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MANITOBA PUBLIC UTILITIES BOARD

RE:

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

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 3, 2009

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

2

3 THE CHAIRPERSON: Okay, good morning
4 everyone. We are not off to too late a start. Mr.
5 Peters, do you want to start up where you left off?

6 MR. BOB PETERS: Yes, thank you, Mr.
7 Chairman. Good morning ladies and gentlemen. Good
8 morning panel.

9 Just a second, Mr. Chairman, if we could,
10 we'll just attend to a microphone issue.

11 THE CHAIRPERSON: Maybe we should just go
12 to Future Shop and buy some of those walkie-talkies.

13

14 (BRIEF PAUSE)

15

16 GAS COST MATTERS PANEL RESUMED:

17 VINCE WARDEN, Resumed

18 HOWARD STEPHENS, Resumed

19 NEIL KOSTICK, Resumed

20 BRENT SANDERSON, Resumed

21

22 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

23 MR. BOB PETERS: Good morning, panel.

24 I'd like to turn to a new issue this morning on the

25 interruptible customer curtailments.

1 Mr. Chairman and Board members, perhaps a
2 place to start would be with the book of documents, Tab
3 63. In the book of documents, Tab 63, Mr. Chairman and
4 Board members, there's a copy of PUB/CENTRA Question 17
5 in the written interrogatory phase. There is an
6 attachment that the Board saw yesterday, attachment with
7 page 1 of 6, and page 1 of 6 had customer numbers by
8 customer class.

9 There's also, I can indicate customer
10 percentage change. There's also volume by customer class
11 and volume percentage change, and the average use
12 percentage per customer included in the attachment. But
13 I want to focus on page 1 of 6 of the attachments because
14 this will contain an indication of the interruptible
15 customer class.

16 Can you briefly describe for the Board,
17 panel, what the characteristics are as to interruptible
18 class and why Centra offers this to customers?

19 MR. NEIL KOSTICK: Good morning. Centra
20 has an interruptible class of customers that Centra does
21 not specifically acquire assets for in order to serve
22 their load. They are subject to being curtailed under
23 conditions of colder than normal weather on a particular
24 day or to preserve storage gas to the end of the winter
25 season.

1 If storage volumes have been depleted to
2 the extent that, under various weather scenarios, we
3 would consider that there could be a possibility that
4 storage gas could be completely depleted, such that firm
5 customers could not be served. So there is an
6 interruptible class that is subject to curtailment
7 largely due to colder than normal weather.

8 MR. BOB PETERS: Thank you, Mr. Kostick.
9 Would you agree that in exchange for the ability to
10 curtail service to these customers, they get a bit of a
11 break on the rate?

12 MR. NEIL KOSTICK: That's correct.

13 MR. BOB PETERS: They get a lower rate?

14 MR. NEIL KOSTICK: Yes.

15 MR. BOB PETERS: And when we look to
16 these customers, would the -- would you agree with me
17 that generally they would be considered higher volume
18 customers, as opposed to low volume customers?

19 MR. NEIL KOSTICK: That's correct.

20 MR. BOB PETERS: And according to PUB-17
21 and the attachment, when we look to interruptible
22 customers and do the math, would we be correct in
23 interpreting there to be approximately nine (9) WTS
24 interruptible customers -- that would be on line 20 --
25 for the first test year?

1 MR. NEIL KOSTICK: That's correct.

2 MR. BOB PETERS: And then on top of that,
3 we have to add in line 7 which are your system supplied
4 interruptible customers.

5 MR. NEIL KOSTICK: Yes.

6 MR. BOB PETERS: And then, uniquely,
7 there are also interruptible customers under the
8 transportation or T-service found on line 26, and there
9 is four (4) of them.

10 MR. NEIL KOSTICK: Correct.

11 MR. BOB PETERS: And can you describe to
12 the Board, the T-service customers, how are they
13 different than the other interruptible customers where
14 the gas is provided by either Centra or through a WTS
15 arrangement.

16 MR. HOWARD STEPHENS: Mr. Peters, I think
17 that we need some background with respect to this in
18 order to answer your questions effectively. Because
19 there are -- we've talked about the gas supply reasons
20 for curtailment for interruptible customers, as opposed
21 to there are really two (2) circumstances where we can
22 curtail interruptible customers: One is from a system
23 constraints perspective on our system -- on our
24 distribution system -- and the other is from a gas supply
25 perspective.

1 When we offered the service originally it
2 was for customers that were on sections of the system
3 that couldn't handle a load on a very high or peak or
4 design days, so that from that perspective we had to get
5 them off of the system, not because necessarily we didn't
6 have enough gas but because we couldn't get the gas to
7 them.

8 And as you construct the system you'll
9 have periods where you'll increase the capacity on the
10 distribution system in chunks. And during that period of
11 time as the residential load grows the amount of excess
12 capacity you have on the system will start to shrink.
13 But at the initial -- after the initial construction
14 you'll have excess capacity on the pipeline -- our
15 distribution system, where you can give those customers
16 the benefit of that excess capacity.

17 So I mean there -- I just wanted to point
18 out that there's like two (2) components associated with
19 this. I mean, in our system because the load growth is
20 so slow in the residential areas or those small
21 commercial and indust -- small commercial or residential
22 customers, that period of time between construction and
23 the time that we have available capacity to serve those
24 customers is quite extended. And it's not the typical
25 situation was -- like as Transcanada Pipeline's system

1 are.

2 Then the other component of it is assuming
3 we can get the gas to the customers is okay, how do you
4 go about contracting to satisfy those customers, and if
5 they provide you a service how much curtailment can they
6 tolerate, given their cost for alternate fuel, to make it
7 attractive for them to take advantage of the gas if we
8 have it, so that we can well -- maintain our margin.
9 We're very interested in keeping our margins up.

10 And they are also interested in keeping
11 their, I mean, staying on gas because burning fuel oil or
12 propane isn't very attractive. It's much more costly.
13 So -- and that's where the differential in terms of rates
14 comes in so that we can make it an attractive service.

15 One (1) of the questions I ask myself
16 continuously though is, are we providing the service to
17 satisfy the Company's requirement or are we satisfying
18 the customer's requirement? We have a number of
19 customers, the hospitals, universities; any of the civil
20 service or government buildings all have standby power
21 plants; they have to have a standby fuel. So do we have
22 the service available to satisfy or to give them a break
23 and reflect the fact that we can curtail them.

24 And it's an open-ended question. I mean
25 it's a little bit of a circular question. Where we sit

1 right now is somewhere in the middle. We have more than
2 enough facilities. I understand we have to do some
3 bolstering on the system right now to satisfy all of our
4 interruptible customers.

5 But over time, because we had sufficient
6 capacity on our distribution system to satisfy our
7 interruptible customers requirements, and given
8 deregulation and the fact that we can buy gas in the
9 marketplace to satisfy the requirements typically at a
10 cost lower than their standby fuel, those customers have
11 not seen much curtailment. And as a result of that, the
12 differential between the firm rate and the interruptible
13 rate has shrunk.

14 So it -- I mean it's something that begs
15 the question in terms of whether or not -- I mean just --
16 just the -- what the value is associated with it and
17 whether -- and we have to ask ourselves from time to time
18 as to whether or not we should be providing the service.

19 MR. BOB PETERS: Thank you, Mr. Stephens,
20 for that explanation. Am I correct that a number of
21 years ago Centra formally asked itself that question and
22 -- and did a report to determine whether or not
23 interruptible customers were getting value for the
24 services provided, and more importantly whether Centra
25 was getting value for having interruptible class

1 customers?

2 MR. HOWARD STEPHENS: That's correct.

3 MR. BOB PETERS: And what was your
4 conclusion back then, and when was that?

5 MR. HOWARD STEPHENS: I can't put a year
6 on it particularly.

7 We did that at around 2001, and the
8 results were -- and it indicated that we -- the path we
9 were on was appropriate. It's something that we look at
10 on a continuous basis. I'm not suggesting that we need
11 to make a wholesale change. I just want to indicate that
12 there are more than one (1) reason for a curtailment to
13 exist, and the gas supply aspects of it are only one (1)
14 component of it and actually a secondary component.

15 MR. BOB PETERS: One (1) part of your --
16 your answer -- your lengthy answer, Mr. Stephens,
17 indicated that you might -- that Centra may be bolstering
18 it's distribution system to satisfy the interruptible
19 customers.

20 Did I understand that correctly?

21 MR. HOWARD STEPHENS: No, as I understand
22 it, the bolstering that we're doing is to satisfy the
23 firm requirement. And when we go to bolster that
24 component of the system we will typically over-build, so
25 that we'll deal with future expansion and future load

1 growth. So at that point in time then you have excess
2 capacity even to serve your firm load and then you do
3 have capacity to satisfy some interruptible load.

4 MR. BOB PETERS: So the interruptible
5 customers, in essence, are getting a benefit when you
6 over-build or recognizing you build in -- in chunks in
7 large blocks to -- to account for future growth.

8 MR. HOWARD STEPHENS: All customers get
9 the benefit associated with that because to the extent
10 that we can sell that capacity that would otherwise go
11 unutilized for years until the load grew, then we are
12 generating revenue on that capacity and all the customers
13 get the benefit of that.

14 MR. BOB PETERS: Ballpark, would you
15 agree with me that the interruptible rate is
16 approximately 10 percent cheaper than the firm rate?

17 MR. HOWARD STEPHENS: I'll take it,
18 subject to check.

19 MR. BOB PETERS: Since the last General
20 Rate Application before this Board there have been
21 fourteen (14) days where gas service was interrupted to
22 the interruptible customers, am I correct?

23 MR. NEIL KOSTICK: I don't have the
24 specific information in front of me but it sounds
25 ballpark, correct.

1 MR. BOB PETERS: My understanding, I
2 think it's from PUB-85, that each of those interruptions
3 was one (1) day in duration, would that be correct?

4 MR. NEIL KOSTICK: Yes.

5 MR. BOB PETERS: And so between April of
6 '07 and January of '09, if there are, as I suggest,
7 fourteen (14) interruptions, would it be the case that
8 all forty-six (46) interruptible customers were
9 interrupted?

10 MR. NEIL KOSTICK: I'm sorry, could you
11 repeat the question. I was just flipping to PUB-85.

12 MS. MARLA MURPHY: Mr. Peters, this
13 actually is an area that Mr. Barnlund is prepared to
14 speak to. So you might find it a little easier to wait
15 until tomorrow.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: I'll go as far as I can
19 until they -- until your panel suggests I -- I go
20 elsewhere, politely.

21 My -- my question, Mr. Stephens and Mr.
22 Kostick, is when you interrupt customers do you treat all
23 forty-six (46) the same or do you selectively point out
24 and say we have to interrupt you and you but not you?

25 MR. HOWARD STEPHENS: And because we have

1 sufficient capacity in our system we, I mean to this
2 point, we curtail and we call for curtailment, we call
3 all customers for curtail -- to curtail -- its equity of
4 treatment. With -- with, and I mean, and Mr. Kostick
5 reminds me of that -- that he's -- there is a subtlety
6 associated with that.

7 In arupt -- in an interruptible T-service
8 customer in a circumstance like that, as long as they
9 were delivering gas to the city gate, it would not be
10 curtailed in that circumstance.

11 MR. BOB PETERS: And there's four (4)
12 such customers who may line up their own gas and get it
13 to city gate even if you interrupt the other forty-two
14 (42)?

15 MR. HOWARD STEPHENS: I don't know the
16 exact number but I'll take it as a given.

17 MR. BOB PETERS: And -- and some of these
18 interruptions were on consecutive days, such as in April
19 of '07?

20 MR. NEIL KOSTICK: That's correct.

21 MR. BOB PETERS: And in the particular
22 times, the fourteen (14) days that there were
23 interruptions between April of '07 and January of '09,
24 was the reason for the interruption solely then gas
25 supply?

1 MR. NEIL KOSTICK: Yes.

2 MR. BOB PETERS: And if these
3 interruptions were in April of the year, that's generally
4 considered shoulder months, although this year perhaps
5 not, and only Mr. Warden is smiling, but is that not a
6 month where gas supply is generally not -- not difficult
7 to come by?

8 MR. NEIL KOSTICK: Generally that --
9 we're able to acquire additional gas in the market for
10 interruptible customers.

11 MR. BOB PETERS: When you say generally
12 able to obtain gas in the market for interruptible
13 customers, that is another service offered by Centra
14 called Alternate Service where you will sell to the
15 customers you interrupt at whatever market price you can
16 procure for them for that particular interruption?

17 MR. NEIL KOSTICK: That's correct.

18 MR. BOB PETERS: And the customer has a
19 choice to either buy your alternate service at the price
20 you quote or to use some standby fuel that they may have.

21 MR. NEIL KOSTICK: That's right.

22 MR. BOB PETERS: Is it likely that your
23 sta -- that your alternate service is at a higher cost
24 than system supply?

25 MR. NEIL KOSTICK: It would vary each

1 time.

2 MR. BOB PETERS: So, for some of these
3 interruptions, the alternate service may have been
4 provided at a cheaper rate than what you were providing
5 them as system supplied or WTS customers?

6 MR. NEIL KOSTICK: It's possible.

7 MR. BOB PETERS: Okay. My understanding
8 -- my understanding, Mr. Kostick and Mr. Stephens, is
9 that on one (1) of these fourteen (14) days, and more
10 specifically, January 14th, 2009, Centra could not
11 provide alternate service.

12 Is that correct?

13 MR. NEIL KOSTICK: Yes.

14 MR. BOB PETERS: And what was the reason
15 that you could not offer alternate service to the -- to
16 the either forty-two (42) or forty-six (46) customers
17 that were to be interrupted?

18 MR. NEIL KOSTICK: That was in mid-
19 January, actually January 14th, and there was extreme
20 cold weather across much of the continent and Transcanada
21 experienced some compressor failures on its mainline,
22 which resulted in the alternate supply that we had
23 intended to put in place to be cut or put in jeopardy.

24 MR. BOB PETERS: So the counterparty from
25 whom you were going to procure the alternate service

1 couldn't deliver it.

2 MR. NEIL KOSTICK: That's right.

3 MR. BOB PETERS: When there is a -- the
4 delivery problem was that of Transcanada, not of the
5 third party -- or the -- of the counterparty?

6 MR. HOWARD STEPHENS: That's a fair
7 comment, Mr. Peters. It's not because the counterparty
8 couldn't deliver the gas; it's they couldn't get the gas
9 they had available in Alberta to our market.

10 MR. BOB PETERS: And I understand that on
11 -- I understand that of the forty-two (42) or forty-six
12 (46) interruptible customers who you notified that they
13 were to be -- they were going to be interrupted on
14 January the 14th of 2009, thirteen (13) of them did not
15 close off their valves, and they continued to take gas
16 off of Centra's system.

17 MR. NEIL KOSTICK: I believe there were
18 actually thirty-six (36) customers subject to curtailment
19 on January the 14th, and I believe in PUB-119 we made a
20 correction as to the number of customers that did not
21 comply with the full curtailment. It was actually, I
22 believe -- if I can just -- I'll just refer to PUB-119,
23 if I could.

24 Twenty-four (24) of the thirty-six (36)
25 interruptible customers did not comply. Either they

1 indicated that they would not comply or they did not
2 reply to Centra's curtailment request, or they indicated
3 that they would comply, but, nevertheless, still consume
4 natural gas.

5 MR. HOWARD STEPHENS: Just a comment, Mr.
6 Peters. It's not uncommon for us to have difficulty in
7 terms of getting our interruptible customers to curtail
8 when we ask them to. They are very much used to
9 obtaining alternative service, so there are times when we
10 do call and they -- and especially the smaller classes,
11 where they -- and they don't have that significant an
12 impact on our system. So, I guess the point that I'm
13 trying to make here is just to give you an indication
14 that this is not something that's new. It's something
15 that's been an outstanding issue that we've had for a
16 number of years.

17 And we just had a meeting with respect to
18 our -- with those -- with those customers, and it -- it
19 appears that we have -- still have, and although we've
20 made significant improvements, in terms with trying to
21 communicate the need to curtail, there are still
22 difficulties in terms of that communication process.

23 MR. BOB PETERS: Just want to cover off a
24 couple of points in those last couple of answers,
25 gentlemen.

1 When there were thirty-six (36) customers
2 notified to curtail on January the 14th, why would the
3 Company not have notified all forty-six (46) that they
4 were going to be subject to curtailment?

5 MR. NEIL KOSTICK: The T-service
6 customers would not be subject to the curtailment, given
7 that they arrange their own transportation of their own
8 gas to the Manitoba delivery area. And the other
9 customers I believe were seasonal interruptible customers
10 that were not operating at that time. So the number of
11 customers subject to curtailment on January 14th would be
12 thirty-six (36).

13 MR. BOB PETERS: Thank you. And as Mr.
14 Stephens has indicated, they're so used to -- they're so
15 used to Centra crying wolf that this time they -- they
16 didn't -- they thought they were going to get alternate
17 service and they continued to use gas from Centra.

18 MR. HOWARD STEPHENS: I would not
19 characterize it as Centra crying wolf. It's more a
20 situation where we are asking them to curtail. There is
21 a legitimate need for them to curtail. We're not just,
22 you know, making this up out of the blue sky --

23 MR. BOB PETERS: But every other time --
24 I'm sorry.

25 MR. HOWARD STEPHENS: -- we are in --

1 usually in a position to provide them with a standby
2 fuel, or I mean an alternate supply. This is one (1)
3 circumstance where we couldn't.

4 MR. BOB PETERS: This is one (1)
5 circumstance in the last two (2) years at least that you
6 couldn't --

7 MR. HOWARD STEPHENS: This is the one (1)
8 circumstance that I can think of in a number of years.

9 MR. BOB PETERS: Okay. And -- and when I
10 meant crying wolf, I only meant it to the sense that they
11 had heard before that they had to curtail, then the next
12 thing they know is there's alternate service available
13 and life goes on as normal for the customer.

14 MR. HOWARD STEPHENS: Typically though
15 when we make that notice, we advise them that there will
16 be potentially an alternate service available.

17 You just have to understand that the
18 timeframe that we're talking about is very tight and we
19 have to try to determine which customers are going to
20 take it so we can determine how much volume we're going
21 to require. Then we have to go to the market to find out
22 exactly what the price is going to be, then come back to
23 the customers again and say is this price satisfactory to
24 you or not, and then some may take it, some may not.

25 MR. BOB PETERS: When they decide whether

1 or not to take the alternate service, they will decide it
2 for business reasons, whether it's economical for them to
3 do so or not?

4 MR. HOWARD STEPHENS: Yes. And economics
5 may or may not be the only factor that drives them. They
6 have -- I mean, if your standby fuel is number 2 fuel
7 oil, you have to cycle that in your tanks. You can't
8 leave it over year or -- over year over year otherwise it
9 starts to degrade, so they have some incentive to -- on
10 those days use the standby fuel even though it's more
11 expensive.

12 MR. BOB PETERS: Would it also be the
13 situation that the penalties for failing to curtail, even
14 if there's no alternate service available, were too low
15 and from a business case perspective they'd rather pay
16 the penalties than -- than be completely disconnected
17 from their gas supply?

18 MR. HOWARD STEPHENS: I think I'll defer
19 that to our regulatory panel.

20 MR. BOB PETERS: In terms of what Centra
21 wants to do as a result of the interruptible customers
22 failing to curtail, Mr. Stephens, is it correct that
23 Centra now wants to change the terms and conditions of
24 service for those interruptible customers?

25 MR. HOWARD STEPHENS: Again, I think that

1 is an area that Mr. Barnlund will likely address.

2 MR. BOB PETERS: I am making a note and I
3 will ask that of Mr. Barnlund. Before I do leave this
4 topic then --

5 MR. HOWARD STEPHENS: Mr. Barnlund
6 sternly forewarned me not to get too far down this path.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: One (1) thing I want to
11 cover before I do move on then with you, Mr. Stephens,
12 you indicated there had been meetings held with the
13 interruptible customers. Were you -- were you at those
14 meetings?

15 MR. HOWARD STEPHENS: Yes.

16 MR. BOB PETERS: Or was that Mr. Barnlund
17 as well?

18 MR. HOWARD STEPHENS: Just recently and
19 that was our supervisor from gas control which would do
20 the communication with that group. And I don't believe -
21 - Mr. Barnlund did -- was in attendance. I was not.

22 MR. BOB PETERS: All right. I will
23 discuss then with Mr. Barnlund the communication issues
24 that you referenced.

25 I want to turn, if I could, then, Mr.

1 Sanderson, this may be your opportunity to fire up your
2 microphone this morning, to talk about the deferral
3 period change.

4 Am I correct in suggesting that there is a
5 deferral account for virtually all gas costs?

6 MR. BRENT SANDERSON: Yes.

7 MR. BOB PETERS: And currently those
8 deferral accounts have been managed on a fiscal year
9 basis, from April 1 of a year to May 31 -- to March 31st
10 of the following year.

11 MR. BRENT SANDERSON: Yes, as we
12 discussed yesterday, since 2001.

13 MR. BOB PETERS: And now the proposal is
14 to align those deferral accounts and record them on a gas
15 year basis.

16 MR. BRENT SANDERSON: Yes.

17 MR. BOB PETERS: While we discussed
18 yesterday the timing of that, in terms of what you're
19 requesting, I don't think we got into the rationale as to
20 why Centra suggests that would be beneficial.

21 And can you explain is this going to be
22 beneficial to consumers or is this going to be beneficial
23 to Centra or is it going to be beneficial to both?

24 MR. BRENT SANDERSON: I would say that
25 consumers stand to reap the greatest benefits from the

1 change, while Centra and all of the various parties to
2 our regulatory review process would stand to gain as well
3 in terms of greater efficiency in expediting the review
4 of those balances.

5 MR. BOB PETERS: Am I correct that in a
6 normal gas year, and that means normal weather, there
7 would be no supplemental gas expected to be used by
8 Centra?

9 MR. BRENT SANDERSON: No, I wouldn't say
10 that's the case today. Over the past two (2) or three
11 (3) years leading up to the current year, before we
12 right-sized our upstream transportation portfolio, yes,
13 that was the case because our overall load in Manitoba
14 had been on a -- on a sustained downward trend, resulting
15 in our upstream asset portfolio growing to a bit in
16 excess of what we required, such that looking out every
17 year to a normal winter scenario or normal weather
18 scenario, forecasts would show that we could meet 100
19 percent of firm customers' requirements, and in some
20 cases even interruptible customers requirements with
21 primary gas solely and no supplemental supply under
22 normal weather conditions.

23 But that's no longer the case. We're back
24 to more -- what I would call more typical ratios of
25 primary and supplemental supply that would have prevailed

1 in the years prior to 2005.

2 MR. BOB PETERS: So then, as I understand
3 your answer, Mr. Sanderson, prior to Mr. Kostick doing
4 the portfolio shuffling and adjustments, you could have
5 met customers -- 100 percent of their requirements
6 through your primary gas, with no need to tap into the
7 supplemental gas arrangements.

8 MR. BRENT SANDERSON: Under a normal
9 weather scenario, yes.

10 MR. BOB PETERS: And that was the
11 situation when you last appeared before this Board at a
12 General Rate Application?

13 MR. BRENT SANDERSON: Yes, it was.

14 MR. BOB PETERS: And in the winter of
15 2008, seems so long ago, but February, March, April --
16 those were very cold months -- colder than normal months.

17 MR. BRENT SANDERSON: February, March and
18 April of 2009, you mean?

19 MR. BOB PETERS: No, I meant 2008.

20 MR. BRENT SANDERSON: I would have to go
21 back and -- and check my records. It's -- my -- my off-
22 the-cuff -- my off-the-cuff recoll -- reconciliation
23 (sic) is the latter part of the winder was cold.

24 MR. BOB PETERS: And because it was cold,
25 Centra found itself in a position it had to draw on its

1 supplemental gas supplies in that year.

2 Is that correct:

3 MR. BRENT SANDERSON: Yes, that's
4 correct.

5 MR. BOB PETERS: And yet the billing
6 percentages when you were billing consumers for the gas,
7 no part of your bill was set up and approved by this
8 Board previously to charge supplemental gas rates as a
9 percentage of their gas supply.

10 MR. BRENT SANDERSON: There's a bit of a
11 lag between when we're in a position where we become
12 aware that we will -- especially in that winter, when we
13 would have to draw on supplemental supply, and we get the
14 opportunity to reflect that in customers' billing
15 percentages.

16 MR. BOB PETERS: And when you had to draw
17 on supplemental supply with no billing percentage set for
18 supplemental gas, that would run up the PGVA balance on
19 the cost of supplemental gas.

20 MR. BRENT SANDERSON: Yes, under the
21 former circumstance where we were managing the
22 supplemental gas PGVA on a fiscal year basis, we would
23 have been incurring supplemental gas cost inflows to
24 those -- to that PGVA during the latter part of that
25 winter, with no corresponding collections or outflows

1 from those accounts, by virtue of collecting supplemental
2 costs in rates. That would have come to pass in
3 subsequent periods, but we would have been into a new
4 fiscal period and those effects would have flown through
5 a -- a different fiscal year supplemental PGVA the
6 following year.

7 MR. BOB PETERS: So, by changing the
8 deferral period, what you are then doing is capturing, in
9 a twelve (12) month period, one (1) seasonal cycle and
10 not -- not more than one (1) cycle?

11 MR. BRENT SANDERSON: Correct. There may
12 be timing lag within that annual gas year period. We may
13 begin to incur higher-than-forecast supplemental costs,
14 and that subsequent adjustment to match -- match that in
15 the underlying billings to customers may occur in later
16 gas quarters, but all contained within the same annual
17 period which will serve to remove those timing effects or
18 counterbalancing swings from -- that were previously
19 occurring from fiscal period to fiscal period.

20 MR. BOB PETERS: From a consumer's
21 perspective does that then reduce the size of any
22 potential rate-rider that would be added?

23 MR. BRENT SANDERSON: Yes. And we've
24 done an historical analysis and approximately 90 percent
25 of what we would bring -- we've brought forward

1 historically for subsequent disposition in our basket of
2 prior period PGVAs, as related to the supplemental gas
3 PGVA and by moving to a fiscal year management period for
4 our PGVAs, is -- or, pardon me, a gas year period as
5 opposed to a fiscal year period, would remove -- would
6 have removed about 80 percent of the variability or
7 overall magnitude in the size of those deferral balances.

8 So historically the rate-riders would have
9 been only about 20 percent of the size that they actually
10 were, had we been managing on a gas year period.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Mr. Barnlund -- or,
15 sorry, I was -- I was going to ask Mr. Barnlund a
16 question; I've decided to ask it of you, Mr. Sanderson,
17 so pretend you're him.

18 But do you -- do you track the effective
19 degree day heating calculation for the Company, or is
20 that Mr. Barnlund?

21 MR. BRENT SANDERSON: It would depend in
22 what respect, on a forecast basis or an actual basis.
23 It's -- it's tracked in a number of areas of the
24 Corporation and for a number of different purposes,
25 depending on the perspective that you're talking...

1 MR. BOB PETERS: I'd like to know the
2 actual for the year ending March 31/'09.

3 MR. BRENT SANDERSON: The actual
4 effective heating degree days?

5 MR. BOB PETERS: Yes.

6 MR. BRENT SANDERSON: I can take that as
7 an undertaking. I don't know it off the top of my head,
8 but we can provide that.

9 MR. BOB PETERS: All right. Or else you
10 can provide that to Mr. Barnlund, because he may know it
11 off the top but I'll -- I'll see him either later today
12 or tomorrow.

13 MR. BRENT SANDERSON: All right. I think
14 he'll be in a position to provide that to you.

15

16 --- UNDERTAKING NO. 1: Centra to provide actual
17 effective heating degree days
18 for the year ending March
19 31/'09

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: When you indicated to
23 the Board, Mr. Sanderson, that the effective degree day
24 heating calculation is tracked for a number of purposes,
25 can you explain to the Board what you meant by a number

1 of purposes?

2 MR. BRENT SANDERSON: Well, there's the
3 forward-looking perspective. When we -- when our company
4 puts together its load forecasts, the amount of gas
5 that's forecast to be consumed is heavily contingent upon
6 what the expectation is for weather. And so for that
7 purpose the market forecast group is defined normal as
8 the most recent ten (10) year rolling average of actual
9 effective heating degree days.

10 And then there's a number of groups that
11 perform various analysis, or analyses, throughout the
12 Corporation that look at actuals as they come in, market
13 forecasts being one (1) of them, gas accounting and so
14 forth, doing various activities such as margin analysis
15 and volume variance analysis.

