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 11, 2009

Pages 1083 to 1302

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

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LIST OF UNDERTAKINGS

s--- Upon commencing at 9:04 a.m.

THE CHAIRPERSON: Okay, good morning, everyone. And I believe, if there is not anything to be filed, Ms. Murphy, then we will begin with you and your cross-examination of Mr. McCormick.

CAC/MSOS PANEL RESUMED:

JOHN MCCORMICK, Resumed

CROSS-EXAMINATION BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Thank you, Mr. Chairman. Good morning. Good morning, Mr. McCormick.

MR. JOHN MCCORMICK: Good morning.

MS. MARLA MURPHY: I want to begin by -- if I could have you turn up CAC's book of documents to Tab 30, please.

(BRIEF PAUSE)

MS. MARLA MURPHY: The document there is your response to PUB-23. And I just want to look at page 5 of your evidence there, please.

At line 13, do you have it? At line 13,

you have it?

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: At line 13, you've indicated that you're recommending that the Board adopt a ten (10) year forecast rate of 3.6 percent for the first quarter of 2010, is that right?

MR. JOHN MCCORMICK: Not completely. The -- the difficulty that I had with your spread of sixty (60) was I was unable to determine, based on the information which had been provided in response to my IRs at the time I crafted my evidence, whether you had a ten (10) year or a ten (10) year plus data source and how your spread had been crafted.

It now appears to me that, say, four (4) of your dozen data points were, in fact, ten (10) plus data or some development of the ten (10) plus data and eight (8) of your data points appeared to be generally ten (10) data point -- ten (10) year data points.

So, because of my inability to see what it was you had done, I wasn't in a position where I could, at that time, attempt to craft or improve on your spread. I didn't know whether it was simply a term spread, a combination of term and credit, so I adopted your spread in the absence of any other information.

MS. MARLA MURPHY: And the Centra spread

has been revised based on the updated forecast but you haven't adopted that, have you?

MR. JOHN MCCORMICK: Well, I think my commentary yesterday based on -- beginning with your one sixty (160), one ten (110), sixty (60) analysis was to suggest that the sixty (60) does not appear to me to be the appropriate spread. It might be forty-eight (48), some number in that range.

MS. MARLA MURPHY: I'm sorry, forty-eight (48)?

MR. JOHN MCCORMICK: Forty-eight (48), I think was the arithmetic average of the ten (10) year grouping of twenty (20) year Canada's to twenty (20) year Manitoba's, which I use, drawn from Bloomberg monthly data series.

And in my mind, that would be the reasonable mean point for the long-term twenty (20) year spread which I, again, have used as a proxy for a ten (10) plus. And looking at current market conditions, the current, say hundred and five (105), hundred and sixish current market spreads for a long-term issue, which I think was a thirty-seven (37), or I'm sorry, a twenty-seven (27) year issue, or a thirty-one (31) year issue. A very long-term issue discussed in that IR.

I thought perhaps seventy (70) might be an appropriate spread for the first quarter of 2010 when you had forecast the preponderance of financing for long-term.

MS. MARLA MURPHY: If I can turn you to Tab 3 of your book of documents. The very last page of that tab is the attachment to CAC/MSOS/CENTRA-198.

That was filed at the request of CAC by Centra, correct?

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: And that is the Bloomberg F302 table?

MR. JOHN MCCORMICK: It is, 302 against 101.

MS. MARLA MURPHY: As of June 1st, 2009, correct?

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: And you testified yesterday that Bloomberg was a respected source of information --

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: -- correct? So when I look at the ten (10) year line on that graph, or the chart above the graph, we can see that the Bank of Canada benchmark rate is three point five eight two five (3.5825), correct?

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: And looking across that line, the spread indicated is a hundred and three (103) basis points, correct?

MR. JOHN MCCORMICK: On that date, yes.

MS. MARLA MURPHY: And that indicates a ten (10) year Manitoba rate of 4.61 percent, correct?

MR. JOHN MCCORMICK: Correct.

MS. MARLA MURPHY: And in calculating it's all in co -- cost of financing, Centra would have to add some commission costs in the order of something like seven (7) basis points, correct?

MR. JOHN MCCORMICK: I have not studied your commission costs, but I'm perfectly willing to accept that as a number but it's wholly dependent on the size of the issue, and legal fees.

MS. MARLA MURPHY: So given the Bloomberg information showing 4.61 percent, would you continue to advocate that the Board be using 3.6 or 3.7 percent --

MR. JOHN MCCORMICK: For --

MS. MARLA MURPHY: -- for a ten (10) year rate?

MR. JOHN MCCORMICK: -- for today, clearly not. For the first quarter of 2010, where we have forecasts of the base rate that are in the 3 percent range from a host of more current sources than were provided in your evidence, yes, I would start with a different base rate, and I would also start with a different term spread, and credit spread, to get to the twenty (20) year number.

So yes, these are, if you like, data points which I have considered in arriving at my three sixty (360) type number which was the initial number, and the three seventy (370) number which seemed to flow out of the additional information which was provided by you after my evidence was filed.

MS. MARLA MURPHY: The one (1) thing that I took from your evidence is that you're a big fan of using current information --

MR. JOHN MCCORMICK: Yes, I am.

MS. MARLA MURPHY: -- is that fair? And I guess the one (1) thing that the forecast that you've provided has in common with ours is that the data has now been superceded, correct?

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: There will, in fact, be June forecasts available today.

MR. JOHN MCCORMICK: For some of these entities. Not everyone has a regular cycle.

MS. MARLA MURPHY: And have you looked at any of the June forecasts?

MR. JOHN MCCORMICK: I have not. In preparing some of my IRs, I, when using the Bank of Montreal item, went and updated it to the May 22nd forecast which was the then most recent forecast, and I believe I identified that in one (1) of the IRs.

But for the purposes of this Hearing, I have not, once again, updated everything to reduce the number of changes that would be on the table.

MS. MARLA MURPHY: Now, would it surprise you to hear that the June forecast of the ten (10) year Canada rate would be in the order of 3.49 percent as opposed to the 3 percent contained in your evidence?

MR. JOHN MCCORMICK: Well, if you'll forgive me, I don't know your source. I don't know if it's an end-of-period source, I don't know if it's an average source, but in the sense that certain forecasters, such as National Bank, have higher forecasts than others, it would not surprise me that at least one (1) of the forecasters would have that.

But if you're telling me that this is derived from your methodology, where you're including the BC and Federal numbers as part of the derivation, then I would discount the number you're offering me because of the manner in which it is developed with seriously stale dated data, so...

MS. MARLA MURPHY: And if I was telling you that that was derived in the same methodology in which you calculated the response to PUB-23, using the same forecasters, would you accept that the rate is 3.49 percent?

MR. JOHN MCCORMICK: Subject to check, I would be happy to agree that the forecasters may have changed. And assuming that the data is correctly dealt with, I'm happy to say, yes, it could have changed, and it could have changed up or down.

MS. MARLA MURPHY: Yes, and -- and that's to be expected.

MR. JOHN MCCORMICK: Forecasts do change; market conditions do change.

MS. MARLA MURPHY: And do you understand now, having read the evidence, that Centra's long-term debt ranges from ten (10) year to thirty (30) year debt?

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Well, looking at page 15 of my evidence, I would certainly agree that there are maturities in the long ranges. I'm showing that for the period as of March 2011 you were forecasting a, probably, 2037 maturity.

But it seems to me that the long-term debt today might also include something maturing in 2012, so when you put to me the long-term debt in the range of ten (10) to thirty (30) years, I would think that is not the complete range today.

MS. MARLA MURPHY: It would be a range up to thirty (30) years.

MR. JOHN MCCORMICK: Well, you have a --

MS. MARLA MURPHY: Something in the order of thirty (30) years.

MR. JOHN MCCORMICK: Yeah, something in the order of thirty (30) years.

MS. MARLA MURPHY: And would you agree that, when you're looking at long-term debt for those kind of ranges, that a forecast of a ten (10) year plus rate is acceptable?

MR. JOHN MCCORMICK: Well, in my evidence I've suggested that if we are forecasting for ten (10) year debt, we should use ten (10) year debt. If we're forecasting for twenty (20) year debt, we should use twenty (20) year debt data, if in fact we have that.

If we're forecasting for a blended uncertain period, say the ten (10) plus, which isn't necessarily a firm twenty (20), it might be nineteen

(19), or twenty-one (21), or some other number, depending on how the authors of the ten (10) plus factor have chosen to weigh the -- the debt their analysing, yes, I'm a great believer that we should use relevant data on a relevant basis and consistently applied.

MS. MARLA MURPHY: And so, to the extent that the -- the forecasts were to use a ten (10) rate, as you suggest, that would somewhat understate the interest forecast, wouldn't it?

MR. JOHN MCCORMICK: If you only have available ten (10) year data from which to address your items, then you would need to add both a credit spread and a yield spread to put us in a position where we are giving the best estimate of data.

And if you look at the development of my spread, it was originally done on twenty (20) year data. So if you're suggesting to me there is a mismatch in the term spread, because I used ten (10) year data, and then adopted your own data, I'd be willing to accept that and give you the few basis points that are required to reflect the term spread. I have no difficulty with that.

I would though note that in Centra's approach for addressing term spread in the discussion of the short-term debt, they have suggested that the difference between one (1) and three (3) month BAs, which

I -- I estimated one (1) data series might be in the order of five (5) basis points; that was ignored. So, in terms of the precision of forecasts, yes, my preferred method using ten (10) year data to do a twenty (20) year bond would be to fully reflect both term and credit spread, accurately estimated.

MS. MARLA MURPHY: You said in your evidence yesterday that you see no reason to term out any of Centra's short-term debt to long-term debt.

Are you aware of any utility that, on an on-going basis, finances the construction of significant long-lived capital assets without securing long-term debt?

MR. JOHN MCCORMICK: Well, the question you put to me was absolute and I'm quite sure I said, I don't believe utilities should use short-term debt exclusively. So, I'm also unsure whether the transcript actually has the words you've put to me because, frankly, I don't believe that 100 percent short-term debt is the appropriate way to carry on business.

I also don't believe that consolidating all your debt for refinancing in a time period is the most wise structure. So, we have a balance that must be achieved. A little five (5), a little ten (10), a little twenty (20), a little thirty (30) could be demonstrated to provide a debt optimal solution.

And with respect to this time in the market, as I believe -- I tried to rush through in my evidence, I think was Tab 23...

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Pardon me. It's Tab 24. Right now, it looks like short-term debt is on special. The longer term rates are much more constant, although there is oscillation in the long-term rates right now.

Reducing the percentage of short-term debt in your capital structure, which was one (1) of the points raised in my evidence, seemed to me not to be the most compelling case based on the really cheap, on a relative basis to historic times, rates at which short-term debt is available.

MS. MARLA MURPHY: So you wouldn't disagree with the proposition that Centra utilizing the short-term revolving line of credit for financing of its long-term capital program has brought an advantage to the ratepayers?

MR. JOHN MCCORMICK: Well, you describe it as an advantage. I would suggest using short-term debt, which in a normal yield curve is generally cheaper, is also a good and prudent business practice. So, the way you've structured your sentence, it sounds to me like you're putting to me that Centra has done something special and I would suggest that they have a portfolio of debt.

They've made a number of debt decisions, going back years. I don't know what year they did the transaction that's going to mature in 2012. It's somewhere in the evidence but that decision was made years ago and so we carry that decision with us.

But every time we're confronted with an opportunity to finance, say for the gas costs that are apparently the major factor that drives up Centra's short-term debt perhaps to 170 million at the end of one (1) quarter or other, ideally I'd like to see 170 million at short-term rates being reflected for that type of transaction.

And with respect to the concept that we should finance a -- an asset -- a long-lifed asset with a particular maturity of debt, to me that's a very difficult thing to create in the sense of a perfect simile.

If you built a gas-fired electrical generation plant, it might last for twenty-five (25) or thirty (30) years. Going out and doing a single twenty-five (25) or thirty (30) year bullet maturity puts you in a -- a difficult position in that the value of the asset may decline over time.

You haven't matched the -- the cash flows from the asset to your debt repayment structure, so, there is a host of subtleties that should be considered in formulating a debt program to match your assets long life or average life. It's not just we're building a thirty (30) year asset, we need to get a thirty (30) year debt on.

MS. MARLA MURPHY: I take it you wouldn't disagree with the proposition that although you don't want to match it perfectly, or can't match it perfectly, that it makes sense to consider the service life of the asset in determining the appropriate length of the debt that you're -- you're going to finance it with.

MR. JOHN MCCORMICK: Both service life, current market conditions, depreciation cycle, cash flow generating capabilities, a host of factors, and in particular current market conditions.

I'm not sure how anyone else in this room does their shopping, but periodically I will go and stock up on things that are just tremendously on sale.

I know that homeowners when facing

mortgage decisions, having bought a very long life asset and are confronted with a choice of mortgages, both fixed and variable for perhaps one (1) to ten (10) years, or six (6) months to ten (10) years, often take advantage of the shorter-term, generally lower rate, in hopes of securing a financial advantage over time.

MS. MARLA MURPHY: Mr. McCormick, would you agree that although homeowners may make that decision, if they're not looking at the long-term potential of their interest that, in fact, that's resulted in a number of homeowners losing their homes today?

MR. JOHN MCCORMICK: Well, I -- I wish I could tell you that it was that simple, but there will be a myriad of stories.

And if we're dealing with the programs in Canada that allowed people to finance 107 percent of their home, that program was fraught with problems from beginning.

The US sub-prime mortgages, which had short-term bonus rates with automatic raises built into them were, for most people, train wrecks waiting to happen, both because of the credit worthiness of the people undertaking the obligation and the structure of the debt.

So not every security offered in the market is without difficulty, so...

MS. MARLA MURPHY: Well, I certainly agree there's a number of issues that need to be considered, and as a prudent Utility when we're making investment decisions based on a thirty (30) or a fifty (50) year time horizon, or perhaps longer, it would be important to look at the long-term interest rates, wouldn't it?

MR. JOHN MCCORMICK: When you're making a investment decision, it is very important to look at your cost of capital. Your cost of capital includes both the short-term and the long-term rates available at the time.

MS. MARLA MURPHY: And to the extent possible, it should be an objective of the Utility to take the variability, or uncertainty, out of the investment decision by locking in financing costs over the term of the investment. Isn't that right?

MR. JOHN MCCORMICK: I don't accept that proposition. You have too many factors in there. I've addressed a number of them in my evidence, and so I -- as attractive as that proposition is, I cannot accept it.

It is one (1) of many factors that you have -- sorry. You have identified in that sentence too many factors that need to be judged based on whether the yield curve is positive or negative.

Right now, if we were in a reversed yield curve as opposed to a normal yield curve, I wouldn't be as enamoured with short-term debt, but I might still suggest that we should be doing shorter-term long-term debt, say five (5) or ten (10) years, as opposed to twenty (20) years, because the yield curve in that environment would give us information that would suggest that things were less friendly in the markets at this point in time than they might be at a future time.

MS. MARLA MURPHY: Well, given that long-term borrowing rates are close to historic lows at this point, why is it that you would advocate gambling with five (5) year borrowing, or shorter-term borrowing, with the hope of rates going even lower on renewal?

MR. JOHN MCCORMICK: Well, I have to specifically reject the word "gambling". I would not want to be in a position where I am suggesting that the persons making the choice of a particular term are choosing to gamble on twenty (20) year.

One would hope that they're making a wise choice related to their view of portfolio theory, one (1) that I clearly don't share because I don't believe loading up your maturities in a thirteen (13) month period represents a good approach.

Frankly, I -- it compounds your financing risk into a very short cycle of the market. If, in fact, there was never any intention to do those debt issues on a twenty (20) year basis, or -- there is only a slight possibility.

I'm not -- after hearing your oral evidence, I -- I'm uncertain the weight that we should attach to the twenty (20) year aspect. But if there is no commitment or thought that that is the right time, I'm troubled that we would be importing a twenty (20) rate that is generally higher than a ten (10) year rate say, or a five (5) year rate, into the mix.

But I've only addressed a couple of elements of your question, so if -- if you could try it again, without gambling, I may be able to give you a more full answer.

MS. MARLA MURPHY: Well, you've suggested in your evidence that the reward -- or the hope of the reward that people have in -- in taking a five (5) year term as opposed to a twenty (20) year term or thirty (30) year term, matching the life of the asset, is that there's the hope that the interest rates will be lower when you renew.

And I'm suggesting to you that, if long-term borrowing rates are already at close to a historic low, that this wouldn't be an appropriate time to look for that hope.

MR. JOHN MCCORMICK: Well, I'd like to talk about that for a little bit of time, and if you can assist me by turning to 24 in the book of charts. Thank you. This is a comparative yield graph of the province of Manitoba on two (2) different dates. It's a snapshot.

As I suggested in my evidence, my task was not initially to address borrowing costs, it was to focus in on the base rate changes, which seem to me to be completely out of whack.

So, as the Board triggered an IR that asked me to address borrowing costs, I -- I pulled together some data on this point. This chart compares the white line, which is the June '05 Manitoba Bloomberg curve against 2003.

And in the lefthand side, we have the short-term grouping of maturities; we have three (3) month, six (6) month, and one (1) year. And the chart shows that, right now, we would be able to borrow at fifty (50) basis points or less at the -- the shortest end of the cycle.

Were we having this discussion in 2003, we would have been facing rates at that time which were over 3 percent. This chart demonstrates, in part, that we were -- we're in a position where now short-term rates are on sale.

To go to the long end of the curve, there we have a spread that may be forty (40) basis points at thirty (30) years, dropping say to ten (10) or fifteen (15) at twenty (20) years.

And when we get into the fifteen (15) year period, fifteen (15) year money is more dear at this date than it was a number of years ago. So when you say that long-term rates are close to historic lows, I haven't done the full analysis of whatever time period you might think is historic, but I'm looking at the difference on this chart and seeing that the twenty (20) year money that you're speaking of, as something that you're basing your application on, or were once basing your application on, is virtually indifferent.

So we're not dealing with a situation where the ratepayers will have any substantial financial advantage on the financings you're proposing at this time were we to do these. So, we're in a position where I say the benefit of being long isn't immediately apparent to me.

Flipping ahead a year for the snapshot, at that point in time, just another example, we've got the 2009 rates are generally lower than we had existed at

2004. So, in terms of impact, there is a saving. There is a benefit on these rates for a long-term financing over the rates that existed in 2004.

Moving ahead to 2005, again we see a substantial advantage in short-term rates, something more than two hundred (200) basis points. And again, in long-term rates, we have the long-term rates in 2009 being more dear, more expensive than the long-term rate that Bloomberg suggests would have prevailed in the market in the year '05, June 6th.

So, there's an oscillation here. Sometimes in history, we would have been better off doing longer term than short term. At other times -- at other points in the historical chart, just looking year over year, frankly, I would have preferred to be doing short-term debt to a lesser degree or to a greater degree.

Now, with respect to the real numbers, at both the twenty (20) year point in the 2003 and 2009 time, it looks like Bloomberg is telling us your market-clearing rates were approximately 5 percent. They moved up to 6 percent in 2004. In 2005, your market-clearing rate for twenty (20) year had dropped to four point eight (4.8) approximately, looking at the chart.

So, I'm seeing in this chart, compared to what we know about the current market - and again, I'm speaking about the recent current market as opposed to the forecast market that is relevant for this proceeding - but if I had had the opportunity to do twenty (20) year debt in 2004 on that date, I would feel a little bit better than I would if I had the opportunity or the compulsion to do twenty (20) year debt on the date this chart was made because it would have been cheaper.

And so, rather than go through the rest of the charts, we have oscillation. Sometimes, conditions are better; sometimes, conditions are worse.

Again, in the final chart in the group, comparing 2008, we have the yield curve for 2008 being lower than the yield curve for 2009. So, when you say we're close to historic lows, there's an awful lot of symmetry between these lines, admittedly five (5) or six (6) snapshots and they aren't consistently pointing out a superior advantage for twenty (20) year financing now.

MS. MARLA MURPHY: Is the perhaps simpler way to look at that picture at Tab 23 of your book of documents? As I understood your evidence, this is the -- the Canada and the Manitoba rates.

MR. JOHN MCCORMICK: For twenty-three (23)?

MS. MARLA MURPHY: Yes, it's your graph. Those are ten (10) year rates?

MR. JOHN MCCORMICK: The two (2) line graph?

MS. MARLA MURPHY: Yes, your two (2) line --

MR. JOHN MCCORMICK: No, it -- those are twenty (20) years.

MS. MARLA MURPHY: Those are twenty (20) years. So, when I look at that, you can -- you can see certainly the decline in interest rates that we've been discussing, correct?

MR. JOHN MCCORMICK: Yes, there is a decline in interest rates.

MS. MARLA MURPHY: So, my suggestion that long-term might be on sale, may be just not as good a sale as the short-term, isn't -- is supported by that graph?

MR. JOHN MCCORMICK: Well, you don't borrow as Canada.

MS. MARLA MURPHY: True. We borrow as Manitoba.

MR. JOHN MCCORMICK: That's right. And that would be the blue line.

MS. MARLA MURPHY: Yes.

MR. JOHN MCCORMICK: And --

MS. MARLA MURPHY: And you've seen a reduction there from -- in the order of 6 1/4 percent

January 1. It's come down. Certainly hit its low in '06.

MR. JOHN MCCORMICK: Oh, yes. But your point is well taken, if we're going back to the '01 period, yes.

Even at the horrible spreads that moved in say October '08, where Manitoba pumped up to say five seventy five (575), or whatever the graph demonstrates, you were happier to be financing there.

But if we go back only to October '04, in the recent memory, there's really nothing thrilling in saying, "Oh gee, we're at bargain rates."

And if I may comment, there was a mention that the long-term rate changes and spreads move in some way in tandem. I -- that statement confused me, and I certainly don't see it in this chart with spreads widening in this example, but yes, this chart clearly puts forth the long long-term picture.

It was developed because I had difficulty in understanding where the long-term spreads that you had at sixty (60) were coming from, and I wanted to see whether the forty-five (45) that had once been used as the long-term element had any foundation.

So I'm quite happy to discuss long-term data. You're completely correct when you say that, say five (5) years ago, we would have been in an inferior rate position when we went to the market than we are today, but during the period April '05 to perhaps July '08, we've been in a better position. And right now, shorter-terms are on sale.

MS. MARLA MURPHY: I just want to look at your comments regarding the spread for a moment. I take it you'd agree that it's not appropriate to look at spreads in isolation without considering the yield rates?

MR. JOHN MCCORMICK: Well, what's the purpose of our examination? I -- I look at the bond market. I'm interested in spreads, I'm interested in base rates.

So if I'm trying to determine whether spreads are going up or down, I need to look only at spreads. I don't care about base rates, so I'm not sure what the goal of the inquiry is, so, I don't know how to respond to your question.

MS. MARLA MURPHY: Well, I'm -- I'm puzzled, I suppose, by your position that although you need to use current market information in every respect that you can, that it's all right to revert to the mean for the credit spreads, and to suggest that the hundred and eleven (111) or hundred and three (103) basis points that we see on the Bloomberg graph that we've looked at earlier isn't the appropriate spread to use.

MR. JOHN MCCORMICK: Well, it's certainly an appropriate indicator. If I'm going to the market today, I want to know what today's spreads are.

If I'm in a position where I'm forecasting the probable spread that will exist in the first quarter of 2010, I frankly have a lot of difficulty in saying, "Well, we recently had one sixty (160). I think it'll be one sixty (160) again."

When the trend line is down, the -- the market news and tone is improving, but you could form that opinion. You could say whatever has happened once will happen again. We could have the Great Depression, and it will start in January 1st, 2010.

