

1 MANITOBA PUBLIC UTILITIES BOARD
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7 Re: CENTRA GAS MANITOBA INC.
8 2005/06 TO 2006/07
9 GENERAL RATE APPLICATION
10
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13

14 Before Board Panel:

15 Graham Lane - Board Chairman
16 Monica Girouard - Board Member
17 Mario Santos - Board Member
18

19 HELD AT:

20 Public Utilities Board
21 400, 330 Portage Avenue
22 Winnipeg, Manitoba
23 June 7th, 2005
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25 Pages 776 to 1010

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1 --- Upon commencing at 9:06 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning
4 everyone.

5 Mr. Peters ...?

6 MR. BOB PETERS: Yes, good morning, Mr.
7 Chairman, Board Members. You will all remember
8 yesterday, Mr. Warden had asked for permission to be
9 excused this morning in terms of other business matters
10 and certainly that was granted. I do have a question
11 following up on some of the questions of yesterday and
12 certainly Mr. Warden was involved in the discussion.

13 So I am going to ask my questions and if
14 the Panel would feel more comfortable in having Mr.
15 Warden answer them or if the Panel wants to answer them
16 and reflect further with Mr. Warden, I'd be -- I'd be
17 amenable either way, as long as the Board gets the
18 information.

19

20 DARREN RAINKIE, Resumed:

21 WILLIE DERKSEN, Resumed:

22 DAVID CASE, Resumed:

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24

25 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

1 MR. BOB PETERS: So, on that basis, Mr.
2 Derksen, you're sitting closest to his chair and Mr.
3 Rainkie you've moved over as well, we talked yesterday
4 about the corporate allocation, and the new number for
5 this filing is \$12 million, correct?

6 MR. WILLIE DERKSEN: Yes, that's correct.

7 MR. BOB PETERS: And Mr. Derksen, I'm
8 looking at Tab 19 of the Book of Documents that --

9 THE CHAIRPERSON: Mr. Peters, sorry to
10 be particularly specific, but, it's twelve point one
11 (12.1) isn't it?

12 MR. WILLIE DERKSEN: No, sir, it's twelve
13 (12). It used to be fifteen point one (15.1) and now
14 it's been changed to twelve point zero (12.0).

15 THE CHAIRPERSON: Thank you.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: I'm looking at the
19 document that's in Tab 19 of the Book of Documents that I
20 provided to you. And particularly, I'm looking at the
21 IFF operating statement for the gas operations. It is
22 entitled CGM04-1.

23 And this page depicts a forecast out to
24 2015; have I got that right, Mr. Derksen?

25 MR. WILLIE DERKSEN: Yes, that's

1 correct.

2 MR. BOB PETERS: I note on this IFF that
3 the corporate allocations amount is shown as \$15 million
4 and yesterday I think we agreed wherever \$15 million or
5 \$15.1 million is seen, that's to be replaced by \$12.0
6 million?

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

8 MR. BOB PETERS: And I'd understood
9 previously that there was a hypothetical calculation done
10 to pay off the principal and the interest on the cost of
11 acquisition and that calculation was done over a thirty
12 (30) year period, correct?

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

14 MR. BOB PETERS: But, the Company is not
15 relying on that calculation, in terms of arriving at the
16 \$12 million or the \$19 million carrying -- carrying costs
17 on that debt, is it?

18 MR. WILLIE DERKSEN: That's correct. As
19 Mr. Warden indicated the \$19 million is the current cost,
20 that's the financing cost and amortization and it doesn't
21 include any principal repayment.

22 MR. BOB PETERS: And so having not
23 bought a utility, but having a mortgage at some point you
24 sometimes have to pay off the principal, but the plan
25 here is you won't pay off the principal amount; that will

1 continue on as a debt in the Corporation into infinity.

2 Would that be fair?

3 MR. WILLIE DERKSEN: I think, Mr. Peters,
4 we should probably refer that question to Mr. Warden. It
5 is my understanding that that is the case, but I -- I
6 think the confirmation would be best received from him.

7 MR. BOB PETERS: Okay. And I'm going to
8 ask then -- then you and your counsel to undertake to do
9 that is to -- to get Mr. Warden's confirmation that the
10 intention is that the principal amount of the debt will
11 not be retired, but will continue on indefinitely.

12 MR. WILLIE DERKSEN: Mr. Peters, I
13 believe he did indicate that yesterday, but I will check
14 that.

15 I believe that the representation was that
16 of the \$250 million in debt, what would be remaining
17 after the amortization of the fair market value write-ups
18 and the debt write-ups and the acquisition and
19 integration costs were complete, would be the
20 approximately the \$120 million of share value and the \$60
21 million of -- of remaining goodwill. In our discussions
22 yesterday we -- you talked about that a little bit.

23 Now, that doesn't necessarily mean that
24 the debt would be paid off per se, and -- and that's why
25 I think confirmation should be received from him.

1 MR. BOB PETERS: All right. And that's
2 fair, we'll -- we'll await that confirmation, Mr.
3 Derksen.

4 But I also understood yesterday that to
5 pay off the \$19 million of annual interest that accrues,
6 that's the \$17 million of interest, and the 2 million for
7 the amortization of the write-ups of the value of the
8 assets and the debt, a total of \$19 million was the
9 target figure that Manitoba Hydro had to pay every year,
10 correct?

11 MR. WILLIE DERKSEN: Yes, that's the
12 amount that was included in the statements and the basis
13 of the split of twelve (12) to gas and seven (7) to
14 electric.

15 MR. BOB PETERS: All right. And the
16 seven (7) to electric we agreed yesterday was being paid
17 for essentially out of the synergies that Manitoba Hydro
18 realized as a result of the acquisition?

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

20 MR. BOB PETERS: And the \$12 million that
21 was going to be sought from the gas utility was going to
22 be paid for as a result of a combination of the synergies
23 and the benefits and the judgment used by management to
24 determine -- determine that amount would be \$12 million?

25 MR. WILLIE DERKSEN: Yes, sir, that's my

1 understanding.

2 MR. BOB PETERS: Now, that \$12 million
3 figure is to pay off the allocation to Centra as the
4 portion of the \$19 million, correct?

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

6 MR. BOB PETERS: And when I look at this
7 IFF, I see the \$15 million, which you now tell me should
8 be 12 million, it goes on to 2015, correct?

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

10 MR. BOB PETERS: All right. For how much
11 longer does it go on past 2015?

12 MR. WILLIE DERKSEN: Again, I believe Mr.
13 Warden's testimony yesterday said the \$12 million would
14 be in perpetuity.

15 MR. BOB PETERS: And that reflects that
16 the debt would continue to exist and the principal would
17 -- would not be paid down below the \$121 million of the
18 net book value of the assets, and the approximate \$60
19 million of -- of goodwill?

20 MR. WILLIE DERKSEN: Yes, that's my
21 understanding.

22 MR. BOB PETERS: All right. And so you
23 will check with Mr. Warden to see if -- if your
24 understanding that you communicated to the Board then is
25 -- is accurate?

1 MR. WILLIE DERKSEN: Yes, we'll confirm
2 those representations.

3 MR. BOB PETERS: All right. Appreciate
4 that very much.

5
6 --- UNDERTAKING NO. 8: Centra to give confirmation
7 to Board that the intention
8 is that the principal amount
9 of the debt will not be
10 retired, but will continue on
11 indefinitely.

12
13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Panel, I'd like to turn
15 to Tab 20 of the Book of Documents, and just focus on
16 line item 36 in Schedule 5.0.0. and this is the working
17 capital allowance, which -- to which we alluded somewhat
18 briefly yesterday.

19 But Mr. Derksen or Mr. Rainkie, can you
20 briefly explain to the Board why working capital
21 allowance is included under this rate base rate of return
22 methodology calculation?

23 MR. DARREN RAINKIE: Mr. Peters, quite
24 simply is because the utility has an investment up and
25 above the plant that's in the ground. There's an

1 investment in receivables, net of payables, and there's
2 an investment in gas storage inventory. So, this is
3 recognizing under the rate base rate of return
4 methodology that there is additional investment up and
5 above the plant.

6 MR. BOB PETERS: And this -- and this
7 recognizes, Mr. Rainkie, that the -- the Corporation
8 needs some working capital to operate day-to-day?

9 MR. DARREN RAINKIE: That's correct, as I
10 just mentioned, we have receivables, we have gas
11 inventory, we have small inventories of materials, et
12 cetera. Of course that's offset by payables that we have
13 to suppliers.

14 MR. BOB PETERS: Would it -- would it be
15 accurate, Mr. Rainkie, to summarize working capital as
16 being the difference between the capital required to
17 finance the revenue lags and the various payment leads?

18 MR. DARREN RAINKIE: That's the -- that's
19 the cash portion of the -- of the working capital that
20 you've just described. Really there's three (3) main
21 parts that roll up into that number.

22 There's the gas inventory that we have in
23 Michigan, minus some security deposits that we hold on
24 behalf of customers and then we get into the cash working
25 capital which is a methodology that's used to drive a

1 regulatory proxy for the receivables, net of payables, to
2 suppliers and debt holders and that -- of that sort.

3 MR. BOB PETERS: And to calculate that
4 cash portion of the working capital allowance, Mr.
5 Rainkie, you conduct what -- what's called a lead lag
6 study?

7 MR. DARREN RAINKIE: That's correct, Mr.
8 Peters, that gets into looking at the lag in receiving
9 our revenues and the leads that we have in -- in paying
10 our various expenses as you've just mentioned.

11 MR. BOB PETERS: In the vernacular you're
12 going to be short some cash between when your customers
13 pay you for the gas they've burned and when you have to
14 pay for that gas?

15 MR. DARREN RAINKIE: That's correct.

16 MR. BOB PETERS: Yesterday you -- you
17 said that rather than do a lead lag study, in my words,
18 you could do a proxy estimation; is that what you were
19 suggesting to the Board?

20 MR. DARREN RAINKIE: Many years ago, I
21 think before about 1991 there used to be a rule of thumb
22 in the industry that cash -- cash working capital was
23 one-eighth (1/8th) of your operating costs, if I remember
24 correctly.

25 So, I think, probably there's still some

1 utilities that use that rule of thumb. In 1990 or 1991
2 we moved to a much more robust methodology, the lead lag
3 analysis that you've just mentioned.

4 MR. BOB PETERS: Not that you look that
5 old, Mr. Rainkie, but back in the early '90's was there a
6 -- was there a significant difference between the rule of
7 thumb and the actual calculation when you put it through
8 a lead lag test?

9 MR. DARREN RAINKIE: My memory is
10 generally good, but not that good. Too much gas that's
11 passed through the pipes since then, Mr. Peters. I don't
12 remember if there was a significant difference or not.

13 MR. BOB PETERS: Can you tell the Board
14 when your last lead lag analysis was undertaken?

15 MR. DARREN RAINKIE: Well, we refreshed
16 the analysis for this test year for the rate base rate of
17 return calculations. The methodology itself was brought
18 to us by Arthur Andersen, I think, in about 1991, Mr.
19 Peters, was the first year that we did that type of
20 analysis.

21 And then since then the Company's
22 refreshed it every year since then -- or every test year
23 since then.

24 MR. BOB PETERS: That's an internal
25 refreshment, is it?

1 MR. DARREN RAINKIE: That's correct.

2 MR. BOB PETERS: When we look at Schedule
3 5.0.0 found at Tab 20 of the Book of Documents, down on
4 line 36, the Board would note that the working capital
5 allowance has significantly increased since 2002/03; do
6 you agree with that?

7 MR. DARREN RAINKIE: Yes, I do.

8 MR. BOB PETERS: Can you explain to the
9 Board the major change in that allowance?

10 MR. DARREN RAINKIE: The major change is
11 the increase in the gas storage inventory. As I -- as I
12 look at the other two (2) components of working capital,
13 as I mentioned, security deposits and cash working
14 capital they're relatively stable.

15 Gas inventory storage has gone up in the
16 order of not quite 20 million, maybe -- sorry, maybe 18
17 million or so.

18 MR. BOB PETERS: And that's attributed to
19 the commodity cost as opposed to increased volumes?

20 MR. DARREN RAINKIE: I think we filed an
21 IR on this and it was both but I think the larger chunk
22 is -- is increases in pricing.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Rainkie, can you
2 explain to the Board why in the second test year, that is
3 the '06/'07 test year, you see another \$5 million
4 increase in the working capital allowance?

5 MR. DARREN RAINKIE: My understanding is
6 that that's a result of increased price in the cost of
7 gas, of course, which is put into storage.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: I want to turn with the
12 Panel to the cost of operations and perhaps start at
13 document 21 in the Book of Documents which is a -- a copy
14 of PUB/CENTRA-40.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Mr. Rainkie or Mr.
19 Derksen, would it be fair to say that the majority of
20 your cost of operations is tied up in wages and benefits?

21 MR. DARREN RAINKIE: Yes, I'd agree with
22 that.

23 MR. BOB PETERS: And that has always
24 been the case, even back to -- prior to Manitoba Hydro's
25 acquisition?

1 MR. DARREN RAINKIE: Yes, that's always
2 been the predominate cost component.

3 MR. BOB PETERS: And when the Board
4 looks at PUB/CENTRA-40 as reproduced in Tab 21, the total
5 operating and administrative expense back before Manitoba
6 Hydro acquired it is depicted as \$51.1 million, correct?

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

8 MR. BOB PETERS: And then following that
9 year, the shares were purchased by Manitoba Hydro and
10 there was a fifteen (15) month period in which you were
11 aligning the businesses or doing your calculations?

12 MR. DARREN RAINKIE: Yes, we were
13 aligning the -- harmonizing the year ends as well as
14 aligning the businesses.

15 MR. BOB PETERS: And then in the 2001
16 fiscal year, cost of operations were at \$49.6 million?

17 MR. DARREN RAINKIE: Yes, that's
18 correct.

19 MR. BOB PETERS: And to the extent that
20 they were lower than what they were in 1998, that's a
21 reflection on the synergies that were achieved?

22 MR. DARREN RAINKIE: I think it's
23 primarily that reflection, that's correct. The
24 operations -- the accounting was integrated, three-
25 quarters (3/4) of the way through that year, so there is

1 some mixture of accounting methodologies that occurred in
2 2001.

3 The forty nine six forty-five (49.645) is
4 a good number, but, it's not directly comparative to the
5 1998 and not directly comparative to years forward
6 either, but it is -- it is the actual expenses for the
7 year. But, it does have the two different methodologies
8 embedded in it.

9 MR. BOB PETERS: All right. Going down
10 the column of 2001/02 actual, the bottom line number is
11 50.122 million, but what the Board will notice is that
12 there is a change in the classification of accounts;
13 would that be correct?

14 MR. WILLIE DERKSEN: Yes, that represents
15 the adoption of the full integrated accounting
16 methodology that we're using today.

17 MR. BOB PETERS: So, essentially, by
18 fiscal year ending 2002, you had switched over from the
19 Centra accounting methodology over to the Manitoba Hydro
20 accounting methodology?

21 MR. WILLIE DERKSEN: Yes, that's correct.

22 MR. BOB PETERS: Do you suggest then,
23 Mr. Derksen, that the 50.1 million is more comparable in
24 terms of what's contained in it to the \$51.1 million
25 shown in the 1998 column?

1 MR. WILLIE DERKSEN: I think it's better
2 to characterize that the \$50.1 million is more
3 comparative to the years looking forward from that, as
4 opposed to the years looking backwards.

5 MR. BOB PETERS: All right. Thank you.
6 Is it also correct that starting in 2001/02, the method
7 of allocating costs or charging costs to O&M for Centra
8 changed considerably from when it was owned by West
9 Coast?

10 MR. WILLIE DERKSEN: Yes, that's correct.

11 MR. BOB PETERS: Can you briefly explain
12 then to the Board, how starting in 2001/02 the costs were
13 allocated to the gas utility?

14 MR. WILLIE DERKSEN: Yes, I can do that.
15 Basically what happened in January of 2001, is that all
16 the employees or by that time, all the employees became
17 employees of Manitoba Hydro and the -- and they were
18 integrated into the existing business units of Manitoba
19 Hydro, and the business units responsibilities expanded
20 to incorporate gas operations as well as electric
21 operations.

22 The accounting methodology used in
23 Manitoba Hydro was one of developing a labour rate for
24 the amount of work performed on behalf of the gas and
25 electric utilities with time being recorded to activities

1 on behalf of gas or electric operations.

2 And so the time recorded to gas operations
3 would be costed at a labour rate and program cost would
4 be developed through that process.

5 So, for example, if our operations people
6 spend a hundred (100) hours working on a gas function and
7 the labour rate, which included benefits and departmental
8 overheads and those sorts of things came up to fifty
9 dollars (\$50) an hour, a charge to gas operations of
10 fifty dollars (\$50) times one hundred (100) equals five
11 thousand dollars (\$5,000) would be made to the gas
12 operations.

13 Now, in addition to those charges there's
14 an overhead component that's added onto that and that's
15 currently at the rate of about 30 percent. So, there'd
16 be another fifteen hundred dollars (\$1,500).

17 Now that overhead represents things like
18 executive costs, accounting costs, human resources costs;
19 those things that aren't directly attributable to end of
20 the line operations, but are required to operate and
21 manage and administrate a utility.

22 Further, any direct disbursements made on
23 behalf of the gas operations were also charged and
24 accumulated in these accounts and charged to gas
25 operations. So, if materials, fittings, contractor

1 charges, and those sorts of things that were incurred on
2 behalf of gas operations would be charged and accumulated
3 along with the activity charges and the overheads, and
4 form part of the gas cost of operations.

5 MR. BOB PETERS: Thank you for that --
6 for that overview, Mr. Derksen. I take it then that the
7 majority of the O&M costs that are charged through to
8 Centra are as a result of the indirect allocation
9 methodology that you talked about?

10 MR. WILLIE DERKSEN: I -- I think direct
11 versus indirect is -- is a subjective manner. We are
12 referring to the hourly charges as being direct charges
13 and -- and so the majority of the costs we would
14 consider as direct charges.

15 MR. BOB PETERS: Well maybe then it was
16 my misuse of the words. But I understand that you did a
17 -- a labour rate times the hours involved and -- and that
18 gave rise to the -- the activity charge?

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

20 MR. BOB PETERS: And you -- you call that
21 a direct charge or an indirect charge?

22 MR. WILLIE DERKSEN: In the context of --
23 of our accounting and our Application, we're calling
24 those direct charges, when the -- when the work is
25 performed directly on behalf of gas operations, we're

1 referring to those as direct charges. Where the work is
2 of an integrated nature where it benefits both gas and
3 electric operations and then has to be allocated between
4 gas and electric operations, we're referring to those as
5 indirect charges.

6 But -- but I see, you know, I think your
7 representation is also valid as well, it's just the
8 context of the way that we've prepared our Application
9 and our support information.

10 MR. BOB PETERS: Okay. Well, thank you
11 for that clarification. The -- the overheads are simply
12 a mathematical calculation of 15 percent of the hourly
13 labour rate; would that be fair?

14 MR. WILLIE DERKSEN: It's closer to 30
15 percent, sir.

16 MR. BOB PETERS: Fifteen dollars (\$15) on
17 fifty dollars (\$50) was your example, correct?

18 MR. WILLIE DERKSEN: Yes.

19 MR. BOB PETERS: So 30 percent?

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

21 MR. BOB PETERS: All right. And is that
22 30 percent, is that a subjective figure?

23 MR. WILLIE DERKSEN: No, it's not. It's
24 calculated annually. It's based upon costs that are
25 viewed as overhead, and as I indicated earlier, those

1 costs are costs that are incurred in support of both
2 utilities, but not directly in support of the operational
3 operations of each of the organizations.

4 So, those costs are accumulated and
5 they're divided by the total activity charges that we
6 anticipate having for a year, to come up with a
7 percentage add on to the activity rate.

8 MR. BOB PETERS: Does that imply that if
9 30 percent of the overheads are charged through the gas
10 company, 70 percent would be charged through to the
11 electric utility?

12 MR. WILLIE DERKSEN: No, sir, that's --
13 that's not correct. The 30 percent is the add on rate.

14 Now Centra has in the order of 10 percent
15 of the overall activities of the Company, and electric
16 having the compliment of that being 90 percent. So,
17 using a consistent overhead rate would then result in
18 Centra getting approximately 10 percent of the overall
19 overhead and electric operations getting about 90 percent
20 of it.

21 MR. BOB PETERS: Thank you. And the last
22 point on those over -- on the cost of operations was --
23 you called it a direct charge, but a disbursement, a
24 direct disbursement I think were your words. You see
25 that as an out of pocket expenditures for -- for support

1 of the gas company, but not provided by Hydro employees?

2 MR. WILLIE DERKSEN: I think that's a
3 fair representation, yes, it's not a labour related
4 charge or not an internal labour related charge, it's
5 disbursements that are incurred directly on behalf of gas
6 operations. Things like materials used in -- in
7 operations, things like bad debt expense that are
8 directly attributable to gas receivables and things like
9 contractor charges that are incurred on behalf of gas
10 operating activities.

11 MR. BOB PETERS: All right. Thank you,
12 Mr. Derksen. From your explanation now to the Board, do
13 I take it that there have been no changes from the last
14 GRA, the '03/'04 test year, in terms of your allocation
15 methodology?

16 MR. WILLIE DERKSEN: Yes, the methodology
17 is the same.

18 MR. BOB PETERS: And in essence then, for
19 every -- for every minute of time spent by employees of
20 Manitoba Hydro, that time would be either charged through
21 to the gas or the electric company?

22 MR. WILLIE DERKSEN: It's -- for the
23 minutes of time that are spent directly on operational
24 activities, so as an example if I were back at my office
25 doing general budgeting matters that are support of -- in

1 support of both companies, those costs would be
2 accumulated in the overhead.

3 But my participation at this rate
4 proceeding is directly in support of gas operations and
5 so my time would be charged to gas operations and would
6 be costed at the activity rate and would form part of the
7 costs of gas operations for the year.

8 MR. BOB PETERS: And so time recording is
9 -- is the method of determining which -- which entity to
10 whom the activity would be charged?

11 MR. WILLIE DERKSEN: Yes, that's the
12 fundamental.

13 MR. BOB PETERS: And who decides -- when
14 you said general budgeting matters would be part of the
15 overheads, how have you decided that that's not in
16 support of the gas or the electric?

17 MR. WILLIE DERKSEN: It's a, I guess a
18 construct that we've developed and I think it makes quite
19 a lot of sense that general and administrative matters
20 are in support of both operations considering that they
21 are an integrated utility and the Company is looking at
22 them from a whole.

23 So, I don't -- I don't spend my time
24 looking at gas budgets and electric budgets. Primarily
25 what I'm doing is looking at coordinating the overall

1 preparation of operating budgets for departments that
2 service both gas and electric operations. Trying to
3 segregate my time between this is in support of gas and
4 this budgeting activity is in support of electric would
5 be extremely difficult and subjective.

6 MR. BOB PETERS: So, rather than exercise
7 that subjectivity it's considered part of the overheads?

8 MR. WILLIE DERKSEN: Yes, that's correct.

9 MR. BOB PETERS: All right. Before I
10 leave Document number 21, Mr. Derksen, I want to look to
11 the top of the schedule that's the -- that's attached to
12 PUB/CENTRA-40.

13 Line item number 6 in terms of total
14 capital spending, can you tell the Board what has been
15 the trend and what is forecast to be the trend of capital
16 spending when Centra is owned by Manitoba Hydro compared
17 to when it was owned by West Coast?

18 MR. WILLIE DERKSEN: Well, there's a
19 couple of differences, I suppose. When it was owned by
20 West Coast all of the general plant acquisitions, that's
21 computer systems, facilities, what we refer to now as
22 common assets, were acquired by Centra directly and would
23 be included in their capital budgets, and those amounts
24 would vary, of course, from year to year, but they would
25 be several million dollars per year. Now, those

1 expenditures are all in Manitoba Hydro.

2 The second, I think significant, change
3 is, especially in the pre-acquisition period, was a
4 period of expansion for Centra. Rural expansion was an
5 important aspect and there was a significant amount of
6 capital dollars spent at that time expanding service into
7 rural areas that had previously had no gas service.

8 And so the capital expenditures of Centra
9 in the pre-acquisition area were somewhat higher than
10 they are today. I believe we are now looking at annual
11 expenditures in the twenty (20) to \$25 million range.

12 MR. BOB PETERS: Mr. Derksen, when you
13 explained to the Board that certain capital assets that
14 used to be considered gas -- owned by the gas Company are
15 now considered owned by the parent Company, Manitoba
16 Hydro; you gave computers as an example, correct?

17 MR. WILLIE DERKSEN: What I said was that
18 the items that used to be acquired by the gas Company are
19 now being acquired by the -- by Manitoba Hydro and shared
20 of the employees.

21 The assets that Centra had previously
22 acquired are still the property of Centra Gas.

23 MR. BOB PETERS: All right. Perhaps I
24 misworded my question and I apologize. But included in
25 the capital spending, as shown on the schedule attached

1 to PUB/CENTRA-40 is there an amount that has been
2 allocated on account of capital from Manitoba Hydro to
3 the gas company?

4 MR. WILLIE DERKSEN: No these are capital
5 expenditures that are on behalf of the gas utility for
6 the period, in fact, for the whole period but after
7 acquisition these are assets that are acquired for the
8 gas operations.

9 And there's only allocations in respect of
10 it's also costed in the same manner that cost of
11 operations are. So when Hydro employees are working on a
12 gas capital construction matters, the time is charged and
13 accumulated in the same manner that it is for operating
14 activities.

15 MR. BOB PETERS: All right. But, just
16 let me get back to the computer so I have the -- an
17 understanding. When West Coast owned Centra, the
18 computers would show up in the capital spending line?

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

20 MR. BOB PETERS: And now that Manitoba
21 Hydro owns the shares of Centra, does the cost of that
22 computer show up in the capital spending line?

23 MR. WILLIE DERKSEN: No, sir, the cost
24 doesn't show up in that line. The cost is allocated to
25 Centra through the common asset allocation, which we've

1 referenced elsewhere in this Application.

2 MR. BOB PETERS: And we talked about --
3 I think part of that yesterday.

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

5 MR. BOB PETERS: Mr. Derksen, I took from
6 one of your previous answers that if you compared the
7 Hydro ownership to the West Coast ownership, the capital
8 budgets would be approximately the same once you took
9 into account the allocation of common capital assets and
10 you also perhaps deducted the ambitious expansion
11 projects that were underway when West Coast had
12 ownership?

13 MR. WILLIE DERKSEN: Yes, I'd agree with
14 that.

15 MR. BOB PETERS: All right. So
16 recognizing that the capital expenditures are relatively
17 on par, if I drop down to line 15 and look at the total
18 capitalized operating and administrative expenses, these
19 I understand to be expenses that the Company considers to
20 be of a capital nature, but rather than expense them
21 they're capitalized and paid for over a series of years
22 rather than in the -- at the time they were incurred.

23 Have I got that right?

24

25 (BRIEF PAUSE)

1 MR. WILLIE DERKSEN: These are costs --
2 the majority of these costs, the capitalized activity
3 charges are the cost of the labour performed by company
4 personnel constructing capital assets for the gas
5 operations; that would be on lines 11, 12 and 13, with a
6 total on line 14. The overhead costs line 9, would be
7 the 30 percent add on to those activity charges --
8 approximately 30 percent add on.

9 So, I don't think the characterization
10 that I understood you saying, is that the Company had
11 some discretion in terms of capitalizing these costs or
12 representing them as operating and expensing them in the
13 current year.

14 These are the costs that are properly
15 attributable to the capital construction activities of
16 Centra and therefore are capitalized and amortized or
17 depreciated over a longer period, the period which the
18 related assets give benefits to the operations.

19 MR. BOB PETERS: Would you agree with me,
20 Mr. Derksen, that there's been an increase from 1998 say
21 to 2002, in terms of the total capitalized operating and
22 administrative expenses?

23

24

(BRIEF PAUSE)

25

1 MR. WILLIE DERKSEN: There are some
2 apples and oranges in this comparison and that's why I'm
3 hesitating a little bit. What we're showing in the pre-
4 acquisition period, that's the first three (3) columns,
5 because only the overhead component that's capitalized,
6 Centra charged its direct labour, that was the hourly
7 cost of employees working on construction plus their
8 associated benefits, directly to capital and those costs
9 aren't shown in this schedule.

10 MR. BOB PETERS: All right. So, that's -
11 - so as I understand then, it's not a direct comparison
12 between the pre-acquisition to the post-acquisition, in
13 terms of what the total capitalized operating and
14 maintenance expenses would be?

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

16 MR. BOB PETERS: All right. So the
17 policy that happens post-acquisition in terms of
18 capitalizing the O&M costs, is that policy the same one
19 (1) that's utilized by Manitoba Hydro?

20 MR. WILLIE DERKSEN: Yes it is.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: And you said to the
25 Board before that the majority of -- of that I suppose we

1 can -- we can go down and look at the line items, but
2 would be labour on capital assets I think were your
3 words?

4 MR. WILLIE DERKSEN: Yes, labour
5 constructing capital assets.

6 MR. BOB PETERS: Can you give the Board
7 an example of what that -- what such a capital asset
8 would be?

9 MR. WILLIE DERKSEN: Yes, putting in
10 services to houses, putting in mains, those sorts of
11 things, where our company has to go out and -- and put in
12 new service lines or replace existing service lines.

