MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC'S

2019/20 GENERAL RATE APPLICATION

HEARING CONFERENCE

Before Board Panel:

Larry Ring, Q.C.	-	Panel Chair
Marilyn Kapitany	-	Vice-Chair
Michael Watson	-	Board Member
Carol Hainsworth	-	Board Member
Susan Nemec	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

August 28th, 2019

Pages 1164 to 1262

APPEARANCES

Bob Peters	)Board Counsel
Dayna Steinfeld	)
Brent Czarnecki	)Centra Gas Manitoba
Jessica Carvell	)
Helga Van Iderstine (np)	)
Brian Meronek, Q.C.	)Consumers
	)Association of
	)Canada (Manitoba)
	)Inc.
Antoine Hacault	)Industrial Gas
	)Users
Lewis Manning (np)	)Koch Fertilizer
	)Canada, ULC

TABLE OF CONTENTS

LIST OF EXHIBITS

--- Upon commencing at 8:59 a.m.

THE CHAIRPERSON: Good morning, all. Mr. Czarnecki, I believe that we're going to start with you, but there are there any housekeeping matters?

MR. BRENT CZARNECKI: Good morning, Mr. Chairman, panel members. Yes, I do have some housekeeping matters, and I think I've worked it out with the Board secretary, so I'll just register them on the record.

Undertaking from Centra number 7 has been marked as Exhibit 48. The same Undertaking 7, the CSI version, has been marked as Exhibit Centra 50.

The PowerPoint presentation that we will be providing this morning to the Board is Exhibit 52. And there is the same exhibit with CSI will be Centra Exhibit 53.

Centra Exhibit 54 will be the written final submission from Centra on matters for oral evidence, and Exhibit 55 will be the same submission with CSI.

And then there were four (4) undertakings from the panel, Ms. Stewart and Ms. -- Mr. Kostick last Thursday. They were Undertakings 10, 11, 12, and 13, and they have been marked as Exhibits 56, 57, 58, 59 respective -- respectively.

And those are all of our housekeeping matters.

--- EXHIBIT NO. CENTRA-48: Centra Undertaking 7

--- EXHIBIT NO. CENTRA-50: Centra Undertaking 7 (CSI version)

--- EXHIBIT NO. CENTRA-52: Centra's PowerPoint presentation

--- EXHIBIT NO. CENTRA-53: Centra's PowerPoint presentation (CSI version)

--- EXHIBIT NO. CENTRA-54: Centra's written final submission on oral evidence

--- EXHIBIT NO. CENTRA-55: Centra's written final submission on oral evidence (CSI version)

--- EXHIBIT NO. CENTRA-56: Undertaking 10

--- EXHIBIT NO. CENTRA-57: Undertaking 11

--- EXHIBIT NO. CENTRA-58: Undertaking 12

--- EXHIBIT NO. CENTRA-59: Undertaking 13

THE CHAIRPERSON: Thank you.

CLOSING SUBMISSIONS BY BRENT CZARNECKI:

MR. BRENT CZARNECKI: Thank you, Mr. Chairman and panel members. I will proceed with the closing submission of Centra Gas Manitoba for this General Rate Application. And I did mention in my housekeeping matters that we have filed a more fulsome written final argument that is much more detailed than the PowerPoint presentation that Ms. Carvell and I are going to present to you this morning.

I do implore you to read the entire submission when you're considering the application. It has a greater level of detail. But Ms. Carvell and I this morning will be presenting the higher points or the summary points of what's contained in that argument.

To open with, I must say it's a -- a distinct pleasure to be here this morning, presenting the final argument of Centra for this particular application, and it's actually an honour for me, because from my vantage point, I get to see first-hand the hard work that Centra folks and employees bring to the table in delivering their mandate to provide safe and reliable natural gas to Manitobans.

And I think that you saw snapshot through the Centra panels over the past couple weeks of how passionate they are in the work that they do. And for me again, I get to see the additional layers that fall underneath the witnesses that you have seen. And so when I'm here today presenting an overwhelmingly positive good news story for natural gas customers, it really is a pleasure to be here.

Next slide. Just by way of general roadmap for the panel so you know where -- where we're going, and where we're at, I'll start with an overview of the application. We'll get to the approach to reviewing this application from the PUB's perspective. I will touch on operating and administrative expenses, or as we call them, O&A. I will then turn to capital projects and programs. I will then pass the baton to Ms. Carvell, who will deal with cost of service and the bill mitigation options, and she will also review transportation and service, the balancing fees issue, and will then cross the finish line in concluding for us. In terms of timing, I expect it will be somewhere around an hour, maybe a little less, maybe a little bit more.

Now turning to the timeline, the application was initially filed on November 30th of 2018. As you know, on March 22nd, 2019, we provided a supplemental update reflecting the actual results to September 30th of 2018, also included the approved 2018/'19 current outlook and the approved 2019/'20 budget for the test year.

Now, on July 24th, 2019, we provided a prehearing update for Tabs 8 through 11 and other financial information. On August 2nd of this year, we provided Centra's rebuttal evidence, and more recently on August 12th, we provided the written submission for issues that were not identified for oral evidence, which brings us to today.

So Board, you have a tremendous amount of information before you. And as I mentioned in my opening comments several weeks back, it's been a long time coming. And again, to reiterate, it remains Centra's position that it's been well worth the wait.

Now, turning to your role, I don't think anyone will dispute that your role is clearly to set just and reasonable rates from this application, and in doing so, you must balance the interests of gas customers who are ensuring Centra is financially able to fulfill its mandate, and the mandate of Centra, as it shows there, is to acquire, manage, and distribute supplies of natural gas in a safe, cost-effective, reliable, and environmentally appropriate manner.

Now, this application brings positive news for the vast majority of Centra's approximate two hundred and eighty thousand (280,000) customers. And even My Learned Friends Mr. Meronek and Mr. Hacault acknowledge the good and positive news in their opening comments.

I would stress too, even though that they're not issues for today, and were not subject to the oral portion of this hearing, just quickly, that there have been no issues in dispute with respect to the operation of Centra's gas supply portfolio as detailed in Tabs 8 and 9 of the application. CAC has fully supported the conclusion reached by its expert consultant, Mr. DeWolfe, that Centra has prudently managed all gas supply matters in a cost-effective manner for customers, including upstream matters on the TCP on mainline and it -- those that are before the National Energy Board.

I would also stress that with respect to safety and reliability, what we haven't discussed or heard is any concerns from customers with respect to safety or reliability issues in Centra's delivery of the natural gas to their residential homes or businesses. Reliability is near 100 percent. Silence is golden, here, and Mr. Starodub, Mr. Steele, and Mr. Korchak, and all of their fine staff, prefer to keep it that way.

Now more directly to the issues that are before you at -- per this oral portion of the proceeding, Centra is seeking approval for rate changes resulting from the successful management of O&A costs to below inflationary levels. The good news is that we are in a continued low interest rate environment, and that we are in an environment of historical lows with respect to the actual commodity cost of the gas.

Now turning to CAC and their position, and perhaps their role, or perceived role in this proceeding, to make the good news better. Mr. Meronek in his opening comments was clear. We're here to make the good news better news by promoting to the Board further reduction in rates.

And I thought about that, and I turned

to Mr. BonBright, the expert on regulatory principles, in an attempt to translate his remarks to some regulatory principles. And the best I could find was when hunky-dory, or perhaps tickety-boo just isn't good enough for you -- I digress.

So how does CAC make the good news better? Well, they propose expensive audit-like procedures to microscopically review each decision -- decision of the Utility. They set unreasonable escalation expectations, given the current environment. They challenge proposed budgets because the Utility cannot predict with 100 percent precision the costs it will incur for the year, and they suggest changes in accounting practices to improve Centra's net income.

These, Board -- these matters, Board, were the proverbial weeds that I warned you about in my opening comments of this proceeding that I urged you to resist. Instead, you must keep your focus on the overwhelmingly positive big picture for natural gas customers in Manitoba.

And I would submit to you, Panel, that CAC's focus is disconnected from Centra's practical reality, and Ms. Bauerlein I thought summed it up best when she said:

"If we follow Mr. Rainkie's recommendations to reduce our O&A further, you have to decide in actuals world what programs and services you're not going to do. So where do those cuts happen?"

So Ms. Bauerlein, I think, in her words was trying to tell you to avoid the proverbial weeds and focus on the real and practical reality that Centra folks actually operate in.

Continuing with CAC's suggested approach, they want to reduce capital spending, all -- and I would say that all they should -- would like to consider all capital projects are discretionary in nature, they want to manage O&A costs to levels below inflation to historically low levels, and they want to make accounting changes to reduce O&A costs to increase Centra's net income.

The reality for Centra is that it has lower costs now compared to six (6) years ago. Even though it has endured the corporate-wide VDP, when close to nine hundred (900) employees left the Corporation in a span of less than two (2) years.

These facts are not representative or reflective of passive cost management. They are remarkable results. And I say so because Centra is obligated of course to provide safe and reliable service to Manitobans. It takes this responsibility for solving the problem when a pipeline fails.

Centra takes on the risks and liabilities associated with reduced services and programs resulting from any reductions in budgets and staffing levels, and Centra has to take on the financial risks associated with not recovering all of its costs. There is no investor to pass these risks on to.

The bottom line here is that Centra has to answer the phone calls when there is a system failure. Centra has to figure out how to manage a situation when there are thousands of customers without gas and heat in the middle of winter. And I remind the Panel and every one in the room of the recent Otterburne explosion when, due to some TransCanada -- on the TransCanada mainline, that did occur and Centra did respond, and I would note it was the phone at Centra ringing and not the phone of anyone else in this room that rang, including METSCO, for example. Centra folks have to respond.

So back to the PUB's legislative role. It's clear your role is to set just and reasonable rates. It's also clear that your role is not to set the lowest rates possible. Centra cautions and advises against the how low can you go approach being advocated by CAC, and I note that CAC cost -- consumers and all of us who are consumers will receive a 10 percent decrease if this application is approved.

Now, perhaps to reit -- reiterate one (1) more time, we do encourage you to focus on the overall results contained in the application and the reasonable and positive outcomes for natural gas con -- consumers and customers.

So turning to the results, and I just mentioned them, Centra is seeking approval for proposed November 1st, 2019, sales rates that, when considering rate riders, will result in a typical residential customer bill decrease by approximately 10.1 percent compared to the May 1st, 2019, rates, a remarkable result.