But considering the actions of government to increase liquidity, which has particularly affected the short-end of the spectrum, the efforts of government to support various industries in difficulty to maintain employment, to encourage consumer confidence, to do all these things, I have no trouble in suggesting, yes, we might want to consider a different number for your Appendix A, where you have us gravitating towards a sixty (60) basis point spread for your calculation when I think forty-five (45) may be as appropriate and, in fact, more appropriate. It's -- may only be a question of how long it will take us to get there.

MS. MARLA MURPHY: What are the market fundamentals that would cause the credit spread to narrow?

MR. JOHN MCCORMICK: Term -- or at what term? Are we talking ten (10) or are we talking three (3) months?

MS. MARLA MURPHY: Well, talk in the longer term, in the ten (10) year term. What are the market fundamentals that are going to cause the spread to narrow?

MR. JOHN MCCORMICK: Well, I don't think I could give you an exhaustive list. The credit spreads for longer term obligations are determined by a host of factors. If we start off with things that will affect forecasts for long-term rates, excess government borrowing -- excess --

MS. MARLA MURPHY: Sorry to interrupt but let's just look at the spreads first.

MR. JOHN MCCORMICK: Well --

MS. MARLA MURPHY: What's going to cause the spread to narrow?

MR. JOHN MCCORMICK: Umm...

MS. MARLA MURPHY: You're going to be looking at things like improved market confidence, those types of issues, correct?

MR. JOHN MCCORMICK: Improved market confidence would be one (1) principal factor. The improved individual credit for the particular issuer or for whom we are speaking, in this case, Manitoba.

If Manitoba's running big surpluses or it's perceived to have some near-term financial advantage accruing because of its particular industrial base or agriculture base, mining base, becoming more profitable and generating more tax dollars, things like that, when we move off into corporates, again, the individual company performance will be a key factor. The sense of the capital markets with respect to inflation will also affect spreads.

There's sort of a multiplier effect there. I'm afraid I didn't need to develop an opinion on all those factors in formulating my evidence but at this moment, that's all I've got to say on the subject.

MS. MARLA MURPHY: Okay. And -- and my point was simply that when you look at those factors, those are the same factors that are going to cause the long-term benchmark rates to rise, aren't they?

MR. JOHN MCCORMICK: No. The long-term benchmark rate rise will not be affected by the change in the taxable performance of companies that pay tax in

Manitoba, which would give rise to more revenue which would improve Manitoba's credit position.

MS. MARLA MURPHY: Turn with me to Tab 23, please. I think maybe you already have it turned up. I'm looking at the third page in of that tab which I understood or surmised to be the data points on which you drew the graph, is that right?

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: And if I look at the last six (6) months from December '08, to May of '09, that would demonstrate the proposition that I was just advancing to you that as the spreads increase, the rates decrease; that they move in tandem, correct?

(BRIEF PAUSE)

MR. JOHN MCCORMICK: I -- I'm sorry. Can you take me through that -- can we use, say, the change from September '08, to October '08, to show me the point you're attempting to make?

MS. MARLA MURPHY: Well, let's look at December '08, to January '09. There you see the three (3), the Canada rate, three point six (3.6), the spread, one point five (1.5). When you move between December and January, the Canada rate increased three point nine

(3.9), the spread decreased one point two (1.2), correct?

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Well, the change in the Canada spread is thirty-six (36) basis points, the difference between three point six (3.6) and three point nine eight (3.98), is that correct? That's how I read it.

MS. MARLA MURPHY: Oh, lawyers doing math on a mic is always fun. Sorry, you looked at...?

MR. JOHN MCCORMICK: I looked at the Canada change, and it seems to have changed by thirty-six (36) basis points.

MS. MARLA MURPHY: Yes, from three point six two (3.62) to three point nine eight (3.98).

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: Yep.

MR. JOHN MCCORMICK: And the Manitoba change is twelve (12) basis points. Pardon me, it's from twelve (12) to twenty-eight (28), which is sixteen (16) basis points.

MS. MARLA MURPHY: And the spread from one point five (1.5) to one point two nine (1.29)?

MR. JOHN MCCORMICK: Well, we may be

bandying words, but the change in the Canada rate is thirty-six (36). The change in the Manitoba rate is sixteen (16).

MS. MARLA MURPHY: Directionally the same.

MR. JOHN MCCORMICK: Directionally the same, yes, but not -- not in tandem.

MS. MARLA MURPHY: And the spread directionally opposite.

MR. JOHN MCCORMICK: Oh, directionally opposite?

MS. MARLA MURPHY: The spread is directionally opposite between December and January.

MR. JOHN MCCORMICK: Yes.

MS. MARLA MURPHY: Thank you.

MR. JOHN MCCORMICK: But I'm not seeing a tandem relationship here. The -- neither one (1) has moved by the same element, nor have they moved in the same percentage, as far as I can tell.

MS. MARLA MURPHY: Okay, and "tandem" is probably the wrong word to use but, directionally, they, in this case, and you'll see over the six (6) months there, operate so that as the fundamental that drives the credit risk narrower, the interest rate will increase.

MR. JOHN MCCORMICK: May increase, but

may not increase by a factor that has any relationship to the change in base rate.

MS. MARLA MURPHY: Thank you. I want to turn to the evidence that you gave with respect to the interest rate deferral account.

MR. JOHN MCCORMICK: Now, which element is that? Is that my written evidence or is that my oral evidence?

MS. MARLA MURPHY: Well, I'll start with your response to PUB/CAC-20, which I'm sorry, I don't know whether it's in your book or not, but --

MR. JOHN MCCORMICK: Okay.

MS. MARLA MURPHY: -- I don't intend to get very technical, just to confirm on the record that you indicated that you haven't done an exhaustive study of the use of the interest rate deferral accounts by other utilities; is that fair?

MR. JOHN MCCORMICK: That is fair.

MS. MARLA MURPHY: And would you agree with me though that these accounts are not very common?

MR. JOHN MCCORMICK: I haven't done a study. My view would be that they are not common.

MS. MARLA MURPHY: Would you agree that there are elements of interest rates imbedded in Centra's overheads in cost allocations, in deferral accounts, and in capitalization practices?

MR. JOHN MCCORMICK: Again, please.

MS. MARLA MURPHY: Yes, would you agree that there are elements of interest rates imbedded in overheads, cost allocations, deferral accounts, capitalization?

MR. JOHN MCCORMICK: I'm quite confused by your question. When I look at interest rates being say 6 percent, I would say, no, I -- I don't see the correlation.

If you're talking about interest costs, that Centra may recognize that it has interest costs, some of which might be attached to a particular capital asset, or some of which might be necessary to fund working capital for the head office, I would suggest, on a cost allocation basis, you might put the interest expense into areas where you have financed desks or other property.

But in terms of interest rates, I'm not sure how the 6 percent would flow into your overhead costs, for example.

MS. MARLA MURPHY: There are interest costs imbedded in a number of areas.

MR. JOHN MCCORMICK: Yes, you can apply your interest expense to various areas in an attempt to create an appropriate accounting, if you like, for the full cost of those areas.

MS. MARLA MURPHY: And the overall interest rate would be comprised of a number of components. There will be different mixes of debts and rates, correct?

MR. JOHN MCCORMICK: And different principal amounts from time to time.

MS. MARLA MURPHY: Yes.

MR. JOHN MCCORMICK: So the interest costs that appear on the financial statements will show the various balances as they occurred from time to time, and the various rates as they existed from time to time. And those may be allocated in various ways in the financial statements by accountants.

MS. MARLA MURPHY: So the two (2) utilities you mention in your evidence are Pacific Northern Gas and the Maritimes & Northeast Pipeline.

Do you understand them to be regulated on a rate -- base rate of return methodology?

MR. JOHN MCCORMICK: I didn't look at how they were regulated.

MS. MARLA MURPHY: You make a suggestion in your evidence, I think, at the response to PUB-20, it's on page 2, that it seems to imply to me that because

Centra is owned by a Crown corporation, that an interest deferral account is a recommended aspect of our rates. Is that correct?

(BRIEF PAUSE)

MS. MARLA MURPHY: I was reading page 2, lines 2 to 4.

MR. JOHN MCCORMICK: Oh, I -- I'm reading it, but I am struggling to find the inference that you're adding to it.

MS. MARLA MURPHY: Well, I guess I was struggling to understand your meaning. You suggest that because -- I -- I don't have your words right in front of me but, essentially, that because it's a Crown corporation, it makes a deferral account even more appealing, if you will.

Did I -- did I misunderstand your evidence?

MR. JOHN MCCORMICK: I believe we should look at each sentence separately. My sentence is:

"The fact that Manitoba Hydro is a Crown corporation is an important point of distinction from many other utilities."

And I've dealt with two (2) privately owned utilities, and I wanted to make sure that we were demonstrating that this is a different beast. It's owned by, if you like, a very strong shareholder that can assist it in financial difficulty among other things. The profit is different.

I wanted to differentiate, or make clear, that PNG, which is a very small utility with some very high customer risks and some special financing problems, isn't the same. I'm not saying these two (2) beasts are identical. I was asked a specific question, "Do I know of deferral accounts?"

Yes. Maritimes & Northeast is again another beast, again privately owned, not a Crown corporation, and it was a -- essentially a green field utility which began at one (1) point incurring costs of -- to build a gigantic new pipeline that didn't have any initial revenue, but it wasn't complete. Manitoba Hydro is a mature utility with expansions from time to time. There are a host of differences.

The next sentence goes on to suggest that Centra is "indirectly owned," in quotation marks, by the people it serves.

I then go on and note that I believe deferral treatment would be appropriate in this case if it is the Board's goal to get closer to the market reality of interest rates.

And at the time I wrote this evidence, the forecasts that had been put forward were dramatically different from the market reality, and my quick look back suggested that there had been instances where the rates forecast had differed from the interest charges that I was identifying.

And so I thought it completely appropriate that if the Board wishes to ensure a perfect match with no forecasting error, we put a deferral account in.

If we undershoot, if my three point six (3.6) or three point seven (3.7) long-term forecast does not come to bare, you'll be made whole. I have no difficulty with that.

It's not a big issue for me that -- I'm sorry, it would be a big issue for me for a utility to be deprived of its appropriately incurred financing costs, and if you read my resume you'll see that I was hired by AltaGas Utilities to appear in a Review and Variance Application when, in my opinion, the Alberta Board did not give it adequate financing costs.

So I've no desire to see Centra burdened with incorrect interest costs, and similarly I have no desire to see the interest costs mis-forecasted in a way that cost customers more money in the near term.

MS. MARLA MURPHY: So I -- do I understand you to be suggesting that those two (2) sentences aren't necessarily related. The -- the fact that they're a Crown Corporation isn't tied to the suggestion that interest deferral is warranted.

It's -- it's an observation that it's different than what you knew.

MR. JOHN MCCORMICK: Yes.

(BRIEF PAUSE)

MS. MARLA MURPHY: Mr. McCormick, do you acknowledge that you've heard the evidence that Centra and Hydro operate as a totally integrated utility; we have integrated employees; we have integrated assets, integrated operating procedures and billing, and integrated bank accounts?

MR. JOHN MCCORMICK: I -- I've heard some of that testimony. I don't know that I heard integrating operating procedures in the time I've been here. I think I heard a finance panel, so I -- I have only heard what I've heard, and I have understood that you don't operate separate books, if you like --

MS. MARLA MURPHY: Fair enough.

MR. JOHN MCCORMICK: -- pools of accounts.

MS. MARLA MURPHY: You understand there's no separate pool of cash dedicated to Centra?

MR. JOHN MCCORMICK: That is my understanding.

MS. MARLA MURPHY: And is it -- are you able to -- to say you're aware that -- that it's necessary to have reasonable cost drivers in place to allocate the cost between the two (2) utilities.

MR. JOHN MCCORMICK: Well, I can absolutely assure you, Counsel, that I have used the phrase "prudently incurred costs" a number of times in my testimony, and so I believe that we should prudently incurred costs recovered from the ratepayers.

My area of expertise is not cost allocation between GNA, and labour costs, and things along that line. So to the extent that you have any question about my view that we should be recovering prudently incurred interest costs, I assure you I believe Centra should recover prudently incurred interest costs.

MS. MARLA MURPHY: And you accept that, for the purposes of allocating short-term borrowing costs from Manitoba Hydro to Centra, that Manitoba Hydro has consistently used the one (1) month BA rate?

MR. JOHN MCCORMICK: I believe one (1) of your witnesses seated at this end of the table made the comment that had been in place since inception of -- or since the time of purchase.

And the fact that you have used that rate, doesn't mean that that is the flowthrough funding rate, nor does it mean that Hydro has, in my mind, maintained the optimal mix of short-term debt, but I understand you have a proceeding underway or a report underway that will address some of those things.

(BRIEF PAUSE)

MS. MARLA MURPHY: Thank you, Mr. McCormick. Those are my questions.

THE CHAIRPERSON: Thank you, Ms. Murphy. Mr. Boyd, do you have any questions?

MR. SANDY BOYD: No, I do not.

THE CHAIRPERSON: Thank you. Mr. Peters, do you have any questions?

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you, Mr. Chairman. Good morning. I have some questions for you, Mr. McCormick. And I --

MR. JOHN MCCORMICK: Good morning, sir.

MR. BOB PETERS: I guess -- I guess batting cleanup, I get to -- to deal with some of the points that I hope the Board will have a clearer understanding of when -- when you're --- when you've left.

One (1) of the messages I believe you tried to leave with the Board yesterday is that there needs to be a robust methodology for assessing the financing expenses, correct?

MR. JOHN MCCORMICK: The forecast financing expenses, yes.

MR. BOB PETERS: When you say "robust," what do you mean by that?

MR. JOHN MCCORMICK: At the risk of repeating myself, there would be, I think, three (3) principle elements that we would use good data, the most current data available, at some point in time.

That we would, secondly, in developing the forecast, approach our data inputs on a manner that deals with their particular characterization, that we would not misconstrue a data point which is a period average data point with an end period data point.

And at the risk of belabouring the topic, Centra forecast methodology used one (1) period average data point and many end period data points. My view is that the end period data points should be averaged or adjusted in some way that we have a -- a statistical confidence that we're making the right adjustment so that we are dealing with period average data because our goal, in this case, is to determine the forecast average interest costs for whatever our debt will be during that time period.

And finally, to have a robust methodology, I believe you should test your inputs. Manitoba Public Insurance has a methodology that uses six (6) inputs. The Centra methodology uses twelve (12). The members of that constituent group have changed overtime. The -- I believe, at one point in time, the Manitoba Bureau of Economics was an input.

I may have misstated that name but, as we add or subtract people in our sample group, I'd like to know that we're getting a better forecast as opposed to going into the kitchen and grabbing every ingredient and throwing it into the pot, thinking that will make the most delicious item.

MR. BOB PETERS: So those three (3) items comprise, to you, a robust methodology?

MR. JOHN MCCORMICK: They would be the principle rules and we can discuss refinements, if you like.

MR. BOB PETERS: Well, let's -- let's just deal with the testing of the inputs. What you're suggesting is that every forecaster utilized is given a report card to see how close their forecasts were, correct?

MR. JOHN MCCORMICK: Well, that would be the first step; that we might look back and see if you like how we did with our 2003/'04 forecast and whether, from the say ten (10) or twelve (12) inputs we have, there was a different combination of those ten (10) or twelve (12) inputs that might have given us something closer.

And if then, we perform the same task in the three-o -- '04/'05 period, and then we look back after that period is done and say, Hmm, is one of these guys an outlier? Again, the Federal government -- I'm sorry -- the BC government disclosed the banks that it used. Manitoba Public Insurance disclosed the people it used.

My memory is that they did not use the National Bank forecasts in those forecasts. I've observed the National Bank seems to be higher than many of the other banks. They may be right but, similarly, they may be consistently high. And if there's somebody who's consistently high and adding additional basis point error to our estimates, well, let's exclude them. You know, get a better forecast with one (1) less input.

MR. BOB PETERS: You can't sit here and tell the Board which of the twelve (12) forecasters used by Centra would be an outlier?

MR. JOHN MCCORMICK: Not on a long-term basis. I don't know who's been off the most. I can tell you that the use of the Federal government and BC government forecasts, to me, is a terrible inclusion into the methodology because they are outdated and I would exclude them on a number of reasons.

And I would also exclude consensus estimate on the same reason. They are both late and they are not an independent forecast.

MR. BOB PETERS: Let's just deal with that carefully. Maybe you answered it with your last answer but BC, the Federal government and consensus, they're not statistically independent in your evidence and that is one (1) reason why you think you should not use them and just go to the source data if you're going to use any other -- any of the contributors to those three (3) forecasters.

MR. JOHN MCCORMICK: That is one (1) of two (2) reasons for excluding those.

MR. BOB PETERS: All right. And you said the -- the second reason is that they are consistently lagging behind time wise. They're late. They're always --

MR. JOHN MCCORMICK: They are stale dated. They are milk past its due date.

MR. BOB PETERS: What's your understanding as to why they are slow in getting out there -- a current forecast?

MR. JOHN MCCORMICK: Well, in the various budget forecasts that may have come out in February, the text of that budget document, and I provide a link, in my evidence says these were the January estimates of a number of Canadian economic forecasters.

So I know right then, it's not a February forecast, it's a January forecast, so it's stale dated. And while I come along in May and look at January data, I'm not impressed because I know it's been revoked, it's been replaced, it is no longer valid.

MR. BOB PETERS: All right, thank you. I'm going to come to other specific points that you've included in your robust methodology, but before I get there, I wanted to deal with the deferral account needed as a positive step, according to your evidence.

If you could turn to your book of

documents, 17.

(BRIEF PAUSE)

MR. BOB PETERS: Tab 17 of the CAC/MSOS book of documents contains a response that was given to CAC/MSOS/CENTRA-78, and I'm looking at page 2 of 2.

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: In the middle of the page, approximately, there's a line talking about the difference between the weighted average of short-term debt outstanding at a quarter end and the average one (1) month bankers' acceptance.

Have you found that line?

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: Your point in highlighting this line item to the Board is to demonstrate that Centra is paying more for its short-term debt than the parent company would even be paying, would that be correct?

MR. JOHN MCCORMICK: Yes, but I must underscore this is what I describe as end-of-period data. So in terms of a point in time we took a snapshot, the rate that prevailed for the end-of-period short-term notes of Manitoba Hydro in December 31st, '08, the last column on the page, was one forty one (141), and the average one (1) month BA rate, which I assume is the average one (1) month BA rate identified at December, is two point four (2.4).

So, in this instance, Hydro was -- Hydro had on its books debt at a significantly lower price than we were being charged. The lower half of the table addresses period average data.

MR. BOB PETERS: Oh, I understand that, but when you say "we being charged," you mean the consumers were paying in their rates.

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: And the -- the reason I bring to that line is, Mr. McCormick, if that -- do you think that line has been -- does it show that there's a bias in terms of the calculation of the short-term debt rate that should be actually paid by the gas company?

MR. JOHN MCCORMICK: Well, I'm not sure if I like the word "bias" in your sentence, but -- because that seems to create a mean spiritedness thing. I -- I'm biassed against people of a particular race, and I don't think there's an institutional bias, necessarily, in Manitoba Hydro against Centra. It seems to me there's one (1) pot.

But in terms of our forecast methodology and the determination that we will charge a one (1) month BA rate on our short-term borrowing, I'm not sure that makes a lot of sense to me, because what I know about the capacity of Hydro to borrow, up to 500 million, their policy of terming out, that is taking short-term debt and making it long-term debt when they hit say 200 million, which is somewhere else in this book.

And I look at that and say, Gee, you can get me a lot of short-term debt at very nice prices, why don't you just do that?

MR. BOB PETERS: All right, thank you. I'm -- I'll still come back and give you a chance to talk about those items a bit further, but sticking with this line showing the differences that you've highlighted, if there were pluses and minuses on this line such that what you lost on the swings you made up on the merry-go-round, would you even be suggesting a deferral account would be necessary?

MR. JOHN MCCORMICK: I probably wouldn't be here. I likely wouldn't have identified forecasting errors, differences in what we're paying and what's being charged, so no.

If we were basically breaking even on our short-term, both on the end-of-period and the average, I would have no complaint.

MR. BOB PETERS: And you'd have no recommendation for a deferral account?

MR. JOHN MCCORMICK: Only if the Board wished to bring the precision down to a perfection level, but you know, we're starting with estimates. Estimates can be wrong, both high and low.

It's somewhat surprising to me that the top line, there's only one (1) quarter where we have a value that is the positive number. All the rest are the negative numbers.

MR. BOB PETERS: Do you know the capital structure with dollar amounts of Centra as you sit here today?

MR. JOHN MCCORMICK: I'm not sure that I could recall it. If I wanted to, I would look at the debt numbers which I know are in one (1) of my pages here showing the short-term and the long-term debt, and the increasing proportion of long-term debt, but I haven't focussed in on the capital structure.

MR. BOB PETERS: All right. We'll -- we'll come to that. If you can just take it subject to check in any event that Schedule 573 and 574 of this proceeding, which aren't in either of our books of document by the way, it shows long-term debt for the Utility around 265 million in the first test year, going up to 298 million in the second test year. That sounds familiar? You're nodding yes?

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: Thank you. And in terms of short-term debt it's 87 million in the first test year, and 75 million in the second test year, correct?

MR. JOHN MCCORMICK: With respect to short-term debt, I think you may be giving us the end numbers because it's higher during certain portions of the year.

MR. BOB PETERS: Yes, and we've seen your compilation of the four (4) quarters, the quarterly results, but I'm just giving you the forecast which could be in period data.

MR. JOHN MCCORMICK: Thank you.

MR. BOB PETERS: I take it your recommendation to the Board is, in the vernacular in any event, maxed out on that short-term debt, and you've just told the Board that -- that Manitoba Hydro apparently has capacity to go as high as 500 million, and so you'd like to see the gas company at about 200 million on probably every quarter.

MR. JOHN MCCORMICK: No.

MR. BOB PETERS: Just the quarters in which they buy their most gas?

MR. JOHN MCCORMICK: Yes. If we go to my quarter-by-quarter chart, my assumption will be that in quarters where we have dropped from say 100 million to 68 million during that quarter, we would have short-term debt in amounts that approximate those numbers. And --

MR. BOB PETERS: Just to interrupt you, you're looking at Tab 18 of your book of documents, or you're -- you're perhaps thinking of that as you're giving that answer to me?

MR. JOHN MCCORMICK: I was thinking of Tab 18. And again those are end-of-period. The period average numbers will change.

MR. BOB PETERS: And the -- the substance of that is that in the months in which the Company is buying lots of gas for its consumers, those would be the quarter periods in which you'd like to see the short-term debt get up to $200 million?

MR. JOHN MCCORMICK: Certainly, and beyond in the sense that I suspect that Hydro itself will have some incremental requirement for short-term debt which would need to be considered in the 500 million limit.

So rather than term out when we hit 200 million, if that is the Hydro policy, in those particular quarters I would be quite happy to go a little further in interest rate curves that look like today's, because there is a substantial sale on short-term money.

MR. BOB PETERS: Mr. McCormick, would you agree that based on the record in this Proceeding before the Board, you don't have an absolute forecast of short-term debt rate or long-term debt rate that you want to leave with this Board?

MR. JOHN MCCORMICK: I'm sorry. I don't understand the word, "absolute".

MR. BOB PETERS: Let --

MR. JOHN MCCORMICK: I believe I have put forward debt rates for each of the short-term debt periods in the IR to the Board. I think they were twenty-seven (27) and eighty-one (81) basis points.

