

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MANITOBA PUBLIC UTILITIES BOARD

RE:

CENTRA GAS MANITOBA INC.
2009/10 TO 2010/11
GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Monica Girouard - Board Member
Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 10, 2009

Pages 827 to 1082

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

APPEARANCES

Bob Peters) Board Counsel
Marla Murphy) Centra Gas
Brent Czarnecki)
Kris Saxberg) CAC/MSOS
Rick Forster (np)) Direct Energy
Nola Ruzycki (np)) ESMLP
Dave Hill (np)) Koch Fertilizer Canada
Sandy Boyd) Communications, Energy &
) Paperworkers Union

1	TABLE OF CONTENTS	
2		Page No.
3	List of Exhibits	830
4	List of Undertakings	831
5		
6	CENTRA'S REVENUE REQUIREMENT, DSM, COST ALLOCATION,	
7	AND RATE DESIGN PANEL RESUMED:	
8	VINCE WARDEN	
9	WILLY DERKSEN	
10	GREGORY BARNLUND	
11	DAVID PETURRSON	
12	LLOYD KUCZEK	
13	Cross-examination by Mr. Kris Saxberg	840
14		
15	CAC/MSOS PANEL	
16	JOHN MCCORMICK, Sworn	
17		
18	(Voir Dire)	
19	Examination-in-chief by Mr. Kris Saxberg	1029
20	(Voir Dire concluded)	
21	Examination-in-chief by Mr. Kris Saxberg	1035
22		
23		
24	Certificate of Transcript	1082
25		

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

LIST OF EXHIBITS

Exhibit No.	Description	Page No.
CENTRA-9	Response to Undertaking 8	832
CENTRA-10	Response to Undertaking 9	833
CENTRA-11	Response to Undertaking 10	833
CENTRA-12	Centra's letter of June 9th, with updated schedule information	833
CAC/MSOS-7	Book of documents	839
CENTRA-13	June 9th revision to PUB/CENTRA-149	994

1		LIST OF UNDERTAKINGS	
2	No.	Description	Page No.
3	14	Centra to indicate if it used the	
4		same twelve (12) forecasters for the	
5		January 20th, 2009, GRA, as it did for	
6		the May 29th update. And also to indicate	
7		whether or not the methodology has changed	
8		from the 2007 GRA Hearing to the 2009	
9		filing, and then the update	913
10	15	To explain in detail Manitoba Hydro's	
11		obligation re employee contribution	
12		benefits.	1024
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

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

2

3 THE CHAIRPERSON: Okay, good morning.
4 We'll start with Ms. Murphy. She has some undertakings
5 to report on.

6 MS. MARLA MURPHY: I do, thank you. Good
7 morning. Drum rolls. We have circulated this morning
8 three (3) responses to Undertakings. The first one is
9 Undertaking Number 8, which was taken at transcript page
10 695, and I believe it could be marked as Centra Exhibit
11 number 9.

12

13 (BRIEF PAUSE)

14

15 MS. MARLA MURPHY: Good?

16 THE CHAIRPERSON: Yes, fine, thank you.

17

18 --- EXHIBIT NO. CENTRA-9: Response to Undertaking 8

19

20 MS. MARLA MURPHY: The second one is
21 Undertaking Number 9, which is from transcript page 755,
22 and I believe it could be marked as Centra Exhibit Number
23 10.

24 THE CHAIRPERSON: Very good.

25

1 --- EXHIBIT NO. CENTRA-10: Response to Undertaking 9

2

3 MS. MARLA MURPHY: Then we have
4 Undertaking Number 10, which was taken at transcript page
5 758, which I propose be marked as Centra Exhibit Number
6 11.

7 THE CHAIRPERSON: That's fine.

8

9 --- EXHIBIT NO. CENTRA-11: Response to Undertaking 10

10

11 MS. MARLA MURPHY: Thank you. And
12 finally, to complete the record for this morning, we
13 circulated electronically yesterday, and I've provided
14 paper copies on peach paper today, of Centra's letter of
15 June the 9th with the updated schedule information. So
16 I'd propose that that be marked as Centra Exhibit Number
17 12.

18 THE CHAIRPERSON: Thank you, Ms. Murphy.

19 MS. MARLA MURPHY: Okay.

20

21 --- EXHIBIT NO. CENTRA-12: Centra's letter of June 9th,
22 with updated schedule
23 information

24

25 MS. MARLA MURPHY: And, Mr. Chairman,

1 just before we get underway, Mr. Warden wanted to add
2 some information to the -- information that he had given
3 on June the 4th, related to the cost of the new building
4 and the associated leasing costs.

5 THE CHAIRPERSON: Mr. Warden...?

6 MR. VINCE WARDEN: Yes, good morning, Mr.
7 Chairman, members of the Board, ladies and gentlemen. I
8 -- I just thought it would be useful to clarify the
9 record with respect to the lease costs at 444 St. Mary.

10 When Mr. Peters was cross-examining --
11 examining me, I -- I indicated I didn't know the cost of
12 -- the current cost of -- of leasing at that location,
13 and I've since been able to obtain that information. I
14 thought it might be important to clarify too, for the
15 record that, although we commonly refer to the lease cost
16 at 444 St. Mary as being in the range of ten dollars
17 (\$10) per square foot, which is correct as far as the
18 basic rent is concerned, but there are a number of other
19 costs that get added to that number that really make it
20 considerably higher. So there's -- there's such things
21 that's common area costs and parking, utilities, and
22 other operating and maintenance costs.

23 So, when you add all those costs together,
24 the cost per square foot, in 2009, rather than being ten
25 dollars (\$10) per square foot, it's actually twenty-one

1 dollars (\$21) per square foot for 444 St. Mary. That was
2 the actual cost that was incurred.

3 We do -- we have found out that the
4 current rents that are being quoted are in -- for
5 property of that same calibre are in the twelve (\$12) to
6 fourteen dollars (\$14) per square foot range. And when
7 that -- if we gross up that cost for the common area and
8 other costs, that amounts to twenty-nine dollars (\$29)
9 per square foot. So the current costs in 2010 for -- for
10 property similar to same -- 444 St. Mary would twenty-
11 nine dollars (\$29) per square foot.

12 We do a projection for -- for 360 Portage,
13 just to see what the cost -- the comparable cost would
14 be, and that works out to forty-four dollars (\$44) per
15 square foot. Considerably higher than the twenty-nine
16 (29), but that forty-four (44) is fixed for the next --
17 presumably, only increasing with costs of -- of utilities
18 and such for the next sixty (60) years.

19 THE CHAIRPERSON: Thank you very much,
20 Mr. Warden.

21 MR. VINCE WARDEN: Thank you.

22 THE CHAIRPERSON: Quite comprehensive.
23 Mr. Peters, would you mind reminding us what we're up to
24 today?

25 MR. BOB PETERS: Yes, good morning.

1 Thank you, Mr. Chairman, Board members, ladies and
2 gentlemen. There have been some minor schedule revisions
3 that I should report on, and I've attempted to do that
4 via email to the parties who are following the
5 proceedings via the transcript.

6 But in terms of today, we will, after my
7 comments, I suggest turn to Mr. Saxberg on behalf of the
8 Consumers' Association of Canada, Manitoba, and the
9 Manitoba Society of Seniors. He will use much of the day
10 in cross-examination of Centra's Revenue Requirement
11 Panel. And my understanding is he will have questions on
12 all revenue requirement matters, with the exception of
13 matters such as demand side management, cost allocation,
14 and rate design.

15 When Mr. Saxberg is finished, he intends
16 to put Mr. McCormick on the witness stand, and I would
17 pause here and welcome Mr. McCormick to the proceedings -
18 - I had an opportunity to meet with him earlier this
19 morning -- and welcome him here.

20 That will occur later today. And if the
21 schedule follows as we anticipate, we're asking the Board
22 to be prepared and flexible to sit, perhaps as late as
23 6:00 p.m. this evening, and that would allow Mr. Saxberg
24 to complete his cross-examination and also to have -- we
25 think at least the direct examination of Mr. McCormick

1 completed today.

2 Tomorrow, resuming at 9:00 a.m. on
3 Thursday, June 11th, Mr. McCormick will be cross-examined
4 by Centra's counsel and then by Board counsel. And
5 that's not expected to be lengthy but it will perhaps be
6 the morning, or the most part of it.

7 And following that, we'll turn back to
8 Centra's panel and I will cross-examine on issues of
9 demand side management, including the lower income energy
10 efficiency program, as well as on cost allocation and
11 rate design matters. And that will probably take us
12 through most of Thursday.

13 And then Friday morning, Mr. Saxberg would
14 have the microphone back to conclude his questioning of
15 this panel on matters related to demand side management
16 and cost allocation and rate design. Following Mr.
17 Saxberg, Mr. Boyd will get an opportunity for any
18 questions that may have not yet been asked, of which he
19 and his constituents have interest.

20 So that will -- if it goes according to
21 plan, it will conclude the evidentiary portion
22 approximately noon on Friday is our best guesstimate.

23 And then we have made a change in the
24 schedule, Mr. Chairman, and the Hearing will not sit next
25 week from June 15th to 19th, inclusive. There will be no

1 sitting of the Board. Rather, the closing submissions
2 will follow in the following week on the 24th, that is a
3 Wednesday. And we will hear from Board counsel, as well
4 as Intervenors' closing submissions. And any Intervenors
5 who are following the proceedings by way of transcript
6 may want to submit written submissions by the close of
7 business on Tuesday, the 23rd of June, to have them
8 available and included on the record on the 24th of June.

9 Then we would move to Friday the 26th of
10 June at 1:15 in the afternoon to sit to hear the closing
11 submissions on behalf of Centra Gas Manitoba Inc.

12 So, Mr. Chairman, if there are any
13 questions of me, I'll do my best to -- to answer. At
14 this point in time, I'd like to hand the microphone back
15 to you, Mr. Chairman, and perhaps then to Mr. Saxberg.
16 But before doing, I just wonder if Mr. Warden and --
17 could through his counsel, provide a written copy of any
18 information that he has that he's now shared with the
19 Board, in terms of the breakdown of costs for 444 St.
20 Mary, relative to the projection of costs for 360 Portage
21 Avenue.

22 MR. VINCE WARDEN: Yes, I will do that.

23 MR. BOB PETERS: So, those conclude my
24 introductory comments this morning, Mr. Chairman, and
25 subject to your questions, I would suggest you call on

1 Mr. Saxberg to begin his questioning.

2 THE CHAIRPERSON: Thank you, Mr. Peters.
3 Mr. Saxberg...?

4 MR. KRIS SAXBERG: Thank you, Mr.
5 Chairman. Good morning to you and Board members. As Mr.
6 Peters indicated, I have with me for the day at least,
7 and into tomorrow, John McCormick from Alberta, and we'll
8 hear his evidence hopefully at around 3:00-ish is -- is
9 what I'm targeting for, but don't hold me to it.

10 And I have also circulated a book of
11 selected documents, all of green in colour. I think
12 that's a first. It looks more daunting than it is. And
13 I'll be referencing that book of documents throughout my
14 cross-examination, and so perhaps for the ease of -- of
15 reference, we could mark it as an exhibit?

16 THE CHAIRPERSON: Just looking for a
17 number now, Mr. Saxberg. CAC/MSOS-7.

18

19 --- EXHIBIT NO. CAC/MSOS-7: Book of documents

20

21 MR. KRIS SAXBERG: Thank you.

22

23 CENTRA'S REVENUE REQUIREMENT, DSM, COST ALLOCATION,
24 AND RATE DESIGN PANEL RESUMED:

25

1 VINCE WARDEN, Resumed

2 WILLY DERKSEN, Resumed

3 GREGORY BARNLUND, Resumed

4 DAVID PETURRSON, Resumed

5 LLOYD KUCZEK, Resumed

6

7 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

8 MR. KRIS SAXBERG: All right. I think
9 I'll begin with you, Mr. Warden, and some basics --
10 questions that I think all parties will agree on, with
11 respect to the answer.

12 Firstly, would you agree it's the Board's
13 task, and the Utility's objective, to set rates that are
14 fair, just, and reasonable?

15 MR. VINCE WARDEN: Absolutely.

16 MR. KRIS SAXBERG: And that for the rates
17 to be fair, just, and reasonable, they should reflect the
18 most accurate forecast of costs in the test years?

19 MR. VINCE WARDEN: Well, a forecast is a
20 forecast, and as I've explained in previous testimony
21 that to the extent that forecast is -- the actual results
22 turn out to be different than that forecast, we have a
23 self correcting mechanism in the retained earnings that
24 we continually review at these proceedings, and before we
25 put forward a rate application.

1 So there will be -- we know that we --
2 there will be deviations from forecast for a number of
3 different things, whether OM&A costs, depreciation costs,
4 including finance costs as well, but there is a mechanism
5 to deal with that.

6 MR. KRIS SAXBERG: And I'll get to that
7 in a section, but would you agree that the Utility
8 strives for accuracy in creating its forecast?

9 MR. VINCE WARDEN: We use the best
10 information we have available to us at the time the
11 forecast is prepared.

12 MR. KRIS SAXBERG: And apropos of that
13 then would you agree that a forecast based on up-to-date
14 information would, generally speaking, be more accurate
15 than forecasts based on superceded information?

16 MR. VINCE WARDEN: Consistent with the
17 cycle that we got through, we have to recognize there is
18 a fairly extensive cycle that is necessary because
19 Manitoba Hydro, of which Centra Gas is a part, has a very
20 large organization that requires a certain protocol we
21 have to follow.

22 So we can't be constantly changing
23 forecasts. It has to be -- adhere to a certain rigour
24 that we follow in developing those forecasts and
25 incorporating those forecasts. Because all the forecasts

1 are interrelated to some extent, and a change in one (1)
2 forecast could change another, and it becomes a never-
3 ending process if we keep chasing the most recent data.

4 MR. KRIS SAXBERG: But you'll agree there
5 are circumstances where information changes and it's
6 important to update the forecast.

7 MR. VINCE WARDEN: Well, I think we've
8 seen evidence of that in this Application, as a matter of
9 fact. We have taken the unusual step of updating our
10 forecast, subsequent to the filing, to recognize th fact
11 that it was a very cold winter last year, and we had
12 earnings that were substantially higher than what was
13 forecast. That and, as we've mentioned, there are some
14 other items, including financing costs, which were,
15 because of the unprecedented circumstances that we have
16 in the markets today, were also revised to reflect more
17 current circumstances.

18 MR. KRIS SAXBERG: So it's fair to say
19 that one of the drivers of updating the forecast was the
20 current financial markets and the fact that they had
21 changed so much from the -- from the time when the
22 original forecast was done?

23 MR. VINCE WARDEN: Yes, the main driver
24 of the change was the substantially higher net income
25 that was achieved in 2008/09. We -- because we were

1 updating our forecast we took that opportunity to update
2 some other item -- other items in the forecast, including
3 finance costs.

4

5 (BRIEF PAUSE)

6

7 MR. KRIS SAXBERG: Well, the change to
8 the finance cost was significant, in terms of revenue
9 requirement: A \$3.6 million in the first test year and a
10 \$3.8 million change in the second test year.

11 MR. VINCE WARDEN: Well, I'm certainly
12 not downplaying the fact that finance costs did decrease
13 in the -- in the test year, the forecast that is. We
14 don't know yet exactly what will happen. It's a very
15 volatile market out there, but again it seemed
16 appropriate to use our most current information since we
17 were updating our forecast in any event.

18 MR. KRIS SAXBERG: But you're not
19 suggesting that had net income come in at say 3 million,
20 that you wouldn't have updated the forecast, in light of
21 the changing financial market circumstances?

22 MR. VINCE WARDEN: Oh, the main driver
23 for the -- updating the forecast was the change in net
24 income. Had it been only the financing costs that had
25 changed, it's unlikely what -- we would have updated its

1 whether or not the rate increase is sufficient, or too
2 high/too low, I'm not sure. I assume they look at the
3 retained -- the level of retained earnings as well, but
4 I'm sure there's a number of other things that they
5 consider.

6 MR. KRIS SAXBERG: And the practice for
7 Centra is to have a GRA every two (2) years?

8 MR. VINCE WARDEN: Yes, that's the
9 objective, is to have a GRA every two (2) years. There's
10 no -- we don't have any hard and fast rule to that
11 effect, but I believe that is turning out to be what the
12 practice is.

13 So we would have a -- if everything works
14 out according to plan we would alternate years between
15 electric and gas GRAs.

16 MR. KRIS SAXBERG: So it would take at
17 least two (2) years to rectify any imbalance.

18 Is that fair?

19 MR. VINCE WARDEN: Well, I don't think
20 that's a huge risk right now, because of -- as we've
21 stated, the level of retained earnings at March 31st,
22 2009, are \$36 million. We have significant risks out
23 there. Just one (1) of them that we talked about was
24 IFRS, which could totally deplete those retained earnings
25 of the order of magnitude of \$61 million that could be a

1 charge against retained earnings.

2 So I don't think we have to worry in this
3 Application about the level of retained earnings being
4 too high, by any means. In fact, just the opposite: I
5 think we have to be concerned that the level of retained
6 earnings is too low.

7 MR. KRIS SAXBERG: So in essence, sir, is
8 what you're saying that the retained earnings actually
9 act as really just a large deferral account? Is that the
10 way you're viewing it?

11 MR. VINCE WARDEN: Well, I'm saying that
12 the re -- it's not necessary to have additional deferral
13 accounts for that reason, because the retained earnings
14 are -- provide a self-correcting mechanism that can be
15 assessed at every rate application.

16 MR. KRIS SAXBERG: And would you agree
17 though that when rates over collect, and that over
18 collection isn't dealt with for a prolonged period of
19 time, that creates intergenerational inequity?

20 MR. VINCE WARDEN: Well, again I think
21 you have that issue if -- if you had a sufficient level
22 of retained earnings. If we were sitting with \$100
23 million of retained earnings, that would be a more
24 relevant issue than it is today.

25 MR. KRIS SAXBERG: Well, you have \$36

1 million of retained earnings on one (1) view; on another
2 view perhaps 41 million, depending on DSM accounting
3 treatment. But the point is, that's the highest level of
4 retained earnings that Centra's ever had since Manitoba
5 Hydro purchased the company, isn't it?

6 MR. VINCE WARDEN: Yes, we had a lot of
7 lean years.

8 MR. KRIS SAXBERG: And -- but what you're
9 saying is even though we're at this record amount, \$36
10 million, can customers likely owe Centra money right now
11 because of IFRS?

12 MR. VINCE WARDEN: Well, I think we only
13 talk about records when a certain goal is achieved. So,
14 it's inappropriate to refer the retained earnings, in
15 terms of setting any kind of a record. It's only a -- a
16 level that's higher than it's been in the past because
17 the -- the retained earnings have been so -- so low. But
18 it's certainly not a record we're going to brag about.

19

20 (BRIEF PAUSE)

21

22 MR. KRIS SAXBERG: Rather than using the
23 -- the deferral mechanism of retained earnings, is it not
24 the case that the Utility's first preference would be to
25 have forecasts that are very close to the actual cost of

1 service in any particular year?

2 MR. VINCE WARDEN: Well, again, Mr.
3 Saxberg, a forecast is a forecast and we know they're
4 going to be wrong. There's going to be a -- there's so
5 many variables at play. The largest -- probably one of
6 the largest ones is -- is weather, and for that reason we
7 know there's going to be variances. And we have a
8 mechanism to deal with those variances.

9 MR. KRIS SAXBERG: But you'll -- you'll
10 give me that some forecasts are going to be better than
11 other forecasts?

12 MR. VINCE WARDEN: Well, by their very
13 nature some costs are more predictable than -- than
14 others. The -- as a matter of fact, finance expense,
15 which we haven't had -- talked about a lot in previous
16 proceedings because it has been so stable, it has been so
17 predictable. It's only because of the unusual
18 circumstances that are occurring in the world around us
19 that we're even talking about finance expense, I think.

20 MR. KRIS SAXBERG: Do you agree that the
21 Board's task and the Utility's objective should be to
22 avoid intergenerational inequity?

23 MR. VINCE WARDEN: Yeah, I agree with
24 that. Absolutely, yes.

25 MR. KRIS SAXBERG: And that the Board's

1 task and the Utility's objective should be to avoid
2 cross-subsidies between the gas and electric ratepayers?

3 MR. VINCE WARDEN: Again, I agree.

4

5 (BRIEF PAUSE)

6

7 MR. KRIS SAXBERG: And then would you
8 agree that one (1) way for this Board to work towards
9 those objectives, is to insure that the forecast is as
10 accurate as possible and that the methodology used to
11 determine that forecast is sound?

12 MR. VINCE WARDEN: Well, I think you
13 started off -- your cross-examination, Mr. -- Mr.
14 Saxberg, by saying that the objective is to insure that
15 rates are -- are fair and reasonable. So, I think that's
16 what we're striving for here is to make sure that what we
17 present here is -- is fair.

18 There -- because of the number of -- and
19 var -- variables that are out there, fairness, I think,
20 is one (1) of the -- certainly, one (1) of the ultimate
21 objectives we're striving for.

22 MR. KRIS SAXBERG: Thank you. I want to
23 talk now about the method and manner in which Manitoba
24 Hydro arranges for financing. Can you confirm, on the
25 record, that Manitoba Hydro borrows for the integrated

1 operations of both gas and electric.

2 MR. VINCE WARDEN: Yes.

3 MR. KRIS SAXBERG: And that there's no
4 specific consideration of the particular needs of -- of
5 one (1) utility versus the other utility when Manitoba
6 Hydro goes out to borrow?

7 MR. VINCE WARDEN: Well, the process
8 starts by looking at what the capital and operating
9 requirements are of the consolidated Utility, the
10 consolidated operations of Manitoba Hydro. We then
11 proceed to get loan act authority through the Province of
12 Manitoba. And it's based on that loan act authority that
13 ultimately becomes approved, that we start drawing down
14 that authority and borrowing to meet our -- both our
15 capital -- well, to meet our capital needs.

16 MR. KRIS SAXBERG: But just specifically,
17 when Manitoba Hydro's going out and borrowing, it's not
18 considering specifically the level of, for instance,
19 short-term debt within Centra Gas?

20 MR. VINCE WARDEN: Well, there are a
21 number of factors that are taken into account when we
22 time -- go to the market for -- for new borrowing. We
23 would look at the amount of short-term debt that we have
24 in the consolidated operations of Manitoba Hydro, which
25 would include Centra Gas. So, indirectly, we would look

1 at the short-term position of Centra Gas at that time,
2 yes.

3 MR. KRIS SAXBERG: Okay. But when you
4 say "yes," you -- you re -- you prefaced it by saying
5 "indirectly". You're looking at the consolidated
6 operations when you are going out to borrow and when
7 you're determining the level of short-term debt, floating
8 rate debt, and long-term debt, correct?

9 MR. VINCE WARDEN: Well, it's maybe two
10 (2) questions there, but the timing of when we go to
11 market would include consideration of the cass -- cash
12 position of the integrated Utility and the forecasted
13 cash requirements. As to the balance between short and
14 long-term, floating, non-floating, that's another
15 consideration.

16 MR. KRIS SAXBERG: Okay. And then with
17 respect to that -- that second or latter consideration of
18 the balance of short-term debt, floating rate debt, and
19 long term debt, that is done at the consolidated level,
20 as well, correct?

21 MR. VINCE WARDEN: It is done at the
22 consolidated level. However, we're always aware of the
23 level of floating debt within Centra Gas as well.

24 MR. KRIS SAXBERG: Could you turn to Tab
25 31 in CAC Exhibit 7?

1 (BRIEF PAUSE)

2

3 MR. KRIS SAXBERG: It's an IR from the
4 Electric General Rate Application that was heard in 2008.

5 Do you agree with that?

6 MR. VINCE WARDEN: Yes, that appears to
7 be an IR from the Electric GRA, yes.

8 MR. KRIS SAXBERG: And if you turn to the
9 -- the second page, under the heading "Answer," in the
10 first paragraph the very last sentence reads, quote:

11 "Rather, Manitoba Hydro's strategy was
12 to obtain attractive financing while
13 main -- maintaining its floating rate
14 debt within the 15 to 25 percent target
15 guideline." End quote.

16 Do you see that?

17 MR. VINCE WARDEN: I do.

18 MR. KRIS SAXBERG: And that is the target
19 for the consolidated Manitoba Hydro?

20 MR. VINCE WARDEN: Yes.

21 MR. KRIS SAXBERG: And if you could then
22 stay within the tab and go to the fifth page in, it's an
23 IR from this proceeding, page 3 of 4 of CAC/CENTRA-6. In
24 the paragraph underneath the chart, the second sentence
25 reads, quote:

1 year end."

2 And I just want to understand, is there a
3 difference between that statement and the Manitoba Hydro
4 consolidated guideline of between 15 and 25 percent?

5 MR. VINCE WARDEN: Yes.

6 MR. KRIS SAXBERG: And what is that?

7 MR. VINCE WARDEN: Five percent.

8 MR. KRIS SAXBERG: Okay.

9 MR. VINCE WARDEN: No, Mr. -- sorry, Mr.
10 Saxberg, the situation with Centra is that by its nature,
11 the nature of the operations, there's going to be periods
12 in which, because of the nec -- requirement to purchase
13 gas from Alberta, the -- during the -- certain months the
14 cash flows will vary quite considerably from month to
15 month.

16 So therefore, we do allow more flexibility
17 within Centra, still maintaining the overall Corporate
18 target within that 15 to 25 percent, not exceeding 30, we
19 still maintain that at the corporate level, but we
20 certainly recognize -- but the reality is that Centra's
21 business is different from Manitoba Hydro's. It's not as
22 stable in terms of cash flow requirements.

23 So as you can see in the table on page 3
24 of 4, there are times when the floating rate will -- debt
25 will exceed 30 percent within Centra. But in the

1 sentence that you pointed out on page 2 of 4, we do
2 target to bring that down to thirty (30) by fiscal year-
3 end.

4 So the 41.4 percent where we -- that's
5 referenced on the next page -- or I'm sorry, on page 3 of
6 4, while it does exceed thirty (30), it -- that occurred
7 at December 31st, which is a time when the cash flows are
8 particularly high.

9 MR. KRIS SAXBERG: Thank you. So you'd
10 agree when it comes to short term debt requirements,
11 Centra is distinctive -- distinct from Manitoba Hydro
12 Electric?

13 MR. VINCE WARDEN: Yes. As I mentioned,
14 they have different cash flow requirements than does --
15 than does Manitoba Hydro.

16 MR. KRIS SAXBERG: And the reason is
17 pretty simple, and that's because in the six (6) non-
18 winter months Centra is purchasing a lot more gas than it
19 needs, and a lot more gas than it's billing its customers
20 for, and is pumping it into storage.

21 MR. VINCE WARDEN: That's right.

22 MR. KRIS SAXBERG: And so it needs to
23 borrow money on a short-term basis every single year, and
24 then it's able to pay that money off through the winter
25 months when customers pay for that gas, correct?

1 MR. VINCE WARDEN: That's the objective,
2 yes.

3 MR. KRIS SAXBERG: So if -- so really
4 that short term debt that arises because of our storage
5 arrangements and the load factor that's been arranged,
6 that short term debt is something that is paid off every
7 year, and it's properly short-term debt as opposed to
8 long-term debt, correct?

9 MR. VINCE WARDEN: Well, it's paid off
10 every year, to the extent that we don't have a deficit.
11 But there are -- have been a number of years in Centra's
12 past since the date of acquisition that Centra has run a
13 deficit. So, in effect, it hasn't been paid off in terms
14 of cash flow so it has been necessary to carry a balance
15 forward.

16 MR. KRIS SAXBERG: But that's not entirely
17 accurate because there are deferral accounts that relate
18 to that gas -- to the purchase of that gas, and so when
19 there is a deficit it's taken care of through the PGVA.

20 MR. VINCE WARDEN: Well, we're talking
21 about cash flows here, and whether or not the cash flows
22 are sufficient in any one (1) year to even out such that
23 there -- the borrowing is only short term and is repaid.
24 What I'm saying is that doesn't happen every year, and as
25 a matter of fact it's not only the PGVA and deferral

1 accounts we're talking about, it's net income.

2 If you look at net income -- if you go
3 back to 2005/06, Centra lost \$10 million in that year, so
4 that's cash that wasn't coming in that -- in -- for that
5 -- for Centra that was sufficient to cover its operating
6 costs.

7 MR. KRIS SAXBERG: Now, if you could
8 turn to Tab 46 for a moment. It's an April 17, 2009,
9 letter in this proceeding, related to a motion. But I
10 just want to get confirmation on the record of some of
11 the information on page 3.

12 And in the second -- or first full
13 paragraph on page 3, the second sentence reads, quote:

14 "Centra is not financed as a standalone
15 utility. Centra's policies, its
16 creditworthiness, and it's borrowing
17 rates and capabilities, are determined
18 as part of the integrated Utility, and
19 interest rates and costs are determined
20 as such." End quote.

21 Can you confirm that that's an accurate
22 statement?

23 MR. VINCE WARDEN: Yes, that's accurate.

24

25 (BRIEF PAUSE)

1 economic outlook document that we're looking at is the
2 company's best information about what the CPI -- Manitoba
3 CPI will look like into the two (2) test years?

4 MR. VINCE WARDEN: At a point in time,
5 yes.

6 MR. KRIS SAXBERG: Yeah. At this point
7 in time, it's the best information that Manitoba Hydro
8 has about CPI in the test years, correct?

9 MR. VINCE WARDEN: Well, being -- given
10 that this economic outlook is very current, yes, I -- I
11 think conditions do change if -- if this was to -- to be
12 prepared. Starting today, it may look a little
13 different, but, yes, this is -- corporately, this is the
14 document we re -- rely on at this point in time, yes.

15 MR. KRIS SAXBERG: Thank you. And if we
16 turn then to page 4 -- and firstly, page 4 is a fiscal
17 view. It's not a calendar year, it's the -- the
18 company's fiscal year?

19 MR. VINCE WARDEN: Yes.

20 MR. KRIS SAXBERG: And so that -- that
21 matches then perfectly with the -- with the test years
22 that the Board's dealing with here. And under CPI we see
23 then for the first test year '09/'10, the CPI that
24 Manitoba Hydro is projecting is .4 percent.

25 MR. VINCE WARDEN: Yes.

1 MR. KRIS SAXBERG: And for the second
2 test year, 1.4 percent, correct?

3 MR. VINCE WARDEN: Correct.

4 MR. KRIS SAXBERG: And if you look to
5 your right, there's a -- it's represented in visual
6 terms, indicating that for the -- for the two (2) test
7 years, that CPI is -- is on its way down, and then
8 eventually, by the end of the second test year, it'll
9 rebound to the traditional levels of 2 percent, correct?

10 MR. VINCE WARDEN: Yes.

11 MR. KRIS SAXBERG: Now, the level of 2
12 percent, that would have been the forecast in the 2008
13 economic outlook?

14 MR. VINCE WARDEN: Yes.

15 MR. KRIS SAXBERG: And the 2008 out --
16 economic outlook was the document that was used by Centra
17 to, for instance, determine the O&A increases that were
18 projected into the two (2) test years?

19 MR. VINCE WARDEN: Correct.

20 MR. KRIS SAXBERG: So it was being
21 projected at 2 percent, based on the 2008 economic
22 outlook.

23 But now, the Company's best information is
24 that the CPI will be lower, correct?

25 MR. VINCE WARDEN: Yes.

1 MR. KRIS SAXBERG: Now, the 2009 Economic
2 Outlook also deals with interest rates, and if you turn
3 to page 5 --

4 MR. VINCE WARDEN: I might just qualify
5 that last -- last answer. To some extent, even though
6 this is the -- the forecast and certainly, what we've
7 included in the Economic Outlook, the -- when we start
8 talking about OM&A and perhaps you'll get into this a
9 little bit later, Mr. Saxberg, but I just want it to be
10 clear that, as was put on the record previously,
11 approximately 75 percent of the costs -- the OM&A costs
12 of Centra Gas/Manitoba Hydro are wages and salaries.

13 So, if I was to be asked for projection of
14 what that 75 percent component of OM&A were to increase
15 over the test years, it wouldn't be .4 percent.

16 MR. KRIS SAXBERG: Yeah. And you're
17 right, we will get into that a bit later, and I
18 understand that qualification.

19 The interest rates on page 5, and this is
20 on a fiscal year, as well -- and -- and just to orientate
21 the Board and so that I understand it, these same charts
22 are reproduced a couple of pages ahead and -- and -- and
23 on a calendar year.

24 But what we're looking at on page 5 is the
25 fiscal year for Manitoba Hydro?

1 MR. VINCE WARDEN: Yes, that's correct.

2 MR. KRIS SAXBERG: And the blue shaded
3 area is the forecast and we see there that for a ninety
4 (90) day treasury bill rate, the forecast is -- is point
5 eight (.8)?

6 MR. VINCE WARDEN: Yes.

7 MR. KRIS SAXBERG: And -- and then for
8 ten (10) year plus Government of Canada bonds, three
9 point one five (3.15).

10 Do you see that?

11 MR. VINCE WARDEN: Yes, I do.

12 MR. KRIS SAXBERG: And -- and now I'm
13 going to make you turn to Tab 34, if you would.

14

15 (BRIEF PAUSE)

16

17 MR. KRIS SAXBERG: And page 3 of 4. And
18 at Tab -- Tab 34 is CAC-153, which was an IR asking
19 Centra to explain the new revenue item provision for
20 accounting and other changes.

21 And on page 3 of 4, at line 11, there's a
22 discussion of other cost pressures unrelated to IFRS.

23 Is that fair?

24 MR. VINCE WARDEN: Yes.

25 MR. KRIS SAXBERG: And the first one is:

1 "Given the volatility of the financial
2 markets, there is considerable risk
3 that interest rates may rebound
4 somewhat during fiscal 2010/'11."

