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

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Pages 1567 to 1675

APPEARANCES

Bob Peters		)Board Counsel
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Rick Forster	(np)	)Direct Energy
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--- Upon commencing at 1:20 p.m.

THE CHAIRPERSON: Okay, good afternoon everyone. The only part of the public process left is Centra's closing remarks.

Ms. Murphy...?

FINAL SUBMISSIONS BY CENTRA GAS:

MS. MARLA MURPHY: Thank you. Good afternoon, Mr. Chairman, Board members, Board advisors, Intervenors, ladies and gentlemen.

I have circulated, for parties who are interested, Centra's book of documents, which I hope will be of assistance as we go through the argument to show you some of the references that we're looking at.

I want to begin by way of summarizing the Application. As you know, Centra filed it's 2009/'10 and '10/'11 General Rate Application on January 20th of 2009. That Application was subsequently updated by Centra Exhibit 3A and 3C, which were filed on May 29th and June 1st, 2009, respectively, and by Centra Exhibit 12 which was filed on June the 9th.

Based on this updated information, Centra is seeking the following approvals arising out of this Application.

First, approval of approximately 1 percent increase, effective February 1st, 2010, sufficient to generate additional revenue of $1.685 million in the 2009/'10 test year. This is projected to result in a net income of $2.869 million in that 2009/'10 test year.

Number 2. We're seeking further appro -- approval of a further increase of approximately 1 percent, effective May 1st, 2010, sufficient to generate additional revenue of $5.712 million in the 2010/'11 test year and projected net income of $2.814 million in that year.

3. Final approval of April 1st, 2007 to March 31st, 2008 gas costs of $400.6 million and final approval of April 1st, 2008 to October 31st, 2008 gas costs of $123.7 million.

Fourth, we're seeking final approval of balances and dispositions of non-primary gas PGVA, Purchase Gas Variance Accounts, and gas-cost deferral accounts as at October 31st, 2008, with carrying costs to July 31st of 2009, which reflect the recover of $9.4 million.

Number 5. We're seeking approval of a decrease in non-primary gas costs of approximately $6.2 million for the 2009/'10 test year -- excuse me, fiscal year. We're seeking, also, final approval of a number of interim Orders: 101/'07, 140/'07, 06 of '08, 50 of '08, 115 of '08, 147 of '08, 7 of '09, and 49/'09, related to the approval of interim primary gas sales rates, effective August 1st, 2007; November 1st, 2007; February 1st, 2008; May 1st, 2008; August 1st, 2008; November 1st, 2008; February 1st, 2009; and May 1st of 2009, respectively.

Centra's also seeking final approval of Interim Orders 174/'07, 175/'07, 176/'07, and 52 of '08, related to the approval of renewed franchise agreements for the City of Brandon and the Village of St. Claude, a renewed franchise -- a renewed crossing agreement with the Rural Municipal of Grey, and a renewed franchise agreement with the Rural Municipality of Russell.

Number 8. Centra is seeking approval of fixed-rate primary gas program cost rate of two point seven five (2.75) cents per cubic metre for the 2009/'10 year, and two point seven three (2.73) cents per cubic metre for the 2010/'11 year.

We're seeking approval of changes to the general terms and conditions of service and final approval of Interim Order 102/'08, relating to the service disconnection and reconnection policy and procedures; and finally, approval of updated activity rates for chargeable services, effective August 1st, 2009.

And I want to begin today by addressing the non-gas costs. With respect to the non-gas revenue requirement, Centra in this Application is seeking approval of a non-gas revenue requirement of $145.2 million for the 2009/'10 test year, and $155.4 million for the 2010/'11 year. The non-gas revenue requirement that was approved by the Board in 2008/'09 was $143 million. We have provided, at Tab 1 of the book of documents, Schedule 4.0.0, which in the peach colour indicates the approvals being sought.

Centra notes that at the time of filing of its application in January of 2009, it was anticipated that we would be seeking a 1 percent rate increase, effective May 1st, 2009, to be implemented in August. Instead, as a result of better than anticipated financial results for the 2008/'09 fiscal year, Centra has modified its request to seek implementation of the rate change on February 1st, 2010, some nine (9) months later.

As Mr. Warden testified in his direct evidence on the revenue requirement panel, at page 143, the mandate of Centra Gas is to acquire, manage, and distribute supplies of natural gas to meet the requirements of Manitoba in a safe, cost-effective, reliable, and environmentally appropriate manner. In fulfilling this mandate, Centra considers the financial and other risks of the Utility and strives to maintain a capital structure or level of retained earnings that is sufficient to meet those risks.

Centra views the requested rate increases of 1 percent in each of the test years and the delayed implementation of the rate increase for the 2009/'10 test year to be relatively modest in the circumstances. As Mr. Warden testified, at pages 143 and 144, this Application represents the appropriate balance between financial integrity for the Utility and customer sensitivity.

In terms of the non-gas cost increases, Centra has always expressed its rate changes in terms of a percentage change to a customer's total bill. In our view, this is the most understandable means of expressing those changes for customers.

Mr. Saxberg has indicated that the non-cost of gas rate increases that Centra is seeking in this Application are 5 percent in the first year and 4 percent in the second test year, which translates to a 9 percent increase overall in 2010. He has referenced the initial Application for the calculation but uses the updated Application for the purposes of representing that full increase to come in 2010.

I think some correction and some context is necessary. Firstly, the updated Application shows changes to the non-gas -- non-cost of gas revenue requirement. Based on the updated Application the corrected increases are 2.3 percent in the first year and 7 percent for the second test year, which you'll find on the canary -- Schedule 4.0.0, which is the second page in at Tab 1. Those percentages are provided for clarity.

Now, secondly, the second test year includes a provision for accounting and other charges -- sorry, other changes, totalling $5 million. This provision was put in place to maintain the 1 percent rate increase, thereby limiting potential future rate increases, primarily as a result of the implementation of IFRS, which will be retroactively applied to the second test year. By its nature, this provision is with respect to a probable accounting change and not directly controllable by Centra.

Further, as is evidenced throughout the application and the proceeding and acknowledged by both Mr. Saxberg and Board counsel in their closing submissions, the amortization of DSM costs is the main contributor to the revenue requirement increases.

Further, in addition to the changes in amortization, Centra has increased its spending, with respect to the DSM Programs. If DSM amortization expense were held constant at the 2008/'09 forecast level for each of the test years, amortization expense would be reduced by $2.7 million and $5.5 million, respectively.

So, after removing the provisions for accounting changes and the DSM amortization cost implications, Centra's non-cost-of-gas revenue requirement increases show a .4 and a 1.6 percent, respectively, for each of the two (2) years or a total of 2 percent, over those two (2) years period. That's a far different and much more realistic representation than what's been provided by Mr. Saxberg.

Centra does not agree that this is the most effective means to communicate changes to customers. The fact remains that customers will consider the percentage change as a percentage of their total bill, leading to unnecessary confusion. However, even if one were to accept that the rate change should be expressed as a percentage of non-cost-of-gas revenue, the numbers used by Mr. Saxberg are incorrect, they're misleading, and they're appropriate -- inappropriate to introduce as part of a final submission.

With respect to the Operating and Maintenance expense, it's been forecasted to increase 2 percent over the two (2) test years. There has been no change to this forecast from the amounts previously forecasted in Centra's Integrated Financial Forecast, CGMO-6, that was presented at the last General Rate Application.

As was noted in the evidence, at page 465, Centra is experiencing cost pressures in many areas, including those of wage settlements, aging infrastructure, and contractor, commodity, and general cost increases that have been significantly higher than Manitoba CPI. Centra has been able to manage these costs within its operating targets through cost control and through actively pursuing synergy opportunities and productivity enhancements.

It must be noted, however, that there are costs on the horizon which may not be fully covered by Centra's forecast. These include escalating costs of maintaining aging infrastructure and externalities, such as pension costs, which recently have been negatively impact -- impacted by the economic environment. And as we're all aware, the potential impacts of IFRS are a significant unknown at this time.

Turning to Tab 2, we have there the response to PUB/CENTRA-23A, which demonstrates Centra's cost per customer from 2003 actual to the end of the forecast period. And you'll find that three (3) pages in the schedule to PUB-23A. This shows an average increase in the order of 1 percent through the period. This is approximately half the increase to actual in the forecast of Manitoba CPI over the same period.

Now, CAC/MSOS has suggested that because of the lower CPI that the very current forecasts are showing and because of the strong performance between 2003/'04 and 2007/'08, Centra should be able to continue with lower operating costs than have been forecast in the Application. This suggestion ignores the underlying context of the period referenced where synergy oppor -- opportunities, such as combining meter reading and customer accounting functions were being realized, and that 2007/'08 showed an artificially low result due primarily to staff vacancies being experienced.

When the vacancies are fills -- filled, cost increases, not only in the amount of the salaries for the replacement staff, but also with respect to the intense training requirements that are necessary in the operational areas of the Utility. Further, as Mr. Derksen noted on page 982 of the transcript, the Manitoba CPI Indices represents a basket of consumers' goods, and they're not representative of Centra's cost-drivers over the short term.

Centra's costs are largely based on wage settlements and input commodities, such as fuel, contractor costs, and materials. As Mr. Derksen has noted, we have experienced increases well above 2 per -- percent for items such as gasoline, odorant, and the like. You'll find that discussion at page 983 of the transcript.

Depreciation and amortization expense represents the annual allocation of the capital costs of assets in service and the annual amortization of deferred costs. Depreciation and amortization costs show an increase from $23 million in the 2008/'09 approved amount, to $32 million in the 2010/'11 test year. This increase is primar -- primarily related to the demand side management amortization, but is also impacted by other capital expenditures over the period.

DSM expenditures have increased from $7.8 million in 2006/'07 to a forecasted amount of $13.3 million in 2010/'11, as is shown on Schedule 4.10.0 and 4.10.4 in Volume I of Centra's Application. When the DSM Programs were first initiated, Centra proposed a fifteen (15) year amortization to be consistent with the approach used by Manitoba Hydro for electric DSM.

At the last General Rate Application, the PUB expressed concern over the length of this amortization period and suggested that Centra consider a shorter timeframe, consistent with the practices followed by other Canadian utilities.

Centra considered the PUB comments, the fact that the future benefit to the Utility was not present on the gas side of the business and the practises of other utilities, and determined that it would appropriate to reduce the amortization period for gas DSM expenditures to five (5) years, effective fiscal year 2007/'08. Centra considers this to be a conservative, prudent decision and one which accurately reflects the nature of the assets being financed.

I note in the evidence at pages 5, 13, and 14 of the transcript, in which Mr. Warden indicated that the appropriate amortization period, from the Utility's perspective, depends on wether or not there could be a justification for a deferral period. Mr. Warden stated, and I quote:

> "In the case of the Gas Utility, there really is no future benefit from those expenditures in terms of net income. Not to say that there isn't a future benefit to customers, there certainly is, but as far as the Utility is concerned, the future benefit just isn't there, unlike on the electric

side of the business where we can sell energy on the export market and there is evidence of a future benefit, a benefit stream." Closed quote.

Similar logic exists for the ten (10) year amortization periods in place for BC Hydro and Hydro Quebec, as were referenced by Mr. Saxberg in his final submission. However, the suggestion by Mr. Saxberg that the amortization of gas DSM be reverted to fifteen (15) years would mean that Centra would be far out of step with other natural gas utilities like Gas Metro, Enbridge, Union, ATCO, and SaskEnergy, which are expensing DSM expenditures in the year in which they're incurred.

I note that the response to PUB/CENTRA-20 -- 45B is in the material and was -- provides the details of the information in which Centra was able to obtain in that regard.

Mr. Oppenheim suggested amortization of DSM expenditures should be ten (10) years for new programs and fifteen (15) years for existing programs, although I don't believe there's a rationale offered for differentiating between the two (2) programs, other than perhaps to keep the rates within the applied-for parameters.

Now the combination of the increasing expenditure level and the shift to the shorter amortization period has resulted in an increased amortization expense of $8 million from the 2008/'09 approved to the 2010/'11 test year. This increase to amortization expense alone is more than Centra's requesting with the applied-for 1 percent increase in each of the test years.

Centra indicated in the response to CAC/MSOS/CENTRA-88F that gas DSM programs benefit customers directly and have only minor impacts to Centra's revenues and expenses. As such, no connection can be made between the asset lives and the value to Centra to determine the amortization period. Therefore, the impacts that amortization periods have on rates charged to customers is a primary consideration when we determine the amortization period.