Large volume sales surface -- service customers' bills will decrease by 5.1 percent to 23.7 percent compared to May 1, 2019, depending on their consumption. Again, a remarkable result.

Now turning to operating and administrative, or O&A costs. It's well known to you, Board, that Centra has contained O&A costs resulting in a steady decline. O&A expenditures are lower than they were eight (8) years ago, and we spent some time with this particular slide in the hearing, and in particular I'd like to focus you on the 2014/15 actual total when IFRS was re -- was restated for IFRS, of 70 million -- 70.3 million, to the 2019/2020 test year where we have decreased down to 61.25 million. Next slide.

Now let's compare those O&A results, compared to Manitoba CPI. The red line indicates from 2015/16 O&A adjusted and escalated for Manitoba CPI. The blue line represents Centra's O&A expenditures, which you see declining.

Now, we added the dashed purple line, and to indicate, that is where CAC, on the recommendation of Mr. Rainkie, would have you wanting us to take O&A down to a $56 million level.

Now, Member Watson, I think this is when you engaged Mr. Rainkie when he testified, trying to better understand the inconsistency in his suggested approach now of moving to a historic low of 56 million from the O&A levels he managed when he was CFO of Centra. And, quite frankly, Mr. Member Watson and Board members, we at Centra continue our bewilderment in this inconsistency and we trust, Panel, that you -- you will weigh Mr. Rainkie's evidence very carefully and afford it very little weight in this regard. Next slide, please.

This slide demonstrates that compared to CGM15, which was predicated on a 1 percent escalation to 21/22, CGM18, which accomplished primarily through the advancement of staffing reductions through the VDP, will have Centra reducing O&A by almost 90 million over ten (10) years. And again to stress that 56 million for 2019 and '20 would represent a further 8 percent reduction in one (1) single year, if you were to follow Mr. Rainkie's recommendation. That's unreasonable.

O&A expenditures, reducing the 2019/2020 budget is not just an accounting transaction. As a Crown-owned utility, actual costs incurred need to be recovered through customer rates. The O&A budget of 61.25 million was approved by Centra's Board of Directors. So to achieve a 56 percent -- 56 million O&A target, would require reduced staffing levels, redeployment to electric operations, if possible and where possible, reduction or elimination of current programs, levels of service to customers, increased risk associated with public and employee safety system reliability and customer service, Centra's mandate.

And again, I recall -- take you back to Ms. Bauerlin -- Bauerlein's quote that we reviewed earlier, her -- in Centra's practical reality check, where do these cuts happen?

Now turning to escalation, Centra rejects CAC's cumulative 1 percent escalation reduction of 1.2 million. The 2018/19 forecast and the 2019/20 test year assume 0 percent and 1.5 percent respectively, cost pressures in excess of 2 percent, therefore Centra is continuing to control and actively manage expenditures by incorporating 0 percent and 1.5 percent respectively.

Now specifically on cost pressures, you heard the evidence that wage settlements of 1.25 percent will take effect January of 2019 and 1.5 percent will take effect January of 2020, plus merit and progression of 1 percent place wage increases around the 2 percent level alone.

You also heard evidence that Manitoba CPI is 2 percent. And that, of course, impacts Centra's materials and supplies. Motor vehicle fuel costs also constantly increasing, as we all know, when fuel -- when we fuel up our cars these days.

So, Ms. Bauerlein's evidence on these

actual cost pressures was clear and was not challenged.

Turning to VDP savings. Centra also rejects CAC's recommendation that it should be allocated 8 percent of the VDP savings. Four percent is proving to have a high correlation with actual results. Ms. Bauerlein testified to that.

Centra continues to realign and reorganize following a VDP. And, of course, if we were to adjust the -- to an 8 percent factor, we would have to have a corresponding reduction to the electric allocator to 92 percent as these are not mutually exclusive factors.

And again, to conclude on this, such a change moving to 8 percent is unnecessary as the 4 percent allocator again is proving to be highly correlated with actual results to date.

Now to contingency. Of course, we all know that a contingency balances and recognizes that, despite our best plans, costs don't always come in as planned for a number of reasons, many of which are beyond our control.

And if anyone's either built a house or done a kitchen renovation, you know it's a good idea to have a contingency in place.

Centra submits that contingencies are an appropriate and necessary aspect of the budgeting process for a large utility. Centra's 2019 and 2020 detailed O&A budget contains a negative contingency of approximately .6 million; it moved from a positive to a negative contingency.

And you heard the evidence that Centra, no matter the contingency, will manage to the target provided by its executive regardless of the contingency value.

And I would suggest, Board, that the role of this regulatory process is not to approve each individual departmental budget or -- or expenditure but, again, to assess if the overall spending levels that's represented by the O&A target of 61.25 million is reasonable and fair; and Centra submits, of course, that it is.

Now to the issue of meter sampling, testing, and exchange. Centra's proposal to begin capitalization in 1920 on a go-forward basis complies with past direction of the PUB.

In its April 2016 response to Centra's request -- in initial request, the PUB directed Centra to continue to expense meter sampling and exchange costs until the issue could be reviewed at a later date.

Similar to the accounting for other IFR -- IFRS-related changes, Centra followed the directions of the PUB and did not change its net income for changes resulting from its transition to IFRS.

Centra's position is that intergenerational inequity has not occurred and, therefore, there's no need for a regulatory deferral. The next slide.

Now, should the PUB determine that a change in approach is now preferable and a deferral is required, Centra would need to recognize the regulatory liability. It would need an amortization period to be used and determined and specified by the PUB and would need to recognize the plant asset.

(BRIEF PAUSE)

MR. BRENT CZARNECKI: Now turning to capital projects and programs. Again, to reiterate, Centra takes the responsibility for the provision of a safe and reliable system very seriously.

Capital plans balance the risks of system failure with expenditure levels that the utility and the customer can afford. And Centra is the only option in Manitoba when something goes wrong. And I again remind of the Otterburne example.

Capital projects and programs. Expenditures are made to provide a safe and reliable natural gas system. That's the only motivation Centra has. Many expenditures are mandatory. They're required to meet franchise obligations, such as new customer additions, or for regulatory compliance, meter compliance, and, of course, conformance to the industry standard CSA Z662.

Other work is specifically justified on the merits of the project with the technical -- as assessed by the technical expertise of Centra's very capable engineering staff. There is no discretionary spending.

Projects. All are set forth to achieve the mandate of providing safe and reliable natural gas system for customers. They're done to proactively respond to identified issues such to avoid long-term gas outages.

And the examples that were discussed in this proceeding by Mr. Starodub, the -- and Mr. Steele, the Steinbach upgrade, the Portage la Prairie, and Brad River and Letellier projects, would contribute and will contribute to maintain reliability.

And they provide value to our customers, particularly those that are in the growing areas of Steinbach and in Portage la Prairie.

Now, lastly, before I turn the mic over to Ms. Carvell, there has been some discussion on Centra's asset management plan. So, I just wanted to highlight that we are proceeding with the development of a natural gas assessment management plan.

And we acknowledge that asset condition information gaps have been identified and that work is in progress to address these gaps. But I want to stress that the main benefit of such an asset management plan is to define asset life and assist in long-term asset renewal planning for the future.

Many of Centra's assets have minimal or no maintenance requirements. So, capital work regarding customer additions and regulatory compliance are not impacted by asset condition information.

And with that, I'll turn the microphone over to Ms. Carvell, and she'll carry forward.

(BRIEF PAUSE)

FINAL SUBMISSIONS BY MS. JESSICA CARVELL:

MS. JESSICA CARVELL: Good morning, Mr. Chairman and Panel members. I'm only going to provide a high-level overview of Centra's position on cost of service and the Transportation Service balancing fee issues, but please feel free to interrupt me at any point if you have any questions or require clarification.

So, as we're all well aware, this Board's pro -- second procedural order limited consideration of cost of service matters to options to mitigate the bill impacts flowing from the existing PUB-approved cost of service study.

And Centra submits that was an appropriate decision given that its cost of service methodology is reasonable, and it can be relied upon for rate setting purposes. And that position was agreed with by CAC's expert.

We've heard in this proceeding from IGU and from Koch Fertilizer Canada the suggestion that we should suspend rate changes until a generic cost of service proceeding concludes.

Now, this recommendation has been rejected by this panel before, and Centra submits it should be rejected again. Deferring rate changes is really not an option. It would be detrimental to the majority of Centra's customers who will receive rate reductions if its application is approved.

In particular, Centra's SGS class, which is residential customers, are going to see a reduction flowing from the reallocation of costs and the removal of the furnace replacement program funding. Next slide, please.

Centra acknowledges that, on its face, the bill impacts for T-Service customers do appear large. But before determining if bill mitigation is required, Centra asks this panel to consider these impacts in their context.

And firstly, as show in the chart in this slide, the impact to T-Service customer's classes is in large part reflective of the reversal of the rate decrease that was experienced in August of 2017 which flowed from Order 79 of 17.

At the time the Board issued its Order 70 of 17, it anticipated that, upon review in the next GRA, the -- a reversal of those rate decreases may occur. And that's what we're seeing in this application.

The second aspect that Centra would ask you to consider is that these bill impacts appear disproportionately large because there is no upstream of commodity costs included.

In order to have a fair comparison of bill impacts across all of the customer classes, you need to be considering gas costs, as well. And this was an approach that was approved previously by the PUB in its Order 156 of 91 where the Board stated:

"With respect to T-Service rates, the Board agrees that, in order to properly compare annual energy increases, the cost of gas must be considered an integral part of the total annual impact."

The next slide, please. So, following that direction, Centra has provided evidence showing the proposed bill impact when factoring in a cost of gas. And in this slide, Centra has used the most recently approved primary gas rates.

And so, what we can see from this chart is that T-Service customers, once you consider all gas costs, are experiencing rate increases of between 3 and 4 percent. The special contract customer class would experience a comparable outcome.

So, consi -- Centra submits, considering the total context of these rates, it's --

the rate increases it's proposing in this application do not justify bill mitigation for any class.

Notwithstanding that view, Centra has, in accordance with the Board's direction, considered bill mitigation options. Centra would submit that, if this Boar -- panel is considering bill mitigation, it should only do so for the special contract customer class.

As set out in this slide, we see two (2) different approaches. And Centra's preferred option would be to address the bill impacts resulting from the disposition of the heating value margin referral.

