MANITOBA PUBLIC UTILITIES BOARD

RE:

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

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 543 to 729

APPEARANCES

Bob Peters		)Board Counsel
Marla Murphy		)Centra Gas
Brent Czarnecki		)
Kris Saxberg		)CAC/MSOS
Rick Forster	(np)	)Direct Energy
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		)Paperworkers Union

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UNDERTAKINGS

--- Upon commencing at 9:02 a.m.

THE CHAIRPERSON: Okay, good morning everyone. We'll start off with Mr. Peters, who has an additional introduction to make.

MR. BOB PETERS: Yes, thank you. Good morning, Mr. Chairman, Ladies and Gentlemen. I'm pleased to introduce to those present, Mr. Ken Highmoor, who's joined me at the table this morning. Mr. Highmoor is with ECI, and according to my planned schedule timeline I had asked him to be present to assist me with some of my questions that I will hopefully have for Mr. Petursson.

I may not be quite as advanced as I had hoped at this point, but we'll get to them, I expect, today. So, I welcome him here and I'm ready to proceed.

THE CHAIRPERSON: Ms. Murphy, do you have anything, or...?

MS. MARLA MURPHY: No, sir, we don't.

THE CHAIRPERSON: Okay, on to Mr. Peters.

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

VINCE WARDEN, Resumed

WILLY DERKSEN, Resumed

GREG BARNLUND, Resumed

DAVID PETURRSON, Resumed
LLOYD KUCZEK, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Thank you again, Mr. Chairman, Board members, ladies and gentlemen.

Mr. Derksen, if you thought we were finished discussing IFRS at the close of business yesterday, you would be mistaken. What you did tell the Board from Tab 9 of the board of doc -- book of documents is that Centra is approximately in Phase 2, Step 2 of a four (4) step program to reach a conclusion on IFRS and its impacts on the Gas Utility.

Am I correct?

MR. WILLY DERKSEN: I believe I said we were in a Phase 2 to 3. It's -- there's not a sharp demarcation point between those two (2), but we are still working on the assessment of what the impacts will be.

MR. BOB PETERS: And while you're on the continuum between Step 2 and Step 3, there still is an expectation that the end product -- a report on IFRS -- will be delivered in approximately January of 2010.

MR. WILLY DERKSEN: Yes, sir.

MR. BOB PETERS: And when you say, Step 4's implementation, I believe we've agreed that the implementation needs to be for Centra's fiscal year of 2011/'12, that is ending March 31 of 2012, where it must be implemented, but at that time you also want to have a restatement of the prior year's results.

MR. WILLY DERKSEN: Yes, and that means that we really have to have it implemented for April 1st, 2010 so that we can do that restatement properly.

MR. BOB PETERS: And even though you'll have your systems in place a year before you have to have your actual implementation, you want it in place a year in advance to allow you to track the necessarily -- necessary matters to -- to report, according to IFRS.

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

MR. BOB PETERS: But even though you'll have your systems in place a year before the mandatory date, you will reporting -- you will still report according to Canadian GAAP at least for that fiscal year as well.

MR. WILLY DERKSEN: Yes, for 2010/'11 we will be reporting according to Canadian GAAP.

MR. BOB PETERS: And I take it, Mr. Derksen, that this preparation, this research, this retention of consultants, it all costs money.

MR. WILLY DERKSEN: It certainly does.

MR. BOB PETERS: And are you in a position to be able to tell the Board what costs Centra has incurred to investigate and transition towards implementation of IFRS from an internal perspective?

MR. WILLY DERKSEN: What Manitoba Hydro has done is it's dedicated several staff members to working on this project. As well, as -- as we've talked about, we do have consultants assisting us in that process.

I don't have an exact number for internal costs, but I would expect we'd be in the several hundred thousand dollar range by now, and that will continue to climb.

MR. BOB PETERS: I'd be correct in assuming that those internal costs are not incremental costs, and they're already included in your budgeting process.

Would that be fair?

MR. WILLY DERKSEN: Centra is not asking for additional funds related to that, if -- if that answers your question.

MR. BOB PETERS: By Centra not asking for additional monies for the im -- for the internal costs of implementing IFRS, you're telling the Board that you're going to work that into your budgets and the forecast that you have before the Board?

MR. WILLY DERKSEN: The internal costs are considered an overhead cost, and it would be covered by the overhead allocation made to Centra. We believe that the internal cost will be covered by that factor.

There will be -- I hesitated on the incremental comment because, certainly, there are some dedicated resources that would have been doing other things and there may be some backfill required for some of those dedicated resources, so there may be some -- some incremental cost consequences of people working on this project.

MR. BOB PETERS: And as you've told the Board then, those internal costs are -- are going to be considered common costs of Manitoba Hydro, a portion of which will be allocated through to Centra.

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

MR. BOB PETERS: And in terms of those -- if there are incremental costs -- if there are incremental costs that are incurred internally, those also would be considered common costs of the -- of Manitoba Hydro?

MR. WILLY DERKSEN: Yes, that's right. There -- the charges to Centra for the accounting and administration are -- are made through the overhead allocation, and so they're -- at this point, there's nothing anticipated as a direct charge to Centra with respect to -- to this work.

MR. BOB PETERS: Do you foresee that changing the next time you're here before a GRA?

MR. WILLY DERKSEN: I don't envision that. I should add though that as a result of the research that's being done there may be system modifications that have to be made, which could -- could manifest themselves as additional computer system development investments, which would then be allocated to -- a portion of that would be allocated to Centra through the common asset allocation process.

MR. BOB PETERS: Okay. I think I'm gonna come back to that a little bit later. I did wanna -- I did still wanna keep with the investigation and transition costs that are external to the Corporation.

Those are being incurred certainly with at least one (1) consultation that you've engaged?

MR. WILLY DERKSEN: Yes, there would be more than one (1) consultant on that.

MR. BOB PETERS: All right. And the external consultants will -- is that the only external incremental costs being incurred on IFRS?

MR. WILLY DERKSEN: At this point in time, that's the only external costs that are being incurred, that's right.

MR. BOB PETERS: The Board's been made aware that you've engaged KPMG to assist you. That's the primary consultant, would that be correct?

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

MR. BOB PETERS: But I took from your second last answer that there are additional consultants that have now been engaged?

MR. WILLY DERKSEN: Yes, we do have a consultant that is working with us on fixed asset accounting and depreciation matters and somewhat independent of the KPMG consulting engagement.

MR. BOB PETERS: Is that the only other external consultant engaged, to your knowledge?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: To conclude on this point then, I understand from your evidence and the Board will understand and tell us if -- tell me if it's correct, that there are no provisions being made in the test years for transition costs to IFRS.

MR. WILLY DERKSEN: There are no tran -- provisions in these test years for transition costs, that's correct.

(BRIEF PAUSE)

MR. WILLY DERKSEN: Mr. Peters, Mr. Warden reminded me that we do have the $5 million adjustment in the second test year that does relate, in part, at least, to IFRS.

MR. BOB PETERS: I thought Mr. Warden agreed with the Chairman it was a placeholder or a plug number, at least at this point in time, until you saw what came out of IFRS.

MR. WILLY DERKSEN: Agreed, but the -- the support behind that placeholder relates to the likely -- at least partially to the likely implications of IFRS.

MR. BOB PETERS: I just want to make sure the Board is clear, Mr. Derksen. IFRS may have financial impacts once it's in place and those will affect at least the bottom line of -- of Centra, correct?

MR. WILLY DERKSEN: That's correct.

MR. BOB PETERS: But in addition to the -- the -- the effect on retained earnings, there are also some implementation costs and I was trying to separate those two (2).

So Mr. Warden's $5 million is more for the bottom line hit, not the implementation costs?

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

MR. BOB PETERS: All right. Thank you

for that.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Derksen, is the Utility tracking the implementation and research and investigation costs of IFRS separate and apart from its other O&M costs?

MR. WILLY DERKSEN: Yes, it is.

MR. BOB PETERS: I'd like to turn to the integrated cost allocation methodology with the witnesses, Mr. Chairman. And, Mr. Derksen, this -- we may still be together on this one.

Am I correct that 100 percent of Centra's operating and administrative expenses are either directly assigned or indirectly allocated to Centra?

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

MR. BOB PETERS: And that all takes place through an integrated cost allocation methodology?

MR. WILLY DERKSEN: Yes, sir.

MR. BOB PETERS: And when I say that some of Centra's costs, O&A costs, are directly assigned, that would include any work that the Corporation can identify is specific and the sole benefit of the gas utility?

MR. WILLY DERKSEN: Yes, sir.

MR. BOB PETERS: That would include the engagement of third parties to -- to assist?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And when I'm thinking of third parties, I would be correct in saying that Centra Gas may engage private contractors to assist with some of their -- their work?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And if that work is strictly and solely on gas matters, those costs would be directly assigned to the gas company?

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

MR. BOB PETERS: Am I correct in the materials, Mr. Derksen, that these directly assigned costs for third parties would also be considered primary costs?

MR. WILLY DERKSEN: Yes, that's how we characterize them.

MR. BOB PETERS: Centra Gas has no employees, correct?

MR. WILLY DERKSEN: That's right.

MR. BOB PETERS: Everyone appearing before the Board today from the Utility is actually a Manitoba Hydro employee. That is correct?

MR. WILLY DERKSEN: That's correct.

MR. BOB PETERS: And all Hydro employees have what I'll call activity charges related to their job functions.

MR. WILLY DERKSEN: For the most part that's true. There are certain -- executives and division managers may not charge through activity charges, but, yes, by and large, activity charges are the basis for charging to programs and to capital projects.

MR. BOB PETERS: The executives and managements (sic) who may not have activity charges, they would be part of the overheads that will also get allocated to Centra?

MR. WILLY DERKSEN: That's correct.

MR. BOB PETERS: Am I correct that for those employees of Manitoba Hydro that do have activity charges related to their -- their job functions, those employees' activity charges would include things like wages and benefits?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And in fact wages make up at least 75 percent of the activity charges?

MR. WILLY DERKSEN: Wages and benefits represent approximately 75 percent, on average, that's right.

MR. BOB PETERS: It would also include

things like supplies and meals, accommodation, transportation, postage?

MR. WILLY DERKSEN: Miscellaneous postage yes and those other items, yes. Postage are a large -- the major component of our postage cost is for sending out bills and that's not in activity charges, that's a direct charge, or an allocated charge to Centra.

MR. BOB PETERS: All right. And in addition to the overheads that may take care of the management and executives who don't have activity charges, the activity charges themselves have a -- built-in overheads to them.

MR. WILLY DERKSEN: There is an element of overhead in activity charges, yes.

MR. BOB PETERS: And is that where we catch the -- maybe catch isn't the right word, but is that where we include recognition of things like interest depreciation and taxes incurred by the Utility?

MR. WILLY DERKSEN: The activity charges are -- are calculated by dividing a departmental cost by the total number of output hours. So if a department costed a million dollars to operate, including its administrative costs, including its manager, including support staff, and -- and miscellaneous costs that you talked about, if that was a million dollars and there were ten thousand (10,000) hours of output we'd have a hundred dollars of activity charges or activity -- hundred dollar activity rate would -- would flow from that.

There are some small elements of depreciation and interest in that as well, where they're using company vehicles. That's allocated through activity charges typically, and so there's a depreciation and interest component on those.

But by and large most of the depreciation in interest flow -- flows through the overhead allocation approach.

(BRIEF PAUSE)

MR. BOB PETERS: If I can turn from the -- from the directly assigned costs, Mr. Derksen, to the indirectly allocated costs, these are the costs that arise by way of integrated activities of Manitoba Hydro that are not specific for the gas or specifically for the electric side of the business?

MR. WILLY DERKSEN: Yes, that's right.

MR. BOB PETERS: But they're -- but those are costs that are incurred and utilized by each of the gas side and electric side in some proportion.

MR. WILLY DERKSEN: Yes, they be common processes that support both gas and electric operations.

MR. BOB PETERS: An example could include joint billing initiatives and the postage that you mentioned earlier, as well as your -- your lawyer's collection efforts?

MR. WILLY DERKSEN: Yes, those would be examples.

MR. BOB PETERS: All right. It probably would include treasury, public affairs?

MR. WILLY DERKSEN: Treasury and public affairs is allocated primary through overhead. It -- it's end of the line operational items that flow through direct or indirect allocations.

MR. BOB PETERS: Mr. Derksen, to do the indirect allocation of costs, as between the utilities and in the integrated cost allocation methodology, there are cost drivers that determine how much of what costs go to each utility?

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

MR. BOB PETERS: And at Tab 11 of the book of documents is an answer to PUB/CENTRA-124. And on page 2 of 2 of that Information Request, there are examples of cost drivers for certain common activities, is that correct?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Let me just see if I understand and therefore the record will show that for -- for something like bill insertion operations, these would be those bill stuffers as we sometimes call them that are included in every monthly account?

MR. WILLY DERKSEN: And -- and inserting the bills themselves into envelopes.

MR. BOB PETERS: And that's a common activity done for both utilities, and in fact both utilities have their account on the same bill?

MR. WILLY DERKSEN: Yes, where there the same address as both gas and electricity, that's correct.

MR. BOB PETERS: And in terms of how the Corporation allocates those costs and the driver that allocates them is the number of customers.

MR. WILLY DERKSEN: That's right.

MR. BOB PETERS: And here you show a two-third/one-third split.

MR. WILLY DERKSEN: That's right.

MR. BOB PETERS: And that represents an accurate depiction of how many customers you have on the electric side, relative to those on the gas side?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And what if the customer is joint as you've said?

MR. WILLY DERKSEN: Then it would be one (1) customer on the gas side and one (1) customer on the electric side. So we have approximately two hundred and fifty thousand (250,000) gas customers and approximately five hundred thousand (500,000) electric customers and everyone of our two hundred and fifty thousand (250,000) gas customers is an electric customer as well. So even though the total number of customers is only five hundred thousand (500,000), there are -- two hundred and fifty (250) take gas and -- and five hundred (500) take electricity.

MR. BOB PETERS: Mr. Derksen, on that chart on page 2 of 2 of PUB/CENTRA-124, found at Tab 11 of the book of documents, a number of allocations -- or a number of cost drivers are indicated as activity charges and there's a -- a ratio of 89 percent on the electric side to 11 percent on the gas side.

Do you see those?

MR. WILLY DERKSEN: Yes, I do.

MR. BOB PETERS: Can you explain to the Board how activity charges is a-- is a cost driver, in and of itself?

MR. WILLY DERKSEN: Yes, activity charges represent the work performed by the Manitoba Hydro workforce on behalf of each utility. So this driver indicates that 89 percent of the activity charges are on -- in support of electric operations, either capital or operating electric operations, and 11 percent are in support of gas operations, again, capital or -- or operating.

And so a fundamental driver, or basic driver, is that as the workforce spends its time is -- is a reasonable apportionment basis for certain types of costs.

MR. BOB PETERS: Would you agree with me, Mr. Derksen, that activity charges are subject to management's judgment and discretion?

MR. WILLY DERKSEN: There's always some judgment, but primarily the activity charges are tended to be a specific calculation. As I described earlier, if a department had a million dollars of costs and a thousand hours of output estimated, then there would a hundred dollars per hour activity rate.

And the judgment would come in setting budgets and so on, where one was assuming what costs one was going to incur and what -- to what extent the chargeable hours might change from one (1) year to another year.

MR. BOB PETERS: Is there management

judgment in which cost driver to use as against the common expenses?

MR. WILLY DERKSEN: That management judgment is exercised by the accounting staff.

MR. BOB PETERS: So, the accounting staff will determine what driver will apply to which common expense?

MR. WILLY DERKSEN: Yes, that's right.

MR. BOB PETERS: And how does the Accounting Department decide which cost driver is more appropriate than any other one?

MR. WILLY DERKSEN: In -- in some ca -- in most cases, we've decided on a standard cost-driver customer or activity charges. On some other items we do -- we take it a little bit further, and -- and understand that the -- the raw customer statistics or activity statistics would not be indicative of the amount of effort performed on each group of customers. So there is discussions with management that go on and an adjustment is made to the driver to recognize that.

MR. BOB PETERS: Would you agree with me then that even though you use activity charges, the costs that get indirectly allocated are not based, necessarily, on a factual analysis of Centra's operations?

MR. WILLY DERKSEN: I -- I have some

difficulty with that one. Why would -- I'm not sure why you wouldn't consider hours spent or the calculations factual. I mean, it's primarily based upon the facts, the historical costs and the forecasted costs and the actual time spent on -- on performing operations.

MR. BOB PETERS: Perhaps you're thinking deeper than the question intended, Mr. Derksen. But let me try to make up an example on the fly here.

Let's just suppose -- and we'll make the example almost nonsensical -- that Manitoba Hydro decides it's going to buy a hundred pencils, and it realizes that those pencils are going to be needed for both the electric side and also for the gas side.

And the Accounting Department looks at the bill that somebody paid at the local stationary store and said, Okay, we've got a hundred pencils, we now have to come up with a cost driver, figure out who pays how much of this. And they decide that, for those hundred pencils, eighty-nine (89) of them are going to be charged to the electric side and eleven (11) of them are going to be charged to the gas side.

That could happen?

MR. WILLY DERKSEN: Yes, that's why cost drivers are used. And I understand the context of your question. Certainly, for these indirect costs, the recording of specific facts -- how many -- how many letters they wrote on behalf of -- of Centra or Hydro would be an impossible sort of detail to measure. And so, using a surrogate of a cost driver is a reasonable apportionment of these costs.

MR. BOB PETERS: And if the Accounting Department sent in the -- the Audit Squad and they found out that at the Centra side of the operation, Centra could be using only ten (10) pencils, not eleven (11), or they could be using twelve (12), not eleven (11).

MR. WILLY DERKSEN: That could happen.

MR. BOB PETERS: On a factual basis.

MR. WILLY DERKSEN: That could happen, yes.

MR. BOB PETERS: All right. I think you've got my point then.

MR. WILLY DERKSEN: Yes, sir.

MR. BOB PETERS: All right. And in the materials you've provided to the Board, you've presented the materials, it appears, with two (2) different views -- if I can use those words. One of the -- the indirect and the direct approach for total costs was presented in PUB/CENTRA-24A, which is found at Tab 11 of the doc -- of the book of documents, and we've now talked about that.

If we turn the tab to Tab 12 of the book of documents, it appears that this is a bit of a different presentation, as I think you accounting folks would say.

MR. WILLY DERKSEN: Yes, it is.

MR. BOB PETERS: And -- and this is a view by -- by program.

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And the Board I suppose will be comforted because the totals are the same in both the book of documents, Tab 11 and Tab 12, which indicates that it's just been presented in a different fashion.

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Is it tracked in two (2) different fashions or is it just presented for regulatory purposes in -- in two (2) different fashions?

MR. WILLY DERKSEN: It's tracked in the second presentation. The direct and indirect is an unbundling of the calculations that are made to come up with the program perspective.

For example, if one (1) of the programs on that -- on the second reference in PUB/CENTRA-36 had a million dollars attached to it, we would not be reporting the fact internally that 80 percent of that was allocated directly and 20 percent was indirect.

