovered by
25 way of a basic monthly charge to this customer?

1 MS. KELLY DERKSEN: Yes.

2 MR. BOB PETERS: And that's approximately
3 a hundred and six thousand dollars (\$106,000) per month
4 each and every month?

5

6 (BRIEF PAUSE)

7

8 MS. KELLY DERKSEN: I'm not mistaken, I
9 believe that's the current rate and that is proposed for
10 this application to increase to a hundred and twenty-three
11 thousand dollars (\$123,000) per month.

12 MR. BOB PETERS: Thank you. And the
13 volumetric rate that's charged to the special contract
14 customer, Ms. Derksen, recovers the energy costs that you
15 reference in your Schedule 910, found at Tab 34 of the
16 book of documents?

17 MS. KELLY DERKSEN: Yes.

18 MR. BOB PETERS: And you indicated that
19 that is primarily the unaccounted for gas portion of the
20 customer's costs that are recovered volumetrically.

21 MS. KELLY DERKSEN: Correct.

22 MR. BOB PETERS: One (1) of the requests
23 made by Centra in this application to the Board is to, in
24 essence, approve the rates that result from the new
25 transportation services contract with this customer.

1 MS. KELLY DERKSEN: Correct.

2 MR. BOB PETERS: And I know that
3 PUB/CENTRA-117 has some of the specific details that I
4 won't go into here, but can you indicate to the Board
5 whether the rate determination mechanism is the same for
6 the new customer in the special contract class as it was
7 to the previous customer in that class?

8 MS. KELLY DERKSEN: It would be, yes.

9 MR. BOB PETERS: And one (1) of the
10 provisions that's contained is that if there are any
11 disputes as between the customer and Centra, those
12 disputes, if not resolved, can be referred through to the
13 Board for resolution.

14 MS. KELLY DERKSEN: Yes, sir.

15 MR. BOB PETERS: Would you agree with me,
16 Ms. Derksen, that the special contract customer is a
17 shipper of natural gas on Centra's system?

18

19 (BRIEF PAUSE)

20

21 MS. KELLY DERKSEN: Yes.

22 MR. BOB PETERS: And as a shipper of
23 natural gas, what that implies is that the customer does
24 not purchase any natural gas molecules from Centra?

25 MS. KELLY DERKSEN: Nor does it purchase

1 upstream transportation or storage arrange -- arrangements
2 from Centra either.

3 MR. BOB PETERS: Thank you. And so what
4 it does purchase from Centra is the transmission
5 capabilities from the takeoff on the Trans-Canada Pipeline
6 to the plant in Brandon?

7

8 (BRIEF PAUSE)

9

10 MS. KELLY DERKSEN: I'm going to suggest
11 this to you, Mr. Peters. What this customer is required
12 to pay is a portion of Centra's transmission and
13 distribution costs, and that's determined based on their
14 individual usage and load characteristics.

15 MR. BOB PETERS: That answer suggests to
16 the Board, Ms. Derksen, that while the transmission line
17 from TCPL to the special contract customer may be well
18 defined and discrete, the special contract customer is to
19 pay a portion of the transmission and distribution costs
20 incurred by Centra on its entire system.

21 MS. KELLY DERKSEN: I don't agree with --
22 with the notion, Mr. Peters, that the piece of pipe that
23 connects to this customer is well-defined. The piece of
24 pipe that serves this customer, serves this customer, it
25 serves the power station customers and it serves the

1 entire City of Brandon and possibly other parts of
2 Southwestern Manitoba, so I don't agree with the premise
3 that it's easy to identify this pipe belonging solely to
4 this customer, and that's the very nature of an integrated
5 utility system.

6 MR. BOB PETERS: You'd agree that this
7 customer's located approximately 16 or 20 kilometres from
8 the Trans-Canada Pipeline?

9 MS. KELLY DERKSEN: I think that's true,
10 yes.

11 MR. BOB PETERS: And are you suggesting
12 that in addition to the transmission line going from TCPL
13 to the special contract customer, it also carries on past
14 that special contract customer and goes to the Manitoba
15 Hydro generating station in Brandon?

16 MS. KELLY DERKSEN: Yes.

17 MR. BOB PETERS: And in your answer, does
18 it also then go on to service the City of Brandon or is it
19 only backup to the City of Brandon?

20

21 (BRIEF PAUSE)

22

23 MS. KELLY DERKSEN: Yes. And then it goes
24 on to serve -- I'm -- I -- I must qualify the record --
25 the southwest -- west portions of the Province of Manitoba

1 which may or not include portions of Bra -- of the City of
2 Brandon.

3

4

(BRIEF PAUSE)

5

6

MR. BOB PETERS: From your answers, Ms.
7 Derksen, I take it you don't agree that the costs for the
8 improvement on the transmission line to the special
9 contract customer can be readily identified and segregated
10 from the other costs incurred by the company?

11

12

13

MS. KELLY DERKSEN: Correct. I don't
agree that they're separate and distinct and readily
identifiable as the customer suggests.

14

15

16

17

18

MR. BOB PETERS: But you would be able to
track what costs are incurred relative to the transmission
line between the Trans-Canada Pipeline takeoff and the
special contract customers' plant in Brandon?

19

20

(BRIEF PAUSE)

21

22

23

24

25

MS. KELLY DERKSEN: I'd like to raise two
(2) issues in response to your question, Mr. Peters, and
that is if there was work being done on that pipe as
you've called it, that connects from TCPL to the special
contract customer, that pipe also serves other portions of

1 the Province. So we wouldn't -- we would not go and
2 specifically charge the cost of that construction or
3 maintenance project directly to the special contract
4 class, given that it serves many more customers than just
5 that one class. So that's one point that I wanted to
6 raise with you.

7 And the second is that as I have suggested
8 to you earlier this morning, the overall framework by
9 which we set rates in this Province is known as a "postage
10 stamp concept" or methodology, and regardless of the fact
11 that this special contract resides 20 kilometres from the
12 Trans-Canada Pipeline, or if it were to reside 100
13 kilometres or 200 kilometres from the Trans-Canada
14 Pipeline, they would pay the same level of rates at the
15 same load characteristics and volume usage.

16 MR. BOB PETERS: I'll deal with the last
17 half of that answer first, Ms. Derksen.

18 Your answer suggests that just because
19 geography has this customer located 20 kilometres
20 approximately from the TCPL line, their rate would be the
21 same if they were further away from the TCPL line and not
22 as discretely identified on a distribution system -- or on
23 a transmission system.

24 MS. KELLY DERKSEN: Correct. It's been
25 well established in this jurisdiction and other

1 jurisdictions that accidents of geography, if that's how
2 you would like to call it, is not a reasonable basis on
3 which to set rates, sir.

4 MR. BOB PETERS: And I appreciate the
5 accidents of geography is in quotation marks when you say
6 it, but there may have been a distinct business reason for
7 the customer to locate where they did.

8 MS. KELLY DERKSEN: That's possibly true,
9 sir.

10 MR. BOB PETERS: But if one of the
11 business reasons was to locate close to the TCPL takeoff,
12 that's not a factor that Centra gives any weight to in its
13 allocation of costs?

14 MS. KELLY DERKSEN: Correct. Because the
15 overall framework by which we set rates is based on a
16 postage stamp concept.

17 MR. BOB PETERS: All right. Keeping with
18 that concept, and that was the first part of that answer
19 you gave me a little while ago, even if you could identify
20 that you had to make improvements or repairs to the
21 transmission line only for the benefit of the special
22 contract customer, would those transmission costs be
23 charged only through to the special contract customer
24 class?

25 MS. KELLY DERKSEN: No, sir, they would be

1 charged to all customers through their rates.

2 MR. BOB PETERS: Ms. Derksen, from the
3 materials provided, and my note here was your Schedule
4 914, if you need to turn it up, but the transmissio plant
5 in '05/'06 was approximately \$77 million and for the first
6 test year it's increasing to \$85 million.

7 Would you agree with me that that's what's
8 being proposed to the Board?

9

10 (BRIEF PAUSE)

11

12 MS. KELLY DERKSEN: Subject to check for
13 the '05/'06 period, but correct with respect to the
14 '07/'08 period.

15 MR. BOB PETERS: So in strict numerical
16 terms if you take my numbers subject to check, Ms.
17 Derksen, that's an eleven point three (11.3) increase in
18 the transmission plant for the first test year?

19 MS. KELLY DERKSEN: That would be \$11.3
20 million increase, I think is what you're suggesting?

21 MR. BOB PETERS: No, I was thinking an \$8
22 million increase and 11.3 percent increase. So you're not
23 going to take me, subject to check?

24

25 (BRIEF PAUSE)

1 MS. KELLY DERKSEN: It's about right. I
2 think it's a little bit less than that, but fair enough.

3 MR. BOB PETERS: All right. And -- and in
4 my questioning, Ms. Derksen, I want you to assume that no
5 part of that increase was due to improvements on the
6 transmission line that goes from TCPL to the special
7 contract customer class.

8 Will you make that assumption?

9 MS. KELLY DERKSEN: Okay.

10 MR. BOB PETERS: And as you sit here, you
11 don't know whether there were or were not specific
12 improvements on that transmission line for the benefit of
13 the special contract customer, do you?

14 MS. KELLY DERKSEN: I don't.

15 MR. BOB PETERS: So then let's assume
16 there were none and if the increase is approximately 11.3
17 percent, the special contract customer is being asked to
18 bear 19.2 percent of that increase?

19 MS. KELLY DERKSEN: I have looked at their
20 calculations and I believe that's what you are referring
21 to and I can confirm that those calculations are
22 reasonable.

23 MR. BOB PETERS: Can you explain to the
24 Board why, when the total increase or change is
25 approximately 11 percent the special contract customer is

1 asked to bear an increase greater than that, more in the
2 range of 19.2 or 20 percent?

3 MS. KELLY DERKSEN: Again, Mr. Peters,
4 it's -- it's the nature of an integrated utility. There
5 will be some customer classes that bear a greater
6 responsibility, some that bear a lesser responsibility,
7 and it's all dependent on what the forecast is of the
8 anticipated peak day usage as well as annual consumption
9 of each of the customer classes and not just the special
10 contract class.

11 So while the special contract class' peak
12 day and usage characteristics may not change significantly
13 from year to year if there were a significant change in
14 one (1) of the other customer classes that would impact
15 this customer class' allocation of those costs.

16 So it has to do with the integrated nature
17 of -- of the Utility. I can tell you that, based on the
18 information that they've provided, that some customer
19 classes are bearing on average the level of the
20 transmission cost increases, some are receiving as much as
21 19 percent as the special contract class, and others are
22 receiving greater increases than that.

23 And it has again to do with how we allocate
24 demand costs and that's on a peak and average basis which
25 is a two (2) part formula that recognizes a class'

1 contribution to peak day as well as to annual use.

2 MR. BOB PETERS: So I take from your
3 answer, Ms. Derksen, that the primary reason that these
4 costs are increasing for the special contract customer
5 class is because of the allocation methodology employed by
6 the Utility?

7 MS. KELLY DERKSEN: The way that I would
8 state it is that we have not employed any principles in
9 terms of the cost allocation study in this application
10 that are different than what's previously been approved by
11 this Board. And so, yes, it has to do with the principles
12 that we have in place and I feel that the -- the
13 fundamental disconnect between where this customer is at
14 and the Company's position is those principles.

15 They -- they fundamental disagree with the
16 notion that cost causation is not the sole principle by
17 which we allocate costs, but it's simply a primary
18 consideration in the allocation of costs.

19 MR. BOB PETERS: In terms of other options
20 that would exist for this customer, Ms. Derksen, there
21 have been other options looked at in prior years, are you
22 aware of that?

23 MS. KELLY DERKSEN: Yes I am.

24 MR. BOB PETERS: And was one (1) of those
25 options a bypass equivalent rate?

1 MS. KELLY DERKSEN: We're -- we're going
2 back a lot of years now, but I think that's correct, sir.

3 MR. BOB PETERS: I'm not suggesting you
4 were at the Company at the time that was proposed, Ms.
5 Derksen, but perhaps some of your colleagues on the panel
6 were.

7 But a bypass equivalent rate would provide
8 specific customers with a rate to run only that portion of
9 Centra's plant that applies to their facilities.

10

11 (BRIEF PAUSE)

12

13 MS. KELLY DERKSEN: The intent behind a
14 bypass rate is an attempt to replicate what the customer's
15 -- of what facilities would be put in place to serve only
16 that customer.

17 And what would ultimately occur if a bypass
18 rate were to be put into place is it -- I mean, we are in
19 a waterbed, essentially, and I use that -- that word also
20 in quotations, and to the extent that we would lower the
21 rates and implement, for example, a bypass rate because
22 that's ultimately what the customer is seeking is -- is
23 lower rates, that means that rates for all other
24 customers, including the residential customer, would
25 increase.

1 MR. BOB PETERS: I suppose Mr. Warden and
2 Mr. Wiens might have a view on -- another option, Ms.
3 Derksen, would be to sell that portion of the transmission
4 line that effected the special contract customer and let
5 the customer operate it as its own public utility if it
6 was discrete enough.

7 MS. KELLY DERKSEN: I don't think that
8 that physically could happen because, as I've stated, that
9 pipe serves many more customers than just the special
10 contract customer.

11 MR. BOB PETERS: And in any event, Centra
12 is the one who has the franchise permission to have the
13 plant in the ground through the municipalities in which it
14 does, to serve not only the special contract customer, but
15 also the power station customer and the Southwest Manitoba
16 customers.

17 MS. KELLY DERKSEN: We do have those
18 franchise rights, yes.

19 MR. BOB PETERS: In the book of documents,
20 Tab 35, Ms. Derksen and Mr. Chairman and Board members, if
21 we go down to the special contract customer class, we see
22 that you have both the build rate impact and the base rate
23 impacts for the special contract customer, correct?

24 MS. KELLY DERKSEN: Correct.

25 MR. BOB PETERS: And if we look at the two

1 (2) years under the base rate scenario, it suggests that
2 this customer's costs are going up such that the rates
3 charge will recover a hundred and sixty-five dollars
4 (\$165,000) more in the first test year and then a hundred
5 and five thousand dollars (\$105,000) in the second test
6 year.