13 MR. BOB PETERS: And the cost of doing
14 that would be -- would be charged through an activity
15 rate, and then that amount would be capitalized?

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

17 MR. BOB PETERS: And then amortized over
18 a -- or paid out over a period of thirty (30) years?

19 MR. WILLIE DERKSEN: It would be a longer
20 period than that, the depreciate -- depreciation study
21 calculates the estimated lives of the assets that Centra
22 has constructed, and based upon that depreciation study,
23 the assets are amortized over that period.

24 So, for example, mains -- transmission
25 mains may have one (1) period of -- of recovery, because

1 they tend to last let's say sixty (60) years, but service
2 lines may only last forty (40) years, so those costs are
3 amortized only forty (40) years.

4 MR. BOB PETERS: All right, but it's
5 consistent with what we saw on the -- on the timeline for
6 the depreciation?

7 MR. WILLIE DERKSEN: Absolutely, yes.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: At Tab 22, Mr. Derksen,
12 I think we've got a point that we've already covered here
13 and I don't want to be long on it, but it was the
14 allocation of total operating expenses to Centra.

15 If I can try to lead you through this.
16 This is a response to PUB/CENTRA-36(A), in which you set
17 out what the total operating costs were for a calendar --
18 or sorry, for a fiscal period, and then you've allocated
19 them as between the gas utility and electric utility,
20 correct?

21 MR. WILLIE DERKSEN: Yes, it just shows
22 the allocation of -- to gas, and the compliment would of
23 course be electric.

24 MR. BOB PETERS: Yeah, well you're
25 correct, there's no column saying how much would go to

1 the electric company, but by doing some subtraction you'd
2 have that figured out?

3 MR. WILLIE DERKSEN: Yes.

4 MR. BOB PETERS: And can you explain to
5 the Board down to -- let's start on line 20. Corporate -
6 - I'm sorry, customer service and marketing, a \$100
7 million was spent corporation wide; is that accurate?

8 MR. WILLIE DERKSEN: Yes, that's correct.

9 MR. BOB PETERS: And 39 million of that
10 has been allocated over to the -- the gas company.

11 MR. WILLIE DERKSEN: That's where there
12 was a -- a misunderstanding I think, in how we prepared
13 the response base compared to how it was interpreted.
14 The \$39 million represents the costs charged to gas
15 operations, that were the responsibility of the customer
16 service and marketing business unit.

17 So, that \$39 million would include the 30
18 percent add on to activity rates, which is basic --
19 fundamentally costs incurred in the administrative areas
20 that would appear on lines in the first column in -- in
21 row 8 and row 12 of the -- of this schedule. And would
22 also include charges from other business units,
23 transmission and distribution, that are performing
24 construction and -- and maintenance activities on behalf
25 of customer service and -- and marketing.

1 So, the \$40 million represents total
2 company costs charged to operations that the customer
3 service and marketing business unit are responsible for.

4 MR. BOB PETERS: Thank you for that --
5 that explanation.

6 MR. WILLIE DERKSEN: I -- I think we
7 covered -- we tried to explain that in PUB-118, the
8 Response to PUB-118.

9 MR. BOB PETERS: Thank you.

10
11 (BRIEF PAUSE)

12
13 MR. BOB PETERS: In Tab 23 of the
14 materials is a schedule, again of -- of various costs. I
15 just want to look at the bad debt and collection expense
16 costs on line 12 of the schedule that's attached to
17 CAC/MSOS/CENTRA-15(A).

18 Have you located that document, Mr.
19 Derksen?

20 MR. WILLIE DERKSEN: Yes, I have that.

21 MR. BOB PETERS: Is it correct to
22 interpret that the bad debt expense has doubled in
23 2003/04 from the prior year?

24 MR. WILLIE DERKSEN: Yes.

25 MR. BOB PETERS: What has been the

1 underlying reason for that?

2

3

(BRIEF PAUSE)

4

5

MR. WILLIE DERKSEN: I think there's a
6 number of things that contribute to that experience.

7

Part of it, of course, is higher gas prices which

8

increase bad debt expense. I think another part of it is
9 there is some delays and some catch up required

10

sometimes. If the -- if the uncollectable accounts are -

11

- are increasing, there's a delay between that and when

12

it's recognized in bad debt expense.

13

And I believe that my understanding is
14 that Manitoba Hydro has a -- has -- is not as -- as tough
15 as maybe Centra might have been sometimes on some of the
16 collection activities.

17

I think Mr. Warden could probably

18

elaborate more on that line of questioning.

19

MR. BOB PETERS: What you're suggesting

20

Mr. Warden address would be the -- the Company's internal

21

practices in -- in collecting on gas accounts now that

22

Manitoba Hydro is the owner?

23

MR. WILLIE DERKSEN: Yes, that's right.

24

MR. BOB PETERS: And would it be fair to

25

say that the Centra collection procedures have given way

1 to, in essence, some of the Manitoba Hydro practices?

2 MR. WILLIE DERKSEN: Yes, that's --
3 that's correct. And also, you know, the circumstances
4 have changed somewhat. Back in the Centra times I think
5 we were looking at two dollar (\$2) gas and during that
6 particular period gas prices sky-rocketed quite
7 dramatically and I -- I know they levelled off but now
8 they're going up again.

9 And so there was some -- some
10 consideration that gas customers across North America
11 were -- were getting hit with very high gas bills
12 unprecedented. And that it was very difficult for some
13 of them to pay.

14 But, again, I think Mr. Warden can talk --
15 elaborate further on -- on those philosophies and
16 practices.

17 MR. DAVID CASE: Mr. Peters...? Sorry.

18 MR. BOB PETERS: Thank you, Mr. Case.

19 MR. DAVID CASE: In '03/'04 there was an
20 increase of \$2.6 million which was an increase of 1.1
21 million increase over the previous year and primarily
22 related to the cost of gas and the increase in
23 uncollectible accounts.

24 MR. BOB PETERS: Can you tell the Board,
25 Mr. Case or -- or Mr. Derksen, what steps Centra is

1 invoking to reduce the bad debt and collection expense
2 line item?

3 MR. WILLIE DERKSEN: Again, Mr. Case --
4 Mr. Peters, I'm sorry, I believe that response is best
5 left for Mr. Warden -- that question is best left for
6 him.

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

8 THE CHAIRPERSON: Mr. Derksen, there's a
9 moratorium period in which gas connection cannot occur;
10 is that not correct?

11 MR. WILLIE DERKSEN: Yes, there's -- we
12 cannot disconnect customers from a period in fall when
13 the temperature falls below a certain range for a -- I
14 think it's forty-eight (48) consecutive hours up until
15 sometime in the spring when the temperature is above a
16 threshold temperature. And at that time we can disconnect
17 no gas customers.

18 And, as well, any customers that we have
19 disconnected subsequent to that period over the summer
20 period, must be reconnected unless we've demonstrated
21 that we've taken proper steps such as the customer trying
22 to make payment arrangements with the customer and the
23 customer -- having a face-to-face discussion with a
24 customer with regards to them knowing and understanding
25 the consequences of not having gas service at their

1 industrial wage.

2
3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: And Mr. Derksen, if you
5 could turn ahead to Document number 24, in the Book of
6 Documents, there's again a statement of the O&A expenses,
7 and they've been reclassified starting in the '01/'02
8 fiscal year; is that correct?

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

10 MR. BOB PETERS: And the bottom line
11 item is line item 63 is cost per customer. Can you tell
12 the Board, what is your policy, in terms of what the cost
13 per customer should be for O&A expenses?

14
15 (BRIEF PAUSE)

16
17 MR. WILLIE DERKSEN: Mr. Peters, I
18 believe that is another matter that is best left to Mr.
19 Warden. It has to do with the corporate strategic plan
20 and strategies that are discussed at that level, and I
21 don't have the information necessary to give you a full
22 understanding of that.

23 MR. BOB PETERS: All right. Then we'll
24 put that matter over, as well, for Mr. Warden.

25 In Document 25 in the Book of Documents,

1 Mr. Derksen, there is information provided to the Board
2 about employees. And as I understood your previous
3 answer to the Board, starting in January 1st of 2001,
4 there was no such thing as a Centra Gas Manitoba Inc.
5 employee, they were all Manitoba Hydro employees?

6 MR. WILLIE DERKSEN: Yes, that's correct.

7 MR. BOB PETERS: And on January 1st,
8 2001 you say you also have to start allocating operations
9 costs to the gas utility and you've explained to the
10 Board now how that's done.

11 And it's done primarily through the
12 calculation of the time expended by various employees at
13 a certain activity charge, correct?

14 MR. WILLIE DERKSEN: Yes, that's
15 correct.

16 MR. BOB PETERS: When it comes time to
17 calculate how many employees are working for the gas
18 company or the electric side of the Company, the Company
19 uses equivalent full-time positions as a proxy for
20 employees; would that be fair?

21 MR. WILLIE DERKSEN: Yes, that's
22 correct.

23 MR. BOB PETERS: And can you define for
24 the Board, what the Corporation means as an EFT?

25 MR. WILLIE DERKSEN: Yes, the normal

1 annual number of hours worked by employees at Manitoba
2 Hydro is nineteen hundred and sixteen (1,916). And so
3 when every nineteen hundred and sixteen (1,916) hours
4 that are expended directly on gas operations is
5 considered one (1) EFT for gas operations.

6 So, we take the total hours that are
7 charged to gas operations and divide it by nineteen
8 hundred and sixteen (1,916) to come up with the number of
9 EFT's for gas.

10 MR. BOB PETERS: So, the sum total of
11 all of the hours of labour expended, divided by the
12 nineteen sixteen (1916) will equal the EFT's on the gas
13 side?

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

15 MR. BOB PETERS: Is there any allocation
16 of EFT's on account of the overhead components?

17 MR. WILLIE DERKSEN: We don't calculate
18 that, no.

19 MR. BOB PETERS: On page 2 of 3 and page
20 3 of 3 of PUB/CENTRA-45, you provide a breakdown and
21 response to the number of employees that are within the
22 organization or sorry -- not employees, but EFT's,
23 correct?

24 MR. WILLIE DERKSEN: Yes, but some of the
25 definitions of EFT's used here are different than the

1 definition that I just gave you, because Centra and
2 Winnipeg Hydro did not use that definition. And so we
3 used the information that was available to us at that
4 time, in order to prepare these schedules.

5 So for example the seven hundred and
6 twelve (712) on page 2 of 3 for Centra, would be a number
7 of employees that were working for Centra at that point
8 in time. So it would include all of their administrative
9 employees, all of their part time employees, all of their
10 operations employees, including their overtime.

11 So, it's not at all comparable to the
12 current numbers that were represented for gas operations,
13 which again, one (1) of those changes coincident with the
14 integration of the companies and moving forward it's
15 comparable, but moving -- it's difficult to compare it to
16 the pre-acquisition numbers.

17 MR. BOB PETERS: All right. Thank you
18 for that. Let's just go a bit further on that, Mr.
19 Derksen, the -- the page 2 of 3 of PUB/CENTRA-45, shows
20 the seven hundred and twelve (712) Centra, those were
21 actual employees, being added to four thousand four
22 hundred and seventeen (4,417) actual employees of
23 Manitoba Hydro, for a total of five thousand one hundred
24 and twenty-nine (5,129) employees?

25 MR. WILLIE DERKSEN: The -- these are not

1 total number of employees either. No, these are Manitoba
2 Hydro -- is the April through July period, total hours
3 spent by employees of Manitoba Hydro at that time,
4 divided by the number of hours that would normally be
5 worked by employees who were employed full time by
6 Manitoba Hydro.

7 So, that's a period of -- of four (4)
8 months roughly. And so if nineteen hundred and sixteen
9 (1916) were the annual hours, one third (1/3) of that is
10 approximately six hundred and thirty (630).

11 So, the total hours worked by Manitoba
12 Hydro employees, including overtime and part time and
13 those sorts of things, divided by six hundred and thirty
14 (630) would give you this approximately forty-four
15 hundred and seventeen (4,417). So it's not positions,
16 and it's not EFT's, operational EFT's, as we're
17 representing them now, but it is a similar calculation to
18 the operational -- or to the total company EFT's.

19 The -- the Centra seven hundred and twelve
20 (712) is calculated similarly to that. It's not the
21 number of -- of active employees, it is based upon the
22 number of hours worked. But at that time they were still
23 Centra employees or Hydro employees, and so we calculated
24 those employees that were on the Centra payroll in a
25 manner similar to how I just described.

1 MR. BOB PETERS: I have your -- your
2 comments. Are you suggesting then to the Board that the
3 -- sorry, the five thousand one hundred and twenty-nine
4 (5,129) employees as at July 31, 1999, is not comparable
5 to the Manitoba Hydro employees for the fiscal year
6 ending 2001/02, shown on the bottom of page 3 of 3 as
7 five thousand one hundred and seventy-three (5,173)?

8 MR. WILLIE DERKSEN: It's not totally
9 comparable. It's -- it's prepared I think in the best
10 fashion that we could at that point in time, but there
11 are seasonal differences and -- and other differences
12 that make them not completely comparable.

13 During the construction period there would
14 be more temporary and seasonal employees as well. We --
15 we do have a program of -- of hiring summer students that
16 would be there in the summer that wouldn't appear as much
17 in the annual numbers.

18 So, it's -- the Company's employment level
19 as it fluctuates throughout the -- throughout the year,
20 would give you a different number, depending at which
21 point in the year that you've measured it.

22 MR. BOB PETERS: All right. But,
23 starting in 2001/02, would the EFT's be -- be considered
24 accurate on an annual basis?
25

1 (BRIEF PAUSE)

2
3 MR. WILLIE DERKSEN: Can you just give me
4 a minute on that one (1) please?

5 MR. BOB PETERS: Yes, and while we're
6 looking for that, Mr. Derksen, I'm referring you to the
7 number on page 3 of 3, under the Manitoba Hydro 2001/02
8 actual column. We're wondering if that number now
9 represents the -- the annual EFT's total compliment?

10 MR. WILLIE DERKSEN: Yes, I'm just
11 checking on that right now. We do publish two (2)
12 numbers at -- for our annual report we typically publish
13 the EFT's calculated for the month of March itself,
14 because that represents the number -- number of employees
15 that are on hand at that point in time.

16 But for internal purposes we calculate an
17 annualized number and I'm not quite sure which number
18 that is so I'm just checking on that. It is the annual
19 number. The annualized number.

20 MR. BOB PETERS: So, while you might not
21 have the apples to apples comparisons working backwards
22 from that timeline, would you agree that the Manitoba
23 Hydro 2001/02 actual numbers can be compared to the
24 numbers on the bottom of page 2 of 3 which show the --
25 the 2003/04 actual numbers?

1 MR. WILLIE DERKSEN: Yes, I would agree
2 with that.

3 MR. BOB PETERS: And the 2003/04 will
4 show that there is a growth of thirty-six (36) additional
5 people?

6 MR. WILLIE DERKSEN: Yes, that's correct.

7 MR. BOB PETERS: Before I leave Tab 25, I
8 want to turn to the last schedule -- I'm sorry, the --
9 it's the second last page that I have in the book. It's
10 -- it's PUB/CENTRA-45(A) and there's a chart entitled,
11 Activity Charges, Activity Hours and EFT's by Business
12 Unit.

13 Can I conclude from that chart that for
14 the 2001/02 fiscal year there were three hundred and
15 seventeen (317) EFT's out of Centra?

16 MR. WILLIE DERKSEN: There were three
17 hundred and seventeen (317) EFT's charged to Centra
18 operations.

19 MR. BOB PETERS: And the reason you say
20 "charged to operations" is that there were no Centra
21 employees but these were the Manitoba Hydro employees to
22 whom the activity charges and the activity rates applied
23 in charging it over to the Centra utility?

24 MR. WILLIE DERKSEN: Yes, that's correct.

25 MR. BOB PETERS: And what you're

1 projecting then through the second test year of 2006/07
2 is an additional nineteen (19) employees from what there
3 were in 2001 -- I'm sorry, an additional nineteen (19)
4 EFT's from what is depicted in the -- in the prior years?

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

6 MR. BOB PETERS: All right. And I think
7 we have your points. Thank you for that, Mr. Derksen.

8 Mr. Chairman, I'm going to turn my focus
9 and discussion with the Panel over to matters of safety
10 and probably would propose going twenty (20), twenty-five
11 (25) minutes before the morning break or we could break
12 now, depending on your pleasure?

13 THE CHAIRPERSON: Let's go the twenty
14 (20), twenty-five (25) minutes.

15 MR. BOB PETERS: All right. Thank you,
16 sir.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Mr. Case and Mr. Aziz,
20 I'm certain this will bring in you gentlemen to the
21 discussion and I'll welcome you to that.

22 Mr. Aziz, were you with Centra before
23 Manitoba Hydro purchased the shares of Centra?

24 MR. AZIZ AZIZ: I joined Centra in 1998.

25 MR. BOB PETERS: So, you joined just

1 before Centra sold -- the shares were sold to Manitoba
2 Hydro?

3 MR. AZIZ AZIZ: Yes.

4 MR. BOB PETERS: And, Mr. Case, I recall
5 it seems to me you're from Western Manitoba, if I recall
6 things correctly?

7 MR. DAVID CASE: Yes, or I started with
8 Plains Western Gas actually.

9 MR. BOB PETERS: All right. Plains
10 Western was in the -- was that in Brandon?

11 MR. DAVID CASE: Plains Western was --
12 headquarters were in Brandon and the shares of Plains
13 Western were purchased by Northern -- I'm sorry, Inter-
14 City Gas and we went through the amalgamation with ICG
15 Utilities which purchased Northern and Central which was
16 Greater Winnipeg Gas. And then there was West Coast and
17 now Manitoba Hydro.

18 MR. BOB PETERS: You've been through a
19 few company acquisitions.

20 MR. DAVID CASE: It's been a journey.

21 MR. BOB PETERS: All right. Well I hope
22 it's been a good one. I hope this is part of it.

23 Sir, when -- Mr. Aziz and Mr. Case, when
24 the PUB was asked to look at the transaction of Manitoba
25 Hydro purchasing the shares from West Coast, or as Mr.

1 Rainkie worded it the other day of "West Coast selling
2 its shares to Manitoba Hydro", one of the issues the PUB
3 raised was the impact of that -- of that proposed
4 transaction on the provision of safe and reliable utility
5 services; are you aware of that?

6 MR. DAVID CASE: Yes, sir.

7 MR. BOB PETERS: And Mr. Case, the end
8 result of the Board's determination was that Manitoba
9 Hydro and others told the Board that safety in the gas
10 utility would not be compromised in any way, shape or
11 form, as a result of the Hydro -- Manitoba Hydro buying
12 the shares of Centra.

13 Do you agree with that?

14 MR. DAVID CASE: I agree.

15 MR. BOB PETERS: Can you also confirm,
16 Mr. Case, that the intervenors who were involved in the
17 process wanted a high level of supervision by both the
18 Board and the utility to ensure that safe and reliable
19 service was continued?

20 MR. DAVID CASE: I wasn't part of the
21 Hearings, although I recall reading the transcripts.

22 MR. BOB PETERS: And so safety was a
23 concern from various parties and the thrust of it was
24 that parties wanted to ensure the utility continue to
25 offer safe and reliable service?

1 MR. DAVID CASE: Yes.

2 MR. BOB PETERS: And in reading of the
3 transcripts or following the Hearing, Mr. Case, you also
4 are aware that Manitoba Hydro engaged Campbell Rider
5 Engineering to review the risks and liabilities and
6 safety issues.

7 And you're aware then that Campbell Rider
8 commended the PUB on its proactive approach to ensure
9 that public safety was maintained?

10 And they also commended the Board's
11 involvement in providing a high degree of comfort, as to
12 system safety and integrity?

13 MR. DAVID CASE: Yes.

14 MR. BOB PETERS: And so the Board in, I
15 think it was Order 146/99 that was the Order the Board
16 issued, the Board indicated in its Order that the Gas
17 Pipeline Act would continue to apply and the PUB would
18 continue to have oversight over the operations of the gas
19 company?

20 MR. DAVID CASE: That's correct.

21 MR. BOB PETERS: And from a corporate
22 position has Manitoba Hydro's position changed in anyway
23 with respect to whether that Gas Pipeline Act should
24 continue to apply and the Board also have oversight
25 responsibilities?

1 MS. MARLA MURPHY: I think, Mr. Peters,
2 we're getting back into the realm of a legal area.
3 Certainly, the legislation hasn't been amended and will
4 continue to speak for itself.

5 MR. BOB PETERS: Okay, fair comment.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Would it be fair to say
9 that both -- from Centra's perspective, Centra expected
10 that the safety would continue to be a priority in the
11 Utility?

12 MR. DAVID CASE: Yes.

13 MR. BOB PETERS: And it was intended that
14 safety would not be compromised or diminished as a result
15 of the transaction?

16 MR. DAVID CASE: Correct.

17 MR. BOB PETERS: And was it your
18 understanding, Mr. Case, that Manitoba Hydro as the owner
19 then of Centra's shares, would be monitored by the Board
20 to determine its track record?

21 MR. DAVID CASE: Yes.

22 MR. BOB PETERS: So, Mr. Case, in a
23 general way, are you able to advise the Board as to
24 whether the safety of the gas utility has been in any way
25 affected, as a result of Manitoba Hydro's acquisition of

1 Centra's shares?

2 MR. DAVID CASE: I would say that since
3 1999 there have been many initiatives that have been
4 directed towards safety that were not there previously.

5 MR. BOB PETERS: Does that suggest -- or
6 are you suggesting to the Board then, Mr. Case, that the
7 utility is safer now than it was before the acquisition?

8 MR. DAVID CASE: No, I'm not suggesting
9 it's safer, what I'm suggesting is that, as the plant is
10 aging there's been a number of initiatives regarding
11 integrity management as an example, where there is -- I
12 would say more focus placed on the aging plant and the
13 maintenance of it.

14 MR. BOB PETERS: And those initiatives
15 that are underway now, are designed to at least keep the
16 utility as safe as it was prior to Manitoba Hydro
17 acquiring it?

18 MR. DAVID CASE: That's correct.

19 MR. BOB PETERS: Mr. Case, would you
20 acknowledge that there have been some -- the track record
21 may not be unblemished in the sense that, there have been
22 issues that have arisen related to safety matters?

23 MR. DAVID CASE: Yes, there have been
24 periodic issues.

25 MR. BOB PETERS: Can you describe a

1 couple of those to the Board?

2 MR. DAVID CASE: I'll use line locating,
3 as an example. There's been a number of occasions where
4 our representatives have made errors in line locates,
5 although that's not uncommon with previous practice, it's
6 not related to Manitoba Hydro, it's something that
7 happens from time to time, and it's happened throughout
8 history.

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10 (BRIEF PAUSE)

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MR. BOB PETERS: Am I correct, Mr. Case,
that Centra's developing a complete set of standards and
operating and maintenance and emergency procedures to
address safety issues?

MR. DAVID CASE: We have approximately
two hundred and sixty-three (263) operating procedures
that are developed. We're also working towards
approximately three hundred (300) standards. So there's
been a -- a large initiative around developing operating
standards and procedures.

MR. BOB PETERS: And that's a work in
progress?

MR. DAVID CASE: It will be work in
progress, and it will continue, because all those

1 operating procedures and standards have to be maintained,
2 and they also have to be reviewed and refreshed on a
3 regular period.

4 MR. BOB PETERS: Do I take from that
5 answer that -- that that work is not yet complete?

6 MR. DAVID CASE: The work will never be
7 complete. Operating procedures are subject to changes
8 with technology, with operating conditions, with
9 legislative changes in the way we work, safety and health
10 regulations. There's a number of factors that affect
11 them.

12 MR. BOB PETERS: Is there a base line
13 that has been completed, or a first set of the procedures
14 and -- and standards?

15 MR. DAVID CASE: All of the operating
16 procedures that were first identified have been
17 completed, so the first round is completed. There is
18 about twenty-five (25) that are right now in revision
19 process.

20 MR. BOB PETERS: And what about -- was
21 that operating procedures or was that standards, sir?

22 MR. DAVID CASE: That was operating
23 procedures. On the standards --

24 MR. AZIZ AZIZ: Yeah, as standards we
25 have substantially achieved roughly close to maybe 75

1 percent of our -- our target, Mr. Peters.

2 MR. BOB PETERS: And how long, Mr. Aziz,
3 do you need do you think, before you're going to have
4 that -- that finished?

5 MR. AZIZ AZIZ: I think as -- if we look
6 into the standards we completed, this is a -- a -- we put
7 priority on the standards which affects safety and
8 Alberta gas.

9 So most of the standards which is needed
10 to operate the utility from day to day has been
11 completed, and the rest of the standards I would say
12 lower -- doesn't have the high priority or high
13 importance as the rest of the standards we developed. So
14 we're -- we're -- the rest of the standards we're doing
15 it in day to day activity over the next few years.

16 MR. BOB PETERS: All right, and --

17 MR. AZIZ AZIZ: And just to add also, I'd
18 like to add when you raised, Mr. Peters, about some of
19 the safety work that we're doing on Hydro to ensure the
20 utility's safe as before the acquisition, all this
21 standards and procedures, I recall I started most of them
22 since I joined the Company. So this has already been
23 done in Hydro environment, is completed during Hydro
24 environment.

25 MR. BOB PETERS: Thank you, Mr. Aziz.

1 The standards on which -- do I understand then that, Mr.
2 Case, you -- you look more after the operating procedures
3 and emergency procedures, and the -- the other standards
4 are left, I guess on the engineering side, it's Mr.
5 Aziz's responsibility?

6 MR. DAVID CASE: There are standards and
7 procedures that affect both of our areas I suppose, but
8 it's -- it goes beyond us as well. We certainly have
9 procedures that affect our individual areas. So we're
10 trying to answer in a general way.

11 MR. BOB PETERS: I appreciate that, and
12 thank you for your answers.

13 Do I take correctly, Mr. Case, that in
14 terms of the operating procedures, you'd given me a
15 number of two hundred and sixty-three (263) operating
16 procedures as having been completed.

17 There remains to be some more developed;
18 is that what I gather?

19 MR. DAVID CASE: Potentially, of the
20 procedures identified to date, as requiring procedures
21 that is, those have been completed. But as I said, there
22 will be constant revisions and there may be new operating
23 procedures added as necessary.

24 In other words, if there's areas of our
25 operations that we currently don't have procedures to

1 cover, we would develop those procedures.

2 MR. BOB PETERS: But presently you -- you
3 think your operating procedures cover all aspects, and
4 there's no additional ones needed at this point, but
5 you'll monitor them to see if they need to change for
6 either operational reasons or technology reasons?

7 MR. DAVID CASE: That's correct.

8 MR. BOB PETERS: The standards of safety,
9 Mr. Aziz, that you indicated you have worked on and are
10 working on; are those tested within the Corporation
11 against a benchmark?

12 MR. AZIZ AZIZ: I'm not sure what you
13 mean by "tested against benchmark". Like, standard when
14 we develop, Mr. Peters, standards we look into the
15 industry standards, other utilities, what they developed,
16 what is other companies are using to use for standards.

17 Standards can be for design, for
18 construction, for operation and we look then to what is
19 in the industry and then we look into our needs here and
20 will develop the standards which affect our own
21 operations.

22 MR. BOB PETERS: Thank you, Mr. Aziz. Do
23 I take it that -- that Centra tests and maintains their
24 standards of safety against a quality assurance program
25 internal?

1 MR. AZIZ AZIZ: Yes, we -- we always
2 monitor standards and we have existing system if there is
3 any changes to standards or some modification or
4 recommendation from the field. We get the
5 recommendations and we look into revising our own
6 standards.

7 MR. BOB PETERS: Mr. Case, you'd
8 indicated that in -- in terms of some safety issues line
9 staking or line locating is an area in which the Company
10 is continuously working; have I got that correct?

11 MR. DAVID CASE: Yes, that's one of the
12 areas.

13 MR. BOB PETERS: And it was -- it was the
14 one area that you offered up as being an area that there
15 were some concerns?

16 MR. DAVID CASE: I offered it up as an
17 example. I know there's been a number of pieces of
18 correspondence going back and forth between the Board and
19 ourselves related to line staking.

20 MR. BOB PETERS: And in -- just in -- in
21 summary, link staking is the -- it's a safety procedure
22 where you identify where existing infrastructure is for
23 contractors and people even building in their own yards?

24 MR. DAVID CASE: It's a responsibility
25 that we carry under Regulation 140-92 which is part of

1 the Gas Pipeline Act.

2 MR. BOB PETERS: And that responsibility
3 is to provide the staking and locating for -- for people
4 who are -- who are excavating?

5 MR. DAVID CASE: It's a responsibility
6 really for anyone who contacts us to inquire whether
7 there are a potential for natural gas utility
8 infrastructure within the area of excavation.

9 So we have to determine if there's any
10 risk to our plant. If there is, then we have
11 requirements to meet the excavator and to locate the
12 plant and to provide -- or communicate where that plant
13 is and how to proceed with safe excavation.

14 MR. BOB PETERS: Do Centra's internal
15 numbers show that there's increasing incidents of
16 pipelines being damaged due to a line staking error?

17 MR. DAVID CASE: That's -- that's not an
18 easy question to answer and I don't have the exact
19 numbers with me. It's a number that fluctuates year to
20 year. We -- I think last year we had in the area of ten
21 (10) but that's from memory.