16 So they're tracking the actual figures as
17 they come in and comparing them to the previously assumed
18 normals.

19 MR. BOB PETERS: What I think will be my
20 last topic then with you, Mr. Sanderson and perhaps the
21 panel, is to just look at the total gas costs. And we --
22 the Board will see that back in Tab 3 of the book of
23 documents at line 7 -- and the Board might note that
24 there have been some revisions to the Board's copies of
25 the book of documents by inserting the June 1st update

1 material; that hasn't been done for everybody else, but
2 there has been a May 29th update of the Schedule 3.0.0.

3 Mr. Sanderson, at line 7 under column 2
4 for the test year, it shows cost of gas at \$318.8 million
5 for the '09/'10 test year, correct?

6 MR. BRENT SANDERSON: Yes.

7 MR. BOB PETERS: And that '09/'10 test
8 year is also the Corporation's fiscal year?

9 MR. BRENT SANDERSON: That's correct.

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: And when the Board looks
14 at Tab 65 of the book of documents and they look to the
15 gas year cost of gas, they're seeing the \$395.8 million
16 number, correct?

17 MR. BRENT SANDERSON: Correct.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Just to make sure that
22 the reconciliation is clear on the record, is it correct
23 that the difference between the 318 million and the 395
24 million is due to the different twelve (12) month periods
25 used to calculate that number?

1 MR. BRENT SANDERSON: Yes, that's
2 correct.

3 MR. BOB PETERS: And of those two (2)
4 different twelve (12) month periods, seven (7) months are
5 common to both.

6 MR. BRENT SANDERSON: Yes, the months of
7 April 2009 through October 2009.

8 MR. BOB PETERS: And we thank you for
9 Centra Exhibit 6, and Mr. Chairman and Board members,
10 this was the largest exhibit in size that's been handed
11 out in recent memory.

12 But this schedule, Mr. Sanderson, depicts
13 for the Board the total period of time, including the two
14 (2) time periods that give rise to those two (2)
15 different gas cost numbers.

16 MR. BRENT SANDERSON: Yes, it does.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: When we turn to tab of
21 doc -- book of documents, Tab 66, we'll see a portion of
22 what you've reproduced in Centra Exhibit 6, Mr.
23 Sanderson, correct?

24 MR. BRENT SANDERSON: Yes. The first
25 twelve (12) months of that -- of that seventeen (17)

1 month schedule.

2 MR. BOB PETERS: And in turning to
3 Schedule 8.1.4, which is the last document at Tab 66 of
4 the book of documents, this is a schedule that indicates
5 to the Board that the supplemental gas, the
6 transportation and the distribution rates are going to
7 change, pursuant to the request by Centra, and that
8 request is for rates on August the 1st of 2009 and those
9 base rates would go down a total of \$6.2 million.

10 MR. BRENT SANDERSON: Correct.

11 MR. BOB PETERS: So while the base rates
12 would go down \$6.2 million, pursuant to this Schedule
13 8.1.4, the last document at Tab 66, we turn back to tab
14 of documents 56 and we find Schedule 7.1.0., and as you
15 told the Board yesterday, on Schedule 7.1.0, the Company
16 is requesting that rate-riders be added to the rates,
17 effective August 1st, 2009 to recover \$9.4 million that's
18 owing to Centra.

19 MR. BRENT SANDERSON: That's right.

20 MR. BOB PETERS: So the -- the \$9.4
21 million will show up not in base rates but only in the
22 billed rates because it's based on a rider.

23 Is that correct?

24 MR. BRENT SANDERSON: Yes, that's how we
25 intend to recover those amounts.

1 MR. BOB PETERS: Now for the consumer who
2 -- who looks at the bottom line of the bill, they won't
3 see that rates went down six point two (6.2) but up nine
4 point four (9.4). They'll just see the net impact on
5 their bills.

6 MR. BRENT SANDERSON: I guess if a
7 customer was interested enough in working their way
8 through the bill and comparing a before and after rate
9 change they could see on the various line items that the
10 base rates had gone down and the rate riders had been
11 added on.

12 But if a customer's just looking at the
13 bottom line amount of the amount owing to the Utility, no
14 it would be very difficult for them to ascertain this.

15 MR. BOB PETERS: The net increase in
16 dollar amount is about \$3.2 million being sought for
17 August 1st, 2009?

18 MR. BRENT SANDERSON: Yes, it is.

19 MR. BOB PETERS: Mr. Chairman, with those
20 answers, I'd like to thank Mr. Warden, Mr. Stephens, Mr.
21 Kostick and Mr. Sanderson. Those are all my questions.

22 THE CHAIRPERSON: Thank you, Mr. Peters.
23 Mr. Saxberg, are you ready to begin?

24 MR. KRIS SAXBERG: I think I am.

25 THE CHAIRPERSON: We will soon see then.

1

2 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

3 MR. KRIS SAXBERG: Thank you, Mr.
4 Chairman, board members, ladies and gentlemen, good
5 morning to everybody. I have brought with me a small aid
6 to cross that I'd like to circulate.

7

8 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: Sorry, thank you. It
11 looks like everyone has a copy of the compilation in
12 front of them. There -- there are no -- hopefully no
13 surprises in there. It's really a compilation of
14 documents that this Board and the panel have seen before.

15 I just want to start with a general
16 question. Mr. Stephens, the capacity management plan says
17 that weather is the main determinant of Centra's asset
18 availability and that you can't forecast the weather to
19 any degree of certainty, so therefore you can't forecast
20 capacity management revenues with any degree of
21 certainty.

22 Is that fair?

23 MR. HOWARD STEPHENS: That is one (1)
24 component of our inability to forecast capacity
25 management revenues. The weather in Manitoba, the

1 weather in eastern markets which are ultimately the
2 markets that we would use for exchanges, et cetera, prior
3 years storage balance, inventories, current market
4 conditions in terms of price for transportation, the
5 availability of transportation; there's a host of factors
6 associated with it.

7 MR. KRIS SAXBERG: And -- and I just want
8 to focus on the weather just for a moment, because in the
9 past you have -- it's sort of been a mantra that the
10 weather really is the main -- the largest of the problems
11 that Centra faces in forecasting capacity management
12 revenues.

13 MR. HOWARD STEPHENS: I think -- no, I
14 won't agree with you, Mr. Saxberg, as much as I would
15 like to. I hate to start off the morning this way. But
16 it is a significant factor but those other factors are
17 consi -- I mean play a significant role on our ability to
18 forecast capacity management revenues.

19 MR. KRIS SAXBERG: And just for the
20 clarity of the record, the -- the five (5) year rolling
21 average is really a compromise for want of anything
22 better?

23 MR. HOWARD STEPHENS: A number was
24 required, that's the number we've resolved to use, and
25 that's ultimately the number that we put in the

1 Application.

2 MR. KRIS SAXBERG: Right. So you're --
3 you're really just using it as a placeholder?

4 MR. HOWARD STEPHENS: Precisely.

5 MR. KRIS SAXBERG: Now the -- if -- if
6 you look at the first document in the compilation, it is
7 PUB/CENTRA-98, and it's really just a -- a record of the
8 capacity management forecasts and actual results. And
9 the capacity management results for '06/'07 of
10 7.9 million, they were the ones that were being discussed
11 at the last GRA Hearing and that was a record amount at
12 that time.

13 Is that fair?

14 MR. HOWARD STEPHENS: I'll -- I'll take
15 that as a given, yes.

16 MR. KRIS SAXBERG: And then the next
17 year, '07/'08, the number is higher, so I take it that's
18 a -- another record amount?

19 MR. HOWARD STEPHENS: Again, I'll take
20 that as given.

21 MR. KRIS SAXBERG: And are we headed for
22 a further record still in this -- in the forecast?

23 MR. HOWARD STEPHENS: It's very much a
24 function of the marketplace again, so for me to give you
25 a forecast as to where we look -- we're looking right now

1 -- just bear with me for a second.

2

3 (BRIEF PAUSE)

4

5 MR. HOWARD STEPHENS: Notwithstanding the
6 fact that, I mean, there are a variety of factors as I've
7 gone through, the -- the -- the simple fact that we have
8 reduced the amount of Transcanada capacity this year, and
9 -- as I indicated in the dialogue with Mr. Peters
10 yesterday, that will reduce some of our opportunities to
11 generate capacity management revenues.

12 MR. KRIS SAXBERG: You -- and -- and you
13 know, I -- it's my fault, because I -- I said the -- I
14 was referring to the forecast year and -- and appreciate
15 what you've just said there, but the -- the next year, in
16 the sequence that I was following, would have been
17 '08/'09, the year that just ended. Would that have been
18 a record amount?

19 MR. HOWARD STEPHENS: Yes.

20 MR. KRIS SAXBERG: So, in -- just --

21 MR. HOWARD STEPHENS: And that's the
22 fiscal year, let's -- let's --

23 MR. KRIS SAXBERG: Correct.

24 MR. HOWARD STEPHENS: -- let's be clear.

25 MR. KRIS SAXBERG: So just -- just -- the

1 trend that I'm trying to put on the record is that --
2 that we've had these great success in capacity management
3 and in record years in the last three (3) years.

4 Is that fair?

5 MR. HOWARD STEPHENS: We strive to
6 continuously improve and find opportunities where we can,
7 and to that extent that we had -- we've been able to
8 develop -- or generate additional -- I mean a new record
9 each year.

10 MR. KRIS SAXBERG: And is there anything
11 that Centra's been doing differently in the last three
12 (3) years that explain those record results?

13 MR. HOWARD STEPHENS: We bring new
14 counterparts to the party -- to the party, if you will,
15 it's, I mean, to our fold of counterparts that we deal
16 with, so they bring a different perspective to things.
17 They have different assets, different mixes, so they
18 provide us different opportunities in terms of generating
19 more revenues.

20 MR. KRIS SAXBERG: The more
21 counterparties the more competition for -- for the assets
22 that you're releasing.

23 Is that fair?

24 MR. HOWARD STEPHENS: Well, that's fair.
25 It's very much what I alluded to yesterday, whereas, you

1 know, locking yourself in with one (1) counterpart gives
2 you access to their intelligence with respect to the
3 marketplace, their specific sort of assets, their
4 customer base, et cetera, as opposed to dealing with a
5 number of counterparts where you have the expertise of a
6 number of different brains and the creativity associated
7 with that, as well as the different markets they
8 potentially have, different asset mixes that they have.

9 So it gives us a much greater amount of
10 flexibility in variability, in terms of the types of
11 transactions that we can put together.

12 MR. KRIS SAXBERG: So would you agree
13 then that whoever's holding the assets, whether it's
14 Centra or a -- an asset manager, the party, i.e. Centra
15 or the asset manager, that has more counterparties out
16 there, is probably going to get a better price?

17 MR. HOWARD STEPHENS: Run that by me
18 again.

19 MR. KRIS SAXBERG: Well, I -- I believe
20 what you just said is that the one (1) explanation for
21 the -- the record capacity management results is that
22 Centra has more counterparties, more counterparties more
23 competition, better chance to -- to get the best price
24 for those assets.

25 And so the question that I asked you was:

1 Therefore, whether it's Centra or an asset manager
2 holding those same assets, the party that has the most
3 counterparties, i.e., Centra or the asset managers,
4 probably didn't do the best.

5 MR. HOWARD STEPHENS: Well, whoever
6 brings the most resources to the table -- I'll give you
7 this, the party that brings the most resources to the
8 table, whether it be one (1) party or us going in and
9 signing contracts with a multitude of different parties,
10 is going to bring the greatest opportunity to the table.

11 MR. KRIS SAXBERG: Right.

12 MR. NEIL KOSTICK: And if I could add a
13 note in there. Centra transacts with a variety of
14 counterparties and all those counterparties have many
15 counterparties, so we get the full benefit of the many,
16 many counterparties out there. Furthermore, one (1) --
17 dealing with one (1) asset manager alone, that asset
18 manager may not transact with other marketers that it
19 views as competitors in a particular market.

20 MR. KRIS SAXBERG: Now, just getting back
21 to the weather for a moment, one (1) thing I noted was --
22 if you -- if you look at the third page of the
23 compilation, it's got the effective degree days for the
24 various years where you have the results of the Capacity
25 Management Program.

1 So for instance, '07/'08 would be a cold
2 year because the average is four thousand four hundred
3 (4,400) approximately. That's the normal year?

4 MR. HOWARD STEPHENS: Are you referring -
5 - what year was that? Is that on page 405?

6 MR. KRIS SAXBERG: Yeah, I'm looking at
7 page 3, sorry, of --

8 MR. HOWARD STEPHENS: Okay.

9 MR. KRIS SAXBERG: I've numbered the --

10 MR. HOWARD STEPHENS: I see.

11 MR. KRIS SAXBERG: -- pages in the top
12 right-hand corner.

13 MR. HOWARD STEPHENS: And your question
14 was?

15 A normal weather year is four thousand
16 four hundred (4,400) EDDH.

17 MR. BRENT SANDERSON: Four thousand four
18 hundred and thirty (4,430), as of the calculation
19 performed for the rolling ten (10) year period ending in
20 2007/'08.

21 MR. KRIS SAXBERG: Okay. And so -- but
22 what I'm trying to elicit here is which of these years
23 was warm, which of these years cold, which was average,
24 based on the information in front of us.

25 Do I have it right that '06/'7 would be

1 around average, around normal, and that '097/'08 would be
2 colder?

3 MR. BRENT SANDERSON: I think it's
4 important to bear in mind that the average is a moving
5 target and changes from year to year. If you want to use
6 as your benchmark the figure that you just -- that we
7 just discussed -- the rolling ten (10) year average as
8 calculated as of the end of March 2008, then you could
9 say if you found a year -- and which year were you
10 characterizing as average?

11 MR. KRIS SAXBERG: '06/'07.

12 MR. BRENT SANDERSON: It's close to that
13 average.

14 MR. KRIS SAXBERG: And then the -- the
15 year -- the '07/'08 year which would be right on, I
16 guess, with the mess -- methodology.

17 How would you characterize that then?

18 MR. BRENT SANDERSON: Relative to the
19 benchmark that we're referring to here, it would be
20 colder than normal.

21 MR. KRIS SAXBERG: Okay. And so we've
22 got '07/'08 as colder than '06/'7, and if we flip back to
23 the results, we see for '06/'07 and '07/'08 and we make
24 the comparison, there really -- there really isn't a
25 difference in terms of the revenue that was generated by

1 the Capacity Management Program, notwithstanding the
2 variability in the weather.

3 MR. HOWARD STEPHENS: I think may --
4 you're take -- making much too simplistic approach or
5 taking a much too simplistic approach to this.

6 MR. KRIS SAXBERG: It's my style though.

7 MR. HOWARD STEPHENS: Yes. And it's very
8 easy to gloss over this from that perspective. The only
9 thing -- the difference between the two (2) years would
10 have a material impact that you could potentially say --
11 and even this, none of it with absolute certainty, is
12 that in the colder year, assuming the cold weather
13 occurred during the winter months when we were
14 withdrawing storage and backhauling gas that would have
15 given us more opportunities in that circumstance to do
16 exchanges.

17 Now, the value of those exchanges, I don't
18 know. I mean, that's the a functions of the marketplace.
19 The demand for them, I don't know, because, again, a
20 function of the marketplace. Because you require not
21 only cold weather in our markets so that we're pulling
22 the gas out of storage, but you also have to have cold
23 weather downstream in order to make a market for that
24 capacity. It could be very warm in the east and in that
25 circumstance we would not have that -- I mean, that --

1 that transaction just would not work out. It would not
2 be in the money.

3 The -- the weather variation and the very
4 -- weather variability that we're talking about is during
5 the course of the day, and we cannot, you know, commit on
6 a go-forward basis precisely what we're going to have
7 available, in terms of capacity to exchange in the winter
8 months, and by the same token in the summer months how
9 many -- excess capacity on the pipeline in it, much in
10 advance of the day.

11 We have to leave a certain amount of
12 flexibility in that day so that if the weather chan --
13 fore -- forecast, not if the weather forecast changes;
14 when the weather forecast changes, we can adjust our
15 overall game plan for that day to satisfy other
16 requirements to meet the Manitoba load.

17 MR. BRENT SANDERSON: I'd just like also
18 to add that it's -- it's misleadingly simplistic to look
19 at the total effective degree days in a given year and
20 find another year where the total may have been similar
21 and both of those might possibly have been similar in
22 total to what you would characterize as average or
23 typical.

24 It's true that I can find possibly ten
25 (10) years in the historical record where the total

1 look at the results though on capacity management, we see
2 that in '04/'05 we've got \$4 million of revenue, but
3 we've got twice that amount for '07/'08 and yet we have
4 similar weather.

5 See that?

6 MR. HOWARD STEPHENS: I do.

7 MR. KRIS SAXBERG: So that's why I say, I
8 think we're coming to the same point, that weather --
9 weather isn't the number 1 determinant of -- of capacity
10 management revenues. It's -- it's a factor, there's no
11 question about it in terms of the assets being released.
12 But -- but the market is -- is going to be a very
13 important driver of the results.

14 Is that fair?

15 MR. HOWARD STEPHENS: No, I don't agree
16 with you, Mr. Saxberg. That is not the answer that I
17 gave you. I gave you a very lengthy answer with respect
18 to this, almost I think the second question into it, that
19 weather -- and we talk about this, I mean whether we're
20 talking about on an annual basis, a fiscal basis, you
21 know, on a gas year basis, annual weather has an impact.
22 Day to day variability has an impact. And there are a
23 host of other factors that have an impact on the ability
24 to generate those revenues.

25 So you're trying to simplify this and it's

1 not legitimate for you to do that.

2 MR. KRIS SAXBERG: I -- I was just -- we
3 started off the conversation by noting that more
4 counterparties, more competition, and the state of the
5 market is going -- has gone a long way to explaining the
6 last three (3) record years, correct? We're still on
7 track on that?

8 MR. NEIL KOSTICK: If I could jump in,
9 just with respect to the discussion on weather, and just
10 to perhaps demonstrate the importance of weather.

11 Let's take for example in the winter
12 months when we may be exchanging storage gas on days when
13 we're actually pulling storage gas. If we don't need
14 storage gas, we can't enter into any exchanges and we
15 can't derive any revenue from storage exchanges if we
16 don't need storage gas, so therefore it doesn't matter
17 where the market is.

18 The basis differential could be big, it
19 could be small; if the weather dictates that we don't
20 need storage gas, we don't do storage exchanges.

21 Similarly, in the summer months, for
22 example in April or May, if the weather is cold and we
23 have no excess capacity, there's no opportunity to
24 release capacity, regardless of what value that capacity
25 may have in the market.

1 MR. KRIS SAXBERG: Yeah. And I
2 absolutely appreciate that, but let me throw this back at
3 you then: If the market profitability in the -- through
4 the number of counterparties, or just through the
5 differential between AECO and MichCon for exchanges, is
6 such that there's a lot of differential and so therefore
7 a lot of profit, you may have 50 percent less exchanges,
8 but you still may make more money, correct?

9 MR. HOWARD STEPHENS: That's a given,
10 yeah. I'll agree. I mean, if you have, you know, twice
11 the rate and half the volume it amounts to the same
12 thing.

13 MR. KRIS SAXBERG: Right.

14 MR. HOWARD STEPHENS: So it's simple
15 math.

16 MR. KRIS SAXBERG: But you could have --
17 you could have three times the volume. You could use
18 every gigajoule of gas out of storage, but if there's no
19 differential there's absolutely no revenue?

20 MR. HOWARD STEPHENS: That's correct.

21 MR. KRIS SAXBERG: So that's why I come
22 to the fact that the market and the differential is
23 pretty important in this analysis.

24 MR. HOWARD STEPHENS: Mr. Saxberg, I
25 think I said -- I mean, my response in the -- my third

1 response to this was weather was not the only
2 consideration. It is a significant consideration but
3 there are a variety of factors and the marketplace is one
4 (1) of those factors.

5 MR. KRIS SAXBERG: Okay. And so --
6 thank you for that and we'll -- we'll come back to that
7 later when we talk about Mr. Stauff's proposal.

8 Just going back to the -- the business
9 plan itself. The last time that we had this discussion
10 it was supposed to be completed in August of 2007 and
11 it, as we know, wound up not being finished until quite
12 recently.

13 Is there a reason for that?

14 MR. HOWARD STEPHENS: The reason is that
15 we didn't get it until such time as we submitted it.

16 MR. KRIS SAXBERG: And so it was a work
17 in progress for some time, is I guess the only point that
18 I'm making.

19 Is that fair?

20 MR. HOWARD STEPHENS: Correct. It was I
21 mean one (1) of many tasks that we had put before us, and
22 in terms of prioritizing and given the resources that we
23 have available, this one (1) took a secondary position
24 relative to some of the other more critical components.

25 MR. KRIS SAXBERG: So am I

1 oversimplifying things when I say the conclusion is let's
2 not change a thing?

3 MR. HOWARD STEPHENS: I'm glad you put
4 that question to me, because I think the perspective
5 you're coming from is that we are absolutely and in no
6 way interested in doing this, simply because we have done
7 it one (1) way forever and ever. And perhaps your
8 perception is that I get greyer and older, that I'm
9 becoming more and more set in my ways and not prepared to
10 indulge in new ideas and that sort of thing.

11 And I can assure you, sir, that we look at
12 each and every opportunity to try and generate more
13 revenues through our Capacity Management Program. But
14 this, like so many other things, it's very easy to take
15 your eye off the ball, in terms of your overall
16 objective, in terms of serving the marketplace and look
17 at one (1) component of our overall portfolio and say
18 this is what I want to focus on, this is a very important
19 component of it.

20 But I -- I look at the -- our portfolio
21 from the broader perspective of what's our overall cost
22 of gas. This component of it is a secondary
23 consideration. Our first consideration is serving the
24 load, there's \$400 million worth of assets in gas
25 involved in that. We're talking about \$6 million here.

1 This has a lower priority associated with it.

2 And if I thought that, without taking on
3 undue risk, we could make more money, we would do that.
4 And we would have had that dialogue with other
5 counterparts, to hive off say a small portion of it, to
6 do a pilot project, especially after given the dialogue
7 that we had last year.

8 I mean, I charged the people that work
9 with me to look at that. And we've -- I mean and we've
10 had evidence over the course of yesterday that we did
11 have two (2) counterparts come forward with proposals
12 that they were going go take and manage a portion of our
13 storage. Once we went through all of the details
14 associated with it, in terms of how we would manage that,
15 they walked away because there was just no money to be
16 made for them, because of the variability that we have in
17 terms of making a forecast as to how much gas they can --
18 want to deliver the next day, and our inability to -- to
19 guarantee that we can take it.

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

25 MR. KRIS SAXBERG: Thank you for that.

1 And I'll just put a little more precision on that last
2 comment. What you are saying is there are no more risk-
3 free opportunities that you believe are being left on the
4 table, because yesterday you said there might be some --
5 some risk iss -- opportunities that you are leaving on
6 the table. But there are not risk-free opportunities
7 that you're leaving on the table.

8 MR. HOWARD STEPHENS: I'll agree with
9 that. Our Capacity Management Program -- and I have said
10 this since I've been sitting in this chair, dealing with
11 these issues -- we do not enter into transactions where
12 we will lose any money. We always -- we always make
13 money on these transactions. They may be small margins,
14 but we always make money and they are very conservative.
15 And I think it's appropriate, as a utility, for us to
16 take conservative approaches to this type of transaction.

17 MR. KRIS SAXBERG: And later --
18 hopefully, not much later -- I'm going to get into
19 whether there are any other risk-free opportunities out
20 there, so we'll have that discussion.

21 But just following up on the Capacity
22 Management Report, am I correct though that there is not
23 a single recommendation in that report for any
24 modification to your Capacity Management Program?

25 MR. NEIL KOSTICK: There's no specific

1 recommendation, but as we've discussed yesterday, we talk
2 to counterparties every single day -- several
3 counterparties every single day -- and discuss any ideas
4 that they may have or that we may have for different
5 transactions.

6 Typically, given the type of assets that
7 we may have available, in terms of storage exchanges, by
8 virtue of the fact that we'd be backhauling storage gas,
9 or excess capacity under warmer weather conditions, in
10 which we could execute a capacity release, given those
11 assets that we would have to execute those transactions,
12 basically, they wind up being variations of the same
13 broad category of transaction.

14 As we discussed in this Capacity
15 Management Business Plan, there are two (2) broad
16 categories of transactions: Capacity release and storage
17 exchange. There are variations of those types of
18 transactions which we've noted as well, and we engage in
19 those discussions as far as how to extract extra value
20 from those types of transactions.

21 As an example, with storage exchanges,
22 through our discussions with counterparties we've
23 identified opportunities to extract additional value
24 through storage exchanges by deferring paybacks. So, for
25 example, a counterparty may deliver gas to us when we

1 need it in December or January, and we'll pay it back to
2 them at a later month, February, March, or what have you,
3 such that seasonal price spreads, or month-to-month price
4 spreads can be taken advantage of.

5 So those are modifications that we make
6 through our discussions with counterparties, and we enter
7 into those types of transactions to extract additional
8 revenue. We have those conversations all the time to
9 attempt to find different ways to fine tune our
10 transactions and make variations that can result in
11 additional revenue.

12 Another example of changes that we would
13 make as a result of our discussions with our
14 counterparties is the 20,000 gigajoule per day firm
15 transportation that we entered into for eight (8) months.
16 That's not recorded as a capacity management transaction,
17 but it's an eight (8) month deal where we can offload
18 four (4) months of fixed transportation costs on
19 Transcanada and the eight (8) months of firm transport
20 that we did put in place was at a discount to approve
21 Transcanada Pipeline tolls.

22 So we are constantly looking at ways to
23 improve and do different variations of transactions. But
24 as far as whole-scale new ideas, we're always open to
25 discussion.

1 Our counterparties are all very familiar
2 with our portfolio. And noteworthy, when we RFP'd the
3 gas supply contract at fifty (50) parties, we gave a full
4 description of our portfolio and how we operate. So
5 fifty (50) counterparties are out there with our
6 portfolio on their table. If they have ideas they can
7 certainly contact us. We'll have any discussion that
8 they are interested in having.

9 However, the risk has to be always
10 evaluated in any of these transactions, and the
11 particular -- one (1) particular storage-related asset
12 management arrangement that Mr. Stauff has proposed, it
13 turns credit upside-down for us, in terms of having one
14 (1) supplier for an enormous volume of gas over a long-
15 term arrangement. Where we -- our preference is to
16 engage in multiple small transactions with numerous
17 parties for relatively small volumes such that we're
18 diversifying credit risk and we're managing our credit
19 risk in small chunks, as opposed to one (1) large piece.

20 MR. KRIS SAXBERG: Okay. Maybe that
21 answers my question, because really what I wanted to know
22 is how is it that, you know, a report that's been under
23 construction for three (3) years couldn't find any
24 specific areas of improvement. But I take it what you're
25 saying is you haven't mentioned those in the report, but

1 those are things that have been going on. It wasn't
2 something that you put in the report.

3 MR. HOWARD STEPHENS: It -- it's a matter
4 of course. I mean, then we -- we entertain any num --
5 one of a number of transactions and something that we
6 enter into -- a transaction that we enter into today can
7 morph into something entirely different by the time that
8 a season is over. So it's not just as simple as we go
9 and do X, Y, Z transaction; we will look -- I mean, look
10 at transactions.

11 And dealing with very creative
12 counterparts -- I mean, perhaps as the circumstances
13 change during the course of the season, the nature of the
14 transaction will change. So it's -- it's not as cut and
15 dry and black and white as you would like to paint it. I
16 wish it were so that I could give you a definitive answer
17 with respect to this issue, but it is not that -- that is
18 not the case.

19 And unless you're involved in it on a day-
20 to-day basis, it's impossible for me to describe to you
21 all the different variations and permutations of the
22 types of transactions that we do.

23 MR. KRIS SAXBERG: Okay. And just on the
24 apropos of simplifying things, you'd agree that, broadly
25 speaking, the three (3) assets that Centra has to manage

1 are the gas supply, transportation, and storage?

2 MR. HOWARD STEPHENS: No question about
3 it.

4 MR. KRIS SAXBERG: And I think at the
5 last hearing it was referred to as a three (3) legged
6 stool and -- and that there was interrelation between
7 them all I guess keeping the seat up.

8 MR. HOWARD STEPHENS: I'll accept that.

9 MR. KRIS SAXBERG: But having said that,
10 in this Hearing what's being proposed by Mr. Stauff is to
11 pull out one (1) of those legs of the stool and look at
12 it in isolation, and it's a small piece, and analyse that
13 discreetly.