7 MS. KELLY DERKSEN: That's correct.

8 MR. BOB PETERS: Now, Ms. Derksen, with
9 the updated application that you filed, there's an
10 indication that you want to refund three hundred and
11 eleven thousand four hundred and eight dollars (\$311,408)
12 to the special contract customer, is that correct?

13 MS. KELLY DERKSEN: Three hundred and
14 eleven four-o-eight (311,408), yes.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Can you explain to the
19 Board and -- and that three hundred and eleven thousand
20 (311,000) is to be by way of lump sum, as you're proposing
21 it?

22 MS. KELLY DERKSEN: We are, yes.

23 MR. BOB PETERS: When one looks at the
24 rate riders for '07/'08 and the special contract
25 customers, there's an indication that there would be three

1 hundred and fifty-three thousand, four hundred and twenty-
2 nine dollars (\$353,429) of a refund due to the customer
3 class.

4 Is that what your allocations determined,
5 Ms. Derksen, from Schedule 10.3.0?

6 MS. KELLY DERKSEN: We are proposing as
7 part of this application to refund to the customer three
8 hundred and fifty-three thousand, four hundred and twenty-
9 five dollars (\$353,425) on account of non-primary gas PGVA
10 accounts that accumulated to the benefit of customers.

11 It's part of this \$9 million that we have
12 spoken about earlier this morning to that customer class.
13 That's offset slightly by the fact that we're also
14 proposing a rate delay rider which recoups monies that the
15 Corporation wishes to collect from the fact that we're
16 asking for implementation of rates on August 1st, but
17 effective date of May 1st.

18 MR. BOB PETERS: That may be the
19 explanation that I have to work through, Ms. Derksen.

20 But it nets out, you tell the Board, to a
21 three hundred and eleven thousand, four hundred and eight
22 dollar (\$311,408) lump sum refund that's proposed?

23 MS. KELLY DERKSEN: Correct.

24 MR. BOB PETERS: And if I take that three
25 hundred and eleven thousand, four hundred and eight dollar

1 (\$311,408) number and go back to Tab 35 of the Book of
2 Documents and subtract the base rate increase of a hundred
3 and sixty-five thousand dollars (\$165,000), Ms. Derksen, I
4 don't get the billed impact that's shown on that schedule
5 of a refund or a lower rate of a hundred and thirty-two
6 thousand, one hundred and thirty (132,130).

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Should I?

11

12 (BRIEF PAUSE)

13

14 MS. KELLY DERKSEN: I think we're close
15 but we're not quite there. So I'm not entirely sure what
16 the difference is at this moment.

17 MR. BOB PETERS: Can I ask by way of an
18 undertaking for you to reconcile the -- the amounts that
19 we've talked about in terms of the amounts to be charged
20 and refunded to the special cust -- special contract
21 customer and provide that in written form through your
22 counsel?

23 MS. KELLY DERKSEN: I can, yes.

24

25 --- UNDERTAKING NO. 26: Centra to provide Board with

1 the amounts to be charged and
2 refunded to the special
3 contract customer
4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: All right. Ms. Derksen,
7 when we look at the -- at Tab 35 of the book of documents
8 and look at your Tab 3, page 16 of 19, and look at these
9 bill impacts, the special contract customer percent change
10 is presented on a different basis than the percent change
11 of other customer classes above that; is that correct?

12 MS. KELLY DERKSEN: I'm going to suggest
13 this, Mr. Peters. The calculation is done the same. The
14 distinction is that this customer is a T-service customer
15 who does not purchase primary gas, transportation,
16 supplemental or storage arrangements from the Company, so
17 on account of that distinction, the two (2) may not be
18 apples to apples.

19 MR. BOB PETERS: Well put in my words, Ms.
20 Derksen, you don't include an imputed commodity cost when
21 calculating the special contract customers rate increases
22 or decreases, but you do impute a commodity cost for the
23 SGS and LGS customers?

24 MS. KELLY DERKSEN: It's not imputed for
25 the SGS and LGS customers; it is -- it is what it is. But

1 you're correct in stating that we don't determine a
2 primary -- a level of primary gas for this customer and
3 embed that in their -- their annual bill impact
4 calculation.

5 MR. BOB PETERS: So when we're trying to
6 have comparisons between other customer classes, what's
7 missing for the special contract customers percentage
8 change is some amount of the total bill that would be
9 spent on the commodity itself?

10 MS. KELLY DERKSEN: Correct.

11 MR. BOB PETERS: And the reason you don't
12 include that is that Centra doesn't supply the gas or the
13 transportation to the -- to this customer?

14 MS. KELLY DERKSEN: That's correct.

15 MR. BOB PETERS: If you did impute a cost
16 of the natural gas, we can see from the -- from the
17 second column on Tab 35 that this customer uses a -- a
18 significant -- a significantly large volume of gas?

19 MS. KELLY DERKSEN: Yes.

20 MR. BOB PETERS: And if you did impute a
21 cost of gas in your bill change comparisons, that
22 would alter the percentage rate increase significantly,
23 would that be true?

24 MS. KELLY DERKSEN: I could do that and I
25 agree with your statement, Mr. Peters. I could do that

1 for actual primary gas costs recognizing that primary gas
2 is the same rate for all customer classes.

3 Where I struggle with is the fact that
4 there are other gas costs that would be included in the
5 SGS and LGS calculations -- for example, transportation
6 and storage costs -- that I could not just impute because
7 the allocation of those types of costs again would be
8 based on this customer's contribution to peak day as well
9 as annual throughput and I have no way of knowing what
10 that rate might be for them.

11 MR. BOB PETERS: All right. So if you
12 wanted to compare the annual bill impacts, the -- what's -
13 - what's currently the case and what's proposed you would
14 need some -- what might be proprietary information from
15 the special contract customer?

16 MS. KELLY DERKSEN: If you're suggesting
17 that we would be looking to seek what they've paid in
18 terms of transport costs, yes, I'm sure that they would
19 not be willing to give that to us.

20 MR. BOB PETERS: Can you explain to the
21 Board why when it comes to the power stations -- they're
22 first of all also T-service customers, aren't they?

23 MS. KELLY DERKSEN: Yes.

24 MR. BOB PETERS: And can you explain why
25 the annual bill change for those customers is far greater

1 than the special contract customer which is also a T-
2 service customer?

3 MS. KELLY DERKSEN: Primarily what's
4 happening with the -- well, the power station issue is a
5 bit of an odd one. There's two (2) things which are sort
6 of diametrically opposed occurring in -- in their rates.
7 As you'll note in the information, that the special
8 contract class provided is that they are one (1) of the
9 classes indeed that will be receiving a fairly significant
10 increase -- decrease, excuse me, on account of increases
11 in transmission costs. And that's occurring because:

12 Number 1. Their loads have declined
13 significantly over those forecasted in the last General
14 Rate Application.

15 And so, too, has their load factor.

16 And those are the two (2) things that drive
17 allocation of demand-related costs in a -- in a cost
18 allocation study.

19 So while they are indeed receiving a lesser
20 level of costs in terms of the distribution-type costs
21 that we charge to our customers, they are receiving an
22 allocation of unaccounted for gas costs that's virtually
23 at the same level as what it was in the previous year.

24 And so while their rates all things -- all
25 else being equal, would decrease had it not been for

1 unaccounted for gas, unaccounted for gas costs have not
2 dramatically declined in terms of the level of the cost,
3 but we've also got a fixed allocation of unaccounted for
4 gas for this customer class which was predefined in Board
5 Order 131/04.

6 And so the same level of cost through much
7 lower volumes is going to significantly increase their
8 rate and that's more than offsetting any reduction in the
9 allocation of transmission and distribution-related costs
10 to that class.

11 MR. BOB PETERS: Thank you. And just to
12 conclude in this, Ms. Derksen, if Centra had to rebuild or
13 do major work on the transmission line from TCPL to the
14 special contract customer's class, would the special
15 contract customer bear all of those costs?

16 MS. KELLY DERKSEN: No, they would -- they
17 would bear a portion of those costs. The remainder would
18 be borne by all other customer classes.

19 MR. BOB PETERS: Does that answer hold
20 true for what happened when the transmission line was
21 initially constructed?

22 MS. KELLY DERKSEN: Yes.

23 MR. BOB PETERS: Thank you. Mr. Chairman,
24 with that answer I'd like to thank the panel, those
25 complete my questions.

1 THE CHAIRPERSON: Thank you, Mr. Peters.
2 So we'll be returning with Mr. Saxberg, and for now we
3 will adjourn to 1:15, thank you.

4
5 --- Upon recessing at 12:04 p.m.
6 --- Upon resuming at 1:22 p.m.

7
8 THE CHAIRPERSON: Okay, welcome back.
9 Mr. Saxberg...? CAC/MSOS's turn.

10
11 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

12 MR. KRIS SAXBERG: Thank you, Mr.
13 Chairman, and good morning -- sorry, good afternoon to
14 everyone. I want to return briefly to DSM and the one (1)
15 policy question that I reserved for Mr. Warden.

16 Firstly, Mr. Warden, the affordable energy
17 fund has 19 million allocated, specifically for the
18 purposes of low income and seniors, is that correct?

19 MR. VINCE WARDEN: That's correct, yes.

20 MR. KRIS SAXBERG: And the decision of --
21 the determination of 19 million out of the overall fund of
22 35 million was a -- a Ministerial decision in coordination
23 with the CEO of Manitoba Hydro, correct?

24 MR. VINCE WARDEN: In consultation with
25 the CEO of Manitoba Hydro, correct.

1 MR. KRIS SAXBERG: And I understand that -
2 - from the evidence on Friday, that the 19 million will
3 pay for incentives up to the full cost of the measure; is
4 that fair?

5 In other words if -- if the customer
6 payback is two (2) years for insulation, then the
7 allocation of money from the low income program may mean
8 that the payback is zero and that they -- there -- there
9 are no costs incurred by the low income customer?

10 MR. VINCE WARDEN: Mr. Saxberg, it's
11 probably a little premature to comment on the details
12 because we haven't really formulated those details yet.
13 We've allocated sums of money to the various categories as
14 Mr. Kuczek outlined but the details have yet be
15 established as to how those programs will be structured.

16 MR. KRIS SAXBERG: Okay. Thank you for
17 that.

18 So with respect to whether that fund would
19 cover administrative costs, that's also something that's
20 premature to discuss?

21 MR. VINCE WARDEN: I would say it's
22 premature to discuss, yes.

23 MR. KRIS SAXBERG: Now, I just want to be
24 absolutely clear. Of the 19 million there's no other use
25 that's going to be put to it than the low income and

1 seniors?

2 MR. VINCE WARDEN: That's the plan at this
3 point, yes.

4 MR. KRIS SAXBERG: Is there any time
5 horizon with respect to when that money's going to be
6 spent?

7 MR. VINCE WARDEN: No, there isn't.

8 MR. KRIS SAXBERG: And in the meantime, I
9 trust, it's accruing interest?

10 MR. VINCE WARDEN: No, no. The principal
11 amount of 35 million was established -- we've disbursed
12 approximately 1 million to-date -- but there's no
13 provision for interest -- the accrual of interest on that
14 amount.

15 MR. KRIS SAXBERG: When the -- an amount
16 is spent from the AEF, it's going to be -- it's not going
17 to be reflected on the books of Manitoba Hydro or Centra
18 Gas, I suppose?

19 MR. VINCE WARDEN: Well, of course it
20 will. It's going to have to be reflected on the books of
21 Manitoba Hydro as the money is being spent.

22 I'm sorry, I might have misinterpreted your
23 question but yes, it would be reflected at the time of
24 expenditure.

25 MR. KRIS SAXBERG: Now, would that be as

1 an expense item or would it be given a deferral treatment?

2 MR. VINCE WARDEN: It would be an expense
3 item.

4 MR. KRIS SAXBERG: Now, if you could just
5 quickly turn to CAC-70 page 2?

6

7 (BRIEF PAUSE)

8

9 MR. KRIS SAXBERG: And I'm looking at the
10 costs under low income program between the two (2) test
11 years of approximately \$1.6 million; do you see that?

12 MR. VINCE WARDEN: I do.

13 MR. KRIS SAXBERG: And that's an amount
14 that Centra wants approved by this Board for the hard-to-
15 reach program, correct? Putting aside the fact that it's
16 going to be amortised over fifteen (15) years for the
17 moment.

18

19 (BRIEF PAUSE)

20

21 MR. VINCE WARDEN: Yes, that's the amount
22 that's included in our application.

23 MR. KRIS SAXBERG: And as you've indicated
24 already, the program and the details of this program that
25 can be matched to these costs aren't before the Board?

1 The -- the program hasn't been approved,
2 hasn't been finalized yet, correct?

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: Mr. Saxberg, I think we
7 could be mixing programs here. We were talking about the
8 Affordable Energy Fund and I think we flipped into DSM
9 programs so just to be clear we're talking here DSM
10 programs rather than the Affordable Energy Fund?

11 MR. KRIS SAXBERG: That's right and I'm --
12 I'm about to make a connection between the two (2).

13 My understanding from Friday's evidence was
14 that the \$1.6 million on this item here are the costs that
15 Centra's seeking to have approved with respect to the
16 hard-to-reach program and that was what Mr. --

17 MS. KELLY DERKSEN: Mr. Saxberg, I think
18 what we are seeking approval of is the total level of DSM
19 expenditures for the two (2) test years. This is what we
20 anticipate those expenditures to be, but I mean this is
21 just a forecast at this point.

22 So we're seeking Board approval of the
23 overall level of DSM expenditures for the two (2) test
24 periods and not explicit approval of each of the
25 individual programs.

1 MR. KRIS SAXBERG: Okay. Well then just
2 on that high level, there's a component of what you're
3 seeking to be approved that relates to the low income
4 program, the hard to reach program, correct?

5 MR. VINCE WARDEN: That's -- that's
6 correct, yes.

7 MR. KRIS SAXBERG: Now, so my question is:
8 Why is it that you want this portion of funds to be
9 approved and -- and put into rates when you've got \$19
10 million sitting in the bank for the exact same purpose?