5 Do you see that?

6 MR. VINCE WARDEN: Yes.

7 MR. KRIS SAXBERG: That statement is made
8 but not in accordance with the 2009 Economic Outlook,
9 which is predicting point eight (.8) for short-term
10 interest rates?

11 MR. VINCE WARDEN: Well, I think we come
12 up with our best forecast as we've discussed. Then we
13 look at the risks. What are the risks to the
14 Corporation? And what we're discussing here is -- is
15 what the risk of that interest rates may rebound somewhat
16 during fiscal 2010/'11.

17 And a -- and that's a -- certainly, given
18 the volatility of the market out there -- out there, we
19 have to recognize, I think we'd be foolish not to
20 recognize, that we have those kinds of risks that we have
21 to deal with and have to prepare for and have to provide
22 for.

23 MR. KRIS SAXBERG: But the Company's best
24 information and evidence as to what the short-term
25 interest rate will be is contained in the 2009 Economic

1 Outlook and it's point eight (.8), correct?

2 MR. VINCE WARDEN: Well, as -- as I've
3 indicated though, we're -- we're talking about coming up
4 with our best estimate. We should -- to -- actually
5 referring back to Tab 1 again, to the Economic Outlook, I
6 think we're confusing years there as well.

7 We're talking point eight (.8) for
8 '09/'10. The '10/'11 rate is 1.9 percent for the ninety
9 (90) day T-bill, so the '10/'11 -- just to be clear,
10 we're not really comparing point eight (.8) at -- at this
11 -- those -- your statement previous, I don't think was
12 totally accurate, in that we had a different -- we're
13 comparing different years.

14 MR. KRIS SAXBERG: Well, point eight (.8)
15 applies to the first test year, correct?

16 MR. VINCE WARDEN: Yes, but the reference
17 you just pointed us to was to the second test year.

18 MR. KRIS SAXBERG: And I'm looking at
19 page 5 of the Economic Outlook.

20 MR. VINCE WARDEN: Yes, I was looking
21 there as well.

22 MR. KRIS SAXBERG: Right. And 2009/'10
23 is point eight (.8)?

24 MR. VINCE WARDEN: And '09/'10 is point
25 eight (.8).

1 MR. KRIS SAXBERG: Right.

2 MR. VINCE WARDEN: 2010/'11 is one point
3 nine (1.9). The reference from Tab 34 was to --

4 MR. KRIS SAXBERG: Oh --

5 MR. VINCE WARDEN: -- '10/'11, the second
6 test year.

7 MR. KRIS SAXBERG: -- I understand what
8 you're saying now.

9 But you'd agree that the one point nine
10 (1.9) doesn't, in any event, represent a rebound of
11 interest rates? One point nine (1.9) is still low.

12 MR. VINCE WARDEN: Well, it's double what
13 it is in the first test year.

14 MR. KRIS SAXBERG: But low in terms of
15 the historic record.

16 MR. VINCE WARDEN: It's still a rebound
17 from where they are today.

18 MR. KRIS SAXBERG: And the next bullet
19 deals with the cost pressure brought to bare by virtue of
20 escalating cost factors. But again the forecast is that
21 there isn't going to be much escalation in the first test
22 year, only in the magnitude of point four (.4) of a
23 percent.

24 MR. VINCE WARDEN: Well, that's why I
25 qualified my answer that if I had to look at the cost

1 structure of Centra Gas and Manitoba Hydro, the .4
2 percent, even though that is a forecast of CPI, CPI
3 doesn't always apply perfectly within our operations.

4 MR. KRIS SAXBERG: Now, just generally
5 about the 2009 economic forecast, do you know when it was
6 completed?

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: Well, the reference is
11 to Spring of 2009, and then it was presented to Executive
12 Committee in May of 2009, so quite recent.

13 MR. KRIS SAXBERG: Is that the standard
14 practice? Is there a certain period in which the
15 economic outlook is produced, and then approved, or...

16 MR. VINCE WARDEN: Yes, it's standard
17 practice.

18

19 (BRIEF PAUSE)

20

21 MR. KRIS SAXBERG: And why does it have
22 to be approved by the -- it's the Executive Committee
23 that approves it?

24 MR. VINCE WARDEN: Yes.

25 MR. KRIS SAXBERG: Has there ever been an

1 occasion where the Executive Committee rejects the advice
2 of those who have put together this economic outlook?

3 MR. VINCE WARDEN: Well, I wouldn't
4 categorize it as reject. There are obviously -- just as
5 there are different forecasters out there with different
6 opinions, Executive Committee -- individuals on Executive
7 Committee often have different opinions. There's
8 questions, there's -- may even been revisions as a result
9 of the review. So there's -- I'd like to think there's
10 value added by the Executive Committee review.

11 MR. KRIS SAXBERG: If you'd just flip for
12 a moment to Tab 2, there's a document that's title
13 "Appendix A 2009 Economic Outlook".

14 Are you familiar with that document?

15 MR. VINCE WARDEN: Yes.

16 MR. KRIS SAXBERG: I can't find that
17 document within the Economic Outlook contained in Tab 1.
18 What's in -- what is it an appendix to?

19 MR. VINCE WARDEN: Not sure. I'd have to
20 double-check that. I think the rates though are
21 consistent with what's produced in the Economic Outlook,
22 so we could check to find out what it is in Appendix 2
23 (sic), but I believe all the rates are consistent, so...

24 MR. KRIS SAXBERG: Yeah, and --

25 MR. VINCE WARDEN: And if you -- if you'd

1 like me to check that, I can find out.

2 MR. KRIS SAXBERG: If you could check and
3 -- and -- or just -- or confirm that it's a separate
4 document prepared as a summary of the Economic Outlook
5 for 2009, that would be appreciated.

6

7 (BRIEF PAUSE)

8

9 MR. VINCE WARDEN: Mr. Saxberg, I am
10 informed that it is -- actually forms part of the
11 Economic Outlook. So it is an appendix to the Economic
12 Outlook, although we don't normally publish this because
13 of some confidential information with respect to
14 borrowing spreads.

15

16 (BRIEF PAUSE)

17

18 MR. KRIS SAXBERG: So it -- it would
19 regularly just be in the appendix section, is what you're
20 saying, but it was taken out of the...

21 MR. VINCE WARDEN: Yes, for the reason I
22 just gave.

23 MR. KRIS SAXBERG: Okay, thank you. Now,
24 the 2009 Economic Outlook has superceded the 2008
25 Economic Outlook, is that fair?

1 MR. VINCE WARDEN: Yes.

2 MR. KRIS SAXBERG: And Manitoba Hydro
3 wouldn't want any of its employers or readers relying on
4 the 2008 Economic Outlook once it's published the 2009
5 Economic Outlook.

6 Is that fair?

7 MR. VINCE WARDEN: Well, the employees
8 that need to know the information, there is a
9 communication process within the Corporation, such that
10 the people that are preparing estimates and such would
11 have the most recent information at all times, yes.

12 MR. KRIS SAXBERG: So, yes, you -- you
13 would want then relying on the 2009 and not the 2008,
14 correct?

15 MR. VINCE WARDEN: That would be the
16 case, yes.

17 MR. KRIS SAXBERG: Now, if you turn to
18 the preface of the 2009 Economic Outlook, which is the
19 third page in -- it's -- it's page 'I' under the heading
20 "Preface".

21 MR. VINCE WARDEN: Yes, I have that.

22 MR. KRIS SAXBERG: And I'm looking at the
23 second last paragraph on the page and the second sentence
24 there, which provides a warning to readers. Quote:

25 "Users should be cognisant that

1 conditions can and do change and should
2 apply a sensitivity analysis
3 accordingly." End quote.

4 Do you see that?

5 MR. VINCE WARDEN: I do.

6 MR. KRIS SAXBERG: Can you confirm that
7 the 2008 Economic Outlook would have had that same
8 warning to readers?

9 MR. VINCE WARDEN: Yes, I can.

10 MR. KRIS SAXBERG: And would you agree
11 that the trend in low interest rates started in -- in
12 2008?

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: I'm Not sure I would
17 agree with that. We've been on a downward cycle in
18 interest rates for some time that preceded 2008, so it
19 depends on what you -- you re -- how you define low.
20 Lower than the previous immediate proceeding year,
21 perhaps, but the trend towards lower interest rates has
22 been in place for some time.

23 MR. KRIS SAXBERG: In -- in your update
24 to the GRA, I think you've used the term "unusual
25 circumstances in the financial markets".

1 MR. VINCE WARDEN: Yes.

2 MR. KRIS SAXBERG: Would you agree that
3 the unusual circumstances in the financial markets
4 occurred in 2008, or at least started in 2008, and that
5 Manitoba Hydro was aware of that?

6 MR. VINCE WARDEN: Well, some of the --
7 the major events certainly occurred in 2008, yes.

8

9 (BRIEF PAUSE)

10

11 MR. KRIS SAXBERG: And that the -- the
12 General Rate Application, as filed, was filed in January
13 of 2009, correct?

14 MR. VINCE WARDEN: January 20th was the
15 filing date, yes.

16 MR. KRIS SAXBERG: Would you agree that --
17 - and that GRA was based on the 2008 Economic Outlook,
18 correct?

19 MR. VINCE WARDEN: Yes.

20 MR. KRIS SAXBERG: And would you concede
21 that Manitoba Hydro didn't do a sensitivity analysis to
22 the 2008 Economic Outlook before incorporating it into
23 its rate case?

24 MR. VINCE WARDEN: Oh, we do all kinds of
25 sensitivity analyses that look at a number of different

1 factors before we put forward a rate application.

2 MR. KRIS SAXBERG: Did you make any
3 adjustments to the interest forecast contained in the
4 2008 Economic Outlook, as a result of the unusual
5 circumstances in the financial markets?

6 MR. VINCE WARDEN: Sorry, would you just
7 say that again?

8 MR. KRIS SAXBERG: Did you make any
9 adjustments to the 2008 Economic Outlook, and in
10 particular the forecast of interest rates, as a result of
11 the unusual circumstances in the financial markets in
12 2008?

13 MR. VINCE WARDEN: I would have to go
14 back to the economic -- 2008 Economic Outlook to confirm
15 the answer to that question, as to what extent the events
16 of 2008 factored into the 2008 forecast that was prepared
17 at that time.

18 MR. KRIS SAXBERG: Could you undertake to
19 determine if the forecast in the 2008 Economic Outlook
20 for a ninety (90) day treasury bill rate and for
21 Government of Canada ten (10) year plus rate was
22 incorporated without change into the GRA filed in
23 January?

24 MR. VINCE WARDEN: Mr. Saxberg, I've just
25 confirmed that in the Summer of 2008 a review was

1 undertaken of the conditions at that time, and while the
2 rates -- interest rates had declined, the spread had also
3 in -- had increased to the effect that the rates were
4 pretty much the same as what was included in the 2008
5 Economic Outlook.

6 MR. KRIS SAXBERG: But the bottom line is
7 there was no adjustment made to those numbers in the 2008
8 Economic Outlook, correct?

9 You're saying it's because they were
10 offset by an increase in the spread?

11 MR. VINCE WARDEN: That's right.

12

13 (BRIEF PAUSE)

14

15 MR. KRIS SAXBERG: Now would you agree
16 that a formal revision to the Economic Outlook doesn't
17 have to be made in order to update the forecast within
18 the Economic Outlook for the purposes of a GRA
19 Application?

20 In other words, you can use different
21 numbers than are in the Economic Outlook when you prepare
22 a rate case?

23 MR. VINCE WARDEN: I think as long as
24 it's clear what numbers are being used to support that
25 rate case, that is certainly permissible, yes.

1 MR. KRIS SAXBERG: And following that,
2 there's no need for the Executive Committee to give
3 formal approval to an update, or a sensitivity revision
4 of an economic forecast, relating to interest rates for
5 the purposes of a rate case, is there?

6 MR. VINCE WARDEN: I think that's -- the
7 word "formal," I think you are correct with respect to
8 that qualification. The Executive Committee would be
9 aware, certainly. The Executive Committee meets normally
10 twice a week, so they're certainly aware of any changes
11 that would occur in a rate application between the
12 preparation of the Economic Outlook and the assumptions
13 that were used to support that rate case.

14 MR. KRIS SAXBERG: The -- the GRA
15 Application was updated on May 29th, just before this
16 Hearing started. And I guess what I'm saying is, you
17 didn't need to have the 2009 Economic Outlook finalized
18 and approved in order to have done that update on May
19 29th, correct?

20 MR. VINCE WARDEN: Yes. And as a matter
21 of fact, I think we've answered that -- provided that
22 answer in response to CAC/CENTRA Round 2 154, that -- on
23 that Tab 1 of your book of documents.

24 MR. KRIS SAXBERG: Well, you did, in
25 fact, update the Economic Outlook and provide a 2009

1 Economic Outlook. All -- what I'm saying is that you
2 could, in the absence of the Economic Outlook having been
3 finalized, you could have -- have updated the numbers
4 from the 2008 Economic Outlook, in terms of presenting
5 your rate case.

6 MR. VINCE WARDEN: Yes.

7 MR. KRIS SAXBERG: So just in -- in terms
8 of formal approvals and the planning cycle within the
9 organization, there's some flexibility here when there's
10 unusual circumstances in the financial markets to make
11 adjustments to your rate case on the fly?

12 MR. VINCE WARDEN: I -- I don't like the
13 term "on the fly". There -- there's careful
14 consideration given in -- given to any kind of a change
15 that is made and if there is good reason for changing the
16 assumptions that were incorporated in the Economic
17 Outlook before a Rate Application is filed, consideration
18 will be given to doing that, but not -- certainly not on
19 the fly.

20 MR. KRIS SAXBERG: Okay, thank you. And
21 I guess the point that I'm coming to is that the planning
22 cycle itself is not an insurmountable barrier in Centra
23 updating its forecasts when circumstances warrant,
24 correct?

25 MR. VINCE WARDEN: Well, they would have

1 to be unusual circumstances and I think that's what we've
2 stated here, is that we do have unusual circumstances and
3 that's why we have, in fact, updated our forecast --
4 updated our Application.

5 MR. KRIS SAXBERG: Okay, thank you for
6 that. Just want to talk about short-term debt for a
7 moment and forecasting and methodology of it. If you
8 turn to Tab 3, and this is a tab that we'll be referring
9 to throughout my examination, on the very first page,
10 there is a forecast of the ninety (90) day Canadian
11 Treasury Bill Rate for fiscal year '09/'10 of point eight
12 (.8), correct?

13 MR. VINCE WARDEN: Correct.

14 MR. KRIS SAXBERG: And I just want to be
15 clear, for the record, that that forecast of point eight
16 (.8) is a forecast of the average interest rate for
17 ninety (90) day Canadian treasury bills for the year,
18 correct?

19

20 (BRIEF PAUSE)

21

22 MR. VINCE WARDEN: Yes, that would be
23 correct.

24 MR. KRIS SAXBERG: And when -- when you
25 go to the far end of the table, the final number that's

1 used in the rate case is point nine (.9) and a -- and
2 then on top of that, you would add the guarantee fee,
3 correct?

4 MR. VINCE WARDEN: Correct.

5 MR. KRIS SAXBERG: But the idea is that
6 that point nine (.9), what you're trying to forecast is
7 the average interest rate -- the average short-term
8 interest rate for the test year, correct?

9 MR. VINCE WARDEN: Correct.

10 MR. KRIS SAXBERG: You're -- you're not
11 trying to forecast what the interest rate will be on the
12 very last day of the test year, are you?

13 MR. VINCE WARDEN: No.

14 MR. KRIS SAXBERG: And -- and you're not
15 -- or you're not forecasting what it's going to be on the
16 very first day of the test year. You're looking at the
17 average.

18 MR. VINCE WARDEN: That's right.

19 MR. KRIS SAXBERG: And -- and now I'm
20 going to turn to the long-term debt forecast, which is
21 the table below on the first page of the IR we're looking
22 at. And here, once again, we go to the far end fo the
23 table.

24 What Centra is saying is that the long-
25 term debt interest rate will be four point seven five

1 (4.75), correct?

2 MR. VINCE WARDEN: Yes.

3 MR. KRIS SAXBERG: And would you agree
4 with me that what you want to do here though is -- is
5 slightly different? What you want to do here is you want
6 to forecast the interest rate that will be applicable at
7 the time that you have to issue long-term debt.

8 In other words, when you're forced to
9 renew long-term debt, it's in that period that you want
10 to know what the interest rate's going to be, correct?

11 MR. VINCE WARDEN: Well, ideally, that's
12 what we -- because we go to the market less frequently
13 for long-term debt, we are looking more specifically at a
14 -- at a point in time. However, we -- we obviously
15 cannot be that precise, so the four point seven five
16 (4.75) that we've referenced there would be what our
17 expectation is for that fiscal year.

18 MR. KRIS SAXBERG: Correct. And so,
19 again, the four point seven five (4.75) is an average of
20 the entire fiscal year, but it may be the case that
21 you're only planning on going to the market in one-
22 quarter of that fiscal year, you -- you'd give me that
23 though, right?

24 MR. VINCE WARDEN: Well, at the time the
25 economic outlook is prepared, the -- the preparers of the

1 economic outlook do not know when treasury -- our
2 treasury division will be going to the market for -- for
3 new funding. There's a whole host of factors that come
4 into that decision, so -- hence, the -- the forecast is
5 prepared on the average for the year.

6 MR. KRIS SAXBERG: But the people putting
7 together the rate case will know as to when the forecast
8 is that -- that Centra will be going to the market and
9 could make adjustments to the number or the information
10 in the economic outlook.

11 MR. VINCE WARDEN: No, not really. At
12 the time our Rate Application was submitted, the date
13 that we would be going -- the specific date that we wou -
14 - would be going to market was not known.

15 MR. KRIS SAXBERG: Okay. Well, we'll
16 come back to that later, in terms of what the application
17 says about when Centra expects to renew certain debt
18 issuances.

19 But I'll move on to the question of: Can
20 you confirm that, in its analysis to determine the short-
21 term interest rate, that Centra has mixed end-of-period
22 information with average period information?

23 MR. VINCE WARDEN: No, I'm not sure what
24 a -- what you mean by that question, Mr. Saxberg.

25 MR. KRIS SAXBERG: Okay. If I could take

1 you to Tab 4, and it's an IR in which CAC/MSOS asked for
2 the forecasts upon which Centra relied to come up with
3 its short-term interest rate, and Centra has provided all
4 of the forecasts that it relied on, correct?

5 MR. VINCE WARDEN: Okay.

6 MR. KRIS SAXBERG: And if you turn to the
7 very first forecast that was provided, that's the Bank of
8 Montreal forecast, it's -- it's the second page in, and
9 there's a number 2 in the right-hand corner.

10 MR. VINCE WARDEN: Yes.

11 MR. KRIS SAXBERG: This is the forecast
12 that was provided by -- by the Bank of Montreal. And if
13 you -- if you -- I -- I've highlighted, I believe, in all
14 of the copies, the -- the portion that I wanted to direct
15 your attention to.

16 If you look at the highlighted section
17 where it says "Financial," and then to the right it says,
18 "Average for the quarter percent," do you see that?

19 MR. VINCE WARDEN: I do.

20 MR. KRIS SAXBERG: And -- and so if you
21 go to the very far right of the document under the column
22 2009/2010, for three (3) month treasury bills, you see
23 the ma -- Bank of Montreal is forecasting for 2009 that
24 the amount will be point three eight (.38).

25 Do you see that?

1 MR. VINCE WARDEN: Yes.

2 MR. KRIS SAXBERG: And that would be the
3 average for the entire year.

4 MR. VINCE WARDEN: Yes.

5 MR. KRIS SAXBERG: And if we then just
6 flip back to -- one (1) tab back, to -- to the second
7 page of PUB-198, where there's a chart listing the
8 information used by Centra. And we look at the top
9 chart, and we look for Bank of Montreal, which is at the
10 very top of the chart.

11 MR. VINCE WARDEN: Yes.

12 MR. KRIS SAXBERG: Just to follow it
13 through, for 2009 what you've indicated there is point
14 four-o (.40), and that is the figure that we just looked
15 at from the BMO forecast directly rounded up from point
16 three eight (.38) to point four-o (.40).

17 Is that fair?

18 MR. VINCE WARDEN: Correct.

19 MR. KRIS SAXBERG: So you have an average
20 forecasting information as to what that ninety (90) day
21 T-bill rate will be presented by the BMO, and you've
22 incorporated it into your analysis, correct?

23 MR. VINCE WARDEN: Yes.

24 MR. KRIS SAXBERG: Now, if you go to the
25 forecast provided by the RBC, which is also in Tab 4, and

1 it's at page 10. On the right -- top right corner of the
2 page is a ten (10).

3 MR. VINCE WARDEN: I have that.

4 MR. KRIS SAXBERG: And this is another
5 one of the forecasts that's incorporated into the
6 analysis at PUB-198, and if you have your hand -- this
7 will work for everybody -- if they have their one (1)
8 hand on the second page of PUB-198 and the chart, and
9 these direct forecasts, it'll make things easy.

10 But can you confirm that the RBC number --
11 numbers in forecasts are end of period, and you see that
12 under the heading "Interest Rates" in the top left-hand
13 side of the page. It says, "End of period numbers".

14 MR. VINCE WARDEN: That's what it says
15 here, yes.

16 MR. KRIS SAXBERG: And if -- again we're
17 going to look at three (3) month treasury bills for 2009,
18 and if you look under the forecast heading for Q4-09,
19 which means fourth quarter of 2009, the forecast is one
20 point one-0 (1.10).

21 Do you see that?

22 MR. VINCE WARDEN: Yes.

23 MR. KRIS SAXBERG: And then if you slide
24 right across to the end of the column under forecast for
25 2009, it says one point one-0 (1.10).

1 MR. VINCE WARDEN: Correct.

2 MR. KRIS SAXBERG: So that confirms that
3 what this forecast is, is an end-of-period forecast,
4 which is saying simply on the last day of the year for
5 2009 the -- we forecast the interest rate will be one
6 point one-0 (1.10).

7 Do you see that?

8 MR. VINCE WARDEN: I see that, and I
9 would -- based on the information we have before us, I --
10 that appears to be the case, yes.

11 MR. KRIS SAXBERG: And if you turn back
12 to the chart in PUB-198 to see what number Centra has
13 incorporated into its analysis for Royal Bank, you'll see
14 that for 2009 it's incorporated the one point one-0
15 (1.10). That's...

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: Yes, Mr. Saxberg, I
20 see that.

21 MR. KRIS SAXBERG: So as between those
22 two (2) sources, we see one (1) is providing Centra with
23 a average interest rate for the entire year; the other is
24 simply saying what is believed to be the interest rate on
25 the last day of the year, correct?

1 MR. VINCE WARDEN: Yes. And in normal
2 times, that would not be all that significant because
3 these rates tend to be relatively flat in normal times.
4 However, because of what we're experiencing there could
5 be differences between the average and the end-of-year
6 period.

7 MR. KRIS SAXBERG: Right. And while
8 you're noting the difference between the forecast of
9 point three eight (.38) and -- by the Bank of Montreal,
10 and the forecast of one point one-o (1.10) by the Royal
11 Bank, correct, they're materially different in terms of
12 their size?

13 MR. VINCE WARDEN: In terms of basis
14 points, that's a fair difference, yes.

15 MR. KRIS SAXBERG: Now, if you could flip
16 to the CIBC forecast, which is on -- which is page 3 in
17 Tab 4.

18

19 (BRIEF PAUSE)

20

21 MR. KRIS SAXBERG: And for the ninety-
22 eight (98) day treasury bills you'll see, under 2010, for
23 March, the number is point six (.6).

24 Do you see that?

25 MR. VINCE WARDEN: I do.

1 MR. KRIS SAXBERG: And a -- and then flip
2 back to what Centra's included in its analysis. For
3 CIBC, 2010, you've included point six (.6).

4 Do you see that?

5 MR. VINCE WARDEN: Correct.

6 MR. KRIS SAXBERG: And again, the CIBC --
7 sorry to make you flip back and forth -- but the CIBC
8 document indicates that it's again, end-of-period
9 information. And that's a -- in the second box in bold
10 at the top left corner. It says, "End-of-period
11 information".

12 MR. VINCE WARDEN: I see that, yes.

13 MR. KRIS SAXBERG: So that's -- so what
14 it's saying is that on the -- on the final day of the
15 quarter in March, 2010, the estimate is that the interest
16 rate will be point six (.6).

17 Is that correct?

18 MR. VINCE WARDEN: Yes, there's not a lot
19 of movement over that period of time. It starts off in -
20 - at the end of the first quarter, point three five
21 (.35); moves to point four-o (.40) by the end of the
22 second quarter; point -- stays at point four-o (.40) for
23 the third quarter; and then moves up slightly to point
24 six (.6) for the final quarter.

25 So, I think CIBC is -- is forecasting

1 those rates -- in relative terms, are -- are quite
2 stable.

3 MR. KRIS SAXBERG: But the problem that I
4 have with this is you've got the point six-o (.60) listed
5 under the calendar year, 2010.

6 Do you see that in -- in --

7 MR. VINCE WARDEN: Yes, we have that.

8 MR. KRIS SAXBERG: But the point six (.6)
9 in the information is the last day of March in 2010.

10 MR. VINCE WARDEN: And I think I was just
11 pointing out that the -- even though it is end-of-period,
12 the last day of March, the movement between the end of
13 December and the end of March is -- is not real
14 significant, in -- in terms of forecast.

15 Remember, we're only talking forecasts
16 here; it's not the actuals. So the forecast is -- is a
17 forecast; it's going to be subject to variation, as we've
18 talked about.

19 MR. KRIS SAXBERG: And -- and I
20 appreciate that. What I'm trying to do is determine
21 whether Centra's used the wrong number in its analysis.
22 And it's used -- the end of March as an end period number
23 for what is supposed to be the 2010 calendar year.

24 MR. VINCE WARDEN: Well --

25 MR. KRIS SAXBERG: For true end-of-period

1 for 2010, it should be December 31st.

2 MR. VINCE WARDEN: Well, I -- I guess,
3 Mr. Saxberg, I'm trying to assist you in terms of you
4 coming to the determination of whether or not that there
5 is significance to that. And again, it's -- I'm saying
6 it's a forecast.

7 And -- and even though an average versus
8 an end-of-period, it perhap -- that I -- we've -- as we
9 just discovered, through reviewing these documents, there
10 is that mix there, but when it comes down to the final
11 analysis, it's not that significant.

12 MR. KRIS SAXBERG: Right. And -- and I -
13 - I just -- if -- if you flip to the RBC end of period
14 information that we looked at at page 10, you'll see that
15 they use -- and Centra used -- the last day of the
16 calendar year in 2010 as the end of period interest rate,
17 which was one point one-0 (1.10) --

18 MR. VINCE WARDEN: Yeah --

19 MR. KRIS SAXBERG: -- right?

20 MR. VINCE WARDEN: -- I think we've
21 already agreed on that.

22 MR. KRIS SAXBERG: Okay. So using March
23 as the end of period for the 2010 fiscal year is a
24 mistake, but what you're saying is it's not a material
25 one, in terms of your forecast?

1 MR. VINCE WARDEN: It's a forecast.

2

3 (BRIEF PAUSE)

4

5 MR. KRIS SAXBERG: And would you agree
6 with me that when the CIBC forecast and the RBC forecast
7 using end-of-period information could be adjusted, based
8 on the information in the forecast, to provide for an
9 average interest rate forecast by each of those
10 forecasters, correct?

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: Mr. Saxberg, I guess I
15 just repeat my previous comment, that it's not going to
16 make a lot of difference.

17 MR. KRIS SAXBERG: Okay. But then --
18 then why is it that Centra itself then, for other
19 forecasters, goes to the trouble of changing an end-of-
20 period forecast, doing an average to transform and end-
21 of-period forecast into an average forecast?

22 For instance, the Scotiabank -- or maybe
23 I'll -- maybe I'll go -- I'll do it the quick way. With
24 respect to -- with respect to TD, if you turn to Tab 16,
25 you'll see -- this was an IR wherein CAC asked,

1 essentially -- I'm just trying to shorten this -- that
2 the TD is using end-of-period information, and Centra has
3 revised that information to come up with an average
4 period.

5 And we asked, well, what was the exact
6 calculation that you used to -- to take the TD
7 information, which was on end-of-period, transform it
8 into period average? And this was the answer that was
9 provided.

10 Do you see that?

11 MR. VINCE WARDEN: Yes, I do.

12 MR. KRIS SAXBERG: So, in short, for the
13 forecast done by TD, and perhaps we should just quickly
14 turn to it. It's -- it's page 12 in the group of
15 forecasting documents. And at -- at page 12, you'll note
16 at the bottom of the first grouping of graphs it says,
17 "All forecasts are for end of period".

18 Do you see that?

19 MR. VINCE WARDEN: Yes, I do.

20 MR. KRIS SAXBERG: And -- and by virtue
21 of the IR we just looked at, my understanding is that
22 instead of taking the end of period forecast here, which
23 -- which for 2010 would be one point eight-0 (1.80),
24 that's at the top of the page, three month treasury bill
25 rates, quarter 4 final is one point eight (1.8).

1 Do you see that?

2 Instead of taking that one point eight
3 (1.8) number and putting it into Centra's analysis,
4 Centra did something. It took all of the numbers in the
5 quarters and created an average period calculation, is
6 that correct?

7 MR. VINCE WARDEN: I think that was done
8 because the information was there that made that
9 possible. We -- we didn't have that same information
10 available to us in with the RBC information, so --

11 MR. KRIS SAXBERG: Well --

12 MR. VINCE WARDEN: -- we -- we took
13 advantage of that to calculate an average.

14 MR. KRIS SAXBERG: Well, if you could
15 flip back two (2) pages to page 10, I'd suggest that all
16 -- the same information was there in the RBC document;
17 it's just that Centra didn't use that methodology with
18 respect to RBC.

19 It -- instead of averaging perhaps as it
20 should have, it used end-of-period from RBC.

21 THE CHAIRPERSON: If it helps you, Mr.
22 Saxberg, we understand what you're saying.

23

24 CONTINUED BY MR. KRIS SAXBERG:

25 MR. KRIS SAXBERG: Thank you, Mr.

1 Chairman.

2 And I'm not going to go through all of the
3 different iterations because there are a large amount of
4 forecasts, but -- but suffice to say that there is an
5 intermixing of methodologies that's occurring here.

6 And you -- you can confirm that, but I
7 take it your point is that the end result would not be
8 material?

9 MR. VINCE WARDEN: That was my point,
10 yes.

11 MR. KRIS SAXBERG: But you'll agree that
12 Centra hasn't done a calculation to determine if it used
13 consistent period average information from all the
14 forecasts, as to whether or not there would be a
15 significant difference in terms of the forecast?

16 Have you done that analysis?

17 MR. VINCE WARDEN: I haven't specifically
18 done that analysis, but I can say again we're base --
19 this is a forecast only, and for purposes of the forecast
20 that we're preparing, it serves that purpose.

21

22 (BRIEF PAUSE)

23

24 MR. KRIS SAXBERG: Now, in -- just one
25 (1) other small inconsistency I wanted to point out. If

1 you look at the second page of Tab 198, and now looking -
2 - I'm not look at treasury bills -- the treasury bill
3 chart, any more, and now I'm down to the Canada Bond
4 Chart, which is --

5 THE CHAIRPERSON: Mr. Saxberg, would you
6 please repeat that reference please.

7 MR. KRIS SAXBERG: Back to PUB-198, which
8 is in Tab 3, the chart, and it's on the second page, and
9 it -- just to orient the Board, this is really what I'm
10 working off of in comparing -- comparing to the
11 forecast.

12 But now I'm not at the top chart which
13 deals with the short term interest rate and the ninety
14 (90) day treasury bill rate, now I'm looking at the
15 second chart --

16 THE CHAIRPERSON: Yes, we are fine now.

17

18 CONTINUED BY MR. KRIS SAXBERG:

19 MR. KRIS SAXBERG: Okay, thank you. The
20 -- and what I'm focussing in on is the National Bank
21 forecast, which is for 2009 three point six (3.6), and
22 four point five-0 (4.50) for 2010.

23 Do you see that?

24 MR. VINCE WARDEN: Yes.

25 MR. KRIS SAXBERG: And now I just want to

1 turn to the actual National Bank forecast, which is at
2 page 6 in the next tab.

3 MR. VINCE WARDEN: Yes, I have that.

4 MR. KRIS SAXBERG: And what I want to do
5 is just locate where that three point six (3.6) and four
6 point five (4.50) came from. If you look at the bottom
7 chart, there's ten (10) year bonds, and thirty (30) year
8 bonds that are estimated there --

9 MR. VINCE WARDEN: Yes.

10 MR. KRIS SAXBERG: -- for 2009 and 2010.
11 And the ten (10) year bond is -- for 2009 is thee point
12 three three (3.33), and for 2010 it's four point three
13 six (4.36). And then there's a thirty (30) year bond
14 estimate of three point nine five (3.95) for 2009, and
15 four point five four (4.54) for 2010.

16 And neither of those match up to the
17 numbers that are used in the chart that we just looked
18 at. Can you explain that?

19 MR. VINCE WARDEN: It's just a simple
20 average between the two (2).

21

22 (BRIEF PAUSE)

23

24 MR. KRIS SAXBERG: And that's done
25 presumably because what you're looking to forecast are

1 ten (10) year plus bonds --

2 MR. VINCE WARDEN: That's right.

3 MR. KRIS SAXBERG: -- as opposed to ten
4 (10) year bonds, or twenty (20) year bonds, or thirty
5 (30) year bonds? You're looking at a different category,
6 ten (10) year plus, correct?

7 MR. VINCE WARDEN: Correct.

8 MR. KRIS SAXBERG: Okay. Would you agree
9 with me -- before going through all the exact -- all the
10 examples of this, but would you agree with me that many
11 of the forecasts that Centra's used for ten (10) year
12 plus bonds are not forecasts of ten (10) years plus,
13 they're forecasts of ten (10) years period?