Another important consideration is that of future accounting requirements. As we know, International Financial Reporting Standards promote more conservative accounting treatments with respect to capitalization and deferrals. The shorter write-off period of these costs, which has been adopted by Centra, is directionally in line with that philosophy.

Given that the current Application

requests only a 1 percent rate increase in each of the test years, and that the requested implementation for the first test year has been requested to be delayed until February of 2010, Centra is of the view that the change in depreciation and amortization is appropriate in the circumstances and can be implemented with minimal impact to ratepayers. To return to the mortgage analogy that's been used in other portions of this Hearing, this is the equivalent of increasing your mortgage payment by 1 percent and paying your mortgage over five (5) years instead of over fifteen (15).

While Mr. Saxberg referenced Centra's response to Undertaking number 22, and suggested that it meant Mr. Sax -- Mr. -- that Centra agreed with Mr. Oppenheim's recommendations being doable by changing the amortization, in fact Centra's undertaking simply was to confirm that the calculations are correct, given the assumptions which Mr. Oppenheim put forth. This doesn't address the long-term costs associated with increasing the amortization period.

And I'd refer you to the response to CAC/MSOS/CENTRA-121C, which you'll find at Tab 3 of the book of documents. And it demonstrates, when you look three (3) pages in, you'll see the amortization over five (5) years and then two (2) more pages after that you'll see the amortization at fifteen (15) years. And that shows you that increasing the amortization from five (5) years to fifteen (15) years results in an unamortized balance of $71 million in 2018/'19, which must be paid by future ratepayers.

In connection with the update of May 29th, 2009, Centra also updated its Application to reflect additional revisions. In particular, Centra updated its forecast of interest rates, as reflected in its finance expense, removed the planned expenditures for automated meter reading from the test years, included in the updated Application a contribution from the power station customer for the Brandon pipeline upgrade, and made provision for accounting and other charges in the 2010/'11 test year.

With respect to the finance expense and the forecast of interest rates, Centra submits that the evidence in this proceeding supports Centra's views in four (4) ways.

First, Centra's forecasting methodology in conjunction with the updated GRA Application, in response to the unprecedented circumstances in the financial markets in recent months, is a sound and reasonable basis for consideration of finance expense within Centra's revenue requirement.

Secondly, that the actual and consistently applied interest rate charged to Centra for its short-term debt is a reasonable representation of Manitoba Hydro's costs to finance those requirements.

Third, the financing recommendations by Mr. McCormick would violate Manitoba Hydro corporate police and expose Centra's ratepayers to unacceptable interest rate risk and refinancing risk.

And fourthly, that an interest rate deferral account is not required.

And I'm going to deal with each of those topics in turn.

First, with respect to interest rate forecast, the Corporation prepares its forecast of interest rates based on information from a wide variety of forecasters independent from Manitoba Hydro. Some of the forecasting organizations have propriety econometric models that determine economic variables including interest rates, while a small number of others consider consensus views.

Using the consensus approach for determining economic variables is consistent with the process used by governments, such as the Province of Manitoba and the Government of Canada, in determining their projections of economic variables and in preparing their respective budget documents.

While there's no such thing as a perfect forecast, Manitoba Hydro considers a wide range of views. This stands in contrast to the forecast which was offered by Mr. McCormick for short-term interest rates, derived from the forecast of only one (1) source, the Bank of Montreal, and then arbitrarily taking a view of what he thought that organization might predict beyond their own published forecast. You'll find a summary of that methodology at page 1,495 of Mr. Saxberg's argument.

This was also inconsistent with Mr. McCormick's own approach to long -- forecasting long-term rates, based on the forecasts of several financial institutions, many of whom provided end-of-period rates.

The typical economic outlook forecasting process involves deriving interest rates forecast in March with the Executive Committee approval in May. As noted in the response to Centra at CAC/MSOS/CENTRA-76F, the forecasted all-in borrowing rates are retested in June for inclusion in the IFF. These rates were utilized in the January 2009 General Rate Application.

Given the current unusual state of the financial markets Centra updated the Application in May of 2009 with a refreshed Executive Committee approved interest rate forecast.

As noted in the response to PUB/CENTRA-198B and CAC/MSOS/CENTRA-160 and 162, the refreshed forecast only considered information dated March 2009 for calendar years 2009/'10 with all forecasters being considered in the survey for 2011.

The forecasting methodology to determine Manitoba Hydro's borrowing rate consists of obtaining calendar year forecasts, adjusting them to a fiscal year basis, adding a spread, and then applying the 1 percent provincial debt guarantee fee. For short-term interest rates, as noted in CAC/MSOS/CENTRA-75E a three (3) months' banker's acceptance, or BA rate, is forecast because the majority of Manitoba Hydro's Canadian floating rate debt is based on the three (3) month Bloomberg BA index.

The T-bill rate has been used for the forecasting process as the majority of forecasters that Centra relies upon for short-term forecasts provide a ninety (90) day T-bill rate and non the three (3) month BA rate. A spread is subsequently added to the T-bill rate to arrive at the forecast three (3) month Bloomberg banker's acceptance rate.

For long-term interest rates as stated on page 21 of Centra's rebuttal evidence, given that Centra's long-term debt is not limited to a ten (10) year debt but may include thirty (30) year debt, it's appropriate for the long-term forecast to be greater than ten (10) years, so that the forecast is more reflective of the expected cost of debt. Consequently, a ten (10) year plus forecast is developed which includes forecasts from ten (10) years, thirty (30) years, and ten (10) years plus from the various forecasters.

Indeed, this ten (10) year plus perspective is highly relevant, given that Centra's weighted average term to maturity of its long-term debt at March 31st, 2008, was greater than ten (10) years. in fact, it was eleven point one (11.1) years as you'll find in the response to Centra --CAC/MSOS/CENTRA-5G.

Mr. McCormick's suggestion on pages 1,170 and 1,171 is that Centra have multiple long-term forecasts to precisely match the various maturity terms, for example five (5) or ten (10) or twenty (20) years and the quarters in which long-term financing will occur, is highly impractical. As was noted in the response to CAC/MSOS-5B it is not feasible to precisely determine the exact timing and terms of future debt issues, as this will depend upon cash requirements, the term dependent on the current maturity schedule, mitigation of refinancing risk, market appetite, and interest rate expectations.

With respect to the credit spread, this

reflects the difference in costs for Manitoba Hydro to borrow at various terms. For the short-term interest rate, the spread is the differential between the ninety (90) day T-Bill rate and the anticipated three (3) month BA rate.

For the long-term interest rate, as is stated in the response to PUB/CENTRA-198B, the credit spread reflects the difference in risk between the Government of Canada Bond rate and the Province of Manitoba bond -- sorry, Province of Manitoba bond rate for the ten (1) year plus term.

For the May 2009 update, the historical spread was considered as part of the interest rate forecast. And as was set out in Appendix A to the Economic Outlook 2009, the average spread for the three (3) years ended March 31st, 2007 through 2009, was calculated to be sixty (60) basis points.

The spread incorporated into the forecasted long-term Canadian debt rate of 1.6 percent for 2009/'10, was calculated by taking an average of the ten (10) year and the thirty (30) year credit spread and curve supplied by one (1) of the financial institution fore -- forecasters on March 31st, 2009.

The spread for 2010/'11 was calculated by taking an average of the 2009/'10 spread of 1.6 percent and the 2011/'12 spread of sixty (60) basis points using the aforementioned historical average.

As stated in the response to PUB/CENTRA-198, it's important to note that while credit spreads have recently tightened, the benchmark rates have increased such that the all-in cost to Manitoba Hydro has remained relatively constant.

I'm going to address Mr. McCormick's position on that issue in a moment.

With respect to the process, Centra acknowledges that processes can always be enhanced and it will, in the future, forecast -- will, in future forecasts adjust the end-of-period and average period forecasts, as appropriate, to ensure period comparability. Mr. McCormick was very critical of this particular fact, and Mr. Saxberg spent a significant amount of time in final argument suggesting that if the forecast had been adjusted for end-of period and average period forecasts that there would have been a significant reduction in Centra's forecast using its owns forecast. You'll find that at page 1,488 of the transcript.

Mr. Chairman, that's pure conjecture. Mr. McCormick hasn't offered any analysis to support that contention and it flies in the face of Centra's evidence that the potential impact of such an adjustment will not have a material impact on the accuracy of the Corporation's interest rate forecasts.

Mr. McCormick's evidence, both in writing and during the Hearing, fails to acknowledge that the most material fact affecting the forecast in the current Application is not the process by which Centra gathered the information from a pool of industry resources, but, rather, the simple fact that the unprecedented circumstances in the financial markets in recent months have significantly affected all economic forecasts.

In Centra's revised Application, the forecast of interest rate for calendar years 2009 and '10 was based on current information available at the time of preparation, while the forecasts for 2011 incorporated other forecasts that were dated slightly earlier.

Mr. McCormick, at page 1,145 and 1,146, suggests the 2011 forecast contains what he describes as "ancient forecasts." Centra has noted in the response to CAC/MSOS-162 that is -- it is expected that in the 2011 period and beyond, organizations forecasts of economic and financial variables are based on longer-term supply and demand fundamentals, rather than on the short-term market fluctuations.

It's also important to note, as indicated in that same response, the forecast from BMO, Nesbitt

Burns, CIBC, National Bank, Royal Bank, Scotia Bank and TD Bank did not provide for projections beyond 2010.

As Centra plans for periods beyond the scope of the test years, the inclusion of additional forecasts in 2011 from the Federal Government and the BC Government as well as other long-term forecasters offers additional useful information for the 2010/'11 test year.

Mr. McCormick acknowledged in his evidence that the BMO forecast, which he used for short-term rates, did not provide a forecast for 2011. Centra suggests that its approach of utilizing respected medium and longer-term forecasters is superior to Mr. McCormick's personal guess at what BMO would have forecast based on a projection of an historical trend line, as is noted on page 1,078 of the transcript.

CAC/MSOS has suggested that the inclusion of the Federal Government and the BC Government forecasts are a terrible inclusion in the methodology because they're outdated. However, I would refer you to CAC/MSOS/CENTRA-160, which you'll find at Tab 4 of the material, which notes that the view reflected in the November budget for 2011 through '13 was 4.2 percent, compared to 4.0 percent for the 2011 to '14 period in the January budget update. This is a very minor revision: Twenty (20) basis points.

Further, the outlook for the long bond rate over the 2011 to '13 period in the November budget was 5 percent and it remained unchanged over the 2011 to '14 period for the January 2009 budget. What this does reflect is that although predictions in the early years of the forecast had changed more significantly, the outlook for the medium term was still very similar a couple of months later.

This is hardly the basis on which to include (sic) the -- the inclusion of those forecasts into the information was terrible.

As for the notion that the federal finance and the BC Government forecasts should be excluded do to a lack of statistical independence, Mr. McCormick has provided no evidence to quantify the impact of this inclusion. It is Centra's view that any overweighting of a bank's forecast that may occur, if at all, particularly since their forecasts were excluded in 2010 -- '09 and '10 through the inclusion of the Federal Finance and the Province of BC forecasts is immaterial.

At the end of the day, what needs to be determined for forecasting purposes is the all-in cost of borrowing expected to be incurred during the test years. Centra submits that the rates contained in the updated Application, being short-term rates of .9 percent and 2.0

percent, and long-term rates of 4.75 and 4.9 percent, are reasonable and appropriate. These rates can be contrasted to the rates ultimately recommended by Mr. McCormick.

Centra submits that Mr. McCormick's recommendation fails to consider appropriately the all-in cost of financing as he fails to consider the base rates and the credit spreads at a consistent point in time. In his response to PUB/CENTRA -- PUB/CAC-23B at Tab 2 of the book of documents, that's the CAC book of documents, Mr. McCormick recommends that the Board adopt a 3.6 percent rate for the ten (10) year debt for 2009/'10. His three point six (3.6) long-term debt interest rate recommendation, which was subsequently adjusted upward to three point seven (3.7) in his oral testimony and revised, I believe, by CAC in closing submissions to 3.48 percent, is made up of a base rate Government of Canada ten (10) year forecast of 3 percent and a spread, 6 percent -- .6 percent.

This recommendation is highly dubious, in that it is not even remotely reflective of any existing rates that may be currently available for the term ten (10) years and beyond.

By way of example I would like to reference the Bloomberg yield table for June 1st, 2009, which is provided in the response to PUB/CENTRA-198 and which you'll find at Tab 5 of our book of documents. The Government of Canada yield rate on June 1st, 2009, was 3.58 percent with a spread of 1.03 percent in order to arrive at a Province of Manitoba yield rate which is 4.61 percent.