11 MR. VINCE WARDEN: Well, I wouldn't say
12 it's a -- the exact -- exact same purpose. The affordable
13 energy fund was established to provide for programs that
14 wouldn't otherwise be funded for -- from our normal DSM
15 programs.

16 So what we're looking at here is what we
17 would put under the heading of our normal DSM programs,
18 whereas the affordable energy fund is over and above that,
19 and that's what it was intended for.

20 MR. KRIS SAXBERG: And maybe I -- I might
21 have misunderstood the evidence, but I -- I believed Mr.
22 Kuczek and the application to be saying that -- that there
23 is an amount of money that is included for low income
24 programs, for the hard to reach programs.

25 MR. VINCE WARDEN: Well, I think that's

1 what Ms. Derksen just answered, that there's a component
2 of this low income program in the amount that we're
3 looking at here, the 1.6 million, that is the hard to
4 reach program, but it's not in -- it's not for that
5 program in entirety.

6 MR. KRIS SAXBERG: But the hard to reach
7 program isn't a regular DSM program though, is it?

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: I'm sorry, Mr. Saxberg,
12 would you ask your question again?

13 MR. KRIS SAXBERG: Well, let -- let me
14 just come at it directly. My understanding is that there
15 is \$1.6 million set aside for the hard to reach program,
16 which is targeted at low income and seniors, and what I'm
17 asking is: Why do we need that amount to be approved by
18 the Board, especially when there -- there's no program
19 before the Board, when there's \$19 million to spend on
20 that same item that's available?

21 MR. VINCE WARDEN: Well, are you
22 suggesting we're spending too much on low income? I'm not
23 quite clear.

24 MR. KRIS SAXBERG: No, not at all. I --
25 I'm saying the \$19 million should cover your needs so that

1 you don't need money from rates in order to -- to follow
2 through on this very important matter of -- of low income
3 accessibility to DSM.

4 MR. VINCE WARDEN: Well, I -- I wouldn't
5 agree with you. I think we have some money that comes
6 from the low -- from the affordable energy fund that we
7 can use for low income purposes, but there's no end of
8 good projects out there and the more we have, the more we
9 can spend on low income and -- and assisting that -- that
10 group of customers that needs help.

11 MR. KRIS SAXBERG: So if we were to take
12 the 19 million that -- that you've identified as being
13 targeted for these low income seniors programs and add to
14 it, then, the 1.6 million, are -- are you suggesting that
15 we need the 20.6 million in order for this program that we
16 haven't seen yet to be fully realized?

17 MR. VINCE WARDEN: As a start.

18 MR. KRIS SAXBERG: Okay. Now the 1.6
19 million -- then, just -- just so that I'm clear, it is
20 going to be for the same purpose as the 19 million, but
21 what you're suggesting is that the more money, the better.

22 MR. VINCE WARDEN: Well, I -- I don't want
23 to be flippant about it; the more the better. I -- I
24 think there -- there are lots of needy programs out there
25 that -- that require funding.

1 But -- but there is a distinction, though,
2 between the 19 million and the 1.6 million that we're
3 talking about; 1.6 million, yes, that we're talking about
4 here. This is a -- a DSM program that will be amortised
5 over fifteen (15) years, as we do with our other DSM
6 programs.

7 The 19 million that's designated for low
8 income will be expensed because it's money we wouldn't
9 otherwise -- it wouldn't meet any of the normal test that
10 we have for our DSM programs to qualify for -- for
11 expenditures. So the -- they are distinctly different and
12 I want to make sure we're clear on that.

13 MR. KRIS SAXBERG: Unfortunately, I'm not,
14 because every other program that's listed on this page
15 that we're looking at on page 2 of CAC-70, is -- is a DSM
16 program, as you've suggested, and I would agree with your
17 -- your comments in that respect.

18 But when we come down to the low income
19 program, the -- the information in this application is
20 that that's the hard-to-reach program; that's the -- the
21 supplemental program that's going to allow low income and
22 seniors to participate in these other standard DSM
23 programs; is that not the case?

24 MR. VINCE WARDEN: Well, I agree with the
25 way you characterized it there, yes. Yeah, it is the case

1 that this -- these monies are specifically designated to
2 assist low income people to participate in the DSM
3 programs that they might not otherwise do.

4 MR. KRIS SAXBERG: Which is the same
5 purpose of the AEF, the -- sorry.

6 MR. VINCE WARDEN: No, no, no. We
7 wouldn't -- we would not spend the -- the \$19 million if
8 it wasn't specifically identified for -- for programs that
9 were over -- were outside of normal DSM. I didn't say
10 that very well, but we have our DSM programs that we would
11 identify that qualified to meet our -- our TRC, our RIM
12 tests.

13 We have within those programs monies
14 designated to assist low income people but then over and
15 above that, the 19 million is provided for programs that -
16 - that we wouldn't -- would not otherwise spend. They
17 don't meet the TRC RIM tests.

18 MR. KRIS SAXBERG: My understanding from
19 the -- from the Information Requests and I can probably
20 take you to it is that the -- the money from the
21 Affordable -- Affordable Energy Fund is going to be used
22 to fund the hard-to-reach program?

23 MS. MARLA MURPHY: You'll need to give us
24 that reference if that's the case.

25

1 (BRIEF PAUSE)

2

3 MS. MARLA MURPHY: I didn't mean to make
4 this difficult. Maybe we can take this offline and try to
5 clarify it.

6 MR. KRIS SAXBERG: I think the -- sorry, I
7 think it was the rebuttal evidence that I was thinking of.

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: I'm informed, Mr.
12 Saxberg, that the programs will be integrated but not
13 necessarily -- they would -- as I've stated before they
14 won't be the same identical programs in the absence of the
15 Affordable Energy Fund so whether that's what you're
16 referring to, we can agree with that. They will be
17 integrated.

18

19 CONTINUED BY MR. KRIS SAXBERG:

20 MR. KRIS SAXBERG: Okay. I think that --
21 that goes far enough on that. I -- I just have some quick
22 questions about the primary gas overhead rate
23 calculations, for Ms. Derksen.

24 The -- the purpose of allocating some of
25 these costs to the primary gas rate is to benefit the --

1 the brokers in the sense of making the offerings a bit
2 more equivalent.

3 MS. KELLY DERKSEN: I think that would be
4 a fair statement, Mr. Saxberg.

5 MR. KRIS SAXBERG: And it's -- it's to
6 address price signals that would otherwise be conveyed if
7 some of these costs weren't included in the primary gas
8 rate, is that fair?

9 MS. KELLY DERKSEN: Oh yeah, I could say
10 it my own words. I think what the -- the Corporation's
11 perspective was, and this has been a number of years ago
12 already, but I think it was felt that brokers incur many
13 of these types of costs. And when I mean -- what I mean
14 by many of these types of costs, the -- the costs that are
15 imbedded in the overhead rate in providing service to its
16 customers.

17 And it was the Corporation's thought that
18 it should include some of these costs to make it more of
19 an apples to apples comparison for customers who are
20 electing either system supply or -- or brokers supply
21 service. But it's also the Corporation's perspective that
22 it was not directed to do so by virtue of Order 15/9 --
23 98, that it -- it actively chose to do that.

24 MR. KRIS SAXBERG: And broadly speaking,
25 are the costs in this \$1.9 million procurement costs, the

1 costs within Mr. Stephens' department that relate to the
2 acquisition of -- of primary gas, for instance, as one (1)
3 element?

4 MS. KELLY DERKSEN: One (1) element, yes.

5 MR. KRIS SAXBERG: Then the next would be
6 the corporate costs at a higher level, supervising those
7 functions.

8 MS. KELLY DERKSEN: There are costs
9 associated with Mr. Stevens' area imbedded in that
10 overhead rate. There are costs related to gas accounting,
11 for example, that are imbedded in that rate. So those are
12 some of the costs that have been imbedded in that overhead
13 rate.

14 And then, some of the other costs that you
15 see on PUB -- I think it was one-o-five (105), relate to
16 the fact that there's a working capital component imbedded
17 in rate base and that working capital is related to
18 significant -- a significant degree to the level of
19 commodity costs that we purchase on a -- on account of
20 customers.

21 And so the extent that we have allocated
22 some of that -- those working capital costs to primary
23 gas, it ultimately finds its way into the primary gas rate
24 by virtue of the -- the various revenue requirement
25 expenses.

1 MR. KRIS SAXBERG: Okay. Perhaps you
2 could just bear with me, with respect to this minimal
3 hypothetical that I want to put to you. I -- it's
4 possible that Centra Gas could split its functions as
5 between retail on the one (1) hand, and distribution on
6 the other hand.

7 MS. KELLY DERKSEN: When you mean retail,
8 are you -- are we really talking about upstream versus
9 downstream?

10 MR. KRIS SAXBERG: No, I -- I mean, as in
11 if Centra was permitted to have someone else to provide
12 primary gas and -- and the Company then will concentrate
13 only on distribution, that the -- the re -- the revenue
14 requirement could be split out accordingly.

15 MS. KELLY DERKSEN: If we ordered out of
16 the gas merchant function today --

17 MR. KRIS SAXBERG: Right.

18 MS. KELLY DERKSEN: -- we would be able,
19 from a rate perspective, to accom -- accommodate that,
20 yes.

21 MR. KRIS SAXBERG: Right. And that's the
22 way that it's -- you may or may not be aware that in
23 Alberta, that ATCO is only a distribution company and that
24 its Direct Energy that provides the equivalent of the
25 primary gas rate in Alberta, are you aware of that?

1 MS. KELLY DERKSEN: Yes I am.

2 MR. KRIS SAXBERG: So that's the kind of
3 split I'm talking about, just conceptually, so that I can
4 understand the costs that are in this primary gas overhead
5 rate.

6 Now if -- you'd agree with me that if that
7 retail separation was made here, there would be costs far
8 in excess of -- of \$1.9 million that would be required to
9 provide that retail function, correct?

10

11 (BRIEF PAUSE)

12

13 MS. KELLY DERKSEN: I think that really
14 would depend on -- on the scope of the unbundling and so I
15 -- it's a -- it's a big hypothetical. So I'm not sure
16 that I could answer your question one way or another
17 because it would be highly dependent on how that those
18 operations were unbundled.

19 MR. KRIS SAXBERG: Okay. And -- the main
20 cost though would be the billing and collections that the
21 -- customer information system and interaction, correct?

22 And none of those costs are included in
23 your primary gas overhead rate?

24 MS. KELLY DERKSEN: None of those costs
25 are included in the primary gas overhead, right, correct.

1 MR. KRIS SAXBERG: So if we were to set
2 aside -- well I'll just -- I'll leave it at that then. I
3 -- what I want to ask then is if you look at PUB-105 and
4 you move down to the -- the total line; for the test you
5 were looking at approximately \$1.9 million in -- in costs
6 that you want recovered through a rate of a dollar sixty-
7 four (\$1.64) per thousand cubic meters, correct?

8 MS. KELLY DERKSEN: Yes.

9 MR. KRIS SAXBERG: Now does -- will that
10 get trued-up at some point?

11 MS. KELLY DERKSEN: No, those are non-gas
12 costs, Mr. Saxberg, and they're not subject to a diff --
13 to a true-up.

14 MR. KRIS SAXBERG: So that at the -- at
15 the end of the day if one dollar and sixty-four cents
16 (\$1.64) collects \$2 million in costs, then -- then that's
17 just the way it goes and it could also go the other way.

18 MS. KELLY DERKSEN: It could. And as we
19 have discussed, to a significant degree in this proceeding
20 that dependent on weather and conservation matters, will
21 depend on how close to that target we get.

22 And as you've seen in some of the various
23 financial pieces of information that we filed in this
24 proceeding, we have in the last number of years been
25 unable to recover the full level of non-gas cost.

1 MR. KRIS SAXBERG: In '05/'06 and '06/'07?

2 MS. KELLY DERKSEN: '06/'07 has not yet
3 been put on the record, but in '05/'06 that would be true.

4 MR. KRIS SAXBERG: Okay. Thank you very
5 much. Those are my questions for the panel.

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

8 MR. WILLIAM GANGE: Thank you.

9

10 (BRIEF PAUSE)

11

12 CROSS-EXAMINATION BY MR. WILLIAM GANGE:

13 MR. WILLIAM GANGE: I'll throw this
14 question out to the Panel and I'm not sure if it's --
15 which -- which one of you will respond, but I'm going to
16 refer to the rebuttal. I don't -- I'm not going to pull
17 it out because I think that -- that you're all familiar
18 with it.

19 But one (1) of the points that's made in
20 the rebuttal on page 16 is that weather volatility has
21 been described as -- as being the most volatile in Canada.
22 And -- and the rebuttal provided a table to illustrate
23 that fact.

24 Would the Panel agree with that volatility
25 creates a large risk that Centra will not collect its

1 authorized costs during warmer than normal months?

2 MR. ROBIN WIENS: It -- it creates a risk
3 that Centra may not recover all its costs during warmer
4 months.

5 MR. WILLIAM GANGE: Thanks, Mr. Wiens.
6 And similarly from the point of view of customers, doesn't
7 that same volatility put them at the risk of paying more
8 than the Company's authorized cost during colder than
9 normal months just when they're facing large bills due to
10 the cold?

11 MR. ROBIN WIENS: Yes. The same thing
12 would apply. If the weather's colder than normal and we
13 get beyond the weather normalized volumes, then the
14 customers are contributing more to the recovery of fixed
15 costs than they would have with weather normalized.

16 MR. WILLIAM GANGE: And -- and the obvious
17 conclusion from those two (2) answers is therefore that
18 Manitoba's extraordinary weather volatility creates risk
19 for both the Company and the customers.

20

21 (BRIEF PAUSE)

22

23 MR. ROBIN WIENS: In -- in terms of that
24 risk, of course, you'll appreciate that the risk, it tends
25 to be short term. Yes, you can have extended periods of

1 cold weather as you can have extended periods of warmer
2 than normal weather, but typically over a reasonable
3 period of time, I say a couple of years or so, these risks
4 are going to be offsetting.