But through reports that come out of our system we can report the direct and indirect for regulatory purposes.

MR. BOB PETERS: If we have a look closer at PUB/CENTRA-36H, found at Tab 12 of the book of documents, Mr. Derksen and Board Members, we'll -- we'll see some of the terminology we've already talked about and that there are activity charges shown on page 1 of 2 of PUB/CENTRA-36H, correct?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And these are the activity charges that come back to each program as you called it based on the information you've already told us about.

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And those activity charges have the wages and the benefits included at -- to a large extent or underpinned by perhaps a time carding system.

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

MR. BOB PETERS: And it's because they're underpinned for example by a time carding system that you're suggesting to the Board that there is a strong degree of correlation between factual accuracy and allocation accuracy.

MR. WILLY DERKSEN: Yes.

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

Can you tell the Board what internal controls are used by Centra to best ensure accuracy, the factual accuracy matches the allocation accuracy?

MR. WILLY DERKSEN: Yes. I think this could be a bit of a long-winded answer but let me give it a try.

It would start of course with the setting of the activity rates and that's done through the budget process. Budgets of course are reviewed by management and -- and endorsed through that process and also reviewed by the accounting staff.

Activity rates are set through that as well as predicted number of hours spent on particular programs. The -- and -- and of course budgets are created through that manner. There's a control and check to make sure that for a given department's costs all of the hours have been appropriately accounted for in the budgetary process and that the activity rates multiplied by those hours will in fact absorb substantially all of the costs of that department, neither substantially over or under absorbed

Then we get to actual reporting. Time reports themselves are approved by management based upon individual's time spent on -- on projects.

The reporting is performed against the budgets that I described earlier. Monthly variance analyses are created and reviewed with management.

As well the -- if there is a departure such as costs from the department or over or under absorption because activity rates are too high or too low relative to the costs, that is reviewed and -- and checked on a periodic basis.

And -- and I think on an overall basis of course we do review the program costs not only against the forecast but against previous years and -- and ensure that -- and followup where necessary where there are discrepancies.

And -- and I think we've given variance explanations throughout this Hearing that -- that show that we go through these processes.

MR. BOB PETERS: Mr. Derksen, we can maybe talk about him because he's not here, but under "President and CEO" there's a -- there's a line item for "Audit".

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Is that the internal audit of the Corporation?

MR. WILLY DERKSEN: Yes, it is.

MR. BOB PETERS: And does -- what function does Internal Audit have on assuring that there is factual accuracy as well as allocation accuracy to the common costs?

MR. WILLY DERKSEN: Internal Audit would conduct periodic reviews of specific processes that are identified. On an ongoing basis -- operational basis -- they do not review these costs, but only through periodic engagements.

MR. BOB PETERS: And there'd be no external audit review of -- of these costs either, would there?

MR. WILLY DERKSEN: The external auditors certainly have to review these costs to ensure that they're reasonable and -- and supportable, because Centra, itself, does have an audited financial statement and the auditors must satisfy themselves that the allocation methodology is working effectively and is charging appropriately the cost to Centra.

MR. BOB PETERS: Probably ahead of my questions that I've noted, but you've just told the Board that your external auditors -- and am I correct that's it the firm of Ernst & Young, to put a name to them?

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

MR. BOB PETERS: They provide the

Corporation with, what the Corporation likes to consider, a -- a clean audit opinion.

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Is that what you think you get from them?

MR. WILLY DERKSEN: We know we get that from them.

MR. BOB PETERS: Okay, it's not a matter of judgment. It's -- you read it and you consider that a clean audit opinion.

MR. WILLY DERKSEN: They say it right in the statements.

MR. BOB PETERS: But -- but your external auditors did not audit the integrated cost allocation methodology for factual accuracy, did they?

MR. WILLY DERKSEN: They have audited the results of that allocation methodology and they have reviewed the methodology to ensure that they can rely upon it.

MR. BOB PETERS: They're relying on management judgment in reaching a conclusion on the integrated cost allocation methodology, is that correct?

MR. WILLY DERKSEN: They're relying on the tests that they have performed, the reviews that they've made, representations by management and other factors in order to provide the clean audit opinion that you referred to.

MR. BOB PETERS: Are you aware of what tests they actually conduct?

MR. WILLY DERKSEN: Well, they have re -- done process reviews. I'm not specifically aware of what they've done this year, but over the course of time, when they commenced their audit with us, they did a review of the allocation methodology.

They do review the -- the processes to ensure that they're operating consistently as -- as how they were operating when they last performed their audit. And then they review the discrepancies from year over year to ensure that the changes are reasonable and supportable and understandable and can provide them with assurance that the costs are appropriate.

MR. BOB PETERS: I appreciate your answer, Mr. Derksen. I may have to read it a couple of times to fully appreciate it, but back to my, what I call, the "whimsical example."

Your external auditors don't -- don't storm the building and come in to see if there are eleven (11) pencils as opposed to twelve (12) in Centra's possession.

MR. WILLY DERKSEN: Absolutely not. No,

what they would have done is, first of all, assessed -- if it was a material allocation, they would have assessed, Does the allocation methodology -- is it reasonable? Is -- is the activity charge an appropriate driver for that type of item?

And then they would have looked at the result and said, If you had ten (10) last year and there was twenty (20) this year, why did it change from between ten (10) and twenty (20)?

MR. BOB PETERS: To that extent then, your external auditors have tested the cost allocation methodology that management has prepared?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Okay. Back on Tab 11 of the book of documents we saw some of the cost drivers.

Do your external auditors come in and assess the reasonableness of those cost drivers?

MR. WILLY DERKSEN: They wouldn't -- to my knowledge they wouldn't do that every year, no.

MR. BOB PETERS: Do you think they've done it at all?

MR. WILLY DERKSEN: They would have definitely reviewed it and their initial assessment of the cost allocation methodology, yes.

MR. BOB PETERS: And when you say "their

initial assessment," you're talking back to 2001?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: I am reminded that unless the Corporation has changed its external auditors, the 2001 review and report would have been done by a different accounting firm than the current external auditor.

MR. WILLY DERKSEN: I -- I'm not absolutely certain which year KPMG ceased doing our audits and which year Ernst & Young commenced doing our audits.

But whatever their first year was, part of their introduction into Manitoba Hydro and Centra would have been a review of all of our systems and processes to assess their level of reliance that they can have on our systems and assess whether or not the systems are producing results that are appropriate.

So again I apologize. I don't know which specific year that Ernst & Young first had the engagement.

(BRIEF PAUSE)

MR. BOB PETERS: I just want to make sure the Board understands that -- that last answer, Mr.

Derksen. Is it correct that back in 2001 KPMG looked at the acquisition and synergy savings and cost allocation for the gas utility?

MR. WILLY DERKSEN: Yes. We had an engagement with KPMG to review the cost allocation methodology and that material was presented through this process at that time.

MR. BOB PETERS: And -- and do you recall that KPMG considered the appropriateness of the conceptual framework of the cost allocation between Manitoba Hydro and Centra?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And they also considered the reasonableness of the cost allocations?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And I believe I'd be correct in saying they didn't test it down to the factual level that we talked about with the pencils, but in terms of being reasonableness and relying on the methodology that management had in place, they concluded that there was a reasonable cost allocation as between the gas and the electric side on common costs.

MR. WILLY DERKSEN: Yes, that would be a fair representation.

MR. BOB PETERS: One (1) of the points

that -- that I reviewed from the KPMG report, Mr. Derksen, is their definition of cross-subsidization.

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And as I understand what KPMG is saying is that the test for cross-subsidization is whether the costs for each utility is less than or equal to the cost on a standalone basis.

MR. WILLY DERKSEN: I recall it being on an incremental basis, not standalone basis. So if the total cost was a thousand dollars and the incremental cost of -- of serving Centra was an addition one hundred dollars ($100) then there would be no cross-subsidization from their perspective if we charge Centra at least one hundred dollars ($100) that was from an economic perspective.

MR. BOB PETERS: Maybe it's a matter of definition. But in your example, Mr. Derksen, if the cost for Centra to do it on a standalone basis, in my words, was three hundred dollars ($300) but the incremental cost was only one hundred dollars ($100), would it be cross-subsidization to charge the gas utility three hundred dollars ($300)?

MR. WILLY DERKSEN: Not necessarily, no.

MR. BOB PETERS: Not necessarily under KPMG's definition?

MR. WILLY DERKSEN: And -- and the KPMG definition I believe that you're referring to is -- it's from an economist's perspective, not from an accounting or a regulatory perspective.

MR. BOB PETERS: Would it be correct to say that KPMG did not look to see if there was actual cross-subsidization?

MR. WILLY DERKSEN: KPMG was certainly satisfied that this cost allocation methodology did not result in cross-subsidization. I think where -- where we're getting a little bit -- tripping over some of the details is that there are instances where, let's say, Centra on a stand-alone basis paid a thousand dollars for something, and -- and Hydro on a stand-alone basis paid a thousand dollars for something, and -- and combined, they -- there was still only a thousand dollar bill, under this methodology, Centra might get allocated one-third (1/3) of that amount.

So it wouldn't have been the thousand they paid initially, it would have been less than a thousand, and there's no cross-subsidy if we allocated on a reasonable basis, one-third (1/3) Centra and two-thirds (2/3s) Hydro.

MR. BOB PETERS: I think -- I think that's an example of -- of the concern that was expressed, so thank you for that.

MR. WILLY DERKSEN: Right.

MR. BOB PETERS: I did want to, before we left PUB/CENTRA-36, at Tab 12 of the book of documents, just turn to the second page.

And the primary costs that are listed here -- these primary costs -- am I correct that these are the external third party costs that you refer to earlier in your evidence, Mr. Derksen?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Specifically, there -- there appears a couple of items that we may not have asked for it in the Information Request process, but are you aware as to the -- for example, the apparent significant changes in line 13, the meter reading charges, primarily Manitoba Hydro Utility Services?

MR. WILLY DERKSEN: Yes --

MR. BOB PETERS: What has led to the increase?

MR. WILLY DERKSEN: Yes, there's an increasing utilization by Man -- Manitoba Hydro Utility Services to perform meter reading. Prior to this, it was performed by internal meter reading personnel to a greater extent, and so we've relied upon MHUS to do it more so in the forecast period than in prior periods.

MR. BOB PETERS: What's the relative proportion now, as between meter reading internally, compared to externally, by Manitoba Hydro Utility Services?

(BRIEF PAUSE)

MR. WILLY DERKSEN: I'd have to check that, Mr. Peters, but I believe a very high proportion of it, most -- almost all of it is now forecasted to be done by Manitoba Hydro Utility Services. But I'll have to check on that to confirm that.

--- UNDERTAKING NO. 3: Centra to indicate the relative proportion now, as between meter reading internally, compared to externally, by Manitoba Hydro Utility Services

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: What you're telling the Board is it wasn't -- it wasn't a hundred percent previously but it may be close to that now? And --

MR. WILLY DERKSEN: That's correct, yes.

MR. BOB PETERS: And that's the difference -- and that's the reason for the increase in the -- in the expense?

MR. WILLY DERKSEN: Yes, and -- and it won't be a hundred percent because there are some rural locations where it's just not cost effective to use them, but -- but it is a very high percentage.

MR. BOB PETERS: On line 16, the purchase -- purchased services is shown as, again, increasing with some significance. Can you explain that to the Board, Mr. Derksen.

MR. WILLY DERKSEN: The increase relates to materials used in the marketing area. And I think Mr. Kuczek has some information on that.

MR. LLOYD KUCZEK: I believe what we budget there for was for additional efforts to be made in terms of educating consumers under natural gas purchase choices.

MR. BOB PETERS: Mr. Kuczek, thank you. Does your answer suggest this is the advertising budget for the fixed-rate offering?

MR. LLOYD KUCZEK: I'm not sure of the specific number you are referring to. I know we -- we had some dollars allocated for educating consumers, as opposed to dollars allocated for informing customers of -

- of our various offerings.

MR. BOB PETERS: You're telling the Board in that answer, Mr. Kuczek, that the Corporation draws a distinction between the education and then the marketing?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And where would the marketing costs be charged through?

MR. LLOYD KUCZEK: As I recall, that was part of the cost of us offering the service. And I believe we were recouping that through our -- our prices offered through the products.

MR. BOB PETERS: Lastly, on this page 2 of 2, Mr. Derksen, the primary costs that are the portion of the second page, those represent things like you've told us -- the Manitoba Hydro ove -- administration costs, such as executive finance and employee support?

MR. WILLY DERKSEN: That would be the overhead costs, sir.

MR. BOB PETERS: If I didn't say that, I meant to. I'm sorry.

MR. WILLY DERKSEN: Yes, I believe you said "primary," and the overhead costs would include those items, yes, and facilities.

MR. BOB PETERS: Well, I'm -- yeah, I'm looking down at line 25. Are we on the same...?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: Okay, my -- my mouth wasn't on the same page as my brain on that one. I apologize.

That overhead cost, you said it includes facilities including office facilities?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And does that include the new corporate head office that's located conveniently in downtown Winnipeg?

MR. WILLY DERKSEN: It is con -- located conveniently here, yes. And, no, it includes no element of the new head office building.

MR. BOB PETERS: But it would include computer network costs?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And when you say it includes no aspect of the new building, does -- do the computer networking costs in the new building find their way into these overheads?

MR. WILLY DERKSEN: Well, they will, ultimately, but the way that we have set this -- the forecast up is to maintain the previous overhead rate that was charged to Centra and -- and -- and to Hydro, so that the costs of the new building weren't considered in the overhead rate used here. And we're not using a -- a -- an overhead rate currently to charge to Centra.

Network costs that are incurred would be re-incurred on old facilities as well. So I think there's -- there are some things we will have to work out as to how to ultimately maintain a -- an appropriate charge to Centra, without unduly charging them for any of the new building.

But for the purposes of this Application and on our actual, there are no costs for the new building or any networks that are installed into the new building going to Centra.

MR. BOB PETERS: And the last part of your -- your answer was perhaps foreshadowing for the Board, that at some point in time, even the information platform -- information technology platform, in the old Centra premises would have to be updated, upgraded, replaced, and that would drive computer and network costs that would find their way into overhead in the normal course.

MR. WILLY DERKSEN: That's right. And the same thought goes -- holds true for furniture and for space costs, lease costs, for example. The -- the 444 St. Mary Avenue building was negotiated at a period -- at a very low cost at that time. Replacement for that would be substantially greater than what was embedded in -- in previous overheads. So there are renewal costs that will have to be considered.

MR. BOB PETERS: I'll come back to that when we talk about the new building, gentlemen.

I just wanted to tidy up on the integrated cost allocation methodology issues. And you'll recall, Mr. Derksen, that in Board Order 99/'07 -- I think that's found back in Tab 6 of the book of documents -- there is the directives -- there was a request for a review process by the Board, related to the integrated cost allocation review methodology.

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And am I correct that Manitoba Hydro and Centra have requested a deferral of the starting process until after IFRS impacts are known?

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

MR. BOB PETERS: And I think there was also a request to await the -- and assess the impacts of the new headquarters building.

Are you aware of that?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: In light of your answer to the Board just two (2) minutes ago, you're telling the Board that the impacts of the new Hydro building will have no impact on Centra's cost allocations, correct?

MR. WILLY DERKSEN: For the test years, that's correct, yes.

MR. BOB PETERS: And past the text -- past the test years, there may be some issues that need to be worked out, presented, understood, and ultimately approved by the Board.

MR. WILLY DERKSEN: Yes, that's a fair representation.

MR. BOB PETERS: And am I correct that the time period in which Centra wants to wait until the review process starts or at least the -- the ground rules for the review process get worked on is after the IFRS report that's expected from your consultant in January of 2010?

MR. WILLY DERKSEN: It would certainly be after that but it may take some time as well because as we discussed yesterday, the implication of IFRS will probably not be completely understood yet at that point in time and there will still have to be system assessments, remediation assessments in order to comply with IFRS.

But it would be after that time for sure.

MR. BOB PETERS: All right. Do you have a revised timeline or a different thought, other than

January of 2010, as to when the terms of reference will be appropriately worked on?

MR. VINCE WARDEN: Mr. Peters, I think the January 2010 date was a date that Centra had committed to provide the Public Utilities Board with a report. It doesn't represent the conclusion of the IFRS study though. So the IFRS project will continue on beyond that date.

And so what we're looking at -- what we're requesting -- I believe what we've requested of the PUB is that the revised cost allocation study await the completion of the IFRS project.

MR. BOB PETERS: And -- and for the actual integrated cost allocation methodology review study to await the implementation of IFRS, is that -- is that to await until the end of the first fiscal year in which IFRS is mandatory or is it a year prior to that?

MR. VINCE WARDEN: There are still a number of uncertainties associated with IFRS and we want to be able to ensure that we work through those uncertainties before we embark on the studies.

Therefore not trying to be evasive in any way, but the timelines -- the ideal timelines would be after full implementation of IFRS which would be the '11/'12 fiscal year.

MR. BOB PETERS: Can the Board still expect at least at this point in time, communications from Centra relative to the integrated cost allocation methodology in January of 2010 at least to tell the Board where Centra's at and what any revised request would be relative to the terms of reference or the actual study?

MR. VINCE WARDEN: Well the January 2010 date relates to a -- a status report -- a quantification of IFRS impacts. I don't believe we tied that or linked that though to the cost allocation study.

MR. BOB PETERS: Okay. All right. My understanding is that the cost allocation review was contingent or dependent on an IFRS report. And I had assumed that was waiting until January of 2010?

MR. VINCE WARDEN: Well I think it was more so contingent upon the implementation of IFRS rather than that -- that date of that report.

MR. BOB PETERS: All right. So what I'm -- what I'm hearing in any event whether -- whichever way it works is that Centra doesn't believe that it would be worthwhile to start it's integrated cost allocation methodology review until after March 31 of 2012.

MR. VINCE WARDEN: That would be the -- the latest date. Whether we can do it before that or not it will depend on just how the whole IFRS story unfolds.

MR. BOB PETERS: Would you agree with me, Mr. Derksen, that until a review of the integrated cost allocation methodology is done, the Public Utilities Board is in the same position as it was at the last GRA relative to the strengths and weaknesses of the integrated cost allocation methodology?

MR. WILLY DERKSEN: Yes, I'd agree with that.

MR. BOB PETERS: And so the Board is in essence left to assess the reasonableness of the allocations that may be resultant in this Application before it even if those allocations are not totally transparent.

MR. WILLY DERKSEN: Well, as we said at the last hearing, I believe that the Board can find comfort that we do have our Centra statements audited by external auditors and they have found that the cost allocations are working effectively and appropriately and that we have been able to provide substantial information at this Hearing and other Hearings supporting the cost allocations made to Centra.

And I -- I think there's good comfort in that but, yes, we'd have to leave it at that.

MR. BOB PETERS: And I suppose one (1) measure or comfort, if the Board was looking for it, would be the year-over-year comparisons of your O&A expenses?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And before I leave Tab -- I guess back at Tab 11 of the book of documents, there's an attachment, Mr. Chairman and Board Members, to PUB/CENTRA-24B and the attachment is...