Its recommendation is that this Board extend payment terms of the heating value margin deferral rate rider to -- for a two (2) year period. This option is preferred as it's administratively simple. It doesn't involve any change to existing methodology. And most importantly, there would be no impact on any other customer classes.

It's also been suggested as a second option that this Board may order a change to the methodology for how to allocate the heating mar -- heating value margin deferral account balance. And two (2) different options have been presented, one (1)

CAC and one (1) by IGU.

Centra would just ask this Board to consider that what these proposals are is a change in methodology, and they would have an impact on other customer classes.

Several other options for bill mitigation have been proposed, but Centra's not supportive of any of those at this time. The first option was to select some portion of the transmission-related revenue requirement and place that into a deferral account.

Centra views that as being a fundamental change to its cost allocation methodology and was not in scope for this proceeding. Additionally that recommendation is incredibly complex and it would hinder Centra's goal of achieving a clean slate coming out of this proceeding.

It was suggested that Centra could introduce a zone of reasonableness. But whether you consider zone or reasonableness to be a rate alloca -- or sorry, a rate design issue or cost allocation, it is a fundamental change and it's out of scope for this proceeding.

It was suggested that Centra could eliminate the heating value margin deferral account, but that option doesn't address how Centra should dispose of the accumulated balance in that account.

Finally, we heard that this Board could consider an equal rate change across all customer classes. Centra views that option as being without any merit as it's premised on the idea that its cost of service is completely unreliable.

As I've already stated, Centra views that its current cost of allocation methodology is appropriate and it can be relied upon to determine just and reasonable rates.

But bearing in mind the Board's direction in its second procedural order that some subsequent proceeding may consider these issues, I want to make a brief comment about that.

In considering whether a full generic cost of service review is required, we would ask this Board to consider the time and resource commitments that's required to commit -- to conduct that review.

And Centra would ask that, prior to issuing any directives with respect to that proceeding, as a first step, Centra could meet with the PUB to discuss how best to facilitate such a review. You can go on. Thank you.

As we've heard, Transportation, or what

I'm going to call T-Service, is a service offering that requires customers to manage their gas supply and transportation to the Manitoba delivery area.

It's a service that comes with a significant contractual obligation to balance the amount of gas delivered with the amount of gas consumed.

And when T-Service was originally introduced in Manitoba in 1998 the Board did consider issues of balancing. And it found that T-Service customers should assume responsibility for balancing their supply with their demand and should be prepared to assume the risks of any imbalance.

The Board, at that time, also directed utilities to make every effort to ensure that the balance of the system customers, which is sales service customers, are not impacted. Centra has considered these two (2) principles in developing its balancing feel proposal.

There has been a lot of evidence on the record of the imbalances that T-Service customers create. And each of IGU's witnesses has acknowledged that T-Service customers are currently not adequately balancing their accounts.

But what these imbalances mean is a

real and substantial cost to sales service customers. And TCPL balancing fees are just one (1) of those costs.

Centra cannot sit idly by while T-Service accrue imbalances. It must take action to meet its own obligations as a downstream operator. The actions that Centra take do come at a cost to sales service customers.

Centra utilizes its assets, like storage and related transportation, or its Western Canadian supply contracts do balance the Manitoba delivery area. Those assets are funded only by sales service customers.

Centra also experiences opportunity costs resulting from the need to maintain an operational buffer. So, what we have is a clear issue. What we need -- what Centra requires is a mechanism to end this cross-subsidization by incenting consistent balancing behaviour.

Centra has put forward a balancing fee proposal that is based off of the TCPL balancing fee formula. It's a National Energy approved -- National Energy Board approved pro -- formula, and it's been accepted by shippers on the TCPL.

Centra's proposal contains two (2)

important modifications from the TCPL formula. We've offered generous tolerances that are, in many cases, three (3) times what Centra itself is afforded. And Centra's only proposing to apply 50 percent of the balancing fees.

We've heard in this proceeding T-Service customers discuss the challenges that they face to balance their accounts. And Centra understands those challenges because it faces those same challenges when it's balancing the Manitoba delivery area.

But the reality is that Cen -- is that Centra is not excused from its obligations as a downstream operator. It must balance the delivery area or pay fees. And Centra pays fees regardless of whether the imbalance helps or hurts the overall pipeline position, and it pays fees regardless of whether it's experiencing an operation disruption which is beyond its control.

We've heard T-Service customers ask for tools or mechanisms to help them balance their accounts. But there are tools within the existing gas market that can be used.

These tools include commodity transactions at the Manitoba delivery area or elsewhere on the mainline. There are multiple nomination windows available to alter your deliveries. And, when available, T-Service customers can use park and loan transactions.

But in order to use any of those existing tools effectively, T-Service customers and their nominating agents need to be taking an active role. They need to be continually monitoring their consumption and show a willingness to respond.

In addition to the tools already available in the existing market, Centra has taken steps to assist T-Service customers. It provides daily position reports and hourly consumption reports and has provided over two (2) years of pro forma reporting.

As such, centra submits that any other request for additional tools goes beyond Centra's mandate and effectively seek to eliminate risks that inherent in the natural gas market.

(BRIEF PAUSE)

MS. JESSICA CARVELL: Centra rejects the suggestion that the consultation process was neither extended, nor collaborative. Centra's been engaging with its T-Service customers on this issue since October of 2016.

The utility has sincerely listened to the concerns of its customers, and that's been reflected in the changes to the balancing fee proposal that have occurred over this period.

There's been ample opportunity since October of 2016 and since the filing of this application for T-Service customers to provide alternate mechanisms to address this underlying issue of poor balancing performance, but to date, we haven't heard that solu -- those solutions.

As such, Centra submits that further consultation is not required. It would only serve to delay this necessary proposal to change T-Service customers' balancing performance. What Centra has put forward is a fair and reasonable approach. It includes significant mitigation of the financial impacts for T-Service customers.

And, as such, it represents an appropriate balance of the interests of sales service and T-Service customers. The next slide, please.

Centra recognizes that, if its balancing fee proposal is approved by this Board, T-Service customers may wish to reconsider their service offerings. And the utility is prepared to assist T-Service customers in that decision making process.

Centra is prepared to waive the time requirements for ta -- transfers from T-Service to sales service customers in order to accommodate a change to sales service effective November 1 of this year.

(BRIEF PAUSE)

MS. JESSICA CARVELL: In addition to the balancing fee proposal, Centra's also seeking to raise the volumetric threshold for entry to T-Service. This proposal reflects the reality that lower volume T-Service customers have difficulty in meeting the obligations of this service.

If the PUB approves Centra's proposal in this respect, all existing T-Service customers will be grandfathered in. We heard a question raised last Thursday about whether the grandfathering would apply in the event of changes to consumption. And the example was given of a plant expansion.

And T-Service customers can be rest assured they will be grandfathered in regardless of any changes to their consumption.

So, in conclusion, Centra submits that its application result in just and reasonable rates that are in the public interest. It represents a balance of the interests of ratepayers and ensures that the utility will be financially able to fulfill its mandate.

I remind you that this is a good news story for the bast majority of our ratepayers. As such, Centra requests that the PUB issue an order granting approval for each of the issues that are set out in Exhibit 37.

I've been asked to make a brief comment about the timing. And Centra respectfully requests that this Board approve this application on or before October 11th. And that will ensure the utility has sufficient time to prepare a compliance filing and to implement rates for November 1.

I want to thank this -- each and every panel member for the time and consideration that you've shown to the application. And, in particular, thank you for the efforts to narrow the scope of this oral hearing. If you have any questions, we're free to take them now.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you, Mr. Czarnecki, Ms. Carvell. Mr. Meronek, would you like a break?

MR. BRIAN MERONEK: It's too early for lunch. I -- I think we probably need about a half an hour, if that's okay. I think we can wrap this up by noon.

THE CHAIRPERSON: We'll recon -- we'll stand adjourned and reconvene at 10:15.

MR. BRIAN MERONEK: Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 9:44 a.m.

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

THE CHAIRPERSON: Mr. Meronek...?

FINAL SUBMISSIONS BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Thank you, Mr. Chair and members of the Panel. You know Mr. Rainkie and Ms. Derksen. And I've invited my client up to the front table -- Ms. Desorcy -- if that's okay.

Apparently, I have some housekeeping

matters that were imposed upon me. One is there is some exhibits -- CAC-17 are the closing submissions that we filed on the written component of the hearing. CAC-18 is our very gracious letter to the Board giving Mr. Czarnecki till Friday to file his response.

--- EXHIBIT NO. CAC-17: CAC Closing Submissions on issues not identified in oral hearings.

--- EXHIBIT NO. CAC-18: CAC Letter to PUB Board re Centra's request for extension.

--- EXHIBIT NO. CAC-19: Book of Documents - CAC August 28, 2019

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: And I've also supplied electronically and in hard copy a small compendium of documents that I will be referring to during the course of my argument.

Lastly -- and I've had a sidebar with Mr. Czarnecki -- I was aware that there was an option to do oral and written or both. What I wasn't prepared for was that I would get a 50-page written argument today at the hearing without having an opportunity to review it.

And I've said to Mr. Czarnecki, I want to have the opportunity to respond cryptically to anything that we haven't heard today in oral argument, and we can have it by the end of business on Friday so that Mr. Czarnecki will know what our position is when he comes to reply.

If that's -- if that' s suitable with the Board, that's what we would propose.

MR. BRENT CZARNECKI: It's suitable, though, I would just note that written argument was always contemplated to be filed by the end of day on Thursday. So I think that would be -- remain appropriate.

And I did mention to Mr. Meronek we don't object to his path forward because the written argument is more fulsome, but there's nothing new or unexpected in it that you'll read compared to our comments this morning.

MR. BRIAN MERONEK: Well, that may be. We gave an extension to Mr. Czarnecki to reply to our written argument. I would expect the same. There are 50 pages of substantive argument here.

THE CHAIRPERSON: Mr. Meronek, Friday will work.

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Thank you, Sir. Before I get into my droning part of the presentation, unfortunately I don't have any PowerPoint, but I will refer to the documents.

Let me say a couple of opening remarks. One is I don't want to be one-upped by Mr. Czarnecki who certainly foisted praise on his staff and probably well deserved. I want to do the same with ours.

We don't have 5,400 employees. We have a very skeleton crew. And one of the things that the Board probably understands well but it bears repeating, Centra's in control of the information. We have to cajole it out of Centra, and that's why we have two (2) rounds of information requests.