On the same table, the thirty (30) year Province of Manitoba yield rate is 5.09 percent and the ten (10) year plus average of the ten (10) and thirty (30) -- thirty (30) year yield rate is 4.85 percent. And I note, Mr. Chairman, that this is closely aligned with Centra's long-term forecast rate of 4.75 percent for 2009/'10.

Manitoba Hydro's all-in forecasting accuracy stands in sharp constract to -- contrast to Mr. McCormick's recommendation to the Board that the GRA incorporate a long-term forecast of 3.6 percent, even though the June 2009 forecast would be inaccurate by over a hundred basis points.

From an historical perspective, Mr. McCormick's forecast also appears unrealistic. The two (2) line graph that CAC refer to at Tab 23 has also been reproduced at Tab 5 and it's in the second page of that tab. This graph shows that the Province of Manitoba twenty (20) year yields, identified in blue as C302-20, never comes close to the three point six (3.6) or the three point seven (3.7) or the three point four eight (3.48) forecast for Centra's long-term borrowing rate.

In cross-examination Mr. McCormick, on page 1,091, attempted to -- to deflect away from this reality by stating that he would clearly not advocate the Board be using 3.6 or 3.7 percent today, but rather that that recommendation was for the first quarter of 2010.

As is discussed at pages 1,093 and 94 of the transcript, based on the latest forecasts, dated May 29th through June 10th, from the six (6) financial institutions referenced in the response to PUB/CAC/MSOS-23B, the average benchmark -- benchmark rate of the forecasters would be 3.49 percent. With the addition of the credit spread on the June -- on June 1st of 1.03 percent, which we found in appendix to PUB-198, the cost of long-term debt would be 4.52 percent, which is again very similar to Centra's four point seven five (4.75) ten (10) year plus forecast and still widely divergent from Mr. McCormick's ten (10) year forecast.

As I noted, Mr. McCormick fails to consider the interrelationship between benchmark rates and credit spreads. On page 1,111 of his oral testimony of the transcript he states:

"If I'm trying to determine whether

spreads are going up and down, I need
to only look at the spreads. I don't
care about base rates."

In reference to Centra's forecast credit spread for long-term debt in 2009/'10, Mr. McCormick superficially dismisses this credit spread on pages 1,065 and 66 of the transcript by indicating this spread of a hundred and sixty (160) basis points reflects a spike. While the evidence would suggest that the hundred and sixty (160) basis point spread was, indeed, a highwater mark at that point in time, what Mr. McCormick neglected to consider was the general trend that in subsequent periods, as the credit spread went down, the benchmark rates went up, such that the all-in ten (10) year plus borrowing rates were largely unchanged. This omission is a significant oversight by Mr. McCormick.

And surprisingly, in spite of the very latest forecast, using his own methodology, when Mr. McCormick was subsequently asked by the Board counsel to provide his forecast of long-term debt, he, on page 1,141, indicated he still preferred his own rates.

Mr. McCormick expended significant time espousing the need for a robust, precised forecasting approach. Yet, on the important discussion of credit spreads, at page 1,066 of the transcript, he demonstrated the rudimentary manner in which he arrived at his credit spread forecast when he stated:

> "It seems to have fallen, say, fifty (50) basis -- basis points in the three (3) months. So, if we assume just for a moment that we're going to continue that slope, in another three (3) months we'd be down to sixtyish (60) basis points, a hundred and ten (110) minus fifty (50) is sixty (60)." Close quote.

He later goes on to suggest that a seventy (70) basis point spread could be used, which he reaffirmed when he was asked for clarification by Board counsel at page 1,143.

Mr. McCormick suggested it would be good practice to review the estimates of forecasters so as to be assured that the selection of forecasters would be -- would best approximate the result. He further suggested it would be worth knowing whether one (1) forecast was perennially high or low, such that a variance could be avoided by excluding that forecast. You'll find that in his written evidence at page 15, lines 4 through 8.

This evidence also implies that the same forecaster should be used in each forecast unless there's some reason to vary the contributors.

As was noted by Mr. Warden in his evidence, on page 848 of the transcript, finance expense is normally a very stable and predictable part of the forecast. Centra does not view the variation typically experienced in interest rates and total finance expense as sufficient to warrant the creation of a new process for hindsight review of interest rate forecasts or updating the GRA filings.

Centra submits that the recent economic events have amply demonstrated that forecasters who previously may have achieved accuracy in forecasting interest rates are not guaranteed to provide future forecasts with the same degree of accuracy.

Given the planning cycle of the Corporation and the timing of the rate applications, including Centra's hearings in early June in order to implement general rate increases in August, Centra does not believe that materiality or cost benefit considerations support the introduction of a regular updating process beyond the summer review of key economic variables that already occurs.

The suggestion that Centra devote significant resources to increase the accuracy of what's traditionally been a very stable and reliable part of the revenue requirement with a small margin of error, does not appear to be in the interest of ratepayers. This is particularly apparent when you consider that any variation between forecast and actual finance cost flows to retained earnings to be adjusted in future rate applications.

While Mr. Saxberg suggests that this delayed adjustment may not be acceptable, I submit that when one considers the potential rate impacts associated with the variation in interest expense, this is not likely to have a noticeable, if any, impact on a customer's bill, and the potential intergenerational inequities are negligible.

In summary, Mr. McCormick's methodological observations represent minor enhancements to Centra's existing process. His recommended forecasts are flawed and do not offer better information than what's contained in Centra's forecast.

Centra's forecasting methodology, in conjunction with its updated General Rate Application, in response to the unprecedented circumstances in the financial markets, is a sound and reasonable basis for the consideration of finance expense within Centra's revenue requirements. There's no need to further adjust the interest rates in the updated Applications or to set up an interest rate deferral structure.

With respect to the allocation of actual short-term debt costs, CAC has taken issue with those actual costs incurred by Centra on account of the advances from Manitoba Hydro. Centra pays interest on the basis of the one (1) month Bankers Acceptance Rate as stated in Centra's Application. And that's more particularly detailed in response to CAC/MSOS/CENTRA-8B.

This rate, the one (1) month BA Rate, in our view, is a fair and reasonable rate for Centra's short-term debt and is also a fair representation of Manitoba Hydro's cost to finance these requirements.

Overall financing requirements of Manitoba Hydro and its subsidiaries are managed by Manitoba Hydro on a consolidated basis. All cash requirements to fund Centra operations and capital programs are advanced from Manitoba Hydro as needed. The inter-company short-term financing agreement using one (1) month Bloomberg acceptance rates has been consistently applied since Manitoba Hydro acquired Centra in 1999.

In response to the Information Request CENTRA/CAC/MSOS-19, Mr. McCormick stated, and I quote:

"If the rate is the one (1) month Bankers Acceptance Rate, Centra would be indifferent as to the amount of

Manitoba Hydro profits under the terms
of the deal." Closed quote.

Further, in response to PUB/CAC/MSOS-22, Mr. McCormick accepts that if, and I quote again:

"The agreement between Centra and
Manitoba Hydro and the policy of the
Board is for the funding at the one (1)
month BA rate, that is what the rate
should be." Closed quote.

In his oral testimony on this topic, at page 1,134, Mr. McCormick seems to contradict that earlier indifference when he states that:

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

Nonetheless, Mr. McCormick, in his written evidence, on page line -- page 19, appears to suggest that it -- it would appear that funding Centra may have recently become an effective revenue generator for Manitoba Hydro. He bases this comment on the schedule provided in response to CAC/MSOS/CENTRA-78, which shows the actual floating rate debt and rates by quarter for each Manitoba Hydro and Centra Gas.

As stated in Centra's rebuttal, it's

important to reassert that Manitoba Hydro has no intention to profit from its financing agreement with Centra. While Manitoba Hydro may periodically be able to secure short-term financing that out-performs the one (1) month BA rate, due to its excellent credit rating, there are many additional factors that need to be considered in providing any meaningful comparison of the short-term borrowing costs.

As discussed in Centra's Response to CAC/MSOS/ CENTRA-78, some of these factors include different terms to matu -- different terms to maturity, different short-term debt balances and the capital financing requirements.

With respect to the different short-term balances Centra has provided evidence that Centra's average quarterly short-term debt balances are greater than Manitoba Hydro's. For example, as evidenced in the schedule to CAC-78, which you'll find at Tab 6 to the book of documents, on the rows identified as 78B, and that's in the attachment, the average short-term debt balance during the past five (5) quarters was $44 million for Hydro and $116 million for Centra, an average differential of $72 million.

This short-term funding differential is advanced from Manitoba Hydro to Centra at the one (1) month Bloomberg banker's acceptance rate, even though the funds would be from Manitoba Hydro's residual long-term debt proceeds, or from its internally generated funds that would otherwise be used for its base capital requirements.

To provide some indicative rates to illustrate the possible range of Manitoba Hydro's costs for this average differential of $72 million, as you'll see in the response to CAC/MSOS-4 -- CENTRA-4, the recently secured $300 million, thirty (30) year fixed financing had a rate, before commissions, of 5.127 percent. And the recently secured $100 million floating rate note had an interest rate margin over the three (3) month Bloomberg BA rate of forty (40) basis points.

In either case Manitoba Hydro's cost to financing on this volume difference would be higher than the one (1) month Bloomberg banker's acceptance rate charged to Centra, which offsets any alleged over-charging and supports Centra's view that the one (1) month BA rate reasonably represents the actual financing costs incurred by Manitoba Hydro.

Now, with respect to the capital financing requirements, as noted in the response to CAC/MSOS/CENTRA-72E, the accumulation of Centra's investing activities that were financed by short-term debt advances for Manitoba Hydro has grown to $87 million dollars, at December 31st, 2008. The long-term debt rates for financing those capital investment activities are certainly in excess of the one (1) month Bloomberg BA rate charged to Centra for its short-term debt. As such there is no support for the suggestion that Centra is being overcharged for its borrowings.

It's worth noting that this is an additional benefit to Centra's ratepayers, as consumers have received the benefit of a lower cost to financing on the accumulated portion of short-term debt that's funding long-term investing activities. Temporary bridge financing, non -- not withstanding the construction of capital assets, is most appropriately matched with capital long-term debt.

The $30 million conversion of short-term debt to long-term debt is Centra's mechanism to rebalance financing costs associated with the sources and uses of cash used for capital expenditure.

In summary, Manitoba Hydro's cost to finance Centra's extra volume of short-term debt and its capital investment activities exceed the one (1) month BA rate and would at least offset the rate differential shown on this schedule to CAC-78. Manitoba Hydro has not profited from its provision of financing to Centra and it's clear that the actual and consistently applied interest-rate charged to Centra for its short-term debt remains a fair and reasonable representation of Manitoba Hydro's cost to finance Centra's operating and bridge financing requirements.

Mr. Saxberg suggested that there was not, in his words, a scintilla of evidence contesting his allocation that Centra had been overcharged. And I submit, Mr. Chairman, that there is indeed much more than a scintilla of evidence available: The Information Requests, including CAC/MSOS-72, Centra's rebuttal evidence, and the oral evidence in the transcripts at page 917 through 933 all served to demonstrate the inaccuracy of that allegation.

CAC/MSOS also recommended in its closing submission that the PUB direct Centra to spread out is 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. You'll find that recommendation at page 1,514 of the transcript.

Firstly, I should note that this recommendation does not appear to be supported by CAC's own expert. At pages 1,162 and 63, Mr. McCormick indicates that he's not able to offer a specific best distribution for debt because the markets are volatile. He goes on, at page 1,169 of the transcripts, to specifically reject Mr. Peters' suggestion that Centra ought to more closely follow the debt distribution used by the Province of Manitoba. And at page 1,170 he says:

> "I don't believe the Board can micro-manage the choices that Centra, Manitoba Hydro, or the Manitoba Treasury make, in terms of how they enter the market or how they choose to share the really cheap money in this particular entity."

He suggests that the Board signal Centra in what would typically be a performance-based style of regulation.

Centra remains of the view that the financing recommendations advanced by Mr. McCormick would violate Manitoba Hydro corporate policy and expose Centra's ratepayers to unacceptable interest rate risk. Mr. McCormick and CAC/MSOS have displayed a willingness to accept exceptional high interest rate risk on floating rate debt and appear to -- to advocate a disregard for the potential refinancing risk associated with shorter-term debt.

As stated in the response to

CAC/MSOS/CENTRA-72, which you'll find two (2) more pages in at Tab 6, Centra maintains its risk management practice to prudently balance the benefit of lower finance costs typically associated with shorter-term debt with the benefit of mitigating interest rate volatility through the issuance of longer-term debt.