5 So I -- in terms of the Company itself with
6 respect to weather anyway the -- the risks are offset over
7 time and to the extent that they may not be, it's been the
8 Company's practice to file a General Rate Application
9 every two (2) years and the Company is able to recalibrate
10 its progress towards its financial objectives.

11 MR. WILLIAM GANGE: Thank you, sir. On
12 the next page of the rebuttal the -- there's a comment
13 that:

14 "Centra noted that there's a growing
15 dissatisfaction amongst regulated gas in
16 Canada over the unreasonably low rates
17 of return. Part of this dissatisfaction
18 relates to the compensation for weather
19 risk and declines in natural gas use due
20 to improving energy efficiency."

21 The question, sir, is: Does Centra's share
22 in this dissatisfaction relating to the ability to deal
23 with weather -- weather risk and declines in usage due to
24 efficiency?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Mr. Gange, being that,
4 as we stated many times in these proceedings, that we --
5 our preference is to be regulated more on a cost of
6 service bas -- basis than a rate of return. We don't have
7 the same concern as other utilities across Canada do with
8 the -- with the return on -- on equity level.

9 We did, however, collaborate with them in
10 preparation of position papers and we're very much aware
11 of their concern, we support their concern, but not as
12 important in this jurisdiction.

13 MR. WILLIAM GANGE: But -- but your
14 position is that you want a basic higher charge -- higher
15 basic charge? Or you -- you haven't applied for it but --
16 but the -- the comment was made, I believe by Ms. Derksen,
17 that -- that the -- the lower basic charge has been in
18 place for some significant period of time; it would be
19 your preference to -- to move it up but you haven't yet
20 gone there?

21 MS. KELLY DERKSEN: Our preference would
22 be to increase the basic monthly charge but that's been
23 our preference for as long as I've been around and we
24 haven't put an application forward before the Public
25 Utilities Board, and it's certainly not on account of

1 weather-related issues that we seek to increase the -- the
2 basic monthly charge.

3 MR. VINCE WARDEN: And maybe I'll just add
4 briefly to that.

5 When Ms. Derksen refers to the
6 "preference," it is the preference of the people that set
7 the rates because that's the purest way of recovering cost
8 -- the costs. But the Company position on this is that
9 the base monthly charge will not be increased in the
10 foreseeable future so we don't have an application before
11 the Board and we don't expect to in the near term.

12 MR. WILLIAM GANGE: Thank you. I'm going
13 to move to inverted rates.

14 In the rebuttal there are a number of
15 comments. For instance, at page 25 Centra argues that it
16 does not believe it to be appropriate to factor the
17 externalities related to greenhouse gases into its rates
18 and -- and states it is not appropriate that home heating
19 customers in Manitoba alone should bear any further
20 estimated cost related to greenhouse gases.

21 Page -- line 17 of page 26:

22 "It would seem unreasonable to require
23 Manitoba customers to make compensatory
24 payments in respect of land use, impacts
25 affecting landowners and the Crown in

1 other provinces. [and -- and then
2 concludes by saying that] Mr. Weiss has
3 not provided any rationale as to why
4 customers should pay avoided costs as
5 well as embedded costs."

6 In -- in reviewing Mr. Weiss' proposal is
7 it your -- it is Centra's belief that Mr. Weiss is
8 proposing, through the inverted rates, a mechanism that
9 would cause Centra's customers to bear any extra costs
10 than those that would be approved in the General Rate
11 Application?

12 MR. ROBIN WIENS: No, we fully understand
13 Mr. Weiss' proposal is to -- is to add -- apply adders to
14 the rates above a certain level of -- of usage and to
15 reduce the prices below that level of usage such that
16 Centra is revenue neutral. We do understand that.

17 MR. WILLIAM GANGE: Thank you. The
18 Inverted Rate Study, which is included in -- at Tab 12 as
19 Attachment 7, comments that Centra was directed by the
20 Board to study and report on the concept of inverted rates
21 and that this report provides Centra's views on the merits
22 of inverted natural gas rates in Manitoba.

23 The study that's referred to here, was this
24 an external review?

25 MR. ROBIN WIENS: No, it was prepared

1 internally.

2 MR. WILLIAM GANGE: And in preparing that,
3 Mr. Wiens, did Centra -- although it was an internal study
4 -- did you seek outside assistance or input, in terms of
5 your assessment?

6 MR. ROBIN WIENS: I think we had some
7 discussions with some external parties, but in the end I
8 would have to say no, that report is a product of uh -- I
9 guess I was the principal author but we had a number of
10 other participants who reviewed and assisted in the
11 preparation of the study.

12 MR. WILLIAM GANGE: Thank you, sir, for
13 that. That clarifies that.

14 In respect of classifying costs. Can you
15 advise me, in general -- well, in general, Centra
16 classifies its costs by volume, number of customers and
17 capacity.

18 Which category are DSM Costs?

19 MS. KELLY DERKSEN: I would have
20 classified those on the basis of number of customers, sir.

21 MR. WILLIAM GANGE: And, similarly, DSM
22 costs are allocated to each class, based on an estimated
23 percent of the program budget that will be used to provide
24 that class' programs.

25 Do I have that right?

1 MS. KELLY DERKSEN: I think so. We have
2 specified that we anticipate that 60 percent of the
3 programs for the test year are going to be directed toward
4 residential-type customers and the other 40 percent toward
5 small commercial-type customers. And it's on that basis
6 that we've then allocated costs to both the SGS and the
7 LGS customer classes.

8 MR. WILLIAM GANGE: And then within the
9 class, are they allocated by number of customers as well?
10 Is that consistent?

11 MS. KELLY DERKSEN: Yes, within the class
12 it's based on the number of customers -- the number of
13 residential and commercial customers within the class.

14 MR. WILLIAM GANGE: Is it therefore
15 included in the basic charge?

16 MS. KELLY DERKSEN: The basic charge is a
17 bit awkward because we don't fully reflect on a customer's
18 bill the amount of basic charge.

19 And so for me to pick out which pieces of
20 \$77 million of customer-related costs --- which include
21 demand side management programs for the SGS class, for
22 example -- which components or which costs embedded in
23 that amount would ultimately be recovered in the ten
24 dollars (\$10), recognizing the ten dollar (\$10) basic
25 charge recovers approximately, say, \$30 million worth of

1 costs, so I can't -- I can't make that relationship that
2 you're suggesting.

3 MR. ROBIN WIENS: Ultimately, Mr. Gange,
4 it would -- you could conceive that it's recovered partly
5 in the basic charge and significantly in the volumetric
6 charge.

7

8 (BRIEF PAUSE)

9

10 MR. WILLIAM GANGE: Thank you for those.

11 Mr. Weiss has testified in his written
12 testimony that he believes that there is an improvement to
13 the rate setting process that could take place, and has
14 recommended that the parties be encouraged to engage in
15 settlement negotiations prior to the hearing in order to
16 construct creative compromises on as many issues as
17 possible.

18 That's not been responded to in the
19 rebuttal; does Centra have a position on that?

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: Mr. Gange, it's an area
24 we haven't given a lot of thought to at this point but
25 we're certainly open to any -- any kind of enhancement to

1 the process that streamlines the process and reduces cost.
2 Our concern would be that it might not do that; it might
3 add to the cost.

4 At least there would have to be an
5 investment of the time up front to -- that would probably
6 be incremental at the outset so we'd have to have some
7 confidence going forward that overall ultimately it would
8 lead to a more efficient process.

9 MR. WILLIAM GANGE: Thank you, sir. Mr.
10 Weiss will give his thoughts on that in his testimony.

11 Mr. Warden, last week you -- you testified
12 with respect to the issue of -- of collection costs and
13 bad debt and -- and you indicated that -- that I -- I
14 believe that the number that you gave us was in excess of
15 \$2 million had been collected with respect to the -- the
16 service charges for past due accounts?

17 MR. VINCE WARDEN: Yes.

18 MR. WILLIAM GANGE: And -- and as -- as I
19 understand it the -- the actual loss on those items is in
20 -- is somewhere in -- just in excess of \$3 million?

21 MR. VINCE WARDEN: The actual write-off of
22 bad debts is in -- approximately \$3 million per year, yes.

23 MR. WILLIAM GANGE: So that this --
24 although you're recovering something here, there still is
25 a significant loss to the Corporation with respect to bad

1 debt?

2 MR. VINCE WARDEN: Yes, I don't think our
3 -- we've stated that those two (2) numbers are intended to
4 be aligned but, yes, there is -- there is a -- a net cost
5 to the Corporation, yes.

6 MR. WILLIAM GANGE: And in effect your
7 good customers are -- are subsidizing, to a certain
8 extent, your bad customers?

9 That is -- I don't mean it to be pejorative
10 but -- but your good customers are -- are subsidizing
11 those that either are incapable of paying or -- or
12 choosing not to pay?

13 MR. VINCE WARDEN: To the extent that
14 we're -- we're not recovering our total costs there is a
15 -- a subsidy there, yes.

16 MR. WILLIAM GANGE: And just wondering
17 because there might be something in the material that I've
18 missed but does Centra have programs in place to attempt
19 to take new steps, creative steps, to -- to reduce those
20 issues of -- of the uncollected costs?

21

22 (BRIEF PAUSE)

23

24 MR. VINCE WARDEN: We -- we do have
25 programs that are initiated through our contact centre or

1 by -- were -- as proactive as we can when we see
2 customers are getting into -- int problems. We -- we do
3 have -- have programs to attempt to influence payment on a
4 timely basis.

5 But in terms of new creative -- I'm not
6 sure I'd put those labels on them. We've -- we've been
7 doing this for quite some time.

8 MR. WILLIAM GANGE: Has there been any
9 thought to the -- the Corporation exploring the -- the
10 possibility of limiting the charges that are -- are levied
11 upon low income families -- low income users?

12 MR. VINCE WARDEN: With respect to a lower
13 late payment charge rate I -- I assume you're referring to
14 no, we have not --

15 MR. WILLIAM GANGE: No, I'm not referring
16 to that. I'm referring to running pilot projects whereby
17 the -- the total cost paid by low income users is capped
18 during -- during a season.

19 MR. VINCE WARDEN: We have not looked at
20 that specifically, no.

21 MR. WILLIAM GANGE: But I take it that --
22 that the Corporation would be willing to consider ideas
23 that -- that might suggest ways of bringing down that --
24 that loss of \$3 million.

25 MR. VINCE WARDEN: We would certainly be

1 prepared to consider ways of not only bringing down the
2 loss but assisting customers, low income customers. And
3 there may be some innovative programs that are coming
4 forward that I'm not aware of in that regard.

5 MR. WILLIAM GANGE: Thank you, sir. Those
6 are my questions.

7 THE CHAIRPERSON: Thank you, Mr. Gange. I
8 don't see Ms. Melnychuk here.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Right. So, Ms. Murphy,
13 do you have any re-examination of the Panel?

14 MS. MARLA MURPHY: No, I do not. Thank
15 you.

16 THE CHAIRPERSON: Thank you. Mr. Peters,
17 remind us again for our next step.

18 MR. BOB PETERS: Thank you, Mr. Chair.
19 The thought process at this point, and it was designed to
20 hopefully make the evidence more compact on the record and
21 for the understanding of the Board Members, was to have
22 Mr. Steven Weiss testify this afternoon and, if necessary,
23 continuing tomorrow morning.

24 And he would be speaking on some of the
25 initiatives that he advanced in his evidence and that

1 would tie in closely with the matters that Mr. Kuczek and
2 this Panel talked about.

3 And so the order of the business would be
4 perhaps a short adjournment to reposition the parties if -
5 - if that's requested or desired and onwards with Mr.
6 Weiss' evidence.

7 MR. WILLIAM GANGE: I -- I wonder, Mr.
8 Chair, if it would be too heretical to -- to allow us just
9 to stay where we are? As long as it -- it doesn't bother
10 anybody's sense of propriety. I mean we're set and -- and
11 I -- I'd rather see us stay rather than move, if that's
12 possible.

13 THE CHAIRPERSON: Well, we'll have to take
14 that under advisement, Mr. Gange. It could take us half
15 an hour to think that one through.

16 I think that's fine with us. Do you --
17 would you like to take a break before you --

18 MR. WILLIAM GANGE: You know, if -- if we
19 could -- if we could have five (5) or ten (10) minutes
20 just to -- to pull out of the paper --

21 THE CHAIRPERSON: Sure. Ten (10) minutes
22 it is.

23 MR. WILLIAM GANGE: Thank you.

24

25 --- Upon recessing at 2:06 p.m.

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

2

3 THE CHAIRPERSON: Well, they're both
4 missing in action, we'll catch them later.

5 Mr. Gange, do you want to introduce Mr.
6 Weiss, so -- we know from a past hearing, but two (2) of
7 the panel members are new, so there's no harm going.

8 MR. WILLIAM GANGE: Thank you, Mr. Chair.
9 On behalf of Resource Conservation Manitoba and Time to
10 Respect Earth's Environment we are calling Mr. Steven
11 Weiss -- Mr. Steven Weiss, pardon me, from -- knew that
12 was going to happen.

13 THE CHAIRPERSON: We were all so careful.

14 MR. WILLIAM GANGE: Yes and you've done a
15 marvellous job.

16 As -- as Exhibit Number 1 for RCM and TREE
17 is the filed written evidence of Mr. Weiss. And included
18 in that is Mr. Weiss' list of qualifications at Tab 1.

19 So if I could have that marked as -- as
20 RCM/TREE Number 1.

21 THE CHAIRPERSON: Okay, fine.

22

23 --- EXHIBIT NO. RCM/TREE 3: Filed written evidence of
24 Steven Weiss

25

1 MR. WILLIAM GANGE: And I've provided a
2 handout. Mr. Weiss is going to make reference to some
3 documents during his testimony and we'll mark those as
4 Exhibits as the arise.

5 THE CHAIRPERSON: Just one (1) second, Mr.
6 Gange.

7

8 (BRIEF PAUSE)

9

10 EXAMINATION-IN-CHIEF BY MR. WILLIAM GANGE:

11 MR. WILLIAM GANGE: Mr. Weiss, you are
12 appearing here as an expert witness with respect to
13 Resource Conservation Manitoba and Time to Respect Earth's
14 Eco-Systems, is that correct, sir?