The tasks of -- the task of the Board and the interveners in that regard is much more arduous because we don't have a discovery of documents as it were. So it makes our task a lot more difficult.

So I'm very pleased that this intervener can put together a very substantive response, both in support of Centra and opposed to Centra. As I say in my opening statement, we're not here to win or lose. We're here to inform the Board, provide the Board with our best advice.

And Mr. Czarnecki and I one day are mortal enemies; the next day we're best of friends. That's just the fluid world we live in. It makes strange bedfellows, but we have supported Centra certainly in the cost of gas, and we've supported them in the cost of service.

So our criticisms are meant to be constructive. There's no -- you won't find anything pejorative in our submission.

But having said that, I don't want to rain on Mr. Czarnecki's parade. But I want to put into focus this concept of a 10 percent reduction as if it's the be all and the end all. And everybody likes a reduction. I'm a ratepayer.

But we have to -- we have to drill down a bit. I think it's mentioned this cryptically in my opening statement. The 10 percent is not a reduction in non-gas components, save and except for the excess in the furnace replacement program, which in reality could have been hyped off as a separate account.

So there are no reductions in non-gas

in this application. It's all gas related other than the furnace replacement program. There's a 5.4 percent reduction of base rates made primarily of a $9.6 million reduction in forecast of primary gas costs.

As I say, there's the removal of the furnace replacement program which is a $3.8 million on an annualized basis. There's an overall increase in the SGS customers and volumes.

And the SGS class portion of the overall refund is $21.3 million -- sorry. Their portion of the overall $21.3 million refund is based on gas cost deferrals.

And these are due to external factors -- not management, not assiduous sharpening of the knife as it were. It's really a function of refunding the over collection of gas costs. It's a forecast reduction in the non-primary gas costs pursuant to market cost changes.

I've indicated it's discontinuing the FRP. So there's no reduction in Centra's financial reserves as a result of this reduction. It's really a matter of refunding monies that Centra did not need to collect.

In fact, Centra's financial reserves

have doubled -- more than doubled since being under Manitoba Hydro's ownership. They've gone from about $35 million in retained earnings to $80 million plus in retained earnings.

So it's -- we have to put that into perspective because in reality, I think that what subliminally Centra's suggesting here is that this is really a cost of gas application. It's not. It's drilling down to determine whether the non-gas expenditures are appropriate. And that's the function of this Board.

I feel flattered that Mr. Czarnecki quoted me. If I'd have known that, I would have chose my words more carefully. I'm even more flattered that he's compared me to Bonbright, whoever he is.

But at the end of the day, what we're seeking is a -- is about a $10 million reduction. And you will see that we have a schedule in -- on page -- in tab 1 to identify where we get the $10 million.

So you will see -- and I'll be talking about these items discreetly -- in O&A, we're seeking a removal of the positive contingency of $1.1 million, an additional allocation of $2.7 million for VDP/supply chain savings, limiting the escalation factor to 1 percent. So that gives an overall reduction of $5 million.

Then we have the metre exchange whereby with Mr. -- the benefit of Mr. Rainkie's accounting assessment, there would be an increase in depreciation expense of $2.1 million, a decrease in amortization -- that's the regulatory liability of $5.1 million for a total metre exchange reduction of $3 million which we've asked that it be amortized over three (3) years.

We've also indicated that the -- as a matter of Board order compliance that the power stations reestablish their minimum margin guarantee of approximately $1 million. I think it's about 948,000.

And in our written argument which I won't repeat here, we've asked for an interest rate forecast update reduction of $700,000 because that's -- in reality is the reduction.

And we've also articulated that there should be a property tax adjustment of $0.3 million because of overestimating the taxes. So that's another million dollars -- it's another million dollars. Sorry.

And then what that really represents is a 3.1 percent overall reduction in the overall revenue requirements of Centra including gas costs which are roughly $148 million in non-gas costs and $175 million in gas costs.

Now if we could turn the page, this is essentially the batting order. I'm going to go through the discreet O & A requirements of the positive contingency, the VDP savings, the escalation factor, and the overall O & A adjustment recommendation -- the $5 million which I will go through painstakingly for the Board.

I'll talk about recognizing the metre exchange regulated liability, the use of the excess of $17 million for the furnace replacement program, improving capital planning and asset management.

And then we'll digress -- or we'll slip over into cost of service, bill mitigation, in-scope matters, allocation of heating deferral. We'll talk about the power stations. And then lastly some cryptic remarks on balancing fees and equipment problem program.

So with that, let me forge ahead into the positive contingency forecast. And our full submission is found in our evidence -- our written evidence that Exhibit CAC-8 at page 49.

We have to start off with this -- the concept of what's the definition of positive contingency forecast. It's really detailed O&A

forecasts by program which are less than the overall O&A budget. That's what we're dealing with, here.

Now some history is apt. In Centra's CGM16, it forecast $61.25 million in O&A for the 2019 and '20 year. And that was finalized in April of 2017, before the VDP program, and that's important.

In its CGM18, there was no change. Centra, in finalizing its GRA on November 30, 2018, didn't make any changes. In its update on March 22, Centra's -- said in response to an information request from CAC, and Centra 2 IR as -- second IR, 125 (a) to (c), that there's no change in the update for O&A between O&A targets and detailed O&A information.

So we're now up to -- to March 22 of 2019. We get -- we fast-forward to June 14, 2019, and Centra stated in CAC/Centra second round, 133(f), that -- and this -- this information request was prepared as at June 14, 2019, that the positive contingency factor for 2019/'20 represents the difference between the target and the, quote:

> "Detailed O&A budgets, a reserve for cost increases and program charges that have not been yet incorporated into detailed plans."

This is in June.

Now we come to the -- the rubber hits the road on June -- July 24, 2019, when this consistent positive contingency that's been replete throughout the -- the filings and the updates magically turns into a negative contingency factor of six hundred thousand dollars ($600,000). That means between June 14 and July 24, Centra magically found $1.659 million in actual costs -- in added costs. And that's found in Exhibit Centra 43.

I want to quote in part further the rebuttal evidence of Centra, which was filed on August 2, 2019, at pages 21 and 22 of 38. In part, it reads:

> "In the fall of 2018, the target of $61.25 million was revalidated -- revalidated with the only significant change identified being the additional meter reading expenditures from MHUS of five hundred and twenty-four thousand dollars ($524,000). It was determined that these additional expenditure -- expenditures could be managed within the target of $61.25 million, given the trend of lower program costs primarily due to the

impacts of VDP."

Now, that's a very important statement, and I'll be coming back to that.

So what does that say? It's saying that Centra, as late as the 2018 filing, was telling the Board it could manage on $61.25 million, including a contingency of $1.059 million, but now it's saying it can't manage it. It's not finding savings, rather, it has found more costs.

Here's the problem with all of this. As I said in cross-examination, Board Order 24 of '19, Appendix B, never contemplated or ordered there to be an O&A update. The only updates that were ordered were in relation to the forecast interest rate changes and goss -- gas cost related matters in Tab 8 to 11.

And I've -- I've gone too fast. But if you look at page -- at Tab 2, the first schedule is the PUB/Centra 1-38. And you can see in there that there was a forecast in 2018/'19 of $1.8 -- 87 million in contingencies. And the contingency that we're talking about today for 2019 and '20, 1.059 million.

If you go over to the next page, not it needs repeating, but you can see clearly what the order of the Board was as it related to updates.

Now why are these updates in O&A coming

at this time, especially since Centra, by its own admission in evidence, Ms. Bauerlein said, You have to cut off forecasting at some point in time, otherwise you'd go on interminably updating.

This was done by Centra's own volition, not because it was ordered to. And the problem is that none of these changes were able to be tested at the -- at the extensive two (2) rounds of information requests, and when the evidence was filed. There is no ability on the part of the Board or the Interveners to test these changes that were anecdotally mentioned in evidence.

These updates are a part of the give and take in overall forecasting. Remember, we're not in a historic test year regime, where we -- we cobble together all of the -- the rates, all of the costs and revenues at a given point in time, and then subsequently review them. We're into forecasting.

So it begs a question, why did Centra not update other aspects of their filing? What is even more concerning is that in -- there was a similar situation in the Manitoba Hydro 'O' and -- O&A situation whereby Manitoba Hydro, in a compliance filing, updated its budget, which was prepared and available on May 30, 2019.

Centra's O&A budget was available at the same time, except for impacts on rates, that is, the customer cost allocation, which I'll talk about later. And that can be found at transcript page 385.

Centra is using the cost allocation -- customer cost allocation as an excuse for why we didn't get these updates in advance so that they could be tested in -- in the first round, second round, or in terms of responding to the evidence. They have -- they're separate and discreet. They have no bearing on one another.

In the Board Order 75 of '19, the Board was review -- in the electric proceeding, the Board was reviewing two (2) nonrecurring O&A costs, which were part of an unallocated contingency amount for transitional business requirements arising from VDP.

The rationale for the inclusion was the budget had been -- and here's the words again -- revalidated. That's at page 4 of 7. And that is I -- I've -- I've got a couple of pages in Tab 2 where the Board addresses this issue. I won't read them. They're there for your benefit.

But the Board found that they had not been in the O&A budget for the 2019/'20 fiscal year. They had not been examiner tested. That's at page 5 of 7. They were disallowed.

So too here, these are new numbers when it comes to taking out the contingency and putting in pluses and minuses that were not in the O&A budget for the 2019/fiscal (sic) year, which we all thought we were dealing with. They have not been tested, as I say, beyond the anecdotal evidence of Ms. Bauerlein, based on material that she says we can't even see at this point in time. It's a blackout.

More importantly, Exhibit 47 is still a budget. These numbers will change. The only plausible explanation, even though there was a denial, was it -- was too blunt the argument that there's no longer a $1.1 million positive contingency fee. It's been wiped out, so don't bother reducing the overall O&A requirements by that amount.

So what we are saying is that the $1.059 million should be reduced from the $61,250,000 amount for a balance of $60.2 million. Now let's just stop there for a moment.

At the next GRA, God knows when that'll be but hopefully sooner rather than later, if the total actuals are materially higher in terms of overall revenue requirement, Centra can always come in and seek a rate increase. That's how it works.

Conversely, if there's a material change such that the actuals are substantially lower than forecast, they can come in, and hopefully would come in for a rate decrease. That's when you deal with these things. You don't pick and choose in -- just because it's to your benefit.