Mr. McCormick infers that Centra does not take sufficient advantage of what he called the sale on short-term debt. Again, the evidence clearly shows a different view. As is indicated in Centra's response to CAC/MSOS-1C Centra has in fact increased its level of short-term debt from 30 million at the beginning of 2004/'05 to its present level of over a hundred million dollars.

At December 31st, 2008, Centra's percentage of floating rate debt was over 40 percent and it was 30 percent at March 31st, 2009. Recognizing the benefit of lower finance costs associated with the existing yield curve, Centra has already fully loaded itself with short-term debt. Manitoba Hydro's fixed versus floating rate debt is a measure of risk tolerance to interest rate risk exposure. The greater the percentage of floating rate debt, the more aggressive the financing strategy.

As noted in the schedule of its fixed

versus floating percentages in CAC/MSOS-1C, Centra's currently at the outer 30 percent boundary of its corporate policy and its interest rate risk tolerance. To go beyond this boundary would expose Centra's ratepayers to an inordinate amount of interest rate risk and violate the corporate policy.

Not only does Mr. McCormick propose Centra violate that policy, but he also recommends that Centra further accept interest rate risk by moving its short-term debt from $100 million to over $200 million. This would have the effect of nearly doubling its interest rate exposure, such that a 1 percent change in short-term interest rates would incrementally increase Centra's finance expense by over a million dollars a year.

I refer you to Mr. Warden's evidence in respect of the access to additional short-term debt, as is discussed at page 933 of the transcript. He indicated, and I quote:

> "Once we start going about 200 to 300 million [referring to the consolidated entity], we limit our flexibility in terms of timing and going to the market. We don't want to be in a position where we're forced to go to the market because we're bumping up

against the $500 million limit."

There is an -- closed quote -- there is an implied presumption by the Intervenor that today's extremely low interest rates for short and long-term financing are a stable feature for forecasting purposes through the test years and beyond. However, history has shown that there is significant volatility in short-term interest rates.

As is noted in the response to CAC/MSOS/CENTRA-72E at part 8, there was significant volatility in the one (1) month Bank of Canada Bankers' Acceptance Rates from the period from January 1995 to March of 2009, ranging from a low on April 1st, 2009, of .51 percent to a high of 8.28 percent in March of 1985. Looking back further, the one (1) month Bank of Canada BA rate during August 1981 was 22.35 percent.

Given that short-term interest rates are at historic lows and that there's nowhere to move but up, this higher level of short-term debt places Centra's ratepayers at unacceptable levels of risk as short-term interest rates return to more typical levels.

With respect to the discussions that occurred in the pre-filed evidence and in the oral testimony, regarding refinancing risk, as was noted in the response to PUB/CENTRA-199, it is appropriate corporate financing practice to fund long-term assets with long-term debt.

As Centra's capital asset portfolio has service life exceeding thirty (30) years by utilizing short or medium-term finance, for example, by issuing an initial five (5) year debt instrument for a thirty (30) year debt stream, this puts the back twenty-five (25) years at risk of incurring higher interest rates upon refinancing.

Mr. McCormick continues to suggest that Centra's plans will expose customers to long-term refinancing risk by virtue of the indication in the Application that our forecasts include long-term debt refinancing of $125 million maturing in February and March of 2030.

Mr. McCormick couples this with an indication that there is an additional $30 million of debt maturing in 2029 and suggests that Centra is putting a lot of eggs in one (1) basket. However, Mr. McCormick, in making that assertion, has ignored the evidence of Centra as outlined in CAC/MSOS/CENTRA-5B which stated, and I quote:

> "The forecast assumptions for new financing or refinancing include the issuance of debt with a twenty (20)

year term, so that finance expense is recorded over the term of the forecast at the Manitoba Hydro long-term interest rate. And the actual financing recommendation will consider the dollar value of the interest -- sorry, dollar value of the issue depending on cash requirements, the term dependent on the current maturity schedule, mitigation of refinancing risk, market appetite and interest rate expectations." End quote.

To reaffirm this point, on page 690 Mr. Warden indicated that forecast debt maturities were for forecasting purposes only, and on page 688 stated that, absolutely, it was his expectation that the actual debt maturities will not mature in the forecasted sequence.

When assessing the appropriate balance between short and long-term financing, it's important to recognize the slope of the yield curve, but it's also critical to recognize the long-term debt financing rate in the context of historical norms and market trends. To state that one only needs to consider the steepness of the slope is to ignore the existing historically low long-term interest rates and the potential volatility of future yield curves.

There are significant downside risks associated with not locking in long-term rates if they're at historic lows. An example of an impact of this interest rate volatility to Centra's ratepayers was described in Centra's response to CAC/MSOS/CENTRA-5E, where Centra confirmed that between July, 1980 and November of 1982, average rates for ten (10) year provincial debt were above 13 percent, and then, in September of '81 they reached 18.73 percent.

While it's true that in today's yield curve environment, medium-term debt is less expensive than long-term debt, the offsetting consideration is the refinancing risk.

Mr. McCormick opines that the proposed concentration of a large portion of Centra's long-term debt in the short period of 2030 exposes future customers to significant refinancing risk which would be easily avoided through the division of the amount to be refinanced into two (2) or more staggered maturities. You'll find that at pages 3 of his written evidence.

While Centra supports the general concept of spreading debt maturities in order to avoid a large concentration of refinancing and new borrowings in any particular year, it's important to recognize that, contrary to Mr. McCormick's assertion, refinancing risk is increased by taking shorter-term debt as it will lead to a greater number of points in time in which the debt needs to be refinanced at potentially higher rates.

In response to PUB/CAC-21, Mr. McCormick states that the best way to mitigate against the risk of punitive market conditions arising at some future date is to have staggered maturities so that the issuer would never be forced to refinance the majority of its debt in those punitive markets. This is factually incorrect.

The best way to minimize refinancing risk is to secure long-term financing, such that there is no refinancing. This can be clearly illustrated in a simple example whereby a thirty (30) year asset is financed with thirty (30) year debt, such that at the end of the -- the term there would be -- the debt would be retired and there would be no need of refinancing.

As is pointed out in Centra's response to CAC/MSOS/CENTRA-5F, assuming the debt maturities forecast in 2029 and '30 would be refinanced at 13 percent interest, the incremental int -- interest costs would be $12.055 million per year, subsequent to the refinancing. If those interest rates were to be extended from the point of refinancing, as per the maturity schedule through to 2029 and '30, this 13 percent refinancing rate may result in Centra incurring an additional interest cost of $160 million to 2029/'30. At a refinancing rate of 18.73 percent, the incremental interest cost to 220 -- 2029 and '30 exceeds $289 million. You'll find that at PUB/CENTRA-199.

To put the magnitude of that risk into perspective, the incremental extra interest rate cost of $160 million is more than four (4) times the total level of Centra's retained earnings of $36 million, as of March 31st this year.

To conclude on that topic, Centra has already fully loaded itself with short-term debt. Mr. McCormick's recommendation to accept far greater levels of short-term debt is inappropriate, as it would violate Manitoba Hydro's policy for interest rate risk tolerance and would place undue risk upon Centra's ratepayers. Mr. McCormick also ignores and/or understates the potential refinancing risk associated with his bias towards securing medium-term debt, even though long-term debt is at historic lows.

Consequently, Centra cannot support Mr. McCormick's financing alternatives and submits that the financing assumptions contained in its updated Application are the most reliable information before the Board in this proceeding.

With respect to the interest rate deferral account it's been suggested that an interest rate deferral account would be a simple solution to addressing variances between forecast and actual results. However, Centra submits that such an account may only be relevant for consideration where a private shareholder utility is regulated on a rate-based rate of return methodology.

Centra also notes that Mr. McCormick, in his evidence at page 1,118 of the transcript, acknowledges that such accounts are not common among utilities.

In his closing submission Mr. Saxberg has recommended that the PUB direct Centra to create an interest rate deferral account. He suggested this account would retain the cost difference between the forecasted interest rates and the actual interest rates incurred over the period. He suggests that this is an appropriate method to ensure that Centra does not overcharge customers for this component of the revenue requirement.

Centra is of the view that this is not necessary for a Crown-owned utility. Further, Mr. Warden has testified that traditionally interest rates have been stable and have not contributed to significant variances from forecast.

It's also important to recognize to the -- to the extent that interest rates are higher or lower than forecast the difference along with all other differences flow to retained earings. Retained earings are not dividended (sic) to shareholders or used for any other purpose than for managing the risks and the revenue requirements on behalf of Centra's customers. To the extent that there are higher contributions to retained earnings as a result of this difference there will be lower future rate increase requirements. It all goes to the account of Centra's customers and nowhere else.

I can't sum it up any better, Mr. Chairman, than Mr. Warden did at page 679 of the transcripts. He said, and I quote:

"One (1) of the advantages of regulation on cost-of-service basis is that any variance from forecast, not only finance expense, but in any line item of our operating forecast, any variance flows through to retained earnings, either debit or credit. And whenever we come forward with a rate application, we look at the level of retained earnings and make an assessment as to whether or not -- and

what the magnitude, if any, of the rate
increase should be so the
attractiveness of the cost-of-service
methodology is self-correcting. So in
any kind of variance that occurs at any
time on any item is corrected through
the balance of retained earnings."
Closed quote.

It's also worth noting, Mr. Chairman, that deferral accounts are out of step with the times and will not likely be permitted under IFRS accounting.

Mr. Chairman, I note the time. We're -- we're about partway through our -- our application. If you wanted to take a -- a break this afternoon this might be a convenient point.

THE CHAIRPERSON: Very good. Okay, we'll take a short break now.

--- Upon recessing at 2:15 p.m.
--- Upon resuming at 2:32 p.m.

THE CHAIRPERSON: Okay, welcome back. Thanks for the break.

CONTINUED BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Mr. Chairman, I should have noted at the outset that I'm sharing my duties today with my colleague Mr. Czarnecki so I'll deal with the revenue requirement items and then I'm going to turn the mic over to him to deal with DSM and gas cost matters. So stick with me for a few more minutes and then we'll change speakers at least.

I'm going to turn to the topic of pension accounting. As was referenced in the Application and in the testimony, current and past service pension costs are pooled and are allocated to departments based upon salary costs incurred and incorporated into activity rates. The allocation of pension costs to Centra and Hydro is therefore embedded in the activity rates charged to each utility, which results, currently, in approximately 11 percent of the costs being allocated to Centra.

Pension plan costs are under pressure as a result of economic environment experienced over the last twelve (12) to twenty-four (24) months. Unless the markets show a remarkable recovery in the near future the investment losses incurred will manifest themselves as increases in pension costs. The pension cost increases payable by Centra could increase substantially over the next five (5) to ten (10) years to recognize this.

As is outlined in the -- the under --

response to Undertakings 13 and 16 IFRS may also accelerate the requirements to recognize pension cost increases by approximately $2 million per year. As you know, IFRS, or International Financial Reporting Standards, will be required to be implemented for the fiscal year 2010 -- 2011/'12 with retroactive restatement of income for the 2010/'11 year.

Implementation rules will also require a retrospective adjustment to retained earnings representing the cumulative difference in reported income under Canadian GAAP as it existed and income as it would have been calculated under the current IFRS.

As Mr. Warden and Mr. Derksen have testified, the full implications of IFRS are still uncertain as several key elements, particularly as they relate to rate-regulated enterprises, are still under review by the International Accounting Standards Board.

Centra has outlined potential impacts of IFRS in the Response to CAC/MSOS/CENTRA-153. You'll find that at Tab 7 of our book of documents. The quantified impacts outlined in that response could be as much as $10 million per year. However, given the uncertainties in IFRS, the actual impacts to Centra's income could be much different, either higher or lower.

Manitoba Hydro has committed to providing an update on IFRS and its implications in February of 2010, at which time there will likely be less uncertainty with regards to the rate-regulated accounting in other matters.

Mr. Chairman, I must note that with regard to the pending implications of IFRS, Mr. Saxberg has interpreted that the $5 to $10 million annual impact would also be the cumulative potential impact to retained earnings.

The potential impact to retained earnings includes both a potential restatement of property, plant and equipment, which would be substantial but not quantifiable, and also the full amount of regulatory assets of $61 million, as referenced by Mr. Warden on page 531 of the transcript.