14 You'd agree that that's what Mr. Stauff's
15 saying?

16 MR. NEIL KOSTICK: If I could jump in. I
17 -- I'm not sure I could describe pulling out storage as a
18 small piece, given that -- that is the single most viable
19 asset within Centra's portfolio; as we noted, at the
20 start of the last winter, about \$140 million. So I
21 wouldn't agree with the characterization that it's small.

22 MR. KRIS SAXBERG: Okay. It's one (1) of
23 the three (3) pieces. And when I said small just so you
24 understand, what I meant was of the total capacity
25 management revenues, it's a smaller portion of the

1 transportation capacity release.

2 MR. NEIL KOSTICK: But the capital of
3 that risk associated with Mr. Stauff's proposal is many
4 magnitudes greater than anything that we've engaged in to
5 this point.

6 MR. KRIS SAXBERG: Okay. Let me try it
7 this way. Centra itself thought it might not be a bad
8 idea to hive off that little piece -- which I'm calling
9 "little," we'll call it the -- the storage gas piece --
10 and consider outsourcing it.

11 MR. HOWARD STEPHENS: Certainly. I mean,
12 given the amount of dialogue that we've had over the --
13 about this over the years, it's incumbent upon us, I
14 mean, to demonstrate that we're doing the best we can do
15 for the consumers, and we're very mindful of that. And
16 certainly when I come and sit here and have to
17 demonstrate prudence, in terms of gas costs, it's very
18 much on my mind in terms of are we doing everything we
19 can possibly do to satisfy our customers.

20 So from that perspective -- I'm not
21 turning a deaf ear to you, in terms of the suggestion.
22 All I'm saying is that we have looked at it and we're not
23 satisfied that the incremental reward associated with it
24 is worth the incremental risk that we would incur.

25 MR. KRIS SAXBERG: Thank you. And I --

1 and I have your position on that, so just for the
2 simplicity of the record, it is the case that Centra has
3 contemplated assigning away that storage piece and
4 letting someone else manage it, contemplated it.

5 MR. HOWARD STEPHENS: I'm sorry I was
6 dialoguing with my boss here.

7 MR. KRIS SAXBERG: I do have it right
8 though that Centra Gas on its own has contemplated hiving
9 off the -- or assigning the storage gas and letting
10 someone else manage it?

11 MR. HOWARD STEPHENS: I'd suggest sir,
12 that we've gone farther than that and we sent our assets
13 out, an RFP out a hundred years ago -- I mean, I can't
14 remember what year it was; '01, sorry; I'm reminded of it
15 here -- where we looked, I mean, and we invited the big
16 players in the marketplace to come forward and make
17 proposals to us. And in that circumstance we didn't get
18 a proposal that was sig -- significantly attractive for
19 us to engage.

20 MR. KRIS SAXBERG: Yeah, that's right.
21 And it's -- that was 2000, by the way, and that was for
22 all of your assets that was related to transportation,
23 gas supply storage, correct?

24 MR. HOWARD STEPHENS: Yeah.

25 MR. KRIS SAXBERG: And -- and then later,

1 in 2007 -- and this was -- I -- I'm getting this from --
2 from previous testimony -- in 2007, you had a discussion
3 with a marketer and the idea was you were considering now
4 just trying to isolate one (1) component and that would
5 be storage gas component, correct?

6 MR. HOWARD STEPHENS: That's correct.

7 MR. KRIS SAXBERG: And -- and that's what
8 Mr. Stauff is proposing in this Hearing, is he's just
9 talking about the storage gas component, correct?

10 MR. HOWARD STEPHENS: Actually, it's
11 being characterized as storage value and really what
12 we're talking about not -- is not the storage value. I
13 mean, the value of the storage is actually irrelevant to
14 the equation. It's the fact that we withdraw gas from
15 storage and put it on the pipeline and we're providing a
16 virtual transportation.

17 So, I would reject his, I mean, original
18 premise, in terms of terminology. We are not talking
19 about moving storage or transferring storage or anything
20 else, from the -- the most part. We're talking about
21 providing, under the exchange scenario, a virtual
22 transportation service and what's the value of that.

23 MR. KRIS SAXBERG: Okay. And now, if
24 you'd just look at Schedule 7, which is the next page,
25 page 4. And -- and really, all I'm trying to do with

1 this, before I get into Mr. Stauff's proposal, is orient
2 the Board, in terms of what it is that we're fighting or
3 arguing about. And if you look at page 4 and you go down
4 to pa -- to -- and it's Schedule 7.0 from the previous
5 GRA Application, if you go down to lines 39 and lines 40,
6 there's a line at -- line 39 says, "Storage gas primary
7 supply," and line 40 says "Exchanges with
8 counterparties". And then you can view the actuals under
9 the middle column.

10 Do you see that?

11 MR. HOWARD STEPHENS: I see it.

12 MR. KRIS SAXBERG: And essentially -- and
13 I want to make sure I got this correct -- that it's
14 saying that there was \$32 million worth of gas that came
15 out of storage by way of backhaul, and then there was
16 \$36.7 million of gas that was -- that got to Manitoba by
17 virtual transportation through an exchange or numerous
18 exchanges, correct?

19

20 (BRIEF PAUSE)

21

22 MR. HOWARD STEPHENS: Now that I've
23 consulted can you give me the question again?

24 MR. KRIS SAXBERG: I -- I just want
25 confirmation that we had approximately \$69 million of --

1 of gas that came out of storage and made its way to
2 Winnipeg. \$32.8 million of that was via backhaul, the
3 traditional method, and \$36.7 million of that was by
4 virtual transportation, arranged through an exchange with
5 a counterparty, or numerous exchanges with
6 counterparties.

7 MR. HOWARD STEPHENS: Correct.

8 MR. KRIS SAXBERG: And now if we flip the
9 next page over and just see how -- how things are
10 unfolding, in terms of that division in -- in the current
11 go-around.

12 Now here we're looking at the actual costs
13 of '07/'08, and -- and you go to that same line, 39 and
14 40, and can you confirm we had, again, \$32 million worth
15 of gas that made its way back to Winnipeg by way of the
16 traditional backhaul -- and this is just relating to
17 primary gas and I do understand that -- and then \$29
18 million related -- it was brought back to Manitoba by
19 virtual transportation arranged through an exchange with
20 numerous counterparties, correct?

21 MR. BRENT SANDERSON: I just think it's
22 important to note that you can't ignore the supplemental
23 supplies that arrived in Manitoba from storage, by virtue
24 of counterparty exchange. Just to look at primary, in
25 and of itself is -- does -- is not sufficient to paint

1 the picture.

2 So if you go to line 44 you must consider
3 the exchanges with counterparties, related to
4 supplemental supply. So in total there was approximately
5 \$42 worth of commodity that was landed in Manitoba during
6 that period that made it here by virtue of a counterparty
7 exchange.

8 MR. KRIS SAXBERG: I -- I was just going
9 to do it one (1) at a time but that's exactly the point
10 that I was getting to. I wanted to get to the final
11 number, which is -- the only reason it wasn't
12 supplemental last time is because you didn't use any
13 supplemental gas. You never got that far into the
14 storage.

15 So the bottom line is, in the first year
16 we looked at we were talking \$36 million worth of virtual
17 transportation gas that got here by way of virtual
18 transportation. In the next year it's 42 million.

19 Is that fair?

20 MR. HOWARD STEPHENS: I can agree with
21 that.

22 MR. KRIS SAXBERG: And then if we -- if
23 we look to the next page, page 6, which is Mr. Stauff's
24 Appendix 1. And here Mr. Stauff has indicated under
25 "Actual Revenue" that's -- it's one of the -- the final

1 column, third bolded item -- actual revenue for the
2 '06/'07 gas year was 13 -- \$1.3 million, and that's --
3 that's from -- from Centra's Application.

4 So you'd agree with that?

5 MR. HOWARD STEPHENS: Subject to check,
6 yes.

7 MR. KRIS SAXBERG: Yeah. And if you flip
8 the next page I have Centra's Appendix A following it.
9 Anyway, the point of it is that the \$36 million of gas
10 that got to Manitoba by virtue of a -- virtual
11 transportation through exchanges, produced a \$1.3 million
12 profit in '06/'07, correct?

13 MR. NEIL KOSTICK: That -- that's not
14 correct. The amount that's realized, in terms of
15 revenue, has nothing to do with the value of the gas,
16 because what we're marketing in the sense is not the gas
17 as we discussed yesterday; we're marketing virtual
18 transportation.

19 So the \$1.3 million, as reflected, of
20 virtual transportation between Manitoba and Michigan has
21 nothing to do with the price of gas, or the value of the
22 gas.

23 MR. KRIS SAXBERG: Okay. We'll just move
24 forward to the next year and then we'll come back to
25 that. The next year -- I -- I wasn't making the

1 connection, so let -- without -- you've taken it to the
2 conclusion level. All I'm saying is the value of the gas
3 that -- that came here by virtue of virtual
4 transportation in '06/'07 was 36 million, and the amount
5 of revenue from the virtual transportation arrangement
6 was 1.3 million for '06/'07.

7 MR. HOWARD STEPHENS: And -- and Mr.
8 Kostick agreed with you, but I think it's misrepresenting
9 or obfuscating the fact that the value of that gas is
10 irrelevant to those transactions.

11 MR. KRIS SAXBERG: And the next year --
12 just for the record, before I ask you a question about
13 that, the next year it's 1.8 million of revenue for
14 approximately \$42 million of value of gas that -- that
15 came up.

16 MR. HOWARD STEPHENS: Mr. Saxberg, the
17 gas could be worth a penny and it's not relevant to the
18 transactions that were talking about.

19 MR. KRIS SAXBERG: The volume of gas is
20 definitely relevant. Would you agree with that?

21 MR. HOWARD STEPHENS: And it's not -- but
22 we are not talking volume. The dollars that you're
23 reflect -- I mean the numbers that you're talking about
24 are the dollar value associated with the gas that we're
25 using the virtual transportation for. It has absolutely

1 nothing to do with the transaction that we're talking
2 about.

3 MR. KRIS SAXBERG: Well, the value of
4 that gas -- the value of the differential between AECO
5 and in Michigan is driving that \$1.3 million to a large
6 extent, correct?

7 MR. HOWARD STEPHENS: Absolutely. It's -
8 - it is the differential -- basis differential -- or
9 whatever the fair market value is for that prod -- I
10 mean, for that capacity on those particular days that we
11 do transactions that is relevant, in terms of developing
12 -- or arriving at the \$1.3 million of revenue. The
13 amount or the value of the gas that's being transported,
14 or virtually transported, is completely irrelevant to
15 this discussion.

16 MR. KRIS SAXBERG: But there isn't a
17 document in here that I -- I -- that I've been able to
18 identify quickly that shows the -- the amount of
19 gigajoules out of storage -- out of -- out of storage in
20 any given year that I could compare with the 1.3 million
21 for one (1) year and then compare with the 1.8 million.

22 MR. HOWARD STEPHENS: I'll have to give
23 it some --

24 MR. KRIS SAXBERG: Maybe this might be
25 the -- the right time for a morning break.

1 THE CHAIRPERSON: Okay, let's take the
2 break now. Thank you.

3

4 --- Upon recessing at 10:31 a.m.

5 --- Upon resuming at 10:54 a.m.

6

7 THE CHAIRPERSON: Okay, Mr. Saxberg.

8

9 CONTINUED BY MR. KRIS SAXBERG:

10 MR. KRIS SAXBERG: Thank you, sir. When
11 we left off, we -- I was exploring the possibility of --
12 of whether Centra could do a cents-per-gigajoule for
13 virtual transportation.

14 MR. NEIL KOSTICK: I'm sorry, I don't
15 recall that question.

16 MR. KRIS SAXBERG: Sorry. Well, we -- we
17 -- at first we were beginning by just noting the amount
18 of virtual transportation gas coming out of storage by
19 way of the dollar amount. And then I was being chastised
20 for making any connection between that dollar amount and
21 the exchange revenue. And then I believe I asked whether
22 it -- the Company is aware of the -- the amount of
23 gigajoules that come out of storage for virtual
24 transportation.

25 MR. NEIL KOSTICK: It's not explicitly

1 given in any of the schedules, I believe, but by looking
2 at the dollar -- dollar amounts on that schedule you --
3 you are referring to, you can infer the rough percentage
4 of what was exchanged versus what was directly
5 backhauled.

6 MR. KRIS SAXBERG: And really, all I was
7 trying to do before I got onto the other question was
8 orient the Board as to how these exchanges are working.

9 Is it fair to say that on a -- on a very
10 rough basis, it -- it appears that half of the gas coming
11 out of storage in the last two (2) years has come by way
12 of virtual transportation through exchanges?

13 MR. NEIL KOSTICK: That's ballpark,
14 correct.

15 MR. KRIS SAXBERG: And would it -- would
16 it be possible for Centra, when it does a transaction, to
17 calculate -- well, let me back up.

18 When you do a daily exchange transaction,
19 there's no question you know the volumes?

20 MR. NEIL KOSTICK: On any particular
21 transaction we know the volume.

22 MR. KRIS SAXBERG: And you also know the
23 amount of capacity management revenue derived from that
24 transaction, correct?

25 MR. NEIL KOSTICK: Correct.

1 MR. KRIS SAXBERG: And you will also be
2 able to access the differential between the AECO price of
3 gas and the Michigan price of gas, which is driving the
4 transportation costs in the -- this arrangement as -- as
5 we've discussed?

6 You'd know that as well, correct?

7

8 (BRIEF PAUSE)

9

10 MR. NEIL KOSTICK: I'm sorry, could you
11 just restate your last question?

12 MR. KRIS SAXBERG: The last question was:
13 You would know the basis differential between AECO and --
14 and Michigan with -- at the time that you do your
15 exchange transaction?

16 MR. NEIL KOSTICK: Yes.

17 MR. KRIS SAXBERG: So could we not --
18 could you not put all three (3) of those pieces of
19 information together to determine whether you're --
20 Centra's achieving, you know, consistent fair market
21 value for the virtual transportation that it's selling?

22 MR. NEIL KOSTICK: We do that in real
23 time every day and the final check on whether the value
24 we're getting is reasonable is on the multiple quotes
25 that we get from our counterparties.

1 I think it should be noted that not all
2 the counterparties we talked to on a given morning get
3 our business. They may quote too low or they may quote a
4 price that's not reflective or not reasonable with
5 respect to what we're modelling with real time
6 information. And if those parties aren't giving us
7 quotes that in the ballpark, then they're not going to
8 get the business and we'll tell them they have to do
9 better.

10 So the final check and the best check is
11 the quotes that we receive in the marketplace and we
12 verify through our own modelling that the value is
13 appropriate.

14 MR. KRIS SAXBERG: But you could do a
15 micro analysis of the transactions to determine a trend
16 in terms of whether or not -- how much cents per
17 gigajoule of virtual transportation you're getting
18 related to the basis differential?

19

20 (BRIEF PAUSE)

21

22 MR. NEIL KOSTICK: A couple of points. I
23 think you're probably already aware that where we
24 withdraw storage from is not a liquid trading point;
25 therefore, we have to infer transportation costs that the

1 counterparty would incur upon taking gas from us and
2 moving it to a liquid market. Therefore, there is some
3 estimation involved in that respect.

4 Secondly -- if you hold on for one (1)
5 second. Sorry, the -- the basis differentials change
6 literally second by second, so, as far as trying to
7 establish a trend as far as doing well or not doing well,
8 you could do a transaction at 8:10 in the morning and do
9 the exact same transaction at 8:15 in the morning and it
10 will do it at a different price or you could do it a
11 minute later and it would be at a different price. It
12 could be higher or it could be lower.

13 So as far as trying to establish a trend
14 in terms of revenue derived from individual transactions
15 over any period of time, it wouldn't give you any
16 information that's useful.

17 MR. KRIS SAXBERG: But when the quotes
18 come in, can't you ask as to what their -- their assumed
19 basis differential is?

20 MR. NEIL KOSTICK: No, they would not
21 give out that information; that's market-sensitive
22 information of their own information that they would not
23 share. That would give us too much information as far as
24 what we should be expecting from them in terms of their
25 quote; that's not the way the market works and the way

1 that transactions work.

2 MR. KRIS SAXBERG: Okay; thank you. This
3 is a question more of the discovery nature.

4 When you -- when you replace backhaul with
5 virtual transportation, is there -- are there any
6 variable costs that are avoided?

7 MR. NEIL KOSTICK: No.

8 MR. KRIS SAXBERG: Now, just going back
9 up to the high level, when Mr. Stauff was here two (2)
10 years ago what he was saying is that there are times
11 during the year because of the basis differential that
12 we've discussed where the cost of viewing -- using
13 storage gas is higher than selling that gas in Michigan
14 and replacing it with Alberta-sourced gas; that was just
15 sort of a high-level, general picture of -- of what -- of
16 what is occurring.

17 Would you agree with that
18 characterization?

19 MR. HOWARD STEPHENS: There could be
20 circumstances that would allow that, yeah.

21 MR. KRIS SAXBERG: And just theoretically
22 it's possible what Centra could do on a day-to-day basis
23 or multiple times during the day is it could take its gas
24 and sell it directly in the Michigan market and then turn
25 around and make its own arrangements for gas out of

1 Alberta on a delivered service; correct, theoretically?

2 MR. HOWARD STEPHENS: Well, to this point
3 any gas that we buy would have to be purchased from Nexen
4 because they have the exclusive rights to provide us with
5 Western Canadian-based gas. So it would depend upon the
6 price, obviously, and the relative price that we could
7 sell it as to whether or not that transaction would be
8 profitable.

9 MR. KRIS SAXBERG: But you're agreeing
10 that it can be done?

11 MR. HOWARD STEPHENS: Just about anything
12 can be done, Mr. Saxberg.

13 MR. KRIS SAXBERG: And -- as a matter of
14 fact, I mean, it has been done by Centra, correct?

15 MR. HOWARD STEPHENS: It has been done by
16 Centra.

17 MR. KRIS SAXBERG: So we know that it can
18 be done.

19 MR. NEIL KOSTICK: I would just like to
20 make a note with respect to that type of transaction, is
21 that if you are making separate transactions to sell gas
22 in Michigan and we would also buy gas out of Alberta,
23 you're introducing a market risk in terms of prices
24 moving and -- because you're not executing those
25 transactions simultaneously, therefore, you are at risk

1 to take a loss on a transaction.

2 MR. KRIS SAXBERG: I -- I couldn't have
3 coached you to give a better answer, because it segues
4 perfectly into -- to what I wanted to ask you, which is:

5 What Centra does instead of doing the
6 buy/sell arrangement that we just discussed, is that
7 Centra does an exchange. And the exchange mitigates the
8 risk that you just described, the market risk; correct?

9 MR. NEIL KOSTICK: The exchange requires
10 the counterparty to take on that risk.

11 MR. KRIS SAXBERG: The exchange
12 completely eliminates the risk that you just spoke of;
13 the risk being that Centra would have to go to the market
14 and sell it for a price that's higher than they can buy
15 gas and have it delivered from Alberta; correct?

16 MR. HOWARD STEPHENS: Well, it doesn't
17 eliminate all risk. I mean, there is -- I mean, con --
18 potential for counterpart -- count -- counterparty
19 failure, that sort of thing. But, generally speaking,
20 your -- your assumption is right.

21

22 (BRIEF PAUSE)

23

24 MR. KRIS SAXBERG: Sorry, and that's
25 because the counterparty that is involved in the exchange

1 may very well have to do both those things. It --
2 depending on -- I mean, it could do other transactions,
3 but it could sell the mar -- the gas itself and then
4 arrange -- it -- it does arrange for the delivered
5 service to the Manitoba market; correct?

6 MR. NEIL KOSTICK: That's correct.

7 MR. KRIS SAXBERG: Now, the counterparty
8 on a daily exchange -- and these exchanges can happen
9 more than once in a day and they can happen through --
10 and they happen throughout the winter, correct?

11 MR. NEIL KOSTICK: Correct.

12 MR. KRIS SAXBERG: So, but these
13 counterparties on a daily exchange are really simply a
14 miniature version of -- of what Mr. Stauff is proposing
15 in this application for the entire winter, correct?

16 MR. NEIL KOSTICK: I would agree.

17 MR. KRIS SAXBERG: And you'd also agree
18 that the term of any agreement that Mr. Stauff is -- is -
19 - is proposing, it need not be longer than the winter and
20 it could even be shorter, correct?

21 MR. NEIL KOSTICK: It's not what he
22 proposed, but anything is possible.

23 MR. KRIS SAXBERG: And there was some
24 talk about Centra losing its skills in terms of its
25 trading abilities and knowledge of the market. But with

1 what Mr. Stauff's proposing, i.e., a one (1) year
2 arrangement only related to these exchange revenues,
3 there's no concern about that, correct? There's no
4 concern about anyone losing any internal expertise on Mr.
5 Stauff's proposal?

6 MR. HOWARD STEPHENS: Well, Mr. Stauff's
7 proposal is so theoretical, it was very hard for me to
8 respond.

9 MR. KRIS SAXBERG: Well, Centra was
10 considering doing this itself, and -- and say it had done
11 it for one (1) winter where it, instead of negotiating
12 with multiple counterparties every day, it just did one
13 (1) deal in advance. In that case, there wasn't a
14 concern about internal knowledge being degraded.

15 MR. HOWARD STEPHENS: No, I would
16 disagree with that because we lose our presence in the
17 marketplace and, from that perspective, if now Centra is
18 no longer a player for that type of transaction and we no
19 longer -- our people that are doing that work -- Mr.
20 Kostick and Mr. Mullen and company -- would no longer
21 have that day-to-day contact with those counterparts and
22 the opportunity to have the dialogue in terms of how it
23 looks -- I mean, how our storage withdrawals look
24 according to our plan based upon the current weather
25 situation, that sort of thing.

1 So there would be a -- a degradation in
2 terms of the amount of market knowledge that our people
3 have.

4 MR. KRIS SAXBERG: But it could --

5 MR. NEIL KOSTICK: And I would -- I would
6 add that our relationship with our counterparties allows
7 us to enter into transaction with those counterparties
8 during times of system constraints when there are
9 operational problems on the system.

10 So. any degradation of those relationships
11 with counterparties through less contact with them would
12 be detrimental, ultimately, to our ultimate goal of
13 providing reliable service to the market.

14 MR. KRIS SAXBERG: But you could
15 structure the arrangement so that in -- that you are
16 working with the one counterparty that you out-source to,
17 could you not?

18 MR. NEIL KOSTICK: We could put all of
19 our eggs in one basket that's possible.

20 MR. KRIS SAXBERG: No but what I'm
21 saying, we're talking about degradation of the internal
22 knowledge. And what I'm saying is part of the terms
23 could be that there's a working relationship with Centra
24 and the out-sourcer.

25 MR. HOWARD STEPHENS: I'd suggest, sir,

1 that the counterpart that we're doing the transaction
2 with, if we were contracting it out to one party, they
3 are going to be very reluctant to indicate -- or to
4 reveal the source of their markets for this because it's
5 commercially sensitive information.

6 And for them to share all of that
7 information with us would be highly unlikely.

8 MR. KRIS SAXBERG: The -- the
9 counterparty that -- that became the out -- that -- that
10 took over the storage asset if -- if such an arrangement
11 was put in place would then, presumably, do what Centra
12 has -- has been doing in terms of -- of managing that
13 asset; would it not?

14 MR. HOWARD STEPHENS: I have no idea what
15 the -- I mean presumably it's -- well, it's a function of
16 the arrangement that we put together.

17 If we're talking about specifically what -
18 - I mean, Mr. Stauff indicated in one of his examples
19 then I guess -- I mean to be able to do what they will
20 do.

21 What they're indicating is that they're
22 going to deliver an amount of gas here equivalent to what
23 we would normally nominate from storage. I don't know
24 where that gas goes after that.

25 MR. KRIS SAXBERG: But the way that it's

1 working on a day-to-day basis is, you're outsourcing for
2 every transaction. You're outsourcing to a counterparty
3 who then is doing whatever they want to do with that
4 asset and you've got a fixed return for it with no risk.
5 Correct?

6 MR. HOWARD STEPHENS: I wouldn't
7 characterize it out as outsourcing. We have a customer
8 that has a requirement for transportation service and in
9 that circumstance, we are providing a service to that
10 customer.

11 MR. KRIS SAXBERG: And in terms of -- to
12 simplify it, you have an asset and currently Centra's
13 selling the asset itself to a variety of markets and
14 counterparties that it has knowledge of.

15 If it takes that asset for a guaranteed
16 fee, gives it to someone else who's got broader markets
17 and broader customers, there's a -- there's an
18 acknowledged opportunity for -- for greater profitability
19 from the same asset, is there not?

20 MR. HOWARD STEPHENS: I suggest, Mr.
21 Saxberg, that you had a lot if's in that statement. But
22 subject to all those if's, I'll agree with you.

23 MR. KRIS SAXBERG: And the one other
24 little item is that Centra acknowledged that its strategy
25 is conservative and that the traders are not to enter

1 into any transaction where there's a potential risk.

2 Correct?

3 MR. HOWARD STEPHENS: No, I don't think
4 that's the way we characterized it. What I indicated was
5 that we wouldn't enter -- I mean transactions that
6 wouldn't make, I mean that we weren't absolutely certain
7 would generate revenue.

8 We will not take losses. And if there's a
9 potential for a loss, then we won't engage in the
10 transaction.

11 MR. KRIS SAXBERG: Okay. And the
12 marketer, if a marketer took on this asset, they wouldn't
13 be so impeded. You'd agree with that?

14 MR. HOWARD STEPHENS: Yes and from the
15 same perspective I think that in terms of taking on that
16 incremental risk, they are going to extract their pound
17 of flesh from us in terms of the transaction. They're
18 not going to take that incremental risk for free.

19 MR. NEIL KOSTICK: And as far as the --
20 the obligation of that party to serve Centra's load, I
21 would note that that obligation would be far more
22 difficult than what we are asking our supplier to do at
23 Empress.

24 Given that the delivery obligation to
25 supply Centra in lieu of Centra using storage would not

1 have a base load component, which the Nexen contract has,
2 it would be potentially for higher volumes in excess of
3 200,000 gigajoules a day or it could be zero gigajoules
4 per day that would involve the use of additional windows
5 for nomination such as the 5:00 a.m. nomination window
6 which the Nexen contract is not subject to.

7 So the -- the obligations for that party
8 would be significantly greater than our regular supply
9 contract and the party would be constrained by those
10 factors and definitely would take their pound of flesh in
11 that regard.

12 MR. KRIS SAXBERG: Yes, and -- but the
13 contract could be such that you get a guaranteed amount
14 at the beginning, so, it doesn't matter thereafter what
15 level of risk the marketer takes on for itself; that's
16 their own business, correct?

17 MR. NEIL KOSTICK: We referenced in our
18 rebuttal evidence our discussions with -- with a marketer
19 that offered to manage our storage and they offered us a
20 price that was less than what we were currently earning.

21 So what is possible for a marketer to
22 quote us a guaranteed price, based on what we've seen in
23 the market, it wouldn't be a very good one relative to
24 what we could do on our own.

25 MR. KRIS SAXBERG: But let's be clear,

1 you haven't received any quotes, have you?

2 MR. NEIL KOSTICK: We had a discussion as
3 indicated in the rebuttal evidence and we were given a
4 price and it was lower than what we were currently
5 transacting at at that time.

6 And as also noted in the rebuttal
7 evidence, the marketer would not tolerate any volume
8 variability as far as what they would deliver to Centra.
9 They wanted to deliver to us a fixed volume every day as
10 opposed to giving us the volume variability that we
11 require out of storage and they were going to pay us
12 less. So, the market has indicated to us that there may
13 not be that great of a deal.

14 MR. KRIS SAXBERG: That particular
15 marketer you're saying?

16 MR. NEIL KOSTICK: In that discussion,
17 yes.

18 MR. KRIS SAXBERG: And yesterday though,
19 Mr. Stephens, you threw me a bone as it -- as it were and
20 you said that you will -- you'd agree that an arrangement
21 as proposed by Mr. Stauff potentially adds a million
22 dollars to the revenue for Centra and you said, I'll give
23 you that but your point was that there's a
24 disproportionate amount of risk that means it's not worth
25 -- the million dollars isn't worth -- worth it?

1 MR. HOWARD STEPHENS: Well, I mean -- and
2 I think I alluded to it earlier this morning, I look at
3 this in terms of our overall portfolio of assets and the
4 costs that we experience in terms of cost of gas which is
5 in the order of \$400 million and if we're talking about
6 adding incremental revenues associated with this to
7 reduce that cost of gas but adding significant risk to
8 the -- to the equation, the incremental dollars are not
9 worth it to me.