It shows -- the last page of it -- the page of the tab at the book of documents shows the costs year-over-year since 2006/'07, Mr. Derksen?

MR. WILLY DERKSEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: I'll perhaps come back to O&A expenses later. Mr. Derksen and Mr. Warden, you've wetted our appetite with respect to your new head office building so let's -- let's explore that a little further if we could.

Historically, am I correct that as a term and condition of Manitoba Hydro's purchase of what was then Winnipeg Hydro Utility back in approximately 2002, there was a requirement and a condition agreed to by Manitoba Hydro that it would build a new corporate head office in downtown Winnipeg?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And at the last -- I guess it was a Manitoba Hydro General Rate Application, Mr. Warden, am I correct that your evidence to the Board at that time included an expectation that the costs were going to be $278 million?

MR. VINCE WARDEN: Well, I think if I didn't, I -- I can perhaps update that slightly. The -- the $278 million number is the financial for -- what is included in the forecast of Manitoba Hydro. At this time, we do expect we will be slightly over that number. The expectation is that -- that the total -- final cost will be $283 million, so $5 million over our forecast number.

MR. BOB PETERS: I'm not sure if there's any significance in your answer, Mr. Warden, to the fact that it was a forecast.

I suppose until the building is finished, it's always a forecast?

MR. VINCE WARDEN: Well, we do have our official approved integrated financial forecast which includes the capital expenditure forecast, which is made up of -- of a number of different projects. The head off -- head office project is included in that forecast and that financial forecast -- that $278 million.

We -- on an on-going basis though, we review the forecast and update it for most recent estimates and the most recent estimate is 283 million.

MR. BOB PETERS: Is that $283 million, Mr. Warden, as a result of cost escalations?

MR. VINCE WARDEN: Yes, it is.

MR. BOB PETERS: And as you are able to testify today, is that the Corporation's expectation of the final number?

MR. VINCE WARDEN: Yes, it is.

MR. BOB PETERS: And that represents capital costs and only capital costs, Mr. Warden?

MR. VINCE WARDEN: It does.

MR. BOB PETERS: No operating costs are yet included in that number?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: When this building was planned, Mr. Warden, there was an expectation that over sixty (60) year service life, including the financing costs, the annual costs to the Corporation would be $21 million?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Is that number still on track?

MR. VINCE WARDEN: It is, yes.

MR. BOB PETERS: Is it lower as a result of recent interest rate changes, or is it locked in at the -- the higher rates?

MR. VINCE WARDEN: I think when we derived the $21 million number, we look -- took a long-term view, so that number would be unaffected by change -- short-term changes in -- in interest rates.

MR. BOB PETERS: Mr. Warden, at Tab 13 of the book of documents is the Corporation's response to PUB/CENTRA-79B, and on page 2 of 3 and 3 of 3 of the attachment the expenditures for the -- for the office building are shown. Actually, it starts on page 1 of 3.

Am I correct that this schedule maps out for the Board the timeline of the various expenditures that are contributing to -- although what is shown as 278 million is now expected to be 285 million?

MR. VINCE WARDEN: 283 million, I think I -- I said -- you mentioned 285, but --

MR. BOB PETERS: Oh, I apologize, yes, $283 million dollars, $5 million more than what was previously planned?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: I wasn't trying to give you $2 million of extra room there, Mr. Warden.

This is the -- this is the build-up of all the costs over the years.

MR. VINCE WARDEN: Yes, it is.

MR. BOB PETERS: And when we look at this number of 278 million, you've now told the Board that 283 million is -- is seen as the Corporation as the most likely final number.

Can you -- without giving a line-by-line item -- but where do the extra 5 million come from, if you're aware?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, there -- there's really no one (1) specific. It was -- each of the items are not -- certainly, not all the items, but the $5 million could be dispersed against a number of those components.

As Mr. Derksen reminded me, we do have a commitment to provide the Public Utilities Board with a -- a update of the -- of the final costs on June the 30th, and -- and we will certainly, at that time, provide any updates to recon -- to reconcile that -- the $283 million number that I referenced.

MR. BOB PETERS: All right, that would be appreciated.

--- UNDERTAKING NO. 4: Centra to provide a breakdown and update of the $23 million office building expenditures

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And I -- and I don't think it's fruitful to go down line-by-line at this point in time.

Can you tell the Board, Mr. Warden, does -- does Manitoba Hydro consider the new Corporate Head Office as in service today?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Does that mean it's being depreciated or depreciation expenses being charged through?

MR. VINCE WARDEN: It is.

MR. BOB PETERS: Okay. But I take it, maybe only anecdotally, that -- that not everybody is yet in the -- in the new building.

MR. VINCE WARDEN: That's correct. It's essentially complete, but not 100 percent.

MR. BOB PETERS: And the forecast date for 100 percent completion is now what?

MR. VINCE WARDEN: It -- it seems to change, but I think the most recent date that I'm aware of is the end of September.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, on a quick scan of the components of the $278 million, would it be correct that furniture is not a component of that?

MR. VINCE WARDEN: No, furniture, I believe, is on line 34 of this -- of the document on page 3 of 3.

MR. BOB PETERS: Sorry, my oversight on that. Mr. Warden, in the last General Rate Application and it was in Order 99 of '07 I believe the Board gave Centra two (2) options relative to the -- the new corporate head office as it pertained to Centra Gas Manitoba Inc., do you recall that?

(BRIEF PAUSE)

MR. VINCE WARDEN: Could you be more specific in your reference, Mr. Peters, please?

MR. BOB PETERS: Let me do it this way. Do you recall that the Board said that Centra could either demonstrate the actual costs of Centra's occupancy in the new building was equal to or lower than what they previously were paying?

Or as an alternative, you could demonstrate that there were no incremental costs associated with the new building being allocated through to Centra?

MR. VINCE WARDEN: I must admit I don't recall the options being presented quite in that way. In fact I don't recall the options that were --

MR. BOB PETERS: I appreciate your candour and I'll have to find the source. I didn't write it down but regardless of that, what the Corporation has before the Board and I think Mr. Derksen has indicated is that Centra is telling the Board that no incremental costs are associated with or have been allocated to Centra related to the new building.

MR. VINCE WARDEN: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, just to finish off a point that I attempted to start earlier on the furniture, at Tab 32 of the book of documents there's a schedule of the common assets of the Corporation and in ballpark terms, can you accept that furniture additions are in the neighbourhood of $12 million? And that's forecast for 2009.

(BRIEF PAUSE)

MR. VINCE WARDEN: That's the total of office furniture and equipment you're referring to on..?

MR. BOB PETERS: On line 15.

MR. VINCE WARDEN: Okay, Mr. Peters, I'm -- I'm with you on that.

MR. BOB PETERS: All right. I was just -- when I see the furniture line that you drew my attention to on the new office tower in the neighbourhood of $5 million and then I see common assets and furniture of $12 million, can you explain why the overheads are including the $12 million on account of office furniture and equipment if only $12 million are related to the -- if only $5 million are related to the new tower?

MR. WILLY DERKSEN: Mr. Peters, could you ask that question once more please?

MR. BOB PETERS: Yes. I appreciate I may not have been totally clear.

As I understand your evidence, Mr. Warden, there's an expectation that furniture for the new office tower is expected to cost according to line 34 of PUB/CENTRA-79B found at Tab 13, $5.5 million.

MR. VINCE WARDEN: Yes, that's right.

MR. BOB PETERS: And when we -- when we look at the PUB/CENTRA-50B found at Tab 32 of the book of documents, there's a schedule of common assets not only the actual for the previous year but also for the forecast 2009 year. And on the second page of Tab 32, line 15, office furniture and equipment for 2009 forecast there's $12 million of additions that are included.

And I'm trying to reconcile that as between $5 million. If $5 million is going in the new office tower, does that suggest there's $7 million going elsewhere?

MR. VINCE WARDEN: Part of it is definitely the elsewhere. Part of it is the equipment piece which I would have to research to determine exactly what the equipment component is over and above furniture. There -- there would have been though as part of Manitoba Hydro's normal ongoing furniture program, every year we -- we purchase furniture, which would have been purchased even in the absence of the new head office.

So the -- what was intended to be captured in the capital item that we referenced early, the $5 million was only the incremental furniture associated with the new head office. So any furniture that we normally would have purchased out of our furniture --

annual furniture budget would be added to that to derive the $12 million.

MR. BOB PETERS: If you stay with Tab 32 of the book of documents and keep that schedule open. Mr. Warden, it appears the annual furniture budget is -- is generally less than a million or around a million, and I'm wondering why, again, that -- the additions in 2009 of $12 million.

And maybe -- maybe it's best that you take that as an undertaking and reflect on that and maybe provide a written answer at some point, if not oral, through your counsel.

MR. VINCE WARDEN: We'll do that.

--- UNDERTAKING NO. 5: Centra to indicate why there is an addition of $12 million to the annual furniture budget

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Derksen and Mr. Warden, I was wanting to talk about the overall costs of the new -- the new headquarters and my reference was on page 118 of the previous Board Order 99/'07.

Just in terms of the Board indicating

there may be a couple of ways for Centra to come in and explain what's happened for costs -- occupancy costs. That position was premised, Mr. Warden, that it was Manitoba Hydro's acquisition of a new office building, not Centra Gas', correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And therefore if Centra didn't need a new office building then it may not be appropriate for the Centra customers to be charged additional costs for the head office, correct?

MR. VINCE WARDEN: I think if we go back in history though Centra did need a new office building and in fact before the lease at 444 St. Mary was transacted Centra was in fact studying a new office -- acquiring new office facilities. That lease expired -- would have expired this year in 2000 -- or in 2010 I believe. Okay, yes, that's right it was 2009 that the Centra lease expired at 444 St. Mary.

So either they would have had to renew the lease at that -- at a higher rate, a much higher rate or acquire new facilities. So new facilities would have been required in any event or -- or new facility arrangements would have been required.

MR. BOB PETERS: All right. But in this Application before the Board, the Corporation has endeavoured to demonstrate that no incremental costs associated with the new building are being charged through to the Centra Gas payers.

MR. VINCE WARDEN: There are no incremental costs being charged through. That's correct.

MR. BOB PETERS: In the prior General Rate Application and I'm not sure if it was Hydro or Centra, Mr. Warden, there was discussion that a 10 percent productivity improvement might be anticipated by centralizing the operations.

Do you recall those discussions generally?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And if I recall correctly, the productivity improvement applied against the payroll could yield sufficient revenues to ha -- to pay the carrying costs on an annual basis of a new building. That was certainly a hope or a thought or an expectation at some point.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And in fairness, Mr. Warden, the Corporation has somewhat retreated from that position at the last Manitoba Hydro General Rate Application.

Would that be correct?

MR. VINCE WARDEN: Well, I'm not sure

whether retreating is necessarily the way I'd express it. I think what I may have indicated at the previous Hearing, it would be very, very difficult to track that number, and I wouldn't want to be charged with tracking that if I can avoid it.

So, while there is an expectation of productivity savings, and I think we are -- are already seeing some of those productivity savings, again, it would be very -- very, very difficult to track that on an ongoing basis.

MR. BOB PETERS: I had thought -- well, are you telling the Board that the 10 percent productivity improvement is -- is still expected and realized?

MR. VINCE WARDEN: No. I think the 10 percent productivity that we had referenced in the past was based on literature. We reviewed literature of the experience of others. Whether or not we could rely on that for purposes of actually embedding that in our forecast or not was the question that we were having some -- some difficulty with.

MR. BOB PETERS: There's no 10 percent productivity savings factor included in any of the application for the two (2) test years before this Board?

MR. VINCE WARDEN: Well, certainly not as it relates to Centra because there are no incremental costs related to Centra included in the forecast.

MR. BOB PETERS: Does that answer suggest, Mr. Warden, that if there are productivity improvements, they would properly be seen and shown on the Hydro side?

MR. VINCE WARDEN: Well, ultimately, we -- we are going to have to address the issue of how the costs of -- of the new building will be shared amongst Centra and -- and electri -- gas and electricity ratepayers.

And to the extent there are productivity savings, those savings should be shared as well.

MR. BOB PETERS: Mr. Derksen, you can confirm that there's been no change in productivity forecast in this GRA as a result of centralizing Centra's operations?

MR. WILLY DERKSEN: That's correct.

MR. BOB PETERS: But you did say in your opening comments to Ms. Murphy in your opening direct evidence, that your budgets embed a 1 percent productivity improvement. And it may have been one (1) of your colleagues, if not you.

MR. WILLY DERKSEN: We estimate that there is a 1 percent -- approximately 1 percent productivity embedded in our forecast of operating costs. That's right.

MR. BOB PETERS: You'd agree with me, Mr. Warden, that based on the costs of allocated space needs of Centra, the Portage Avenue building is more expensive than the St. Mary Avenue lease premises?

MR. VINCE WARDEN: I -- I think it's -- well, the -- the -- first of all, the -- the leased premises for St. Mary were negotiated at -- at a very low rate and there would be a -- an expectation that those -- those costs would increase substantially if that re -- lease were to be renewed.

We are seeing, with the new head office, incredible savings in terms of energy. Energy savings are even greater than what was anticipated. So on the energy savings side, there's no doubt that the new head office is more energy efficient than the building at -- at 444 St. Mary.

Of course the -- the capital costs of being built were much more recently, of course, that the St. Mary address, the capital costs would be higher and those costs would have to be recovered through some kind of a space allocation.

The operating costs, though, we expect would be much lower.

MR. BOB PETERS: Just in terms of occupancy costs, and I think it was in CAC/MSOS Question 113, if you need a reference. Doing some back of the envelope math, the leased premises at St. Mary's would be ten dollars ($10) a square foot compared to what your expectations are for leasing Portage at fifteen dollars ($15) a square foot?

MR. VINCE WARDEN: Ten dollars ($10) per square foot, yes, that was the leasing costs at -- at 444 St. Mary. I believe the costs at 360 Portage have been estimated in the thirteen (13) to fifteen dollar ($15) range. I think they may be somewhat higher than that based on some recent numbers that I've seen.

MR. BOB PETERS: All right. And when you add in the -- the tax portion -- the property tax portion, it appeared that the 444 St. Mary's had property tax at two dollars and eighty-four cents ($2.84) a square foot, compared to the eight dollars and twenty-six cents ($8.26) a square foot that the Portage Avenue property tax would be -- would be charged at.

MS. MARLA MURPHY: Do you have a reference for that?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I said it was a back of

an envelope. I might have thrown it out but it -- I'll -- we'll look for it and find it. I -- my -- my -- where I'm coming to is if I do the math and I add the tax portion to both of those lease premises, the lease at 444 St. Mary's appreciating it -- it expired, it was up to twelve dollars and eighty-four cents ($12.84) a square foot, which would be almost half of the 360 Portage Avenue when you add the -- the lease plus the tax and it'd be close to twenty-three dollars and twenty-six cents ($23.26) a square foot and perhaps CAC/MSOS-115 might be the source on that.

MR. VINCE WARDEN: Yes, we've located that, Mr. Peters.

MR. BOB PETERS: Well, so in relative terms, Mr. Warden, can you go so far as to agree that the -- the Portage Avenue costs would be twice as high as for -- for 444 St. Mary's?

MR. VINCE WARDEN: No, because I don't think those numbers are comparable.

MR. BOB PETERS: Well, would you go so far as to say that the occupancy costs in the new building are admittedly higher than the occupancy costs in the old Centra head office building?

MR. VINCE WARDEN: I would expect they would be somewhat higher, although subject to what we would have been able to negotiate for the old head office building.

MR. BOB PETERS: Did you sublet the -- the old office building or did the lease terminate and everybody moved?

MR. VINCE WARDEN: Actually, the lease did terminate.

MR. BOB PETERS: In 2009?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Derksen, am I correct that there's been an allocation of $3.4 million of total occupancy costs to the gas utility in 2007/'08?

MR. WILLY DERKSEN: I don't have the reference in front of me but that sounds about right, yes.

MR. BOB PETERS: And if -- if $2 million of that is related to the 444 St. Mary Avenue property, what would be the additional $1.4 million of occupancy costs?

MR. WILLY DERKSEN: Well, first of all, 2 million is not related to that 444 St. Mary Avenue. The 444 St. Mary Avenue property is a shared facility now and so it gets allocated across Manitoba Hydro and Centra in accordance with their activity charges.

And so all occupancy costs are pooled and allocated on the eighty-nine/eleven (89:11) basis. So we can't say that Centra's costs for the 444 and Hydro's costs were 820 Taylor or those sorts of things any longer.

(BRIEF PAUSE)

MR. BOB PETERS: Was there ever an offer from the landlord at 444 St. Mary Avenue to extend the lease for Centra?

MR. VINCE WARDEN: Not that I'm aware of, no.

MR. BOB PETERS: Do you know at what cost the landlord re-let the space?

MR. VINCE WARDEN: No, I don't.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, you wouldn't be surprised that Centra's ratepayers and some of them have an interest in Centra and the new office tower for Manitoba Hydro and costs related to that?

MR. VINCE WARDEN: No.

MR. BOB PETERS: I can indicate, Mr. Chairman, and I'm choosing not to indicate the name but the Board has been provided with a letter from a Centra ratepayer that requested certain questions be posed.

And I think we've dealt with them. They certainly are probably also answered in the Information Request but certainly I -- I'd like to summarize my questions on the new office tower with the questions posed in writing by the consumer.

So, Mr. Warden, the first question is, what is the total cost of the new Manitoba Hydro building on Portage Avenue in Winnipeg?

MR. VINCE WARDEN: Manitoba Hydro is projecting that the total cost of the new head office at 360 Portage Avenue will be $283 million.

MR. BOB PETERS: And what part of this total cost is allocated to Centra Gas and its ratepayers?

MR. VINCE WARDEN: At this time, no part of that total cost has been allocated to Centra Gas.

MR. BOB PETERS: Thank you. Third question. What was the original planned cost of this new Manitoba Hydro building?

MR. VINCE WARDEN: The design of Manitoba Hydro's head office building in its current state, that is in the size of six hundred and ninety thousand (690,000) square feet, the original estimate for that size building was $258 million. That was subsequently increased to $278 million, and as I indicated in a previous answer that estimate is now $283 million.

MR. BOB PETERS: Thank you. Can you explain what part of the original planned cost was allocated to Centra Gas and it's ratepayers?

MR. VINCE WARDEN: There was no part of the original planned cost allocated to Centra Gas and its ratepayers.

MR. BOB PETERS: Here's perhaps a policy question for you, Mr. Warden.

The shares of Centra Gas Manitoba Inc. are owned by the Manitoba Hydro Electric Board?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Has to your knowledge the Manitoba Hydro Electric Board considered divesting itself of Centra Gas?

MR. VINCE WARDEN: No.

MR. BOB PETERS: All right. And is it your understanding that as the owner of the shares of Centra Gas it would be Manitoba Hydro's decision as to whether or not it would seek to divest itself of Centra Gas?

MR. VINCE WARDEN: Well as -- as a Crown owned utility I think any decision that would be made to divest a large portion, a significant portion of that Crown utility would be a decision that would be referred to our owner -- ultimate owner, the Province of Manitoba.