The $5 million amount included in the provision for accounting and other changes represents Centra's minimum estimate of the impact on the 2010/'11 test year when restated in accordance with IFRS. Irrespective of the current views that regulatory accounting may be sustained under IFRS, these standards promote a more conservative approach to accounting, which will likely result in early -- earlier recognition of certain expenses such as pension costs, increased depreciation expense on property, plant and equipment, and a reduced capitalization of administration and general cost. The factors are outlined in the Response to CAC/MSOS/CENTRA-153.

Now Mr. Saxberg suggested in his closing comments that nothing had changed between the filing in January of 2009 and the update of Centra's application on June 1st of 2009. In fact, Centra has testified that its understanding of IFRS has been evolving over time.

Mr. Saxberg put that very question to Mr. Warden at pages 696 and six -- I'm sorry, 969 and 970 of the transcript. And Mr. Warden indicated, and I quote:

> "We've been learning every day about IFRS. That's why we have a project team devoted to this."

And as it rates specifically to the question of accounting provisions, Mr. Warden went on to say:

> "Specifically this information, the quantification that we've been able to achieve here, is something that we didn't have at the time we filed the application."

Mr. Saxberg's closing remarks ignore this evidence and the evidence of Centra contained in the Response to CAC/MSOS/CENTRA-153, which we've provided at

Tab 7.

Now recognizing the potentially significant impact of the implementation of IFRS on Centra's retained earnings in the 2010/'11 test year, Centra has, in the course of updating its application, included a placeholder designated as a provision for accounting and other changes.

The amount of $5 million has been included in the application, recognizing that this is the minimum impact of the implementation of IFRS and the amount needed to preserve the 1 percent rate increase.

Mr. Warden has noted that this amount is, in his view, reasonable and allowed Centra to make provision for the implementation of IFRS at a time when the retroactive impacts with the changing accounting standards are likely to be incurred.

This is considered a prudent course of action and one which is expected to help prevent more substantial rate increases which would otherwise be necessary as a result of the implementation of IFRS and other related cost pressures.

I'd like to briefly discuss the allocation of costs between Centra and Manitoba Hydro. The method of allocating costs has been considered over the course of the past several hearings. This methodology continues to be used to determine the cost charged to Centra on an actual and forecast basis without any substantial changes to the methodology since the last GRA.

Centra continues to be of the view that the methodology is appropriate. We acknowledge that the PUB has directed that the cost-allocation methodology should undergo an objective review. In response to that directive Centra has indicated that, given the significant costs associated with the review, and you'll recall that the cost of the last study in 2001 was a half a million dollars, and given the potential for significant changes to be required as a result of the implementation of IFRS, this study should be deferred until after the new standards have been implemented and detailed cost allocation matters have been fully sorted and endorsed by our -- our auditors.

In the interim, Centra remains confident that its methodology is sound and it continues to produce reasonable and accurate cost allocations such that the costs for each Utility are appropriate, understandable and reflect moderate and reasonable increases in today's circumstances.

During his closing submissions, Mr. Saxberg questioned certain cost allocation practices, and he suggested that the allocation of residuals to gas or electric operations based upon activity charges may not result in a fair allocation because the electric O&A is increasing at a higher rate than that of Centra.

The allocation of residuals has been a fundamental component of the integrated cost allocation methodology since inception. The methodology was extensively reviewed by KPMG and in a public hearing which CAC/MSOS was party to. The methodology was accepted as being reasonable and appropriate.

Mr. Saxberg has misinterpreted this aspect of the cost allocation in that he appears to have assumed that the overall company level of activity charges is used as a driver for residual allocation and that that would result as 11 percent of all residuals being charged to Centra and eighty-nine (89) being charged to electric.

Residuals are allocated at the departmental level, primarily based on the activity charges made by that department, to each of the gas and electric operations. So, if a department is 100 percent electric and has residuals, those are allocated 100 percent to the electric operations. Where a department has 60 percent electric and 40 percent gas split of activity charges, this is the factor that's used to allocate the residuals.

This departmental approach results in

there being a fair and reasonable allocation that is independent of the relative growth of each of the Utilities.

And you'll find Mr. Derksen's discussion of that at pages 974 through 978 of the transcript.

And Mr. Saxberg, in his final argument, suggested that the PUB should push Manitoba Hydro and Centra to undertake a review of the cost allocation methodology. You'll recall that, in PUB Order 99/'07, the PUB ordered that review and, subsequently, Centra was granted an extension of time.

We continue to be of the view that such a review isn't appropriate at this time and that it should be deferred until after the implementation of IFRS. The selection of consultants, the preparation and issuing of an RFP, if necessary, cannot be done until any changes to the methodology required as a result of IFRS are known and implemented. As such, we are not in agreement with Mr. Saxberg's suggestion that we begin that process at this point.

Although it wasn't discussed in any detail during the Hearing, Mr. Saxberg, in his closing submissions, returned to the old mantra that the corporate allocation is a form of return to Manitoba Hydro.

Centra has represented in the past and reiterated in the response to PUB/CENTRA-78 that the corporate allocation is not a return to the parent company. The costs underpinning this allocation are real costs that Manitoba Hydro has paid and must finance. These costs are warranted and result in savings to gas and electric ratepayers that have benefited from the acquisition of Centra through substantial synergy cost reductions and through enhanced service delivery.

As such, the corporate allocation is, in reality, an investment made by Manitoba Hydro to achieve substantial savings on behalf of gas and electric customers. This is no different than other investments such as computer systems, tools or vehicles made by Hydro or Centra in order to achieve cost savings or service enhancement.

The corporate allocation is an allocation of cost and is not a return to Manitoba Hydro. Unlike dividend payments to owners, there is no lining of pockets with the $12 million corporate allocation. The $12 million is being used to purchase a gas company; a gas company that will be owned by the very people it serves.

I would like, at this point, to briefly address the issue of concern to CEPU which was the automated meter reading infrastructure.

As you're aware, the update to Centra's Application removed the expenditures for AMI from the test years, as the business case for the introduction of AMI for gas meters was not completed within the timelines originally anticipated at the time of filing the Application in January of 2009.

Mr. Boyd, in his closing remarks on Wednesday, indicated that CEPU was concerned that it would not have an opportunity to review and test the business case for the electric AMI before the business case for the gas AMI was brought before the PUB.

This concern appears to be derived from his understanding of the evidence that Manitoba Hydro's executive committee will review the electric business case imminently, while the business case for the gas side of the business will not be brought before the PUB until the spring of 2010 at the earliest.

Centra notes that the fundamentals of the business case on the gas and the electric sides of the business are different, and that Centra is prepared to commit that the gas AMI project will not be implemented prior to the next gas GRA.

The business case for Manitoba Hydro Electric AMI, if approved by the hydro executive committee, will be required to demonstrate a sufficient cost-benefit analysis without presuming that the gas implementation will necessarily follow.

I also note, for the record, that Mr. Boyd indicated that there remained an outstanding directive from Order 135/'05 in respect to the AMI Program. Centra has provided its response to that directive to the PUB on June 4th of 2006, and it appears, from my copy of the correspondence, that that was perhaps not circulated to Mr. Boyd and we'll ensure that he does receive that immediately.

With respect to other cost of service items we've reviewed depreciation and amortization, finance expense, pension accounting, operating and maintenance, and Centra's material also included information with respect to other non-gas components of its revenue requirement. These components include capital and other taxes and other income. There appears to be on issues with respect to these amounts and they are for your ease of reference provided in the application at Tab 4 and are summarized on Schedule 4.0.0, a copy of which is found at Tab 1 of our book of documents.

Mr. Chairman, we often joke in this forum about lawyers doing math in public, but Mr. Saxberg's closing submissions on Wednesday with respect to Centra's recent earnings took that to new heights.

Mr. Saxberg represented that Centra Gas had earned the equivalent of $45 million over the past two (2) years. He made this specious calculation by adding the corporate allocation of $12 million a year to the actual net income for each year which was 6 million and 9 million and then added the amount set aside for the Furnace Replacement Program averaging 3 million a year. He then gives this so-called income -- suggested that that so-called income was unprecedented and suggested to you that you should eliminate the rate increases for the test years 2009/'10 and '10/'11.

Simply put, this is a flawed and biassed representation. Firstly, as I've previously discussed, the $12 million corporate allocation is not income to Centra or Manitoba Hydro. It represents Centra's share of the costs incurred by Manitoba Hydro to acquire and integrate Centra gas. These are real costs that are representing primarily interest costs paid to bondholders and amortization of other costs incurred but not yet charged against earnings.

As has been evidenced by Centra and Manitoba Hydro and accepted by the PUB, the costs incurred have been more than offset by the combined synergy and other savings achieved as a result of the acquisition and integration. To represent the corporate allocation as an income component that Centra can retain is a gross misrepresentation.

Secondly, Mr. Saxberg implies that the income levels earned by Centra of 6 million and $9 million represent over earnings and suggest that as a result the applied-for rate increase should be denied. This ignores the fact that these earnings are primarily the result of colder-than-normal weather. Centra's earnings can be significantly impacted by weather which can vary wildly year over year.

Centra's forecasting methodology uses a ten (10) year moving average of degree days to project consumption patterns. By its nature this methodology is self-correcting over time. That is, if Centra earns more in one (1) year due to weather, the weather factor will be incorporated into future load forecast projections.

The response to PUB/CENTRA-13 provides historical weather extremes. As well, Mr. Warden indicated on page 847 of the transcript these years follow on the heels of a number of very lean years for Centra where its earnings were much lower than forecast as a result of warmer-than- normal weather. This also ignores the fact that Centra has amended its application to request a delayed implementation of the rate increases for the 2009/'10 test year permitting customers to see an immediate benefit from the result of the colder-than-normal weather in 2008/'09.

It would be instructive to consider the larger picture when considering Mr. Saxberg's suggestion that Centra has excessive earnings. Mr. Saxberg very selectively chose to focus on the past two (2) years and he's ignored the reality contained in the response to CAC/MSOS-84A which you'll find at Tab 8 of the book of documents.

Two (2) pages in, you'll find that when one looks at the overall earnings of Centra since acquisition Centra has, in fact, survived some very lean years and the level of earnings is appropriate. In fact, Centra incurred a net loss of $2 million in 2002/'03, a net loss of $8 million in '03/'04, a net loss of $2 million in '04/'05, and a net loss of $5 million in '05/'06, four consecutive years of losses totalling $17 million. These losses have only been partially recouped with a net income of $1 million in 2006/'07, $6 million in 2007/'08, and $9 million last year, '08/'09.

This is a far cry from the nothing less than glorious earnings that Mr. Saxberg suggested Centra was enjoying.

Finally, and perhaps most unusually, Mr. Saxberg has included the amount set aside for the Furnace Replacement Program in his calculation of net income. There are no accounting rules anywhere that would consider this liability to be a component of income. Centra's income in the past two (2) years is exactly as was stated: $6 million in 2007/'08, $9 million in 2008/'09 for a total of $15 million. This is also its contribution to retained earnings.

These amounts have undergone audit review and endorsement. The strong earnings in each of these years does positively impact retained earnings and will contribute to lower future rate increases than otherwise would have been the case.

However, as Mr. Warden has testified, the earnings currently retained by Centra, even after these years of positive earnings, are not sufficient to cover its risks in the future.

Mr. Saxberg also argued that, in fact, Centra had no need for net income. He suggested that the PUB could, in his words, "move the goalposts" and offered that the strict application of rate base rate of return methodology on a stand-alone basis was absolutely necessary; that the corporate allocation had been found to be a component of return; and then draws the surprising conclusion that under the formula for ROE developed in 1995, the total return to Centra should now range from ten point five (10.5) to $13.5 million.

I think it's important, first off, Mr. Chairman, to express our disappointment that Mr. Saxberg would raise that suggestion in final argument without there being any evidence on the record to support it and without putting the matter to the witnesses. As such, Centra was not given an opportunity to respond to that allegation through its oral testimony.

In any event, Mr. Saxberg now advocates that the test be modified. There is no basis for that suggestion that it should be amended in the fashion that he suggests.

If the test is to be revisited, and Centra is certainly not advocating that it's necessary at this time, then that test would have to be considered in -- in light of all aspects of the rate of return formula, including its application to Centra in its current integrated circumstances, the continued validity of the ROE formula approach which is being debated in other jurisdictions and the appropriateness of the return on equity, given that Centra no longer maintains a 40 percent equity ratio.

Mr. Saxberg also suggested in his closing submission that the retained earnings currently in Centra are sufficient and that no further income contribution is necessary.

He supports this representation -- he supports this with a representation made by Mr. Warden some time ago that so long as Centra contributes its fair share to the consolidated capital structure then the Corporation as a whole is satisfied.