14 Would you agree that that's the case?

15 MR. VINCE WARDEN: I wouldn't agree with
16 that unless I went through them. So we'd have to look at
17 that more closely. The intent is to provide a forecast
18 of ten (10) year plus.

19 MR. KRIS SAXBERG: If you just quickly
20 look at the Bank of Montreal forecast, which is the very
21 first forecast in the package, at Tab 4, page 2, in the
22 top right-hand corner.

23 Now, it -- it says -- in the highlighted
24 part at the bottom is says, "Ten (10) year bond yield".
25 And then if you go to the far right, you'll see the

1 average for the year in 2009 being two point nine one
2 (2.91), and then for 2010 being three point one four
3 (3.14).

4 And if you flip back to the chart, those
5 are the numbers that Centra's used in its analysis,
6 correct?

7 MR. VINCE WARDEN: They appear to be
8 close, yes.

9 MR. KRIS SAXBERG: But you'll agree that
10 the Bank of Montreal is no forecasting ten (10) year plus
11 bonds, it's forecasting ten (10) year bonds.

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: So the -- what we've
16 displayed here as ten years plus could be slightly
17 understated. The -- perhaps we could have included, and
18 without some further review, what the difference might
19 be. Again, I think it would be very immaterial, but, if
20 anything, it's on -- it's -- the forecast that we've
21 provided is -- is somewhat low.

22 MR. KRIS SAXBERG: Would you agree with
23 me though that just from a meth -- methodological
24 perspective, that if you are forecasting for ten (10)
25 year plus, you should use forecasts of ten (10) year

1 plus. Or if you're not using forecasts of ten (10) year
2 plus, you should make some modification to that forecast
3 to transform to ten (10) year --

4 MR. VINCE WARDEN: I can't -- I can't
5 disagree with that statement. If we're going to use ten
6 (10) year plus, we should be using ten (10) year plus.
7 It -- it doesn't appear that the difference is -- is all
8 that material though for purposes of preparing the
9 forecast.

10 MR. KRIS SAXBERG: But the -- the Board
11 doesn't have all day for me to go through every example
12 of this, and the point is that Centra hasn't done its own
13 recalculation wherein it uses only ten (10) year plus,
14 correct?

15 MR. VINCE WARDEN: I think -- I think the
16 point for the Board is that it's not significant, it's
17 not material.

18 MR. KRIS SAXBERG: I note the time, Mr.
19 Chairman, and this may be a good time for the morning
20 break.

21 THE CHAIRPERSON: Very good, Mr. Saxberg,
22 we will take the break now.

23

24 --- Upon recessing at 10:38 a.m.

25 --- Upon resuming at 11:01 a.m.

1 THE CHAIRPERSON: Any time, Mr. Saxberg.

2 MR. KRIS SAXBERG: Thank you, Mr.
3 Chairman. Sorry if we kept people waiting.

4 THE CHAIRPERSON: No, you didn't.

5

6 CONTINUED BY MR. KRIS SAXBERG:

7 MR. KRIS SAXBERG: Trying to finetune
8 things, as it were.

9 Mr. Warden, I just want to pick up on a
10 point that you made about short-term interest rates and
11 the short-term interest rate forecast. I believe that
12 your evidence was that Centra chose not to update the
13 2008 economic outlook numbers because the decrease in the
14 base rate for short-term interest was offset by the
15 increase in the spread.

16 Did I get that right?

17 MR. VINCE WARDEN: I think that was -- at
18 that point, Mr. Saxberg, I believe we were talking long-
19 term interest rates. I'm not totally sure that would
20 apply to short-term rates equally.

21 MR. KRIS SAXBERG: Okay. And that -- and
22 that was just my point, that while that may be the case
23 with respect to long-term rates, and -- and that'll be
24 something that we talk about later, with respect to
25 short-term rates, even if the spread did increase, it

1 wouldn't be anywhere near the margin by which the base
2 reets -- rates had been decreasing, correct?

3 MR. VINCE WARDEN: I believe that to be
4 true, yes.

5 MR. KRIS SAXBERG: Now, do you understand
6 that one (1) of the criticisms, hopefully helpful
7 criticisms, that was being made by Mr. McCormick in this
8 proceeding, is that Centra had been using superceded
9 information in doing its forecast of interest rates?

10 MR. VINCE WARDEN: Well, I think Mr.
11 McCormick's pre-file and testimony was based on -- or
12 comments were based on Centra's filing before the
13 updates. So I'm not totally sure whether Mr. -- Mr.
14 McCormick would make those same comments, based on the
15 updated filing.

16 MR. KRIS SAXBERG: Okay. And that's what
17 I wanted to address.

18 Firstly, would you agree that the March
19 forecast that we've been looking at for short-term and
20 long-term of the banks, some of the banks have updated
21 since March?

22 MR. VINCE WARDEN: Oh, yes, they update
23 frequently.

24 MR. KRIS SAXBERG: And just to make a --
25 probably a trite point, if you -- would you agree that --

1 at Tab 6, there's a chart. It's an excerpt from Mr.
2 McCormick's evidence. And he's indicated six (6) of the
3 forecasting sources that Centra's used, and he's provided
4 more current information than is in the Centra forecast.

5 Would you agree with that?

6 MR. VINCE WARDEN: Than was in the
7 original Application, I would agree with that. I don't
8 know what the date -- though. Mr. McCormick didn't
9 provide the date of this forecast, so I can't really
10 vouch for the -- what date this forecast was prepared.
11 Although the dates have been provided as to when that...

12 MR. KRIS SAXBERG: Okay. And if you
13 could --

14 MR. VINCE WARDEN: Sorry, Mr. -- if I
15 could just back up on that. I'm assuming that this
16 schedule here for National Bank, for example, the
17 forecast -- if we're looking at the second quarter, or
18 point -- twenty-seven (27) basis points, the forecast was
19 prepared in May of '09.

20 Perhaps I overlooked that in my original
21 comment, so I'll take that back. The forecast was
22 prepared May '09, I take it, from this evidence.

23 MR. KRIS SAXBERG: Okay, thank you. And
24 the point being that the six (6) sources used by Mr.
25 McCormick rely on updated forecasts from the ones that

1 Centra is relying on in PUB-198, correct?

2 MR. VINCE WARDEN: Well, to the extent
3 that the forecast in the Economic Outlook was prepared in
4 March of '09. These forecasts as we've just discussed
5 are May -- April and May of '09; they're going to be
6 different, which isn't surprising.

7 MR. KRIS SAXBERG: And just to take one
8 (1) example, if you go to Tab 4 and page 2, the BMO
9 forecast. It's Tab 4, page 2. This is the forecast that
10 Centra used from the Bank of Montreal that we looked at
11 earlier with the highlighted section on it.

12 MR. VINCE WARDEN: Yes.

13 MR. KRIS SAXBERG: And if we compare that
14 to Tab 8, which is the May 8th BMO forecast --

15 MR. VINCE WARDEN: Okay.

16 MR. KRIS SAXBERG: -- and we look at the
17 columns that we've been looking at, which is the thirty
18 (30) -- sorry, the three (3) month T Bill rate average
19 for 2009 is point three eight (.38) in Centra's, and in
20 the -- May BMO forecast is now point three two (.32).

21 MR. VINCE WARDEN: Yes.

22 MR. KRIS SAXBERG: And for the 2010 year,
23 the Bank of Montreal is -- was saying it's one point zero
24 two (1.02) for 2010. In May, now the Bank of Montreal is
25 saying it's going to be point six two (.62).

1 MR. VINCE WARDEN: And probably different
2 if they were to prepare that forecast today. So the
3 point is that forecasts do change.

4

5 (BRIEF PAUSE)

6

7 MR. KRIS SAXBERG: And -- but would you
8 agree that, as is the case with Hydro and its economic
9 outlook, when the Bank of Montreal revises its forecast,
10 it's saying that its current revised forecast supercedes
11 its previous forecast?

12 MR. VINCE WARDEN: That would seem
13 reasonable, yes.

14 MR. KRIS SAXBERG: And if we turn then
15 back to PUB-198 at Tab 3, the -- the Company has -- has
16 listed forecasts from 2008, but doesn't include them in
17 the calculation of the calendar year, 2009 and 2010.

18 Is that fair?

19 MR. VINCE WARDEN: Yes.

20 MR. KRIS SAXBERG: In other words, after
21 -- upon revising its forecast, Centra changed its
22 methodology to only incorporate the most recent
23 information it had, presumably at the time it updated,
24 which was March, '09, correct?

25 MR. VINCE WARDEN: It included the most

1 recent information, yes.

2 MR. KRIS SAXBERG: Yeah, but specifically
3 excluded information from '08, like the conference board
4 and like a -- spacial economics as we see and like
5 federal finance from November, '08. Those -- those were
6 eliminated because Centra presumably agrees that it is
7 better methodology to use only the most up-to-date of
8 numbers?

9 MR. VINCE WARDEN: Well, I think we were
10 recognizing here the abnormality of the circumstances
11 that the rates were changing significantly and it would
12 not be appropriate to use. Even though the information
13 wasn't from that distant past, it would -- it would be
14 appropriate to exclude them for this purpose which was
15 done. But again, it reflected more so the -- the
16 circumstances of the day, rather than methodology.

17 MR. KRIS SAXBERG: But that's essentially
18 saying that in these market conditions, Manitoba Hydro is
19 saying it believes the most current forecasts are more
20 accurate than those older 2008 forecasts?

21 MR. VINCE WARDEN: Well, the
22 circumstances as we discussed were unusual and it was
23 appropriate to use the most recent information we had
24 available to us.

25 MR. KRIS SAXBERG: Okay. However,

1 although those -- I'm going to call them stale, dated
2 forecasts have been taken out of the mix for the
3 2009/2010 calendar years, they are referred to under the
4 heading, "2011".

5 Do you see that?

6 MR. VINCE WARDEN: I do.

7 MR. KRIS SAXBERG: And the reason for
8 that is because the 2000 -- the second test year creeps
9 into the first quarter of 2011, correct?

10 MR. VINCE WARDEN: Yes.

11 MR. KRIS SAXBERG: So when you were
12 trying to find out the average interest rate for the
13 fiscal year which is the second test year, 2010/'11, you
14 needed a number from 2000 -- you needed a -- an -- a
15 interest forecast from the first quarter of 2011,
16 correct?

17 MR. VINCE WARDEN: Yes.

18 MR. KRIS SAXBERG: So, what you want to
19 do is because you -- you want to take the three (3)
20 quarters from the 2010 year, add to that the last quarter
21 -- or the first quarter of the 2011 year, then you have a
22 fiscal -- Manitoba Hydro fiscal year, and you're looking
23 for the average interest rate for that Manitoba Hydro
24 fiscal year, correct?

25 MR. VINCE WARDEN: Correct.

1 MR. KRIS SAXBERG: But would you -- so,
2 in that context, you used the forecasting information
3 from 2008, including the first instance, the November,
4 2008, federal finance update, correct?

5 MR. VINCE WARDEN: Correct.

6 MR. KRIS SAXBERG: And the number that
7 you used is four twenty (420), correct?

8 MR. VINCE WARDEN: Yes.

9 MR. KRIS SAXBERG: And you're using that
10 number to represent what you -- what Centra thinks will
11 be the interest in the first quarter of 2011, correct?

12 MR. VINCE WARDEN: Well, it's the average
13 for the -- for the year.

14 MR. KRIS SAXBERG: Well, right. But --
15 but what -- but I think you agreed with me -- but what's
16 -- what you should be looking for is the quarter -- the
17 first quarter of 2011, rather than the average for the
18 entire year, correct?

19

20 (BRIEF PAUSE)

21

22 MR. VINCE WARDEN: I think we agreed
23 earlier that the short term rates were based on an
24 average for the fiscal year.

25 MR. KRIS SAXBERG: That's right. And so

1 the average fiscal year is -- is three (3) quarters of
2 2009, and the first quarter -- or sorry, three (3)
3 quarters of 2010, and the first quarter in 2011, correct?

4 MR. VINCE WARDEN: That's right.

5 MR. KRIS SAXBERG: So if you use the
6 entire average for the 2011 year, that's going to skew
7 the calculation.

8 You -- wouldn't it be better to have just
9 the forecast quarter for 2011?

10 MR. VINCE WARDEN: Well, it really
11 depends on what the yield curve looks like, and, you
12 know, there is a -- a return to some normalcy by -- by
13 the time we get out to 2010/'11, so no, I wouldn't agree
14 with your -- your comment.

15 MR. KRIS SAXBERG: Let's just quickly
16 look at page 5 of the next tab, which is the actual
17 economic and fiscal statement of the federal government
18 for November 2008. It's at Tab 4, page 5.

19 And we're just pointing out where that
20 four point two (4.2) number comes from. If you look
21 under "Three (3) Month Treasury Bill Rate, November 2008
22 Economic and Fiscal Statement," it says four point two
23 (4.2). Three (3) month treasury bill heading is about
24 five (5) items down.

25 MR. VINCE WARDEN: Yes, I see that.

1 MR. KRIS SAXBERG: And at the very -- the
2 number in the far right column under "Average 2011 to
3 '13," is four point two (4.2).

4 Do you see that?

5 MR. VINCE WARDEN: I do.

6 MR. KRIS SAXBERG: So would you agree
7 that that 4.2 percent that's being forecast by the
8 Department of Finance, I guess, isn't just for that first
9 quarter of 2011, it's for three (3) years. It's the
10 forecast of what the average interest rate will be
11 between 2011 and 2013.

12 Do you see that?

13 MR. VINCE WARDEN: That's what's depicted
14 on this page, yes.

15 MR. KRIS SAXBERG: And in fact, that 4.2
16 percent is the number that's used in the final quarter to
17 average what your last fiscal -- what -- what the second
18 test year fiscal year will be. So that you have three
19 (3) quarters from 2010, and then you would -- that are at
20 a certain rate, and then you attach for Quarter 4 the
21 four point two (4.2) number.

22 Is that how the methodology works?

23

24 (BRIEF PAUSE)

25

1 MR. VINCE WARDEN: Yes.

2 MR. KRIS SAXBERG: And you'd agree that
3 this federal forecast that was done in November 2008 has
4 been superceded by the actual budget of the federal
5 government, which was in January of 2009?

6 MR. VINCE WARDEN: Okay.

7 MR. KRIS SAXBERG: You'll probably recall
8 that the House was --

9 MR. VINCE WARDEN: Oh, I do, yes.

10 MR. KRIS SAXBERG: -- prorogued, and --
11 and a new budget came in. And in one of the IRs, Centra
12 has agreed that the -- the new forecast, the number is no
13 longer four point two (4.2), it's four point-0 (4.0).

14 MR. VINCE WARDEN: I'll accept that.

15 MR. KRIS SAXBERG: All right. Now if you
16 were to -- if you can just flip back to PUB-198 and the
17 chart. And I do this just -- I just want to get an
18 understanding of how the -- the adjustment from calendar
19 year to fiscal year is done.

20 But essentially -- and I'm -- what Centra
21 is saying in that first chart is that the three (3)
22 quarters of 2010 will be, on average, 1.29 percent
23 interest. That's the forecast for those first three (3)
24 quarters, and that the first quarter in 2011 will be 3.64
25 percent.

1 MR. VINCE WARDEN: That's the average,
2 yes.

3 MR. KRIS SAXBERG: And just from a common
4 sense perspective, isn't that a remarkable -- wouldn't
5 that be a remarkable increase in interest rates from
6 December 31st, 2010, to January 1st, 2011, to -- to move
7 two hundred and thirty (230) basis points?

8 MR. VINCE WARDEN: Well, these are
9 remarkable times. But, you know, we -- we are talking
10 the difference in -- in the -- in the average for the
11 year --

12 MR. KRIS SAXBERG: But -- sorry. But you
13 -- you don't need the average for 2011, you only need the
14 first quarter for 2011, because you're only forecasting
15 the fiscal year 2010/'11.

16 MR. VINCE WARDEN: But that's not how the
17 forecast -- the economic outlook was prepared, Mr.
18 Saxberg. We are forecasting for the fiscal year
19 2010/'11, followed by the fiscal year, '11/'12.

20 MR. KRIS SAXBERG: Yes, you're -- you're
21 forecasting on a fiscal year basis, so you can't just use
22 the number in the calendar calculation under 2010; it's
23 got to be modified some -- somewhat to include that first
24 quarter of 2011.

25 That's really the modification you need to

1 make, correct?

2 MR. VINCE WARDEN: That's right.

3 MR. KRIS SAXBERG: So, I'd like you to
4 refer to Tab 15, and it's an IR from an MPI proceeding, I
5 -- and -- and so I -- I'm not going to ask you any
6 questions about the substantive content. It's just that
7 the IR explains how, when you -- when you're moving from
8 -- from a forecast that contains quarterly averaged
9 interest rate calculations, and then you want to adopt
10 the next quarter of a year that only has available full
11 year averages, you might want to do some smoothing, and
12 that -- that MPI, in doing their calculations, would
13 smooth the available information.

14 Is that something that -- that Centra has
15 done to know -- to smooth that adjustment from December
16 31, 2011, to the first quarter of 2000 -- sorry, I meant
17 to say 2010 -- to the first quarter of 2011, in order to
18 compensate for the fact that in 2010 you've got quarterly
19 average interest rate information, but for 2011 all you
20 have available is the average for the entire year?

21 MR. VINCE WARDEN: Mr. Saxberg, I -- I
22 don't think it's appropriate to compare Manitoba
23 Hydro/Centra Gas' situation to MPI's. We're running
24 totally different businesses, how that cash is used, how
25 retained earnings are -- are used with -- it's so

1 MR. VINCE WARDEN: Well, I think that's
2 up to the Board to decide. I -- I think we put forward a
3 methodology that works extremely well for Manitoba Hydro.
4 Our -- our forecasts of finance expense, if we look back
5 at previous performance, has been very accurate. We're
6 in unusual times; we've adapted to these unusual times by
7 updating our forecast.

8 MR. KRIS SAXBERG: And -- and just in
9 terms of that updating of the forecast, if we square in
10 on the second page of PUB-198, and the specific
11 calculations that are made here, what I'd like to ask is:

12 For the GRA update that was filed January
13 20th, 2009, did it use every one of these sources for
14 forecasts?

15 MS. MARLA MURPHY: Sorry, I think we have
16 a couple of problems. I'm not sure which chart you're
17 referring to and you just referred to an update in
18 January. So maybe we could just get our dates squared
19 away.

20

21 CONTINUED BY MR. KRIS SAXBERG:

22 MR. KRIS SAXBERG: Sure. I want to
23 compare the analysis and forecast methodology that was
24 used when the GRA was filed January 20th, 2009, to the
25 forecast methodology that was used for the May 29th

1 update.

2 And -- and what I'm asking is: Did you
3 use the same forecast sources that are listed on this
4 table that we're looking at, at page 2 of PUB-198, in
5 both those forecasts?

6 MR. VINCE WARDEN: Well, that's what page
7 2 is intended to depict, is the sources of those -- those
8 forecasts that were put forward.

9 MR. KRIS SAXBERG: I'm -- I'm counting
10 twelve (12) forecasters here. And did you use the same
11 twelve (12) forecasters for the original forecast? My
12 understanding is that there was one (1) that was added.

13

14 (BRIEF PAUSE)

15

16 MS. MARLA MURPHY: Maybe, Mr. Saxberg, we
17 can take that away and we'll clarify it.

18 MR. KRIS SAXBERG: Okay. And -- and just
19 to help you, I -- I just -- the original version of PUB-
20 198 that listed the sources of the forecasters before the
21 update was done, did not include spacial economics. So
22 I'll just leave you --

23 MS. MARLA MURPHY: We'll check and advise
24 you. Thanks.

25

1 --- UNDERTAKING NO. 14: Centra to indicate if it used
2 the same twelve (12)
3 forecasters for the January
4 20th, 2009, GRA, as it did
5 for the May 29th update. And
6 also to indicate whether or
7 not the methodology has
8 changed from the 2007 GRA
9 Hearing to the 2009 filing,
10 and then the update
11

12 CONTINUED BY MR. KRIS SAXBERG:

13 MR. KRIS SAXBERG: And a -- when the
14 January 2009 interest rate forecast was done, there were
15 then either eleven (11) or twelve (12) forecasters that
16 was used, correct?

17 MR. VINCE WARDEN: Subject to
18 confirmation, yes.

19 MR. KRIS SAXBERG: And in the update,
20 you've only used six (6) -- sorry, seven (7) of the
21 forecasters, correct?

22 MR. VINCE WARDEN: Seven (7) for the long
23 term.

24 MR. KRIS SAXBERG: I -- I don't need the
25 exact numbers. I mean, you -- you used fewer forecasters

1 in the update?

2 MR. VINCE WARDEN: Yes.

3 MR. KRIS SAXBERG: And if we go back to
4 2007 and the GRA Application that -- that was heard in
5 2007, how many forecasters were you using then? Was it -
6 - was it the same group of forecasters? Was it the same
7 number?

8 MS. MARLA MURPHY: We're gonna have to
9 undertake to check and advise you.

10 MR. KRIS SAXBERG: And really the
11 information that I'm looking for is whether or not the
12 methodology has changed from -- from the 2007 GRA Hearing
13 to the filing, 2009, and then the update.

14 MR. VINCE WARDEN: We'll include that in
15 the undertaking, Mr. Saxberg.

16

17 CONTINUED BY MR. KRIS SAXBERG:

18 MR. KRIS SAXBERG: Thank you. Has Centra
19 done any testing of -- of the method that it uses to
20 forecast interest rates?

21 MR. VINCE WARDEN: Well, as I mentioned
22 previously, our -- our forecasts have been very accurate
23 so it's never been an issue for us.

24 MR. KRIS SAXBERG: So I -- I take it that
25 -- that's a no. And -- and I meant, whether there was

1 any retroactive testing, sort of like was done with the
2 hedging program, where the was retro -- retrospective
3 analysis done.

4 Has there been anything like that?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: We certainly do a lot
9 of retrospective analysis of interest rates where they've
10 been compared to forecasts. We do a lot of analysis on
11 that. As compared to specific individual forecasters
12 though, the accuracy of those forecasters, I'm not aware
13 of any analysis that we've done in that regard.

14 It's quite different from the hedging
15 program though.

16 MR. KRIS SAXBERG: But if -- if there's
17 never been an analysis done as to whether or not the
18 forecasters you're using, my words, are any good, then --
19 then how do you know what the right combination of
20 forecasters is or how do you know which forecasters to
21 include and which ones to exclude if you haven't looked
22 at their track record?

23 MR. VINCE WARDEN: Well, I think we have
24 to look at the results, the -- the -- look at the
25 methodology that we used, the forecasters that we used to

1 come with a -- with a forecast; is that forecast
2 acceptably accurate for our purposes; "yes" or "no"? If
3 it isn't, then we would have to look at the methodology
4 and change, perhaps, including the mix of forecasters
5 that we use in coming up with that forecast.

6 However, as I mentioned, the forecast has
7 been very accurate and it works for us, so there's no
8 reason to change.

9 MR. KRIS SAXBERG: And so then -- I
10 believe your evidence was that Centra's intention is to
11 go back to its -- its traditional approach, in terms of
12 forecasting interest rates af -- for the next general
13 rate application.

14 MR. VINCE WARDEN: Well, we'll see what
15 happens between now and the next general rate
16 application, if -- if things in fact do return to normal.

17 MR. KRIS SAXBERG: And does that mean
18 that Centra would be opposed to updating its interest
19 rate forecast at the same time that it provides its --
20 its cost of gas update, in the context of -- of a GRA
21 proceeding?

22 MR. VINCE WARDEN: If there was reason to
23 do that, Mr. Saxberg, we would do it. There has not been
24 that reason in the past.

25 MR. KRIS SAXBERG: And the reason would

1 be what you would call unusual circumstances in the
2 financial markets?

3 MR. VINCE WARDEN: Unusual, or maybe
4 perhaps the usual -- the unusual becomes usual and -- and
5 rates remain extremely volatile.

6 MR. KRIS SAXBERG: So how would you
7 propose to define unusual circumstances?

8 MR. VINCE WARDEN: Well, I think we -- we
9 look at history, in effect. The interest rates have
10 tended to be relatively stable and predictable over the
11 long-term. If we find that there's a deviation from that
12 predictability, then we have to look at we're presenting
13 that in our future rate applications.

14 MR. KRIS SAXBERG: Okay. Thank you for
15 that. I -- I want to turn now to the subject of the
16 actual short-term interest which is allocated to Centra.

17 MR. VINCE WARDEN: Okay.

18 MR. KRIS SAXBERG: And the information on
19 the record is that Centra will pay short-term debt
20 interest rates equal to one (1) month bankers' acceptance
21 rates, as set out by the Bloomberg Organization.

22 Is that fair?

23 MR. VINCE WARDEN: Yes.

24 MR. KRIS SAXBERG: And the idea in
25 charging Centra with the one (1) month Bloomberg BAs as

1 the interest rate for its short-term debt, is to
2 approximate the cost -- actual cost of financing for
3 Manitoba Hydro?

4 MR. VINCE WARDEN: Yes. The word
5 "approximate" -- ideally if we could charge the exact --
6 absolute exact cost that Manitoba Hydro incurs that would
7 be the ideal, but for practical reasons we looked at what
8 would be fair and reasonable, in terms of a allocation
9 methodology for finance costs.

10 And we have used the one (1) month
11 bankers' acceptance rate as a reasonable proxy for the
12 cost for incurring. We -- we've used that consistently
13 since the date of acquisition, and I think it's served us
14 well over that period of time.

15 MR. KRIS SAXBERG: You'd agree that on
16 many occasion Manitoba Hydro can out perform the one (1)
17 month bankers' acceptance rate?

18 MR. VINCE WARDEN: Yes, I agree with
19 that.

20 MR. KRIS SAXBERG: And if we turn to CAC-
21 78, which is in the book of documents. I'll just take a
22 moment to find it. At Tab 17.

23

24

(BRIEF PAUSE)

25

1 MR. KRIS SAXBERG: And here I want to
2 look at the last page of the tab. And we have
3 information from the quarter ending September 30th, 2006,
4 flowing to the quarter ending December 31st, 2008.

5 Do you see that?

6 MR. VINCE WARDEN: Yes.

7 MR. KRIS SAXBERG: And what the -- what
8 the Information Request is depicting is that for the
9 quarter ending September 30th, 2006, the Manitoba Hydro
10 consolidated short-term interest rate was four point nine
11 (4.9), but what you charged Centra was four point three
12 (4.33).

13 Is that fair?

14 MR. VINCE WARDEN: I think you said --
15 Mr. Saxberg, just to be clear, I think you said four
16 point nine (4.9). It's four point one nine (4.19) --

17 MR. KRIS SAXBERG: Oh, yes.

18 MR. VINCE WARDEN: -- versus four point
19 three three (4.33) for a difference of fourteen (14)
20 basis points.

21 MR. KRIS SAXBERG: Okay. Thank you for
22 that. So the difference between what Centra was
23 allocated and what the consolidated entity was able to
24 arrange in -- in the market was fourteen (14) basis
25 points, correct?

1 MR. VINCE WARDEN: For the debt that
2 Manitoba Hydro had, the short-term debt for that quarter,
3 that's correct. However, this doesn't speak to the
4 quantum of debt --

5 MR. KRIS SAXBERG: Yeah.

6 MR. VINCE WARDEN: -- that was necessary
7 to provide to Centra. So Manitoba Hydro could very well
8 have been providing funds in excess of that, for which it
9 would have been paying a long-term rate. So it's
10 somewhat misleading to just look at this without knowing
11 the quantum of -- of debt that was advanced to Centra,
12 and -- and the sources of that -- of that advance.

13 MR. KRIS SAXBERG: Okay. And what you're
14 saying there is that the short-term debt that the
15 consolidated organization had on hand attracted an
16 interest rate of 4.19 percent, but you may not have had
17 enough short-term interest rate to cover all of Centra's
18 needs at any particular time, correct?

19 MR. VINCE WARDEN: Might not have had
20 sufficient short-term debt to cover Centra's requirements
21 at any point in time, that's right, yes.

22 MR. KRIS SAXBERG: But you're not at all
23 saying that you couldn't have gone out and made sure you
24 did have enough short-term debt to cover Centra's needs?

25 MR. VINCE WARDEN: Well, we would use the

1 lowest cost available funding that we had to us at that
2 point in time. So there's a back-and-forth requirement
3 for Centra on a daily basis, depending on what the
4 requirements may be.

5 So, we don't specifically -- as we've
6 talked about earlier, we don't specifically go out and
7 borrow for Centra's purposes.

8 MR. KRIS SAXBERG: Right. And -- and you
9 agreed earlier that Centra has unique short-term debt
10 needs.

11 Is there anything in the market or
12 elsewhere stopping Manitoba Hydro from arranging to have
13 enough short-term debt to meet Centra's unique needs?

14 MR. VINCE WARDEN: Well, if there was a
15 need for us to do that but we haven't found that need.

16 MR. KRIS SAXBERG: And I just want to
17 explain the numbers on the bottom of the IR -- or have
18 you confirm what they mean. On the -- in the bottom of
19 the IR, is a different calculation that relates to the
20 average interest rate that Manitoba Hydro consolidated
21 paid for short-term debt in a quarter, versus the average
22 interest rate that Centra was allocated.

23 And a -- is that -- is that correct? I --
24 I believe the top numbers are end-of-period. The bottom
25 numbers are average.

1 MR. VINCE WARDEN: Just for clarity, Mr.
2 Saxberg, you're referring to the four point three three
3 (4.33) as an example in the quarter we were referencing
4 earlier, as being an average for the period?

5 MR. KRIS SAXBERG: No. I'm looking at
6 the numbers at the bottom of the page and where it will
7 show, "Average CAD interest rate on short-term debt,
8 Hydro, 4.18 percent," and then that --

9 MR. VINCE WARDEN: Sorry. I think we're
10 probably on different -- are -- are you on different...

11 MR. KRIS SAXBERG: Yeah. I was on the
12 last page of the tab, which is --

13 MS. MARLA MURPHY: We're looking at the
14 attachment to CAC/MSOS/CENTRA-19D --

15 MR. KRIS SAXBERG: No.

16 MS. MARLA MURPHY: -- is what you were
17 referring to before?

18 MR. KRIS SAXBERG: No, it's the last page
19 of the tab which is this -- it's -- it's a revised
20 version of that same, it's CAC-78.

21 MS. MARLA MURPHY: We're in Tab 17?

22 MR. KRIS SAXBERG: Yes.

23 MS. MARLA MURPHY: Our last page is
24 CAC/CENTRA-190.

25 MR. KRIS SAXBERG: Oh.

1 MS. MARLA MURPHY: I'm sorry. What are
2 you looking at? Seventy-eight (78)?

3 MR. KRIS SAXBERG: There are four (4)
4 pages in there?

5 MS. MARLA MURPHY: Yeah.

6 MR. KRIS SAXBERG: Yeah. So it's the
7 last two (2) pages. They are the same, it's just that
8 the last two (2) pages have -- were -- were CAC-78 --
9 there were -- was additional information provided on the
10 bottom of the page.

11 MS. MARLA MURPHY: I think we've got our
12 order reversed. We have seventy-eight (78) as pages 1
13 and 2.

14 MR. KRIS SAXBERG: Oh, okay.

15 MS. MARLA MURPHY: So you're looking at
16 page 2 of 2 of the Response to CAC/MSOS/CENTRA-78?

17 MR. KRIS SAXBERG: Right.

18 MS. MARLA MURPHY: Dated May 1st, 2009?

19 MR. KRIS SAXBERG: That's right.

20 MS. MARLA MURPHY: Okay.

21

22 CONTINUED BY MR. KRIS SAXBERG:

23 MR. KRIS SAXBERG: And there's -- there's
24 two (2) presentations of the difference between Manitoba
25 Hydro's actual costs for short-term debt and the amount

1 that's allocated to Centra. And I just wanna make sure
2 that -- that we're clear and have a proper understanding
3 of the different presentations.

4 MR. VINCE WARDEN: Mr. Saxberg, now that
5 we're on the same page, can you -- can you sort of
6 rephrase -- or state that question again, please.

7 MR. KRIS SAXBERG: Yeah. And -- well, my
8 understanding was that the information at the top related
9 to an end-of-period analysis, so that at the end of the
10 quarter ending September 30th, 2006, there was 18 million
11 of short-term debt that cost Manitoba Hydro consolidated
12 4.19 percent?

13 MR. VINCE WARDEN: Yes, I agree with
14 that.

15 MR. KRIS SAXBERG: Whereas, when we go
16 down to the bottom numbers, we see that there was an
17 average cost of interest over the entire quarter that
18 resulted in an interest rate of 4.18 percent?

19

20 (BRIEF PAUSE)

21

22 MR. VINCE WARDEN: So you're referring to
23 the difference between 4.19 percent and 4.18 percent?

24 MR. KRIS SAXBERG: Yeah, those are two
25 (2) different types of calculation --

1 MR. VINCE WARDEN: One's end-of-per --
2 one's the end-of-period, one's the average, yes.

3 MR. KRIS SAXBERG: Right. And so then
4 when you compare the -- the four point one eight (4.18)
5 to the average allocated cost to Centra, it's 4.31
6 percent for that quarter. And the difference is, in
7 terms of dollars, the cost to -- allocated to Centra was
8 one million twenty-one thousand (1,021,000), but the
9 actual cost to Manitoba Hydro was nine hundred and
10 ninety-three thousand dollars (\$993,000).

11 Is that what this is saying?

12 MR. VINCE WARDEN: Yes, this is saying
13 had the average rate, in accordance with the 78D, that is
14 four point one eight (4.18), been applied rather than the
15 four point three one (4.31), that interest costs would be
16 nine (9) -- yes, as you stated, nine (9) -- ninety-three
17 point three (93.3) as opposed to one-o-two point five
18 (102.5) -- two one point five (21.5).