MR. BOB PETERS: Yes. And -- and you said that yesterday, that your short-term debt for the first test year, based on what you see in these proceedings, twenty-seven (27) basis points seems appropriate and we're now talking excluding the provincial debt guarantee fee, sir?

MR. JOHN MCCORMICK: Yes, these are --

MR. BOB PETERS: And all of our discussion will be excluding the provincial debt guarantee fee, unless we say otherwise; would that be fair?

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: And you also said in the second test year, an eighty-one (81) point -- eighty-one (81) basis point short-term debt rate would be your recommendation at this point in time. That would be correct?

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Yes, sir, and those numbers appear on page 2 of 8 of --

MR. BOB PETERS: Tab 30.

MR. JOHN MCCORMICK: -- and Board IR to us of 23.

MR. BOB PETERS: But having said that, sir, my -- my question -- and I may have used inappropriate words or I may have confused you with them, is that you come up with those numbers based on the data that you've been able to obtain in this proceeding so far, correct?

MR. JOHN MCCORMICK: No, sir. I came up with those numbers based on data that I pulled from the internet from six (6) Canadian banks. I had no data. The company had not responded to my IR requests. So, this was my fully developed data.

MR. BOB PETERS: Is there any additional data that you would need to know from the company before you would have a higher degree of comfort in that recommendation?

MR. JOHN MCCORMICK: The twenty-seven (27) and eighty-one (81) basis point estimates were done based on the assumption that the Bank of Montreal average forecast was the best forecast. So, it is dependent on that assumption.

I have not tested the averages of the six (6) banks with respect to the development of this particular rate and so, one could repeat the long-term methodology that I use on page 4 to determine a different rate. And I would be indifferent because we haven't tested what's the optimum inputs for developing the forecast.

MR. BOB PETERS: And I think that's getting to my point, sir, that based on what you've done and the record of this proceedings to date, you've come up with some recommendations to the Board but those recommendations, you will acknowledge, could use the benefit of perhaps testing out some of the data points and the forecasters involved?

MR. JOHN MCCORMICK: Yes, sir, and -- but I must add, my data and methodology is consistently developed. The alternative, if you are about to propose the alternative of using Centra's forecasts which I think may be sixty (60) and a hundred and thirty (130), that alternative to me is less attractive than my own rates.

I would prefer my own rates because Centra's data has been corrupted or tainted through the methodology -- methodological failures which we've already talked about.

MR. BOB PETERS: I've got your point on that and I wasn't going to suggest that to you so you -- your anticipation is incorrect.

But I wanted you to indicate to the Board what further work would be needed to gain the highest degree of confidence in your recommendations and I take it from your second last answer to me that you would want to test the averages of the six (6) banks that you've used to make sure that a -- that their data is -- their forecasts are considered acceptable.

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Sir, I think I would put it differently.

MR. BOB PETERS: Please do.

MR. JOHN MCCORMICK: In developing the BA rates in this, I used one (1) unit, or one (1) data source. I would be quite happy if the Board would say, John, well, we thank you for your view, and we want to use the six (6) banks that you've identified, or we'll exclude National Bank and Institute, or bring in data from Global, such as our friends at Manitoba Public Insurance use. And that decision or recommendation would be quite acceptable to me in the near term.

In the longer term, I would really find it quite interesting, and important, and helpful to see whether the data say from spatial economics actually adds anything to the robustness of the forecast, and test the entire group, or -- and perhaps other forecasters.

There were a number of entities used in the consensus forecast, which is derived for equities, that weren't included in the Centra methodology or the Manitoba Hydro methodology.

MR. BOB PETERS: And your point is you'd like to do more testing before you had a higher degree of confidence in your recommendations.

MR. JOHN MCCORMICK: More testing would give me a higher degree of confidence in my recommendations.

MR. BOB PETERS: Can the same be said, sir, for your long term debt recommendations that you made yesterday be found on page -- again, Tab 30 of your book of documents, probably page -- page 5 of 8?

And you revised this yesterday, sir. The recommendation you left the Board with at the close of your evidence yesterday with Mr. Saxberg was -- was a rate of about 3.03 percent, and then a spread of about seventy (70) basis points, if I recall the transcript correctly.

MR. JOHN MCCORMICK: I -- I don't specifically recall a three point zero three (3.03) number, but we're talking about three (3) basis points from the number on page 5 which is, as a base rate, 3 percent, which was the then forecast.

With respect to the spread being seventy (70) as opposed to sixty (60), yes, I'm happy to include the higher spread in my forecast.

MR. BOB PETERS: And just so you're clear that on page 4 of 8 of your answer to PUB-23, the 3.03 percent was used, and I won't disagree that you may not have testified to that, but I was looking -- orally yesterday, but I was looking at your written evidence as well.

MR. JOHN MCCORMICK: Thank you, that is on line 13 on page 4, but if you go over to line 14 on page 5, you'll see that I round slightly.

MR. BOB PETERS: Noted. I got your point.

MR. JOHN MCCORMICK: Thank you.

MR. BOB PETERS: And that long-term debt rate, is that the -- is that for both test years or just the first test year?

MR. JOHN MCCORMICK: I only need to forecast for the quarter in which they're doing the issue.

So with respect to the issue that should have been done in March, my understanding is there may be some degree of participation in a more recent issue that's reflected in the update of one (1) of the IRs.

(BRIEF PAUSE)

MR. JOHN MCCORMICK: But for your convenience, sir, I should add that the methodology that we're discussing on page 4 and 5 of this particular IR could be reworked for 2009/'10 period, or 2011.

MR. BOB PETERS: And would it be more appropriate to rework it for those test years if you're -- if you're including that in the -- in the forecast, or do you think that the actual quarter in which there is potential long-term debt issued would be the appropriate number to include?

MR. JOHN MCCORMICK: I like the actual quarter in this case because we have two (2) maturities that will likely be refinanced about that time, and it's conceivable they may be slightly delayed.

Again, it's not my desire here to drive the last penny out of the forecast borrowing costs. My desire is that we have a robust consistently applied methodology with good data.

And were we to want to develop an annual forecast for some purpose other than issues forecasted at a particular time, that's fine with me, too.

MR. BOB PETERS: And not to -- not to be too brief with it, but your evidence identified a number of problems that the Utility was -- that -- that faced the Utility in your view in its forecasts of finance expense.

Their update that they did was a -- was better. It was on the -- directionally their -- their -- the -- directionally in the right direction.

Do you agree with that?

MR. JOHN MCCORMICK: Their update was better in that it was more current, save and except for how they handled the bridging into the first quarter of calendar 2011 where they brought back all the really spoiled milk that was contained in those ancient forecasts.

And they provided us with a gigantic rate step that is not supported by my analysis of ten (10) year history of up-ticks in three (3) month or short-term rates, or --

MR. BOB PETERS: And that was your comment yesterday about the 2011 forecast being discontinuous, I think was your words, or something to that effect?

MR. JOHN MCCORMICK: That's a good phrase, but yes. Since I think you asked me several questions at once, the improvement that we got from the initial forecast to the more recent forecast was an improvement in relative timeliness.

But there was no improvement in -- pardon me, because I didn't have all the data that related to the first forecast, I don't know whether there was any improvement in the methodology, but the methodology remains fraught with internal conflicts, and data misuse.

(BRIEF PAUSE)

MR. BOB PETERS: From the research you did, Mr. McCormack, in preparing for this case, are you aware of any large utilities that have, perhaps in your words, loaded up with short-term on sale debt?

MR. JOHN MCCORMICK: I haven't done that, sir.

MR. BOB PETERS: Do you expect there are utilities that have done that, or do you expect there are not utilities that have done that?

MR. JOHN MCCORMICK: I would expect that there are utilities that are taking advantage of the current short-term bargain pricing, and may be deferring their long-term debt issues simply because of the gigantic difference in term spreads from three (3) months to five (5), or twenty (20) years.

And in fact, one would hope Treasury departments across the land are paying attention to the yield curve when they're making their investment decisions.

I certainly know from my experience as an investment banker where I worked with Nova and Alberta Natural Gas on long-term debt issues, that their timing of going to market was quite focussed on getting an excellent deal at every time, and it wasn't always twenty (20) year debt.

MR. BOB PETERS: How could you determine whether there are utilities that are stocking up on this short-term debt opportunity?

MR. JOHN MCCORMICK: There would be a leg in doing that calculation. The information that would be available would either be from the financial statements or regulatory reporting of the various companies, and there would be new information, perhaps, from Bloomberg showing the timing of issues and whether particular utilities are proceeding to rush to the market today to enter into long-term obligations or are permitting their short-term financing to increase.

It would be a very time-consuming task and there would be a data delay. We also would not have the benefit of knowing what the internal motivations may have been, whether a particular utility is negotiating with its bankers for changes in its short-term line, or there may be other factors affecting their determination of current borrowing needs, so it would be a difficult assignment to demonstrate that.

MR. BOB PETERS: Without knowing the specific utilities with some, perhaps, intimacy or inside knowledge, you wouldn't be able to determine whether they are deliberately loading up on the short-term debt at this point in time, rather than making longer term debt issues.

MR. JOHN MCCORMICK: Well, what we can

tell from financial statements is the amount of debt that is on their books. We can observe, through paying attention to organizations like boom -- Bloomberg and long-term debt notes in the financial statements, whether they're moving long or short in this time period.

The difficulty for us is knowing the internal motivation and whether they're being driven more by the bargains that I see in short-term rates currently, or whether they're being driven by some other long-term concern related, say, for an integrated utility like TransCanada Pipelines, the actions of some of their unregulated subsidiaries.

So there is some information we can glean, but it would be a difficult task.

MR. BOB PETERS: I want to turn to the second criticism you had with the methodologies or the lack of robustness of Centra's forecasting, and that was to do with the use of data.

In -- in summary form, your criticism was that the data may be -- what -- the data was not used properly, is that correct?

MR. JOHN MCCORMICK: Much of the data, in my mind, was not used properly.

MR. BOB PETERS: And to be specific, you -- you pointed out already in your evidence the -- the mixing of end-of-period data with average period data, correct?

MR. JOHN MCCORMICK: Yes. Yes.

MR. BOB PETERS: And is it your recommendation that only average period data should be used or should be calculated?

MR. JOHN MCCORMICK: Again, in the IR that addressed this, I pointed out, when you're taking a data point into an analysis, the question is, what are you trying to estimate.

And if you're trying to estimate the average of BA rates in a particular time period, then forecasts that get you to the average are going to be superior than a forecast that tells you what it would be on the 17th day of the second month or the last day of the third month.

But if all we have is end point data for a series of quarters, I have used, in many instances, as a default for an average, the starting and ending values, which I average as being a reasonable proxy for the average during that period.

And if I can take you to the IR number 17, which may not be in your book. On page 5, there's a little chart which shows the two (2) data points for the National Bank and we have the March 31st data point and the June data point.

MR. BOB PETERS: Just give me a second to catch up to you, if I could. Mr. Saxberg, that's not in the -- is that in the book of documents?

MR. JOHN MCCORMICK: PUB 17.

MR. KRIS SAXBERG: Twenty-eight (28).

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: So, Mr. McCormick, you're looking at the CAC/MSOS response to PUB Information Request 17, found at Tab 28 of the CAC/MSOS book of documents, is that correct?

MR. JOHN MCCORMICK: Yes, and in particular, page 5 of 5.

MR. BOB PETERS: I'm sorry. Would you mind repeating? You were looking at the National Bank end period forecast chart.

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: And a...

MR. JOHN MCCORMICK: The National Bank and many of the banks forecast end-of-period data. They don't give us the period average data. And so, when I look at this chart, I see that we have a -- a recommendation or a forecast for the March 30th date of 2010, of ninety-two (92) basis points for the T Bill rate. And we have a forecast for June of a hundred and forty-two (142) basis points.

And when I look at this chart, I know that the markets are volatile so I -- I have taken my pencil and I've drawn a -- a squiggly line across that nice straight line and said, well, this is one (1) outcome which may be possible.

And that is completely possible and it will probably -- were that to take place, that would probably average a -- about the mid-point, one point one seven (1.17). But it's equally possible that we could have rates shoot up very quickly on the first day of the quarter and then remain flat throughout the quarter which would give us an average, much closer to the end point but much less likely.

We could also have rates remain relatively constant until the very end day and then rush up. Again, much less likely. Because there are a virtual infinite number of possibilities of how the real interest rates may perform over this period.

I like the simple average as a convenient methodology and I know it's not perfect but I look at the likelihood that the 1st of April, the rates will go to a hundred and forty-two (142) as being very low. And so I am disinclined to use the end-of-period data as representative of the average in this time period.

MR. BOB PETERS: I think the Board has your point on that. In terms of the long-term spread methodology, your -- you commented yesterday, I believe, on Centra's new methodology of using one (1) forecaster's spread, correct?

MR. JOHN MCCORMICK: Yes, we did discuss that.

MR. BOB PETERS: Centra's old methodology was not carried forward to their updated materials. Do you agree with that?

MR. JOHN MCCORMICK: They had used sixty (60) basis points in the old -- or the original application and now have used a step function from one sixty (160) to one ten (110) to sixty (60).

MR. BOB PETERS: In your development, you focussed only on the twenty (20) year bond spreads to come to your decimal seven (.7) or your seventy (70) basis points spread, correct?

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: And while the twenty (20) year bond is -- is greater than ten (10), it's less than thirty (30).

Do you think in that instance the methodology could be refined to use bond spreads that mirror the intended term of the issue?

MR. JOHN MCCORMICK: Sir, my bond spread does mirror the intended term of the issue. They're talking about issuing twenty (20) year paper. I'm looking at twenty (20) year spreads, so I'm already there.

The area in which we differ is the starting point, and the long-term mean to which we should assume we're eventually going to gravitate down to.

They've got sixty (60) as their floor rate. I think it should be say forty-eight (48), fifty (50). They want to incorporate one sixty (160) as the starting point. That moment has passed. It may come again, but we're clearly on a downtrend as I've demonstrated in the graph in Tab 23.

MR. BOB PETERS: And I suppose not only does the graph show the downtrend, you've cited the 1.6 percent spread, or a hundred and sixty (160) basis points used by -- by Centra.

You talked about the actual May '09 number being down closer to a hundred and eleven (111), and then you also commented on the recent actual issue being closer to one-0-five (105).

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: All of which is you're telling the Board that, if the words are right, regressing to the mean is apparent. It's heading in that direction.

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: And whether it gets to forty-eight (48) basis points as found in Tab 23 of your document -- book of documents, the last page, or not, it'll probably get down if the quarter -- if the quarters mirror each other, it'll drop another fifty (50) basis points and get you down to point seven (.7).

MR. JOHN MCCORMICK: In fact, sir, if the recent change from one sixty (160) a few months ago to a hundred and five (105) or a hundred and ten (110) in this current time period is continued, we would go down much faster because we dropped fifty (50) basis points in two (2) or three (3) months.

If we drop another fifty (50) basis points in the next two (2) or three (3) months, well before the first quarter of 2010, we will be down to the seventy (70) level, and through the seventy (70) level in no time at all.

But I'm not here to try and grind the last cent out of this company. I would like to use some reasonable forecasting methodology.

MR. BOB PETERS: Mr. Chairman, this might be an opportune time for the morning recess.

THE CHAIRPERSON: Very good.

MR. BOB PETERS: Thank you.

THE CHAIRPERSON: We will see you back at 11:00.

--- Upon recessing at 10:45 a.m.
--- Upon resuming at 11:08 a.m.

THE CHAIRPERSON: Okay, Mr. Peters.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, sir. I have just a couple of areas left to -- to discuss with Mr. McCormack, and then maybe a couple of clean-up questions but, Mr. McCormack, the next issue is the funding from Manitoba Hydro to Centra for the short-term borrowings that -- that are done.

You've talked at some considerable length for that, but I want to make sure the Board clearly has your position.

In the rebuttal evidence of Centra, page 19 of 24 if you wish to turn to it, Centra came up with three (3) factors that would influence the short-term borrowing costs and needs of the Gas Utility.

(BRIEF PAUSE)

MR. JOHN MCCORMICK: The page again, please, sir?

MR. BOB PETERS: Page 19 of 24.

MR. JOHN MCCORMICK: I'm there.

MR. BOB PETERS: And Centra indicates that, under the heading of Different Terms to Maturity, if Manitoba Hydro issues short-term debt with terms between one (1) and three (3) months, sometimes Centra needs longer short-term debt.

What's your solution to that concern?

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Sir, in the beginning of their rebuttal, they note that Manitoba Hydro can issue debt for as short as one (1) day. The fact that not all debt might be issued for one (1) month or three (3) months doesn't trouble me.

There will be market windows where for a moment in time on the quote machine, you'll be able to get a fabulous rate on forty-seven (47) days because someone on another side of a transaction wants that maturity for some purpose known only to them.

My imagination is that with billions of dollars of debt outstanding in Manitoba, that Manitoba could provide through to Manitoba Hydro and through to Centra, short-term debt at impressive rates in keeping with the current Bloomberg curve for a reasonable rate that would be superior to the one (1) month BA rates.

And there will be market opportunities that will present themselves which will be positive. There will be days when the market conditions will not be as good but I don't see problems in running a portfolio that provides short-term debt for reasonable terms at good rates.

And if my memory of CAC-4 is correct, I -- I think there was a reference to a ten (10) month floating rate instrument...

(BRIEF PAUSE)

MR. JOHN MCCORMICK: Which I think was done at a BA reference rate less ten (10), if my memory is correct. But it was an issue that apparently neither Centra or Hydro participated in. I'm sorry, it's BAs plus ten (10) and it was in response to the inquiry CAC-168.

So, I'm not saying we always have to finance in the shortest term. We're running a portfolio here. Let's proceed to come up with a rate that works and we have evidence that in IR-78, which we discussed, both on an end-of-period basis and on an average-term basis, they've been doing better for the Hydro portfolio of short-term debt in terms of rates than we are seeing being flowed through to Centra consumers.

So, all I want is them to continue to do their piece of the action. And if that means they have to move from a two hundred (200) to three hundred (300), let's do a long-term deal trigger in their policies to a two seventy-five (275) to three seventy-five (375) trigger so that we get say 75 million more short-term debt available through to us, I don't have any problem with that recommendation.

My memory is the Manitoba Hydro portfolio is in the order of twenty (20) plus bil -- sorry, the Manitoba debt portfolio is in the port -- range of 20 plus billion. And, in addition, it also includes something in the order of 940 million of floating rate debt.

So I don't particularly care how we match

Centra's short-term needs with short-term funding at highly advantageous rates. I'm sure there's a solution.

MR. BOB PETERS: Well, the solution that you appear to recommend then is just for the parent company to provide a revolving short-term facility.

MR. JOHN MCCORMICK: Generally, yes, I would have put it differently, in that I suspect the parent company acts in concert with someone in the Manitoba treasury operation that that is the province and says, here's what we want, here's what we need, let us know when it's available, or we're changing our policies a little bit so we're going to have more short-term debt because of our need to fund Centra's say 68 million debt, which I think was the number of the fourth quarter of 2011 in one (1) of the IRs that we've been speaking about today.

MR. BOB PETERS: I want to turn with you, Mr. McCormick, to the distribution of the long-term debt issue -- issues.

And, Mr. Chairman and Board members, that -- we might need a juggling of books of documents here, but if we start with Tab 22 of the Board's book of documents, there will be a three (3) page insert of CAC/MSOS/CENTRA-1-8 -- I'm sorry, 1-5(a).

(BRIEF PAUSE)

MR. BOB PETERS: If you haven't located that, Mr. McCormick, I'm sure Mr. Saxberg can put it up on the screen.

(BRIEF PAUSE)

MR. JOHN MCCORMICK: I'm there, sir.

MR. BOB PETERS: All right, when we look at -- at Tab 22 then of the PUB book of documents, we see that as at March 31 of 2004 98.8 percent of the long-term debt was maturing in one (1) to ten (10) year terms, correct?

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: And if we -- if we go down this chart and follow through to the next page, on page 203, we start to see a shift, perhaps, at March 31st, 2007 where only 65 percent of the long-term debt is maturing in one (1) to ten (10) years, but there's 20 percent that's twenty (20) years or longer, correct?

MR. JOHN MCCORMICK: 20.8 percent, sir?

MR. BOB PETERS: Yes, sir.

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: And if we continue to

turn the page, and appreciating that there's some -- some new debt with some forecast -- forecast being involved, we go the very last chart, as of March 31st of 2012, the end of the second test year, now it's going to be 78.9 percent of the long-term debt maturing greater than twenty (20) years out, correct?

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: In your discussions in -- with Mr. Saxberg, and also with Ms. Murphy, you've indicated that you believe it's a benefit to the consumers to go shorter terms now, correct?

MR. JOHN MCCORMICK: Yes.

MR. BOB PETERS: And in terms of what to do, I think one (1) of your answers to Ms. Murphy included that it's better to use the shorter-term long-term debt of five (5), ten (10), twenty (20), and thirty (30) years in some blended portfolio. Words to that effect.

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: When we look at Tab 22 of the book of documents that we've done, what is your recommendation to this Board as to what would be the appropriate distribution of the maturity periods?

MR. JOHN MCCORMICK: Sir, I don't think I can offer you a specific. This distribution is the best because the markets are volatile. There will be changes.

The feature that I most dislike about the proposed consolidation of debt isn't that 78.9 percent will be in the twenty (20) or more years, it's that in a thirteen (13) or so month period we will have the preponderance of the maturities in the March 2012 chart.

The March '29 to March 2030 maturities, which represent probably 50-some precent of the total debt that's forecast, are going to be in a thirteen (13) month period. So that's my problem, particularly with this proposed allocation.

With respect to the benefits of staggering the maturities, we created an IR which I think was 1-5J where I proposed just an example to underscore for the Board the potential for interest savings based on the normal yield curve that's prevailing now.

MR. BOB PETERS: If I could just interrupt you, Mr. McCormack. I was going to actually take you to the book of documents 23 of the Board, if that's the next tab in the Board's book of documents, and that contains, I think, the very Information Request chart that you're discussing.

I would note that the most current version I have has been revised for June 1st, 2009. Mine's on yellow paper, but I just want to make sure you're speaking from the most current version, Mr. McCormack. Top right-hand corner would indicate, "Revised June 1, 2009".

MR. JOHN MCCORMICK: This doesn't have that revision, but I'm sure we can manage...

MR. BOB PETERS: It's en route.

MR. JOHN MCCORMICK: Thank you. I now have it before me.

MR. BOB PETERS: All right, sir. Where we were going here was you've made it clear you're not happy with the thirteen (13) months in which 50 percent of the long-term debt could come in and mature for the Utility.

And you've gone on to say that by having shorter periods of -- of debt there's a significant financial savings to consumers. Is that your point?

MR. JOHN MCCORMICK: The point would include that, and also go beyond it. The first point is with a normal yield curve, shorter term maturities are cheaper.

So if we enjoy a rate saving for the first, say, ten (10) years by doing a ten (10) year instrument as opposed to a twenty (20), we will grab some number of basis points which protects us on the potential to refinance at a slightly higher rate.

The staggering of maturities, the second point, is we put ourselves in a position where we're refinancing at a number of different times, so we're unlikely to be walking into that horrible time period I identified through IRs where we had 18 percent interest rates back in the late '70s or early '80s.

And I would prefer not to cause rate shock by loading maturities into a point in time so far out it would be very difficult to accurately forecast.

MR. BOB PETERS: And so when we look at the CAC/MSOS/CENTRA-1-5J revised June 1st document found at Tab 22 of the PUB book of documents, you're looking in the first test year, the top -- the top chart on that page, as an indication that there's interest savings of seven hundred and eighty-eight thousand dollars ($788,000) per year under the different -- under the methodology that you've proposed

MR. JOHN MCCORMICK: Well, these are the maturity dates that I suggested. I -- I haven't double-checked this calculation. I was only interested in providing the Board with a sample that would suggest a different capital structure would provide a significant saving to consumers of interest in the near term, in -- by going out to ten (10) year terms as opposed to locking everything in to twenties (20).

