MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

GENERAL RATE APPLICATION

2013/14

Before Board Panel:

Regis Gosselin - Board Chairman

Marilyn Kapitany - Board Member

Larry Soldier - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 17th, 2013

Pages 456 to 730

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LIST OF UNDERTAKINGS

--- Upon commencing at 9:01 a.m.

THE CHAIRPERSON: Good morning. By my clock it's nine o'clock, so we'll start, please. So good morning to all. I'd like to call the Centra GRA hearing back to order.

As a matter of first -- as a matter of business, the Board welcomes Sven Hombach to the Board -- to the Board counsel chair. So welcome, Sven.

We understand that you will have questions for future witnesses, including Mr. Oppenheim, so welcome here this morning.

MR. SVEN HOMBACH: Thank you, Mr. Chair.

THE CHAIRPERSON: Mr. Czarnecki, at the close of proceedings last Friday, Centra filed the revised information. Does Centra have any further filings or undertaking responses for this morning?

MR. BRENT CZARNECKI: Not right now, Mr. Chairman.

THE CHAIRPERSON: Good morning, Mr. -- Good morning, Mr. Meronek. On behalf of CAC, you completed your questions of the gas cost witnesses last Friday, and are scheduled to ask further questions of Centra's DSM witnesses this morning. If you're ready, please proceed.

MR. BRIAN MERONEK: I'll proceed whether I'm ready or not, sir.

CENTRA PANEL 2, RESUMED:

LLOYD KUCZEK, Resumed

LOIS MORRISON, Resumed

GREG BARNLUND, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Good morning, panel. I'd like to start by going back to the genesis of this program. The program that I'm interested in this morning is the Furnace Replacement Program. And I understand that, prior to 2007, there wasn't a Furnace Replacement Program for low -- lower-income customers.

Is that correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: It's my understanding that prior to 2007, there was a program in place, generally. And that program represented a two hundred and forty-five dollar ($245) installation incentive for anybody who wanted to avail themselves of replacing a standard or mid-efficiency furnace with a high-efficiency furnace?

MS. LOIS MORRISON: That was part of our traditional Power Smart offerings at the time, yes. Sorry, it was only for replacing a standard-efficiency furnace, not for replacing a mid-efficiency furnace.

MR. BRIAN MERONEK: And on the basis of that program, Centra anticipated annually to accomplish the replacement of sixty-eight hundred (6,800) standard furm -- furnaces annually.

Is that correct?

(BRIEF PAUSE)

MS. LOIS MORRISON: Could you provide a reference for that, please?

MR. BRIAN MERONEK: Yes, you'll find that in Board Order 99 of '07, page 23.

MS. LOIS MORRISON: We'll accept that, subject to check.

MR. BRIAN MERONEK: Sure. Can you tell the Board what -- whether that was accomplished, those numbers, to date?

(BRIEF PAUSE)

MS. LOIS MORRISON: We can check. However, the overriding objective of that program was to increase market penetration to such a point that the provincial government would agree to and support changes to the provincial regulation for minimum efficiencies within the Province of Manitoba. And we feel that that program was quite successful, in that it did meet the requirements of the provincial government in order for them to bring forward changes to the regulations in the Province of Manitoba, requiring a minimum efficiency of 92 percent for all new and for -- well, actually, for all existing furnaces being replaced.

MR. BRIAN MERONEK: Do you have the numbers?

And if you don't have them, could you undertake to provide me with the -- the numbers of furnaces that were replaced up to the present time under that program?

MS. LOIS MORRISON: We can provide you with the information based on the number of per -- furnaces that were replaced under that program up until the point legislation came in.

MR. BRIAN MERONEK: Could you do that please?

MS. LOIS MORRISON: We'll undertake to do so.

--- UNDERTAKING NO. 5 Centra to indicate the number of furnaces replaced under Power Smart Furnace Replacement Program up until December, 2009

MR. BRIAN MERONEK: And the legislation came in when?

MS. LOIS MORRISON: I believe it was December, 2009.

MR. BRIAN MERONEK: Now, there was discussion in the GRA out of which Board Order 99 of '07 was generated. And as a result, a furnace replacement program and other programs for LICO customers was created.

Is that correct?

MS. LOIS MORRISON: Subject to check, as to what that -- was stated in the order, yes.

MR. BRIAN MERONEK: And were you involved in the initiation of this program, Ms. Morrison?

MS. LOIS MORRISON: No, I was not.

MR. BRIAN MERONEK: What about you, Mr. Kuczek?

MR. LLOYD KUCZEK: No, it wasn't under my responsibility at the time.

MR. BRIAN MERONEK: Now, as a result of that Board order -- and let me just read you what the Board said at that time. And I quote at page 94:

"The Board recommends that Centra should strongly consider the engagement of experts to assist in the development and delivery of the hard to reach program for low-income customers. Particular problems may be encountered in considering how to assist social housing and rental situations."

Did Centra ever do that, consider engaging experts at that time?

MR. LLOYD KUCZEK: I can share what I know about the program, but they did -- Centra did undertake a number of consultations, including consulting with local stakeholders and so -- some social groups, I believe, as well as consulted or compared and -- and discussed the issues across Canada with other utilities that were looking at doing it. And I believe they researched what was being done in the United States, as well.

MR. BRIAN MERONEK: Did Centra hire experts to assist in the development and delivery of the Hard to Reach Program?

MR. LLOYD KUCZEK: We did not. We -- we did hire Mr. Dunsky to review our programs. And he did take a fairly-thorough assessment of the lower-income program in 2009, I believe.

MR. BRIAN MERONEK: But his report was in terms of assessment, not to assist in development and delivery of these programs?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: I -- I'm sorry, I missed the last part of the question.

MR. BRIAN MERONEK: Sorry. It's my understanding that Mr. Dunsky's report was commissioned on behalf of Manitoba Hydro to -- to assess the programs as of that -- as of 2009, but not to -- he wasn't engaged to assist in the development and delivery of these programs?

MR. LLOYD KUCZEK: That's correct.

MR. BRIAN MERONEK: The Board went on, at page 94, to say that:

"The Board notes that Centra reports having one (1) staff member to administer the program. The Board is of the view that engaging external effor -- experts in the delivery of the programs will better ensure that the program is designed and delivered appropriately, and subsequently meets its goals."

You are aware of that statement by the Board?

MR. LLOYD KUCZEK: I'm not, but I just heard it, yeah.

MR. BRIAN MERONEK: And I take it -- and like the answer to my last question, Centra did not engage external ef -- experts to deliver those programs?

MR. LLOYD KUCZEK: We did not.

(BRIEF PAUSE)

MR. BRIAN MERONEK: The Board, in 2007...

(BRIEF PAUSE)

MR. BRIAN MERONEK: Stated, at page 137:

"The Furnace Replacement Program,
when fully operational, is expected
to result in thousands of additional
high-efficiency furnace
installations each year, expanding
the economic base of the industry."

And it goes on. Could you tell me when, in the opinion of Centra, the program became fully operational?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: You know, I -- I'm not sure how you would define 'fully operational'. What -- what I understand, the program was evolving as it was launched, and there was improvements -- continuous improvements made to the program over a period of time. As I -- I reviewed some of the data prior to the hearing -- my understanding was, jus -- based on the data, that the first few years were a -- were a transition period to getting the program up and running, and there's still improvements being looked at today. So it's -- it's an evolving process.

MR. BRIAN MERONEK: Did Centra ever ask the Board as to what it meant by 'fully operational'?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: I said "no".

MR. BRIAN MERONEK: But we do know, as of this hearing, approximately twenty-five hundred (2,500) furnaces have been replaced through this program?

MS. LOIS MORRISON: That is correct.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Again, in 2007, as -- as a result of the Board order that we've just been discussing, Centra did launch a Lower Income Energy Efficient -- Efficiency Program called LIEEP, of which the Furnace Replacement Program is a component.

And that was launched approximately December of 2007?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: And as a result of Board Order 99 of '07, the Board directed Centra, and I'm just quoting from page 142 of the judgment under Directive 13, that Centra was to:

"Undertake a demographic study to further understand the economic parameters of low- income household status, and establish targeted groups for various low-income program measures, and file a study with the Board no later than February 28, 2008."

Were you aware of that directive?

MS. LOIS MORRISON: Yes.

MR. LLOYD KUCZEK: We would like to check the -- when the program was launched. Because I'm just looking at the -- on the quarterly reports that show that there were ninety-eight (98) homes that participated up to September 2009. So if the program was launched in '07 -- December '07, it -- it does seem like that number would be low for one (1) year.

MR. BRIAN MERONEK: Let me give you a source, sir. It's Board Order 128/'09, page 28.

MS. LOIS MORRISON: Could you repeat

that, please?

MR. BRIAN MERONEK: Yes, it's Board Order 128/'09, page 28.

(BRIEF PAUSE)

MR. BRIAN MERONEK: And were you aware that the Board ordered a demographic study, feeling it beneficial and necessary to understand the parameters of low-income house -- low-income household status?

MS. LOIS MORRISON: Yes, we were aware.

MR. BRIAN MERONEK: And it's no secret that a demographic study was not completed by February 28, 2008, as ordered by the Board, correct?

(BRIEF PAUSE)

MS. LOIS MORRISON: You are correct that we did not file the demographic study as requested until May 28th, 2010, and then with a subsequent revision on August 31st, 2010.

MR. BRIAN MERONEK: And as I understand -- understand it, the reason why Centra did not file a demographic study as ordered by the Board by February 28, 2008, is because it felt it didn't need one.

Is that correct?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: I -- I can't speak to if that was Centra's position at that point or not.

MR. BRIAN MERONEK: Let me just read you from page 29 of Board Order 128/'09 and see if you can agree with this.

"At a lower income technical conference hosted in Manitoba Hydro in January 2008, it was Manitoba Hydro's understanding that the consensus among conference participants was that sufficient demographic data exist and that additional studies are not required. Accordingly, Centra requested that the Board consider this directive fulfilled."

Could you accept that?

MR. LLOYD KUCZEK: Yes.

MR. BRIAN MERONEK: Did Centra ever

ask the Board to confirm that the Directive 13 out of Board Order 299 of '07 was fulfilled and they didn't need to do any more?

(BRIEF PAUSE)

MR. GREG BARNLUND: Mr. Meronek, I don't believe that we did seek any confirmation of it at that time. I do note, however, that subsequently, after the 2011 cost of gas hearing in Order 65/'11, page 46, the Board was satisfied at that point in time then that that directive had been filled, and made mention of that on page 46.

MR. BRIAN MERONEK: Okay. We'll -- we'll get to that, sir.

(BRIEF PAUSE)

MR. BRIAN MERONEK: When we get to 2009, the GRA out of which Board Order 128/'09 emanated, that decision was September 16, 2009, the Board confirms, and you've confirmed on the record, that the Directive 13 had not been complied with.

Agreed?

MR. GREG BARNLUND: I have the order

in front of me here, Mr. Meronek. Is there a page that you could direct me to in that order?