With respect to the VDP supply chain savings, Centra has allocated $2.7 million in savings, predicated on VDP savings of $2.3 million or 85 percent of the total and supply chain savings of $.4 million or 15 percent of the total. And you will be able to see that on the first page of Tab 3 where it's outlined.

And Centra does this allocation supposedly on the following basis: (1) the asset cost drivers have been steady at 96 percent to 4 percent. Savings are still unfolding, but they are trending at 4 percent, and that's the viva voce evidence of Ms. Bauerlein. Any further increases, and you'll hear this a lot, or you've heard it a lot, jeopardizes jobs and programs. And lastly, there was no complaint by CAC at the Manitoba Hydro hearing when a 64 -- 6 -- 96 and -- and 4 -- 96 percent, 4 percent ratio was -- was determined.

So I want to deal with each of these

arguments in turn. The asset allocator is a cost driver. Quite -- quite charitably, this is a flaccid argument. There is -- it's the worst possible allocator. It -- you might as well use a split of customer allocation of 33 percent, which is equally as tenuous. There's just really no empirical or otherwise appropriate explanation to allocate costs of the assets when we're dealing with labour matters, wages and benefits.

The most reasonable cost drivers have been ignored without really an explanation. The O&A, which you would think would be an appropriate comparator, represents all the O&A costs between the two entities, and it -- it incorporates a whole bunch of other allocators to come up with that number. And there obviously is a direct relationship between cost and savings, even if it's not one to one.

So you'll see over on -- you'll see over the second page of Tab 3 that the overall O&A expenditures have been consistent throughout the years at 11 percent.

Secondly, the activity charges as a cost driver are 92 percent Hydro and 8% Centra, and you'll see that over on the third page. Now, this is an interesting schedule because the evidence as I understood it was that wasn't used because of the overall stability concerns of the -- this cost driver, and that is found in Ms. Bauerlein's evidence at transcript 103, but there's no evidence of instability related to this activity charge. If you see it, it's really 8 percent over the course of time. Now, that's an even more compelling reasonable allocator, but it's ignored.

Oh, I'm sorry, I'm looking at my -- my book. It's the next page. Yeah, there it is.

You'll see corporate activity charges highlighted in yellow and you'll see that throughout the time period shown there, it's 8 percent. There's no instability there.

The -- the -- the reliance that -- that is being made on the 4 percent is that the savings are trending at 4 percent. Now, a couple of points. One, Centra in its rebuttal evidence on August the 2nd, 2019, at pages 22 and 23, make no mention of any trends, none whatsoever. They critiqued the 8 percent for other reasons.

Secondly, Ms. Bauerlein is giving anecdotal evidence. We can't test it, and, as with the other information, we can't even see it. It's -- there's a blackout. So how can we rely on that evidence? We can't.

The third complaint is that there would or could be an overall reduction in staff and programs. Centra doesn't say how many staff or programs would be cut. Moreover Centra, as we all know ad nauseam, does not have any staff. They don't have any employees.

Therefore, what we're advocating at -- at 8 percent, which is more reasonably connected, is that there's a further $2.7 million in savings that is ascribed to Centra from Manitoba Hydro. It's a zero-sum game. It's a peccadillo in the operations of Manitoba Hydro, it wouldn't even be noticed, but it's a big deal for Centra.

And at -- at the end of the day, what's fair is fair here. With -- with the substantial amount of savings that have been accrued overall to -- to ascribe $2.7 million is -- is pretty parsimonious I would say.

The -- the last, and I think probably weakest argument, is that there were no complaints by CAC at the Manitoba Hydro hearing as to the 96 percent and 4 percent ratio. As I understand it, and I'm not giving evidence, that there really wasn't any material before the Board at that time to delve into that question. And again, as I say, that would have been -- from Manitoba Hydro's perspective, that would have been a rounding off number, not even worthy of -- of mention.

Don't forget that a further 2,000 -- two million -- $2.7 million further allocation savings doesn't speak to a -- a -- a $2.7 million cut in hard costs to be incurred by Centra. It's a fair allocation of what the savings are.

And the other thing that -- that we should be bearing in mind, when you -- when you look at the $2.7 at 4 percent, when you compare that to the escalation factor of 2 percent, that savings gets wiped out almost in two (2) years.

You have an escalation factor of 2 percent. You have a savings of $2.7 million. Most of that gets wiped out. Where are the enduring savings? There aren't.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Lastly, I commend to your reading leisure the testimony of Mr. Rainkie, who was the CFO and corporate controller for several years. He's been in the inner sanctum. He knows how the operation works.

And he says at pages 518 and 519:

> "There are so many positive and negative variances between budgeted and actual O&A results that it would be impossible to conclude that the 4 percent allocation was working as intended on a review of detailed actual results."

If Centra's unable to make a detailed allocation of savings in the first place, how can it conclude through detailed actual results that the allocation is reasonable?

Moving on to the escalation factor. I -- I just want to address one (1) comment made in Centra's oral argument on slide 18 where it states:

> "Cost pressures in excess of 2 percent -- excuse me -- therefore, Centra's continued to control and actively manage expenditures by incorporating 0 percent and 1.5 percent respectively."

I suspect that statement relates to overall im -- the overall impact of accounting changes. It certainly isn't Centra's evidence when it comes to the escalation factor that's been incorporated into this filing at CAC/Centra 1012H; it confirmed the 2 percent of an escalation factor in this filing.

And in the evidence, reasons for the 2 percent, which are transparently inconsistent with the Manitoba Hydro findings by this Board, is that its board of directors will not accept less. Anything less than 2 percent means cutting staff and programs.

So, you take $2.7 million dollars out of Manitoba Hydro's budget and tell me that there's going to be staff cuts. They also conclude that, well, the CBAs alone include 1.5 to 1. -- it's 1.25 to 1.5 percent negotiated in the contracts, plus a 1 percent merit increase, so there's a pressure point that. That's the evidence.

So, essentially what -- what Centra is saying is that, it doesn't matter what the Board orders, we're going to do what the board of directors approves. And there's a disconnect between the Board in rate setting and the -- the Manitoba Hydro Board in setting financial targets for financial purposes.

Maybe -- obviously, there's a disconnect, but this Board is dealing with setting rates. It shouldn't worry about the -- what the Board of Directors of Manitoba Hydro dic -- dictates.

And, as I indicated earlier, again, at a -- at a $2.4 million in escalation, that wipes out the savings. And that's not what the Board in Manitoba Hydro indicated should happen. There should be more continual savings, not less.

Centra advised in CAC/Centra 2-133G that it didn't incorporate a pre -- precisely a productivity factor in its O&A targets. What Centra seems to be saying by that is that what it's gained on savings it's losing on an escalation factor.

It's like saying we had a VDP program, now our job is done, we can build up a buffer again.

And more starkly, if I could put it that way, aside from the fact that this Board and a couple of the members on this panel were at -- sat on the Manitoba Hydro hearing whereby it ordered a 1 percent efficiency escalation factor, Centra hasn't explained why it's different than Manitoba Hydro, su -- such as to really warrant a 2 percent escalation factor when again it doesn't have any employees.

Oh, and by the way, what it really is saying is that this panel should overturn what the panel on the Manitoba Hydro hearing said.

(BRIEF PAUSE)

MR. BRIAN MERONEK: A couple other points on this. One (1) is Centra appears to be returning to a 2 percent escalation factor that Manitoba Hydro used before 2013 which really is a passive approach to cost control and when, in fact, in IFF2013 and 2015, the escalation factor was calculated to be -- or forecasted to be 1 percent.

The net result of all of this is that this will result in an O&A increase of about $11 million by 2027/'28. And for that, you can turn to tab 4. And I've recaptured Mr. Rainkie's impacts on that basis. And you can see that with an escalation of 2 percent, there's about a $12.8 million increase versus a 1 percent.

(BRIEF PAUSE)

MR. BRIAN MERONEK: And on the next page -- and I've highlighted a response of Mr. Rainkie to IGU/CC- First Round-1. I won't read it. But, essentially, it's Mr. Rainkie reiterating from his experience with Hydro the expectation of senior management to routinely develop productivity incentives as a matter of course.

That's not what's happening here. I've also recited the pertinent portion of the Board Order 69/19 which I will read in part. If you scroll down... Keep going. Stop there. Yeah.

About halfway down that -- that visual it says:

"In the absence of evidence demonstrating the appropriateness of a 2 percent escalation number, the Board finds that a 1 percent escala -- rate of escalation is to be used for rate setting purposes.

This is consistent with Manitoba Hydro's prior commitment dating back to 2013 to limit operating cost increases to 1 percent per year.

As the Board stated in Board Order 59/18, the Board expects Manitoba Hydro continue its efforts to reduce O&A costs both in terms of staff reductions and supply chain management.

The Board reiterates that cost control should be ongoing and that

it should continue in the post-
voluntary departure program years."

This is all emphasized -- this is out of Mr. Rainkie's evidence, but it's -- we've highlighted that portion of the pertinent part of that decision.

The last argument that Centra makes is that there's a ri -- a risk to public safety. That's the old chestnut that gets thrown out all the time. It's -- it's a fearmongering argument that, ooh, the sky is falling if we -- if -- if we don't ha -- if we don't -- if we make cuts or we don't have enough buffer built in.

There's no evidence that there would be a risk to public and employee safety, or system reliability or the ability to provide reasonable levels of service.

Centra's arguing that, at 1 percent, it would mean that, if it can't recover its actual costs through rates, it may result in net losses or additional debt. And you can find that in their rebuttal ev -- its rebuttal evidence at page 24, Exhibit 33.

Let me just respond cryptically by saying that's a really disturbing argument. It's almost like a veil threat. To suggest that -- that Centra can't absorb $1.2 million is just not valid.

To suggest that Centra, with $80 million in retained earnings, will have to borrow is even more disturbing.

(BRIEF PAUSE)

MR. BRIAN MERONEK: And I just want to -- I -- I just want to talk a bit about cost pressures because I think panel member Watson was -- was concerned about that.

And I -- I want to show you the second last page in Tab 4. It shows the -- the relative contracted wage settlements. And you'll see at the top, for 2014 and '15, roughly 2.75 percent across the board, and then in 2019 and '20, anywhere between .75 and 1.5 percent.

So, let's put that into perspective in terms of -- of cost pressures. And you'll see over on the next page a comparison between what Centra was faced with in 2015 and '16 and what it's faced with now.