MR. BOB PETERS: And the same on the bottom half of that schedule, you looked at the second test year and the proposed new issues.

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: And is it -- is it in the bottom right-hand corner, the suggestion that there's a $3 million annual savings if you -- if you stagger the terms, as -- as your hypothetical example would do?

MR. JOHN MCCORMICK: Yes, sir, that seems to be the calculation.

MR. BOB PETERS: And your point to the Board is that, what you gain by going shorter terms, you may lose it next time you refinance, but as long as you don't lose more than what you gained, you at least break even.

MR. JOHN MCCORMICK: Yes, sir, that would be my point. And, if you like, we could go look at the series of charts that we've spoken of at least once this morning would show con -- relative consistency of longer term rates in the ten (10), fifteen (15) years, to show that we probably have a pretty good chance of getting into those rates at a later time, but the short stuff is really nice now.

MR. BOB PETERS: No, I think you've -- you've made your point on that earlier, I don't need to visit those -- those colourful -- colourful graphs, but thank you.

(BRIEF PAUSE)

MR. BOB PETERS: In the answers you've given me, you haven't indicated how you would know how much to stagger when, or how to -- how to plant the portfolio out there.

What would be the determinations that would result in the action you would take to determine whether it was going to be a ten (10) year, twenty (20) year, or a thirty (30) year issue?

MR. JOHN MCCORMICK: Well, there are some difficulties in that. It is, in my view, highly unusual for the Board to say we want you to stagger the maturities. It would be more usual for a regulator to say, as the Alberta regulator said to Nova, we think you have overpaid for debt, we're disallowing a portion of the interest cost.

But to signal the Board's interest in having different maturities, were the Board to award or indicate that it is receiving a forecast that says, we have assumed that you will do some five (5) year with whatever appropriate rate spread would be different from the twenty (20) year, that would give the company an incentive to actually achieve that rate, as opposed to necessarily going long.

It would not prevent them from waiting until an optimum moment, where through the volatility of the available interest rates in the market, they might actually be able to achieve a twenty (20) year issue at the forecast five (5) year rate, but it would signal a desire of the Board to not load up the maturity schedule.

And, sir, if I could take you to page 16 of my evidence -- actually, 15, to begin. At the bottom of page 15 we have a chart which shows the debt maturities in years as anticipated in 2011.

And there are many open years between 2012 and 2029, where a maturity could be fit in quite handily. The next chart, on page 16, is the comparable chart for the 15J suggestion, and it is staggered, there's no more than about 75 million in any year, and it is loaded towards the front which should, in the short-term, provide some interest saving.

If you flip to the next page, you have the Manitoba debt distribution. This is how the Province finances and, as you'll see from that chart, a very small proportion of their total debt matures in the years, 1928 -- or, sorry, 2028 and beyond. The preponderance of their debt runs from this year, 2009, to 2021 or '22.

So, within the -- the Manitoba family, if you like, there is a tremendous amount of financing going on at attractive short-term rates where this yield curve would not -- I'm sorry -- this debt distribution graph could not look as it does.

(BRIEF PAUSE)

MR. BOB PETERS: That last answer then suggests that Centra should follow more closely the debt distribution used by the province of Manitoba rather than what is being proposed in this Application.

MR. JOHN MCCORMICK: No, sir. I -- I would not suggest that there's an identical curve. The Province of Manitoba is a taxing entity but they're certainly interested in having a reasonable portfolio of debt.

Centra, on the other hand, is a utility which has a different structure of capital assets in proportion to its notional business. But to contrast page 17 with page 15, I think the impact that Centra is overloading the really long stuff may become apparent.

It's certainly my conclusion looking at the two (2) charts and I would be not offended if Centra said, we'll do some seven (7) year or we'll do some twelve (12) year. I did not intend that 15J represent the ultimate financing curve for the organization based on forecast -- future market conditions that I would not dare to forecast on a particular day when they have debt coming due.

MR. BOB PETERS: I'm not sure you answered my -- a previous question of mine about how -- how one would know -- or how would you determine what is the optimum mix.

Your answers to me seem to suggest, well, maybe the Board can give some directions but, ultimately, it's going to be for the Utility to do -- to react as the market reacts and...

MR. JOHN MCCORMICK: Yes, sir. I don't believe the Board can micro manage the choices that Centra/Manitoba Hydro or the Manitoba Treasury make in terms of how they enter the market or how they choose to share the really cheap money with this particular entity.

So, if the Board, though, shares my view that it is unwise to load up all the debt into a thirteen (13) month period, they can certainly signal that by saying we will give you the twenty (20) year rate forecasted by Mr. McCormick for 2010 for one (1) portion of that debt and we will give you whatever the resulting ten (10) year or five (5) year rate would be; perhaps a few basis points less for some other portion.

MR. BOB PETERS: All right. I've got your point on that.

I think the last point that I did want to ask you about was you acknowledged to Ms. Murphy that there's more current information than that was included in -- and then -- then what has been included in your evidence and even in the Centra updated materials.

MR. JOHN MCCORMICK: Yes. sir.

MR. BOB PETERS: And the question then becomes for forecasting purposes and presenting it at rate cases, when do you stop updating?

(BRIEF PAUSE)

MR. JOHN MCCORMICK: I know of no perfect date. I would suggest to you that the Company would be well-advised for the convenience of the Board and the Intervenors to provide a timely forecast update as we come to the oral Hearing. Hopefully the forecast update would be based on methodologies that were well understood, and worked.

I would suggest as a matter of law that under the Northwest Utilities case, which I referred to in my evidence, that the Board is entitled, in my view and maybe well advised to, on its own volition, select rates that are reflective of a good methodology, and the most current update, if in fact there are material changes in the May material that I have used into the June material which I have not investigated.

MR. BOB PETERS: You're aware that Centra updated their cost of gas information approximately a month before the Hearing?

MR. JOHN MCCORMICK: Yes, sir.

MR. BOB PETERS: A similar time frame for the updating of the forecast finance expenses would be appropriate?

MR. JOHN MCCORMICK: Sir, I think I'm a financial expert. I'm not sure that I am the ideal person to speak to the convenience of the Board, but it would have certainly helped me appear here today if I had had their more recent forecasts available as a point of discussion as opposed to the historic ones.

MR. BOB PETERS: All right, thank you.

Mr. Chairman, with those answers from Mr. McCormack, I'd like to thank him. Those are my questions of him.

THE CHAIRPERSON: Thank you, Mr. Peters, and thank you, Mr. McCormack.

Mr. Saxberg, do you have any re-direct for Mr. McCormack?

MR. KRIS SAXBERG: No, I don't.

THE CHAIRPERSON: That brings to end your testimony. We appreciate your attending. Thank you very much. I hope you have a good trip back to Calgary.

MR. JOHN MCCORMICK: Thank you, Mr. Chairman, and panel members, counsels.

(WITNESS STANDS DOWN)

THE CHAIRPERSON: So we will return now back to the panel, and I think that would take us back to Mr. Peters, or would it be better, Ms. Murphy, if we had an early lunch, or are you ready to go now?

(BRIEF PAUSE)

MS. MARLA MURPHY: Mr. Chairman, we're prepared to start. Mr. Warden has an -- an appointment over the lunch hour, so if -- if we can stick to our normal lunch hour that will assist him.

THE CHAIRPERSON: Okay, let's do that then. Mr. Peters...?

MS. MARLA MURPHY: I might also indicate

at a -- at a moment that's timely, I have some additional direct evidence prepared that may assist the Board in terms of walking through the material that was filed.

There's some peach coloured updates that include the rate schedules and -- and impacts that I expect Mr. Peters will be getting to.

I can do that at your leisure; whether you want to deal with DSM and then have that, or whether you would like me to do that now.

THE CHAIRPERSON: Do you have a preference, Mr. Peters?

MR. BOB PETERS: No preference.

THE CHAIRPERSON: Well, let's start then with you, and then we will get that afterwards.

MR. BOB PETERS: All right.

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

VINCE WARDEN, Resumed
WILLY DERKSEN, Resumed
GREG BARNLUND, Resumed
LLOYD KUCZEK, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Chairman, I'd like to turn to the demand side management issues with Centra, and perhaps we can agree, Panel, that gas demand side management is relatively new to the Corporation, starting in approximately October of 2004.

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And at that time, gas DSM was added to the Power Smart program of the parent company Manitoba Hydro in approximately the 2005 Power Smart plan?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And the 2008 Power Smart plan that's been filed as Attachment 2 to Tab 12 of Centra's Application, and it includes the most current gas DSM plans. Would that be correct?

MR. LLOYD KUCZEK: That's correct, although we do make updates during the course of the year to some of the programs, but that's the -- the most recent formal document that we have that articulates our overall plan.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Kuczek, with that answer, are you indicating to the Board that there are material revisions to the 2008 Power Smart Plan that -- that aren't in the Power Smart Program at this point in time, but will be in the next draft or the next version of it?

MR. LLOYD KUCZEK: I'm not sure if I'd say material, but we make adjustments to our programs during the course of the year if we think they're -- they're necessary. For example, the -- the program design in the OA Plan for the lower income program has been changed since this document was crafted, so it has changed.

MR. BOB PETERS: All right, we've got your point. If you could turn to Tab 37 of the book of documents, and maybe I can pose a question to Mr. Warden also on this document. It's a copy of PUB/CENTRA-113 Attachment 1, page 1 of 1, again, found at Tab 37.

Mr. Warden, this appears that, for the test years, there's going to be DSM spending of about 14.1 million in the first test year and 13.3 in the second test year, does that appear accurate to you?

MR. VINCE WARDEN: Yes, is does.

MR. BOB PETERS: Would it also be correct to say that, by spending approximately $14 million a year, there is no benefit in that expenditure for Centra Gas?

MR. VINCE WARDEN: Well, there's no benefit from a financial perspective, Mr. Peters. In as much as Centra Gas exists for the benefit of its customers, there is a benefit in that respect in -- in terms of meeting our mandate.

MR. BOB PETERS: All right, that's -- you're saying that there's goodwill that's engendered by the spending of that money, but there's not a financial return, necessarily, to Centra.

MR. VINCE WARDEN: There's no -- there's no financial return.

MR. BOB PETERS: But there is goodwill engendered.

MR. VINCE WARDEN: Well, I would go beyond goodwill. I think it's an important part of being the mandate of -- of Centra Gas to -- to satisfy the needs of its customers, so it's more than goodwill.

MR. BOB PETERS: Would you agree with me that, and maybe Mr. Kuczek can help us, that -- that most of that 13 and $14 million expenditures will be by way of customer incentives?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: I don't have the

percentages handy, but I would suggest that there would be a significant portion that are not incentives. And when I say "significant," if I had to estimate, I'd say 30 percent, anyways.

There's administration costs, there's promotion marking, and those sort of things, so -- but it's in that range, but it's significant, anyway.

MR. BOB PETERS: All right. And -- and I appreciate -- the ballpark figure is close enough for -- for my questioning on this, Mr. Kuczek, but approximately 70 percent -- the vast majority of this 14 and $13 million expenditures will be in incentives offered to the up taking consumers.

MR. LLOYD KUCZEK: Yeah, let's estimate it at 60, 70 percent, somewheres in there.

MR. BOB PETERS: All right, if you're happier there, that's where we'll go. And you're telling the Board that the difference in cost relates to human resource costs and the marketing and promotional expenses.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: So you're spending money, encouraging consumers to take advantage of the incentives that the Corporation has available, that would be the marketing program boiled down.

MR. LLOYD KUCZEK: We're spending money to encourage customers to pro -- to implement energy efficient measures is the way I'd characterize it.

MR. BOB PETERS: But not only do you encourage them to do it, you have to encourage them financially to do it.

MR. LLOYD KUCZEK: We actually don't have to. It's a choice the company makes, because without doing it, you're going to -- you may end up achieving the same result, but it would take consider -- considerably longer period of time to do that, and by offering some incentives, you achieve the end result earlier.

MR. BOB PETERS: Have you tested that last answer to see if it -- if it plays out in reality, that you can promote a program with no financial incentives and still get the anticipated result, albeit over a longer period of time?

MR. LLOYD KUCZEK: Well, it depends what's happening in the marketplace overall but if -- if we took, for example, today and we stopped our furnace incentive program right now, since we launched the program, other things have happened in the marketplace. The Federal government's offering incentives.

There are regulations that are going to come into place. So, in -- one could conclude that without us intervening any further, over time, all the standard efficient furnaces would be replaced with high-efficient furnaces.

MR. BOB PETERS: And if that's the case, why do you spend money on the -- on the furnace program?

MR. LLOYD KUCZEK: We spend money on the furnace program... Well, first of all, there -- there's two (2) components to our furnace program. One -- one of the -- the furnace program that we originally launched was to encourage customers to go from standard to high-efficient furnaces.

At the time we launched the program, a number of customers were going from standard to mid and so our program was designed to encourage those customers to go to the higher level. And so, by offering a small incentive, we -- which was two forty-five (245), what we're trying to do is encourage -- encourage those customers to take the leap up to the higher level. We weren't encouraging customers to advance the replacement of their furnaces, just to upgrade from mid to high.

MR. BOB PETERS: Mr. Warden, the consumers save money through DSM, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: They consume less gas and, therefore, their bills will be smaller?

MR. VINCE WARDEN: Yes, most especially the participants in the DSM programs.

MR. BOB PETERS: And there's also, I suppose, an added benefit that global greenhouse gas emissions will also be reduced through the DSM programs of the company?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And presently, Centra gets zero credit for the reduction of global greenhouse gases, is that correct?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: In terms of total dollars for the life of a DSM program, at least at the planning horizon, your budget, Mr. Kuczek, is $138 million?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And on top of that, you have some affordable Energy Fund money which is of the 35 or $36 million set aside by provincial legislation, $26 million would be available for, I suppose, DSM programs. And that -- of that 26 million, some of that would be gas side and some of it would be electric side?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And then, on top of that, the Public Utilities Board has permitted the

Corporation to include in its last two (2) fiscal years amounts and rates that will be used -- are to be used for the lower income energy efficiency program and particular, the furnace replacement program?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And there's approximately -- I guess we'll come to that but it's between 5 and $6 million still available for that program in the -- in the funds of the Corporation?

MR. LLOYD KUCZEK: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: On the bottom half of the document at Tab 37 of the PUB book of documents -- and that is the bottom half of PUB/CENTRA-113, Mr. Derksen, it is correct that the DSM amortization allocated in base rates is now representing a five (5) year amortization period, as opposed to the previous fifteen (15) year period?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And when it says, "allocated in base rates," is that to distinguish it from allocation in any other fashion 'cause it's not going to show up in any riders, is it?

MR. GREG BARNLUND: No, it would be in base rates.

(BRIEF PAUSE)

MR. BOB PETERS: If we please turn to Tab 38 of the book of documents, Mr. Kuczek, these are the programs that are listed on the gas side of the DSM program, correct?

I'm sorry, Tab 38, sir, of the PUB book of documents, and I have that as a -- a response to PUB/CENTRA-135B

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: So when the Board looks at this, and they look at the residential programs, they'll see that there are, in essence I suppose, six (6) residential DSM programs?

MR. LLOYD KUCZEK: Plus some cu -- customer service initiatives which involve three (3) programs.

MR. BOB PETERS: All right. Let -- maybe just explain to the Board why the customer service initiatives are dem -- or shown separately.

MR. LLOYD KUCZEK: The -- we've just de -- decided to characterize them separately. They're usually in support of the other specific programs.

And so we have our customer -- or Power Smart Programs that we refer to generally as the incentive base programs, and then the support programs, which some are cost recovery programs, and others are just pure supportive of the other programs, such as the ecoEnergy Program.

MR. BOB PETERS: Help the Board understand, are the customer service initiatives Human Resource expenditures as opposed to incentive expenditures?

MR. LLOYD KUCZEK: Well, the -- the customer service initiatives that we have listed here are -- there's three (3), and two (2) of them are loans.

So they're financial services to help customers finance their costs associated with implementing the measures.

The other ones, the ecoEnergy Program, and that -- we're delivering the Audit Program for the Federal government, and it just supports achieving the other energy efficient programs that we have, such as insulation of furnaces.

MR. BOB PETERS: And -- and the ecoEnergy Program is shown at accumulative cost of $1.5 million; is that reimbursed by the Federal government?

MR. LLOYD KUCZEK: No.

MR. BOB PETERS: Is that paid for by individual customers?

MR. LLOYD KUCZEK: It's actually paid for by three (3) parties; Manitoba Hydro, the Provincial government, and the customers.

MR. BOB PETERS: In equal shares?

MR. LLOYD KUCZEK: No, again. The -- it -- it depends on whether it's rural or urban, but generally if you want to come up with a ballpark figure, the total cost of offering that service is in the four hundred dollar ($400) range.

Customers pay -- there's two (2) audits, the pre- and the post-audit. The pre-audit we charge a hundred and eighty dollars ($180) for the customers, and the post-audit they pay either a hundred and twenty-five (125) or twenty-five dollars ($25).

And the -- they pay twenty-five (25) of the implement measures whereby they get more than four hundred dollars ($400) back from the Federal grants. And the balance of that difference that I'm talking about is about two hundred dollars ($200), and that is split between the Provincial government and Manitoba Hydro.

MR. BOB PETERS: In terms of the programs that are listed, Home Insulation Program is by far and away the -- the largest program financially, Mr. Kuczek?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And under this Home Insulation Program, insulation is available free of charge to consumers, but they pay any installation costs?

MR. LLOYD KUCZEK: It's not free of charge. What we do is offer so much, depending on whether it's a basement or attic, and it doesn't cover the entire cost of the insulation, so we just offer them a certain amount and the rest is paid for by the customer.

MR. BOB PETERS: Well, in terms of, let's pick basement insulation. There would be a specific R-factor that would be targeted by Mani -- by Centra?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And your contribution will be only to materials used to achieve that R-factor, and nothing in excess of that?

MR. LLOYD KUCZEK: We pay -- the incentive is based on a per square, and per R value, with them having to meet a minimum R-20, I believe, in the basement.

But it doesn't necessarily cover the -- in fact, I'm sure it doesn't cover the entire cost of the insulation. It depends on how much you pay for the insulation, of course, but it covers a significant portion of that. That -- that would be different in our lower income program or maybe you're thinking of we pay for the entire costs of the insulation.

MR. BOB PETERS: All right. We'll come to that later but in terms of the home insulation program that is not part of the lower income energy efficiency program, approximately how much of the cost is borne by Centra?

(BRIEF PAUSE)

THE CHAIRPERSON: Why don't you just take it as an undertaking?

MR. LLOYD KUCZEK: They're trying to get that number for you. I don't know that off the top of my head.

MR. BOB PETERS: I thank you and I do appreciate the efforts being made and, if it becomes available, feel free to... Well, maybe I'll give you a minute.

(BRIEF PAUSE)

MS. MARLA MURPHY: Perhaps we can offer

up an undertaking to advise us to that...

MR. LLOYD KUCZEK: Well, I can give you a ballpark and if you want more details, I can get it for you but the basement/attic insulation, our incentives cover about 70 percent. The one (1) time, it was closer to 100 percent and you may recall, we advertised that up -- up to a 100 percent. We quit advertising it in that manner because prices have gone up since then.

And attic insulation, I know we used to cover close to 100 percent at one time too, again, but depending on whether you hired us -- or just the insulation material -- and again, I think the costs have gone up so...

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Would it be correct, Mr. Kuczek, when the Board looks at this schedule to say that the -- the programs for commercial customers seems to have expanded -- and is expanding from what they've seen last time?

MR. LLOYD KUCZEK: That would be correct.

MR. BOB PETERS: And the industrial program, that would be brand new, wouldn't it?

MR. LLOYD KUCZEK: It -- it's brand new but I don't recall whether we had it in our '06 planner or not.

MR. BOB PETERS: Is there a policy reason as to why the efforts for commercial DSM appear greater than those for residential DSM?

MR. LLOYD KUCZEK: No, the instructions to staff, whether they're -- we have different people working in the residential and the commercial and industrial sections -- or areas is to -- the instructions are for them to go and capture all energy -- all economic energy-efficient opportunities.

So, the -- the programs that we have listed here are based on the opportunities that are available and nothing to do with the sector itself.

MR. BOB PETERS: In my words, Mr. Kuczek, there's more low-hanging fruit in the commercial industry -- area than -- than the residential?

MR. LLOYD KUCZEK: I actually wouldn't characterize it that way. I view furnace -- a furnace is an installation opportunities in the residential market as low-hanging fruit and then in the commercial side, the furnaces as well are low-hanging fruit.

And those are usually your -- your great opportunities and some of the other ones, like a clothes washer program we have on the commercial side, we actually ran a program like that on the -- I guess that was the residential appliance program in the residential sector. So it -- it's not necessarily low-hanging fruit.

MR. BOB PETERS: Mr. Chairman, this might be an appropriate time for the lunch recess and I'll continue at 1:15.

THE CHAIRPERSON: Yes, and that will allow Mr. Warden to attend his meeting then, correct? 1:15 okay?

MR. VINCE WARDEN: Yes, that's good. Thank you.

THE CHAIRPERSON: Very good, thank you.

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

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

THE CHAIRPERSON: Okay. Welcome back, everyone. Apparently, spring has finally arrived in Winnipeg, at least it would appear that way, but we are all in here, so we will make the best of it as we can.

Mr. Peters --

MR. BOB PETERS: Yes.

THE CHAIRPERSON: -- do you want to try and keep us awake?

MR. BOB PETERS: I will do that. Just as I will say, fasten your seatbelts, as Mr. Kuczek and I are going to take you through the world of DSM. Mr. Chairman, before lunch we were looking at PUB book of documents Tab 38, and I just have a couple more questions with Mr. Kuczek on that.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Kuczek, the customer payback column shown in years in approximately, excuse me, the middle of the page, is that the theoretical calculation that was used when the program was developed or is that based on actual testing?

MR. LLOYD KUCZEK: Theoretical.

MR. BOB PETERS: So the new home program, that's a series of DSM initiatives that new homeowners can opt for, and collectively, it has a payback period of four (4) years.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Does the Corporation know how long these DSM programs last or provide benefits to customers?

MR. LLOYD KUCZEK: They last for the life of the measure, so it varies by the measure that we're talking about. A furnace would be twenty-five (25) years; insulation would be much longer, in the range of forty (40), fifty (50) years and plus.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of deciding which programs to use, Mr. Kuczek, I don't want to get into too much detail, but there are at least two (2) -- two (2) tests or filters that the program has to be put through, is that correct?

MR. LLOYD KUCZEK: Yeah, three (3) would be more accurate. And in our future Power Smart plans, we intend to include the utility cost in the document. We use it all the time with our programs, but we just didn't articulate that within the response to the IR, as well as the Power Smart Plan.

MR. BOB PETERS: Well, let's just make sure the Board's aware then, that the first test is the total resource cost test.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And this is really where you weigh the marginal benefit and you compare it to the various costs.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And the costs include the utility costs though, do they not?

MR. LLOYD KUCZEK: The -- the -- it

includes all benefits and costs from the utility and the customer's perspective, basically, regardless of who pays.

MR. BOB PETERS: And so the benefits that it would include, that would include the avoided cost of buying natural gas, perhaps the avoided cost of additional infrastructure for the Corporation, that you don't have to build up your plant, and it may also include the greenhouse gas values?

MR. LLOYD KUCZEK: Those are the three (3) categories of benefits that we primarily use, yes.