(BRIEF PAUSE)

MR. BRIAN MERONEK: Sorry, yes. It's page 29. It says:

"Yet, Centra has not completed a demographic study to gain additional data and determine with increased precision the spec -- a specific geographic location -- locations [sorry] of lower-income customers."

MR. GREG BARNLUND: Yes, I have that.

MR. BRIAN MERONEK: And you would agree that that's important information in order to obtain -- in order to drill down to determine, with better precision, the target group that is being assisted, or to be assisted by this program?

MR. LLOYD KUCZEK: I -- I recall there being some discussion and disagreement on the value of that data. And I think that the Board in Manitoba, my Manitoba Hydro staff, might have had a difference of opinion of the value, and at the end it was resolved.

But the -- I -- I think the impression

I got, reading some of the material, was that the Board felt that through this study Manitoba Hydro could figure out exactly where these houses were. And when you undertake surveys, you -- you really don't do that. You -- you -- you obtain general high-level information that's statistically valid that provides you with regions or neighbourhoods that might have more lower-income people, but you don't know the specific households that have those standard efficient furnaces and -- and you don't know the specific houses that have a -- certain levels of insulation.

MR. BRIAN MERONEK: And, Mr. Kuczek, were you involved in 2009 in this process? Did this particular program come under your jurisdiction or bailiwick at that time?

MR. LLOYD KUCZEK: No, it came under my responsibility in about 2010.

MR. BRIAN MERONEK: So, you have no personal knowledge as to what transpired in 2009 before the Board, in relationship to the positions taken by various parties, and indeed the ultimate determination by the Board on this topic?

MR. LLOYD KUCZEK: No. But I worked fairly close with the vice-president at the time, and also the manager that was responsible for the program to the degree that I was involved in a number of the discussions.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Notwithstanding whatever disagreement there may have been between Centra and other parties, it's clear, sir, is it not, that the Board felt a demographic study was important and put a short deadline on a demographic study of -- of December 31, 2009?

MR. LLOYD KUCZEK: That is accurate.

MR. BRIAN MERONEK: And Centra did not comply with Board order, either, correct?

MR. LLOYD KUCZEK: No. The -- the staff at Manitoba Hydro was confused as exactly how that would be executed and what the Board was asking for. So there was a -- there was -- there was an effort on behalf of Centra to try to understand wha -- what could be done. And then, as I say, over the course of a period of time, as Mr. Barnlund said, that that whole issue was resolved.

MR. BRIAN MERONEK: Did Centra ever go to the Board on or before December 31, 2009, to say: We're confused. We don't know what we have to do.

Can you give us an extension?

MR. LLOYD KUCZEK: I'm not aware of any.

MR. BRIAN MERONEK: Now, it's true, sir, that the Board did give some dir -- specific directives pertaining to what it felt was appropriate in a demographic study, and that can be found at page 34 of Board Order 128/'09, and the Board wanted the demographic study to attempt to determine or identify the following, let me cite those on the record:

> "The number of lower income consumers; the numbers of standard mid-efficiency and high-efficiency furnaces and boilers among lower-income customers; the number -- [sorry] the type of housing for lower-income customers: single multi-unit townhouse, mobile owned, rented; the neighbourhoods where lower-income consumers reside in order that targeted mailings and other marketing activities can be directed where they will be best achieved; and any relationship between consumption and income

levels."

Do -- do you recall that, sir?

MR. LLOYD KUCZEK: I don't recall the specifics, but I believe I did read that.

MR. BRIAN MERONEK: Can you tell me what of those directions was confusing, or not susceptible to Centra completing the demographic study as ordered?

MR. LLOYD KUCZEK: Well, the discussion that I -- I recall having with staff was trying to understand exactly what the Board wanted. And the impression was that they wanted to know the specific households. Based on what you just read, it didn't sound that way. So the end -- the demographic study that was undertaken, I think, I identified most of those items that you listed there.

MR. BRIAN MERONEK: Yeah, I -- I -- we'll get to that, sir. But I -- I'm talking about the Board wanting a demographic study by a certain date, and it wasn't complied with by Centra. And I'm trying to un -- understand why it wasn't complied with, as ordered by the Board?

(BRIEF PAUSE)

MS. LOIS MORRISON: The -- the study takes approximately one (1) year to collect from point of initiation to bringing in the data and such. So there is a time lag that did make the -- meeting the December, 2009, date somewhat challenging.

As we -- as I noted earlier, we did file the -- the study based on the preliminary responses that we received as of the end of November, 2009, in a report that was provided in May, 2010, to the Board. And so there -- there is a certain time lag in terms of sending out the surveys, getting the surveys back, that -- in order to -- to bring all of that data together.

MR. BRIAN MERONEK: Did you advise the Board that that was a -- there was a logistical issue here?

MS. LOIS MORRISON: I understand we did not.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, I think, Mr. Kuczek, you indicated that -- or, Ms. Morrison, there -- or Mr. Barnlund for that matter, that there was a study filed on May 28, 2010. That can be found in

CAC/Centra Information Request 1-20, correct?

(BRIEF PAUSE)

MS. LOIS MORRISON: In one (1) of the responses to the subsections of 1-20, yes. Or, sorry, 1st Round 20.

MR. BRIAN MERONEK: And I think you indicated as well there was a revision on August 31, 2010, correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: Now, in that study, four (4) of the five (5) requirements that I had listed as being required by the Board on page 34 of Board Order 128/'09 were in that study. The -- the one (1) that is questionable, in my mind, is the one (1) that:

> "Neighbourhoods where lower-income cu -- consumers reside an order that targeted mailings and other marketing activities can be directed where they will best -- be best achieved."

That wasn't specifically and discreetly incorporated into that demographic study, correct?

MS. LOIS MORRISON: The data, as we outlined in our rebuttal, was collected. We did denote survey response by the first three (3) digits of the postal code area. However, when you -- the -- the responses that we received down to that level of granularity, you do not get statistically representative responses.

And although that information is available to be used by program staff, it was not deemed to be as robust and as -- as informative as other sources of information that are available, such as that provided by Stats Canada.

MR. BRIAN MERONEK: Did you ask the author of the demographic study specifically to target that particular directive?

(BRIEF PAUSE)

MS. LOIS MORRISON: Not that I'm aware of.

MR. BRIAN MERONEK: So as I understand the rebuttal evidence, what was relied upon was census data from Statistics Canada?

MS. LOIS MORRISON: For specifically doing targeted mailings to low-income neighbourhoods?

Yes. The program staff have used that data.

MR. BRIAN MERONEK: Is that long or short form? You don't have to answer that. If we could turn to Tab 22 of the book of documents that Mr. Peters developed. It's Exhibit PUB 10.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Have you got it there, page 83?

MS. LOIS MORRISON: Yes.

MR. BRIAN MERONEK: Now, up to projected 2012/'13, we have twenty-five hundred and fifty-five (2,555) furnaces having been installed through this program, correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: And projected means it was 'till the end of February. Do you have an updated number to the first quarter?

(BRIEF PAUSE)

MS. LOIS MORRISON: The final number as of March 31st, 2013, is two thousand five hundred and twenty-five (2,525).

MR. BRIAN MERONEK: All right. Would it be fair to surmise that the easiest -- I think Mr. Peters used the low fring -- low-hanging fruit -- the easiest or more accessible lower-income customers would have availed themselves of the program as of now?

MR. LLOYD KUCZEK: Not necessarily.

MR. BRIAN MERONEK: How do you know that, sir?

MR. LLOYD KUCZEK: You don't know that. It's just a judgment call in terms of how all the programs work and, you know, based on the participation levels. And if I had to project going forward based on these numbers, that you'll -- you'll continue to get people to participate and you'll continue to have challenges getting to par -- getting people to partici -- participate.

So as you go forward, what's -- the -- the target market that you're pursuing, it gets smaller, so it diminishes, so I expect you're going to have less customers participate as you move forward.

But people change homes once every six (6) years, and so different people move into homes, and they have incentives to change their furnaces and -- for difference reasons, and they're at different points in their lives.

But one (1) of the big drivers for people will be -- on a move forward basis, hopefully, will be to replace their furnaces, because they're -- they are old, and they can fail at any time and then you're exposed to actually market prices at the -- at a short period of time without having to shop for those furnaces, so.

You know, any program that we run, there's a participation level that's lower than most people would like to see and we're seeing that with the furnace replacement program. When we first launched this, although I wasn't responsible for it, I certainly thought the numbers would be much higher.

I mean, the furnaces are almost given away free and yet people continue not to participate in the program. And we -- we experience the same thing with the -- the furnace replacement program that we ran that only offered two hundred and forty-five dollars ($245) and that wasn't generous, but the -- subsequent to that the federal government, through the ecoENERGY Program, when they were trying to boost the economy, they offered a very generous incentive program for a number of energy efficient measures including furnaces and you were -- you were eligible up to, I think it was seven hundred and ninety-five dollars ($795) to replace the furnace.

All the people were eligible for that. And I -- I continued to see people right in our own office not replace their furnaces that -- that could afford to and that had old furnaces.

In fact, one (1) person sitting right beside me, and -- and I couldn't understand why she wouldn't replace her furnace. And, you know, I had other people in the office as well -- and I -- I personally spoke to them and suggested they should replace their furnaces. They're eligible for eight hundred dollars ($800) and they didn't, so.

MR. BRIAN MERONEK: Ms. Morrison, are you a LICO customer? Don't have to answer that. Thank you for that, sir, but then I ask the question, going forward Centra is predicting a 36 to 79 percent increase in uptake from the present time to the end of the program.

And what I -- what I mean by the -- the 36 to 79 percent, I'm looking at the Forecast 2000, the '13-'14 number and the 2015/'16 number in relationship to the present.

So I'm asking how does Centra expect that they're going to accomplish even those levels?

MR. LLOYD KUCZEK: So when those -- those projections were estimated, this is when we were planning to launch the neighbourhood approach to the lower-income program, and our expectations were that the neighbourhood approach, when it was going to go door to door, it was going to be successful to a certain degree. And those numbers were based on a combination of furnaces being replaced directly through our program and through the neighbourhood approach.

And I believe we are forecasting our numbers to go down and the neighbourhood approach to actually go up.

MR. BRIAN MERONEK: So -- so you're saying that these numbers are -- there's a different forecast now for these numbers?

MR. LLOYD KUCZEK: It was the forecast made at the time. Our experience, to date, with the neighbourhood approach has been such that things are not as successful with that approach as we had hoped.

MR. BRIAN MERONEK: Would you be able to update the -- the statistics in relationship to what you've just said?

MR. LLOYD KUCZEK: We can provide you with an update in terms of the participation to date through the neighbourhood approach, but it -- it is very disappointing.

MR. BRIAN MERONEK: If you would do that. Thank you, sir.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, maybe I haven't read all of the material or read it close enough, but could you describe what you mean by the neighbourhood approach and -- and who's involved in that?

MS. LOIS MORRISON: Under the neighbourhood approach, we're working directly with community organizations. And we support the hiring of a community- liaison person who goes door-to-door within the neighbourhood to explain the LIEEP program of which a component being the furnace replacement program and the free insulation.

