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 24, 2009

Pages 1427 to 1566

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

THE CHAIRPERSON: Okay, good morning, everyone. We're here for closing statements and we're going to begin with Mr. Peters, for the Board.

Mr. Peters...?

MR. BOB PETERS: Thank you and good morning, Mr. Chairman and Board Members, ladies and gentlemen.

I have one (1) matter of what I will euphemistically put under the housekeeping category. And, Mr. Chairman, by way of letter dated June 22nd, 2009, Centra circulated the balance of their undertakings that they had given during the oral evidence, and response to Undertaking Number 5 is suggested be marked as Exhibit Number 14.

And then consecutively marked as exhibits, the undertakings they provided, all the way through to Undertaking Number 22, would be Centra Exhibit Number 27, just as stated on the cover letter from Ms. Murphy.

--- EXHIBIT NO. CENTRA-14 THROUGH CENTRA-27:

Responses to Undertakings 5 through 22

MR. BOB PETERS: So with an understanding that there's no concerns or disputes about that, those documents will be marked as Centra exhibits, as indicated in the correspondence, and they sill be included in the record of the proceedings.

Mr. Chairman, since we last met, the Government of Manitoba honoured its employees for outstanding efforts in excellence in service and I would be remiss if I didn't indicate that the Community Service Award was presented to Hollis Singh. So I'm sure he has all of our congratulations. It's good to see him blush for a change.

Mr. Chairman, with the close of the evidence on Friday, June the 12th the Board set today to hear the closing submissions from the registered and participating Intervenors and Friday of this week, that's June 26th at 1:15, has been set aside to hear the closing submissions for Centra.

Today you will hear approximately, I suppose, half a hour of my closing submissions. Then I would ask you to consider hearing from Mr. Boyd, on behalf of the Communications, Energy, Paperworkers Union. And that would be followed by Mr. Saxberg, on behalf of CAC/MSOS.

I can indicate to the Board I have not received any written submissions from any of the other registered Intervenors. I did receive a communication from counsel for Koch Fertilizers who indicated that their matters appear to have been addressed and they would, therefore, not see the need to provide closing submissions.

So, in my closing comments today, and in an effort to summarize some of the issues that the Board may consider and may want to hear from the other parties about, I'm going to walk the Board through the book of documents that was prepared for Board Counsel's use during the Hearing.

I can remind parties that as Counsel to the Board on this Application by Centra, I take no position on the merits of any of the issues or requests that are made, and I will leave that to the parties to speak to and advocate on their own.

Mr. Chairman, while the Board has the formal Application at Tab 1 of the book of documents, dated January 20th, 2009, that Application has been subsequently updated on a couple of occasions. In the May 5th update, Centra sought a 1 percent rate increase then to be effective May the 1st, 2009, but only to be implemented August 1st, 2009, sufficient to generate additional revenue of approximately $5.5 million, which would include a projected net income of approximately $3 million in 2009/10, which we call the "first test year."

In the second test year, Centra sought an additional 1 percent rate increase to be effective May 1st of 2010, to generate additional revenue of $5.9 million, also with an included projected net income of $3 million.

Then, following that update, by letter dated May 27th -- May 27th, 2009, Centra provided notice to the Board and interested parties of an update to its Application that was going to reflect the positive financial results experienced in fiscal 2008/'09.

Centra's net income for the year ended March 31, 2009, came in at $9.1 million, which was higher than the $3 million that was forecast for that year. And, as a result, Centra indicated it would defer the implementation -- the implementation date of the non-gas portion of its proposed 1 percent rate increase, and it would -- it would defer that approximately six (6) months from August 1st of 2009 to February 1st of 2010.

On May 29th Centra filed the actual updated information to its Application, and the updated information related to the non-gas cost rate increase, and it resulted in a decrease in the applied-for revenue in the amount of $3.8 million in the first test year and an increase of approximately four hundred thousand dollars ($400,000) in 2010/'11, the second test year, when that would be compared to the May 5th pre-hearing update filing.

As a result of this update, which will be discussed more -- in more detail in my comments, Centra is seeking an approximate 1 percent overall revenue increase effective February 1st of 2010, sufficient to generate additional revenue of 1.7 million in the last two (2) months of the '09/'10 test year, which will include $3 million in net income for that year. That 1 percent rate increase will also contribute to generating an additional $6.1 million on an annualized basis in the second test year.

A further increase of approximately 1 percent in overall revenue is sought, effective May 1st of 2010. That would be sufficient to generate additional revenues of about 5.7 million in the 2010/'11 fiscal year, and that would include $3 million in net income for that year.

Unchanged from the original January 20th Application, Centra proposes to begin recovery of the $9.5 million in gas cost deferral balances currently owing to Centra on August 1st of 2009, by way of changes in the billed rates, and to adjust also the base rates to reflect a decrease in the forecast cost of supplemental gas, transportation, and the unaccounted for gas costs.

Now, at Tab 3 of the book of documents is Schedule 3.0.0, which was revised May 29th, 2009. At line 31 the Board will note that there is a $1.685 million revenue deficiency in the first test year, which Centra intends to collect by way of a rate increase in the last two (2) months of that fiscal year. On an annualized basis this represents the approximate -- or approximately a 1 percent increase to generate $6.1 million of additional revenue over the full twelve (12) month period.

Now, in Column 5 at line 31 the revenue deficiency for the second test year is shown as $11.8 million, and to recovery this revenue deficiency Centra proposes to charge an additional 1 percent rate increase, effective May 1st of 2010 that, as I said, would generate $5.7 million. Combine that increase with the first test year increase, then on May 1st there will be rates recovering on an annual basis an additional $11.8 million.

As we continue with Schedule 3.0.0 at Tab 3 of the book of documents there are several items that have changed with the latest updates, some of more note than others.

Under the Other Income line 9 item, other income, as a reminder to the Board, it represents primarily interest charges on past due accounts. And this other income has declined by approximately eighty-nine thousand dollars ($89,000) from the current amount the Board approved in rates, and Centra has attributed that to fewer late payment penalties.

The operating and administrative expenses are found on line 11 and Centra is seeking 59.16 million in O&A expenses for '09/'10, and an increase of 1.6 million or 2 percent from the current approved rates. In terms of the second test year Centra is seeking a total O&A expense of $60.3 million, that's a further increase of $1.18 million or another 2 percent increase. The details of the O&A expense can be found at Tab 34 of the book of documents.

Remind the Board that 100 percent of Centra's O&A expenses are assigned through Centra's integrate cost allocation methodology. And the Board, in Order 99 of '07 directed Centra to prepare a review of its integrated cost allocation methodology, for which Centra has requested and received permission to delay, at least until the implementation of IFRS in fiscal 2011/'12. And there was reference to this discussion at transcript page 588.

Issues from the Board's last Centra GRA

order remain relative to the level of transparency, as O&A expense reflected on Centra's books is as a result of the allocation from the parent company, Manitoba Hydro. The Board has also further directed a benchmarking study be undertaken. That order was in Order 150 of '09 and it related to a Manitoba Hydro application before the Board. And an outline of that benchmarking study is to be filed with the Board by the end of June 2009, and my understanding is that Centra has confirmed the outline for the study will incorporate a study of the Centra Gas operations as well.

The depreciation and amortization expense found on line 13 of Schedule 3.0.0, indicates Centra's requesting depreciation and amortization expense of $28.5 million in the first test year, which is a 24 percent increase of $5.4 million from the current approved rates. And they're also seeking 20 -- sorry, 32.3 million in the second test year, which is a further increase of 14 percent, and that would be a two (2) year increase of $9.2 million from that currently in approved rates.

Those percentage increase numbers probably alert the Board that this represents the largest single non-gas cost increase in this Application, and that is as a result of a change in the amortization of demand side management expenditures that were amortized over a fifteen (15) year period and have been now changed to be amortized over a five (5) year period.

The impact of that change can be found at Tab 7 of the book of documents. And the last page on Tab 7 shows that annual impact of Centra's change from a fifteen (15) year amortization to a five (5) year amortization. What that attachment also shows the Board is that the shorter amortization period was implemented by the Utility in the 2007/'08 fiscal year.

And looking at that chart, as a result of the change, cumulative retained earnings were $2.9 million less for 2008/'09 than what was approved by the Board in the last GRA. That is, the amortization period effect would decrease the net income.

Further, as a result of the five (5) year amortization period, the DSM amortization expense is $4.6 million higher in 2009/'10 and $6.6 million higher in 2010/'11 than if the fifteen (15) year amortization period was continued.

The Board has also heard that with the adoption of International Financial Reporting Standards, which I've already called IFRS, the Board has heard that there are some doubt whether DSM expenditures will be allowed to be amortized and they may have to be expensed in the year that they are incurred.

Turning back to Tab 3 of the book of documents and Schedule 3.0.0, at line 15, the next revenue item is the Furnace Replacement Program. $3.9 million was approved in 2008/'09 and that funding is not sought to be continued by the Corporation. As set out at Tab 41 of the book of documents, Centra has set aside 2.3 million in '07/'08 and 3.8 million in '08/'09, for a total of $6.1 million to fund the Furnace Replacement Program. As mentioned, Centra is not seeking to collect money from customers to fund the program for the two (2) test years.

Centra has confirmed that the $3.9 million currently included and embedded in consumers' rates for the Furnace Replacement Program is now being put towards other purposes in the current Application reducing the level of rate increases that would otherwise be sought in this Application. And there's reference on the transcript at page 475 to that discussion.

As for capital and other taxes, on line 17, they're forecast to grow to 23.7 million in '09/'10, an increase of six hundred and thirty-eight thousand dollars ($638,000), and to grow to 23.9 million in the second test year, for a two (2) year increase of eight hundred and seventy-one thousand dollars ($871,000) from that currently approved in rates.

The details of the capital and other taxes can be found at Tab 26 of the book of documents, which was PUB/CENTRA Information Request 46A attachment.

The Corporation has assured the Board that none of the cost consequences from the new head office, including property taxes, have been allocated to Centra.

Down to line item number 19, Finance Expense, this is a significant matter. As shown on line 19, finance expenses are forecast to be 20.9 million in 2009/'10, which is a decrease of 1.2 million from the -- from that amount the Board has currently approved in rates, and they will be approximately 21 million for the second test year. A summary of the finance expense can be found at Tab 15 of the book of documents, which is a response to PUB/CENTRA-149, dated June the 1st of 2009.

Now Finance Expense, Mr. Chairman and Board Members, was the subject of major revisions in the May 29th update, and that was due to updates that the Corporation did respecting its short and long-term interest rate assumptions. The original application was based on interest rate forecast from Manitoba Hydro's 2008 Economic Outlook, and some of those components included in the forecast were over a year old.

In its May 29th update, Centra updated the interest forecast for short and long-term debt, based on

Manitoba Hydro's new 2009 economic outlook. The updated interest rates are found at Tab 18, which was a response to PUB/CENTRA-198, revised June 1st, 2009.

And the interest rates on long and short-term debt before the 1 percent debt guarantee fee to the provinces included have decreased. And in terms of specific numbers, the short-term debt forecast rate decreased from 4.5 percent down to .9 percent which was some three hundred and fifteen (315) basis points drop for the first test year. In the second test year there was a two hundred and sixty (260) basis points drop from a 4.6 percent forecast revised to a 2.0 percent forecast.

In terms of long-term debt, the basis drop wasn't quite as pronounced, although, due to the nature of the amounts at issue being significant, the Board will notice the impact on the long-term debt going forward. In the first test year the long-term debt forecast came down fifty-five (55) basis points, and in the second test year it came down ninety (90) basis points.

The Board has also heard evidence from Mr. McCormick, introduced to the Board by CAC/MSOS, that these updated 2009 forecasts may still be too high, and the Board can expect Mr. Saxberg to speak to that this morning.

In terms of dollars and cents, in its May

5th update, Centra had originally sought 24.6 million in the first test year, and now they're seeking $20.9 million for a reduction of 3.6 million from the May 5th update. In the second test year, the Utility originally sought 25.2 million, and that's now revised downward to 21 million, which is a reduction of 4.2 million from the May 5th update.

Those changes, Mr. Chairman and Board members, while perhaps difficult to follow, as I'm speaking, they are set out in PUB Exhibit 12. That's not located in the book of documents, but PUB Exhibit 12 was a document produced and reviewed with the witnesses, and in fact Centra revised it to provide a correction to a -- an embedded mistake. So that document will be of some use to the Board in their deliberations.

In terms of forecasting methodology, the Board has heard the evidence from Mr. McCormick on interest rate forecasting, where he has raised issues related to the appropriateness of Centra's current forecasting methodology.

In particular, concerns were raised on the use of forecasts of varying vintages, which combine both older and newer forecasts and that only the most current data available should be utilized in the forecast. And we find that reference on transcript page 1,127.

The Board -- the Board also heard evidence about the use of consistent data, whereby end-of-period data used by some forecasters should be averaged or converted to period average data. The Board further heard from Mr. McCormick that there should be historical testing of the forecast inputs used to assess how accurate the forecasters were and to -- to assess whether those forecasts should be utilized in future methodologies.

In one (1) of the catch phrases of the Hearing, the Board also heard that short-term debt was on sale, and that the current low cost of short-term debt, relative to long -- long-term debt, should be giving Centra pause for cause and to consider whether they can defer longer term debt issues to the preference of short-term debt, so that they can take advantage of those low rates for the betterment of consumers. And there is discussion about that found at transcript page 1,147.

Issues were also raised, relative to the amounts charged on advances by Manitoba Hydro, whereby Centra is being charged more for its short-term debt than the costs for such debt incurred by the parent company. Transcript page 1,132.

The Board heard evidence on Manitoba Hydro's capacity to borrow short-term debt of up to $500 million, and there was discussion about whether sufficient short-term debt is being put in place to meet the needs of Centra. In terms of the term or the duration of the debt, Centra has indicated that it is forecasting the placement of $155 million in long-term debt in March 2009, as well as February and March 2010. And that's set out at Tab 20 of the book of documents.

With respect to varying the terms of Centra's debt, the Board heard evidence on potential interest savings to ratepayers by Centra utilizing shorter terms for its long-term debt than the forecast twenty (20) year term in this application.

An illustrative example, I suppose, of the incremental borrowing costs can be found at Tab 23 of the book of documents, which was a response to CAC/MSOS/CENTRA-5J, revised June 1st of 2009, a document that was reviewed with Mr. McCormick.

Centra has indicated that decisions on the term of the proposed debt issue would take into consideration whether the rate justifies entering into a debt of a shorter term. And that was indicated on the transcript at page 691.

Referring back to Tab 3 of the book of documents, and going down to line 21, in the May 29th update Centra also incorporated a new line item in its cost of service, that being a $5 million provision for accounting and other charges -- sorry, other changes. That would happen in the second test year and it was to recognize potential impacts of the adoption of IFRS, as well as other potential risks.

In terms of those other potential risks, at page 465 Centra cited the rebounding of interest rates from historical lows, cost pressures related to aging infrastructure, and additional training requirements related to employee demographics, as some of the other risks facing the Corporation. Centra acknowledged the $5 million provision is, in my words, a plug or placeholder that preserves the 1 percent revenue increase sought in the second test year.

IFRS has again been an issue in this Hearing and IFRS is on the horizon. The implementation of those standards will take -- take effect for the fiscal year of 2011/'12, but the Board heard there will be a requirement to re-state Centra's books, consistent with IFRS standards, for fiscal 2010/'11. At the date of transition an adjustment to retained earnings will be made for the difference between the two (2) methods of accounting, and Centra has indicated the main difference between IFRS and the -- and the current Canadian generally accepted accounting principles relate to internal costs eligible for capitalization, depreciation accounting, pension accounting, and the recognition of regulatory assets and liabilities.