MR. BOB PETERS: And in terms of including the greenhouse gas emission reductions, if there's no benefit to the Corporation, how do you value those?

MR. LLOYD KUCZEK: We -- we have a group within Manitoba Hydro that estimates what the forecast value of those greenhouse gas emissions are, and so we place a value based on that forecast.

MR. BOB PETERS: You place a value whether or not the financial benefit is returned to Mr. Warden?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: All right. The Table 6 from your evidence, Tab 12 -- it's also found at Tab 39 of the book of documents that I've handed out earlier, this contains a listing of most of the programs, and it also then has the -- the TRC test, the Total Resource Cost test, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And for a program to get off the ground at Centra Gas, it has to have a ratio of one point zero (1.0) or better.

Would that be generally correct?

MR. LLOYD KUCZEK: That's generally correct.

MR. BOB PETERS: The exception appears in front of us as to the lower income Energy Efficiency Program, which doesn't even pass the total resource cost test, correct?

MR. LLOYD KUCZEK: That's correct, and we also have a solar heating program right now that doesn't pass TRC either.

MR. BOB PETERS: I don't see that on the schedule, do I?

MR. LLOYD KUCZEK: No. This is a new program that we just launched last fall, I believe.

MR. BOB PETERS: So when the -- when these -- when these programs don't pass the TRC test in the language we're talking about, what that means is that the costs outweigh the benefits.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And yet on some instances you still go ahead with the program.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Now just tell me about the solar heating program. The costs outweigh the bene -- the benefits of that program?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And if that's the case, why are you -- why are you continuing with it?

MR. LLOYD KUCZEK: Well, we -- we generally only promote energy, or cost effective energy efficient programs.

With the solar panel program there was an opportunity that came up last year, and -- it's an emerging technology, and the Federal government was offering a program to help stimulate, or grow this market. And so it's a -- it's a technology that's emerging, and the incentives and grants that were offered through the Federal government were fairly aggressive.

And so we thought that it only made logical sense that if somebody was going to offer that to customers, and for Manitobans to have access to it, that we would support that program, and promote it in

Manitoba.

MR. BOB PETERS: If the Federal government share of the cost was added to the enumerator in your ratio, would it then pass the TRC test?

MR. LLOYD KUCZEK: No. When we do a Total Resource Cost test, we look at the benefits and the costs regardless of who pays.

MR. BOB PETERS: What I was -- I guess another way of my asking that question, Mr. Kuczek, is if you're -- if you -- if you excluded the Federal government contribution as a subsidy, does that -- would it pass the test in that case?

MR. LLOYD KUCZEK: I think I know what you're asking. If -- if we assume the incremental cost of that opportunity was lowered by the amount that the Federal government's offering, then would it pass that test.

MR. BOB PETERS: You asked it better than I did, but as I intended to.

MR. LLOYD KUCZEK: Yeah. Well, a true TRC benefit cost test is supposed to look at all costs and benefits regardless of who pays.

So I -- we -- we internally have tended to do what you -- you are suggesting, as well sometimes just to see what the benefit costs are from a provincial perspective. So it's a reasonable thing to do but one's got to be careful not to call that a TRC test.

But to answer your question, if you took that assumption the -- it would be marginal whether it was cost effective or not. I think the payback period would still be in the twenty (20) year range, possibly.

MR. BOB PETERS: The second test that you put your perspective programs through is the rate impact measure test, correct?

MR. LLOYD KUCZEK: That's correct. We call it --

MR. BOB PETERS: Sometimes called the RIM test, and it's also a cost benefit test.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: It compares the marginal benefit that we've talked about to the lost revenue and utility costs, plus incentives?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And in this case, if the benefits are greater than costs, then theoretically there will be no negative impact on consumer rates.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And conversely, I suppose, if the costs exceed the benefits, then there's upward pressure on consumer rates to subsidize or crosssubsidize this DSM item.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Now, when -- when we look at the RIM test ratio column on book of documents Tab 39, it looks like virtually every one (1) of the programs fails the RIM test, correct?

MR. LLOYD KUCZEK: Yes, with gas DSM programs it's virtually impossible to have a program and pass the RIM test if you consider the -- the benchmark to be one point zero (1.0). What we do -- maybe -- just to add to this is we use the TRC test to determine whether or not an opportunity makes sense, regardless of who pays.

In other words, the benefits are greater than the costs. What we do next is we go -- we use the RIM test and the utility cost test to, as a measure or gauge to figure out what the impacts are to the ratepayers of Manitoba, generally speaking, and what the cost is to achieve those energy savings by using the utility cost test measure.

And we use that to help us determine how much of the ratepayers' money we should be using to help encourage customers to participate in the -- those energy-efficient opportunities.

MR. BOB PETERS: Does that answer

suggest, Mr. Kuczek, that not only do you use money to subsidize the participant, but consumers who don't partake in the program continue to subsidize that -- that consumer as well?

MR. LLOYD KUCZEK: Yes. The non-participants, clearly through rates, help participate -- or help contribute to the participant's costs.

MR. BOB PETERS: All right. Will it make any difference if you bundle some of the programs together before you put them through the RIM test or will they still fail the RIM test because they're all lower than one point zero (1.0)?

MR. LLOYD KUCZEK: They'll all fail the RIM test.

MR. BOB PETERS: You mentioned a third test and a -- is the -- the levelized utility costs that you're showing here in the third column?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Can you explain to the Board how that is a test as to whether or not a DSM initiative gets the green light?

MR. LLOYD KUCZEK: Oh, it's a test in a different way. It's not a benefit cost test. It's a -- it's a measure of what it's costing you to achieve the energy savings.

MR. BOB PETERS: Put another way, if you are -- if -- if a program is costing you two (2) cents per cubic metre, you'd want to make sure you were getting at least two (2) cents per cubic metre benefit back?

MR. LLOYD KUCZEK: With natural gas programs, the way I -- I look at it is you probably don't want to spend more than what it would cost customers -- or just what it would cost you just to pay the customers' bills, as opposed to offering some portion of the incentive -- or the incentives.

MR. BOB PETERS: Do you communicate this levelized utility cost to consumers at all?

MR. LLOYD KUCZEK: No, this is a cost to Manitoba Hydro and it's a metric that we use to gauge how much we're spending to achieve the energy savings through our programs.

MR. BOB PETERS: So, if we go down to the home insulation program, would it be correct to interpret the document at Tab 39 of the book of documents to suggest that Centra is paying fifteen point one (15.1) cents per cubic metre for the home insulation program. That is fifteen point one (15.1) cents per cubic metre of -- of gas saved?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Is there a threshold

that's used at all from the Corporation or is this simply a -- a measuring stick once the program has been dealt with by the TRC and the RIM test?

MR. LLOYD KUCZEK: It's used in aggregate with the other two (2) tests to determine whether or not the Corporation's gonna approve the -- proceeding with the program.

MR. BOB PETERS: Before I leave these tests, one (1) of the CAC/MSOS witnesses, Mr. Oppenheim, suggested that the marginal benefits in both the TRC and the RIM test be increased for the non-energy benefits.

Do you recall a recommendation to that effect?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And in essence, what you're -- what that was suggesting is that the -- the numerator in both of those ratios be increased for what he calls non-energy benefits?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Or non-resource benefits, I suppose?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And as an example, a non-resource benefit would be not having to disconnect customers?

MR. LLOYD KUCZEK: That's correct.
MR. BOB PETERS: And maybe fewer account writeoffs by Mr. Derksen and his colleagues?
MR. LLOYD KUCZEK: Correct.
MR. BOB PETERS: And maybe lower collection costs, I suppose I should credit those to Ms. -- Ms. Murphy?
MR. LLOYD KUCZEK: Yes.
MR. BOB PETERS: Those would be -- those -- those are all -- are those capable of being quantified and included or -- because presently, they're not, correct?
MR. LLOYD KUCZEK: No, and that's -- that's the struggle and -- and that's a discussion a lot of companies like ourselves that are involved in energy conservation programs struggle with is, if you could quantify the -- the amounts you -- you likely would and you would include them in the benefits category because they clearly, if you could quantify them, are actual numbers and they're -- they're economic benefits to the utility.
MR. BOB PETERS: Before you would include them in any of the existing ratios, Mr. Kuczek, you would have to be satisfied that that DSM initiative directly led to one (1) of those non-energy benefits and could

measure it.

MR. LLOYD KUCZEK: Or at least reasonably come up with some estimate that we felt comfortable with.

MR. BOB PETERS: Presently, you don't do that.

MR. LLOYD KUCZEK: No, but we have looked at it, and I believe those -- whether it was during an electric or gas Hearing, there was another Intervener that suggested the same thing, and went through that Intervener's analysis and suggestions for what the possible values were and thought about and discussed them with some other staff in terms of if we could quantify them.

And we concluded that it -- it is very difficult to measure, and we didn't really believe that the number would be significant, and so we didn't pursue that. And then adding to that, we didn't think it would make a significant difference in terms of whether or not we would be promoting a program, because most programs, the benefit/cost ratios are -- are not right at the margin, and given that our judgment of the non-energy benefits being small, it wouldn't change the benefit/cost ratios that much.

MR. BOB PETERS: Well, in any event, your -- every one (1) of your gas programs fails the RIM test and you still proceed with them.

MR. LLOYD KUCZEK: Yes, but that is not a requirement for us to proceed with those programs.

(BRIEF PAUSE)

MR. BOB PETERS: I think what you're telling me in your last answer, Mr. Kuczek, is that the -- the RIM test doesn't disqualify any program, it just perhaps more sharply focusses how close to passing it is, to give you some comfort if it -- if it passes the TRC test.

MR. LLOYD KUCZEK: Yeah, and I -- I guess it's a guideline -- or it's really not a hard pass/fail test that we use it for, and we use it for two (2) things. One (1) is to just get a general sense of what the impacts are to our customers, but -- and, more importantly, how it benchmarks against some of the other programs.

But the -- the utility cost gives us another measure which is, in some ways, better because it tells you how much you're spending to actually get the per unit energy savings.

MR. BOB PETERS: And the RIM test will also help you figure out the level of incentives.

MR. LLOYD KUCZEK: The combination helps us do that, yes.

MR. BOB PETERS: I'd like to turn, Mr. Kuczek, to the Lower Income Energy Efficiency Program, which I may abbreviate as the acronym LIEEP, L-I-E-E-P.

MR. LLOYD KUCZEK: Okay.

MR. BOB PETERS: And, as I understand it, the LIEEP Program is considered one (1) residential DSM program.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And it was launched in approximately December of 2007.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And the intent is to target lower income Manitoba consumers.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: At Tab 40 of the book of documents is the -- is the Statistics Canada information, I believe, relative to the low income cutoff.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And is that the -- is that the information that presently Centra is using?

MR. LLOYD KUCZEK: No, we update those numbers on an annual basi -- or those numbers are updated on an annual basis and we use the most current data for qualifying our customers.

MR. BOB PETERS: So while what's published here is the ni -- is the 2003 low income cutoff numbers, you have a more current forecast that's presently being used?

MR. LLOYD KUCZEK: That's correct. And there was an IR by the Consumers' Association that asked us for the more current numbers, and we've provided that.

MR. BOB PETERS: And generally, what's happening with the -- with the more current numbers?

MR. LLOYD KUCZEK: They're going up.

MR. BOB PETERS: Which means the low income level will now include more persons.

MR. LLOYD KUCZEK: I'm not sure if it includes more people. I -- I think this takes into account inflation and other things that are occurring in the economy, people's income, cost of living, and so the number needs to be adjusted to reflect all those things each year, and Stats Canada does that.

THE CHAIRPERSON: Just as an addition to that, the updated table, what year is that of?

MR. LLOYD KUCZEK: It should be this year as I understand it, and the -- the reference would be CAC-2-127.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: The intent of the lower income energy efficiency program, Mr. Kuczek, is to -- is to leaver not only Centra's money but the money that's available from other sources.

Would that be fair?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: So that would include the Affordable Energy Fund, which is notionally Manitoba Hydro's money?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And ecoEnergy from the Federal government?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And the Provincial government also has efficiency incentive programs?

MR. LLOYD KUCZEK: No, there's -- when we first started the program there was -- we started with the Centennial group, or a community group, and with that group there was other funds provided by the Provincial government.

And they're also providing them for the Brandon Community Initiative, but those funds are used primarily for the labour cost and the -- labour cost and administration of running those community based programs.

MR. BOB PETERS: And --

MR. LLOYD KUCZEK: And I should add, it's not just the labour, too, because the funding for the labour is also coming from the ecoEnergy grants as well that go to those community-based organizations.

(BRIEF PAUSE)

MR. BOB PETERS: From the materials, Mr. Kuczek, it appears that potential LIEEP applicants learn of the program either individually or through a community based organization.

Would that be a correct assessment?

MR. LLOYD KUCZEK: Yes, if -- as long as your category of individually includes through friends, community groups, churches, or whatever means they might hear about it from.

MR. BOB PETERS: There's not a lot of advertisement from Centra targeting the lower income potential customers, is there?

MR. LLOYD KUCZEK: Not at this time, no.

MR. BOB PETERS: Is there none other than the website?

MR. LLOYD KUCZEK: We -- we haven't done

any advertising in the paper at this point, if that's what you're referring to.

MR. BOB PETERS: Well, I'm just trying to ex -- have you explain to the Board how the word gets out that these low income energy efficience programs are available, and you've indicated that there's community based organizations.

And I take it they're -- you leave it to the community groups to -- to find the applicants, and then Centra will screen them. Is that correct?

MR. LLOYD KUCZEK: The community groups actually screen them themselves, although the -- we still see the paperwork.

But in terms of getting out into the public, I guess we're right now reviewing options for increasing awareness. Right now we're looking at possibly doing some direct mailing to certain areas that we think might have more low income people residing, and considering other options at this point, but...

MR. BOB PETERS: Have you done a -- perhaps a look for potential applicants through the accounts that they have with the company?

MR. LLOYD KUCZEK: We -- we -- our Credit and Collection group is aware of the program, as well as our contact centre. So there's potential leads that come through those venues as well.

If you're referring to the -- the actual bills, we've talked about target marketing but -- through that avenue, but it's very difficult to figure out who's low income and who's not based on the actual bills.

MR. BOB PETERS: And I'm sure there's more -- more brain power in your back row than in my head, but it -- wouldn't postal codes or other filtering mechanisms give you an idea as to where some of the lower income centres would be, and then cross-referencing it to the accounts would be one (1) way to check that?

MR. LLOYD KUCZEK: I don't know if that would actually give you any more information about who actually is low income.

I think we generally know from speaking to different people about what particular areas of an urban community might be low income, and so those were just two (2) of the areas that, right now, we're looking at targeting a direct mailing to.

We've had -- worked with a community-based group that's done drop-offs, door-to-door, in a neighbourhood, so that's another way we've tried to get consumers aware of the program.

MR. BOB PETERS: When I look to the book of documents, Tab 40, and turn to page 3 of 6 of

PUB/CENTRA-186, is the suggestion on that third page that Centra believes there are forty-four thousand six hundred and sixty-one (44,661) lower income customers in its service territories?

MR. LLOYD KUCZEK: That's our best estimate of what there is in ter -- in terms of the market for lower income people, yes.

MR. BOB PETERS: And when -- when applications come in under the lower income program, has Centra refused some of the applicants?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And is it based on their income cutoff?

MR. LLOYD KUCZEK: That would be the primary reason that I could think of.

MR. BOB PETERS: How does Centra verify the income?

MR. LLOYD KUCZEK: Income tax statements, copies of.

MR. BOB PETERS: And if per chance the individual doesn't file income tax re -- tax returns?

MR. LLOYD KUCZEK: I don't believe we've come across that yet.

MR. BOB PETERS: Okay.

(BRIEF PAUSE)

MR. BOB PETERS: If I have your direct evidence from the transcript correct from June the 3rd, I think you told Ms. Murphy that, under the individual program, you've had nine hundred (900) applications under the Low Income Energy Efficiency Program.

MR. LLOYD KUCZEK: Yes, over nine hundred (900).

MR. BOB PETERS: When you say "over nine hundred (900)," does that mean that's how many you have approved or is that how many have applied?

MR. LLOYD KUCZEK: I believe over a thousand (1,000) have applied.

MR. BOB PETERS: Okay. And do I read into that that maybe 10 percent are rejected, refused?

MR. LLOYD KUCZEK: That's a reasonable number.

MR. BOB PETERS: And of those nine hundred (900) applications, or over nine hundred (900) applications, on the individual side of the program delivery, there have been forty (40) homes that have been retrofit or the envelope has been enhanced?

MR. LLOYD KUCZEK: It -- it's in that range that have completed the entire process. There's vary -- various numbers that are in between the process. For example, over eight hundred (800) -- or around eight hundred (800), I think, have had their pre-audit done at this point.

And I mentioned in my direct evidence, there was a number of furnaces installed, so they're further down the process.

MR. BOB PETERS: I think you mentioned six hundred and ten (610) of those nine hundred (900) were recommended for furnace and insulation, and that would have been by way of the audit.

Have I got that right?

MR. LLOYD KUCZEK: That's correct. And I -- I believe I said roughly six hundred (600) of each, and that's not necessarily the same homes. There could be some recommendations which have just a furnace recommendation, and some homes that just have an insulation, and also, other homes that have both.

MR. BOB PETERS: And I also took from your direct evidence, Mr. Kuczek, that on the community side of the delivery, that oppose -- sorry, as compared to the individual side, but on the community side, two hundred and eighty-five (285) projects have been finished.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And what was the nature of those projects?

MR. LLOYD KUCZEK: Most of those were insulation upgrades and included the low cost measures as well.

MR. BOB PETERS: Ninety-six (96) more were in progress on the community based organization delivery model.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Absent from what you told Ms. Murphy, is that you don't yet have a rental property program for tenants who pay their utility bills, do you?

MR. LLOYD KUCZEK: What we have is, on the insulation, we have approval to proceed with -- working with our -- with landlords to come up with an arrangement so that they can participate, with the -- with the objective of trying to develop what would be a reasonable sharing of the costs and the incentives with the landlord and we're currently discussing how we can proceed with expanding our furnace replacement program to include the landlords as well.

MR. BOB PETERS: From the materials, it appears that the low income energy efficient program is targeting three thousand three hundred and thirty (3,330) households over the two (2) test years, is that correct?

MR. LLOYD KUCZEK: I have to find my reference but that sounds about right. Those would be the natural gas heated homes. The -- the target overall is fifty-six fifty (5,650) for electric and gas.

MR. BOB PETERS: Will Centra deliver a program dealing with the gas side only or does it have to -- does it have to fit under both the gas and electric side for the low income customers before you'll get involved?

MR. LLOYD KUCZEK: I'm not sure what you mean by that. We're -- we're pursuing homes, whether they have natural gas, electric heated or oil propane. It really doesn't matter. They -- they all qualify under our program, provided they meet our other qualifications. And gas customers are also -- our electric customers as well, so they -- they qualify.

MR. BOB PETERS: All right. Do I take it then the difference between the fifty-six fifty (5,650) and the thirty-three thirty (3,330) numbers that we've used represents a number of all electric households who will be applicants for the low income energy efficiency program?

MR. LLOYD KUCZEK: What we did is -- it's a high level estimate of that fifty-six fifty (5,650) number that we figured would be natural gas heated and -- well, we broke the number down into natural gas heated, electric heated and other, basically, and it's a high level estimate.

(BRIEF PAUSE)

MR. BOB PETERS: You've taken, subject to check, and agreed with me, Mr. Kuczek, that the three thousand three hundred and thirty (3,330) is the correct number for the forecast LIEEP program for the two (2) test years?

MR. LLOYD KUCZEK: I actually just found the reference. It's in response to IR -- PUB IR-2 -- 207. The number is thirty-three thirty-four (3,334) and in that response, I believe -- well, we do provide you with our estimate of those three (3) different categories that I talked about that add up to the fifty-six fifty (5,650).

MR. BOB PETERS: All right. Thank you. When you talk about the -- the low income energy efficiency program to the Board, they would be correct in understanding it to be delivered in -- on three (3) different levels?

MR. LLOYD KUCZEK: What would those three

(3) levels be?

MR. BOB PETERS: All right. In my mind, there's three (3) levels but you tell me if -- the first level would be what -- what might be considered the audit and no cost matters.

The second level would be the insulation and other envelope preparers and then for level three (3), I put the Furnace replacement Program there.

MR. LLOYD KUCZEK: I guess you could call it levels but it really is just three (3) different areas of opportunity that are available so if you qualify under the program and -- and meet our criteria in terms of income, we do an audit of the home and with that, you get the low cost measures that come with that.

Now, have -- if we go into the home and, obviously, if there's CFLs already in the sockets, we don't add more CFLs. So, the measure's general -- generally wouldn't be installed and so all customers get that that participate in the program.

And then the other two (2) categories, as opposed to levels, would be the furnace or the insulation measures and the customers participate in those opportunities if they're available within the home and also if the customer is willing to participate. It's still their choice.

MR. BOB PETERS: All right. Call them different aspects of the program or levels, as -- as I have, but in dealing with the first one, audit, and I called it no cost items. You called it, I think, low cost items.

Who's right to the -- from the consumer's point of view?

MR. LLOYD KUCZEK: Well, from the consumer's point of view it's no cost, but from our point of view it's either low cost and no cost. I think we -- if I were to categorize it, we usually write low cost/no cost.

No cost would be things like turning back your thermostat if you want to. Turn back the -- the temperature setting of your hot water tank.

Low cost items would be like your dollar fifty ($1.50) CFL, or caulking around doors and windows, or weather stripping, putting the pipe rack -- wrap material around the -- a certain length of feet leaving the hot water tank.

The aerators low flow -- low flow aerators are fairly cheap. If I'm not mistaken they're just a buck or two (2) as well, so they're pretty low cost. And some people might say they're no cost, but they're low cost.

MR. BOB PETERS: Well, the -- they're no cost to the consumer, and they're arguably low cost to Centra.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Now, when we say "low cost," those would be -- those are things you mentioned like turning back the thermostats, the CFLs, and the caulking, that would be done by the person who was considered the auditor who goes into the home.

Would that be correct?

MR. LLOYD KUCZEK: That's correct, on the individual track.

MR. BOB PETERS: And the auditor goes in because the Federal government requires a pre- and post-audit for its programs, correct?

MR. LLOYD KUCZEK: Well, the auditor goes in because it's a requirement of our program. We -- we require that the customer participate in that manner because it only makes sense to, if we're going to pursue those opportunities, that we leverage the Federal dollars.

MR. BOB PETERS: Maybe you put it much nicer than I did, but Centra does the pre-audits and the post-audits to get Federal government money.

MR. LLOYD KUCZEK: Yes. And you know, we

haven't really thought about it but if there wasn't those dollars available, we may still have that as part of our program.

It's a -- it's a really good fit in terms of how do you figure out what the opportunities are anyways. So you would have to send a person in to -- to do this regardless probably, so.

MR. BOB PETERS: Well, there was -- there was discussion last GR -- GRA, I believe, where Centra's need for audit wasn't as onerous as the Federal government's need. Do you recall that?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And it was Centra's position, was it, to the Board that rather than doing post-audits on each and every home, the money might be better spent on doing more DSM initiatives?

MR. LLOYD KUCZEK: Oh, on the post-audit, if -- if we knew the -- you know, for example if a furnace was being replaced and that's all that was being done, we have an inspector that goes through there anyways, so there would be no -- no real added value for us to send an auditor in just to go find out if the furnace was replaced.

We don't need an auditor to go in after the fact to see if the -- the low cost/no cost items were installed. So it really depends on, you know, the particular opportunity.