10 And I'm not trying to -- I mean and
11 certainly the million dollars was an off-the-cuff number.
12 I don't know what the counterparts would provide us in
13 terms of an incremental guarantee. I would expect at
14 least that much but the last time that we went around
15 this horn, we never got anything near to that; no
16 guarantees that we would even get a million dollars.
17 They wanted to -- and this is going back I mean a
18 significant piece of time but the most aggressive
19 marketer in the marketplace, Enron, would not commit to
20 an amount until such time as they did a comprehensive
21 review of our assets.

22 And as Mr. Kostick has just indicated, we
23 have just had recent discussions with a relatively big
24 and well-known marketer and when they looked at the
25 circumstance, they were prepared to baseload a component

1 of the gas into our market which we can't tolerate
2 because we need the flexibility to deal with weather
3 variations on a day-to-day basis and the dollars that
4 they were talking about weren't -- weren't as high as the
5 dollars we're recovering now.

6 MR. KRIS SAXBERG: So is it fair to say
7 that Centra is interested in outsourcing if you can be
8 certain it will -- the arrangement will not put customers
9 and customer service at risk?

10 MR. HOWARD STEPHENS: That first and
11 foremost is our responsibility to our consumers in
12 Manitoba, that is, serving the market.

13 MR. KRIS SAXBERG: So the answer then is,
14 yes, you're interested in outsourcing as long as you can
15 find an arrangement wherein there is no risk to your
16 customers?

17 MR. HOWARD STEPHENS: That's correct.

18 MR. KRIS SAXBERG: And you do have your -
19 - from your experience, you anticipate that there may be
20 some money on the table for an outsourcing agreement but
21 you haven't seen one yet that sheds that risk?

22 MR. HOWARD STEPHENS: I don't know that
23 anybody can write a contract that's going to satisfy me
24 that they're going to alleviate any concerns I have may -
25 - may have with respect to risk given the quantum of the

1 dollars that we're talking about.

2 MR. KRIS SAXBERG: Now one of the -- one
3 of the areas where, really, what you're saying the reason
4 that you can't get a contract together without risk is be
5 -- relates to the volume risk, correct? I mean that's
6 the principle reason.

7 MR. HOWARD STEPHENS: Well that's the
8 dollars associated with the volume, yes.

9 MR. KRIS SAXBERG: But it's -- it really
10 turns on the volume risk. And -- and here's what I -- I
11 have to ask you.

12 First of all, on a day-to-day basis why is
13 there no volume uncertainty risk when you enter into an
14 exchange?

15 MR. NEIL KOSTICK: When we enter into an
16 exchange we've identified volumes that we can exchange
17 that would not exceed the amount that we would normally
18 backhaul.

19 So there's no volume risk from Centra's
20 perspective and the counterparty knows exactly what they
21 need to deliver to us as well.

22 MR. KRIS SAXBERG: But the volume risk
23 that I think you're discussing in the context of the
24 outsourcing proposal is the risk of the volumes not being
25 delivered by the counterparty. Doesn't that -- that risk

1 --

2 MR. NEIL KOSTICK: I think -- I think the
3 risk -- I think the risk that we've identified as the
4 greater risk -- greatest risk is the capital at risk in
5 terms of handing over Centra's single highest valued
6 asset, that being, its storage asset; that being, taking
7 on any given year could be \$100 million worth of storage
8 gas and handing it over to the asset manager and just
9 relying on -- on the asset manager to ensure that the
10 appropriate amount of gas is going to be left in storage
11 at the end of winter.

12 I think that's the major risk that we're
13 talking about. The volume uncertainty if that's what
14 you're alluding to, that's a risk that the asset manager
15 would have to take on.

16 And as I've noted that delivery obligation
17 would far exceed the delivery obligation parameters that
18 Nexen has to follow under our supply contract.

19 MR. KRIS SAXBERG: What sort of default
20 then are -- are you concerned about upon handing over the
21 entire storage gas to a large marketer? Is it --

22 MR. HOWARD STEPHENS: Admittedly it would
23 be a rare circumstance but they could potentially, as Mr.
24 Stauff indicated in one of his examples, sell gas into
25 the New York market or the northeast market and

1 potentially go bankrupt the next day.

2 And all the contracts in the world aren't
3 going to do us a damn bit of good in terms of trying to
4 replace that gas. We have to now go and replace 15 1/2
5 million gg's on November the 2nd and I don't know what
6 costs.

7 MR. KRIS SAXBERG: But there are some
8 companies out there where that risk isn't any greater
9 than the risk of Manitoba Hydro going bankrupt, correct?

10 MR. HOWARD STEPHENS: No. I wouldn't --
11 I will not say that. I will not agree with that
12 statement given the circumstances we find ourselves right
13 now in terms of the financial markets and the world
14 economy right now.

15 MR. BRENT SANDERSON: I might add a
16 little bit to sort of flush out Mr. Stephen's response in
17 that regard.

18 There's no entity in the marketplace right
19 now that one can make the statement of they have a near
20 zero probability of default or bankruptcy.

21 One of the things you have to consider
22 when you're assessing the risk of one of these types of
23 arrangements is, number 1, the probability, the inferred
24 probability, of the counterparty defaulting or going
25 bankrupt and that can only be based on an analysis of

1 history.

2 It tells you nothing about the future
3 probability of that counterparty going into default. So
4 you can find a very creditworthy counterparty that based
5 on history and current credit ratings is a very good bet
6 if you will.

7 But then you have to look at the -- what
8 would happen in the event that an outlier event occurred,
9 however unlikely, and would that be catastrophic for
10 Centra?

11 And then you have to assess, has such an
12 event ever occurred. You can't prove that it will never
13 happen but the occurrence of a single event is enough to
14 conclude that it can happen and the marketplace is rife
15 with examples of the most creditworthy of counterparties
16 going bankrupt literally overnight and I'll just give you
17 two (2) examples: SEM Group LP, the parent company of
18 SEM Canada Energy Company, and AE Sharp. The year prior
19 to their bankruptcy they were the fifth largest
20 privately-held corporation in North America, \$14 billion
21 in annual revenues.

22 The first inkling that the marketplace had
23 that there was any kind of problem at the company was
24 late in the day on July 18th on a Friday. And then by
25 Tuesday -- the morning of Tuesday, July 22nd -- they were

1 completely insolvent and bankrupt and defaulted on all of
2 their obligations and they were the subject of \$2.4
3 billion of speculative of all trading losses at the hands
4 of their founder, Tom Kivisto.

5 And the marketplace is littered with --
6 for want of a better term -- roadkill who suffered at the
7 hands of that default.

8 And then Enron, in the six (6) years
9 leading up to their bankruptcy, Forbes Magazine rated
10 them, each consecutive year, as the most innovative
11 company in North America, \$70 billion in market cap and
12 fifth largest corporation in the US and the sixth largest
13 energy company in the world.

14 And from -- again, from the first
15 rumblings of there may be questions about their
16 operations to their defaulting on, as you know, billions
17 -- tens of billions -- of dollars of obligations, it was
18 forty-five (45) days. And then to add to that, Bear
19 Sterns, AIG, Lehman Brothers. So, we have numerous
20 examples in the marketplace of these outlier events.

21 I'll leave it to you to apply your
22 subjective probability of the occurrence, but we have the
23 proof that they can occur. And I think what Mr. Stephens
24 is saying, should one of those outlier events occur to
25 this Utility, \$140 million plus capital at risk is too

1 catastrophic for us to bear should it occur, however
2 unlikely.

3 MR. KRIS SAXBERG: And I -- the simple
4 question I was asking, and I'll -- I'll make it even more
5 direct:

6 Does -- does Centra view large companies
7 like Nexen, BP Canada, Shell Trading as having any more
8 risk of bankruptcy than -- than Centra itself?

9 MR. HOWARD STEPHENS: Absolutely. Mr.
10 Saxberg, I mean -- and maybe I'll be direct. I think
11 that -- what we're talking about here is very simple.
12 We're talking about doing transactions where we get
13 directly involved with the end user as opposed to putting
14 a middleman in the -- in the middle of the process.

15 And the concern that I have with respect
16 to that, from a very simplistic pers -- perspective, is
17 to the extent that I have to put a middleman into the
18 transaction, I incur incremental risk. I am not going to
19 add incremental risk to our portfolio. Our customers, I
20 mean, will not thank me. And Lord knows, if we entered
21 into a transaction like this and it goes south, you will
22 be here next year climbing into my shirt, dealing with,
23 Well, why did you enter into that trans -- transaction
24 and why did it go south?

25 So, from that perspective, out of great --

1 with great respect, sir, it is I am accountable and
2 responsible for ensuring that gas gets to this market.
3 And I'm satisfied that the existing transactions that we
4 put into place and our program is extracting the
5 appropriate amount of value from our set of assets and
6 without incurring an unnecessary amount of risk.

7 And it really is the -- I mean, it's six
8 (6) of one and half a dozen of the other. It's a matter
9 of judgment. And, ultimately, I'm the one that has to
10 live with the end results. And, I mean, quite frankly,
11 you can, I mean, hand me my hat a year from now if we
12 enter into such a transaction and it doesn't work out.

13 So, I'll leave it at that.

14 MR. KRIS SAXBERG: Well, you -- you are
15 still entertaining proposals from marketers. If -- if
16 they come to you and -- and ask you whether you'd be con
17 -- you'd consider involving them in your exchange
18 transactions, you're going to listen to them.

19 MR. HOWARD STEPHENS: Absolutely. And as
20 I indicated before, we are prepared to listen to
21 anything. And if somebody comes to us and they give us
22 the appropriate assurances and they're -- and the
23 incremental revenue associated with the transaction that
24 they're talking about is -- whether it be a small one or
25 a large one, we will entertain those.

1 But all I'm saying is that, to this point,
2 I have not seen any evidence that there are large
3 counterparts that are prepared to take on a significant
4 component of our assets and make any more money than we
5 are right now. Not to mention all of the side issues
6 associated with losing the talent, the market presence
7 and our -- I mean, the security of supply that I am
8 assured of given the types of transactions that we engage
9 in because we had direct control of them.

10 MR. KRIS SAXBERG: And doesn't the very
11 fact that you are still prepared to entertain those
12 proposals demonstrate that bankruptcy or volume risk is
13 not an insurmountable barrier in your own mind; and by
14 "your own" I mean in the Company's mind?

15 MR. HOWARD STEPHENS: I guess it boils
16 down to risk versus reward and I would want a substantial
17 reward for a very minimal risk.

18 MR. KRIS SAXBERG: And just -- just on
19 the volume uncertainty issue, really what you'd want your
20 outsourcer to do is to provide you with virtual storage,
21 correct?

22 MR. HOWARD STEPHENS: I can't answer your
23 question, sir, because you're not giving me enough
24 information.

25 MR. KRIS SAXBERG: Sorry. You're calling

1 exchanges virtual transact -- virtual transportation
2 because that's essentially what it amounts to.

3 If you have an outsourcer, an asset
4 manager, who -- who you want to be able to call on your
5 nomination, in your existing nomination periods, to have
6 gas delivered in Manitoba as though it was coming out of
7 storage, really what you want is virtual storage; is that
8 not -- not the case?

9 MR. HOWARD STEPHENS: Well, I mean, you
10 can characterize it as virtual storage. Now, what is
11 underpinning that storage is our storage and I mean and I
12 have a third party managing it.

13 MR. KRIS SAXBERG: Right.

14 MR. HOWARD STEPHENS: And why do I need
15 that person in between us and the store -- I mean the
16 storage operator?

17 MR. KRIS SAXBERG: You give them the
18 actual storage and if they can give you virtual storage
19 without risk and you get a little bit more money for it,
20 sounds like a good deal, correct?

21 MR. HOWARD STEPHENS: And if such -- and
22 as I indicated if we -- I mean, a counterparty comes to
23 the table and is prepared to provide us those
24 characteristics associated with an outsourcing
25 arrangement, we will look very hard at it, but as -- I

1 mean, concluded I want very minimal incremental risk and
2 a significant amount of incremental revenue to offset
3 that.

4 MR. KRIS SAXBERG: Okay, and I just want
5 to establish some of those companies that I mentioned
6 earlier: BP, Shell, Nexen, they could, if they wanted
7 to, provide that type of virtual storage; couldn't they?

8 MR. HOWARD STEPHENS: Nexen, we had
9 discussions with Nexen and of all of the companies that
10 were in a position to provide us with exactly that type
11 of service because of the nature of the assets that they
12 held because they were very complementary to our -- to
13 our set of assets and they could not come back to us with
14 a proposal that would be more attractive than what we are
15 already doing.

16 MR. KRIS SAXBERG: I think you know where
17 I'm going and what -- what I'm asking is there are --
18 there are more than two (2) companies that could provide
19 virtual storage, correct?

20 MR. HOWARD STEPHENS: I mean subject to
21 your context, yes.

22 MR. KRIS SAXBERG: But you've only talked
23 to two (2) companies?

24 MR. HOWARD STEPHENS: No, I have talked
25 to Transcanada Pipelines; they're likely in the best

1 position to provide us virtual storage.

2 MR. KRIS SAXBERG: As being one (1) of
3 the two (2) parties that you mentioned in your rebuttal
4 evidence or before that?

5 MR. HOWARD STEPHENS: Before that.

6 MR. KRIS SAXBERG: Yeah, they offered to
7 give you a million dollars guaranteed a year for all of
8 your assets; this was all of the capacity management
9 assets and then they said that they would share revenue
10 with you after that; wasn't that the proposal?

11 MR. HOWARD STEPHENS: I said Transcanada
12 Pipelines.

13 MR. KRIS SAXBERG: Oh, sorry. Okay.

14 MR. HOWARD STEPHENS: You're describing
15 the Enron.

16 MR. KRIS SAXBERG: No. Well, no, I'm
17 describing Transcanada Gas, the former supplier that then
18 became Merant (phonetic) and --

19 MR. HOWARD STEPHENS: No, no, that's an
20 entirely different arrangement. This is something more
21 current.

22 MR. KRIS SAXBERG: Okay, so this is
23 something that was post the 2000 RFP that went out for
24 capacity management outsourcers?

25 MR. HOWARD STEPHENS: Yes, as part and

1 parcel of doing a prudency -- I mean, a prudent job of
2 replacing our existing assets, we have discussed I mean a
3 number of different scenarios and one (1) of the
4 scenarios that I was very much interested in was engaging
5 in some sort of transaction with Transcanada Pipelines
6 given the fact that they hold all of our assets and
7 there's no reason for us to be going through the
8 complicated and convoluted process that we have to go
9 through in terms of getting gas to Manitoba by nominating
10 to Transcanada Pipelines and Great Lakes Pipelines and
11 ANR Storage when they hold all of them. And the nature
12 of the discussions was: Tell me what you want to provide
13 me with the service where I make a nomination to you
14 tomorrow for X amount of gas and you make it appear at my
15 feet.

16 And, I mean, and we've had that discussion
17 in, I mean, a number of circumstances. We're not done
18 there yet.

19 MR. KRIS SAXBERG: That -- and that's,
20 just -- just to be clear, that's not one of the two
21 discussions that you were referring to with marketers?
22 This is something else and you're saying you're not done
23 yet?

24 MR. HOWARD STEPHENS: This is something
25 entirely different, sir. I mean, no, we haven't, I mean,

1 put everything on the record with respect to every
2 dialogue and discussion that we had with counterparts out
3 there, I mean, in -- in the industry.

4 I mean, it's part of my job to make sure
5 that we explore all the appropriate avenues in terms of
6 dealing, I mean, and satisfying our market requirements.

7 MR. KRIS SAXBERG: And you'd agree with
8 me that there wasn't any discussion in your capacity
9 management business plan of inquiries with marketers.
10 There -- there wasn't any mention of -- of the dialogue
11 in that capacity management business plan, was there?

12 MR. NEIL KOSTICK: I don't believe that
13 there was a section dedicated to specific communications.

14 MR. KRIS SAXBERG: And just in terms of
15 that -- the first example that you gave of a discussion
16 with a marketer which occurred in 2007, was that
17 unsolicited?

18 MR. HOWARD STEPHENS: Which one are you
19 referring to, sir?

20 MR. KRIS SAXBERG: The --

21 MR. HOWARD STEPHENS: I know which one
22 you're talking --

23 MR. KRIS SAXBERG: Yeah, was that
24 unsolicited?

25 MR. HOWARD STEPHENS: They -- it's a

1 counterpart that we deal with quite frequently. They
2 came in -- they make regular visits. We dialogue,
3 compare notes in terms of current market circumstances,
4 et cetera, and as part and parcel of that discussion they
5 indicated a desire to manage a portion of our storage.
6 And I was very positive and said based upon -- I mean,
7 make us a proposal and we'll have a look at it.

8 MR. KRIS SAXBERG: Mm-hm.

9 MR. HOWARD STEPHENS: It's as simple as
10 that. When we went through it and the final analysis,
11 when we explained what we needed in terms of changes to
12 provide us the flexibility necessary to operate
13 effectively, they walked away. They couldn't provide the
14 service in a cost-effective way.

15 MR. KRIS SAXBERG: So there was no --
16 there was nothing in writing in the form of a proposal
17 from that counterparty, that marketer?

18 MR. HOWARD STEPHENS: I don't recall, Mr.
19 Saxberg.

20 MR. KRIS SAXBERG: And was there anything
21 in writing from Centra, short of an RFP, that simply
22 said: Here's what we want. We want -- and I've over-
23 simplified it, we want virtual storage; we'll give you
24 our actual storage; you see how much money you can make
25 from the actual storage; and -- and then we'll discuss it

1 again next winter?

2 MR. HOWARD STEPHENS: No, because based
3 upon what we have seen during our previous efforts with
4 respect to this, going back over the span of the last ten
5 (10) years, I have no confidence that we are going to be
6 able to find somebody that's going to be able to manage
7 this any better than us. And given the number of things
8 that are on our plate right now, that is a low priority.

9 MR. KRIS SAXBERG: Okay.

10 MR. HOWARD STEPHENS: We --

11 MR. KRIS SAXBERG: But just to be clear,
12 you -- it wouldn't cost very much to put together a very
13 -- a short proposal like that, a -- a couple of page
14 letter that said: Here's what we're looking for; is
15 there anyone out there that's interested at all in
16 discussing it further? And send it out to those
17 companies that have the capacity to provide virtual
18 storage?

19 There's -- there's nothing really, from a
20 cost perspective, prohibiting Centra from doing that?

21 MR. HOWARD STEPHENS: Lawyers cost lots
22 of money.

23 MR. KRIS SAXBERG: Some more than others?

24 MR. NEIL KOSTICK: I -- I would also
25 indicate that a storage-related asset-management

1 arrangement would be many magnitudes of order, more
2 complicated than our Nexen supply contract, for example.
3 The Nexen supplies just give us gas at a point at Empress
4 and it's relatively straightforward -- no assets are
5 being assigned.

6 A storage-related asset-management
7 arrangement involves multiple pipelines and storage
8 providers, multiple contracts and a delivery obligation
9 that is far more difficult to meet than the Nexen supply
10 contract. So not only is the process not simple, it
11 would take many months, and the evaluation of such would
12 be far more complicated than what we are dealing with
13 right now with our gas-supply contract.

14 So, given what we already know exists in
15 the market, based on our discussions every day with
16 marketers, and we deal with the largest marketers in
17 North America who are completely familiar with our
18 assets, they are not banging on our door offering us
19 services of this nature.

20 And the conversations that we do have with
21 those parties that are interested, as we've indicated,
22 they either do not meet our requirements or they have
23 indicated directly to us that they feel that we are on
24 our own doing a good job of optimising our assets.

25 And they say, let's participate in the

1 transactions you're already doing as opposed to us
2 proposing something different because we don't have
3 anything to propose that would be, essentially, better
4 than what you're doing right now.

5 MR. BRENT SANDERSON: And if I just might
6 add an example of the devil that's in the details, I
7 think you're working on the assumption, Mr. Saxberg, that
8 somebody could walk in the door based on a two (2) or
9 three (3) page RFP and say, I will guarantee you this
10 much every year.

11 It's entirely dependent on the details of
12 the arrangement and just to use credit as one example.
13 If we sought to protect ourselves against the loss of all
14 of our storage inventory over -- over a winter period, if
15 we were seeking credit security from the counterparty to
16 secure ourselves against the risk of a possibly \$100
17 million plus loss of our storage inventory, well, if we
18 take Mr. Stauff's very simplistic model on its face --
19 which we don't -- but let's say there is \$2 million a
20 year on the table to be shared with a counterparty for
21 sake of argument, that means there's a million dollars
22 for each of us to capture possibly.

23 So just by requiring the counterparty to
24 post a hundred million dollars letter of credit, just
25 think for minute about the opportunity cost of setting

1 aside that capital for an asset manager on the order of
2 the size of Shell -- tying up a hundred million dollars
3 for a year. Well the cost of typing up that amount of
4 capital to secure us in the event of a default or
5 bankruptcy of Shell, the opportunity cost of that capital
6 wipes out any possible money that might be on the table
7 for us to share in the best of all possible
8 circumstances.

9 So that's just one of a multitude of
10 examples of -- before anybody can even quote you a number
11 or you can even discuss it in a meaningful way, you have
12 to work through these very onerous esoteric and minute
13 details of any such arrangement.

14 MR. KRIS SAXBERG: Okay. I -- I think
15 what you're saying, though, is all with respect to step 2
16 and that the devil may be in the details and that it may
17 be costly to find out if you can sort through those
18 details.

19 Is that -- is that what you're saying?
20

21 (BRIEF PAUSE)

22
23 MR. HOWARD STEPHENS: Can you phrase the
24 question for me in a little bit different fashion?

25 MR. KRIS SAXBERG: Well all Mr. Stauff is

1 saying is, Why not send out fifty (50) letters, you know,
2 a page and a half long simply saying, Here's what we're
3 looking for and it is as simple as this, we'll give you
4 our asset -- our storage asset for you to market. In
5 return, you'll provide us with virtual storage.

6 In other words, so that we don't notice
7 any difference here in Manitoba. And if you can make
8 some money off of that, great and if you can give us an
9 amount that we're happy with, then great as well. Are
10 you interested in -- in -- in exploring that? That's
11 step 1.

12 And I take Mr. Sanderson's point because I
13 -- I do know a few lawyers and when they get into putting
14 together contracts and -- and trying to eliminate all the
15 risks, sometimes it's time consuming and most of the
16 times it's expensive, so, I appreciate that.

17 But I'm just trying to parse it into --
18 into those two (2) halves and try to figure out whether
19 Centra's prepared to do step 1.

20 MR. NEIL KOSTICK: Given that we know
21 that the credit risk is not acceptable in terms of
22 putting over a hundred million dollars of capital at risk
23 for -- even if we grant you possibly an extra million
24 dollars in revenue, that's not a good payoff, in our
25 view.

1 As far as what we know from the market, we
2 have those discussions already. And I would also note
3 that while Mr. Stauff does make his proposal and say, why
4 don't you just find out what's out there, the answer is
5 we already do talk to parties and we know what's out
6 there.

7 Second of all, it's interesting to note
8 that he makes no mention whatsoever in his discussion of
9 counterparty risk or credit risk. He discusses many
10 different things but it is peculiar to note that there's
11 no discussion in his evidence of credit risk and
12 counterparty risk for what would be a transaction of
13 great magnitude in terms of credit risk and counterparty
14 risk.

15 MR. KRIS SAXBERG: In any event, if you
16 gave your storage over to a third-party manager, they
17 couldn't take out any more than 208,000 gigajoules a day.
18 So they -- they couldn't sell it --

19 MR. HOWARD STEPHENS: No sir, that's
20 absolutely incorrect. If they had an account with ANR,
21 they could transfer the whole 15 1/2 million GJs via
22 storage transfer. It is just a journal entry into a
23 book.

24 MR. KRIS SAXBERG: Unless Clause 1 of
25 your contract says you can't do that?

1 MR. HOWARD STEPHENS: Well, I mean -- I
2 mean and there we go. I mean there's -- there's one (1)
3 condition in the contract that we have to bold in there
4 amongst five hundred (500) more, I mean, scenarios that
5 we have to paint so that we don't get ourselves into a
6 jackpot.

7 MR. KRIS SAXBERG: Okay --

8 MR. NEIL KOSTICK: And I would also note
9 that storage gas can be sold without the obligation for
10 the storage gas to actually leave the storage facility on
11 that day. The storage gas can be sold and it can sit
12 there for any period of time; if it's sold, it's no
13 longer Centra's asset.

14 MR. BRENT SANDERSON: And it's important
15 to point out that any of these provisions you put in
16 place to tie the third-party asset manager's hands serves
17 to increase their risk and reduce the opportunity to
18 achieve any greater return than Centra can achieve on its
19 own.

20 MR. HOWARD STEPHENS: Mr. Saxberg, I was
21 just thinking of making a comment. I mean your -- your
22 example of us just sending a letter out, sending a two
23 (2) page letter to fifty (50) counterparts, that may
24 potentially be able to do that is, again, overly
25 simplistic. We're not talking about chump change here,

1 we're talking about a significant transaction.

2 For me to send out a two (2) page letter
3 would not do justice to the type of qualifications that
4 we would have to put to this -- to the counterparts
5 before we even engage in a response, otherwise, I'm
6 wasting their time and ours and I can tell you we don't
7 have the time to waste.

8 MR. NEIL KOSTICK: And also, as a
9 comparison, we discussed yesterday with Centra's gas
10 supply RFP we issued it to fifty (50) parties, we
11 received six (6) responses for a relatively
12 straightforward delivery obligation.

13 As noted already, the storage-related
14 asset management arrangement would be many orders of
15 magnitude more complicated and would have a more
16 difficult delivery obligation on the part of the asset
17 manager than what any gas supplier would face under our
18 gas supply RFP.

19 MR. KRIS SAXBERG: Okay. Thank you for
20 that. I'm going to move forward on to another subject
21 but just before we leave it, just to close the record, if
22 you flip to page 8 of the aid to cross-examination, just
23 to clarify the record, this is a letter from -- from Mr.
24 Brennan to the Public Utilities Board July of 2000 and
25 this is a letter in which Mr. Brennan has enclosed an

1 independent report from Ziff Energy on outsourcing,
2 correct?

3 MR. HOWARD STEPHENS: That's correct.

4 MR. KRIS SAXBERG: And you just confirmed
5 for the record that Ziff was arm's length from Manitoba
6 Hydro/Centra at the time and they concluded that there
7 may be potential benefits from an asset management
8 arrangement and then they -- and they recommended that --
9 that Hydro/Centra pursue negotiations in that regard,
10 correct?

11 MR. HOWARD STEPHENS: Yes, they did.

12 MR. KRIS SAXBERG: And those negotiations
13 never occurred?

14 MR. HOWARD STEPHENS: No, you're
15 incorrect. It was directly as a result of the Ziff
16 report that we engaged in sending out the RFPs that
17 included Enron, Western Gas Marketing, Sempra Energy,
18 and, I mean, a host of others to provide us with an
19 outsourcing service and we know what the outcome of that
20 was.

21 MR. KRIS SAXBERG: Well, but I think
22 you've got it -- I know it's been a long time but what
23 happened was the -- the RFPs went out, then came the Ziff
24 report, then shortly after that Manitoba Hydro decided
25 that it didn't want to pursue this anymore.

1 MR. HOWARD STEPHENS: No, I'm afraid --

2 MR. KRIS SAXBERG: Not on its own
3 internal analysis.

4 MR. HOWARD STEPHENS: No, that is not the
5 chain of events. We -- I mean, we were asked by the
6 Board to investigate this. We hired Ziff to assist us in
7 that process. They did come to a conclusion that we
8 should look at this, and we did pursue it.

9 MR. KRIS SAXBERG: But -- but Ziff was
10 reviewing the responses to the RFPs?

11 MR. HOWARD STEPHENS: Pardon me?

12 MR. KRIS SAXBERG: Ziff had reviewed the
13 responses to the RFPs and said now we think you should
14 continue the process by negotiating further?

15 MR. HOWARD STEPHENS: No, Ziff had not
16 reviewed the RFPs at that point in time.

17 MR. VINCE WARDEN: Mr. Saxberg, maybe I
18 can help out a little bit here. I've been sitting
19 relatively quiet listening to this exchange, but the date
20 of this letter, as you can see, was in 2000. This was
21 shortly after the acquisition.

22 Manitoba Hydro thought there might be
23 merit in outsourcing, Ziff was engaged. Their report, if
24 you recall, and we can probably reproduce a copy of that
25 if -- if necessary, but their report was very

1 inconclusive. It was very inde -- it -- it didn't
2 provide a clear recommendation to -- to Centra, other
3 than we should look at negotiating with counterparties,
4 among them, Enron.