The Board has heard that currently the International Accounting Standards Board is studying whether rate-regulated accounting should be allowed to continue, a practice which is not currently allowed under existing IFRS.

Centra is to report, early in 2010, Manitoba Hydro's assessment of the impact of IFRS on both the electric and gas operations. The adoption of IFRS will come with several transitional elections which may have implications on the timing of recovery of expenditures from ratepayers, and Centra has indicated it will seek appropriate input from the Board, as to options for transitional elections in the regulatory setting.

And try as we might, Centra couldn't and wouldn't precisely quantify the impact of IFRS on Centra's operations, but they anticipate an increase in expenses in the order of $5 to $10 million, according to the evidence at transcript page 464.

At line 16 of Schedule 3.0.0 there's a corporate allocation. The request is $12 million in each of the two (2) test years, and that is no different from the corporate allocation currently included in rates.

The net income line, at line 17, appears to be the -- the line where the precision hits the paper and instead of $3 million it's rounded to 2.9 million in the first test year and 2.8 million in the second test year, that is after reflecting the changes discussed in the May 29th update.

At Tab 2 of the book of documents there's a response to PUB/CENTRA-15 and -- and the attachment. There's an indication of, on the bottom part of the chart, the rate base that's being sought by the Corporation and there's a request for the Board to approve the rate base for the forecast test years of 463 million in the first test year, and 486 million in the second test year.

The Board has been advised that the May 29th update of the change in advanced metering infrastructure project timelines are such that the expenditures originally planned in the capital expenditure forecast are no longer expected to occur in the test years.

The deferral of the AMI investment beyond the test years results in a reduction to depreciation expense of approximately a hundred and fifty thousand (150,000) in the first test year, and a reduction in finance -- I'm sorry, that would be the second test year

-- and a reduction in financing costs of fifty thousand (50,000) in the first test year, and a reduction in financing costs of three hundred thousand (300,000) in the second test year.

Centra has also advised that it has determined that the power station customer class will make a contribution to the Brandon system capacity upgrade, and that contribution will fully offset the $5.5 million capital costs reflected in the capital expenditure forecast. There will a true-up mechanism at the end of the ten (10) year contract period with that customer.

Flipping to Tab 66 of the book of documents, we can look at the gas cost approvals for which a -- what Centra's asking this Board to -- to approve.

The Board will find Schedule 8.1.4 revised May the 5th of 2009, which sets out the forecast supplemental gas, transportation, and distribution costs for the gas year. Primary gas commodity rates are not the subject of this Hearing, but those are a matter which the Board deals with on a quarterly basis. However, the Corporation is approving -- I'm sorry -- the Corporation is requesting final approval of some interim primary gas rate orders this Board has given, including, in 2007, Orders 101 and 140 and in 2008, Orders 06, 50, 115, 147, and in 2009, Orders 07 and 49.

This morning, Mr. Chairman, you were provided with the Undertakings that Centra filed, dated June 22nd. You will note in that Undertaking package, that Undertaking Number 19, there was an indication from Centra that, based on a June 10th, 2009 strip, the primary gas costs would, at this point in time, increase on August the 1st, approximately 1 percent, for a typical residential consumer's annual bill.

Centra is also requesting approval of new primary gas overhead rates, and those rates are non-gas components of the primary gas costs.

Tab 55 of the book of documents shows the final gas costs that the Corporation is asking be approved. Those are found on Schedule 700, at line item 59 in the middle column, and they total $400.6 million, and those results include the impacts of hedging and capacity management.

Speaking of hedging impacts, Tab 60 of the book of documents reviews the derivative hedging impacts. Schedule 821 illustrates that based on an April 1st, 2009 strip, primary gas costs are now forecast to be $87.2 million higher for the 2008/'09 gas year, as a result of hedging. In reviewing the schedule, please be reminded that the shaded area indicates subtle trades, and those that aren't in the shaded area are the mark-to-market positions at this time that will most certainly change.

By way of an update on June the 2nd of 2009, Centra indicated the most likely result was an increase in gas costs of $94.3 million, related to hedging.

The second page on Tab 60, which is the response to PUB/CENTRA-181, indicates that since 2003 the Derivative Hedging Program has resulted in a net increase in gas costs of $61.6 million. The Corporation has indicated that the introduction of fixed-price offering reduces the need for a hedging program, but that given the most modest of uptake in the fixed rate offerings to date, the Corporation is not currently considering disbanding or discontinuing its hedging program. That, from transcript page 237.

The Board will recall that up till January of 2010, 100 percent of eligible volumes had been hedged but a -- a decision had been made by the executive to hedge only 50 percent of eligible volumes for the months of February, March, and April of 2010. Centra indicated that it's reviewing its derivative hedging policy and that until a newer policy has been established and approved by this Board, its intentions are to hedge only

50 percent of eligible volumes. That, from transcript page 234.

Also on the transcript, at page 238, Centra indicated that a new derivatives hedging policy will be available in the fall of 2009 for this Board's review.

In terms of capacity management, at Tab 61 of the book of documents, Centra undertakes capacity management transactions when it has surplus capacity with its storage and transportation assets. And they have provided a report to the Board, relative to its capa -- to -- to capacity management activities, as was requested in Order 90 of '07.

CAC/MSOS' witness, Mr. Stauft, stated in his written evidence that Centra has not generated all the capacity management revenue that could possibly be generated. Mr. Stauft proposed that Centra consider outsourcing management of its storage and transportation assets, in order to generate additional capacity management revenues: First by having informal discussions with potential asset managers and then proceeding to request proposals from industry participants.

In terms of gas cost deferrals, Centra is proposing a change to the period over which it operates its gas cost deferral accounts. This change will align the period of the accounts with the gas year, which begins in November of each calendar year. The purpose of the change the Board has heard is to minimize the residual balances in the deferral accounts that would flow to the prior period deferral account.

Turning to pension obligations. And due to the recent downturn in the financial market, Centra has indicated that its unfunded pension obligation, on its discontinued Centra defined benefit pension plans, is -- has grown from an unfunded deficit of $9 million to an unfunded deficit of $24 million, as of March 31 of 2009.

Centra also shares a portion of unfunded pension liability related to Manitoba Hydro's Civil Service Superannuation Board plan, which currently has a deficit in excess of $200 million.

The solvency calculation of Centra's pension plan, at December 31 of 2008, shows an unfunded liability for Centra, totalling $27.7 million, which compares the going concern calculation of unfunded liability of 22.1 million, as of the same date. That, Mr. Chairman, was in the Undertaking handed out this morning, Undertaking Number 12, marked now as Centra Exhibit 18.

Under IFRS it appears Centra can elect to take the deficit and post it against retained earnings, or, alternatively, immediately recognize any experience gain or loss and amortize that amount over a ten (10) year period. Centra has estimated the impact of this change could be approximately $2 million annually. And there's also a new exhibit, Mr. Chairman, Centra Exhibit 16, dated June 22nd, 2009, also handed out this morning, which contains five (5) pages of detailed explanation, as to the financing risks of the various pension plans.

As we sit here today, Mr. Chairman, in the shadow of the new Manitoba Hydro headquarters, Hydro has indicated that the projection of the new costs will now be $283 million, all in. The Corporation has confirmed that no part of the total cost of the new office tower has been allocated to Centra. Rather Centra's costs are based on its allocated costs, had it remained at 444 St. Mary Avenue.

In the materials handed out this morning, Centra Exhibit 20, which was Undertaking 14, Centra provided a comparison of the 2010 occupancy costs for Centra's head office at 444 St. Mary, with the new Corporate head office on Portage Avenue. And the analysis provided indicates a cost per square foot at 444 St. Mary of twenty-nine dollars ($29), versus a forty-four dollar ($44) per square foot cost at 360 Portage Avenue.

Demand side management was a discussion amongst the witnesses. Centra makes substantial annual investments in a broad range of Power Smart programs, designed to reduce natural gas consumption and also designed to reduce greenhouse gas emissions. The annual spending in DSM amortization impact on rates can be found at Tab 37 of the book of documents. Centra forecast to spend 14.2 million in the first test year and 13.7 million in the second test year on these DSM programs. And, in terms of amortization, $6.9 million is requested to be amortized in the first test year, and $9.8 million to be amortized in the second test year.

Included at Tab 38 of the book of documents is a response to PUB/CENTRA-135B, and that includes the results of the DSM investments for each program.

At Tab 42 of the book of documents, Centra provides information relative to its low -- Lower Income Energy Efficiency Program. That program was introduced in approximately December of 2007 and it is targeting three thousand three hundred and thirty (3,330) natural gas households through to March 2011. That from transcript page 1,215.

CAC/MSOS's witness, Mr. Oppenheim, wrote in his pre-filed evidence about lower income demand side management programs including elements that would enhance the boiler portion of the Furnace Replacement Program, in order to increase participation. And also to mitigate the rate impact on consumers, Mr. Oppenheim suggested that the cost of furnace replacements should be amortized over the economic life of the furnace, which would be approximately ten (10) years.

The Board will have read his proposal to expand Centra's energy efficiency programs without increasing rates beyond the levels proposed in this Application. And to do so that would be accomplished by extending the amortization of other DSM investments back to fifteen (15) years, which was the amortization period used by Centra at its last General Rate Application.

At Tab 41 of the book of documents there's additional information on the Furnace Replacement Program. And, as I stated earlier, the Furnace Replacement Program has already been funded with $6.1 million, of which five hundred thousand (500,000) has been dispersed on the program. At the end of 2010/'11, Centra is currently forecasting a $1.4 million surplus in that program.

Centra has reported that installation of furnaces began in December of 2008, and to date four hundred (400) energy efficient furnaces and five (5) energy efficient boilers have been installed, with an additional two hundred (200) homes scheduled for furnace replacements. That from transcript page 469.

Centra is targeting a thousand more furnace replacements and two hundred and sixty five (265) more boiler replacements with high efficiency units by March of 2011. Centra has estimated there to be approximately eighteen thousand three hundred (18,300) standard efficiency furnaces and thirty-two hundred (3,200) standard efficiency boilers that would qualify for replacement under the Lower Income Energy Efficiency Program. And Centra has indicated that it is currently developing a landlord component to its Lower Income Energy Efficiency Program, including the Furnace Replacement Program.

At Tab 64 of the book of documents the Board will see the first information on the fixed-rate offerings. This was a program introduced in February of 2009 with one (1), three (3) and five (5) year terms of fixed offerings by the Utility -- fixed offerings for primary gas for the -- the details of these offerings can be found at Tab 64 of the book of documents, including the calculations of the fixed rates as well as the projected and actual volumes and number of customers.

Only the one (1) year contract was fully subscribed. The three (3) and five (5) year contracts did not generate as much interest it appears, and they have created -- those three (3) and five (5) year contracts have created some financial issues that Centra is currently reviewing. Centra indicated to the Board that it is looking to offer additional fixed-rate offerings by the end of August 2009, according to transcript page 1293.

Centra has also introduced a significant change to its cost allocation methodology. And that was necessary to incorporate the new fixed-rate offerings. Changes to the cost allocation methodology now allocate both direct and indirect costs to the fixed-rate program offering by the Utility.

Finally, turning to the rate impacts, Tabs 52 -- I'm sorry, Tabs 53 and 54 set out the rate impacts for the two (2) test years. Centra is proposing a decrease in the base rates for most customer classes on August the 1st, 2009, which would reflect the reduction in forecast non-primary gas costs.

However, billed rates, which include the rate riders, are projected to increase for most customer classes. In addition, both base and billed rates are proposed to increase for smaller volume residential and commercial customers on February 1st of 2010, and then on May 1st of 2010 when Centra requests the non-gas cost increases be reflected in rates.

Mr. Chairman, subject to any questions that you or the Board may have of me, those will conclude my submissions. I would suggest you turn to Mr. Boyd who, on behalf of the Communications, Energy, and Paperworkers' Union, has his closing submissions. Thank you.

THE CHAIRPERSON: Thank you, Mr. Peters, and we will now turn to Mr. Boyd.

Mr. Boyd...?

FINAL SUBMISSIONS BY THE COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION:

MR. SANDY BOYD: Thank you. Good morning, Mr. Chairman, Members of the Board. I'm here today to present to you CP Local 681's summation on the GRA for 2009/'10 and 2010/'11 test years by Centra Gas Manitoba Inc.

CP represents members at Manitoba Hydro who work on the gas side of the business, and as such we're one (1) of the major stakeholders in the natural gas industry in Manitoba. I'll be addressing the following issue: Advanced meter infrastructure, AMI.

Centra has removed from this GRA Application the incremental costs for AMI, as the business case has not been completed. Centra's answer to PUB/CENTRA-2-171 informs the Board that there have been communication problems between the gas and electric meters. Less than 10 percent of the nine hundred and fifty (950) gas meters equipped with Itron OpenWay metering modules worked as planned.

Central also states in PUB/CENTRA-2-171:

"Manitoba Hydro is currently awaiting for Itron Canada Inc. to provide alternative proposals for testing the improved communication in the pilot setting."

Since the pilot had less than ninety-five (95) Itron gas meters working properly for the 2008/'09 winter, we believe that the new version should also be tested through a Manitoba winter, which would mean the business case would not be completed until the spring of 2010.

On page 623 of the transcript, lines 4 to 7, Mr. Warden answers:

"My understanding is they're working on this business case as we speak "currently and that it will be -- the presentation to the Executive Committee is imminent."

Also on page 623 of the transcript, lines 17 to 25 Mr. Warden answers:

"Well, there -- there's two (2) components to the AMI project: One (1) on the electricity, the other on the gas side."

And the -- again, the understanding I have at this point in time is that there's a good business case on the electricity side but not so good on the gas side. So it's very unlikely that there will be any project approved for natural gas before we appear again before this Board.

These answers have raised some concerns with CEP:

A) The business case presentation to Executive Committee is imminent, which means prior to the completion of the pilot project.

B) The -- the possibility that Manitoba Hydro could proceed with AMI on the electric side without the business case being tested in a venue like a GRA.

With Undertaking Number 6, Centra to file its business case with the Public Utilities Board, it is unclear to CEP if we would have the opportunity to examine it and test the findings of the business case for Manitoba Hydro to proceed with AMI on the electric side.

It seems the possibility exists that Manitoba Hydro could be two (2) or more years into a large AMI project on the electric side, spending millions of dollars, before the business case for AMI on the gas side is brought before this Board in the next GRA.

Meter readers visit residential customers six (6) times per year and in answer to PUB/CENTRA-25C, the projected costs in 2010/'11 will be seven dollars and six cents ($7.06) per customer, per year. Meter readers do more than read meters. They report gas leaks, excessive piping strain around meter sets, code violations, and iced-over regulators, to mention a few. These examples were brought forward at the 2005 GRA.

In Public Utilities Board Order 135/'05, issued October 12th, 2005, directed Centra to consider alternative means to address its problem of accessing meter for reading and safety purposes. This part of Board Order 135/'05 is still to be completed. CEP encourages the Board to direct Centra to complete this work.

When the business case is completed and if Manitoba Hydro wants to proceed with AMI, on either the electric side or the gas side of their business, CEP would like the opportunity to examine and test the findings that they would be using to convince the PUB to allow Manitoba Hydro/Centra to proceed with the AMI expenditures.