22 But it has varied. I think in '98 or '99
23 we had nine (9) or ten (10). And in some years it's
24 seven (7), some years six (6); it varies.

25 MR. BOB PETERS: I suppose -- I suppose

1 in theory -- or sorry, in the theoretical sense, one (1)
2 error is one (1) too many is how you operate?
3 MR. DAVID CASE: That's correct.
4 MR. BOB PETERS: And I suppose that's the
5 case because the -- the consequences are -- or could be
6 significant and could be fatal, I suppose, in the worse
7 case scenarios?
8 MR. DAVID CASE: The risk and
9 consequences absolutely a concern.
10 MR. BOB PETERS: I didn't take from your
11 answer whether there was an increasing trend or the trend
12 is about the same or is it decreasing; have you any feel
13 for that?
14 MR. DAVID CASE: I don't think I can give
15 you an exact estimation of that. Last year was a
16 particularly bad year and relative to other years it
17 certainly has fluctuated.
18 I think there have been years, and, again,
19 it's from memory, I believe there were years where we
20 were near that level, although last year was certainly a
21 bad indication.
22 MR. BOB PETERS: Can you tell the Board
23 what's the cause of these ongoing errors?
24 MR. DAVID CASE: There have been a number
25 of issues when we investigate these incidents where we've

1 taking more of an active approach with the contractors.
2 We're paying closer attention, I guess, to those
3 excavators where we see repetitive damages and we are
4 taking an active approach in actually going out to meet
5 with them and to provide guidance.

6 And also we're offering educational
7 services to help them better understand their
8 requirements under the Gas Pipeline Act.

9 MR. BOB PETERS: In the causes that you
10 had provided to me, one (1) of them was computer system
11 error, is this as a result of the Corporation not
12 updating its records or as a result of the employee not
13 utilizing the computer?

14 MR. DAVID CASE: This was a result of the
15 -- there was a new revision that was initiated and
16 apparently the computer had not been docked and the
17 revision didn't go into the computer.

18 MR. BOB PETERS: And you indicated --
19 sorry --

20 MR. DAVID CASE: I'm sorry -- I was going
21 to mention that the electronic information system is
22 relatively new in the last few years. Years ago, we had
23 base map systems. The base maps systems might not have
24 been upgraded, only on an annual basis. These electronic
25 systems are updated weekly. So the information is -- I

1 would say more accurate and more timely.

2 MR. BOB PETERS: And the incident that
3 you drew to the Board's attention was just a situation of
4 the computer not being synchronized with the latest
5 available information on perhaps a weekly basis?

6 MR. DAVID CASE: That's correct.

7 MR. BOB PETERS: Would it be fair to say
8 that since Manitoba Hydro acquired the shares of Centra,
9 there are employees that used to be on the electric side
10 of the business, that are now doing gas line locating?

11 MR. DAVID CASE: Yes, that's right.

12 MR. BOB PETERS: And it would also be the
13 same as there would be gas -- former Centra gas employees
14 who are now being asked to do electric line locating?

15 MR. DAVID CASE: That's correct.

16 MR. BOB PETERS: Would it be also fair to
17 say that since the completion of the integration of both
18 the electric and the gas operations, there's been an
19 overall decrease in the level of experience in the line
20 staking program?

21 MR. DAVID CASE: I don't think that's a
22 fair comment. As a natural gas utility on its own, we
23 used to wrap up the summer periods with seasonal work
24 force that included locating staff. These were folks who
25 had literally no experience at all.

1 So when you compare that to an electrical
2 experienced operator who has perhaps many years with
3 experience of infra-structure, whether it be cable or
4 natural gas pipelines, the locating methods and
5 techniques are very similar.

6 So it would be hard to say that we have a
7 reduced level of experience.

8
9 (BRIEF PAUSE)

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11 MR. BOB PETERS: Do you still utilize
12 summer students for line locating?

13 MR. DAVID CASE: No, we don't use summer
14 students.

15 MR. BOB PETERS: I took from a previous
16 answer that you used to?

17 MR. DAVID CASE: I don't recall summer
18 students, the experience I was referring to, is that
19 through Manitoba Hydro utility services, we would bring
20 in a number of seasonal employees from that group who
21 were available to us on a temporary basis, to carry us
22 through the peak seasons and the summer construction
23 periods.

24 MR. BOB PETERS: All right. Thank you
25 for that clarification.

1 Are the line stakers in the Winnipeg area
2 employees that have the electrical background?

3 MR. DAVID CASE: Predominantly, that's
4 right.

5 MR. BOB PETERS: Exclusively or
6 predominantly?

7 MR. DAVID CASE: Predominantly.

8 MR. BOB PETERS: So are there gas -- are
9 there former -- I guess I'll call them old Centra Gas
10 Manitoba Inc. employees, are they still doing line
11 locating in the Winnipeg region?

12 MR. DAVID CASE: There's -- the reason I
13 said predominantly, in the Winnipeg Hydro area, or the
14 old Winnipeg Hydro area, that was an area that was last
15 to be integrated. And there's still some carry over
16 there, where there's a transition going on, although the
17 majority of them, and I would say the vast majority, are
18 now conducted by folks with electrical background.

19 There are occasions where we still have
20 experienced gasfitters, who have -- not -- sorry, not
21 gasfitters, but line stakes, who have provided assistance
22 to those individuals doing those locates.

23 MR. BOB PETERS: And I take it that as
24 things are integrated there will be fewer and fewer of
25 the -- of the gas employees working in the Winnipeg Hydro

1 region?

2 MR. DAVID CASE: In the sense of, you
3 know, with a true gas background that's right, it's --
4 it's hard to tell the difference these days as we
5 integrate.

6 MR. BOB PETERS: So while the level of
7 experience, you weren't prepare to acknowledge, may have
8 diminished, what has diminished is the number of
9 employees that have a -- a gas background, as opposed to
10 those who have an electrical background, who are doing
11 the line staking?

12 MR. DAVID CASE: In Winnipeg that's true.

13 MR. BOB PETERS: Do you think that's
14 caused some of the issues or concerns that you've
15 mentioned relative to line staking?

16 MR. DAVID CASE: I don't think you could
17 really say that, because we've had individuals who have
18 had twenty-five (25) or thirty (30) years experience with
19 nothing but gas, and it had two (2) line locating errors
20 in a row.

21 These things happen, the -- the task of
22 line locating is not simple, there's many complexities,
23 and it's not always straight forward. So it's -- it's
24 difficult to answer one (1) way or the other there. It's
25 -- I don't think we've diminished.

1 MR. BOB PETERS: Is the approach by the
2 Corporation to -- to attempt to remedy the -- the errors
3 simply through refresher training?

4 MR. DAVID CASE: Well it's -- it's
5 refresher training, it's also performance management,
6 it's also updating technology to the most advanced
7 technology that helps the individuals having to perform
8 that function, to have the technology available to locate
9 that plant.

10 So there's a number of factors. It's also
11 communication with the excavation contractors, to make
12 sure they understand their responsibilities.
13 Communication's a big part of it.

14 MR. BOB PETERS: Mr. Chairman, this might
15 be an appropriate time to take the morning recess and
16 I'll review my notes and prepare to move forward after
17 the break.

18 THE CHAIRPERSON: Thank you, Mr. Peters.
19 Thank you, Panel. We'll be back at 10:45. Thank you.

20
21 --- Upon recessing at 10:28 a.m.

22 --- Upon resuming at 10:47 a.m.

23
24 THE CHAIRPERSON: Mr. Peters, any time.

25 MR. BOB PETERS: Thank you.

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: Mr. Aziz and Mr. Case,
4 in the direct evidence that you provided to Ms. Murphy
5 yesterday, you mentioned an integrity management system;
6 is that correct?

7 MR. AZIZ AZIZ: Yes, Mr. Peters.

8 MR. BOB PETERS: And as I understood your
9 evidence to Ms. Murphy, Mr. Aziz, the integrity
10 management system was a -- was a risk assessment software
11 program?

12 MR. AZIZ AZIZ: It's beyond the risk
13 assessment software. Risk assessment software is one (1)
14 element of the whole system. It is a management system.

15 MR. BOB PETERS: Okay. Then maybe you
16 can briefly explain -- explain the totality of the -- the
17 integrity management system software then; what will it
18 do for the Corporation?

19 MR. AZIZ AZIZ: The integrity management
20 software is something like where we monitor the existing
21 system. We have information about, for example, leak
22 history; we enter this into the software. We have
23 information about crossings -- river crossing and
24 geotechnical unstable area; we enter all this data into
25 the risk assessment software. And from the software, we

1 net present value of the software over three (3) years
2 was the cheapest.

3 MR. BOB PETERS: Was that the deciding
4 factor in the purchase?

5 MR. AZIZ AZIZ: This is one of -- one of
6 the factors. It's not deciding -- deciding factor
7 because also we looked into their expertise and also our
8 needs too.

9 So -- so they -- they provide software to
10 other utilities which they're using it into applications
11 like our own application.

12 MR. BOB PETERS: And this integrity
13 management system, do I understand from your evidence
14 that it is designed for the transmission system?

15 MR. AZIZ AZIZ: Yes, Mr. Peters.

16 MR. BOB PETERS: And it's not presently
17 designed for the distribution system?

18 MR. AZIZ AZIZ: That's right.

19 MR. BOB PETERS: Can it be modified to
20 incorporate the distribution system?

21 MR. AZIZ AZIZ: I'm not sure if it -- if
22 it can be modified. But the consultants we are working
23 with which provide us the software, also they're looking
24 into the distribution risk assessment software. And I'm
25 not sure if their approach are going to modify their

1 software or they develop completely new software.

2 But distribution is a little bit different
3 than transmission because you're dealing with multi-
4 integrated system than single line or straight line.

5 MR. BOB PETERS: So, I take it from your
6 answer that there's no plans presently to extend the
7 integrity management system to distribution pipelines?

8 MR. AZIZ AZIZ: I didn't say we don't
9 have no plans. We have plans. Yes, we have plans to
10 look into moving to the distribution. The timing of it,
11 it -- we're looking into sometime in maybe next few
12 years.

13 I am on CSA Committee and we're also
14 struggling with this distribution. We're looking into
15 what the code should address for integrity management
16 system for the distribution system.

17 And in 2007 new edition will have some
18 reference to distribution and the following edition might
19 have further clauses to deal with the distribution
20 integrity -- or integrity management of the distribution
21 system.

22 MR. BOB PETERS: Is this then being
23 driven by the Canadian Gas Association or is it driven by
24 a Centra internal initiative?

25 MR. AZIZ AZIZ: Look, it's driven by the

1 Canadian Standards Association, CSA. And Centra is --
2 like, I represent the Company and I have a seat on the
3 technical committee and also I am on the distribution
4 sub-committee as well.

5 MR. BOB PETERS: Back to the integrity
6 management system that you're operating. Do I take from
7 your previous answers that you're going to be getting
8 some data back so you can target the higher risk areas in
9 your transmission systems?

10 MR. AZIZ AZIZ: This is our goal. Yes.

11 MR. BOB PETERS: And when does Centra
12 expect to start receiving some data relative to the
13 integrity management system?

14 MR. AZIZ AZIZ: Our -- the software will
15 -- we're in the process right now, getting the software
16 installed in our system, and the plan is in the summer of
17 this year we'll be able to have some data or some of the
18 results.

19 We'll analyse them over the summer and
20 fall, and -- and the winter of this year, 2005/06, we're
21 planning to build the bridge between this -- all this
22 data and the software on our computer.

23 MR. BOB PETERS: And then with the data
24 you're going to get you're going to then determine where
25 you need to do your system -- your system betterment and

1 your pipeline integrity projects?

2 MR. AZIZ AZIZ: Yes. This is part of --
3 part of the -- the software is not going to be all our
4 system betterment is going to be directed by the risk
5 assessment software. This is for the mainly,
6 transmission line. We still have system betterment for
7 the -- the distribution system too.

8 MR. BOB PETERS: So, as I understand your
9 evidence, Mr. Aziz, the integration -- sorry, the
10 integrity management system will then drive the capital
11 projects related to system integrity and safety on the
12 transmission side?

13 MR. AZIZ AZIZ: That's right.

14 MR. BOB PETERS: And that will start in
15 2006/07?

16 MR. AZIZ AZIZ: Yes.

17 MR. BOB PETERS: Mr. Case, before the
18 break we had been talking about line staking, and you had
19 mentioned that there were, in my words, some contractors
20 who were perhaps repeat offenders in terms of causing
21 damage to your plant; have I got that right?

22 MR. DAVID CASE: Yes.

23 MR. BOB PETERS: And can you tell the
24 Board what steps you take to prevent or to minimize the
25 third party damage to Centra's pipes?

1 MR. DAVID CASE: Well, first of all,
2 we're available to take calls from anyone who wishes to
3 excavate, not only contractors, but the majority actually
4 come from private residents wanting to build fences or
5 install pools. As far as the steps we take beyond that,
6 we maintain a trained work force, who are available to
7 respond to those calls.

8 We provide the latest equipment as far as
9 technology in locating the -- the lines. When we do --
10 when we do have excavators who tend to show up as repeat
11 offenders, we've been taking a more active approach over
12 the last year, especially where we have been engaging
13 them in discussion or a meeting, or in fact, we've even
14 written letters in some cases to reinforce our message.

15 We've also been working with Workplace
16 Safety and Health, and the -- the provincial workplace
17 safety group are certainly being supportive of
18 documenting repeat cases, and they will also engage in
19 trying to help curb those problems.

20 MR. BOB PETERS: Workplace Safety and
21 Health can shut down some of these third-party
22 contractors, can they not?

23 MR. DAVID CASE: It's my understanding
24 that it -- excavators have to have an excavation permit,
25 and that permit can actually be removed.

1 MR. BOB PETERS: Be removed by Workplace
2 Safety and Health?
3 MR. DAVID CASE: That's correct.
4 MR. BOB PETERS: Is the cost of third-
5 party damage charged to the third-party causing the
6 damage?
7 MR. DAVID CASE: If the damage is caused
8 as a result of their negligence, yes.
9 MR. BOB PETERS: And do these third-
10 parties pay when you make your claims against them?
11 MR. DAVID CASE: To my knowledge they do.
12 MR. BOB PETERS: You're not -- you don't
13 have to litigate each and every line hit to collect from
14 the third-party?
15 MR. DAVID CASE: Periodically we do.
16 MR. BOB PETERS: If it's Centra's
17 mistake, as you've mentioned in -- in identifying where
18 the lines are and damage results, is that charged to all
19 of Centra's customers?
20 MR. DAVID CASE: Yes.
21 MR. BOB PETERS: In Tab 41 of the Book of
22 Documents that -- that you may have, or one (1) of your
23 colleagues at the table will have, Mr. Case -- and I'm
24 not sure if Mr. Derksen and Mr. Rainkie need to assist
25 here, but what I'm looking for in Tab 41 is on

1 PUB/CENTRA-44 are the costs of Centra's staking errors
2 shown on this schedule?

3 MR. DAVID CASE: They would show up in
4 the distribution mains and services.

5 MR. BOB PETERS: I'm sorry, you say it's
6 in the distribution mains services line?

7 MR. DAVID CASE: I'm sorry, sir. I stand
8 to be corrected, I believe, it's in damages and repairs,
9 on the second line.

10 MR. BOB PETERS: Okay. Now, is that --
11 is that the total costs of Centra's errors, or is there
12 another place that additional costs would be shown?

13 MR. DAVID CASE: This line is to cover
14 charges that go to all damages and repairs. So, if we're
15 responding to a damage, the workforces that are
16 responding to that, would charge to this order.

17 MR. BOB PETERS: And what about the
18 customer service portion of the operating costs, would
19 there be additional costs in there?

20 MR. DAVID CASE: When you say, customer
21 service, I take it that you're splitting off the
22 difference between distribution maintenance crews
23 responding versus customer service?

24 MR. BOB PETERS: I was, I'm asking if
25 there would be charges from each of those different

1 aspects of operations?

2 MR. DAVID CASE: On the customer service
3 side, we provide emergency response service on a 24 hour
4 basis to all customer classes. And normally on the first
5 responders who make safe, we do not charge for that.

6

7

(BRIEF PAUSE)

8

9 MR. BOB PETERS: Where do we see the
10 recoveries from third-parties when you -- when you
11 collect from them for their negligence?

12 MR. DAVID CASE: The recovery would be
13 under damage claims -- third line from the bottom of the
14 table.

15 MR. BOB PETERS: Those are recoveries of
16 less than a thousand dollars (\$1,000) per occurrence?

17 I'm just not sure how to interpret that
18 line, Mr. Case?

19

20

(BRIEF PAUSE)

21

22 MS. MARLA MURPHY: Perhaps, Mr. Peters,
23 we could undertake to get back to you on that one?

24 MR. DAVID CASE: Mr. Peters, we may have
25 to check on that, I believe it's the net of the

1 recoveries here, but, let me check.

2 MR. BOB PETERS: So, what you're
3 reflecting then is that the payments made by third-
4 parties may be netted against the cost, so they're not
5 shown as additional revenue, it's just a reduced --

6 MR. DAVID CASE: We need to check that.

7 MR. BOB PETERS: All right. And you'll
8 get back to us on that.

9 MR. DAVID CASE: Yes sir.

10 MR. BOB PETERS: Thank you sir.

11 MR. WILLIE DERKSEN: Mr. Peters, they're
12 certainly not shown as additional revenues, so they are
13 netted against the costs, similar -- I'm not sure which
14 specific program they're in, but, they're not recorded as
15 revenues on the Company.

16 MR. BOB PETERS: All right. I think that
17 will relieve you of that undertaking, Mr. Case, and you
18 can thank Mr. Derksen for that.

19 I want to turn to another safety issue
20 with you gentlemen, and that is cathodic protection. The
21 company presently has a cathodic protection program to
22 provide protection to pipelines from corrosion; is that
23 correct?

24 MR. AZIZ AZIZ: Yes, Mr. Peters.

25 MR. BOB PETERS: Can you tell the Board

1 what are your targets under this program?

2 MR. AZIZ AZIZ: Like, what we developed
3 into to monitor the cathodic protection we have the
4 remote unit sensing, which remote sensing unit are
5 sealed, when we have a program to install remote sensing
6 units and get us the indication about the health of our
7 system by taking readings, daily readings, and we receive
8 this in our computer and analyse them during the day now.

9 So, by doing this, we'll be able to
10 identify areas which was low potential or doesn't have
11 any cathodic maintained on the system and from this we
12 react and send our own crews to respond and try to find
13 the cause of the short if there is any short, or any
14 problem to identify it and rectify this and bring the
15 system back again into its desired cathodic protection
16 limit.

17 MR. BOB PETERS: Are you telling the
18 Board, Mr. Aziz, that at any given moment 100 percent of
19 your steel pipeline system is protected cathodically?

20 MR. AZIZ AZIZ: I'm not saying it's 100
21 percent. I'm saying there is problems in the field and,
22 yes, you can have short. For example, if you can --
23 people hang something on the meter set or the riser you
24 can -- it might cause a short and which would bring this
25 area down.

1 So our target is actually to try to get
2 our system protected or have cathodic protection active
3 or operating on our system almost as 95 percent in any
4 single time. This is our target.

5 MR. BOB PETERS: Do I take from your
6 answer that you're not yet meeting that target?

7 MR. AZIZ AZIZ: We're -- we are striving
8 to meet this target, yes.

9 MR. BOB PETERS: For how long will an
10 area be unprotected on the pipeline?

11 MR. AZIZ AZIZ: We -- we don't actually
12 like -- our goal is to see the areas been -- if we have
13 any problem to resolve the cathodic protection within
14 thirty (30) days and no more than ninety (90) days. Some
15 -- like, I'd like to mention also too, this is our
16 targets but the -- some research has been done and you
17 can have systems are down for a year and no impact on
18 your system too.

19 So it's not -- you don't have cathodic
20 protection means you are going to start having leaks all
21 over your system.

22 MR. BOB PETERS: You're saying, there's
23 not a direct correlation between lack of cathodic
24 protection and increased leaks?

25 MR. AZIZ AZIZ: Oh, I didn't say, I say

1 the timing for -- for lack of cathodic protection and the
2 leaks is -- is -- has been documented, like, it's not,
3 like, if you don't have cathodic protection for thirty
4 (30) days or for one (1) day or one (1) hour you're going
5 to start having leaks. This is all I'm saying.

6 MR. BOB PETERS: All right. But you
7 recognize that over time lack of cathodic protection will
8 definitely result in leaks?

9 MR. AZIZ AZIZ: Yes, I -- I agree with
10 this.

11 MR. BOB PETERS: Centra keeps annual
12 records on it's cathodic protection program; does it?

13 MR. AZIZ AZIZ: Yes, Mr. Peters.

14 MR. BOB PETERS: Can you tell the Board
15 how current your records are to what -- the end of what
16 year or to when?

17 MR. AZIZ AZIZ: Like, as I mentioned, our
18 -- we keep -- going back again to what I started, where I
19 mentioned before was the RSU -- RSU program. We monitor
20 this area daily but we don't -- we haven't completed the
21 installation of all our RSU so we don't have -- we don't
22 monitor the system daily or 100 percent of the system.

23 And part of the system we don't monitor it
24 with the RSU because we don't have -- or we did not get
25 into the field to install this RSU's.

1 We monitor them, I believe, bi-monthly.
2 So we take bi-monthly reading. So, this is our internal
3 procedure. So I would say our records up to date based
4 on the RSU data and the manual reading.

5 MR. BOB PETERS: And so those records are
6 -- are current to June of 2005?

7 MR. AZIZ AZIZ: If we took a reading like
8 in May, so we won't be reading it until July. So, yes,
9 our records are...

10 MR. BOB PETERS: All right. And those
11 records are available then for audit or review by the
12 Board?

13 MR. AZIZ AZIZ: Yes.

14 MR. BOB PETERS: Mr. Case, just
15 backtracking if I can with you, sir, on the -- the third-
16 party damage to your -- to your plant, Mr. Derksen was
17 telling me that there was the net figures shown on the
18 gas distribution maintenance schedule, found at Tab 41 of
19 the Book of Documents, which was PUB/CENTRA-44; is that
20 correct, Mr. Derksen?

21 It's a net number?

22 MR. WILLIE DERKSEN: Yes, all recoveries
23 are credited to a program.

24 MR. BOB PETERS: All right, and I guess
25 the point that escapes me for a moment here, Mr. Derksen,

1 is that you're not sure if all of the third party claims
2 are part of the gas distribution maintenance programs,
3 they may be part of other programs?

4 MR. WILLIE DERKSEN: Yes, I'm not sure
5 which particular program that the credits go to, and that
6 may be dependent upon the circumstances. But I do know
7 that all of the recoveries related to gas wind their way
8 into an operating program, a gas operating program.

9 MR. BOB PETERS: So maybe, Mr. Case, I'll
10 ask you to resuscitate that undertaking that -- that you
11 were going to provide to the Board through your counsel,
12 to advise the Board as to the recoveries that were made
13 from third- parties, and you can provide it on a fiscal
14 basis as currently as you have it for -- for a couple of
15 years if possible.

16 And you can also maybe go one (1) step
17 further and help Mr. Derksen and myself, as to which
18 program against to which -- to which program would that
19 recovery be credited?

20 Is that something you can identify for
21 the Board?

22

23 --- UNDERTAKING NO. 10: Centra to advise Board as to
24 the recoveries that were made
25 from third-parties on a

1 fiscal basis for a couple of
2 years. Also advise to which
3 program that recovery would
4 be credited.
5

6 MR. DAVID CASE: Yes, sir. I think just
7 to clarify the folks responding to these damages, they
8 all time card to the order. So the gas distribution
9 maintenance crews that respond to these damages, they're
10 -- all of the charges related to the damages are recorded
11 against that order.

12 The piece that I was referring to on the
13 customer service, and maybe it's just the terminology
14 we're using, but we have individuals from our customer
15 service group, who tend to be the first one (1) there,
16 because they're a crew of one (1) in a vehicle who can
17 respond quicker and more readily available than a
18 construction crew with a -- a larger vehicle, multiple
19 individuals, a welder and a backhoe or whatever else you
20 might need.

21 What I was trying to say is that the --
22 the only thing that would not be -- or the only charges
23 that would not be included would be the customer service
24 person who responds to make safe initially, because we
25 provide that level of service to all customer groups, and

1 so it doesn't matter who's calling us, whether gas odour
2 or fumes or smells or a rupture, we respond to those
3 calls and we don't charge for that service.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: All right, but the
7 services that you do charge for are when the gas
8 distribution crew has to come in and -- and do some work?

9 MR. DAVID CASE: When we have to
10 physically excavate our pipeline systems or we have to --
11 and not only excavation, but it can also be above grade
12 damages, where someone has damaged an above grade service
13 riser, a meter set, regulator. Those charges that are
14 directly attributable to the repair, are charged to the
15 order.

16 MR. BOB PETERS: Okay, and maybe it is
17 the terminology, but when you charge it to the order, if
18 it's a -- if it's the negligence of a third party that
19 has resulted in your requirement to do that, the -- the
20 total costs of that order are then claimed against the
21 third party that you determine is responsible for the
22 damage?

23 MR. DAVID CASE: That's correct.

24 MR. BOB PETERS: All right, and you're
25 going to identify those or quantify those for us?

1 MR. DAVID CASE: Yes, sir.

2 MR. BOB PETERS: Thank you very much.

3

4

(BRIEF PAUSE)

5

6

7 MR. BOB PETERS: Mr. Aziz, I want to turn
8 with you to -- to leak survey and system leak protection
9 programs, that's another safety initiative that the
10 Corporation uses; is that correct?

11 MR. AZIZ AZIZ: Yes, that's right.

12 MR. BOB PETERS: Okay. And you conduct
13 these leak surveys to measure the system integrity?

14 MR. AZIZ AZIZ: That's correct.

15 MR. BOB PETERS: Is that on the
16 distribution side or the transmission side or both?

17 MR. DAVID CASE: Maybe I could answer the
18 questions relative to leak surveys. We perform annual
19 surveys over all of our high pressure transmission and
20 high pressure loop lines. We perform leak surveys over
21 all distribution mains and services, on a once every
22 three (3) years.

22

23

(BRIEF PAUSE)

24

25

MR. BOB PETERS: Are the leak surveys

1 current that you've -- that you complete?
2 MR. DAVID CASE: Yes, they are.
3 MR. BOB PETERS: Have there been any
4 problems or deficiencies noted in -- in performing those
5 leak surveys?
6 MR. DAVID CASE: I don't recall on the
7 transmission or the distribution mains or services any
8 deficiencies, there are other surveys that we do, as
9 well, including public building inspections and business
10 district building inspections.
11 And so any deficiencies noted, I think the
12 Board is aware of those and they relate in the Annual
13 Operations Audit Report.
14 MR. BOB PETERS: All right. Then just
15 briefly on the public building inspections, that's when
16 you provide leak surveys of customers own piping in
17 various buildings?
18 MR. DAVID CASE: That's correct.
19 MR. BOB PETERS: And these are public
20 owned buildings?
21 MR. DAVID CASE: Yeah, they're generally
22 buildings of public assembly.
23 MR. BOB PETERS: Are your surveys done
24 free of charge to the customer?
25 MR. DAVID CASE: Yes, they are.

1 MR. BOB PETERS: Why do you do it free of
2 charge if it's a public or private building?

3 MR. DAVID CASE: That's a good question,
4 it's a service that's been provided historically.

5 MR. BOB PETERS: One (1) good question.
6 Just on the face of it, you go in to conduct these leak
7 surveys at the request of the customer?

8 MR. DAVID CASE: No, sir, there's been a
9 long standing practice in the industry and it's not just
10 in Manitoba, but, throughout North America where public
11 building inspections have been conducted and utilities
12 across North America have started to challenge those
13 premises and exactly for the question you just asked, I
14 suppose.

15 And also it increases our liability as the
16 utility being in there checking on what is customer owned
17 piping. So it's an area that we are currently reviewing
18 and have had under review, for I would say, the last
19 couple of years, both the public building and business
20 district building surveys.

21 MR. BOB PETERS: Is the only difference
22 between the public building inspection program and the
23 building district inspection is that one (1) set are
24 privately owned buildings and one (1) is publicly owned?

25 MR. DAVID CASE: No, it's again the

1 terminology. Business district surveys refers to what
2 used to be called wall to wall surveys. And these were
3 areas in, as best I can describe, they were areas in
4 urban settings where you had wall to wall concrete. In
5 other words, there was a total hard surface of the area
6 over all of the natural gas distribution.

7 And so the business district surveys, I
8 suppose, it's -- there's some history to how those
9 developed and I'm not sure what the history is or how it
10 got there, but, I think what the thinking was that, if
11 there was any natural gas leaks under that hard surface,
12 it could migrate to the buildings.

13 So in those business district building
14 survey areas, or the wall to wall concrete and asphalt
15 areas, we actually do an internal survey in our buildings
16 today, under our current procedure. And it's just to
17 check to see if there was any gas migration in those
18 areas.

19 MR. BOB PETERS: Are you current in your
20 inspections in the business district as well as the
21 public building inspections?

22 MR. DAVID CASE: Yes, sir.

23 MR. BOB PETERS: Back to public building
24 inspections, do I take from one (1) of your prior answers
25 that this is an area where Centra is now examining

1 whether it should continue to offer this public building
2 inspection service?