5 So I can definitely recall at that time
6 bringing Enron in. We had a discussion with Enron. Very
7 sales-oriented type people. They would gladly take our
8 assets. We didn't have a good feeling about that at the
9 time for -- for -- as it turned out, for very good
10 reason, and we backed off. So we decided we'd -- not to
11 pursue this.

12 Shortly after that -- well, everybody
13 knows the Enron story. So it was very fortuitous, I
14 think, that we didn't pursue that. And I've seen nothing
15 in the interim that would -- that would change my mind
16 that we should be pursuing this any further. I think
17 what we're doing today is in the best interests -- in --
18 interest of Centra and its -- and its ratepayers.

19 MR. KRIS SAXBERG: Thank you. I want to
20 turn now to hedging, so you probably should leave your
21 mic on, Mr. Warden.

22 The -- the results, as we saw yesterday,
23 are disheartening: 73 million in additional gas costs
24 for the year ending 2007, an additional forty-two point
25 five (42.5) for the year ending 2008.

1 Do I have that right?

2 MR. VINCE WARDEN: You do.

3 MR. KRIS SAXBERG: Do you want me to
4 repeat that?

5 MR. VINCE WARDEN: Oh, no, I thought I
6 answered. You -- you do have that right.

7 MR. KRIS SAXBERG: Oh, sorry. And then
8 what we have staring us in the face here is a forecast of
9 a potential of \$94 million of additional gas costs. That
10 was the information that Mr. Sanderson put on the record
11 yesterday. Fair?

12 MR. VINCE WARDEN: That's right.

13 MR. KRIS SAXBERG: Now, that 94 million
14 would be -- if it turns out and we all hope it doesn't --
15 would be a record amount of additional costs as a result
16 of hedging, in any particular year, correct?

17 MR. VINCE WARDEN: I think the 94 million
18 included the -- the loss applicable to the '08/'09 fiscal
19 year, and then the mark-to-market for the re -- remaining
20 hedges that were in place. So, I -- I believe it's 23
21 million, thereabouts, for the fiscal year '08/'09, and
22 then 64 million, or -- or thereabouts, for the
23 outstanding hedges at this time.

24 MR. KRIS SAXBERG: Right. And -- and
25 that's why I -- I put the caveat on I hope it doesn't

1 happen. But the forecast right now, based on the mark-
2 to-market, is a potential addition to gas costs of 94
3 million.

4 MR. VINCE WARDEN: My point was that some
5 of that is already realized, so it's not a forecast.

6 MR. KRIS SAXBERG: Okay. And if that
7 comes to pass, that would be the highest amount of
8 additional gas costs as a result of hedging to date.

9 MR. VINCE WARDEN: No. I think, as -- as
10 you indicated, in the fiscal year 2006/'07 there was a
11 \$73 million loss, so that would be the highest one (1)
12 year, fiscal year, twelve (12) month loss, to date -- or
13 addition to gas costs would be more -- the more
14 appropriate way of expressing that.

15 MR. KRIS SAXBERG: Right. I -- I guess -
16 - I'm just trying to set up my next question. But the
17 point that I was making is the -- the actual record is 73
18 million. If the worst case -- if the scenario that's
19 being forecast comes through at 94 million, that would be
20 higher than the 73 million.

21 MR. VINCE WARDEN: Well, no, because the
22 -- the 94 million number spans two (2) fiscal years.

23 MR. KRIS SAXBERG: No, I don't believe
24 that's the evidence.

25 MR. BRENT SANDERSON: The current

1 forecast of \$94 million relates to the current gas year
2 running -- spanning November 1st, 2008, through October
3 31st, 2009 --

4 MR. VINCE WARDEN: Yes, and I think what
5 we were -- the numbers you quoted previously were fiscal
6 year numbers, and so I'm just trying to set the record
7 straight. In terms of fiscal year numbers, the largest
8 addition to gas costs occurred in the '06/'07 fiscal
9 year.

10 MR. KRIS SAXBERG: Okay. I think we're -
11 - the point that I wanted to come to is we started the
12 new 15 percent bandwidth formula in January of 2007. It
13 -- that was when the first trade was done.

14 It would have kicked in in November of
15 2007, correct?

16 MR. VINCE WARDEN: Yes.

17 MR. KRIS SAXBERG: And so my question is
18 the fact of the bandwidth having been expanded isn't --
19 with that fact in hand we still have this possibility of
20 -- even though it's on a gas year basis -- of a \$94
21 million loss -- not loss or -- addition to gas cost as a
22 result of hedging activities in a particular year,
23 correct?

24 MR. VINCE WARDEN: That's the number that
25 Mr. Sanderson has put on the record, yes.

1 MR. KRIS SAXBERG: Does that suggest to
2 you then that the expanding of the collar didn't
3 accomplish what -- what some, at least in these
4 proceedings, had hoped it was going to accomplish?

5 MR. VINCE WARDEN: Well, the expanding of
6 the collar resulted in the addition to gas costs being
7 lower than it would otherwise had been with a tighter
8 collar.

9 MR. KRIS SAXBERG: And I heard that
10 evidence yesterday but there -- there was no discussion
11 of an order of magnitude. Has there been an analysis of
12 exactly how much additional costs were avoided by virtue
13 of the new collar?

14 MR. BRENT SANDERSON: We would be able to
15 put those numbers together. We'd have to take it as an
16 undertaking. We don't have them immediately at hand.

17 MR. KRIS SAXBERG: If -- if you could,
18 because would you agree with me that where the price of
19 gas is high and -- and hedges have been put in place on a
20 forecast basis and then the actuals turn out to be the
21 case that there's a falling market, there's a lot of room
22 to fall, and -- and -- and the prices could be outside
23 the -- outside the collars for quite a long time and so
24 that there could be significant additions to -- to gas
25 costs in that scenario.

1 MR. BRENT SANDERSON: Which is precisely
2 why we designed an adjustable bandwidth strategy so that
3 the width of the bandwidth would respond by widening at
4 higher price levels, expressly taking into consideration
5 your client's recommendations to do so.

6 MR. KRIS SAXBERG: Another great segue
7 for me because the client's recommendations was 20
8 percent, not 15. And that, I understand, was the
9 recommendation that -- that the gas supply committee
10 brought to the executive at one point. Later the -- there
11 was a determination that it would be a 15 percent band.

12 Does that -- does that meet with your
13 recollection?

14

15 (BRIEF PAUSE)

16

17 MR. VINCE WARDEN: Mr. Saxberg, there was
18 a number of back and forth discussions between various
19 parties within Manitoba Hydro at that time and it was
20 concluded the 15 percent would be the appropriate number.
21 There was no -- if alluding to some kind of a
22 disagreement between the Gas Supply Committee and the
23 Executive Committee, there was no such disagreement on --

24 MR. KRIS SAXBERG: No, but all I'm saying
25 is there was initially a proposal for 20 percent and --

1 and the company settled on 15 percent.

2 MR. VINCE WARDEN: Yeah, I think that's
3 probably been on the record at previous proceedings, yes.

4 MR. KRIS SAXBERG: And any -- has there
5 been any market sensitivity or any sensitivity testing
6 done to determine if the bandwidth had been 20 percent
7 versus 15 percent, if the additions to gas costs would
8 have -- what they would have been in that scenario?

9 MR. BRENT SANDERSON: Keeping in mind
10 that there's a functional limit to how many different
11 ways we can revisit history; what might have happened
12 under this scenario or that scenario and what have you.
13 There's literally an infinite number of different ways we
14 can look at it. We -- we do quantify on an ongoing basis
15 what a wider bandwidth would have achieved than the 15
16 percent, as one of the many scenarios that we model.

17 MR. KRIS SAXBERG: In your undertaking
18 wherein you're going to determine the 15 percent
19 avoidance of costs, could you do the same for the 20
20 percent?

21 MR. BRENT SANDERSON: Not 20 percent. 25
22 percent is the wider bandwidth that we model for
23 comparative purposes. I can you directionally, there's
24 no magic here. In a falling price environment, I can
25 tell you that a wider bandwidth will yield a -- a lesser

1 addition to gas cost, and conversely, in a rising
2 marketplace environment, a wider bandwidth will provide a
3 lesser reduction to gas costs.

4 And so we have modelled a 25 percent
5 bandwidth alternative. It would take us a few weeks to
6 put together the necessary models to look at 20 percent.

7 MR. KRIS SAXBERG: No, and that -- and
8 that -- I wouldn't put you to that work, but if you could
9 provide in your undertaking the 20 -- the 25 percent, as
10 well.

11 MR. BRENT SANDERSON: And what period of
12 time are you looking at -- you want us to look at in
13 terms of providing the comparisons.

14 MR. KRIS SAXBERG: Well, for the year
15 ending 2008 would probably be the easiest, since it's the
16 first complete year with that formula.

17 MR. BRENT SANDERSON: Are you meaning
18 March 31st, 2008?

19 MR. KRIS SAXBERG: Yeah, the year ending
20 2008, yeah, exactly --

21 MR. BRENT SANDERSON: Yes, we'll provide
22 that.

23

24 --- UNDERTAKING NO. 2: Centra to indicate how much
25 additional costs were avoided

1 by virtue of the new collar,
2 including 25 percent
3 bandwidth, for year ending
4 2008

5

6 CONTINUED BY MR. KRIS SAXBERG:

7 MR. KRIS SAXBERG: Now, Mr. Warden,
8 there's been a change in policy now to reduce the amount
9 of volumes hedged.

10 Would you agree, then, that for Manitoba
11 Hydro Centra that short-term large additions to gas costs
12 from hedging are something that Manitoba Hydro wants to
13 avoid?

14 MR. VINCE WARDEN: We want to avoid both
15 short and long-term additions to gas costs, yes, that
16 aren't -- that may not be necessary.

17 MR. KRIS SAXBERG: And, not to be
18 flippant about it, but I'm sure Manitoba Hydro doesn't
19 care that much about short-term savings to gas prices
20 through hedging.

21 MR. VINCE WARDEN: For the benefit of our
22 customers, that's correct. We like to take advantage of
23 all savings that might be there.

24 MR. KRIS SAXBERG: But the key -- the key
25 is that the policy is that you want to avoid large-term -

1 - large amount short-term additions to gas costs through
2 a hedging program, and that's why the reduction in
3 volumes hedged.

4 Is that fair?

5 MR. VINCE WARDEN: Yes, the -- as we've
6 just put on the record, there have been some substantial
7 increases to gas costs which, as I indicated, I believe,
8 in my direct that did cause some concern, hence the
9 reduction in the volumes hedged from 100 percent of
10 eligible volumes to 50 percent.

11 I -- I should point out, though, that the
12 -- in terms of meeting the objectives of the -- of the
13 Hedging Program which are -- which -- the primary
14 objective being to reduce volatility, the Hedging Program
15 has been very successful in that respect.

16 MR. KRIS SAXBERG: Now, in terms of
17 alternatives to hedging, one (1) alternative that in its
18 infancy right now is the fixed rate offering of Manitoba
19 Hydro Centra and there -- there's only ninety-eight (98)
20 customers involved.

21 Is that correct?

22 MR. VINCE WARDEN: I believe that's the
23 number, yes.

24 MR. KRIS SAXBERG: Obviously, you want
25 that number to grow. And my question is, in terms of

1 reassessing the hedging policy -- and I take it that's
2 something that's underway right now?

3 MR. VINCE WARDEN: You -- your first
4 point about obviously we want that number to grow, I
5 wouldn't say that necessarily. We want to make sure that
6 customers have choice and that the customers are fully
7 aware of what those choices are. If you choose to stay
8 on the variable rate, I -- I have no problem with that
9 whatsoever, so I -- I'm not looking for that number to
10 grow.

11 MR. KRIS SAXBERG: But the question was
12 about whether or not, firstly, the Hedging Program and
13 it's parameters, are they under review right now?

14 MR. VINCE WARDEN: Yes.

15 MR. KRIS SAXBERG: And as a component of
16 that review, will you be looking at ramping up the fixed
17 rate offering? And when I say "ramping it up" I -- I
18 mean having it available more often than -- than has been
19 the case so far, which was a very small test period.

20 MR. VINCE WARDEN: Well, I think the --
21 the fixed rate offering has the potential to alleviate or
22 reduce the requirement to hedge in the future. Were not
23 near at that point yet, but at some -- at some point in
24 the future as the -- as the Fixed Rate Offering Program
25 matures then we'll -- we'll see whether or not that is in

1 fact the case, that we can back off fur -- further on
2 hedging. We're not at that point yet and we -- I don't
3 see that as a short-term solution to the issue we have
4 before us.

5 MR. KRIS SAXBERG: Mr. Chairman, I'm -- I
6 may be only five (5) minutes from completing.

7 THE CHAIRPERSON: Then you might as well
8 continue.

9

10 CONTINUED BY MR. KRIS SAXBERG:

11 MR. KRIS SAXBERG: Okay. Thank you, sir.

12 And I was, and I apologize for this, maybe
13 only half listening to that last answer. Are you
14 suggesting there's no interrelationship between the
15 fixed-rate offering and Hentra -- and Centra's Hedging
16 Program?

17 MR. VINCE WARDEN: No. No, I didn't say
18 that. I -- I'm saying, at some point in the future the
19 fixed-rate offering may in fact reduce a requirement for
20 hedging, but we're not anywhere near that -- that point
21 in time.

22 MR. KRIS SAXBERG: What -- what do we do
23 to get to that point in time? What do we have to do?

24 MR. VINCE WARDEN: Well, I think we'll --
25 we'll have additional offerings in the future. We have,

1 as you know, just one (1) offering so far. It's been
2 moderately successful in terms of what we've learned from
3 the process and we will be coming out with another
4 offering at some point relatively soon, and will continue
5 to grow the program, I expect, or at least offer the
6 program, such that it can grow, and make an assessment as
7 to whether or not it will displace the Hedging Program at
8 some point in the future.

9 MR. KRIS SAXBERG: Okay, thank you for
10 that. In terms of the Hedging Program, as it stood this
11 past year, is it the case that the Executive Committee on
12 -- on two (2) occasions, at least, made decisions,
13 judgmental decisions based on a market view, to deviate
14 from the mechanistic approach?

15 MR. VINCE WARDEN: No. I think there was
16 a market -- perhaps, more of a market view taken in 2000
17 -- early 2007, when the price was what we considered to
18 be extraordinarily high. And so there was a -- a market
19 view, I will concede, taken at that point in time, such
20 that the second tranche of hedges were deferred.

21 The most recent backing off, though, on --
22 on the -- on the quantity, the volume of hedging, was not
23 based on market view.

24 MR. KRIS SAXBERG: That was based on the
25 -- the concern about the large additions to gas cost in

1 particular years --

2 MR. VINCE WARDEN: That's correct.

3 MR. KRIS SAXBERG: Okay. Thank you for
4 that. And I don't think you'll have any contest about
5 that from these Intervenors.

6 But just in terms of that early 2007
7 adjustment to the mechanistic approach there, is it not
8 the case that -- that doesn't the Executive Committee
9 need to identify special circumstances, in order to -- to
10 make a decision of that sort?

11 MR. VINCE WARDEN: No.

12 MR. KRIS SAXBERG: Were there any special
13 circumstances at the time?

14 MR. VINCE WARDEN: Other than what I've
15 just mentioned, the -- the high -- the high prices.

16 MR. KRIS SAXBERG: And do you have -- has
17 there been any analysis of -- of when it is the prices
18 are at such a level as to require some judgment to be
19 brought to bear? I mean, is there a threshold? Is it,
20 when it gets past eight dollars (\$8) a gigajoule, that --
21 that would trigger a decision-making process?

22 MR. VINCE WARDEN: No, there's no
23 threshold.

24 MR. KRIS SAXBERG: Is there -- on the
25 other end of it, when prices are low, is there any kind

1 of a consideration of that sort, of -- of a special
2 circumstance?

3 MR. VINCE WARDEN: No.

4

5 (BRIEF PAUSE)

6

7 MR. KRIS SAXBERG: And, just finally, if
8 you turn to the last three (3) pages of the booklet,
9 Examination Aid, you'll see a report that I'm sure you're
10 familiar with. And it was the report on the assessment
11 of Centra Gas's Restorative Hedging Program, done way
12 back in 2002 by Mr. Simard of RiskAdvisory.

13 You're familiar with that, Mr. Warden?

14 MR. VINCE WARDEN: Yes, I am.

15 MR. KRIS SAXBERG: And -- and just in
16 short, one (1) of the things that he had concluded after
17 interviewing members of the Executive Committee was that
18 the Executive Committee -- that he had a concern that the
19 Executive Committee might not have the appropriate
20 knowledge and ability to make decisions based on market
21 views.

22 Do you recall that concern? It's on page
23 18.

24 MR. VINCE WARDEN: That was a concern
25 that was expressed in this report, yes.

1 MR. KRIS SAXBERG: Were you one of the
2 executives that he was -- that he met with?

3 MR. VINCE WARDEN: Yes.

4 MR. KRIS SAXBERG: And has there been any
5 subsequent analysis, with respect to the Executive
6 Committee and whether or not the concerns been --

7 MR. VINCE WARDEN: No.

8 MR. KRIS SAXBERG: Okay. Thank you.
9 Those are all my questions for this panel.

10 THE CHAIRPERSON: Thank you, Mr. Saxberg.
11 Okay, we'll -- Mr. Peters...?

12 MR. BOB PETERS: If I could interrupt. I
13 didn't want to interrupt My Friend Mr. Saxberg during his
14 cross-examination and questioning. But he compiled, he
15 calls it a booklet, I think, most recently on the
16 transcript, and with his concurrence I think it would be
17 appropriate to mark that as an exhibit.

18 The next exhibit for CAC/MSOS would be
19 Exhibit Number 6. if that satisfies Mr. Saxberg.

20

21 --- EXHIBIT NO. CAC/MSOS-6: Booklet compiled by Mr.

22

Saxberg

23

24 MR. KRIS SAXBERG: Thank you. I forgot
25 about that.

1 MR. BRENT SANDERSON: And if I might just
2 help wrap up any outstanding items before lunch, I'm
3 prepared to respond to the undertaking that I accepted
4 from Mr. Saxberg, just a moment ago.

5 THE CHAIRPERSON: Please.

6 MR. BRENT SANDERSON: For the fiscal year
7 ended March 31st, 2009, as depicted in the response to
8 PUB/CENTRA-181, our actual realized hedging results were
9 in addition to gas costs of \$23.3 million. Had we
10 continued to maintain our previous fifty (50) cent of the
11 money collar strategy, those amounts would have been a
12 \$26.9 million addition to gas costs over the same period.
13 And had we employed a wider adjustable bandwidth of 25
14 percent as opposed to the 15 percent actually employed,
15 the addition to gas costs would have been \$22.5 million.

16 THE CHAIRPERSON: Thank you, Mr.
17 Sanderson.

18 Mr. Boyd, are you -- do you have any
19 questions of this panel?

20 MR. SANDY BOYD: No, I don't.

21 THE CHAIRPERSON: So, Mr. Peters, we'll
22 be moving onto the next panel then after -- unless Ms.
23 Murphy has any re-direct?

24 MR. BOB PETERS: You're correct, Mr.
25 Chairman. I suspect over the lunch hour Ms. Murphy will

1 take the opportunity to consider whether there is any re-
2 examination of any of the witnesses. And if there is,
3 we'll deal with that and if there isn't, I believe she'll
4 be ready to proceed with the revenue requirement et. al.
5 panel at --

6 THE CHAIRPERSON: Okay. Then we'll be
7 back at 1:30. Thank you very much. And thank you very
8 much to the panel. I appreciate your testimony.

9

10 (CENTRA GAS COST MATTERS PANEL STANDS DOWN)

11

12 --- Upon recessing at 12:11 p.m.

13 --- Upon resuming at 1:34 p.m.

14

15 THE CHAIRPERSON: Okay, welcome back,
16 everyone.

17 Mr. Saxberg...? Oh, I'm sorry.

18 MS. MARLA MURPHY: We're done.

19 THE CHAIRPERSON: You're not done but
20 you're finished for this round. Thank you.

21 THE CHAIRPERSON: Ms. Murphy, do you have
22 any re-direct for the prior panel?

23 MS. MARLA MURPHY: I don't, Mr. Chairman,
24 and we've taken the opportunity to substitute our next
25 panel, and so I can maybe take a moment and introduce

1 them.

2 THE CHAIRPERSON: Please.

3 MS. MARLA MURPHY: As you know, Mr.
4 Warden's been here already. Next to Mr. Warden we have
5 Mr. Derksen who is the department manager, Willy Derksen,
6 Department Manager of Corporate Budget Services; beside
7 him, Mr. Greg Barnlund, who's the Department Manager of
8 Gas Rates and Regulatory; Mr. Dave Petursson is the
9 Department Manager for Distribution Standards and
10 Services; and finally Mr. Lloyd Kuczek is the Division
11 Manager for Consumer Marketing and Sales. That comprises
12 our Revenue Requirement, DSM, Cost Allocation, and Rate
13 Design Panel.

14 I have a bit of a change-up in the order
15 that I discussed with Mr. Peters just before lunch. It
16 appears we're going to have to file some additional
17 material related to cost allocation and rate design
18 matters so what I'd propose to do is to do the direct
19 examination of this panel as it relates to revenue
20 requirement and DSM matters.

21 Mr. Peters can then begin with his cross
22 and depending on how we do with timing we'll come back
23 and do the direct examination of the cost allocation
24 panel and allow them to continue or perhaps we'll have
25 Mr. Saxberg cycle in and finish the cross of the panel

1 before we do the cost allocation just depending on how
2 the days unfold.

3 THE CHAIRPERSON: That's fine; Mr.
4 Singh...?

5

6 CENTRA REVENUE REQUIREMENT, DSM, COST ALLOCATION, AND
7 RATE DESIGN PANEL:

8

VINCE WARDEN, Resumed

9

WILLY DERKSEN, Sworn

10

GREGORY BARNLUND, Sworn

11

DAVID PETURRSON, Sworn

12

LLOYD KUCZEK, Sworn

13

14 THE CHAIRPERSON: Thank you, Mr. Singh.
15 Ms. Murphy...?

16

MS. MARLA MURPHY: Thank you, Mr.

17

Chairman. I just might indicate a rather unusual

18

manoeuvre. We can have this panel address the

19

Undertaking from the last cost of gas panel. Mr. Peters

20

had asked for an undertaking that we provide the actual

21

number of affected degree days of heating to March 31st

22

of 2009, and Mr. Kuczek is prepared to speak to that if

23

you'd like to have that on the record.

24

THE CHAIRPERSON: Mr. Kuczek...?

25

MR. LLOYD KUCZEK: It's four thousand

1 nine hundred and eighteen (4,918).

2

3 (BRIEF PAUSE)

4

5 MR. LLOYD KUCZEK: The effected degree
6 day heating for that period is four thousand nine hundred
7 and eighteen (4,918).

8 THE CHAIRPERSON: Four thousand nine
9 hundred and eighteen (4,918)?

10 MR. LLOYD KUCZEK: Correct.

11 THE CHAIRPERSON: Thank you.

12

13 (BRIEF PAUSE)

14

15 MS. MARLA MURPHY: Thank you, Mr.
16 Chairman. I might just indicate for the record that the
17 witness qualifications for this panel for Misters Warden,
18 Derksen, Barnlund, Peturrson and Kuczek have been filed
19 and marked as exhibits. They are 4-1, 4-5, 4-7, 4-8 and
20 4-6 respectively.

21 Those qualifications set out the positions
22 of each panel member, their experience and educational
23 qualification, their appearances before the Board and
24 their adoption of evidence as it relates to their areas
25 of responsibility.

1 We have provided those to all the parties
2 on May 29th and I do have copies available if -- if
3 anyone needs them.

4 As you will recall, Mr. Chairman, Mr.
5 Warden gave direct evidence on June the 2nd which is --
6 included the matters that related to this panel, so I'll
7 begin with the evidence of Mr. Barnlund this morning.

8

9 EXAMINATION-IN-CHIEF BY MS. MARLA MURPHY:

10 MS. MARLA MURPHY: Mr. Barnlund, will you
11 please outline your areas of responsibility with respect
12 to this panel?

13 MR. GREG BARNLUND: Good afternoon Mr.
14 Chairman, members of the Public Utilities Board, ladies
15 and gentlemen.

16 In my testimony I'll be providing evidence
17 regarding Centra's Letter of Application, and I will also
18 be responding to questions relating to the approvals
19 Centra is requesting in regards to its Application
20 respecting rates and for final approval of interim
21 Orders.

22 I will also be providing evidence related
23 to 2009/'10 and 2010/'11 Cost Allocation Study and the
24 allocation of non-primary PGVA and gas cost deferral
25 account balances as of October 31st, 2008 and the related

1 customer bill impacts for the various customer classes.

2 In addition, I will be providing testimony
3 with regards to the requested changes to Centra's terms
4 and conditions of service.

5 MS. MARLA MURPHY: Would you please
6 outline for the Board what Centra is seeking in terms of
7 a non-gas cost increase in this Application?

8 MR. GREG BARNLUND: Certainly. Centra is
9 seeking approval of a 2009/'10 non-gas revenue
10 requirement of approximately \$145.2 million which is a
11 non-gas cost increase of approximately \$2.2 million when
12 compared to those costs currently embedded in rates.

13 For the 2010/'11 test year Centra is
14 requesting approval of a non-gas revenue requirement of
15 \$155.4 million. These de -- the details of these
16 requests are provided in Tab 4 and more particularly in
17 Schedule 4.0.0 of Centra's Application.

18 MS. MARLA MURPHY: Mr. Barnlund, would
19 you please outline for the Board the interim Orders for
20 which Centra is seeking final approval?

21 MR. GREG BARNLUND: Yes. In addition to
22 the final approvals related to the cost of gas which were
23 addressed by Mr. Sanderson, Centra is seeking final
24 approval of interim ex parte Orders 140/'07, 6/'08,
25 550/'08, 115/'08, 147/'08, 7/'09 and 49/'09 related to

1 the approval of interim primary gas rates effective
2 November 1, 2007, February 1, 2008, May 1, 2008, August
3 1, 2008, November 1, 2008, February 1, 2009 and May 1,
4 2009, respectively.

5 Centra is also seeking final approval of
6 interim Orders 174/'07, 175/'07, 176/'07 and 52/'08
7 related to the approval of renewed franchise agreements
8 for the City of Brandon, the Village of St. Claude, a
9 renewed crossing agreement with the RM of Gray and a
10 renewed franchise agreement with the RM of Russell,
11 respectively.

12 Centra is also seeking final approval of
13 interim Order 102/'08 relating to service disconnections
14 and reconnection policies and procedures.

15 MS. MARLA MURPHY: Mr. Barnlund, the
16 updated material filed on May 29th and on June 1st, 2009
17 suggested Centra is proposing to implement changes to
18 non-gas rates on February 1st, 2010 instead of the
19 implementation date of August 1st, 2009 as originally
20 requested.

21 Can you please confirm that for the Board?

22 MR. GREG BARNLUND: Yes, I can confirm
23 that Centra seeks to implement its proposed non-gas rate
24 change for the 2009 test year on February 1, 2010. These
25 rates will be effective on February 1 of 2010 and as

1 discussed by Mr. Warden in his testimony on Tuesday, the
2 rate changes proposed to provide approximately \$2.9
3 million of net income for the 2009/'10 year considering
4 that implementation date of February 1 of 2010.

5 In this case Centra will not be seeking a
6 rate delay rider which had been proposed in Centra's
7 original Application but will be proposing base and
8 billed rates that reflect the level of increase required
9 on February 1 to produce a net income of that \$2.9
10 million for the fiscal year ending March 31st of 2010.

11 MS. MARLA MURPHY: Given that Centra
12 proposes to change non-gas rates on February 1st, 2010,
13 can you advise the Board as to your proposal for non-
14 primary gas cost changes for the '09/'10 test year?

15 MR. GREG BARNLUND: Centra proposes to
16 implement a rate change on August 1 of 2009 that reflects
17 the changes to non-primary gas costs forecasted for the
18 2008/'09 gas year as described by Mr. Sanderson in his
19 testimony. The proposed base rates will be reflective of
20 a non-primary gas cost forecast that is approximately
21 \$6.2 million lower than that embedded in existing
22 approved rates.

23 In addition, Centra intends to apply rate
24 riders to produce billed rates that will recover
25 approximately 9.5 million of deferral account balances as

1 of October 31st, 2008 and the associated carrying cost to
2 July 31st, 2009.