He cites that as Centra's standalone debt/equity is now about 30 percent, and the overall corporate target for a debt/equity ratio is 25 percent, that Centra has exceeded its obligation to contribute to the consolidated capital structure.

While CAC/MSOS has advocated in the past that it's necessary to regulate Centra on a standalone basis, they've now wholeheartedly embraced the notion of an integrated entity and the appropriateness of considering Centra as part of the consolidated entity.

And while we're pleased to have a point on which we agree, there are some fundamental principles which Mr. Saxberg has misapplied in consideration of these newly recognized realities.

What Mr. Saxberg's argument overlooks is that from a consolidated perspective the equity shown on Centra's standalone financial statement is not sustained on consolidation. This is not an accounting manifestation.

In reality, the consolidated entity has borrowed money to finance the acquisition of Centra and, therefore, the equity that Manitoba Hydro holds in Centra is actually debt from a consolidated perspective.

So the only real contribution that Centra is making to the consolidated debt/equity ratio is that of its retained earnings. In order for Centra to provide a 25 percent contribution, which Mr. Saxberg represented he agreed with, would require retained earnings in the order 125 million, not the current 36 million.

Having discussed all the items in the revenue requirement, one (1) item which is notable by its absence are the costs associated with Manitoba Hydro's new head office building in downtown Winnipeg.

As noted in the evidence, no cost for the new head office have been included in the cost allocation or in the overhead cost contained in this Application.

Ultimately, however, this position cannot be sustained over the long term. Centra and Manitoba Hydro operate as an integrated utility. They share employees, office space and they allocate costs fairly between them. To continue to disregard the fact that a new head office building has been constructed ignores the realities of the current situation.

Centra gas formerly maintained leased office space in downtown Winnipeg, which lease expired in January of 2009, and that would have had to have been renewed at substantially higher rates than the former lease.

These costs as well as the costs of computer networks, furniture and other occupancy costs must be fairly shared between the gas and electric ratepayers.

As Mr. Warden noted, we are ultimately going to have to address how the cost of the new building will be shared as well as the savings that are expected, although, as Mr. Warden has acknowledged, those savings will be difficult to -- to track.

I want to conclude on these items, Mr. Chairman, members of the Board, by offering a perspective from 30,000 feet.

Much of this Hearing was spent dealing with very specific and minute details, and I think it's useful to step back and to view the revenue requirement as a whole.

Centra's updating of its Application was an unusual step and one which we hope won't be necessary in the future. The unprecedented economic circumstances which lead to the dramatic change in interest rates are not a customary feature of our rate cases.

The existing methodology for forecasting interest rates has served us well over many years. The over and under recoveries on this relatively small component of the revenue requirement are not such as to warrant a dramatic departure from the existing practices.

Overall rate increases sought in this application are modest and reasonable. The increased revenue requirement is largely driven by the change in amortization of DSM expenditures.

There is no dispute that investment in DSM programming is important and while Mr. Saxberg suggests that the change in amortization resulted in what he called massive short-term increases, it's useful to consider this from a rate-payer's perspective. We have eliminated ten (10) years of amortization of costs and still kept the applied-for rate increase at 1 percent in each year, and delayed the implementation of the first year rate increase for nine (9) months. This is something that should be commended and not criticized.

As for the suggestion that Centra ought to have no net income, this is patently absurd. Centra's requested net income level of $3 million per year is extremely low compared to private utilities. Some level of net income is necessary in order to enhance the retained earnings and to contribute to the financial strength of the consolidated entity.

Whatever your perspective on the corporate allocation, Centra has adhered to the PUB's findings regarding the appropriate contribution to net income and the requested revenue requirement we submit ought to be approved by the PUB.

I'm going to turn at this point, Mr. Chairman, over to Mr. Czarnecki to deal with the remaining matters. If you have any questions for me, I'd be happy to take them now or to take them at the close of the argument, whichever you prefer.

THE CHAIRPERSON: Ms. Murphy, just one (1) question. It's confused me a little bit; on the curtailed pension plans I think it's clear that we understand that the deficit at March 31st, 2009 was about $24 million, and that's what you're relating this potential change or $2 million potential additional charge related to that, because it would be the amortization presumably over a ten (10) year period.

The question I have was not on the curtailed one but on Manitoba Hydro's participation in the Civil Service Superannuation Board Fund. Now if I understand what I've heard so far, that deficit of Manitoba Hydro in the larger civil service plan is something in the order of 200 million, and that suggests about an extra $20 million for Centra. Am I out to lunch on this?

In other words, is the continuing plan which Manitoba Hydro and Centra participate in, there's a deficit on that as well as the one that's curtailed and the one that we've talked about, the 24 million and the potential 2 million rates, just to the curtailed pension plan.

So my question is: Is the number for the shortfall related to Manitoba Hydro overall with respect to the Civil Service Superannuation Board plan at the end of March 2009, which, by the way, was basically the market bottom, approximately 200 million, is that correct?

MS. MARLA MURPHY: Yes, Mr. Chairman, that's correct.

THE CHAIRPERSON: So some potentially, you could calculate it out, there would be some potential share of that for Centra on top of the curtailed one?

MS. MARLA MURPHY: Yes. I believe Mr. Derksen testified it was approximately 10 percent of that amount.

THE CHAIRPERSON: Thank you.

Mr. Czarnecki...?

MR. BRENT CZARNECKI: And thank you, Mr. Chairman and members of the Board and counsel, ladies and gentlemen. I will speak to DSM matters, some cost allocation matters and some rate matters as well as some gas supply matters.

Prior to doing so, though, I would like to take the brief opportunity to thank Mr. Peters for his congratulations to myself on the first day. And perhaps I'll just take the time to provide my own personal update.

The addition to our family was a -- a girl by the name of Madigan (phonetic). She turned a young fifty (50) days old yesterday, is tipping the scales at approximately 10 pounds. And my observation of Mr. Peters' comment about being relieved of diaper duty was very accurate indeed.

But while I was driving home maybe that day or the day after, it dawned on me that, yes, I may be relieved of my diaper duty but at the same time I'm coming right back into other natural gas matters, if you know what I mean.

So again, I'm -- I'm again pleased this afternoon to be relieved of the diaper duty and to be --

I'm actually honoured to be providing the remainder of Centra Gas's closing submissions today.

I'll first turn to the issues related to Centra's Demand Side Management program and I'll be addressing the recommendations made by Mr. Oppenheim.

Before we address the specific recommendations it is important to consider the Response to PUB/CENTRA-184, which is contained at Tab 9 of our book of documents, which demonstrates that Centra Gas is, relative to other utilities, among the leaders in DSM programming and expenditures both for lower income customers and overall.

As noted in the response to Undertaking 21 provided as Exhibit Centra-26, Centra is dedicating 16.6 million and 15.8 million to its DSM budget in the two (2) test years, which is also included at Tab 9. Low-income funding represents approximately 22.2 percent and 23.6 percent of that budget in each of the respective years.

Although Mr. Saxberg has described the Lower Income Furnace Replacement Program as amazing, which is found at page 1366 of the transcript, Mr. Oppenheim suggests in his evidence that the current Lower Income Furnace Replacement Program should be expanded to target replacement of all standard furnaces within five (5) years. However, CAC/MSOS in final argument clarified that this should be the goal to the extent that customers are willing to have their furnace replaced.

As noted in the evidence, Centra agrees that the Furnace Replacement Program ought to be available for both owner-occupied and tenant-occupied properties where the lower-income tenant pays the heating bill. Centra is working to accomplish this objective without negatively impacting the programming, ensuring that the low-income tenant receives the benefit of the program.

At pages 1230 to 1231 of the transcript, Mr. Kuczek discussed Centra's view of Mr. Oppenheim's suggestion that the Lower Income Furnace Replacement Program be expanded such that all standard efficient furnaces, regardless of whether they are located in a dwelling owned or occupied by a low-income customer, be replaced. Mr. Kuczek noted that Centra does not agree with this recommendation in that ratepayers would be subsidizing the costs of the new furnace regardless of the circumstance of the new homeowner.

It is important to note that Centra expects that federal regulations will be implemented in 2010 which will require that all new furnaces sold must be high-efficiency furnaces and, as such, the potential benefit of offering a furnace replacement program will be minimal.

As Mr. Kuczek noted at pages 1179 to 80 of the transcript, as a result of the new federal guidelines one could conclude that without us intervening any further, over time all the standard-efficiency furnaces would be replaced with high-efficiency furnaces.

As noted in Centra's rebuttal evidence, Centra does not agree with the recommendation of Mr. Oppenheim that established incentive levels for boiler replacement should be increased such that a customer could experience a positive cash flow immediately upon replacing the existing standard-efficiency boiler. This recommendation disregards the program cost effectiveness as measured by the costs of the incremental energy savings achieved through the program.

As noted on page 13 of the rebuttal evidence of Centra, the costs of the energy savings of the Furnace Replacement Program are already quite high given the levelized utility cost estimate of ninety-five (95) cents per cubic metre, while energy savings achieved through other initiatives are fifteen (15) cents or lower.

Increasing the boiler incentive would further increase the cost of the energy savings being achieved through the program. Centra recognizes that the energy being saved through a boiler replacement is approximately the same as the energy being saved through a standard furnace replacement and, therefore, Centra is paying approximately the same value per unit of energy saved through either the replacement of a boiler or a furnace.

Centra continues to endorse a customized, targeted, and program-specific approach to marketing this and other DSM programs. As Mr. Kuczek discussed, working with community groups to locate the individuals most likely to qualify for and benefit from the program is an effective means of communicating the program.

Mr. Kuczek also discussed, at pages 1209 through 1210, the other means of marketing this program which Centra employs including consideration of direct mailing to customers in certain areas and working through community-based groups to reach out to customers through a door-to-door campaign or dropping off brochures.

Centra continues to work with several community groups to help communicate the merits of the program. Prominent within this group are BNRC, which is known as the Brandon Neighbourhood Renewal Corporation, and BUILD, Building Urban Infrastructure for Local Development who are partnering with Centra and the Province to provide retrofits for lower-income

Manitobans.

In addition, Centra is also working with other organizations such as those referred to in the response to PUB/CENTRA-128A to help promote the program through their outreach activities.

Centra's Lower Income Furnace Replacement information brochure is not the only marketing tool used by Centra. Information is also provided in the way of customer presentations and information sessions, but is a very comprehensive document which gives the customers a realistic view of what the Program can provide.

Centra's priority has always been to design and deliver an effective customer-focussed lower-income energy efficiency program accessible to all lower-income Manitobans. As such, Centra has implemented the Program with the initial primary focus -- focus of ensuring the design of the Program is comprehensive and customer-focussed to ensure easy participation.

The Program is evolving and improving, and recently Centra has engaged services of contractors to deliver the Program, which was an important component in achieving this objective.

The emphasis of the Program will now evolve to more aggressive market outreach to ensure the Program is strategically promoted to lower income households across Manitoba.

Centra has used the Advisory Group as well as conversed with other utilities and organizations involved in lower income programs to help determine the best strategy to promote the Program.

It should be noted that although Mr. Saxberg indicated in his closing remarks that customers who qualify for the Furnace Replacement Program can save as much as six hundred and fifty dollars ($650) per year, that Mr. Kuczek testified, at page 1,365, that the six hundred and fifty dollars ($650) is the potential savings for all of the improvements, including furnace, insulation and basic energy efficiency items offered under the Low Income Energy Efficiency Program.

I note that the furnace only savings for a typical home are three hundred and seventy-seven dollars ($377) as noted in the response to PUB/CENTRA-21D.

Mr. Saxberg also suggested that this Program results in savings for non-participants. While the evidence suggests that there are non-energy benefits, in Centra's view, they are not sufficient to offset the costs associated with the Program as a whole.

I will now briefly address cost allocation and rate design matters.

As outlined in its Application, Centra has modified the cost allocation model to incorporate the new fixed-rate primary gas service as a new class within the model in the same manner as primary gas and supplemental gas are incorporated.

In addition, Centra has modified the model to allocate base load volume increment costs to all customers availing themselves of Centra's upstream services. This permits the allocation of the premium associated with the current Nexen contract and the contracting flexibility put in place to accommodate monthly enrollment by customers migrating to broker supply under Western Transportation Service arrangements.

Aside from these minor changes, Centra's approach to functionalising, classifying and allocating costs is consistent with that used in the last General Rate Application before the Public Utilities Board.

Now turning to rates. I suggest, Mr. Chairman, that the most straightforward way to address the rate approvals which Centra is seeking in this Application is chronologically.