3 MR. DAVID CASE: Yes, that's right.

4 MR. BOB PETERS: Presently all customers
5 of Centra are then paying for this service?

6 MR. DAVID CASE: Yes.

7 MR. BOB PETERS: And where is it included
8 in the operations costs, Mr. Derksen, do you know? Sorry
9 your microphone was off --

10 MR. WILLIE DERKSEN: Sorry, it's in the
11 system leak protection program.

12 MR. BOB PETERS: All right. Can you tell
13 the Board, at this time, Mr. Case if Centra is planning
14 to discontinue to offer the public building inspections?

15 MR. DAVID CASE: At this time, we're
16 still evaluating that.

17 MR. BOB PETERS: Which means you're
18 continuing to do it while you're evaluating?

19 MR. DAVID CASE: We'll continue to follow
20 our existing procedures until such time as there's an
21 evaluation and agreement that we should discontinue it.

22 MR. BOB PETERS: And if Centra wants to
23 change its policies or procedures in that regard, would I
24 be correct in assuming that Centra would notify the
25 Public Utilities Board in advance of such a change?

1 MR. DAVID CASE: Yes, we would notify the
2 Board.

3 MR. BOB PETERS: On the leak survey
4 findings, would I be correct in assuming that as your
5 system ages, as you've testified, there are more and more
6 leaks?

7 MR. DAVID CASE: I don't think it's fair
8 to say there are more and more leaks. I would suggest to
9 you that the system is actually tightened up over the
10 years. You'll recall a number of years ago, we had a
11 number -- well a large number of compression fittings in
12 the steel pipeline systems.

13 And they were certainly a potential source
14 of leakage. For the most part, those fittings have all
15 been removed from our system today. And the other thing
16 I would add is that predominately the distribution
17 systems today are installed with plastic systems, which
18 are not subject to corrosion.

19 MR. BOB PETERS: Do I take from that
20 answer then that as the plan as Centra moves forward is
21 to continue to use technology and materials that are less
22 likely to provide leaks?

23 MR. DAVID CASE: I think that's always
24 your desire. Sometimes, through experience, you learn
25 that your best plans don't always work out that way.

1 MR. BOB PETERS: In terms of inspections
2 for construction; does Centra offer inspections or
3 quality control to third-party installations?

4 MR. AZIZ AZIZ: Yes, we do.

5 MR. BOB PETERS: And is the quality
6 control different for, I'll call them in-house
7 installations, compared to third-party installations?

8 MR. AZIZ AZIZ: For outside contractor we
9 have inspectors. We hire inspectors to ensure
10 contractors are installing the system according to our
11 own standards and procedures.

12 But for our own internal maintenance crew,
13 if they're doing any construction, we don't have
14 inspection on top of this.

15 MR. BOB PETERS: Mr. Aziz, as I
16 understand that answer, if the -- if it's a third-party
17 construction crew, Centra provides an inspector that will
18 be on site to inspect the work of the third-party crew to
19 make sure it complies with Centra's standards?

20 MR. AZIZ AZIZ: This is -- this is true.
21 Yeah. We have...

22 MR. BOB PETERS: And if that same work
23 was being done by a Manitoba Hydro/Centra Gas Manitoba
24 Inc. construction crew, there would not be an inspector
25 on site; would that also be true?

1 MR. AZIZ AZIZ: This is right.

2 MR. BOB PETERS: And why do you inspect
3 only third-party contractors and not that work done by
4 your own internal people?

5 MR. AZIZ AZIZ: I guess it's we -- we're
6 -- we feel our own people are trained and confident of
7 the work they're doing. And we -- we give them the -- we
8 have training for -- we offer training for all our own
9 people and we monitor and our people are doing the --
10 mainly most of the work on -- on very -- the live gas.

11 So we don't leave the contractor to work
12 on this live gas. But for contractors, it's -- we're --
13 a contractor is not working for the Company. It's --
14 contractor is here, tomorrow is gone and he won't be our
15 -- installing our system.

16 So we would rather ensure we have quality
17 assurance program and inspection to ensure they follow
18 our own internal procedure.

19 MR. BOB PETERS: Mr. Aziz, don't both
20 internal and external contracts make mistakes?

21 MR. AZIZ AZIZ: Like, I -- like, if you
22 look into the -- the area of supervision, like I can have
23 an inspection or supervision for everything we do in the
24 Company. Like, for -- let's say for my job, like I
25 should have a supervisor behind my back ensuring I'm

1 doing all my job.

2 So for our own employees, we give them the
3 training and they part of the Company and they own the
4 system and they are the ones responding to incidents and
5 emergencies so they are -- we -- we train them and we
6 have highly confidence in our own people.

7 So I don't think we need to supervise
8 them. Yes, nobody's is -- they might make mistakes but
9 we're confident in our own employees.

10 MR. BOB PETERS: I appreciate the
11 confidence the Corporation has in its employees and the
12 training programs, but just from a -- from an outsider's
13 perspective, the crews that you have doing your gas
14 installation projects, these are crews that you -- that
15 you select, correct?

16 You pick them?

17 MR. AZIZ AZIZ: Yes.

18 MR. BOB PETERS: You pick the third-party
19 contractors?

20 MR. AZIZ AZIZ: Yes.

21 MR. BOB PETERS: You offer training for
22 them as well, do you?

23 MR. AZIZ AZIZ: Yes.

24 MR. BOB PETERS: Is that training any
25 different than what you offer your own employees?

1 MR. AZIZ AZIZ: Like our -- our own
2 employees is been working with us over the years and to
3 then get contractors working with us in a year or two (2)
4 or three (3), like because we -- we develop the knowledge
5 and expertise through our own people and, yes, we -- we
6 select the right contractors and knowledgeable
7 contractors, but we -- internal decisions is we feel our
8 own people they know what they are doing.

9 And it doesn't mean the contractor
10 doesn't know what he is doing, but we would rather have
11 inspection and quality to ensure the contractor is
12 installing the system according to our own standards.

13 MR. BOB PETERS: When you talk about your
14 own standards, those are standards that are often
15 required under regulation or code; would that be correct?

16 MR. AZIZ AZIZ: Yes, this is part of it,
17 to comply with the regulation and codes, and the other
18 part is -- it might be exceeding, like we have some
19 requirements might exceed, like the code is -- is the
20 minimum requirement, the standards and the code is the
21 minimum requirement, and we might have -- we might exceed
22 this minimum requirement.

23 MR. BOB PETERS: You told the Board just
24 a few minutes ago that you have a chair on the Canadian
25 Standards Association that deals with gas matters?

1 MR. AZIZ AZIZ: Yes.

2 MR. BOB PETERS: And can you confirm to
3 the Board that Centra only uses CSA approved pipes and
4 fittings and connections?

5 MR. AZIZ AZIZ: Yes, we -- we use -- in -
6 - in our system, yes, we use any -- any pipe or fittings,
7 we use just CSA approved.

8 MR. BOB PETERS: On the inspections you
9 provide for these third party contractors, I took from
10 your previous answer that it was essentially one (1)
11 inspector per installation crew; would that be right?

12 MR. AZIZ AZIZ: We have an inspector, but
13 as -- as far as I recall, I don't think we provide
14 inspectors for every crew, for every installation crew.
15 We might have an inspector that might be looking over
16 three (3), four (4) crews for the contractor.

17 MR. BOB PETERS: All right. And the --
18 and the role of this inspector is to, I think as you
19 said, stand over their shoulder and make sure they're
20 doing it right?

21 MR. AZIZ AZIZ: To ensure, yeah, to
22 ensure they're installing it, or to ensure the -- the
23 quality of their work, yes.

24 MR. BOB PETERS: And if the inspector is
25 only with -- has three (3) crews to watch over, I suppose

1 there are parts of what the crew does that the inspector
2 doesn't get to see?

3 MR. AZIZ AZIZ: Yes.

4 MR. BOB PETERS: When the inspector is
5 out with the crews, is the inspector on restricted hours,
6 that is has to work a 9:00 to 5:00 day, or does the
7 inspector get to work from the start of the -- the
8 morning, until the end of the evening by the crew?

9 MR. AZIZ AZIZ: I'm not sure, Mr. Peters.
10 It's --

11 MR. BOB PETERS: I'm sorry, you --

12 MR. AZIZ AZIZ: -- I'm sorry --

13 MR. BOB PETERS: -- understood the
14 question, but you're not sure of the answer?

15 MR. AZIZ AZIZ: I'm not -- I'm not sure -
16 - no, I'm not sure if to answer you, if we start from
17 8:00 to 5:00 or -- or they start with the crew.

18 MR. BOB PETERS: All right. But the --
19 but the job is that you want somebody there inspecting
20 what's done to make sure no mistakes are done by this
21 third party crew; correct?

22 MR. AZIZ AZIZ: Yes, that's correct.

23 MR. BOB PETERS: And you've agreed with
24 me that if the inspector has more than one (1) crew that
25 he has to -- he or she has to inspect on, then there's a

1 possibility that not all of the construction is being
2 inspected; is that correct?

3 MR. AZIZ AZIZ: That's correct, as -- as
4 our -- our goal is not to inspect a 100 percent of
5 everything the contractor does.

6 MR. BOB PETERS: But you want the
7 contractor to do it right the first time don't you?

8 MR. AZIZ AZIZ: That's right.

9 MR. BOB PETERS: And if you're not there,
10 how can you be sure the contractor has done it right the
11 first time?

12 MR. AZIZ AZIZ: I -- I think it was as by
13 doing the training for them, we offer training, and also
14 by checking their work in the field. So, it has -- we
15 developed the trust in the contractor and if there's any
16 concerns or issues, we increase supervision for certain
17 crews, if we find any problems in the field on the
18 contract.

19 MR. BOB PETERS: But, you wouldn't find
20 some of these problems until after the fact, wouldn't
21 that be the case?

22 MR. AZIZ AZIZ: We -- we find -- we can
23 find during, also installations, too.

24 MR. BOB PETERS: But, if you're not there
25 -- physically not there to inspect it, you would only

1 find them out after the fact?

2 MR. AZIZ AZIZ: I think -- thing is it
3 doesn't go in and install pipelines in five (5) minutes
4 and like this. So it takes time. And you know what from
5 our own -- our own exper -- knowledge and experience and
6 inspectors they might know if there's anything that went
7 wrong by observing the performance of the crew when they
8 go onsite.

9 MR. BOB PETERS: Is the majority of your
10 construction work done by third-party contractors or is
11 most done by internal staff?

12 MR. AZIZ AZIZ: Most of it done by third-
13 party contractor.

14 MR. BOB PETERS: Any idea of the
15 percentages, either in -- well percentage terms or in
16 dollar terms?

17

18 (BRIEF PAUSE)

19

20 MR. AZIZ AZIZ: Like all new construction
21 -- all new business is 100 percent contracted out.

22 MR. BOB PETERS: And to qualify as new
23 construction, that doesn't include remediation of
24 existing system work?

25 MR. AZIZ AZIZ: Yeah, the assess and

1 betterment is done combination between outside
2 contractor, our own internal crews.

3 MR. BOB PETERS: Can you just check on
4 that answer, Mr. Aziz, in terms of whether the inspector
5 works a fixed hourly day or is the inspector working for
6 the same duration as the -- as the construction crew?

7 And I suppose a follow-up on that then,
8 that Mr. Rainkie and Mr. Derksen, can help you on, is
9 whether or not, there is overtime charged by that
10 inspector, if the inspector works more than an eight (8)
11 hour day.

12 MR. AZIZ AZIZ: Regarding overtime, I'm
13 aware there is overtime charges by the inspectors. But,
14 are there working from -- if the contractor is working at
15 7:00 then -- they working at 7:00 or at 8:00, I'm not
16 sure.

17 MR. BOB PETERS: Okay. And if you would
18 check that and undertake through your counsel to provide
19 an answer to the Board, I think that would be helpful.

20 MR. AZIZ AZIZ: Okay Mr. Peters.

21 MR. BOB PETERS: Thank you.

22

23 --- UNDERTAKING NO. 11: Centra to advise Board
24 whether inspector works a
25 fixed hourly day or is

1 working for the same duration
2 construction crew and whether
3 there is overtime charged by
4 that inspector, if the
5 inspector works more than an
6 eight (8) hour day.
7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Can you tell the Board
10 what the inspectors do, because I'm sure they don't just
11 stand and look over somebody's shoulder all day, Mr.
12 Aziz?

13 What else are they responsible for doing?

14 MR. AZIZ AZIZ: The inspectors, they look
15 into or prepare as-built for us and they prepare the
16 inspection reports which is used to process payment for
17 the contractor.

18 MR. BOB PETERS: So, in that answer, they
19 also are drawing up or preparing as-built drawings?

20 MR. AZIZ AZIZ: Yes.

21 MR. BOB PETERS: And these end up on your
22 computer?

23 MR. AZIZ AZIZ: Yes.

24 MR. BOB PETERS: And their purpose is to
25 simply show whether the plant is being installed in the

1 ground?

2 MR. AZIZ AZIZ: That's right.

3 MR. BOB PETERS: And then you said they
4 also did an inspection so they could determine if monies
5 are to be paid under the contract?

6 MR. AZIZ AZIZ: They determine the
7 quantities of items which would be used to process
8 payment under the contract, yes.

9 MR. BOB PETERS: So, it's part of their
10 responsibility to decide how much and when the contractor
11 gets paid for the work that's done?

12 MR. AZIZ AZIZ: Yes, it's their
13 responsibility to decide the quantities to be used for
14 payment, yes.

15 MR. BOB PETERS: And is their primary
16 purpose to be the inspection of the quality of the
17 installation?

18 MR. AZIZ AZIZ: This is right.

19 MR. BOB PETERS: Who decides how much
20 time is spent on inspecting the quality of installation,
21 as opposed to administering the contract or preparing the
22 as-built drawings?

23 MR. AZIZ AZIZ: I think this is the
24 inspector, they do this during the day.

25 MR. BOB PETERS: So, the inspector will

1 determine what aspects to focus on on any particular day?
2 MR. AZIZ AZIZ: Yes.
3 MR. BOB PETERS: And the Company's
4 position is the inspector should be focussing on the
5 quality of the installation as a priority?
6 MR. AZIZ AZIZ: That's right.
7 MR. BOB PETERS: And that certainly is
8 communicated; is it, to your inspectors?
9 MR. AZIZ AZIZ: Yes. Yes, Mr. Peters.
10 MR. BOB PETERS: Mr. Aziz, in prior PUB
11 orders the Board has asked Centra to prioritize or
12 prioritize the capital projects that the Company embarks
13 on.
14 Are you familiar with that past
15 methodology?
16 MR. AZIZ AZIZ: Yes, I am.
17 MR. BOB PETERS: And as I recall one of
18 the categories was essential, another was called
19 necessary and the third was called justifiable; is that
20 your recollection?
21 MR. AZIZ AZIZ: Yes.
22 MR. BOB PETERS: And the essential
23 category was matters related to system safety and
24 integrity?
25 MR. AZIZ AZIZ: Yes, sir.

1 MR. BOB PETERS: And the necessary
2 capital expenditures were those that the Corporation felt
3 were necessary to keep the system -- to upgrade the
4 system as it aged?

5 MR. AZIZ AZIZ: Yes.

6 MR. BOB PETERS: And those that ended up
7 in the justifiable category were -- were a lower priority
8 on the -- on the list of capital expenditures?

9 MR. AZIZ AZIZ: This -- this is true. Or
10 like system additions for customer additions. This is
11 justifiable because when we have -- we install customers
12 and we have a feasibility test and if we need to get any
13 -- it's justifiable by the load and their contribution to
14 it.

15 MR. BOB PETERS: So to be a justifiable
16 capital project there had to be a feasibility test that
17 supported it?

18 MR. AZIZ AZIZ: Yes, we -- we use the --
19 the approved feasibility test for any new additions.

20 MR. BOB PETERS: Does Centra still use
21 those categories when it plans its capital expenditures?

22

23 (BRIEF PAUSE)

24

25 MR. AZIZ AZIZ: We don't use this

1 classification internal, Mr. Peters. We have approval
2 for expenditure and for every project when we raise
3 internal and we identify the risks for deferring these
4 projects when obtaining approvals.

5 MR. BOB PETERS: Sounds like it's a new
6 system that you use now?

7 MR. AZIZ AZIZ: It's -- it's -- it's --
8 I'm not sure it's completely new. The answers you might
9 be having to justify essential or necessary, it is part
10 of the -- part of the AFE we have internal -- within our
11 internal forms.

12 So it's -- it's included in part of our
13 justification, but we don't follow the old system, yes.

14 MR. BOB PETERS: Do you do your capital
15 plan in advance of the year -- in advance of the fiscal
16 year?

17 MR. AZIZ AZIZ: Well, I think it's --
18 we've done a catch up in advance of two (2) years now for
19 our application. Yes, Mr. Peters.

20 MR. BOB PETERS: And are the projects
21 that are included in the capital plans and the materials
22 before the Board, has those been approved internally?

23 MR. AZIZ AZIZ: The internal -- we have
24 capital allocation, like for -- like system measurement
25 or system improvement. We have for mains and for -- so

1 we allow for blanket capital assignment of budgets and
2 internally within the department we approve any
3 expenditure required under this budget.

4
5 (BRIEF PAUSE)

6
7 MR. BOB PETERS: From those answers, Mr.
8 Aziz, you have a blanket authority for capital
9 expenditures that you start with?

10 MR. AZIZ AZIZ: From -- from the Company
11 we have -- yes, we have blanket -- like, if you look into
12 our capital budgets, yes, we have blanket dollars
13 assigned to us, and we go through evaluation of every
14 single project internally, and we approve it.

15 From the -- from the Department, Manager
16 level, yes, we -- we approve every single project.

17 MR. BOB PETERS: It sounds to me from
18 your answers that the test is the risk of deferring it.

19 What is the risk of deferring a capital
20 project, and that will decide what priority it gets?

21 MR. AZIZ AZIZ: We have another system to
22 -- system priorities on our projects, which is developed
23 internal, like part of it is safety, one (1) of them,
24 another one (1) is environment, and we go through our own
25 projects and internally as -- as the department, and

1 authorize this -- those projects, and this is one (1) of
2 the criteria which we proceed with projects.

3 MR. BOB PETERS: Is it Centra's view that
4 the essential, necessary and justifiable categories no
5 longer are useful in -- in planning the capital
6 expenditures?

7 MR. DARREN RAINKIE: Mr. Peters, I think
8 we've -- we've put that categorization, it's a hold over
9 from some regulatory hearings from many years ago, and
10 the Board wanted us to continue to do that and we've put
11 that in the materials.

12 But like many of the other processes or
13 almost all the other processes that we have, we've
14 dovetailed into Manitoba Hydro's capital processes.

15 So I guess the short answer is, yes, Mr.
16 Peters, we put the categorization of essential, necessary
17 and justifiable in as a regulatory compliance, that's
18 what the Board wanted us to do in the last General Rate
19 Application.

20 But as Mr. Aziz has been describing, there
21 are -- obviously Manitoba Hydro has a large capital
22 program itself, and we've been using those processes
23 rather than having two (2) separate systems.

24 MR. BOB PETERS: And the point I think
25 you're making, Mr. Rainkie, is the one (1) I've come to,

1 is that when in the -- in the Rate filings before the
2 Board, you go back and look at your various capital
3 expenditures and you slot them into one (1) of those
4 three (3) categories that the Board has utilized in past
5 years, that's not something you do in advance?

6 MR. DARREN RAINKIE: That's -- that's
7 correct, we're -- we're using Manitoba Hydro's system for
8 the -- the planning -- planning and design and the
9 budgeting purposes, and this is the system that you're
10 seeing, and the material is -- because I think the Board
11 saw some value in it. At least they did many years ago.

12 If they -- if the Board doesn't see any
13 value in having a different system for regulatory
14 purposes than for planning purposes, we could surely
15 discontinue to provide that information if it's
16 confusing.

17 But it -- we went over this issue at the
18 last General Rate Application, and I guess the Board saw
19 some value in continuing to provide those categories in
20 the -- in the Rate filings, and so we simply included it
21 this time as well.

22 MR. BOB PETERS: All right, thank you.
23 And we'll -- we'll leave that then, Mr. Rainkie, and see
24 if your question gets answered.

25 In the third party tendering process, Mr.

1 Aziz, in my words, I heard one (1) of your previous
2 answers suggest that one (1) of your concerns with
3 contracting crews is they might be here today and gone
4 tomorrow. Those are my words, but -- but that was --
5 that's how I interpreted one (1) of your answers.

6 Would I generally be correct in that?

7 MR. AZIZ AZIZ: My comment is -- was made
8 based on our experience over the last twenty (20) years,
9 yes.

10 MR. BOB PETERS: Well in -- in fact, I
11 had understood from the materials that you have a fairly
12 detailed process to get on the list to do Centra's
13 construction work; is that true?

14 MR. AZIZ AZIZ: That's -- that's -- this
15 is true, yeah, we -- we have pre-qualification for all
16 contractor, they need to bid on our work.

17 MR. BOB PETERS: So as I understand the
18 process, you invite contractors to pre-qualify, that is
19 to convince Centra that they possess the necessary
20 expertise and equipment that they could even do the gas
21 installations, if they were ever asked to do them?

22 MR. AZIZ AZIZ: This is right.

23 MR. BOB PETERS: And once you have your
24 number of contractors on that list, you then put out
25 specific -- a specific request to provide construction

1 services to Centra?

2 MR. AZIZ AZIZ: That's right.

3 MR. BOB PETERS: But you ask for
4 construction crews to commit to three (3) years at a
5 time; is that right?

6 MR. AZIZ AZIZ: Yeah. Yes, we have --
7 the recent contract right now has been awarded for three
8 (3) years, yes.

9 MR. BOB PETERS: And so once you're on
10 the list of pre-qualified contractors, you can then
11 partake in an open tendering process, that you conduct,
12 to see who gets Centra's installation contract for a
13 three (3) year period?

14 MR. AZIZ AZIZ: This is right, yeah.

15 MR. BOB PETERS: And so all of your third
16 party contracts are given to this successful bidder, at
17 the open tendering process?

18 MR. AZIZ AZIZ: That's right.

19 MR. BOB PETERS: Is it correct that --
20 I'm trying to recall as Mr. Rainkie's reminding us of the
21 last GRA, that in the last GRA, you were finding that
22 there were fewer companies that were bidding in
23 invitation to your tendering process; would you agree
24 with that?

25 MR. AZIZ AZIZ: Yes.

1 MR. BOB PETERS: And back in 2000, I
2 thought it was as many as eight (8) contractors bid, and
3 one (1) of them successfully got the three (3) year
4 contract, would that be correct?

5 MR. AZIZ AZIZ: That's correct.

6 MR. BOB PETERS: And in 2003, there were
7 fewer bidders, and you went to a two (2) year contract?

8 MR. AZIZ AZIZ: Can you repeat this
9 question?

10 MR. BOB PETERS: Yes -- yes, sorry, sir.
11 Just going forward from 2000, in 2003 you had fewer
12 bidders than eight (8) that showed up in 2000, and you
13 went down to a two (2) year contract to provide services
14 to Centra?

15 MR. AZIZ AZIZ: This is right, yeah.

16 MR. BOB PETERS: And why were there fewer
17 bidders in 2003 who wanted to do Centra's work?

18 MR. AZIZ AZIZ: This can be attributed to
19 maybe contractor having other work. Contractors are -- I
20 know some of the work has been done by contractors, they
21 do hydro work too, they might be busy doing other work,
22 or hydro work. So this is one (1) of the things that
23 might be attributed to not having too many contractor at
24 that time.

25 MR. BOB PETERS: All right. But, in 2003

1 when you had fewer contractors, you also went to a
2 shorter contract, a two (2) year contract?

3 MR. AZIZ AZIZ: That's right.

4 MR. BOB PETERS: And it had an option for
5 a third year?

6 MR. AZIZ AZIZ: Yes.

7 MR. BOB PETERS: Did you exercise the
8 option for the third year?

9 MR. AZIZ AZIZ: Yes, we haven't renewed
10 the third year, and we -- we tender this year, the
11 contract for -- from 2005, yes.

12 MR. BOB PETERS: I'm sorry. I just
13 misunderstood your answer. You -- you did --

14 MR. AZIZ AZIZ: We exercise our option
15 for not renewing the third year.

16 MR. BOB PETERS: Yes. All right. Thank
17 you. And so you've decided that two (2) years was long
18 enough under that contract?

19 MR. AZIZ AZIZ: Yes.

20 MR. BOB PETERS: Why didn't you exercise
21 your option for an additional year?

22

23 (BRIEF PAUSE)

24

25 MR. AZIZ AZIZ: I think we looked into

1 our work environment right now, and especially what we're
2 doing, and we decided to -- not to renew the contract for
3 a third year, and just that we decided to retender the
4 whole -- our work, again this year.

5 MR. BOB PETERS: And that process is
6 ongoing right now?

7 MR. AZIZ AZIZ: Yes, process actually
8 it's finished.

9 MR. BOB PETERS: Have you selected the
10 contractor for the next period of time?

11 MR. AZIZ AZIZ: Yes.

12 MR. BOB PETERS: Is that public?

13

14 (BRIEF PAUSE)

15

16 MR. AZIZ AZIZ: I'm not sure, Mr. Peters,
17 I can't say this. I know it's the contract has been
18 awarded, I -- I don't know if it's been signed contract,
19 or not.

20 MR. BOB PETERS: All right. And can you
21 tell the Board, is it also a multi-year contract?

22 MR. AZIZ AZIZ: It is a multi-year
23 contract, yes, three (3) year contract, yes.

24 MR. BOB PETERS: Any option in there?

25 MR. AZIZ AZIZ: I'm not sure, I have to

1 get back to you, if -- if it's the same -- like two (2)
2 years was one (1) year option, or three (3) year
3 contract.

4 MR. BOB PETERS: No, you don't have to
5 undertake to do that for me, Mr. Aziz. At the last GRA
6 you had expressed some concern that multi-year contracts
7 might decrease the competition in terms of who's
8 available to -û to bid; is that right?

9 MR. AZIZ AZIZ: This is one (1) of the
10 drawback, yes.

11 MR. BOB PETERS: Why are you offering
12 multi-year contracts?

13 MR. AZIZ AZIZ: The -- the other thing
14 too is with multi-year contract has it's own benefit too.
15 It's not only the drawback. The benefit is if you -- if
16 you're bidding and you know you have a three (3) year
17 contract with the Utility, you will be able to buy
18 equipment and hire people and plan your long-term
19 planning for three (3) years.

20 So this is one of the things that we found
21 out from contractors that they would prefer long-term
22 contract than short-term -- than one (1) year contract.

23 And we've done this through CGA conference
24 in 19 -- can be 1999 or '98 and we invited the contracts
25 from across Canada and their conference was held in

1 Winnipeg here and I'm -- as my memory -- if I can recall
2 is most of the -- the outcome from the conference is most
3 of the contractor would rather prefer to have longer
4 contract.

5 And I think, based on our findings, this
6 is the -- the time we start thinking of longer term
7 contract with our own company here in early 2000.

8 MR. BOB PETERS: In 2000 I think you told
9 us you had eight (8) contractors bid on your -- on your
10 contract?

11 MR. AZIZ AZIZ: That's right.

12 MR. BOB PETERS: How many were there in
13 2003 when you awarded a two (2) year contract with an
14 option?

15

16 (BRIEF PAUSE)

17

18 MR. AZIZ AZIZ: I'm going to go from my
19 memory here. I think it was maybe six (6). I might be
20 mistaken here. But I think it's six (6). I think we got
21 more indication but we -- the submission could have been
22 five (5) or six (6) contract bids.

23 MR. BOB PETERS: Okay. If -- if you
24 check and that does change, you can get back to the Board
25 through your counsel on that.

1 But in the contract that you just recently
2 awarded, how many bidders were there for the-- for the
3 new contract?

4 MR. AZIZ AZIZ: My colleague here, or my
5 supporter is telling me it's more than one (1) but I
6 don't actually have the numbers, how many they bid on
7 this year.

8 MR. BOB PETERS: Could you undertake to
9 provide that information to the Board through your
10 Counsel?

11 MR. AZIZ AZIZ: Yes, Mr. Peters.

12 MR. BOB PETERS: Thank you, Mr. Aziz.

13

14 --- UNDERTAKING NO. 12: Centra to advise Board as to
15 the number of bidders there
16 were for the new contract.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Mr. Aziz, the tendering
20 process that you use is also known as the open bidding
21 process; is that right?

22 MR. AZIZ AZIZ: That's right.

23 MR. BOB PETERS: And one of the -- one of
24 the attributes of an open bidding process is that parties
25 will know against whom they're competing?

1 MR. AZIZ AZIZ: That's right.

2 MR. BOB PETERS: And they'll also know
3 what price the other parties are offering under their
4 contracts, correct.

5

6

(BRIEF PAUSE)

7

8 MR. AZIZ AZIZ: I don't think we publish
9 the unit prices. The -- the contractor they don't know
10 the unit prices. They might know the total bid.

11 MR. BOB PETERS: All right.

12 MR. AZIZ AZIZ: I -- I've been involved
13 in public tendering overseas and we never published the
14 unit prices. We published total tender price.

15 So I think I -- this might be what we are
16 doing here because I know the unit prices is not for
17 public information.

18 MR. BOB PETERS: All right. If your
19 answer changes on your checking again you can get back to
20 the Board though your -- through your lawyer if there's
21 any change in that answer.

22 Do you find that this open bidding
23 process, where contractors find out who they're bidding
24 against, decreases competition or does it affect
25 competition in any way?