15 MR. STEVEN WEISS: Yes.

16 MR. WILLIAM GANGE: And, sir, you've had
17 previous experience testifying before this Board?

18 MR. STEVEN WEISS: Yes, I have.

19

20 (BRIEF PAUSE)

21

22 MR. WILLIAM GANGE: That's right. Mr.
23 Lane, I'm sorry, I guess we should swear Mr. Weiss before
24 I get into the questions.

25 THE CHAIRPERSON: That's a good idea, Mr.

1 Gange.

2 STEVEN WEISS, Sworn

3

4 THE CHAIRPERSON: Thank you, Mr. Singh.

5

6 (VOIR DIRE COMMENCED)

7

8 EXAMINATION-IN-CHIEF BY MR. WILLIAM GANGE:

9 MR. WILLIAM GANGE: And, Mr. Weiss, the
10 areas of testimony that you're going to provide to the
11 Public Utilities Board touches on what issues?

12 MR. STEVEN WEISS: I'm going to discuss a
13 number of issues. And I just wanted to say before I
14 started that a lot -- written testimony sounds harsher
15 than it is meant to be sometimes. I am very impressed
16 with the Centra people, the staff, the Utility and our --
17 our criticisms are really meant in the light of
18 improvements. And so sometimes that doesn't come out when
19 you're making -- you get into the passion of the arguments
20 but they are meant to be -- to hopefully improve the way
21 Centra does business.

22 The main issues I'm going to talk about are
23 first of all Centra's current rate design, which does not
24 effectively provide price signals to customers that
25 reflect the full costs of using natural gas. And Centra

1 should, therefore, implement inverted rates with a tail
2 block -- or the final block more representative of the
3 full societal costs of producing and consuming gas.

4 Secondly, Centra's DSM programs. They
5 don't, to enough extent, incorporate environmental and
6 other externalities into their analysis. They don't have
7 reasonable targets. They are not integrated with Manitoba
8 Hydro's electric prices and DSM programs. They do not
9 provide customers with enough meaningful information to
10 make best choices about measures. And finally, they do
11 not provide adequate quality or price control.

12 Third, is Centra's low income programs. I
13 believe they're inadequate to meet the need and that the
14 cost savings generated by programs, including both
15 weatherization and bill payment assistance, have not been
16 accounted for in the reduction in costs for arrearages and
17 shut-offs and collections and so on.

18 Fourth. I believe that both the DSM and
19 the low income programs would benefit with an advisory
20 group; that would add value to the programs. And perhaps
21 consultant -- outside consultant to review the programs
22 and review the design, integration between -- sync them up
23 with each other -- the delivery, outreach, evaluation and
24 feedback.

25 Fifth. Centra should institute decoupling

1 to reduce financial risk to both the Utility and the
2 customers.

3 And finally, the PUB should modify future
4 proceedings to provide opportunities and encouragement for
5 settlement by the parties of complex and contentious
6 issues. Settlement of issues is an important goal; it
7 provides the ability of the parties to develop creative
8 solutions and make compromises in the public interests.
9 However, the current adversarial legalistic process is
10 sometimes a barrier to such results. Thanks.

11 MR. WILLIAM GANGE: And with respect to
12 evidence such as DSM programs, evaluation of low income
13 programs, issues such as externalities, are these issues
14 that you've testified about before -- before other Boards?

15 MR. STEVEN WEISS: Yes, I have, multiple
16 times. Most of my experience is in the north west States
17 of Oregon, Washington, Idaho, and then I was here in 2005
18 GRA saying some of the same things.

19 MR. WILLIAM GANGE: Mr. Chair, Mr. Weiss
20 was accepted as an expert witness at the last hearing in
21 2005, and I would propose that he be accepted as an expert
22 witness with respect to this Hearing.

23 THE CHAIRPERSON: Any problem with that,
24 Ms. Murphy?

25 MR. MARLA MURPHY: Just a bit of a

1 qualification, I think. I certainly have no problem with
2 Mr. Weiss appearing and testifying.

3 Two (2) things. I did happen to look back
4 at the 2005 testimony and while Mr. Weiss gave evidence,
5 he was not actually qualified as an expert in that -- in
6 that hearing.

7 There is also a number of forthright IRs
8 that are answered in this hearing that -- that limit the
9 scope of his qualification and I would like the Board to
10 be mindful of those as they hear the evidence. Other than
11 we have no objections.

12 THE CHAIRPERSON: That's fine. We accept
13 Mr. Weiss.

14

15 (VOIR DIRE CONCLUDED)

16

17 EXAMINATION-IN-CHIEF BY MR. WILLIAM GANGE:

18 MR. WILLIAM GANGE: With respect to these
19 various issues, sir, the -- there are a number of recent
20 issues that have just arisen and -- and how does the --
21 the events unfolding in the world affect Centra?

22 MR. STEVEN WEISS: Thank you and I think
23 this couple of exhibits that we -- we've just provided put
24 the -- put my whole testimony in -- in context.

25 The first being the announcement of the --

1 by the leaders of G8 including Canada of course, to commit
2 seriously to consider a goal of reducing greenhouse
3 emissions by 50 percent by the year 2050.

4 This is an overriding public policy goal
5 that Canada has committed to.

6 MR. WILLIAM GANGE: And with respect to
7 that, Mr. Chair, we've provided something off the Winnipeg
8 Free Press website, dated Saturday, June 9th, 2007 with a
9 commentary on -- entitled "What the Leaders of the G8
10 Agreed To" and I would like to mark that as RCM/TREE
11 Number 2.

12 THE CHAIRPERSON: Is that number okay, Mr.
13 Singh?

14 MR. WILLIAM GANGE: Subject to check, I'll
15 just proceed. We'll -- we'll find out the number.

16 MR. BOB PETERS: Mr. Chairman, I think it
17 would help the process if the evidence that we had thought
18 would be marked as RCM/TREE Number 1 should actually be
19 RCM/TREE Number 3.

20 MR. WILLIAM GANGE: So Mr. Weiss' evidence
21 will be Number 3?

22 MR. BOB PETERS: I believe that would be
23 correct, yes, and --

24 THE CHAIRPERSON: Very good.

25 MR. BOB PETERS: -- and then the Winnipeg

1 Free Press live extract would follow as RCM/TREE Exhibit
2 4, if accepted by the Board.

3 THE CHAIRPERSON: Very good. Thank you,
4 sir.

5

6 --- EXHIBIT NO. RCM/TREE-4: Winnipeg Free Press
7 commentary, dated Saturday, June 9th,
8 2007 and entitled "What the Leaders of
9 the G8 Agreed To"

10

11 CONTINUED BY MR. WILLIAM GANGE:

12 MR. WILLIAM GANGE: If you can continue to
13 the next document, sir.

14 MR. STEVEN WEISS: The next document is a
15 Summary of Key Findings from the National Round Table on
16 the Environment and the Economy.

17 And this document talks about how Canada
18 could get to this broad goal of -- of reducing greenhouse
19 gasses by a significant amount.

20 And the two (2) points that -- that I look
21 at there, first is -- is how important in -- increasing
22 energy efficiency. Energy efficiency is key. They
23 recommend that we could -- we could achieve 40 percent of
24 the goal by energy efficiency. And so that it's -- it's
25 something that we really need to look at.

1 And then secondly on the second page,
2 Number 2, urgent -- they recommend an urgent need for a
3 long term signal and I take this as meaning a signal in
4 policy that this is where -- where Canada wants to go and
5 Manitoba wants to go.

6 But also long term -- price signals to give
7 people who are making decisions about energy use a good
8 indication of what's coming, what's going to be needed to
9 meet the overall goals.

10 MR. WILLIAM GANGE: Thank you, sir. Even
11 if these are socially desirable objectives that are stated
12 in -- in the national round table and as stated by the
13 leaders of the G8, why should Manitoba's gas and electric
14 utilities undertake to realize them rather than leaving it
15 to government to initiate a carbon tax or to the welfare
16 system to provide sufficient allowances for the poor to
17 pay their energy bills?

18 MR. STEVEN WEISS: I think there are three
19 (3) general reasons why Centra should -- should join this
20 effort and -- and does have a -- have a role in it.

21 First of all, Centra is a Crown corporation
22 and it is very much a part of the Government so it should
23 adopt those. Its -- its regulations and its policies
24 should reflect the public interest.

25 Secondly, and probably more important, is

1 Centra is the expert in -- in the provision of energy
2 services. They have the expertise to -- to help people
3 get to these goals. I'd rather leave it to them than the
4 -- the policymakers and government will often set broad
5 goals but it's up to the -- to the people in the trenches
6 to actually make it happen and -- and Centra's definitely
7 experts there.

8 And third, Centra can take advantage of the
9 synergies that other agencies cannot; that is first of all
10 they're hooked with Manitoba Hydro so they can -- they can
11 do things with electricity and gas; they can deal with
12 pricing; they can deal with alternative energy supplies;
13 perhaps finding renewable energy and so on. So they're
14 positioned to -- better than almost any other agencies, to
15 pursue these goals.

16 MR. WILLIAM GANGE: If we could move on to
17 the DSM programs, from your review of -- of this
18 application what do you believe is lacking in Centra's
19 evaluations of its DSM programs?

20 MR. STEVEN WEISS: I think what is most
21 lacking is benchmarks or criteria to decide whether you've
22 achieved success. Centra has some very good programs but
23 we really don't know if they're meeting their goals
24 because we haven't really set out their goals.

25 And benchmarks should include, for each --

1 from -- different measures. For instance home retrofits,
2 they should have targets; how fast do we want to -- how
3 many homes do we want to retrofit; how fast do we want to
4 do that, two (2) years, five (5) years, ten (10) years?

5 They should also have targets which look at
6 quality control and look at lost opportunities. For
7 instance, perhaps a homeowner retrofits a house but only
8 does some of the measures. So now you have a house which
9 is -- which is -- maybe has the new windows and -- and
10 attic insulation but they didn't do -- they haven't
11 upgraded their furnace or whatever and so you -- so you
12 can have a house that you might think has been done but
13 it's really only been half done, and so it's very
14 important to -- to make sure that -- that you have that
15 kind of quality control.

16 I had recommended, for instance, that the
17 Marbex study (phonetic), which was one of Centra's
18 exhibits gives a good overall background for setting
19 targets.

20 Another study that I'm very familiar with
21 is -- is the Power Planning Council in the northwest,
22 which governs the -- the four (4) northwest states and
23 sets policy for DSM and so on, in the four (4) northwest
24 states of Oregon, Washington, Idaho, and Montana.

25 They did an interesting experiment, it was

1 about fifteen (15) years ago; it was called the Hood River
2 Experiment. What they did is they took a town of about
3 twenty thousand (20,000) people and they said regardless
4 of price, we don't care, we are going to do every single
5 measure that we can possibly do in this house. We are
6 going to go door to door for free and we're going to see
7 how much we can do. And they pre-metered the whole -- the
8 whole town so they knew what the usage was before.

9 And then they -- then they literally went
10 door to door -- businesses, residences and so on and they
11 pegged that and they said that is what they called
12 technically possible. I mean, that's -- that's what set
13 their "technically possible" because they did stuff
14 regardless of price. Even if it was very expensive they
15 still did it. They did everything technically possible.
16 And that -- that set the upper benchmark and they knew at
17 least that's what you can expect to do if you really go
18 all out.

19 Since then they've -- they've set a target
20 below that as what you can probably get that's cost
21 effective so you take that absolutely top target and you
22 say, Okay, some of those measures weren't cost effective
23 so that brings it down a little more. And then you say
24 well, out of the ones that are cost effective you're
25 probably not going to get everybody. And they -- they

1 picked 85 percent of the cost effective as their
2 achievable target. And Marbex does the same sort of
3 thing; they have technical, they have economic, and then
4 they have achievable.

5 And that sets the target. And so you -- so
6 the utilities know where they're going. They know that
7 they should be getting "X" amount of savings per house.
8 They know they should be getting "X" amount of savings in
9 lighting; "X" amount of savings in heating; that motors
10 should be a certain efficient -- obviously, it's electric
11 and gas -- furnaces can be this efficient and so on; and
12 the penetration rate levels. Then you can measure your --
13 measure your results.

14 For instance, Mr. Kuczek, Friday,
15 identified a target for residential retrofit loans.
16 They're a loan program of four thousand four hundred and
17 sixty-four (4,464) per year. Well, that seems like a
18 pretty good number, but at that rate, how many years will
19 it take to do all the potential homes to be completed? Is
20 that a ten (10) year rate, a fifty (50) year rate.

21 So the first thing you should look at is,
22 what's the possible -- how fast should you be going. And
23 figuring out how fast you should be going is a tough
24 question. It depends on your infrastructure, the delivery
25 of the installers and so on. I mean, stuff is cost

1 effective in -- in some sense, econo -- if you were pure
2 economics you'd say, you should get all the houses the
3 first week.

4 I mean, that would -- if they're cost
5 effective you should just do them all. And, of course,
6 you can't do that and you can't just hire people to work
7 for a week and then -- and then lay them off.

8 So you have to, sort of, do a plan with the
9 people who deliver, so you need advisory groups and so on,
10 made up of -- of the -- of your trade allies to talk to
11 you about how many they think they can do each year, set a
12 good target.

13 And then, in addition, you want to make
14 sure -- this is -- this is a loan program, for instance;
15 it -- it's determined by the homeowner and the homeowner
16 decides what they want to do. Well, it's been the
17 experience in many programs that homeowners like to do
18 windows. Windows spruce up the house, they really make it
19 look nice and stuff. They don't really have a great
20 payback. Windows don't increase the energy efficiency
21 very much compared to the dollar spent.

22 But many -- many people will do windows and
23 they won't do the other stuff. So again, you need a
24 program that makes sure that windows are just part of the
25 package. For instance, you -- you say to the homeowner,

1 you qualify for this loan or you qualify for this rebate
2 only if you do a full package. If you only do part of the
3 package, we're not going to -- you're not -- we're not
4 going to pay you. So that incents everybody to do
5 everything.