3 MS. MARLA MURPHY: Would you please
4 outline the rate riders that Centra's proposing in this
5 Application?

6 MR. GREG BARNLUND: Certainly. Centra's
7 proposing to implement the non-primary gas rate riders on
8 August 1, 2009 to address the balances accumulated in a
9 supplemental gas transportation, distribution capacity
10 management, heating value and prior period PG&A's as
11 shown on Schedule 10.3.0. These balances represent a net
12 recovery from customers of approximately \$9.4 million to
13 be accomplished by having those riders in place for a
14 twelve (12) month period ending July 31st, 2010.

15 The determination of the rate rider for
16 those balances is shown on Schedule 10.3.1.

17 MS. MARLA MURPHY: Thank you, Mr.
18 Barnlund. Mr. Derksen, would you please outline your
19 areas of responsibility with respect to this panel?

20 MR. WILLY DERKSEN: Yes. Good morning,
21 Mr. Chairman, Members of the Public Utilities Board,
22 ladies and gentlemen.

23 In my testimony I will be responding to
24 questions related to operating and administrative costs
25 and the integrated cost allocation. As well, I will be

1 providing evidence with respect to Centra's other income,
2 depreciation and amortization expense, capital and other
3 taxes and other revenue requirement items.

4 MS. MARLA MURPHY: Mr. Derksen, could you
5 please advise the Board whether there have been any
6 changes to the integrated cost allocation methodology
7 since it was accepted in Order 118/03?

8 MR. WILLY DERKSEN: Since the last GRA
9 there have been no other changes to the costing
10 methodology.

11 MS. MARLA MURPHY: And would you please
12 outline Centra's cost of operations for the '09/'10 and
13 '10/'11 years included in this Application?

14 MR. WILLY DERKSEN: Yes. Centra's
15 operating and administrative costs for 2009/'10 test year
16 are forecast to be \$59.2 million. And for the 2010/'11
17 test year are forecast to be \$60.3 million. These
18 amounts incorporate actual and expected changes to the
19 cost levels and to program requirements and are net of
20 productivity improvements which are embedded in the
21 operating targets.

22 MS. MARLA MURPHY: Mr. Derksen, the
23 update to the application includes a provision of \$5
24 million for accounting and other changes in the '09 -- in
25 the 2010/'11 fiscal year.

1 Can you please explain the nature of those
2 costs?

3 MR. WILLY DERKSEN: Yes. The \$5 million
4 provision represents the minimum expected impact of
5 adopting International Financial Reporting Standards for
6 fiscal 2010/'11 and for other future cost pressures
7 facing the organization.

8 International Financial Accounting
9 Standards or IFRS will be required to be adopted
10 retroactively for fiscal 2010/'11. That is 2010 and '11
11 will initially be reported under current Canadian
12 Generally Accepted Accounting Principles but will
13 subsequently need to be restated using accounting
14 principles which conform to IFRS.

15 An adjustment to retained earnings will be
16 made for the differences between these two (2) methods of
17 accounting. The main differences between IFRS and
18 Canadian GAAP relate to internal costs eligible for
19 capitalization, depreciation accounting, pension
20 accounting, and the recognition of regulatory assets and
21 liabilities.

22 The changes cannot yet be precisely
23 quantified, however, Centra expects that the adjustment
24 required could be an increase to expenses in the order of
25 \$5 to \$10 million. There are also other pressures on the

1 costs that Centra will incur and report for the second
2 test year. Interest rates are at an all-time low and
3 there is considerable risk that these rates may rebound
4 during the second test year.

5 There are continuing pressures on
6 operating costs related to ageing infrastructure, cost
7 escalation that has not yet been incorporated into
8 forecasts, and to additional training requirements
9 related to employee demographics. This is illustrated in
10 part by 2009 actual costs which were approximately \$1
11 million over forecasted cost levels.

12 There are also accounting changes in
13 Canadian GAAP which serve to reduce inventory and costs
14 eligible for capitalization. As well, given the economic
15 slowdown and the continued focus on DSM initiatives there
16 is a risk of lower volume sales than forecasted. In the
17 past, conservation and consumption measures have
18 sometimes produced substantial reductions to margins from
19 gas sales.

20 Although the impact of these factors
21 cannot be precisely forecasted at this time, the
22 directional impact of these factors -- that these factors
23 may have on Centra's financial results is universally
24 downward. The \$5 million amount represents a reasonable
25 and minimal provision to recognize them.

1 MS. MARLA MURPHY: Thank you, Mr.
2 Derksen. Mr. Petursson, could you please outline your
3 areas of responsibility with respect to this application?

4 MR. DAVE PETURSSON: Good morning , Mr.
5 Chairman, members of the Public Utility Board, ladies and
6 gentlemen.

7 In my testimony I will be responding to
8 questions regarding the capital expenditures and cost of
9 operations related to system betterment and system
10 integrity. MS. MARLA MURPHY: Mr. Petursson, would
11 you please briefly outline the capital expenditures for
12 system load growth included in Centra's application?

13 MR. DAVE PETURSSON: The installation of
14 new services and distribution mains to attach new
15 customers in existing franchise areas is Centra's largest
16 capital investment on an annual basis. For the 2008/'09
17 year Centra anticipates making capital expenditures on
18 account of system load growth of approximately 10.8
19 million. For the 2009/'10 and 2010/'11 test years Centra
20 anticipates capital expenditures of approximately 11
21 million each year.

22 MS. MARLA MURPHY: And could you please
23 briefly describe the system integrity programs and
24 projects currently in place at Centra?

25 MR. DAVE PETURSSON: Section 4.4.4 of the

1 Application has operating programs for cathodic
2 protection monitoring, close interval surveys, A-frame
3 surveys, stress corrosion cracking investigations,
4 geotechnical unstable area instrumentation monitoring,
5 and pipeline and water crossing depth of cover surveys.

6 MS. MARLA MURPHY: And finally, Mr.
7 Petursson, are you able to provide the Board with the
8 status of the report on the four (4) party trench project
9 due on June 30th of 2009?

10 MR. DAVE PETURSSON: Yes, we are
11 expecting that the requested report will be filed at the
12 end of June.

13 MS. MARLA MURPHY: Thank you, Mr.
14 Petursson. Mr. Kuczek, would you please outline your
15 areas of responsibility with respect to this panel?

16
17 (BRIEF PAUSE)

18
19 MR. LLOYD KUCZEK: Good morning, Mr.
20 Chairman, members of the Public Utility Board, ladies and
21 gentlemen.

22 In my testimony I will be providing
23 evidence with respect to Centra's Demand Side Management
24 Program and the preparation of the load forecast.

25 MS. MARLA MURPHY: Mr. Kuczek, Centra

1 filed its 2008 Power Smart Plan as Attachment 2 to Tab 12
2 of Centra's Application.

3 Can you please briefly describe the
4 program as it relates to Centra?

5 MR. LLOYD KUCZEK: The 2008 Power Smart
6 Plan is an integrated DSM plan targeting economic energy
7 efficiency opportunities in natural gas and electricity
8 use. The plan is an aggressive plan both in terms of
9 investment and targeted energy savings and is an update
10 and a refinement to the Corporation's 2006 Power -- Power
11 Smart Plan.

12 The 2008 Power Smart Plan targets
13 achieving natural gas savings of 154 million cubic metres
14 with resulting direct greenhouse emission -- emission
15 reductions of approximately 300,000 tonnes annually by
16 2023/'24. The program involves an investment by Centra
17 of 144 million and is further supported by Manitoba
18 Hydro's Affordable Energy Fund.

19 MS. MARLA MURPHY: Mr. Kuczek, can you
20 please update the Board with respect to the Lower Income
21 Furnace Replacement Program?

22 MR. LLOYD KUCZEK: Yes. As you are
23 aware, the Lower Income Furnace Program was launch --
24 launched last summer. Since the launch, Centra has
25 engaged five (5) contractors in Winnipeg and one (1)

1 contractor in Brandon.

2 Installations of furnaces began in
3 December and to date over four hundred (400) energy-
4 efficient furnaces and five (5) energy-efficient boilers
5 have been installed. An additional two hundred (200)
6 homes which have progressed past the pre-audit step have
7 recommendations which also include furnace replacements.

8 MR. MARLA MURPHY: Mr. Kuczek, can you
9 please also update the Board with respect to the Base
10 Lower Income Program?

11 MR. LLOYD KUCZEK: Through the -- it's
12 two (2) approaches to this program. Through the
13 individual approach, to date just over nine hundred (900)
14 applications have been approved with forty-four (44)
15 homes completely going through the process and being
16 retrofitted with energy-efficient opportunities.

17 The balance of the homes are at various
18 stages and with -- within the process, with close to
19 eight hundred (800) homes now having the pre-audit
20 completed.

21 In addition to the six hundred and ten
22 (610) homes with furnace re -- replacement
23 recommendations, six hundred and thirty (630) of these
24 homes have recommendations involving insulation upgrades.
25 Arrangements have now been made with two (2) contractors

1 to undertake insulation measures. Through the other
2 approach -- the community-based approach -- two hundred
3 and eighty-five (285) homes have now been completely
4 retrofitted and ninety-six (96) homes are at various
5 stages of receiving energy-efficient upgrades.

6 MS. MARLA MURPHY: Mr. Kuczek, can you
7 please comment on Centra's plans to expand the Lower
8 Income Program to rental properties?

9 MR. LLOYD KUCZEK: Centra is currently
10 developing a landlord component to it's Lower Income
11 Program including the Furnace Replacement Program. The
12 program is expected to be available later this summer.

13 MR. MARLA MURPHY: And can you please
14 comment on the suggestion that Centra needs to develop
15 process and impact evaluations of it's Lower Income
16 Programs.

17 MR. LLOYD KUCZEK: Centra agrees with
18 this suggestion and is currently preparing a -- a draft
19 evaluation plan, and Centra intends to seek the input of
20 the Low Income Advisory Committee prior to finalizing the
21 evaluation plan.

22 MS. MARLA MURPHY: Mr. Kuczek, could you
23 please advise the Board of the activities of the Low
24 Income Advisory Committee?

25 MR. LLOYD KUCZEK: Centra has held three

1 (3) Advisory Committee meetings subsequent to the Low --
2 Low Income Technical Conference held on January 31st,
3 2008. The most recent meeting was held on December the
4 8th, 2008, and the next meeting is tentatively scheduled
5 for June 24th.

6 Discussion topics are varied, including
7 program design, information and other programs available
8 in other regions and marketing ideas on how best to reach
9 the target group. The agenda topics are open and
10 Committee members are -- can suggest additional items for
11 discussion.

12 MS. MARLA MURPHY: Finally, Mr. Kuczek,
13 could you please update the Board on the status of
14 Centra's fixed-rate primary gas service?

15 MR. LLOYD KUCZEK: Centra offered
16 customers fixed-rate contracts for one (1), three (3) and
17 five (5) year terms to commence on May 1st, 2009. The
18 one (1) year offering was fully subscribed. The three
19 (3) and five (5) year contracts were not fully
20 subscribed.

21 Centra presently is considering the nature
22 and timing of its next service offerings with
23 expectations to offer additional fixed prod -- price
24 product offerings in the near future.

25 MS. MARLA MURPHY: Thank you, Mr. Kuczek.

1 Mr. Chair, that concludes the direct
2 examination of this panel. It is available for cross-
3 examination.

4 I should indicate that we did receive
5 yesterday morning a list of questions from CAC/MSOS
6 regarding the updated material that had been filed. We
7 are in the process of copying virtually all of those
8 responses, so I'm hopeful that we'll have them by the
9 coffee break this afternoon.

10 THE CHAIRPERSON: Thank you, Ms. Murphy.

11 Well, Mr. Peters, I guess you're up again.

12

13 CROSS-EXAMINATION BY MR. BOB PETERS:

14 MR. BOB PETERS: Thank you, Mr. Chairman.

15 Good afternoon to the panel.

16 Mr. Warden, you can remind your panel-
17 mates that my questions are directed at the panel and
18 anyone is able to respond as long as Mr. Warden is happy
19 with -- with that.

20 And again, my questions are for Centra to
21 answer, and if I slip and use the word "you" - Y-O-U -
22 please understand I'm looking for a response on behalf of
23 Centra and not your personal opinion.

24 Same ground rules, Mr. Warden --

25 acceptable?

1 MR. VINCE WARDEN: Sounds good, Mr.
2 Peters.

3 MR. BOB PETERS: All right. For those
4 who weren't here the other day to witness Mr. Warden's
5 and my jousting on the book of documents Tab 2 which is a
6 copy of the IR PUB/CENTRA-15, that has now been revised
7 and to some extent I think Mr. Derksen you have gone
8 through it briefly as well.

9 But the PUB/CENTRA-15 attachment, dated
10 June 1, 2009, contains the current financial summary of
11 the details before the Board; would you agree with that,
12 Mr. Derksen and Mr. Warden?

13 MR. WILLY DERKSEN: Yes.

14 MR. BOB PETERS: I didn't dwell in detail
15 with some of the items but I'd like to go down the -- the
16 list with you, Mr. Derksen, and look at each of the items
17 except for cost of gas.

18 So turning to line 9 and Other Income
19 would it be correct that Other Income on this statement
20 reflects things like late payment fees that have been
21 received by the Company, rental income from any hardware
22 or appliances that are rented by the Company, as well as
23 the administration charge to the brokers?

24 MR. WILLY DERKSEN: Yes, that's correct,
25 although primarily it is the late payment charges.

1 MR. BOB PETERS: It appears from what's
2 filed is that the other income is -- is decreasing; would
3 that be a fair way to describe that?

4 MR. WILLY DERKSEN: Yes, from the 2000 --
5 from the last approved that's correct.

6 MR. BOB PETERS: And is that an
7 indication, Mr. Derksen, that there are fewer late
8 payment penalties being paid by consumers?

9 MR. WILLY DERKSEN: Yes, but it's a very
10 small decrease but that's what it would be an indication
11 of; that's correct.

12 MR. BOB PETERS: And in terms of the
13 operating and maintenance expense found at line 10 for
14 the 2009 test year compared to where the Board last saw
15 it and approved at 58 million it's gone up by \$1.16
16 million?

17 MR. WILLY DERKSEN: Yes, that's correct.

18 MR. BOB PETERS: In terms of depreciation
19 and amortization this is the largest non-gas increase
20 that's in your application because last approved by the
21 Board was 23 million and now it's closer to 28.5 million?

22 MR. WILLY DERKSEN: Yes, sir.

23 MR. BOB PETERS: The Furnace Replacement
24 Program of which Mr. Kuczek was speaking just a few
25 minutes ago, the Board approved \$3.855 million to be

1 built into rates and in the -- in the 2009/'10 test year
2 the Company is not seeking to recovery any money on
3 account of the Furnace Replacement Program?

4 MR. WILLY DERKSEN: Yes, we're not
5 seeking to collect money from our customers to fund that.
6 As I recall, the Board directive indicated it would be a
7 two (2) year program and that's how we've treated it in
8 this Application.

9 MR. BOB PETERS: Oh, I'll come back to
10 you on that one, Mr. Derksen, but by decrease -- by not
11 funding the Furnace Replacement Program would it be
12 correct to say that Centra is using the \$3.85 million for
13 other non-gas purposes?

14 MR. WILLY DERKSEN: Yes, that's correct.
15 It serves to reduce the level of rate increases that we
16 would otherwise be asking for.

17 MR. BOB PETERS: In terms of capital and
18 other taxes it seems almost a relatively modest
19 adjustment, an increase of six hundred and thirty-eight
20 thousand dollars (\$638,000)?

21 MR. WILLY DERKSEN: Yes, that would be
22 based upon municipal taxes paid and the capital taxes
23 paid reflecting both escalation and increases in -- in
24 rate base.

25 MR. BOB PETERS: And again we'll come to

1 that but if memory serves me, Mr. Derksen, you haven't
2 included an amount for the real property taxes on the new
3 headquarters?

4 MR. WILLY DERKSEN: There is no element
5 of the new headquarters in this application.

6 MR. BOB PETERS: All right. We'll talk
7 about that as well.

8 The corporate allocation remains, Mr.
9 Derksen, the \$12 million that had been dealt with some
10 years ago by the Board?

11 MR. WILLY DERKSEN: Yes, we've maintained
12 it at the consistent level of \$12 million.

13 MR. BOB PETERS: And in terms of rounding
14 the net income is approximately \$3 million; not quite but
15 that really comes out as a rounding issue, would that
16 correct?

17 MR. WILLY DERKSEN: I'd agree with that,
18 yes.

19 MR. BOB PETERS: All right. It would be
20 nice to have net income rounded to those numbers but --
21 as we go down the -- the list and then look at the non-
22 gas cost increases -- I think it was you, Mr. Derksen --
23 no, it was Mr. Barnlund in my notes who indicated that
24 the non-gas increases were \$2.2 million more than the
25 last time Centra had a GRA before the Board?

1 MR. WILLY DERKSEN: Yes, I believe that's
2 in your document that you circulated at the beginning of
3 this proceeding.

4 MR. BOB PETERS: Yes, you're thinking of
5 the -- it's entitled, "PUB Counsel Select Hearing
6 Documents Tab 2," and it's a reworking of PUB/CENTRA-15?

7 MR. WILLY DERKSEN: Yes.

8 MR. BOB PETERS: And you agree with that
9 total that the non-gas costs have gone up \$2.2 million?

10 MR. WILLY DERKSEN: Yes, sir.

11 MR. BOB PETERS: But on the fiscal year
12 basis, what would be the revenue deficiency at existing
13 rates and forecast volumes?

14 MR. WILLY DERKSEN: I'll have to think
15 about it. Could you just repeat that question again?

16 MR. BOB PETERS: Maybe one of your
17 colleagues will have a copy of that Tab 2 document handy.
18 I'm going to draw your attention to line 26 and suggest
19 to you that while Mr. Barnlund and yourself are telling
20 the Board that your non-gas costs have gone up \$2.2
21 million, you're asking for a revenue deficiency to be
22 recovered by way of additional rates for non-gas matters
23 of \$1.7 million.

24 MR. WILLY DERKSEN: Yes, that's correct.

25 MR. BOB PETERS: And that \$1.7 million is

1 for the entire fiscal year?

2 MR. WILLY DERKSEN: Yes, that would be
3 the amount that we would propose to collect through a
4 rate increase on February 1st.

5 MR. BOB PETERS: I'm not saying -- I'm
6 not going to talk about when you're going to recover it,
7 but you're sitting before the Board saying that as you're
8 forecasting into the test year, the '09/'10 test year,
9 you can foresee that Centra will be short \$1.7 million in
10 terms of revenue from consumers to balance your books and
11 give you \$3 million of net income.

12 MR. WILLY DERKSEN: Yes, sir, that's
13 correct.

14 MR. BOB PETERS: And while your non-gas
15 costs have gone up \$2.2 million, you're only asking \$1.7
16 million.

17 MR. WILLY DERKSEN: Yes, sir.

18 MR. BOB PETERS: And can you explain to
19 the Board why that is?

20 MR. WILLY DERKSEN: Yes. It's primarily
21 due to volumetric changes. The -- the cost -- the non-
22 gas costs of -- of the Company are recovered through the
23 volumes that are sold to consumers. And if additional
24 volumes are sold there would be a greater recovery that
25 would partially offset our increased revenue requirement.

1 And if there were lower volumes sold there would be an
2 additional revenue requirement deficiency that would have
3 to be recovered through rate increases.

4 MR. BOB PETERS: If memory serves, Mr.
5 Derksen, the last time you were before the Board on a
6 General Rate Application you had the situation where
7 volumes in your load forecast had declined.

8 MR. WILLY DERKSEN: Subject to check, I'd
9 agree with that. That has been our normal experience I
10 think for the past while conservation has been greater
11 than load growth.

12 MR. BOB PETERS: But in this instance the
13 volumes appear -- have -- have come in from the load
14 forecast to be greater.

15 MR. WILLY DERKSEN: Yes, that's correct.

16 MR. BOB PETERS: And to what does Centra
17 attribute that?

18 MR. WILLY DERKSEN: I think I'd have to
19 refer to our load forecast people to give great detail on
20 that. But basically the load forecasts are showing that
21 the positive economy when they were prepared was -- would
22 result in greater sales than in previous years sales
23 increases.

24 MR. BOB PETERS: Mr. Kuczek, are you able
25 to shed any light on the reasons that underpin the volume

1 growth in the load forecast for the Company more than
2 what Mr. Derksen has provided?

3 MR. LLOYD KUCZEK: No, I couldn't add
4 anything more at this point.

5 MR. BOB PETERS: One (1) of the points
6 that you did mention, Mr. Derksen, was that the load
7 forecast would have been prepared at a time when the
8 economy was perhaps humming along more optimistically
9 than is the forecast presently.

10 MR. WILLY DERKSEN: Absolutely, sir.

11 MR. BOB PETERS: That suggests to me and
12 you can tell the Board if it's the case, that the next
13 load forecast will probably contain downward -- a
14 downward trend of volume consumption.

15 MR. WILLY DERKSEN: I -- I think broad
16 factors would suggest that although I wouldn't be able to
17 represent whether or not that would be the case for
18 Manitoba.

19 MR. GREG BARNLUND: Mr. Peters, you might
20 on the record as well that there would be another factor
21 that would be incorporated in the load forecast in that
22 the normalization is based on a ten (10) year moving
23 average of temperatures. And we've probably dropped off
24 a warm winter and picked up a cold winter which tends to
25 increase the average usage so there's a weather component

1 to the forecast as well, so..

2 MR. BOB PETERS: Mr. Barnlund, do you
3 know for certain that you've dropped off a -- a load
4 numbered EDDH (phonetic) year and picked up the most
5 recent of four (4), nine (9), one (1) eight(8) that Mr.
6 Kuczek has told us about?

7 MR. GREG BARNLUND: Subject to check,
8 when the forecast was put together some information --
9 informal conversations with our load forecast. Folks
10 suggested that that was having an impact on the test year
11 forecasts.

12 MR. BOB PETERS: So in addition to the
13 economy there's a weather component that also plays into
14 the load forecast number?

15 MR. GREG BARNLUND: I understand that to
16 be true, yes.

17 MR. BOB PETERS: All right. When is the
18 next load forecast for the gas company going to be
19 finalized?

20 MR. LLOYD KUCZEK: Towards the end of
21 this month, early next month.

22 MR. BOB PETERS: And that's a document
23 you could file with the Board upon it being completed and
24 approved by Centra executive?

25 MR. LLOYD KUCZEK: Yes.

1 MR. BOB PETERS: Mr. Derksen, before I
2 leave PUB/CENTRA-15 would it be too blunt to put it that
3 the \$1.7 million that you're seeking for the first test
4 year is -- is in essence all net income to the Company,
5 because if you don't get the \$1.7 million rate increase
6 from this Board it will reduce your net income?

7 MR. WILLY DERKSEN: It does sound blunt,
8 but that is the way the mechanics of a rate increase
9 work, yes.

10 MR. BOB PETERS: Okay. I want to turn to
11 the Furnace Replacement Program that we talked about and
12 deal with it on a revenue requirement basis first and
13 I'll deal with Mr. Kuczek perhaps later in my questions.

14 We've agreed, Mr. Derksen, that in the two
15 (2) test years there's zero dollars expected from
16 consumer rates to fund further the Furnace Replacement
17 Program?

18 MR. WILLY DERKSEN: Yes, that's correct.

19 MR. BOB PETERS: And we will agree that
20 the Furnace Replacement Program was established at
21 Centra's last GRA for the '07/'08 and '08/'09 test years?

22 MR. WILLY DERKSEN: Yes, sir.

23 MR. BOB PETERS: And in that General Rate
24 Application Centra did not approve the total amount of
25 the net income that it had requested but rather the net

1 income was set at \$3 million and the difference between
2 what was requested for net income and what was actually
3 approved was directed to the establishment of the Furnace
4 Replacement Program?

5 MR. WILLY DERKSEN: Yes, I believe the
6 rate increase was approved as filed but the net -- the
7 difference between \$3 million and the net income applied
8 for was set aside for the Furnace Replacement Program.

9 MR. BOB PETERS: All right. If I was
10 suggesting my memory was that good, I've misled you. At
11 Tab 6 of the book of documents is an extract from Board
12 Order 99 of '07 and under the directives, point 2A and B
13 and C, basically set out what you and I have already
14 agreed upon in my previous question?

15 MR. WILLY DERKSEN: Yes.

16 MR. BOB PETERS: So in '07/'08 \$2.3
17 million was realized and in '08/'09 \$3.8 million was
18 realized?

19 MR. WILLY DERKSEN: Yes, that's correct.

20 MR. BOB PETERS: And those monies were
21 generated through an actual rate increase, that's -- and
22 that rate increase that was granted remains in rates
23 today?

24 MR. WILLY DERKSEN: Yes, that's correct.

25 MR. BOB PETERS: It was interesting in

1 one (1) of the previous answers you gave me, Mr. Derksen,
2 you had interpreted the Furnace Replacement Program as
3 only to be in existence for two (2) years.

4 Did I understand you to say that?

5 MR. WILLY DERKSEN: That was my
6 understanding of it, yes.

7 MR. BOB PETERS: All right, is there any
8 -- any express words that you recall from the order or is
9 that just your general understanding of how -- how that
10 was to continue?

11 MR. WILLY DERKSEN: The -- Mr. Kuczek was
12 just reminding me that the program could last longer but
13 we are talking about the sourcing of the funds.

14 MR. BOB PETERS: Agreed, Mr. Derksen. I
15 think you and I are on the same wavelength although Mr.
16 Kuczek is correct that the program -- and we'll come to
17 talking about the mechanics of the program with him but
18 the funding of the program, Centra has interpreted it to
19 be -- it was two (2) years' worth of funding for the
20 program?

21 MR. WILLY DERKSEN: Yes, and that's
22 interpreted from the Board Order itself, which just
23 covers those two (2) particular years, and so to -- to --
24 I -- I think interpret it as being a perpetual
25 requirement would -- would be an assumption on our part.

1 MR. BOB PETERS: If Centra was to
2 continue to fund the Furnace Replacement Program at the
3 annual level as approved by the Board in Order 99/'07,
4 then Centra would need an additional \$3.8 million in its
5 revenue requirement, or that would be an additional
6 revenue deficiency that it would be experiencing,
7 correct?

8 MR. WILLY DERKSEN: That's exactly right,
9 yes.

10 MR. BOB PETERS: And we'll come to it,
11 but at this point there is no recommendation or request
12 by Centra to further fund the Furnace Replacement
13 Program.

14 Is that also correct?

15 MR. WILLY DERKSEN: In this Application
16 there is no request to further fund it. That's correct.

17 MR. BOB PETERS: Mr. Warden, I want to
18 turn to you on a policy issue, perhaps a basis, and I
19 want to revisit this Furnace Replacement Program funding.

20 Following the Board's last General Rate
21 Order of 99/'07, if there was normal weather -- as Mr.
22 Barnlund and Mr. Sanderson have taught us -- if there was
23 normal weather, the rates that the Board approved applied
24 against the volumes actually used in '08/'09 would have
25 been sufficient to fund both net income and the 3.8

1 million of the Furnace Replacement Program.

2 MR. VINCE WARDEN: No. No, that's not
3 correct. The net income that was in the financial
4 forecast that has been filed, \$3 million for '08/'09 --
5 the fiscal year 2008/2009 -- did not include provision
6 for the Furnace Replacement Program. It did not include
7 the 3.8 million that was referenced in Board Order
8 99/'07.

9 So, had we had normal weather, we would
10 have had a -- a deficiency in -- in fiscal year '08/'09.

11 MR. BOB PETERS: You're going to have to
12 help me with that. I'm looking at Tab 6 of the book of
13 documents and I'm looking to Directive 2B where the
14 amount of the reduction in annualized net income of \$3.8
15 million in '08/'09 was to be recovered in the volumetric
16 distribution to fund the Furnace Replacement Program.

17 We -- we agree on that?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And if -- if 3.8 million
20 in '08/'09 was to fund the Furnace Replacement Program,
21 how much would have been left under normal weather for
22 the net income?

23 MR. VINCE WARDEN: Zero.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: Mr. Warden, I may not be
2 understanding the accounting terminology, but if I go to
3 Directive 2A in Tab 6 of the book of document, the
4 extract from Board Order 99/'07, would you agree that
5 there was an expectation built in under Directive 2A that
6 there would be \$3 million of net income in each of the
7 test years including 2008/'09 that was built into rates?

8 MR. VINCE WARDEN: Yes, that was the
9 provision in the Order.

10 What I'm conveying to you though, Mr.
11 Peters, is that Manitoba Hydro's financial forecast which
12 contemplated a bottom line of \$3 million did not include
13 provision for the \$3.8 million in 2008/'09.