MR. BOB PETERS: Thank you for those answers, Mr. Warden. I'd like to turn before the morning recess if I could, to the topic of advanced metering infrastructure.

And, Mr. Petursson, perhaps you and I can discuss this. Would the Board be correct in understanding that Advanced Metering Infrastructure or as it's often known AMI is technology used to assist in the reading of meters?

MR. DAVID PETURSSON: Yes, that is part of what AMI will do.

MR. BOB PETERS: What else will AMI do?

MR. DAVID PETURSSON: AMI will -- it will read meters but it will also enable other communications. It could -- for example, it could help to communicate pressures or cathodic readings if such attachments were hooked up. The AMI is quite versatile.

MR. BOB PETERS: I may not be as versatile. You're suggesting to the Board that the AMI project being investigated by Centra will not only read meters but it would also communicate, with respect to pressures.

MR. DAVID PETURSSON: No, I'm -- AMI is primarily from reading meters, but I'm saying it's capable of those other things.

MR. BOB PETERS: And while it's capable of those other things...

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Petursson, I appreciate maybe we were flying at different altitudes there. I was focussing more on the specific AMI project of the Utility and not in generic terms, so I apologize if I -- if I confused you on that. But I appreciate your telling the Board that AMI, in my words, can come with some -- some options.

Would that be fair?

MR. LLOYD KUCZEK: That's fair.

MR. BOB PETERS: And in terms of what Centra Gas Manitoba Inc. is looking at, would it be the -- would it -- would the options of cathodic protection, communication, and pressure communication be included, or is that something that's not planned to be included on the Centra AMI projects?

MR. LLOYD KUCZEK: I believe right now what we're doing is -- with the pilot, is just reading meters, and as far as the business case goes we're looking at potential uses and benefits associated with using the AMI technology for -- for capturing those benefits through other uses.

MR. BOB PETERS: Am I -- is -- is the Board correct in understanding that the pilot project of AMI has been in existence since approximately 2006/'07?

MR. LLOYD KUCZEK: I'm not -- we're not familiar with the date that it started, but that's approximately when it started.

MR. BOB PETERS: Would it be correct that there's approximately nine hundred and fifty (950) meters installed to-date, under the pilot project?

MR. LLOYD KUCZEK: That sounds about right.

MR. BOB PETERS: And as you mentioned in your third last answer to me, Mr. Kuczek, there is no business plan yet developed for AMI?

MR. LLOYD KUCZEK: That's being worked on right now.

MR. BOB PETERS: And the business plan is a plan that is prepared, in economic and financial terms, to, in essence, I suppose, first convince Mr. Warden to -

- to include this in the capital expenditures of the Corporation going forward?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And the business plan will contain a cost benefit analysis that will assist parties in determining whether additional monies should be spent on the AMI project?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And as I understood what you were saying earlier, that on a cost benefit basis you probably can't prepare a business plan that would meet with favour with Mr. Warden only for reading meters?

MR. LLOYD KUCZEK: I couldn't answer that question until we complete our assessment, but I do know it's a challenge.

MR. BOB PETERS: Okay. And -- and then I threw Mr. Warden's name in there gratuitously, but only to the -- to the extent that you have to demonstrate that the costs are not outweighed by the benefits in the AMI project?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And on a strict meter reading only basis, that may be a challenge or difficult to demonstrate?

MR. LLOYD KUCZEK: It may be, but we

haven't finalized our assessment yet, so that's not the conclusion.

MR. BOB PETERS: I appreciate that and thank you for that clarification. But it's also then that if the Corporation looks to add some -- this isn't going to sound very good but -- bells and whistles to the AMI, or add some optionality to it, that may be an attempt by the Corporation to -- to have more benefits for the same cost.

MR. LLOYD KUCZEK: Yeah, there's two (2) areas that potentially could add some benefits that we could quantify. One (1) area is having the abil -- and actually I'm not sure if this is applicable to the gas meters yet, but on the electric side, I bel -- believe there's the option, or they're working on the option, to have the ability to disconnect remotely. The other area that a number of companies are working on is focussed on DSM benefits through -- that would be achieved through controlling certain end-use technologies. And again, I think those are primarily focussed on the electricity side at this point.

MR. BOB PETERS: With the advent of load limiters, would I be correct in assuming that the disconnection of electricity customers is -- is not done to the extent it used to be?

MR. LLOYD KUCZEK: It has changed the process.

MR. BOB PETERS: Do the AMI units limit the load or do they simply connect or disconnect?

MR. LLOYD KUCZEK: I -- I don't believe the AMI meters actually limit the load. The li -- lo -- the load-limiting device is on the electric meters, not the gas meters.

(BRIEF PAUSE)

MR. BOB PETERS: So as I take your answers, Mr. Kuczek, you're looking at other possible benefits that could be utilized through MA -- through AMI for Centra.

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: Are you also looking at what might be considered non-economic benefits in the business case?

MR. LLOYD KUCZEK: Well, I shouldn't be answering that question, but I -- in discussions with the person that doing the assessment, I -- I do believe that they are looking at those.

MR. BOB PETERS: Can you indicate...

(BRIEF PAUSE)

MR. BOB PETERS: In terms of non-economic benefits, can you give the Board an idea as to what a few of those might be?

MR. LLOYD KUCZEK: I'd be stepping outside the scope of my expertise, because I -- I'm not involved in the assessment, so I don't think that would be appropriate for me.

MR. BOB PETERS: Do you know if the assessment is also looking at the -- at the benefits to the homeowner's safety by having six (6) visual inspections a year on their -- on their meter in their plant at home?

Is that built into the business case?

MR. LLOYD KUCZEK: I -- I couldn't answer that question.

MR. BOB PETERS: Okay. What you can answer is that in Board Order 99 of '07 found at Tab 6 of the book of documents, in the first directive the pilot project costs approved by the Board at the last GRA were two hundred and seventy-seven thousand dollars ($277,000)?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And at Tab 14 of the book of documents on page 2 of 2, it now looks like the pilot project costs are being forecast at three hundred and sixty-eight thousand dollars ($368,000).

Is that also correct?

MR. LLOYD KUCZEK: That looks correct.

MR. BOB PETERS: Can you indicate to the Board why the pilot project costs have increased?

MR. LLOYD KUCZEK: No, I'm not an expert in the program costs.

(BRIEF PAUSE)

MR. BOB PETERS: In terms -- am I correct and -- in terms of what the Corporation is asking is that the Corporation is asking for additional pilot project costs being approved by this Board, so that they can be included in rates for the two (2) test years? Or is there no additional amount being sought?

MR. VINCE WARDEN: Mr. Peters, what we're referring to on -- at Tab 14, page 2 of 2, is the -- the capital costs associated with AMI. Those -- those amounts will remain in -- work in progress until such time as they are capitalized and -- and amortized. So at this point there's no amortization included in the test years for -- for Centra.

Mr. Peters, one (1) qualification to my last answer: To the extent that we would have been -- the meters that had been installed are still being used as regular meters, those costs would have been included in our -- would have been capitalized and -- and are being amortized. But those really are quite incidental costs that would be included in the test years.

MR. BOB PETERS: The base cost of the meter itself will be treated as a capital expense but the optionality related to AMI will not be capitalized.

MR. VINCE WARDEN: As they -- I'm sorry, as they normally would, yes.

MR. BOB PETERS: Mr. Kuczek, can you explain to the Board why there's no business case at this point in time?

MR. LLOYD KUCZEK: Well, all I know is staff are working on it, but I -- I couldn't tell you why it isn't complete at this point, no.

MR. VINCE WARDEN: Mr. Peters, it is taking -- with any pilot there are -- there's a lot of testing that goes on and this is -- this pilot is taking longer than originally anticipated. That's the -- part of the reason why we've deferred the project on -- on the

-- in the Centra Application.

MR. BOB PETERS: And there are no incremental costs beyond the pilot project costs being included going forward at this point in time?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: All right. And because the pilot project cost to-date, those have been put in construction work in progress, is that the account under which Mr. Derksen would file them?

MR. VINCE WARDEN: Well the -- as I mentioned previously the cost of the meter itself that is being used in -- in production, so as those costs have been charged as part of in-service cost.

MR. BOB PETERS: But the AMI optionality is what is not being capitalized at this point in time?

MR. VINCE WARDEN: To the extent there are costs associated with the pilot that have not yet been concluded, those costs are still included in work in progress.

MR. BOB PETERS: Is interest being capitalized on this, Mr. Derksen?

MR. WILLY DERKSEN: Yeah, to the extent that -- that there are costs and CWIP interest would be capitalized, that's correct.

MR. BOB PETERS: When is the expected

date of the pilot project to be completed and the business case to be fully developed and considered by Manitoba Hydro's executive and management?

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

MR. BOB PETERS: Can you explain then to the Board, that if -- if its presentation to the Executive Committee is imminent, but no costs are included in this General Rate Application for it, is the Executive Committee saying it won't approve it under any circumstances until the next General Rate Application? Or might the Executive Committee approve it to proceed and incur capital costs related to it, prior to the General Rate Application?

MR. VINCE WARDEN: Well, there -- there's two (2) components to the AMI project: One (1) on the electricity, the other on the gas side. And the -- again, the understanding I have at this point in time is that there is a good business case on the electricity side, but not so good on the gas side.

So it's very unlikely that there will be any project approved for natural gas before we appear again before this Board.

MR. BOB PETERS: Thank you. Mr. Chairman, with those answers, this might be an appropriate time for the morning recess.

THE CHAIRPERSON: Very good, Mr. Peters. We'll take our break now. Thank you.

--- Upon recessing at 10:49 a.m.
--- Upon resuming at 11:11 a.m.

THE CHAIRPERSON: Okay, Mr. Peters. Looks like were are going to have a relatively short period of time between now and lunch, so...

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Well, let's enjoy it. And I'm going to try to help that, but before I -- before I turn to the rivetting questions on finance expense, I want to stay with Mr. Warden on the AMI project.

And something you said before the break, Mr. Warden, that -- that hit me was: Conceptually, is there one (1) pilot project looking at AMI or are there two (2) separate pilot projects looking at AMI?

MR. VINCE WARDEN: It is one (1) pilot project, but both gas and electric -- or each of the gas and electric are being assessed separately.

MR. BOB PETERS: Presently, if you have no AMI being used, one (1) meter reader would read two (2) meters at a residence.

Would that be correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that's considered efficient use of time and it reduces the cost by reading both the gas and the electric at the same time by the same person?

MR. VINCE WARDEN: Absolutely, yes.

MR. BOB PETERS: All right. But are you telling the Board that AMI may proceed for electric but not for gas?

MR. VINCE WARDEN: Well, I'm not certain of that. I do know that there's a much stronger business case for electric -- electric than there is for gas. As to whether one would proceed independently of the other, I expect that would be part of the business case that would justify one (1) or the other.

MR. BOB PETERS: Well, let's just think about that out loud. If -- if the decision, let's just hypothetically say, was to proceed with electric implementation of AMI but not on the gas side, what you've effectively done is you've significantly increased the cost of meter reading for the gas company.

Wouldn't that be correct? Wouldn't that follow?

MR. VINCE WARDEN: Yes, I think that -- yes, it could be a consequence of that, yes.

MR. BOB PETERS: And that would -- that wouldn't make economic sense, would it, if --

MR. VINCE WARDEN: Well, not for the stand-alone gas company, but we'd have to look at that in totality, I would think.

MR. BOB PETERS: And so in terms of timing of your looking at it, I think I took from your answer just before the recess that you expect, if you do go forward with the AMI on the gas side, that that pilot project and the business case will be before this Board at a subsequent GRA and that would be prior to implementation.

Would that be fair?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Can you make the same statement for the electric side; that is, if the business case has an aspect of it that you want to proceed on the -- only on the electric side, that you will not proceed until the business case has been vetted before the Public Utilities Board at, presumably, a General Rate Application?

MR. VINCE WARDEN: I don't -- I don't believe that was part of the timelines that -- that is being contemplated. We could certainly though undertake to file our business case with the Public Utilities Board if we -- if we haven't already done that, but it would seem reasonable.

MR. BOB PETERS: Well, I won't turn that offer down on behalf of the Board, Mr. Warden.

--- UNDERTAKING NO. 6: Centra to file its business case with the Public Utilities Board

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: But are you telling the Board that you may use AMI on the electric side, but -- even if you don't need it on the gas side or use it on the gas side?

MR. VINCE WARDEN: I think that's possible. Again, we'd have to look at -- at the benefits that would be derived from AMI and weigh that against the costs. Part of the costs, as you pointed out, would be the increased cost that may ultimately be charged to the gas company because of the -- not sharing of those meter reading costs.

So -- but I think we would -- we would take that -- in fact, I'm sure we would take that into account in the business case.

MR. BOB PETERS: And the business case would be examined though as a -- as a joint two (2) service utility, not as a -- two stand-alone utilities. Isn't that also correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Yeah. So if what you do on the electric side drives up costs on the gas side, that'll have to be factored into the business case is what you're telling the Board?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: All right. Thank you for that. I would like to move to finance expense and just alert the Board that there have been some revisions in this area as the witnesses have already testified. And some of those revisions, to my reading, occurred as late as -- as late as yesterday, with some of the updated filings. So I'm gonna ask the witnesses to use kid gloves on me, but make sure that your answers to the Board are fully -- fully explained at the Corporation's position.

Is this your area, Mr. Warden, or is it primarily Mr. Derksen's?

MR. VINCE WARDEN: Yes, I'll respond to the questions, Mr. Peters.

MR. BOB PETERS: All right. Would you agree with me, Mr. Warden, that the original General Rate Application filing by the Company indicated an increase in revenue requirement, primarily due to long-term debt changes, as well as interest on long-term debt, common assets and gas inventory?

MR. VINCE WARDEN: Well, no, I don't believe that's the case. The -- the Application certainly was a component of the cost increases that we were seeking approval from the Public Utilities Board, but not solely.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, at Tab 2 of the book of documents, we had finance expense growing from an approved $22.1 million in '08/'09 to 24.6 million in '09/'10, and that was initially a $2.5 million increase in what was applied for with the May 6th update.

Do you agree with that?

MR. VINCE WARDEN: Yes, I do.

MR. BOB PETERS: And that was followed with -- by a further increase in finance expense for the second test year to $25.2 million, which in itself was another five hundred and eighty-one thousand dollar ($581,000) increase in finance expense?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And now the revised PUB/CENTRA-15 found at Tab 2 of the book of documents, and it would be the June 1st update, indicates an absolute reduction in finance expense from what was originally forecast for both test years?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And instead of an increase of 2.5 million in the first test year, now there's a net decrease of 1.2 million for a total reduction in finance expense of over $3.6 million for that test year period compared to what was originally applied for.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And perhaps simplistically but the underlying cause for the reduction is due to the change in forecast interest rates. Would that be true?

MR. VINCE WARDEN: That -- that is correct, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, Board Members and panel members, I circulated last evening a possible exhibit that -- that might be helpful to demonstrate where I want to go next and I -- I left numerous copies around the room for the witnesses and also for the Board.

I didn't have extra copies, I note Mr. Rainkie's going to have to find someone to share with.

But I wanted to perhaps mark what is known -- what is identified as Board Advisor Analysis Number 1 as PUB Exhibit Number 12 unless Ms. Murphy has any objections to that.

MS. MARLA MURPHY: No, we have none.

--- EXHIBIT NO. PUB-12: Board Advisor Analysis 1

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: What PUB Exhibit 12 demonstrates is some -- some difference analysis from what the Board had reviewed with the Application until what the update was.

And the update now shows interest on short term debt to be only nine hundred and twelve thousand dollars ($912,000) in 2009/'10 down from $4.4 million.

Is that correct?

MR. VINCE WARDEN: Yes, that's what this demonstrates, yes.

MR. BOB PETERS: And so that's a decrease of over $3.4 million related to interest on short term debt for the first test year.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: While the Board is seeing that reduction of interest cost on short term debt in the forecast test year, the '09/'10 test year, you'd agree with me, Mr. Warden, or would you that that trend in reduction in short term interest rates started some time in 2008/'09 of the Company's fiscal year.

MR. VINCE WARDEN: Yes. At the time we didn't know it was a trend but yes, it did start in '08/'09.

MR. BOB PETERS: In Tab 5 of the book of documents there is a June 1st update of PUB/CENTRA-14. And this June 1st update for the Board was the Corporation's summary of the changes between what was applied for and what was last approved by the Board.

You'd agree with that, Mr. Warden?

(BRIEF PAUSE)

MR. VINCE WARDEN: I wonder if you would just state that question again please, Mr. Peters?

MR. BOB PETERS: Certainly, sir. Let me -- let me approach it this way.

Down on line 17 of the June 1st revised PUB/CENTRA-14 found at Tab 5 of the book of documents for those who have been keeping current, it appears that finance expense in the Centra '08/'09 year, on a preliminary basis, looks like it's going to be $2 million lower than what was approved by the Board in rates.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And I'm suggesting that that $2 million lower short -- finance expense is primarily due to the lower short-term interest rates.

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, some of it will be due to lower long-term rates as well. However, I -- I do agree that the majority would be due to short-term rates, yes. So I'll agree with that, yes.

MR. BOB PETERS: And -- and will we also agree, Mr. Warden, that to the extent that the rates last approved by the Board embedded too much for the finance expense and what was actually needed, the difference would flow down to the Corporation bottom line in terms of net income?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of percentage numbers for short-term interest rates, am I correct that the Corporation was using in the '08/'09 forecast that was before the Board at the last GRA, 4.5 percent as the interest rate on short-term debt? Do you take that subject to check?

MR. VINCE WARDEN: Yes, I'll accept that.

(BRIEF PAUSE)

MR. BOB PETERS: You might also check transcript page 140, Mr. Warden, 'cause that may have been in your direct evidence through Ms. Murphy. We'll just have to check that but -- but if it were 4.5 percent for the last time you were before the Board, the Appendix A of the economic outlook that has been filed now by the Company indicates short-term debt is down to 2.87 or 2.9 percent?

MR. VINCE WARDEN: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: So we could apply the math against the volumes but if the forecast was for 4 1/2 percent, the actual short-term interest rate was only 2.9 percent. The 2.9 percent would have been a primary reason for there being $2 million variance in the finance expense from '08/'09?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And while you don't break it down between short-term and long-term debt, you're satisfied that the majority of it is certainly short-term debt?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And if we go back to PUB Exhibit 12, the handout of this morning, we can see that in the second test year -- in the 2010/2011 test year, the forecast of the short-term interest was $5 million and it has fallen in the latest update down to $1.7 million, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So there's another $3.3 million of cost savings on account of short-term debt interest costs that are forecast.

MR. VINCE WARDEN: That are forecast at

this time, yes.

MR. BOB PETERS: And we can see from PUB/CENTRA -- sorry -- PUB Exhibit 12 that the major decrease -- and the -- and the major change in the Corporation's Application comes as a result of the change in the short-term debt rate?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: If we turn, Mr. Chairman, to what I'll ask to be marked as PUB Exhibit 13, which is the Board Advisor Analysis Number 2. This document, Mr. Chairman, was also handed out and it takes a longer view of the -- of the finance expense.