The other thing you could do, and we do it with our insulation program, is instead of auditing -- and these are the post-audits I'm talking about -- instead of auditing all customers, you audit just a sample; that might make economic sense.

So we'd have to review that, but the statement that I made at the last Hearing still stands. It -- it doesn't necessarily make sense to do post-audits, at least in all cases.

MR. BOB PETERS: And -- and the Board must have agreed with you because in their Order they suggested as well that spot audits post-renovation or post-repair would be sufficient.

MR. LLOYD KUCZEK: I can't speak for the Board, but I do recall reading that.

MR. BOB PETERS: And -- but the reason that pre- and post-audits are being done is to ensure that there's qualification for the Federal government money, such as the -- well the Federal government money.

MR. LLOYD KUCZEK: Yeah, from our perspective it just makes economic sense to do that because the -- the dollars that we get from the Federal grants are greater than the cost of actually implementing the audits.

MR. BOB PETERS: Now once the auditor is inside the home, the auditor will not only look at these no cost/low cost items, but will also look at the furnace and the insulation upgrade possibilities.

Would that be correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And recommendations might be given at that time by the auditor.

MR. LLOYD KUCZEK: Recommendations are always given by the auditor in terms of what the opportunities are.

MR. BOB PETERS: And does the auditor go so far as to make recommendations as to appliances, and replacement of dryers or refrigerators?

MR. LLOYD KUCZEK: No, there's no recommendations being made for that, but what we have the auditors doing is collecting information for us on -- from each home in terms of what the -- the fridge is within the home because we're hoping to launch a program in that area, and so this gives us an opportunity to find out, at least, when those -- with those customers participating, whether or not there is a real opportunity in that home to capture energy efficiencies through replacing the fridge.

MR. BOB PETERS: Just explain to the Board then, Mr. Kuczek, if your auditor goes in and sees the relative vintage of the refrigerator, they don't make a recommendation to the homeowner about the appliances, but they come back and put it in the database; is that what your answer suggests?

MR. LLOYD KUCZEK: Yeah, I don't think they explicitly recommend to the customer that they should replace their fridge at this point. This -- we're -- we're doing this as a proactive measure, knowing that we're likely to have a program in the future.

And we would be going back to the customer at that point and letting them know about the program and encouraging them to participate; that would be target marketing directly to those customers.

MR. BOB PETERS: And when you say that you may have a refrigerator program in the future, we, I think, heard last GRA, that there -- that old refrigerators are very energy intensive.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And perhaps, unlike some recent vintage automobiles, they seem to run forever.

MR. LLOYD KUCZEK: That's true.

MR. BOB PETERS: And do I take it from your third last answer then, that there is a refrigerator replacement program coming?

MR. LLOYD KUCZEK: There's certainly one (1) in the -- the -- well, we have identified one (1) and we have designed the program. The component that we're struggling with right now is trying to figure out how we're going to deal with the recycling part. This is on the electric side of the business, by the way.

MR. BOB PETERS: Yeah, and I -- I -- the way it came up, Mr. Kuczek, is once your auditor gets in the house, I think we heard at the last GRA, or the Board may have heard at the last GRA, that that may be the one (1) and only opportunity there is to get somebody inside the house who is knowledgeable in energy efficiency matters because the homeowners are generally reluctant to allow a number of different individuals to come through their home, correct?

MR. LLOYD KUCZEK: Yeah, I'm a believer in the -- the same theory, that once we're in, we should take advantage of all the energy efficient opportunities, whether it's gas or electric, and so that's why we're trying to get the information on the refrigerators at this point.

MR. BOB PETERS: And just perhaps a bit of a sideline on this, it appears from the materials that Manitoba Hydro uses Philippe Dunsky as a consultant on

DSM matters now.

MR. LLOYD KUCZEK: Yes, we do.

MR. BOB PETERS: And he had prepared a report for the Board at the last GRA. I think he was -- I better be careful which GRA I'm thinking, but in any event, are the initiatives that he put in his report ones that are now being investigated through the Utility?

MR. LLOYD KUCZEK: Well, the report's not finalized, but it would be fair to say that regardless, yes.

MR. BOB PETERS: There was -- there were minutes filed as -- and maybe I'll come to them, but there was a suggestion that the Dunsky Report was reviewed by the Low Income Advisory Group, do you recall that?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: Which Dunsky Report was reviewed?

MR. LLOYD KUCZEK: That was the one (1) that -- that was before this Board last summer at the -- or last winter at the electric GRA.

MR. BOB PETERS: All right, thank you. The Level 2 matters, in my mind, included the insulation and other envelope repairs. You may not have categorized it that way, Mr. Kuczek, but -- but that's the one (1) that -- that level is going to require some customer contribution, correct?

MR. LLOYD KUCZEK: For the most part, not.

MR. BOB PETERS: Well, I think we started off our discussion by looking at some of the programs, but for the insulation, the consumer's going to have to put up 30 percent of the cost?

MR. LLOYD KUCZEK: This was the -- that third -- that was for our regular Power Smart Insulation Program. The -- the insulation component of our Lower Income Program is different. Similar with the furnace, they're -- they're -- they are different.

MR. BOB PETERS: All right, my apologies too. This Insulation Program would deal with walls and attics, and the -- attics, and the -- the money would be from the Power Smart Program?

MR. LLOYD KUCZEK: It includes basements as well, and the money comes from -- comes from Power Smart dollars. The Power Smart dollars are determined by the same amount of dollars they would have got if they participated in our normal Power Smart insulation program. It's supplemented by our Bill 11 dollars, the Affordable Energy Funds.

And it's also -- the funds are -- that go

-- come from the federal grants also help pay for the insulation measures. And there's no cost to the consumer for the insulation upgrades, provided they're just normal insulation upgrades where you have to put up the studs, for example, in the basement and insulate it and vapour barrier it.

MR. BOB PETERS: Are the labour costs likewise covered by those funding sources?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: In turning to the Furnace Replacement Program, you had mentioned that the intention was to go from standard efficiency furnaces and boilers, to have them replaced by high efficiency furnaces, correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And in the Low Income Energy Efficiency Program, there is no option of middle ground or mid-efficiency furnace to be installed. It's from standard efficiency, straight up to high efficiency.

Is that also correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And in this case, if I've got it right, the consumer will pay nineteen dollars ($19) a month on their utility account for approximately five (5) years?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: In doing the math in terms of the costs, the Power Smart program, you said there was a rebate of two hundred and forty-five dollars ($245)?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And Federal government money of -- I thought I noted three hundred (300) or five hundred dollars ($500)?

MR. LLOYD KUCZEK: Yeah. And that's actually changed again. They modified their program to help stimulate the economy so the funds available through the federal government are -- are a little more complicated now.

You can actually get up to seven hundred and ninety dollars ($790) if it's a first time -- if this is a first time you're installing a high efficient furnace from a standard and you install -- I believe it's 94 percent as well to get that seven hundred and ninety dollars ($790).

MR. BOB PETERS: With the DC variable speed fan?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: So that's the Cadillac?

MR. LLOYD KUCZEK: No, you can get higher than that but I don't know if I would view that as a Cadillac anymore. The way the industry's gone, I think ninety-four (94) is not that difficult to achieve anymore.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: I didn't hear that.

MR. BOB PETERS: I did and it was good.

MR. LLOYD KUCZEK: Must have been -- must have been my boss talking.

MR. BOB PETERS: It was. It was. Let's look at the costs. For this Furnace Replacement Program, the nineteen dollars ($19) a month for five (5) years is about eleven hundred and forty dollars ($1,140)?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And then the Power Smart program, you've told me is two forty-five (245) and then seven hundred and ninety dollars ($790).

Is it Centra Gas Furnace Replacement Fund that would make up the approximate difference of two thousand dollars ($2,000)?

MR. LLOYD KUCZEK: That's correct. We don't get seven ninety (790) all the time. This -- this -- our contract with the -- with the contractors requires a minimum of 92 percent, I believe. Some are installing ninety-four (94) but the -- it's...

MR. BOB PETERS: Is ninety-four (94) the highest on the market that you're aware of?

MR. LLOYD KUCZEK: No, there's higher than that.

MR. BOB PETERS: Okay. There was no mention of any provincial government money included in that Furnace Replacement Program?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: There is none?

MR. LLOYD KUCZEK: There's no money from the provincial government.

MR. BOB PETERS: And likewise, is there any money from the -- the AEF?

MR. LLOYD KUCZEK: Only with the oil and propane furnaces being replaced. I guess there's a category that would provide the two forty-five dollars ($245). They're comparable to the Power Smart dollars but, other than that, the rest -- there is none from the Affordable Energy Fund.

MR. BOB PETERS: Again, I recall the evidence of Mr. Oppenheim and one (1) of his recommendations, as I recall it, was that the Furnace Replacement Program, as well as the Boiler Replacement

Program be open to every Manitoban at nineteen dollars ($19) a month, and that's to convert from a standard furnace up to a high efficiency one (1), correct?

MR. LLOYD KUCZEK: I believe that's what he recommended.

MR. BOB PETERS: And Centra's position relative to that, sir?

MR. LLOYD KUCZEK: We -- we don't agree with that.

MR. BOB PETERS: Is it a financial issue?

MR. LLOYD KUCZEK: It's a very costly issue for ratepayers.

MR. BOB PETERS: Costly in the sense that ratepayers are subsidizing two thousand (2,000) or twenty-two hundred and fifty dollars ($2,250) for a furnace upgrade?

MR. LLOYD KUCZEK: That's where the money comes from, yes; or it would have to come from there.

MR. BOB PETERS: Well, let's look with the Board then at the -- the Furnace Replacement Program to date at Tab 41 of the book of documents. There's a response, PUB/CENTRA-6.

With your assistance, Mr. Kuczek, do we take it from the first page that the program funding from revenue in '07/'08 of $2.3 million came from rate increases approved by this Board?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And likewise in '08/'09, the $3.8 million was on -- was on account of rate increases by the Board?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And a point that I believe Mr. Warden and I, and Mr. Derksen and I, talked about earlier is there is no more program funding being budgeted by the Corporation, correct?

MR. LLOYD KUCZEK: To replace the Furnace Replacement Program?

MR. BOB PETERS: No more funding for the Furnace Replacement Program through consumer rates.

MR. LLOYD KUCZEK: We haven't asked for any funding, no.

MR. BOB PETERS: And in fact, you've indicated that the funds will stop, and that you will use what's in the fund for the next two (2) test years.

MR. LLOYD KUCZEK: Yes, and if there was additional funds available beyond that, I think we would consider running the program for the following year after that, provided there was still low income customers that had standard efficient furnaces.

MR. BOB PETERS: Well, let's look to the

next page at the line for the test year 2009/'10, it looks like there is furnace customers, seven hundred and thirty-one (731) targeted for '09/'10. Is that correct?

MR. LLOYD KUCZEK: You said seven thirty-one (731)?

MR. BOB PETERS: I meant to.

MR. LLOYD KUCZEK: Okay, that's correct then.

MR. BOB PETERS: And -- and in the -- in the second test year, 2010/'11, six hundred and ninety-nine (699) furnaces -- furnace customers are being targeted.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Your third last answer to me said that if there was more money available and more furnace replacement customers, the Corporation would consider running the program for at least one (1) more year. Is that right?

MR. LLOYD KUCZEK: I said we would consider that, yes.

MR. BOB PETERS: Well, let's be clear. There certainly will be more furnace replacement customers, will there not?

MR. LLOYD KUCZEK: That seems reasonable.

MR. BOB PETERS: It seems reasonable

because there was -- was it three thousand (3,000) -- sorry, what was the total number of customers that you estimated had gas furnaces, and were also under the low income cut-off?

MR. LLOYD KUCZEK: I believe we said about twenty thousand (20,000) in one (1) of our IR responses to you in Round 1, and in Round 2 we provided an update of what we estimated the number to be, and we estimated it to be lower.

And I believe what we provided to you was a number of 32 percent of the lower income customers having standard efficient furnaces which might be in the twelve thousand (12,000) range.

We don't know exactly how many customers in the low income category have standard efficient furnaces, but -- so that's a high level estimate.

And the 32 percent is even a higher estimate than what we expect for the general population, so the percentage of standard furnaces is now down around 20 percent out there.

So it's possible that there might be only eight (8) to twelve thousand (12,000) furnaces that need to be replaced, but at the end of the day even if you look at those numbers, there should be some furnaces that need replacing at that point in time still.

MR. BOB PETERS: Let's refine our discussion, Mr. Kuczek, with the benefit of the document at PUB-40, Tab -- book of documents Tab 40. It's an inter -- Information Request, PUB/CENTRA-186, page 6 of 6.

And I believe the entire Information Request is in there, but if -- if we go to page 6 of 6, this suggests to me that -- that the total potential furnace plus boilers to be replaced is in twenty-one thousand five hundred (21,500). I'm sorry, I'll wait until you catch up.

MR. LLOYD KUCZEK: I'm with you. I'm just trying to find reference to some other information with the updated numbers, but this was the -- this was the response that -- this was the estimate that we had when we originally designed the program, and we had not adjusted it for the -- the replacements that we had also seen experiencing in the market at the same time.

So in response to CAC/MSOS, I believe it's one thirty-five (135). Yes, 135. We provided you with an estimate that suggested that 32 percent number, which would lower the target market.

And if you actually look at...

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Kuczek, your mic is open, so I take it you're still going to complete that answer, but I'm -- I'm having trouble following your math.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: The math that you're struggling with is the 32 percent to get to the twelve thousand (12,000) that I talked about?

MR. BOB PETERS: Yes, sir.

MR. LLOYD KUCZEK: Okay, so -- and I'd have to find all the references, but if you take the total number of gas customers, which we referred to earlier, and then applied 32 percent to it, I think you might come up with around the twelve thousand (12,000) mark.

MR. BOB PETERS: All right. And if you're using twelve thousand (12,000), that's furnaces and boilers?

MR. LLOYD KUCZEK: Boilers are somewhat of a separate category. I would say 5 percent of boiler -- the customers would be boiler customers, and we truly don't have a good estimate of how many of those are standard.

MR. BOB PETERS: Do you -- do you rent the boilers or are those customer purchased?

MR. LLOYD KUCZEK: Did you say "rent"?

MR. BOB PETERS: Does Centra rent the boilers to the homeowner or -- or the occupant, or is it purchased by the homeowner or occupant?

MR. LLOYD KUCZEK: It's purchased by the homeowner.

MR. BOB PETERS: In round numbers, and I'm -- I'm only good at that, or almost good at that, you're looking at fourteen hundred (1,400) furnace replacement programs over the test years with a potential database of about fourteen thousand (14,000), twelve (12) to fourteen thousand (14,000) customers who would qualify, correct?

MR. LLOYD KUCZEK: I just need to check that fourteen hundred (1,400) number. The total that I'm thinking of combined with boilers was nineteen hundred (1,900).

MR. BOB PETERS: I wasn't including the boilers, but I -- I've got your point, and I --

MR. LLOYD KUCZEK: I -- I think the boilers was two ninety (290), if I'm not mistaken, so if we take three hundred (300) off that, we're down to around sixteen hundred (1,600).

MR. BOB PETERS: Doesn't that suggest that for the next eight (8) to ten (10) years, at the rate you're going, there'll always be furnaces to replace?

MR. LLOYD KUCZEK: There's going to be furnaces to be replaced. We're not sure how many exactly are out there. The furnaces are getting older. They are dying. We're seeing a surge in terms of -- not a surge, but customers replacing more and more furnaces.

I think we estimated that -- in the last GRA for gas, that 57 percent of our natural gas customers had standard efficient furnaces.

In response, and that's the one (1) I was trying to find for you here, we now are estimating that there's only 20 percent of natural customers that have standard efficient furnaces, so there were -- there's been a lot of replacements.

And again, we have to use our numbers with caution because they're an estimate based on a survey that was done in 2003, and our database is only as good as the survey information, and as well as the information that we have in terms of customers converting to high efficient furnaces.

MR. BOB PETERS: Can you still purchase mid-efficient furnaces in Manitoba?

MR. LLOYD KUCZEK: You can, yes.

MR. BOB PETERS: But you can't purchase standard efficiency furnaces any more.

MR. LLOYD KUCZEK: That's correct. Those you couldn't purchase. I think they be -- quit manufacturing them in '92.

THE CHAIRPERSON: Can you still purchase a mid-efficiency furnace in 2010?

MR. LLOYD KUCZEK: Regulations are supposed to come into place Federally where you will not be able to purchase them at the end of this year, and the Provincial government's talking about putting in regulations which will possibly limit it to 92 percent.

And for your convenience on the furnaces, if you want to look at the percentages, or the saturation rates for the different furnaces, it was PUB-206.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Kuczek, just following up that question and answer with the Chairman, if as a result of Federal regulations, or laws, mid-efficiency furnaces will no longer be available on the marketplace, that will by default mean that consumers have to purchase what is now called a high efficiency furnace. Do you agree?

MR. LLOYD KUCZEK: If they're going to purchase one (1), that's correct.

MR. BOB PETERS: And they don't have an option. If their furnace goes, they're going to have to put in a high efficiency in Manitoba.

MR. LLOYD KUCZEK: Yeah, there -- there's two (2) things that happen. Some people replace their furnaces before they die, and that's what I was referring to "they have a choice".

Other customers where the furnace dies, they will have a -- no choice, and they'll have to install a high efficient furnace.

MR. BOB PETERS: I'm not sure that answer made sense to me, sir. If I choose on January 1 to trade out my existing standard furnace, you're thinking I can get a mid-efficiency still?

MR. LLOYD KUCZEK: No, I -- I'll explain it a little differently. Let's say your furnace -- if you -- if you have a standard efficient furnace January 1, and it's still working, you don't have to replace it.

And so I was just saying you have a choice to replace it, but you don't have to. It's still working. And so those customers have a choice to defer it, so -- so there's still an opportunity to try to encourage those customers to do it earlier.

But if you have to replace it, or you choose to replace it, and you're still going with natural gas, it'll have to be a high efficient furnace.

MR. BOB PETERS: Then I understand your answers, and thank you. What I would wonder about in response to the Chairman -- Chairman's question, if only high efficiency furnaces are available January 1 of 2010 -- and that's the target date as you understand it?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Will the seven hundred and ninety dollars ($790) for first time furnace purchasers be available from the Federal government?

MR. LLOYD KUCZEK: We don't know if it will be, but we're thinking that there's a good chance that it will not be.

MR. BOB PETERS: And the reasons that you think that the Federal government contribution will no longer be on the table?

MR. LLOYD KUCZEK: I'm trying to recall the -- the example, but they did offer a program at one (1) time where it didn't make sense because customers didn't have any choice, and -- and when they realized that they were doing that, they changed their program.

So I suspect they would do the same in this case. And -- and they're driven by achieving --

they're initiatives are driven by achieving energy efficiency, as well as our programs, so if customers have to pursue or have to install an in -- a high efficient furnace, and have no choice when they're replacing it, the Federal government likely wouldn't offer those incentives.

They could come up with an alternative program, and we'd have no idea what the incentive level would be, but they could encourage customers still to go to 94 percent, or higher, as opposed to 90 percent as the Federal regulations would require.

So it's not to say it wouldn't make sense for them to have a program or that they wouldn't have a program, but likely there would be changes to their existing program.

MR. BOB PETERS: Will there be changes to your existing furnace replacement program if that Federal money is no longer available?

MR. LLOYD KUCZEK: Well, we're current -- our current furnace program, not the low income program, is scheduled to end actually this Fall.

MR. BOB PETERS: Let's -- let's stay with the low income program. Right now, the Federal government contributes up to seven hundred and ninety dollars ($790) for the Furnace Replacement Program for low income qualified customers?

MR. LLOYD KUCZEK: We're not planning to change our program. It's just gonna cost us more.

MR. BOB PETERS: That's what I -- that's what I'm getting at -- is that the money that's presently being paid by the Federal government will then have to be paid by Centra through the Furnace Replacement Fund?

MR. LLOYD KUCZEK: Correct.

THE CHAIRPERSON: Mr. Kuczek, at the present point in time, if you convert to a high efficiency furnace, you also qualify for the stimulus funding by the Federal government through the tax credits; is that not true?

MR. LLOYD KUCZEK: I've asked that question as well and the response I get back is the details from the Federal government have not been provided in terms of whether or not that's a -- for certain. We suspect it will be but we don't know that for certain.

THE CHAIRPERSON: It is on all the web sites and, for example, in Alberta.

MR. LLOYD KUCZEK: It is on the web sites?

THE CHAIRPERSON: Yes.

MR. BOB PETERS: Mr. Kuczek --

THE CHAIRPERSON: By the furnace companies, anyway.

MR. LLOYD KUCZEK: Well, we actually are going to -- and we have, I believe, already communicated that to the customers that they may be eligible. We use the word "may" be eligible for that program as well so...

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just on that point of funding, if the Federal government funding changes January 1 of 2010, will the two hundred and forty-five dollars ($245) Power Smart contribution continue?

MR. LLOYD KUCZEK: No, that's what I mentioned earlier; that that program is scheduled to terminate later this year.

MR. BOB PETERS: So, as I do the math, the two hundred and forty-five dollars ($245) from the Power Smart program will have to be replaced in terms of funding, as will the seven hundred and ninety dollars ($790) of Federal money that may be disappearing?

MR. LLOYD KUCZEK: Yes. And just so you have full information, we didn't budget for the seven ninety (790). We budgeted for the three (3) or the five hundred (500) and so -- and I believe we also budgeted for the Power Smart dollars to actually disappear.

So the budgets that we provided to you earlier -- or in response to one (1) of the IRs assumed that the Power Smart program would disappear and the furnace program would pay for the two forty-five (245).

MR. BOB PETERS: Let's just look at book of documents, Tab 41, page 1 of 3, of PUB/CENTRA-6. Again, it's Tab 41 of Board counsel's book of documents.

It seems to suggest there to me, Mr. Kuczek, that in the '09/'10 and also in the '10/'11 test years, the Corporation plans to disburse $2.4 million in each year on account of the Furnace Replacement Program for low income qualified customers?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Does that 2.4 million take into account the discontinuation of Federal government funding?

MR. LLOYD KUCZEK: No, at that time, we didn't take that into account.

MR. BOB PETERS: Does it take into account the discontinuation of the Power Smart two hundred and forty-five dollars ($245) for furnace funding?

MR. LLOYD KUCZEK: It does.

MR. BOB PETERS: Mr. Kuczek, when I look to the money end of it and I look on the next page to the number of furnaces, what's the bottleneck in terms of doing more?

MR. LLOYD KUCZEK: The bottleneck is just wrapping up at this point and then -- which we have done and now it's getting more customers. We -- we launched the furnace program last year, as you mentioned. We got -- put in a -- put the arrangements in place with the contractors and we had a -- a flood of customers that approached us and so, we -- we've been dealing with that.

And we're now at the point where we're discussing how we can continue getting more customers lined up at our front door to participate in this program. So that -- that's really where we're at at this point. And how successful we will be in that regard, time will tell, I guess.

THE CHAIRPERSON: Don't you have a bit of a -- sort of an opening right now? Let us assume that I am correct that the amounts up to thirteen fifty (1,350) of a credit that you can get off your income return, like it applies to everything from a garage to a fence to this and that.

So I think I am correct that it also includes the replacement of a furnace, okay? Then you got the federal grants. Then you got the provincial grants. With the risk of some of them all ending next year, it will just become more difficult, will it not, just as the conventional furnaces become older in time?

MR. LLOYD KUCZEK: You're -- you're sounding like me when I was talking to my staff. We acknowledge that there's a real opportunity this coming year. We're talking about how we should be promoting all our programs, at this point, furnaces especially because of the situation that's going on right now and the -- the amount of dollars available, so we anticipate that we're going to have a more aggressive campaign subsequent to the summer vacation period.