And if they are not qualifying for LIEEP, tells them about the other opportunities that are available through Manitoba Hydro's Power Smart Initiatives. So it's a door-to-door canvassing approach within a targeted low-income neighbourhood. And at this point in time, we have two (2) community groups that we are working directly with, one (1) in Winnipeg and one (1) on Brandon.

MR. BRIAN MERONEK: And when did this initiative begin?

MS. LOIS MORRISON: December of 2012.

MR. BRIAN MERONEK: And how much funding did Centra provide to these organizations?

MR. LLOYD KUCZEK: We offered to pay for the -- the hiring of a full-time staff and the associated expenses with that, and also offered to pay for any marketing that they thought they needed in the neighbourhood, and -- so all expenses were basically going to be covered by Manitoba Hydro's program.

MR. BRIAN MERONEK: Could you tell me how much that is? How much was provided in funding this door-to-door program?

MR. LLOYD KUCZEK: The funding to cover their cost was fifty thousand dollars ($50,000) for the staff person plus expenses, which would have excluded some of the marketing material. And it excludes all the costs associated with implementing the measures.

MR. BRIAN MERONEK: Did you seek information or an understanding as to why the program is not succeeding to your expectations?

MR. LLOYD KUCZEK: Yes. Actually, we -- we have been doing that. In fact, the person that's running our lower-income program even took a few hours, or four (4) hours, and went door-to-door with the individual responsible for it to get first-hand experience with some of the challenges. And the individual also is in contact with both the Brandon organization and the Winnipeg organization to discuss those -- those challenges and try to understand why things are not -- I guess the participation isn't as high as we thought.

With the Winnipeg organization, we -- they did experience a bit of a challenge, a startup challenge with the first individual they hired. The individual was only on for maybe a couple of months, and so they had to hire somebody else after that.

In Brandon, they're -- they're experiencing similar challenges getting people to participate. Plus, they're -- they're -- tried to com -- there -- there's other issues, too. They're trying to co -- both organizations are trying combine it with providing employment opportunities, as well. And so that adds some barriers to it, as well.

For example, we have one (1) household in Winnipeg that wanted to get their house retrofitted, and the organization -- the community group, the neighbourhood group, is using a couple of social enterprises to do the work. And it took two (2) months, I believe, before one (1) of those social organizations responded to -- in terms of getting the work order ready to do it.

So there -- there are some challenges. And, as I said, we had hoped that the participation would be higher, but it's not running as quick as we thought.

MR. BRIAN MERONEK: In Board Order 128 of '09, at page 134, the Board indicated that -- or recommended that:

"Centra improve its marketing and reach of its RFP."

I'll just stop there. Certainly this record is -- it replete with substantial efforts in terms of the marketing, media marketing, and dissemination of information.

And I -- I take it Centra would indicate that it's cast a wide net?

MR. LLOYD KUCZEK: That -- that's my impression.

MR. BRIAN MERONEK: And I get that on the basis of -- in application -- the application

Appendix 7.3, there are per -- there are quarterly reports, and at the end of each report there's an indication as to what efforts have been made, what marketing initiatives have been undertaken by Centra, correct?

MR. LLOYD KUCZEK: Correct.

MR. BRIAN MERONEK: All right. Then to carry on with the -- with the statement by the Board. It said:

"But failing any demonstrable improvement in the take-up and participation in the FRP, Centra and Manitoba Hydro should consider the formation of a separate energy efficiency agency that would be dedicated to the delivery of Centra's DSM and LIEEP programming."

Do you see that? Were you aware of that, sir?

MR. LLOYD KUCZEK: Oh, I was certainly aware of that.

MR. BRIAN MERONEK: Now, you -- you will admit that -- that the results of the program are not as -- as good as was anticipated or hoped for by Centra, correct?

MR. LLOYD KUCZEK: And that's consistent with some of our other programs. Our expectations sometimes are higher than probably what they should be. But that is correct with this program.

As I mentioned earlier, I -- I personally thought, and I wasn't responsible for the furnace replacement program, but I thought by offering furnaces for only eleven hundred and forty-dollars ($1,140) and a nineteen dollar ($19) per-month payment over five (5) years, the participation would be fairly significant.

MR. BRIAN MERONEK: So this recommendation by the Board was in September of 2009. Did Centra, at any point, stop and ask itself, This program isn't working the way we want it to work; we should consider investigating hiring our outsourcing this program, or these programs, to an external agency?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: We -- we have outsourced some programs. In terms of outsourcing the whole DSM effort at Manitoba Hydro, that was thoroughly reviewed between Manitoba Hydro and the government responsible for Manitoba Hydro. In approximately 2003/'04, over a period of about a year, there were extensive discussions, and it was concluded at that time it was best left within Manitoba Hydro.

So Manitoba Hydro has certainly -- and the government has certainly looked at that issue. Other jurisdictions have gone down that path. And I -- I'm not convinced in my own mind that operating it outside of a utility is the best approach. There -- a utility certainly has some advantages that an outside organization doesn't have.

And so I'm convinced actually it's best offered within the company, and within the company in terms of a specific program. We have contracted some programs to be operated outside at Manitoba Hydro, certainly in terms of the del -- delivery. And on the lower-income-program side, we thought the -- the best approach was to continue to do what we're doing and to work with neighbourhood organizations and social enterprises to try to deliver the program through a multi-pronged approach.

You know, give you an example. It's outside the natural gas -- the natural-gas area, but with the First Nations what we actually do is work with each First Nation group that's willing to participate in the program. And we have a partnership with them and they -- they actually implement the program for us. And we just work with them and that works great.

MR. BRIAN MERONEK: Thank you for that, sir. But I -- I think, if I can distill your answer down to its simplest elements, there has been no assessments or investigation since 2009, the Board order, as to whether to out-source these programs, specifically, the LIEEP program and the furnace replacement program.

Is that correct?

MR. LLOYD KUCZEK: No formal assessment. But I can't think of an organization in Winnipeg that's going to likely deliver the program, if they took over the program, that would be more effective, necessarily, than Manitoba Hydro delivering a program.

MR. BRIAN MERONEK: I -- and I take it Centra has not embarked upon an RFP to make that determination as to whether there's anybody out in the marketplace who could deliver these programs?

MR. LLOYD KUCZEK: That's correct.

MR. BRIAN MERONEK: Now, it's -- it's

great that there's a program with the First Nations, but, by and large, they're -- they don't have don't have access to natural gra -- gas, correct?

MR. LLOYD KUCZEK: And I think I mentioned that, yes.

MR. BRIAN MERONEK: In the natural -- natural gas realm, what outsourcing has been conducted with respect to low-income Furnace Replacement Program?

(BRIEF PAUSE)

MS. LOIS MORRISON: As Mr. Kuczek mentioned, we have a multi-approach to our low-income program, which includes the Furnace Replacement Program. And as we talked to earlier, we are outsourcing the delivery or the -- the door-to-door approach, working with community groups.

So we, as I mentioned, have two (2) community groups that are going door-to-door. We pay for them to deliver the program on our behalf. And we are quite welcome to work with any other low-income or neighbourhood appro -- community group that wants to come and work with us.

MR. BRIAN MERONEK: Other than the two

(2) that you've mentioned, have you provided any funding to any other organization to assist in delivering the furnace replacement program?

MR. LLOYD KUCZEK: We did provide some funding to an organization called BUILD. I don't have the specifics in terms of the funding there, but we -- we did help start that -- that organization up in terms of -- and -- and they did -- they have undertaken a number of retrofits under the program.

We've also worked with West Broadway in terms of the nonprof -- it's a nonpro -- there's a nonprofit organization there -- I don't know the specific name of the organization -- to retrofit their homes.

Kinew is another organization with worked with. Kanata is another organization.

MR. BRIAN MERONEK: Is Centra able to provide the Board with the total amount of funding from Centra paid globally to these organizations to assist in delivering the program?

MR. LLOYD KUCZEK: With those specific organizations we didn't -- we didn't have to pay them to do it; we just partnered with them. And it was really just organizing how the homes would get retrofitted through our program.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, in the rebuttal evidence Centra indicated that -- and I think you indicated, Mr. Kuczek today, that Manitoba Hydro is better situated than anyone else to deliver these programs, and has indicated that it would significant time and resources to establish and implement a program fro -- through outsourcing without assurance of successful or enhanced program delivery.

Do you re -- do you recall that?

MR. LLOYD KUCZEK: Yes.

MR. BRIAN MERONEK: What efforts have you made to come those conclusions? What analysis have you performed?

MR. LLOYD KUCZEK: You really don't have to do an analysis to -- to make a judgment call on whether or not it's inefficient to duplicate the efforts of Manitoba Hydro in establishing the infrastructure in a separate organization.

We also know that the -- if you -- if you are intimate with running a program, how valuable it is in terms of having synergies within an organization. You have access to the billing information. You have access to our technical engineers that can provide advice, and they're continually providing advice on the lower income program. We have advice to our legal department in terms of any legal issues that come up; and they do come up, by the way. And the contact centre is there.

And so we're able to leverage those -- those resources within the organization that a separate entity would not be able to do.

MR. BRIAN MERONEK: And what assurances can you give the Board that Centra can deliver a successful and enhanced program?

MR. LLOYD KUCZEK: The only -- the -- I guess if I were to make a comment in that regard, and I think it was in our rebuttal evidence, if you look at other lower-income programs being operated throughout Canada, and I'm not familiar with all the programs in the US, but my understanding is the participation that we're having with our program is consistent with other organizations and the -- the success they're having offering similar programs.

MR. BRIAN MERONEK: So is Centra lye -- relying upon the results of other jurisdictions in order to satisfy itself that it's doing all it can?

MR. LLOYD KUCZEK: We're never satisfied that we're doing all we can. We're always looking to do more in terms of making improvements, and I think we have evidence to demonstrate that within the lower-income program. And I think that's consistent with our other programs, as well.

And that's consistent with what other organizations in the DSM world generally do. They're continuously looking for ways of increasing participation. And those that are more aggressive tend to put more of an effort into it. But my general experience with discussing DSM initiatives with other organizations over my career has been that our efforts are very similar to leading edge organizations.

MR. BRIAN MERONEK: Well, let's just examine the success rate. As I understand it, and we go back to page -- to Tab 22 of the book of documents, Exhibit PUB-10 -- have you got that document there? And I'm looking at page 85.

(BRIEF PAUSE)

MS. LOIS MORRISON: Yes, we have it.

MR. BRIAN MERONEK: Thank you. Approximately eighteen thousand three hundred and -- and three hundred (18,300) standard efficiency furnaces are in the LICO-125 percent group, correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: And the -- the Board was expecting, in Board Order 128 of '09, to aim for a hundred percent conversion through the program, correct?

MS. LOIS MORRISON: Could you provide the reference for that hundred percent, please?

MR. BRIAN MERONEK: Yes, it's page 39. And I'll read it into the record:

"Centra's pace in replacing conventional furnaces with high-efficiency furnaces for qualifying low income homes is insufficient. An increased pace should be aimed at upgrading all the eligible furnaces within ten (10) years."