6 Another question that came up is: How many
7 of those insulate -- installations that we're doing
8 correctly? There was a discussion about that on Friday,
9 as well. How do you know that the guy who comes out to
10 your house and does it is doing a good job and it's a goo
11 -- at a good price? It's very hard for a homeowner to
12 really know, especially sometimes in an emergency
13 situation. Their water heater just broke, you know, what
14 do they do?

15 And so you have to deal with that problem,
16 as well. And one (1) of the ways you deal with it is you
17 say, and many utilities do this, is they have -- they
18 certify the installers and they say, We will only give a
19 rebate to installer that's on this list. And the
20 installer on the list has to agree to a certain number of
21 inspections; maybe one (1) out of ten (10) inspections and
22 so on and if they start having a high failure rate, then
23 they're kicked off the list.

24 And kicking -- being kicked off the list is
25 really serious because you're not going to get people that

1 come.

2 They can also train those people. So you
3 can train the installers in proper duct sealing. And a
4 duct sealing is a -- I guess it's not easy. The one (1)
5 thing I learned about duct sealing is what -- that you
6 can't use duct tape. It seemed funny to me, but anyway.
7 I'm not the -- I'm not the expert on it. But I -- but --
8 but when -- when people have gone into -- you can't use
9 duct tape on -- for ceiling ducts, it doesn't stick, I
10 guess. Anyway, that's my technical knowledge, by the way.

11 So as you find out that you have to train
12 people on how to install these measures correctly, and you
13 have to inspect them and you have to make sure they do the
14 whole package, that they don't just pick some measures and
15 not other measures.

16 All those things are part of bench marking
17 and -- and those are the things that I think could use
18 improvement. Centra has a very good program. I'm not --
19 I don't want to get -- but they can make it better. And
20 these kinds of things could -- could do it better and
21 that's why I -- I think that advisory committees and a
22 consultant would really, really help things along.

23 And then, one (1) final thing is that you
24 can't do all the houses at once, so which ones do you do
25 first? And I would think, at least certainly with low

1 income, is that you target the people with need the most.
2 And in -- in Oregon, for instance -- well, we'll talk
3 about this more, but maybe target the large houses. The
4 large houses have the most savings, get those first.

5 So if you -- if you have a hundred (100) --
6 if you can only do a thou -- four thousand (4,000) houses
7 and you have ten thou -- or a hundred thousand (100,000)
8 possibilities, try to do the ones that are the most
9 wasteful; the oldest ones first or the biggest ones first.

10 So that's another part of bench marking is:
11 Are you -- are you getting the biggest bang for the buck
12 as quick as you can, so. In big -- big speech.

13 MR. WILLIAM GANGE: You mentioned in your
14 testimony, in your written testimony and just now, the
15 question of advisory committees with respect to
16 conservation. Centra does not support that call for the
17 advisory committee but, in your view, an advisory
18 committee is necessary, why is that?

19 MR. STEVEN WEISS: Well, I think it's hard
20 to analyse your own programs. Everybody who is committed
21 to this work -- people don't like to take criticism, and
22 they have ownership of their product and they don't like
23 to be told that it's -- that it's not doing as great as it
24 could.

25 Having an outside look, having a third

1 party -- having people in the community review, talk
2 about, make suggestions, is really valuable. It doesn't
3 have to meet constantly; it can meet every quarter maybe.
4 It doesn't have to be a big deal.

5 But I find that the more you talk to the
6 community, the more you get buy-in by the community, you
7 get support from the community, and you get ideas. You'd
8 be amazed when you just talk to regular people or talk to
9 advocates or talk to trade allies that it's very good.

10 Now I know Centra will say, Well, we do
11 talk to our trade allies or We do talk to this customer,
12 bbut they don't have them all in the room, and the synergy
13 is very important. So it's a suggestion. It's not the
14 end of the world if you didn't do it, but I think -- I
15 think it would add -- add a lot to your effectiveness.

16 MR. WILLIAM GANGE: And, similarly, you've
17 recommended that a -- that Centra retain a consultant to
18 conduct an evaluation of the DSM program.

19 And why do you recommend an outside
20 evaluation?

21 MR. STEVEN WEISS: Well, for the same
22 reason. Except the consultant -- an outside consultant --
23 could have vast experience in looking at other utility
24 programs and comparing benchmarks on more technical basis
25 than the typical advisory committee could do. So it's --

1 it's just a -- it's a check on your programs, How are you
2 doing? Are there better ways of doing it? What are other
3 Utilities doing around the -- around the -- Canada or
4 North America.?

5 MR. WILLIAM GANGE: You mentioned to Dr.
6 Miller and me, the example of that during the testimony
7 from Friday, related to the Waverley West development.

8 MR. STEVEN WEISS: Right. This was uh --
9 there was -- there was a discussion about whether Waverley
10 West should go 100 percent geothermal or not. And I don't
11 know all the details, but it seems that there was a
12 discussion -- I mentioned it before -- about installing a
13 new furnace and getting quotes and so on, and so I
14 addressed that part about, you should have a list of
15 installers and so on.

16 But those are the kinds of questions that
17 would come from an advisory board. Consumers would say:
18 You know, when it's time to change my furnace, I don't
19 know who to go to. I mean, it's the kind of thing -- a
20 suggestion that comes from people who are dealing with the
21 utility and it really helps.

22 They know the problems; The guy came out
23 and he tromped all over my -- my flowers, can't you do
24 something about it. Or, I think I got ripped off, it was
25 too expensive.

1 And so it makes you keep looking and keep
2 examining your program and keep improving your program.
3 So I think it's a -- competitive prices is a very
4 important one. You could, I guess, say sort of having a
5 home on the Web, you could give rough approximation of
6 what you -- of what a job should cost, so at least the
7 homeowner would kind of have a rough idea of -- of what
8 they should be paying; that could be part of it too.

9 MR. WILLIAM GANGE: You've also argued
10 that Centra does not integrate its DSM programs in pricing
11 with Manitoba Hydro which results in inefficiencies and
12 unintended consequences.

13 What examples are there of that?

14 MR. STEVEN WEISS: Well, the big example
15 that -- that has been talked about here a lot, is the fact
16 that as gas prices go up, it could be that people are
17 moving to electricity prices because gas prices are high
18 and electricity, being based namely on hydro, is -- is
19 lower than probably the value of the electricity and so
20 people are -- there's an unintended consequence of just
21 this -- prices being out of synch where -- where people
22 could switch.

23 So I think that whenever a policy is made
24 you have to always think of the unintended consequences
25 and how it's going to interact with the gas and

1 electricity. So for instance, in pro -- and for that
2 problem you probably should have either inverted rates for
3 both gas and electric so that the marginal cost is -- is
4 comparable.

5 Or if you can't go that far, you should
6 adjust the incentive so that if for -- for instance, it
7 looks like right now 96 percent of new -- new homes are --
8 are choosing electric water heat which seems like the --
9 the worst choice they could make as far as using energy
10 efficiently and wasting -- and losing the export sales.
11 So maybe you should have a higher incentive for staying
12 with efficient -- efficient gas heat.

13 So I'm not -- I'm not suggesting I know all
14 the answers. I'm just saying when you're designing these
15 programs you really have to integrate that you have the
16 electric people talking to the gas people; deal with it as
17 an integrated way.

18 This came up again in the Waverley West
19 discussion. It looked -- it seemed like, on page 700 to
20 702, that Centra looked at the economics of customers
21 switching from gas to geothermal and they found it didn't
22 pass the total resource cost test because it would go from
23 gas to geothermal, and even though their gas usage
24 would go down their electric usage would go up and they
25 would -- that electricity would have displaced coal-fired

1 or, you know, very dirty generation in Minnesota probably.
2 So that didn't pass the test.

3 So -- and then Manitoba Hydro is offering
4 therefore incentives to switch electric customers to
5 geothermal. So what you have is you have gas is the most
6 efficient resource for heating, second is geothermal, and
7 then third is -- is electric heat. And so they looked at
8 going from gas to geothermal; that would be a silly -- we
9 shouldn't -- we shouldn't encourage that in fact we should
10 try to get people to go from geothermal to gas.

11 But then they have a program on the
12 electric side that puts electric to geothermal. It only
13 takes them from here to here. It should -- you shouldn't
14 hand an electric to the geothermal program if that's -- if
15 that's not the most efficient. You should go straight
16 from electric to gas.

17 So you have to look at all these things,
18 how it affects your exports, how it affects the prices
19 people are paying for energy, and then design the
20 incentives so that you get them to do the most efficient
21 things.

22 So that's -- you know, I'm not solving all
23 the problems; I'm just saying look at them together.

24 MR. WILLIAM GANGE: You -- you mentioned
25 inverted rates, and in Centra Tab 12, Attachment 7, page 6

1 Centra lists its arguments against inverted rates.

2 How would you respond to those arguments?

3 MR. STEVEN WEISS: Centra has basically
4 three (3) arguments against inverted rates, but its basic
5 argument is at Tab 12, Attachment 7, page 6. So where
6 they say, first of all, that inverted rates are only
7 justifiable if the marginal cost of usage is higher than
8 the -- is higher than the average revenue they're --
9 they're collecting.

10 And so -- and they're saying, well, every -
11 - every cubic metre of gas is priced the same and so -- so
12 they do match so there's no reason for inverted rates.
13 And our answer for that is that the price of gas should
14 include the externalities and the externalities are the
15 environmental, especially greenhouse gas, externalities
16 but there were other ones in my -- in my testimony.

17 And so the cost of using gas, what is the
18 cost incurred by using gas? It's the cost of the gas
19 today plus it's the externality and we think the
20 externality is almost -- is almost 50 percent higher than
21 the actual cost of the gas.

22 So that's the cost incurred; one (1) plus.
23 Now, what's the cost paid by the consumer? It's only one
24 (1) because they're only collecting the -- the cost;
25 they're not collecting for the externalities.

1 So you have a difference between the cost
2 incurred on society and the cost paid for by the consumer.
3 That's exactly when you do need inverted rates; when
4 you're not collecting the full cost for the service.

5 So -- now the problem is, as people pointed
6 out, to be economically theoretically correct, all gas
7 should be priced at that marginal higher price. It should
8 include the externalities.

9 And so that brings up the second problem.
10 If you price all the gas at the high price, then you're
11 going to have -- you're going to over collect. You're
12 going to collect way too much money. And so the answer of
13 course is inverted rates, where you have a lower block at
14 a low price and then a second block -- the initial block
15 at low price and then second block at a higher price.

16 And so the price signal that the people in
17 a higher block "C" and you make sure that you pick that --
18 almost everybody is in that, exposed to that higher block,
19 is higher priced than the -- than the lower block; Centra
20 doesn't over collect, they collect just their authorized
21 amount of money.

22 Well the problem with that is, is that
23 large users are hurt. Large users see their bills go up
24 because if you're a big user then you're going to see your
25 shift. If you're an average user, you're probably not

1 going to see much -- much at all and if you're a small
2 user you're going to actually see a discount.

3 So -- so putting this kind of program into
4 place does cost -- cause a cost shift among -- among
5 different types of users.

6 And so to put this into play, you don't
7 want to just drop it on people all of a sudden. You have
8 to ramp it in slowly over a number of years, gradually
9 make the block prices more and more separate, and you want
10 to focus your DSM programs on those large users so that
11 they -- they have a way out. They can protect themselves
12 from the -- from the higher -- higher block price.

13 The third problem that you'd see is that if
14 you raise that price of the second block, you're going to
15 see fuel switching. Again, people are going to jump off
16 gas and go to electricity and so again, if you're going to
17 do this you need to -- you need to deal with that either
18 by having electricity also have inverted rates, or making
19 sure you have incentives for -- to keep people using gas
20 even when they're not switching by having high -- high
21 rebates for efficient furnaces and so on.

22 It also makes as a sort of -- it also makes
23 your revenues more volatile because in warm weather you
24 lose more money and cold weather you -- you overearn more
25 money -- too much money. And so -- so when I talk about

1 decoupling it probably -- if you're going to do inverted
2 rates it makes the need for decoupling even -- even more.

3

4

(BRIEF PAUSE)

5

6 MR. STEVEN WEISS: One (1) more thing
7 about the arguments that Centra has made against inverted
8 rates. They've said that our prices already reflect all
9 the costs. There aren't really new costs. For instance,
10 Centra said that in their rebuttal evidence at page 25,
11 Centra assumes costs will be internalized later. They
12 say, Well right now the price might be this and if we have
13 carbon regulation, or if something happens then later on
14 the -- that cost will go in, but right now the price of
15 gas is simply the price of gas.

16

17 And my answer to that is again, an
18 economist would say the price signal has to reflect the
19 long term goal, what's called LRIC; long run incremental
20 cost.

21

22 But just in plain terms, if you're making a
23 decision on what kind of furnace you're going to put in
24 and should you spend that extra for the higher efficiency
25 furnace and that furnace is going to last for twenty (20)
years or maybe -- maybe the life of the house because it's
hard to switch from gas to electric once your house is

1 built, you're making a decision that's going to go forward
2 many, many years.

3 So you want the price signal to reflect the
4 best knowledge of what the price will be many years from
5 now. Now that's hard to do. You can't forecast price
6 very well but I don't think you'll have any problem
7 forecasting that.

8 We're going to have some sort of carbon
9 regulation, or caps or -- or auction type arrangements or
10 carbon tax or something to meet the goals that Canada has
11 agreed to or -- and gas price is going to go up.

12 Look at what happens -- look at what just
13 passed in California. California, 36 million people, just
14 passed a law that says none of their utilities are allowed
15 to buy coal fire power anymore. You -- you could have an
16 existing contract continues, but if -- when you resign the
17 contract or if you're going to make a new investment, you
18 can't buy coal fire power.

19 Washington just two (2) weeks ago, just
20 passed the same -- same legislation. Oregon, it went to
21 committee, it didn't pass, but it probably will soon.

22 So you have -- and this is the type of
23 thing that's going to happen around the country, as people
24 try to meet their carbon standards, they're -- they've got
25 to slow down the use of coal. I mean that's really the

1 biggest -- the biggest emitter. That's going to drive the
2 gas prices up and so to think that the current price of
3 gas is that proper price signal, I think is just too short
4 sided.