THE CHAIRPERSON: I realize -- I happen to know this from another situation, but, for example, in Alberta right now you have the Federal grant. I think it was six (6) -- seven ninety (790). The provincial grant is something like six ninety (690), which includes the pre-inspection and the post-inspection.

And then their advertising, of course, the 15 percent from the federal pot. So when you combine it all together, you have got approximately twenty-four (24) or twenty-five hundred dollars ($2,500) to apply to a high efficiency furnace, so you can imagine how ambitiously aggressive is going on right now with the contractors, for example, in that province.

MR. LLOYD KUCZEK: Yes, and the -- I

think if you add up all the incentives in Manitoba, it's more like fourteen hundred (1,400), but you do -- you do have to pay for the audit as well, like if we're not talking the low income customers, so, you know, net, there's still twelve hundred ($1,200) available to you, so...

THE CHAIRPERSON: Mr. Kuczek, just one (1) other point which was lost, at least, to me when we were first started talking about this Furnace Replacement Program GRA ago.

I had never realized that in a conventional furnace, for example, part of the problem is not just the efficiency of the natural gas side of the furnace, but it is also the electric motor.

And when they replace the high efficiency furnace, they put in what is called a brushless DC motor, which apparently requires one fifth (1/5) of the electricity that the old versions count, so that you gain on both ends.

MR. LLOYD KUCZEK: Yeah, that's true. It depends on the assumptions. And when we do our assessments of the energy efficiency savings from those programs, we assess three (3) different situations, and you -- in one (1) of those, you actually use more energy than -- than using less, and that's those customers that normally wouldn't run their furnace continuously, and then they run it continuously after they install an ECM motor, so they end up using more energy on the electric side.

The other customers that stay with their -- their normal habits, of either just leaving it in the normal mode, where it comes on when your heat is on, will use less electricity, and also, those customers that ran it continuous before and run it continuous after will use less electricity.

But there's a group that actually switches and uses more electricity.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Kuczek, before you were providing answers to the Chairman, I had asked you what the bottleneck was, and I -- I didn't hear that there was a bottleneck, did I hear correctly?

MR. LLOYD KUCZEK: Well, I don't know if I'd characterize it as a bottleneck. It's -- it's a challenge. We -- we have to get customers aware of our program still and get them to participate in our program.

So, is that a bottleneck? Not necessarily. It's a challenge, I guess, right?

MR. BOB PETERS: Does that answer suggest that, even if you had more money available, you wouldn't be able to target more furnace replacement customers?

MR. LLOYD KUCZEK: Well, that's tough for me to say.

MR. BOB PETERS: Well, let me help you this way. Book of documents, Tab 41, in response to PUB/CENTRA-6, you're telling the Board that, after the second test year for which this GRA is -- is -- on which this GRA is based, you'll still have a closing balance of $1.4 million in the fund that Mr. Derksen is keeping track for you.

MR. LLOYD KUCZEK: We may. We -- we don't know exactly what our costs are going to be because of some of the things we talked about, but... And we may have more participation, as well, so whether or not there'll be surplus dollars is to be determined.

But we -- we came up with our best estimate of what we thought we were going to get for participation, and that number -- well, it will be different, but we just don't know exactly how different it'll be.

MR. BOB PETERS: And I don't take issue with what you -- you said, but I -- I'm still saying then that your answer is telling the Board that, even if you had more money, you wouldn't necessarily be able to -- to ensure that there were more furnace replacement customers serviced in the two (2) test years. Would that be correct?

MR. LLOYD KUCZEK: We're uncertain at this point. This is new territory in terms of offering such a generous program.

You'd think that everybody that hears about it that has a standard efficient pro -- furnace would participate, so in my mind it's just a question of getting to those customers and ensuring that they understand, and if they understand than I don't know why they wouldn't participate.

MR. BOB PETERS: You told the Board that the contractors were arranged, and am I correct that you have two (2) contractors on your preferred list in Winnipeg, and one (1) in Brandon?

MR. LLOYD KUCZEK: We have five (5) contractors in Winnipeg, and one (1) in Brandon for furnaces, and we have two (2) contractors in Winnipeg doing insulation right now.

MR. BOB PETERS: The five (5) Winnipeg contractors will do furnaces whether they're the Low Income Energy Efficient -- Efficiency Program, or the regular furnace -- furnace program?

MR. LLOYD KUCZEK: They -- they work in both markets, but they only have a contract with us to do the low income market.

MR. BOB PETERS: Is Centra aware of concerns that were identified in the media of late with respect to an HVAC contractor?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: Is that contractor on your list of five (5) approved for Winnipeg, or the one (1) for Brandon?

MR. LLOYD KUCZEK: No.

MR. BOB PETERS: When you have five (5) contractors approved for Winnipeg, does that in -- does that suggest to the Board that Centra has had -- has an understanding with respect to the cost of installations by these companies?

MR. LLOYD KUCZEK: Yeah, the contract actually has a negotiated price that the -- the contractors agreed to install the furnaces for, and it's all the same.

MR. BOB PETERS: And the negotiated price was negotiated by Centra?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Is that confidential, or is that on the public record?

MR. LLOYD KUCZEK: I believe the contractors asked us to keep that confidential.

MR. BOB PETERS: All right. If -- I'll just leave it. If the Board has further interest then perhaps Section 13 of their Rules of Practice allowing confidential information to be filed will be an avenue you might hear from the Board on further.

Mr. Kuczek, we may have covered much of this ground, but at Tab 42 of the book of documents the sources of funding for the Low Income Energy Efficiency Program are set out, correct?

MR. LLOYD KUCZEK: Correct. The sources from Manitoba Hydro and Centra Gas, I -- I guess. It wouldn't -- it does not include the sources from the Federal government in -- in -- or anywhere else in that response.

MR. BOB PETERS: And the Federal government money though, for the Furnace Replacement Program at least, will potentially not be available after January 1 of 2010?

MR. LLOYD KUCZEK: Potentially, yes.

MR. BOB PETERS: All right.

(BRIEF PAUSE)

MR. BOB PETERS: Perhaps before I ask the Board for the afternoon recess, we could look at the Tab 43 of the book of documents. It's PUB-184. And this compares Centra to other gas utilities in Canada, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: If we -- if we look at the -- well, first of all how does Centra see itself on the landscape in terms of DSM expenditures, and then particularly on low income expenditures?

MR. LLOYD KUCZEK: Well, based on the information that we -- we've obtained, we -- we are on the high side in terms of our DSM expenditures, and -- both on the low income and overall.

MR. BOB PETERS: Centra is spending on DSM measures in the range of fifty (50) to sixty dollars ($60) per customer for 2008/'09, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And that number's going to go up for the -- for each of the two (2) test years?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: That's correct, provided...

Were you referring to just DSM or the lower income component?

MR. BOB PETERS: My question was on just DSM initially, Mr. Kuczek. Does that change your answer?

MR. LLOYD KUCZEK: Actually, I'm not sure. I just gotta make sure that I'm providing you with accurate information. But to respond to your question, we gave the -- the total DSM budget for '08/'09 as 17 million; then '09/'10 and then '10/'11 as 21 million for the total DSM so it goes up from eight (8) -- '08/'09. And the same thing with the lower income program, it increases as well.

MR. BOB PETERS: What does Gaz Metro do for eighty-one dollars ($81) per customer for DSM that Centra Gas does not do?

MR. LLOYD KUCZEK: Well, I've been trying to figure that out when I got that information and I wasn't able to figure it out. I -- I've got this information through the contacts that I've made in the industry and I actually phoned the individual directly to try to understand what was going on and the -- part -- part of it was a language barrier, I believe, but we -- we could not figure out why their number was so high.

All she can tell me was these are the numbers and I can't tell you anything more than that. So the only thing I concluded was that there -- it is a different market. If you look at the expenditures on a percentage of revenue, they seem to be in the same categories -- the other -- or at least, a couple of the other companies out there, Enbridge and Union.

And when you divide it by the -- the -- take the expenditure and divide it by the customer, it works out to a very high number and one (1) possibility is the customer mix could be quite a bit different there. They could have a -- a more -- larger customer -- a larger industrial customer base and so the expenditures, when you divide it by the number of customers, just works out higher.

You know -- and that's one (1) of the reasons that you have to be cautious whenever you're getting these metrics from comparing DSM expenditures. Whatever the metric is, whether it's a percent of revenue or expenditure per customer, you have to understand the -- the particular region and the load and the opportunities within those markets.

Because overall, if you got two (2) regions that are aggressive in pursuing the opportunities, the opportunities aren't a lot different in the different regions so a -- the metrics can be deceiving at times and we've seen that before. I can't explain any more than -- than that.

I thought that might come up here and I tried to get more information but I was unable to obtain that.

MR. BOB PETERS: Their residential customer base is approximately 50 percent of Centra's at Gaz Met?

MR. LLOYD KUCZEK: Yeah, I -- I did the ratio and they got a hundred and forty-two thousand (142,000) customers totally and we got about two hundred and fifty thousand (250,000) customers so...

And then I did their revenue ratio and I came up with 1.6 billion for revenues and we only -- only have five hundred (500) so I -- I can't figure it out.

MR. BOB PETERS: All right. A --

MR. LLOYD KUCZEK: I asked her if the rates were -- what it worked out too and she says, No, no, no, they're not that high.

MR. BOB PETERS: All right. Well, it did attract attention and maybe we'll get an answer someday on that. But if we turn to the low income program, perhaps a more comparable metric -- that Centra is going to be spending in the range of 40 percent of their total DSM budget on low income market sector items, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And Enbridge, you say, is at 6 percent of their total DSM budget on low income? Union Gas at eight point three (8.3) and Gaz Met down at 2 percent?

MR. LLOYD KUCZEK: Those were the numbers I obtained from my contacts.

MR. BOB PETERS: All right. I've left Terasen and SaskEnergy off on the -- page 3 of 3 at Tab 43, but, certainly, Centra is significantly higher than any other gas LDC of which you've been able to find low income programs, in terms of their percentage of spending of their DSM dollar on low income?

MR. LLOYD KUCZEK: Yeah, we -- we compared some metrics to some utilities in the United States, and there are a few regions that spend -- at least if you use the percent of revenue measure that are in the same range as us.

MR. BOB PETERS: Mr. Chairman, this might be an appropriate time for the afternoon break. And I'll speak with counsel during the break, but I expect I could be -- I expect to finish my DSM questions this afternoon. It'll just be a question of whether the direct evidence will be led relative to the June 9th update, and we'll sort that out over the -- the recess.

THE CHAIRPERSON: Mr. Kuczek, you are

aware, on the Manitoba Hydro file, that there is an outstanding directive where Hydro is to file with the Board a low income bill assistance program?

MR. LLOYD KUCZEK: Correct.

THE CHAIRPERSON: Has there been any reflection on the gas side?

MR. LLOYD KUCZEK: I'm not sure what you mean by that, but if we were to have an assistance program on the electric side, I'm sure we would have it on the gas side.

THE CHAIRPERSON: I was wondering if there was any reflection in any of the forecasts of a bill assistance program on the gas side.

MR. LLOYD KUCZEK: Not that I'm aware of.

THE CHAIRPERSON: Thank you. We'll take our break now.

--- Upon recessing at 2:43 p.m.

--- Upon resuming at 3:09 p.m.

THE CHAIRPERSON: Anytime you are ready, Mr. Peters.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Chairman.

At Tab 44 of the book of documents is the affordable energy fund balances, Mr. Kuczek, and this was the $35 million fund set up pursuant to legislation that you had referenced in your evidence, sir?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And it was the Manitoba Hydro Winter Heating Cost Control Act, I think, to be precise. And a percentage of the Corporation's net -- a portion of Manitoba Hydro's net export revenue was put into a fund to be used for various matters, many of which were energy efficiency incentives.

MR. LLOYD KUCZEK: Yes. I'm not sure it was put into a fund, but a fund was set up. I'm a little careful. Mr. Warden could answer tha -- that question, but I don't think that's relevant, anyways, to your questions.

MR. BOB PETERS: No, it's not. But in any event, what we see here is, of the 35 million, $8 million was earmarked, if that's the correct word, for community energy projects, leaving $26 million, approximately, for the Power Smart Program.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Yeah, the 8 million

that I'm thinking of is on the supply side, so the... I'm looking for the reference of the category that you're referring to there.

MR. BOB PETERS: I -- I don't think you're going to find it, but it can be considered the supply side, but it was for community projects related to -- to energy.

MR. LLOYD KUCZEK: I -- I just recall it as supply side initiatives, whether it was -- I don't think it had to be community based, but it might have been.

MR. BOB PETERS: All right. In any event, there was $27 million available for the Power Smart Program.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And what you're telling the Board on the schedule at Tab 44 of the PUB book of documents in response to PUB/CENTRA-140, is that by the end of '23/'24 you will have spent all of the money.

MR. LLOYD KUCZEK: I believe most of the money will be spent in the next two (2) years, and there's some residual money that possibly is going on beyond there but I see in 2012/'13 we have some for geothermal, but -- and community support and outreach, but beyond that I don't see any dollars allocated.

MR. BOB PETERS: No, I -- I -- you're correct, by the end of 2012 and 2013 the fund -- or the monies that -- whether they were put aside or earmarked, they will have been depleted.

MR. LLOYD KUCZEK: That's our expectation.

MR. BOB PETERS: And when we look at this chart, would it be correct that lower income program at the top is -- it relates partially at least to gas -- to the natural gas heating?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And likewise the residual ecoEnergy audits line, while not a large dollar amount, that's where, on the gas side again, some of the money will be spent?

MR. LLOYD KUCZEK: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: And if one does the math, then we're looking at close to $19 million for the low income programs?

MR. LLOYD KUCZEK: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Kuczek, just a few points on the low -- the Low Income Advisory Group. This or -- this group has been put together since the last General Rate hearing, is that correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And the purpose is to provide some advice to the Corporation as it plans the Low Income Energy Efficiency Programs?

MR. LLOYD KUCZEK: As we plan and implement, and strive to improve the program, yes.

MR. BOB PETERS: The last meeting would have been in December of '08, if I understood the evidence correctly?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Those Minutes don't appear, and perhaps they weren't requested, but could you undertake to file those Minutes with the -- with the Board in these proceedings?

MR. LLOYD KUCZEK: We'll be able to do that shortly. They're -- I believe we have a draft of those Minutes, and the pl -- the hope was to get them finalized at the next meeting, which is scheduled for this month, I still think, so we can do that as soon as we finalize the Minutes.

MR. BOB PETERS: All right, that would be

-- be appreciated.

--- UNDERTAKING NO. 16: Centra to provide a copy of the Minutes of the December '08 Meeting of the Low Income Advisory Group

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: At Tab 45 of the book of documents there are copies of the Minutes from the two (2) other meetings that were held, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And in the Minutes that lead -- that are from the June 24th, 2008, meeting, there was a point under "Community Groups" where comments were raised and discussed, and am I correct that concerns were raised about how to address those bullets one (1) to five (5) by the -- by the members of the committee?

MR. LLOYD KUCZEK: Although my name is on the attendee list, I was only at this meeting for a short period of time, but as I recall Mr. Miller circulated Mr. Dunsky's report to all the participants that were going to attend the meeting.

And then at the meeting Mr. Miller pointed out some of the recommendations and concerns that Mr.

Dunsky had pointed out, and there was I think there was a short discussion on all those points from -- as he went through them.

MR. BOB PETERS: Are you aware of what, if any, special directives or plans came out of that -- out of that review?

MR. LLOYD KUCZEK: I couldn't give you specifics that came out of that, no.

MR. BOB PETERS: In terms of concerns about contractors found on page 2 of 2 of the Minutes, can I take it that Centra has done all of the work to address those concerns related to contractors, that is in terms of lining them up, getting the evaluations done, and providing a list for qualified or eligible contractors to assist on the low income programs?

MR. LLOYD KUCZEK: Yes, we -- we're -- again, we're moving in the direction of what would be the ideal case, but we have a number of contractors signed up, as was suggested here, when I talk about the ideal case, so we would have more contractors signed up in rural communities that we're currently working towards achieving, but if we asked the Advisory Group, I'm sure they would suggest that having a larger list would be nice and would be better for the customers.

MR. BOB PETERS: And just as a point of

interest, under the enrolling participants section of the Minutes, still on page 2 of 2, there was a suggestion that incentives could be offered for people to sign up for the low income program, including a financial incentive to complete a survey, do you see that Minute?

MR. LLOYD KUCZEK: I do.

MR. BOB PETERS: Is that in fact what Centra does?

MR. LLOYD KUCZEK: No, we -- we discussed this, actually, earlier on in the program, in terms of whether or not we should provide incentives for -- for community groups for signing up customers.

What we ended up with is providing incentives for -- different sort of incentives for the community groups that we thought were reasonable, and the incentives were all linked to actually achieving energy efficiencies savings within a home.

So we tied it to, if you do more on the weather -- weather -- air sealing, we'll pay you more, and if you do more measures within a home, we'll pay you more, so that's where we ended up focussing the -- the incentives of the program, but, as I say, we did discuss this at one (1) time, but we decided that we didn't need to pursue this.

And what we do is we work with the

community groups to see how we can assist them in getting more customers signed up through those groups, and those things include marketing material, and if they wanted to host a community meeting of some sort, we would assist them there, providing them with brochures to hand out within their community.

And -- and I know one (1) -- one (1) group for sure, the Centennial Group has taken us up on that and handed out brochures within certain targeted areas within their community.

MR. BOB PETERS: All right, thank you. Turning to Tab 46, there's a series of flow charts provided, and perhaps we can short circuit some of this, Mr. Kuczek, but can I take it, from the materials filed in the Information Requests, that, in essence, the proposed Dunsky individual program flowchart found on the last page of Tab 46 is the one (1) that is utilized currently by Centra?

MR. LLOYD KUCZEK: We utilize the -- the one (1) that is titled "Current individual program flow," is that the one (1) you're referring to, or the Dunksy one (1), which has hardly any words in it?

MR. BOB PETERS: Well, I tried to compare the current individual program flow to the one (1) that's the proposed Dunsky program flow.

And I suppose one can say that many of the -- the points are duplicated in each, although perhaps in more detail in the Centra current individual program flow, is that your -- your review of it, as well?

MR. LLOYD KUCZEK: Yeah, I went through it and tried to do the same thing you were doing because I was trying to figure out whether or not we implemented everything that Mr. Dunsky suggested.

And I -- I think Mr. Dunsky was just trying to oversimplify things and didn't get into the detail, whereas my staff are trying to articulate things in more detail in terms of what has to be done.

And at the end, what I did, is I went through our most current program flow and tried to assess whether or not we could simplify it more, and we could, but that would only be reducing the instructions within the boxes.

But, at the end of the day, the customer still has to be involved to a certain degree, and we think we've got it down to pretty much a minimum degree, and still having respect for the customer having some area of responsibility or choice in the matter in terms of who they hire and when they would get the work done within their home.

MR. BOB PETERS: All right, thank you for that clarification. You -- you mentioned, in your answer, your staff. Can you indicate to the Board how the Lower Income Energy Efficiency Program is staffed from a -- from a human relations point of view from Centra?

Is -- are there dedicated individuals or is it part of different persons' responsibilities to provide portions of the program?

MR. LLOYD KUCZEK: Both. We have a dedicated -- dedicated group, which I could be wrong on the specific number but I believe we have seven (7) dedicated staff at this point to purs -- that work full-time on this program and then we have other people within the organization that provide support.

That includes the contact centre, engineering. They provide support from a technical perspective. Legal, if there's any legal issues and there is probably some other areas within the Corporation as well. But we have a dedicated department that's staffed up and responsible for just this program.

MR. BOB PETERS: Prior to the afternoon recess, Mr. Kuczek, you were talking with the Chairman about the Bill Assistance Program.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And the reference, I

believe he made, was in Order 116 of '08. It was a Manitoba Hydro order. Manitoba Hydro was to propose a -- a low income bill assistance program to the Board and that's the program you spoke about?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: At Tab 47 of the book of documents, there is the CAC/MSOS/CENTRA-42A Attachment included. This is a shorthand version of the study that Centra has done relative to a Low Income Bill Assistance Program?

MR. LLOYD KUCZEK: That's correct. It's -- identifies all the areas that you could possibly include in a program and also talked about what we currently do and a -- in -- in short form there.

MR. BOB PETERS: What -- what this may suggest to the Board at Tab 47 of the book of documents is that in terms of a -- of a Low Income Bill Assistance Program, Centra is doing everything that is possible to be done, save and except for rate discounts, waivers or cash subsidies?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And when you say that the rate discounts, waivers and subsidies are under review, what specifically is under review?

MR. GREG BARNLUND: Mr. Peters, what

we've done is we've been paying attention to the proceedings going forth in Ontario right now over the last year -- consult a -- consultation on energy issues for low income customers in that jurisdiction and they had undertaken a review of some possible scenarios in terms of creation of separate rate classes for low income customers and to possibly employ some criteria and rate design with respect to ability to pay.

And we've also reflect -- are reflecting on the results of their report that was issued a couple of months ago which, at that point in time, the OEB has determined that it's not appropriate to be designing rates, LBC rates to take the ability to pay into consideration.

And so, we've -- we've been -- I think that we're of the view that is much along the same line as what the OEB has concluded at this point in time.

MR. BOB PETERS: Is the review then finished, Mr. Barnlund, or is it still ongoing?

MR. GREG BARNLUND: I would say that the review is largely completed at this point in time.

MR. BOB PETERS: And so all that's left is there will be a report issued or provided to the Board at some point in time on the Hydro side?

MR. GREG BARNLUND: I believe that the

directive states that there's a report that's to be filed with the Board shortly, yes.

MR. BOB PETERS: In terms of the Low Income Bill Assistance Program, am I correct that the funding presently in effect on the Centra side is the Neighbours Helping Neighbours program?

MR. LLOYD KUCZEK: That's my understanding, yes.

MR. BOB PETERS: And is it correct that there's approximately thirty thousand dollars ($30,000) put in by ratepayers or third parties to this fund?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And then Centra also pays into this fund or Manitoba Hydro does to the extent of a hundred and forty-three thousand dollars ($143,000)?

MR. LLOYD KUCZEK: Our -- our costs are primarily -- go towards paying for the administration of the program.

MR. BOB PETERS: Did I have the dollar amount correct, a hundred and forty-three thousand (143,000)?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Is that the Centra side, the Hydro side, or both?

MR. LLOYD KUCZEK: Both.

MR. BOB PETERS: Can you tell the Board whether all of the requests for assistance under the Neighbours Helping Neighbour Program are being met, or whether some go unanswered, or unfunded?

MR. LLOYD KUCZEK: All the -- all the customers that qualify are dealt with, so there isn't -- there isn't an issue of shortage of money at this point.

(BRIEF PAUSE)

MR. BOB PETERS: There's one (1) issue that was raised, I think, in the -- in the Application, and Mr. Barnlund, that was approval for what is now Interim Order-102 of '08 dealing with service disconnection and reconnection policies and procedures?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And in that response -- or in response to that, there was an Information Request that's not in the book of documents, I think it's PUB/CENTRA-80.

It appears that the gas disconnections went from approximately five thousand (5,000) down to a hundred and seventy-seven (177) in the space of one (1) year. Is that also correct?

MR. GREG BARNLUND: If you could just give us a moment, sir.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Could you repeat the number that you have?