In the first column you'll see the general rate increase of 2.75. You'll see the merit increase that Ms. Bauerlein says Centra's faced with. So, there's a total cost increase of 3.75.

With a budgeted escalation of 1 percent, there's an implicit productivity factor of 2.75, and that's back in 2015 and '16, before the VDP -- VDP program.

Now when you fast-forward to 2018 and '20, we've averaged the -- the general wage increase to come up with 1.13. We've got the merit increase in there at 1 percent. So, we have a total increase of 2.13.

At Centra's budgeted escalation factor of 2 percent, there's no implicit productivity factor whatsoever. If you -- if you replace it with 1 percent, it's a 1.13 escalation factor.

Compare that to 2015 and '16 and tell me that there's more pressure now than there was then. It's just not plausible.

(BRIEF PAUSE)

MR. BRIAN MERONEK: So, we come to the overall O&A reduction of $5 million. And that analysis is found in our Exhibit 8 at pages 49 to 51.

(BRIEF PAUSE)

MR. BRIAN MERONEK: The -- the overall impact in this reduction will mean about an $11 million reduction in O&A by the end of 2027/'28 to ensure -- as the Board ordered in the Manitoba Hydro case -- enduring benefits of the VDP/supply chain savings over the course of a number of years. And again, that's found at -- that commentary's found at page 50 of Exhibit Centra -- or sorry -- CAC Exhibit 8.

Centra's position is that a reduction of 8 percent -- as we saw in the oral presentation is an 8 percent reduction -- and again, Chicken Licken, the sky is falling -- 40 staff reductions, and that's in their rebuttal evidence.

Remember, these are not reductions to actual cost. They are getting rid of placeholders -- namely the positive contingency factor and the escalation factor -- and increasing savings to Centra for the VDP program which leaves Manitoba Hydro's consolidated operations neutral.

There's no evidence on the record of any reductions to reliable service and safety. Again, I remind the Board that these are forecasts for a future test year, meaning rates are set based on forecast of expenditures and tested in this process. They're not untested actual results, and we're not in an historical test year regime. Those days are gone.

So let's see how this all shakes out. If you look to tab 5 -- the first document, and that is reproduction of PUB/Centra 2-9 -- you will see a couple things. One (1) is there's a demarcation between the gap accounting methodology and the IFRS. You can't compare the two (2). There has to be more -- those are not apples to apples.

But let's start -- let's look at 2015 and '16. Taking out the adjustments for the metre sets, we're down to $61.5 million in O&A; 2019 to '20 where it's $61,250,000. Note there's no change.

Now let's take out the items that we're suggesting ought to be taken out, and for that, turn over to the next page. For 2018 and '19, we had seen in the previous document that the projected 2018/'19 O & A was $63.3 million. But the adjustment was taken out, so the overall subtotal was $60,200,000.

If we take out the unallocated contingency which we saw back in PUB Centra 1-38 of the $1.9 million in 2018 and '19 and you reduce the escalation factor which ought to be reduced of

$0.6 million, we have an adjusted 2018 O&A of $57,700,000.

Compare that to Mr. Rainkie's suggestion at $56.3 million, and you don't see a big difference. There's no Armageddon here. And that doesn't take into account the VDP savings.

And just at 50,000 feet, think about this: 1,200 people lost their jobs at Manitoba Hydro, about eight hundred (800) in the VDP program and four hundred (400) according to Mr. Rainkie before -- while he was still there. A percentage of that was Centra.

Where did the savings go? If you go -- if you look back at the previous page, you've got $61,500,000 in 2015 and '16. And when the purge happened and was finished, it's $61,250,000. Something is not right here.

So when the argument is, well, you can't cut anything more 'cause, you know, we're going to be out on the streets panhandling, it just doesn't wash.

Turning to the metre sets, this is a topic well above my pay grade, but let me take a run at it. Turning over to tab 6 in the bottom there, you'll see where the -- where the depreciation net income of $15.3 million comes from.

And the initial recommendation of CAC per Mr. Rainkie was to take that amount which is really retained earnings in the consolidated financial statement of Manitoba Hydro, repatriate it back into Centra's financial statement, and treat it as an increase of $15.3 million to resolve the rate setting treatment of the accounting change for that -- those five (5) years.

Upon further reflection on his was to Damascus, he fell off his horse and came up with a better, complete solution. And that's our revised recommendation, and it's -- you'll be reminded of the discourse at transcript 456 and 57 and 523 to 526.

And the specs for that change are found in CAC Exhibit 13, which I've appended in tab 6. I won't go through it. It's fairly straightforward. Even I can understand that, which is the lowest common denominator.

But -- so the revised recommendations are this: Repatriate the $15.3 million, recognize the $15.3 million as a corresponding regulated liability owing to the customers, depreciate net plan over ten (10) years that was recommended by Centra.

We say amortize that regulated liability over three (3) years to refund the overpayment by ratepayers. And to ameliorate inter-generational equity because over the last five (5) years, the $15 million net has been expended by ratepayers who may not be able to reap the benefits of any return.

The other suggestion also recommended by Centra was to capitalize the costs on a go-forward basis for financial statement purposes and rate-setting purposes, effective April 1, 2019, which results in an overall O&A savings of $3 million per year.

And you will see that on the last page of tab 6. Fairly -- a fairly simple and straightforward allocation as to how the numbers shake out.

Now, Centra's position -- and I'm somewhat -- I'll choose my words carefully -- somewhat disappointed -- let me put it that way -- in their maintaining their same approach today.

I think that when it came to this component, it's -- these are my words, my suspicion -- that they either forgot the 15.3 in this accumulated profit adjustment in the elimination column of Manitoba Hydro or just ignored it.

Centra says, well, it's going to add to

complexity of accounting. It's going to be conflicting to amortize between net plan and regulated asset for rate setting purposes. It's going to amount to two (2) sets of books. All of these complications.

And I sat there, and I listened to Ms. Bauerlein and tried to follow what she was saying. And all I heard was this is going to be really complex for us. Never mind the customers who are owed the money. It's going to be complex for us.

And as I sit around here and I look at all of the erudite accounting people, it isn't too complex. It's something that's easily done, readily -- it's readily accomplished.

And as Mr. Rainkie said in his testimony, it's the most appropriate, fair, and complete treatment. It's consistent with the intent of Centra when Mr. Rainkie attempted to change the accounting in 2016, and the Board said no.

It's fair with the treatment by Centra of the other -- three (3) other IFRS accounting changes which were set up because of this transition and, by the way, which Centra wants to recoup from ratepayers.

It's complete in that the recording of the net plant deals with the financial reporting issue to harmonize with Manitoba Hydro and the recording of a regulated liability that deals with the rate setting issue.

It can be readily implemented. I don't think there's any debate about that. Again, the amounts are material to Centra. It's about 18 percent of the overall projected retained earnings of Centra at 18 million plus.

And it's immaterial to Manitoba Hydro with a projected revenue -- retained earnings of $3 billion. It's not confusing. The only confusing thing about this is when a consumer asks how come I overpaid all these years, and it magically becomes a profit adjustment in Manitoba Hydro's books? That's what's confusing, and there's no right answer.

Now just one more point on this subject at page 23-- oh, sorry -- 22 of Centra's presentation. It says in the last bullet: The impact would be a rate -- a cost reduction/increase to net income partially offset by annual depreciation on plant asset.

I'm told there won't be any net income impact by Centra as a result of the recommendation to set up the regulated liability.

Now moving on to the furnace

replacement program --

MS. MARILYN KAPITANY: Mr. Meronek just before you move on, you said you're told that there's not going to be an impact? Could you elaborate on that?

MR. BRIAN MERONEK: If I could have a moment.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Let me see if I -- without trying to introduce any evidence.

(BRIEF PAUSE)

MR. BRIAN MERONEK: It kind of reminds me when I was appearing before the Association of Professional Engineers and I was asked an engineering question. And I said, Why are you asking me, I got a 30 in phy -- in physics, asking me this is... It's unfair to me, but it's a fair question. I understand that when you -- if you go -- if you go back to tab 6, you'll see there's a net reduction of $3 million but, corresponding, there'll be a $3 million increase in revenue requirements, so it -- it -- sorry.

(BRIEF PAUSE)

MR. BRIAN MERONEK: I stand corrected. This is already included in the revenue requirement, but it will -- it -- it's already included in ra -- in -- in rates as a revenue requirement so that it's -- it nets out.

And let -- you know, let me do this. Let me -- let me address that in writing when -- when I -- when we come to Friday.

VICE-CHAIR KAPITANY: That would be appreciated. Thank you.

MR. BRIAN MERONEK: Sure. Because we could be here all day while I try to understand it.

(BRIEF PAUSE)

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Mercifully, I never took accounting. Just moving over to the furnace replacement program, the evidence on the record is that Centra expects that by August of 2019 there'll be approximately $30 million accumulated in the program, and only $13 million is required, so there's an excess of $17 million.

It initially had made three (3) rec -- recommendations; return the excess as a rate rider, allocate that amount to Efficiency Manitoba, and -- or allocate to fund bill affordability initiatives.

If there's a refund, I think there's a -- I think in the book of documents of -- of the Board at page 216 it shows that there would be a $55 decrease to the SGS class, or an 8 percent reduction.

Now, at -- at Tab 7, we've -- we've put in the new regulation which is now in effect. I won't go through it other than to point out a couple of important dates and -- and items.

Although that the regulation is in effect now, it doesn't commence until April 1, 2020. And until a commencement date, Efficiency Manitoba must use the affordable energy fund for the purpose as set out in the Energy Savings Act; that's section 14.

Now, in this transition period, you'll see over on page 10 of section 15 it essentially says that:

> "No further money is to be allocated to the FRP account and any residual amount to be used, and that's effective April 1, is to -- is to be used to offset natural gas DSM

initiatives as set out in approved efficiency plan."

Which, by the way, I understand ha -- has to be submitted to this Board six (6) months be -- at least six (6) months before it comes into effect.

"And the Board retains jurisdiction as to how to determine how the residual amount is to be allocated to the customer class."

And that's section 15(3). A couple of observations. If the Board decides in its discretion that there should be a refund or a rebate, as I read the -- the regulations, there's nothing to prevent the Board from making that determination now.

It's -- it's what happens with any residual as of April 1, 2020. So, if the Board decides for a refund now, it's not offending any regulation.