Thank you for the opportunity to present our closing argument this morning, respectfully submitted on behalf of the member of CEP, Local 681.

THE CHAIRPERSON: Thank you, Mr. Boyd. I guess we're moving along fairly spritely, so I think we'll turn to Mr. Saxberg at this point.

FINAL SUBMISSIONS BY CAC/MSOS:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. Good morning to you and to Board Members and good morning to everybody else.

Seated to my right is Eric Hachinski, he's a colleague of mine from D'Arcy & Deacon, and he's going to be other than enjoying today's proceeding, sitting in on Friday afternoon to monitor Centra Gas' argument for CAC/MSOS.

And I expect to see Ms. Gloria Desorcy, the Executive Director of the Consumers Association of Canada, Manitoba Branch, unless she's somewhere at the back of the room and I can't see her. It was her birthday yesterday so she might have been out celebrating late. And it was a significant milestone but I won't tell you which one. But I do expect her here.

And with that, I will commence my argument --

THE CHAIRPERSON: Do you want us to take the break now, Mr. Saxberg?

MR. KRIS SAXBERG: You know, I was going to advise everyone that we might need to -- we might want to get comfortable in our seats because it's going -- I -- I suspect it'll be a lengthy submission. And it might be better to get some of it started now so I can get an idea about the pace and then if I need to make any adjustments during the break.

THE CHAIRPERSON: Very good.

MR. KRIS SAXBERG: I have brought with me a closing submission brief and it's circulated. But I'm going to provide now a copy to the Court Clerk to help her understand what I'm saying, for the purposes of recording this submission on the transcript.

To begin, when Centra Gas filed it's General Rate Application, it seems like an eon ago, January 20th, 2009, there were essentially three (3) big ticket items that were driving the requirement for a rate increase:

The first was additional DSM costs, self-created by Centra's change in accounting from fifteen (15) year amortization to five (5) year amortization. The second was finance expense, which was forecasted to increase from 22 million to 24.7 million, and then up to 25.2 million in the second test year. And the third driver, I would argue, is that retained earnings were estimated to grow modestly at the net income forecast of only 3 million. And as we heard during the proceeding, the Executive Committee at Manitoba Hydro considers, with great interest, the level of retained earnings, before it decides whether to initiate a rate case.

So I would say that those were the three (3) main reasons for the Application being brought in the first place.

And now, as a result of those three (3) items, Centra was forecasting that its non-gas cost of service was going to increase by 5 percent in the first test year and then 4 percent in the second test year, for a combination of a 9 percent increase. And if you look at Tab 1 of the material, Tab 1 of my brief, and flip to the second page. It's the original Schedule 4.0.0 from January 20th, 2009, and you'll see at the bottom the percentage change, with respect to non-gas cost of service, is indicated as being 5 percent in the first test year and 4 percent in the second test year.

Now, Centra characterizes this rate increase as 1 percent of overall revenue requirement, but these Intervenors have gone on the record in the past as saying that really isn't an appropriate measure of the rate increase, since the largest part of revenue requirement is the commodity cost of gas, which is a simple and straightforward, for the most part, pass-through.

So the real measure of whether Centra's costs are going up, staying the same, is that -- you look at the non-gas cost of service increases. And, really, the simple way to look at the rate increase being sought here is that Manitoba Hydro/Centra Gas is seeking a 9 percent increase in its non-gas cost of service to be implemented between February 1st, 2010 and May 1st, 2010. Because, really, you just start with a smaller increment on February 1st and by May 1st you're up to 9 percent increase.

Now that's a sizeable increase in non-gas costs. And if we consider all of the previous increases over the last five/six (5/6) years, there have been increases that far outstrip the consumer price index and other measures of -- of business performance.

Now, Centra, as we know, updated its

application on May 29th, and an updated PUB information requests on June 1st, and then provided important information to CAC/MSOS on June 3rd. A further update was received on June 9th. The Application was, in effect, changing on the fly and, in some ways, was a bit of a moving target.

However, we -- on this side of the room, from the Intervenors' perspective -- would like to think that some of the changes were made in response to positions raised by the Board advisors and by these Intervenors in the interrogatory process and -- and after the filing of written evidence.

Now, after the two (2) main -- after the update, the two (2) of the main drivers -- the two (2) pillars that were creating this idea for a rate case -- materially changed.

The first was finance expense. And it decreased substantially for the first test year in the amount of $3.6 million, and $4.2 million in the second test year. And the reason for the reduction was that Centra redid its forecast of interest costs, based on updating its methodology for forecasting since the previous forecast had been based on quite, I'll call it "ancient" data that went as far back as October of 2007.

The second pillar that changed was that

the 2008/'09 net income turned out to be 9.1 million, compared to the 3 million forecast. You'll recall, as I indicated, the Executive takes a serious look at the level of retained earnings before contemplating whether to bring a rate case. This was new information that wasn't available to the Executive when they made the decision to make it -- the rate case, back in January, and so I would suggest that it's one (1) of those pillars that -- of the impetus for the rate increase that was removed prior to the update being filed.

And I would suggest net income at Manitoba Hydro in the last two (2) years has been, in my words, nothing less than glorious. In 2007/'08 it was approximately 6 million. In '08/'09, as indicated, 9.1 million. And when you combine those two (2) net income figures with the Corporate allocation of $12 million a year, which this Board has indicated is a form of return no different than net income, when you combine those two (2) and then you top onto that the amount embedded for the Furnace Replacement Program, which really started out as a portion of net income, and you add those components up, net income, or income, or return, however you want to characterize it, those recoveries above the basic cost of providing the gas service to customers was $45 million in the last two (2) years.

Now, that's relative to -- if you go back to 1999 when Centra was sold to Manitoba Hydro, that's relative to what the previous private owner received by way of return for holding this gas company of between 14 and 16 million. And I would argue that the update really should have concluded that no rate increase was required at all.

And from my perspective it appears that Centra Gas is wanting to maintain its 1 percent of overall revenue requirement increase for the second test year really as a matter of reflex, and as a matter of it being something that's already been predetermined in the IFF; something that's already been planned as a regular increment, in terms of the increase in cost for Centra.

And nothing supports that better than Mr. -- what Mr. Peters referred to as the evidence of Mr. Warden speaking of the addition of a $5 million placeholder for IFRS potential consequences and other changes. And I have that exchange at -- in the brief. And if you turn to Tab 23, what I have here is a collection of transcript references that I'll be referring to or simply just leaving with you.

And the very first transcript reference is from page 528. It's highlighted. I'll quote from it. At line 18 Mr. Peters asks:

"And the amount chosen was a matter of executive judgment. Would that be fair?"

Mr. Warden answers:

"Well not really. It was the amount that was needed to preserve the 1 percent rate increase that we had sought in our Application."

Mr. Peters asks:

"I appreciate the candour. It was, in essence, then a plug to fill in to make sure the rate increase is lined up as initially applied for."

Mr. Warden:

"It was -- but it was considered to be prudent to make some provision and the 5 million would -- seemed like a reasonable amount, along with our 1 percent Application." End quote.

So as I say, it appears that there was good reason, from -- from the Executive's perspective, to bring a rate case perhaps back in January. That changed, but what didn't change was the rate increase being sought.

In one (1) of the overarching

considerations this Board always has to consider, and it's an overarching consideration that I put to the Centra witnesses and that -- and Mr. Peters put to the Centra witnesses, and that is that the onus is on Centra Gas in this case, and in every case, to show, on a solid evidentiary basis, that its forecast is reasonable and accurate as -- as to the extent possible or reasonable, and that it's going to result in the Board being able to set and establish just rates, just and reasonable rates.

These Intervenors submit that a forecast that uses stale dated data and that relies heavily on placeholders that are only put in there to preserve a -- an earlier rate increase sought, does not rise to that level of satisfying the onus. And, with all respect, if the finding is that it does rise to that level then that's setting a precedent down the road, in terms of -- of the level of information that will have to be brought to this Board to attract approval for a rate increase.

Now, based on these broad strokes, the highlights of CAC's recommendations in this Hearing will be as follows:

That the Board should adopt Mr. McCormick's interest rate forecasts, and that will further reduce finance expense significantly.

Also, to eliminate or drastically reduce the provision for net income in each test year. That's $6 million between the two (2) test years.

Eliminate the $5 million placeholder for IFRS.

And other changes. And as a consequence of those changes, along with adopting a more accurate and direct allocation of interest costs from Manitoba Hydro to Centra, it is these Intervenors' strong and firm belief that a rate increase is not warranted and we would ask that the Board simply dismiss Centra's request for a rate increase on this Application.

The Board should also direct Centra to explicitly document and file details of a new and robust methodology for forecasting interest rates; create a long-term and short-term interest rate deferral account; direct Manitoba Hydro to charge Centra its actual costs of short-term debt, and to main enough -- and to maintain enough short-term debt to meet Centra's unique seasonal requirements; direct Centra to distribute more of its long-term debt in the five (5) to ten (10) year range; direct Centra to amortize DSM expenses over ten (10) years for furnaces, as opposed to five (5); increase the reach of the Furnace Replacement Program to make it truly universal in its application; eliminate hedging; and make further inquiries with respect to capacity management opportunities.

So during the course of this argument I'm going to go through what I have outlined in Tab 2 as the eleven (11) issues to be addressed. And the format that I'm hopefully going to follow is to outline the facts and the issues giving rise to the matter, note Centra's position, hopefully, in -- in most cases with reference to the transcript, then present CAC's position and evidence on the issue, and then indicate CAC/MSOS' revenue requirement adjustment being sought, in a more specific manner than I just went over, and/or the recommendation for a directive that is being sought by these Intervenors.

So as you're following along, I'm not spending an equal amount of time on each of these issues, so if I spend a lot of time on the first one, don't be worried that we'll be here all afternoon. And I do plan to spend most of my time on the first issue, which is of course finance expense.

And as a subset to this issue the first topic is forecasted short-term interest rates. now, to calculate interest on short-term debt Centra uses a methodology to arrive at three (3) month banker's acceptance -- a -- a three (3) month banker's acceptance rate, which I'll call "three (3) month BAs."

In its initial GRA filing Centra used forecasts of Canadian ninety (90) day treasury bill rates from eleven (11) forecasters. And I'll just -- I'll call treasury bill rates "T-bill rates."

The initial Centra forecast was updated on July 3rd, the day after the Hearing started -- sorry, June 3rd, on the fly, but as we'll see, the updated forecast maintained many of the methodological errors that these Intervenors suggested the first forecast contained.

And if you look at Tab 3 of the brief, that's the first version of PUB-198. And on page 2 of 2 we see a chart which is indicating the forecast sources used to determine the in -- the short-term and long-term interest rate forecast, without identifying the name of the source, but with -- but it does indicate the dates. And you'll see that these dates go back as far as October '07, December '07.

And as the Board's well aware by now, these Intervenors were concerned that that information had -- was stale, dated and had been supplanted by new forecasts, and also that there'd been a major change in the -- in the markets in terms of -- of short-term debt and, indeed, long-term debt, and that those weren't reflected in the original forecast.

Now, as we -- as I indicated that the -- the main problem was Centra, in its forecast, which was driving rates in this Application, is using a forecast from a bank or other financial institution of short-term interest rates, that the forecaster, itself, has replaced, so that the information that's -- that was forming and driving the forecast was superceded, much like when Centra prepares its two thous -- its economic outlook. When a new economic outlook is prepared, it's no longer relying on the previous economic outlook for any purposes.

Another criticism was that the sources -- some of the sources cited were not statistically independent forecasts. And what that means is that they -- they weren't independent forecasts of -- of short-term interest rates. Rather, they were a collection of other independent organization's forecasts of -- of short-term interest rates.

And a related problem to that is that these collections of non-independent statistical forecasts contained within them old bank forecasts that had been superceded by the bank forecasts that were used by Centra in other parts of its forecasting methodology.

So, in response to these critiques and other critiques, as I indicated, on June 3rd Centra revised, or at least displayed its revision of its forecast for short-term and long-term interest rates. And that's at Tab 4.

Tab 4 is the revised version of PUB-198, and on page 2 of 4, which I'll be referring to, the chart that we looked at earlier is re-cast, this time with the names of the forecasting sources. And you'll note on the dates, the dates have been updated, so the forecast has been updated.

One (1) other change was that a twelfth forecaster was added, however, Centra did not provide any explanation as to the additional benefits or for the reason for adding this additional forecast.

In the updated forecast now, Centra relied exclusively on March 2009 forecasts for all periods except for the first quarter of 2011. Centra also listed the forecasters names and provided the actual forecast relied on.

The use of older data for the estimation of interest rates, which are forecast to prevail during the first quarter of 2011, is a -- a breach, in Mr. McCormick's view, of a logical continuity of process. Centra's forecast of the 2000 T-bill rates, subject to the various -- and other faults, the various faults that I will touch on later, arrived at a .6 percent forecast rate. And for the 2010 T-bill rate the revised forecast was one point thirty (1.30).

Now, one (1) of the main critiques that Mr. McCormick raised about this new forecast is that if you look at the numbers in the 2009 column and the 2010 column, in the first chart, on page 2 of 4, you see that they are mod -- for the most part modestly low numbers, in particular the -- the bolded numbers, which are the numbers that Centra relied on to form its interest rate forecast.

However, when you flip or look over to the 2011 year you see the numbers are much, much larger there. And that is owing to the fact, this fantastic jump between 2010 and 2011, where you essentially go from one point three-o (1.30), if you're looking at the bottom of 2010 on that chart, to three point six five (3.65) in the space of one (1) quarter. That is a jump which is intuitively unsupportable, but also insupportable in the sense that -- or in terms of the evidence that Mr. McCormick brought forward, where he showed, in reviewing data at Tab 22 of the book of documents that I'd referred to during cross-examination of the revenue panel and of -- and of the direct of Mr. McCormick, he wrote -- he showed in that document that an increase in market change of two hundred and thirty-five (235) basis points, which is what is shown here from 2010 to 2011 has never happened, and -- and it's not reasonable to forecast that it ever would happen. The more average transition in a -- in the market in a year would be between forty-six (46) and fifty (50) basis points.

Now, another point to be made is that it was an improvement that Centra was using March 2009 data only in its revised forecast. However, Mr. McCormick had already produced his evidence at a month or perhaps three (3) weeks before this update was released and certainly several weeks before Centra updated its application, and he had used May data using virtually the same -- citing the same sources. And so there was no reason that that May data couldn't have been used and the significance is that it was lower than the March data that's used here.

And so had Manitoba Hydro/Centra used that more current May data when they updated their Application in May, the estimates of point six (.6) and one point three (1.3) would have been lower.

Now, Centra's position, notwithstanding the circumspect criticism of Centra's methodology for forecasting short-term debt raised by Mr. McCormick, is that Centra is not contemplating changes to his methodology. And if you look at -- or note, at least, Tab -- or page 670 of the transcript, which I have included at Tab 24 -- or, sorry, Tab 23 of the brief, and it would be the third page in -- there is a -- a transcript reference here, wherein Mr. Peters asks at line 24, quote:

"All right. Does that signify to the Board that for purposes of forecasting short-term debt, the Corporation will now use only the most current of material that isn't outdated, perhaps, if that's the right word, as some of the 2008 is here."

Mr. Warden's response:

"I think, Mr. Peters, we're not suggesting, or not contemplating or -- that we will change our process. Like, our process that we've used has worked well in the past but we do have extenuating circumstances that we're dealing with here and that's why it calls for extenuating methodologies. But I wouldn't see those methods -- different methodologies being employed in the future." End quote.