MR. LLOYD KUCZEK: I recall that.

MR. BRIAN MERONEK: By Centra's target, in -- in terms of what it's done and what it's intending to do with its increased aggressive efforts, is to replace eight thousand and eighty-eight (8,088).

Is that correct?

MR. LLOYD KUCZEK: I believe that's the number that we're projecting.

MR. BRIAN MERONEK: I'm just looking over at page 84. And that -- that number might even be lower, if I can -- if I hear you correctly, Mr. Kuczek, that the forecasts are lower than what was anticipated?

MR. LLOYD KUCZEK: Yes. This -- this is just the high-level estimate of what we're expecting in terms of the customers to participate through the program. We, however, are expecting most of these furnaces by that time frame to be replaced, whether they go through our program or not.

MR. BRIAN MERONEK: I understand that. So are -- but you're not hoping that -- that -- to take credit for the fact that there's going to be zero, or anticipated to be zero, standard efficiency furnaces by 2018 and '19, regardless of what you do?

Is that -- are you?

MR. LLOYD KUCZEK: I'm not taking credit for that. I'm -- we're -- that's just what we think -- that's our view of what we think's going to happen in the marketplace. Some customers will participate through our program and some customers will not participate through our program for various reasons.

MR. BRIAN MERONEK: Now, that

anticipation, it may not bear fruit. In other words, by 2018 or 2019, there's no assurance that there will be zero standard-efficiency furnaces out there, correct?

MR. LLOYD KUCZEK: And, in fact, I would expect there will be some furnaces still there, because some of these furnaces will last beyond thirty (30) years. And I think that was a -- we probably should have characterized that response a little careful -- more careful in terms of the -- our expectations, but it won't be exactly zero, no.

MR. BRIAN MERONEK: And you will agree with me, sir, that it -- if all LICO customers, LICO-125 customers, replace their furnaces assuming that, it will cause other significant economic problems for them.

Would you agree with that, sir?

MR. LLOYD KUCZEK: I'm missing the point there.

MR. BRIAN MERONEK: Well, the point is that if the LICO-125 customers don't take advantage of this program, they're going to have to foot the bill for the replacement of the furnaces?

MR. LLOYD KUCZEK: Correct.

MR. BRIAN MERONEK: And that's going

to cause severe economic harm, or damage, or strain, on these lower- income people?

MR. LLOYD KUCZEK: Any costs that anybody incurs is a -- is a strain on their economic situation. I agree with that statement.

MR. BRIAN MERONEK: And that might even come to bear when it comes to bad debts or an increase in arrears, if these people can't afford, once they replace the furnaces, to pay the utilities.

Would you agree with that, sir?

MR. LLOYD KUCZEK: It's -- it's a generic statement that's true for all our customers, and it's certainly worse for people in the low-income category. I agree with that.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, I understand that the -- in looking at Tab 22, page 83, there is a -- a line item funding from the SGS class, and that's the class that CAC is concerned about.

That there's a $3.8 million dollar line item that comes out of rates in order to fund this program, correct?

MR. LLOYD KUCZEK: Correct.

MR. BRIAN MERONEK: Now, it -- there -- there's nothing for 2015 and '16. Can you tell me why?

MR. LLOYD KUCZEK: Yes, I -- I believe we've discussed this, but we -- we feel that the -- the level of funding that we currently have within the -- the furnace replacement program is sufficient to cover the costs that we're forecasting to incur through this program to that 2 -- 2018/'19.

So we don't need the additional funds based on our -- our projected experience with the program.

MR. BRIAN MERONEK: We'll just pursue that. As I understand, the dis -- discourse between Mr. Peters and the panel, was that if you add up all of the inputs including interest, and you deduct all of the disbursements, what has been forecasted here on page 85 is that approximately $14.9 million will be left over, and that's been downsized, I think by Ms. Morrison, to about $9.5 million.

MS. LOIS MORRISON: Subject to us revising that number, it's in that ballpark.

MR. BRIAN MERONEK: Right. So by that proposition, Mr. Kuczek, why are you putting money in -- into 2014/'15 or even now, in terms of the forecast? It sounds like you've got enough money.

MR. LLOYD KUCZEK: Yeah, I -- I believe Mr. Peters and I had a conversation about that, and I agreed that we likely don't need the money. I wasn't part of that decision to ask for it for those two (2) years.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Alternatively, there is -- there isn't anything on the drawing board to increase the spending to enhance the results.

Is that -- is that fair?

MR. LLOYD KUCZEK: No, actually right now we're -- we're -- you know, fir -- first of all with the neighbourhood approach, I -- I think it's important, you know, some of the discussions we've had with the -- our government counterparts in this as well too, because they were -- they were anticipating the results to be higher.

And internally, I've communicated to people that I think they need to be patient with this approach, because I still think there's an opportunity for more success than we're currently seeing. And, in fact, I'd like to see it expanded to some other neighbourhoods, including Portage and some other areas, so that we can continue to increase the number of participants in this program.

We are also having some internal discussions on the landlord issue, and I mentioned that earlier. And we're struggling in terms of whether it's appropriate use of the funds or not. But we're -- you know, if the objective is simply just to get the furnaces replaced and we're not concerned about the cost, which I don't think is the case for all parties at this table, at least present here, we certainly could spend more money, you know.

But we are spending a lot of money on administration already with the program, and I think it's in the eight hundred (800) - nine hundred dollars ($900) per furnace, so it's -- if anything, it's a concern in that regard. But to expand beyond and into the rental area is certainly an opportunity that needs to be considered.

MR. BRIAN MERONEK: We'll -- we'll get into that now or shortly. I -- I do want to talk about the issue of co-payments. And as I understand the -- the material, and it -- it clearly is a high-level understanding, there's a moniker called energy burden, which is essentially the fraction of -- sorry, the -- a gas bill to a low-income consumer as a percentage of -- of his or her or their overall income.

That -- is that a fair description of what energy burden is?

MR. LLOYD KUCZEK: Yes.

MR. BRIAN MERONEK: Okay. And as I understand the evidence, with LICO 125 customers, the -- the household gas usage is approximately within 2 percent of all other customers.

Will you accept that?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: We'll accept it while Ms. Morrison is checking.

MR. BRIAN MERONEK: Sure. And you -- you can check CAC/Centra-1-20KK and MM for the sources. But the income is less than half of non-LIC -- non-LICO customers. Is that correct? It's about a third?

MR. LLOYD KUCZEK: I'll accept it's in that range, yeah.

MR. BRIAN MERONEK: And correspondingly then, the energy burden is more than double. It's about two point six (2.6) times that of non-LICO customers?

MR. LLOYD KUCZEK: Yes. The energy burden -- you know, and it's -- it's pure math, actually, is certainly going to be greater for people with less income, and the number might be what you're suggesting. And there's no disagreement that that is the case when you make less income.

MR. BRIAN MERONEK: So the concept with respect to furnace -- the furnace replacement program and co-payments is that customers will break even after approximately five (5) years. By break even, that means that at nineteen dollars ($19) per month times five (5) years they'll be approximately nineteen dollars ($19) per month times five (5) years of savings?

MR. LLOYD KUCZEK: Well, when -- when the program was launched, and there some assessment after that, the -- the objective was clearly to try to design the program so the customer was not worse off. Generally speaking, we don't design energy-efficient programs to -- to actually transfer wealth from non-participating customers to participating customers.

And so -- so in the ideal case, which you -- you could try to do, is just design a program so that the -- the non -- or the participating customer is no worse off, and, therefore, there's no reason for them not to participate. And you could theoretically have that payment of nineteen dollars ($19) across the twenty (20) years and they'd be no worse off.

Now, the benefits, as I discussed earlier, with the furnace replacement program are twofold. One (1) is the avoided capital cost of replacing the furnace, and the other, of course, is the reduced energy bill.

So if you put the two (2) together and you do the financing, you won't have the reduced energy bills or the benefit from it because you'll have the financing payment.

MR. BRIAN MERONEK: Thank you. Now, just in terms of the -- the savings, I think the number is -- as I've heard the rec -- heard on record, eighteen dollars ($18) per month?

MR. LLOYD KUCZEK: I think we had a few numbers on the table last week, but I -- I thought there was a nineteen dollar ($19) number as well in there, based on the current rates. The May 1st rates.

MR. BRIAN MERONEK: How is that number calculated?

MR. LLOYD KUCZEK: I think how we calculated it last week, it was just a typical house based on the -- the graphs that we had, those -- and we just took the difference between the heating costs for a typical home using a standard-efficient furnace and one (1) with a high-efficient furnace, divided by twelve (12).

MR. BRIAN MERONEK: Now, it -- it's clear that the -- the main bang for the buck for a -- a person who takes advantage of this first replacement program is the -- is the fact that there's -- there's a massive -- a substantial subsidy that at the end of five (5) years they have -- have a significant contribution for the cost of the furnace?

MR. LLOYD KUCZEK: Correct. And then after five (5) years, of course, they would have the benefit of their reduced energy bills as well. And I might add, we actually -- there was a -- I think an application before the Board at one (1) point where we -- we did consult with our stakeholders including your client about whether or not the nineteen dollars ($19) for five (5) years was appropriate and whether it should be extended because of the cross-subsidy. And we did apply to the Board at one (1) point to extend it to ten (10) years, and that was denied.

MR. BOB PETERS: Now, the problem, I think that has been articulated, which I want to pursue, is that this capital enhancement doesn't necessarily assist people who rent, because they don't own the -- they don't own the furnace?

MR. LLOYD KUCZEK: The -- the issue -- it can -- it can benefit them, because of the alternatives that are available for landlords. And so one (1) of the things we discovered -- discovered with the land -- or in terms of those opportunities is for the landlord to -- to apply for a rent increase based on replacing his furnace. And -- and that amount works out to about sixty dollars ($60) a month, potentially. So if a landlord were to participate through this program that could benefit that lower income.

MR. BRIAN MERONEK: I want to get into that, but -- but at a high level, if you're a renter it's axiomatic that you don't own the -- own the furnace and therefore you don't get -- you're not able to get it -- take advantage of the -- the capital?

MR. LLOYD KUCZEK: Yeah, and I -- and again, I mentioned that last week and that was a bit of a concern for us, in terms of the appropriate use of the funds, because the landlords were going to realize the benefit of that capital of contribution.

MR. BRIAN MERONEK: And as you've just pointed out, a landlord can apply for an increase in rent of sixty dollars ($60) or seven hundred and twenty dollars ($720) a year, correct?

MR. LLOYD KUCZEK: In that range, depending on the cost of the furnace that he replaced. Is it --

MR. BRIAN MERONEK: Are you aware of any restriction on the landlord passing that increase along to the tenant?

(BRIEF PAUSE)

MS. LOIS MORRISON: During recent meetings with the residential tenancy branch we were -- it was -- we were brought -- it was brought to our attention that the landlord can apply and -- for energy efficiency upgrades, can get an increase in monthly rents as Mr. Kuczek outlined. And there are no restriction, per se, that were brought to our attention at that time.