19

20 (BRIEF PAUSE)

21

22 MR. KRIS SAXBERG: So that -- it appears
23 then that the amount that Centra paid in that quarter,
24 above what Manitoba Hydro had to pay for that same debt,
25 was about thirty thousand dollars (\$30,000).

1 MR. VINCE WARDEN: Looking at that in
2 isolation, Mr. Saxberg, but, again, remembering that what
3 we're using as a proxy for the cost incurred by Manitoba
4 Hydro is the one (1) month bankers' acceptance rate,
5 which takes into account a lot of different factors, some
6 that are probably more so in -- in Centra's favour.

7 If I had to look at the -- at the
8 fairness, overall fairness, I'm always interested in
9 that, to make sure that there is no cross-subsidy, if
10 anything, the waiting would be more towards favouring
11 Centra than it would be Manitoba Hydro, for a number of
12 different -- different reasons.

13 MR. KRIS SAXBERG: If we go to the very
14 final column on this page, the quarter ending December
15 31st, 2008, and look at that information, what it's
16 telling us is that Centra Gas paid two hundred and twenty
17 thousand dollars (\$220,000) in that quarter more than
18 what that same short-term debt cost Manitoba Hydro.

19 MR. VINCE WARDEN: That's what this
20 depicts, but subject to my previous qualification.

21 MR. KRIS SAXBERG: And so if we look at
22 end-of-period averages, we see that, for the most part,
23 in this analysis, Centra's being allocated more than it
24 costs Manitoba Hydro, correct? That's the top set of
25 numbers.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

(BRIEF PAUSE)

MR. VINCE WARDEN: Looking at -- again, looking at this in isolation, that's what this depicts, yes.

MR. KRIS SAXBERG: And also, on an average quarter basis, which is a different calculation, shows the same thing, that on an average of the cost of the short-term debt over the quarter, it's also the case that Centra Gas is being allocated more interest than Manitoba Hydro is actually paying.

MR. VINCE WARDEN: Again, subject to the qualification that Manitoba Hydro may be advancing funds from long-term sources, and -- and therefore, would be paying more than -- that what's depicted on this -- this page.

MR. KRIS SAXBERG: And just on that score then, when -- when you say, well, if there isn't enough short-term debt available to cover Centra's needs, we should be looking at the long-term debt interest rate, on that score, why wouldn't you be looking at the floating rate interest debt?

(BRIEF PAUSE)

1 MR. VINCE WARDEN: I didn't -- I don't
2 think I differentiated between floating -- like as we
3 talked about earlier, long-term debt contains floating
4 rate debt as well.

5 MR. KRIS SAXBERG: But there's some
6 floating rate debt that's -- that's less than a year.
7 Would that have been picked up in the analysis on CAC-78?

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: Well, it would have to
12 meet the definition of short-term debt and that short-
13 term debt would be any borrowings that are for one (1)
14 year or less duration.

15 MR. KRIS SAXBERG: Right. And -- and if
16 you look at Tab 4, for instance -- sorry, Tab 5, for
17 instance, I think there's an example of that kind of
18 debt. This is Tab 5, which is CAC/CENTRA-4 and I'm
19 looking at page 3 of 6 -- sorry, 4 of 6.

20 MR. VINCE WARDEN: I -- I see that here.

21 MR. KRIS SAXBERG: And I -- that's my
22 handwriting on the right side so you'll -- you'll have to
23 take it subject to check, but I understand that this \$100
24 million issuance is -- was for a period of ten (10)
25 months or ten (10) plus months -- less than a year, in

1 any event, at bankers' acceptance plus ten (10) basis
2 points.

3 MR. VINCE WARDEN: Well, I think as
4 indicated there on line 20, the line you have
5 highlighted, Mr. Saxberg, it states that neither Centra
6 nor Manitoba Hydro participated in this issue.

7 MR. KRIS SAXBERG: You've -- you've got
8 me on that. You're right about that. But there are
9 other issues of floating rate debt that Manitoba Hydro
10 did participate in that -- that would be properly
11 characterized as short-term debt?

12 MR. VINCE WARDEN: Well, yes, yes. A
13 floating rate -- short-term debt can include floating
14 rate debt, yes.

15 MR. KRIS SAXBERG: And they would be
16 included -- they wouldn't have been included -- those --
17 that floating rate debt available to Manitoba Hydro in
18 its mix of debt -- that wasn't included in the analysis
19 for CAC-78 when you were looking at short-term debt?
20 That -- that's really what I'm trying to confirm.

21 MR. VINCE WARDEN: Well, yes, it would
22 have been included, Mr. Saxberg. That -- that -- lost my
23 page.

24 But I think if you looked at the heading
25 at the top of page 2 of 2 on seventy-eight (78), it's

1 referred to as floating rate debt.

2 MR. KRIS SAXBERG: Okay. And -- but
3 there's no -- there's no barrier, in terms of how much
4 floating rate debt Manitoba Hydro has on hand at any
5 time, other than its 15 to 25 percent corporate target?

6 MR. VINCE WARDEN: That's right.

7 MR. KRIS SAXBERG: And 15 to 25 percent
8 of the consolidated utility would be a lot more than the
9 short-term debt requirements of Centra?

10 MR. VINCE WARDEN: Sure.

11 MR. KRIS SAXBERG: So I'm just trying to
12 understand why it would be the case that on -- on CAC-78,
13 there's depictions of there being only \$15 million worth
14 of short-term debt when floating rate debt is included in
15 that.

16 MR. VINCE WARDEN: Well, it depends on
17 the maturity profile of that debt, whether it's a -- it's
18 within the current year.

19

20 (BRIEF PAUSE)

21

22 MR. KRIS SAXBERG: And can you confirm
23 that the interest on floating rate debt is -- is often
24 very close to the three (3) month BA rate?

25 And I -- I have a -- I have some

1 information on that at Tab 43 if you want to refer to
2 that.

3

4

(BRIEF PAUSE)

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

(BRIEF PAUSE)

22

23

24

25

MR. VINCE WARDEN: Mr. Saxberg, you asked me to confirm whether the interest rate on floating rate debt is close to the BA rate, the one (1) month BA rate?

MR. KRIS SAXBERG: The three (3) month BA rate.

MR. VINCE WARDEN: Oh, the three (3) month BA rate. Well, it depends. It depends on the -- on the terms. If we're -- if we're comparing three (3) months to three (3) months, then yes, yes, it's very close. Within four (4) to six (6) basis points.

MR. KRIS SAXBERG: Okay. Now Manitoba Hydro, I -- I understand, the consolidated entity, has a policy with respect to short-term debt being termed out into long-term debt.

MR. VINCE WARDEN: I'm not specifically sure what you're referring to there, Mr. Saxberg.

MR. KRIS SAXBERG: At Tab 45, this is an

1 answer to an IR from my clients to Manitoba Hydro in the
2 Electric GRA that was held in 2008.

3 MR. VINCE WARDEN: Okay. So you're
4 referring to the \$500 million short-term limit. Is --
5 was that your question?

6 MR. KRIS SAXBERG: Right. Well -- and --
7 and then specifically the last line of the answer to the
8 IR says, quote:

9 "Manitoba Hydro's practice has been to
10 issue long-term debt to replay -- repay
11 the short-term debt line once it
12 reaches 200 to 330 million." End of
13 quote.

14 Do you see that?

15 MR. VINCE WARDEN: Yes, it's somewhat of
16 a practice. It's not a policy. The -- the limit is --
17 is 500 million, and we can -- we can go up to that 500
18 million, depending on the circumstances.

19 MR. KRIS SAXBERG: And so it's possible
20 then in order to meet the specific needs of Centra, with
21 respect to short-term debt, you could go above the
22 practice of 200 to 300 million before you start terming
23 out, and not start terming out until the --

24 MR. VINCE WARDEN: Yeah, once --

25 MR. KRIS SAXBERG: -- higher number?

1 MR. VINCE WARDEN: -- once we start going
2 above the 200 to 300 million, we limit our flexibility in
3 terms of timing and going to the market. We don't want
4 to be in a position where we're forced to go to the
5 market because we're thumping up against the \$500 million
6 limit.

7 MR. KRIS SAXBERG: Had Manitoba Hydro
8 specifically considered Centra's unique short-term debt
9 needs when it set that target of 200 million?

10 MR. VINCE WARDEN: Well, as we talked
11 about it, it's a practice more so than a -- than an
12 official target.

13 MR. KRIS SAXBERG: Thank you. I'm going
14 to move onto a different topic, which is coming close to
15 the end of the financing portion of my cross, and then --
16 so this may be a good time to take the break for lunch.

17 THE CHAIRPERSON: Oh, very good. Okay.
18 We'll be back at 1:15. Thank you.

19

20 --- Upon recessing at 11:58 a.m.

21 --- Upon resuming at 1:21 p.m.

22

23 THE CHAIRPERSON: Okay, welcome back,
24 everyone.

25 Mr. Saxberg...?

1 CONTINUED BY MR. KRIS SAXBERG:

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

4 I'd like to begin by going back in time
5 slightly to the General Rate Application of Centra Gas
6 that was heard in 2007, so the last General Rate
7 Application.

8 And Tab 19, and the second page within Tab
9 19. And the topic here is the -- the next line of
10 questions is the long-term debt interest forecast. And
11 back in 2007, Centra was forecasting that it would issue
12 \$50 million in debt with a projected five point two five
13 (5.25) coupon in a November 22nd, 2036 maturity. That's
14 at line 18.

15 MR. VINCE WARDEN: Yes.

16 MR. KRIS SAXBERG: And so in the context
17 of that Hearing, the only long-term debt -- new long-term
18 debt that was going to be issued was this \$50 million
19 chunk, and so what Centra needed to do was forecast when
20 the issuance would be made and what the interest rate
21 environment would be like at that time, correct?

22 MR. VINCE WARDEN: Correct.

23 MR. KRIS SAXBERG: And then if you -- I
24 don't have this in the book, unfortunately, but in the
25 current Application, at page 39 of 42, in Tab 4, the

1 indication is that that \$50 million debt issuance was
2 done at a coupon of four point five zero five (4.505),
3 March 5th, 2037 maturity.

4 Is that right?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: Actually, that doesn't
9 look right, Mr. Saxberg. I'm going to have to double-
10 check that. I know -- I realize that's in our
11 Application, but can I take that one subject to check?

12 MR. KRIS SAXBERG: Yeah, sure.

13 MR. VINCE WARDEN: Thanks.

14 MR. KRIS SAXBERG: And so, in the context
15 of the present Hearing, if we're still on the same tab
16 but we flip back to the first page -- I guess I did have
17 that page right there. Sorry, I apologize for that.

18 In the context of this Hearing, we've got
19 projections of four (4) periods where there is going to
20 be debt issued -- or, sorry -- four (4) issues of debt
21 that are being forecast, correct?

22 MR. VINCE WARDEN: Correct.

23 MR. KRIS SAXBERG: And I believe that you
24 indicated that the 75 and the 20 million pieces are
25 renewals and the two thirty (230) tranches are -- are new

1 debt, correct?

2 MR. VINCE WARDEN: Yes.

3 MR. KRIS SAXBERG: And the first \$30
4 million tranche was supposed to go in March of 2029 --
5 sorry, March of 2009, for a maturity in 2029, in other
6 words, a twenty (20) year bond and that hasn't happened
7 yet?

8 MR. VINCE WARDEN: No.

9 MR. KRIS SAXBERG: And so, to the extent
10 that that doesn't -- hasn't happened, does that mean that
11 we should, in the forecast, be including the short-term
12 interest rate to be applicable to that 30 million, since
13 you haven't taken out a long-term debt bond; instead,
14 that 30 millions being covered by short-term debt?

15 MR. VINCE WARDEN: That's the effect,
16 yes.

17 MR. KRIS SAXBERG: And so, would you
18 agree then that that would have to be a refinement or
19 that a refinement should be made then to the forecast on
20 that basis?

21 MR. VINCE WARDEN: Well, again, Mr.
22 Saxberg, it gets back to what we were discussing just
23 before lunch and that is whether or not the rate that has
24 been charged by Manitoba Hydro to Centra is based on the
25 one (1) month bankers' acceptance rate is fair and

1 reasonable.

2 And this is probably a good example that
3 the fact that we're still charging Centra the one (1)
4 month bankers' acceptance rate, even though a lot of that
5 debt that is being carried by Centra as short-term is
6 more properly classified as long-term and should be
7 bearing higher rates.

8 So, you -- when -- when looking at the
9 fairness of the rates that are -- the interest that is
10 being charged to Centra, you have to take that into --
11 into consideration or at least you should take that into
12 consideration.

13 The amount of short-term debt in the order
14 of \$100 -- \$100 million that is being carried by Centra
15 at this time is extraordinarily high for the short-term
16 requirements of Centra, and some of that, in fact, has
17 been used to finance capital. The capital, more properly
18 would have been financed with long-term monies at a
19 higher rate.

20 So, that's the bigger picture that we have
21 to look at and -- and coming to a conclusion as to
22 whether or not the methodology we're using -- the one (1)
23 month bankers' acceptance rate is fair and reasonable.
24 And my position, of course, is that it is fair and
25 reasonable.

1 MR. KRIS SAXBERG: Okay, except we're
2 talking here about the long-term interest rate, which you
3 want embedded into rates at four point seven five (4.75)
4 plus the -- the 1 percent.

5 MR. VINCE WARDEN: Yeah, again, we're
6 talking a forecast though --

7 MR. KRIS SAXBERG: Yeah.

8 MR. VINCE WARDEN: -- as opposed to an
9 actual, so what gets charged to Centra on an actual basis
10 is going to be lower than what's in the forecast. And if
11 that's your point, that is -- that is -- that is correct.

12 MR. KRIS SAXBERG: Okay. But -- and
13 maybe we're splitting hairs -- the -- the rates, if
14 Centra's Application is approved, will collect as though
15 Centra was paying 4.75 percent on a \$30 million bond
16 issued in March of 2009?

17 MR. VINCE WARDEN: That -- that's what's
18 embedded in the -- the forecast, yes, with the correction
19 factor that we talked about earlier through retained
20 earnings.

21 MR. KRIS SAXBERG: And a -- right. And
22 if it is corrected through retained earnings, we would be
23 talking about after a hearing that occurs in 2011, and
24 then through the rates set by that hearing, perhaps over
25 a year or two (2) years.

1 MR. VINCE WARDEN: Which is only relevant
2 to the extent that the retained earnings are sufficient
3 to cover all the risks to the Corporation -- of -- of
4 Centra Gas.

5 MR. KRIS SAXBERG: So, if we could turn
6 back to Tab 3 and PUB-198 for a moment.

7

8 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: The very first page,
11 second chart, indicates that the -- the long-term debt
12 interest rate being forecast is the four point seven five
13 (4.75), and to the left of that number is a column
14 titled, "Spread," and the spread that's being forecast is
15 one point six-0 (1.60).

16 Is that right?

17 MR. VINCE WARDEN: That's right.

18 MR. KRIS SAXBERG: Now, before the Centra
19 update the spread that was being forecast was point six-0
20 (.60), a hundred basis points lower, correct?

21 MR. VINCE WARDEN: Yes.

22 MR. KRIS SAXBERG: So the spread that was
23 -- that is now being forecast is, I understand, based on
24 information provided by a single financial institution?

25 MR. VINCE WARDEN: Yes.

1 MR. KRIS SAXBERG: And if you turn to
2 page 2 of 4 of the PUB-198, is it one (1) of the
3 financial institutions listed?

4 MR. VINCE WARDEN: Yes, it is.

5 MR. KRIS SAXBERG: And was this -- was
6 this a special request made by Centra of that institution
7 to do a calculation of the spread?

8 MR. VINCE WARDEN: No, that was a spread
9 that was available to us in the marketplace.

10 MR. KRIS SAXBERG: And I think you
11 indicated that it's -- it was a proprietary piece of
12 information --

13 MR. VINCE WARDEN: That's right.

14 MR. KRIS SAXBERG: -- and did -- did
15 Centra consider asking for permission to disclose that
16 piece of information as -- as was the case with respect
17 to the information on page 2?

18 MS. MARLA MURPHY: I've been turned off.

19 MR. VINCE WARDEN: What do you want to
20 say?

21 MS. MARLA MURPHY: We -- we did ask, in
22 fact, if -- if that could be made public, and were
23 advised that it couldn't be.

24

25 CONTINUED BY MR. KRIS SAXBERG:

1 MR. KRIS SAXBERG: Thank you. And was --
2 was it a -- the information that -- that's been provided
3 is that it is an average of a ten (10) year and a thirty
4 (30) year credit spread and curve, correct?

5 MR. VINCE WARDEN: Yes.

6 MR. KRIS SAXBERG: And it -- it appears
7 that it's the average of that ten (10) year and thirty
8 (30) year credit spread on a particular day.

9 Is that fair?

10 MR. VINCE WARDEN: Yes, that would be
11 fair. Those spreads move around quite significantly from
12 day to day.

13 MR. KRIS SAXBERG: So -- so this is just
14 -- if you took a snapshot on March 31st, 2009, to see
15 what the spread is between the provincial bonds and the -
16 - and the -- and the Government of Canada bond, this one-
17 sixty (160) is -- is the outcome on March 31st, 2009?

18 MR. VINCE WARDEN: Yes, but I wouldn't
19 put too much emphasis on that really. You have to look
20 at the total of the Government of Canada yield rate and
21 the spread at any given point in time to determine
22 whether or not the total, in this case four seven five
23 (4.75), to determine whether that's reasonable.

24 So although the spread will move around,
25 so -- so will the yield rate on the Government of Canada

1 bonds. So I think as we discussed earlier they move
2 pretty much in tandem such that the rate of -- the total
3 of four point seven five (4.75) that we're discussing
4 here would not be materially affected one way or the
5 other by a movement in the spread alone.

6 MR. KRIS SAXBERG: If you could turn to
7 Tab 44.

8

9 (BRIEF PAUSE)

10

11 MR. KRIS SAXBERG: It's an IR from the
12 2008 Electric GRA. And in the answer, Manitoba Hydro is
13 forecasting the spread to be forty-five (45) basis
14 points, as opposed to the one point six (1.6).

15 Is that fair?

16 MR. VINCE WARDEN: Yeah, that makes a
17 point that those spreads move around quite a bit.

18 MR. KRIS SAXBERG: And so -- but if we
19 looked at -- on a historical basis, if we looked at what
20 the spread was over the past three (3) years, it would be
21 a number somewhere between that point four (.4) and point
22 six (.6)?

23 MR. VINCE WARDEN: The -- the typical
24 spread, the long-term spread that we use within Manitoba
25 Hydro is -- is sixty (60) basis points of Government of

1 Canada bonds.

2 MR. KRIS SAXBERG: And Centra admits that
3 the spread has reduced from one point six (1.6) on March
4 31st, 2009 to where it's at today.

5 Is that fair?

6 MR. VINCE WARDEN: Well, as I mentioned,
7 the spread does move around, but you have to look at the
8 movement and the benchmark rate at the same time. So
9 where -- where as we do agree that the spread has moved,
10 the long-term rate has not moved significantly from where
11 -- wha -- what we're forecasting here.

12 MR. KRIS SAXBERG: And if you turn to Tab
13 4 -- sorry, Tab 5.

14 MR. VINCE WARDEN: I have it here.

15 MR. KRIS SAXBERG: Thank you. For that -
16 - and maybe we don't even need to reference it, but for
17 that \$300 million debt issuance that was just done or
18 that just settled on June 5th of this year --

19 MR. VINCE WARDEN: Yes.

20 MR. KRIS SAXBERG: -- the spread was a
21 hundred and six (106) basis points?

22 MR. VINCE WARDEN: The spread was a
23 hundred and six (106) basis points, but the yield was
24 four point zero six seven (4.067), compared to the three
25 fifteen (315) that we're seeing here, for a total of five

1 point one two seven (5.127).

2 So, as you can see, compared to the four
3 point seven five (4.75) that we are forecasting, the
4 total has gone up from what the forecast is -- was at the
5 time.

6 MR. KRIS SAXBERG: Sorry, I just want to
7 make sure I got that straight. The yield was four point
8 zero six seven (4.067)?

9 MR. VINCE WARDEN: The yield -- yes, four
10 point zero six seven (4.067). The spread was one point
11 zero six (1.06). The total is five point one two seven
12 (5.127), excluding the debt guarantee fee, of course.

13 MR. KRIS SAXBERG: Right.

14

15 (BRIEF PAUSE)

16

17 MR. KRIS SAXBERG: Now, if we turn back
18 to Tab 19...

19

20 (BRIEF PAUSE)

21

22 MR. KRIS SAXBERG: The first page on Tab
23 19 is an excerpt from the Application, just indicating
24 when Centra forecasts to issue long-term debt within the
25 test years.

1 And is it fair then that the three (3)
2 bottom issues of debt all occur in the same quarter?

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: Well, yes, they all
7 have the same maturity date -- or -- or mature in the
8 same quarter.

9 MR. KRIS SAXBERG: So they all mature in
10 the same quarter, but two (2) of these are -- are
11 renewals, the 75 and the 20 million.

12 They're going to have to be renewed in the
13 fourth quarter of 2010, correct?

14 MR. VINCE WARDEN: Yes, and sorry, when I
15 -- when I said they all mature in the same quarter,
16 that's for forecasting purposes only. Whether they -- we
17 actually take out debt with that profile is actually
18 unlikely.

19 MR. KRIS SAXBERG: Right. And I think
20 you -- you said that on the record in very clear terms,
21 that the Corporation will take into account whether or
22 not the rate justifies a shorter term at the time,
23 correct?

24 MR. VINCE WARDEN: Correct.

25 MR. KRIS SAXBERG: But the point I'm

1 trying to make is that in the fourth quarter of 2010,
2 that is the period where you will have to make those
3 decisions on debt issuances, such that you'll be doing
4 something.

5 It may not be for twenty (20) year terms
6 all expiring in the same quarter in 2030, but you will be
7 doing something in -- in that quarter, correct?

8 MR. VINCE WARDEN: Well, we'll be doing
9 something to address those maturities at that time, yes.

10 MR. KRIS SAXBERG: So if you're doing
11 three (3) debt issuances in the same quarter, the fourth
12 quarter of 2010, then isn't that the quarter that this
13 Board should be looking at in terms of forecasting what
14 the long-term interest rate may be for those debt
15 issuances?

16 MR. VINCE WARDEN: Well, not necessarily.
17 It's not a given that would be rolled over into long-term
18 debt. We may use -- depending on the circumstances we
19 may use a short-term -- short-term debt for bridging
20 purposes.

21 So, no, that isn't necessarily the
22 conclusion I would come to by looking at this schedule.

23 MR. KRIS SAXBERG: So what you're saying
24 is that if -- if there's a reason to hold off on issuing
25 debt, you may simply use short-term debt until -- until

1 the situation arises where it is appropriate to issue
2 debt.

3 MR. VINCE WARDEN: Exactly, and that's
4 the advantage of Manitoba Hydro and Centra being in the
5 relationship they are. We can take advantage of what the
6 -- the market has to offer at any point in time, and we
7 don't -- we aren't locked into a certain rigour that
8 might occur if Centra was on a stand-alone basis.

9 MR. KRIS SAXBERG: But your best
10 projection, your best evidence in this proceeding, is
11 that you're going to be doing those debt issuances in the
12 fourth quarter of 2010?

13 As you sit here today, that's your
14 forecast?

15 MR. VINCE WARDEN: Well, you just said
16 it. It's the forecast, and that's what we've included in
17 our forecast. Whether we'll do that or not will depend
18 on the circumstances at the time.

19 MR. KRIS SAXBERG: So wouldn't it be good
20 -- isn't it good policy for the Board then to create a
21 symmetry between the quarter in which you're forecasting
22 those debt issuances will go, and the projected interest
23 rate in those quarters?

24 MR. VINCE WARDEN: Well, again it -- it
25 depends. We -- with -- the forecast is -- is put

1 together with the best information we have, and I think
2 there is the symmetry there that -- that there will be a
3 mix of short and long-term debt, to the advantage of --
4 of Centra.

5 MR. KRIS SAXBERG: Okay, thank you for
6 that. I'm going to turn away from the financing issues
7 to some other issues related to revenue requirement, and
8 I'll begin by going back to the retained earnings. The
9 actual retained earnings -- or actual net income in 2007,
10 I believe, was 1 million, in 2008 it was 6 million, and
11 in 2009, 9 million.

12 You -- you just take that, subject to
13 check? Does that sound right?

14 MR. VINCE WARDEN: Yes, it does.

15 MR. KRIS SAXBERG: So that's 16 million
16 in net income in the past three (3) years, correct?

17 MR. VINCE WARDEN: I should mention
18 though, the immediately preceding year to those three (3)
19 years there was a loss of -- of 10 million.

20

21 (BRIEF PAUSE)

22

23 MR. KRIS SAXBERG: So in the last three
24 (3) years, 16 million in net income, and one could add to
25 that 36 million in Corporate allocations as being money

1 together that was above and beyond the cost to provide
2 service to customers.

3 MR. VINCE WARDEN: No, I wouldn't agree
4 with that at all. The 12 million in Corporate allocation
5 is, in fact, a cost to provide service to customers, as
6 is the net income. The net income is a necessary part of
7 providing service to customers. Having an adequate level
8 of retained earnings is -- is essential to providing
9 good, reliable, long-term service to the customers of --
10 of Centra Gas.

11 MR. KRIS SAXBERG: And also, in -- in
12 relation to retained earnings, there has been, since
13 Manitoba Hydro purchased Centra Gas, in the balance
14 sheet, share capital of 121 million.

15 Why wouldn't you include that 121 million
16 share capital as part of the retained earnings?

17 MR. VINCE WARDEN: Well, because it's not
18 in the event of a -- an occurrence that required funding.
19 It -- it's not available for that purpose. We can't dip
20 into the share capital for purposes of providing funding
21 or rate stability to the -- to the ratepayers of -- of
22 Centra.

23 MR. KRIS SAXBERG: Well, why not?
24 Because you paid for that share capital with debt, so
25 what's its value then?

1 MR. VINCE WARDEN: There -- there's
2 little value. I'd like to get it off the balance sheet
3 if I could.

4 MR. KRIS SAXBERG: And in Tab 33...

5

6 (BRIEF PAUSE)

7

8 MR. KRIS SAXBERG: On the second page of
9 this Information Request, Centra was asked if DSM had
10 been amortized over fifteen (15) years, what would the
11 net income be? And, sorry, what would the retained
12 earnings be and the retained earnings, as indicated,
13 would have been about 41 million. Do you see that?

14 MR. VINCE WARDEN: Yes, I do.

15 MR. KRIS SAXBERG: Now -- and -- and this
16 is what I want to understand. When -- when Centra came
17 to the Board with its last application in 2007, it
18 promoted the idea of fifteen (15) years to amortize DSM,
19 correct?

20 MR. VINCE WARDEN: Well, I'm not sure
21 whether we -- the word "promoted" is necessarily
22 accurate. We had included previously in that Application
23 -- or previously within Centra Gas, a fifteen (15) year
24 amortization to be consistent with what we did with
25 electricity consumers.

1 The justification for that was always very
2 weak for gas consumers because of -- as I think we've
3 talked about previously, we don't have that export
4 market, and therefore there's no assurance of future
5 benefits though a -- expenditure of DSM.

6 So, we a -- we moved down to five (5)
7 years and the first year being to -- amortization that
8 is, the first year being in 2007/'08. And we're -- by so
9 doing, we're closer to what other utilities in Canada do,
10 although as we've filed elsewhere in these proceedings,
11 the vast majority of the utilities in Canada, gas
12 utilities are -- have no amortization at all.

13 So, we're still -- even though it -- it's
14 gone from fifteen (15) to five (5), we're still at the
15 high end of amortization, compared to other utilities in
16 Canada and if we -- if we go forward into the IFS -- IFRS
17 world, we certainly will not be allowed to amortize those
18 costs, unless rate regulated accounting is permitted, and
19 that's still a question mark, as we've talked about
20 before.

21 MR. KRIS SAXBERG: And I'll save my
22 questions dealing with the matter of what other gas
23 utilities do for later, but the point though is, you can
24 confirm that the Application that you wanted the Board to
25 approve in 2007, contained the forecast of DSM being

1 amortized over fifteen (15) years?

2 MR. VINCE WARDEN: Yes. And we -- as we
3 do with other matters. We refine our forecasts from time
4 to time. We refine our accounting estimates from time to
5 time and that was one (1) of them.

6 MR. KRIS SAXBERG: And at that hearing
7 there was questions related to the term of the
8 amortization of the DSM, but Manitoba Hydro Centra
9 indicated on the record that it would stick with the
10 fifteen (15) years and -- and provided a justification
11 for doing so, correct?

12 MR. VINCE WARDEN: Well, the
13 justification we provided was not strong, and I think
14 we've now concluded that, in fact, it -- it is more
15 appropriate for us to amortize that over a lesser period,
16 as we've been doing.

17 MR. KRIS SAXBERG: Now, the Board though,
18 in approving rates, would have assumed a fifteen (15)
19 year amortization, based on what it was being told at
20 that hearing, correct?

21 MR. VINCE WARDEN: Well, that's likely.
22 I would say that's fair. Again, it -- I hate to keep
23 harping on this, but it's one of those differences that
24 occur for -- between the forecast and the actual that
25 retained earnings is able to capture.

1 MR. KRIS SAXBERG: What gives Centra the
2 -- the authority or the right to reconstruct the very
3 premises upon which the -- the rates were set after --
4 after having been approved?

5 MR. KRIS SAXBERG: Things change. We
6 have to manage the company in the interim between --
7 between the time we appear before this Board and -- and
8 the next time we appear. We have to manage to the best
9 of our ability. The -- the Board -- this Board can
10 certainly make other determinations if it determines --
11 if it decides that we -- what decisions we've made in
12 that interim period aren't appropriate.

13 MR. KRIS SAXBERG: Let me just try it
14 this way. The Board approved a \$3 million provision for
15 net income at the -- as a result of the application that
16 was put forward in 2007?

17 MR. VINCE WARDEN: I'm sorry, would --
18 would you repeat that, Mr. Saxberg?

19 MR. KRIS SAXBERG: The Board approved a
20 \$3 net income to be imbedded, incorporated in rates at
21 the last hearing.

22 MR. VINCE WARDEN: Yes, Mr. Saxberg, I'm
23 just reminded that, actually -- and we can find the
24 reference for you if -- if you like, but I was just
25 reminded that in fact we were encouraged by the Public

1 Utilities Board to move from the fifteen (15) year
2 amortization to a -- to a lesser per -- amortization
3 period, and again, we can get that re -- reference for
4 you, if you like.

5 MR. KRIS SAXBERG: No, I -- I have it
6 handy. And I don't think you were directed to that. You
7 were -- you were asked to consider it, in light of rate
8 consequences.

9 MR. VINCE WARDEN: Yeah, and I think, as
10 I mentioned, we -- I didn't say directed, I said
11 encouraged, and we took the wording from the PUB order as
12 encouragement to move in that direction.

13 MR. KRIS SAXBERG: And -- okay, so let me
14 just get back to where I was. In our -- in your 2007
15 General Rate Application you asked for approximately \$6
16 million in net income, and the Board restricted that to
17 \$3 million net income, correct?

18 MR. VINCE WARDEN: Well, there -- there
19 was provision in there for a furnace replacement program,
20 which, for that year, I was I bele -- I believe was in
21 the amount of 2.8 million that was to be provided for
22 first, before the \$3 million. The Board didn't
23 necessarily say that anything over and above that 2.8
24 million should be restricted to 3 million though.

25 So there wasn't a hard cap, so to speak,

1 on \$3 million net income for that fiscal year.

2 MR. KRIS SAXBERG: But the point is that
3 -- that Centra applied for net income of higher than 3
4 million, and the Board, in its order, said that -- that 3
5 million is what you should include in the forecast to be
6 collected.

7 You know, we -- we all appreciate that --
8 that the rates -- the actuals can over-collect or under-
9 collect, but the point is, that was a number that the
10 Board ordered to be included in the forecast and imbedded
11 in rates, 3 million, correct, for net income?

12 MR. VINCE WARDEN: I guess I'm struggling
13 a little bit with your words "in the forecast," Mr.
14 Saxberg. I -- I don't see that reference in the -- in
15 the order itself, that -- that the 3 million should be
16 imbedded in the forecast.

17 MR. KRIS SAXBERG: Well, the revenue
18 requirement should be such as to allow for a projection
19 of net income of \$3 million. Is that --

20 MR. VINCE WARDEN: Well, we're -- we're
21 probably quibbling over semantics, but I think the intent
22 was that Centra's net income was to be limited to \$3
23 million, all other things being equal, yes.

24 MR. KRIS SAXBERG: Okay. And -- but
25 Centra wouldn't then be able to just stick a number of

1 say 12 million in instead of the 3 million, when it's
2 determining its financial results for the next -- for --
3 in its financial statements, could it?

4 MR. VINCE WARDEN: I don't follow your
5 logic, Mr. Saxberg, I'm sorry.

6 MR. KRIS SAXBERG: Well -- well, 3
7 million is the amount that was approved by the Board for
8 net income, so when you state your -- the financial
9 outcome of an actual year, it's going to be with respect
10 to the -- that amount of -- of net income.

11 MR. VINCE WARDEN: Well, rates were set
12 so as to target \$3 million of net income, but for all the
13 reasons we've discussed, the variables that enter into
14 that, despite our best intentions, we -- will not exactly
15 equal \$3 million, so that was the target.

16 MR. KRIS SAXBERG: Okay. You -- you know
17 what, I probably picked the wrong revenue line. Let's
18 just say the bottom line is Centra couldn't go back and
19 on an accounting basis say that, for the years '07/'08
20 and '08/'09, that there was a \$5 million provision for
21 accounting and other changes, and just plug that into the
22 actual, and then report a lower net income on your
23 financial statements.