So and I -- I draw that to everyone's attention to -- to put a hard point on -- on the fact that notwithstanding numerous criticisms, valid criticisms, that Mr. McCormick is raising about the methodology being used -- and I'm going to get into more of it in a second -- Centra's position is that it isn't going to change its methodology.

Now, there was an answer to Undertaking 15 that was just distributed this morning and filed as Centra Exhibit 21, and at page 2 of 2 of that Centra Exhibit 21, line 7, Centra states, quote:

"No substantive changes have occurred to the forecasting methodology for interest rate since the 2007/'09 [actually that should be 2007/'08] and 2008/'09 General Rate Application. However, Centra intends to modify its methodology to consider the differences between average or end of period forecast, to ensure timeframe comparability." End of quote.

But then Centra goes on to take the position that it doesn't expect that that change is going to have much of an effect on the ultimate interest rate that is shot out of the revised methodology.

In terms of CAC's position and evidence on the record, as you're aware CAC/MSOS sponsored the evidence of John McCormick and he was qualified as an expert in financial markets and interest rate forecasting. He has an extensive career as an investment banker where he worked with Utilities including Nova, Foothills Pipelines, and Alberta Natural Gas, as well as a host of other issuers on long-term debt issues and debt distribution.

Mr. McCormick is truly unbiased and an independent witness. He was hired by the Alberta Energy Utilities Board to act as an independent financial expert at the 2000 pool price deferrals accounting proceeding. More recently he was hired by a utility in Alberta to defend its forecast of finance expense, after a disallowance by the Alberta Energy Utilities Board.

And he testified at transcript page 1,123, and that's also at Tab 23, the next page over, top right hand corner, page 1,123, line 17, quote:

> "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-forecast in a way that cost customers more money in the near term." End quote.

I asked Mr. McCormick if Centra's updating of its forecast, which, there's no question, was an improvement in what had been done previously. And the associated significant reduction in finance expense addressed the concerns that he raised in his pre-filed evidence. And he answered that he continued to have serious concerns with the methodology that was being used by Centra to derive its forecast and his critique was fivefold.

The first -- it was that the -- Centra was continuing to use stale, dated superceded forecasts in that they could have used the more current May forecast. They chose to use the March forecast. That's Number 1.

But Number 2, they're using -- if you flip back to Tab 4, page 2 of 4, the top graph relates to the forecast for the short-term debt. And the bolded numbers are the forecast that were relied on by Centra. And if you look at -- under the 2011 column, they -- Centra continued to use forecasters such as Federal Finance and -- and continued to use the November 2008 forecast from Federal Finance, resulting in 4.2 percent estimate for short-term for ninety (90) day T-Bills for 2011.

The problem with that November 2008 forecast is that that forecast by the Federal Government was supplanted in January of 2009 when the Federal Government tabled its budget. And the numbers in that bud -- in that budget were different, in terms of the forecasts.

Also, as indicated, the other forecasts, such as the Bank of Montreal, Bank of Nova Scotia, see here the National Bank and CIBC -- all of these institutions that had filed information on March 2009, they'd filed new information subsequent to that, and it was available at the time that Centra produced its update in May. So again, it's still using stale data. And it's not as though it's a difficult task to use the most up-to-date data when you are revising or formulating your opinion.

Now, all of that isn't to say that you con -- have to constantly keep revising your -- your forecast. The point is that it should be -- the data that you use at the time that you -- that you create your forecast for filing for rate purposes should be the most up-to-date data. And also, when -- where possible, if -- if the period between the filing of the GRA and the deliberation on it is significant, there should be an updating that occurs.

So that's the first critique as related to the stale data.

The second of his five (5) broad methodological criseeks -- critiques is that Centra has corrupted the integrity of the forecaster's data by failing to consider the significant differences between period average data and end-of-period forecasts to ensure timeframe comparability.

And that's something that you can easily see if you look at Tab 5 of the brief, which is the collection of forecasts that are listed in the previous tab and that we have been reviewing. And if you flip to the second page -- the Bank of Montreal Canadian Economic Outlook Forecast, it indicates quite clearly, in the section that I've highlighted, that -- that the numbers that are being provided here as forecasts for each quarter are the average interest rates for the quarter.

Now, if you flip to the National Bank forecast, which is at page 6, top right hand corner in this same tab -- so six (6) pages in. It says "Nation Bank" on the right side. And you look to the bottom, there's a star at the left-hand corner of the page, and it says "end of period," meaning that these numbers that are indicated, as you see, under Financial Forecast, three (3) lines down, Three (3) month T-Bills, you'll see the numbers that are listed, those numbers are not period averages. They're end of period. That's the -- the -- the forecast number for the end of each quarter.

Now, the -- the Royal, Scotia, and TD Bank forecasts also note similarly that they are end-of-period data. Other examples of Centra using inconsistent data points abound.

But another criticism is that Centra has failed to provide sufficient information which would allow the parties in the proceeding to understand whether other forecasters in this collection of material such as Global, Informetrica, and Spatial (phonetic) are using end-of-period or period average.

So we've got some that say that they're the average for the period, some that specifically say they're the endpoint, and some where the information isn't provided.

And let's get one (1) thing straight for sure, and that is that Centra's objective is to decide -- to determine a period average for the interest rate. And if you turn to Tab 23, I'm going to refer to another transcript reference. It's at page 877 top right-hand corner, it's about seven (7) pages in, line 5 of page 877, I ask:

"But the idea is that that point nine (.9), what you're trying to forecast is the average interest rate, the average short-term interest rate for the test year, correct?"

And Mr. Warden:

"Correct.

And then I ask:

"You're not trying to forecast what the interest rate will be on the very last day of the test year, are you?"

Mr. Warden:

"No."

And I ask:

"And you're not -- or you're not forecasting what it's going to be on the very first day of the test year, you're looking at the average?"

Mr. Warden:

"That's right."

So that's confirmed, but -- but the majority of these forecasts are end-of-period and they --

and the -- and Centra hasn't made an adjustment to make them at least relate to period average numbers. And there's a significant difference, as we'll see, between -- if you take the end-of-period number and you compare it to period averages there's a significant number between those, in terms of the amount of basis points.

The problem with using end-of-period data is that the end of a period, i.e., the interest on the last day is almost certainly not going to be reflective of the average interest rate forecast for that period.

And if you just turn back to the National Bank for illustrative purposes. That's at Tab 5, about -- it's the sixth page, and you look at the heading "Three (3) Month T-Bills," and Quarter 4 for 2009 it's -- it's page 6 in the top right-hand corner of Tab 5, Three Month T-Bills, Quarter Number 4 for 2009, 1.28 percent is listed.

And in PUB-198 Centra has -- has misconstrued that information to ascribe a 1.30 percent as Centra's estimate of the National Bank forecast. But as the National Bank forecasted point six eight (.68) for Quarter Number 1, point six eight (.68) for Quarter Number 2, point six eight (.68) for Quarter Number 3, and then the last day of Quarter Number 4, point one twenty-eight (.128). One (1) thing is certain, the average for that year is not one twenty-eight (128), and that's a significantly higher number that what would be determined if you were to average those.

So there's a significant, significant impact to mixing up different types of data and this is just one (1) example of that. And if you go through all of the different end-of-period data points and consider what they would have been if there had been an averaging. And -- and if further, the averaging was done appropriately, there would be a significant reduction in -- in Centra's forecast using its own forecasters.

And another example is if you were to average the four (4) Royal Bank forecast quarterly T-Bill rates -- and the Royal Bank is at page 9, although it looks like a 4 on my copy. Top right-hand corner it's 9. Actually if you flip over to page 10 you get the information. And again if you look at the top left-hand corner in the highlighted portion, this is percentage end-of-period data.

So if you were to average -- to use the average of the four (4) Royal Bank forecast quarterly T-Bill rates for 2009, rather than the one point one-o (1.10) for Quarter Number 4, you'd arrive at .91 percent as the Royal Bank's annual forecast. And that's again another full twenty (20) basis points below what Centra's used.

So I've just given you two (2) examples of where, if you averaged those endpoints, you're going to get a significantly lower number, in terms of the average of the quarterly T-Bill rates.

Now the -- the overall 2009 T-Bill rate that Centra uses is based on the average of seven (7) current forecasters. And those are those -- the -- the bolded forecasters on page 2 of 4 of Tab 4. The point is, Centra used seven (7) forecasters and many of them had this mistake, with respect to the end period data points. If you were to redo the calculation, the reduction would have been significant, in terms of the impact on -- on the forecasted estimate.

Now the other major error related to confusing information was, and I've already touched on, it's with respect to that jump from the 2010 year to the 2011 year, where stale, dated data is used and where you've got this massive jump from one point thirty (1.30) to three point six five (3.65) that isn't based on any logical methodology at all.

And the -- the prop -- the real explanation for it is, if you consider that the Federal finance number which is a November 2008 number that was then supplanted, became four (4), is actually a forecast of interest rates for 2011 through to 2013. And it's being used as the number for what the interest rate will be in the first quarter of 2011. So obviously the number that Centra's plugged in there is not indicative, in any manner, of -- of an appropriate forecast for that quarter.

So that's another important methodological flaw that would have materially affected Centra's determination.

The third critique raised is -- is actually what I've just indicated that they're using annual estimates and/or three (3) year period estimates to represent an -- an estimate of -- of one (1) single quarter in 2011, and that's not appropriate.

And the fourth broad critique is to never use government forecast forecasters, like the Federal Finance or Province of British Columbia, and the reason is 'cause they're not statistically independent. And that's because they're just simply a collection of the same five (5) forecasters that Centra's using later, except that when Federal Finance did it, they were using earlier forecasts. So -- so really, that's -- that use of Federal Finance using stale, dated forecasters is corrupting the -- the data in the other fore -- in the later forecasts. And so, the suggestion would be to never use -- to only use statistically independent forecasters.

And I will just ask you to note for your records that at transcript page 1,127, Mr. McCormick reviews in very brief terms, especially in relationship to just how I've gone through it -- plodded through it -- his overall critique of this methodology.

So CAC's recommendation for adjustment to revenue requirement: CAC/MSOS recommends that the Board adopt Mr. McCormick's forecast of short-term and long-term interest rates for the test years and order Centra to recalculate its revenue requirement using Mr. McCormick's forecast of short-term debt interest rates.

And at Tab 7, for everyone's convenience, I have included Mr. McCormick's recommendations. And they come in the form of a response to PUB/CAC/MSOS Information Request 23. On page 2 of 8 is his calculation indicating that the -- the best evidence in this proceeding as to the appropriate short-term debt calcu -- interest rate forecast for 2009 is point two seven (.27). That compares to Centra's point six (.6), so it's thirty-three (33) basis points different. And -- and then for the 2010 test year, point eight one (.81), which compares to Centra's one point (1.) -- sorry, Centra's one point three (1.3).

And at transcript page 1,140, which I've included at Tab 23, top right-hand corner page 1,140, there's a quote from Mr. McCormick in which he indicates at line 5, quote:

"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."

And Mr. Peters asks:

"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?"

And Mr. McCormick replied:

"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." End quote.

It's quarter to 11:00 right now and I'm going to move onto the long term interest rates and other issues.

THE CHAIRPERSON: Very good, Mr. Saxberg. We'll take our break now.

MR. KRIS SAXBERG: Thank you.

--- Upon recessing at 10:47 a.m.

--- Upon resuming at 11:08 a.m.

THE CHAIRPERSON: Anytime you're ready, Mr. Saxberg.

MR. KRIS SAXBERG: Thank you, Mr. Chairman. One (1) point of clarification that I'm going to need to make; I was comparing Mr. McCormick's short term interest rate forecast to Centra's numbers and I made a mistake. So what I want to do is reference Tab 4, page 1 of 4.

THE CHAIRPERSON: We're there.

MR. KRIS SAXBERG: Now if we look at the first chart, these are -- the first chart is Centra's estimate of the short term Canadian debt rate and the far right number of point nine (.9) is Centra's estimate for 2009 and I had been referring to point six-o (.60) inadvertently.

The point six-o (.60) is the ninety (90) day T-Bill rate on a calendar year basis. Then Centra makes an adjustment to the fiscal year, which results in an increase to an eighty (80) basis points. And then Centra adds a ten (10) basis point spread to reach its final estimate of the short term Canadian debt rate of point nine (.9).

Now I'd like to refer you to Tab 7 for Mr. McCormick's numbers to show you how they compare, because there's a -- there's a different methodology going on with Mr. McCormick.

And Tab 7, page 2 of 8, you see that what McCormick has done is he's taken the Bank of Montreal forecast because it is the only forecast that says it's a period average forecast. And he's taken each quarter that will actually form part of the 2009/2010 fiscal year. So he's already -- he doesn't need to make an adjustment from a calendar year to a -- a fiscal year because he's simply picked the exact quarters that form part of the fiscal year.

THE CHAIRPERSON: We understand that.

MR. KRIS SAXBERG: So -- and, in terms of the assumed spread difference, he's included that information as well. And so his number is the point two seven (.27) and it's compared against Centra's point nine (.9). I had incorrectly on the record said, Compared to Centra's point six (.6).

And so that's a significant difference between Mr. McCormick and Centra Gas of more than sixty (60) basis points. And if you'll note -- if you're still on page 2 of 8 on Tab 7 you'll note that same methodology is being used for the 2010/2011 year?

THE CHAIRPERSON: Yes.

MR. KRIS SAXBERG: Now, moving on to long-term debt and the forecast interest rate for long-term debt. Centra's methodology for forecasting the Canada long-term bond rate was also demonstrated by Mr. McCormick during his testimony to be seriously flawed. The methodology suffers from these same problems that -- flaws that were earlier discussed and a few new ones.

And if you turn to Tab 4 of the brief, page 2 of 4, we're now focussed on the bottom chart and you'll see that Centra indicates at the top of the chart that the information is "Canada bond ten (10) year plus percentages," that's in the bold highlight. So that's what they're suggesting these numbers represent.

However, on further examination when you review the data at Tab 5, you see that it is actually a miss -- mish-mash of some raw ten (10) year data, some ten (10) year plus data, and in some instances an apparent averaging of ten (10) and thirty (30) year data.

THE CHAIRPERSON: Yes, we recall his testimony.

MR. KRIS SAXBERG: And just quickly, if you turn to Tab 5 and look at, as an example, page 2, the BMO forecast. Now we're looking at -- in the same highlighted section as before, it says "ten (10) year bond yield," and we're looking at certain numbers there, you'll see that there is no category for ten (10) year plus.

So that was one (1) of his critiques. Another is if you just quickly turn to CIBC, the next page, here we see that there is a category for a ten (10) year government bond and thirty (30) year government bond. Again, this is end-of-period information, but if you look, you see that on the ten (10) government bond the March 2010 number is three five five (355). Well, that's the number that Centra has used as being reflective of the entire 2010 forecast.

And I'll just point that out. If you -- if you flip between page 3, CIBC, and page 2 of 4 on Tab 4, you see under the heading "CIBC" it says three five five (355) for 2010. That --

THE CHAIRPERSON: Yes.

MR. KRIS SAXBERG: -- that three five five (355) number, if you now look at the source document, the CIBC document, is actually March 2010 only. It's an end-of-period March of 2010 point and it's only on ten (10) -- ten (10) year government bonds, not ten (10) year plus.

THE CHAIRPERSON: Yes.

MR. KRIS SAXBERG: So these -- these are

just further examples of a -- of a real lack of precision in terms of matching data points to determine a forecast.