MR. BRIAN MERONEK: So a tenant who receives a monthly savings of eighteen dollars ($18) a month, or -- or two hundred and sixteen dollars ($216) a year may end up paying seven hundred and twenty dollars ($720) in increased rent, or a difference of five hundred and four dollars ($504).

Is that not possible?

MS. LOIS MORRISON: If the landlord were to go about on their own and install the furnace and make those changes and apply to the residency branch for increase to rents, the customer may not see -- they may see a decrease in their energy bill; however, they would see an increase in their rents.

MR. BRIAN MERONEK: And that would defeat total purpose, correct?

MR. LLOYD KUCZEK: We're struggling with that scenario.

MR. BRIAN MERONEK: And as it presently stands, the number of lower-income households living in rented quarters, served by this program, is zero, correct?

MR. LLOYD KUCZEK: Well, we worked with Kinew to -- and their renting and we -- we worked out an arrangement through using our PAYS program and the Furnace Replacement Program, such that all their furnaces are going to get replaced. And the projections are they'll get those done this summer. And I think there's about a hundred and sixty (160).

MR. BRIAN MERONEK: Right now zero, but hopefully a hundred and sixty (160) in the summer -- by the summer?

MR. LLOYD KUCZEK: I think there's six (6) that are done, the last I heard. But that's correct.

MR. BRIAN MERONEK: Now, in the rebuttal evidence, I'm also of the understanding that Centra's developed a customized marketing package for commercial -- commercial property managers and owners, correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: More expressly, the -- Centra plans to launch a commercial version of the Pay As You Save Program?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: But there's no discrete marketing package for strategy for renters.

Is that correct?

MS. LOIS MORRISON: We did, actually, a number -- a couple of years ago, put together a pamphlet for tenants specifically, that we outlined opportunities for improving the energy efficiency of their area, what opportunities they might have with our programs, and low cost-no cost tips of what they could do, specifically.

We shared that, actually, with your client for feedback. And as a result of that, we published it and provided it to -- through our contacts with our Power Smart sector sales to the Property Managers Association, and they distributed it and had it -- we asked that it be distributed at as many of the apartment blocks as possible.

MR. BRIAN MERONEK: I'm speaking of current -- the current situation. In the rebuttal evidence Centra has indicated it plans to launch a comerc -- a commercial version of PAYS and to customize a marketing package for property managers and owners. And so I'm asking to -- for Centra to confirm that that -- such a program has not been discretely developed, or is it in the throes of being developed for renters, specifically?

MS. LOIS MORRISON: Can I ask for clarification? Are you saying, specifically, are -- we updated our pamphlet to provide tenants with any new programs that are offered now?

MR. BRIAN MERONEK: Anything that is going to pattern what Centra plans to do for commercial property managers and owners.

(BRIEF PAUSE)

MS. LOIS MORRISON: We already have the program in place for landlord-tenants, that's available that would help the tenants from the PAYS's perspective. There's the residential PAYS. We can easily update the pamphlet that exists right now for tenants with what's offered. Again, the commercial PAYS's program that will be launched is more of a -- it's -- it's -- it's the second half of the first half, which was the first half, being the launching of residential PAYS.

The brochure that we have, it targets specifically multi-unit apartment-style commercial buildings, is updated on a relatively rel -- regutiv -- regular basis and distributed to our property managers in order to help bring down the energy costs associated with those units.

(BRIEF PAUSE)

MR. BRIAN MERONEK: I want to talk a bit about the Dunsky report that was commissioned by Manitoba Hydro. I understand that it was a report prepared in 2009 and was presented at the 2010/'11 and

2011/'12 Manitoba Hydro GRA?

MS. LOIS MORRISON: Yes, it was filed with both.

(BRIEF PAUSE)

MR. BRIAN MERONEK: And Mr. Dunsky, in that report, indicated that it was an unusual requirement for customers of a utility to be required to be involved with co-payments.

Do you recall that?

MR. LLOYD KUCZEK: I rec -- recall Mr. Dunsky stating that, yes.

MR. BRIAN MERONEK: But yet there is a co-payment requirement. Can -- can Centra advise as to how it responds to that apparent conflict?

MR. LLOYD KUCZEK: Yeah, I guess I can. There's -- you know, we have a lot of respect for Mr. Dunsky, and Mr. Dunsky and Centra, or Manitoba Hydro, don't agree on all the particular views of -- that Mr. Dunsky has expressed, and we've discussed some of them. We -- we don't think the nineteen dollar ($19) payment for the Furnace Replacement Program is inappropriate.

As I mentioned earlier, we actually

filed an application and we consulted with your client as whether -- as well as another stakeholder about whether it was appropriate or not. And I believe at that time your client agreed that a -- it could go beyond five (5) years, and that was appropriate.

So, you know, it's -- it's really a discussion about, there's costs associated with the program, and there's benefits, and what's the appropriate use of those funds and how do you share those? You could certainly design a program to transfer more dollars for one (1) -- one (1) rate-paying group to another rate-paying group. And the discussion is really about what is appropriate in terms of doing that, and balancing that against the participation and the objectives of the -- the program.

So if -- if the objectives of the program are exclusively just to replace the furnace irrespective of cost, and the social -- or the -- the issue of transfer of funds from one (1) ratepayer group to another, certainly more can be done, and we can do that. But we don't view programs just from that exclusive perspective.

MR. BRIAN MERONEK: But -- but the object of the exercise is to assist LICO-125 consumers to take advantage and avail themselves of this program, correct?

MR. LLOYD KUCZEK: The objective of the program is to target that particular market segment and to encourage participation in those energy efficiency measures that we promote through that program.

MR. BRIAN MERONEK: And Mr. Dunsky, in his report, also indicated that there is at least anecdotal evidence to suggest that the presence of co-payments reduces participation.

Do you re -- do you recall him saying that?

MR. LLOYD KUCZEK: I recall him saying that. And -- and we also have had customers that have refus -- refused to participate in our lower-income insulation component of our program, and there's no co-payment there.

So, you know, the -- the -- I'll agree with the generic statement, the -- the more you offer customers in terms of monetary benefit, in theory, and it -- it should be in practice, then more people will participate. But that is not how we look at programs. There's -- there's broader issues involved with it, as I just mentioned. And in combination with those, and when designing a program, you need to consider all those factors.

MR. BRIAN MERONEK: Has Centra performed any analysis to determine whether there would be a greater participant -- participation rate by the target market if co-payment was reduced, say to 25 percent, or eliminated all together?

MR. LLOYD KUCZEK: I --I would provide a generic statement saying that any time you offer more incentives to customers you should see more participation. But, as I mentioned earlier and I'll -- I'll repeat it again, but that is not the only consideration in designing a program.

MR. BRIAN MERONEK: But you do have extra money in the kitty to incorporate such a amelioration of co-payment, if you so desired?

MR. LLOYD KUCZEK: Yes. And I think, as ratepayers, I hope that ratepayers would expect Manitoba Hydro to -- to be fiscally responsible in terms of how it spends its dollars. And just because there's dollars in a budget, I don't think that's justification to spend those dollars. I think it still has to be rationalized.

MR. BRIAN MERONEK: Mr. Chairman, I wonder if we might take the morning break?

THE CHAIRPERSON: Let's do that. Let's get -- resume proceedings at twenty (20) to 11:00.

--- Upon recessing at 10:26 a.m.
--- Upon resuming at 10:43 a.m.

THE CHAIRPERSON: I believe everybody is in position. Mr. Meronek, please.

MR. BRIAN MERONEK: Thank you, sir.

(BRIEF PAUSE)

MR. BRENT CZARNECKI: Mr. Meronek, Mr. Chairman, actually before -- I hate to interrupt, but before you proceed, Mr. Kuczek can speak to one (1) of the undertakings he -- we had provided earlier this morning.

MR. LLOYD KUCZEK: Yes, Mr. Meronek, you asked how many furnaces were replaced under the furnace replacement program that we had for all customers that involved two hundred and forty-five dollars ($245).

So I don't have the date that we launched the program, but it started partway through

'05/'06, and there was twelve hundred and twenty-eight (1,228) furnaces that year. In '06/'07, there was seven thousand twenty-eight (7,028). In '07/'08, there was six thousand six hundred and thirty (6,630). In '08/'09, there was seven thousand two hundred and ninety-five (7,295). And in December -- or in '09/'10, there was five thousand one hundred and ninety (5,190). And the program ended December 31st, '09, so that was just part of a year.

Now, this is participants. It doesn't include free riders. Free riders would be those customers that would have replaced the furnaces anyways. And -- and if -- if you refer to our quarterly report for the low income program, we provide the number of furnaces that are replaced on an annual basis. And in '03 you'll see that there was roughly fifty-five (5,500). Then it increased to six thousand (6,000). Then it went to seven (7), ten thousand (10,000).

So, you -- you know, there's a lot of furnaces replaced every year, and so the free ridership is -- those customers would have participated anyways. And I'd just be careful in comparing the two (2) programs. One (1) involved -- just two forty-five (245) wasn't a significant number in terms of incentives.

And as Ms. Morrison mentioned, we were just trying to get the market ready for accepting the code changes.

CONTINUED BY MR. BRIAN MERONEK: MR. BRIAN MERONEK: Thank you for that. I -- I was -- wasn't trying to compare, obviously. I -- I understand the difference. I was just trying to determine how close to your forecast you were, and it sounds like you were pretty close.

MR. LLOYD KUCZEK: We might have been. But, you know, I would -- I'd be the first to admit that we aren't always accurate in terms of our forecast with participants. And I -- I did mention last week, in terms of adjusting our budgets, part of that adjustment was because we -- our partic -- the participation we experienced was less than what we projected.

MR. BRIAN MERONEK: Thank you. Just to wrap up in co-payment, Centra has volunteered in CAC/Centra IR-1-20-JJ that it hasn't undertaken studies or tracked why customers -- sorry, as to what number of customers are not participating in the program because of the co-payment constraints, correct?

MS. LOIS MORRISON: We have not undertaken any specific studies to de -- to determine if that is the reason specifically why they're not picking up the furnace replacement component of the program or the insulation component of the program.

MR. BRIAN MERONEK: I just want to understand one (1) aspect of the rebuttal evidence. And if I could direct you to page 4 of 10.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Line -- starting at line 24, it says:

"Centra notes that only eighteen (18) customers, or 7 percent, have opted not to proceed with the furnace upgrade through the FRP."

That doesn't really say much about what we're concerned about, and that is the -- the number of participant -- sorry, the number of LICO-125 customers who haven't taken advantage of the program because of co-payment.

MS. LOIS MORRISON: What we're referencing there is that those are customers who were

-- who -- who applied to participate in the LIEEP program as a whole. As part of the in-home pre-assessment we recommended changing out their furnace, and those customers have chosen not to parti -- not to continue forward with the furnace replacement component of it.

Comparable to that is that, I believe we reported that 9 percent of the customers that we also recommended furna -- insulation upgrades, free insulation upgrades, also chose not to continue forward with that component of our offering. So what we were doing there was co -- was providing information on customers who, for reasons they did not share with us, chose not to proceed with opt -- with portions of the program that we offered.