5 The current price of gas should include
6 what we think it will be much later because we're making
7 decisions now that will last many, many years.

8 MR. WILLIAM GANGE: The -- there's also an
9 obstacle that was discussed by Centra that because some
10 customers are not Centra system customers, only the
11 distribution rate is available to make this adjustment.
12 So the upper block might require a 200 percent increase in
13 the distribution rate and the lower block might require a
14 negative rate, do you see that as a problem?

15 MR. STEVEN WEISS: Well it seems like a
16 problem at first; we're going to have a negative rate.
17 But it's not really a problem to the customer. The
18 customer doesn't look at rates so much as look at bills
19 and what they're going to see is their commodity plus
20 their distribution charge, and that's not going to be
21 negative.

22 So what they're going to see -- their
23 combined for their first whatever, thousand or -- per
24 month -- I don't know 100 cubic metres or however you set
25 up the first block, will -- it'll just be at a low rate

1 and everything above that will be at a high rate. And if
2 it takes put -- making a negative distribution charge in
3 order to accomplish that, okay, it's not the end of the
4 world, you have a negative dis -- distribution charge. So
5 it's not -- I don't think it's really a -- a problem.

6 MR. WILLIAM GANGE: Centra also argues
7 that incorporating your externality adder of approximately
8 50 percent of the current commodity ca -- cost of gas
9 would make for a very steep rate structure, indeed. That
10 is a first block at about thirty (30) cents per cubic
11 metre and the second block at about fifty-eight (58)
12 cents.

13 Again, can you comment on that?

14 MR. STEVEN WEISS: Well remember, I'm
15 talking about the SGS class here. I -- I think there are
16 ways of dealing inverted rates with the larger classes and
17 I think -- and a friend of mine, Jim Lezares (phonetic),
18 has talked to the Board on the electric side about doing
19 it with industrial customers, but it gets -- it gets a
20 little hairy, so I'm -- I'm mainly talking about -- I am
21 talking about the -- the smaller customers.

22 Well, is that a big jump; thirty (30) cents
23 for the first block, fifty-eight (58) cents for the second
24 block? It seems like a sudden -- a sudden change, but
25 again, the customer's just going to see their total bill.

1 They're going to see a certain amount times thirty (30)
2 and then a certain amount times fifty-eight (58). Every -
3 - if they increase their usage, they're going to have to
4 pay another fifty-eight (58) cents. If they decrease
5 their usage by -- by a cubic metre, they're going to save
6 fifty-eight (58) cents. It -- it doesn't really do
7 anything to the -- to the customers; they simply see the
8 high rate and the low rate and they'll react to that in
9 their decisions of how they use energy and their
10 investments in energy efficiency, so.

11 MR. WILLIAM GANGE: And -- and just for
12 clarification, sir, your position here is that -- that
13 there's no real magic in -- in how this is designed; that
14 -- I think that what you've said to me is, Centra is the
15 expert in terms of -- of -- of rate design, but it's the
16 concept that -- that this would be put into place, which
17 would generate a -- a revenue neutral result, isn't that
18 the position --

19 MR. STEVEN WEISS: Yes, I -- you know, if
20 the Board decided to -- if PUB decided to order Centra to
21 do this, there are a lot of details and maybe you want
22 three (3) blocks and maybe that works out better. You
23 have to look at -- you have to look at some un -- maybe
24 you have unintended consequences with two (2) blocks. You
25 should study what other people are doing and -- and see

1 what -- see what's really works; see how fast you should
2 phase it in. I mean, should you phase it in in three (3)
3 years or five (5) years or ten (10) years or whatever.

4 So all those kinds of questions I think I
5 would leave to the experts and ask that, you know, if --
6 if the PUB wants this to happen to -- to have Centra
7 design the rates that -- that work well.

8 MR. WILLIAM GANGE: You've made a proposal
9 that DSM costs should be collected volumetrically and
10 Centra argues that it would -- that -- that such a
11 proposal would create a cross-subsidy and that it would
12 cause a number of customers to contribute a significant
13 amount and to receive little or no benefit. And -- and we
14 had that testimony again today.

15 How do you respond to -- to that position?

16 MR. STEVEN WEISS: Well, it's always true
17 with -- with DSM programs. Even if you -- even if you
18 make the allocation perfect, from class to class, you
19 still have, within the class, you have subsidies. Maybe
20 I'll take advantage of the programs and -- and I'll get an
21 energy-efficient furnace and rebates and so on and my
22 neighbour decides not to do it for whatever reason. He's
23 going to sell the house in two (2) years, he doesn't want
24 a -- he doesn't want a hassle with it or whatever so -- so
25 you're going to have that second customer subsidizing me.

1 So you can't get away from subsidies for
2 public goods type of -- of issues. I mean, if you take
3 that to its extension you say, well, I shouldn't pay for
4 schools if I don't have kids or I shouldn't pay for a fire
5 department because I haven't had a fire and, you know, it
6 goes on and on.

7 And so these are public goods and you're
8 going to have some amount of subsidy. What you try to do
9 is you try to make every -- allow everybody to have the
10 opportunity if they -- and that's -- the best you can do
11 is -- and -- and that means thinking of a lot of DSM
12 measures. So for the guy who doesn't want to do his
13 furnace maybe you can give him some compact fluorescent
14 lights. Maybe he can take advantage of an -- of an
15 energy-efficient washing machine.

16 Everybody can -- can get some benefits of
17 DSM and that's probably the best you can do but there's
18 always going to be some cross-subsidies.

19 Secondly, let's -- let's take a look at --
20 one (1) example of this was the -- the Affordable Energy
21 Fund which -- which takes money from -- off the top of the
22 export revenues and -- and applies it to DSM, mainly for -
23 - for low income customers and -- and other things. And
24 so we already have a precedent; that -- right -- right now
25 you have -- if that Affordable Energy Fund wasn't there

1 everybody would have -- all Manitoba Hydro electric
2 customers would have a lower rate, and so by taking that
3 money off the top they all see their rates go up.

4 And how is the -- is that money allocated?
5 I would I guess like to take -- I think from your
6 testimony, Ms. Derksen, that there's actually four (4)
7 allocation methods not three (3). There's volume, there's
8 number of customers, there's demand or whatever you want
9 to call it; capacity. There's also percentage of revenue.

10 That's -- and I think you were getting into
11 problems explaining things because you really do have a
12 third one when you say we're going to say 60 percent of --
13 of DSM costs. We're going to the residential -- or the
14 small class and 40 percent to the -- the bigger class.
15 What you're saying is we're going to -- we're going to
16 charge these people "X" percent more on their bill. And
17 so it -- so it's -- it's another allocation method really
18 is cost -- is -- it's a direct alloc -- you can call it
19 direct but I think it makes it clear to say it's -- it's
20 based on percentage of revenue. So my bill goes up or
21 down by a percent.

22 And so that's the way the export revenues
23 are allocated right now. Export revenues are -- are
24 allocated on a percentage of revenue which isn't classed
25 by class; it's -- it's percentage of revenue.

1 So we -- we already have a precedent for
2 cross-subsidy based on a public good and that's what
3 happens with public goods. You -- they're not -- they're
4 not perfect like that.

5 Finally, and I think this is very
6 important, is many of the benefits of conservation are the
7 externalities or the emissions reductions; the carbon
8 reduction, the land impact reductions and so on. And
9 those are shared by everyone.

10 So the best way I think to allocate DSM
11 costs is volumetrically because it's based on how -- the
12 impact, the emissions impact is based on how much people
13 use and so that's probably the best way to do it.

14 MR. WILLIAM GANGE: I'd like to move to
15 decoupling. If you could explain the purpose and the
16 benefits of decoupling.

17 MR. STEVEN WEISS: Well, there's been some
18 discussion already of decoupling. First of all: What's
19 the problem? Why would you need the problem. And the
20 problem was talked about here a little bit, is that when
21 people's use is gradually decreasing because of energy
22 efficiency, then the company doesn't collect its fixed
23 costs. When we have warm weather, the company doesn't
24 collect its fixed costs.

25 On the opposite side is when we have colder

1 than normal weather, people overpay their bills. And not
2 only are they overpaying their bills but they're
3 overpaying during the cold month when their bill is
4 already high, and so it's kind of adding insult to injury.

5 And so the Utility has risks of under
6 collection; the customers have risk of over payment. So
7 you have two (2) risks but it's really great because it's
8 a perfect swap. You can swap those risks and you can even
9 them out on both sides with a decoupling arrangement.

10 So what you -- so what a decoupling
11 arrangement does is it -- it can either be done monthly,
12 it can be done yearly, there's a lot of different --
13 different ones. I like the monthly one because it doesn't
14 create a big deferred account.

15 As -- as a -- let's say you have a colder
16 than normal month, people would pay too much. Immediately
17 that same month -- and I know their banner system can deal
18 with this because Northwest Natural has the same customer
19 information system -- they immediately lower the rate just
20 a little bit so that the -- the bill -- when the bill goes
21 out it's for a little less than -- than it would have been
22 if they didn't have decoupling. And so everybody saves a
23 little bit of money in that colder month and the company
24 gets exactly what it's supposed to get.

25 And then in warmer than normal months, the

1 opposite happens; everybody pays slightly higher.

2 But remember, they're paying slightly
3 higher when -- they just opened their bills and it's a low
4 bill because it's been warm. They're saying, Hey, this is
5 pretty great already. So a slight -- a slight surcharge
6 for that month is -- is not a bad -- a bad thing.

7 So it's a risk swap. The other -- and so
8 it doesn't harm customers, it actually helps customers, it
9 -- with their risk. It helps the Utility with its risk,
10 so that's great. In fact, reducing the utility's risk is
11 considered very valuable. In Washington, for instance,
12 it's been considered about twenty-five (25) basis points;
13 that is a -- for private Utilities -- and you don't have
14 that kind of regulation. But for private Utilities,
15 having this type of arrangement they've lowered the ROE by
16 twenty-five (25) basis points. So obviously it has some
17 benefit that Wall Street sees -- sees there's a benefit in
18 having this mechanism.

19 And what you could do here, because you're
20 not -- you don't regulate on a rate of return, you could
21 have a lower debt-to-equity -- I mean, a higher debt-to-
22 equity ratio. So, for instance, you could have -- I think
23 they're aiming at 70:30 -- I didn't follow all that stuff
24 but 70:30 and they're only at -- and they're 75:25 or
25 something. You could leave it at 75:25. Because by

1 having decoupling, you reduce the risk so much that they
2 don't need to have as much retained earnings sitting in
3 the bank for these emergencies because they've got this
4 mechanism that automatically...

5 So it could actually go directly to
6 lowering -- because cost of debt is usually cheaper --
7 lowering costs to the utilities.

8 It could reduce the need for rate cases. I
9 don't know how important that is here but in many areas
10 where they've had decoupling -- they've actually had to
11 say, If we're going to have decoupling then we have to
12 guarantee the company has to come in every three years or
13 something because without it the companies would come in
14 every ten (10) years. They don't -- they just never need
15 to come in because all these adjustments are made.

16 And that's probably a little long. But it
17 can reduce uh -- reduce that. It's not hard to
18 administer; the computer can do it really easily each
19 month. It's not a big deal.

20 So I think it's just an opportunity. It's
21 a win/win for customers and the company. Obviously, the
22 company is interested -- sounded interested in dealing
23 with this issue and then they wanted their fixed cost --
24 the basic charge raised -- or their preference would be
25 that. So this -- this does that without changing the

1 price signalling.

2 If you make the basic charge real high, you
3 solve the utility's problem of volatility, but then the
4 price signal you give people is reduced. So decoupling
5 keeps the price signal -- you can do it with inverted
6 rates -- but it solves this under and over collection
7 problem real well.

8 MR. WILLIAM GANGE: If we can, we'll turn
9 to your comments with respect to Centra's low income
10 program.

11 What do you believe are its drawbacks?

12 MR. STEVEN WEISS: Well, the drawbacks are
13 similar to my criticisms of the regular and DSM program.
14 Mainly, they don't have benchmarks. They don't really
15 know if their program is effective or successful. They
16 certainly don't have prioritization.

17 In Oregon, Washington, Idaho, for instance,
18 they prioritize weatherization, customers. The disabled,
19 they do first. They do homes with small children,
20 seniors. And so there's a way of prioritizing because you
21 can't do everybody at once. You have a goal.

22 I was on the Governor -- the Governor of
23 Oregon had a Blue Ribbon Commission looking at this issue.
24 How long should it take to weatherize all low income
25 houses in the State and they came up with twenty (20)

1 years. We should do 5 percent a year, that would keep the
2 infrastructure in place. Probably every five (5) years
3 some newer houses fall into the low income category anyway
4 and the codes change and so you'd probably go on forever.
5 But that's a good -- that was a good target.

6 There was an attachment that Mr. Higgin had
7 from the Toronto Environmental Alliance. He recommended
8 eliminating energy poverty -- which is a measure of how
9 much of your income has to be spent on energy -- to
10 eliminate energy poverty in ten (10) years. So that might
11 be a little fast -- that would be a faster goal. But
12 you've got to have a goal and you've got to have
13 benchmarks. You've got to know how to get there.

14 Centra has expressed some reservations
15 about delivering. They don't want to verify incomes and
16 it's not really their business to check on people's
17 incomes. And I just want to give you my experience,
18 again, in the Northwest, how these programs are run.

19 The low income programs are not run by the
20 utility. They're funded by the Utility. But they're run
21 by the low income agencies that administer in -- in the
22 States, they administer food stamps; they administer
23 welfare; they administer job training and that kind of
24 thing. There's -- each community will have social
25 agencies that work with these people, and I know Canada

1 has the same -- same sort of services that social service
2 agencies are giving. It can be done through private
3 charities as well, but most -- it's almost always done
4 through public social service agencies.

5 These people are experi -- they know how to
6 verify income. They know all the rules about
7 confidentiality. They know how to check pay stubs. They
8 know how to call up landlords and find out if people are
9 really living where they say they're living. All that
10 kind of stuff is something they do all the time. They
11 know how to do it.