1 quite correct, an unintended -- an unintended consequence
2 would -- would possibly be that. You were going to check
3 to see whether the name could be disclosed, is that what
4 one (1) of the undertakings you had before?

5 MR. AZIZ AZIZ: Yes, Mr. Peters.

6 MR. BOB PETERS: All right, and -- and at
7 the time you address that, the Board may be interested in
8 knowing whether the contractor who was recently
9 successful was the same as the contractor who -- who had
10 won the previous bid, but for whom you've only used two
11 (2) out of the three (3) year arrangement that you --
12 that you had potential to use?

13 MR. AZIZ AZIZ: Well -- well I take this
14 too.

15 MR. BOB PETERS: Yes, thank you for that,
16 and I apologize to My Friend, Ms. Murphy, that was --
17 that was a brain cramp.

18 Do -- do the contractors, Mr. Aziz, offer
19 a warranty to Centra and Centra's consumers?

20 MR. AZIZ AZIZ: Yes, Mr. Peters.

21 MR. BOB PETERS: What is the warranty
22 that's offered?

23

24

(BRIEF PAUSE)

25

1 MR. AZIZ AZIZ: I believe it's two (2)
2 years, but I might be mistaken here, Mr. Peters.

3 MR. BOB PETERS: If it's different you
4 can get back to us again through --

5 MR. AZIZ AZIZ: Okay.

6 MR. BOB PETERS: -- through your counsel.
7 But when you say two (2) years, what is covered by that
8 two (2) years; can you explain to the Board what's
9 included under the warranty that -- that you want from
10 your contractor?

11 MR. AZIZ AZIZ: I think it's to cover any
12 faulty workmanship. So if -- if we have any problems due
13 to negligence, or faulty workmanship, he's liable to
14 rectify and correct this situation for us.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Mr. Chairman, with that
19 answer and I -- in light of the hour, I suggest this
20 would be the appropriate time for the noon recess. I do
21 have -- and I will review my notes over the lunch break
22 on some specific programs, as well as a -- a few matters
23 relating to the Tab 13 questions that I have.

24 And I don't want to promise My Friend, Mr.
25 Saxberg, that he'll see the microphone this afternoon,

1 but if he does, it'll be probably around the coffee break
2 in the afternoon.

3 THE CHAIRPERSON: With that in mind,
4 we'll come back at 1:15, thank you.

5 MR. BOB PETERS: Thank you.

6

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

8 --- Upon resuming at 1:20 p.m.

9

10 THE CHAIRPERSON: Well, welcome back, Mr.
11 Warden. We're taking a bright light at the rain outside,
12 we're assuming at least the lights won't go out. There
13 should be lots of electricity.

14 MR. VINCE WARDEN: At least with this
15 weather you know I wasn't golfing.

16 THE CHAIRPERSON: Mr. Peters...?

17 MR. BOB PETERS: Perhaps he cut his game
18 short.

19

20 VINCE WARDEN, Resumed:

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: Mr. Aziz, this morning
24 you were telling the Board about the inspection processes
25 and how that worked with Centra. You didn't tell the

1 Board how many inspectors there are employed by Centra;
2 do -- do you know how many?
3 MR. AZIZ AZIZ: I don't know the exact
4 number, but the number of inspectors varies, depending on
5 the amount of -- amount of work we have for the year.
6 MR. BOB PETERS: And what would be the
7 range of the number of inspectors that you would have?
8 MR. AZIZ AZIZ: I don't have the exact
9 number.
10 MR. BOB PETERS: When you say the number
11 fluctuates with the amount of work that you have; you
12 know right now how much work you have for this
13 construction season, correct?
14 MR. AZIZ AZIZ: That's right.
15 MR. BOB PETERS: And so you would have a
16 certain number of people designated as inspectors for
17 this year?
18 MR. AZIZ AZIZ: That's right.
19 MR. BOB PETERS: Can you ballpark that
20 number, or is that something you want to check and get
21 back to me on?
22 MR. AZIZ AZIZ: Yeah, I would rather
23 check and get back to you, Mr. Peters.
24 MR. BOB PETERS: All right. Well, we'll
25 take that then as a further undertaking.

1 --- UNDERTAKING NO. 13: Centra to provide Board with
2 the number of inspectors they
3 will have this year.
4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: I understood from your
7 evidence this morning that one (1) of the jobs that the
8 inspector does when they're onsite, is they monitor the
9 progress of the construction -- they monitor the progress
10 of the instruction, Mr. Aziz, against what's required
11 under the contract?

12 MR. AZIZ AZIZ: That's right, Mr. Peters.

13 MR. BOB PETERS: And they also then
14 determine when a cheque is paid to the contractor for the
15 work that's been done?

16 MR. AZIZ AZIZ: They -- they determine
17 the amount of work they -- the contractor did. And this
18 -- this information comes to our office and we process
19 payment to the contractor after that.

20 MR. BOB PETERS: All right. Just help me
21 on that point, Mr. Aziz. If the contractor does 50
22 percent of the work under the contract, do they get 50
23 percent of the money, as soon as they hit the 50 percent
24 mark?

25 MR. AZIZ AZIZ: We -- we provide payment

1 to the contractor on completion of the work. So, they --
2 they give us invoices -- monthly invoice for the work
3 that they've done and mainly if the work is not
4 completed, they don't provide us invoices for this work.

5 MR. BOB PETERS: Okay. I didn't
6 understand your answer, sir. Do they get paid monthly or
7 do they get paid on completion of the contract?

8 MR. AZIZ AZIZ: Let -- let me -- we get
9 monthly -- monthly invoices from the contractor, yes.

10 MR. BOB PETERS: And so there's progress
11 payments made to the contractor as the contract
12 progresses?

13 MR. AZIZ AZIZ: That's right. And we
14 hold back every -- from each invoice hold back from the
15 payment.

16 MR. BOB PETERS: You hold back 7 1/2
17 percent of the amount due?

18
19 (BRIEF PAUSE)

20
21 MR. AZIZ AZIZ: I'm not sure, but I think
22 7 1/2 percent seems right.

23 MR. BOB PETERS: When you talked this
24 morning about selecting the contractor, this is the
25 contractor that would have many crews that it would

1 utilize to do your work, correct?

2 MR. AZIZ AZIZ: That's right.

3 MR. BOB PETERS: How many people do you
4 think these contractors have, or how many employees or
5 people working for them, do they have?

6 MR. AZIZ AZIZ: Some of the -- I can give
7 you some idea about number of crews, what we have, it
8 kind of runs sometimes seven (7) to ten (10) crews across
9 the Province.

10 They work in different parts of the
11 Province and also they might be doing different kind of
12 work like distribution or putting services in Brandon and
13 maybe replacing the station in Winnipeg here.

14 So there are different crews -- he might
15 have different kind of crews -- the contractor has.

16 MR. BOB PETERS: But, I understood your
17 evidence also that you do not have one (1) inspector for
18 each of those seven (7) or ten (10) crews?

19 MR. AZIZ AZIZ: We don't have one (1)
20 inspector per crew; this is all I'm saying. We have --
21 an inspector we have -- I'd like to maybe mention on the
22 record here, we have a quality control contracted
23 construction document which is the guideline for an
24 inspection we prepared for our own internal company
25 purpose.

1 Board understand it better, Mr. Case, would these
2 contractors who have damaged your system also be the
3 contractors who are bidding every, say, three (3) years
4 on your construction contract -- construction contract?
5 MR. DAVID CASE: In some cases there may
6 be an overlap.
7 MR. BOB PETERS: Why would you use a
8 contractor who's got a demonstrated track record of
9 causing problems and then keeping them on your list as
10 qualified to -- to bid?
11 MR. DAVID CASE: I think the issue is
12 that regardless of which contractor you choose or which -
13 - I think no matter who's going to do construction,
14 accidents will happen.
15 Some of these tasks are very complex and
16 it's not always a -- a steady road to perform the work;
17 there's -- sometimes there's things in the way. And
18 people are human, sometimes they make mistakes,
19 unfortunately.
20 The -- the contractors that we use
21 certainly don't have a long list or a long history of
22 causing accidents.
23 MR. BOB PETERS: Would it be fair then
24 from that answer to assume that your chosen contractor
25 under your two (2) or three (3) year contract also causes

1 damage while they're performing your contract?

2 MR. DAVID CASE: That has been the case,
3 yes.

4 MR. BOB PETERS: And who pays in that
5 situation for the remediation of the damage caused?

6
7 (BRIEF PAUSE)

8
9 MR. DAVID CASE: That would be subject to
10 check -- check, Mr. Peters. I believe that charges are
11 charged back to the contractor.

12 MR. BOB PETERS: Mr. Warden, there were a
13 couple of questions that I noted arose this morning in
14 your absence that were thought to be, by your Panel
15 members, best directed to you on your return.

16 And one (1) of them came down to
17 explaining to the Board for how many years does Centra
18 foresee the \$12 million corporate allocation to Centra
19 being made by Manitoba Hydro?

20 MR. VINCE WARDEN: That would be in
21 perpetuity.

22 MR. BOB PETERS: So, you're also telling
23 the Board that the \$19 million needed on an annual basis
24 to service the interest costs on the acquisition and
25 integration costs together with the amortization of the

1 write-up and assets and liabilities, that's going to
2 continue on in perpetuity?

3 MR. VINCE WARDEN: Well, the -- the 2
4 million per year and the split we talked about yesterday,
5 the seventeen (17) financing costs, 2 million
6 amortization. The 2 million would drop off at the end of
7 thirty (30) years and at that point there -- there could
8 be a slight proportional reduction to the \$12 million to
9 -- to recognize that.

10 But the financing costs that we're -- that
11 we're booking today will carry on as long as we have that
12 outstanding debt, will -- will be continued to be
13 allocated to both gas and electricity ratepayers.

14 The 12 million, of course, would be
15 subject to change for the reason I just mentioned,
16 because of the amortization drop-off but also rates could
17 change, financing costs could change over that period of
18 time.

19 We've -- we've locked in debt for the
20 thirty (30) year period. But at the end of that thirty
21 (30) years there -- there could be, you know, a -- a
22 change in rates; that would be financing costs at that
23 point in time.

24 MR. BOB PETERS: From that answer I take
25 that the \$17 million of interest payments is at least

1 annualized for the next thirty (30) years at -- at \$17
2 million?

3 MR. VINCE WARDEN: That's right.

4 MR. BOB PETERS: And the \$2 million
5 amortization of the write-up of the value of the assets
6 and the debt on acquisition, that will drop off in thirty
7 (30) years' time?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And so long as Manitoba
10 Hydro still owns the gas utility, then that \$17 million
11 of -- of interest costs will -- will continue on the
12 books of Manitoba Hydro?

13 MR. VINCE WARDEN: Yes, it will.

14 MR. BOB PETERS: Does that suggest then,
15 Mr. Warden, that Manitoba Hydro will never pay off the
16 principal amount on account of that investment?

17 MR. VINCE WARDEN: That's right, to the
18 extent that our -- our investment, in Centra, is
19 unimpaired, that principal amount will remain as an
20 investment on the books of Manitoba Hydro.

21 Should that become impaired at some point
22 in time, then a decision would have to be made to -- to
23 recognize that by some form of a write-off. I don't
24 anticipate that happening though.

25 MR. BOB PETERS: You introduced the

1 impairment aspect, and I take it this is to -- to
2 determine whether or not the -- the goodwill is
3 appropriately valued, and that will determine whether or
4 not you've impaired the value of your --

5 MR. VINCE WARDEN: Well, I think I was
6 referring more to the total investment in Centra. But
7 that we do go through an exercise every year with our
8 auditors, to ensure that the goodwill that we have --
9 that we carry with respect to Centra is not impaired.

10 MR. BOB PETERS: Okay. Then maybe I
11 misunderstood your answer. The other impairment you're
12 talking about referred to what?

13 MR. VINCE WARDEN: Well, we have an
14 investment in Centra that we have valued, and we went over
15 the numbers yesterday, the \$242 million, which I think is
16 slightly reduced. I don't remember the number. I think
17 186 million we finally arrived at as being the number
18 that would ultimately reside as an investment on Manitoba
19 Hydro's books.

20 And as long as that investment was
21 unimpaired, that is the value of Centra exceeded that
22 amount, then there'd be no reason to write down the
23 investment.

24 MR. BOB PETERS: And that \$186 million
25 was the -- was the net book value, plus the goodwill?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: Mr. Warden, has Centra
3 noted an increase in the bad debt expense over the last
4 several years?

5 MR. VINCE WARDEN: Yes, we have.

6 MR. BOB PETERS: Why is that, sir?

7 MR. VINCE WARDEN: Well, the most obvious
8 reason is the increase in the price of gas. The
9 commodity price increases have had a dramatic impact on -
10 - on the price that consumers pay for their -- for their
11 home heating and industrial heating.

12 And it has had an impact on -- that has
13 been a major impact on -- on the amount of write-offs
14 we've experienced over the past three (3) or four (4)
15 years.

16 MR. BOB PETERS: Has the collections
17 policy been as aggressive as it was when -- prior to
18 Centra being owned by Manitoba Hydro?

19 MR. VINCE WARDEN: No, my -- my
20 information on that is only anecdotal, but that
21 information is, no, we are probably not as aggressive.
22 We are probably -- have more sensitivity, rather than
23 saying not as aggressive, I guess I'd prefer to say we're
24 -- we're more sensitive towards the customer than the
25 previous ownership.

1 MR. BOB PETERS: Are there plans to bring
2 down the bad debt expense, or do you see it hovering
3 around the \$3 million mark going into the future?

4 MR. VINCE WARDEN: I don't -- I don't see
5 it coming down any time soon, unless gas prices drop, I
6 think it's going to stay around the \$3 million level for
7 the foreseeable future.

8 MR. BOB PETERS: Historically, do you
9 know what parameters that bad debt expense has fluctuated
10 within?

11 MR. VINCE WARDEN: Yes, the -- the write-
12 off, going back pre-acquisition, was more in the \$1
13 million range. And has been escalating quite
14 significantly since 2000/2001, which is the time that gas
15 prices escalated as they have.

16 MR. BOB PETERS: No relief is foreseen by
17 the Company in -- in gas costs?

18 MR. VINCE WARDEN: No.

19 MR. BOB PETERS: Are there any programs
20 being introduced by Centra to assist customers who find
21 themselves included in the bad debt ledger?

22 MR. VINCE WARDEN: Well, the one (1)
23 program that has been introduced that has been quite
24 successful, and is only been underway for a fairly short
25 time, but we call it, The Neighbours Helping Neighbours

1 Program, and I'm aware of a number of customers that have
2 been assisted through that program.

3 MR. BOB PETERS: Do you know the
4 approximately annual dollar amount that that program
5 provides assistance to customers experiencing difficulty?

6 MR. VINCE WARDEN: I think it's on the
7 way.

8 MR. BOB PETERS: We'll get a wireless
9 mic.

10

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(BRIEF PAUSE)

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MR. VINCE WARDEN: Well, Mr. Peters, I'm
informed that the amount that Manitoba Hydro, or Centra
Gas, sorry, has provided towards this program is
relatively small, in the order of fifteen thousand
dollars (\$15,000) to date.

But the connection we've made, or assisted
customers in making is with Social Services has been
much, much greater. We don't have an amount for that,
but that -- that assistance provided through Social
Services has been more than Manitoba Hydro, Centra Gas
has contributed.

The other thing I'm informed that we have
done is we don't take deposits to the same extent as did

1 the previous ownership of Centra Gas. So, that's
2 assistance in some way to low income earners.

3 MR. BOB PETERS: All right. Just to end
4 up on this Neighbours Helping Neighbours Program, Centra
5 has seeded the program with about fifteen thousand
6 dollars (\$15,000) and on top of that there has been
7 contributions made from other social agencies; is that
8 what I'm understanding?

9 MR. VINCE WARDEN: Yes, I -- I'm not sure
10 I'd call it seeded; those have been grants to individual
11 customers. So, there -- there has been payments made to
12 specific customers in that amount. And -- and that --
13 and that is ongoing.

14 MR. BOB PETERS: Would -- would those
15 grants to individual customers result in the customer
16 remaining connected to the system?

17 MR. VINCE WARDEN: Yes, that's the idea.

18 MR. BOB PETERS: And if they go into
19 arrears again or -- or don't pay their accounts again,
20 are they eligible for the program or is it --

21 MR. VINCE WARDEN: Yeah.

22 MR. BOB PETERS: -- one (1) time only?

23 MR. VINCE WARDEN: It's -- it's a one (1)
24 time only event, so we, one (1) time per year.

25 MR. BOB PETERS: Thank you, Mr. Warden.

1 Also when you were away this morning, we -- we turned to
2 Tab 24 of the Book of Documents that had been circulated
3 and provided and we were looking at the cost of OM&A per
4 customer, and at Tab 24, is the answer given to
5 PUB/CENTRA-35(B).

6 Do you have that, sir?

7 MR. VINCE WARDEN: I do.

8 MR. BOB PETERS: The cost-per-customer
9 line is shown at line 63 on that Schedule, and I was
10 wondering if you could tell the Board what is the
11 Company's policy, or certainly plans, with respect to
12 what would be the average cost per customer for the OM&A
13 expenses incurred by Centra?

14
15 (BRIEF PAUSE)

16
17 MR. VINCE WARDEN: Well, the cost per
18 customer is one (1) of the measures we -- we have at
19 Manitoba Hydro, of assessing the effectiveness of our
20 budgeting cost control systems. We -- we set targets for
21 this number every year and -- and the monthly measure,
22 any -- any variance from -- from the target number that
23 we set.

24 So, our plan is to -- well, first of all,
25 we determine what the budget amount is for OM&A and then

1 this simple calculation by dividing the OM&A forecast
2 amount by the numbers of cust -- forecast number of
3 customers.

4 So once we determine what the appropriate
5 OM&A is for the year, or for the years ahead, then the --
6 the cost per customer is just a mathematical calculation
7 from that -- from that point. But it does serve as a
8 handy reference benchmark to -- to compare a performance.

9 MR. BOB PETERS: And Centra strives for
10 two hundred dollars (\$200) per customer for OM&A expense?

11 MR. VINCE WARDEN: Well no, not
12 necessarily. It's whatever that approved OM&A number is,
13 divided by the forecast number of customers.

14 So it, as you can see, it does hover
15 around two hundred dollars (\$200) but it's not -- that
16 isn't the official forecast number for -- for the test
17 years.

18 The test years '05/'06, as indicated here,
19 two eleven (211) and -- and two fourteen (214).

20 MR. BOB PETERS: Do I take from your
21 answer that the cost per customer is not a benchmark
22 that's utilized for management and budgeting purposes?

23 MR. VINCE WARDEN: No. I'm sorry if you
24 got that from the answer. We -- we do benchmark that.
25 We look at it every -- every month, as part of our -- the

1 numbers that we review, and to the extent that we're at
2 variance in the case of the '05/'06 test year, if we're
3 above the two eleven (211), then we'll attempt to bring
4 that down to the target number.

5 So, the benchmark is the two eleven (211)
6 for '05/'06.

7 MR. BOB PETERS: All right. So, the
8 benchmark number isn't determined in advance, it's a
9 result of what approved -- what your forecast is divided
10 by your number of customers, and that just happens to be
11 what the -- what the target will be for that year?

12 MR. VINCE WARDEN: Well, it has to be
13 compatible with the forecast, yes. It wouldn't make any
14 sense for us to approve a forecast of costs that is
15 different from -- from the target.

16 If we thought the cost per customer could
17 be two hundred dollars (\$200), using that example, if we
18 thought that could be achieved, then we should be
19 lowering our budget by that amount as well.

20 MR. BOB PETERS: But, you're not using a
21 -- a predetermined benchmark in working towards that in
22 your budgeting?

23 MR. VINCE WARDEN: Well, again, the
24 predetermined benchmark is the two hundred and eleven
25 (211) --

1 MR. BOB PETERS: But with respect --
2 MR. VINCE WARDEN: -- for -- for that
3 year.

4 MR. BOB PETERS: That wasn't
5 predetermined, that was just a result of the budget
6 divided by the customers?

7 MR. VINCE WARDEN: But the budget is
8 predetermined. We -- we come up with a budget -- we come
9 up with a budget what we think is our best estimate with
10 -- of what costs are going to be in that fiscal year, and
11 then divide by the number of customers, and come up with
12 that number.

13 MR. BOB PETERS: Are you trying to bring
14 that -- that average cost per customer down over the
15 years?

16 MR. VINCE WARDEN: We're trying to make
17 it the right number. And for '05/'06, we determined the
18 right number is -- is two eleven (211).

19 We are trying to bring the actual number
20 down to the extent that we're still, I hate to use the
21 word again, but synergies that we're striv -- striving to
22 achieve, have not totally been achieved then -- then we
23 will recognize the synergies in the budget number. And
24 we won't achieve that budget number if we don't achieve
25 the synergies.

1 So, there is certainly an element of -- of
2 performance embedded in the -- in the target number.

3 MR. BOB PETERS: Mr. Warden, yesterday
4 you talked with me about synergies achieved and also what
5 the benefits achieved are, for the gas customers, as a
6 result of the acquisition by Manitoba Hydro; do you
7 recall that?

8 MR. VINCE WARDEN: Yes, I do.

9 MR. BOB PETERS: In short, I remember
10 your telling me that the synergies were, I think there
11 were approximately \$7 million you attributed to the gas
12 side of the business, if I remember that correctly?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: And in terms of other
15 benefits, you provided in your rebuttal evidence, a
16 calculation that would demonstrate that had West Coast
17 still been the owner, the costs would have been in the
18 neighbourhood of \$9 million higher.

19 And those were the monetary benefits that
20 you have identified for the Board as a result of Manitoba
21 Hydro acquiring Centra's shares?

22 MR. VINCE WARDEN: Yes, that's right.

23 MR. BOB PETERS: Are there any other
24 monetary benefits that you can bring to the Board's
25 attention, as a result of Hydro being the owner of

1 Centra?

2 MR. VINCE WARDEN: I think we attempted
3 to capture in that schedule and in the rebuttal evidence,
4 a -- a conservative estimate of what the monetary
5 benefits are. I think the rebuttal evidence also
6 referred to other savings that weren't quantified there,
7 if I can just turn to that quickly; that was on page 14
8 of our rebuttal evidence. And it does say that:

9 "It should be noted that the absent
10 acquisition scenario does not include
11 the cost -- the costs incurred to
12 enhance customer service delivery, nor
13 does it include all the increased costs
14 associated with other program
15 initiatives introduced by Centra since
16 the date of acquisition."

17 The point of that being that we think
18 we're providing better customer service than was provided
19 prior to the date of acquisition, and that if we're
20 really to compare our cost to a absent acquisition
21 scenario, there should be some factor built into that
22 scenario, that was not done for -- for this purpose; so
23 we did not attempt to quantify that.

24 The difference we've shown in our
25 rebuttal evidence of \$9 million, we think is -- is

1 minimal, the minimal savings we have achieved.
2 MR. BOB PETERS: The minimum savings
3 you've achieved?
4 MR. VINCE WARDEN: The minimum -- yes,
5 the minimum.
6 MR. BOB PETERS: And the -- the other
7 savings that you've just identified, being the better
8 customer service, that would be a -- a subjective matter,
9 would it not?
10 MR. VINCE WARDEN: Well, we -- we do
11 measure customer service every -- every year. We --
12 there is a survey conducted, both independently I
13 believe, and by -- within the utility, and we have seen a
14 quite considerable increase in the satisfaction numbers
15 that prior -- than they were prior to the acquisition; so
16 it's not totally subjective.
17 MR. BOB PETERS: Would you agree then,
18 now, that it would be probably best considered a non-
19 monetary benefit to the Centra customers, having Manitoba
20 Hydro be the parent?
21 MR. VINCE WARDEN: Well, I guess that's
22 one (1) way of looking at it. My only point was that if
23 -- if there is a certain cost incurred to provide that
24 increased level of service, and if that was to be
25 provided by the previous owner, that previous owner would

1 have incurred that higher cost as well.
2 So, there -- there is some monetary aspect
3 to it, I don't know what that is though, we haven't
4 attempted to quantify that.
5 MR. BOB PETERS: Are there specific non-
6 monetary advantages to Centra customers arising out of
7 the acquisition?
8 MR. VINCE WARDEN: Yes, definitely.
9 MR. BOB PETERS: Such as?
10 MR. VINCE WARDEN: Well, I -- I guess I
11 can probably go back to the objectives that Manitoba
12 Hydro had at the -- at the date of acquisition, and there
13 -- there were six (6) objectives at that time. I'll just
14 take a minute to read them quickly:
15 "To be the one (1) stop energy company,
16 to meet customer's total energy needs."
17 We've definitely achieved that, which
18 would be a non-monetary benefit. The objective as we
19 talked about yesterday:
20 "To attain cost savings of at least \$12
21 million per year"
22
23 which we've met.
24 "To build a strategically stronger
25 energy company, very equipped to meet

1 the energy needs of Manitobans in the
2 competitive challenges of the future."

3 It was quite interesting actually, when --
4 when I was reviewing that, the background to that -- that
5 particular objective, which of course was back in
6 1999/2000, it's -- it indicated that:

7 "The acquisition should significantly
8 strengthen Manitoba Hydro's position
9 relative to the potential acquisition
10 of Winnipeg Hydro, having a large
11 proportion of Manitoba Hydro's gas
12 customers, located in Winnipeg Hydro's
13 service territory, also increases the
14 synergies that will be realized through
15 the acquisition of that utility."

16 So, it's another non-monetary benefit, I
17 think, that probably hasn't been recognized too much, but
18 certainly facilitated the acquisition of Winnipeg Hydro,
19 and has resulted in even greater synergies through --
20 through the combining of -- of those utilities. So that
21 was number 3.

22 Number 4, was:

23 "To take advantage of arbitrage
24 opportunities between gas and electric
25 energy resources."

1 And there's been a -- a lot of work done
2 on that front, which has not been quantified:

3 "To minimize rate increases to
4 customers."

5 And I think we -- we all know, or I think
6 on this side at least, we -- we certainly think that
7 we've done that, and finally number 6 is:

8 "To provide challenging learning and
9 growth opportunities for employees."

10 And I really can't say enough about that,
11 I -- I think that has been accomplished. Employees have
12 benefited greatly from -- from the -- from the merger of
13 the two (2) utilities.

14
15 (BRIEF PAUSE)

16
17 MR. BOB PETERS: Were there any other
18 ones, Mr. Warden, that the Company has on their -- on
19 their checklist?

20 MR. WILLIE DERKSEN: I think, Mr. Peters,
21 in our response to CAC-158, there was a request to
22 provide a detailed list of service improvements and
23 enhancements since Manitoba Hydro's acquisition, and
24 there are about three (3) pages of -- of changes and
25 enhancements to the quality of service, and -- and the

1 types of services provided to customers in that response.

2 MR. BOB PETERS: I took that response, to
3 CAC/MSOS, to be the one (1) that Mr. Warden was talking
4 about in terms of better customer service being provided,
5 than would have been the case had West Coast continued to
6 be the parent; is that how you see it, Mr. Derksen?

7 MR. WILLIE DERKSEN: Yes, I believe it's
8 better customer service, but it also, as Mr. Warden
9 indicated in response to this question, if the previous
10 owner would have provided these enhancements it would
11 have been at a higher cost than what's indicated in our
12 schedule.

13 MR. BOB PETERS: All right. I think -- I
14 think we've got that point. Were there any other non-
15 monetary benefits that the Corporation has identified?

16 MR. WILLIE DERKSEN: The other area that
17 we haven't quantified on that schedule are there -- there
18 are some reductions, I think, in -- in general plant
19 acquisitions as a result of the integration. There's
20 lower requirements for personal computers and for
21 infrastructure and those sorts of things.

22 And those would manifest themselves in
23 lower depreciation expense, and otherwise would have
24 happened in lower financing costs. As well there's the
25 bigger size of Hydro allows some greater benefit in terms

1 of volume purchasing; there'd be some lower costs
2 attributed to that as well that the previous owner would
3 not have been able to take advantage of.

4 MR. BOB PETERS: You don't think West
5 Coast could have gotten the same deal as Manitoba Hydro?

6 MR. WILLIE DERKSEN: Well I know that
7 they didn't in some cases, so there were advantages that
8 we saw when moving over to Manitoba Hydro, that there
9 were some lower prices of -- that were accessible.

10 MR. BOB PETERS: Okay and again, that's
11 not been quantified and included in your schedule?

12 MR. WILLIE DERKSEN: That's right.

13
14 (BRIEF PAUSE)

15
16 MR. BOB PETERS: Have we exhausted the
17 list of non-monetary advantages?

18 MR. WILLIE DERKSEN: Well there's one (1)
19 other area that Mr. Rainkie has reminded me of, and --
20 and that has to do with the access to long term debt, and
21 the rate at which long term debt can -- can be borrowed
22 at, and Centra, on a stand alone, it was at a higher rate
23 than it can get now, even after the inclusion of the
24 Provincial Guarantee Fees; so there is a finance expense
25 advantage as well.