14 This was recognized after the forecast was
15 put together, and it was only as we proceeded into the
16 year that we realized that because of the weather -- the
17 extremely cold weather -- that it would not be an issue
18 for us, that we would be able to provide for the \$3.8
19 million in addition to achieve our -- our targeted bottom
20 line.

21 So we didn't -- when this was recognized
22 we -- initially, we con -- considered revising our
23 financial forecast, but the weather kind of overtook that
24 and we were able to achieve both the -- the bottom line
25 and the \$3.8 million.

1 MR. BOB PETERS: Were you forecasting
2 \$6.8 million of net income in the '08/'09 test year when
3 you were last before the Board?

4 MR. VINCE WARDEN: We'd -- we'd have to--

5 MR. BOB PETERS: Can you take that
6 subject --

7 MR. VINCE WARDEN: -- we'd have to pull
8 up that financial forecast, Mr. Peters.

9 MR. BOB PETERS: Well, if you can take
10 that subject to check and -- and as your last panel saw,
11 subject to check is a good thing for you.

12 But the -- if the net income was forecast
13 to be 6.8 million and the Board allowed a \$3 million net
14 income, that would indicate that there was \$3.8 million
15 included in the rate provision for the Furnace
16 Replacement Program.

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: All right. We -- we've
19 got the provision that it's included in the rates that
20 are given by the Board but somewhere from Order 99/07
21 it's no longer in your financial forecast?

22 MR. VINCE WARDEN: When the financial
23 forecast was updated in the fall of 2008 it was through
24 oversight that the 3.8 million wasn't provided.

25 As I indicated earlier, we -- we

1 considered revising the forecast but the weather was such
2 that we were able to recover the three point eight (3.8)
3 plus the \$3 million bottom line and then some.

4 MR. BOB PETERS: Okay. I -- I think I'm
5 now having the light turned on. After the Board order,
6 the updating of the IFF didn't include a provision the
7 line item for a Furnace Replacement Program in the
8 '08/'09 test year.

9 MR. VINCE WARDEN: That's correct.

10 MR. BOB PETERS: And as the dollar
11 started being expended there wasn't sufficient funds in
12 the updated forecast to include both the increase in non-
13 gas costs that hadn't been forecasted plus the Furnace
14 Replacement Program.

15 MR. VINCE WARDEN: That's correct.

16 MR. BOB PETERS: The costs were
17 increasing more than what you forecast when you were
18 before the Board and by those non-gas costs increasing
19 more than they were -- more than they had been forecast
20 before this Board, that would have left less money for
21 the Furnace Replacement Program.

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: But there's no question
24 that it was included in the rates that were approved by
25 this Board following the last GRA?

1 MR. VINCE WARDEN: I agree.

2

3 (BRIEF PAUSE)

4

5 MR. BOB PETERS: Mr. Warden and Mr.
6 Derksen, I'm going to go back to that question that
7 precipitated that last tangent.

8 When the Board order was issued, the rates
9 were set on the premise an expectation of normal weather.
10 You'd agree with that?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And included in those
13 rates you've already acknowledged was a provision in
14 '08/'09 for \$3.8 million for the Furnace Replacement
15 Program.

16 MR. VINCE WARDEN: Yes, Mr. Peters. I --
17 and I'm -- I'm just -- we will though having said that, I
18 will confirm what we'll have to refer to our forecast
19 that was submitted to support our Rate Application at
20 that time to confirm that we did in fact have a projected
21 net income for '08/'09 of \$6.7/\$6.8 million.

22 MR. BOB PETERS: All right. Please do
23 that and -- but continuing on with my scenario, Mr.
24 Warden and Mr. Derksen, let's just suppose that your
25 forecast was the one that we've talked about at the PUB

1 GRA last hearing and it was premised on normal weather
2 and flowing from that would be \$3.8 million under normal
3 weather for both the Furnace Replacement Program to be
4 funded and the Company's net income to be funded to \$3
5 million.

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: Do you agree with that
8 premise?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: All right. Now if the
11 weather was colder than normal operating under those
12 circumstances, then there would certainly be the 3.8
13 million for the Furnace Replacement Program, there would
14 certainly be the \$3 million for the Company's net income
15 and in fact there would be additional net income for the
16 Company.

17 MR. VINCE WARDEN: Correct.

18 MR. BOB PETERS: I want to now turn to
19 the situation where the weather instead of being colder
20 than normal, Mr. Warden, is warmer than normal and
21 there's not sufficient throughput to gain the margin that
22 Centra expects on its unit sales.

23 And in that case there's not going to be
24 sufficient money to fund both the furnace replacement
25 program and the company's net income. Can you understand

1 my --

2 MR. VINCE WARDEN: Okay.

3 MR. BOB PETERS: -- dilemma, and maybe
4 your dilemma, in its hypothetical?

5 MR. VINCE WARDEN: More so mine, yes.

6 MR. BOB PETERS: All right. From a
7 policy perspective, if the Board had approved the Furnace
8 Replacement Program at \$3.8 million and also approved
9 your net income at \$3 million, but the warmer the normal
10 weather results in insufficient revenues to fully fund
11 both, which one gets priority?

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: Mr. Peters, there was
16 some concern about this upon receipt of order 99/'07.
17 There was some interpretation that was -- follow-up inter
18 -- interpretation that was sought and received from the
19 Public Utilities Board. And at that time we were under
20 the impression, based on our interpretation of Order
21 99/'07, that the first \$3 million would flow to Centra
22 Gas and that if there was anything left over that it
23 would go into the Furnace Replacement Program.

24 However, upon clarification from the
25 Public Utilities Board we were informed, no, that's not

1 the case. As a matter of fact the Furnace Replacement
2 Program should take priority over the net income of
3 Centra. I believe that's -- that that's what our --
4 yeah.

5 MR. BOB PETERS: All right. And as we
6 sit here today, that's a -- a hypothetical discussion
7 because the weather was in fact colder than normal and
8 there was enough money to fund the Furnace Replacement
9 Program, the company's net income, as well as, I think,
10 another \$2.8 million of additional net income for the
11 company.

12 So the company would've received \$5.8
13 million dollars of net income for that -- for that
14 '07/'08 year?

15 MR. VINCE WARDEN: That's cor -- that's
16 correct.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: And in the subsequent
21 year, the '08/'09 test year, you've now indicated in the
22 filings that the net income on a preliminary basis or at
23 least a preliminary perspective, until Mr. Rainkie's work
24 can be checked out by others, that \$9.1 million is the --
25 is the number that you're putting on the public record?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: And therefore in the
3 '08/'09 year, the Board now sees that it was much colder
4 than normal weather would permit, such that you could
5 fund the 3.8 million of the Furnace Replacement Program,
6 you could take your forecast 3 million of net income plus
7 an additional \$6.1 million of net income?

8 MR. VINCE WARDEN: That's correct.

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: Mr. Peters, I might
13 just clarify that we have now been able to call up our
14 financial forecast that was presented at the last GRA and
15 we can confirm that we did have a -- a forecast of \$6
16 million of net income for '07/'08.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Just on that point: The
21 math that you and I talked about, Mr. Warden, on the face
22 of it, might not appear to mesh when somebody goes
23 through the record, but if you could check the pre-
24 hearing update of your Schedule 3.1.0 I think you'll note
25 that the Corporation revised its forecast net income on

1 May 15th, 2007, to \$6.791 million and I rounded that 6.8
2 million for the purpose of my question to you.

3

4

(BRIEF PAUSE)

5

6

MR. VINCE WARDEN: I just want to
7 confirm, Mr. Peters, we're talking the same fiscal years.
8 The \$6 million I was referring to was 2007/'08; the next
9 year, the fiscal year '08/'09 was -- these are rounded
10 but \$7 million for that fiscal year.

11

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MR. BOB PETERS: All right then, we are
on the same -- the same numbers. Thank you, Mr. Warden;
I apologize for the confusion. Before looking at the
test years, Mr. Warden, let's take this opportunity to
look what happened to Centra's financial position since
Order 99/'07 in their last GRA.

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And would I be correct that in this
filing at Tab 4 of the book of documents is a June 1st
update to PUB/Centra-13 and this would be inclusive of
the net income update for year ending March 31st, 2009?

MR. VINCE WARDEN: So you're -- you're
looking, Mr. Peters, at Manitoba Hydro Exhibit Number 7?

MR. BOB PETERS: No, sorry, sir.
Actually, indeed I am. It was also to be included in the
book of documents at Tab 4 and it is shown as PUB/Centra-

1 13 attachment dated June 1 of '09 and Exhibit 7 was --
2 was an actual revised copy of some matters that we
3 brought to the Board's attention yesterday but looking at
4 Centra Exhibit 7 that is the latest snapshot of the
5 corporate's -- the Corporation's financial position on a
6 preliminary basis for fiscal 2009?

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: Now, just while the
9 Board is looking at this let's go back to '07. On a
10 weather-normalized basis in the second column the Board
11 set rates to recover approximately \$3 million but the
12 Corporation only recovered \$1.07 million, correct, of net
13 income?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: Was that as a result --
16 can the Board conclude that in that year the weather was
17 warmer than normal?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And then turning to the
20 '08 year the Corporation actually recovered \$5.9 million
21 but on a weather-normalized basis would have only
22 recovered \$1 million?

23

24

25

(BRIEF PAUSE)

1 MR. VINCE WARDEN: Yes, you're right, Mr.
2 Peters.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Does that suggest to the
7 Board in that 2008 year, Mr. Warden, that even though the
8 weather may have been colder than normal the -- the
9 expenses were higher than what were forecast when you
10 were before the Public Utilities Board last?

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

12 MR. BOB PETERS: And then turning to the
13 preliminary view for 2009 we see that the actual recovery
14 is being pencilled in, not inked in, at \$9.1 million but
15 on a weather-normalize basis the Corporation would have
16 only recovered approximately \$2 million?

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: And that again suggests
22 that the Corporation's non-gas expenses came in higher
23 than what was forecast and what the Board had built into
24 your last set of rates.

25 MR. VINCE WARDEN: That's correct.

1 MR. BOB PETERS: And to the extent that
2 we look at the test years 2010 and 2011 on Centra Exhibit
3 7, the net income is forecast to be approximately \$3
4 million in both years, and that's the most current
5 forecast that the Board has received from the Company?

6 MR. VINCE WARDEN: Yes.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Mr. Warden, before I
11 leave the 2007 year -- and Mr. Chairman, I'm still on
12 Centra Exhibit Number 7 which is found at Tab 4 of the
13 book of documents.

14 In the '07 year you agreed with me that
15 Centra's actual net income was \$1 million, in round
16 numbers?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And in the subsequent
19 year it shows net income of \$5.8 million, correct?

20 MR. VINCE WARDEN: Correct.

21 MR. BOB PETERS: Would you agree with me
22 in telling the Board that those two (2) numbers, on the
23 face, are not directly comparable because of the
24 accounting changes that the Corporation made?

25 MR. VINCE WARDEN: Yes, Mr. Peters.

1 That's the year we adopted the shorter amortization
2 period for -- for DSM expenditures.

3 MR. BOB PETERS: Yeah, the shorter
4 amortization period on DSM expenditures went into affect
5 in the Corporation's fiscal 2008 year and not earlier.

6 Is that correct?

7 MR. VINCE WARDEN: That's right.

8 MR. BOB PETERS: And in that 2008 year,
9 Mr. Warden, if you could take it even subject to check,
10 and recognizing that that's not always a good thing, I'll
11 -- I'll take that back and ask you to turn to Tab 7 of
12 the book of documents as well.

13 At Tab 7 of the book of documents, the
14 Board is going to see what the financial accounting
15 change impacts were from 2008 as well as 2009 and what's
16 forecast for the two (2) test years, correct?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: So it appears to me that
19 in fiscal 2008 the Corporation didn't make \$5.9 million,
20 it actually made \$1.5 million more than that, and offset
21 part of that by way of an accounting entry for DSM
22 amortization over five (5) years as opposed to fifteen
23 (15) years.

24 MR. VINCE WARDEN: Well, I'm not sure I
25 would describe it as you -- as you did, Mr. Peters. The

1 accounting change was reflected in a -- in the financial
2 statements of Centra for that year, and that \$1.5 million
3 was considered to be an appropriate expense of that year
4 and, therefore, the net income is as stated.

5 So I -- I wouldn't agree that we made more
6 -- \$1.5 million more than what is reported in our
7 financial statements.

8 MR. BOB PETERS: So I'll ask it this way:
9 That had you not made the accounting policy change, your
10 net income would have been \$1.5 million higher.

11 MR. VINCE WARDEN: Yes, we didn't
12 actually refer to it as an "accounting policy change,"
13 but it was a -- a change that is referenced in this -- in
14 this document that caused our expenses to be \$1.5 million
15 dollars higher in -- in '07/'08.

16 MR. BOB PETERS: I'm -- I'm not sure if
17 anything turns on it, Mr. Warden, but I better ask while
18 I think of it.

19 When you don't consider changing the
20 amortization period from fifteen (15) to five (5) years
21 as a -- an accounting change, is it more a reflection of
22 the Corporations new view of the estimated useful life of
23 its DSM measures?

24 MR. VINCE WARDEN: Yes. There's some
25 accounting implications of -- of labelling this an

1 accounting policy change which would require some
2 retroactive adjustments to retained earnings.

3 So it's considered to be a change in
4 estimate which doesn't require that retroactive
5 adjustment.

6 MR. BOB PETERS: And not to -- to then go
7 back over this with too much more math on the record, but
8 if we look at the '09 test year, the year that you've now
9 put a preliminary number of \$9.1 million on the record
10 but for the change in the way DSM expenditures are
11 treated there would have been another \$2.9 million in the
12 net income.

13 MR. VINCE WARDEN: Correct.

14 MR. BOB PETERS: All right. And likewise
15 we can go out to the test years and we can see that in
16 the test years there's \$4.6 million and \$6.5 million
17 respectively in the two (2) test years being included in
18 the revenue requirement for the increase and amortization
19 expense related to demand side management.

20 MR. VINCE WARDEN: Yes, that's right.

21 MR. BOB PETERS: You'd agree with me, Mr.
22 Warden, that the change in how the DSM amortization
23 expense has been treated by the Corporation has a
24 significant rate impact going forward.

25 MR. VINCE WARDEN: Yes, relative to

1 Centra's level of net income this is significant.

2 MR. BOB PETERS: It's also significant
3 because of the level of magnitude of rate increases that
4 would be required to replace this income or to pay this
5 expense.

6 MR. VINCE WARDEN: Well, I wouldn't say
7 the rate increase is required to recover this amount are
8 overly significant.

9 MR. BOB PETERS: If you hadn't made the
10 accounting change for DSM amortization expense, we
11 probably wouldn't be sitting here having this
12 conversation because you wouldn't have made an
13 application for a rate increase in the 2009/'10 test
14 year.

15 MR. VINCE WARDEN: Well our initial
16 Application had it not been for the circumstances that we
17 discussed earlier was for a 1 percent rate increase to
18 recover an approximate amount of 5.5 million.

19 So the four point six (4.6), as you can
20 see, is close to that but we likely would have been here
21 anyway.

22 MR. BOB PETERS: Don't sound so excited.
23 All right. With -- with that not only a preview and
24 foreshadowing, you told me, Mr. Derksen, that
25 amortization expense was the largest non-gas increase

1 since you were last before the Board, correct?

2 MR. WILLY DERKSEN: Yes, sir.

3 MR. BOB PETERS: And -- and of the \$5.5
4 million of an increase to the amortization expense, \$4.6
5 million is attributable to the change in how DSM
6 expenditures are treated. And I'm looking at Tab 7 again
7 of the book of documents, Mr. Derksen, for that \$4.6/\$4.7
8 million number.

9 MR. WILLY DERKSEN: I -- I think the
10 difference would be 7 million in '09/'10 less 1.5 million
11 the last approved in 08/'09 so it would be a little bit
12 different than that number. But that's approximately it,
13 yes.

14 MR. BOB PETERS: When we talked about,
15 Mr. Warden, the reasons for the change in the treatment
16 of the DSM amortization you gave a few reasons. One (1)
17 of the reasons you didn't give was that the Board also
18 had a concern about the amortization period that Centra
19 was using; do you recall that from the last GRA?

20 MR. VINCE WARDEN: Yes, I do. I -- I
21 thought, though, we did refer to that as -- as a reason
22 as well.

23 MR. BOB PETERS: All right, and -- and
24 I'm sure you did, but the Board's concerns were based --
25 as I read their order 99/'07 that other jurisdictions --

1 and I think you can see this at the book of documents --
2 I'm sorry; I don't know if I have it in there but PUB-45
3 other jurisdictions treat DSM virtually as an expense
4 each and every year rather than deferring any of the
5 costs with a couple of exceptions?

6 MR. VINCE WARDEN: Yes, we had treated
7 the amortization period for DSM as we did on the
8 electricity side which although consistent the -- the
9 justification for so doing was -- was not the same so
10 whereas there is a -- a good reason for deferring and
11 amortizing DSM expenditures over a longer period on -- on
12 the electricity side for business the same reasons aren't
13 present on -- on -- with natural gas.

14 The -- the export market reason is not
15 there so in reviewing all those things together certainly
16 together with the urging of -- of the Public Utilities
17 Board we did shorten the period as indicated.

18 MR. BOB PETERS: You're telling the Board
19 that because of the export opportunities for saved
20 electrons through DSM you're treating electric DSM
21 expenditures on a fifteen (15) year amortization schedule
22 still but for gas you've now brought it down to five (5)?

23 MR. VINCE WARDEN: Well, actually we have
24 reduced electricity as well to ten (10) years but it was
25 formerly fifteen (15) -- or it was fifteen (15) formerly.

1 MR. BOB PETERS: Maybe I missed that; is
2 that since we had the last Hydro GRA?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: All right, then -- then
5 maybe I didn't miss it.

6 The -- the Utilities, Mr. Chairman, I was
7 incorrect. At Tab 7 of the book of documents I was
8 referring Mr. Warden to how other jurisdictions had
9 treated DSM and the Corporation answered PUB-45 at Tab 7
10 of the book of documents and it did contain how certain
11 other jurisdictions that Centra researched had treated
12 DSM and I should just leave that.

13 One (1) of the other concerns -- and maybe
14 it was related then, Mr. Warden, was the IFRS potential
15 treatment of DSM where the costs may have to be expensed
16 if that so is the ruling out of the IFRS review that's
17 under way and then that would mean that Centra would have
18 no option to even treat them over five (5) -- amortize
19 them over five (5) years but you'd have to expense them
20 in the year incurred?

21 MR. VINCE WARDEN: That's correct. We
22 don't -- we don't have a definitive ruling yet on that
23 issue as to whether or not regulatory assets and
24 liabilities will be permitted under IFRS but if they
25 aren't, then yes, you're -- you're absolutely correct; it

1 would be -- all DSM expenditures would be expensed in the
2 year incurred.

3 MR. BOB PETERS: Thinking back to two (2)
4 or three (3) answers ago, Mr. Warden, is it correct for
5 the Board to understand that Manitoba Hydro DSM
6 expenditures are being treated differently for IFRS
7 purposes potentially because there's future cashflow
8 benefits to Manitoba Hydro?

9 MR. VINCE WARDEN: That's correct, so for
10 the electricity side of our business we -- the
11 electricity DSM is not considered to be a regulatory
12 asset.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: Mr. Warden, just to be
17 clear on your terminology, it's not being considered on
18 the electric side as a regulatory asset, but it is an
19 asset of the Corporation?

20 MR. VINCE WARDEN: Yes, the distinction
21 being that with the adoption of IFRS, whereas the
22 regulatory assets and liabilities are still a question
23 mark, there will be no such question mark around the
24 assets as presently classed -- classified as an asset,
25 that is, for DSM within Manitoba Hydro electricity

1 business.

2 THE CHAIRPERSON: Why don't we take our
3 mid-afternoon break right now? Give a chance to reflect
4 a bit. Thank you.

5

6 --- Upon recessing at 2:48 p.m.

7 --- Upon resuming at 3:11 p.m.

8

9 THE CHAIRPERSON: Okay, welcome back
10 everyone. Time is fleeing (sic), as they say. Oh, we
11 are missing Ms. Murphy. We'll have to wait here a
12 minute.

13

14 (BRIEF PAUSE)

15

16 THE CHAIRPERSON: I'm sure the pulp and
17 paper industry will be sending you a thank you note.

18 MS. MARLA MURPHY: Just by way of
19 introduction to my latest treaty. This is the responses
20 to the questions that were posed by CAC/MSOS yesterday
21 morning.

22 We have addressed a number of them by
23 revising two (2) of the IR's so you'll find the two (2)
24 revised IRs on top and then the responses to the
25 questions that have been numbered 151 through 169 which

1 can be placed in the Volume 2 IRs.

2 We've treated them as just a carry-on of
3 the Second Round of IR's from CAC/MSOS. If you wanted to
4 mark them as an exhibit, it would be Centra Exhibit
5 Number 8.

6 THE CHAIRPERSON: What do you think, Mr.
7 Peters?

8 MR. BOB PETERS: Let's put an exhibit
9 number on it is my recommendation so Mr. Saxberg will
10 have them at hand when he -- when he uses them in his
11 questioning of the witnesses.

12 THE CHAIRPERSON: That makes sense.
13 Number 8 it is.

14

15 --- EXHIBIT NO. CENTRA-8: Two (2) revised IR's and
16 responses the questions that
17 have been numbered 151
18 through 169.

19

20 MS. MARLA MURPHY: Thank you.

21 THE CHAIRPERSON: Okay, Mr. Peters.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Mr. Chairman and Board
25 Members, before the afternoon recess we were talking

1 about DSM and I may have called it an accounting
2 treatment but it was actually the change in the
3 amortization treatment of the expenses for the gas
4 company's DSM.

5 I wanted to conclude on that with you, Mr.
6 Warden, and I want to remind you that in Board Order 99
7 of '07 there was concern by the Public Utilities Board
8 over the amortization period of DSM expenses for the gas
9 company.

10 There was also a concern raised that if
11 the DSM expenditures were to be expensed in the year
12 there could be possibly rate shock.

13 Do you recall reference to that in the
14 Order? MR. VINCE WARDEN: Yes, I do, Mr.
15 Peters.

16 MR. BOB PETERS: And without -- I had it
17 on page 104 of the Order. I don't think that's in the
18 book of documents, sir, but -- but I recall in there that
19 the Board raised the prospect of differences between
20 audited statements and regulatory accounting if
21 conditions warrant it.

22 Do you recall that from the Board?

23 MR. VINCE WARDEN: I do recall there was
24 -- been some correspondence on that, yes.

25 MR. BOB PETERS: And to put that into

1 perspective, does that suggest that there was a concern
2 that if these DSM expenditures have to come off of the
3 Corporate bottom line or require rate increases to
4 recover from them -- from being expensed in the year that
5 would result in rate shock, it may be that regulatory
6 accounts should be kept separate from audited statements.

7 MR. VINCE WARDEN: That's always a
8 possibility. One that we would like to avoid if we
9 possibly can but it certainly is a possibility.

10 MR. BOB PETERS: Why is that something
11 Centra would want to avoid if they possibly can?

12 MR. VINCE WARDEN: Well I think it --
13 just simply the administrative costs associated with
14 keeping two (2) sets of books so to speak and some of the
15 confusion it could cause not only within the Company but
16 also to outsiders to whom we sometimes provide those
17 statements.

18 MR. BOB PETERS: That would have to --
19 that administrative cost, Mr. Warden, would have to be
20 weighed against the impact on consumers of large deferred
21 costs being expensed in one (1) year, would it not?

22 MR. VINCE WARDEN: Yes, I think though -
23 - and that's one of the benefits of a cost of service
24 methodology over a rate base rate of return as it really
25 -- there -- there's no -- there would be no reason for

1 deferral accounts.

2 There's never any good reason for deferral
3 accounts because -- excepting perhaps gas cost deferral
4 accounts which we're all familiar with.

5 But as far as deferral accounts for
6 expenses are concerned, they can be avoided with the cost
7 of service methodology by having an adequate level of
8 retained earnings.

9 So retained earnings really are -- are --
10 serve the same purpose as a series of deferral accounts.
11 So whenever the Board is setting rates or whenever
12 Manitoba Hydro/Centra Gas applies for a rate change we
13 always take into account the level of retained earnings
14 and whether those earnings are sufficient to cover the
15 risks of our respective companies.

16 THE CHAIRPERSON: Mr. Warden, when you're
17 talking about outside readers are you including in that
18 the lenders?

19 MR. VINCE WARDEN: Yes.

20

21 CONTINUED BY MR. PETERS:

22 MR. BOB PETERS: I suppose for purposes
23 of my questioning -- questions concluding on this topic,
24 Mr. Warden, the last word on what will come of the DSM
25 expenditures including those that are deferred will come

1 from the IFRS pronouncements, correct?

2 MR. VINCE WARDEN: Well, as to whether or
3 not there will be regulatory assets permitted under IFRS
4 accounting, that word has still not -- or that decision
5 has still not been made; that decision is pending and we
6 probably will not know that for some time.

7 MR. BOB PETERS: There's a special
8 project ongoing by the International Financial Accounting
9 Standards Board to determine whether or not rate
10 regulated accounting will be permitted under IFRS?

11 MR. VINCE WARDEN: There is.

12 MR. BOB PETERS: And that decision is
13 expected in June of 2010? Are you familiar with that?

14 MR. VINCE WARDEN: Yes, the -- I believe
15 it's being -- a decision will be made; whether or not it
16 will be considered by the International Accounting
17 Standards Board next month in July but a decision could
18 be approximately twelve (12) months after that.

19 MR. BOB PETERS: One (1) of the
20 recommendations made by Mr. Oppenheim, a witness engaged
21 on behalf of CAC/MSOS is to revert back to the fifteen
22 (15) year amortization period as I understand his
23 evidence rather than the five (5) year period; are you
24 familiar with that evidence?

25 MR. VINCE WARDEN: Yes, I am.

1 MR. BOB PETERS: And in looking at the
2 tab of -- book of documents Tab 7 you will see that if --
3 if Centra reverted back to a fifteen (15) year
4 amortization there could be some significant monies made
5 available according to Mr. Oppenheim's suggestion to
6 continue to fund other DSM projects such as in the
7 '09/'10 test year there'd be \$4.6 million of additional
8 monies that would be in essence freed up to fund DSM.

9 MR. VINCE WARDEN: Yes, but also at Tab 7
10 -- and you're probably getting to that, but also at Tab 7
11 you can see that we would -- if we went back to fifteen
12 (15) years we would be significantly out of step with
13 every other major utility in Canada.

14 MR. BOB PETERS: Would that be the -- the
15 main reason for -- for not considering further Mr.
16 Oppenheim's suggestion?

17 MR. VINCE WARDEN: No, it's -- it's one
18 (1) of the reasons and obviously the -- the other
19 utilities in Canada are amortizing their DSM expenditures
20 over a period of time with good reason and as I referred
21 earlier it really as far as the Utility is concerned
22 depends on whether or not there is a future benefit to
23 the Utility as to whether or not there -- there could be
24 a justification for a deferral period.

25 In the case of the gas utility there

1 really is no future benefit from those expenditures in
2 terms of net income; not to say that there isn't a future
3 benefit to customers, there certainly is, but as far as
4 the Utility is concerned the future benefit just isn't
5 there unlike -- and perhaps I should have been clearer on
6 that before the break, unlike on the electricity side of
7 the business where we can sell energy on the export
8 market and there is evidence of -- of future benefit -- a
9 benefit stream.

10 MR. BOB PETERS: Your point about other
11 jurisdictions in your last answer, Mr. Warden, is that
12 all of the jurisdictions listed at PUB/CENTRA-45 found at
13 Tab 7 of the Board counsel book of documents, all except
14 for Terasen expensed them in the year incurred?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: Then maybe why didn't
17 Centra go that far in -- in their change in treatment of
18 DSM to follow suit with those other jurisdictions?

19 MR. VINCE WARDEN: We might very well
20 recommend that at some fut -- point in the future, but we
21 thought at this point in time that going from fifteen
22 (15) years to five (5) years was a reasonable compromise
23 position for us to take.

24 MR. BOB PETERS: I want to turn, if I
25 could, with the panel to International Financial

1 Reporting Standards questions that I have and I think,
2 Mr. Derksen, it was in your direct evidence to Ms. Murphy
3 that you -- you raised this.

4 And I'm not sure I understood the dates
5 you used, but is it correct that for Centra's fiscal year
6 2011/'12 ending March 31, 2012, the statements for that
7 year must be compliant with IFRS according to your
8 current understanding?