So that's the critique related to the -- to the long-term debt rate. But an additional component of the long-term interest cost to be paid by Centra is the credit spread. So if you are referencing page 1 of 4 on Tab 4, we see that Centra has looked at the -- or has indicated that it's looked at the ten (10) year Canada bond rate. And for example 2009 has determined it's three point zero five (3.05).

Then there's an adjustment to the fiscal calendar. But then there's a spread added and the spread is one point six-o (1.60). And the spread, as you heard during evidence, is the spread between the Canada Bond and the Manitoba Bond.

And initially, in it's initial filing, Manitoba Hydro had used a spread of point six-o (.60). In the update they added a hundred (100) basis points to it and Mr. McCormick took issue with that. He said it was unsupportable and he testified that even the sixty (60) basis point spread is excessive. And in support of his contention, he challenged the notion that there was a tandem movement between rates and spreads.

And at Tab 10, just for a reminder to the Board, because I'm not going to go over this because I know that Mr. McCormick did a prodigious job of explaining this chart at Tab 10, but what it shows is -- the blue line being the -- the Manitoba Bond, the red line being the Canada Bond, the difference between the two (2) being the spread. And what it shows is that there's a very consistent spread for a long period of time, over -- and it's in -- on the next chart it's -- you can see if you flip over, it's in the range of bel -- of point three (.3) up to point six (.6) for a very long period of time. That's the spread. I mean --

THE CHAIRPERSON: Skyrocketed up --

MR. KRIS SAXBERG: And then it skyrockets. And then it skyrockets and it's that skyrocket glimpse, a moment in time, a snapshot, that -- that Manitoba has used to represent what the spread will look like when Manitoba Hydro goes to market in March of 2010 to issue long-term debt.

And Mr. McCormick gave a -- quite a bit of information explaining that the trend is going back to the historical norm and that by the time March rolls around, when these long -- when Centra's forecasting to go to the market, his estimate was the spread would be back to the historical levels which he said were point four eight (.48).

Now, Tab 8 of the brief is an excerpt from the GRA Application, and if you look at the last four (4) items, from line 15 to line 19 -- sorry, line 16 to line 19, this is what Manitoba Hydro was forecasting it was going to do, in terms of long-term debt. It was going to do a -- a twenty (20) year long bond in March of 2009. It was then going to do three (3) other twenty (20) year long bonds in the amount of about -- of 125 million in one (1) quarter of 2010, that being the first quarter of 2010.

So that -- that's the evidence that's on the record of Centra indicating this is our best forecast of what we're going to do. Now, two (2) of these issuances -- and I -- I can't remember at the top of my head right now -- but two (2) of them -- I believe it's the two (2) $30 million issuances, those relate to new debt, whereas the seventy-five (75) and the twenty (20) relate to renewals. And so, there's more certainty that there's going -- that Centra will be going to the market in or around that time for the -- for that -- for those two (2) issuances.

So what Mr. McCormick did was say, Well, if you're trying to forecast what the interest rate's going to be when you're forecasting to go to the market, why don't you look at that quarter and determine what the interest rate is? And that's what he's done in his analysis of -- of long-term -- of an appropriate long-term interest rate.

Again, at Tab 7. And here he has included in his answer to a PUB IR that ultimately he recommends that the long-term interest rate to be used should be 3 percent, based on the calculations shown on page 4 of 8.

And he revised his testimony -- he revised his evidence during oral testimony, wherein he indicated that he would use a spread -- add a spread to his long-term interest rate forecast of 3 percent. He'd use a spread of .48 percent for a total of 3.5 percent, which compares to Centra's numbers of 4.75 percent for the 2009/'10 test year and 4.9 percent for the 2010 year.

Now, Centra's position was that the placement of the first $30 million tranche of long-term debt that was to -- that was forecast to occur in March of 2009 may or may not have happened. The -- it certainly didn't happen in May of 2009 but it -- it may form a part of an issuance that occurred in -- in late May/June. But if you could turn to Tab 23, and page 676, it's about thirteen (13) pages in, page 676 line 21 Mr. Peters asks:

"Did the Corporation, turning to Tab 20 of the book of documents, has -- I took from a previous answer before lunch that the Corporation has not placed the 30 million principal debt that is shown on line 16 of Tab 4, page 39 of 42 of -- of your Application?"

Mr. Warden: "Yes, that's correct."

Then Mr. Peters: "You haven't placed that yet?"

Mr. Warden:

"That's right. Now whether we'll place specifically 30 million or not, I don't want to give the impression that's pending necessarily.

As I've mentioned earlier that we did issue $300 million and a portion of that will be allocated to Centra. So just with that qualification."

And then with respect to the next 125 million which was forecast to be issued in February/March 2010, Mr. Peters continues, and I'm on page 677, still line 13. Mr. Peters:

"All right. And if we look at the next line, 17, 18 and 19 we see that there's $125 million of debt, of long term debt, that's projected to be issued in the test years."

Mr. Warden: "Yes."

Mr. Peters:

"And I think it's in the first test year if my understanding of the evidence is correct, and again that's not a certainty that it's going to happen."

Mr. Warden: "That's true."

And then the next page carries on. Mr. Peters:

"And in -- from what's shown on Tab 20 of the book of documents, an extract from Tab 4 of your filing, there's a 125 million that matures in February and March of 2030."

Mr. Warden: "That's what is indicated here."

Me. Peters: "And isn't that putting a lot of maturity risk into those debt issues?"

Mr. Warden:

If in fact we followed that maturity profile, yes. But having the flexibility of utilizing portions of debt issues from Manitoba Hydro we can bury that, such that we don't -- we can spread that risk."

Mr. Peters: So it's your expectation that what is actually done will not mature in that sequence?

And Mr. Warden: Yes, absolutely.

So that's Centra's position, in terms of the distribution and it is that the forecast is only there for forecasting purposes. It doesn't mean that we're going to distribute all of our debt so that it clusters into one (1) short period of time. And that of course is responsive to Mr. McCormick's main -- other main critique about long term debt and that is the distribution of the long term debt.

In his evidence he indicated that Centra, its financing plan, appeared to be putting a lot eggs into one (1) basket. And at Tab 9, Mr. McCormick -- I've included excerpts from Mr. McCormick's evidence.

And what Mr. McCormick had indicated to the Board during his evidence was this is what -- on the first page of Tab 9, this is what the debt maturities will look like if Centra's forecast -- what it's telling the Board it thinks it's going to do comes to fruition. And you can see that there's a large clumping of debt in -- into the 2029/2032 area.

If you turn to the next page, Mr.

McCormick proposes a different alternative schedule of debt maturities that has an increased amount of -- of shorter term long term debt. And as -- as Mr. Peters had pointed out in IR -- in a CAC IR, there's significant reduction in interest costs that arise by virtue of this alternative debt distribution, and the reason for that relates to the fact that shorter term long term debt is what's on sale. In other words, five (5), seven (7), nine (9), ten (10) year debt is at historical lows. Contrary to what Manitoba Hydro is saying, longer term debt, the twenty (20), thirty (30) year isn't substan -- isn't in any significant way cheaper than it has been in the last five (5) years.

So what Mr. McCormick is strongly recommending is a different distribution of debt. And if you turn to the next page what he does is he says:

"And why don't we look at what the province does in terms of its distribution of debt."

And he indicates that there's a lot more focus on the shorter term long term debt, as is indicated in this chart on page 17.

Now one (1) thing I just wanted to note very quickly is that at the last GRA Centra had one (1) forecast of a $50 million issuance of long term debt.

And it had indicated that the forecasted rate would be five point two five (5.25) for that $50 million piece of long term debt.

The deal that was actually done according to Centra's information -- and it's at Tab 8, page 2, which is in -- if you start at Tab 8, page 2 you see this 50 million principal 5.25 percent coupon projected was what was estimated. If you go back a page now to page -- to the first page, now we're looking at the information in the current filing and it indicates that what actually happened, if you go up to the fifth bullet from the bottom, is that that $50 million principal was done at four point five zero five (4.505) coupon.

And that, according to Mr. McCormick's calculations, in any event, was a three hundred and seventy-two thousand dollar ($372,000) positive pickup, in terms of the forecast that had been advanced and -- and embedded in rates and what the actual long term interest that flowed from the actual issuances.

So there -- that was 50 million in 2007. Here, we're talking about 155 million for the four (4) issuances, and so there's a lot of room for -- for forecasting error. And so this is an important matter in terms of making sure that the forecast is precise, so that the rates are as close to reflecting the true costs of -- of long-term interest as possible.

Now the next big issue is still on finance expense, but this should be fairly brief because it's a straightforward issue, and that is the issue of the actual allocation of short-term debt costs from Manitoba Hydro to Centra.

Now the facts of the matter are, Manitoba Hydro borrows for the integrated operations of both gas and electric. And Mr. Warden confirmed that there's no specific consideration given to the particular needs of one (1) Utility versus the other and, in particular, no particular needs given to the special and unique requirements of Centra Gas.

The process used is based on the capital and operating requirements of the consolidated Utility. Therefore, as Mr. Warden indicated at transcript page 850, Centra's short-term debt requirements are only looked at indirectly as part of the consolidated entity.

And Centra Gas, it was conceded, has a unique and distinctive short-term debt requirement, vis-a-vis Manitoba Hydro, and I won't belabour this point. The Board's familiar with the reason why, and that is that Centra is purchasing more gas than it needs in the non-winter months, injecting that gas into storage without charging its customers for the gas until it's released from storage in the winter months.

So, in effect, Centra needs to borrow money in the short term, and it is then repaid later when storage gas is billed to customers.

As a matter of practice, and from the information on the record, not formally documented by way of a -- a formal agreement or contract, Manitoba Hydro is charging Centra Gas interest rates on short-term debt equal to one (1) month bankers' acceptance rates as set out by the Bloomberg Organization, and that's at transcript page 917.

And the one (1) month Bloomberg BAs are just a proxy, a guess as to what the approximate cost of financing for Manitoba Hydro is. And Mr. Warden testified at transcript page 918, which is again at Tab 23.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Even I'm having a tough time finding it. I'll just read it into the record and perhaps --

THE CHAIRPERSON: I have it.

MR. KRIS SAXBERG: -- it's in there buried somewhere.

At 918, line 4, Mr. Warden says:

"Yes. The word "approximate" -- ideally if we could charge the exact -- absolute exact cost that Manitoba Hydro incurs that would be the ideal, but for practical reasons we looked at what would be fair and reasonable, in terms of an allocation methodology for finance costs.

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

And then I ask:

"You'd agree that on many occasions Manitoba Hydro can out perform the one (1) month bankers' acceptance rate?"

Mr. Warden said:

"Yes, I agree with that."

So notwithstanding that the proxy is this Bloomberg's one (1) month BA rates, Manitoba Hydro can get a better deal in the market on that debt.

Now very, very important Information Request posed and answered in this proceeding is CAC/MSOS/CENTRA 78 and that's reproduced at Tab 12 of the brief.

(BRIEF PAUSE)

MR. KRIS SAXBERG: And all I want to do is to reiterate, with reference to page 2 of 2, the dollar amounts for each quarter which represent the difference between what Manitoba Hydro paid for the debt and what Centra was charged.

And if you look at the first -- well, firstly, I'll explain that, at page 926 of the transcript and following, it was confirmed that if you compare the interest costs for Centra using the "Average Interest Rate for Manitoba Hydro," which is at the bottom of this chart, labelled 78(f), it's the very last line, and those are dollar numbers, and if you compare that against the average interest actually allocated to Centra at item 78(c), which is two (2) lines up, 78(c), again dollar numbers, if you compare the two (2), the difference is the dollar amount in -- that Centra paid in excess of what it cost Manitoba Hydro for that debt.

For the first quarter we see thirty

thousand (30,000) is the difference. So, for instance, the very first quarter, September 30th '06, we see the difference between one thousand and twenty-one (1,021) -- I'm looking at the top -- the third line from the bottom 78(c), minus nine hundred and ninety-three point three (993.3) and I'm just rounding, saying the difference is about thirty thousand (30,000).

If you move to the next, it's about thirty thousand (30,000) and the next quarter it's about thirty thousand (30,000). And that continues until you get into the September 30th, 2007 quarter where the difference is about a hundred thousand, and then there's another hundred thousand difference in the next quarter and following until the last two (2) quarters that are represented, the very last two (2) quarters, the September 30th quarter of 2008 and the December 31, 2008, number, those -- those differences are over two hundred and twenty thousand dollars ($220,000).

So when you add up those numbers, that's a significant what I'm calling overcharge of interest from Manitoba Hydro to Centra as demonstrated in this IR. And I didn't hear a scintilla of evidence contesting this information. What we did hear was an argument that, well, wait a second, it is sometimes the case that Manitoba Hydro doesn't have enough of that cheap, short-term debt to cover the unique needs of Centra Gas.

And I want to refer to a transcript reference here because I put it to Mr. Warden during cross-examination, well, can you do something about that? Can you just make sure you have enough of that cheap, short-term debt so that you don't run into that problem and so that Centra's, you know, achieving its needs with the lowest-cost debt available to the consolidated Utility?

And that's at transcript page 921 of -- at Tab 23, midway through the grouping of transcripts. There's a 9 -- page 920 and then a page 921.

And I'll begin at line 22 where I ask Mr. Warden, quote:

"But you're not at all saying that you couldn't have gone out and made sure you did have enough short-term debt to cover Centra's needs?

Mr. Warden says:

"Well, we would use the lowest cost available funding that we had to us [at that time] at that point in time. So there's a back-and-forth requirement for Centra on a daily basis, depending on what the requirements may be.

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

Question:

"Right. And...you agreed earlier that Centra has unique short term needs.

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

Mr. Warden:

"Well, if there was a need for us to do that but we haven't found that need."

Which -- end of quote -- suggests to me he hasn't said there's any constraint at all.

And so Mr. McCormick -- and you can just note this, it's included in this transcript of -- of information at transcript page 1049 -- indicates that what Centra should do is adjust its policy with respect to -- to short term debt whereby it -- it terms out after approximately 200 million, it should expand it up to a level that would allow and accommodate for Centra's unique requirements.

So by way of summary then in terms of the recommendations of these Intervenors regarding finance expense in general, all three (3), in short, the recommendation is the Board should adopt Mr. McCormick's forecasts for short term and long term interest rates.

Number 2. Make an adjustment to the long term interest rate costs sought by Centra to reflect the fact that Centra didn't, in fact, issue long-term debt in March of 2009 and, rather, has used short-term debt to pay for that -- those costs related to that 30 million.

Number 3. Establish a deferral account for both long-term and short-term interest rates.

And number 4. Require that Manitoba Hydro allocate its actual cost of short term borrowing to Centra and further direct that Manitoba Hydro consolidate and maintain a level of short-term debt sufficient to accommodate Centra's unique borrowing requirements.

And Number 5. Mandate the development of a robust formula for forecasting short and long-term interest rates for the next rate case. The formula should be developed by Manitoba Hydro for approval by the Board.

Number 6. Centra should be directed to spread out its distribution of long-term debt to incorporate a greater percentage of shorter long-term debt similar to the distribution used by the Province of Manitoba.

Simply put, there are a host of shorter maturities undertaken by the Province in which during a normal yield curve market environment it would be more financially advantageous for Centra to participate as a result of the rate advantage that might accrue in the case of five (5), seven (7) or ten (10) year debt rather than twenty (20) year debt.