MR. BOB PETERS: Yes, I was looking at PUB/CENTRA-80, eight (8) zero (0), and on the gas side in -- in residential customers in 2007 there was forty-eight hundred and sixty-three (4,863) disconnections.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And it dropped to a hundred and seventy-seven (177) in 2008.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And is it correct to attribute that dramatic drop due to the revised service disconnection and reconnection policies?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: What is it in specific that has lead to such a decline?

MR. LLOYD KUCZEK: Well, it's my understanding, and -- and I'm not the expert in this, but it's my understanding that we now have the ability to look at the customer from the combined perspective, and so we have the option of disconnecting on the electric side.

And so you can see in the -- the response there that the number of disconnects on the electric side have gone up -- or I guess we haven't provided that, but there -- it wasn't applicable before, but we disconnect them on the electric side as opposed to the gas side now.

MR. BOB PETERS: Or do you use the load limiting technology on the electric side rather than fully disconnect them?

MR. LLOYD KUCZEK: During -- during the summer we -- we use the disconnect, and in the winter we use the load limiting.

MR. BOB PETERS: Mr. Barnlund or Mr. Kuczek, have there been any negative repercussions with respect to the revised service disconnection and reconnection policies and procedures?

MR. LLOYD KUCZEK: No. Actually, I did talk to our credit and collections people about this prior to the Hearing, and I asked them how things were going.

And they said overall positive from their perspective, as well as the customers, because now instead of being pressured to dis -- or make arrangements within a short period of time during the summer, they can now be more -- they can make payment arrangements with the customer that extend into the winter, and it's a longer period of time.

And the customers are able to accommodate those payment arrangements easier because it's over a longer period of time, whereas before they -- a number of them possibly knew that they could just make it to October, or whenever that payment period ended, which was September 30th, I guess, and they would have their gas service back, but now they're exposed to consequences on the electric side year round.

MR. BOB PETERS: Mr. Barnlund, when you were asking the Board in your direct evidence for approval of Interim Orders, I didn't check the transcript but I also didn't hear you ask for approval of Interim Order-101 of '07, which I think was a GRA Order that gave interim approval for primary gas rates. Is that on your list, sir? Is Order 10107 on the -- on the list?

MR. GREG BARNLUND: Let me check.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Barnlund, I can

probably short circuit this. AT PUB/CENTRA Number 4, that same question, I think, was asked and I was somewhat surprised. It wasn't mentioned in -- in your direct evidence and I'm just wondering if that was oversight or whether something has changed to result in that not being put forward for final approval.

MR. GREG BARNLUND: I recall an Information Request on that but I'd have to check and just confirm that we are seeking an interim -- a final approval of an interim order.

MR. BOB PETERS: All right. And it was PUB/CENTRA-4 if you can check it and get back to us through your counsel.

--- UNDERTAKING NO. 17: Centra to confirm they are seeking a final approval of Interim Order-101 of '07.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: On the topic of fuel switching, Mr. Warden, would I be correct in saying that Centra has no policy to promote fuel switching?

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

MR. BOB PETERS: And Centra will provide customers with information but in terms of the fuel choice, that is left entirely to the customer?

MR. VINCE WARDEN: It is.

MR. BOB PETERS: Can you tell the Board, Mr. Warden, what fuel use for space heating would result in the higher net income for Manitoba Hydro? Would it be gas or electric -- electricity?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, to the extent that we can export those kilowatt hours that are saved by heating with gas rather than electricity, the net income of Manitoba Hydro would be increased.

MR. BOB PETERS: And yet, even with that financial and economic reality, Manitoba Hydro and Centra Gas don't have a -- a fuel switching policy?

MR. VINCE WARDEN: No, because the objective is not necessarily to maximize net income. We take advantages of opportunities to do so but in terms of providing customers with -- with options, we -- we believe it's more important to provide customers with the information that they can make informed decisions.

MR. BOB PETERS: Would it also be correct that the more gas there is used in Manitoba that displaces electricity -- then that would also reduce globally greenhouse gas?

MR. LLOYD KUCZEK: Maybe I'll answer that. That depends. It depends on what the policies are, decisions of parties outside of Manitoba make going forward -- that would be true under the current environment in the short term. But in the long-term in theory, you could have policies in place that limit the amount of greenhouse gas emissions in those regions.

So, if we had possibly reduced exports, they may have to install alternative measures to make up for the green energy that they were buying from us. So, from that perspective, if -- or in that scenario, global emissions -- or global emissions would not go down. They would actually go up because the emissions in Manitoba would go up and global -- or in the regions outside of Manitoba, they would actually stay flat.

So, it depends on the future scenario and so... I don't know if that explains it but we don't know for certain in the future and -- and in the short term, it would reduce global emissions.

MR. BOB PETERS: In the short term, it would reduce global emissions because the electricity would be exported, and would at least notionally replace perhaps coal, or other natural gas generation.

MR. LLOYD KUCZEK: Yes, under -- under

today's scenario or existing policies, and -- and a generation that exists in our markets, that's true.

MR. BOB PETERS: Is it then your expectation, Mr. Kuczek, that the exporting of electricity replaces coal, or -- or does it replace natural gas generation, or does it replace both?

MR. LLOYD KUCZEK: It -- it replaces a mix of generation resources.

MR. BOB PETERS: It would displace whatever would be on the shoulder, or on the -- on the margin in the -- in the jurisdiction into which you export it?

MR. LLOYD KUCZEK: In the -- in the short-term. In -- in the -- in the long-term you would have to look at what you're displacing that would have been constructed possibly had you not made a long-term sale.

MR. BOB PETERS: I'm just not quite keeping up with you on the long-term perspective. You're suggesting that in the future Manitoba Hydro's electricity may not be displacing coal or natural gas. It may in fact be displacing other green energy. Is that the long-term assumption?

MR. LLOYD KUCZEK: No, not -- not necessarily. In -- in the -- in -- if you're making a long-term -- well, if you're making a long-term sale, and the customer has a choice in your market of doing something else, theoretically they could be installing something that produced greenhouse gas emissions, or did not produce greenhouse gas emissions.

In the short-term market, you're always displacing something that exists, so the short-term sales of electricity will be displacing something at the margin.

MR. BOB PETERS: At Tab 48 of the book of documents, some math was done in response to PUB/CENTRA-189, and page 3 of 5 is included in the tab.

And is it correct for the Board to interpret this, Mr. Kuczek, that by 2013 and '14 new houses using gas hot water tanks instead of electric hot water tanks would reduce CO emissions globally by twenty-four thousand (24,000) tonnes per year?

MR. LLOYD KUCZEK: Yes, and I use -- I think the word "potential" cumulative net GHG emission impact is how we characterized it. This --

MR. BOB PETERS: That lead to my next question, is why -- why qualified by potential?

MR. LLOYD KUCZEK: Well, potential only for the reasons that I say, and I don't expect policy decisions to be made tomorrow, but we don't really know what kind of policy decisions might be made into the future.

And there's also delays in terms of when new generation could be constructed, so it's all based on the information I provided you with earlier.

But this would be the -- the global reductions under today's scenario.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, Mr. Kuczek in his second last answer suggested that the energy that would be available from consumers using more gas for space heat relative to electricity would free up electricity to be exported as green power.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And Manitoba Hydro considers its energy to be clean energy, is that correct?

MR. VINCE WARDEN: We do.

MR. BOB PETERS: And that's because it's low in green house gas emissions?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And certainly it's lower than coal?

MR. VINCE WARDEN: It is.

MR. BOB PETERS: Am I correct, however, that in some circles Manitoba Hydro's energy is considered dirty energy?

MR. VINCE WARDEN: We -- we do have issues or we have been accused in the past of producing dirty energy but I don't think that's taken too seriously by people that have all the information at their disposal.

MR. BOB PETERS: All right. And you are getting to where I was going, is that, even if Manitoba Hydro had additional energy to export you are not encountering market resistance for such exports?

MR. VINCE WARDEN: No.

MR. BOB PETERS: Do you have an understanding, sir, as to why some consider Manitoba Hydro to be dirty energy?

MR. VINCE WARDEN: Well, there is no doubt that the construction of hydroelectric generating stations in northern Manitoba in the '60s and '70s resulted in a lot of flooding and displacement of certain communities.

We've been able to resolve most of those concerns through negotiation over the intervening years, but we do have one (1) -- in particular, one (1) outstanding community for which we have not been able to reach a settlement. So that community is the most vocal in terms of referring to Manitoba Hydro's energy as "dirty energy."

MR. BOB PETERS: What, if anything, is Manitoba Hydro doing to try to get its point of view across?

MR. VINCE WARDEN: Well, we have been certainly in consultations with that community for many, many years, been attempting to resolve the differences. We have not been successful to date. There were, as a result of the northern flooding, there were five (5), primarily five (5) northern Indian communities or -- or aboriginal communities that were primarily affected.

We've been able to reach comprehensive settlements with four (4) of the five (5) communities, but there is one (1) yet outstanding.

MR. BOB PETERS: Perhaps as you answered me previously, you can confirm to the Board that -- that there has been no financial impact to Manitoba Hydro as a result of the allegations of the electricity being dirty energy?

MR. VINCE WARDEN: Well, I -- there has certainly been a financial impact in terms of Manitoba Hydro incurring costs to defend ourselves in -- with some of those allegations.

There hasn't been a cost in terms of impact on extra-provincial sales though. We -- it has not been an impediment in terms of reaching an agreement with counterparties in our export markets.

MR. BOB PETERS: And you acknowledged to me earlier that Manitoba Hydro is financially better off if more consumers would use gas for space it and free up electrons for export.

MR. VINCE WARDEN: Well, the consumers, electricity consumers of Manitoba are better off. Manitoba Hydro is not looking to profit, necessarily, for the benefit of the Corporation, it's for the benefit of consumers.

So the savings that are derived by export sales are -- are passed on to consumers through lower rates.

MR. BOB PETERS: But Manitoba Hydro was also able to command a greater net export revenue by -- greater revenues by exporting rather than domestic consumption?

MR. VINCE WARDEN: Well, it depends what class of customer we're referring to, but as a general statement, that's correct, yes.

MR. BOB PETERS: And if that statement is generally correct, then would it also not follow that

Manitoba Hydro will expect its exports at some point to command a premium if and when there's a carbon tax or equivalent levy in the United States?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And does the Corporation have any expected deadline date for -- for the imposition of such carbon legislation?

MR. VINCE WARDEN: No.

MR. BOB PETERS: You can confirm to the Board that the jurisdiction into which you export your electricity is -- is known at the MISO region, and that's predominantly a coal fired base energy jurisdiction?

MR. VINCE WARDEN: Yes, I can confirm that. Not exclusively into the MISO Region. We also sell export into provinces to the east and west.

MR. BOB PETERS: I'd like to conclude my questions of this panel, Mr. Chairman, by looking at, I think, document number 49 in the book of documents. It's the typical home heating and water heating costs schedule.

And in this schedule, I just want to make sure we've got the -- the most current. This one (1) has been updated to include May 1st, 2009 rates?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Is it correct that on

the top half you're showing space heating by way of different heat -- different heat sources?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And it appears that compared to electric space heating, natural gas is more economical for the typical homeowner if they have a high efficiency or a mid efficiency furnace?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And the conventional furnace that we see shown in the bar chart, that conventional furnace is the one that will no longer be commercially available -- is no longer commercially available as we sit here today?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: At least not in Manitoba?

MR. LLOYD KUCZEK: It shouldn't be available in Canada.

MR. BOB PETERS: All right. And the mid efficiency, you're expecting that come January 1 of 2010, that mid efficiency will no longer be a new option for consumers?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Would you accept, subject to check, that if electricity costs are held constant, gas would have to go up from the current thirty-seven (37) cents a cubic metre, up to forty-eight (48) cents a cubic metre to achieve an equilibrium between electric and gas heat?

MR. LLOYD KUCZEK: That's -- that's true, provided you still have the -- the basic monthly charge that you would have to pay for.

MR. GREG BARNLUND: Excuse me, Mr. Peters. To be clear, that -- there was an IR that was answered on this, PUB/CENTRA-189, and it was -- I think you're asking about the price per -- of primary gas per cubic metre. Is that correct?

MR. BOB PETERS: Yes, I was.

MR. GREG BARNLUND: Okay. Yeah, and that is in that response, forty-eight (48) cents per cubic metre.

MR. BOB PETERS: Is the panel aware that, in Ontario, there is legislation under the Green Energy Act requiring energy audits by vendors of residential properties?

MR. LLOYD KUCZEK: No, I'm not aware of that.

MR. BOB PETERS: Are you aware of any movement in Manitoba to require vendors of residential homes to have audits performed on their -- energy audits performed on their residence prior to sale?

MR. LLOYD KUCZEK: No.

MR. BOB PETERS: Does Centra consider there may be some benefit to such audits?

MR. LLOYD KUCZEK: One would have to do a benefit cost ratio. These audits cost around four hundred dollars ($400) so I -- I don't know if the benefits would outweigh the costs.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, on reflection, that doesn't complete my questioning. I was thinking -- there were a few questions held over from -- from the Cost of Gas Panel that were directed at this panel and I should take this opportunity just to complete those, if I might.

Mr. Kuczek, your name was mentioned repeatedly to that -- by that first panel whenever they got into trouble in answering questions so at -- at Tab 63 of the book of documents, there was comparison of -- of a broker-supplied and primary-gas-supplied customers on PUB/CENTRA-17(a) attachment, page 1 of 6. It's a landscaped table. Tab 63 of the book of documents, sir.

MR. LLOYD KUCZEK: Okay.

MR. BOB PETERS: On line 14 and 15, 15 specifically, the number of -- of SGS residential customers that are on direct purchase is shown at approximately forty-two thousand (42,000) per year in the test years and the -- and the year that's just concluded, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And if a -- if we're correct, at the last GRA, the forecast was more like sixty-two thousand (62,000) residential homes would sign up for direct purchase. Do you recall that being correct?

MR. LLOYD KUCZEK: I recall that at one time what we did in our forecast is we extrapolated the trend that was happening and then subsequent to that, we decided that we really don't know where the market's going in terms of how many customers are going to sign up with marketers. So what we've decided to do going forward is just to -- whatever the participation was that -- that we currently know, and we would just extrapolate that into the future.

MR. BOB PETERS: Oh, I see. So you just kept the same trend line. You haven't tried to read into it -- okay. And that explains the change in methodologies then?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: All right, thank you. The first panel was correct, you did know the answer.

In terms of the -- the impact of the landscape order, Mr. Kuczek, there was some discussion as to this Board's Order-109 of '08 and the new code of conduct and the various provisions, and we're wondering whether or not there were any specific fallouts from that Order that were problematic that you're aware of, either to the Corporation or -- or from any of the direct purchase suppliers?

MR. LLOYD KUCZEK: None that I'm aware of.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Kuczek, on Centra's fixed price offerings, Tab 63 still, it shows on that same chart that we had out, of PUB/CENTRA-17(a) Attachment, on lines 10, 11, and 12, those represent the forecast customers for Centra's fixed price offerings in the test years?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Are those all incrementally new customers, or is that going to include the customers from '08/'09?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: They just started in this current year, though, with flows in May 1st, so this reflects that pilot as well as I believe we included what we were forecasting to happen going forward.

MR. BOB PETERS: All right. In terms of forecasting, I think we see from the book of documents, Tab 64, it's a copy of PUB/CENTRA-101, you have forty-two (42) contracts accepted on the one (1) year gas supply, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And that one (1) year gas supply, that includes residential as well as commercial?

MR. LLOYD KUCZEK: And -- and LGS, as well?

MR. BOB PETERS: Yes. LGS commercial?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: Yeah. And this suggests that there will be more offerings in the test years? Would that be fair to say?

MR. LLOYD KUCZEK: That's our plan.

MR. BOB PETERS: And when will Centra be going to the market with the next opportunity for consumers to sign up for Centra's fixed price offerings?

MR. LLOYD KUCZEK: We're hoping to offer something this -- after the vacation season.

MR. BOB PETERS: I'm not sure what the vacation season is at Centra, but does that mean after the summer, or is it after this weekend?

MR. LLOYD KUCZEK: Well, for me it's usually only a one (1) week period, but --

MR. BOB PETERS: Was that answer supposed to mean it's going to be in the fall of '09 that'll be the next tranche?

MR. LLOYD KUCZEK: Likely earlier. Possibly August, but I can't say for sure. We -- we have to work out a few things, but we're planning to go to the market as soon as we passed the vacation season, which is generally the July 1st, part of August, and -- and so that when we're out there the customers are focussing on other things besides vacations.

MR. BOB PETERS: This last one (1) was a fixed price offering. While you flowed gas on May the 1st, you had an offering out in the market in February, February 9th of '09.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: What's taken so long for the next offering?

MR. LLOYD KUCZEK: Well, probably the biggest thing that we -- we have to figure out is how we're going to deal with situations where customers don't subscribe to all the volumes that we hedge forward, and we have to come up with a plan to deal with that and get approvals for that, and then move forward.

MR. BOB PETERS: We did hear from the other panel that the -- the one (1) year contract was fully subscribed and the three (3) and five (5) year fixed price offerings were under subscribed, is that correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: One (1) of the suggestions by the -- the Gas Panel was that -- I think Mr. Warden heard most of that or maybe contributed to that discussion, was that you might roll the fixed price positions you presently have into the next offering.

MR. LLOYD KUCZEK: That's one (1) of the considerations, yes.

MR. BOB PETERS: Can you indicate what other considerations are -- are being thought of in terms of this program?

MR. LLOYD KUCZEK: Well, the one (1) that

I don't like is we just write it off and you move forward and you come up with new hedges going forward, but that doesn't make sense in my mind, but that -- that would be the other extreme.

MR. BOB PETERS: When do you expect to resolve that issue?

MR. LLOYD KUCZEK: Right after this hearing.

MR. BOB PETERS: Okay. Right after the vacation period. Is the number of customers still forecast to be accurate, that is fourteen hundred and forty-four (1,444) is still forecast for the first test year and twenty-six hundred and seventy-four (2,674) for the second test year?

MR. LLOYD KUCZEK: Well, that was our estimate when we looked at the -- when we put our proposal together last year. I've asked my staff to rethink those numbers, given what they know that's going on in the marketplace today and come up with a new forecast, but -- so what we included in -- in here was what we had included, I believe, in our report last year.

MR. BOB PETERS: Mr. Kuczek, is it correct that the brokers in the marketplace have dropped their four (4) and five (5) year prices to match Centra's?

MR. LLOYD KUCZEK: Well, one (1) broker actually is no longer offering any products in Manitoba, and the other customer -- or broker has dropped its price. We don't know if that's because of our product offering or because prices have fallen.

MR. BOB PETERS: But you do know it's now equal to Centra's price?

MR. LLOYD KUCZEK: It's just slightly higher, but pretty close.

MR. BOB PETERS: Last question to Mr. Barnlund. We discussed with the prior panel the interruptible customer curtailments, and one (1) of the suggestions is that thirteen (13) customers didn't obey the request by Centra to -- to interrupt their supply; do you recall that?

MR. GREG BARNLUND: Yes, I do.

MR. BOB PETERS: You weren't close enough to the microphone, but as a result of that, Centra is now asking this Board to approve a change in the terms and conditions of service such that interruptible customers have to demonstrate an operational alternative fuel source?

MR. GREG BARNLUND: Well, I think to be clear, we had been planning on making those changes regardless. The existing terms and conditions I think were becoming relatively obsolete with respect to some of those provisions for interruptible customers, and so we had begun planning, making changes to be incorporated in this application some time ago.

MR. BOB PETERS: And this thirteen (13) customers being noncompliant was the straw that broke the camel's back?

MR. GREG BARNLUND: Well, I'd say that it happened -- obviously, we had -- we were -- we were drafting our application through the early part of the winter. I believe that the curtailment occurred later in January, and the circumstances, as they were, there were a number of customers that failed to curtail when requested to do so.

So it's coincidental, but, as I say, we had been intending to upgrade our terms and conditions with respect to interruptible service for some time, and actually had been working on that for a number of months prior to this winter heating season.

MR. BOB PETERS: I think the Board was told by the first panel that -- I better be careful here but in Mr. Stephens' memory he can't recall not being able to provide alternate service to interrupted customers for many, many years, if at all.

MR. GREG BARNLUND: Well, I think it --

it would even go back to probably 1997. January 1997 was the last time where we had a full systemwide curtailment, which involved not just interruptible sales customers, but interruptible transportation service customers, as well, due to some circumstances that we were experiencing at that time.

MR. BOB PETERS: Why can't the customer choose to just shut down their plant if there's no alternate service available? Why do they have to have a backup fuel source?

MR. GREG BARNLUND: Well, for most part, I think, you know, when we look at the interruptible customer base that we're serving, most of these customers, all except for a small number of seasonal asphalt drying or asphalt accounts, these are occupied buildings. I mean, these are hospitals. These are manufacturing plants.

And so if we need to curtail those customers and if we need to have them stop using gas within two (2) hours and if they do not have sufficient backup resources available to -- to provide the energy they need to keep their occupied building warm, then there's a -- you know, it's a -- it would be a very, very difficult situation for those customers.

So we are simply requesting that they take the steps to ensure that they install, maintain, adequately staff and supply an alternate supply -- or an alternate energy form if they want to remain on interruptible service.

MR. BOB PETERS: And the option if they don't want to have a backup fuel source is to then be a firm customer?

MR. GREG BARNLUND: Essentially so, although I think that some consideration will be made to an asphalt account that is simply running in the summer season and may, you know, not be as susceptible to a -- a full curtailment as maybe a winter heating customer would be.

Those customers, if we had to curtail them, obviously could shut down their operations and there wouldn't be any harm or any damage to property or to persons as a result of not having energy available for a period of time.

MR. BOB PETERS: It's still not clear as to why you think you have to protect these customers from themselves.

MR. GREG BARNLUND: Well, I think that it may be a matter as much that we're protecting ourselves, as well, contractually in that if we do need to terminate supply to a customer on two (2) hours notice and if they don't have adequate facilities available to be able to heat their buildings, obviously damages could occur and we would eventually, I'm sure, have to contend with the repercussions from that particular situation.

MR. BOB PETERS: Last point is that in addition to the requirement for a demonstratable (phonetic) or demonstrable alternate fuel backup supply, you want to increase the -- the penalties, as well?

MR. GREG BARNLUND: We'd like to change the structure of those charges in that previously the penalty charge or unauthorized overrun charge was put in place in 1997 when commodity prices were far lower than they are today and alternate fuel prices were far lower than they are today.

And so we're looking to restructure our unauthorized overrun charges to be more reflective of the current circumstances this time.

MR. BOB PETERS: Mr. Chairman, with that answer, I will thank the panel of Mr. Warden, Derksen, Barnlund, Kuczek and, in absence, Petursson, for their -- for their answers to my questions. Those are all I have.

MR. GREG BARNLUND: Mr. Peters, if I could, I've got the answer to your question about 101 of '07.

MR. BOB PETERS: Permission has been

granted.

MR. GREG BARNLUND: Thank you, thank you. We had noted that order in Tab 12 but we neglected to include that in our letter of application. But indeed, we do seek approval of the interim rate -- or the interim order 101 of '07.

MR. BOB PETERS: And, Mr. Chairman, the cost -- I suggest that this is certainly the appropriate time to adjourn for the day. Ms. Murphy will have a couple of questions of direct to probably most of the same panel members tomorrow and I will have approximately one (1) hour of questions on cost allocation and rate design to be followed by my friend opposite on demand side management, I believe, primarily.

And subject to Mr. Boyd's questions, that will complete the evidentiary portion of the hearing tomorrow.

THE CHAIRPERSON: Very good. Thank you. We'll see you all tomorrow.

(CENTRA PANEL RETIRES)

--- Upon adjourning at 4:05 p.m.

Certified correct,

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Cheryl Lavigne, Ms.