24 You -- you don't have the authority to do
25 that, do you?

1 MR. VINCE WARDEN: Oh, no. No, and we --
2 we're not -- we wouldn't propose to do that.

3 MR. KRIS SAXBERG: And so I'm just trying
4 to understand what the difference between just simply
5 saying, Oh we've -- we've come up with another revenue
6 item, being accounting and other changes.

7 What's the difference between you doing
8 that and changing the amortization of the DSM, which has
9 the same type of impact? In other words, it goes --
10 changing the amortization of the DSM goes directly to the
11 level of net income reported in your financial
12 statements.

13 MR. VINCE WARDEN: Well, that was done
14 for '07/'08, '08/'09, that did have an impact on the
15 level of financial -- the net income in the financial
16 statements but as you just reviewed, the net income that
17 was achieved in -- maybe I'll back-up on that statement.

18 I was thinking of the year previous to
19 '07/'08 actually where we -- in '06/'07 where the net
20 income was \$1 million, but I think you were referring to
21 the -- the change as it affected '07/'08, and '08/'09,
22 and the amortization period was reduced starting in '0 --
23 in '07/'08.

24 MR. KRIS SAXBERG: I guess what I'm --
25 what I'm trying to -- to explore with you is that the

1 financial statements are going to report net income in
2 any given year, and -- and if Centra changes the way it's
3 accounting for its costs such that they're different than
4 the presentation to the Board, it can have an effect on -
5 - it will have an effect on the net income.

6 MR. VINCE WARDEN: Yes, but I think the
7 Board expects Manitoba Hydro to follow generally accepted
8 accounting principles. The changes that we introduce
9 with respect to DSM amortization was something that not
10 only was encouraged by the Public Utilities Board, as
11 we've talked about previously, but was also strongly
12 supported by -- by our auditors who relied significantly
13 on this being a regulated asset in order to endorse our
14 statements.

15 So the direction we're going here was --
16 was good from an accounting perspective. It was the
17 right thing to do from an accounting perspective and that
18 -- that's what we've done. It wasn't, in any way to --
19 as you might be suggesting, to achieve a certain bottom
20 line. That certainly was not our motivation whatsoever.

21 MR. KRIS SAXBERG: If the -- if the
22 amount of net income is a determinant of future rates,
23 and -- and that is what you're saying because the amount
24 of net income and the amount of retained earnings is a
25 deferral which affects what level of -- of rate increases

1 or rate decreases you seek, correct?

2 MR. VINCE WARDEN: I -- I would say more
3 so the level of retained earnings at any one (1) point in
4 time. We have to have sufficient retained earnings in
5 order to cover off the risks of Centra Gas. And then
6 it's just a question of how we get there, what's a
7 reasonable rate increase scenario to get us there.

8 And that's why we did put in the \$5
9 million in the second year of the Application, to
10 preserve the 1 percent rate increase, which we think,
11 under the circumstances, is relatively modest, so what
12 relative -- relatively modest rate increase for Centra
13 ratepayers in order to achieve a certain level of
14 returned earnings that are in the best long-term interest
15 of -- of ratepayers.

16 MR. KRIS SAXBERG: Okay. And while we're
17 there then, since the -- subsequent to January 20th,
18 2009, when the GRA was filed, the revenue requirement was
19 adjusted as a result of the interest, finance expense,
20 being forecast to be reduced by 3.6 million in the first
21 test year and 3.8 million in the second test year,
22 correct?

23 MR. VINCE WARDEN: Yes.

24 MR. KRIS SAXBERG: And also, since that
25 GRA was filed in January of 2009, net income improved far

1 beyond Centra's expectations, to the tune of 9 million,
2 correct?

3 MR. VINCE WARDEN: Yes.

4 MR. KRIS SAXBERG: So when I add up that
5 nine (9) and that six (6), that tells me that, since the
6 GRA was filed in January of 2009, Centra has found itself
7 with an additional 16 million dollars that it didn't
8 consider at the time the GRA was filed and the time that
9 1 percent rate increase was made.

10 MR. VINCE WARDEN: Yes. Part of what
11 you're including in your addition, your summation, was a
12 future year, which is yet to be determined whether or not
13 that will be achieved, but that is our -- our best
14 estimate at this time. The 9 million, of course, a lot
15 of it was weather related, and, to some extent, recovers
16 the \$10 million loss I referred to earlier that occurred
17 in 2006/'07.

18 MR. KRIS SAXBERG: But I guess the point
19 is, if you've got -- say we will take out the second 3.8
20 million then. So you've got \$12 million in that one (1)
21 year that you weren't expecting when you filed your
22 General Rate Application. And -- and --

23 MR. VINCE WARDEN: Well, it -- sorry. To
24 be clear, the 9 million includes the -- the finance
25 expense savings, so it's \$9 million that we -- we didn't

1 really anticipate.

2 And, really, our net income forecast was 3
3 million, so for '08/'09, the 9 million exceeded the
4 forecast by six (6), obviously, so just to be clear on
5 that.

6 MR. KRIS SAXBERG: And just so that I
7 understand it, the -- there was \$3 million net income
8 that was imbedded in -- in rates as a forecast. There
9 was also, in the second test year, the '07/'08 test year
10 -- or sorry, '08/'09 test year there was \$3.8 million
11 associated with the Furnace Program, correct?

12 MR. VINCE WARDEN: Correct.

13 MR. KRIS SAXBERG: So -- and what I want
14 to know is, is the \$9 million net income -- is that
15 inclusive or exclusive of the 3.8 million for the
16 Furnace?

17 MR. VINCE WARDEN: The 3.8 million is
18 over and above the 9 million. But, to be clear, that's -
19 - that's not income, that's an amount that has been set
20 aside from revenue to fund a program.

21 MR. KRIS SAXBERG: That's right. So I --
22 I'm just wondering, I mean there was an extra then \$6
23 million of -- of net income that Centra learned of after
24 it filed its GRA Application. There was -- they -- also
25 the reduction in forecast interest charges over the two

1 (2) test years, to the tune of approximately 7 million.

2 With that large -- with that new -- I'll
3 call it, found money, why is it that Centra still needs
4 the 1 percent per year increase in rates?

5 MR. VINCE WARDEN: Mr. Saxberg, again to
6 be clear, the 9 million of net income that we reference
7 in '08/'09 already includes the interest savings that you
8 seem to be -- want -- want to add to that. The -- the
9 fact that we were able to achieve that level of net
10 income did allow us to defer the Rate Application, so
11 that's why we're not seeking the rate increase effective
12 May the 1st of '09, but rather deferring that increase to
13 February the 1st of '10 -- or '10.

14 MR. KRIS SAXBERG: Okay. Thank you for
15 that. I just want to ask you some questions about
16 activity rates and OM&A. If you could turn to Tab 36.

17

18 (BRIEF PAUSE)

19

20 MR. KRIS SAXBERG: And -- sorry, I -- I
21 just have to ask one (1) more question about retained
22 earnings 'cause I want it to all be in the same place in
23 the transcript. The level of retained earnings at this
24 point in time is 36 million and I -- I believe you
25 confirmed that's the -- the highest level since Centra

1 has been owned by Manitoba Hydro?

2 MR. VINCE WARDEN: Yes.

3 MR. KRIS SAXBERG: And -- and then you've
4 also talked repeatedly about the net income and retained
5 earnings being a deferral -- a buffer, so that if you
6 overcharge, you'll use that net income at the next Rate
7 Application to perhaps reduce a rate increase asked for
8 or -- and hopefully this comes some day -- implement a
9 rate reduction, correct?

10 MR. VINCE WARDEN: Well, I think I've
11 stated that in -- in filing a rate application before
12 this Board, the level of retained earnings is an
13 important consideration.

14 MR. KRIS SAXBERG: And you've said, well,
15 the -- the levels should relate to the risk. Has there
16 been a study or an analysis or quantification of the risk
17 and the appropriate level of retained earnings?

18 MR. VINCE WARDEN: Not specifically
19 quantified. I think, as I mentioned in my cross -- or
20 the -- in -- with my discussion with Mr. Peters, we do
21 know that the level of 36 million is -- is too low, just
22 based on the imminent issue with respect to IFRS and the
23 risk that we could be -- there could be a charge against
24 retained earnings of \$61 million.

25 So, given that we were as low as we are

1 with retained earnings, the end -- the uncertainty
2 associated with that major risk, we have not specifically
3 quantified what that number should be, other than it
4 should be higher.

5 Could -- could you tell ratepayers, at any
6 given time, what level of retained earnings Centra has to
7 have before they can look forward to a rate decrease as a
8 result of this -- of deferral of rates going into
9 retained earnings? Sorry, deferral of costs.

10 MR. VINCE WARDEN: Well, it's certainly
11 something we can talk about at a future hearing but it --
12 it's just simply not relevant. It's premature to talk in
13 those terms today -- as we sit here today.

14 MR. KRIS SAXBERG: And you're no longer
15 judging the appropriate level of retained earnings by
16 considering debt to equity ratio, correct?

17 MR. VINCE WARDEN: That's right. We have
18 concluded that the reason for having the seventy-
19 five/twenty-five (75:25) debt/equity ratio that is the
20 target at the corporate level for Manitoba Hydro, really
21 doesn't exist within Centra Gas.

22 If there were no risks -- if Centra Gas
23 faced no risk, there would be -- there would be no reason
24 for having retained earnings at all. We would just set
25 rates so that we would exactly -- our costs would exactly

1 -- or the rates would exactly cover our costs every year
2 and retained earnings would not be necessary.

3 But the retained earnings are necessary to
4 cover risks, and that's why we need a level higher than
5 it is today.

6 MR. KRIS SAXBERG: And if we're not
7 judging this -- the appropriate level of retained
8 earnings by virtue of debt/equity, what new mechanism are
9 you proposing in order to -- to be able to determine the
10 appropriate amount?

11 MR. VINCE WARDEN: Well, as I've just
12 indicated, Mr. Saxberg, it would be the absolute level of
13 retained earnings that we would quantify at some point in
14 the future once we come to a determination of what the
15 implications are of IFRS, which is very, very significant
16 to Centra Gas.

17 MR. KRIS SAXBERG: Let's just put IFRS to
18 the side for a moment. What are the major risks, and --
19 and what level of retained earnings do you need?

20 MR. VINCE WARDEN: Well, the major risks
21 include weather, or course, and -- and it could be stated
22 that over the long term really weather isn't a risk
23 because it's going to be cold some years, and warm other
24 years, and over the longer term it will -- it will
25 average out.

1 So as long as we have sufficient earnings
2 to cover off those averages then -- then probably not a -
3 - not a huge risk, so even though the -- the variability
4 in our bottom line is very much influenced by -- by
5 weather. As far as a risk to the Corporation over the
6 long term, weather doesn't represent that large of a
7 risk.

8 I think we -- we do have, as we've seen,
9 the swing that has taken place with respect to interest
10 rates. Interest rates would certainly be a risk that we
11 would have to provide for.

12 Inflation. Inflation, although it's very
13 low right now and it's projected to remain low, it --
14 we've seen inflation in the double digit range, and that
15 could -- could happen again.

16 We've got -- could have a major event that
17 interrupts gas to consumers that requires the incurrence
18 of major costs by Centra to -- to restore power, or
19 restore gas service.

20 Technology. Technology, there could be
21 changes in the technological front that would make gas --
22 natural gas not as viable in the future as it is -- as it
23 is today.

24 The situation that we have with our
25 storage contract expiring. The contract for -- even

1 though that comes as a pass-through on gas costs, it's
2 still a risk that we have to contend with, we have to
3 address. That contract is expiring in 2013. So we have
4 to -- we would have to include that in our -- in our
5 assessment of risk of Centra.

6 The workplace environment, the human
7 resource element of -- of Centra; whether or not we're
8 going to be able to attract skilled workers, whether the
9 rates that pay for those workers.

10 The -- so that's probably just a partial
11 list of some of the considerations that we would have to
12 take into account when we decide what is the adequate
13 level of retained earnings to prevent Centra and its
14 ratepayers over the very long term.

15 MR. KRIS SAXBERG: Thank you for that.
16 Setting aside IFRS for a second then, is \$36 million in
17 retained earnings enough to deal with those risks that
18 you've just outlined?

19 MR. VINCE WARDEN: I haven't really put
20 numbers to each of those items that I mentioned. I
21 probably haven't mentioned all of them by any means.
22 There's not an exhaustive list. But I would venture to
23 say that retained earnings in the range of \$36 to \$50/\$60
24 million would be approximately the range that would be
25 sufficient for Centra Gas over the long-term.

1 I probably shouldn't speculate on that
2 without giving it more thought, but, intuitively, that's
3 where I would think that number would end up.

4 MR. VINCE WARDEN: And -- and then just
5 with respect to IFRS, you're calling it a risk, but isn't
6 it -- isn't it just a more accurate accounting of the
7 status of the -- of the Company, and so, if anything,
8 it's not a risk, it's a -- you know, it's a more secure
9 representation of the state of affairs?

10 MR. VINCE WARDEN: Well, you're right
11 about it being accounting. It's -- it is accounting.
12 The whole question though, what's unique to our business,
13 the utility business, is the -- the question of regulated
14 assets and liabilities. And one (1) possible scenario
15 for IFRS is that regulated assets will not be permitted,
16 and we would be faced with an immediate write-off of
17 those assets.

18 So the IFRS decision could be that there's
19 no value to those assets and they should be totally
20 written off. If that was the case, we would be into
21 negative retained earnings.

22 MR. KRIS SAXBERG: Is there any
23 information about IFRS that you've included in CAC-153?
24 That's the -- the IR where you list off the risks
25 associated with IFRS.

1 question was: When you first filed the Application in
2 January 2009, is this information that you've learned
3 subsequent to that filing then?

4 MR. VINCE WARDEN: Well, we're -- as I've
5 mentioned, we're learning every day, so, specifically,
6 this information, the quantification that we've been able
7 to achieve here, is something that we didn't have at the
8 time we filed the Application, yes.

9

10 (BRIEF PAUSE)

11

12 MR. KRIS SAXBERG: Isn't -- is one (1) of
13 the ideas behind the IFRS to improve the financial
14 stability of companies, and therefore, reduce risk of --
15 risk -- reduce risk?

16 MR. VINCE WARDEN: Well, the fundamental
17 objective of IFRS is to -- because the economy of the
18 world is just that; it's a world economy now and it's
19 very global. Standards are being -- accounting standards
20 are being harmonized across so many countries, at this
21 point in time, that -- that do business with one another,
22 that it's just a sensible thing to do, such that those
23 financial statements can be compared, not just within
24 Canada or the US, but globally.

25 MR. KRIS SAXBERG: If you could turn to

1 Tab 36 then, on the subject of OM&A, and this may be a
2 question for Mr. Derksen.

3 But I'm looking at PUB-32D attachment.

4 MR. WILLY DERKSEN: Yes, sir, I've got
5 that.

6 MR. KRIS SAXBERG: And it's an indication
7 of the actual activity hours from 2003/'04 to 2007/'08.

8 MR. WILLY DERKSEN: Yes.

9 MR. KRIS SAXBERG: And then it's -- it
10 has some forecast information thereafter. But what is
11 interesting to me about this is that the activity hours
12 from 2003/'04 decline in every single year in the --
13 every single of the five (5) years that are recorded as
14 actuals, correct?

15 MR. WILLY DERKSEN: Yes, that's correct.
16 I think that's what you would anticipate would happen if
17 productivity improvements were being achieved.

18 MR. KRIS SAXBERG: So you have -- what
19 that means is that employees of the integrated company of
20 Manitoba Hydro Consolidated are spending less time on the
21 gas utility?

22 MR. WILLY DERKSEN: Yes, it's taking them
23 less time to perform the required tasks for the gas
24 utility.

25 MR. KRIS SAXBERG: However, activity

1 charges, the dollar amount, have increased and are
2 increased in three (3) of those five (5) years by 7.4
3 percent, correct?

4 MR. WILLY DERKSEN: Yes, but the overall
5 average increase on the activity charges is in the order
6 of 2 percent, whi -- which again I think is indicative of
7 our forecasts, and -- and of achieving productivity gains
8 for gas customers and electric customers.

9 MR. KRIS SAXBERG: And what I note,
10 though, is as the activity hours are going down, the
11 activity charge, the -- the dollars per hour that is
12 charged and allocated to Centra are going up, correct?

13 MR. WILLY DERKSEN: Yes.

14 MR. KRIS SAXBERG: And it's offsetting.
15 It's more than offsetting, because it results in the
16 actual activity charges increasing, correct?

17 MR. WILLY DERKSEN: Could you repeat that
18 specific question please?

19 MR. KRIS SAXBERG: The activity hours are
20 going down, but the activity hourly charge is going up
21 with a net result being that the total activity charges
22 have increased.

23 So in other words, the activity hourly
24 charges are increasing faster than the activity hours are
25 decreasing.

1 MR. WILLY DERKSEN: Yes, one would expect
2 that under normal inflationary periods.

3 MR. KRIS SAXBERG: Or -- now the activity
4 charge, the hours -- sorry, the activity charges, the
5 dollars per hour, are adjusted by Centra pretty much
6 yearly, right?

7 MR. WILLY DERKSEN: Yes.

8 MR. KRIS SAXBERG: And a cynic might say
9 that the trend is that as the -- as the activity hours go
10 down, and as people are -- no longer have to work as hard
11 to provide the service that the gas company's providing,
12 Centra's simply increasing the activity charges so --
13 such as to -- to create a trend whereby the activity
14 charges in total are -- are increasing by about 2 percent
15 per year.

16 MR. WILLY DERKSEN: And -- and your
17 question is?

18 MR. KRIS SAXBERG: Is it the case that
19 the activity charges per hour are being adjusted so that
20 the overall O&A simply increases by about 2 percent every
21 year?

22 MR. WILLY DERKSEN: Absolutely not, sir.
23 We -- we have outlined in specific detail and
24 demonstrated how the activity hourly rates are
25 calculated. And the -- the manifestation that you

1 describe is -- is a natural manifestation. If we've got
2 about 3 1/2 percent increase in wages and activity --
3 rates are predominately wages -- one would expect that on
4 an average basis they would go up by -- in the order of 3
5 1/2 percent, and on the overall basis they have gone up
6 by 3 1/2 percent so it's exactly about what would be
7 expected under this scenario.

8 And as we have discussed before, the
9 synergy, productivity, and so on, have been somewhat
10 offsetting so that the overall activity charges have only
11 gone up by 2 percent on average over that same timeframe.

12 MR. KRIS SAXBERG: And the activity rates
13 per hour, they are adjusted retroactively from time to
14 time, correct?

15 MR. WILLY DERKSEN: Rarely on certain
16 circumstances where we do have a significant variation,
17 we have adjusted a rate retroactively.

18 MR. KRIS SAXBERG: And is part of the
19 reason for that to achieve full absorption of costs?

20 MR. WILLY DERKSEN: Our intention is to
21 achieve full absorption of the costs, that's correct,
22 within each department.

23 MR. KRIS SAXBERG: So even though the
24 employees at the consolidated entity only -- put in less
25 time last year, we'll say, there can be an adjustment to

1 the activity charge so that the total costs actually
2 increase, correct?

3 MR. WILLY DERKSEN: Yes, if a department
4 was working on, let's say, 100 percent gas functions and
5 the activity rates were not sufficient to cover all of
6 their costs, such that there was, let's say, five hundred
7 thousand dollars (\$500,000) unrecovered in that
8 department, that five hundred thousand (500,000) is
9 allocated to gas. Otherwise, it would be part of the
10 electric operations cost and that would be an incorrect
11 allocation.

12 MR. KRIS SAXBERG: Is -- is the -- when
13 the activity rates are adjusted, are they adjusted with
14 regard to insuring that the budget estimates -- that the
15 money that has been estimated and set aside in the
16 budgets is fully absorbed?

17 MR. WILLY DERKSEN: The adjustments are
18 based upon actual performance.

19 MR. KRIS SAXBERG: But the actual
20 performance is -- isn't it best recorded by virtue of the
21 number of hours recorded?

22 MR. WILLY DERKSEN: Actual performance is
23 best recorded based upon hours and actual costs.

24 MR. KRIS SAXBERG: But you're agreeing,
25 when -- when you change the activity rates, you're --

1 you're changing the activity costs?

2 MR. WILLY DERKSEN: If I'm changing the
3 activity rates --

4 MR. KRIS SAXBERG: You -- you're changing
5 the cost of doing the activity?

6 MR. WILLY DERKSEN: Absolutely, yes.

7 MR. KRIS SAXBERG: And when you do that
8 retroactively, how do you know that it's -- that it's --
9 that it's a fair reflection of the true cost?

10 MR. WARD MATHER: I'm sorry. Could you
11 just repeat that one again, please?

12 MR. KRIS SAXBERG: I -- I understand that
13 the -- in order to have full absorption, activity rates
14 are sometimes adjusted. You can't adjust the hours
15 'cause they're fixed, correct?

16 MR. WILLY DERKSEN: Yes, the dollars
17 charged would be adjusted to achieve full absorption --

18 MR. KRIS SAXBERG: Right.

19 MR. WILLY DERKSEN: -- that's correct.

20 MR. KRIS SAXBERG: How do you tell what
21 the full absorption cost level is? Isn't it just looking
22 at the budget?

23 MR. WILLY DERKSEN: No, it's not at all.
24 It's looking at the actual costs incurred. If a
25 department had actual costs of a million dollars and if

1 the hours spent multiplied by the activity rates absorbed
2 only eight hundred thousand dollars (\$800,000) of those
3 costs, there would be a two hundred thousand dollar
4 (\$200,000) residual. And that two hundred thousand
5 dollar (\$200,000) residual would then be allocated to the
6 utilities that benefited from the work performed by that
7 department.

8 So the reference to budget is only
9 important when setting the original activity rate, which
10 again is our best estimate at that time. But ultimately,
11 the actual costs are what are allocated to each of the
12 utilities.

13

14 (BRIEF PAUSE)

15

16 MR. KRIS SAXBERG: Maybe I'll try to come
17 back to it after I've had coffee.

18 But I -- I'm just sensing that there's
19 something circular within there when -- when the hours --
20 shouldn't the amount of hours spent by the consolidated
21 entities' employees determine the cost level?

22 MR. WILLY DERKSEN: Yes, the hours spent
23 do determine the cost levels, along with the actual costs
24 incurred. It's both of those items that are important.

25 MR. KRIS SAXBERG: But how do you

1 determine what the actual costs incurred are without
2 reference to the hours, activity hours, which are fixed?

3 MR. WILLY DERKSEN: Well, let me try
4 again. We have a department that's performing 100
5 percent gas activities and the costs -- the actual costs
6 of that department are a million dollars and the hours
7 spent on the gas operations multiplied times that rate
8 are eight hundred thousand dollars (\$800,000).

9 The extra two hundred thousand (200,000)
10 is a real cost that's in support of gas operations that
11 represents an inefficiency in the activity rate setting
12 process. And it may be due to a number of circumstances,
13 but it -- but charging that residual independent of the
14 number of hours is appropriate because it is a cost
15 incurred on behalf of the gas customers.

16 MR. KRIS SAXBERG: But that example
17 though is an example where you're talking about a
18 department that does 100 percent gas, so that's easy to
19 figure out. But I'm talking about the integrated Utility
20 where people are working sometimes for the electric,
21 sometimes for the gas. It doesn't --

22 MR. WILLY DERKSEN: Yes, and what we do
23 in those circumstances is prorata to the residual
24 allocation such that it is a fair allocation between the
25 two utilities.

1 MR. KRIS SAXBERG: And that's based on
2 the activity charges as the driver?

3 MR. WILLY DERKSEN: Primarily, yes.

4 MR. KRIS SAXBERG: Let me just talk about
5 productivity improvements then. You -- you say that
6 they're embedded into the budget, correct?

7 MR. WILLY DERKSEN: Yes.

8 MR. KRIS SAXBERG: And is -- and there's
9 -- there's no specific number that's embedded in, but
10 you've done sort of a reverse calculation to say that
11 it's in the order of 1 percent?

12 MR. WILLY DERKSEN: Yes.

13 MR. KRIS SAXBERG: Now, I want you to
14 look at CAC-32H, which is the next tab, Tab 30 -- sorry,
15 that's not true.

16 MS. MARLA MURPHY: We have it at Tab 37.

17

18 CONTINUED BY MR. KRIS SAXBERG:

19 MR. KRIS SAXBERG: Yes, Tab 37. And this
20 is -- I think this is an important document because what
21 it shows is here we're recording the actual costs that
22 were reported for OM&A, correct?

23 MR. WILLY DERKSEN: Yes.

24 MR. KRIS SAXBERG: And in those -- in its
25 actuals from '03 to '07/'08 again, and in the actuals,

1 the percentage increase is 5 percent.

2 It says four point nine (4.9), but the --
3 the percentage of the actual change is 5 percent,
4 correct?

5 MR. WILLY DERKSEN: Yes.

6 MR. KRIS SAXBERG: And yet every time
7 you've -- you've come before the Board you've been
8 forecasting 2 percent. As you see, the -- the CPI has
9 been around that 2 -- 2 percent range for the these
10 actual years, so -- so that based on CPI the increase
11 would have been 10 -- 10 percent. You see that?

12 MR. WILLY DERKSEN: Yes.

13 MR. KRIS SAXBERG: Why hasn't the
14 forecast for these two (2) test years incorporated the --
15 the savings of 5 percent, or incorporated a productivity
16 level that is indicative of the past performance, such
17 that the -- the costs are really only inflating at 1
18 percent?

19 MR. WILLY DERKSEN: I think what you've
20 done here, Mr. Saxberg, is you've taken two (2) isolated
21 years, if you like, the beginning and the end, and
22 calculated a very good result, actually. And what has
23 been done -- what the Company does is it looks at it over
24 the longer term, and -- and considers the variances that
25 are in each of those years, and extrapolates its -- its

1 costs and forecasts its costs accordingly.

2 If we refer to, I think the response to
3 PUB-23A, which is a cost per customer, we are showing
4 over the -- the actual period and the forecast period a
5 growth that is indicative of -- of a long-term savings to
6 the customers. I think the cost per customer rises .9
7 percent over the actual period, then only 1.2 percent
8 over the subsequent period.

9 So I believe that our forecasting
10 practices are in fact providing the right cost levels and
11 the right productivity in -- being incorporated into our
12 forecasts and rate setting processes.

13 MR. KRIS SAXBERG: Thank you. And I
14 agree that these are commendable results. They're
15 showing that the costs -- the actual costs are escalating
16 at about half of CPI.

17 And what I'm saying is when I look at the
18 previous attachment that shows activity hours are going
19 down, then I look at the actuals that show that the costs
20 are only inflating by 1 percent. And then when I
21 incorporate the 2009 Economic Outlook that says
22 inflation's only going to be .4 percent, I wonder why
23 we're escalating for the purposes of forecast our costs
24 by 2 percent.

25 MR. WILLY DERKSEN: Well, as Mr. Warden

1 indicated this morning, the costs incurred by Centra do
2 not necessarily follow CPI very precisely, especially in
3 -- in a period where there's such a low CPI increase.
4 The CPI is really a basket of goods for Manitobans and --
5 and it's not a basket of goods for Manitoba Hydro.

6 You -- the -- the cost factors at Centra
7 will incur will not change dramatically, as a result of
8 this low CPI indicator. Wage settlements will still
9 occur. People will still transition from merit and
10 progression. And -- and as well, we've seen fuel costs
11 are still rising, although they did drop for a period of
12 time, but they're -- but what -- will they -- will be two
13 (2) years from now is -- is very difficult to -- to
14 forecast at this point.

15 So, you -- you know, CPI is -- is just one
16 (1) indicator.

17 MR. KRIS SAXBERG: You -- you could give
18 all those factors and spin them the other way and, you
19 know, senior employees are retiring. New employees at
20 lower rates are coming in at lower steps in the wage
21 scale. The -- the average increase is only 2.5 percent
22 per year in terms of the union agreements. Fuel prices
23 are down. All of those factors could also be used to say
24 that the forecast should be different than it has in the
25 past.

1 that it belies that. It indicates that Centra and Hydro
2 have done a lot of things in order to maximize the -- the
3 synergies possible by amalgamating the two (2) utilities.
4 It does take some time and over the first several years,
5 one would expect if -- if we were doing things
6 appropriately, that those sorts of -- that sort of result
7 might happen.

8 I talked the other day about -- you know,
9 for example, the implementing the Banner System across
10 both organizations. Having two (2) bills in one envelope
11 is a substantial improvement. Some of the costs of -- of
12 meter reading and line locating are reducing because
13 we're using MHUS stamp levels. So we are optimizing our
14 operations during that timeframe.

15 MR. KRIS SAXBERG: Great. And so you're
16 explaining that synergies and productivity improvements
17 are the reason why Centra's been able to keep costs low
18 on an actual basis. Why wouldn't we be forecasting that
19 that's going to continue?

20 MR. WILLY DERKSEN: I believe we are
21 forecasting that those things are going to continue.
22 We've evidence that our wage component will be up in the
23 order of -- of 3 percent. That's, I think, closer to the
24 average; three (3) -- 3 1/2 percent than the two and a
25 half (2 1/2) that you've been talking about.

1 And the escalation factor that's built
2 into our approved O&A expenses is in the order of 2
3 percent and so there is a substantial improvement
4 embedded in the forecast years.

5 MR. KRIS SAXBERG: I -- I don't want to
6 work against Mr. Boyd or say anything that's going to
7 hurt his negotiations but what I understood from CAC-32
8 is that the average has been about 2.5 percent.

9 MR. WILLY DERKSEN: I -- I don't have
10 that calculation.

11 MR. KRIS SAXBERG: Maybe I'll just ask a
12 couple more questions on this -- then the break and then
13 I'd -- I'd probably have just a few more areas, then we
14 could begin. But I'll -- I wouldn't mind finishing just
15 a couple of questions on this area.

16 THE CHAIRPERSON: That's fine, Mr.
17 Saxberg. When you are done, I have got something to ask
18 too.

19

20 CONTINUED BY MR. KRIS SAXBERG:

21 MR. KRIS SAXBERG: Thank you, Mr.
22 Chairman. In terms of the capitalization of O&A,
23 firstly, have there been -- how many new employees have
24 been hired to work specifically on DSM programs, just
25 order of magnitude wise?

1 MR. LLOYD KUCZEK: Since what period of
2 time?

3 MR. KRIS SAXBERG: Well, let's say 2004
4 is when it started for gas.

5 MR. LLOYD KUCZEK: Yeah, now a little
6 confusing for me because I think of them as one (1) and
7 the same, electric and gas, so I don't distinguish
8 between which side of the business we're actually hiring
9 them.

10 Although, when the accounting comes along,
11 we do allocate the costs appropriately. But combined,
12 we've gone from, oh, jeez, maybe -- I would pick a number
13 like forty (40) to maybe seventy (70) staff since that
14 time period. Most of it's been electric probably though.

15 MR. KRIS SAXBERG: Is it fair that the
16 increase in capitalized O&A of late is in large part
17 related to DSM being amortized?

18 MR. WILLY DERKSEN: The increase in
19 capitalized O&A is -- is certainly impacted by the
20 increase in DSM expenditures, not really the amortization
21 of it, but it's the -- it's the effort being spent on it.

22 MR. KRIS SAXBERG: Shouldn't that
23 directionally, at least to some degree, reduce the OM&A
24 that's expensed every year?

25 MR. WILLY DERKSEN: To the extent that it

1 does impact the fixed overheads and provides a larger
2 base, there is a small component there. If people were
3 not doing the work that they were doing before, stopped
4 doing that work, and they worked on DSM instead of that,
5 it would reduce the OM&A costs, but that's not what's
6 happened.

7 MR. KRIS SAXBERG: Okay. And I have a
8 question about a furnace program costs of 3.8 million
9 that were left out of the IFF.

10 MR. WILLY DERKSEN: Yes.

11 MR. KRIS SAXBERG: And I just want to
12 understand how that worked in terms of the cost
13 allocation system.

14 If a line item from the revenue
15 requirement, for instance, the furnace program, is
16 approved as part of the revenue requirement to be
17 imbedded in rates, but it's not included in the IFF for
18 that year, where does the -- where does the money go
19 that's collected in rates?

20 MR. WILLY DERKSEN: The item was
21 essentially included in the IFF but as a reduction to
22 revenue provided from rates. If, for example, our total
23 revenues were 500 million and 3 million of that was
24 focussed or directed towards the furnace replacement
25 program, the IFF would have represented that as -- as

1 revenues of 497 million and not included either the
2 revenue or the cost component in its representations.

3 MR. KRIS SAXBERG: Okay, I think that
4 tells me. The absolute level of costs were still the
5 same, it just -- the characterization of that 3.8 million
6 was -- was different?

7 MR. WILLY DERKSEN: Well, there are two
8 (2) things going on, Mr. Saxberg, and one (1) of them is
9 an item that Mr. Warden again talked about last week.
10 When the IFF was prepared, there was an understanding
11 that the rates approved by the Public Utilities Board
12 were to generate, firstly, \$3 million of net income for
13 the Company, and after that, monies would be set aside
14 for the furnace replacement program, and that was the
15 understanding that was imbedded into the IFF.

16 Subsequently, the Board corrected our
17 understanding, such that irrespective of -- of what
18 factors occurred on an actual basis, they expected 3.855
19 million would flow to the furnace replacement program,
20 and that's what's happened on an actual basis.