This encouragement could be clearly indicated by allowing the revenue requirement for long-term debt in an amount derived from an interest rate based on ten (10) year long-term forecast or even a ten (10) year long-term forecast less a few basis points so as to be reflective of a shorter term so that if those are the rates approved, that's the Board signalling the direction for Manitoba Hydro to go without tying its hands in terms of specific transactions or maturities.

And if the Board is looking for information on data for shorter term long-term debt, it's reflected in Mr. McCormick's evidence on page 21, the last page of PUB/CENTRA 198 revised and elsewhere throughout the record including Bloomberg charts that were used by Mr. McCormick in the examination from the -- the book of documents of CAC/MSOS.

And that's the first issue, but half my argument. I think the other sections will be a little less time consuming.

I want to talk about OM&A which is Operating and Administration. Centra Gas is applying for an escalation in its operating and administrative costs based on a forecasted Manitoba Consumer Price Index of 2 percent.

The escalations that are put forward in the forecast are escalations of 2 percent, and -- as Mr. Peters indicated in his opening remarks. However, Manitoba Hydro's most recent economic outlook indicates that the forecasted CPI on a -- on a fiscal year basis for the respective test years will be .4 percent, not 2 percent, and .14 percent for the second test year.

On that basis alone, these Intervenors recommend that the Board modify the forecasted cost escalation in the OM&A, because every hearing we come here, we get we're forecasting consistent with the increase in the CPI. Now that the CPI has changed to a lower amount, Centra is not adjusting its methodology, and it should to stay consistent.

A second reason why a reduction in the forecast O and M -- OM&A is appropriate can be found with reference to the actual OM&A costs recorded by the

Utility from 2003 to 2008, and that is at Tab 13.

Now, this is a -- an IR that shows the latest five (5) years of actuals, the actual costs for OM&A. And it begins in 2003/'04 and runs through to 2007/'08. And what's the cumulative change; 5 percent? What's the CPI; 10 percent?

So that's -- that's something that's commendable. Manitoba Hydro's actual costs have been lower than the CPI for those five (5) previous years.

And the suggestion is, if you take a five (5) year average of the actual costs and the escalation in them and you apply that as the means of forecasting what you think is going to happen into the future, that would be more -- that might be an alternative method of -- of determining the appropriate forecast for OM&A. And if one was to do that, then the escalation of the OM&A would be 1 percent rather than 2 percent based on this information.

At Tab 14 is another interesting IR concerning OM&A. In this IR, which is covering the exact same years, all of the actuals from 2003 to 2007/'08, if we look just at that time frame, just the actuals, what we see under line 13, "Activity Hours", is something significant. We see that the activity hours decline substantially in every year, from six seven seven (677) to five sixty-eight (568).

And I asked Mr. Derksen to confirm what that meant, and he said what it means is, it's taking employees of the consolidated Utility less time to perform the required tasks for the gas Utility. And he said that was to be expected as synergies are achieved. And that's at transcript page 971.

Now although the activity hours are going down, the average hourly activity charge, you can see in the line 15, is going up such that we get overall an increase of, as I indicated in the previous document, 5 percent over five (5) years.

Now I had questioned Mr. Derksen in terms of how the cost allocation works. And first, I had him confirm that what happens is that on occasion, and at least -- on occasion, activity charges are adjusted retroactively to ensure full absorption of costs. Also, yearly, activity charges are adjusted on a prospective basis to assure a full absorption of costs.

What Mr. Derksen explained in the transcript at page 798 through 799 -- sorry, at page 978 through to 979, what he explained was a circumstance where you have a department that has a hundred or a million dollars in costs but only eight hundred thousand (800,000) are picked up through activity charges, you've got a residual of two hundred thousand (200,000).

And with that residual two hundred thousand (200,000) you would increase the activity charges to eat it up. But then I asked him, well what about where you've got a department where -- a business unit where employees are doing work on both ends of the -- of the Utility, gas and electric?

And the answer was, well, if you have that -- and I'm paraphrasing -- if you have that million dollars and there's a two hundred thousand dollar ($200,000) residual then we take that residual, that's -- that's taken and then allocated.

And I asked, well, how are you allocating that residual? And the answer that came back was, primarily on activity charges.

So that means when you use the driver of activity charges what that means is it's 89 percent in favour of electric, 11 percent in favour of gas. But the real issue becomes, is that driver the appropriate reason why there was a cost overrun in that business unit?

Where is there any evidence or information that the cost overrun of a business unit is in any way connected to the relative activity charges between the Utilities, especially when we see that the activity charges on the Centra side are declining which would suggest, you know, that -- that -- that a smaller portion of the residuals results from work that's done on the gas side?

The other thing to note is that the O&A on the electric side has increased dramatically as of late and I believe the figure was 8 percent that the Board cited in its Decision 32/09, so that spending on the electric side seems to be -- and I don't want to overstate the point -- accelerating whereas on the gas side the actuals have been very modestly restrained.

So then the question becomes, well, when you've got this residual that you've got to allocate because your -- because there are extra costs that weren't picked up by the activity charges, how do you split them up?

And I don't think that -- that there's any evidence on the record that the appropriate way to split them up was with that 89/11 percent allocation based on activity charges.

I think that that's something that requires further -- further investigation and it's a reason why this Board should press Manitoba Hydro to move forward with the previously ordered report and review of the cost allocation methodology.

And so Centra's position on that is that

that report should wait until the IFRS project outcome is known. CAC/MSOS's position is that it's difficult to understand the correlation between why the Board ought to wait for IFRS and -- and on the one hand the task of putting together a term of reference -- terms of reference for a review of the integrated cost allocation methodology.

I mean, at least you could get people working on -- on let's figure out what the terms of reference will be, let's figure out -- because that's going to have to be agreed or should be agreed between the Board, Board staff and advisors and Intervenors and Centra so that the report is a truly independent report reviewing the cost allocation.

That process could at least begin. Also the work done by the consultant or the RFP sent out to the -- to whatever consultants are considered appropriate for the task could be done, the process of selecting the consultant and some of the work could be done while the IFRS project is underway. We don't have to wait until the very end of it.

But in any event I am cynical in that the IFRS has an impact on the question concerning cross subsidies, the question concerning the actual factual basis for are the drivers actually reflecting where the costs are coming from between the electric and the gas. That -- that's a different question than the -- the overall accounting redistributions and -- and ramifications of the IFRS rollout.

Just quickly because Mr. Peters mentioned it, there is an O and -- OM&A benchmarking study that's occurring on the electric side of the operation, and I understand that a -- an outline is being done in terms of how the work is going to be performed prior to this internal benchmarking being done.

And I would just remind the Board that -- that the gas side of that equation is -- is -- is very complicated and much different than the electric side, and it would be a waste of everybody's time if that benchmarking study turned out to be like all the other information we get whenever we look at what's happening with other utilities wherein the consensus is it's an apples to oranges mixture.

So we'd certainly like to be -- have an opportunity to review the outline before it is approved to move forward.

The next topic is net income. The question as to what is an appropriate level of net income for Centra Gas has been the subject of much debate in Regulatory Hearings since Manitoba Hydro purchased Centra gas in 1999.

The Board has adjudicated on the question of net income in several Board Orders, and I want to review just a few of the Board's comments in that regard. And so, if you can quickly flip to Tab 15, at Tab 15 we have an excerpt from Board Order 135/05, highlighted, and I'll quote:

> "The Board agrees with CAC/MSOS that providing in Centra's revenue requirement annual net income of $14-16 million along with a Corporate Allocation by [Manitoba Hydro] of $12 million would amount to an excessive return to [Manitoba Hydro]. The Board agrees with CAC/MSOS that a total return to [Manitoba Hydro] in the range of $14-16 million is adequate and, together with synergy savings, should allow [Manitoba Hydro] to meet the annual costs of amortizing and financing its acquisition costs. For the Board, providing for a return of that nature requires only a rate increase of 1 [percent]."

and it goes on. In order -- end quote.

"In Order 103/05, the Board accepted the inclusion in revenue requirement of [the] $12 million annual corporate allocation. The Board also found that the allowed [rate of] return on Rate Base determined by the Rate Base Rate of Return methodology represented [an] absolute limit for a return to Centra's parent company."

And the Board said, quote:

"That limit applies whether that return be by way of net income (and, potentially, subsequent dividend) or by Corporate Allocation." End quote.

The point is, there, of course, is that the corporate allocation is a return. The Board has found that and it -- and has regulated Centra on a consistent basis in that regard.

At Tab 16 is an excerpt from Board Order 99/07, the last GRA decision, and I've highlighted the section I want to quote. Quote:

"With the reductions from applied-for revenue requirement increases provided for herein, and the reiteration of the Board's previous direction that the

> return to [Manitoba Hydro] cannot exceed the aggregate of $12 million annual Corporate Allocation plus net income in the range of $3 million, the Board concludes the test required by existing legislation with respect to Rate Base, Rate of Return has been met."

So, from these -- these decisions, it's clear there are three (3) simple principles.

The first is the recognition that the Public Utilities Board Act requires that the return to Centra be calculated on a rate base rate of return methodology, and that the rate-based rate of return test is an absolute limit for a return to Centra.

And number 2. The 12 million corporate allocation sought by Centra in this and past applications is one (1) form of return, net income is another form of -- of return, but they're two (2) of a kind.

Number 3. The test then for determining if Centra's net income is excessive is to compare the combined net income and the corporate allocation against what would be allowed for under rate-based rate of return methodology.

So what we've done in the past, and if you look at Tab 17, the Board -- at Tab 17 we have the approved return on equity percentage and the return on equity amount approved for the 2003/'04 year through to '08/'09.

And we see here, looking at this range over this period, that the range is really between 10.5 million and 13.5 million in terms of a range of returns that flow out of the rate-based rate of return methodology.

And the point that I want to make in this proceeding is that that range of ten point five (10.5) to thirteen point five (13.5) is considerably lower than the 14 million to 16 million that the Board has used in the past as the proxy for where the consol -- the corporate allocation and net income added together have to come in between, so that if the goalposts were 14 to 16 million in 1999, when Centra was under private ownership, I'm suggesting the goalposts have changed and that this document at Tab 17 establishes clearly that the new range is between 10.5 and -- and 13.5 million.

Now I know that there's a -- Centra has a retort and Centra's retort is, well, if you gave us a deemed equity of 40 percent, which they had sought in previous applications, if you allowed us that, then the -- the return would be higher than the range of ten point five (10.5) to thirteen point five (13.5) and there's an IR to that effect, but CAC/MSOS' position in response is that Centra is not a standalone utility and it isn't being regulated as such.

It's -- it's being regulated and treating -- and treated in these proceedings as a fully integrated utility under Manitoba Hydro. Its operations and its financing are all determined at the consolidated level. And like we said for interest, we're saying, well, if there's interest costs that are available to the consolidated utility, then those should be the interest costs of Centra Gas. There's no reason why they should be something else.

The same applies to other things like financial targets. If the financial targets of the -- are the -- of the consolidated utility are such and such, twenty-five (25), seventy-five (75), well that should be the financial target of Centra, because it -- it may have taken years at least for these Intervenors to -- to grasp the concept but the -- the point is, as an integrated, fully, fully integrated utility, those are the realities.

And so if we look at the actual debt-equity ratio in Centra Gas, we do it based on -- not on what could have been under a different private owner, but we do it based on what's actually happened as a result of full integration with Manitoba Hydro.

And to find out then what the true debt-equity ratio is, there's only one (1) document and one (1) document alone that we have to turn to and that's at Tab 18 and, of course, that's the financial statements of Centra Gas, the audited financial statements. This is, of course, what the financial community is going to look to to make its determinations of the debt-equity ratio for Centra Gas, which the financial community recognizes is an integrated Utility within Manitoba Hydro.

And if you look at page 2, which is four (4) pages in -- sorry, five (5) pages in -- page 2, and you look under the heading "Shareholder Equity for 2008" it indicates retained earnings of 27 million. We know that now to be 36 million for the year ending 2009 as an aside.

But for 2008, you take the 27 million and the 121 million of share capital together, and that determines the $148 million of equity that Manitoba Hydro has as the shareholder of Centra Gas.

That level of equity compared to debt is now in excess of seventy thirty (70/30). And that seventy thirty (70/30) debt/equity ratio is far exceeding the target of the consolidated entity. The consolidated entity target, as you know better than -- than I, is seventy-five twenty-five (75/25), and I'm not sure where -- where the consolidated entity is at, at this point. I know that it's not at the target.

But Centra Gas is way ahead of that at thirty/ seventy (30:70). So that means that its -- its equity and the amount of retained earnings and shareholders capital is contributing more to the consolidated entity than the electric side.

So in response to Centra's argument that there should be a deemed 40 percent level of equity, these Intervenors say, No, look at the actual equity. That drives the numbers that we looked at earlier on in Tab 17, and it shows that the legislated test for the maximum return for Manitoba Hydro is going to be between ten point five (10.5) and thirteen point five (13.5) as opposed to what was driving it ten (10) years ago under private ownership where it was 14 to 16 million.

So now, if we move those goalposts, what it does is it says the 12 million Corporate allocation is enough. It's right in the middle between ten point five (10.5) and thirteen point five (13.5), and that leaves little, if any, room for net income.

And so in this Hearing we don't believe, as part of this rate case, that Manitoba Hydro requires its subsidiary to contribute to Manitoba Hydro's overall consolidated debt/equity ratio by contributing more equity through net income. That's what those figures show.

And a real simple approach is to say, well, you -- you just got $9 million of net -- $9 million of net income in '08/'09. That's $6 million more than you were expecting when you filed the application; $3 million a year for the next two (2) years.

But on the principle basis that I've just reviewed, the level of -- of net income we're suggesting should be zero.

And a colleague has to excuse himself because he has another important matter to attend to.

And I apologize for going over. I think I'm on track to be able to finish at -- at the estimated time of 1:00.

In terms of the level of retained earnings, I've already alluded to the point, and -- and the point is that -- that Centra Gas shouldn't have to contribute more to the consolidated entity's overall equity -- debt/equity status than any other subsidiary.

And if that sounds like a familiar argument, it -- that's because it is a familiar argument, because it's one that -- that Mr. Warden made way back in 2003. And if you quickly flip to Tab 24 of the brief, I've included an excerpt from the 2003 GRA which was -- this transcript's from June 5th, 2003, and if you turn to the second page, page 2,114, line 9, the then Chairman asks:

"I understand that completely, Mr. Warden. But I guess the question that I'm trying to get a handle on is: Have you given any consideration to the kind of retained earnings that you'd like to build up over a period of time inside Centra?"

Answer from Mr. Warden:

"Well, really as along as there's -- I should back up and say that the financial targets, as we talked very briefly about this morning, are set at the corporate level. So we -- Manitoba Hydro has a number of subsidiaries and as long as those subs are contributing towards the financial targets of the parent then we're reasonably happy. So, although we haven't set a specific target within -- within Centra or CHES or any of the subsidiaries, as long as they're not negatively impacting the

financial targets of the parent company
we have no concern.
Any positive contribution, of course,
towards attaining financial targets is
good. Good -- good for everybody.
So, long answer to your question, there
doesn't really have to be targets at
the Centra Gas level assuming that we
would have, in the future, some rate --
some regulation model that's similar
with the -- with the electric
regulation model." End of quote.

Which is -- which is the direction in which we've been moving and the point being that Centra Gas' equity level is contributing to the health of the consolidated entity.

The retained earnings don't need to grown anymore in that regard and, if anything, they are inflated at this point in time and so there's no need for net income at this point.