9 MR. WILLY DERKSEN: Yes, the statements
10 for 2011/'12 must be in compliant, but also the previous
11 year must be restated to be in compliance with IFRS as
12 well. So 2010/'11 will be restated at that time.

13 MR. BOB PETERS: Let me understand the
14 restatement. Restatement is just a -- looking in the
15 rearview mirror and changing the methodology to what --
16 what has to be going forward so there can be comparisons
17 made?

18 MR. WILLY DERKSEN: That -- that's part
19 of the reason, but the other thing that would happen
20 under restatement is, for example, if in 2010/'11 under
21 Canadian Generally Accepted Accounting Principles, the
22 Company showed a net income of \$3 million. But,
23 subsequently, when IFRS accounting principles were
24 applied and it was -- and there were gaps, such as
25 capitalization of certain expenses and other items such

1 that it caused a \$6 million increase to expenses, the
2 retained earnings at the beginning of 2011/'12 would be
3 adjust ward -- adjusted downwards by that \$6 million
4 amount.

5 MR. BOB PETERS: Is it the Corporation's
6 intention then that for the year ending March 31, 2011
7 that your statements will, at that point, be stated as
8 required by IFRS, or will you prepare them under existing
9 Canadian GAAP and then restate them at the -- just before
10 the start of the next year -- just before the end of the
11 next year?

12 MR. WILLY DERKSEN: They will be stated
13 at March 31st, 2011 in accordance with GAAP, however, our
14 quarterly statements of June 30th, 2011 would have that
15 adjustment to retained earnings embedded into them for
16 the restatement of the prior year.

17 MR. BOB PETERS: Is there also an option
18 on the Corporation's part to early adopt the IFRS
19 standards should it so chose?

20 MR. WILLY DERKSEN: Yes, there is an
21 early adoption option, but even with an early adoption
22 option, the prior year needs to be restated.

23 So if we early adopted for 2010/'11, then
24 the same thing would hold true for 2009/'10. It would --
25 I think, given the nature of the discussions that are

1 still going on with respect to IFRS accounting for
2 Utilities in Canada, it would be very difficult for us to
3 consider early adoption.

4 MR. BOB PETERS: Difficult because you
5 don't know what the ground rules -- rules are going to
6 bet yet.

7 MR. WILLY DERKSEN: Yes, that's right.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Derksen, am I
12 correct, to date that perhaps other than in answer to
13 CAC/MSOS/CENTRA Question 153, Centra has not provided any
14 detailed information on the effect of conversion to IFRS
15 for financial reporting and rate-setting purposes?

16 MR. WILLY DERKSEN: It certainly has not
17 quantified the impacts on Centra other than in that
18 response which is, again, a high level quantification.

19 MR. BOB PETERS: And in fact you have --
20 Centra has indicated that it's premature to discuss the
21 impacts of IFRS at this point in time?

22 MR. WILLY DERKSEN: I'm sorry, Mr.
23 Peters, could you repeat that question, please?

24 MR. BOB PETERS: Well, would you -- would
25 you go so far as to agree with me, Mr. Derksen, that the

1 Corporation has, in essence, refused to answer specific
2 questions about the impacts of IFRS citing, in my words,
3 it being premature and you're waiting to hear from KPMG
4 and -- and others on this issue?

5 MR. VINCE WARDEN: Mr. Peters, it isn't a
6 matter of refusing, it's just that we want to make sure
7 that we have our -- our research done appropriately in
8 conjunction with the consultant we have engaged.

9 I do believe that in addition to what was
10 filed, though, at 153, we did provide the PUB with the
11 quick -- what -- what is referred to as the QuickScan
12 from KPMG, and I don't have a reference for that now but
13 I can find it, if you like.

14 MR. BOB PETERS: Yeah, we've -- we've
15 seen the Tab 10 filing and I think maybe that's what
16 you're referring to and I -- actually, I think I have a
17 copy right here at my fingertips.

18 But, Mr. Warden, would it be correct to
19 say that the response that was given in CAC/MSOS/CENTRA-
20 153, where it did contain dollar amounts, were those
21 dollar amounts provided in consultation with your
22 external consultant?

23

24

(BRIEF PAUSE)

25

1 MR. VINCE WARDEN: We -- we have ongoing,
2 everyday discussions with our external consultant. I
3 don't believe, though, that they have specifically signed
4 off on the amounts that are contained in this -- in this
5 IR response.

6 MR. BOB PETERS: Then can I take it that
7 this is Centra's, and only Centra's, view at this point
8 in time and not that of KPMG or any other external
9 consultant you've engaged?

10
11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: Yes. Yes, I would
15 agree with that. This is Centra's estimate at this point
16 in time.

17 MR. BOB PETERS: And can I take from your
18 second-last answer, Mr. Warden, that KPMG has not given
19 you a report dealing with numbers, any hard numbers?

20 MR. VINCE WARDEN: That's right, other
21 than what we've previously referred to as -- in the
22 QuickScan document.

23 MR. BOB PETERS: I didn't find very many
24 numbers in the QuickScan that I have, but I've got it,
25 and to the extent that they -- they may be there, then

1 that's the only numbers you've got from them?

2 MR. VINCE WARDEN: Yes.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: If we could turn,
7 please, in -- to Tab 10 of the book of documents to the
8 financial statements of Centra Gas Manitoba Inc. for the
9 year ending March 31, 2008, and turn to page 10, if you
10 would, of that document? You have that, do you, Mr.
11 Derksen?

12 MR. WILLY DERKSEN: Yes, sir.

13 MR. BOB PETERS: And in note 7 to the
14 financial statements for your year ending March 31, 2008,
15 you list some what -- what we'll call regulated assets or
16 deferred assets or other assets, correct?

17 MR. WILLY DERKSEN: Yes, that's correct.

18 MR. BOB PETERS: Would I be correct in
19 understanding that these are the listed assets where
20 Centra faces the greatest risk in terms of how to treat
21 these items under IFRS? This is the one that contains
22 the biggest financial hit.

23 MR. WILLY DERKSEN: I -- I think a review
24 of the QuickScan document also talks about the potential
25 restatement of property plant and equipment, and so there

1 is -- there would be some concern about the effects of --
2 of that restatement if it were necessary as well, but --
3 but certainly the regulated assets are under risk for
4 having to be re -- restated.

5 MR. BOB PETERS: Well, then let's just --
6 before I get there, the property plant and equipment that
7 you mentioned, the QuickScan suggests that it's possible
8 that some of those property, plant, and equipment
9 deferrals can't be capitalized and specifically the
10 overheads can't be capitalized, so, some operating and
11 maintenance expenses may not be allowed to be capitalized
12 and would have to be taken into income.

13 MR. WILLY DERKSEN: Yes, and in fact the
14 literal adoption of IFRS would require us to go back and
15 restate every year of our buildup of property, plant, and
16 equipment in accordance with current IFRS standards and
17 so we're struggling, of course, with -- with that
18 representation and that potential requirement.

19 MR. BOB PETERS: But you estimated in
20 CAC/MSOS/CENTRA-153 that the expenses would be in the
21 range of \$4 to \$6 million a year and may be ineligible
22 for capitalization?

23 MR. WILLY DERKSEN: That's what we've
24 estimated on a go-forward basis, that's right, but it
25 does not include a consideration for having to -- the

1 potential for having to restate property, plant, and
2 equipment to date. There is work underway to discuss
3 whether or not utilities will be allowed to bring forward
4 the net value of their property, plant, and equipment.

5 MR. BOB PETERS: Are you saying then that
6 that property, plant, and equipment number, although
7 going forward it's \$4 to \$6 million, you may have to
8 cumulatively add up what's been deferred in prior years
9 and capitalized in prior years?

10 MR. WILLY DERKSEN: That is a potential,
11 yes, the -- to the extent that the overheads that were
12 capitalized in prior years would not have been eligible
13 for capitalization under IFRS. The literal requirement
14 suggests that we would have to reduce our property, plant
15 and equipment by that amount and make a charge to
16 retained earnings.

17 MR. BOB PETERS: What's the order of
18 magnitude if -- is it going back forever, I mean...?

19 MR. WILLY DERKSEN: It is going back
20 forever but we haven't quantified a value on that.

21 MR. BOB PETERS: All right.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: We're going to help you

1 value that on the record, Mr. Derksen, but if we look at
2 the \$4 to \$6 million a year that you're forecasting and
3 we go back -- would you go back twenty (20) years, for
4 example, and then have to calculate a net present value
5 of that amount?

6 MR. WILLY DERKSEN: Well, it wouldn't be
7 a net present value. You see, we have depreciated some
8 of those assets in the interim as well so what,
9 literally, would be required would be to go back and
10 restate year 1 and recalculate depreciation in accordance
11 with -- with those ones and -- and come up with a new
12 value.

13 So it's a very difficult, probably
14 impossible task but that is what the literal request is.
15 I -- I think they're looking at alternatives such as to
16 how far it's reasonable to go back, if at all, but -- but
17 that's under review right now so it's -- it is not
18 something that we can quantify at all at this point in
19 time.

20 MR. BOB PETERS: And whatever flows from
21 that analysis, if anything, will then be reflected in a
22 reduction to your opening statement of retained earnings?

23 MR. WILLY DERKSEN: That would be the
24 impact, yes.

25 MR. BOB PETERS: All right. Turning to

1 note 7 of your financial statements we look at the other
2 assets and, by the way, Mr. Warden, maybe Ms. Murphy will
3 address this if not now, in her closing submissions, but
4 when is it realistic for the Board to expect to see
5 audited financial statements from Centra Gas Manitoba
6 Inc.?

7 Has there been any thought given to the
8 time line that the '09 statements will be available?

9 MR. VINCE WARDEN: We -- we typically
10 release our statements publicly at the end of July.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Would they be available
15 earlier to the Board on a confidential basis?

16 MR. VINCE WARDEN: Yes, they would
17 although, I think for all intents and purposes, we've
18 released all the pieces, so there'll be no surprises in
19 there at all so...

20 MR. BOB PETERS: All right, thank you.
21 And -- and turning to the deferred taxes of \$38 million,
22 Mr. Derksen, this was the one (1) time payment to Revenue
23 Canada, as it then was, now the Canada Revenue Agency for
24 the privilege of Centra Gas never having to pay income
25 tax as long as it's owned by a Crown corporation?

1 MR. WILLY DERKSEN: Yes, sir; that's
2 correct.

3 MR. BOB PETERS: And so the way I worded
4 it, Mr. Warden, is there some enduring benefit and value
5 to the Utility in this expense?

6 MR. VINCE WARDEN: I -- I would certainly
7 argue that if -- if came down to the point that all
8 regulated assets were to be written off or that there is
9 no provision for regulated assets. Yes, I would argue
10 that there is future benefit.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Your argument, Mr.
15 Warden, is that you would not -- you would not favour
16 having to deduct this from retained earnings because it
17 has an ongoing value to the gas company.

18 MR. VINCE WARDEN: Yes, and one of the
19 definitions that -- of property, plant and equipment that
20 is contained within IFRS is that there is that future
21 benefit. So we would, I think, attempt to demonstrate
22 that there is -- there is future benefit with this --
23 this item deferred taxes.

24 MR. BOB PETERS: Has there been any
25 inclination given to you from your either auditors or

1 KPMG as to whether or not deferred taxes will continue to
2 be regulated assets or -- or assets, in any event, of the
3 Utility post IFRS?

4 MR. VINCE WARDEN: We -- we've certainly
5 had some discussions about that but there's been no
6 commitment, so to speak, one way or the other.

7 MR. BOB PETERS: All right. Turning to
8 the Power Smart Programs. These are, in essence, all of
9 the DSM programs of the Gas Company?

10 MR. WILLY DERKSEN: Yes, that's correct.

11 MR. BOB PETERS: And this 2008 balance,
12 does that reflect the five (5) year amortization period?

13 MR. WILLY DERKSEN: It reflects the
14 original cost of those programs less the amortization
15 expense to date. So, for the earlier periods there would
16 be amortization based upon fifteen (15) year amortization
17 and for the last two (2) years -- or the last year, I
18 should say -- based upon five (5) year amortization.

19 MR. BOB PETERS: All right, thank you.
20 It's the last one (1) year based on the 2008 fiscal year,
21 correct?

22 MR. WILLY DERKSEN: Yes, that's correct.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Hope this point hasn't
2 been lost or maybe it's been made, but if the
3 International Accounting Standards Board allows rate
4 regulated accounting under IFRS, then Centra can continue
5 to defer all of the expenses shown here in Tab 7 so long
6 as the Public Utilities Board approves of that deferral.

7 Would that be correct?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And again, Mr. Warden,
10 I'll just raise it, but if IFRS does not permit rate
11 regulated accounting, then another option for Centra to
12 consider would be to utilize the special purpose
13 financial statements that you talked to me about earlier
14 this afternoon.

15 MR. VINCE WARDEN: The one that we would
16 like to avoid, yes.

17 MR. BOB PETERS: It's the same position
18 taken. I've got it.

19 I wasn't sure of a question the Chairman
20 asked of you, Mr. Warden, that the statements that you
21 would send to your -- the debt-rating agencies would be
22 the IFRS compliant statements, correct, and not
23 necessarily the rate-regulated -- sorry -- not -- not
24 necessarily the special purpose financial statements for
25 regulatory purposes.

1 MR. VINCE WARDEN: Yes, and I -- I
2 perhaps should clarify that. We -- the information we
3 provide -- provide to rating agencies would really not be
4 the statements themselves, but would be a consolidation
5 of statements which would include Centra Gas.

6 So, nevertheless, the point would be we
7 would -- we would be compelled, I think, to provide
8 information related to Centra Gas in IFRS compliant form.

9
10 MR. BOB PETERS: The first the Board will
11 have seen of the provision for accounting and other
12 charges shown on line 15 of Tab 2 of the book of
13 documents, PUB/CENTRA-15, there's a \$5 million charge
14 shown in the 2010/2011 test year. That's the first it
15 has appeared, is on this June 1st update.

16 Is that correct?

17 MR. WILLY DERKSEN: Yes, that's correct.

18 MR. BOB PETERS: And the amount chosen
19 was a matter of executive judgment.

20 Would that be fair?

21 MR. VINCE WARDEN: Well, not really. It
22 was the amount that was needed to preserve the 1 percent
23 rate increase that we had sought in our Application.

24 MR. BOB PETERS: I appreciate the
25 candour. It was, in essence, then a plug number to fill

1 in to make sure the rate increases lined up as initially
2 applied for.

3 MR. VINCE WARDEN: It was but it was
4 considered to be prudent to make some provision and the
5 \$5 million would -- seemed like a reasonable amount,
6 along with our 1 percent Application.

7 MR. BOB PETERS: And, Mr. Warden, if it's
8 prudent in the second test year, why isn't it prudent in
9 the first test year?

10 MR. VINCE WARDEN: Well, we do have the 1
11 percent provision in the first test year, 1 percent in
12 the second year. So we're -- we're really preserving, as
13 I mentioned before, our -- our original Application with
14 albeit that different implementation dates.

15 MR. BOB PETERS: Would it be -- would it
16 be correct then in light of your past answers, Mr.
17 Warden, to say that -- that it wasn't included in the
18 first Application because it wasn't a defined expenditure
19 but an opportunity came along with the revision of the
20 Application to include it to -- to still make the
21 Application work out as a 1 percent rate increase?

22 MR. VINCE WARDEN: Well, that -- that's
23 fair, the 1 percent that we had applied for did allow us
24 to make that provision. And as Mr. Derksen had stated
25 previously, '10/'11 will be the first year which -- to

1 which IFRS will apply for comparative purposes.

2 MR. BOB PETERS: And this could be then
3 seen as a way to -- well, is this going to be put aside
4 in a fund? Help me understand the mechanics of this.

5 Is this going to be put aside or is this
6 just going to flow down to net income? Sorry.

7 MR. VINCE WARDEN: Sorry. It'll -- it'll
8 just flow into retained earnings.

9 MR. BOB PETERS: And so to the extent
10 that there's any IFRS adjustments, they too will be
11 coming from retained earnings?

12 MR. VINCE WARDEN: To the extent that
13 there are IFS -- IFRS adjustments that are retroactive,
14 they will -- will come from retained earnings. Other
15 IFRS adjustments could very well be perspective.

16 THE CHAIRPERSON: Could you just call it
17 a placemark so to speak?

18 MR. VINCE WARDEN: \$5 million would be
19 very of a placemark. Yes, it doesn't represent what we
20 anticipate the impact to be in that -- in that first
21 year. It -- it's -- the potential impact is much higher
22 than \$5 million.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Did the Board hear from

1 yourself or Mr. Derksen saying that the impact of IFRS,
2 at a minimum, is expected to be \$5 million?

3 MR. WILLY DERKSEN: Yes, I believe I used
4 those words.

5 MR. BOB PETERS: And -- and are you so
6 bold, Mr. Derksen, as to tell the Board what the maximum
7 impact is going to be of IFRS?

8 MR. WILLY DERKSEN: There are too many
9 things outstanding to -- to speculate about the maximum
10 impact. I
11 -- I wouldn't want to hazard a guess at this point.

12 MR. BOB PETERS: So how is it that you
13 can hazard a guess that 5 million will be the minimum
14 number?

15 MR. VINCE WARDEN: Well, if we go back to
16 the -- Tab 10 and the note that you were previously
17 referring to, Mr. Peters, if everything goes against us,
18 so to speak, then all of the regulated assets, the total
19 of deferred taxes, Power Smart programs, site
20 restoration, rate hearing costs, the total of that would
21 be -- could be a charge against retained earnings.

22 MR. BOB PETERS: Is that \$65 million, the
23 number that you're referring to?

24 MR. VINCE WARDEN: Yes. Sorry, 65 less
25 the debt discounts 3 and 1, so \$61 million.

1 THE CHAIRPERSON: And that doesn't count
2 the items that Mr. Derksen was talking about when it
3 comes into fixed assets.

4 MR. VINCE WARDEN: That -- that's
5 correct. That's just what we have in -- in regulated
6 assets but all the administrative costs that are
7 capitalized would also be -- in fact, there is more
8 certainty that those will not be allowed under IFRS.

9 THE CHAIRPERSON: One wonders how the
10 analysts of stock market companies are going to determine
11 trends in earnings per share and things of that
12 particular nature.

13 MR. VINCE WARDEN: Yeah, well, at least
14 some day the -- the statements that they'll be reviewing
15 will all be prepared on -- on the same basis, so,
16 there'll be a value to that eventually.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Has the \$5 million
20 number been run by your external auditors?

21 MR. WILLY DERKSEN: No, sir, it has not.

22 MR. BOB PETERS: And has it been run by
23 the consultant you've engaged relative to IFRS issues?

24 MR. WILLY DERKSEN: No, sir, it has not.

25 I -- I think, though, we have given some disclosure on

1 the response to CAC/MSOS/CENTRA-153 as to the makeup of
2 the -- of some likely cost requirements.

3 MR. BOB PETERS: When we look back to the
4 book of documents Tab 4, and as you pointed out Centra
5 Exhibit 7 which was a replacement page also dated June
6 1st of 2009, this might be the most convenient place that
7 we look at retained earnings because we were just talking
8 about that, Mr. Warden.

9 The Board will see at Tab 4 of the book of
10 documents from the most recent and updated PUB/Centra-13
11 that while the retained earnings as shown here have --
12 have essentially doubled in the last four (4) years for
13 the Corporation, they would be wiped out in their
14 entirety if the IFRS decision was entirely, totally, and
15 100 percent unfavourable?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: All right. And the
18 point that you are making is that the \$5 million that's
19 taken as -- as accounting or other charges, that number
20 will just flow into the -- into the second test -- into
21 the net income from the -- sorry, into the retained
22 earnings from the second test year?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: Mr. Warden, when you
25 wear your other hat for Manitoba Hydro in the IFF

1 Manitoba Hydro 08-1 perhaps again it was Mr. Rainkie who
2 convinced you to take an adjustment of \$25 million for
3 IFRS.

4 Do you recall that, sir?

5 MR. VINCE WARDEN: Yes, I do.

6 MR. BOB PETERS: Is the 5 million that's
7 appearing before the Board on the gas case today have any
8 relation to the 25 million that was in the Manitoba Hydro
9 IFF?

10 MR. VINCE WARDEN: Not really, no.

11 MR. BOB PETERS: It wasn't -- is the 5
12 million an allocation of any part of that \$25 million?

13 MR. VINCE WARDEN: No.

14 MR. BOB PETERS: Okay. So I -- I didn't
15 entirely hear your answer to the Chairman but I called it
16 a plug or you called it a plug for the 1 percent rate
17 increase.

18 The Chairman perhaps more leniently
19 considered a placemaker or a placeholder for what may be
20 coming down the pipe?

21 MR. VINCE WARDEN: Yes, I would agree
22 with that.

23 MR. BOB PETERS: Is there any intention
24 to allocate further from the 25 million that has been
25 taken on the Hydro side on account of IFRS over to the

1 gas company?

2

3

(BRIEF PAUSE)

4

5 MR. VINCE WARDEN: No, the -- the 25
6 million provision was made at the corporate level. We
7 didn't contemplate allocating any of that to the gas
8 company at this time.

9 You know, by this time next year we'll
10 have more certainty, though, of what -- of what direction
11 we're going with IFRS and there'll be more justification
12 for an allocation to the electricity and gas side of the
13 business.

14 MR. BOB PETERS: You referred me earlier
15 to the KPMG conversion project report and in response to
16 PUB/Centra-10C attachment page 1 of 16 found at Tab 9 of
17 the book of documents, it's the first document in Tab 9,
18 there's a four (4) step process, Mr. Derksen, set out for
19 KPMG to complete its assignment for Manitoba Hydro, as
20 well as, I suspect, for Centra Gas, correct?

21 MR. WILLY DERKSEN: Yes, I have that.

22 MR. BOB PETERS: Is it correct for the
23 Board to conclude that Centra is on and Manitoba Hydro is
24 currently on step number 2 under the detailed design
25 components?

1 MR. WILLY DERKSEN: Yes, that would be
2 fair.

3 MR. BOB PETERS: The third step being the
4 solution development, that may include options, would you
5 agree with that? There may be recommended options to the
6 Utility?

7

8 (BRIEF PAUSE)

9

10 MR. WILLY DERKSEN: I -- I'm not sure
11 your context of options -- options in terms of -- of
12 process changes or options in terms of -- of
13 implications?

14 Can you clarify that question?

15 MR. BOB PETERS: All right. It's out of
16 ignorance maybe that I ask it. But as I sit here, is it
17 going to come back from your consultants that it's black
18 and white and there's no option but you must do this,
19 this and this?

20 Or do you suspect your account -- or your
21 consultant is going to come back and say, we've
22 considered it, we've discussed with others, we've done
23 all the research and we think that Centra has three (3)
24 options to deal with this particular matter, 'A, 'B' and
25 'C' and then you get to select which option you want to

1 follow.

2 MR. WILLY DERKSEN: I expect more of the
3 latter although I think that we will be working with the
4 consultant. Instead of them coming to us and giving us
5 these options, we'll be working together to develop those
6 sorts of options.

7 And I believe that will be developed
8 through the course of Phase 2 and Phase 3. It's -- it's
9 not a black and white demarcation point between the two.

10 MR. BOB PETERS: There will be a series
11 of transitional elections that you're going to have to
12 make before you come to the final decision on how you're
13 going to show your financial statements under IFRS.

14 MR. WILLY DERKSEN: Yes, that's correct.

15 MR. BOB PETERS: And some of those
16 transitional elections will have different implications
17 for consumers. Would that flow?

18 MR. VINCE WARDEN: Could -- could you
19 clarify your question, Mr. Peters, in terms of what
20 you're implying that impact on consumers might be?

21 MR. BOB PETERS: What I was trying to get
22 at, Mr. Warden, was that if you have transitional
23 elections, if you elect Option 'A' versus Option 'B'
24 versus Option 'C', there will be different rate impacts
25 for consumers that could flow from the elections you

1 take.

2 Would you agree with that?

3 MR. VINCE WARDEN: I think one thing we
4 have to keep in mind with IFRS is that it -- it's really
5 just a question of timing, timing of recognition of costs
6 incurred by the Utility.

7 I take the position that every dollar that
8 we incur is prudently incurred and, therefore, it's just
9 a question of how we recover that from the ratepayer.

10 So, over an extended period of time the
11 impact on the ratepayer should be neutral. There should
12 be no impact on the ratepayer. It's just a question of
13 timing whether we collect those dollars early and refund
14 them later or whether we can mana -- to the extent we can
15 manage this through retained earnings, that would be the
16 preferable course of action.

17 So, will there be options as to how we
18 recover or whether we recover, the timing of recovery,
19 yes, there -- there will be. And this is part of the
20 reason why it is important for us to have an adequate
21 level of retained earnings so we have that flexibility
22 and we don't impose any kind of undue rate increases on
23 consumers.

24 MR. BOB PETERS: And in light of that
25 answer, Mr. Warden, will there be an opportunity for

1 Centra to seek input from perhaps this Board as to which
2 elections would be most favourably received in a
3 regulatory setting?

4 MR. VINCE WARDEN: Most certainly, yes.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: One (1) question that
9 also appeared is that -- in the same tab, Tab 9 of the
10 book of documents, there's a response to PUB/CENTRA at
11 201. And in it you detail the IFRS working groups of
12 other utilities, with respect to potential changes, and
13 I'm wondering whether or not Centra or your consultant
14 has been in contact with those other working groups?

15 MR. VINCE WARDEN: Yes, I'm aware that
16 our consultant has done some work with specifically OEB,
17 the Ontario Energy Board.

18 MR. BOB PETERS: Not with Alberta
19 Utilities Commission?

20 MR. VINCE WARDEN: Not that I'm aware of,
21 no.

22 MR. BOB PETERS: And you say it was the
23 consultant, KPMG, who was in contact. Do I take it then
24 that this is not a matter in which Centra or Manitoba
25 Hydro is in direct contact with the other working groups?

1 MR. VINCE WARDEN: Well, we do have a --
2 there is a working group with the Canadian Electrical Gas
3 -- they're -- Canadian Electrical Association and the
4 Canadian Gas Association. So there are -- are working
5 groups that we participate on, yes.

6 MR. BOB PETERS: Is it correct that it is
7 expected by January of 2010 to have a report from your
8 consultant on IFRS?

9 MR. VINCE WARDEN: Yes, that -- that
10 timing sounds right, Mr. Peters.

11 MR. BOB PETERS: And I think I also read
12 in the materials that it's not going to be until June of
13 2010, until the International Accounting Standards Board
14 report is going to be released on its decisions.

15 Have I got that timeline correct?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And so what -- what
18 comes from that then, Mr. Warden, is that how can
19 Centra's report with KPMG come out in advance of the
20 International Accounting Standards Board report, as there
21 may be some significant adjustments or changes needed?

22 MR. VINCE WARDEN: I think between now
23 and then there'll be a lot of information that flows from
24 the Standards Board and we'll have a better indication by
25 that time as to what direction their ultimate decision

1 will -- will be.

2 MR. BOB PETERS: In an earlier answer to
3 me, Mr. Warden, I think you indicated that there -- there
4 may be matters on which Centra may request, require, or
5 desire input from the Public Utilities Board, relative to
6 the various transitional elections and the like under
7 IFRS.

8 Did I gather that correctly?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: Well, Mr. Peters, I
13 think I may have interpreted your question to be earlier
14 that whether or not Manitoba Hydro/Centra Gas would be
15 presenting the Public Utilities Board with information
16 with respect to the options open to the Board, and my
17 answer to that was yes.

18 I'm not sure that we would necessarily be
19 seeking input. Certainly they could do with that
20 information what they so chose in terms of rate setting
21 and other matters but I -- I didn't contemplate --
22 contemplate seeking input from the Public Utilities
23 Board.

24 MR. BOB PETERS: Maybe I could leave it
25 this way for the day and -- and the questioning, Mr.

1 Warden, is that when Centra files its report in
2 approximately January of 2010 the Public Utilities Board
3 can then decide what, if anything, it wants to do further
4 with respect to IFRS issues.

5 Would that be fair?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: All right. With that
8 answer, Mr. Chairman, and in light of the hour, this
9 would be an appropriate time to adjourn for the day and
10 I'll pick it up for tomorrow. And just to alert my
11 friend opposite, I have every expectation that I will
12 close the day tomorrow as well.

13 THE CHAIRPERSON: Stay well, Mr. Peters.
14 Thank you. We'll see you all tomorrow.

15

16 (CENTRA RATE DESIGN PANEL RETIRES)

17

18 --- Upon adjourning at 4:01 p.m.

19

20 Certified correct,

21

22

23

24 _____
Cheryl Lavigne, Ms.

25