21 MR. KRIS SAXBERG: Okay. Thank you for
22 that. That is fine for me to pause.

23 THE CHAIRPERSON: Okay, Mr. Saxberg, I
24 just got one (1) question, and then we will have our
25 break. And we are going tonight to about 6:00, right,

1 Mr. Peters?

2 MR. BOB PETERS: We're hoping the panel
3 will -- will agree. And if that's the intention, I think
4 Mr. Saxberg can complete his direct evidence of his
5 witness certainly by then, and we may or may not have
6 opportunities for questions of Mr. McCormick, but we'll
7 play that by ear.

8 THE CHAIRPERSON: Okay. Mr. Warden and
9 Mr. Derksen, in particular, I am going to go over ground
10 that already covered by Mr. Peters and Mr. Saxberg with a
11 little bit of trepidation, but I will do this anyway.

12 There is a point to it all if we are
13 patient and wait through it. Mr. Warden or Mr. Derksen,
14 I recall originally -- I believe this fiscal year
15 represents the tenth year of Manitoba Hydra ownership, is
16 it not?

17 MR. WILLY DERKSEN: Yes.

18 THE CHAIRPERSON: Or is the eleventh?

19 MR. WILLY DERKSEN: The tenth anniversary
20 would be about July 29th of this year.

21 THE CHAIRPERSON: Okay. So at \$3 million
22 a year, basically, given the opening retained earnings
23 after the financial organization, if the weather had been
24 perfectly flat, so to speak, normal degree days each year
25 and there would be no abnormal variances in any way, you

1 would be sitting right now with about \$30 million of
2 retained earnings, is that about right?

3 MR. WILLY DERKSEN: Yes.

4 THE CHAIRPERSON: And if I recall
5 properly, at the beginning there was a couple of years
6 that Manitoba Hydro did not charge the corporate
7 allocation of 12 million, that is correct too, is it not?

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

9 THE CHAIRPERSON: With respect to IFRS,
10 it is important that the Board understands the
11 implications of the major accounting changes that will
12 come out of IFRS.

13 I imagine you would accept that?

14 MR. VINCE WARDEN: Mr. Chairman, could I
15 just go back to the previous question?

16 Even though we didn't provide for the \$12
17 million in the first two (2), three (3) years, there was
18 a different method of accounting, such that costs were
19 pushed down into the -- into Centra Gas, so it's not
20 quite -- it's a little bit over simplifying to say that
21 there were a couple of years there where -- where the
22 costs were not allocated to Centra.

23 I -- I'm thinking, if we did the analysis,
24 the equivalent of the \$12 million would still have been
25 charged to Centra in those early years.

1 THE CHAIRPERSON: That is helpful. Thank
2 you, Mr. Warden. As I go into this IFRS, first of all, I
3 think all parties are aware of this, but CAMPUT -- and I
4 will try this, Canadian Association of Members of Public
5 Utility Tribunals, of which this Board is a member.

6 You may be aware that CAMPUT, as an
7 organization, wrote IFRS, suggesting that regular
8 accounting continue and -- and not be cancelled, so to
9 speak. No response to date, are you aware of that?

10 MR. VINCE WARDEN: Yes, I was aware there
11 was a representation made by -- by CAMPUT.

12 THE CHAIRPERSON: If IFRS denies this
13 intervention, if you want, or this convention of carrying
14 on, we understand that this -- this Board could insist on
15 two (2) sets of books anyway and continue with rate
16 regulation assets, notwithstanding now IFRS, is this
17 correct?

18 MR. VINCE WARDEN: Yes.

19 THE CHAIRPERSON: We also understand that
20 Centra -- and it is apparent Manitoba Hydro does not
21 really want two (2) sets of books, is that fair?

22 MR. VINCE WARDEN: Yes, we believe it
23 would be administratively awkward and confusing to the
24 readers of financial statements.

25 THE CHAIRPERSON: Yes, we further

1 understand that if there were two (2) sets of books,
2 there may be some implications with respect to credit
3 rating agencies and lenders that might look a little bit
4 askance, is that a fair statement of an extra risk?

5 MR. VINCE WARDEN: Yes. Yes, I agree.

6 THE CHAIRPERSON: If credit rating
7 agencies and lenders did look askance at Manitoba Hydro's
8 two (2) sets of books, could this effect the borrowing
9 terms?

10 MR. VINCE WARDEN: It could, yes,
11 conceivably.

12 THE CHAIRPERSON: So this is one (1) of
13 the underlying reasons why Centra Manitoba Hydro is not
14 overly enthusiastic about two (2) sets of books, but
15 would encourage IFRS to allow regulatory accounting to
16 continue.

17 MR. VINCE WARDEN: Yes, we're very much
18 against two (2) sets of books, and we do encourage
19 regular -- rate regulating accounting to -- to continue.

20 THE CHAIRPERSON: Has Manitoba Hydro or
21 Centra written IFRS seeking the same thing that CAMPUT
22 wrote about?

23 MR. VINCE WARDEN: We -- we've made
24 representations through the Canadian Electrical
25 Association and the Canadian Gas Association.

1 THE CHAIRPERSON: To the same purpose?

2 MR. VINCE WARDEN: Yes.

3 THE CHAIRPERSON: Okay, thank you very
4 much. We will take our break now.

5

6 --- Upon recessing at 2:50 p.m.

7 --- Upon resuming at 3:17 p.m.

8

9 THE CHAIRPERSON: Okay, I think we can
10 start. Mr. Peters, you have something before we go back
11 to Mr. Saxberg?

12 MR. BOB PETERS: I do, and thank you, Mr.
13 Chairman. The PUB book of documents was marked as
14 Exhibit PUB-11 in these proceedings, and at Tab 15 was a
15 copy of an Information Request, PUB/CENTRA-149.

16 That Information Request was initially
17 dated May the 1st, 2009, and for those who have been
18 keeping current, and hopefully all have, that PUB/CENTRA-
19 149 attachment was replaced on June the 1st with what was
20 printed on yellow paper for most of us, a June 1st
21 update, and that was also included in the book of
22 documents at Tab 15.

23 Mr. Chairman, there are three (3) loose
24 sheets of paper in front of the Board members each, and
25 one (1) of them is a June the 9th revision to PUB/CENTRA-

1 149, which I will propose be marked as CENTRA Exhibit 13.

2 And I will indicate to those that it would
3 be appropriate for parties to include that Centra Exhibit
4 13 in the book of documents at Tab 15 to now replace --
5 I'm sorry, we'll mark it CENTRA Exhibit 14 (sic), and it
6 will now replace the June 1st earlier version of it, Mr.
7 Chairman.

8

9 --- EXHIBIT NO. CENTRA-13: June 9th revision to
10 PUB/CENTRA-149

11

12 MR. BOB PETERS: We'll sort out the
13 exhibit number momentarily. We have -- I'm hearing
14 conflicting voices. Mr. Chairman --

15 THE CHAIRPERSON: The subtotals and
16 totals appear to be identical --

17 MR. BOB PETERS: Yes, and --

18 THE CHAIRPERSON: -- June 1st version; it
19 just seems to be a resort of long-term and short-term, is
20 that correct?

21 MR. BOB PETERS: To save you the -- the
22 math, for the years 2012 and out, 2013, '14, all the way
23 through to the forecast schedule, the interest on long-
24 term debt has been recalculated as between the two (2),
25 so that I believe it's been clarified on both short-term

1 and long-term interest, and that is the change, Mr.
2 Chairman.

3 You are -- you'd be correct in observing
4 that in the test years there isn't a change. But Mr.
5 Chairman, we've agreed amongst ourselves that it should
6 now -- it should be marked CENTRA Exhibit 13.

7 And you might also recall, Mr. Chairman,
8 that based on this document, there was some preliminary
9 analysis done, and the -- there was some PUB advisor's
10 worksheets that have been labelled as PUB Exhibit 12 and
11 PUB Exhibit 13 prepared. You have in front of you now
12 Revised Analysis 1 and a Revised Analysis Number 2, which
13 I will suggest simply be included in our exhibits as
14 revised PUB/CENTRA Exhibit -- sorry, revised PUB Exhibit
15 12 and revised PUB Exhibit 13.

16 I hope that was clear, Mr. Chairman. Not
17 only has the Information Request been revised, but the
18 two worksheets that were used in question -- sorry, in --
19 in asking questions on the document have also been
20 revised to keep the record current.

21 THE CHAIRPERSON: And, Mr. Peters, in
22 respect to the revised June 9th version of CENTRA-13,
23 it's not just the test years, it seems to ride all the
24 way out to 2019 with adjustments to the long and short-
25 term.

1 MR. BOB PETERS: Yes. In fact, I don't
2 know that the test years were adjusted at all, but it was
3 -- after the test years, it was -- it was revised. And,
4 yeah, just starting in 2012 and out will be the revis --
5 revised years.

6 THE CHAIRPERSON: Very good. Thank you.
7 Mr. Saxberg...?

8

9 CONTINUED BY MR. KRIS SAXBERG:

10 MR. KRIS SAXBERG: Thank you, Mr.
11 Chairman. A few more questions before we get to Mr.
12 McCormick. Firstly, I -- I just want to -- to get on the
13 record some net income and retained earnings numbers, and
14 I don't have copies of the document, and so you -- you
15 can take it subject to check. And I'll assume that if
16 you don't get back to us on the record, that the numbers
17 were correct.

18 But March 31st, 2000, my understanding was
19 that the retained earnings in Centra were about 14
20 million. And that -- is that something that sounds
21 familiar, Mr. Warden?

22 MR. VINCE WARDEN: I -- I'm sorry, would
23 you -- what year were you referring to?

24 MR. KRIS SAXBERG: March -- the year
25 ending March 31, 2000, that the retained earnings were

1 about 14 million at that point.

2 MR. VINCE WARDEN: Oh. Excuse me. I'll
3 accept that, subject to check.

4 MR. KRIS SAXBERG: And you had indicated
5 in your evidence to one (1) question of mine, that there
6 was a \$10 million loss in the fiscal year 2005/2006. And
7 my understanding from PUB-77 attachment to -- to, sorry,
8 PUB/CENTRA-77B attachment was that the loss was \$5.4
9 million.

10 MR. VINCE WARDEN: Mr. Saxberg, I'm
11 looking at my information now and I see that you are
12 correct. There was a forecast in that year of 4.5
13 million profit net -- but there -- the loss was five
14 point four (5.4), the variance was 9.9 million
15 unfavourable, so I apologize for that, but thank you for
16 correcting that.

17 MR. KRIS SAXBERG: Okay, thank you for
18 that. Just on the related subject of -- of O&A, I just
19 want to clarify a couple of thing with -- things with
20 respect to Centra's regulatory costs.

21 And if you could turn to Tab 39.

22

23 (BRIEF PAUSE)

24

25 MR. KRIS SAXBERG: Now this is CAC-85 and

1 it shows a forecast of -- of Centra's internal costs
2 related to this proceeding and the amount is \$1.3
3 million. Do you see that?

4 MR. GREG BARNLUND: Yes, I see that. One
5 point two nine (1.29).

6 MR. KRIS SAXBERG: Right. And do you
7 expect that that amount is going to increase as a result
8 of the fact of an update being made on May 29th?

9 MR. GREG BARNLUND: I really don't know
10 at this point in time what the -- what the costs will
11 come in at for this General Rate Application as we sit
12 right now.

13 MR. KRIS SAXBERG: Would you expect that
14 they would be higher as a result of the changes that were
15 made to the Application?

16 MR. GREG BARNLUND: I -- I think it's
17 really difficult to tell at this point. We'll have to
18 see how the -- how the results come in a little bit
19 later.

20 MR. KRIS SAXBERG: And the internal costs
21 are measured by the amount of activity, the amount of
22 hours spent on the task, correct?

23 MR. GREG BARNLUND: Staff will be
24 recording their time to order numbers and those order
25 numbers will be used to -- to, essentially, record the

1 costs associated with this particular Application.

2 MR. KRIS SAXBERG: If you turn to the
3 next page and we look back at history and the 2003/'04
4 General Rate Application that I believe was held in the
5 spring of 2003, at that point the internal costs of
6 Centra were \$1.3 million and those are actuals, right?

7 MR. GREG BARNLUND: Yes, that's correct.

8 MR. KRIS SAXBERG: And so, essentially,
9 you're forecasting about the same level of costs as
10 Centra had incurred for that '03/'04 General Rate
11 Application, correct?

12 MR. GREG BARNLUND: Very close to that,
13 yes.

14 MR. KRIS SAXBERG: And you can take this
15 subject to check but it's Board Order 137/03 and the
16 CAC/MSOS intervention costs in that Hearing were three
17 hundred and sixty-three thousand dollars (\$363,000).

18 You can take that subject to check?

19 MR. GREG BARNLUND: Subject to check,
20 yes.

21 MR. KRIS SAXBERG: And in subsequent
22 General Rate Application proceedings, the costs of -- the
23 cost awards to CAC/MSOS have been in the range of a
24 hundred and eighty (180) to a hundred and ninety thousand
25 dollars (\$190,000) and you can take that subject to

1 check?

2 MR. GREG BARNLUND: Subject to check, but
3 I would just want to clarify the record, Mr. Saxberg to
4 say that those costs would be external costs to Centra
5 and that those costs would not necessarily be reported.

6 On page 2 of 2 here, these would be the
7 internal costs to Centra that are being reported here and
8 the external costs for PUB -- PUB advisors and
9 Intervenors, would actually be deferred or amortized.

10 MR. KRIS SAXBERG: Yes. And the -- the
11 1.3 million internal costs, those are amortized as well,
12 aren't they?

13 MR. GREG BARNLUND: No, those are
14 expensed.

15 MR. KRIS SAXBERG: Okay. But the -- the
16 point that I'm coming to is intervention costs, at least
17 from these Intervenors, have reduced considerably since
18 the 2003/'04 Hearing, is that -- would you confirm that?

19 MR. GREG BARNLUND: Well, I'd have to
20 take that subject to check but based on the numbers that
21 you are quoting, prior than -- that would apparently be
22 the case but I -- I'd have to confirm that.

23 MR. KRIS SAXBERG: And it's a goal of the
24 Utility to reduce the regulatory costs because,
25 ultimately, they're past on to consumers, correct?

1 haven't quantified an analysis of it, I think that
2 qualitatively we would expect that there were reduced
3 costs associated with the Application and approval
4 process for the fixed rate primary gas service arising
5 from the fact that it was a written process, and avoided
6 the need to have a -- an oral Hearing.

7 And so there were -- I think could be
8 qualitatively felt that there are certain cost reductions
9 that were associated with avoiding an oral Hearing, and
10 dealing with that particular application in a written
11 process.

12

13 (BRIEF PAUSE)

14

15 MR. KRIS SAXBERG: Okay. Thank you for
16 that. I have distributed a -- one of the IRs and, Mr.
17 Singh, I left it on -- on your desk, and I've provided it
18 to -- to Centra already. It's CAC-CENTRA-81(b),
19 Attachment 1, May 1, 2009.

20

21 (BRIEF PAUSE)

22

23 MR. KRIS SAXBERG: And this is a
24 comparison benchmarking of sorts, I suppose, of Centra
25 and other gas utilities. Is that fair?

1 MR. GREG BARNLUND: It's a comparison of
2 the distribution rates charged by Centra and other
3 Canadian gas LDCs.

4 MR. KRIS SAXBERG: And if we look to the
5 far right-hand column, is it fair to say that Centra's
6 really in the middle of the pack?

7 MR. GREG BARNLUND: I think that's fair.
8 There are some that are higher than Centra; there are
9 some that are lower than Centra.

10 MR. KRIS SAXBERG: And the distribution -
11 - well, let me just back up a second. Terasen Gas, which
12 is higher than -- than Centra is a privately held gas
13 company?

14 MR. GREG BARNLUND: I believe so, yes.

15 MR. KRIS SAXBERG: As is ATCO, Union,
16 Enbridge, and -- and Gas Metro?

17 MR. GREG BARNLUND: I would say so, yes.

18 MR. KRIS SAXBERG: And with respect to
19 the distribution rates then, you would confirm that each
20 of those utilities would have embedded in that
21 distribution rate a return-on-equity profit component for
22 those private shareholders?

23 MR. GREG BARNLUND: I would expect that
24 there would be a return on equity embedded that would be
25 recovered through the distribution rates, yes.

1 MR. KRIS SAXBERG: And -- and that return
2 on equity, at least in order of magnitude, is not
3 included in the Centra distribution rates, correct?

4 MR. GREG BARNLUND: Yes.

5 MR. KRIS SAXBERG: And -- and I suppose
6 that, and maybe you can confirm it, that that's also the
7 case with SaskEnergy? That's a -- another Crown
8 corporation?

9 MR. GREG BARNLUND: SaskEnergy is indeed
10 a Crown corporation, but not -- not at all aware of the
11 particular circumstances associated with -- with them,
12 thank you.

13 MR. KRIS SAXBERG: So the fact that --
14 that our distribution rate, Centra's distribution rate,
15 doesn't have a return-on-equity component in it,
16 shouldn't that lead to the distribution charge being --
17 being much lower than the -- than the privately held gas
18 companies?

19 MR. GREG BARNLUND: Well, it's very
20 difficult to look at a comparison like this and try and
21 make any isolated judgments with respect to the various
22 circumstance of each utility.

23 There are a number of different factors
24 that come into play here in terms of the -- the costs
25 that -- that an LDC experiences in serving its market.

1 For example, the distribution of the customer service
2 territory that it -- that it serves will have a big
3 impact on the -- the cost of providing service to the --
4 to those customers.

5 So a very -- a utility that has a large
6 number of customers in a small geographic area could
7 conceivably have a lower cost to serve those customers
8 than a -- than a utility that serves a relatively few
9 number of customers over a widely dispersed geographic
10 area.

11 So, there are so many factors that come
12 into play here, Mr. Saxberg, that it's really impossible
13 to narrow it down to one (1). And certainly, the
14 inclusion or exclusion of return is -- it's hard to
15 really measure by just looking at this table and try and
16 come to any valid conclusions from it.

17 MR. KRIS SAXBERG: In order to -- to get
18 a more accurate comparison of how Centra's fairing in --
19 in comparison to other utilities, one would have to do a
20 benchmarking study, correct?

21 MR. GREG BARNLUND: It would require a
22 significant amount of analysis, more so than is obviously
23 presented in this particular attachment.

24 MR. KRIS SAXBERG: And I wasn't part of
25 the 2008 electric General Rate Application, although my

1 clients were, and I understand that -- that there is
2 going to be some benchmarking study with respect OM&A of
3 Centra -- that will incorporate Centra Gas.

4 MR. VINCE WARDEN: Well, I think what
5 we've been directed to do, Mr. Saxberg, is to file an
6 outline for a benchmarking study with the Public
7 Utilities Board by the end of June of -- by the end of
8 this month.

9 MR. KRIS SAXBERG: And so it's -- it's
10 well under construction then I guess.

11 MR. VINCE WARDEN: The outline?

12 MR. KRIS SAXBERG: Yes.

13 MR. VINCE WARDEN: Yes.

14 MR. KRIS SAXBERG: Would -- has -- has
15 Centra considered doing a benchmarking of -- of customer
16 care and billing costs as a -- as a discrete component,
17 or IT as a discrete benchmarking with other utilities?

18 MR. VINCE WARDEN: Oh, I think what we
19 would consider benchmarking would be provided in the
20 outline that is to be provided at the end of this month.
21 It's no small undertaking to pro -- to do a benchmarking
22 study correctly.

23 If we were going to do a benchmarking
24 study of bills, for example, we would have to make sure
25 that -- or customer care, we would have to make sure that

1 we're comparing on a like basis between utilities, and to
2 make that determination requires the cooperation of the
3 other utilities in the benchmarking study, and probably
4 the incurrence of considerable costs.

5 So, I think what we would advocate is --
6 is a benchmarking study at a -- starting with a fairly
7 high level and -- and drilling down, perhaps, when we see
8 areas that need -- could need attention.

9 I think the document you were just
10 reviewing -- looking at one (1) year in isolation, or one
11 (1) or two (2) years in isolation, is quite meaningless,
12 really, and I think what we have provided in the past is
13 a -- is trend lines for costs over a period of time, and
14 I think that's much more meaningful than as an absolute
15 number, showing where -- or how our costs are increasing
16 or decreasing compared to other utilities.

17 Because, as Mr. Barnlund pointed out,
18 there's so many factors that enter into this, so many
19 differences in geography, and customer density, and how
20 those customers are served, the DSM practices of the
21 utilities, there's so many factors that enter into this
22 that can distort those numbers for -- for very good and
23 valid reasons.

24 MR. KRIS SAXBERG: Is the -- is the
25 benchmarking contemplated going to be done by internal

1 staff?

2 MR. VINCE WARDEN: We haven't made that
3 determination yet.

4 MR. KRIS SAXBERG: But you'd agree that,
5 for the benchmarking that's -- that's being proposed and
6 outlined to be any more accurate or any more helpful than
7 the exhibit that we've -- or the document we've just
8 looked at, you do have to have someone with benchmarking
9 expertise who can access the costs of the different
10 utilities -- that has the information already at hand in
11 -- in a -- within the resources of their organization, do
12 you not?

13 MR. VINCE WARDEN: Mr. Saxberg, I -- I
14 really do think we're getting ahead of ourselves on that
15 front. I think we should look at what the options are
16 and then make a -- the Board -- this Board can make a
17 determination of what direction it would like us to
18 proceed.

19 MR. KRIS SAXBERG: And would you agree
20 though that the benchmarking should be done before or --
21 before the cost allocation audit or review that's also
22 being contemplated?

23 MR. VINCE WARDEN: Not necessarily, no.
24 I think the cost allocation review, we did think it was
25 important that we completed the IFRS project before the

1 cost allocation review but I -- I don't necessarily see
2 that -- the benchmarking and the cost allocation review
3 to be closely related.

4 MR. KRIS SAXBERG: In terms of the cost
5 allocation review, would it not benefit from an analysis
6 of -- of how Centra is fairing relative to other
7 utilities?

8 MR. VINCE WARDEN: I -- I don't see how
9 that's relevant to how costs are allocated between
10 Manitoba Hydro electricity customers and Centra Gas
11 customers or within business units. So there -- while
12 there may be some synergy so to speak between those two
13 (2) studies, I don't think one (1) is dependent on the
14 other.

15 MR. KRIS SAXBERG: And with respect to
16 the cost allocation study, I understand that Centra wants
17 to -- to know the final results of the impact of IFRS.
18 However, I'm not quite sure that I understand the
19 relevance of -- of needing to know the accounting impacts
20 of IFRS and -- and how that would impact on whether or
21 not there are any cross-subsidizations or cross-subsidies
22 occurring as a result of the allocation system.

23 What's the connection?

24 MR. VINCE WARDEN: The way we account for
25 costs post-IFRS implementation could be quite different

1 than what -- how those costs are being accounted for
2 today. If we're going to be looking at allocation of
3 those costs, it only makes sense to know what those costs
4 are, what the component -- what costs are being allocated
5 before we embark on that -- on that study.

6 MR. KRIS SAXBERG: But the -- whatever
7 the implications are of the IFRS, they will be equal for
8 electric and gas. They will be exactly the same,
9 correct?

10 MR. VINCE WARDEN: Not necessarily, no.
11 There are some costs -- there are costs --
12 proportionately, there are far more rate-regulated costs
13 in the gas utility than there are in the electric
14 utility.

15 MR. KRIS SAXBERG: But -- but I'm only
16 focussing on OM&A here and the allocation of OM&A from
17 the consolidated entity down to Centra is based on a --
18 what I call a complicated allocation system. And it's
19 that allocation system that's going to be reviewed.

20 So I don't understand how IFRS would have
21 any bearing on the matter.

22 MR. VINCE WARDEN: Well, IFRS will have
23 an impact on how assets are categorized, componentized,
24 which is sort of a starting -- which is a starting point
25 for allocating costs. And if we're going to change the

1 very fundamental way in which costs are classified -- or
2 assets are classified, it will definitely have an impact
3 on how those costs are allocated.

4

5 (BRIEF PAUSE)

6

7 MR. KRIS SAXBERG: With respect to the
8 headquarters issue --

9 THE CHAIRPERSON: Mr. Saxberg, if you do
10 not mind, if you are finished with that I just had a
11 follow-up question to --

12 MR. KRIS SAXBERG: Yes, go ahead.

13 THE CHAIRPERSON: -- to yours.

14 Mr. Barnlund, you indicated that in
15 Centra's case, or confirmed, that there was no
16 shareholder equity amount involved in it but there is, is
17 there not?

18 I mean, there is -- the Board, and through
19 the rates, have allowed the equivalent of what West Coast
20 got between the corporate allocation and the \$3 billion
21 in net income?

22 MR. GREG BARNLUND: Yes, that is correct.

23 THE CHAIRPERSON: Thank you. Mr.
24 Saxberg...?

25

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: The -- the
3 headquarters, 360 Portage, the capital costs, expenses
4 associated with that will never find their way into
5 Centra rates.

6 Is -- is that fair?

7 MR. VINCE WARDEN: No, it's not fair. I
8 think that's a determination that's yet to be made by
9 this Board.

10 As it stands now, we have a directive that
11 no costs of -- of the head office are to be allocated --
12 no incremental costs of the head office are to be
13 allocated to gas ratepayers.

14 There will be a point in time where it
15 will be, if we continue to escalate the base at which
16 Centra ratepayers were paying for space at their previous
17 headquarters of 444 St. Mary, there'll be a cross-over
18 point at some time in the future, and it would be to the
19 advantage of Centra ratepayers to be allocated costs.

20 So there -- there will definitely be a
21 time at which costs, in my view, will be on a common
22 base.

23 MR. KRIS SAXBERG: And I was making a
24 distinction maybe incorrectly between the -- the \$283
25 million capital cost to construct the office building,

1 and then the -- and the S-1 matter, and then the ongoing
2 space costs associated with the building, and which would
3 include the impact of higher property taxes, for
4 instance.

5 Is -- is there no distinction to be drawn
6 there in terms of -- of rate impact for Centra?

7 MR. VINCE WARDEN: Well, not really. The
8 -- the 283 million capital cost is recovered over the
9 life of that facility through interest and depreciation
10 charges, which factors into the space costs, just as it
11 would have at 444 St. Mary.

12 So, no, the capital costs have to be
13 recovered just as much as do the -- the ongoing operating
14 costs, including taxes.

15 MR. KRIS SAXBERG: So how -- how does the
16 Utility propose to determine when Centra ratepayers will
17 begin to pay for the -- the new headquarters?

18 MR. VINCE WARDEN: Well, I think we have
19 an undertaking to -- to provide this Board with
20 comparable costs as they are today, and at some point I
21 would expect the Board would -- would advise Manitoba
22 Hydro as to when those costs can be recovered through an
23 allocation to Centra.

24 MR. KRIS SAXBERG: It -- it sounds like -
25 - well, first of all, there -- there's -- there would be

1 some significant dollars at play here in terms of the
2 capital cost being amortized over a period of time, and
3 the -- and the increased property taxes.

4 Wouldn't it be worth doing a -- a
5 comprehensive report to determine what the fair
6 allocation should be to Centra, and -- and basing it on
7 what Centra would have incurred had -- had it not been
8 purchased by Hydro?

9 MR. VINCE WARDEN: Well, I think I'll
10 leave that to the determination of the Board.

11 MR. KRIS SAXBERG: And finally, just with
12 respect to IFRS again, and -- and some discussion that
13 was had on the record with respect to pension plans. I
14 just want to ask Mr. Derksen a few questions.

15 First, my understanding is that there are
16 three (3) Centra plans that are semi-wound up, is that
17 fair?

18 MR. WILLY DERKSEN: They're not wound up,
19 they're curtailed.

20 MR. KRIS SAXBERG: Right. And -- and I
21 said "semi wound up," meaning there -- there are no new
22 members.

23 MR. WILLY DERKSEN: There are no new
24 members, that's correct.

25 MR. KRIS SAXBERG: And -- and then from

1 the point of curtailment forward, which is also the point
2 at which Centra employees became employees of Manitoba
3 Hydro, pension benefits and expenses are by virtue of the
4 Civil Service Superannuation Plan, correct?

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

6 MR. KRIS SAXBERG: And Manitoba Hydro, I
7 understand, represents about 20 percent of the total
8 liabilities of the Civil Service Superannuation Fund.

9 MR. WILLY DERKSEN: I don't have those
10 numbers, sir.

11 MR. KRIS SAXBERG: But the CSSF, firstly,
12 is all employee contributions, correct?

13 MR. WILLY DERKSEN: That's my
14 understanding, yes.

15 MR. KRIS SAXBERG: And the -- the
16 Manitoba Hydro obligation is -- is to match payments out
17 of the CSSF to the tune of 50 percent, correct?

18 MR. WILLY DERKSEN: It's not 50 percent,
19 but there is a -- it's close to that, yes.

20 MR. KRIS SAXBERG: Yeah. And so what
21 happens is -- well, first of all, it's a pay-as-you-go
22 system. There's no obligation for Manitoba Hydro to pre-
23 fund, although I understand it does, correct?

24 MR. WILLY DERKSEN: There is an
25 obligation for Manitoba Hydro to fund it at this point,

1 yes.

2 MR. KRIS SAXBERG: On -- well, isn't
3 Manitoba Hydro and the Manitoba Government exempt from
4 the PBA?

5 MR. VINCE WARDEN: Mr. Saxberg, we've
6 negotiated with our bargaining units and ob -- they're --
7 within the collective agreements with our bargaining
8 units, there's an obligation to fund the pension
9 liability.

10 MR. KRIS SAXBERG: Right, and I was going
11 to come to that in a second.

12 These is a reserve that's been set up by
13 Manitoba Hydro, and then in the subsequent collective
14 bargaining, there is an agreement in place wherein that
15 reserve will now be dedicated to funding pension
16 benefits; correct?

17 MR. VINCE WARDEN: We were in a fully-
18 funded position with respect to our pension liability.
19 We formalized that obligation to fund the pension
20 liability through the collective agreement process.

21 MR. KRIS SAXBERG: And is the fund a
22 trust fund as a result of that?

23 MR. VINCE WARDEN: It's not trusteeed at
24 this point in time.

25 MR. KRIS SAXBERG: And -- and that's --

1 the agreement is that it's going to move to becoming a
2 trustee fund?

3 MR. VINCE WARDEN: We're investigating
4 that at this time.

5 MR. KRIS SAXBERG: And the -- the issue
6 was whether or not -- the issue of the IFRS was that
7 there is going to be an approximate increase of --
8 potentially, an increase of \$2 million as a result -- for
9 pension expense?

10 MR. WILLY DERKSEN: Yes.

11 MR. KRIS SAXBERG: And is that solely
12 related to the three (3) Centra plans?

13 MR. WILLY DERKSEN: No, it's not.

14 MR. KRIS SAXBERG: It's also related then
15 to the unfunded liability in the CSSF.

16 MR. WILLY DERKSEN: It is in the unfunded
17 liability of the Manitoba Hydro portion of that plan,
18 yes.

19 MR. KRIS SAXBERG: But the CSSF and its
20 funded state will determine the liabilities of the -- of
21 Manitoba Hydro, does it not, since it's a pay-as-you-go
22 system?

23 I mean, Manitoba Hydro might be investing
24 its money separately, but its obligation under the law is
25 to pay -- when a cheque goes out of the CFFS to a

1 retiree, Manitoba Hydro has to reimburse the CSSF for 50
2 percent of that cheque, correct? And that's what --

3 MR. WILLY DERKSEN: Manitoba Hydro is
4 required to reimburse its portion of that, yes.

5 MR. KRIS SAXBERG: And so -- and -- and
6 the reason I come to it is because the CSSF doesn't fund
7 on a solvency basis, it funds on a going-concern basis;
8 isn't that correct?

9 MR. WILLY DERKSEN: That's my
10 understanding, yes.

11 MR. KRIS SAXBERG: And there was an
12 undertaking to provide the actuary's calculation of the
13 Manitoba Hydro reserve, correct?

14 MR. WILLY DERKSEN: No, the undertaking
15 was to provide the solvency evaluation -- evaluation
16 related to the Centra curtailed plans.

17 MR. KRIS SAXBERG: Oh, okay. So it's
18 just with respect to those?

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

20 MR. KRIS SAXBERG: And -- and for those
21 plans, they are both under the -- the Pension Benefit
22 Act, such that solvency funding is a requirement,
23 correct?

24 MR. WILLY DERKSEN: Yes, all three (3) of
25 those plans are.

1 MR. KRIS SAXBERG: And the solvency
2 funding rules have been relaxed somewhat. I -- that's my
3 phrase relaxed - to allow for payment over a period of
4 ten (10) years.

5 MR. WILLY DERKSEN: As I said, I'm not
6 totally familiar if that applies to, in our situation, at
7 this point. It's subject to check. I know that it has
8 happened in some other jurisdictions.

9

10 (BRIEF PAUSE)

11

12 MR. KRIS SAXBERG: Is the -- in terms of
13 the allocation of the pension expense related to the CSSF
14 and Manitoba Hydro's reserve, is the driver activity
15 hours -- EF -- EFTs, I guess?

16 MR. WILLY DERKSEN: Yes, the allocation
17 of all benefit costs flows along with salaries which,
18 ultimately, the activity charges between the two (2)
19 utilities would be the driver.

20 MR. KRIS SAXBERG: And the -- the
21 equivalent full-time position's calculation is determined
22 on the basis of activity hours, correct?

23 MR. WILLY DERKSEN: While there is a --
24 the way that it's done for Centra is -- I think we've
25 described that several times. It's based upon the hours

1 worked on behalf of Centra so you could not use the EFTs
2 to Centra compared to the total EFTs as the surrogate for
3 the driver that will be used to allocate those costs.

4 The correct allocation is in the order of
5 eighty-nine/eleven (89/11), 89 percent electric and 11
6 percent gas, based upon the activity charges made to each
7 of the utilities.

8 MR. KRIS SAXBERG: Now, the -- the
9 pension expense that is -- that is flowing through --
10 through the activity charges, because of the CSSF is a
11 pay-as-you-go system, isn't it driven by the -- the
12 number of retirees of Manitoba Hydro at any given time?