1 MR. BOB PETERS: And operation wise as
2 well?
3 MR. VINCE WARDEN: Yes.
4 MR. BOB PETERS: But there hasn't been a
5 -- I think your words in the past have been a legal
6 merger, have there -- has there?
7 MR. VINCE WARDEN: No.
8 MR. BOB PETERS: And has there been
9 consideration to amalgamating or merging Hydro and Centra
10 from a legal perspective?
11 MR. VINCE WARDEN: Well, we certainly
12 talked about it from time to time. We think there would
13 be some advantage to that, at some point.
14 MR. BOB PETERS: What would be the
15 advantage?
16 MR. VINCE WARDEN: Well, there are
17 certain efficiencies, I don't think they're huge
18 efficiencies, that could be -- could be realized.
19 Regulatory costs is one (1) obvious area where that could
20 probably be streamlined more than it is today. So,
21 rather than having two (2) separate proceedings, we could
22 -- we could have one (1) proceeding, one (1) rate
23 application.
24 So, on the regulatory front, it is -- is
25 the most obvious, I think. Other than that though, we've

1 moved ahead with most other business -- taken advantage
2 of most other business opportunities. There are certain
3 things we have yet left to do that -- mainly because of
4 bargaining unit restrictions, we haven't proceeded with,
5 but -- but those are -- are in the future yet.

6
7 (BRIEF PAUSE)

8
9 MR. BOB PETERS: From that answer, Mr.
10 Warden, other than the regulatory cost example, it sounds
11 as if any other efficiencies that you could drive you
12 have -- have virtually attained them or are trying to
13 attain them within the existing structure.

14 MR. VINCE WARDEN: There are, you know,
15 incidental costs that we have for maintaining separate
16 reporting streams, separate financial statements,
17 separate Board; we -- our Board actually has two (2)
18 distinct meetings, one (1) for electric, the other for
19 gas.

20 So, I don't think those savings would be
21 significant but there are certainly some savings there.

22 MR. BOB PETERS: Would there be any
23 material costs arising out of an amalgamation?

24
25 (BRIEF PAUSE)

1 MR. VINCE WARDEN: The -- the costs, I --
2 I -- in my view, would mainly be on a legislative change
3 front; there would have to be certain changes in
4 legislation to accommodate that. But aside from that,
5 because we have integrated most aspects of the business,
6 there -- there would not be a huge cost incurred by the
7 utility.

8 MR. BOB PETERS: Just on that answer, Mr.
9 Warden, perhaps it's a matter on which Ms. Murphy can
10 provide some -- some guidance on at some time, maybe even
11 in closing submissions.

12 But, is it your view that you can't
13 amalgamate the -- merge the two (2) utilities under
14 existing legislation; and I don't want you to get too
15 comfortable with the legal hat on, but, I didn't
16 understand your answer, as if -- could it be done without
17 a legislative change, to your knowledge?

18 MR. VINCE WARDEN: I don't think so. And
19 I think it's just some fairly minor wording changes in
20 the -- in the Act that would required to accommodate gas
21 regulation within electric regulation; the regulation we
22 have today does not provide for that, that is in the
23 Manitoba Hydro Crown Corporation's Accountability Act
24 there's no provision for regulation of the gas utility.

25 So that there would have to be some --

1 some minor changes there to accommodate that, but I think
2 that could be accomplished quite readily.

3 MR. BOB PETERS: All right. I was not
4 understanding your answer. But in -- in terms of the
5 Public Utilities Board Act, are you aware, or have any
6 understanding as to whether or not the legal merger can
7 be done on application to the Board?

8 MS. MARLA MURPHY: I can't cite the
9 section number off the top of my head but there certainly
10 is a section in the Public Utilities Board Act that would
11 contemplate that a merger could be brought to the Board
12 for approval.

13 Mr. Warden's point is the next one, what
14 happens once we've done that, and that's where the
15 legislative issues would arise.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: All right. Thank you,
19 Ms. Murphy.

20 Moving that forward then, Mr. Warden, if
21 the gas and the electric utilities were amalgamated or
22 merged, would you segment the operations separately, that
23 is a separate balance sheet and income statement for
24 each?

25

MR. VINCE WARDEN: I wouldn't expect so,

1 no. No. There would be separate cost of service type
2 studies performed to make sure that there was no cross-
3 subsidies between electricity and gas ratepayers, but
4 that could be accomplished quite -- quite easily.

5 MR. BOB PETERS: But you could -- you
6 could keep separate statements for each of the
7 operations, much like you're doing now, correct?

8 MR. VINCE WARDEN: We could, but it -- I
9 don't see it serving any useful purpose.

10 MR. BOB PETERS: But wouldn't you have to
11 do that to ensure that there was fair customer rates for
12 both without the cross-subsidization?

13 MR. VINCE WARDEN: I don't think so, no.
14 That could just be another gas customer, could be another
15 class of customer within our -- our cost of service
16 study. And -- and the segregation would be provided
17 through that -- by that means.

18 MR. BOB PETERS: So, it could just be
19 another allocation methodology?

20 MR. VINCE WARDEN: It would.

21 MR. BOB PETERS: You said earlier that
22 there would be an opportunity for perhaps harmonizing
23 rate applications.

24 Do I take then from the -- the series of
25 answers that we're -- that we're talking about, if they

1 were amalgamated and merged, you would conduct only one
2 (1) rate application to gain an increase in revenue
3 requirement for either or both of the utilities?

4 MR. VINCE WARDEN: That would be the
5 logical approach, yes. I would foresee that happening in
6 the event of a legal merger.

7 MR. BOB PETERS: And do I take it then it
8 would be one (1) application seeking rate increases for
9 both utilities?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And in terms of turning
12 to this Application that's before the Board today, on a
13 cost of service basis, if Centra's non-gas rates
14 recovered all of its costs plus the \$12 million of the
15 corporate allocation, as well as enough to ensure a 75:25
16 debt equity ratio, that would be the -- the full extent
17 of what the Corporation is seeking in terms of rate
18 increases?

19 MR. VINCE WARDEN: Yes. Once we get to
20 the 75:25 debt equity ratio, there's no further need for
21 -- for rate changes beyond that.

22 MR. BOB PETERS: Only if the costs to run
23 the -- the business increased, would you then need
24 distribution cost -- distribution rate increases?

25 MR. VINCE WARDEN: Yes. If the debt

1 equity ratio was maintained through customer growth, then
2 that rate increase would not be required. But if the
3 debt equity ratio did deteriorate then we would want --
4 we would seek further rate re -- relief.

5 MR. BOB PETERS: In essence, that's the
6 case you've got before the Board right now, and that is
7 recover the costs as well as an amount that management
8 believes is appropriate to move towards a debt equity
9 target of 75:25?

10 MR. VINCE WARDEN: That's correct.

11 MR. BOB PETERS: I'd like to turn with
12 the Panel to some specific rate base projects and see if
13 we can move through those with -- with some pace.

14 And with that in mind, Mr. Case and Mr.
15 Aziz, one (1) of the projects that you've mentioned in
16 your materials is that you're working on a riser
17 rehabilitation project.

18 MR. AZIZ AZIZ: Yes, Mr. Peters.

19 MR. BOB PETERS: And that's for
20 residential meters, is it, Mr. Aziz?

21 MR. AZIZ AZIZ: This is for the
22 residential inside meters.

23 MR. BOB PETERS: And you -- Centra has
24 determined that -- that there's about twenty thousand
25 (20,000) meters out of sixty-six thousand (66,000) that

1 might need some rehabilitation?

2 MR. AZIZ AZIZ: Well, in previous
3 testimony we said it might be up to twenty thousand
4 (20,000) meter, and then information was provided,
5 actually changes between nineteen and a half (19 1/2),
6 nineteen thousand (19,000). And so the -- the exact
7 number is still -- we're working on but our -- the
8 targets will be around, yes, the twenty thousand
9 (20,000).

10 MR. BOB PETERS: And how many have you
11 completed to date?

12 MR. AZIZ AZIZ: Ten (10) -- approximately
13 ten thousand (10,000) meters.

14 MR. BOB PETERS: And so there's
15 approximately ten thousand (10,000) still to go?

16 MR. AZIZ AZIZ: Our plan is, yeah, three
17 thousand (3,000) for next three (3) years. Our -- our
18 plan is to complete the project over the next three (3)
19 years.

20 MR. BOB PETERS: Have you identified any
21 increase in the total number of meters that will give
22 rise to the rehabilitation project?

23 MR. AZIZ AZIZ: We did survey of all the
24 sixty-six thousand (66,000), and I don't think the number
25 of meters, which we -- been identified, we still feel

1 will meet our forecasts of around the twenty thousand
2 (20,000) or below.

3 MR. BOB PETERS: If I researched the
4 costs correctly on this, Mr. Aziz, the cost for the
5 rehabilitation of the risers was supposed to be back in
6 '03/'04, around seven hundred and fifteen dollars (\$715)
7 per unit; does that sound right?

8 MR. AZIZ AZIZ: That's right.

9 MR. BOB PETERS: And now the forecast was
10 raised to seven hundred and ninety dollars (\$790)?

11 MR. AZIZ AZIZ: That's right.

12 MR. BOB PETERS: And the actual cost
13 though, has come in at about eight hundred and forty-
14 three dollars (\$843)?

15 MR. AZIZ AZIZ: The eight hundred and --
16 and forty-three dollars (\$843) is -- this is including
17 the engineering and survey work we've done, and the meter
18 replacement too. So the numbers before the seven fifteen
19 (715) and seven ninety (790), this is direct labour to --
20 and material to -- to move the meter from inside to
21 outside, excluding the meter, or any engineering work
22 done.

23 MR. BOB PETERS: You don't replace the
24 meter on each and every one (1) of these do you?

25 MR. AZIZ AZIZ: No, we don't replace the

1 meter in each installation.

2 MR. BOB PETERS: But you're saying on
3 some of them do?

4 MR. AZIZ AZIZ: I think -- in -- in some
5 of them, yes, we do. If the meter not temperature
6 compensated, or if it is -- recall maybe twenty-eight
7 (28) years -- twenty-eight (28) years, yes.

8 MR. BOB PETERS: Meters older than
9 twenty-eight (28) years are replaced?

10 MR. AZIZ AZIZ: Yes. That's right.

11 MR. BOB PETERS: Does Centra staff do
12 this?

13 MR. AZIZ AZIZ: This is done completely
14 by Centra staff, yes.

15 MR. BOB PETERS: It's not out --
16 outsourced?

17 MR. AZIZ AZIZ: It's by utility services.
18 So I don't know if you call it outsourced or not, but
19 this -- this is -- I consider utility services is -- is
20 almost -- it's a contractor to us, but I would consider
21 them as just almost like Centra staff.

22 MR. DAVID CASE: Mr. Peters, if I could
23 elaborate on that. The -- there's a mix of employees, as
24 well as contracted services through Manitoba Hydro
25 Utility Services, as well as we have external contracted

1 welders.

2 MR. BOB PETERS: Has the Corporation
3 determined -- well, when you say utility services, Mr.
4 Aziz, is referring to Manitoba Hydro Utility Services,
5 which is an affiliated company?

6 MR. AZIZ AZIZ: That's right.

7 MR. BOB PETERS: And it predominantly
8 reads the meters, and it also has resources available to
9 -- to do some of the work that you have on a seasonal
10 basis?

11 MR. AZIZ AZIZ: That's right.

12 MR. BOB PETERS: Is it cheaper to
13 outsource it than do it internally?

14 MR. AZIZ AZIZ: Well, we're not looking
15 to cheaper as we're looking into the -- if we have the
16 resources internally, and I don't think we have the
17 staff, which is internally can do this replacement.

18 So, I think as Dave here might elaborate a
19 little bit more, because this is I think his own crews,
20 which is provide the services for replacing the meter.

21 MR. DAVID CASE: Mr. Peters, our
22 preference is to keep that in-house, and the reason for
23 that is that when we have to upgrade these services, in
24 many times we have to actually open those service lines
25 open to atmosphere. So you're dealing with live gas

1 lines with blowing gas.

2 And so we want to make sure that the folks
3 that are operating that have a very good understanding of
4 the operation and the safety mechanisms to control it.

5 MR. BOB PETERS: But, not all of it's
6 being done in-house, Mr. Case?

7 MR. DAVID CASE: We have a mixture, as I
8 said, we have Manitoba Hydro employees who are working on
9 that work, we have -- they are combined with labour
10 resources from Manitoba Hydro Utility Services, and then
11 we have right now, two (2) external contracted welders.

12 MR. BOB PETERS: But, my point was, while
13 you prefer to have it done by internal employees, you're
14 finding you're having to contract it out to get the work
15 done?

16 MR. DAVID CASE: The -- we contract out
17 to Manitoba Hydro Utility Services and the individuals
18 that we bring over from Manitoba Hydro Utility Services,
19 have been with that program for more than three (3) years
20 before they actually take charge of a crew.

21 So, they have a very good understanding;
22 they're equally as capable as our internal resources when
23 it comes to that level.

24 MR. BOB PETERS: As a result of this
25 inside metre program, Mr. Aziz, Centra's also embarking

1 on an outside metre rehabilitation program; is that
2 correct?

3 MR. AZIZ AZIZ: That's right.

4 MR. BOB PETERS: And can explain to the
5 Board briefly, what that program is to do.

6 Mr. AZIZ AZIZ: I think is in our
7 obligation, we're look -- identified, in the next two (2)
8 years we're doing a survey of the outside meters, to
9 identify any services, like to identify any meter set
10 where is downstream piping, beside the house.

11 And we found out some of the problems was,
12 actually some of the breaks we -- we get on this meter
13 says, are due to their rigidity of the downstream. There
14 is not enough movement. So we're -- we're trying to
15 identify this and maybe, based on our findings, will be
16 developing a program to deal with rehabilitation of this
17 meter sets.

18 MR. BOB PETERS: So, it's still in the
19 planning stage; is that right?

20 MR. AZIZ AZIZ: That's right.

21 MR. BOB PETERS: And how much money are
22 you planning on spending on this program over the next
23 year?

24
25

(BRIEF PAUSE)

1 MR. AZIZ AZIZ: Over the next two (2)
2 years, we're planning to spend a hundred and fifty
3 thousand (150,000) to do the below grade entry.

4
5 (BRIEF PAUSE)

6
7 MR. AZIZ AZIZ: I'd like to retract my
8 statement, Mr. Peters, we're looking through the right
9 numbers here.

10 MR. BOB PETERS: Certainly.

11 MR. AZIZ AZIZ: And it is -- the right
12 number is two hundred and eighty thousand (280,000) for
13 over the next two (2) years.

14 MR. BOB PETERS: And that money is being
15 spent on the surveying portion of what's being done not
16 the actual rehabilitation?

17 MR. AZIZ AZIZ: I think the surveying
18 portion and also doing some, starting the second year,
19 doing some rehabilitation, and it's a combination -- the
20 second year.

21 MR. BOB PETERS: Mr. Aziz, I understood
22 from your previous answer that some of the problems may
23 be caused by downstream piping, which I take it to be
24 customer-owned piping?

25 MR. AZIZ AZIZ: This is right. Like,

1 let's say for example, they're going into the pool or
2 pool heater, or going into another building in their
3 yard, and so this is -- is causing the -- all our
4 installation to, like, it's causing, yes, it's causing
5 the problems and because some of this is already old, so
6 we don't have the exact swing joints in the front of the
7 piping too.

8 So, even we don't have the swing joints in
9 the front, and then it's rigid downstream, so it's
10 causing the problem to our meter set installations.

11 MR. BOB PETERS: Will you be expecting
12 the customers to pay part of the cost of the
13 rehabilitation, if the problem is caused by the
14 customer-owned piping?

15 MR. AZIZ AZIZ: I don't -- I don't
16 foresee we're forcing the customers to do this, because
17 we think it's a matter of safety.

18 Past year we didn't have any standards at
19 that time to pass it to the customers or to inform the
20 customers. Just doing this, actually, we're developing
21 standards right now for new installations and to deal
22 with issues like this.

23 MR. DAVID CASE: Mr. Peters, on the point
24 of customer-owned piping attached to the downstream
25 portion of the outside meter set, we have raised the

1 issue with Mechanical Contractors Association as well as
2 the Manitoba Department of Labour, so we're trying to
3 make sure that we get the word out to the mechanical
4 contractors that do these types of installations not to
5 tie on to that downstream portion of pipe to remove the -
6 - the flexibility of the meter set.

7 MR. BOB PETERS: I take from that answer
8 that if you can make it more flexible, you'll consider
9 that Centra's problem and pay for it and still allow the
10 downstream piping to be attached?

11 MR. DAVID CASE: Downstream piping could
12 be attached provided it's installed properly so that
13 there's an adequate swing joint. It's not to say that
14 people cannot attach to it, it's in the matter they
15 attach to it.

16 MR. BOB PETERS: All right. Thank you
17 for that. On the remote telemetry units that are being
18 used by Centra Gas, can you explain briefly what these
19 units do, Mr. Aziz?

20 MR. AZIZ AZIZ: The -- actually, I'm
21 going to refer them to RTU. The RTU is -- provide
22 information to us like pressures and also we set them and
23 they can provide alarms if the station operation didn't
24 meet the criteria that's been set.

25 For example, if -- if we set the station

1 pressure to two hundred (200) pounds and pressure drops
2 into the station to below two hundred (200) pounds, we
3 get an alarm. So the RTU is providing information to us
4 through a scaling system.

5 MR. BOB PETERS: And when this was before
6 the Board at the last GRA, Mr. Aziz, you had
7 approximately seventy-five (75) of these RTU's and your
8 total cost was in the neighbourhood of a hundred and
9 fifty-six thousand dollars (\$156,000) of actual costs;
10 have I got that right?

11

12

(BRIEF PAUSE)

13

14

MR. AZIZ AZIZ: Can you repeat these
15 numbers again, Mr. Peters?

16

17

MR. BOB PETERS: Well, back at the
18 2003/04 GRA, was the approximate cost of these units
19 about two thousand (2,000) per unit?

20

21

(BRIEF PAUSE)

22

23

MR. AZIZ AZIZ: I'm not sure but I'll go
24 along with it.

25

MR. BOB PETERS: All right. And -- and
if you're taking that subject to check, which I

1 understand you are, I interpret the Application that you
2 now be have -- have before the Board, that you want to
3 get ninety-six (96) new sites hooked up on an RTU unit?

4 MR. AZIZ AZIZ: This is to complete the
5 program which was started before to replace all the old
6 units with new RTU ones. So this is a replacement of our
7 existing old units.

8 MR. BOB PETERS: Is this in addition --
9 are these ninety-six (96) in addition to the seventy-five
10 (75) that were replaced previously?

11
12 (BRIEF PAUSE)

13
14 MR. AZIZ AZIZ: Mr. Peters, what we have
15 right now is -- only left is forty (40) sites remaining
16 to complete, which will make the -- all the sites,
17 ninety-six (96) sites. So, we -- we completed fifty-six
18 (56) up until now and we still have forty (40) sites
19 remaining.

20 MR. BOB PETERS: And so in this
21 Application you're asking for money to complete those
22 forty (40) sites?

23 MR. AZIZ AZIZ: The forty (40) sites,
24 we're planning to complete them over the next three (3)
25 years, yes --

1 MR. BOB PETERS: And --
2 MR. AZIZ AZIZ: -- approximate.
3 MR. BOB PETERS: -- and you're asking --
4 is it -- you're asking for nine hundred and sixty
5 thousand dollars (\$960,000) for those forty (40) sites?
6 MR. AZIZ AZIZ: The nine hundred and
7 sixty thousand dollars (\$960,000) is for the -- for the
8 ninety-six (96) sites, since the start of the program.
9 MR. BOB PETERS: All right. And then
10 that helps with the math; what you're saying is it's
11 about ten thousand dollars (\$10,000) a site?
12 MR. AZIZ AZIZ: That's right.
13 MR. BOB PETERS: And if -- if my math was
14 correct, and you -- you took it subject to check that in
15 your '03/'04 General Rate Application, you were looking
16 at approximately 75 RTU's, at a cost of a hundred and
17 fifty-six thousand (156,000), it seems to me that the
18 cost per unit has gone up about five (5) times; does that
19 seem right?
20 MR. AZIZ AZIZ: My information here
21 provide that we're right on target, as 2001 we spend
22 ninety-eight thousand three hundred and fifty-eight
23 (98,358) for ten (10) sites, so we're coming nine -- nine
24 thousand eight hundred (9,800) dollars per site.
25 In 2003 we spend a hundred and fifty-three

1 thousand five hundred (153,500) for sixteen (16) sites,
2 so we're right on target, again.

3 And in 2004/05, the same thing, Mr.
4 Peters. So as our internal information is -- give us the
5 exact, roughly ten thousand (10,000) per customer, per
6 site. Sorry.

7 So when we submitted the whole project I
8 recall in -- it was -- this method based on nine hundred
9 and ninety-six (96) sites, for nine hundred and sixty
10 thousand (960,000), and we feel we're still going to meet
11 this target.

12 MR. BOB PETERS: All right. I think the
13 way to move this along, Mr. Aziz, is that if you could
14 make note through your Counsel to check your 2003/04
15 General Rate Application, what was filed in that
16 Application on Tab 4, page 32 of 71.

17 And I know this is going back in history,
18 December 9th of 2002, but there was an indication, and I
19 interpret the evidence from back then, that you replaced
20 seventy-five (75) RTU's, at a cost of a hundred and
21 fifty-six thousand dollars (\$156,000), so I don't
22 reconcile how you say you were spending ten thousand
23 dollars (\$10,000) per site back then.

24 MR. AZIZ AZIZ: Well, we'll look into
25 this and I hope we're not mixing the RTU and RCU.

1 --- UNDERTAKING NO. 14: Centra to indicate to Board
2 what was filed in the 2003/04
3 General Rate Application on
4 Tab 4, page 32 of 71.
5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: You'll let me know if --
8 if I've mixed my letters, I don't think I have, but we'll
9 -- we'll check that out.

10 MR. AZIZ AZIZ: No, I'm -- I'm not
11 claiming you mixed letters, Mr. Peters, I -- I am
12 claiming I might, maybe have stated something on the
13 record, which the 'T' is changed to different.

14 MR. BOB PETERS: I -- I have your point,
15 thank you, sir.

16 While we're on this RTU project, you now
17 expect it to be complete, you say in three (3) years from
18 now?

19 MR. AZIZ AZIZ: That's right, Mr. Peters.

20 MR. BOB PETERS: And you still expect
21 then the total budget will be nine hundred and sixty-
22 thousand dollars (\$960,000) for the entire project?

23 MR. AZIZ AZIZ: That's right.

24 MR. BOB PETERS: I want to turn to a -- a
25 different program under your pipeline safety and

1 integrity matters, and -- and it had to do with the
2 polyethylene butt fusion remediation program; is that one
3 (1) that you looked after, Mr. Aziz?

4 MR. AZIZ AZIZ: Yes, Mr. Peters.

5 MR. BOB PETERS: And -- and there were
6 failures in the -- in joint fusions, as I understand it,
7 in polyethylene pipe?

8 MR. AZIZ AZIZ: That's right.

9 MR. BOB PETERS: And how did you find out
10 that there were failures?

11 MR. AZIZ AZIZ: When we've been informed
12 there's a gas leak underground.

13 MR. BOB PETERS: And as a result of there
14 being gas leaks, you've gone back and you've -- you
15 started checking to see if there were other leaks --
16 sorry, other -- other fusions that could develop leaks?

17 MR. AZIZ AZIZ: Yeah, what -- what we've
18 done is actually maybe to explain, is we identified --
19 when -- when we got -- find few leaks and -- and some of
20 butt fusions, and some of our systems, we tried to
21 identify and to see if this is due to what?

22 And we -- we zeroed in into a certain
23 fusor and identified most of the -- the leaks. We tied
24 to one (1) certain fusor used by a contractor who was
25 working for us, and from this we identified all pipe

1 being done by this fusor, during that year.

2 MR. BOB PETERS: Excuse me for
3 interrupting, Mr. Aziz, when you say you -- you found
4 that there was a fusor causing problems, is a fusor an
5 individual, or is it a machine?

6 MR. AZIZ AZIZ: It's an individual. We
7 call it by --

8 MR. BOB PETERS: Yes.

9 MR. AZIZ AZIZ: -- individual fusor,
10 yeah.

11 MR. BOB PETERS: All right, and so this
12 one (1) individual was -- was not doing his job properly?

13 MR. AZIZ AZIZ: I don't know if it's -- I
14 guess I would say, yes. This was done in 1989, and when
15 it was -- the -- the technique of the butt fusion was new
16 to the Company here, and was introduced in -- in the late
17 '80s, so the fusor was using the -- his methods of -- of
18 fusing was -- was questionable.

19 And what we've done is identified all the
20 work has been done by that fusor, and we -- in order to -
21 - we took an R1, they have to do a due diligent, and
22 identify if the -- the subdivisions are safe or not.

23 And by doing this we implemented a program
24 by identifying where is all the fusions are in all the
25 subdivision, and taking samples of the fusion, doing the

1 circuit testing to ensure if the fusion is -- will fail
2 or not, and if any -- any of them fail, where we have
3 make an internal decision to replace all the fusions
4 within this subdivision.

5 MR. BOB PETERS: All right. So, you
6 found out where this individual had been doing work on
7 polyethylene pipe, and you've tested it, and if there
8 were some failures in the area, you re-did the whole
9 area?

10 MR. AZIZ AZIZ: That's right.

11 MR. BOB PETERS: Was this -- was this
12 fusor, this individual who did the fusing, a -- a Centra
13 employee, or Manitoba Hydro employee, or was this an
14 independent contractor that had been engaged by the
15 Company?

16 MR. AZIZ AZIZ: This was working for an
17 independent contractor.

18 MR. BOB PETERS: So centra would have had
19 an inspector on site, or responsible for the project?

20 MR. AZIZ AZIZ: I assume. I wasn't here
21 at that time.

22 MR. BOB PETERS: Can you assume or can
23 you indicate why the inspector wouldn't have caught the
24 problem before it developed into the magnitude it has?

25 MR. AZIZ AZIZ: I think as -- through

1 like some of the fusions, it can be deceiving too,
2 because I can get an expert in fusion and they will look
3 into it, and if it is done -- like -- like maybe explain
4 something about the fusion.

5 Is the -- butt fusion is you have two (2)
6 pieces of pipe, and you heat them, and you melt the
7 plastic on the pipe, and then you take your heating out,
8 and you push the two (2) pipes together, and you have to
9 push them under certain pressure, and it will create a
10 bead, which is -- this is the fusion, huh. And you look
11 into the bead, if it has too much bead is -- is -- you
12 might be pushing the melt of the pipe away, or if it's
13 less bead, it mean you don't have complete penetration of
14 the weld.

15 So this fusor was -- when he pulled the
16 heating out -- we suspect it is a cold fusion, we call it
17 cold fusion, which is takes time by -- by pushing -- by
18 connecting the pipe together. If you took, let's say
19 required to take two (2) seconds, if he takes ten (10)
20 seconds, the -- the surface of the pipe has already been
21 cold, so by pushing it hard, you're still getting the
22 bead, which is -- you look into it as -- as though it
23 might be okay, but in reality the fusion is not okay.

24 MR. BOB PETERS: And in reality whoever
25 was inspecting this fusor's work, didn't catch the

1 mistake?

2 MR. AZIZ AZIZ: Yes.

3 MR. BOB PETERS: And that mistake has
4 cost about four hundred thousand dollars (\$400,000) to
5 date?

6 MR. AZIZ AZIZ: Well I think it's more
7 than that, the number is in front of me here, identifies
8 close to five thousand (5,000) to '03/'04 and '04/'05
9 we're looking into two hundred and seventy-five thousand
10 (275,000), and then, over the next two (2) years, we're
11 looking into another half a million dollar, roughly.

12 MR. BOB PETERS: So, if you've done the
13 mental math for me, is that closer to a million dollars,
14 in total for the project.

15 MR. AZIZ AZIZ: 1.3 million, yeah.

16 MR. BOB PETERS: When will the project be
17 completed?

18 MR. AZIZ AZIZ: We -- we hope it will be
19 finished by '06/'07.

20 MR. BOB PETERS: Was there any attempt at
21 recourse against the construction company or the
22 contractor that the Company used?

23 MR. AZIZ AZIZ: As I recall, we looked
24 into this but the period of -- of I think suing the
25 Company, I think, I might be mistaken, when I look into

1 my legal counsel here, but I don't think the -- the
2 period for suing -- for going after the contractor or
3 suing the Company is -- is elapsed.

4 MR. BOB PETERS: Without getting into the
5 legalities of it, and I'll -- you're telling the Board
6 that legal action hasn't been commenced to try to collect
7 any amounts, that's what you know?

8 MR. AZIZ AZIZ: Yes. That's -- that's
9 right.

10 MR. BOB PETERS: Mr. Aziz, on the
11 Hanover/Labroquerie Project, the Board was last told, I
12 think at the last GRA, that the Company found leaks in
13 the welding process; right?

14 MR. AZIZ AZIZ: That's right.

15 MR. BOB PETERS: And this was done by an
16 -- a contractor that had been successful in winning the
17 Company's construction contract at that point in time?

18 MR. AZIZ AZIZ: That's right.

19 MR. BOB PETERS: Does Centra still use
20 the same contractor?

21 MR. AZIZ AZIZ: Yes.

22 MR. BOB PETERS: Why?

23 MR. AZIZ AZIZ: The work has been done
24 was due to, I think is, at the time of doing the work the
25 contractor had welders, and there is some welders came

1 from outside of the Province, like from Saskatchewan, I
2 think it's Saskatchewan; I'm not sure if they had --
3 anywhere -- they came from Alberta, but at that time
4 there were no available welder to him from locally, here.