--- EXHIBIT NO. PUB-13: Board Advisor Analysis 2

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Have you located that, Mr. Warden?

MR. VINCE WARDEN: Yes, I have.

MR. BOB PETERS: Still staying on line 4 of PUB Exhibit 13, we see that after the test year of

2011 the interest on short-term debt starts to increase again as a result of interest being forecast to increase in 2011 and '12 and beyond.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: What is the underlying cause for this change in the forecast that the short-term rate is going to change?

MR. VINCE WARDEN: Well, it's -- it's a recognition that we're in very abnormal conditions at this time. And we do expect there will be, over the period of time referenced in Exhibit Number 13, a return to more normal short and long-term rates.

MR. BOB PETERS: Well, if we look at line 3 of PUB Exhibit 13 and look at the interest on long-term debt, we see that in the first ten -- the first test year of 2010 there's a marginal or a modest decrease of forty-three thousand dollars ($43,000) on account of long-term debt interest decreasing, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And there's even larger increases of six hundred and eighty-seven thousand (687,000) in the second test year of 2011.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: However, on a long-term basis there appears to be savings in the range of $3.5 to

$3.7 million a year on account of long-term interest going out past 2012.

MR. VINCE WARDEN: Yes, and that's because we were able to lock in some longer-term financing at very attractive rates.

MR. BOB PETERS: How much has the Corporation been able to lock in at the attractive rates?

MR. VINCE WARDEN: Well, we recently -- that is as recently as May 29th, were able to obtain $300 million of -- of long -- thirty (30) year financing at a -- what is probably one of the lowest rates we have ever been able to transact.

MR. BOB PETERS: We'll -- we'll come to that. That thir -- that $300 million debt issue was -- was finalized on -- as late as June the 2nd, correct, of this year?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: While we're on the topic of long-term debt, in the book of documents at Tab 16, Mr. Warden, you will see long-term debt in PUB/CENTRA-47C, which is the only document at book of documents 16. You'll see long-term debt going out for the test years increasing through '08/'09, through -- through fiscal '10 and fiscal '11, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: But that same -- but that same increase isn't seen when the Board looks at the IFF found at Tab 24 of the book of documents -- we're on what is marked as page 39, it's the third page in Tab 24 of the book of documents.

It's -- it's the "Centra Gas Manitoba Integrated Financial Forecast 08-1," and I'm looking on the gas operations page, Mr. Warden, and I'm seeing that as it goes into -- as it goes out into the future, the long term debt is fixed at $235 million and is not increasing as it appears on PUB/CENTRA-47C.

Are you seeing the same?

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Murphy, if it's more helpful, that can just be an undertaking that we can -- we can resort to later. I just would like a reconciliation of those numbers for the Board if -- if your witnesses prefer to do it that way.

(BRIEF PAUSE)

MR. VINCE WARDEN: What the projected balance sheet does it -- you know, maybe I will do that. Maybe I'll take that as an undertaking and reconcile those two (2) numbers.

--- UNDERTAKING NO. 7: Centra to reconcile the number for increase in long term debt, found in PUB/CENTRA-47C, with the number found in the IFF, at Tab 24 of the book of documents

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you for that, Mr. Warden. Let's turn to the Provincial debt guarantee fee for a minute. That is a component of finance expense?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And it is set at 1 percent of the year-end outstanding debt balance of the Utility?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: And at Tab 16 of the book of documents is the calculations of Centra for its provincial debt guarantee fee payments.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Would it be correct that as the debt grows so does the payment to the Province that will follow?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: But the debt guarantee fee is not in any way tied to the interest rate that is received or negotiated by Centra or Manitoba Hydro on any of its debt?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: And the benefit to ratepayers of this guarantee fee is that it allows the gas ratepayers access to lower interest rates than could be achieved by Centra on a standalone basis.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: You indicated that there has been a recent $300 million issue by Manitoba Hydro at what to your current memory is at the lowest rate that you can recall for some time, was that debt renewal of debt or was that new debt issued, Mr. Warden?

MR. VINCE WARDEN: That was new debt.

MR. BOB PETERS: Would you -- would you agree that that was -- was any portion of that earmarked or raised for the gas utility or was it for the electric side?

MR. VINCE WARDEN: Well we borrow -- we don't borrow specifically one or the other. We -- we borrow for the integrated operations of both gas and electric.

MR. BOB PETERS: Would it be correct for the Board to understand that if -- that if Manitoba Hydro -- well first of all Manitoba Hydro is locked into some long term debt, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: At higher interest rates that you were obtaining on May 29th of 2009.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And I'm sure it strikes Manitoba Hydro that there may be some advantage to renegotiating or paying out with penalty the previously incurred debt with a new cheaper debt.

That's something that Manitoba Hydro would look at?

MR. VINCE WARDEN: Where that is to our advantage, yes, we would -- we would look at that. That -- yes, we would.

MR. BOB PETERS: And you say where it's to your advantage, it would be where it is to your economic and financial advantage.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And when you -- when you have existing long term debt I take it there are penalties to -- to repay that early if I can or to renegotiate it.

MR. VINCE WARDEN: There are.

MR. BOB PETERS: And so is the test that is done by Hydro to measure the impact of having to incur the penalties with what the costs would be if you were issuing the debt at the lower interest rate?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that's done on a continuous basis?

MR. VINCE WARDEN: It is and -- and obviously, the -- whoever is looking at the other end of that transaction is also -- knows what the current market conditions are so it's infrequently transacted actually. We -- we don't see that often at Manitoba Hydro.

MR. BOB PETERS: Well, that's what I was wondering about is it -- it is relatively infrequent and yet we're now at the lowest debt costs in -- in most memories and yet there's no financial benefit to Manitoba Hydro to renegotiate its existing long-term debt is what appears to be the position of the Corporation.

MR. VINCE WARDEN: Well, as I mentioned,

there's always somebody on the other side of that transaction that has all the -- access to the same information that we do.

MR. BOB PETERS: But is there a -- is there a fixed penalty built into the long-term debt or is it -- has to be a negotiated amount?

MR. VINCE WARDEN: It's a market-based transaction, so I wouldn't refer to it as a penalty, per se. It depends on what the bond may be trading at at the time.

MR. BOB PETERS: But if it's market-based, then there'll be relatively -- as you say, relatively few opportunities to renegotiate at lower rates?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: Turning to -- to the issue of amortization of debt discounts as seen on PUB/CENTRA-149 found at Tab 16 of the book of documents -- sorry -- Tab 15 of the book of documents.

That's the next item of finance expense listed, correct, Mr. Warden?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Can you explain briefly to the Board what is a debt discount?

MR. VINCE WARDEN: Well, it's the

difference between what the bond -- at any time of a bond issue, there -- there's a -- either a premium or a discount depending on -- on what -- how the market values that -- that issue. So we would -- that difference is typically, as this line indicates, is being amortized over the respective life of the -- of the bond that is being issued.

MR. BOB PETERS: That's the cumulative amount of all of the bonds that relate to Centra?

MR. VINCE WARDEN: Yes, it is.

MR. BOB PETERS: And some of those may be favourable -- some may be unfavourable in terms of their discounts and they're netted out on that line?

MR. VINCE WARDEN: That's right.

(BRIEF PAUSE)

MR. BOB PETERS: When we follow out the chart on PUB/CENTRA-149, Mr. Warden, we see that by the year, 2014, there is no longer amortization of debt discounts. Can you locate that?

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

MR. BOB PETERS: Can you explain why there would be no longer any amortization of debt discounts when your issues are long into the future?

(BRIEF PAUSE)

MR. VINCE WARDEN: Typically, debt discounts would be amortised over the life of the respective bond issue. So what this would indicate to me is that for all bonds that we have -- we have -- there's been a discount associated with, all of those bonds would have expired by 2013, so any bond that would issue -- that we still have that hasn't matured beyond that date would not have been -- would not have a discount associated with it. That would mean it would have been issued at par.

MR. BOB PETERS: Is there a change in accounting policy associated with that, Mr. Warden?

MR. WILLY DERKSEN: Yes, there is.

MR. BOB PETERS: Can you explain that briefly, Mr. Derksen?

MR. WILLY DERKSEN: Yes. Previously those discounts were amortized on a straight-line basis; that is, if there was a -- a million dollar discount and the bond issue was for ten (10) years, we would amortize that discount over that ten (10) year period, one hundred thousand (100,000) per year. With a new CICA directive it has to be amortized using a financial basis and effective interest basis, and that would have the affect of having a lower amortization in the earlier periods and a higher amortization in latter periods.

MR. BOB PETERS: But are -- is the period still the length of the issue?

MR. WILLY DERKSEN: Yes, it is.

MR. BOB PETERS: And so, I take from Mr. Warden's last answer then that there are no debt issues with discounts or premiums outstanding past 2013.

MR. WILLY DERKSEN: That's what this would indicate, yes.

MR. BOB PETERS: Is it -- intuitively, does that make sense in light of the long-term debts that the Corporation has?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, that's -- we've confirmed that with our treasury people.

MR. BOB PETERS: When I look at book of documents Tab 20, Mr. Warden and Mr. Derksen, I'm still confused with your last answer.

When I look at book of documents Tab 20, I see an extract from Tab 4, page 39 of 42 of Centra's Application of January 20th where the long-term debt issues are -- are listed. And when I -- when I go down the list I see at line 13 and at line 15 maturity dates that are 2032 and 2037 respectively.

MR. WILLY DERKSEN: There's no discount or premium on those issues that expire after that point in time.

MR. BOB PETERS: All right. I appreciate that. That will explain, I suppose, that answer, Mr. Derksen.

On the -- on the recent issue of the Corporation there is a premium on it.

(BRIEF PAUSE)

MR. VINCE WARDEN: Sorry, Mr. Peters, your -- your question I believe on the -- was on the most recent issue of $300 million was there a discount and the answer is, yes, there was a discount on that -- that issue.

The amount of the discount was $24 million.

MR. BOB PETERS: And certainly because of the timing that wouldn't be reflected in -- in your schedule that we had before the Board.

MR. VINCE WARDEN: That is right. That's right.

MR. BOB PETERS: But it wouldn't be

reflected in that schedule unless some of that $300 million is going to be for Centra.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And is some of the $300 million going to be for Centra?

MR. VINCE WARDEN: We will be allocating a portion of this to Centra, yes.

MR. BOB PETERS: While we're on and I'm probably a little bit out of order but at Tab 20 of the book of documents starting on line 16 there's four (4) forecasts or projected issues.

And I'm wondering whether all of those four (4) or any of those four (4) will now be encompassed in the $300 million debt issue that closed on either January -- sorry, on June the 2nd or June the 5th of 2009?

MR. VINCE WARDEN: Well, no. What we would be doing with the -- the debt issue that just closed would be converting some of the existing short term debt into long term.

MR. BOB PETERS: So, Mr. Warden, the four (4) new issues that are forecast are still at this point in time not issued. Would that be correct?

MR. VINCE WARDEN: Yes. As indicated here these are projected at this point in time.

MR. BOB PETERS: All right. Thank you. I

want to turn to the interest on common assets and this is back on PUB/CENTRA-149 found at Tab -- Tab 15 of the book of documents.

The interest on common assets, see if Mr. Derksen has taught us well, that would be the interest on assets -- that would be the interest or the financing costs on common assets that are used for both Manitoba Hydro and Centra and this would be Centra's portion of that interest.

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

MR. BOB PETERS: The interest rate we know is falling, Mr. Derksen, correct?

MR. WILLY DERKSEN: The short term interest rate is falling, that's right and as well as some long term ones. These rates are based upon embedded cost of debt.

MR. BOB PETERS: But if they are increasing as it appears in -- on the line of interest on common assets they're increased. Does that suggest that the amount of common assets -- the amount of financing for common assets has increased in absolute terms?

MR. WILLY DERKSEN: If -- if I take you back to acquisition, Mr. Peters, Centra had let's say $50 million of common assets on its books and Hydro had a much larger amount and over the ten (10) year period that's expired since that point in time, Centra has not replacing common assets on its books.

Manitoba Hydro is acquiring all new common assets and so what would happen is if for example, if Centra had a vehicle on its books, it would -- the interest expense for that vehicle would show up in its interest on short term or long term debt during the period that it owned the vehicle.

But then when it was replaced, it would be replaced and purchased by Manitoba Hydro. And so the new interest on the new vehicle would show up as common asset interest.

So this is not necessarily a rate increase. This relates to the amount of assets classified as common assets is increasing over time.

MR. BOB PETERS: Can you provide assurance, Mr. Derksen, that the interest on common assets has been adjusted to remove any impact for the head office?

MR. WILLY DERKSEN: There is no interest on the head office in this amount, that's correct.

MR. BOB PETERS: And there are some back to Tab 15 of the book of documents -- on PUB/CENTRA-149, there are some deductions on the finance expense, including capitalized interest.

Can you indicate why capitalized interest drops off in the second test year?

MR. WILLY DERKSEN: Yes, capitalized interest was higher in the first test year, due to the project related to the Brandon upgrade. After the second -- after that year, there are no longer any significant projects like that that would attract capitalized interests.

MR. BOB PETERS: Has the -- has the capitalized interest for the -- is this the Brandon unodourized line?

MR. WILLY DERKSEN: Yes, that's what I'm referring to.

MR. BOB PETERS: Has it now been removed -- the capital interest now been removed from your schedules to recognize a customer contribution for the capital costs?

MR. WILLY DERKSEN: The capitalized interest in this schedule has not been adjusted for that. The -- so what would happen is the borrowing costs would be lower but we would still show it capitalized on here for that period of time so the credit is a little bit overstated in this particular schedule relative to that change.

MR. BOB PETERS: But from accounting

perspective, the customer contribution of 100 percent of the capital costs will then remove the need to finance that on behalf of the gas Utility?

MR. WILLY DERKSEN: Yes, we will not incur interest and we will not capitalize interest on that facility.

MR. BOB PETERS: And am I correct that as part of IFRS, certain expenditures may not be allowed to be capitalized?

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

MR. BOB PETERS: And if that's the case, then the impact of those potential changes for IFRS will ultimately be reflected in this schedule?

MR. WILLY DERKSEN: Yes, the -- our future schedules like this will certainly be prepared in accordance with the accounting standards that are prevalent at the time and to the extent that IFRS will have implications on this, they will consider that.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of the Brandon project, there's a distinction between Brandon and your regular on-going maintenance and system betterment that was spoken of by Mr. -- by Mr. Petursson in his opening comments, is that correct?

MR. WILLY DERKSEN: In terms of the capital expenditure forecast? Yes.

MR. BOB PETERS: Well, and also in terms of how you treat the interest on those -- on those projects that -- under IFRS, you -- you may have to expense the interest for your annual capital expenditures in the year, rather than capitalize them?

MR. WILLY DERKSEN: IFRS does have a -- an impact on interest capitalized. I -- I think the interpretation of that is still under review so I'm -- I couldn't say that the one (1) year demarcation point is -- is correct at this time.

MR. BOB PETERS: The last item I'd like to just touch on before the -- the lunch hour is the carrying costs on deferred taxes and this relates to the regulatory asset being Centra's shares now being held by Manitoba Hydro.

MR. WILLY DERKSEN: This relates to the one (1) time tax payment related to the acquisition of Centra by Hydro, yes.

MR. BOB PETERS: And we had that discussion yesterday and although Mr. Warden has a strong view on -- on what should happen under IFRS, if rate-regulated assets, such as deferred taxes, aren't allowed to be deferred under IFRS, what would be the impact on the finance expense then, Mr. Derksen?

MR. WILLY DERKSEN: Well -- well, currently the treatment for that one (1) time tax payment, is that we capitalize interest on that regulatory asset and then we amortize 100 percent of that in the current year so it shows up as capital -- another tax expense. It's really just -- a reclassification happens.

So the net impact on Centra's expenses would be zero, relative to that interest component.

MR. BOB PETERS: Thank you. Mr. Chairman, with that answer, this would be an opportune time for the lunch recess. And if I might perhaps request of the Board a -- a lunch recess till 1:30 would be most appreciated.

THE CHAIRPERSON: That will be fine. We'll see you back at 1:30.

MR. BOB PETERS: Thank you.

--- Upon recessing at 12:00 p.m.

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

THE CHAIRPERSON: Okay. Welcome everyone. We're going to try, because of other scheduling problems, to shut down at 3:45, so I'm sure we'll get a good start on tomorrow anyway.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Chairman. Mr. Warden and Mr. Derksen, when we talk about finance expense and we've broken it down into a number of components, would the Board be correct in understanding that if -- if Centra had no new long term debt issues planned, you could walk in here and with -- to the penny you could tell the Board what you expect your long term debt cost to be in the test years.

MR. VINCE WARDEN: Yes. Those costs are fixed so there's no reason why we couldn't do that.

MR. BOB PETERS: But wha -- the reason you can't -- the reason you cannot do it in this Application, Mr. Warden, is because you're going to market or you're planning or forecasting you're going to market in the test years for some more long term debt.

And, therefore, you have to have a forecast of that amount.

MR. VINCE WARDEN: Yes. That's fair.

MR. BOB PETERS: And we saw those long term debt forecast issuances in Tab 20 of the book of documents when we saw that there was four (4) projected debt issues that are going to happen in -- in the test years.

MR. VINCE WARDEN: That -- that's correct. I might just add with respect to finance expense though. In the -- of all -- of all the components of operating costs that Manitoba Hydro has, finance expense is probably the most predictable.

We've been through some -- some very volatile times over the last several months but if you look historically at -- at finance expense for Centra Gas, it varies within a very, very small range.

So notwithstanding the -- the issues that we have and the reason -- or part of the reason that we updated our Application was to recognize those issues.

When we return to normal times, finance expense I expect will be relatively flat as it was in the past.

(BRIEF PAUSE)

THE CHAIRPERSON: The issue that you just undertook, was it Canadian dollar debt?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Turning to short-term debt. As I understand the short-term debt issue, Mr. Warden, that's -- that's a debt that does fluctuate and change and therefore will likely always be subject to a forecast, because in the test years there will always be some movement on short-term debt issues.

Would that be correct?

MR. VINCE WARDEN: It would be correct, but's it's -- a -- again, just to elaborate on my previous statement, there's never been a time where short-term debt has been as volatile as it has been over the past several months. So even short-term debt is usually quite predictable.

MR. BOB PETERS: Mr. Warden, I was going talk about -- talk with you about this later, but if we turn to book of documents, Tab 21, and turn to page 2 of 2 there is an extract from CAC/MSOS/CENTRA Question Number 9D.

And as I understand this Information Request, Centra is showing what it forecast its short-term debt to be and what its long-term -- what it's short-term debt actually turned out to be.

Would that be fair?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So on -- what we see there, the weighted average interest rate on outstanding short-term notes and in the first column for the quarter ending September of '06, Manitoba Hydro was -- was forecasting 4.19 percent.

The av -- the actual that was charged through to the gas Utility was four point three three (4.33)?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And so to that extent, the gas Utility overpaid by .14 percent.

(BRIEF PAUSE)

MR. VINCE WARDEN: I wouldn't characterize it as overpaying necessarily, but based on the methodology that's used for allocating costs to -- to Centra, that's -- that's -- there is a differential, yes.