MR. LLOYD KUCZEK: I -- I would like to add a comment, as well. Like, I'm not as concerned about the nineteen dollar ($19) payment with the furnace replacement program as I am with having a co-payment with the insulation component of the program. I -- I believe that customers that have these older furnaces, for the most part, view that program as fairly generous and a great opportunity to replace their furnace as opposed to being ex -- exposed to having to do it themselves at some point, or having to call a furnace repair guy in the middle of the night or on a weekend.

So I think the incentives are there from the -- that perspective, and I don't think they're deterred from the nineteen dollars ($19), it would be my judgment call, in terms of that program. But I would be concerned about a co-payment progr -- or a -- a payment with the insulation component of the program because those customers wouldn't see that same value there. They can defer putting in insulation for an indefinite period of time, I guess.

MR. BRIAN MERONEK: But that would be your -- that's your hunch?

MR. LLOYD KUCZEK: That's correct.

MR. BRIAN MERONEK: Just so I understand the numbers, these numbers that we just discussed don't contemplate the thousands of people who have not availed themselves of the program and for reasons that no one knows?

MS. LOIS MORRISON: It does not take into consideration customers who are non-participants.

MR. BRIAN MERONEK: Thank you. I want to switch gears now and talk about Centra's methodology with respect to cost savings to customers. And to begin with, the established record to date indicates that Centra evaluates savings using its own staff, correct?

MR. LLOYD KUCZEK: Correct.

MR. BRIAN MERONEK: Yeah. And they're based on engineering estimates by Manitoba Hydro/Centra employees, correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: And as I understand -- I think this is -- was covered before, the -- these are estimates, they're not actual numbers, correct? They're actual numbers, but they're not -- they're not actual results. They're -- they're clearly estimates based on averages?

MS. LOIS MORRISON: They're estimates that are based on generally accepted or -- or calculations in the en -- in the engineering industry for determining thermal losses in a house and the changes as a result of improving the thermal barrier. They are also including generally accepted practices among all the engineering community for how you calculate changes in energy consumption for changing out the efficiency of appliances and such.

MR. LLOYD KUCZEK: I -- I could add to that, too. What the furnace replacement program -- when we started promoting high efficient furnaces from standard, I was interested in that as well, and I had my load forecasting staff at the time actually do some analysis of homes that replaced their furnaces. And the numbers came in fairly close to exactly what we would have thought based on those engineering calculations of 90 percent efficient from sixty (60). So we were really comfortable with the -- with the furnace replacement program in terms of those numbers.

MR. BRIAN MERONEK: Comfort aside, they -- there has -- there are no methodologies used to measure actual furnace replacement program savings for a particular customer, correct?

MR. LLOYD KUCZEK: No. There's always behavioural changes taking place in a home too. So there's -- it's impossible to actually measure exactly what happened from one (1) year to another in a household because of those changes.

So the only thing you can do is you can -- you can look at a number of homes and statistically it should provide you with some comfort that it's in a reasonable range based on those estimates. And -- and that's what you generally do.

MR. BRIAN MERONEK: Now, you -- you did mention that Centra's approach in terms of engineered estimates and evaluations is consistent with other North American jurisdictions?

MR. LLOYD KUCZEK: Generally speaking. There is an international performance measurement and advertification (phonetic) protocol that exists. This is a -- a standard document that talks about the concepts and options for determining energy savings.

We have had our technical staff actually undertake the course itself, a few of our staff. So when we -- our -- our marketing staff determined the energy savings they go to the experts, our technical experts, to come up with those numbers. And that provides me with a -- a significant comfort level in terms of reasonable estimates.

Having said that, when program concepts are designed and they still come be -- before my desk, I -- I still look at the reasonableness of those savings and challenge those.

MR. BRIAN MERONEK: Now, back to Mr. Dunsky. He had recommended in his 2009 report that Manitoba Hydro should consider periodically hiring independent evaluators to conduct impact and process evaluations.

Do you recall that, sir?

MR. LLOYD KUCZEK: Yes, I do.

MR. BRIAN MERONEK: I take it that's

not something that Centra agrees with?

MR. LLOYD KUCZEK: I wouldn't say we disagree with it. It's a judge -- judgment call in terms of spending the ratepayer's dollars and the value that's going to be realized through it.

So internally as I -- I discussed, we have some -- we have experts that are knowledgeable, have taken the course, and I'm quite comfortable in that regard. I was very interested in actually undertaking -- or hiring a consultant to at least evaluate one (1) of our programs. And I considered that and asked my staff -- evaluation staff to get an estimate of what that would cost.

And the cost is in the hundred thousand dollar range per program just to do an impact assessment. And if you wanted to do a process assessment it would be more than that, or more than that combined, I guess.

So based on that I have -- I have some concerns about whether there'd be value in undertaking such an assessment given the resources that we have internally. Having said that, we're not totally close to it at this point and still considering -- considering that option on an ongoing basis.

I certainly wouldn't pay for it for a

furnace replacement program though in -- in terms of the actual savings. I wouldn't pay for it in terms of the savings that would be realized with a -- a lighting replacement that's fairly straightforward from a 60 watt to a 13 watt. There is some judgment in terms of the, you know, the -- the number of hours that would be used, but to hire a consultant to give me an estimate on that I don't think would be a good use of ratepayer dollars.

MR. BRIAN MERONEK: Just in terms of this topic, if you turn to page 6 of the rebuttal evidence under the heading "Contract for Independent Process and Impact Evaluation." Starting at line 36 it states:

"The installation of energy efficient measures are verified by pre- and post-evaluations of participating homes by independent external energy advisors."

Am -- am I correct in -- in surmising that the review here was to verify that the installations were performed adequately or at all?

MS. LOIS MORRISON: The purpose of those inspections is first to set the pre-level of insulation and the post-level so that we can determine if the Power Smart levels were reached within the installation.

MR. BRIAN MERONEK: But -- but they weren't -- they're not done to measure at some point in time the impact of the savings?

MR. LLOYD KUCZEK: That's correct. But I would like to add that part of that reason for doing the pre-audits is to assist the low income customers to make the process much easier for them in terms of what those opportunities are. So we have an advisor that goes in there and identifies those opportunities and -- and provides a report to the lower income customer, and makes it fairly straightforward in terms of what -- how the program is going to work for them. But they do not assess the energy savings that will result from those opportunities.

MR. BRIAN MERONEK: Thank you. And -- and in terms of savings, I just want to segue into billing analysis. I understand that -- that Centra is in favour of a billing analysis to determine LIEEP program savings?

MR. LLOYD KUCZEK: Yes, I see value in doing that. We're -- we're going -- we're expecting to see behavioural changes. I think one (1) of the data inputs were -- that I -- I seen was there was a number of customers that have moved. So we'll have to exclude those customers and try to analyze the customers that participated in the program that haven't moved.

Having said that, I know from even my personal experience that, boy, the behaviour changes of people even within your household. If you have an 18-year-old daughter or a 16-year-old daughter certainly could change things over the years.

But I do see the value in doing that. And we have the resources, so I don't know why we wouldn't do that. And we are planning on doing it. And given that we've -- we've got a number of homes that have participated in the program at this point in time, I think that's a valuable study to undertake.

MR. BRIAN MERONEK: Does this program contemplate including the first replacement program?

MR. LLOYD KUCZEK: I -- I'm not really interested in assessing that because we -- we've done an assessment of the furnace replacement program. But having said that, it probably wouldn't take a significant effort to add that component to it. And we -- we probably would look at that and just see what the differences are. And if they're showing some statistical differences from what we would expect, that would be a cause for concern and make me question the validity of the -- the study based on the insulation measures.

MR. BRIAN MERONEK: One (1) of the comments by Centra in -- in supporting the proposition that engineering estimates are appropriate for evaluating the impact of this -- these programs is that:

"The -- the measures are fairly straightforward and homogenous in terms of consumption patterns."

Et cetera. Sorry, 'et cetera' is a bad word. I -- I learned that in law school. So I'll take the ec -- et cetera out of it and say:

"Include the use of deemed savings to measure the impact of the program as appropriate."

And I'm reading from Centra rebuttal evidence page 7, lines 25 to 27.

MS. LOIS MORRISON: When we're determining the approach to developing an evaluation plan for a program we look at the type of measures that are being incorporated and how those measures are traditionally used.

Now, as Mr. Kuczek mentioned, furnaces, for the most part, are relatively straightforward. It's one (1) technology. It's driven by heating load and heating requirements and the thermal bridging -- the thermal barrier of the house.

And so, based on that, it's reasonable to determine an estimated savings based on per square foot of the house and such. And so we can put together an evaluation based on that. Those types of approaches are used and are relatively consistent in other areas of the industry. And then you would take a different approach, where the technology has maybe a different type-of-use pattern.

So that's what we look at when we're determining the evaluation approach. And that's why, for the heating system of a residential building, we're relatively comfortable with using engineering estimates supplemented with individual characteristics of the home.

MR. BRIAN MERONEK: Just in the -- on the theme of homogeneous, would -- would you agree that the energy burden by dwelling type is different for apartments versus single family dwellings?

(BRIEF PAUSE)

MS. LOIS MORRISON: In most cases the person in the apartment would have a smaller bill, because they would normally not have their heating included. Compared to someone who lives in a single attached or multi-attached home, who may be play -- paying for their heat with their bill.

MR. BRIAN MERONEK: And --

MR. LLOYD KUCZEK: And adding to that, even when your bill is smaller you may tend to -- and -- and we do see this, because the bill isn't as big you might not be as concerned if you -- and this same thing would apply when customers replace their furnaces and have insulation upgrades. The total bill might not be as significant as it was before, so there may be less behavioural adjustments to help reduce those bills with the upgrades in place. But we're aware of those, and -- and, you know, that's -- that's just part of the -- the impact on the results.

MR. BRIAN MERONEK: And I want to put more of a shape to this. You know, I have reviewed the 2009 survey report and note that with respect to energy burden by dwelling type, it's 5 percent for apartments and 10.9 percent for a one (1) person dwelling.

Will you accept that?

MS. LOIS MORRISON: Could you be -- could you please provide me the reference page, please?

MR. BRIAN MERONEK: Page 41.

(BRIEF PAUSE)

MS. LOIS MORRISON: I -- I believe you're looking at the second section from the bottom, which is the natural gas billed?

MR. BRIAN MERONEK: Right.

MS. LOIS MORRISON: Apartment suites have a epr -- estimated energy burden at 5 percent?

MR. BRIAN MERONEK: Yes.

MS. LOIS MORRISON: And are you then comparing it to single detached natural gas billed LICO-125 at eight-point-eight (8.8)? Or what are you comparing it to, to come up -- you're using 10 percent. Are you then looking at overall rental occupancy?

MR. BRIAN MERONEK: I'm looking at my notes. We can look at the overall.