13 And as the number of high -- of retirees
14 increases, that pension expense increases?

15 MR. WILLY DERKSEN: The -- no, that's not
16 true at all. The pension expense from Manitoba Hydro is
17 calculated on the same basis as if it were a -- as if it
18 were covered by pension legislation and we're obligated
19 to calculate it that way according to current Canadian
20 GAAP, as well as IFRS also obligates us to calculate the
21 expense that way.

22 MR. KRIS SAXBERG: Okay. So, although
23 the actual dollars flowing out of Manitoba Hydro and into
24 the CSSF, which is your legal obligation -- maybe -- you
25 had confirmed that they -- those would be less than than

1 the pension expense that you're calculating, based on the
2 premise that -- that the Hydro reserve is a separate
3 plan.

4 MR. WILLY DERKSEN: The amounts that are
5 calculated as expense represent the cost of providing
6 future pensions to current employees. The estimated
7 costs, based upon actuarial assumptions, plus any
8 adjustments relative to past service pension which are
9 going to cost more or less than previously projected.

10 So, the cash paid into the fund will be
11 different than the expense represented on the income
12 statements.

13 MR. KRIS SAXBERG: Right. You're --
14 you're funding it as though it was a regular pension plan
15 and you're funding based on the -- the liabilities
16 accruing for each of -- each of -- new year of active
17 service, correct?

18 MR. WILLY DERKSEN: Yes, we are funding
19 it in accordance with that agreement and it is based upon
20 the -- currently upon the employee's service each year.

21 MR. KRIS SAXBERG: But you're agreeing
22 that the legal obligation of Manitoba Hydro is to match
23 50 percent of the funds being paid out of the CSSF to
24 Hydro retirees.

25 MR. WILLY DERKSEN: Again, it's not

1 exactly 50 percent but, yes, we do have a legal
2 obligation to pay Hydro's share of that -- of the
3 payments to retirees.

4 MR. KRIS SAXBERG: Right. And -- and
5 when you say "it's not exactly 50 percent," it -- it may
6 be something in the order of 48 to 52 because employees,
7 through their use of -- through the use of their surplus,
8 have bought benefit improvements that have paid for both
9 halves, the employer half and the employee half, correct?

10 MR. WILLY DERKSEN: There is an
11 agreement, a funding difference, between what employees
12 are contributing and what the employer is contributing,
13 and that funding difference is -- is recognized in the
14 share that Hydro has to pay versus what comes out of
15 CSSB, and -- and I believe it's in the order of 45
16 percent to 55 percent.

17 MR. KRIS SAXBERG: Okay. Those are --
18 those are my questions.

19 THE CHAIRPERSON: Mr. Saxberg, if you do
20 not mind, I am just going to pick up a bit on what you
21 were talking about because I think it is important that
22 the -- that the Board understands this fully.

23 And our understanding of it is, I am going
24 to put it in very simple words and perhaps you could
25 confirm or -- or amend our understanding.

1 Our understanding is is that, on an
2 overall basis, there is an accrued pension benefit
3 liability that exists?

4 MR. WILLY DERKSEN: Yes.

5 THE CHAIRPERSON: For each plan?

6 MR. WILLY DERKSEN: Yes.

7 THE CHAIRPERSON: Okay, the employee
8 contributions are what they are?

9 MR. WILLY DERKSEN: Yes.

10 THE CHAIRPERSON: The difference between
11 the accrued pension liability and the employee
12 contributions plus, presumably investment and interest
13 incomes, the current market value of them, are as they
14 are, so the difference, in simple terms, is what Hydro
15 potentially is liable for.

16 In other words, at the end of the day,
17 Hydro's responsible for the -- the pension benefits
18 earned by the employees, and the degree that your
19 liability has to be represented in your balance sheet is
20 a function of the -- a reduction by the amount that the
21 employees have actually paid in; is that too simple an
22 explanation?

23 It's particularly important when it comes
24 to the ramifications of IFRS and the changing accounting
25 standards. I think perhaps, at the end of the day, maybe

1 you can describe this to us in an undertaking that might
2 help us.

3 MR. WILLY DERKSEN: Yes, I think that
4 would -- that would be a better process, and we'll
5 provide a more clear representation of the financing of
6 this cost application.

7 THE CHAIRPERSON: Because it is fairly
8 complex and it's not something that's easy to do just on
9 the fly, but it could be a significant adjustment to one
10 (1) year of your expense, depending on the experience.

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

12 THE CHAIRPERSON: Thank you.

13

14 --- UNDERTAKING NO. 15: To explain in detail Manitoba
15 Hydro's obligation re
16 employee contribution
17 benefits.

18

19 THE CHAIRPERSON: Mr. Saxberg, you say
20 you are complete with your cross-examination?

21 MR. KRIS SAXBERG: Yes, I am. And if I
22 just might add on that last point, and it may be
23 something that I'll speak to in closing argument, but
24 there's a -- there's a legal issue here too in terms of
25 what the legal obligation of Manitoba Hydro is under --

1 pursuant to the Pension Benefit Act, to which it's
2 excluded.

3 THE CHAIRPERSON: This is where I was
4 going too, Mr. Saxberg.

5 MR. KRIS SAXBERG: Sure. So I will -- I
6 will, hopefully, give that more thought before closing,
7 but that does conclude my questions of the revenue panel,
8 and I thank them.

9 And I'm at your disposal with respect to
10 how you want me to proceed with Mr. McCormick.

11 MS. MARLA MURPHY: Mr. Chairman, I might
12 just indicate, as a point of order, at this point, Mr.
13 Saxberg, at the commencement of his examination marked a
14 rather large binder as Exhibit CAC Number 7.

15 Although I haven't audited it, I don't
16 believe that all of the documents contained therein have
17 been put to the witnesses in this panel, and to the
18 extent that they haven't been spoken to by the witnesses
19 and aren't of this proceeding, they certainly aren't
20 something that we'd be open to being commented on in
21 final argument or to form part of the record of this
22 proceeding, perhaps should have been marked as an exhibit
23 for identification at the beginning rather than as a
24 formal exhibit, but I just wanted to bring that point to
25 your attention.

1 THE CHAIRPERSON: Mr. Saxberg, do you
2 have any comment on this?

3 MR. KRIS SAXBERG: Well, it's -- it's not
4 only -- oh, sorry, I guess my -- my title was changed,
5 but it was for the Revenue Requirement Panel and the
6 direct evidence of Mr. McCormick, so there are documents
7 in there that Mr. McCormick's going to speak to.

8 I'm sorry that that didn't get carried
9 over on -- I think it was in my email though. So there
10 are documents in here that Mr. McCormick will speak to,
11 and that may then have -- have made it the case that all
12 the documents were spoken to.

13 THE CHAIRPERSON: Okay. Well, right now
14 we have got it marked as CAC/MSOS-7. We will revisit it
15 after Mr. McCormick is finished, and we will also take
16 Mr. Peters' advice, at that time, too, and hear from the
17 other parties.

18 So Mr. Peters, our next move is...?

19 MR. BOB PETERS: Mr. Chairman --

20 THE CHAIRPERSON: Mr. Boyd, is it not?

21 MR. BOB PETERS: -- you -- you're
22 correct. It would be Mr. Boyd. I may have some inside
23 knowledge, but I'll let Mr. Boyd speak for himself,
24 certainly, as to whether he has any questions of the
25 Revenue Requirement Panel.

1 THE CHAIRPERSON: Mr. Boyd...?

2 MR. SANDY BOYD: Yeah. I have none.

3 THE CHAIRPERSON: Thank you, sir.

4 MR. BOB PETERS: And, Mr. Chairman, I'll
5 leave it to Mr. Saxberg and Mr. McCormick whether they
6 would like to trade places with the present Centra panel
7 or whether they're comfortable where they are in
8 providing their direct evidence.

9 And it may also be opportune for just a
10 short recess to allow parties to find their bindings --
11 binders and their rebuttal evidence and matters.

12 THE CHAIRPERSON: Now, Ms. Murphy has an
13 opportunity for re-direct, too. Perhaps, we could let
14 her think on that over the break?

15 MR. BOB PETERS: Yes. And -- and the
16 complication is that we're dividing up the panel on -- on
17 topics. I believe the issues of demand-side management,
18 cost allocation, and rate design have still to be put
19 this panel. She may want to use the break to determine
20 whether there's any re-examination on any of the revenue
21 requirement questions that have been asked.

22 THE CHAIRPERSON: Or she could wait until
23 we are completely done with the panel.

24 MR. BOB PETERS: The difference by
25 waiting, Mr. Chairman, is that it may be appropriate to

1 have the -- the complete revenue requirement evidence
2 before Mr. McCormick speaks.

3 THE CHAIRPERSON: Okay. Well, we'll let
4 Ms. Murphy speak for herself when we come back from the
5 break. Thank you.

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

8

9 --- Upon recessing at 4:06 p.m.

10 --- Upon resuming at 4:30 p.m.

11

12 THE CHAIRPERSON: Okay. Once again, we
13 are here together. Ms. Murphy, do you want to do some of
14 the re-direct now?

15 MS. MARLA MURPHY: No, Mr. Chairman. We
16 have none.

17 THE CHAIRPERSON: Okay. If you think of
18 some later, we will provide you the opportunity.

19 MS. MARLA MURPHY: Thank you.

20 THE CHAIRPERSON: Mr. Saxberg, Mr.
21 McCormick has been sitting patiently all day putting up
22 with us, so now you have your opportunity to.

23 MR. KRIS SAXBERG: Thank you, Mr.
24 Chairman, and you're the right, the distinguished looking
25 man to my right is John McCormick, and he's ready to be

1 sworn in.

2 THE CHAIRPERSON: Mr. Singh...?

3

4 CAC/MSOS PANEL:

5 JOHN MCCORMICK, Sworn

6

7 THE CHAIRPERSON: Thank you, Mr. Singh,
8 and welcome, Mr. McCormick. Mr. Saxberg...?

9

10 (VOIR DIRE COMMENCED)

11

12 EXAMINATION-IN-CHIEF BY MR. KRIS SAXBERG:

13 MR. KRIS SAXBERG: Mr. McCormick, you're
14 responsible for the preparation of written evidence in
15 this proceeding?

16 MR. JOHN MCCORMICK: Yes.

17 MR. KRIS SAXBERG: And the evidence is
18 marked as CAS/MSOS-EXHIBIT-5, but it's also contained at
19 Tab 21 of the book of documents, tentatively marked CAC-
20 EXHIBIT 7.

21 THE CHAIRPERSON: I'm afraid you'll have
22 to start over, Mr. Saxberg.

23 MR. KRIS SAXBERG: It's a good thing I
24 have it all written down. Do I need to --

25 THE COURT REPORTER: No. It was there but

1 it was just very quiet, so go ahead.

2 MR. KRIS SAXBERG: Okay. Thank you.

3

4 CONTINUED BY MR. KRIS SAXBERG:

5 MR. KRIS SAXBERG: So at Tab 21 of the
6 book of documents is a copy of -- of your written
7 evidence, can you confirm that?

8 MR. JOHN MCCORMICK: Yes. My written
9 evidence is found at Tab 21, as are a number of the IRs
10 which I prepared at different places in your book.

11 MR. KRIS SAXBERG: And in addition to
12 your evidence, as you've just alluded to, you have
13 provided answers to Information Requests posed to you by
14 the Board advisors and Centra, correct?

15 MR. JOHN MCCORMICK: I have.

16 MR. KRIS SAXBERG: Are you solely
17 responsible for the preparation of your evidence and the
18 answers to the interrogatories that I just spoke of?

19 MR. JOHN MCCORMICK: I am.

20 MR. KRIS SAXBERG: Do you have any
21 corrections that you'd like to make to your evidence or
22 to the IR responses?

23 MR. JOHN MCCORMICK: There are no
24 material corrections. I believe there's an 'S' missing
25 of one (1) word in one (1) of the documents that I don't

1 recall but my conclusions remain, although there are some
2 elements that I would comment on as a result of
3 information that was filed after I provided evidence in
4 response to IRs.

5 But with that proviso, yes, the evidence
6 is mine and I adopt it.

7 MR. KRIS SAXBERG: Thank you for that,
8 Mr. McCormick. With reference to your resume which is
9 found at Tab 21, the last two (2) pages of your evidence,
10 would you please describe your qualifications and
11 experience?

12 MR. JOHN MCCORMICK: Academically, I have
13 three (3) degrees and I -- I must step back for a moment
14 and say I'm going to speak rather quickly about my
15 material. If there's any question arising from it, I'm
16 happy to deal with it later.

17 But as I say, I have three (3) degrees. I
18 have a BA in political science; an MBA; and an LLB. And
19 relevant to my academic work, I also worked as a
20 sessional lecturer for three (3) years teaching
21 accounting while being a law student and I also worked
22 for two (2) years as a sessional lecturer teaching tax to
23 the MBA program while I was a practising lawyer.

24 Outside my university connections, I have
25 been a lawyer with an Edmonton law firm for approximately

1 five (5) years and I have worked for three (3) investment
2 dealers. The first position that I had was with a firm
3 that later became known as ScotiaMcLeod. It was
4 initially called McLeod, Young, Weir. I started as an
5 associate, went to become a Vice-President and became a
6 Director of the firm.

7 Subsequently, although not continuously, I
8 was a Vice-President and Director of the firm, Levesque,
9 Beubian, Geoffrion, which has now been changed into
10 National Bank Financial and I also worked for Sprott
11 Securities.

12 With respect to my term at Levesque,
13 Beubian, I was the Director covering the western Canadian
14 accounts. With respect to my experience with the firm
15 now ScotiaMcLeod, I've identified a number of utility
16 companies through which I had experience at that time.

17 When not working with an investment
18 dealer, I've worked as a consultant through my
19 corporation, JD McCormick Financial Services, and I have
20 done a host of assignments for generally private sector,
21 generally public companies over the years.

22 They're touched on briefly but the more
23 relevant things related to my experience for this venue
24 would be that I have been an expert witness in a number
25 of jurisdictions. I initially became an expert witness

1 when I was retained by the Alberta Energy and Utilities
2 Board in the middle of the 2000 deferral accounts
3 proceeding which dealt with an appropriate funding
4 requirement for some 632 million of deferred commodity
5 costs. And I was thrust, as I say, into the middle of
6 the proceeding as an independent expert.

7 Subsequent thereto, I have appeared before
8 the Alberta Energy and Utilities Board on a number of
9 occasions in respect of cost of capital and other
10 financial issues related to a -- a broad number of
11 utilities, including generic cost of capital Hearings
12 which, of course, touch on every utility within their
13 regulation and -- sorry, their active regulation.

14 And I have appeared once before the BCUC
15 with respect to Pacific Northern Gas, although as a
16 consultant to the BC Old Age Pension Organization, I
17 prepared interrogatory questions in a different
18 proceeding, also related to PNG.

19 And before the National Energy Board, I
20 have appeared on behalf of the City of Calgary and I'm
21 sorry, the National Energy Board, I was a client of CAPP,
22 the Canadian Association of Petroleum Producers, with
23 respect to a Transcanada proceeding and these are
24 highlighted there.

25 In addition to the instances where I have

1 appeared or filed evidence or advised the BC Old Age
2 Pensioners Association, I have also been involved through
3 Stephen Johnson, a firm which I believe has appeared here
4 frequently in providing them with my expertise on a
5 number of transactions, including the Centra 2003/2004
6 GRA, where I reviewed certain materials.

7 And I believe I was the individual
8 responsible for a substantial number of IRs about the
9 various Manitoba Hydro short-term fixed, floating, and
10 long-term debt policies in the recent GRA, which I
11 understand the Board awarded -- or ordered a review of --
12 or a study, something in that order, into the optimal
13 debt structures, if my memory is correct.

14 Please forgive any imperfect language in
15 that regard. And I believe that would be a quick summary
16 of where I've been.

17 THE CHAIRPERSON: Thank you, Mr.
18 McCormick.

19 Ms. Murphy, do you have any comments on
20 the Board accepting Mr. McCormick as an expert witness?

21 MS. MARLA MURPHY: No, we don't.

22 THE CHAIRPERSON: Mr. Boyd...?

23 MR. SANDY BOYD: No, I don't.

24 THE CHAIRPERSON: We certainly have no
25 problems, Mr. McCormick. Welcome.

1 MR. JOHN MCCORMICK: Thank you.

2

3 (VOIR DIRE CONCLUDED)

4

5 EXAMINATION-IN-CHIEF BY MR. KRIS SAXBERG:

6 MR. KRIS SAXBERG: Thank you, Mr.

7 Chairman. And just -- just to complete the re -- the
8 record in that regard, I understand that there was an
9 exhibit filed in -- in the 2008 electric GR pros -- GRA
10 proceeding that dealt with cost recovery theory, and
11 short-term debt, and optimization principles.

12 Was that -- and I understand that you were
13 the author of the document, is that fair?

14 MR. JOHN MCCORMICK: Well, there was
15 something filed that I became aware of the filing of as a
16 result of seeing a comment from Hydro complaining that
17 they had not had an opportunity to cross-examine the
18 author of the document, but I don't know that I've ever
19 seen the document that was filed.

20 I don't know if it's a subset of my work
21 or something that may have been done by another
22 consultant, but since I was the guy writing most of the
23 IRs, it could -- I -- I believe it highly probable that I
24 was the author of some portion of something that made it
25 to the record, but it was not part of my assignment to

1 follow up after I provided whatever advice to Stephen
2 Johnson was dealt with.

3 MR. KRIS SAXBERG: Now, before you were
4 directly retained by -- or when you were directly
5 retained by CAC, which was approximately a week before
6 you filed your evidence in this proceeding, what issues
7 did CAC/MSOS ask you to review relative to the Centra GRA
8 filing?

9 MR. JOHN MCCORMICK: Well, Stephen
10 Johnson asked me to do what I normally have done for
11 them, which is to read a portion of the evidence and
12 identify anything which is interesting to me.

13 With that general instruction received
14 from people I've worked with a number of times before, I
15 identified three issues that I thought were important.
16 The first issue was that the forecast rates appeared to
17 me to be markedly flawed in that they were dramatically
18 different from rates then currently in the market. This
19 would be February, perhaps -- perhaps early January. I -
20 - I answered an IR on the specific date.

21 And as a corollary of identifying that
22 first issue, the issue in -- the second issue became:
23 What is the nature of the methodology of forecasting that
24 gives rise to numbers which are dramatically different
25 than the current rates and the publically available

1 current bank forecasts.

2 The third significant issue was the
3 placement -- or the forecasting of a group of debt
4 maturities, which represented, I think, perhaps half of
5 Centra's future forecast debt into the period of 2029 and
6 2030 which, to me, had two (2) components; one being risk
7 of refinancing, and the other being the near term
8 interest costs.

9 And so those were the three (3) issues
10 that we then sought to explore in the various IRs which
11 were drafted prior to my filing evidence.

12 MR. KRIS SAXBERG: Thank you. I'm going
13 to refer you, and everyone else, to page 1 of your
14 evidence, the executive summary. The first bullet of
15 which reads, quote:

16 "I am of the opinion that the
17 underlying data used to develop the
18 financial forecast for T bill and ten
19 (10) year Canada rates is both outdated
20 and materially different from current
21 forecasts readily available in the
22 market and the current market rates."

23 End quote. Centra has updated its
24 forecast of T bills and ten (10) year Canada bonds. Has
25 that addressed your concern?

1 MR. JOHN MCCORMICK: No.

2 MR. KRIS SAXBERG: Why not?

3 MR. JOHN MCCORMICK: Well, they've
4 continued to use, particularly with 2011, forecasts which
5 are quite outdated, discontinuities from the forecasts
6 that they've used for 2009 and 2010, and I -- I'd be
7 happy to visit that in more detail.

8 My evidence uses generally May forecasts,
9 and I would suggest a much more consistent methodology.
10 I haven't confused end-of-period data with period average
11 data.

12 I haven't used March data as
13 representative of the entire year when in some instances
14 they have chosen to use the December 31st forecast data
15 point as representative of data for the average for the
16 entire year.

17 And I have been more focussed on, if you
18 like, the purity of using ten (10) year forecasts which
19 may then be adjusted as opposed to choosing perhaps four
20 (4) forecasters to provide a ten (10) plus data, and then
21 choosing say six (6) or eight (8) who have used ten (10)
22 year data.

23 And finally, I've used statistically
24 independent forecasts. And, well, we have debated
25 whether ownership independence is more important than

1 statistical independence in one (1) of the IRs, the BC
2 and Federal forecasts are totally dependent on the five
3 (5) or six (6) forecasters which the government may have
4 used at some prior period.

5 And today I don't need to use the January
6 9th Royal Bank forecast embedded in the Federal
7 government forecast because I've got a May Royal Bank
8 forecast which gives me a longer stream than was
9 available in January, and more current thinking having to
10 do with what's happened in the market quite recently.

11 MR. KRIS SAXBERG: In the -- in the
12 second bullet then, you are taking issue with the
13 methodology employed by Centra to determine its interest
14 rate forecast.

15 And as you've just eluded to, I take it
16 you still then have concerns with the methodology being
17 used by Centra to -- which resulted in the update to the
18 GRA Application. Is that fair?

19 MR. JOHN MCCORMICK: Yes.

20 MR. KRIS SAXBERG: And you've -- you've
21 already outlined some of those concerns in your previous
22 answer. Your -- your -- I understand your critic of the
23 methodology is threefold.

24 Can you just outline, again, the three (3)
25 main criticisms -- criticisms that you have with respect

1 to the Centra methodology?

2 MR. JOHN MCCORMICK: Well, the first and
3 just exceedingly serious concern that I have is the use
4 of outmoded data.

5 In the initial Application, they were
6 using some data points which I believe I've identified as
7 being derived from October '07 in the January filing,
8 January '09 filing, which give a completely different
9 view of what the forecasters had more recently given, and
10 I find that difficult and of serious consequence.

11 The next issue is the use of data. It's
12 important to know what your data says so that you can
13 apply it properly.

14 The Bank of Montreal data, as we've
15 already discussed today, is period average data. When
16 you take the number that's under the two hundred and nine
17 (209) column, that is the average for the period.

18 When we go into, say, the CIBC forecast,
19 or the -- many of the other bank forecasts and take the
20 four (4) quarter numbers, those four (4) quarter numbers
21 are end-of-period points, and there is a better
22 methodology than taking just the average of those four
23 (4) points.

24 And an even more inferior methodology is
25 to pick the December number and suggest that is

1 representative of the whole period.

2 So in terms of the use of superceded data
3 and the style of technique that we have a -- a real
4 problem, in my mind, of having a superior or robust
5 forecast methodology.

6 And I guess the final point after -- don't
7 use superceded data; make sure you have an understanding
8 of what your data is so you treat it properly as you try
9 and develop an average interest forecast is we should
10 test our methodology.

11 And I have understood from these
12 proceedings that that has not been done but some of the
13 IRs - which I'd like to touch upon - suggest to me that
14 there has been a -- a large sample and I haven't been
15 able to do a full study, obviously, but there have been a
16 large sample of over-estimates on interest costs and --
17 and typically in a forecast methodology where you're
18 trying to balance, you want to be pretty close if you can
19 be and that's sometimes hard.

20 But occasionally, you would expect you
21 would be as wrong on the plus side as you are on the
22 downside if you have a robust methodology and we may
23 develop a methodology that says, we need a slight cushion
24 to avoid a catastrophic consequence if we're on the
25 downside too long.

1 But I understand there has been no testing
2 to determine that we've got the right forecasters; that
3 we're applying the correct grouping; and I note over time
4 that the list of forecasters has changed, so, one would
5 hope that when we add a new forecaster, we're adding
6 someone that increased the quality of the result.

7 MR. KRIS SAXBERG: In your third bullet,
8 you indicate, quote:

9 "I am of the opinion that current
10 forecast for ten (10) year Canada rates
11 for the first calendar quarter of 2010
12 would indicate an interest rate of 3
13 percent -- [sorry] -- would indicate an
14 interest rate in the 3 percent range
15 and the Board should adopt this rate in
16 preference to the 4.7 percent rate
17 indicated in the Application."

18 End of quote. Centra has updated its
19 application. Has your long-term debt interest rate
20 recommendation changed as a result of Centra's update?

21 MR. JOHN MCCORMICK: No, because I'm
22 using more current forecasts than they did, so, in terms
23 of the base rate, the Government of Canada rate, if you
24 like, or translated into T Bill rates for shorter term
25 debt, my numbers are more recent and, so, I prefer my

1 base rate calculation.

2 MR. KRIS SAXBERG: And Centra, in its
3 update, has changed the spread estimate from point six
4 (.6) to one point six (1.6). This is a new development
5 that was not -- that you did not deal with in your
6 evidence.

7 Do you have an opinion as to whether or
8 not the change in the spread is appropriate?

9 MR. JOHN MCCORMICK: I do not accept the
10 one point six (1.6) as being an appropriate spread for
11 the calendar year 2009. I'm similarly troubled by the
12 use of the sixty (60) basis point number as a long-term
13 spread and I have some large comments to make about that.

14 But in my evidence, I used a sixty (60)
15 basis point spread because I knew nothing at the time I
16 wrote the evidence of the manner in which Centra had
17 developed its spread and tested its robustness over time.

18 I believe there was a -- a reference to a
19 three (3) year average that was contained in it but I
20 didn't see the data, so, I was quite handicapped in that
21 analysis.

22 MR. KRIS SAXBERG: The fourth bullet in
23 your executive summary deals with the short-term interest
24 rate. Quote:

25 "I am of the opinion that current

1 forecast for three (3) month T Bill
2 rates for the 2009 and 2010 would
3 indicate an interest rate of less than
4 .5 percent for 2009 and less than 1
5 percent for 2010, and the Board should
6 adopt more current rates in preference
7 to the 3.75 percent and 4.5 percent
8 three (3) month T Bill rates indicated
9 in the application."

10 End of quote. Centra has now updated its
11 Application and is -- for the calendar year is using
12 point six (.6) compared to the point -- the three point
13 seven five (3.75), and it's using one point three-0
14 (1.30) compared to the four point five-0 (4.50).

15 Does that address your recommendation in
16 the fourth bullet?

17 MR. JOHN MCCORMICK: Only partly. I
18 clarified my views, although identifying the appropriate
19 specific rates for a particular time period wasn't really
20 something I was asked to do by my client when I prepared
21 evidence, but in Board IR-23 I was asked what I thought
22 the appropriate rates were and, at that time, I
23 identified twenty-seven (27) basis points as the
24 appropriate T Bill rate for 2009.

25 And I think it's eighty-one (81) for 2010

1 -- eighty-one (81) basis points for 2010, and I believe I
2 -- for long-term -- no. No, I think that -- those are
3 the only two (2) rates that are used.

4 MR. KRIS SAXBERG: And in addition to --
5 to the areas that I've just put to you from the executive
6 summary, in your evidence you deal with the distribution
7 of long-term debt.

8 Does Centra's update and -- and further
9 oral evidence in this proceeding address your concerns?

10 MR. JOHN MCCORMICK: No.

11 MR. KRIS SAXBERG: And -- and to be clear
12 on the record, as I understand Centra's evidence, it is
13 that it's not likely that it will cluster all of those
14 long-term debt issues within the same quarter -- to
15 mature within the same quarter, and that it'll address
16 the maturity of those issues in relationship to the rates
17 available, at the time.

18 Does that address your concern?

19 MR. JOHN MCCORMICK: No.

20 MR. KRIS SAXBERG: Okay. And just in
21 very short summary, 'cause we'll get to it in detail, why
22 not.

23 MR. JOHN MCCORMICK: Well, I never
24 understood that it had been ordained that all these
25 issues would take place at exactly the moment that they

1 said they would. I didn't understand that there was some
2 sort of guarantee that the rates would be as forecast.

3 There are always variances. We've already
4 seen that with respect to the March 2/09 issue, which
5 didn't happen in March 2/09, although it was part of the
6 initial forecast.

7 But the revenue requirement is being set
8 on the assumptions that they've put forward, and if on
9 the balance of probabilities they think it is now not
10 timely -- or it will not be timely to do a series of the
11 more expensive twenty (20) years deals, and they might
12 adopt and say, some of the five (5) years deals I used as
13 example, then the revenue requirement should be adjusted
14 to address their true best estimates.

15 And I -- I -- the -- in -- in one (1) way
16 there's something that I -- I want to add to my testimony
17 here today that I didn't develop in quite the same way in
18 the IRs, but as a result of hearing the proceedings
19 today, there's one (1) important variance, which I'd to
20 get to, but there is an asymmetric relationship that goes
21 on between utilities and their customers.

22 And the utility has the benefit of being
23 able to come back to the Board and say, darn, we had our
24 rates that were too low and we actually need to get a
25 little more this year. And the Boards generally assist

1 them in that regard because we need utilities that are
2 robust. So, there's no point in driving them to the last
3 penny. You know, we need somebody that's capable of
4 rolling with the occasional punch.

5 But for the consumers, the guy who's
6 operating a manufacturing facility that uses a lot of gas
7 in these troubled economic times, he can't come back to
8 the Board and say, you allowed the Utility to take
9 massively high forecasts, and short-term debt or a long-
10 term interest rates that raised my rates and then put me
11 in a position where I had to close operations because it
12 was the straw that broke my camel's back.

13 So, in terms of the asymmetric
14 relationship, I'm a great believer that we actually have
15 to have very good forecasting methodologies.

16 And based on what I've heard today and the
17 evidence of the company that they intend to revert to the
18 methodology that -- that they've used heretofore in
19 future proceedings, I think we should ask the Board to
20 make the forecasting process more clear in Centra's
21 Applications.

22 And I think, in addition, we should also
23 have the deferral account which causes the Utility no
24 harm in cumulative escalation of their risk. It just may
25 delay a certain amount of funding at some point or lead

1 to a -- an automatic clawback.

2 MR. KRIS SAXBERG: And finally, in terms
3 of the areas you covered in your evidence, you -- you
4 spoke of the funding relationship between Manitoba Hydro
5 and Centra at question 17 on page 19 of your evidence.

6 What were your findings in regard to the
7 allocation of interest costs from Manitoba Hydro to
8 Centra?

9 MR. JOHN MCCORMICK: I think they're best
10 presented in the IR-78, in terms of the material where if
11 we look at their forecasting methodology -- and I'm
12 concentrating here on the rates that were charged. In
13 many of the years -- or, sorry, many of the quarterly
14 periods identified in that table, there are substantial
15 rate variances that arise where Manitoba Hydro has had
16 access to funding at lower rates than the BA based rate
17 that was available to Centra.

18 And I got into this because of the
19 statement in their evidence that said the 1 percent,
20 which seems to be the rate that has been used between the
21 Company is based on the approximate associated costs of
22 financing for Manitoba Hydro and I wanted to test that
23 relationship. And if it's appropriate, we could go look
24 at 278 now or we could look at it later.

25 MR. KRIS SAXBERG: Well, perhaps we'll

1 just put that off for a moment.

2 MR. JOHN MCCORMICK: Okay.

3 MR. KRIS SAXBERG: Just by way of
4 summary, you've looked at it and your conclusion was
5 what?

6 MR. JOHN MCCORMICK: That there were
7 substantial rate variances and increasing rate variances,
8 particularly, just looking at the -- the last time
9 periods on page 2 of the -- the table and IR-78 and,
10 frankly, on an agency basis, I don't know why the
11 principal - in this case Centra - would ask its financing
12 agent to buy it a commodity or to rent a commodity, in
13 this case, money, at a high price when it's readily
14 available.

15 That's like saying to somebody, go buy me
16 milk at Superstore and instead they go to 7-Eleven all
17 the time and they keep paying a premium for something
18 that is readily available. So, I find that somewhat
19 problematic.

20 MR. KRIS SAXBERG: And in terms -- that
21 deals with the -- the various areas that you've looked at
22 in your evidence and your conclusions.

23 Just before you get into some of the finer
24 points related to those issues, I thought it might be of
25 assistance to all present to receive from you some

1 definitions of some of the -- the technical finance
2 jargon that's been bountied about in this proceeding to
3 date.

4 For instance, the cost of short-term
5 borrowing for Centra is based on one (1) month bankers'
6 acceptance rates. Can you explain what bankers'
7 acceptance rates are?

8 MR. JOHN MCCORMICK: Bankers' acceptance
9 -- bankers' acceptance rates are interest rates charged
10 by banks for credit enhancements of securities which are
11 issued effectively by the banks. And historically, back
12 in the old days, if you were a merchant, you might have
13 leant some money to the Viscount (phonetic) in hope that
14 his father, the Earl, would eventually give him some
15 money, and you'd take the promissory note to Barings
16 Bank, as it then was, and get it stamped, saying, oh,
17 they have a relationship with the Earl and the Viscount,
18 so they'll be good on the due date, and that's where
19 bankers' acceptances came from.

20 But in this day of electronic finance, we
21 don't have a lot of paper running around. We have
22 bankers' acceptance borrowing agreements with banks that
23 give rise to the individual rates that each bank may
24 choose to charge from time to time, and will then
25 ultimately be, in part, reflected in the Bloomberg

1 bankers' acceptance rate.

2 MR. KRIS SAXBERG: And there's a
3 reference to Bloomberg one (1) month BSs in -- in the
4 materials. And could you just explain what the Bloomberg
5 service is?

6 MR. JOHN MCCORMICK: Bloomberg is a large
7 US corporation, at one (1) time owned by someone who's
8 now the Mayor of New York, if memory serves me right.
9 The company is an information service provider. They
10 collect data from a host of financial agents like the
11 Royal Bank Capital Markets Group or the Scotia Capital
12 Markets Group. They aggregate it and sell it to other
13 people.

14 They would be one of the leading providers
15 of this sort of information, and their output was
16 generally regarded as very high.