Now, if the Board does suggest a refund over a year as -- as an option, one has to bear in mind that the year will not end before the regulation comes into effect.

So, there becomes a problem there, is there'll be -- unless it -- it goes into a different account somehow, it'll -- there'll be a residual amount. And then it has to be hiked to be hiked over to Efficiency Manitoba, so that -- that's an issue.

If it's to be refunded, we strongly urge that it be refunded to the SGS class because that's how paid the money in the first place. But our -- our recommendation -- CAC's recommendation is that it's supportive of Efficiency Manitoba.

And I don't know if this was canvassed, but the -- the full amount we -- we urge the Board to -- to order in this proceeding that the full amount be earmarked for SGS natural gas customers only for the purposes of energy efficiency programs because, as I say, they're the ones who contributed to the fund.

So, we're not advocating a refund. The -- CAC has been involved and -- and Ms. Desorcy's on the steering committee, to make sure that there's more amelioration of initiatives for people who can't afford it.

So, that's -- although we'd all like $55, that's not our recommendation.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, I just want to briefly talk about asset management. We have included the recommendations that METSCO has put into its report at pages 46 through 48 -- sorry, 46 and 40 -- 47, and that's in Tab 8.

I'm not going to go through them, but we endorse them. I think there's a bit of -- I don't know if it's professional jealousy or someone's nose it out of joint, but metro -- METSCO is not saying disallow any -- any capital expenditures. It's just saying, look, you have in a forecast $40 million per year dedicated to new pipes in the ground.

That's $403 million over the course of ten (10) years. You better get your act together as to how you prioritize this. That's the essence of their -- of their report.

METSCO's given credit where credit is due and is trying to be constructive in its criticisms. It says that Centra's performed some tasks well, but it could do -- it -- it can improve in others. I don't think there's any debate about that.

But some of the issues that -- that are raised in METSCO's report and in the evidence are -- are somewhat concerning. First of all, METSCO says it's a standard asset management principle that, in making a judgment on a justification for a project there ought to be a risk cost assessment versus an outage cost assessment comparison.

Centra didn't rely upon that principle even though in -- in some of its projects, as we've seen, Portage la Prairie and Steinbach, they -- they did a costing of the outage, and they did a costing of the -- of -- to build, but they didn't put in any risk of probability of occurrence, which is curious because in all of the three (3) risk assessment documents, including their corporate risk management report which is found in PUB completeness review, attached, page 9 of 52, in its five (5) year natural gas asset investment plan, Appendix 4.3, pages 50 -- 62 to 64, and in its CVF document, PUB/Centra 1-67, they all point to that -- to that formula, being risk equals the product of impact or consequence multiplied by its probability or likelihood of occurrence.

You'll recall back -- that -- in the evidence Centra states, for example, with -- with Portage la Prairie, we can't -- it's -- we can't assess the risk, it's difficult to define as there's limited information, so it wasn't done.

That kind of gives cold comfort. But in the -- in the CVF document that hasn't -- wasn't used for Centra, even though it's been in place for several years at Manitoba Hydro, because remember the evidence was it's -- it only started to be used with Letellier, that document wasn't used, yet there are percentages of probabilities in that document where you -- you go down to the -- the one (1) column that says, is it 95 percent, is it 33 percent or whatever.

But there's been no calculations done to -- to make an assessment of that risk. And that's what they're trying to get at. The same goes for Steinbach.

In Steinbach at book of documents page 154, this is the -- this is the Board's book of documents, they -- as a risk, Centra allocates an almost certain degree of -- of an event. That means 95 percent chance. It has been delayed possibly two (2) years.

So, when you use the word 'discretion', it -- it seems that there's a disconnect here because there is some discretion. You'll -- you'll recall that the engineers say one (1) thing and the higher ups say, no, we can't afford it or we've got other priorities, so it's -- the evidence is we assume the risk.

Well, it -- it may be compulsory at some point, but there's a discretion in -- in there as to when.

The other -- one (1) of the other points that METSCO pointed out was this -- this idea of using redundant or secondary pipelines to -- to deal with larger communities even, for example, with Steinbach where the outage probability is low.

The probability of a failure of the sole feed was not assessed. And Centra acknowledged in the material and in its evidence that the natural gas industry guidelines don't mandate secondary supply for reliability, yet they're incorporating, it's part of their planning. And that's at transcript page 334.

Now, coming to the corporate value framework that is being implemented, no analysis has been done by Centra to assess communities on that basis in which Centra supplies services.

And in that regard, Centra has stated that they're in the nascent stages of the CVF program for project prioritization, that's at page 308, even though, as I say, Manitoba Hydro's been doing it for years.

And when I asked why the change, was there any analysis as to whether this was a preferable model to use or the pri -- the prior ones, they said it's for harmotize -- harmonizing purposes and there wasn't any independent analysis.

But even accepting that as an appropriate approach, as I say, the capital expenditures are going to be massive over the course of the next ten (10) years that they're going to add pressure to rate increases, so we better make sure that there's a -- that we're vigilant in terms of assessing project prioritization.

The $403 million can be found in the PUB book of documents at page 149.

One (1) of the other concerns that METSCO pointed out was that they are saying the asset condition assessment and risk assessment capabilities available are being underutilized. While Centra -- and that's found at their report, page 16, lines 14 to 16. Now, Centra takes umbrage with that statement, and in its rebuttal at page 12 to 14, it goes on with a list of all of the condition assessment reports that have been used.

But it fails to make any mention of any risk assessment findings and concedes in a CAC/Centra second round information request 144 that its pipeline risk assessment has not directly led to changes to the forecast expenditures over the next ten (10) years and asset conditions assessment expenditures only led to the collection of more data.

You know, I think what METSCO's saying -- these are my crude words -- like, let's get on with it and quickly.

The other -- one of the other aspects is the use of historical cost when estimating a future cost for projects down the road. And in the book of documents of PUB at pages 140 to 141, you'll see a -- I don't have it here, but you'll see a list of -- oh, magic of technology -- you'll see there that in the outlying years that there are a lot of zeros associated with that.

So essentially in the four (4) to five (5) years out, 75 percent to 100 percent of the projects are literally just placeholders. So METSCO's concerned about that and -- you know, and saying, you know, there has to be much more of an aggressive and focused approach to this kind of planning.

Moving over to cost allocation -- and this is where Mr. Czarnecki and I become friends again -- by virtue of Board Order 98 of 19, the Board ordained that bill mitigation was in scope but made some very cryptic and blunt conditions.

One (1) is that bill mitigation is based on currently approved cost allocation methodology. So there can't be any changes to the approved cost allocation methodology which is in play here at this hearing.

And two (2), it's not appropriate to make one-off fundamental changes to the cost allocation methodology in the absence of a full review.

So those were the two (2) conditions. And unfortunately -- and I think we all have to do some mea culpa on this that the hearing, in my view, extended well beyond what was in scope. But I'm going to address that momentarily.

We agree with Centra that bill mitigation is not necessary. We say that when an apples to apples comparison is made, the bill impact of T-Service customers, including the special contract class, are not material. You'll find that in Centra's rebuttal at page 6.

You'll hear -- you heard Ms. Derksen emphatically -- and she used the gatekeeper when it came to cost of service for many years at Hydro -- that the cost of service is not flawed. You don't say it's flawed just because you don't like the results.

The results are what they are. If the cost allocation methodology is correct, then you live with the consequences of that or change them through another cost of service review.

These principles have been long ordained by this Board going back to Board Order 107 of 96. They were reviewed again in Board Order 118 of 2003, and they were maintained as appropriate. And in that Board Order at page 79 -- and I've got that in tab 9 at page 79 in the second -- if you could scroll down. Okay, stop there.

It says at the start of that paragraph:

"Centra's rate structures is designed to fully recover from each customer class all of the costs allocated to that customer class, that is all customer classes have a revenue to cost ratio of 1 subject to rounding."

So there's no zone of reasonableness here. This is what the Board has ordained. Until the Board reviews it at a cost of service study, that's the way it should remain. Really what we're dealing with here is a difference -- a philosophical difference of opinion.

As I say, the results aren't acceptable to the T-Service customers, but it's not as a result of a flawed cost of service study but rather there's a whole litany of things that have transpired since 2010 and '11 which is what this -- the rates -- cost of service rates were set on in 2010 and '11.

There's an increase in transmission investment, and that happens periodically. There's been no GRA since 2013 and '14. There's been no cost of service -- sorry -- cost of gas review since 2015.

There was a rollback, as we heard in the evidence, by Board Order 79/17. And had there not been a rollback, there would have been an increase to T-Service customers including special contract customers which would have made the increase today much less.

Importantly, there's been a customer movement between classes, an overall customer demand in volume increases. The SGS class has over contributed since 2013, although the starting date -- precise starting date was not known. That was in Ms. Derksen's evidence, and it's in written evidence at pages 99 to 103 -- 102.

And I stand corrected. I posed the questions to Mr. McLaren as to whether there had been any complaints, and he said he wasn't aware of any. And then Ms. Steinfeld embarrassed me by coming up with a -- with a quote from another Board Order.

So I went back and looked at the Board Order. And that complaint in 2007 was by Koch, and it related to being allocated transmission costs. So they've been -- they've used that complaint for a lot of years now. But the Board at page 88 summarily dismissed -- summarily dismissed that request.

Just a couple other points. Mr. Collins on behalf of Koch suggests that the cost of service study is flawed because you look at the results, and there's not much change in revenue requirements and look at the major increase.

But when he was asked, he'd not seen the cost of service study. He wasn't -- not his fault -- he wasn't provided a copy, and he can't assess, for example, whether the peak and average allocator is causing the problems. So with all due respect to Mr. Collins, I think his evidence is of questionable value.

There are a lot of out-of-scope issues. I'm just going to run through them just so that the Board can understand where we're coming from. And we're not going to get into the whys and the wherefores of these because that is what the Board ordained should happen at the generic cost of gas hearing.

A more extreme option that's been recommended by IGU is to have no non-gas rate changes in the interim or by Koch having an equal percentage change for all classes. The impact is the same. It's the flip side of the same coin.

Both of these recommendations rely -- will mean that the existing, what I call, zone of unreasonableness subsists at 62 to 150 percent. You might as well have Hudson's Bay rules. You know, no holds barred. I mean, it's just ridiculous to have that kind of disparity.