MR. BOB PETERS: And the differential indicates the percentage amount more that Centra paid than what was actually incurred by the parent company for that short-term debt.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And of all of those quarters that are shown, only the quarter ending June 30th of '07 did the gas Utility pay .01 percent more -- I'm sorry -- .01 percent less for short-term debt than what was actually incurred by the parent company.

(BRIEF PAUSE)

MR. VINCE WARDEN: I think there is -- and I think it's explained in another IR -- that the parent company doesn't necessarily have this amount of short-term debt outstanding at any one (1) point in time.

So it wouldn't be correct to -- to -- necessarily to say that the gas business overpaid by that amount because, in effect -- it's not like the -- the parent company benefited by an offsetting amount, because the -- the amount of short-term debt on the parent company side was not equivalent in all cases.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, recognizing that Manitoba Hydro may not have had actual short-term debt, what this table does show is that based on the methodologies used, the charges through to the gas company have been, in fact, actually more long-term debt is charged than what -- than what the parent company would have paid.

MR. VINCE WARDEN: I think you said more long-term debt than what the Company would have paid?

MR. BOB PETERS: I'm sorry. I meant short-term debt.

MR. VINCE WARDEN: I -- I think we -- we'd have to do a much deeper analysis than that to come to that kind of a conclusion because the gas business has, in fact, had the benefit of the much lower short-term rates overall, despite the fact that it -- it's carrying a relatively large amount of debt that otherwise, in the absence of the parent backing up that short-term debt, probably would have been converted into higher priced long-term debt.

So, you know, you'd have to do -- have to really look at what Centra would look like on a stand alone basis in order to come to a conclusion that one side or the other has benefited. I think the methodology that's been used here since the date of the acquisition; that is, to assess or to allocate a charge based on the one (1) month banker's acceptance rate has been determined to be fair and reasonable.

And we're never going to get to absolute allocation of cost at any time but we have to look for methodology that's fair and reasonable. I think this one is that.

MR. BOB PETERS: All right. But do you also notice on the second page at Tab 21, which is the page 2 of PUB -- sorry -- of CENTRA/CAC-9D that the forecasting accuracy is getting further apart. It's -- it's getting worse as the time goes on from '06 through to the end of December, '08. The difference is getting greater in terms of the inaccuracy.

MR. VINCE WARDEN: I -- I -- I think it just points more so to the volatility that's taking place in the market, more so than the -- than the inaccuracy.

(BRIEF PAUSE)

MR. BOB PETERS: On the previous page at Tab 21, Mr. Warden, was the short-term debt proportion that the Utility had in the various quarters going from '04/'05. And just so the Board has your point, while Centra Gas may have had short-term debt in each and every one of those quarters, you're not certain sitting here that Manitoba Hydro necessarily did.

MR. VINCE WARDEN: In fact, I'm sure they didn't.

MR. BOB PETERS: You're sure that in some quarters, there was no short-term debt for the electric side of the Utility?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: Yeah.

MR. VINCE WARDEN: So the gas company got the benefit of the rate, despite the fact that we didn't have the short-term debt on the other side.

MR. BOB PETERS: That's because the gas company paid the forecast rate -- sorry -- the --

MR. VINCE WARDEN: Well, the --

MR. BOB PETERS: -- the gas company paid the one (1) month banker's acceptance rate, whether or not there was any short-term debt outstanding by the parent company?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: Okay, I've got your point. And in -- in speaking of the short-term debt rate, it appears from the evidence that while Centra may, in fact, actually cut the cheque based on the one (1) month banker's acceptance, the forecast for that is premised on a ninety (90) day Canadian treasury bill rate.

MR. VINCE WARDEN: That's true, yes.

MR. BOB PETERS: And then that treasury bill rate, which is often reflected on a calendar year basis, has to be adjusted -- has to be adjusted to the fiscal year of the -- of the gas company?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And then, on top of that, a spread is added to reflect the -- the premium that would -- would attract to -- to perhaps the treasury bill relative to the -- to the gas company debt.

MR. VINCE WARDEN: Yeah, there -- there is a fairly minor spread there, yes.

MR. BOB PETERS: If we turn to -- I have it in Tab 18 of the book of documents -- but, Mr. Chairman, that statement of mine's going to be wrong. Last evening we received an exhibit Centra Number 8 and one (1) of the documents included in Centra Exhibit 8 of last evening was an update of PUB/CENTRA NO. 198.

And I'll be referring to that document and if you could attempt to locate that I have a few questions relative to it. And, Mr. Warden, this was one that was passed out yesterday and it's on white paper.

It would have been part of the -- it would have been part of the responses that Mr. Saxberg had asked for and...

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, we have it here, Mr. Peters.

MR. BOB PETERS: And that is dated June 3rd, 2009 in the top right hand corner of PUB/CENTRA Second Round Question 198?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. Thank you.

(BRIEF PAUSE)

MR. BOB PETERS: If I have it correct, Mr. Warden, and please correct myself on the record if I don't, that by looking at the June 3rd version of PUB/CENTRA-198, you're showing that the short term debt rate for 2009/'10 that is your first test year, would end up at .9 percent before the provincial debt guarantee fee was added.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. And -- and just so the Board is clear, that you start off with a calendar year ninety (90) day Canadian T-bill rate, you then have to adjust it to bring it into the fiscal year period in which the Corporation has its financial statements.

And then you add a spread and that ends up in the .9 percent for the short term rate before the debt guarantee fee is added.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And in the previous forecast if you can take it subject to check and I had it at -- your May 6th I think might be in Tab 17 of the book of documents, the old short term debt rate was 5.05 percent which included the debt guarantee fee compared to the 1.09 percent now in the revised filing.

Does that sound familiar?

MR. VINCE WARDEN: That's correct, yes.

MR. BOB PETERS: And so that differential of 3.15 percent multiplied by the short term rate has contributed to the significant reduction in short term financing costs that you've already explained to the Board.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Thank you. Mr. Warden, this is just a point of clarification and I -- the short term used for the second test year I think you had indicated on the transcript if I recall, it was 5.06 percent but if that's what was indicated would you agree with me that it was actually 5.6 percent for the second test year, that was your initial forecast?

MR. VINCE WARDEN: Yes, 5.6 percent is correct.

MR. BOB PETERS: And the new revised short term debt forecast comes out at 2 percent and with the provincial debt guarantee fee it's a total of 3 percent on the short term debt fee in the newest revised forecast.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: Before I leave that point, included in -- and on yellow paper which was an update requested by, I think, Board Advisors -- there was an Appendix A which was the 2009 economic outlook for Manitoba Hydro cost of debt, and it was a -- a page with three (3) -- three (3) charts on it: one (1) for short-term, one (1) for long-term Canadian and one (1) for long-term US, and it will be addressed -- titled "Appendix A, The 2009 Economic Forecast".

There's -- that doesn't update any other one, but that's the first time we saw the 2009 forecast.

Have you located that, Mr. Warden?

MR. VINCE WARDEN: Yes, I have.

MR. BOB PETERS: And, in fact, it's from this forecast that the Corporation's short-term debt forecast that I've just discussed with you arises.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: One (1) point that was clear is that the forecasts come out for -- often on a calendar-year basis and then there needs to be an adjustment to get them to fiscal-year basis.

And can you explain to the Board the process the Corporation goes through to -- to perform that calculation?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, it is described at a very high level on PUB-198, page 3 of 4 of the document we were just reviewing, and it is a weighted average three quarters (3/4s) of one (1), one quarter (1/4) of the following -- a simple arithmetic calculation to derive the -- the fiscal year.

MR. BOB PETERS: So for your fiscal year ending March 31 of 2010, you'll take three quarters (3/4s) of the short-term forecast for the '09 calendar year plus one quarter (1/4) of the forecast for the 2010 calendar year and come up with your fiscal year forecast.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And it's straight ar -- arithmetic. There is no -- no other judgment or adjustments made to that?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: While the Board sees that the short-term debt is based on a forecast, when it comes time to include the actual short-term debt charges, you use a different measuring stick and that's the one (1) month banker's acceptance, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Why do you -- why do you use one (1) method to forecast it and then one (1) method to ac -- to make it actual?

MR. VINCE WARDEN: Well, there isn't a readily available forecast for a one (1) month bankers acceptance. There is a -- a readily available forecast for the three (3) month.

In tracking, though, if -- if we look at the two (2) rates over a period of time, they're almost identical. So if you looked at it on a chart, they're -- the line -- the lines are -- are almost equal.

MR. BOB PETERS: The previous forecast that was before the Board for the short-term financing costs was established in March, was it, of 2008, some fifteen (15) months ago?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And so, still looking at PUB-198 which was updated on June the 3rd, we see on page 2 of 4 the Company is now using updated information and the source of that -- of that is provided. And the source that's shown on page 2 of 4 is what ended up in the 2009 economic outlook.

Would that be correct, Mr. Warden?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And so when we look at this -- the source data we see that perhaps the oldest data used is -- is back to November of '08? And I'm looking at the Federal Finance number, under the ninety (90) day T-bill rate.

MR. VINCE WARDEN: Yes. Yes, I agree.

MR. BOB PETERS: Why would you continue to use the forecasts that are back in 2008?

MR. VINCE WARDEN: Well, actually the preamble to that table indicates that only forecasts dated March 2009 were considered. I'm not exactly sure why then on -- on that circumstance we included in November the '08 in this table. But nevertheless they weren't used for this purpose.

MR. BOB PETERS: All right. Do -- does that -- does that signify to the Board that for the purposes of forecasting short-term debt the Corporation will now use only the most current of material that isn't outdated, perhaps, if that's the right word, as some of the 2008 data is here?

(BRIEF PAUSE)

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

MR. BOB PETERS: And that's the point I'd like the Board to have a clear understanding of, Mr. Warden, is that we see from what you have here the -- only the March of 2009 data was used to get the -- the test year short-term interest rate.

But the next time you come before the Board you may have reverted back to older data? Your -- your forecasts won't be as current as this one is?

MR. VINCE WARDEN: Well, there was a very good reason for making this forecast as current as it is.

In a -- in a typical normal environment this wouldn't be necessary, so the -- the methodology we've followed in the past has worked well for us in the past and unless we're -- this volatile market that we're currently in becomes common-place, then I wouldn't see any good reason for changing.

MR. BOB PETERS: One (1) of the points that is of note is that in the initial filing of PUB/CENTRA-198, there wasn't the disclosure of the names of the -- of, I'll call them counter parties, but the -- the sources of financial information. Do you recall that?

MS. MARLA MURPHY: If I might just indicate, Mr. Peters, that was a decision made in order to file on time. In the interim we were able to obtain the permission to ensure that we were able to make all of these forecasts public, so now the names can be provided.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Does Ms. Murphy's information, Mr. Warden, imply that this information isn't publicly-available information?

MS. MARLA MURPHY: If you don't mind me answering, I --

MR. BOB PETERS: No, no.

MS. MARLA MURPHY: -- my understanding is that the more current forecasts are proprietary and once it becomes a little bit older they can be made more public.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. Thank you for that.

(BRIEF PAUSE)

MR. BOB PETERS: In the materials that have been filed in response to Mr. Saxburg's questions and is all marked as Centra Exhibit Number 8, my understanding is that -- under what it was marked as Tab 154, there was an economic outlook forecast filed and there was also, in 158, a consensus -- the consensus forecast update of April of 2009, wasn't included.

Was that an oversight or is that by design?

(BRIEF PAUSE)

MS. MARLA MURPHY: Sorry, Mr. Peters. Just to make sure I understand your question, are you asking whether or not the consensus economic forecast of April '09 is included or was intentionally left out of the economic outlook 2009 to 2030 that Hydro prepares?

MR. BOB PETERS: That was my question, yes.

(BRIEF PAUSE)

MR. VINCE WARDEN: I think, Mr. Peters, it wasn't intentionally excluded by -- I believe it could be just a -- a timing issue that we had.

(BRIEF PAUSE)

MR. VINCE WARDEN: Sorry for the delay, Mr. Peters, but we have concluded that, in fact, it was the timing issue that -- that information was not available at the time the economic outlook was presented to -- or was prepared.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And the economic outlook was prepared and approved ultimately in Mar -- I'm sorry -- in -- was it in May of 2009 or March of 2009?

MR. VINCE WARDEN: I -- I -- subject to

check, I'm -- I'm quite sure it was May.

MR. BOB PETERS: Thank you.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, before I leave the short-term rates that are shown on the -- the ninety (90) day T-bill rate chart, the Board's going to note that there's a number of -- I'll call them outliers. There's some that are significantly higher than others shown on the sheet, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And I'm not sure naming them accomplishes anything but the -- the point that I'm trying to understand is you said in -- if this happens, if there's this variation between some of the parties and others and your updating it now only uses the most current March of '09 data, wouldn't there be a good reason to use the most current information going forward the next time this comes before the Board, because there may again be outliers that are consistently and significantly different than -- than the majority of others?

MR. VINCE WARDEN: Yeah I -- you know I think we'll have to assess that at the time. I think what we have here is a very unusual circumstance.

(BRIEF PAUSE)

MR. BOB PETERS: In dealing with the long term debt interest rate forecasts again we've seen for the test years that that interest rate forecast has decreased.

Is that correct?

MR. VINCE WARDEN: Yes, it has.

(BRIEF PAUSE)

MR. BOB PETERS: The current forecast of the long term debt rate for the first test year is now 5.75 percent?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Yes. And also for the second is 5.9 percent.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Did the Corporation, turning to Tab 20 of the book of documents, has -- I took from a previous answer before lunch that the Corporation has not yet placed the $30 million principle debt that is shown on line 16 of Tab 4, page 39 of 42 of -- of your

Application?

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

MR. BOB PETERS: You -- you haven't placed that yet?

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

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

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

MR. VINCE WARDEN: Yes.

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

MR. VINCE WARDEN: That's true.

MR. BOB PETERS: At this time are there any debt issued anticipated for the second test year?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, I just want to confirm which of those issues we had designated for refinancing purposes versus new capital.

MR. BOB PETERS: Because the refinancing ones will -- will most likely go whereas the new capital may not go?

MR. VINCE WARDEN: Yes, exactly.

MR. BOB PETERS: Are you able to tell the Board which of those are --

MR. VINCE WARDEN: Yes, the two (2) tranches of $30 million are new whereas the 75 million and the 20 million are both refinancing.

MR. BOB PETERS: And you can confirm that the $125 million that is shown as forecast long term debt to be issued in 2009/'10 would be in the Application before the Board now at 5.75 percent?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Mr. Warden, there was a suggestion by Mr. McCormick who filed evidence for CAC/MSOS that the Corporation could use a methodology similar to that of a deferral account to track the difference between the forecast and the actual finance expenses.

Are you familiar with that?

MR. VINCE WARDEN: Yes, I am.

MR. BOB PETERS: And it's not the Corporation's intention to -- to gain revenue on account of finance ex -- expense, is it?

MR. VINCE WARDEN: No, not at all.

MR. BOB PETERS: And nor is it your expectation that you're going to lose on account of financing expense.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: Does that not, in and of itself, not suggest that there may be some merit in looking at a deferral methodology to track forecast and actual?

MR. VINCE WARDEN: No. No, not -- definitely not. There -- there -- and -- and this is, I think as we indicated in our rebuttal, one (1) of the advantages of -- of regulation on a cost-of-service basis is that any variance from -- from forecast, not only finance expense, but in any line item of our operating forecast -- any variance flows through to retained earnings, either debit or a credit. And whenever we come forward with a rate application we look at the level of retained earnings and make an assessment as to whether or not -- or what the magnitude, if any, the rate increase should be.

So the attractiveness of the cost-of-service methodology, it's self-correcting. So any -- any kind of a variance that occurs at any time on any item is corrected through the -- the balance in the retained earnings. So yes, a deferral account would serve no purpose whatsoever in our -- in our environment.

MR. BOB PETERS: Well, I think earlier you agreed with me that as a result of the last PUB approved rates on financing, there may have been as much as $2 million of additional revenue realized from rates that consumers paid, compared to the finance expense that was actually incurred for the 2008/'09 year.

MR. VINCE WARDEN: My -- my point being though, Mr. Peters, is that will flow -- that variance will flow -- if it's realized -- will flow through to retained earnings, just as we saw last year with the weather impact. That weather impact will flow through to retained earnings and -- and will form the basis of future rate applications.

We saw a couple of years ago where the weather went the other way and we lost $10 million. So there are a number of variables in the forecast, probably the largest one being -- being weather, and the retained earnings balance at any given point in time is -- is the best way to account for those differences that occur that are unforeseen at the time the forecast is prepared.

MR. BOB PETERS: But there's been no short-term benefit to consumers as a result of the additional $2 million realized by the Corporation from financing charges in 2008/'09, has there, Mr. Warden?

MR. VINCE WARDEN: Well, the -- the higher net income did allow us to defer the imple -- implementation day of the rate -- proposed rate increase from -- from May until February of 2010, so...

MR. BOB PETERS: But are you saying that as a result of the additional $2 million in financing expenses that have been realized, that was the catalyst for delaying the implementation date?

MR. VINCE WARDEN: Well, that was one (1) of the -- one (1) of the considerations, but the -- as we stated in our updated Application, the -- probably the catalyst, the main catalyst, was the favourable results of last year.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, the credit spread that we've seen in the -- in the filing -- and I'm looking here at PUB Number 198, dated June the 3rd --

that credit spread is to reflect the difference in costs for Manitoba Hydro, as to what it can borrow at various times.

Is that -- is that what it reflects?

MR. VINCE WARDEN: Well, the credit spread -- yes, varies, based on what financial institutions are willing to loan any organization, Manitoba Hydro being one of them, using the Bank of Canada as the benchmark rate.

So using the Bank of Canada as a -- a benchmark rate, what kind of a spread is required, based on the circumstances of the day and the credit rating of the counterparty?

MR. BOB PETERS: And usually, the historical spread was considered as part of the interest rate forecast?

MR. VINCE WARDEN: Well, it still is considered part of the interest rate forecast.

MR. BOB PETERS: And the average credit spread on long-term debt for the three (3) years ended March 31, '07, through to March 31, '09, was calculated at .606 percent?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And for the two (2) test years, the credit spread utilized in this Application has deviated from the long-term historical average that you've just indicated?

MR. VINCE WARDEN: Yes, it has.

MR. BOB PETERS: And now the spread for the first test year is -- is 1.60 percent, is that correct?

MR. VINCE WARDEN: It is, yes.

MR. BOB PETERS: And so, it -- it's now calculated as the average of the ten (10) year and thirty (30) year credit spread, supplied by one of the financial forecasters, as of March 31 of '09?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Can you identify which forecaster you utilized?

MS. MARLA MURPHY: I'm sorry, Mr. Peters, we can't identify that on a public record.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Can you indicate why you selected that financial forecaster over any other?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, it -- it's -- the simple answer is that it's -- it's a counterparty that we deal -- a financial institution we deal with on a regular basis and one in which we have a lot of confidence in.

MR. BOB PETERS: Did you compare their credit spread for the average of ten (10) year and thirty (30) year credit compared to other financial forecasters to see if they were high, low, in between, or was this one blindly selected because it had historically been selected?