5 So he uses some welders to supplement his
6 welding crew, and we found out one of them is not doing
7 his work, and I think, my understanding, this welder left
8 -- left him during the construction work. So it's --
9 it's not actually -- you get problems during
10 construction, but it doesn't mean the contractor is --
11 you have to get rid of the contractor.

12 I think it's we have to work with the
13 contractor to see it -- to identify this problems and
14 rectify them, and I think this is what we've done with
15 Hanover and Labroquerie.

16 MR. BOB PETERS: Was there an inspector
17 on site for this contractor and this rogue welder from
18 the west?

19 MR. AZIZ AZIZ: Yes. Yes, we have an
20 inspector on site, yes, Mr. Peters.

21 MR. BOB PETERS: And I think you told me
22 just after the lunch break that one of your internal
23 documents is that when there's welding going on, your
24 inspector is supposed to be there?

25 MR. AZIZ AZIZ: I -- I think we -- we

1 developed -- we -- we always refine our procedures and
2 during the installation of this line we didn't have any -
3 - an inspector -- we developed -- since that time we
4 develop the knowledge of welding experts, in our company,
5 so we have now inspectors which are welding expert in --
6 in our company right now.

7 MR. BOB PETERS: And they would be the
8 new inspectors if this job was to have started today?

9 MR. AZIZ AZIZ: Yes.

10 MR. BOB PETERS: Have there been further
11 leaks discovered on this line?

12 MR. AZIZ AZIZ: Further than when, Mr.
13 Peters?

14 MR. BOB PETERS: Since the last GRA?

15 MR. AZIZ AZIZ: I'm not aware of any
16 since 2003.

17 MR. BOB PETERS: And in terms of what has
18 changed, in terms of preventing this occurrence from
19 happening, what's changed is you think you have more
20 qualified -- or higher qualified inspectors internally?

21 MR. AZIZ AZIZ: Yes. We -- we developed
22 our own internal knowledge of welding, and also developed
23 our own welding procedures too.

24 MR. BOB PETERS: But your own welding
25 procedures are to be followed by the independent -- by

1 the contractors that you hire?
2 MR. AZIZ AZIZ: That's right.
3 MR. BOB PETERS: Can you tell the Board
4 what's the current operational status of that
5 transmission line?
6 MR. AZIZ AZIZ: As I recall, we did a
7 risk assessment study on this line, and identified the
8 line is safe to operate as its own operating or licensed
9 pressure. So, and I recall I sent a cert -- certificate
10 to the Board stating that.
11 MR. BOB PETERS: All right, so you're
12 saying it's certified to operate at its maximum design
13 pressures?
14 MR. AZIZ AZIZ: That's right.
15 MR. BOB PETERS: Does it operate at that
16 pressure right now, or does it operate at something less
17 than that?
18 MR. AZIZ AZIZ: No, we -- we're not
19 operating at the maximum operating pressure of the line.
20 MR. BOB PETERS: On the southwest
21 transmission line, there was also a problem in that there
22 was I think corrosion on that line; is that correct?
23 MR. AZIZ AZIZ: That's right.
24 MR. BOB PETERS: And without getting too
25 scientific, the corrosion was as a result of lack of

1 cathodic protection?

2 MR. AZIZ AZIZ: It was combination of --
3 it's not directly -- cathodic protection and also was
4 causing damage. I think the major factor was the causing
5 damage on the line.

6 MR. BOB PETERS: And -- and the coating
7 damage and whatever cathodic protection problems there
8 were, resulted in corrosion?

9 MR. AZIZ AZIZ: Yes.

10 MR. BOB PETERS: There was a lack of
11 cathodic protection on that line, was there not?

12 MR. AZIZ AZIZ: As I recall, yes, as
13 there was due to failure our -- one (1) of our own
14 rectifier. And we had -- the rectifier was failed and we
15 suspect it was out of commission for a few months. I
16 think it's eighteen (18) months the rectifier was out of
17 commission.

18 MR. BOB PETERS: And this southwest
19 transmission line is the one (1) that goes from Brandon
20 to Boissevain and then off to Souris and Killarney?

21 MR. AZIZ AZIZ: That's right.

22 MR. BOB PETERS: When the rectifier was
23 out of commission for eighteen (18) months that's what --
24 that meant there was no cathodic protection at that time?

25 MR. AZIZ AZIZ: At this segment of line,

1 yes, it's not on the whole transmission system, because
2 we had more than one (1) rectifier.

3 MR. BOB PETERS: All right. And -- and
4 for how long of a line was this rectifier responsible for
5 providing cathodic protection?

6 MR. AZIZ AZIZ: I'm not sure if it's
7 fifty (50) kilometres or fifty (50) miles of this line.
8 The exact length I don't recall, but around this fifty
9 (50) number.

10 MR. BOB PETERS: All right, that's fine.
11 Why did it take you eighteen (18) months to realize the
12 rectifier was down?

13

14

(BRIEF PAUSE)

15

16 MR. AZIZ AZIZ: The eighteen (18) month
17 was -- it was over two (2) periods of time. Was since
18 the initial installation it took us almost a year before
19 we get the cathodic protection installed. And the second
20 incident was a lightening strike, which took us a few
21 months to identify and correct the problem.

22

23

MR. BOB PETERS: Correcting that problem
is going to cost approximately a million dollars?

24

25

MR. AZIZ AZIZ: I think as the problem is
not the rectifier, I think the problem is correcting the

1 -- the problem of preventing further deterioration of the
2 line. We -- we think we already corrected the problem
3 and we found out most of the problem due to dam -- damage
4 to the coating, also too. So, it's not the cathodic
5 protection completely.

6 MR. BOB PETERS: And I suggested that
7 then the cost to rectify the problem, whether it's
8 cathodic protection or lack of protective coating, is in
9 the neighbourhood of a million dollars?

10 MR. AZIZ AZIZ: I think as -- as I
11 recall, a little bit less than a million, I think it's
12 seven hundred and sixty-six thousand (766,000) --

13 MR. BOB PETERS: Okay.

14 MR. AZIZ AZIZ: -- take or...

15 MR. BOB PETERS: And the -- the
16 Hanover/La Broquerie costs, I don't think you told those
17 to me, but was that also in the same ballpark?

18 MR. AZIZ AZIZ: No, Hanover and La
19 Broquerie, actually nor -- have the case and we -- we
20 roughly spend about sixty -- seventy-six thousand
21 (76,000), so our cost to -- is less than that.

22 MR. BOB PETERS: I was talking the total
23 cost of the -- of the Remediation Project, and not just
24 the annual cost.

25 MR. AZIZ AZIZ: It was -- that was the

1 cost of the Hanover and La Broquerie, I think is, I can -
2 - will be in the neighbourhood of the hundred and fifty
3 thousand (150,000), it's not more than that, because of -
4 - we -- we've hired an outside consultants to perform a
5 Risk Assessment Study for us.

6 MR. BOB PETERS: And that still hasn't
7 been completed.

8 MR. AZIZ AZIZ: Oh no, study is
9 completed. And their -- our finding, as I mentioned
10 before, was the line is safe to operate.

11 MR. BOB PETERS: All right. Thank you
12 for that.

13 On the southwest transmission line, that
14 was done by a -- by a contractor that had been awarded a
15 contract from Centra?

16 MR. AZIZ AZIZ: At that time, yes.

17 MR. BOB PETERS: And there would have
18 been an inspector on site?

19 MR. AZIZ AZIZ: I think, at that -- at
20 time, I think as -- as I recall, the inspection was done
21 by a -- a third party.

22
23 (BRIEF PAUSE)

24
25 MR. BOB PETERS: You indicated to the

1 Board that the inspection provided for that project would
2 have been -- would also have been contracted out to a
3 different company.

4 MR. AZIZ AZIZ: Yes, as I am aware of.

5 MR. BOB PETERS: And not using an
6 internal Centra Gas inspector?

7 MR. AZIZ AZIZ: No. At that time I think
8 the Company opted to get a third -- an outside company to
9 inspect the installations.

10 MR. BOB PETERS: There was a requirement
11 then, when you were building that under the Canada
12 Manitoba Infrastructure Agreement, that there be a third
13 party inspector?

14 MR. AZIZ AZIZ: Might -- you might be
15 right, I'm not clear about that.

16 MR. BOB PETERS: But, in any regard, the
17 inspection failed to detect the damage being done to the
18 jacket protective coating, as well as the problems with
19 the cathodic protection?

20 MR. AZIZ AZIZ: At this time of
21 installation, yes, there was failure to predict there
22 might be damage to the coating. During installation or
23 during the -- I think as -- as the matter is now is -- is
24 under litigation, and we're -- we're not trying to --
25 we're trying to maybe implicate the contractor by maybe

1 did not follow the safe practice for back filling.

2 MR. BOB PETERS: Mr. Aziz, the -- the
3 butt fusion failures, the Hanover/La Broquerie matter,
4 and the Southwest Transmission Line, all, arguably, could
5 have been avoided had there been perhaps higher levels of
6 inspection, or better trained inspectors on the site?

7 MR. AZIZ AZIZ: Well, I would -- I would
8 say, yes, and -- and, same time you can have highly
9 trained inspectors, and you can potentially not predict
10 some problems with -- in certain fusion, or in certain
11 location, you can -- if you didn't identify, still you
12 have highly trained inspectors, and one (1) or two (2)
13 might be overlooked by an inspector, so I --

14 But, generally, yes; I would say, yes.

15 MR. BOB PETERS: On the stonewall supply
16 failure that you've told the Board about, that happened
17 in January of 2004?

18 MR. DAVID CASE: We had two (2)
19 occurrences, January 29th, 2004, and then February 7th,
20 2004.

21 MR. BOB PETERS: Those dates are etched
22 in your mind, Mr. Case; it must have been significant?

23 MR. DAVID CASE: It certainly was.

24 MR. BOB PETERS: From the materials,
25 there appeared to be two hundred and seventy-five

1 thousand dollars (\$275,000) spent for that project, out
2 of capital; is that approximately correct?

3 MR. AZIZ AZIZ: Yes.

4 MR. BOB PETERS: That was --

5 MR. DAVID CASE: The two hundred and
6 seventy-five thousand dollars (\$275,000), to my
7 recollection, was not capital. I believe that was
8 operating expense required.

9
10 (BRIEF PAUSE)

11
12 MR. BOB PETERS: We've agreed that about
13 two seventy five -- two hundred and seventy-five thousand
14 dollars (\$275,000) on account of capital?

15 MR. AZIZ AZIZ: Yes.

16 MR. BOB PETERS: What was the total cost
17 of the emergency that resulted? I -- I was -- if two
18 hundred and seventy-five thousand dollars (\$275,000) was
19 the cost of the capital to repair the problem, what was
20 the total cost of the emergency?

21
22 (BRIEF PAUSE)

23
24 MR. DAVID CASE: I'm sorry, three hundred
25 and seventeen thousand dollars (\$317,000).

1 MR. BOB PETERS: And you told us there
2 were two (2) occurrences, Mr. Case, was that for a
3 combination of the two (2) of them was three hundred and
4 seventeen thousand (317,000)?

5 MR. DAVID CASE: That's correct.

6 MR. BOB PETERS: And the -- the supply
7 failure to the town of Stonewall and surrounding area was
8 as a result of debris being found in the -- in the
9 pipeline?

10 MR. DAVID CASE: The pipeline strainer
11 upstream of the Stonewall gate station was found plugged
12 with debris.

13 MR. BOB PETERS: And the nature of the
14 debris was what?

15 MR. DAVID CASE: It was determined to be
16 steel shot. It's used to --

17 MR. BOB PETERS: Where does steel shot
18 come from?

19 MR. DAVID CASE: The -- the question of
20 where it comes from is a good question; we're not exactly
21 certain. It's a product that's used in sandblasting
22 operations. It's certainly something that we don't use
23 in our operation, and I -- I believe that it was
24 confirmed with TransCanada Pipeline that they weren't
25 using it as well; so it's a mystery.

1 MR. AZIZ AZIZ: Maybe to add into this,
2 Mr. Peters, is this type of shots might be usually used
3 by pipeline coating manufacturers. When they use steel,
4 they -- they produce the steel pipe, and leave them in
5 their stockyard, and this pipe corrodes.

6 So they use this steel shots to -- for --
7 for shining the surface and get rid of the corrosion.
8 And we predict, it's -- it's not -- it might be was
9 caused by the coating manufacturer. Usually they clean
10 their pipe after that, and then ensure there is no steel
11 shots in the pipe.

12 So we suspect they might -- maybe left
13 some of those steel shots in their line. We contacted
14 Shaw Pipe, they -- they claimed they changed their own
15 internal procedures and I think -- and in late '60's,
16 early '70's and they claim is usually they cover after
17 they -- they use the -- clean their pipe, they cover it
18 with covers, and ensure there is no shots; they check
19 into this.

20 But, they did not claim -- or take
21 responsibility for if this is their shots.

22 MR. BOB PETERS: Well, it's -- I suppose
23 that's interesting to the Board with your Inspector
24 Clouseau hat on. In terms of finding the problem, how
25 long was this pipe in the ground before this problem

1 arose?
2 MR. AZIZ AZIZ: Oh, I think the pipe was
3 installed in the late '60's.
4 MR. BOB PETERS: All right. And so --
5 and the -- the pipe was manufactured where?
6 MR. AZIZ AZIZ: My -- in Regina.
7 MR. BOB PETERS: And are you aware as to
8 whether or not it's ever happened before in Canada?
9 MR. AZIZ AZIZ: I'm not aware that -- I
10 check though with my colleagues throughout the industry
11 in Canada and none of them is aware of having this steel
12 shots in their system or in their strainers.
13 And I -- I guess it's -- that they've been
14 alarmed. They're now -- when they go and repair anything
15 they look into and do I have steel shots or not.
16 MR. BOB PETERS: All right. So it's an
17 absolute mystery how it got into the pipe, and for how
18 long it was in the pipe?
19 MR. AZIZ AZIZ: Oh, I -- I think it's --
20 you're right, it's -- it's a mystery and we -- we cannot
21 say how long, but actually our theory is this might be
22 since the installation.
23 MR. BOB PETERS: Which goes back to the
24 late 60's?
25 MR. AZIZ AZIZ: Yes.

1 MR. BOB PETERS: And -- well, I suppose
2 at the time of installation efforts were made to clean
3 out the inside of the pipe, were they not?

4 MR. AZIZ AZIZ: I think it's -- yes, we
5 always pig the lines after -- it's another word here, it
6 doesn't mean we send the pigs through the pipeline, but
7 we -- this terminology is we use, like, a pig to go
8 through the pipeline to clean any debris in the pipe.

9 MR. BOB PETERS: Pig, P-I-G?

10 MR. AZIZ AZIZ: Yes.

11 MR. BOB PETERS: And this is an
12 electronic instrument that goes through the pipe?

13 MR. AZIZ AZIZ: Yes. It's not
14 electronic, it's -- it's an instrument -- sorry. Sorry.
15 It's an instrument that -- that has cups around it so it
16 goes through -- it -- it goes actually the same size of
17 the pipe, and goes through the pipe under pressure, and
18 cleans any debris in the pipe.

19 MR. BOB PETERS: You don't know if they
20 did that back in the late 60's when this was installed?

21 MR. AZIZ AZIZ: It -- it is the normal
22 procedure for any installation, to pig -- to clean the
23 pipe before actually turning the gas on, or before
24 turning the -- the pipe or the pipeline to the owner.

25 MR. BOB PETERS: Have there been any

1 further problems this past winter for Stonewall, or any
2 other area, in respect of having a supply failure or with
3 shot in a line? MR. AZIZ AZIZ: Not --
4 MR. BOB PETERS: -- in the line?
5 MR. AZIZ AZIZ: -- not that I am aware
6 of.
7 MR. BOB PETERS: And you'd be aware of
8 it, if anybody?
9 THE CHAIRPERSON: Mr. Peters, are you
10 going to come to a natural break in your --
11 MR. BOB PETERS: In a couple minutes I'll
12 certainly notify the Board would be an appropriate time
13 for a -- for a break.
14 Just to tidy that up, Mr. Aziz, as
15 interesting as that sounds, have you inspected other
16 facilities that are nearby to see if the same problem
17 persists?
18 MR. AZIZ AZIZ: Yes. We -- we have done
19 some inspection to another locations and -- let me check
20 on our finding here... We -- we have done actually --
21 inspect about four (4) locations in our pipeline, and we
22 did not -- if -- if I am right, we did not find a
23 problem, or extensive problem as we found in Stonewall.
24 It might be -- we found in -- in certain
25 locations, I think we -- we found the odd steel shot but

1 it's nothing into the same magnitude as what we -- we had
2 in our incident.

3 MR. BOB PETERS: So the solution that --
4 that you developed was to clean out the strainer, or put
5 in a new strainer?

6 MR. AZIZ AZIZ: As -- yes. We -- we --
7 to actually, to monitor the strainers, and to clean them
8 more often than before.

9 MR. BOB PETERS: And was there a bypass
10 put in around the strainer so that if it ever did plug
11 again the gas would bypass the strainer?

12 MR. AZIZ AZIZ: That's right. And this
13 is part of the capital dollars that we spend to modify
14 the facilities over there.

15 MR. BOB PETERS: Are there any other
16 sites that need to have a similar bypass put in to make
17 sure that they don't have the same outage problem as
18 Stonewall did?

19 MR. AZIZ AZIZ: What we -- we have done,
20 since the incident, we have done five (5) sites in --
21 last year, and we identified another nine (9) sites for
22 this year, yes. We're -- we're taking corrective action
23 to ensure we -- we don't have the same problem in another
24 sites.

25 MR. BOB PETERS: In addition to the

1 capital costs for the Stonewall supply failure, and the
2 emergency costs that you've told the Board about, these
3 other four (4) stations that you've searched, you're
4 putting bypass facilities through them?

5 MR. AZIZ AZIZ: No. This is not a
6 station. This is four (4) locations. We already have
7 the same, like, what we -- we looked into some locations,
8 identified some critical locations which we suspect might
9 collect some of -- debris, which is end of the line,
10 before you take off to another situation, which we call
11 it a dead end piece of pipe.

12 And we already excavated this locations,
13 and did an x-ray, and we've done to see if there is any
14 debris in side, and some of them even we cut this dead
15 piece of pipe, and in order to get whatever is inside.
16 So it's not station modification, it's -- it's only
17 modification on our own pipeline.

18 MR. BOB PETERS: What's going to be the
19 cost of those additional repairs?

20 MR. AZIZ AZIZ: I think as the -- the
21 cost is not high, I would say between ten (10) to twenty
22 thousand dollars (\$20,000) for the four (4) location.

23 MR. BOB PETERS: Total cost?

24 MR. AZIZ AZIZ: Yes.

25 MR. BOB PETERS: Thank you. Mr.

1 Chairman, with that answer, this would be an appropriate
2 time to take an afternoon recess.

3 THE CHAIRPERSON: Thank you, Mr. Peters.
4 So we'll come back about quarter after and have a brief
5 time before we shut down. Thank you.

6

7 --- Upon recessing at 2:55 p.m.

8 --- Upon resuming at 3:15 p.m.

9

10 THE CHAIRPERSON: Mr. Peters...?

11 MR. BOB PETERS: Yes, thank you. Before
12 I start, Ms. Murphy has a matter to bring to the Board's
13 attention.

14 THE CHAIRPERSON: Ms. Murphy...?

15 MS. MARLA MURPHY: Thank you. Just a
16 couple of filings. The first one is the response to
17 Undertaking Number 7 which Mr. Warden took yesterday at
18 page 772 of the transcript.

19 This was in response to Mr. Peters'
20 request to file the Corporate Risk Management Report that
21 had been filed at the last Hydro hearing. It is
22 attached. The request was for that associated with the
23 gas operations.

24 The report, you will see from the material
25 being distributed, is, in fact, both gas and hydro; so

1 they're -- they're both embedded in there.

2 And I believe, Mr. Chairman, by my
3 numbering, that would be Centra Exhibit 13.

4 THE CHAIRPERSON: Yes.

5 MS. MARLA MURPHY: Thank you.

6

7 --- EXHIBIT NO. CENTRA-13: Response to Undertaking No.
8 7.

9

10 MS. MARLA MURPHY: The other material
11 that's being distributed, I'll seek your direction, Mr.
12 Chairman, on how you wish to have it marked.

13 It's -- it's a Number 3, tidy up items,
14 cleaning up some of the IR's. There was a, in the filing
15 to the response to CAC/MSOS/CENTRA-105, inadvertently the
16 typed response given was the response to PUB-105 with the
17 attachments being CAC's. So, we've -- we've clarified
18 that.

19 There was also a missing schedule from the
20 response to RCM/TREE/CENTRA-31(B) and a revised schedule
21 for PUB/CENTRA-2(B).

22 And I would suggest, perhaps for
23 efficiency, that rather than filing this as an exhibit
24 they could simply be replaced with the existing ones and
25 follow the exhibit numbers that Mr. Peters gave them at

1 the outset.

2 THE CHAIRPERSON: Very good.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Mr. Peters...?

7 MR. BOB PETERS: Yes, thank you.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Continuing with this
11 Panel on -- on safety and integrity issues, there's also,
12 in the materials, an indication that Centra will relocate
13 pipelines at the request of third parties, or also to
14 comply with safety codes; have I summarized that
15 correctly?

16 MR. AZIZ AZIZ: We -- most of the
17 relocation is the request of third party or compliance,
18 yes; I agree, yeah, Mr. Peters.

19 MR. BOB PETERS: If it's done at the
20 request of a third party, does the third party pay for
21 it?

22 MR. AZIZ AZIZ: Mainly third party pays
23 for it, except the Department of Highways. We relocate
24 for any work on -- on the Department of Highways -- it's
25 in our own cost.

1 MR. BOB PETERS: And the reason you pay
2 for relocating in light of highway requests is because
3 that's part of your agreement with the municipalities?

4 MR. AZIZ AZIZ: This is part of the
5 condition of the agreement with the Department of
6 Highways, yes. And maybe also to add within the City
7 here, if we have to relocate for the City, City pays the
8 value of the plant in the ground, and we pay the actual
9 cost of the new plant.

10 And this is, I think, is an old -- not
11 sure it's an agreement or an order. I'm not sure.

12 MR. BOB PETERS: And those are on third-
13 party request by the City?

14 MR. AZIZ AZIZ: Yes.

15 MR. BOB PETERS: And so, as I understood
16 that, the value -- the depreciated value of the plant in
17 the ground would be repaid by the -- by the City, and
18 then Centra would have to re-install the plant at its own
19 cost?

20 MR. AZIZ AZIZ: That's right.

21 MR. BOB PETERS: In terms of non-
22 compliance with Code, there was an indication in the
23 materials that on the Warren transmission line there was
24 a new valve that had to be installed so you could shut it
25 off -- shut off the flow to that area?

1 (BRIEF PAUSE)

2
3 MR. AZIZ AZIZ: I think it's -- this is a
4 repair to the existing valve in Warren line, it's not a
5 Code requirement.

6 MR. BOB PETERS: It's not finished yet,
7 or is it?

8 MR. AZIZ AZIZ: No, I haven't finished at
9 this stage. No, you're right, Mr. Peters.

10 MR. BOB PETERS: But the -- the repair is
11 needed so that you can shut off the gas to Warren, and
12 that's a requirement by the Code?

13 MR. AZIZ AZIZ: A repair is needed to
14 shut off the gas in case of -- we need to operate the
15 valve as...

16
17 (BRIEF PAUSE)

18
19 MR. AZIZ AZIZ: I -- I don't think this
20 is a requirement by the Code.

21 MR. BOB PETERS: All right. Fair enough.
22 But you still want to repair the valve so you have the
23 ability to stop the flow if, for any reasons, you -- you
24 need to stop the flow?

25 MR. AZIZ AZIZ: That's right, Mr. Peters.

1 MR. BOB PETERS: And geographically, the
2 town of Warren is situated downstream from the Stonewall
3 town border station, is it not?

4 MR. AZIZ AZIZ: That's right.

5 MR. BOB PETERS: Is it possible that the
6 valve failure that you've encountered in Warren is as a
7 result of the debris as found in the Stonewall town
8 border station?

9 MR. AZIZ AZIZ: It might be, yes, that's
10 might be one (1) factor.

11 MR. BOB PETERS: And would you then agree
12 that the cost of doing that repair would also be properly
13 a cost attributed to the remedy of the Stonewall problem?

14 MR. AZIZ AZIZ: Yes.

15 MR. BOB PETERS: There are other pipeline
16 locations that you found were not conforming with the
17 Code. I think there was a couple of them, in any event -
18 - only two (2) of them; do you recall?

19 MR. AZIZ AZIZ: Like, we're -- one -- one
20 (1) of the programs that we're doing is the -- checking
21 depths of cover on our pipelines, and when -- whenever
22 depth doesn't comply or doesn't meet the Code
23 requirement, we do some risk assessment to ensure what --
24 what to -- to look into or find out the risk to our
25 company due to this non-compliance of the Code, and we

1 take corrective action.

2 So, the two, (2) which we reported, is --
3 I think is due to relocation, but, we have also another
4 program, is depths of cover.

5 MR. BOB PETERS: And the cost of that
6 depth of cover program where you will put sufficient
7 ground cover over your pipes is in the neighbourhood of a
8 half a million dollars?

9

10 (BRIEF PAUSE)

11

12 MR. AZIZ AZIZ: The numbers I have -- It
13 might be if I had over the last -- over last year and the
14 next two -- two years, yes.

15 MR. BOB PETERS: Yes, it would be around
16 a half a million dollars?

17 MR. AZIZ AZIZ: That's right.

18 MR. BOB PETERS: And in looking forward
19 into the -- the test years, you are assuming, for
20 2006/07, that you'll have the similar programs as you do
21 in '05/'06; would that be correct?

22 MR. AZIZ AZIZ: In regarding depth of
23 cover?

24 MR. BOB PETERS: And pipelines and non-
25 conformity, yes?

1 MR. AZIZ AZIZ: The pipeline relocation
2 and depth of cover, yes.

3 MR. BOB PETERS: But, and -- and as I
4 understand the material, Mr. Aziz, there's been no
5 specific locations identified for the 2006/07 year, in
6 which you will have to repair pipelines that are in non-
7 conformance with code; you haven't given any specific
8 locations as to where that will have to happen, have you?

9 MR. AZIZ AZIZ: No, because we're
10 planning to do a -- take a depth of cover survey this
11 year, and based on the results, we will take the
12 corrective action.

13 MR. BOB PETERS: All right. And you're
14 assuming, are you, sir, that in terms of dollars and
15 cents, it's going to be a hundred thousand dollars
16 (\$100,000) more for '06/'07, than it is for '05/'06?

17 MR. AZIZ AZIZ: Your guess is the same
18 like mine, or maybe better. We don't know. We're -- we
19 -- we're putting some money to give us budgets for -- to
20 deal with issues arising from the results we might find
21 from our survey this year, yes.

22 MR. BOB PETERS: So that's your best
23 estimate as to what it may cost, but you'll have to wait
24 until you finish your ground of cover surveys to know
25 that?

1 MR. AZIZ AZIZ: That's right.

2 MR. BOB PETERS: You had also identified
3 a below grade service entry program, and this -- the
4 concern here, again, is corrosion of the pipe, is it not?

5 MR. AZIZ AZIZ: That's right.

6 MR. BOB PETERS: Is that company owned
7 pipe, or is that customer owned pipe?

8 MR. AZIZ AZIZ: It's -- this is...

9

10 (BRIEF PAUSE)

11

12 MR. AZIZ AZIZ: It's a combination of
13 company owned and customer owned, and like -- a customer
14 owns, if you recall, we're -- we have meters -- where
15 inside meters, and move them outside, and by moving
16 meters outside, we left the downstream piping, some -- in
17 some installations, so it could have been originally
18 company owned piping in thirty (30) years ago or so.

19 MR. BOB PETERS: All right, but you said
20 the example would be if you took the meter from inside
21 the house and moved it outside, you'd still have some
22 service lines that go below the grade after the meter,
23 into the house?

24 MR. AZIZ AZIZ: If it's been left -- if -
25 - if the correct -- if -- if the -- at the time of the --

1 an installation -- or rectifying the problem by moving
2 the meter from inside to outside, left of the downstream
3 piping, yes, it will sell some. But all our new
4 installations, right now, on the riser we have, we don't
5 -- we're trying to ensure there is no below grade entry.

6 MR. BOB PETERS: Okay. On the example
7 you gave though, but the below grade service entry, it
8 may now be considered customer owned piping, because it's
9 downstream of the meter, but it's downstream of the meter
10 because Centra moved the meter?

11 MR. AZIZ AZIZ: In some locations, in
12 some instance, yes.

13 MR. BOB PETERS: All right. In those
14 instances who pays for the cost of the program, is that
15 the customer pays for it, or is that something Centra's
16 paying for?

17 MR. AZIZ AZIZ: The -- the cost
18 associated was the resolving a problem that will be paid
19 by Centra, because the customer has insulator inside the
20 wall, to -- after the entrance. So this is almost like
21 our own piping.

22 MR. BOB PETERS: I understand the point.

23

24 (BRIEF PAUSE)

25

1 quantify how many installations we need to rehabilitate.
2 MR. BOB PETERS: Thank you. Mr. Aziz,
3 one (1) of the items you mentioned in your direct
4 evidence to Ms. Murphy was the automatic meter reading
5 program, correct?