And it means shifting costs between classes which again is out of scope. IGU promotes this zone of reasonableness as a matter of rate design or whether it's a -- whether it's a rate design or methodology matter, it's out of scope. You can dress it up, but it's a 3 dressed up as a 9 as the music -- as the song goes. It's out of scope whatever you call.

And Mr. McLaren went on about the zone of reasonableness in the electric side and you heard evidence that -- that they're just two (2) different beasts.

And, by the way, if there's an appropriate comparison, that comes at a cost of gas --

sorry -- at a generic cost of service hearing. That's when you hear this information. You don't just pick one part off the shelf and say, well, we're going to use this for now.

Other out-of-scope suggestions were the changes to peak and average allocators such as coincident demand peak, changes to posted stamped rates, direct assessment of costs to the special contract class. They're all methodology changes, and they cannot be implemented without a full review.

The real warning here is this: You have a cost allocation based on the 2010 and '11 GRA. You had a myriad of things that have happened in the interim. And I just cited many of them.

If the Board subscribes to some of the suggestions and makes any measure postulated by the T-Service interveners without a full review of all of the intervening factors, you might well up -- end up with a waterbed effect. You may solve one problem in the interim, and then you get to a cost of service study, and find out you've created a whole bunch of other problems.

So you can't be half pregnant about this. You have to -- you have to have a special hearing to deal with all of these things over the a flection of time.

If there are going to be any bill mitigation measures, it should be intra-class, not interclass. Bill mitigation isn't shifting costs from one class to another. That's not bill mitigation.

Bill mitigation is when geez, you know, I got these -- I got this massive bill, and I can't pay it all at once. Okay. We'll do it in instalments. That's mitigating the cost. But when you shift those costs to another consumer or another class, that's an allocation shift. That's not bill mitigation.

So this is not our fight to pick. In terms of whatever deferrals there are, that's between Centra, the other interveners, and the PUB.

Dealing with heating value deferral even though it's in scope as a bill mitigation measure, we already said that no bill mitigation measure is needed. I think that Centra has said that, in more or less the same words, that first of all, it offends the notion of bill mitigation. It's shifting costs, as I've stated.

It's going to have a deleterious, substantial impact on the SGS class by grossly increasing the cost allocation from what's in the filings of $1.3 million to $2.8 million out of the total of $3.9 million in the account. That increase represents an increase from 33 percent in the current application to 72 percent, or more than double, and we urge that that allocation not be adopted.

In terms of power stations, this is an interesting one, and I've -- I've cited pertinent portions of Board Order 118 of '03 in Tab -- Tab 9. Let me just run through a little bit of history, here, so that we understand and we're -- we're all up to speed.

In 2003, Centra sought to add the power stations as a separate class as part of the 2003/2004 GRA. The power stations used to be a mainline class, but Centra urged that there be a special class because they had a low load factor, 30 percent, which is the lowest on the system. They had large annual volumes, and they had high on-site investment. And it was done to prevent cross-subsidization to the other classes.

That -- the power stations were allocated $1.029 million in costs at that time. It's on the record. And the Board said, Yes, we will allow that special class, but we're going to put in a -- a minimum gross margin guarantee, because these were a -- a new class of -- this new class of infrastructure, and there was a feasibility test that was to be -- that was -- that was to be undertaken. And it was to be for ten (10) years -- or the -- the contract was for ten (10) years. There was supposed to be three (3) true-ups in the calculations, and at some point in time, the Board was going to look at these -- the final true-up and say, Well, we don't need any more guarantee, or we need more guarantee, and none of that was done.

As a matter of fact, we had argued -- in those days, it was CAC/MSOS, Manitoba Society of Seniors, which sadly isn't around anymore. But we had argued -- and that's at page 80 -- the contract -- we -- we acknowledged the contracts between Centra and Manitoba Hydro were ten (10) years, and that was less than the life of the project, so there was some overlapping there that we were concerned about, and we promoted an evergreening of this minimum guarantee to extend beyond ten (10) years for any new contractor in the extension of the existing contract.

The Board found at page 81, it approved the power station class. It noted specifically that the minimum guarantee was only for the length of the contract. It noted as well that any changes had to be -- to the contract had to be filed for review, and approval if necessary. And more pertinently, if you look over page 81, on the bottom of that screen, the -- it says, last two (2) sentences:

"The Board will require that any changes in terms and conditions or extensions to the term of contract will be filed with the Board for review, and if necessary, approval. The Board also expects that the minimum guarantee will continue for any extended contract terms."

It can't be much clearer than that. There's no -- it doesn't lend itself to any other interpretation. That -- notwithstanding what the contract says, that has to stay in place until the Board orders otherwise.

So what do we have? We don't have a contract before the Board now. It's not on the record. Presumably the contract's been extended. I don't think there's a new contract in place. So either there's -- the contract is in place, in which case, it doesn't matter what the -- what the contract says, that minimum guarantee has to stay in place, or its operating without a contract, and therefore it's charging rates without authority.

So that hand -- that deals with the -- with the interpretation. And I might just add that when you look at the -- the orders, specific orders, Order number 20, at page 102, it says:

"Cen -- Centra -- Centra's request to introduce the cooperative customer class and power station customer class be and is hereby approved."

It doesn't say, and forget about what we said in the body of the -- of the Order. It didn't say, and the minimum guarantee is only for ten (10) years, because that's not what the Board wanted.

The second argument that Centra made was that -- I've got to keep a straight face on this one -- that the power stations didn't receive notice. Think about that. Mr. Char -- Chard as in charge of -- of regulatory matters for Centra didn't tell Mr. Charge -- Chard as regulatory person in charge of Manitoba Hydro. That -- that -- there's not -- nothing more I can say about that argument.

The third argument is that this bill impact will increase the power stations by 500 percent. No, it won't. Centra took that money out improperly. Had it not taken out that money improperly, there wouldn't have been any increase.

Centra maintains that there is cross-subsidization. No, there's not. The costs would have been allocated in the way they -- they would have been according to the current cost of service methodology, had that money stayed in there. There's no cross-subsidization.

So what we're saying is that we're not asking for Centra to come up with -- or Manitoba Hydro to come up with the -- not -- a million dollars per year for the last five (5) years. We're saying, adhere to the Order, maintain the minimum guarantee of prod -- whatever it is, until the power station cost allocation and rate design can be reviewed as part of the generic cost of service allocation hearing.

And again, putting it in perspective, whatever this cert -- you know, approximate million dollars is, comes from Manitoba Hydro, which is a $25 billion organization and has seriously under-contributed to the cost of service that's been allocated and identified in Centra CSI materials.

Just a couple more points before I close. Dealing with balancing fees, now, we had initially presented a position in Information Requests Centra/Rainkie-Derksen 1-6, and essentially said:

"We support Centra in its efforts to ensure fair allocation of balancing fees to those who impose them, however, we're concerned that Centra's proposal is too aggressive. There should be a more gradual implementation of Centra's balancing fee proposal."

Now, unfortunately we did not receive that full day's of testimony transcript until yesterday. What we would like to do is address that evidence, if necessary, in our written reply for Friday in the event that we offer a different recommendation. And I'm not saying we will but -- but events have -- have certainly been -- certainly the facts have been canvassed in a lot more detail, so we want to -- we beg the Board's indulgence in that regard.

And lastly, in terms of terms and conditions, just to comment on the equipment problem program, CAC believes this is an important program for consumers. In many cases it contributes to their safety, and CAC is desirous to see that the program is continuing, but it also recommends to the Board and Centra that better and enhanced advertising of the program be undertaken so that all residential consumers who need it can benefit from it.

So in conclusion, we urge the Board to accept our recommendations. It's clear that, given the -- a flection of time -- and don't forget this is the second interregnum as it were, in terms of GRAs. Back in 1997, there wasn't one for five (5) years till 2003. Now we have another situation where it's been five (5) years. It causes a lot of grief, and to everybody, and it really -- hard to unscramble the egg.

So what we're saying is, there should be regu -- we say this in our -- our written submission, that there has to be regular G -- GRAs of cost of service to -- to avoid a lot of the -- the problems that have occurred, including these deferral accounts that have blossomed because of the affliction of time.

But before you have -- we have a GRA, we need to have a cost of service generic hearing. There's no sense having another GRA, having the same issues rear their ugly -- ugly heads, and -- and where are we?

So I think, if I can leave the Board with this urging that there should be a cost of service generic hearing sooner rather than later.

I -- I recall Ms. Carvell saying that before you -- before you do that, there should be a fireside chat with the Board and Centra, you know, to set out what -- what really is required, and I would suggest or urge that CAC be involved because we have the cost of service expertise to be able to assist the Board.

So with that, those are my comments.

MS. SUSAN NEMEC: Mr. Meronek, I have one (1) question and I'm going to take you back to unfortunately a mathematical question.

I'm just not sure of how the allocation of the VDP savings on your tab 1, page 1, of 2.7 was calculated, just the basis of that calculation, if you could.

MR. BRIAN MERONEK: Sorry it's not clear, and I can answer this question.

The -- the $2.7 million was a savings that was -- that's in a GRA. We're saying it should be at 8 percent, so it's another 2.7 percent -- $2.7 million in savings in addition. So it's a total of $5.4 million.

MS. SUSAN NEMEC: The 4 percent is calculated -- the extra -- it's from 4 percent to 8 percent. And what's the basis of the cal --

MR. BRIAN MERONEK: It -- we've -- we've gone through all our reasonable cost allocators and we said that the best one, really the best one in our view is -- is the 11 percent of overall O&A costs, but we're going that far. We're saying that -- that the 8 percent in terms of activity charges for the wages and benefits is the appropriate one, and that's where we came up with the 8 percent.

MS. SUSAN NEMEC: I do understand the 4 and 8 percent. Was there a significant calculation of the 4 percent that you just multiplied it by two (2) to come to 8 percent --

MR. BRIAN MERONEK: Yes.

MS. SUSAN NEMEC: -- so the basis of that 4 percent was a significant calculation, and you multiplied that by two (2).

MR. BRIAN MERONEK: No. At -- at 4 percent, it's -- it's $2.7 million. At 8 percent, it's 5.4 million.

MS. SUSAN NEMEC: Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Meronek, thank

you very much.

Mr. Hacault, I believe that you will be up next, next week.

So unless there's anything else, we are adjourned until Tuesday. Enjoy the long weekend.

--- Upon adjourning at 12:05 p.m.

Certified Correct,

____

Donna Whitehouse, Ms.