At Tab 10 of the book of documents, we have provided Attachment 1 to Tab 10, updated on June 9th, 2009. This attachment indicates the time -- timelines associated with the implementation of the rates and rate riders for 2009/'10 and 2010/'11 years.

Firstly, Centra proposed to implement new base rates on August 1st, 2009 to incorporate the gas costs as contained in this Application for the 2008/'09 gas year forecast. At that time, Centra also proposes to implement rate riders to recover approximately $9.4 million of gas cost deferral balances as of October 31st, 2008, plus carrying costs to July 31st, 2009.

These riders are found on Schedule 10.3.0 and 10.3.1, dated June 1st, found on the yellow paper, and for the ease of reference have been included at Tab 11 of Centra's book of documents.

The proposed August 1st, 2009 rates can be found on Schedule 10.2.1(a), dated June 9th, and were presented on peach coloured paper during the Hearing. This schedule has also been included at Tab 11.

Schedule 9.1.7, filed on June 9th, demonstrates the formation of these rates. The bill impact of these rates compared to the annual bills arising from May 1st, 2009 approved rates are found on Schedule 10.1.0(a), dated June 9th and also had been included in Tab 11.

These rates are intended to remain in place until January 31st, 2010. Thereafter, on February 1st, 2010, Centra proposes to implement new, non-gas base rates that are designed to recover the additional 1.685

million of revenue required for the last two (2) months of the 2009/2010 test year. This delayed implementation of rate increases proposed for the 2009/'10 test year is primarily the result of Centra's better-than-forecasted results for the 2008/'09 fiscal year, as Mr. Warden discussed at page 139 of the transcript. These rates can be found on Schedule 10.2.1(b) included at Tab 12 of Centra's book of documents.

Centra has also provided Schedule 9.0.1 on June 9th on peach-coloured paper, which reconciles the 2009/'10 test year cost of service with the 2009/'10 test year cost allocation schedules. These rates are produced by allocating the revenue requirement for the 2009/'10 test year, which has been designed to incorporate an additional 4.4 million in order to derive the appropriate annualized rate that produces the required 1.685 million of revenue in the months of February and March 2010.

This schedule also reconciles the amounts allocated as net income to each of the customer classes in the cost allocation study. This produces a 2009/'10 test year cost allocation of 545.5 million of revenue requirement, as shown on line 19 of the schedule.

The bill impact arising from these February 1st non-gas rates are shown on peach-coloured Schedule 10.10(b), dated June 9th which represent the difference in annual bills compared to the rates proposed for August 1st, 2009, and has also been provided at Tab 12 of our book of documents.

As Mr. Warden discussed, it is Centra's strong preference to have the requested 1 percent rate increase implemented later rather than having a smaller rate increase implemented, effective August 1st, 2009 -- or May 1st, 2009. This permits Centra to maintain the requested rate change for 2010/'11, rather than needing to bring forward an application for higher than 1 percent rate increases in the second test year. And Mr. Warden's reference to that is found at pages 177 to 178 of the transcript.

Thirdly, for the 2010/'11 test year, Centra proposes to implement rates on May 1st, 2010. The proposed 2010/'11 rate schedules are found on the peach-coloured Schedule 10.2.2, dated June 9th, and had been provided at Tab 13 of Centra's book of documents.

You will find Schedule 9.0.1 at Tab 12, and on lines 26 through 50 it identifies the reconciliation for gas costs and net income between the 2010/'11 test year cost of service and the 2010/'11 test year cost allocation model.

The schedule indicates a cost of service for cost allocation purposes of 551.6 million as shown on line 45.

As well, the cost allocation model contains a net income allocation that is reflective of the 2010/'11 fiscal year net income of 2.814 million, plus the provision for accounting and other changes of 5 million and four hundred and eight thousand (408,000) for the annualization of the rate increase. The resulting ent income for allocation purposes is indicated on line 50.

Now, the bill impacts emanating from the proposed May 1st, 2010, rates are indicated on the peach-coloured Schedule 10.1.1, dated June 9th, also provided at Tab 13.

Centra is also seeking approval of new program cost rates for its fixed-rate primary gas program. As found on line 49, on peach-coloured Schedule 9.1.2, dated June 9th, Centra proposes that the program cost rate for February 1st, 2010, be two point seven five (2.75) cents per cubic metre, compared to the current approved rate of two point seven seven (2.77) cents per cubic metre.

For the 2010/'11 test year Centra proposes to implement a program cost rate of two point seven three (2.73) cents per cubic metre, as shown on line 49 of Schedule 9.2.2, dated June 9th, and presented on peach-coloured paper. These schedules, 9.1.2 and 9.2.2, are provided at Tab 14 of Centra's book of documents.

Now, with rate riders: Centra is proposing to implement new rate riders in conjunction with 2009/'10 and 2010/'11 General Rate Applications. These riders will collect the balance of various PGVA and other gas cost deferral counts, as of October 31st, 2008, which together with carrying costs to July 31st, 2009, result in an amount owing to Centra of approximately 9.4 million. These riders are intended to be in place from August 1st, 2009 to July 31st, 2010. The particulars of these riders can be found at Tab 11 of Centra's book of documents and are contained in schedules 10.3.0 and 10.3.1.

For some other approvals now. Centra is seeking approval to modifications to its terms and conditions of service, specifically with regard to interruptible service. These changes address the requirement for a customer to ensure that their standby fuel systems be fully available to satisfy the customer's energy requirements in the event that Centra issues a curtailment notice.

In addition, Centra seeks to update and modernize its former prime -- penalty gas charges. These charges, which are now referred to as unauthorized overrun charges, are proposed to be reflective of the greater of either one and a half (1 1/2) times the maximum daily Alberta gas price, one and a half (1 1/2) times the maximum daily Winnipeg fuel oil price, or the actual costs of acquiring replacement gas supplies to the city gate for the period in which a curtailment is requested by Centra.

This change is required to bring a level of the unauthorized overrun charge more in line with current pricing realities of the energy market and to replace the charge of fifty two point nine five (52.95) cents per cubic metre that was originally approved in late 1990s when energy prices were much lower on average than they are today.

Centra also seeks approval for more defined terms for a large vol -- for a -- large-volume customers, those consuming 680,000 cubic metres annually or greater, who request a change in service or a change in customer class. Centra proposes that all customers seeking a change of this nature make a formal request to the Utility by March 15th of the year, in advance of the customer's migration, to be effective on November 1st of the same ye -- ye -- of the same year, or the commencement of the gas year.

This timeline is requested to enable

Centra sufficient lead time to adjust its gas supply and delivery arrangements in preparation for a customer's requested change.

Centra is also seeking approval to change wording within the terms and conditions for its WTS service to require a marketer in its customer enrollment submission file to identify the date that a customer executed their agency agreement. Flowing from the Competitive Landscape Hearing and the subsequent changes to the natural gas marketplace in Manitoba, Centra has modified its terms and conditions for WTS to reflect the elimination of the marketer requirement to provide a copy of each agency agreement to Centra with its customer enrollment submission.

However, to simplify the administration of customer enrollment in cases where a customer may have signed with more than one (1) supplier, Centra re -- requests that the date of contract execution be provided by a marketer when making this submission.

Centra is also formally requesting approval to accumulate multiple submissions from a marker -- marketer to be proc -- processed on a frequency not le -- not less than once per week, which is reflective of the current business practice being undertaken in regards to customer enrollment submissions. Approval is also requested for wording changes to the terms and conditions for WTS to better explain the process that is currently being followed to reconcile the gas-loan mechanism on a yearly basis.

I'd like to turn now to the gas supply transportation and storage arrangements of Centra. You will recall that primary gas rates will not be effected by this Application, as those rates are set quarterly by this Board. The Board can anticipate Centra's filing for new primary gas rates to be effective August 1st, 2009, in mid July.

We note that in accordance with the Undertaking Number 19 requested by this Board and filed as Centra Exhibit Number 24, that the June 10th, 2009 price strip, combined with the mark-to-market impact on -- on the then existing quarterly primary gas hedge instruments, suggests that everything were to stay as it is forecast today, one could anticipate an application for primary gas rates to increase by approximately 1 percent on August 1st, 2009.

Of course, we expect that future prices and primary gas PGVA balances will change between now and when the Application is ultimately filed in mid-July.

Since the 2007/'08 and '08/'09 GRA, Centra has made some changes to its gas transportation arrangements to the benefit of its customers. As discussed by Mr. Kostick in his direct evidence at pages 148 and 149, Centra has reduced it's TCPL daily contract quantity to the Manitoba delivery -- delivery area from 200,000 Gjs a day to 160,000 Gjs a day in order to address the identified trend of declining load in Manitoba.

Centra has also entered into a firm seasonal transportation agreement for delivery of 20,000 Gjs a day of primary gas from Empress to Manitoba on the TCPL System at a discount to approved TCPL tolls. This results in firm capacity to transport primary gas to the MBA of 180,000 Gjs a day for eight (8) months and 160,000 Gjs a day for the months of June through September of 2009. Centra is thus able to avoid four (4) months of TCPL demand charges for 20,000 Gjs a day.

Centra was also able to make use of TCPL's tolling structure to segment it's TCPL contract path through Welwyn, Saskatchewan to the MDA. This resulted in lower tolls for the transportation path from Empress to the MDA for the benefit of Centra's customers.

However, the availability of the Welwyn segment -- segmentation tolling advantage was addressed by TCPL and will no longer be available to Centra as of November 1st, 2009.

As a result of these transportation portfolio adjustments, Centra reduced transportation costs for the '08/'09 gas year by approximately $5.7 million. As discussed by Mr. Kostick at page 223 of the transcript, these savings offset the increased TCPL toll charges in the order of $4.1 million resulting in a forecast net savings to customers of $1.6 million for the 2008/'09 test year.

You've also heard evidence with respect to Centra's plans for gas supply arrangements at the expiry of the Nexen contract on October 31st of this year.

As Mr. Stephens testified at page 298 of the transcript, Centra expects to conclude its negotiations to replace the Nexen contract over the course of the summer, and will provide information to the PUB and seek approval of the associated gas cost consequences in due course.

As the Board is also aware, Centra is commencing preparations to consider its upstream transportation and storage arrangements. As Mr. Stephens again testified, at page 284, Centra is planning to engage in a full review of its transportation and storage arrangements, will be holding discussions with various transportation and storage providers, and will be conducting a comprehensive analysis of the available arrangements within the natural gas market. Centra will, of course, keep the Board apprised as this review proceeds.

As we noted at the outset, Centra is seeking approval of final gas costs in the amount of 400.6 million for the 2007/'08 fiscal year and final approval of April 1st, 2008 to October 31st, 2008 gas costs of 123.7 million.

These amounts include settled hedging results which added to gas costs in fiscal year '07/'08, while serving to reduce gas costs in the stub period. Centra has hedged in accordance with the Derivative Hedging Policy and Procedures during this period.

As was noted in the evidence, Centra's executive committee exercised it's judgment in April 2006 and elected to defer a portion of the hedges. The results of this decision affecting April of 2007 are included in this Application.

As Mr. Warden indicated, at page 202 of the transcript, the executives view is that prices were high and were most likely going to fall, and that delaying the placement of hedges would allow consumers to benefit from more downward movement in the market.

Further, at pages 203 and 4 of the transcript, Mr. Warden noted that the executive committee continues to be concerned that the hedging program has recently resulted in increases to gas costs such that it has determined to hedge only 50 percent of eligible volumes for the months of February, March and April of 2010 and expects that they will continue to authorize only 50 percent of eligible volumes until such time as a revised policy is in place.

As Mr. Warden also noted, once a revised policy has been prepared and approved by Centra's executive committee it will be brought to the PUB for approval.

I note that Mr. Saxberg, in his closing submissions, characterized the actions of the executive committee as now taking market views. Centra does not agree with this characterization as it relates to the decision to reduce the percentage of eligible volumes hedged for the month of February 2010 and beyond.

While the executive committee did exercise its judgment in delaying the placement of hedges for April of 2007 the more recent assessment is not a matter of taking a market view but rather is a determination that the mechanistic approach being employed needs to be revisited. Centra, therefore, expects that it will bring a revised policy and procedure to the Board to establish a new manner of course practice no different than was done at the time of the widening of the band for collars. Centra does not view this as requiring the engagement of a consultant as suggested by Mr. Saxberg.

As was the case in 2007/'08 GRA, the only notable cost-of-gas issues in this proceeding were with respect to capacity management. Centra's actual capacity management revenues excluding carrying costs totalled 8.2 million for the '07/'08 fiscal year as shown on Schedule 7.3.1. With carrying costs to October 31st, 2008, the total capacity management results for 2007/'08 inclusive of carrying costs are 8.4 million, and that's found at Tab 15 of Centra's book of documents.