12 They then put out bids, Rps, to installers
13 to get -- who wants to do, you know, two hundred (200)
14 mobile homes, and who wants to -- you know, they put out
15 these bids and they get they get the -- they get the best
16 price, they do a certain amount of checking. They get the
17 utility to often do evaluations for quality control and so
18 on. And so they run the whole program and they prioritize
19 and they know how much money they can do each year so they
20 -- like I said, they prioritize who should get the -- who
21 should get the services first, if they don't -- if they
22 can't do it all.

23 So I think that that kind of delivery, that
24 kind of prioritization, that kind of knowing where your
25 targets are would all help the low income programs.

1 MR. WILLIAM GANGE: You've argued
2 extensively that low income DSM and bill payment
3 assistance programs essentially pay for themselves due to
4 the resultant savings in collections, arrearages, shut off
5 costs. Centra disputes that and says that -- first of
6 all, that the savings that you're referring to cannot be
7 substantiated.

8 With respect to that first argument, how do
9 you respond?

10 MR. STEVEN WEISS: Well, we have provided
11 several rigorous studies on this -- on this -- and I just
12 -- there's another one, Ohio just did a big study of this,
13 and that these -- these programs actually save the utility
14 money. They have 1:1 or even more than 1:1 benefits to
15 costs.

16 They save -- how many times people have to
17 talk on the phone with low income people desperate to
18 avoid a shut off, they -- people skipping out on their --
19 on their payments, people switching names and you lose who
20 -- there's all kinds of things that low income people do -
21 - they're smart -- to try to get -- to try to survive and
22 the utility has to deal with that; it all costs money.

23 So I think that we have provided studies
24 and that Centra's provided no counter studies, so at least
25 for now, I'm -- I'm satisfied with -- with what we've

1 done.

2 MR. WILLIAM GANGE: A second point on this
3 is that Centra argues that a two hundred and fifty dollars
4 (\$250) per year savings generated from a retrofit or a
5 bill payment assistance credit, intuitively just doesn't
6 seem enough. And -- and specifically, since Centra cannot
7 rationalize how this amount of money would impact a low --
8 impact customer's financial situation to the degree Mr.
9 Weiss suggests, can you explain where the savings do come
10 from?

11 MR. STEVE WEISS: Okay. We -- we've just,
12 on one (1) of the documents is -- is a low income energy
13 efficiency program; it's just a one (1) page --

14 MR. WILLIAM GANGE: If we could have that
15 market as -- as Number 6.

16 THE CHAIRPERSON: So it makes the national
17 roundtable five (5) then.

18 MR. WILLIAM GANGE: Yes.

19 THE CHAIRPERSON: This third document --

20 MR. WILLIAM GANGE: Oh, oh, oh, I'm sorry,
21 Mr. Singh, Number 5 was the -- was the national roundtable
22 document and now we're going to refer to a document
23 entitled low income bill payment assistance and that will
24 be Number 6.

25 THE CHAIRPERSON: They were all stapled

1 together, Mr. Singh.

2

3 --- EXHIBIT NO. TREE/RCM-5: National Roundtable document

4

5 --- EXHIBIT NO. TREE/RCM-6: Document entitled, "Low

6 Income Bill Payment

7 Assistance

8

9 MR. STEVEN WEISS: It says low income bill
10 payment assistance programs pay for themselves, that's the
11 first line.

12 This -- this program, now I'll -- I give
13 you this example because this is the example that really
14 got me into the -- convinced me that this -- that this is
15 true.

16 This is a program -- and so this is
17 anecdotal, I know, and -- but I -- but I think it gives
18 you a good feeling for -- for how the thing -- how these
19 programs work.

20 By the way, this program was extremely
21 thoroughly evaluated. They had control groups; people
22 were on this program and people weren't on the program,
23 they looked at their bill payment histories and -- and
24 shut-off history and collection notices and all that sort
25 of stuff. And after about two (2) or three (3) years on

1 the program, they said, you know, this -- this is so
2 great, we're not even going to evaluate them anymore and
3 they stopped the evaluations. So they never actually ran
4 a -- published their evaluation. I did get a hold of
5 their -- of their work papers and so on.

6 But it was just so overwhelmingly good that
7 they didn't. And here's the way the program worked and it
8 was -- this was called a Guarantee of Service Plan.
9 Sometimes they're called Percentage of Income Programs.
10 This is an assistance program, not a weatherization
11 program. It's just money to help people pay their bills.

12 Well, what they did is they enrolled people
13 and they told them -- and they picked people out with big
14 arrearages and they said, Okay, first of all, if you'll
15 enroll in this program and if you continue in this
16 program, we will just writeoff the big arrearage.

17 Secondly, we're going to look at your
18 income and we're going to say -- they used 9 percent and
19 they said, if your bill is more than 9 percent of your
20 income, you don't have to pay it -- pay the extra. The
21 maximum you can -- you have to pay is 9 percent. So they
22 just told people, but you've got to do this every month.
23 If you miss a payment, you're off the program, your
24 arrearage comes back, you're, you know, too bad.

25 So it -- there was some motivation to -- to

1 stay with it.

2 So what happened? The people stayed on a
3 program. So Clark was paying, they had to write -- Clark
4 Public Utility District and -- and Northwest Natural, they
5 -- it was electric and -- and a gas utility worked
6 together. The wrote off a bunch of arrearages and they
7 wrote off the amount of money over the 9 percent, so it
8 did cost money.

9 They -- they estimated a -- it's -- they
10 were spending four hundred and fifty thousand dollars
11 (\$450,000) a year on this program. This is a pretty small
12 utility, by the way.

13 So then they did this analysis. First of
14 all, write-offs decline 36 percent. Write-offs decline 36
15 percent and saved three hundred thousand dollars
16 (\$300,000) per year. Delinquent balances, people who are
17 behind on their payments -- now this was in the control
18 group, fell 67 percent to only 13 percent were behind;
19 that is, this threat that if you don't pay your bill on
20 time, you're going to make it out of the program really
21 worked. Only 13 percent, once they had signed up to this
22 program, actually dropped out.

23 Power disconnections plummeted 65 percent.
24 So they were able to cut their administrative costs
25 substantially. To send somebody out to shut off

1 somebody's gas and then to have to send them back to
2 turning on, and you can't just turn it on. You've got to
3 check their pilot lights and so on. It's a safety issue.
4 So it costs money to turn people off and turn people on.

5 They figured their -- to carry a past due
6 account, that is to send out notices and -- and pay
7 collection agencies and so on, they figure it costs them
8 nine dollars (\$9) a month just to -- to hassle with
9 somebody who is -- who is past due. They reduce their
10 past due accounts by a thousand customers so that's about
11 a hundred and eight -- a little over a hundred thousand
12 dollars a year.

13 But that's not really where the big bucks
14 came from and this is the important thing and this is why
15 you're saying -- you're wondering how can two hundred and
16 fifty dollars (\$250) make a difference.

17 Okay. Previous to the -- previous to the
18 program or their control group contribute only twenty-nine
19 dollars (\$29) a month -- now, remember this is 19 -- this
20 stated in 1988 so rates are lower -- twenty-nine dollars
21 (\$29) a month; that is people would get behind, they'd go
22 to charities, they'd skip out, all that stuff. On average
23 they were only paying -- contributing twenty-nine (29) a
24 month. They would go without for a week or two (2) and so
25 on -- twenty-nine (29) a month to the utility.

1 But once they felt they could handle the
2 level of payments and had an incentive to pay on time, the
3 amount increased to fifty-two dollars (\$52). The
4 customers themselves paid more of the bills; fifty-two
5 dollars (\$52) a month instead of twenty-nine (\$29) a
6 month, and that's where a big chunk of this money came
7 from. And the reason is -- and they interviewed people
8 and they said they knew it wasn't hopeless.

9 If you get four (4) or five hundred bucks
10 (\$500) behind on your bill and you have -- and you come up
11 with a hundred dollars, you know, you scrape together a
12 hundred dollars and you're four hundred dollars (\$400)
13 behind on your bill, are you going to send it to the
14 utility? No, you're not because you know that it's
15 hopeless. You're going to get cut off pretty soon anyway.
16 It's -- that hundred dollars isn't going to put much of a
17 dent in it so you don't do it.

18 And that's what was happening. Whereas if
19 you know if you just make your fifty-two dollar (\$52)
20 payment a month you're staying out of trouble, you will do
21 that. So people on this program actually paid more of
22 their utility bill.

23 The -- the program was completely popular.
24 The customers said they loved to be able to pay their
25 bills on time. These are people who have trouble making

1 it month to month. They like being responsible.

2 So they had over two thousand (2,000)
3 customers participating. This worked to around a half
4 million dollars in benefits to the Utility each year, more
5 than the total cost of the program; just the twenty-nine
6 (29) to fifty-two (52) and then all the other -- when you
7 add it together, it's more than the cost of the program.
8 This program paid for themselves. It actually was a
9 profit centre because they were making more than they were
10 putting into it.

11 This isn't unique. That's how these things
12 work. They do save money and so I would really ask if not
13 to put one (1) of these things in, put in a pilot program.
14 Try it with a few hundred customers. Talk to
15 people who've done this. Get a consultant who's -- who's
16 set up these programs. Call up this utility. Ask them to
17 send -- the guy's done so many presentations -- well, he's
18 retired now but I had him go all over talking to people
19 because I was pretty impressed by it.

20 So these programs pay for themselves. They
21 help low income customers and it's just the right thing to
22 do.

23

24 CONTINUED BY MR. WILLIAM GANGE:

25 MR. WILLIAM GANGE: Mr. Chair, just a

1 couple more questions in -- in Mr. Weiss' direct.

2 On -- on Friday Mr. Kuczek was discussing
3 affordability and agreed that affordability is not a
4 matter just of low rates but more fundamentally of -- of
5 low bills and that is a function of how efficiently energy
6 is used as well.

7 Do you have anything to add to -- to that
8 concept?

9 MR. STEVEN WEISS: Well, I think that --
10 that comes to prioritization, that if you -- if you have
11 people having trouble paying their bills you really should
12 focus on the ones who are -- who are -- have the big
13 houses and the big drafty old houses and have big families
14 and so on, and reducing their bill is the best way you can
15 make it affordable.

16 So sometimes it's not just lowering rates,
17 it's -- it's making them able to live in their house
18 without having to just see so much energy go out the door
19 or out the windows.

20 So it's also I -- I believe Manitoba Hydro
21 and Centra do have a policy. They've -- and they've --
22 the Affordable Energy Fund says it is now the Utility's
23 policy to help poor people pay their bills and so there's
24 a -- definitely a --a reason to do this.

25 MR. WILLIAM GANGE: And then finally, Mr.

1 Weiss, can you describe your proposal to improve these
2 proceedings before the Public Utilities Board?

3 MR. STEVEN WEISS: Yes. I -- I talked
4 about this a little bit but I -- I wanted to -- to talk
5 about it again. And I put in my -- I put it in, sort of,
6 jokingly in my testimony, but when I came up here I was
7 amazed that you don't have settlement discussions. In
8 fact, I would think that -- I said that you would expect
9 that in Canada and people would talk and work things out
10 and -- and in the US they'd fight and stuff.

11 But it turns out my experience that
12 utilities try the, Board -- the Commissions, try to make
13 the parties work things out so that you don't have to make
14 all the decisions and hence you get more creative
15 solutions.

16 In Oregon, I have hardly ever go to a
17 hearing. You almost never go to hearing. All of --
18 everything's worked out. The hearing is just automatic
19 where all the parties jointly sponsor a witness and the
20 witness submits the -- the stipulation and they say, Okay,
21 sounds good.

22 So what I would recommend is that after the
23 initial proposal by the Company that you reserve a few
24 days where the parties can get together informally; it's
25 confidential, nothing said in the room can be allowed out,

1 and it cannot be used as testimony so people can speak
2 freely, and then to try to solve the problems and come up
3 with -- with good solutions. And not all -- you can't
4 always, but a lot of times you can.

5 So for instance, you know, we're fighting
6 about decoupling. Well, maybe we could come up with some
7 intermediate thing or a pilot for a couple of years or
8 maybe you know, add a DSM program or something that --
9 instead of fighting about it.

10 So I just think it's really good. It's
11 really worth having the -- and the administrative costs us
12 a little bit. Yes, you've got to have a couple of
13 meetings and coffee and stuff but it really -- it really
14 makes things worth.

15 And maybe just talk to some other utilities
16 that do it and see -- get their opinions if they like it.
17 I think you'll see they do like it. Then I would suggest
18 it -- to do it.

19 MR. WILLIAM GANGE: Thank you, Mr. Weiss.
20 Those are my questions in direct, Mr. Chair.

21 THE CHAIRPERSON: Thank you, Mr. Weiss,
22 Mr. Gange.

23 Okay, I think we've got a bit of time here
24 that we might as well use profitably. Mr. Saxberg, do you
25 have any questions for Mr. Weiss?

1 MR. KRIS SAXBERG: No, I don't, Mr.
2 Chairman.

3 THE CHAIRPERSON: Thank you, Mr. Saxberg.
4 That was quick.

5 Ms. Murphy, do you have questions for Mr.
6 Weiss?

7 MS. MARLA MURPHY: I do, however, I would
8 like an opportunity to meet with my client. I know
9 they've got some -- some notes that I'd like to
10 incorporate into my own.

11 So I would like a bit of time if I could
12 before I do that. I don't know in light of the hour if
13 you'd like us to come back in fifteen (15) minutes or
14 twenty (20) minutes and start that or if you'd prefer that
15 we start tomorrow morning.

16 THE CHAIRPERSON: I think because we -- we
17 have you and then we still have Mr. Peters and then we'll
18 be back again to Mr. Gange, we might as well shut it down
19 and then you can take your time.

20 MS. MARLA MURPHY: Thank you.

21 THE CHAIRPERSON: Okay, we'll see you all
22 tomorrow morning then at nine o'clock. Thank you very
23 much.

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25 --- Upon adjourning at 3:34 p.m.

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Certified Correct,

Ashley Guillemmin