(BRIEF PAUSE)

MR. VINCE WARDEN: My understanding is the -- the spread -- the comparable spread amongst finance -- financial institutions was very close.

MR. BOB PETERS: Would you agree that since the date of the forecast being prepared, which was March 31 of '09, the credit spread benchmarks have tightened during the time?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And if that's the case, the average of the ten (10) year spread and the thirty (30) year spread is now approximately 1.04 percent and not 1. -- 1.6 percent?

MR. VINCE WARDEN: Yes, but you can't

look at that in isolation. You have to look at the benchmark at the same time and -- and it moves in tandem -- typically, moves in tandem with the spread.

(BRIEF PAUSE)

MR. BOB PETERS: I guess the financial impact, Mr. Warden, is that under the old forecast rates the spread was .6 percent, compared to the 1.6 percent now being used?

MR. VINCE WARDEN: The historical spread was the sixty (60) basis points, yes, compared to a hundred and six (106).

MR. BOB PETERS: And so that -- that -- yes, the hundred and sixty (160) that --

MR. VINCE WARDEN: One hundred and sixty (160), sorry.

MR. BOB PETERS: The -- the one hundred (100) basis point difference between those two (2), is a significant dollar value attached to that?

MR. VINCE WARDEN: In isolation it is, yes. But it's only one (1) component of the total interest rate that we ultimately pay.

MR. BOB PETERS: Is this now a change in methodology that the Corporation's going to use going forward?

MR. VINCE WARDEN: Well no, it's not a change in methodology. It's following the same methodology.

(BRIEF PAUSE)

MR. BOB PETERS: If you say it's not a change in methodology are you telling us that the current -- the current spread was calculated the same way as the average credit spread for a three (3) year period?

MR. VINCE WARDEN: Well, a spread -- a spread is what it is whenever we go to market. It's just for forecasting purposes -- or I think what we're indicating is that we're -- we're comparing the historical spread of sixty (60) basis points to the current spread, which was used to come up to derive the forecast that's in the current economic outlook. And it's showing the deviation between the historical spread of sixty (60) basis points and the hundred an sixty (160) basis points that is currently being used.

MR. BOB PETERS: And I understand though that they're calculated using different methodologies; that the historic one was -- it was historically done as the credit spread on the long term debt for a three (3) year period, and there was an average of those three (3) years was used. And now you switched to one (1) financial forecaster and taking the average of a ten (10) year and a thirty (30) year credit spread from that one (1) forecaster.

MR. VINCE WARDEN: Sorry, that was just for purposes of coming up with this interim forecast. But we would not -- for future, assuming a return to normal conditions, we would -- we would continue to use the same methodology as we have done.

(BRIEF PAUSE)

MR. BOB PETERS: Turning to Tab 20 again and looking at the -- the dead issues that are contemplated, there was a concern that by going to market for $125 million of debt in 2009/'10, that the Corporation would be putting, I guess, in the vernacular, a lot of eggs in one basket.

You're aware of that criticism, Mr. Warden?

MR. VINCE WARDEN: There was a concern that maturity dates would align such that there would be a high risk at -- at the time those -- those issues in fact matured. I believe that was the issue.

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

MR. VINCE WARDEN: That's what is indicated here, yes.

MR. BOB PETERS: And isn't that putting a lot of maturity risk into those debt issues?

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

MR. BOB PETERS: So it's your expectation that -- that what is actually done will not mature in that sequence?

MR. VINCE WARDEN: Yes, absolutely.

(BRIEF PAUSE)

MR. BOB PETERS: At tab of doc -- or, sorry, the book of documents, Tab 22, there's a reproduction of CAC/MSOS/CENTRA Question 5A, and when the Board looks at those documents further, Mr. Warden, it appears that the weighting of maturities has increased in recent years to longer terms.

Would you agree with that?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And you see that because on page 1 of 3 the debts are maturing in -- in years one (1) to ten (10), and then on the second page we see that there's a little bit of shifting, and by the time we get to the third page, most of the debt is maturing greater than twenty (20) years out.

Also correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: There's been a -- an apparent conscious decision to take out longer-term debt rather than the shorter-term debt?

MR. VINCE WARDEN: No, I think this was -- excuse me just one (1) second.

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, I -- I think your question was: Has there been a conscious effort on Manitoba Hydro's part to weight debt towards the long end, rather than the short end?

And, really, what we see here, as illustrated on page 3 of 3, the maturities that -- that go out to 2030 are -- are still forecast. And this was done for forecasting purposes only. And when it comes time to take out debt, the decision will be made based on the most advantageous rate at the time.

MR. BOB PETERS: So when it comes time to take out debt, instead of a thirty (30) year term you might have a ten (10) year term.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. And the shorter terms generally have associated with them lower interest rates.

Isn't that correct?

MR. VINCE WARDEN: In a normal yield curve, that -- that's correct, yes. Not always the case, but that's normally the case.

MR. BOB PETERS: And at the book of documents, Tab 23, would that be a depiction of a -- of a normal yield curve in your view that, by going to the market for shorter-term terms on the long-term debt, lower interest rates would result.

MS. MARLA MURPHY: Sorry, Mr. Peters. I think we need your reference. Did you say Tab 23?

MR. BOB PETERS: I -- I meant to. If I didn't, I apologize, Ms. Murphy.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, Tab 23 of the book of documents is a -- is an extract from CAC/MSOS/CENTRA-5J.

And if I recall that information, it was an attempt to determine, on those new debt issues that are projected, what the savings to consumers could be, or to the Corporation as well, on an annual basis, by having shorter terms rather than -- than necessarily a long-term.

MR. VINCE WARDEN: Yeah, I -- and -- and the -- that's correct. And I think we were talking about a normal yield curve. This probably isn't the best depiction of that but -- but the same -- the same conclusion, I suppose.

MR. BOB PETERS: So, while you're aware of that, when it comes time to actually place the debt, that's when the decision will be made on the term of the debt?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And the Corporation will take into account whether or not the rate justifies the shorter term?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: I'd like to turn to capital structure and would you agree with me, Mr. Warden, that in the Board's last order from the GRA of 99/'07, they accepted a seventy/thirty (70:30) debt/equity structure for the Corporation on a stand alone basis but recognized that Centra's borrowings are guaranteed by the Province of Manitoba through its parent company -- through Manitoba Hydro?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And we see at Tab 24 of the book of documents, the IFF that we previously referred to and I actually meant to put in PUB/CENTRA-7 as well. But let's turn to Number 25 of the book of documents because there, the financial ratios are shown at the bottom.

Maybe that's a question worth asking. Why is it on your IFF that you don't put the financial ratios as a matter of course on the bottom of the operating statements?

MR. VINCE WARDEN: Well, I think since the debate we did have at these proceedings last time, the long debate as to whether it should be -- we should be targeting a -- a seventy-five/twenty-five (75:25) or a seventy/thirty (70:30) or whether we should be including shared capital in the -- in that ratio -- in that calculation.

Started thinking about the -- the -- what is the appropriate financial target for Centra Gas and really, any kind of a target for -- for a Crown-owned utility, especially one (1) that has -- has a parent relationship as it does -- or parent subsidiary relationship as it does with Manitoba Hydro, the reason for having a debt equity ratio -- or target debt -- debt equity ratio at the levels of the subsidiary is not strong.

That is, there's really no reason for having a certain debt equity ratio within Centra Gas as long as it has a sufficient level of retained earnings to -- to meet the risks that it would face in the future. So, we -- we stopped measuring debt equity at a -- at the subsidiary level of Centra Gas and are only measuring that now at the corporate level -- at the consolidated corporate level and we are -- we still maintain the seventy-five/twenty-five (75:25) target at that level.

MR. BOB PETERS: All right. Turning to Tab 25, I guess in response to a specific request, you did provide the financial ratios and the Board will see that in the 2009 year, the debt level on PUB/CENTRA-148C and D on this particular attachment, page 4 of 12, the debt level is shown at 69 percent. You see that?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that probably is incorrect now in light of the update that you've given the Board on the first day of the hearing?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, that's right. The -- this is still based on the forecast of $3 million of net income in '08/'09. That forecast has subsequently --

MR. BOB PETERS: Would you have a revised number of the debt percentage and the interest coverage and capital coverage for the '09 year at this time?

MR. VINCE WARDEN: We don't but we could quickly derive that.

THE CHAIRPERSON: Why don't we just take a short ten (10) minute break and then we will come back and get that and work through to 3:45. Thanks.

--- Upon recessing at 2:37 p.m.

--- Upon resuming at 3:02 p.m.

THE CHAIRPERSON: Good afternoon everyone.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

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

We left off, Mr. Warden, talking about the Corporation's capital structure and the break was provided hopefully for an opportunity to avoid an undertaking and that is to update the financial ratios on the document found at Tab 25 of the book of documents and that is page 4 of 12 of PUB/CENTRA-148C.

Did you have an opportunity to do that or not yet?

MR. VINCE WARDEN: Mr. Peters, unfortunately we are going to have to take an undertaking on that one.

--- UNDERTAKING NO. 8: Centra to update the financial ratios on the document found at page 4 of 12, Tab 25 of the book of documents, PUB/CENTRA-148C

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. Before the break you also indicated to the Board that for Centra at least instead of focussing on a financial ratio of debt to equity ratio, you now want to focus on an absolute retained earnings level.

Did I summarize that correctly?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: That's different than what you do for the parent company Manitoba Hydro?

MR. VINCE WARDEN: It is.

MR. BOB PETERS: And for Centra to say that you now want to work towards a -- an absolute retained earnings number, you want a retained earnings number sufficient to cover the risks of the Corporation.

That would be the purpose of it?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And have you done a risk analysis of any kind for Centra Gas?

MR. VINCE WARDEN: Well, we do do a risk analysis as -- as part of our corporate risk within the framework of our corporate risk management structure.

Haven't really though come up with a number for -- for Centra and the main reason right now I think is because the -- the biggest risk -- the largest risk in terms of impact on retained earnings is IFRS as we talked about previously, the potential for a $61 million writeoff of regulated assets which would totally deplete retained earnings.

Until we have some certainty around that coming up with a -- with a number for -- the risk of Centra probably would not be too meaningful at this stage.

MR. BOB PETERS: All right. But as you sit here and look at the document at Tab 25 of the book of documents, for the year that just ended March 31 of '09, the Corporation had at least 31 percent equity.

MR. VINCE WARDEN: Well we had retained earnings of -- we do have retained earnings of $36 million at March 31st, 2009.

MR. BOB PETERS: So turning back to Tab 24 of the book of documents I'm looking at the projected balance sheet, we'll see that the retained earnings column for 2009 shows $30 million.

And by virtue of the updates that you've made orally in this Hearing as well as the written Information Requests, you're telling the Board that that retained earnings number can be now $36 million.

MR. VINCE WARDEN: At March 31st, 2009, yes, that's correct.

MR. BOB PETERS: And what that does to

the financial ratio you're not prepared to commit to but I'm suggesting that your debt will be no -- I'm sorry, your equity will be no lower that 31 percent as it presently was when you were forecasting only 3 million of net income and 30 million of retained earnings.

Does my conclusion follow?

MR. VINCE WARDEN: Well, I think so. Although as -- as stated previously that ratio loses some its meaning to Centra now.

But nevertheless we will produce that number and see what it is.

MR. BOB PETERS: Turning to the financial statements, Mr. Warden, we've had a chance to briefly look at them at Tab 10 of the book of documents.

But those were prepared on a standalone basis? Would that be an accurate way to describe them?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: It was a separate engagement basis by the external auditors Ernst & Young?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Ernst & Young also audits Manitoba Hydro, do they not?

MR. VINCE WARDEN: Yes. When we say a separate engagement, to be clear the engagement letter for Ernst & Young covers the Manitoba Hydro and its subsidiaries including Centra Gas. But there is a -- a separate fee for Centra Gas as compared to Manitoba Hydro.

MR. BOB PETERS: In 2007/'08 there was the change in accounting policy that we talked about for the DSM amortization.

MR. VINCE WARDEN: Well, again, we didn't refer to it as a change in accounting policy, but a change in -- in estimate, to be precise.

(BRIEF PAUSE)

MR. BOB PETERS: Just a point that -- to clarify on the retained earnings level, Mr. Warden, as a result of an update dated June the 3rd, 2009 to Cen -- to CAC/MSOS/CENTRA-151, that would have been part of the package marked as Exhibit CENTRA-8.

There was a question under CAC Question 151, page 2 of 2, that indicates but for the different treatment of DSM for '07/'08 and '08/'09, the retained earnings would be $40.9 million as opposed to the, I suppose, the 36 million that you're now telling us about.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And, I apologize. I -- I didn't mean to refer to it as a change in accounting practice, but just the change in the treatment of the DSM amortization. There were no comments from your auditors with respect to that?

MR. VINCE WARDEN: Other than to the extent that they were -- they were fine with how we handled it in the financial statements.

MR. BOB PETERS: And at the book of documents, Tab 10, note 11 on page 12 deals with pension obligations.

And I'm looking -- sir, have you located Note Number 11 found on page 12 of the financial statements found at Tab 11 -- sorry, at Tab 10 of the book of documents?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And under the pension assets and obligations there's an explanation as to Centra's pension plan, and it seems to suggest there's been a -- there's a deficit at the end of 2007 as well as a deficit at the end of 2008, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Were the -- what was the cause of the deficits to occur in the fiscal year ending '07 and '08?

MR. VINCE WARDEN: Well, there -- there's a deficit in terms of funding. That deficit has been there since the date of acquisition. We've been -- Manitoba Hydro has been funding that progressively, but the deficit from year to year changes depending on the earnings of -- of the -- of the fund.

MR. BOB PETERS: And the earnings of the fund in the fall of 2008 and into the spring of 2009 has probably not been -- not been good.

MR. VINCE WARDEN: Not been favourable, no.

MR. BOB PETERS: Are you able to up -- update and provide a 2009 indication of what the deficit is at year end?

MR. VINCE WARDEN: Yes. The 9 million is now 24 million.

MR. BOB PETERS: And the $24 million deficit as of March 31, 2009 in the Pension Asset Fund, is that difference again attributable to the -- to the market declines in the prior year?

MR. VINCE WARDEN: Yes, it is.

MR. BOB PETERS: Can you indicate to the Board how IFRS will deal with such a situation potentially?

MR. WILLY DERKSEN: There are a couple of electives within IFRS. One (1) of the electives is to take the deficit and post it to retained earnings but that's not a necessary step that the Company has to take.

One (1) of the significant changes though in IFRS is that pension expense in the future would be based upon the actual market value of the fund and not market-related values. Current Canadian GAAP allows for a -- a five (5) year roll-in of -- of experience gains or losses on the investment and the commencement of the amortization of those losses or gains only after the -- only -- slowly during that five (5) year period.

IFRS requires a -- an immediate recognition of the gain or loss on the fund and amortization commencing the following year.

(BRIEF PAUSE)

MR. BOB PETERS: The way I understood your answer and don't assume I understood it totally, Mr. Derksen, but the -- the suggestion that you're making to the Board is that the present plans will be to roll in the deficit on a five (5) year basis to a -- to -- to --

MR. WILLY DERKSEN: That' right. That's what Canadian GAAP currently calls for -- is to roll that deficit into the expense calculations over a five (5) year period. IFRS does not allow that.

MR. BOB PETERS: And under IFRS, you

would have to take what you've now told us. If we were under IFRS requirements, the $24 million may have to be taken as a charge against the retained earnings?

MR. WILLY DERKSEN: No, there are two (2) components to that, Mr. Peters. One (1) component is there's an election that says you can take the full amount of the deficit into retained earnings at the point of transition into IFRS and that's an elective that we have not yet decided upon.

But the second component is that under current Canadian GAAP, gains or losses are amortized over the expected remaining service lives of employees but these gains and losses are only considered in that calculation, rolled in over a period of five (5) years.

IFRS requires immediate recognition of those gains or losses and amortization over EERSL (phonetic), estimated expected remaining service life of employees, again, immediately. So, if there was a $10 million loss in the following year, under Canadian GAAP, we would commence amortizing only one-fifth (1/5) of that loss and that would be over a ten (10) year period for a -- for Centra Gas.

So we'd have a very little effect in the following year. Under IFRS, if there was a $10 million loss, we would start amortizing the full amount of that loss immediately in the following year so there would be a $1 million amortization -- pension amortization expense in the following year.

MR. BOB PETERS: I followed you right to the end but instead of $1 million, it would be a $10 million amortization expense under your example.

MR. WILLY DERKSEN: No, sir. $10 million would be eligible for amortization under IFRS and over a ten (10) year period, that would be 1 million per year under IFRS. Under Canadian GAAP, we would only take 2 million of that $10 million amount in the -- in the following year and amortize that commencing over ten (10) years and then in the next year, we would take the next 2 million so we'd have a total of 4 million that was being amortized.

It tends to smooth out the recognition of those expenses under current Canadian GAAP.

MR. BOB PETERS: All right. Appreciate the clarification. If we see that the current deficit is hitting at 24 million and if we were moving into IFRS and you didn't take the election -- didn't elect to apply the deficit to retained earnings, what situation would you find yourselves in?

MR. WILLY DERKSEN: We would find ourselves -- that we would have an increased pension expense in the following year, commencing the implementation to IFRS by taking the full amount into our amortization calculations.

THE CHAIRPERSON: Mr. Derksen, you are talking about accounting -- that there's also pension law, too? Like, there is a requirement, is there not, to meet actuarial deficits over a certain period of time? Is Centra being granted dispensation, such as the universities?

MR. WILLY DERKSEN: At this point in time, we are funding it in accordance with the pension requirements, which is over five (5) years. I don't believe we've got any further dispensations like the universities or under federal plans, other entities have been provided for. I'm not aware that that's changed for us.

THE CHAIRPERSON: And when you talk about twenty-four (24) being down, you're talking about twenty-four (24) as of March the 31st, right, which was twenty-one (21) days after the lowest point in the market, if I recall properly.

MR. WILLY DERKSEN: I can't confirm the twenty-one (21) days, but yes, I'm talking March 31st, 2009 and that would be the value as at that date.

THE CHAIRPERSON: I heard everything you

said, but I'm -- so under IFRS, you're not -- if there was -- let's say it ended up being twenty-four (24), just for sake of argument, and you converted to IFRS at that point in time, could you recognize the whole twenty-four (24) against retained earnings?

MR. WILLY DERKSEN: Yes, that's one of the elections that we have to decide upon.

THE CHAIRPERSON: So you could take the whole thing or you could amortize it?

MR. WILLY DERKSEN: Yes, that's ---

THE CHAIRPERSON: And under IFRS, you would amortize it over ten (10) years.

MR. WILLY DERKSEN: You would amortize the full amount commencing the following year over ten (10) years, which is the estimated remaining service life of Centra employees.

THE CHAIRPERSON: But your problem would be under the pension law, you'd have to make up the deficit over -- for five (5) years which it would sort of trump the accounting, so to speak.