6 MR. AZIZ AZIZ: Mr. Case, I think.

7 MR. BOB PETERS: Yes, and this automatic
8 meter reading program, you sometimes call that AMR?

9 MR. DAVID CASE: That's correct.

10 MR. BOB PETERS: And, Mr. Case, is this
11 program designed to save labour costs?

12 MR. DAVID CASE: At this time, AMR, I
13 would suggest it's more of a customer focussed program in
14 that the Company experiences a lot of problems in trying
15 to read meters and gain access to read meters.

16 In Winnipeg alone there's sixty thousand
17 (60,000) plus meters inside premises. And of those I
18 would suggest that we probably have in the area of 35
19 percent of those readings every time we go to read them
20 we can't get in.

21 So, there's that factor. But the AMR
22 program is much larger than just a simple reading the
23 meters on a bi-monthly or a monthly basis. It also gets
24 into off-cycle reads for customer move-ins or outs. It
25 could be, at some point, if you wanted to adjust rates

1 based on actual meter readings you would have real time
2 measurement opportunities.

3 So, AMR is much larger than just a meter
4 reading program.

5 MR. BOB PETERS: Well, the last point
6 first, Mr. Case. Real time rates, you'd need every meter
7 in the Province to be able to -- to be able to impose
8 that, would you not?

9 MR. DAVID CASE: If you had a
10 comprehensive AMR program that was distributed throughout
11 the Province to every premise (sic) and every meter it
12 would be real time.

13 MR. BOB PETERS: And how many years are
14 you away from such a program if you started today?

15 MR. DAVID CASE: It's beyond my time.

16 MR. BOB PETERS: All right. All right.
17 So. my point is, that's theoretically possible, but
18 that's not why you're involved in this project?

19 MR. DAVID CASE: I think it's gaining an
20 understanding for the longer term.

21 MR. BOB PETERS: As to what the long-term
22 possibilities may be?

23 MR. DAVID CASE: That's correct. But
24 it's also to provide some immediate relief to those
25 problems I just indicated regarding the difficulty in

1 gaining entrance and getting regular readings for meters
2 that are very difficult to access.

3 MR. BOB PETERS: And for meters you can't
4 get access to on a regular basis, do you ask the
5 customers to read their own meter?

6 MR. DAVID CASE: We do.

7 MR. BOB PETERS: And do they?

8 MR. DAVID CASE: Sometimes.

9 MR. BOB PETERS: And if they don't, do
10 you estimate?

11 MR. DAVID CASE: We estimate them, yes.

12 MR. BOB PETERS: And if they complain,
13 you ask them to let a meter reader in to verify?

14 MR. DAVID CASE: That's correct.

15 MR. BOB PETERS: Now, what -- what
16 confused me in your direct evidence and I want to make
17 sure the Board understands it is that you presently don't
18 have a business case to proceed on this program, do you?

19 MR. DAVID CASE: No, we don't.

20 MR. BOB PETERS: And so what you're
21 asking the Board for in this case is you're asking the
22 Board for some money so you can -- so you can undertake a
23 pilot project?

24 MR. DAVID CASE: That's correct.

25 MR. BOB PETERS: And the pilot project

1 will give you data that you will then use in your
2 business case which will then help you decide if you want
3 to go ahead with the project?

4 MR. DAVID CASE: That's correct. The
5 pilot project will help us understand the costs related
6 to installation and it'll also give us experience using
7 the system.

8 MR. BOB PETERS: In terms of costs, this
9 AMR isn't a new program for the Company; is it?

10 MR. DAVID CASE: We've used previous
11 electronic meter reading, which I would describe as E-R-
12 T's or ERT's.

13 MR. BOB PETERS: But back in 1998, the
14 Company didn't have a business case prepared on the
15 automatic meter reading program, and at that time the
16 costs were not allowed in the -- in the rate base of the
17 Company?

18 MR. DAVID CASE: I'm sorry, I don't know
19 that, sir.

20 MR. BOB PETERS: All right, you're not --

21 MR. DARREN RAINKIE: Mr. Peters, I -- I
22 vaguely remember that. I think we did have a business
23 case and the Board disallowed a certain portion of that.
24 We had a business case for what was called off site meter
25 reading, and I'm not sure of the exact distinction

1 between the two (2), I guess it was more of a pilot
2 project as well.

3 And I think the Board did disallow a
4 certain amount of that, I'm not sure if they disallowed
5 the project entirely, you'd have to go back to the past
6 Board Orders to -- to remember that.

7 MR. BOB PETERS: All right, well we can
8 perhaps do that independently, Mr. Rainkie, but you'll
9 recall that there were concerns raised by this Board back
10 when the program was -- was being started up?

11 MR. DARREN RAINKIE: Yes, I remember
12 there were certain concerns.

13 MR. BOB PETERS: Do you recall, Mr.
14 Rainkie, that at the 2003/04 GRA, the total forecast cost
15 of the AMR Project was approximately \$15 million?

16 MR. DARREN RAINKIE: I don't think we had
17 anything specifically in our rate based calculations for
18 the '03/04 test year, so that must have been something
19 that you gleaned from either an Information Request or a
20 -- a longer term IFF document, Mr. Peters. I don't -- I
21 don't recall the -- the exact level, but I -- I think we
22 can take it subject to check.

23 MR. BOB PETERS: All right, if it becomes
24 an issue you can let me know. But that \$15 million
25 number now is off the table as I understand this

1 Application?

2 MR. DARREN RAINKIE: Well, I think what
3 you're seeing in the Application, because the Application
4 spans two (2) test years going to 2006/07 is the early
5 expenditures.

6 The more -- the capital expenditure
7 forecast that goes out ten (10) years, like the
8 integrated financial forecast would have the total
9 capital spending for the whole project I assume, and Mr.
10 Case may -- may be a better person to help you on that
11 quantum.

12

13 (BRIEF PAUSE)

14

15 MR. DARREN RAINKIE: I guess what I'm
16 trying to say, Mr. Peters, to be clear, is that I don't
17 think you can compare the 3 million that's in -- in the
18 test years right now, with the 15 million which might
19 have been a program over -- spanning many years that you
20 quoted from the last GRA.

21 MR. BOB PETERS: Well I think you --

22 MR. DARREN RAINKIE: And I figure that's
23 a direct comparison.

24 MR. BOB PETERS: Okay, I think you agreed
25 with my -- with my question then, of you, Mr. Rainkie, is

1 that that \$15 million number is not on the table in terms
2 of what's before the Board to consider.

3 And in fact, it's not even part of the
4 forecast as to where this program will go; would that be
5 correct?

6 MR. DARREN RAINKIE: It's not part of the
7 forecast in the -- in the test years, but it may -- it
8 may be embedded in the Integrated Financial Forecast ten
9 (10) years out.

10 MR. BOB PETERS: And that would assume
11 though that the case -- that there was a business case
12 and that this program went ahead, Mr. Rainkie?

13 MR. DARREN RAINKIE: That's correct.

14 MR. BOB PETERS: But we do know there is
15 no business case at present, so would it be still
16 included in the Integrated Financial Forecast?

17 MR. VINCE WARDEN: I can confirm that.
18 The \$15 million for gas AMR is included in the Integrated
19 Financial Forecast.

20 MR. BOB PETERS: And it's \$15 million
21 total over the -- over the span of the IFF?

22 MR. VINCE WARDEN: It's \$15 million over
23 five (5) years, 3 million per year commencing in the year
24 2006/07.

25 MR. BOB PETERS: Mr. Case, if you haven't

1 done a business case, how does Mr. Warden have an idea as
2 to what this is going to cost?

3 MR. DAVID CASE: I -- I think that
4 there's a projection of the costs.

5 MR. BOB PETERS: And that projection then
6 assumes the business case becomes a viable -- a viable
7 program?

8 MR. DAVID CASE: That's my understanding.

9 MR. BOB PETERS: And what is requested
10 then of the Board, Mr. Case, in this Application
11 specifically?

12

13 (BRIEF PAUSE)

14

15 MR. DAVID CASE: Initially it's the
16 requesting eight hundred thousand dollars (\$800,000) for
17 a trial of two thousand (2,000) meters, and then
18 projecting out into '05/'06 for \$3 million.

19

20 (BRIEF PAUSE)

21

22 MR. DAVID CASE: I'm sorry, I stand to be
23 corrected. In 05-06 it's the eight hundred thousand
24 (800,000) -- which it's really four hundred thousand
25 dollars (\$400,000) for the gas side of the business, and

1 then \$3 million in '06/'07.

2 MR. DARREN RAINKIE: Mr. Peters, maybe I
3 can add some clarification here because, as you know, we
4 file application at a certain point in time based on
5 integrative financial forecasts, and as we move through
6 the hearing process, operational people work on these
7 projects and some of the -- the numbers get revised.

8 But what is clearly in -- in the material,
9 in the rate base calculations before you is expenditures
10 of a hundred twenty-five thousand (125,000) in 2004/05,
11 expenditures of four hundred and seventy-five thousand
12 (475,000) in 2005/06, expenditures of three million
13 twenty-five thousand (3,025,000) in '06/'07.

14 That is what is embedded in -- in our rate
15 base rate of return calculations before the Board.
16 Obviously, as plans progress, and pilots are done, and
17 business cases are firmed up, those numbers will change,
18 and -- and the approval or non-approval of the -- of the
19 project will occur internally.

20 MR. BOB PETERS: And does the Board
21 correctly understand, Mr. Rainkie, then that the four
22 hundred and seventy-five thousand dollars (\$475,000) is
23 to develop the business case?

24
25

(BRIEF PAUSE)

1 MR. DARREN RAINKIE: Mr. Peters, my
2 understanding is that the -- the money that Mr. Case was
3 referring to, the four hundred -- and just to clarify,
4 that eight hundred thousand (800,000) I think is roughly
5 split between gas and electricity.

6 That money, to my understanding, is just
7 to set up a number of routes, actual routes with this AMR
8 technology and -- because what we're trying to do is
9 verify the costs and benefits through that pilot.

10 So it's not four hundred thousand dollars
11 (\$400,000) to sit down and draft a business case; it's
12 four hundred thousand dollars (\$400,000) to actually put
13 some of these routes in place, real time, and -- and
14 collect the data from that so that we can validate the
15 assumptions that are going into the larger business case
16 for the overall initiative.

17 MR. BOB PETERS: Mr. Case, you'll agree
18 with Mr. Rainkie's assessment of the program?

19 MR. DAVID CASE: Yes, sir.

20 MR. BOB PETERS: And when he says eight
21 hundred -- when you said, eight hundred thousand dollars
22 (\$800,000) is the cost, indeed half of that is to be on
23 the electric side, and half will be on the gas side of
24 the ledger?

25 MR. DAVID CASE: Yes. I think I tried to

1 clarify that, it's four hundred thousand (400,000) for
2 each utility.

3 MR. BOB PETERS: And if I do the math --
4 and that will be an if -- does that work out to four
5 hundred dollars (\$400) per meter?

6 MR. DAVID CASE: I believe it's two
7 hundred dollars (\$200) for each unit.

8 MR. BOB PETERS: I was doubling that up
9 because I thought on the gas -- should it be four hundred
10 (400)?

11 MR. DAVID CASE: No. It's two hundred
12 dollars (\$200).

13 MR. BOB PETERS: All right.

14 MR. DAVID CASE: It's two hundred dollars
15 (\$200) for the gas, two hundred (200) for the electric.

16 MR. BOB PETERS: All right. And the
17 technology is that there is an actual remote unit on the
18 meter that will transmit the readings when requested by
19 another receiving device?

20 MR. DAVID CASE: That's correct. There's
21 a transmitter on the meter, and then there's a -- a
22 receiver that will collect the data.

23 MR. BOB PETERS: And no doubt there's the
24 good, better, best models out on the market for this type
25 of technology?

1 MR. DAVID CASE: There are many
2 suppliers.

3 MR. BOB PETERS: And where have you come
4 in, at the Cadillac end or at the Chevette end of the --
5 the equation?

6 MR. DAVID CASE: I don't know that that
7 decision has been made yet.

8 MR. BOB PETERS: Are you testing
9 different -- different units in this program -- in this
10 pilot project?

11
12 (BRIEF PAUSE)

13
14 MR. DAVID CASE: Mr. Peters, I think the
15 best I can tell you is I -- I don't think there's been
16 any selection made of the technology at this time, and
17 I'm not sure of the status of testing.

18 MR. BOB PETERS: Is there technology
19 available from what you had in the late 90's that you
20 could use?

21 MR. DAVID CASE: I don't know that it
22 provides a full range of options that the latest
23 technology provides.

24 MR. BOB PETERS: Well, I'd have to assume
25 that it doesn't, I mean, otherwise there would be no need

1 for new technology. But is -- is this one where you can
2 use your -- do your pilot project using the -- the units
3 that you already have?

4 MR. DAVID CASE: I -- I don't believe
5 that that's possible.

6 MR. BOB PETERS: And you said it was
7 two hundred dollars (\$200) per meter; is that what it
8 cost to hook on the -- the electronic device?

9 MR. DAVID CASE: My understanding is the
10 AMR unit, or the device that's attached to the physical
11 meter, is about seventy dollars (\$70) and the thinking is
12 that approximately another hundred and thirty thousand
13 (130,000)-- or hundred and thirty dollars (\$130) per unit
14 for installation costs.

15 MR. BOB PETERS: And what about the cost
16 of the receiving device that would take the -- take the
17 readings?

18 MR. DAVID CASE: Again, I'm not sure, Mr.
19 Peters.

20 MR. BOB PETERS: Do you know, Mr. Case,
21 if the AMR pilot project will address the full range of
22 AMR technology that's available?

23 MR. DAVID CASE: I don't believe it would
24 address the full range. There's -- as I said, there's
25 many options. It will depend on the selection of the

1 options that we make.

2 MR. BOB PETERS: Okay, I'm -- I'm just
3 not understanding the point, I guess.

4 Are you going to be testing out the
5 various -- the various technologies that exist in the
6 pilot project?

7 MR. DAVID CASE: My understanding is that
8 various vendors will be looked at and that there will be
9 a selection made based on Manitoba Hydro's needs for both
10 the gas and electric operation.

11 MR. BOB PETERS: And --

12 THE CHAIRPERSON: Mr. Case, if I may ask,
13 you're suggesting that some customers basically never
14 report, never let the meter reader have a look at the
15 account?

16 MR. DAVID CASE: Yes, Mr. Lane. We've
17 had some accounts that haven't been read for five (5)
18 years.

19 THE CHAIRPERSON: And you -- they
20 presumably could carry on deliberately under reporting
21 for -- until they sold the house, I presume?

22 MR. DAVID CASE: That's the case. And
23 the other point I wanted to make on AMR is that we're
24 seeing a higher rate of theft and tampering these days.
25 AMR will allow us to monitor that.

1 THE CHAIRPERSON: Does the device have an
2 anti-tampering feature to it?

3 MR. DAVID CASE: You could tamper with it
4 but if you had real time measurement you would have the
5 opportunity to do more inspection and checking. And so
6 your monitoring program would pick up when the meters are
7 turning backwards, for example.

8 THE CHAIRPERSON: In a sense, there's an
9 absence right now of security then with respect to
10 billing, to some small degree?

11 MR. DAVID CASE: That's right.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Can you quantify the
15 number of customers who haven't had their meters read on
16 an actual basis for, say, the five (5) year period?

17 MR. DAVID CASE: I'm sorry. I don't know
18 the exact number. It may be in the range of a thousand
19 (1,000) customers.

20 THE CHAIRPERSON: You have no mechanism
21 by which to obligate a reading?

22 MR. DAVID CASE: Our terms and conditions
23 for service obligate a customer to allow us access to the
24 premise to read the meter and we provide many options to
25 receive the reading. So if our meter reader visits a

1 premise and they can't gain access, we'll leave a card.

2 And failing that we make phone calls. We
3 have introduced off hours appointment trials. We've done
4 numerous things trying to get these readings. And in
5 some cases, in fact, these end up in abandoned buildings,
6 boarded up buildings, there's a number of reasons for it.

7 But in some cases, I think some customers
8 are very fearful of allowing people access to their
9 premise these days. There seems to be more of a trend
10 that way.

11 THE CHAIRPERSON: But you have an
12 obligation to continue supplying the gas as long as they
13 provide some sort of estimate?

14 MR. DAVID CASE: I guess in reality we
15 could discontinue the supply. If we -- if we wanted to
16 go to that drastic consequence. To date we haven't done
17 that although we have threatened that in some cases.

18 THE CHAIRPERSON: Very interesting.
19 Thank you.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: Mr. Case, the pilot
23 project is planned for between five (5) and ten (10)
24 routes; is that correct?

25 MR. DAVID CASE: That's my understanding,

1 yes, sir.

2 MR. BOB PETERS: And how many meter
3 readers do you need to do ten (10) routes?

4 MR. DAVID CASE: Maybe the best way to
5 answer that if you had a meter reader reading two hundred
6 (200) to four hundred (400) meters a day.

7 MR. BOB PETERS: That doesn't help me
8 because I don't know how many meters there --

9 MR. DAVID CASE: Oh.

10 MR. BOB PETERS: -- are in a route?

11 MR. DAVID CASE: We were planning two
12 thousand (2,000) on the trial. So it's -- it's really --
13 the equivalent to ten (10) person days.

14 MR. BOB PETERS: Ten (10) person days
15 every two (2) months?

16 MR. DAVID CASE: Correct, yes, sir.

17 MR. BOB PETERS: But as I understand the
18 technology, you're still going to need somebody to walk
19 by the house to receive the signal as to what the meter
20 reading is?

21 MR. DAVID CASE: In the trial, the -- I
22 think the technology that's planned to be used is it will
23 be a -- either a remote that's carried by hand or by
24 vehicle. But these AMR's, I think will also provide the
25 capability that you could either transmit to a local

1 receiver or through the hydro-electrical cable to a
2 distribution table -- or a distribution station, so the
3 data would be accumulated and then downloaded to the
4 billing system.

5 So there's a -- a number of ways that the
6 meter data can get back to the billing system.

7 THE CHAIRPERSON: Mr. Case, when you talk
8 about the meter being two hundred dollars (\$200) for each
9 electricity, this would be one (1) meter presumably, that
10 would read both services?

11 MR. DAVID CASE: It's -- it's like a
12 basic meter with an electronic module attached to the
13 index.

14 THE CHAIRPERSON: But the one (1) unit
15 would handle both electricity and gas or not? They're --

16 MR. DAVID CASE: No, they're individual
17 units, sir.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: In this Application, Mr.
21 Rainkie, and, Mr. Warden, does the PUB approval of the
22 pilot project result in Centra implementing a business
23 case without express PUB approval?

24 MR. DARREN RAINKIE: Mr. Peters, are you
25 asking -- can I rephrase that question to see if we're on

1 the same -- same path.

2 Does PUB approval of the carrying costs
3 into rates equate to internal approval, and if that's the
4 question, no, because this is a rate setting process, and
5 the executive would still have to look at the approval of
6 -- of a project of that magnitude.

7 MR. BOB PETERS: And -- and, Mr. Rainkie,
8 if -- if the Board approves the revenue request for the
9 first year of the test year, which I think you quantified
10 in the neighbourhood of half a million dollars?

11 MR. DARREN RAINKIE: Yeah, I think by
12 '05/06, we're in that ballpark, yes.

13 MR. BOB PETERS: And that's primarily to
14 conduct the pilot project that I think Mr. Case has been
15 explaining to the Board?

16 MR. DARREN RAINKIE: That's correct.

17 MR. BOB PETERS: And at that point a go
18 and no go decision is going to be made, and Mr. Warden is
19 telling us that it's \$3 million a year they're after, if
20 it goes?

21 MR. DARREN RAINKIE: That's the current
22 estimate, it's in the IFF, yes.

23 MR. BOB PETERS: And would it be the
24 normal course to file your business case with the Board
25 in support of that decision, Mr. Rainkie?

1 MR. DARREN RAINKIE: Normally with such
2 large projects, yes, we file the business case with the
3 Board when it's -- when it's done. It doesn't always of
4 course -- completion of the business case doesn't always
5 match up just because we're having a GRA Hearing, Mr.
6 Peters. But in the past we have filed some of that
7 information for major projects with the Board, yes.

8 MR. BOB PETERS: Mr. Rainkie,
9 conceptually, should the four hundred thousand (400,000)
10 be better placed into CWIP, Construction Work in
11 Progress, as opposed to into rate base?

12 MR. DARREN RAINKIE: I'd say no. CWIP is
13 an accounting convention for projects that are underway.
14 You know, by nature in this process we're required to
15 make forecasts and take -- take the best forecast of our
16 capital project going forward.

17 And operationally we may or may not have a
18 business case done at that point, and the Board has to go
19 through it and I guess decide what they're going to allow
20 for rates, but I -- I don't -- I don't know.

21 I think that if I understand the pilot
22 project, those expenditures will be used and useful and
23 prudently acquired, and they will be helping us deal with
24 the problem -- problems that Mr. Case has just outlined.
25 So I think they're using useful expenditures, and they

1 will also be helping us with the -- the longer term
2 business case.

3 I'm not sure that placing things in --
4 CWIP isn't really a dumping ground for projects that are
5 in the grey areas between approval and non-approval for
6 rate setting purposes, Mr. Peters. When things get
7 dumped in CWIP they get carrying costs allocated to them,
8 and if they sit there forever they just start to
9 accumulate.

10 So we have that concern with some other
11 expenditures that have been recently placed into CWIP,
12 but my understanding is the final project will be used
13 and useful, you know, when it's -- when it's installed.

14 MR. BOB PETERS: That pre-supposes the --
15 the business case supports that, does it not, Mr.
16 Rainkie?

17 MR. DARREN RAINKIE: Well, the business
18 case I think is for the longer term project. I think the
19 -- the pilot project is -- is -- just to make sure we
20 have the sequencing down pat here, I think we do the
21 pilot project, we collect the information from that pilot
22 project with respect to the benefits and the costs, and -
23 - and the customer service benefits of having that type
24 of technology available.

25 And then what we're going to is use that

1 to finish the business case and verify assumptions that
2 would be made in that business case.

3 MR. BOB PETERS: Before you spend \$3
4 million a year for the next --

5 MR. DARREN RAINKIE: That's my
6 understanding.

7 MR. BOB PETERS: -- five (5) years.
8 Thank you. Perhaps I can address another area here
9 before the end of the day. The Phase 3 --

10 THE CHAIRPERSON: Mr. Peters, one second.
11 Is there any problems like that with
12 respect to commercial operations, industrial plants, with
13 respect to reading?

14 MR. DAVID CASE: I'm not aware of that,
15 sir. There may be the occasional -- certainly not to
16 that length of time. There may be occasional compound
17 where there's a meter in a locked compound where we may
18 have access problems, but certainly not to this degree.
19 These tend to be residential customers.

20 THE CHAIRPERSON: Thank you. Mr.
21 Peters...?

22 MR. VINCE WARDEN: Mr. Peters, if I can,
23 I'd just like to make one (1) quick comment on AMR. It's
24 something that we've had, at Manitoba Hydro, in our
25 financial forecast for many years. And we keep pushing

1 it out because, although we recognize the technology is
2 out there somewhere, we've never been able to make a
3 solid business case for AMR.

4 And I can assure you that we won't be
5 spending any money on this project until such time as
6 that business case is proven to be viable -- in place and
7 viable.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: And when you say
11 "business case" to the Board, Mr. Warden, you're trying
12 to suggest that unless the benefits are clearly --
13 outweigh the -- the costs, this is not a road that the
14 Corporation plans to go down?

15 MR. VINCE WARDEN: That point on.

16 MR. BOB PETERS: And here, to date, the
17 benefits have not outweighed the costs?

18 MR. VINCE WARDEN: The payback for AMR
19 has never been there. There have been improvements in
20 technology over the years. The unit cost of -- of the
21 devices have been coming down as they're becoming more
22 and more prevalent in North America. But I've yet to see
23 a business case for Manitoba Hydro that works for us.

24 MR. BOB PETERS: And so you translate
25 that into it being difficult to make the case on the gas

1 side as well?

2 MR. VINCE WARDEN: Yes. Now, there are
3 those hard-to-read meters that -- that may -- there may
4 be some value, and that's presumably what the pilot and -
5 - and the study that we're undertaking now will -- will
6 demonstrate. But on a mass scale basis, I -- I'm quite
7 sceptical that we'll ever see that in the near-term
8 future.

9 MR. BOB PETERS: And when Mr. Case tells
10 me about sixty thousand (60,000) inside meters of which
11 35 percent of them are subject to can't-get-in calls, is
12 the project ever designed to have a magnitude of -- of
13 sixty thousand (60,000) to cover off all the inside
14 meters?

15 MR. VINCE WARDEN: Well, I think that --
16 that's what will be determined. I can only tell you that
17 we haven't been able to make the case to this date.

18 MR. BOB PETERS: Okay. And -- and is the
19 case going to also measure whether it's just cheaper to
20 move the meter from inside the house to outside the
21 house?

22 MR. DAVID CASE: That would be part of
23 the determination as well. There's -- there's a number
24 of factors you have to consider. And the 35 percent that
25 you referred to, it's not always the same 35 percent each

1 time.

2 MR. BOB PETERS: Does that answer
3 suggest, Mr. Case, that you're looking more at a sixty
4 thousand dollar (\$60,000) total number for AMR meters?

5 MR. DAVID CASE: I'm sorry, sixty
6 thousand dollars (\$60,000)?

7 MR. BOB PETERS: I'm -- I meant sixty
8 thousand (60,000) in number?

9 MR. DAVID CASE: Yeah. It's -- I don't
10 think it's as easy as that. For example, our riser
11 rehab. program right now, we are actually moving three
12 thousand (3,000) meters out a year. So that sixty
13 thousand (60,000) comes down slightly each year.

14 And if we're doing work at one (1) of
15 these premises for some other reason and we have the
16 opportunity to move the meter outside and upgrade the
17 service, we'll do that as well. So those -- those
18 numbers do come down over time.

19 MR. BOB PETERS: But I suppose -- what I
20 really want to know for the Board's benefit is that is
21 the program designed at this point to cover off all of
22 the inside meters and only inside meters for the AMR
23 modules?

24 MR. DAVID CASE: The project focusses
25 certainly the inside meters but they are not the only

1 difficult-to-read meters. You have many consumers today
2 that have very high fences that are locked, and they've
3 got pools and -- and other reasons for having their
4 property secured, and those are just as difficult to read
5 as some of these inside meters.

6 MR. BOB PETERS: So is there a total
7 number of meters that is a possible focus?

8 MR. DAVID CASE: Well, I -- I think that
9 for purposes of today the sixty thousand (60,000) is a
10 reasonable figure to go with because at -- we know
11 there's sixty thousand (60,000) inside.

12 Now, when you mix and match, maybe that's
13 the final number.

14 MR. BOB PETERS: And over what time
15 period would you be envisioning that?

16 MR. DAVID CASE: I -- I believe the
17 thinking is that when you ramp up the program you could
18 be installing fifteen thousand (15,000) meters per year.

19 MR. BOB PETERS: So that roughly
20 coincides with the five (5) years, at \$3 million a year
21 that Mr. Warden has talked about in the IFF?

22 MR. DAVID CASE: That's correct.

23 MR. BOB PETERS: Thank you. Mr.
24 Chairman, with that answer and the time of day, perhaps
25 this would be a time to break for today and I'll resume

1 tomorrow morning.

2 THE CHAIRPERSON: If I could, just one
3 other question.

4 Mr. Case, when you do get into these
5 residences that are being less than open about allowing
6 the meter reader in, do you have any idea on general
7 experience what you find?

8 MR. DAVID CASE: Sometimes the residents
9 are very fearful, in general. It's almost as if they
10 hibernate in their homes and they don't really like the
11 outside world or what's going on.

12 I think the other thing that we've
13 experienced, you've probably seen through the media over
14 the last few years, there, we had the meter reader rapist
15 as an example.

16 And there was a lot of fear about that,
17 and a lot of mistrust with even people in uniforms with
18 badges coming to the door. So there's various
19 experiences. Some people just don't want us there
20 period, for whatever reason.

21 THE CHAIRPERSON: I'm just wondering
22 whether you'd ever, sort of, developed numbers to
23 indicate, on average, when you do gain access, what the
24 volumes look like as compared to what you're estimating?

25 MR. DAVID CASE: I'm sorry, sir, can you

1 repeat the question?

2 THE CHAIRPERSON: Well, I'm just saying,
3 if you haven't been able to enter a residence for some
4 time to check the meter, and then by chance, or
5 happenchance, or by sudden cooperation you're allowed in,
6 whether you developed any experience as to what -- what
7 volumes you're looking at when you're able to read them,
8 compared with the estimates or the non-estimate?

9 MR. DAVID CASE: I'm sorry. In some
10 cases the volume difference has been very little, in
11 other cases substantial; up to fifteen hundred (1500)
12 units out.

13 THE CHAIRPERSON: I would imagine when
14 you're developing your business case you'd take into
15 account the overall administrative costs that must be
16 associated with an effort of trying to gain intermitted
17 access to sixty thousand (60,000) residences.

18 MR. DAVID CASE: Those are all factors of
19 consideration.

20 THE CHAIRPERSON: Well, thank you
21 everyone. We look forward to tomorrow. Have a good
22 evening.

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(PANEL RETIRES)

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1 --- Upon adjourning at 4:02 p.m.

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5 Certified Correct,

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12 Carol Wilkinson, Ms.

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