Schedule 7.5.2(a) demonstrates the capacity management results for the stub period from April 1st, 2008, to October 31st, 2008. During the stub period Centra's actual capacity management revenues were 6.3 million including carrying costs. This amount has been included in the stub period transportation PGVA and forms part of the balance for which Centra seeks final approval in order to incorporate these amounts into rates. This account will attract carrying costs from October 31st, 2008, to July 31st, 2009.

For the 2008/'09 gas year incorporated in this application Centra has forecast capacity management revenues at 6.8 million excluding carrying costs based on the five (5) year rolling average of Centra's actual capacity management results. These forecast amounts have been included on Schedule 8.1.3(a) at line 58.

With respect to capacity management results for fiscal '07/'08 and the 2008 stub period, Mr. Stauft readily admitted in his evidence that he has no basis to say that Centra's current capacity management results are unreasonable or that it reflects any failure by Centra to operate the program appropriately. And that's in his evidence at page 5, lines 18 through to 23.

Mr. Stauft is not recommending any rate modifications in the current application either, and that's at page 1, line 16 to 18 of his evidence. Rather, Mr. Stauft encourages consideration of a hypothetical asset management arrangement and, as suggested by Mr. Saxberg during the cross-examination of Centra's witnesses, perhaps Centra could, quote, "Write a couple of page letter," end quote, to see if potential counterparties can offer anything more than what Centra is currently able to generate.

Centra has noted that writing such a letter or issuing an RFP for asset management arrangements would not be a simple matter. The assets which are being discussed represent a significant portion of Centra's assets in excess of $100 million. To suggest that Centra could write a letter to see what's out there is naive.

It is commercially unreasonable to think that the complexities of this circumstance could be addressed in such a fashion or that this type of casual correspondence would provide any comfort to Centra, the Board, or Intervenors that what Centra has been saying all along, and which is summarized in their rebuttal evidence, is correct.

The exchange which Mr. Saxberg had with Mr. Stephens and Mr. Kostick, at pages 431 to 433 of the transcript, is very telling. While Mr. Saxberg suggests that contracts are time consuming and expensive, he wants to explore whether Centra will make the first inquiry and that leads to highlighting the first condition that such a letter would have to include. Mr. Stephens sums it up by saying, quote:

> "There we go. There's one (1) condition in the contract that we have to bold in there amongst five hundred (500) more, I mean scenarios that we have to paint so that we don't get ourselves into a jackpot."

He goes on to say, quote:

> "For me to send out a two (2) page

letter would not do justice to the type of qualifications that we would need to have to put to this, to the counterparts, before we even engage in a response, otherwise I'm wasting their time and ours."

And that's at page 434 of the transcript.

Mr. Chairman, we note that there's no evidence offered by CAC/MSOS that Centra has failed to generate sufficient revenue from these resources.

The suggestions by Mr. Stauft are, in Mr. Stephens' words, at page 404, "so theoretical that they are difficult to respond to." Mr. Stephens was clear that there are no appropriate opportunities to generate revenue left on the table. Centra looks at every opportunity to generate revenue through its Capacity Management Program, but does not incur additional risk by engaging in transactions which have the potential to result in a significant loss.

It is also important to note that -- that this is but one (1) small piece of the overall portfolio. Mr. Stephens testified that, at page 378 to 379:

"But I look at our portfolio from the broader perspective of what's our overall cost of gas. This component of it is a secondary consideration. Our first consideration is serving the load, there's $400 million worth of assets in gas involved in that. We're talking about $6 million here. This has a lower priority associated with it. And if I thought that, without taking on undue risk we could make more money, we would do that."

So I want to make it very clear for the record that there are no opportunities being left on the table that are, in my judgment, that are just left for the sake -- or we're losing some value associated with it without giving due consideration.

Mr. Saxberg, in his comments on Wednesday, suggested that Mr. Stephens had acknowledge that there was probably money left on the table. It must be noted that Mr. Stephens' evidence in this regard is not as simple as Mr. Saxberg suggests.

On several occasions, including at page 379 as I just quoted, Mr. Stephens was quite clear that there are no opportunities left which do not have undue risk associated with them. And, in fact, in response to Saxberg -- Mr. Saxberg's questions at page 410 and 411 of the transcript, Mr. Stephens said:

"I look at this in terms of our overall portfolio of assets and the costs that we experience in terms of cost of gas which is in the order of $400 million and if we're talking about adding incremental revenues associated with this to reduce that cost of gas but adding significant risk to the equation, the incremental dollars are not worth it to me.

And I'm not trying to -- I mean and certainly the million dollars was an off-the-cuff number. I don't know what the counterparts would provide us in terms of incremental guarantee. I would expect at least that much but the last time that we went around this horn, we never got anything near to that; no guarantees that we would even get a million dollars."

Mr. Saxberg suggests, too, that Centra has grossly exaggerated the risks of entering into the type of arrangement contemplated by Mr. Stauft. However, even Mr. Stauft admits that a contract cannot eliminate the risk of bankruptcy of the counterparty in his response to

PUB/CAC/MSOS-12G.

As Mr. Sanderson testified at pages 415 through to 417, there are several examples of what appear to be financially-sound entities collapsing very quickly into insolvency and bankruptcy.

At pages 429 to 30, he notes that even if you accept that there is potential for $1 million of additional profit, which Centra does not accept, the requirement for a counterparty to simply post a letter of credit to address the risk associated with turning over Centra's hundred dollars -- $100 million in storage assets will effectively eliminate any possible benefit for that counterparty to enter into such arrangement.

Centra is confident that its current dealings maximize the available resources in a prudent manner which is appropriate for a utility.

At page 368, Mr. Kostick indicates that Centra currently transacts with a variety of counterparties, all of whom have -- have many counterparties with whom they transact themselves. This permits Centra to receive the benefit of the many, many counterparties in the market. It also avoids the potential concern whereby if Centra were to divest itself of its assets to one counterparty, that asset manager may not transact with other marketers that it views as competitors in a particular market.

This practice also permits Centra to spread the credit risk associated with such transactions across several counterparties.

CAC/MSOS suggests that Centra should revisit the possibility of outsourcing its Capacity Management Program. Centra has had discussions with a number of counterparties to consider such potential transactions, and has provided its assurance that it will continue to engage with counterparties from time to time to ensure that it remains fully knowledgeable as to the prospects available in the marketplace.

However, it must be reiterated that storage-related asset management arrangements involve multiple pipeline and storage providers, multiple contracts, and a delivery obligation that is far more difficult to meet than the terms embedded in the Nexen supply contract.

Given what we already know exists in the marketplace, based on our discussions on a daily basis with large marketers who are familiar with our assets, counterparties are not in a position to offer Centra anything more than what we have already achieved on our own. And there's a discussion on that at page 428 of the transcript.

As Mr. Stephens indicated, at page 419, we are prepared to listen and if we are able to identify an opportunity with the appropriate assurances which offers incremental revenue, Centra will entertain those discussions. Centra must be mindful of the significant credit and counterparty risks and that the paramount consideration of security of supply as well as such issues as the loss of internal market expertise and presence.

CAC/MSOS has recommended that the Board direct Centra to make inquiries in the market through solicitation of expressions of interest. Centra submits that the evidence before the Board demonstrates that serious due diligence has been accomplished which CAC seeks to desire.

There's no need for further direction to revisit this issue yet again. In any event, as the Board is aware, the contracts for a major portion of Centra's storage and transportation arrangements will expire in 2013. Centra's focus will now be to ensure that its portfolio of assets post-2013 will continue to serve Centra's customers in a safe, cost-effective, reliable, and environmentally appropriate manner.

I close on this topic by reiterating Mr. Warden's observation, at page 437 of the transcript, wherein he indicated that previously we had met with counterparties following Ziff's report on the matter in -- in 2000, shortly after the acquisition of Centra by Manitoba Hydro, and that he was satisfied. In fact, he described the decision not to pursue such outsourcing at that time as very fortuitous.

He concluded at page 437 that, quote:

> "I've seen nothing in the interim that would change my mind that we should be pursuing this any further. I think what we are doing today is in the best interests of Centra and its ratepayers."

And lastly, on gas supply matters, we note that Centra's proposal to move the determination of deferral account balances from Centra's fiscal year to the gas year has been reviewed and does not appear to have garnered any objection in this hearing. As noted in the evidence of Mr. Sanderson, at pages 154 and 155 of the transcript, the swings in prior period gas costs deferral balances are largely attributable to the timing of balancing supplemental gas billings and purchases on an operational basis over the gas year while managing these deferral accounts on the fiscal year.

This has been -- this has and does

contribute to large year-to-year swings in the deferral account balances. The requested change will, all else being equal, reduce the absolute magnitude of non-primary gas prior period deferral balances brought forward for disposition, as well as the year-over-year changes in those amounts. The net effect for customer will be more stable and less volatile non-primary gas rates.

Centra Exhibit 6 was provided which demonstrates that for the seventeen (17) month period in question the gas cost forecast on a fiscal year and on a gas year are based on the same assumptions as was explained by Mr. Sanderson at pages 153 and 154 of the transcript.

To conclude, Mr. Chairman and members of the Public Utilities Board, we listened with great interest to Mr. Saxberg when he indicated, at page 1,554 of the transcript, that it was in his words, and I'll quote:

> "...pretty difficult for my clients to sensibly say that we favour more risk because we certainly don't."

From Centra's perspective, and contrary to Mr. Saxberg's assertion, the positions taken by CAC/MSOS at this hearing are all about taking on risk. This leads one to question whether CAC/MSOS has given serious consideration to the advice they are receiving in terms of the recommendations to be made to this Board. The motivation appears to be simple, to avoid any rate increase regardless of the long-term consequences.

When one looks at the positions taken, they appear to be systematically designed to incur additional risk. First of all, eliminate hedging. Let your gas costs swing with the market.

Second, interest rates. Go short, gamble on rates, staying low in the hope that refinancing costs in the future won't materialize.

Third. Amortize your DSM over a long term. The 71 million unamortized balance in 2019 can be addressed at a later date.

4. Divest yourself of at least $100 million of storage gas, based on a theoretical hope that there might be a possibility of earning an extra million bucks.

5. Don't worry about IFRS. We don't know for sure what the magnitude of the impact will be.

And lastly, eliminate net income.

It's easy to sit in CAC/MSOS's chair and suggest that short-term benefit -- benefits justify these risks. However, this Board and Centra's management are charged with preserving the assets of the Utility to ensure that Centra is able to fulfill its mandate of acquiring, managing and distributing supplies of natural gas to meet the requirements of Manitoba in a safe, cost-effective, reliable and environmentally-appropriate manner.

We submit that there is ample evidence for the Board to approve Centra's application as amended, to permit the modest and reasonable rate increases proposed to achieve these objectives.

In conclusion, on behalf of Centra, we wish to thank the Board, its Advisors, Intervenors, for all of their collective attention throughout this process. Centra submits that the evidence has been thoroughly tested and that its requested rate proposals are just and reasonable and represent an appropriate balance of the interests of consumers and the need for a financially stable utility.

On an administrative note, Centra will be filing its next quarterly primary gas rate application with the Board in July. In order to implement your directions arising from this proceeding on August 1st, 2009, Centra respectfully requests that the Board issue its order, in respect of these matters, on or before July 24th, 2009, in order to confirm final rate schedules in advance of the first August billing run.

Thank you, Mr. Chairman and Board members for your attention and patience throughout this process. Subject to any questions that you have of Ms. Murphy or myself, that concludes Centra's submission.

THE CHAIRPERSON: Thank you, Mr. Czarnecki. Just one (1) question in your thing. I don't believe I have heard you address the subject of the basic monthly charge. You haven't recommended any change in that, is that correct?

MR. BRENT CZARNECKI: Yeah, that's correct.

THE CHAIRPERSON: Okay. Thank you, Mr. Czarnecki and Ms. Murphy. And this brings to an end the public phase of this proceeding. Thanks are due to all those that are involved, not only here as participants but those that are back in the offices, as a lot of work, obviously, has gone into this process.

While several issues are involved and several of them are complex and also we're into the summer, the Board will do its best to issue an order, a careful order, ahead of August the 1st. I understand you say July 24th and we will see what we can do, but we have to be confident in what we issue too.

So, thanks everyone. We will shut it down with that.

--- Upon adjourning at 3:42 p.m.

Certified correct,

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Cheryl Lavigne, Ms.