MR. WILLY DERKSEN: Yes, the cash payments, as I understand, still are required to be brought up over five (5) years still, and those are -- those are calculated under a different actuarial methodology as well. They use an insolvency -- a solvency calculation which is -- which is a little bit different and I think would -- would cause for a -- a larger deficit to be indicated than the accounting methodology would.

THE CHAIRPERSON: Yes, if I recall properly the way the solvency test works, the twenty-four (24) would actually be larger.

MR. WILLY DERKSEN: Yes.

THE CHAIRPERSON: Because you'd have to take into account the lower interest rates which would drive up your liabilities.

MR. WILLY DERKSEN: Yes, that's right.

THE CHAIRPERSON: Not to go on about it, but the -- another major part that you have isn't reflected here, is it not? Because all the service since Centra was bought is in the other -- the major Government Pension Plan.

MR. WILLY DERKSEN: Yes, that's right. That's the more substantial component that will impact Centra in the future is the -- is the service subsequent to moving into Hydro.

THE CHAIRPERSON: Now, do they bill you for each year? Are you required to make up any actuarial deficit with respect to your employees that are in the bigger plan?

MR. WILLY DERKSEN: The way the bigger plan works is that there's an employee portion which is managed by the Civil Service Superannuation Board, and that is the -- the funding of that is covered by employee contributions. And then there's an employer portion which is what Hydro has on its balance sheet. It maintains a fund itself to meet its obligations.

The employer portion which is, again, on our balance sheet, will have a deficit at March 31st of 2009 in excess of 200 million. And the funding obligations are -- for that plan are not covered by legi -- by pension legislation. They are covered by Sup -- Civil Sup -- the Superannuation Board legislation.

THE CHAIRPERSON: You say $200 million would be on the balance sheet as a liability.

Is that what you're saying, or is it a note?

MR. WILLY DERKSEN: I'm saying the deferred pension expense on the -- on Manitoba Hydro statements will be in the order of $200 million relative to the CSSB Plan.

THE CHAIRPERSON: But is it a note to the financial statements or is it actually recorded as a liability?

MR. WILLY DERKSEN: It will be recorded

as a deferred expense. The -- on Cen -- on Manitoba Hydro statements we have the full employer liability on its statements and the amount of the fund on its statements as well as a deferred expense representing the amount that has not yet been recorded into expense based upon pension accounting requirements.

THE CHAIRPERSON: This is -- how do you put it -- it's not directly relevant to this particular Hearing, but that amount presumably would have IFRS complications as well.

MR. WILLY DERKSEN: Absolutely.

THE CHAIRPERSON: Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: At Tab 26 of the book of documents, Mr. Warden and Mr. Derksen, is a schedule attachment from PUB/CENTRA-46A dealing with payments to government. Sorry, capital and other taxes, specifically.

This table depicts that Centra pays -- is it in -- in lieu of municipal taxes. There's grants in lieu or is it actual municipal taxes that the Corporation pays?

MR. WILLY DERKSEN: For municipal taxes, Centra is paying the tax bills.

MR. BOB PETERS: And you've explained before I believe, Mr. Derksen, that there's no tax bill included here for any portion of the new -- the new Manitoba Hydro headquarters from the Municipality of the City of Winnipeg.

MR. WILLY DERKSEN: That's correct.

MR. BOB PETERS: And that's because that will be paid for by Manitoba Hydro and not by Centra?

MR. WILLY DERKSEN: That's -- that's right, yes.

MR. BOB PETERS: When do taxes become payable to the City of Winnipeg as a result of the new office building?

MR. WILLY DERKSEN: We expect that they will be payable commencing this year. We have not yet received a bill for the new office building.

MR. BOB PETERS: Are you saying by the end of June 2009?

MR. WILLY DERKSEN: That's what our expectation is, yes.

MR. BOB PETERS: Is the income tax item shown at line 15 related to the amortization of the $38 million tax liability?

MR. WILLY DERKSEN: Yes, it's all related to that.

MR. BOB PETERS: It includes principal and interest?

MR. WILLY DERKSEN: Yes, it does.

MR. BOB PETERS: All right. At Tab 27 of the book of documents is a schedule setting out payments to government and we've talked about the debt guarantee fee already but the Corporation capital tax is my understanding is that is being phased out, Mr. Derksen, but not phased out for Crown corporations?

MR. WILLY DERKSEN: Yes, that's my understanding.

MR. BOB PETERS: All right.

(BRIEF PAUSE)

MR. BOB PETERS: While I think of it, is it correct that there's GST on consumer's gas bills for both corporations and individuals? It's at least charged to them?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And corporations may have an opportunity for an input credit on GST?

MR. WILLY DERKSEN: Yes, that's right.

MR. BOB PETERS: And there's also provincial sales tax on gas bills?

MR. WILLY DERKSEN: Yes.

MR. BOB PETERS: And that's in the -- it's -- is that 1.4 percent, do you recall?

MR. WILLY DERKSEN: I believe it's -- I'd have to check on that but I believe it's a -- it's a multiple rate system depending on whether it's used for home heating.

MR. BOB PETERS: The intention that you're indicating is that your understanding is that there was an intention to exempt provincial sales tax on that portion of the heating that is for space heating.

MR. WILLY DERKSEN: That's my understanding for residential space heating, yes.

MR. BOB PETERS: I have a note here that and I may have my reference wrong, but in Order 116 of '08 there was a recommendation by the Board for Hydro to seek GST exemption on natural gas for heat load.

Are you aware of that recommendation?

MR. WILLY DERKSEN: I -- I'm not, sir.

MR. BOB PETERS: All right I'll have to check my source and come back to that on you. In any event, there's been no initiative by the Utility to try to convince governments that applying tax on the heat load portion of -- of the utility bill is something they should forego or else use towards energy efficiency measures?

MR. VINCE WARDEN: Mr. Peters, I believe that was a recommendation directed to government and not to Manitoba Hydro.

MR. BOB PETERS: Are you aware if there's been any -- any discussions with Manitoba Hydro or Centra relative to that -- that direction?

MR. VINCE WARDEN: No, I'm not.

MR. BOB PETERS: If my notes are accurate and I'll leave it at that is -- it was Order 116 of '08 Recommendation Number 6 on page 342.

In terms of the capital budgeting process, at Tab 28 of the book of documents we see PUB/CENTRA-12A and it's the attachment, the response by Centra, setting out the capital expenditure forecast summary for the gas company and the latest revision we have is June the 1st of 2009 on yellow pages.

Do you have that, Mr. Petursson?

MR. DAVID PETURSSON: Just one (1) moment please.

(BRIEF PAUSE)

MR. DAVID PETURSSON: I've got the yellow -- yellow sheet now.

MR. BOB PETERS: Yes and I'm looking at it. That would be dated I hope June the 1st, 2009 and it's PUB/CENTRA-12A?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And if we go down to line 12 and look at the totals on the transmission and distribution capital expenditures, there's no revisions needed further to this schedule that you're aware of now, are there?

(BRIEF PAUSE)

MR. DAVID PETURSSON: No, I don't see any changes required to this now.

MR. BOB PETERS: And the most current version which is dated June 1st, 2009 has removed the Corporation's previously forecast capital expenditure for the Brandon unodourized natural gas pipeline improvement project?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And in fact the Corporation's gone further. It removes the three hundred and thirteen thousand dollars ($313,000) it has paid to date plus some carrying costs on that.

So it's removed a total of three hundred and seventeen thousand dollars ($317,000). Would that be correct?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Looking at this schedule, Mr. Petursson, would the Board conclude correctly that after 2010 there are no major capital projects on the horizon?

MR. DAVID PETURSSON: None that we've been able to identify in this submission. I would expect though that as time goes by the need for additional capital projects will arise and -- and will come up in the future.

MR. BOB PETERS: Are there any in the planning process that you can indicate to the Board at this point in time are being looked at?

(BRIEF PAUSE)

MR. DAVID PETURSSON: There's none specifically that we can point to they're being considered right now.

MR. BOB PETERS: Can you explain to the Board why on line 20 there's a capital increase provision provided going out into 2018 and 2019 and what that's for?

MR. WILLY DERKSEN: Maybe I can handle that, Mr. Peters. That is in recognition that there will be some higher level of -- there will be a likelihood of -- of projects that will be required in that timeframe.

Our -- our project planning horizon is -- is good in the short term but as you go into -- further into the future there becomes a -- projects are -- are not estimated or not forecasted accurately at that point in time and -- and so there's a -- a likelihood that increased costs will be incurred.

MR. BOB PETERS: I was thinking you might give that answer, Mr. Derksen, but how can you give that answer when there's not even a project on the drawing board? These numbers look pretty precise to me and I -- I wondered how you can be that -- that inclusive.

MR. WILLY DERKSEN: Well, 2018 is a long time away from now. Our drawing boards sometimes don't go that far into the future and we can't anticipate all the things that will happen or be needed by that point in time.

MR. BOB PETERS: But while you can't plan for a capital project, you can plan that whatever is -- whatever is forecast is going to be wrong by $2.2 million in 2018?

MR. WILLY DERKSEN: I -- I think it's

best to look at that as a placemark to say that it's -- there is a provision. We're adding a small provision to -- for the likelihood that some larger capital projects will come into a requirement by that point in time.

MR. BOB PETERS: I think Mr. Warden's used up all the placemarkers and plugs that we are allowing this -- this case, Mr. Derksen. But a -- I think the Board has got your request.

Is there any magic to it being such an uneven number? It almost looks like it's precise. I appreciate line 22 adds up more roundly, but is that -- is that the only reason?

MR. WILLY DERKSEN: I believe what we've done is we've increased the thirty-six million four forty-six (36,000,446) from 2017 by our escalation factor of 2 -- of 2 percent into 2018 and rounded the total, and the difference is just in that two million two seventy-six (2,276,000).

MR. BOB PETERS: In the corporate strategic plan of the Company, there is an indication that one (1) of the strategies is for improved capital investment decision support process, if I've said that right.

Are you familiar with that, Mr. Petursson?

MR. DAVID PETURSSON: Yes, somewhat.

MR. BOB PETERS: All right. And I think the corporate strategic -- well, my marginal reference is to -- ties it to PUB/CENTRA-3. But if it's a corporate goal to improve the capital investment decision support process, what does that mean in day-to-day terms for the Company? What has to be improved?

MR. DAVID PETURSSON: That -- that would consist of a greater degree of -- of documentation and analysis of the expenditures that we are -- and recommendations for the expenditures that we are putting forth for approval internally.

MR. BOB PETERS: That implies that the current documentation and analysis could be -- is seen as -- it could be better than what it currently is.

Would that be fair?

MR. DAVID PETURSSON: I would prefer to think of it as -- looking at it as continuous improvement. We -- we'd want to be better at things as day -- as time goes by, so we -- it's one (1) area that we look for continuous improvement.

MR. BOB PETERS: Before we turn to anything specific, what is it now that you think you could improve on, in terms of providing for management and executive to review that they're not currently -- currently getting?

Where -- what continuous improvement could be provided?

MR. DAVID PETURSSON: Well, currently we do provide the capital project justifications. Improvement would be simply just making sure that we have full details and be comprehensive in our approach with the information going forward.

I think -- I believe we do that now. I think it's a -- just the corporate goal would just -- we -- in support of the corporate goal, we would just make sure we do that consistently and repeatedly.

MR. BOB PETERS: Are you changing anything that you know -- right now, that you're aware of?

(BRIEF PAUSE)

MR. DAVID PETURSSON: No, we're really not changing much. It's a matter of just making sure that we are consistent and comprehensive in our approach on that.

MR. BOB PETERS: You mentioned, Mr. Petursson, the capital project justification, and included in the book of documents at Tab 29 is a capital project justification for the Brandon Unodourized Natural

Gas Pipeline Improvement, correct?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And it -- it constitutes a signing page and three (3) other pages.

MR. DAVID PETURSSON: I count them the same way, too, yes.

MR. BOB PETERS: And is this all of the information that would go forward to the management level and then to the executive level?

MR. DAVID PETURSSON: No, on the -- there are often additional materials that would be in support of this.

MR. BOB PETERS: Were there with respect to the -- this Brandon Unodourized Pipeline?

MR. DAVID PETURSSON: Yes. They are referenced in this document. On the bottom of page 3, there's a -- of the capital project justification, there's a section titled "Reference Documents" and there is a study that is referenced there and that would be one (1) of the documents that was supplied to support this CPJ.

MR. BOB PETERS: Was that the cost benefit study or was -- was that a financial analysis, or can you tell from that note?

MR. DAVID PETURSSON: That was more of an engineering study.

MR. BOB PETERS: While we're talking about this, the word "unodourized" somewhat jumps out. Can you explain to the Board why this is an unodourized pipeline?

MR. DAVID PETURSSON: Certainly. The gas from Transcanada typically is unodourized and Centra adds odourant, you know, to most of its pipelines. This pipeline that comes and supplies Koch is unodourized because the odourant would pose problems with KOCH's process that they use where they have natural gas as a feedstock.

So we -- we have this as an unodourized pipeline to be able to provide Koch with unodourized gas.

MR. BOB PETERS: Currently there is already a pipeline that serves Koch Fertilizer, as you mentioned, and also would be available for southwestern Manitoba and perhaps supporting the Brandon residential customers.

MR. DAVID PETURSSON: Yes, they -- we presently have an unodourized pipeline that supplies Koch.

MR. BOB PETERS: And in looking at this particular project, the existing line also serves sixteen hundred (1,600) SGS and LGS customers in communities including thing -- places like Souris, Hartney, Killarney and Deloraine?

MR. DAVID PETURSSON: This pipeline -- the unodourized pipeline brings gas to the south part of Brandon and that's where the takeoff is to go to southwest Manitoba, serving all those customers. And the -- this pipeline can -- can be the supply there. We also have the flexibility to supply those customers in southwest Manitoba from the odourized system that brings gas to Brandon.

MR. BOB PETERS: And there is already an existing unodourized pipeline, correct?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And this project is for an additional one or an improvement on the existing one.

MR. DAVID PETURSSON: Yes, it's for additional capa -- additional line on the unodourized system.

MR. BOB PETERS: The Board...

MR. DAVID PETURSSON: Yeah, this is a -- this pipeline will be in addition to the unodourized line.

MR. BOB PETERS: In essence, it -- it's parallel to or loops with the existing one. Would that be the terminology used?

MR. DAVID PETURSSON: Yes, that's correct.

MR. BOB PETERS: And one (1) of the customers to be served from the existing unodourized pipeline is the power station customer.

MR. DAVID PETURSSON: Yes. Koch and the power station are supplied from the unodourized line.

MR. BOB PETERS: And that power station customer has been supplied with natural gas since approximately 2000, when the turbine was installed?

MR. DAVID PETURSSON: 2002 perhaps. I'm not sure of the exact date.

MR. BOB PETERS: What the Board knows from your revised Application is that the $5.5 million that was going to be included in Centra's capital expenditures has now been removed and the $5.5 million is going to be charged through to the power station customer, correct?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And so with the benefit of where we are today looking back at the Filing that you've made, what caused the decision to change the treatment of the $5.5 million?

MR. GREG BARNLUND: Mr. Peters, maybe I can provide that information. Originally the capital forecast did not include -- inadvertently it didn't include mention of the contribution. But the contribution is arising from the contract that exists between the power station customer and Centra that was established at the time that the system went into service.

And that contract was reviewed and I believe was modified as a result of Order P -- PUB's Order 118 of '03 identifying some changes in the contract in terms of the true-up mechanism and the contributions or refunds of contributions that may occur. This contract is a ten (10) year agreement that was entered into at the time its service was extended. There will be a true-up provision I believe after 2012.

And the decision was made to -- for the power station to fund a contribution offsetting this capital investment now at the time that this capacity is being increased. And that ultimately there will be a true-up calculation done on the feasibility study at the end of 2012 which will take into consideration the costs and revenues for that particular customer and for that extension over the life of the contract.

MR. BOB PETERS: Thank you, Mr. Barnlund. But you would agree with me that the initial unodourized pipeline was not undersized when it was first constructed, was it?

MR. DAVID PETURSSON: The first unodourized pipeline was -- was built to certain design requirements that were present of the time and a lot of that -- and that was primarily based on the source pressure available from Transcanada. And it was not undersized at the time but the, you know, the situation has changed with the availability of source pressure from Transcanada.

MR. BOB PETERS: I -- I was going to come to that, Mr. Petursson, but the TCPL/Centra contract requires TCPL to deliver the gas onto that pipeline at five hundred and eighty (580) PSIG.

Isn't that correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And that's still --

MR. DAVID PETURSSON: That's -- that's the minimum pressure.

MR. BOB PETERS: That's the minimum pressure including the minimum pressure to date?

MR. DAVID PETURSSON: I don't follow.

MR. BOB PETERS: It hasn't changed since the contract was signed. That remains in -- in place to date?

MR. DAVID PETURSSON: Yes, that's

correct.

MR. BOB PETERS: All right. So you knew that was the pressure at the time that the power station customer came to Centra in 2002 looking for access to natural gas?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And you knew what the requirements were for the power station customer in 2002 when you took them on as a customer and entered into a contract with them?

MR. DAVID PETURSSON: Yes. We were aware of that pressure at the time.

MR. BOB PETERS: And you were also aware of what your -- what the power station customer's needs were?

MR. DAVID PETURSSON: Yes. I might want to add though the -- we're aware of that and the -- but in -- in designing our system, we have, in many parts of our system, we have -- the contractual pressure is less than what we've designed to. And we've done that knowingly and it's in good design.

The historical pressures have been such that if we -- if we were to design for the absolute minimum, we would be having plant (sic) that would be substantially larger than what we typically -- that we would need. And that would be an expense -- an expense that really would not deliver any value.

We've based our -- our designs, not on contract minimums but more on historical performance of -- of pressure delivery.

MR. BOB PETERS: But that was part of your engineering back in 2002, when the power station was going to come on board?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And so, if we have it that the unodourized pipeline what -- was not undersized when it was first constructed, the only significant change since then is that the power station customer has been added.

Would you agree with that?

MR. DAVID PETURSSON: Two (2) changes. We have the power station customers been added, the -- the other changes we are -- we have been experiencing lower -- at times, lower pressures from Transcanada Pipelines than we historically have had.

MR. BOB PETERS: When the power station customer was added in approximately -- we'll say, 2002, Centra tapped into the existing unodourized pipeline to serve the power station customer, correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: There were no upgrades to the unodourized pipeline at the time the power station customer entered into -- entered into its contract with Centra?

MR. DAVID PETURSSON: I believe at that point in time we did have some looping that -- that was one (1) -- a first portion, as it were, of that looping did occur about that time.

MR. BOB PETERS: Mr. Chairman, I've let the time get away from me and perhaps I can pick this up with Mr. Petursson in the morning.

THE CHAIRPERSON: Don't feel bad, it is only four (4) minutes.

MR. BOB PETERS: Thank you.

THE CHAIRPERSON: We will see you all in the morning at 9:00. Thank you.

(CENTRA'S REVENUE REQUIREMENT,
DSM, COST ALLOCATION,
AND RATE DESIGN PANEL RETIRES)

--- Upon adjourning at 3:49 p.m.

Certified correct,

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Cheryl Lavigne, Ms.