Now one quick point that was raised on numerous occasions was, Mr. Warden was suggesting that retained earnings are really a -- a deferral mechanism, that they are a self-correcting measure to address forecasting inaccuracy.

He indicated that -- that the Manitoba Hydro executive looks at that level of retained earnings very, very closely in determining whether or not future rate increases are warranted.

And so to the extent that the retained earnings are strong, the executive would presumably seek lower rate increases than it would otherwise.

However, there's no dollar figure attached to what that level is and -- and there's no test established in terms of whether or not a future rate increase is warranted based on the size of the retained earnings.

And in his evidence, Mr. Warden indicated his off-the-cuff calculation of the appropriate amount of -- of retained earnings at this point would be between 36 million, which is what we have now, and 60 million which is something that isn't based on -- on any -- you know, on any verifiable test or -- or independent measure.

He did, however, cite that retained earnings are important from the perspective of -- of protecting the Company against risk. And he cited quickly items like weather, which then -- he then admitted wasn't a huge risk because there are plus and minuses, and then he said interest rates are a risk; and inflation is a risk; and technology is a risk; and disaster, you know, on -- with respect to the infrastructure at some point is a risk; storage contracting is a risk; and human resources and attracting skilled workers are risks.

Well, those are very -- those -- those risks except -- those risks are very general risks and it would apply to any business, and they're not risks that, in Centra's case, require it to have retained earnings in the amount of $60 million. And I defy Manitoba Hydro to expand on why there would be a need for -- for that level of retained earnings to deal with, for instance, storage contract expiring.

I mean, the risk associated with that is going to be mitigated by the Company doing good work in terms of planning for the new gas supply arrangements.

And in any event, retained earnings aren't a pool of money to dip into. I mean they're invested in -- in the capital assets. There's no money out there so it's not as though you need to have quick money on hand to quickly solve some sort of emergency caused by a risk.

But on an even more fundamental level, where's the risk? The risk to Centra, as a fully integrated regulatory construct only, is if there's a -- is only if there's a risk to Manitoba Hydro Consolidated.

And if the bondholders are looking to

Centra Gas, they're not looking to Centra Gas and whether its -- has a retained earnings and is managing the specific risks that Mr. Warden cited. They're looking at Manitoba Hydro, the consolidated utility and they're looking at the province because they know that Centra Gas doesn't have employees. It doesn't exist other than as a regulatory construct and as a -- as an allocation. So why would they be looking at it in terms of it having its own separate risks in that sense?

So in that -- in that way, the whole idea that there has to be this rainy day slush fund in the form of consolidated -- or form of retained earnings is something that has to be given serious scrutiny, which leads me to the next issue which is the amortization of DSM costs.

When Centra last appeared before the Board it was advocating amortizing DSM over fifteen (15) years and the Board approved Centra's request although it was musing in its decision that a shorter amortization period may be appropriate. The Board was concerned that the fifteen (15) years could result in intergenerational inequity.

And the Board, though, recommended Centra consider changing the amortization time frame. However, it cautioned that there may be potential rate implications for consumers. It recognized what Mr. Peters pointed out today which is that if you shorten the amortization period by that much, you attract massive short-term increases in revenue requirement, for instance the $9.2 million additional revenue requirement for the 2010/'11 test year.

And so the Board said it would consider differences between audited statement and regular accounts if conditions warranted, meaning I -- and this is -- I don't know why I'm telling you what you were interpreting but sometimes lawyers try to do that and -- meaning that if one (1) of the drivers behind the shorter amortization is IFRS and/or the traditional accounting and asset-based accounting versus regulatory accounting, then the -- the Board signalled that -- that reducing the impact of DSM is important. Spreading out those costs is important.

And in this proceeding we have CAC/MSOS advancing a proposal that the DSM amortization for the furnace program be ten (10) years and the proposal is based on the life expectancy of the furnace, which is -- the weighted average is apparently eleven (11) years.

And that is the precise rationale that Centra was using when they were here on this side of the table two (2) years ago where they were suggesting the way that you should amortize DSM is by relating it to the actual asset, the insulation, the furnace, the other measures.

Well, that's all this Intervenor is saying at this hearing is repeating what Centra told this Board two (2) years ago and saying the reason why -- another reason why that's important is the reason the Board cited and that is because it's important to mitigate the impact of this enormous program on rates because the idea, at least the selling feature from the consumer's perspective, is saving money.

You know, the consumer looks at the broader societal benefits of -- of reduced carbon emissions, of course, but, you know, many are motivated more by the possibility of savings and if those savings cost an enormous amount by virtue of the speedier amortization, then it's really defeating one (1) of the main -- one (1) of the main motivators for consumers to conserve gas.

Now how do other utilities treat DSM? Is this recommendation that Centra put forward two (2) years ago and that we're now aping two (2) years later, is it so unique? Not at all. BC Hydro uses a ten (10) year amortization of DSM, Quebec Hydro ten (10) year amortization, Terasen, a gas utility in BC, subject of a

-- of a major proceeding where it had asked for a twenty (20) year amortization, was granted a ten (10) year amortization of DSM and those assets were included in rate base.

In the Ontario context there are new guidelines that reflect on a -- on the going-forward basis where there's expected to be greater DSM expenditures, that:

"Utilities should fully allocate -- use a fully allocated costing methodology for all distributor-delivered DSM activities, capitalized assets associated with DSM activities that are funded through rates will be included in rate base and will be treated in the same manner as distribution assets."

End quote.

So presumably, based on the life of the asset, the amortization period will be based on the life of the asset as with distribution assets.

But most significantly, and this is my fundamental argument or pitch on this point, Manitoba Hydro, I understand, amortizes DSM costs over ten (10) years. So here's what I don't get: The 2000 Power -- 2008 Power Smart plan is fully integrated. It's a consolidated DSM plan. There's only one (1) plan and it has the electric and the gas side. It's only -- it's one (1) contact for Manitoba Hydro that's approaching the homeowner with the integrated measures that are being offered. So it's one (1) program.

How can that program that has one (1) set of costs that are then allocated to gas and utility be amortized on a ten (10) year basis for the electric side producing one (1) set of cost consequences and rate impacts but then allocated to the gas side on the basis of a five (5) year amortization which produces a much larger rate impact?

It's inconsistent that a single program, a single integrated program, is going to be accounted for differently by the two (2) utilities. And I know that there's one (1) argument raised by Manitoba Hydro in this proceeding as to why you would have that disparity in accounting treatment and the one (1) reason is that on the electric side when you're doing the testing you -- you have a positive benefit in the form of the sale of electricity that produces a profit. That's the reason that's given for having this disparity or different treatment in accounting. And what I would say is that it's not enough in itself to justify the single program costs being amortized differently between the two (2) utilities.

So therefore, CAC/MSOS recommends that the Board direct Centra to adopt a ten (10) year amortization for the furnace replacement and fifteen (15) years for the other DSM investments which, according to CAC/MSOS/CENTRA 121A, the service life of which ranges from fourteen (14) to thirty (30) years, so matching those other measures with the life expectancy.

Now this leads directly into the low income furnace replacement program because the main reason -- one of the main proponent's reasons for the recommendation to maintain the longer term DSM amortization relates to allowing this low income furnace program a chance to survive, a chance to be available universally.

Now lately the phrase "bill assistance" has been given a bad name. And I read with interest Mr. Gaudreau's editorial in the Free Press from yesterday and, for the record, concur with everything that he said.

In this proceeding Manitoba Hydro was asked about the status of the bill assistance report due at the end of July. And Manitoba Hydro responded that it was monitoring the process occurring in Ontario concerning energy issues for low income customers.

He noted that the Ontario Energy Board had determined at this point in time that it wasn't appropriate to be designing rates taking into account the consideration of ability to pay.

And Mr. Barnlund indicated that Manitoba Hydro's view is along the same lines as to what the OEB had concluded. So he's given a pretty strong indication of -- of what the July 31st report is going to conclude. In fact, he went on to indicate that Manitoba Hydro's review is largely completed at this point in time.

Now having said that, I don't know what the ultimate report is going to say but I know that Mr. Williams, Byron Williams, advocating on behalf of my clients at the last gas hearing raised some issues about the complexities and -- and serious issues inherent in developing a low income rate.

And I know that he and the Public Interest Law Centre have worked further in regard to that issue on a legal front and want to participate in whatever process does arise out of the filing of the report in July.

So we take some significant comfort in Mr. Gaudreau's comments and assurances and also which are directly reflected in -- in Board Order 32/09, which I thought was pretty clear that there will be this process and nothing's been decided at this point in time.

Now I -- I go through all of that really to make this point and -- and that is that there may be some forms of bill assistance that are more controversial than others, but bill assistance is, obviously, a -- an important feature that Manitoba Hydro should continue to develop, and a noble venture.

But there's more than one (1) way to skin a cat and other ways to achieve the same ends that don't involve the complexities of a low income rate. One of those that I see is the furnace replacement program, and which is something that was noted by Manitoba Hydro in its low -- in its bill assistance report.

The furnace replacement program is a very good bill assistance measure. I think anyone who understands the program would agree that it is one sweet deal. Those who qualify can save as much as six hundred and fifty dollars ($650) per year on their gas bill is approximately half the total gas bill in a regular winter.

I mean that's a massive, massive savings and that saving comes immediately and at the nominal cost of nineteen dollars ($19) a month.

Therefore, customers who qualify for this program immediately are -- are in the money and there really is no outlay and -- and there's this significant savings that occurs right away.

Mr. Kuczek testified that the only reason he could see a qualifying customer not participating in the program was if they didn't understand the numbers. And -- and I agree, which isn't to say anyone wants to force anyone to join this program. Absolutely not our -- our -- my client's position.

However, what we're saying is it's a fantastic opportunity and everybody should be informed about how great the opportunity is and that there are real savings to be had, real bill assistance to be achieved.

However, for this program to be fair to all customers, it has to be -- there's just no question, it has to be universally accessible and available. The program cannot be said to be universally available if it is only marketed to a small group of customers or if the marketing is poor or if the marketing plan is poor or if the marketing budget isn't sufficient.

To date, the marketing of this plan has been anaemic. There have been no bill stuffers to all customers, which is a pretty minor expense when you control the bill envelope and you're already being compensated for the cost. No television or radio and newspaper advertising, no direct marketing. One might say that, to date, the program is Manitoba Hydro's best kept secret.

The brochure, that was marked as Exhibit 9 and attached to Tab 19, was something I reviewed with Mr. Kuczek, and it clearly understates the significant savings and opportunities available from this program.

And at transcript page 1372, Mr. Kuczek agreed that the brochure could be more explicit in terms of the potential benefits and savings associated with the program.

The original Hydro approach to marketing this program was to use the grassroots community-based strategy, but Mr. Kuczek commented that that approach has not been as aggressive as the Company would have liked. And that's at transcript 1,374.

He noted some hurdles with -- with certain staff and costs associated with the method of using community groups to market the program. He also acknowledged that those community groups don't have the reach to -- to get to all of the potentially qualifying customers or the means to do it.

There's a major problem, another major problem with the program and that's that it's based on an existing budget and a two (2) year term. Everything is founded on this existing budget and a two (2) year term. Centra estimates that it's only going to be available to

13 percent of all low income customers who qualify.

So, I mean, here you have this amazing program that's going to help people save -- reduce their bills by half -- and if -- and -- but it's only going to serve 13 percent of the qualified people, and the marketing of it is non-existent.

So, if you turn this on its head, what you realize is that the program is designed, by virtue of the budget and the term, to exclude 87 percent of low income customers with standard efficiency furnaces, and that just doesn't make sense, and it doesn't embrace the principle of universality.

Centra's position on this is, Well, the program is only supposed to last for two (2) years, so what are we supposed to do?

And I -- I would say they -- they certainly have a lot of options. And the position that's being put forward by these Intervenors is: All you have to do is to -- to make it universal is to change the objective from nineteen hundred (1,900) houses or, you know, X amount over this period of time; change the objective to the broad universal objective of replacing standard efficiency furnaces.

No one's say -- and make the object over, you know, as we've indicated, over a five (5) year term, but no one's suggesting that there's any penalties for not achieving that or that...

You know, the point is -- the idea is to -- to allow people that have standard efficiency furnaces to achieve very, very significant savings in their bills.

The -- the reason -- what's going to pay for this? It's going to be paid for out of a -- a protracted DSM or return to the original DSM amortization.

And, by the way, Centra's not disputing that Mr. Oppenheim's calculation that this can be done is appropriate. And that was contained in the Undertakings that were filed, and I've included it in the document in my brief at -- at Tab 20 where Centra was to advise if they had any disagreement in terms of Mr. Oppenheim's calculation that this objective was doable by changing the amortization of DSM.

But the other reason why this is an important bill assistance measure and an important, unique opportunity is this: People who are non-participants in the program benefit. They significantly benefit in terms of reductions to bad debt cost, they significantly benefit in terms of reduced infrastructure, they significantly will benefit in terms of the societal benefits of reduced gas emissions.

And there is a whole other set of -- of direct and indirect benefits that Mr. Oppenheim set out ad nauseam in his report and which CAC/MSOS endorses as a reason for going after this opportunity.

And -- and here's the -- the real -- the real reason for wanting to be aggressive on -- on this furnace replacement program at this time relates to something that Mr. Kuczek said.

Mr. Kuczek said, you know why you can't just say we're going to spend 5 percent of non-gas cost of service on DSM? The reason you can't say that is because ten (1) years from now there won't be opportunities out there to make massive -- to -- to create massive savings for homeowners in their gas bill.

Fifteen (15) years from now, you know, you're not going to be able to get a better furnace because of the technology. You're not going to have the opportunities where you have houses that are improperly insulated. So, therefore, why would you be spending all that money?

The point is, if there's a time to strike, a time to increase, it's now. And the reason it's now is because we have all these standard efficiency furnaces out there. So this is the time that we should be spending the money because there's the opportunities, there's the real benefit and it has direct benefits for the people that are lucky enough to participate in the program and it has direct benefits for those that don't even participate in it.

So that combined with your remarks, Mr. Chairman, that the federal government is providing significant dollars to incent people in terms of renovations and that the furnace replacements would qualify for those tax benefits and for other grants, this is the time to escalate the program. And so that's the position that CAC/MSOS is taking on that point.

And just in terms of the specific recommendations, they're contained in Mr. Oppenheim's report and they're pretty straightforward about -- about targeting all standard efficiency furnaces.

The next issue is the gas supply capacity management opportunities. CAC/MSOS retained Mr. Stauft to review Centra's filings in relation to supply issues and his evidence is CAC Exhibit 3. He's also responded to various IR's from the Board and Centra, also marked as exhibits.

And through the co-operation of the party, Mr. Stauft's oral testimony wasn't necessary in this proceeding. His evidence in terms of the factual underpinnings is, I believe, uncontested but there remains a difference between Mr. Stauft and -- and Centra with respect to opinion and approach.

As a general matter, Mr. Stauft, by the way, was satisfied with most aspects of Centra's supply-related filings and activities. He was even praising the company on a few issues. And CAC/MSOS doesn't disagree with any of that or have anything further to add.

There are a few issues, of course, that we will be monitoring and that will -- will be at the forefront in the -- in subsequent proceedings related to gas supply and future storage contracting, et cetera.

I should note that the policy of this Intervenor is to retain qualified consultants who are providing reasonable and independent opinions to us. And so to the extent that someone like Mr. Stauft is engaged, he's not given any direction to be a devil's advocate, he's asked to look at the matter from an independent basis.