17 MR. KRIS SAXBERG: And what's the
18 difference between a treasury bill and a -- and a
19 Government of Canada bond?

20 MR. JOHN MCCORMICK: There are a couple.
21 The first is, treasury bills are a year or less.
22 Government of Canada bonds are generally issued for
23 longer terms, although, ultimately, they may become
24 mature within a year.

25 Treasury bills are generally issued at a

1 discount, so, you would buy a hundred thousand dollar
2 (\$100,000) treasury bill at say ninety-nine thousand
3 (99,000).

4 Bonds are generally issued at par, or if
5 they're a re-issue of an existing maturity or a
6 supplemental issue of the same maturity, since the
7 Government of Canada often issues bonds that mature on
8 June 1st of a particular year, you will be in a position
9 that you may pay a premium or a discount, depending on
10 the -- how the coupon rate varies from the particular
11 market requirement.

12 MR. KRIS SAXBERG: It is said that
13 there's a spread between the province of Manitoba bonds
14 and Canada bonds. What is the spread that's being
15 referred to?

16 MR. JOHN MCCORMICK: Well, it could be
17 two-fold, but first, the word "spread" simply is a
18 finance term to describe the difference identified by
19 subtraction between two (2) particular interest rates.
20 If we have a spread between ten (10) year Manitobas and
21 ten (10) year Canadas, that would be the -- the simple
22 spread. That would reflect credit. The Government of
23 Canada can't go bankrupt, they print the money.

24 The Government of Manitoba, perhaps like
25 the Alberta Government once, could default on debt, but

1 it's highly unlikely. We could also have spreads that
2 are more than just credit spreads. We could have term
3 spreads and we could look at the difference between the
4 five (5) year Government of Canada rate and the ten (10)
5 year Government of Canada rate, and that would be a term
6 spread.

7 MR. KRIS SAXBERG: And if I could just
8 have you quickly refer to Tab 5 of the book of documents,
9 page 3 of 6. Beginning at line 17 there's some
10 information about a \$300 million issue, and at line 20,
11 coupon for point six five (.65), and then offered yield
12 at issue, five point one two seven (5.127).

13 What's the difference between the coupon
14 and the offered yield at issue?

15 MR. JOHN MCCORMICK: The issue may have
16 been sold into the market at, say, a price of ninety-two
17 (92) or ninety-three (93). And since you're only going
18 to get coupon payments on an annual basis of 4.65
19 percent, forty-six dollars (\$46) a thousand, if you like,
20 to get up to the required yield that somebody in the
21 market will buy this credit at, you can't sell it at par
22 or a thousand dollars a bond. You end up selling it at
23 nine hundred and twenty (920) or nine hundred and thirty
24 (930), whatever the number happens to be.

25 MR. KRIS SAXBERG: I'd like to turn now

1 to your critique with respect to the methodology employed
2 by Centra to determine the forecast treasury bill and
3 Canada bond rate and as you've already indicated, you --
4 your -- your critique of the methodology is three-fold.

5 And could you start by explaining why the
6 update still, in your view of -- violates your -- your
7 critique about using superceded data?

8

9 (BRIEF PAUSE)

10

11 MR. JOHN MCCORMICK: Well, the best way
12 to demonstrate the use of superceded data would be to
13 take my May forecast and compare it to their March
14 forecast and show you the difference. But I've only got
15 fifty-two (52) minutes left and so I'm uncertain that
16 that's the highest and best use of time.

17 But I'm happy to do that if you like but
18 what might be better would be for me to just identify
19 some of the issues that are material in this, some of
20 which you've already covered in cross-examination, but a
21 couple that you haven't. And -- and I'd like to spend a
22 second dealing with the data discontinuity problem with
23 respect to the first quarter of 2011.

24 MR. KRIS SAXBERG: Perhaps in doing that,
25 you could refer to Tab 3 of the book of documents, page 2

1 of 4, and -- and with reference to that particular
2 document, explain your difficulty with the methodology.

3 MR. JOHN MCCORMICK: Well, in general
4 terms, as I've already mentioned, the Bank of Montreal
5 gives us average data for the period. The other
6 forecasters, where we have the information available,
7 give us end-of-period forecast numbers and so we know
8 that from the other banks because it's presented in their
9 various documents but part of that has already been
10 viewed in cross-examination.

11 The National Bank also has provided end-
12 of-period data, although you can't see that in the
13 documents that you have in the record, as far as I can
14 tell. There are also particular anomalies in how the
15 National -- sorry, how the numbers have been selected.

16 In some instances such as the TD Bank,
17 there has been an averaging process and there's an IR in
18 which the Company puts forward its averaging process
19 which is a four (4) quarter average.

20 I think I briefly touched on that a moment
21 ago in my introductory remarks and, in my mind, using the
22 average of March, June, September and December's last
23 day, is inferior because you don't know the starting
24 point of the first quarter.

25 So you don't know whether rates were

1 rising in that quarter or falling in that quarter in just
2 the same way the averaging gives us information about
3 what happened in the second quarter. We are completely
4 ignorant about the first eighty-nine (89) or ninety (90)
5 days of the rate shape in that time period.

6 We will get a more robust translation of
7 these data points if we adopt a five (5) point average,
8 taking the December 31st prior year approach. Within
9 this list of forecasts we have three (3) that are not
10 statistically independent.

11 A conference board is not a statistically
12 independent forecast. They are relying on a host, some
13 perhaps fifteen (15), sixteen (16), or seventeen (17)
14 sources. The Federal Bank and the BC ones have the same
15 problem. But in terms of the shift, this particular
16 methodology employs relatively current data for the first
17 two (2) years, and then gives us stale dated, if you
18 like, spoiled milk, way past its best before date data
19 for the 2011 period.

20 And I suggest a better methodology would
21 be to look at what we know about how markets move, and
22 I've got an analysis.

23 MR. KRIS SAXBERG: And perhaps to -- just
24 to demonstrate that point, you could refer to Tab 22 of
25 the book of documents and identify the -- the document

1 provided there.

2 MR. JOHN MCCORMICK: Thank you. But
3 before we do that, the IR reference to the four (4) point
4 methodology is found at Tab 16.

5 MR. KRIS SAXBERG: Okay, well, since
6 you've started down that road, maybe we'll look at Tab 16
7 for a second first then, just to make sure that your
8 point is understood.

9 I understand that the document at Tab 16,
10 the -- the answer to the IR is indicating that Centra, in
11 order to transform end-of-period data to period average
12 data, has used the four (4) quarters in the year and
13 averaged them.

14 And you have a problem with that?

15 MR. JOHN MCCORMICK: I do, and let me use
16 2010 as the quick example. My preferred average would be
17 to include, as a fifth data point, the fourth quarter
18 data point in 2009, so that for 2010, the average would
19 be forty (40), forty (40), seventy (70), one twenty-five
20 (125), and one eighty (180) divided by five (5).

21 MR. KRIS SAXBERG: Why use five (5)
22 quarters to determine the average in a four (4) quarter
23 year.

24 MR. JOHN MCCORMICK: Because they're end
25 of period data, so we have no information about what was

1 going on, whether the yield curve was flat, as it is in
2 this case, or escalating or declining, and in my mind,
3 that is a superior methodology.

4 MR. KRIS SAXBERG: And on the Centra
5 methodology that begins with an end point in quarter one,
6 is there any information contained in that methodology
7 about the interest rate in the earlier part of that first
8 quarter?

9 MR. JOHN MCCORMICK: Not for the first
10 eighty-nine (89) or ninety (90) days.

11 MR. KRIS SAXBERG: So if you could then
12 turn to the -- to the other topic you were referring to,
13 which relates to Tab 22, and you were speaking about your
14 criticism of the, you were calling, stale dated data used
15 to determine the interest forecast for 2011.

16 And -- and first, just identify the
17 document and --

18 MR. JOHN MCCORMICK: Well --

19 MR. KRIS SAXBERG: -- where it came from.

20 MR. JOHN MCCORMICK: -- the -- the
21 document is an Excel spreadsheet, which I prepared, which
22 has Bank of Canada data for the bankers acceptances one
23 (1) month rates for quarterly periods beginning with
24 April 1st, '99 and continuing until March 31st, 2009.

25 And I identify both the average drawn from

1 the Bank of Canada data series, V39068, and the high and
2 low during that period, the range determined by
3 subtraction, an annual average for the trailing four (4)
4 quarters -- to give you an example, that would be four
5 point eight two (4.82) in the annual average column --
6 and the yearly change in the annual average and then I
7 segment what's happening in the market between quarters
8 where we have increasing rates and decreasing rates.

9 And if we look at the change in the annual
10 average calculated here, what we will see is that over a
11 year you might expect a change of, say, seventy (70)
12 basis points, three (3) lines up from the bottom, on what
13 was happening in the market over this ten (10) year
14 period.

15 The median is fifty-five (55) so that
16 tells us that some months you have larger moves. And in
17 the increasing rate section, you see that as rates are
18 increasing, the average is fifty (50) basis points. In
19 quarters where rates are decreasing because perhaps the
20 government has a policy of liberalizing, creating
21 excitement in the economy, as they've done in the last
22 few quarters, you get bigger drops.

23 So in terms of approaching the question of
24 what's likely to happen between the fourth quarter of
25 2010 and the first quarter, 2011, we have some

1 information about what often happens in the market.

2 And if you turn to the next page, we look
3 at this on a quarter over quarter change. So you'll see
4 in the second row in the "Q Change" column, that we, in
5 fact, had a thirty-seven (37) basis point change in BA
6 rates in the quarter from April, '99, to the -- or,
7 sorry, that's the January quarter, I'm sorry, the January
8 to March quarter, than the April to June quarter. We
9 have a thirty-seven (37) basis point change in that first
10 quarter.

11 And the average quarterly change over the
12 last ten (10) or so years is about thirty-six (36) basis
13 points. Although, in the most recent quarter, it dropped
14 dramatically, dropped by a hundred and forty-eight (148)
15 basis points based on the calculation here.

16 So what we see if you like is that, again,
17 we have quarters in which we have increasing rates, the
18 second column from the right on the page, where an
19 average up quarter the rates might go up twenty-five (25)
20 basis points. And the maximum up quarter is like fifty-
21 four (54) basis points over this last ten (10) years.

22 So, I have no information or no special
23 knowledge about what any of these banks might be
24 forecasting for the end rate, but we do have knowledge of
25 what these banks are forecasting, either as the average

1 or for the fourth quarter of 2010 in the case of Bank of
2 Montreal, or the opening and closing points for the
3 fourth quarter in case of many of the other banks, and we
4 do have the ability to know something about the
5 volatility.

6 And in looking at this, my view would be
7 to suggest, as Centra has, in the PUB-2-198 for the
8 federal government range, that it is reasonable to assume
9 that we will go from one (1) quarter in which the rate
10 may have been in reference to two seventy (270), and I
11 recognize that's an annual average number, to a four
12 hundred twenty (420) basis point number.

13 To me, that is just horribly skewed. The
14 -- the last ten (10) years tell me that that's unlikely
15 to happen and I look at that approach to forecasting and
16 think it is unrefined and I would recommend that a
17 different science be employed in terms of bridging the
18 gap from the various forecasts that we have for the
19 fourth quarter of 2010 and developing a number that seems
20 reasonable based on whether we're trending up or down at
21 that time.

22 I believe we're generally trending up and
23 you can see that, I believe, from Table -- about page 20
24 of my evidence where we have the National Bank going up
25 from one ninety-three (193) to two forty-two (242). So,

1 if we assume it's an up quarter for the National Bank
2 forecast, it's sort of hard for me, say, to jump into the
3 three hundred (300) midrange. So I -- I find this
4 bridging methodology into the 2011 first quarter fiscal
5 period -- sorry -- first quarter sort of a blunt
6 approach.

7 And again, we're using data that averages
8 things out to 2017 -- or sorry, 2014, at least. Forgive
9 me. So I -- I would think that we could improve on that
10 methodology.

11 MR. KRIS SAXBERG: And just -- just in
12 reference to page 2 of 4, again on PUB-198, does your
13 critique of the methodology apply to both the forecast of
14 the ninety (90) day treasury bill rate and to the Canada
15 Bond yield ten (10) year plus rate?

16 MR. JOHN MCCORMICK: Yes. And it's
17 easier to see the importance of forecasting correctly in
18 the T-bill rates which are a little bit more volatile
19 than the long-term rates, but the issues track into the
20 second table of fourteen (14) year Canadas or ten (10)
21 year plus Canadas.

22 MR. KRIS SAXBERG: Now, Centra has
23 changed the spread in its long-term interest forecast
24 from point six (.6) to one point seven (1.7), and you
25 have assembled in Tabs 22 through to -- rather, Tabs 23

1 through Tab 27 some information.

2 Could you walk us through that information
3 identifying the document where it came from and how it
4 relates to this issue of whether the appropriate spread
5 has been -- has been chosen?

6 MR. JOHN MCCORMICK: Well, thank you.
7 Yes, I can, and I hope to. The last three (3) pages of
8 Tab 23 are an Excel spreadsheet showing Bloomberg data
9 for the C302, which is the Manitoba code for twenty (20)
10 years, 302-20, and the C101 code, again Government of
11 Canada code for twenty (20) years, and calculating the
12 spread.

13 This is a term spread -- pardon me, this
14 is a credit spread not a term spread. And so on their
15 May data point using this particular data series pair, we
16 have a spread in May of a hundred and eleven (111) and we
17 have historic spreads going back for many years.

18 And the first page in the Tab is a chart
19 of that data, and you can see that over the time period
20 from, say, January '01, Bloomberg's assessment of the
21 twenty (20) year Manitoba price drawn from its various
22 pricing sources at the time would indicate that the yield
23 started around six twenty (620), say, and fell down into
24 a rate of around 4-1/2 percent in '06, January '06,
25 perhaps December '05. And do we have the comparable

1 Government of Canada rate?

2 The spread can be seen on this chart
3 because it's the difference between the two (2) lines,
4 but we can also see it on the second page, which actually
5 just graphs the spread. And there are three (3) points
6 that I'd like to make coming from this chart.

7 And let me preface the three (3) points by
8 saying the -- somewhere in the text the Centra people
9 have attempted to average the ten (10) and thirty (30)
10 year numbers as perhaps representative of ten (10) plus.
11 I just went straight to the twenty (20), it's the one
12 they were using in terms of assessing their forecast, and
13 it might be relevant for assessing the reasonableness of
14 the spread that might ultimately be required on the
15 proposed twenty (20) year deals, which are the best
16 evidence that we have.

17 So the first point that I'd like to make
18 in looking at the spread chart is that, from a period
19 beginning in January '01 and out, say, to somewhere
20 between, I don't know, October in '07 and January '08 --
21 this, by the way, is monthly data -- we probably have an
22 average spread from Canada to Manitoba of about forty
23 (40) basis points.

24 Now if I go back into my few snippets of
25 files from the Centra 2003/2004 GRA, I believe they were

1 using a spread of forty-five (45) basis points at that
2 time. With respect to what's happened since that time,
3 obviously, we've had a spike since the January/October
4 period. We've gone up in this chart, again using monthly
5 data, almost to a hundred and sixty (160). We quite well
6 may have surpassed it one (1) day in the chart but,
7 however Bloomberg has collected its data, this is the
8 series and this is how it's presented.

9 It has though fallen dramatically. It's
10 already fallen to a hundred and eleven (111) I think was
11 the number from the chart, and we have other evidence in
12 the file that says there was a recent financing done on a
13 spread of a hundred and five (105) or a hundred and six
14 (106).

15 So with respect to the one sixty (160),
16 one hundred and forty (140) forecasts of -- sorry, I
17 misspoke. The one sixty (160), the one hundred (100) and
18 the sixty (60) forecast, which I believe are the numbers
19 which Centra would hope to use for the next few years as
20 spreads, I'm disquiet -- oh, I'm sorry, it's a hundred
21 and ten (110), yes, thank you. PUB-2-198 refers to a
22 hundred and ten (110). I misspoke, it was not a hundred
23 (100), but a hundred and ten (110).

24 I'm disquiet in a couple of senses. The
25 first one is that, in the long run, things tend to

1 gravitate to the mean. This chart probably would develop
2 an average of approximately forty-eight (48) basis
3 points.

4 So if twenty (20) is the best benchmark
5 for ten (10) plus -- and again, we could do a study on
6 that, I haven't done a study, I'm presenting it as in the
7 ballpark -- then we should probably be gravitating
8 ultimately down to something like forty-eight (48) or
9 fifty (50). And we could develop that science and
10 determine the reasonable time period, but in the long
11 run, that's sort of where you'd expect to get to.

12 With respect to the suggestion that one
13 sixty (160), the pinnacle rate which we have now fallen
14 from, is appropriate, I have some trouble believing that
15 that would be the -- the key rate because it's clearly
16 not the rate in the market today, and there's a step
17 value, if you like.

18 The -- and I made a little note to myself
19 somewhere on this. Ah, yes. It seems to have fallen,
20 say, fifty (50) basis points in three (3) months. So if
21 we assume just for a moment that we're going to continue
22 that slope, in another three (3) months we'd be down to
23 sixtyish basis points. A hundred and ten (110) minus
24 fifty (50) is sixty (60).

25 I -- I'm not willing to suggest that

1 that's guaranteed, but in terms of the process, if we
2 reduce the slope to, say, twenty (20) basis points a
3 month by August -- well, I -- I'm sorry, I can't do this
4 in my head.

5 It won't take us very long to get back to
6 the reasonable spreads, but considering that we're not
7 talking about doing an equity issue until February or
8 March 2010, many months from now, I would suggest that to
9 allow anything more than a seventy (70) basis point
10 spread based on what we know today, we had a pinnacle,
11 it's eroded, and we are apparently continuing to erode as
12 confidence comes in.

13 The Globe and Mail this morning had a
14 headline explaining how US banks which created so much of
15 this excitement are now starting to pay back their TARP
16 funds. The market seems to be getting much happier, not
17 to the joyous levels we had eighteen (18) months ago but
18 the markets seem to be much happier.

19 So in terms of this particular structure I
20 have difficulty accepting the one hundred (100) -- sorry,
21 the one sixty (160), the one ten (110), and the sixty
22 (60) as being the appropriate spreads for the next three
23 (3) periods that have been identified in evidence.

24 And just to make sure we touch upon some
25 of the other documents -- where were we?

1 MR. KRIS SAXBERG: The next document is
2 at Tab 24. Perhaps you could identify that document for
3 the record?

4 MR. JOHN MCCORMICK: Twenty-four is a --
5 simply an example that I thought might be helpful to the
6 Board in a couple of regards. This is the first of a
7 series but this one takes the Province of Manitoba yield
8 graph according to Bloomberg in 2003 and compares it to
9 the June 5th yield graph for 2009. And so the white line
10 is where our folks at Bloomberg think Manitoba's current
11 rates or indicative rates are as at the date.

12 And what you see in this chart is that a
13 few years ago short-term debt was costing something more
14 than 3 percent. In this current white line you see that
15 it's on sale. It's like orange juice is on sale at
16 Superstore, it's twenty-nine (29) cents a can, twenty-
17 nine (29) basis points if you like, as opposed to three
18 bucks (\$3). In my mind there are some good reasons for
19 stocking up and not terming out right now because it's on
20 sale. This commodity is cheap.

21 When you roll forward into the 2004
22 example, you again see the '09 curve compared to the '04
23 curve. Again, there's a significant value relative to
24 that particular point in time in being short that was
25 unavailable.

1 And if we flip to the next page of '05,
2 again short-term stuff is exceedingly cheap. And in each
3 of these -- and I'm going very quickly for which I
4 apologize -- long-term rates aren't all that far apart in
5 the fifteen (15), twenty (20), thirty (30) year periods.

6 Sometimes they're higher; sometimes
7 they're lower, but the real special in the market today
8 is short-term debt, and Centra is proposing to reduce the
9 amount of short-term debt and -- because of all the
10 numbers in play -- forgive me if I don't get them right -
11 - but I'm of the view that short-term rates right now are
12 in the twenty-seven-ish basis point thing and the longer-
13 term rates were at one (1) time thought to be in the five
14 (5) range.

15 So I wasn't particularly excited about the
16 prospect of loading up on a lot of long-term stuff right
17 now when the five (5) year stuff looks pretty cheap.
18 And, again, the balance of the slides in that tab speak
19 to the individual time periods identified therein.

20 While sorting around I identified a point
21 in time, March 31st, '09, where term spreads in the short
22 term were very tight and I thought this was interesting
23 because we don't always have the significant disparities
24 that we saw in the -- how the market is moved. This is
25 simply a recent example where --

1 MR. KRIS SAXBERG: Sorry, Mr. McCormick,
2 you're on which Tab now?

3 MR. JOHN MCCORMICK: I'm sorry. I --
4 I've moved ahead to Tab 25. I apologize. Not many
5 minutes left.

6 MR. KRIS SAXBERG: And just identify the
7 white line and the red line.

8 MR. JOHN MCCORMICK: The white line is
9 the Government of Canada line, the yield curve for the
10 Government of Canada. The longer, or the red line is the
11 Province of Manitoba then, yield curve. And there is
12 less of a credit spread at this time in the market for
13 short-term stuff and a larger credit spread for long-term
14 stuff.

15 I -- I'm going to flip ahead, if I may, to
16 27.

17 MR. KRIS SAXBERG: And just for the
18 record, who -- who prepares these -- these graphs?

19 MR. JOHN MCCORMICK: Well, I --

20 MR. KRIS SAXBERG: These yield graphs?

21 MR. JOHN MCCORMICK: You go to a
22 Bloomberg terminal and you press print after you specify
23 the indicia you wish printed. In Tab 27, this is simply
24 a spread graph for June '08, this year, one (1) point in
25 time, a snapshot. At this time, fifteen (15) year money

1 was quite dear, you see the yield curve after fifteen
2 (15) years is inverted, but funding up to ten (10) years
3 and funding particularly up to two (2) years is,
4 according to Bloomberg, quite cheap.

5 And to see the yields, which are parallel
6 to the spread graph, they're identified in the second
7 page in this group, and the data is identified in the
8 third.

9 MR. KRIS SAXBERG: In your evidence, you
10 discussed the -- the funding relationship between
11 Manitoba Hydro and Centra, and you wanted to take the
12 Board to CAC-78, and I stopped you. Perhaps you could do
13 that now. And it's found, by the way, at Tab -- thank
14 you -- 17.

15 MR. JOHN MCCORMICK: Okay. If I can get
16 you to go to the page that is marked page 2 of 2? I
17 believe this was discussed earlier, and so I'm going to
18 gloss over it quite quickly.

19 The top half of the data is Manitoba Hydro
20 data. This table came out of a table that I had or
21 sought to have created in the Manitoba Hydro transaction
22 some time ago. In the top portion of the table, you have
23 a calculated end of period number showing that generally
24 Manitoba Hydro, at the last day of the month, had
25 financing at what is likely a weighted average interest

1 rate on the quantity of individual debt issues that
2 averaged a lower rate than one (1) month BAs.

3 In the bottom half of the table, you have
4 a -- a period average spread for this. And I've just
5 done a little quick math in which I subtract the number
6 four point one-eight (4.18) in the 2006 column from the
7 four point three-one (4.31) item immediately three (3)
8 lines below it.

9 And I look at the forecasting methodology
10 and I say, Son of a gun, both on the end-of-period and
11 the quarterly average, there seems to be a substantial
12 difference between the rates, and I recognize there are
13 different sizes of issue here, between what Hydro is able
14 to come up with and the rates enjoyed by Centra.

15 And, to me, this is sort of sending the
16 guy to buy you milk, and, you know, milk is milk, money
17 is money. I'm not sure how close Superstore and 7-Eleven
18 are in Manitoba because I don't live in this city, but
19 I'd really like to think, on a policy basis, that the
20 Board might encourage the agent, the financing agent, to
21 get Centra at least as good a deal as they can get if
22 they're all part of the same team, but that's a policy
23 issue.

24 But, as I understand the way the Board
25 works, in most jurisdictions I've appeared in, they have

1 a lot of authority to address prudent costs and offer
2 direction onto this process, but, to some extent, it
3 appears that the rates don't particular conform.

4 In fact, in some cases, in the last
5 quarter, there's an average fifty-five (50) basis point
6 difference, and at the point in time there's a ninety-
7 nine (99) basis point difference in what was outstanding.

8 And I don't submit that this is the
9 fairest calculation, but I haven't had access to broad
10 data and I'm certainly not in the position to instruct
11 anyone as to who gets to share in what issues in the
12 Hydro/Centra family of companies.

13 MR. KRIS SAXBERG: Manitoba Hydro,
14 Centra, in the rebuttal evidence, has indicated that it
15 doesn't always have enough short-term debt on hand to
16 satisfy the needs of -- of Centra. And so when it
17 doesn't have enough short-term debt on hand, the interest
18 rate that should be imputed is the long-term debt
19 interest rate.

20 What's your response to that?

21 MR. JOHN MCCORMICK: Well, my first
22 answer is, if I've asked my agent to go to Superstore, I
23 -- I shouldn't be very pleased when he goes to 7-Eleven.
24 So if I'm supposed to have short-term debt on my balance
25 sheet, then why can't you structure your affairs so that

1 I have short-term debt?

2 And when I look at the Manitoba Hydro
3 policy, which I think allowed them to have up to 500
4 million of short-term debt, and I look at one (1) of the
5 very early documents that we have somewhere, which is the
6 quarter end short-term debt in Centra, I think the
7 highest number is either a hundred and fifty-eight (158)
8 or a hundred and seventy two (172), and perhaps counsel
9 can tell me exactly where that is.

10

11 (BRIEF PAUSE)

12

13 MR. JOHN MCCORMICK: It is in Tab 18.
14 And Tab 18 of my counsel's book, it identifies various
15 amounts of short-term debt, forecast and actual. So in
16 terms of these numbers, none of these numbers are over
17 \$500 million.

18 And looking at the short-term debt numbers
19 in 2-78, again, on page 2, just to be brief, the top
20 numbers are a hundred and seventy-seven (177) and a
21 hundred and sixty-five (165). So it appears to me that
22 there may be adequate room, but not a direction that my
23 hypothetical customer would be entitled to enjoy the
24 short-term rates that are really available on a pass-
25 through basis, or even something as close to the

1 associated cost of financing. We're apparently booking
2 it at one (1) month BA rates.

3 MR. KRIS SAXBERG: I'd like to move on
4 now to the information that you've conveyed to this Board
5 through your evidence regarding distribution of long-term
6 debt.

7 And if you refer to page 15 of your
8 evidence, question 14, you discuss a concern about
9 refinancing risk associated with the forecast of long-
10 term debt issues.

11 Can you explain that issue to the Board?

12 MR. JOHN MCCORMICK: Well I think that
13 was dealt with in part in Board IR, to me, 21. Is there
14 such a beast?

15

16 (BRIEF PAUSE)

17

18 MR. JOHN MCCORMICK: Effectively, I see
19 no particularly good planning reason for saying, We're
20 going to put the preponderance of our debt into a very
21 short time period, when, in fact, as we've heard in
22 discussion, that may not come to pass. It would seem to
23 me that it is equally open to the Company or the Board to
24 approve that we might have some staggered maturities.

25 I proposed a sample of staggered

1 maturities really to focus in on the potential interest
2 savings that would be available if we didn't constantly
3 say we're going to do twenty (20) years.

4 The Company's reply I believe said, We
5 will have more financing risk if, in fact, we divide a
6 proposed twenty (20) year maturity up into a five (5)
7 year series of four (4) issues. So we finance for five
8 (5) and then finance for five (5) and then finance for
9 five (5) and then finance for five (5).

10 The benefit of that I believe will be well
11 understood by any homeowner who takes a one (1) year
12 mortgage out as opposed to a seven (7) year mortgage
13 because when he does that he's picking up the positive
14 spread. He's paying less interest. And it works for
15 corporations, as well. So when we go to our next
16 renewal, we have pocketed whatever that spread is, the
17 five (5) to twenty (20) spread for five (5) years.

18 And so if, in fact, we are faced with a
19 higher rate, it has to be higher than the original issue
20 by the amount of the saving before -- for us to be
21 indifferent.

22 And in the same way we face a risk that
23 the rate may be higher at renewal, in fact even higher
24 than the saving plus the original rate, we're still in a
25 position where we also have a chance five (5) years out

1 thereafter to perhaps finance at an even better rate than
2 our first rate.

3 So I hear their statement that there is a
4 risk. I fully accept that. There is also a potential
5 reward that cannot be calculated.

6 And please understand, I am not
7 recommending that we shift the entire Centra capital
8 structure into short-term debt today because it's
9 cheaper, but going to another extreme and saying we want
10 to have a preponderance of our debt priced into that
11 consumer's rates, who may be having trouble running his
12 plant, is equally unappealing to me. Thank you.

13 MR. KRIS SAXBERG: Thank you. Just
14 before I get -- before I get to your final
15 recommendations, can you just quickly confirm the
16 documents at Tab 7, 8, 9, 10, 11 and 12 are the financial
17 forecasts that you used to construct the table on page 20
18 of your evidence?

19 MR. JOHN MCCORMICK: Yes, they are the
20 evidence or the basis of the evidence.

21 MR. KRIS SAXBERG: And you used those
22 forecasts, most of which are May, is that right?

23 MR. JOHN MCCORMICK: TD Economics is
24 March, it was the then most recent, and CIBC World
25 Markets was April, it was the then most recent.

1 MR. KRIS SAXBERG: And you used that
2 information to provide a recommendation for the short-
3 term debt interest rate forecast and if you could then
4 with reference to PUB IR-23, explain what your
5 recommendation to this Board is? And PUB-23 is in the
6 material.

7 MR. JOHN MCCORMICK: At 30.

8 MR. KRIS SAXBERG: At Tab 30, thank you.

9 MR. JOHN MCCORMICK: If we go to page 2
10 of 8, the 2009/'10 short-term forecast was shown as
11 twenty-seven (27) basis points for thirty (30) day BAs.
12 For 2010/'11, the short-term forecast was eighty-one (81)
13 basis points.

14 I used the BMO Capital Markets forecast
15 for those periods, save and except for the first quarter
16 of 2011, where I continued their trend line, which was
17 forty-eight (48) basis points, which is within the bounds
18 of the material that I developed based on the changes of
19 BA rates. In each case, I have assumed a five (5) basis
20 point spread difference and those are the resulting
21 grades.

22 With respect to the ten (10) year
23 forecast, I didn't find it necessary to forecast for
24 various years because our recommendation from the company
25 was that we would be undertaking transactions in a

1 particular quarter and in that instance, to demonstrate a
2 different methodology to the Board -- and I would suggest
3 equally good.

4 We could use this methodology for the BA
5 development, if you like, but in this case, rather than
6 just take the single person that gave us a convenient and
7 potentially robust forecast, in this case I use the
8 entire group of forecasters and I addressed them
9 differently, treating the data based on its assumptions.

10 And so, with respect to the Bank of
11 Montreal, I only need to worry about their long-term
12 forecast of three point one one (3.11). With respect to
13 other issuers, I need their end point quarter and I need
14 their end of the relevant quarter time, average that and
15 taking those numbers I come up with an average of three
16 (3), as the professional forecasters' most recent best
17 estimate of where ten (10) year Canadas are going to be.

18 And at this time, I had no information as
19 to spreads in terms of the development so I used the
20 Manitoba spread of sixty (60). Based on what I know
21 today, I would increase that. I think I mentioned
22 seventy (70) but, again, these numbers are prepared
23 quickly without access to all the documents I would have
24 preferred to have and with a very short time to actually
25 see what the underlying work done by Manitoba Hydro was -

1 - I'm sorry, sorry, Centra was.

2 MR. KRIS SAXBERG: And finally, do you have
3 a recommendation with respect to whether or not deferral
4 accounts should be used for finance expense?

5 MR. JOHN MCCORMICK: Well, I'm going to
6 repeat myself. I think we need to have a robust
7 forecasting methodology that deals with data consistently
8 in an appropriate manner and expands any longer term data
9 that may be required to complete a fiscal year, on a
10 basis that frankly makes sense relative to the change in
11 data that we have observed over the last decade or so.

12 And I'm not persuaded that the concept of
13 any variation goes into retained earnings and it works
14 itself out does anything for my consumer in the current
15 time period, and so I would suggest that to underscore
16 the need for robust forecasts a deferral account would be
17 a positive step.

18 And again, in addition to two seventy-
19 eight (278), when I go back and look at the forecast for
20 debt rates in the 2003/2004 Application and I look at my
21 data that I've assembled, they overshot the forecast
22 again.

23 So whatever their forecast methodology is
24 and whatever photographs I've had over the last time
25 period, it doesn't seem to be very tight in terms of

1 identifying where things come out. And that may be just
2 the nature of forecasting, but I would have thought I
3 would have identified a point where we were below the
4 result as things have gone up and down over the years. I
5 have yet to find one. It may be there, but I have not
6 done the full study that would permit me to do that.

7 And I see I have about forty-five (45)
8 seconds left so I will thank the Board for their
9 attention unless counsel has another question for me.

10 MR. KRIS SAXBERG: I can ask a question
11 that will only require a yes or no answer and that'll end
12 things and that is: Does the recommendation, with
13 respect to deferral account, apply to the short-term
14 interest rate and the long-term interest rate forecasts?

15 MR. JOHN MCCORMICK: Yes.

16 MR. KRIS SAXBERG: And with that, that
17 concludes the direct examination of Mr. McCormick. Ten
18 (10) seconds left I could fill, but I'll just end it.
19 Thank you.

20 THE CHAIRPERSON: Quite impressive time
21 management, Mr. Saxberg. Thank you, Mr. McCormick.
22 Thank you, Mr. Saxberg. We'll see you all tomorrow
23 morning at 9:00 a.m.

24

25 (WITNESS RETIRES)

1 --- Upon adjourning at 6:00 p.m.

2

3

4 Certified correct,

5

6

7

8

9

10 Cheryl Lavigne, Ms.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25