MS. LOIS MORRISON: Okay. So -- well, it -- it might be, for the purposes of this hearing, and the fact that we're discussing natural gas, it might be if we're looking at the LICO-125, apartment suites have a -- what's deemed to be an energy burden of 5 percent. And single detached natural gas billed customers, meaning customers that get an natural gas bill, are at 8.8 percent.

MR. BRIAN MERONEK: Right. Okay. And then your energy burden by people per household, I've got at 6.1 percent for four (4) people, and 10.2 percent for one (1) person. And that's on page 39, under 'natural gas billed'.

MS. LOIS MORRISON: So the one (1) per house natural gas billed at 10.2 percent? And, I'm sorry, your other reference was?

MR. BRIAN MERONEK: The four (4) person.

MS. LOIS MORRISON: The four (4) person at 6.1 percent?

MR. BRIAN MERONEK: Yeah. The point I'm trying to make here, very ponderously, is that there are -- there are differences. And I guess it's a -- a question of whether or not you -- how you define 'homogenous'. But it seems that there are -- there are different levels and can we be comforted by virtue of the fact that there are discrepancies that -- that estimates may not be -- tell the -- the accurate story?

MS. LOIS MORRISON: In general, there are components of our analysis where we do look at those items, such as the square footage. We look at the building types. So we would not necessarily compare a -- we would have a different heating savings associated with a furnace in an apartment suite as opposed to a furnace in a single detached home.

We would have -- traditionally the heating requirements of a house are not affected as by -- or are not as significantly affected by the number of people in the house. Water heating use is affected by the number of people in the house.

So these are the types of components that we look at in our -- in our analysis. So from a broader perspective your point is ac -- is correct, that we -- there are things that we cons -- that may -- you can't just take a -- a dwelling, to a dwelling, to a dwelling.

But as I noted in my previous testimony, we take things into consid -- we take deemed savings based -- that is augmented by information specific to the customer, such as square footage of the home, type of the home, that type of information. So I think we're kind of both saying the same thing to a certain extent.

MR. BRIAN MERONEK: I'll accept that. Just moving onto a discrete topic, a brief topic, and it's the weighted average cost of capital that's employed as a discount rate for these programs.

And Centra has indicated that it's using a 6.1 percent of weighted average cost of capital for its 2011 Power Smart plan.

Is that correct?

MS. LOIS MORRISON: That is correct.

MR. BRIAN MERONEK: Now, how does that translate into dollar amounts for the furnace replacement program? Obviously that's part of the disbursements, correct?

(BRIEF PAUSE)

MS. LOIS MORRISON: The 6.1 percent that we -- and how we use it is to assess the economics of the program. I don't believe -- and -- and I would leave that to the revenue requirements panel to discuss how they treat the disbursements of the furnace replacement program. But from our perspective, the 6.1 percent is how we discount future benefits to bring it to a present value state.

MR. BRIAN MERONEK: I'll -- I'll save that for the revenue requirement panel. Thank you.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Great. Thank you, panel, for your cooperation. Thank you, Mr. Chair. I'm finished.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you, Mr. Meronek. Now, I turn the microphone over to Mr. Czarnecki. Do you have any re-examination of the -- of Centra's witnesses?

MR. BRENT CZARNECKI: No, we do not. But, Mr. Chairman, I do have an undertaking to file. It's the second undertaking we took and it was for Centra to restate the schedule as an update to PUB/Centra 13(a), the attachment to include the 12.9 million of weather impact. And I would ask that it be marked as, I believe it would be Exhibit number -- Centra Exhibit number 7.

--- EXHIBIT NO. CENTRA 7: Response to Undertaking 2

MR. BRENT CZARNECKI: And then, Mr. Chairman, I would just propose that we take a -- a short break so that the revenue requirement panel can be seated and sworn in.

THE CHAIRPERSON: What would be the amount of time that you would require, say fifteen (15) minutes? Would that be adequate?

MR. BRENT CZARNECKI: That would be more than sufficient, thank you.

THE CHAIRPERSON: Let's do ten (10), then.

MR. BRENT CZARNECKI: Fine by me.

(BRIEF PAUSE)

THE CHAIRPERSON: I'm sorry. I should have said thank you to the DSM witnesses.

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

--- Upon resuming at 11:22 a.m.

THE CHAIRPERSON: Good morning to the new panel members. I wonder, Ms. Boyd, if you could -- good morning -- I wonder if you could introduce the panel members before I ask the Board's secretary to administer the oaths, please.

MS. MARLA BOYD: Certainly, Mr. Chairman. Good morning. And good morning, Board members.

It's my pleasure to introduce, this morning, the revenue requirement panel. We have Mr. Rainkie, who, of course, has been introduced already, vice-president of finance and regulatory. Beside Mr. Rainkie is Hanri Jacobs, who is the corporate controller for Centra Gas. Next to Ms. Jacobs is Kelly Derksen, who is the manager of cost of service. And Mr. Barnlund, who is also known to the Board, division manager of rates and regulatory affairs. And finally, we have Mark Prydun, who is the division manager of business support and capital asset management. And I should mention that the revenue requirement panel comprises six (6) witnesses.

So not with us this morning is Manny Schultz, who is the corporate treasurer. And by arrangement with Board counsel, I've indicated Mr. Schultz is not available until tomorrow afternoon, so he'll be joining the panel at that time. And with your leave, we'll introduce his direct evidence a little bit out of sequence and partway through Mr. Peters's cross.

I might also -- sorry, Mr. Singh. I might also take a moment just to introduce the back row supporting these witnesses. We have Sandy Bauerlein, who's the manager of management fi -- financial services department; Danielle Swain, who is a regulatory financial analyst; Brad Deryck, who is cost allocation supervisor; Dave Petursson, manager of distribution standards department; and, of course, Ms. Natalia Giraldo-Gomez, who's the regulatory coordinator.

And behind the scenes behind the scenes in our back room is Ashley Janzen, who is also a regulatory coordinator working very hard in the support of this application. So if I could ask that the panel be sworn, please.

CENTRA PANEL 3:

DARREN RAINKIE, Resumed
HANRI JACOBS, Sworn
MARK PRYDUN, Sworn
KELLY DERKSEN, Sworn
GREG BARNLUND, Resumed

EXAMINATION-IN-CHIEF BY MS. MARLA BOYD:

MS. MARLA BOYD: Mr. Chairman, you'll

recall that the evidence of -- direct evidence of Mr. Rainkie and Mr. Barnlund was put on the record on the 13th of June. So we'll carry on with the direct evidence of Ms. Jacobs.

Ms. Jacobs, could you please outline your areas of responsibility with respect to this application?

MS. HANRI JACOBS: Good morning, Mr. Chairman, members of the Public Utilities Board, ladies and gentlemen. In my testimony, I will be providing evidence related to operating and administrative cost, integrated cost allocation methodology, depreciation and amortization, capital and other tax -- taxes, other income, and other revenue requirements.

And I have next to me Mr. Rainkie that I'm fully hoping will support me, as well as the back office folks.

MS. MARLA BOYD: Could you please outline Centra's cost of operations for 2013/'14 test year included in this application?

MS. HANRI JACOBS: Yes. Centra op -- Centra's operating and administrative costs for twe -- 2013/'14 are forecasted to be 68.8 million, including CGAAP accounting changes of 7.2 million, reflecting the removal of certain costs from overhead capitalized and reclassification of operating expense recoveries to other revenue of .6 million.

MS. MARLA BOYD: Could you please advise the Board whether there's been an -- any changes to the integrated cost allocation methodology since the last GRA?

MS. HANRI JACOBS: Yes, there has been changes to the integrated cost allocation methodology since the last GRA. As outlined in PUB/Centra 1-21A, historically under CGAAP Centra usili -- utilized the full cost accounting approach to capitalize of administrative and overhead cost.

Since the last GRA, cost has been removed from the overhead pools and allocated directly to Centra's income statement. Changes in the overhead capitalization practices implemented to date recognize industry trends to move away from full cost accounting and are designed to make the Corporation's practices consistent with those of other Canadian utilities.

Items removes -- items removed from overhead pools include interest on equipment and facilities, building depreciation and operating costs, IT infrastructure and related support, as well as various corporate department costs. These changes are compliant with CGAAP and have been fully endorsed by Manitoba Hydro's external auditors.

MS. MARLA BOYD: Could you please explain the changes that Centra has implemented as a result of the recent depreciation study that impact the 2013/'14 test year?

MS. HANRI JACOBS: Yes. As part of Centra's depreciation study completed in October 2011, Centra implemented new service life estimates effective April 1, 2011. The net effect of the new service life estimates is a decrease of the weighted average depreciation rate from 2.80 to 2.62 percent, resulting in a depreciation expense decrease of 1.2 million for the test year.

Further, four (4) new component accounts were added in response to changing business requirements. Some general planned accounts were moved where assets became fully depreciated and were retired prior to 2010 depreciation study. The accounts are no longer required by Centra as all general plants' assets are now acquired by Manitoba Hydro.

MS. MARLA BOYD: Thank you, Ms. Jacobs. Ms. Derksen, would you please outline your areas of responsibility with respect to this application?

MS. KELLY DERKSEN: Good morning, Mr. Chairman, members of the Public Utilities Board, ladies and gentlemen. In my testimony I will be providing evidence related to the 2013/'14 cost allocation study. And just a -- a side note, the cost allocation study that I will be referring to in my evidence re -- relates to the company's revenue requirement and how I apportion that to each of the customer classes external of the company as compared to what -- what Ms. Jacobs has just spoken -- spoken to.

And I will also be dealing with the allocation of non-primary PGVA and gas cost deferral account balances as of October 31st of 2012, with carrying costs to July 31st of 2013, rates and related customer bill impacts for the various customer classes.

MS. MARLA BOYD: Ms. Derksen, is the cost allocation methodology used in connection with this rate application consistent with that used in previous applications?

MS. KELLY DERKSEN: Yes, Centra is not proposing any substantial changes in its approach to cost allocation in this application. Centra's application describes a mo -- a modification made to the allocation process related to DSM amortization expense, which represents a change from the last GRA. Centra continues to -- to assign DSM amortization expense, which in this application is forecast at $7.2 million, on the basis of anticipated participation forecast by each customer class.

For the 2013/'14 test period, for example, it is expected that 58 percent of the program budget will be directed toward SGS customers. And, as such, Centra has assigned approximately 4.2 million, which is 58 percent of the 7.2 million overall, to the SGS class. This assigned DSM amortization expense for each class has now been functionalized and classified -- sorry, functionalized to transmission and classified as energy-related.

Previously, assigned costs were functionalized as on-site, and classified on the basis of number of customers. While this change does not impact the assignment of DSM amortization expense to each of the customer classes, it does shift the cost from being recovered through the basic monthly charge to the volumetric charge.

There is no impact of this change to the SGS and LGS customer classes because the basic monthly charge is set independently of costs determined to be customer-related, with the residual being recovered through the volumetric distribution rate.

For larger volume customer classes, the DSM amortization expense will be recovered volumetrically from customers within a class. The larger volume consumers within these classes stand to benefit to a greater extent from DSM opportunities and, therefore, DSM costs recovered volumetrically will align more directly with its cost recovery.