And in this case, for the most part, well, for the majority of the report card, he's given Centra high grades. That, of course, is -- is -- is not information that this Intervenor will have until after it receives the report but we're -- we commend Centra for -- for some of the measures and approaches it's taken as noted by Mr. Stauft in his evidence.

However, there was one issue that caused some disagreement, and that issue is the issue of outsourcing, potentially outsourcing capacity management.

In his evidence on capacity management issue, Mr. Stauft looked at Centra's success in extracting value from storage exchanges over the past three (3) winters. That whole discussion is complex and Centra seemed concerned about it, but at the end of the day, Mr. Stauft basically gave Centra a passing grade on that, given the way they operate their system.

He found that they recover only about half of the theoretical value embedded in storage, recognizing the various caveats he put on his analysis, which Centra seemed to want to quibble with for some reason.

But in the end, he said that that seemed reasonable given the way Centra had operated its system, that it was -- you -- operating its system using storage as the swing supply; that the outcome wasn't something that he was critical of in terms of the dollar values that were being generated by capacity management.

But what he went on to say, though, which is where the dispute arises, is that maybe a third party manager, who is not tied to the operational scheme that Centra is tied to and that has more market reach and more opportunities within the market, might be able to do better than Centra has done.

Keep in mind that Mr. Stauft was not proposing that as something -- that this is something Centra necessarily has to do, nor was he saying that this is something that is a certainty to work. He was simply pointing out that there are market options and saying that it makes sense for Centra to do some serious due diligence in exploring the possibility.

And Mr. Stauft responded to Centra arguments against outsourcing in the business plan, indicating that the business plan that was filed isn't very persuasive and that the real test of outsourcing isn't the arguments that were simply raised in that business plan, but rather Centra actually going into the market and exploring the possibilities in a -- in a serious manner.

Centra responded to that in reply evidence and in their oral testimony by essentially saying, just like they did last GRA, that we've already done this. They talked about a couple of interactions with marketers where marketers basically weren't interested in providing the kind of service Centra needs at a price that would be better than what Centra can do on its own.

The other part of Centra's post-business plan response to the outsourcing suggestion was that there is just too much risk associated with a deal handing over these assets to a third party manager.

I think that the plain fact is that Centra just doesn't really want to seriously consider the asset management option. For whatever reason, they're trying out new arguments to justify what really is an entrenched and predetermined position in the hope that one (1) of those new arguments will stick.

And I think that where we sit today is that the situation is still that we just done know, one way or another, whether or not capacity management outsourcing is a good idea that would work.

I would describe Centra's argument against doing any more work on third party asset management as having two (2) legs.

The first is that Centra doesn't think that any marketer will be willing to offer a deal that would result in more revenues than what Centra can do on its own. That was the major argument set out in the business plan.

But as Mr. Stauft discussed at pages 12, 13 of his evidence, his response to that was, Well, that might be so, however, Centra didn't demonstrate that in the business plan, and the only way to find out for sure is to go to the market and ask the market to do some research and find out what is on offer.

Now, in its rebuttal evidence Centra said -- raised a new argument and essentially said that it's already had these exact conversations with two (2) marketers, neither of whom was, according to Centra, able to -- to advance any proposal that would have produced something better than Centra's existing approach.

Now this was new information and it's unfortunate indeed that it wasn't included in the business plan, it wasn't included before Mr. Stauft filed his -- his evidence, it wasn't mentioned. And if it was so important, and if these were such significant conversations, real -- you know, not just anecdotal or -- or informal discussions, if they were real matters where the matter had been investigated, wouldn't that have formed part of the business case? Wouldn't that have been chapter 1 and chapter 2, you know? We've done it. We've done the research. We've done the due diligence. We've talked to the market.

The reality is that I don't believe -- and, you know it is my job to be cynical, but I just don't believe that Centra has really put an effort into exploring the -- the potentials here.

Now one (1) thing of note is that Mr. Stephens acknowledged to Mr. Peters and then later to myself that there probably is money on the table. He flat out said that there is some benefit out there, additional value that can be achieved through outsourcing of the storage asset.

He mentioned the figure of 1 million a year additional money and called it an off-the-cuff number but the bottom line is he has acknowledged that there is value out there. And -- and that's an intuitive thing because we know that -- that many marketers, larger companies, have greater reach and can get better -- can -- can achieve more creative arrangements and have more purchasers at the other end of the line. So we certainly agree with Mr. Stephens that there's some money out there on the table.

So then the argument becomes reduced. It becomes reduced to the money on the table isn't enough because the risks are too great. So the whole point really now comes down to whether or not the risks are as large as Centra is suggesting.

And it's a clever argument for Centra to raise and to throw out, particularly at a consumer Intervenor like CAC/MSOS, because it's pretty difficult for my clients to sensibly say that we favour more risk because we certainly don't.

And so when these catastrophic scenarios are thrown out there, it -- it makes us appear reckless for making the suggestion that you should go out there and -- and look at third party managers to perhaps maximize your opportunities. But when you think carefully about the risks here, you'll see that -- that what Centra is doing is grossly exaggerating those risks.

As Mr. Stauft pointed out in his IR responses, that most of the normal market and operational risks that would be involved can and will be allocated between Centra and the asset manager by virtue of the contracts, the contracts can provide for indemnity provisions and can provide for all sorts of fail safes including monitoring and participation of Manitoba Hydro. They can -- they can construct the scenario in all sorts of ways and they have good lawyers to do it such that the risks are minimal if not non-existent.

Now, it's going to have an effect on the value that the third party manager is -- is prepared to pay for the opportunity to market these assets, but Centra will never know unless it engages in this type of discussion and conducts a serious due diligence of the matter as to what risks can be shed, what arrangements can be made, and what value is out there.

So in terms of a recommendation, it would be reasonable for the Board to emphasize to Centra that it is interested in finding out some facts in this area and expects Centra to look at it objectively, and that it would be reasonable for the Board to direct Centra to make inquiries in the market through a solicitation of expressions of interest. And it should be important -- it's important for us to note that no one's -- that we're not looking for a formal RFP here or for, you know, a million dollar consultation report. We're really just looking for some serious due diligence into the matter.

With respect to IFRS and the provision for accounting and other changes, which is the next issue, I've already indicated and referred you to Mr. Warden's comments that confirm that the charge is really just a placeholder to preserve an existing rate increase. There is absolutely nothing new that happened between January 20th and May 29th, January 20th being the date the first GRA was filed wherein there was no charge for a $5 million placeholder for accounting changes and -- and impact of IFRS, no -- at that point in time, one must presume that Centra and the executive concluded there was no need for such a charge and for such a contingency.

On May 29th, the item's added. There's been no change in terms of information between those two dates as to why the charge would be required. What's changed is what I indicated at the beginning of my submission. What's changed is the finance expenses being reduced. What's changed is retained earnings have -- have increased or have increased and that net income is at 9.2 million. And so, therefore, we need another reason for the rate increase that we've committed to moving forward on.

And -- and maybe this isn't -- this is like World War -- World War I where once the armies have started mobilizing you -- you can't call them back. Maybe once you start the GRA process and you go that far down the road, maybe -- maybe at that point you have to go to war. I'm not suggesting this is war, of course.

The other thing about the IFRS is that it was sort of characterized as a -- as a bogey man with a potential of a $61 million hit to retained earnings but, as Mr. Peters pointed out and saved me some time, the best estimate that was put on the record by Mr. Derksen, at page 464, was the range of 5 to 10 million, which isn't going to deplete retained earnings. As a matter of fact, if it's between 5 and 10 million all it's going to do is put us back to where we were last year

So it isn't such a significant risk that we have to do something immediately but the more common sense thing is this: Mr. Chairman, you -- you questioned the Centra panel about the knowledge of the position of the -- of the Canadian Association of Members of Public Utilities Tribunals, CAMPUT, and you indicated that the organization, your parent organization, or an organization that this Utility -- this Public Utilities Board belongs to has --

THE CHAIRPERSON: Affiliated organization.

MR. KRIS SAXBERG: Sorry?

THE CHAIRPERSON: Affiliated. We're just members.

MR. KRIS SAXBERG: Okay, affiliated -- has -- has advocated for a continuation of the regulatory accounting. What's interesting is that you asked Mr. Warden if his affiliated groups had done likewise and he said that they had. So we've got the Board here and Manitoba Hydro writing, saying we should keep regulatory assets.

Why would we then be talking out of the other side of our mouth, as it were, and saying we need to put in place a placeholder, an amount, a contingency for it when we're saying that we believe that it's appropriate to continue and retain regulatory accounting?

Of course, there are options for the Board including two (2) -- requiring two (2) sets of books.

There's also a myriad of options that are presumably going to come out of the report that's going to be filed in January of 2010. The report is going to allow for different possibilities in terms of compliance with IFRS, whatever it is.

And so there will be a number of choices that will have an impact on rates and retained earnings and the -- the Board needs to have a role in that because it would be a much larger version of -- of what essentially happened with DSM.

Because if the Board approves a certain level of net income and the Board approves a certain progress for retained earnings but then Manitoba Hydro goes back to its accounting ledger and makes a change in its accounting that directly affects net income it's superceded the ability of this Board to -- to regulate on that score.

And so with IFRS, Manitoba Hydro's going to have numerous opportunities -- or numerous choices to make and they will have different impacts on rates and it should be the Board that ultimately decides what -- what avenues are pursued.

And so, therefore, I would suggest and my clients suggest that the placeholder be placed to the side for now and that after the report's filed in January of 2010 the Board consider what, if any, process it wants to follow at that point to determine what, if anything, needs to be done by way of adjustment to rates or otherwise.

And one would think that it's -- it's an important enough issue that it does deserve a solid review in a -- in a public forum because it's going to -- if it -- if it is going to have a major impact on rates then it's something that I think it's incumbent on the Board to review in a public setting.

And three (3) minutes to go, I just want to mention I had a wonderful submission to make about the hedging program but I've -- it started off by talking about all the great things I'd said in the past about how it was wonderful that we were getting -- having great success with the hedging program but one day the tide's going to turn and that we're going to be faced with significant short-term costs and that the benefits were invisible to me of the program.

And, I mean there was a -- I know that Mr. Sanderson at one point had testified that the effects of hedging are invisible as a result of the volatility impact of weather.

And I mean, so you're -- in the middle of the winter if your bill is two hundred and twenty dollars ($220) without hedging, with hedging it may have been two hundred and thirty (230) or two hundred and ten (210) but when it's up to the two hundred (200) mark, you know, that's -- that's the volatility between the winter price, two hundred and twenty (220), and the summer price of thirty (30) or forty (40).

So we're glad to hear that Manitoba Hydro has taken a step in terms of reducing the volumes. However, it really raises this issue and that is, Manitoba Hydro's executive is now taking market views, and that was admitted by Mr. -- Mr. Warden. The last time Manitoba Hydro hired -- hired a consultant to review its hedging program, that consultant came back in a report and it couldn't have been any more clear and its -- it was in my -- it's in CAC Exhibit 6.

And he said risk advisory has a concern about the executive committee, that the group's ability to make strategic decisions based on market views associated with a judgmental approach. It recommended that a mechanistic approach be taken instead because there wasn't that internal expertise.

Now it's clear that because of the -- the way that the market has cut us off at the knees, as it were, the hedging program has created -- resulted in these -- its incredible, incredible increase in gas costs and this current gas year the estimate if $94.1 million.

The last fiscal year we were talking about 70 million. I mean it's a staggering amount of money.

And, you know, I defy anybody to -- to be able to prove that -- that they could have seen the effects of the volatility reduction on their gas bills. I don't know how they would ever see it if they were already on a -- on -- on the Equal Payment Plan, but in terms of if they weren't, I don't know how they see it, you know, when they're comparing winter volatility, winter costs compared to summer costs.

So the point is that if Manitoba Hydro wants to take a new approach, wants to get rid of the mechanistic approach, wants to get into trying to figure out what's happening in the market, which we certainly don't suggest they do, if that's what they want to do, then, by their own consultant's report, they better go out and hire someone who has that experience. Because their consultant said if you're going to do this, go hire -- you know, you need to have that internal expertise.

So by the admission of the witness panel, they've con -- they -- they're now considering market views and -- and so I think the Board's alternatives are twofold.

Number 1 is to just simply cancel the hedging program. I don't think there'll be a huge hue and cry about it. I don't think anyone's going to get excited about it. And it's something that -- and it's -- it's not -- not even as though it's something that this Utility didn't advocate itself at one (1) point.

I mean, there was a period in time, I can't remember the precise dates, it was around 2000, 2001, where the Utility didn't want to hedge and didn't want a hedging program. So that's one (1) alternative.

The other alternative is, if you're -- now you've taken a market approach, you -- you should hire or retain someone who at least has some -- some insight and knowledge into what's going to happen with the market. Because we haven't been -- you -- you know, because -- because, according to the evidence, that -- that experience and expertise is not at Manitoba Hydro at this time.

And so those are the comments with respect to hedging, abridged, and just two (2) seconds. I would note that there was an important point that -- there was a point that involved some money that was made by Mr. Peters and it related to the document at Tab 22 of my brief.

It's really the carrying costs associated with the gas deferral accounts are being calculated based on the old outdated and high short-term interest rate calculation. So that's something that has to be altered.

And the evidence from Centra was that the four hundred and eighty-five (485) that you see on line 22 is likely overstated by at least a hundred thousand dollars ($100,000) and that's something that the Board's going to have to -- to deal with in its deliberations.

And I apologize for being long-winded. I know I started off this Hearing by saying that I was -- we were planning a very focussed intervention on just a few issues, but things happen.

So I appreciate your time and thank you. Those are my comments.

THE CHAIRPERSON: Well, you had a lot of areas to cover, Mr. Saxberg. You don't want to say anything about the pension expense and allocation?

MR. KRIS SAXBERG: Well, I -- I do have something to say about it, but it's not -- it's not that important because, ultimately, when I look back --

Well, I would say this: First of all, in terms of -- there's a -- there's a major difference between Centra's funding obligations pursuant to the Pension Benefit Act with respect to the three (3) curtailed Centra pension plans and the accounting treatment of those funding obligations.

And the point that I wanted to make was

that under the PBSA there's a requirement for solvency funding. Solvency funding is based on a particular assumption, and the -- the assumption is that bankruptcy --

THE CHAIRPERSON: Liquidation.

MR. KRIS SAXBERG: Yeah, but when you -- when you're doing an accounting, a going concern valuation, when you're doing a -- a valuation on the going concern, you assume that the business is going to continue. And those are actuarial reports, actuarial reports to solvency and going concern calculations.

Then there's the accounting treatment which is different still. And the accounting treatment uses management's best expectations, and there's a lot of room there for manoeuvring and different assumptions. And so it's a -- it's a very, very complicated area and I just thought it might have been -- there wasn't enough time spent on it. It might have been a bit over-simplified in terms of -- of how it is that the actual pension expense is finding its way into Centra's costs. And I really didn't -- I -- I feel it's an issue for another hearing.

THE CHAIRPERSON: Thank you very much, Mr. Saxberg.

That brings to a conclusion today's

activities, right, Mr. Peters?

MR. BOB PETERS: Yes, Mr. Chairman, that'll complete the submissions from the participating Intervenors, to my knowledge, so --

THE CHAIRPERSON: So next we'll hear from Centra, on -- so 1:15 on Friday?

MR. BOB PETERS: That is the time that we've set, sir.

THE CHAIRPERSON: Okay, we stand adjourned. Thank you.

--- Upon adjourning at 1:07 p.m.

Certified correct,

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Cheryl Lavigne, Ms.