MS. MARLA BOYD: Ms. Derksen, could you please outline for the Board what Centra proposes to implement in terms of base rates for the 2013/'14 test year?

MS. KELLY DERKSEN: For the 2013/'14 test year, Centra proposes to implement new base rates on August the 1st of 2013, to incorporate non-primary gas costs of approximately 73.5 million, and a 154.5 million of non-gas costs. The base rate associated with primary gas is not dealt with as part of this application and it will be updated as part of Centra's next quarterly rate application in July for new par -- primary gas rates to be effective August 1st.

MS. MARLA BOYD: And could you please

outline the rate riders that Centra is proposing in this application?

MS. KELLY DERKSEN: Yes, Centra is proposing to implement a number of rate riders that will recover from customers a net amount of approximately fourteen thousand dollars ($14,000) of gas cost deferral account balances as of October 31 of 2012, plus carrying costs to July 31st. These rate riders are based on PGVA and gas cost deferral account balances for both the '10/'11 and '11/'12 gas years. No changes were made to these balances as a result of the cost of gas update that we filed on May the 10th.

The allocation of gas cost deferral bal -- deferral balances to each customer class may be found on Schedule 12.3.1 of our white paper application. Centra is proposing to implement these rate riders on August the 1st for a twelve (12) month period to expire July 31st of 2014.

MS. MARLA BOYD: And is Centra seeking any additional approvals at this time?

MS. KELLY DERKSEN: Yes. Centra's primary gas base rate has been broken down into two (2) components. By far the largest component representing over 99 percent of the base rate is the cost of the commodity itself.

This cost component is dealt with quarterly through the primary gas rate applications. For purposes of cost allocation in this application Centra has included an -- an estimate of its cost, which is used to drive allocations within the cost allocation study but not to establish rates.

A second component of the primary gas base rate includes some minor non-gas costs. This component of the primary gas base rate is known as the primary gas overhead rate.

In this application Centra is seeking approval of a primary gas overhead rate of zero point eight eight dollars ($0.88) per 103M3. This rate can be found on Schedule 11.1.2 on line 49 of the May 10th cost of gas update filing.

Assuming PUB approval, Centra will implement this new primary gas overhead rate as part of our next quarterly primary gas rate change on August 1. Similarly, Centra's fixed rate primary gas also may be -- be broken down into two (2) components.

The commodity cost component is dealt with through Centra's various fixed rate offerings. For purposes of cost allocation Centra has included an estimate of its cost, which is used to drive allocations within the cost allocation study, but not to establish the rate.

The second component of the fixed rate primary gas includes non-gas costs. This component is known as the FRPGS program cost rate, the fixed rate primary gas service program cost rate.

The non-gas cost reflected in this rate can be identified in Centra's Schedules 11.1.4 and 11.1.5 as per the cost of gas update filed on May 10th. As identified in these schedules the program cost rate reflects direct costs of approximately a hundred and ten thousand dollars ($110,000) related to marketing, call centre, and gas supply, unamortized regulatory and startup costs of approximately a hundred thousand dollars ($100,000), and another -- and a further thirty thousand dollars ($30,000) of indirect costs, which are related to audit, IT, gas accounting, regulatory, finance, and corporate allocation.

Centra is seeking approval of the -- the fixed rate primary gas service program cost rate of thirty-one dollars and forty-one cents ($31.41) per 103M3. This rate can be found also on 11 -- on Schedule 11.1.2, line 49 of the May 10th update.

MS. MARLA BOYD: Ms. Derksen, can you

advise the Board what the bill impacts are arising out of this application?

MS. KELLY DERKSEN: The bill impacts arising from changes flowing from this application are set out on Schedule 12.1.0 of our May 10th cost of gas update filing. The impact to the typical residential customer of all changes flowing from this application is 2.6 percent, or nineteen dollars ($19), which represents the difference in annual bill proposed for August 1st, 2013, compared to the annual bill approved on May 1st of 2013.

The range of bill impacts for larger volume customers range from a decrease of 7.4 percent to an increase of 3.5 percent depending on customer size, load, and -- and demand usage. These im -- these bill impacts represent to the customer the change in all rates flowing from the proposed general rate application, changes in non-primary gas costs that are proposed in this application as well, and new rate riders, and represents to the customer what the total bill is that he will be paying today versus the -- the -- versus the total bill that he will be required to pay tomorrow.

The primary gas rates remain constant and therefore do not contribute to this impact. The impact results from changes to the primary gas overhead component that I've just spoken of are also not reflected in -- in these calculations, but will be reflected as part of the August 1st, 2013, primary gas application.

MS. MARLA BOYD: Thank you, Ms. Derksen. Mr. Prydun, could you please outline your areas of responsibility with respect to this application?

MR. MARK PRYDUN: Thank you, Ms. Boyd. Good morning Chairman Gosselin, panel members, Ms. Kapitany and Mr. Soldier, Manitoba Public Utilities Board representatives, fellow colleagues, ladies, and gentlemen.

In my testimony, I will be responding to questions regarding capital expenditures and forecasts related to natural gas distribution and transmission plants, proposed modifications to the customer equipment problem program, and proposed new activity rates for third-party damages.

MS. MARLA BOYD: Mr. Prydun, could you please advise of significant changes in Centra's major capital projects and expenditures in recent years?

MR. MARK PRYDUN: In recent years, Centra has undertaken a number of major projects related to system reliability, relocation of plant due to provincial road alignments, restoration of gas service due to a river-bank failure, and upgrading of its computerized gas delivery monitoring system.

It has also recently undertaken numerous plowing projects to convert large agriculture operations from coal to natural gas, for heating purposes.

With respect to system load growth, the installation of customer requested new services, including regulators, meters and mains, have also increased for both residential and commercial premises.

MS. MARLA BOYD: Could you please provide a brief update on Centra's planned, major -- sorry -- planned spending on major capital and system improvement projects for the 2013/'14 test year?

MR. MARK PRYDUN: In the 2013/'14 test year, Centra plans to undertake two major projects to accommodate industrial customer requested increased gas supply in the vici -- vicinities of St. Francis Xavier and Morris. It also anticipates continued plowing activity to serve agricultural operations.

New service installation, due to system load growth, are forecast to remain stable or decrease slightly, and capital programs related to distribution system improvement are projected to modestly increase.

Additional funds are also forecast to accommodate the increased replacement volume of natural gas meters required to remain compliant with the changes to Measurement Canada regulations under the Federal Electricity and Gas Inspection Act.

Capital expenditures forecast as a result of these planned projects for the 2013/'14 test year are expected to be higher than that of 2012/'13, recognizing that the magnitude is dependent on actual customer demand for new service installations and plowing projects. While expenditures related to system improvement projects should remain similar to the previous year the cost associated with identified major projects may put additional pressure on the Centra capital budget.

MS. MARLA BOYD: And could you outline what changes Centra is proposing with regards to its customer equipment problems program?

MR. MARK PRYDUN: Centra is proposing to modify the wording of Section 4, General Terms and Conditions, Part E, to limit the pro -- the provision of service under the customer equipment problem program to primary natural gas, space and water heating, residential and commercial appliances under 400,000 BTUs or British thermal units per hour.

Customers that request service for non-space and water heating natural gas appliances would be instructed to contact a private contractor of their choice. Centra will continue to respond to all safety-related service calls at no charge.

MS. MARLA BOYD: And could you please briefly describe for the Board what Centra is seeking in terms of new activity charges for damage investigation and appliance re-lights?

MR. MARK PRYDUN: Centra has proposed an activity rate for damage investigation. In the event of third-party damage, Centra performs an investigation into the cause of the damage. This investigation includes interviewing involved parties, inspecting and recording damage on sites, confirming if the line locate and/or permits were valid, and confirming work was done in the work area indicated on the locate form.

The new rate is designed to reflect Centra's cost of performing this investigation and to recover this cost from the responsible third party. Centra is also proposing an activity rate for customer service relights associated with plant outage due to third-party damage.

In the case of third-party damage, Centra may have to shut off gas to customers served by the affected gas main in order to complete the repair. When the main is repaired and service is restored Centra sends service personnel to relight the pilot lights of each -- for each affected appliance.

As the personnel requirements are similar, the cost of relights associated with third-party damages is proposed to be charged at the same activity rate as damage repairs. These proposed activity rates are found in Appendix B of the terms and conditions.

MS. MARLA BOYD: Thank you, Mr. Prydun. Mr. Chairman, subject to the direct evidence of Manny Schultz to follow tomorrow, that would conclude the direct evidence of the revenue requirement panel.

THE CHAIRPERSON: Thank you, Ms. Boyd. Mr. Peters, please...?

MR. BOB PETERS: Thank you. Good morning, Mr. Chairman and Board members. Good morning to the witness panel. And a special good morning to Ms. Jacobs and Mr. Prydun.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Now, Mr. Rainkie, that wasn't meant to suggest it wasn't a special good morning to you, sir, but you are the senior Centra executive on this panel?

MR. DARREN RAINKIE: Yeah. When I look around there's nobody in front of me, so. Good morning, Mr. Chairman and Board members, Intervenor representatives, ladies and gentleman. It's a pleasure to be back in front of the Board. I think it's 2007, the last time that I testified at a -- at a gas GRA, so it's nice to be back.

MR. BOB PETERS: And, Mr. Rainkie, you did provide your opening comments at the beginning of this hearing along with Mr. Barnlund, correct?

MR. DARREN RAINKIE: That's correct, to get things in the swing.

MR. BOB PETERS: And you probably, at that time, took a role -- took a seat in the back row and listened to my discussion with your colleague, Vice-President Mr. Kuczek, about my questions being for the panel generally. And with your assistance and the assistance of your counsel, Centra will determine which witness can provide the most complete, full, and comprehensive answer to the Board?

MR. DARREN RAINKIE: Yes, Mr. Peters, we'll make sure that we have the best -- best answer from those that are up here.

MR. BOB PETERS: Thank you. And just a reminder then to the witnesses that none of my questions are designed to elicit confidential information. So that if you feel that to answer my question you need to disclose confidential information I'd suggest you speak to your counsel and we could discuss how that would take place if that information is provided, including providing it to the Board through their confidentiality provisions in their rules.

Would that be acce -- acceptable, Mr. Rainkie?

MR. DARREN RAINKIE: That's -- that's a good approach, Mr. Peters.

MR. BOB PETERS: And lastly, by way of my housekeeping matters, books of documents have been prepared and provided certainly electronically and only a handful of paper copies to Centra. But they've been circulated in an effort to assist the Board.

Your answers are not restricted to those books of documents. If there's some information that you want the Board to -- to see that's not in there, you're certainly welcome to provide that to them. But two (2) copies have been marked as Exhibit 10, and I'll be referring to them in my questioning.

Would that be satisfactory, Mr. Rainkie?

MR. DARREN RAINKIE: As usual, Mr. Peters, you've efficiently put a book of documents together that will help us through the proceeding. That's great.

MR. BOB PETERS: All right. Well, thank you, sir. Starting at Tab 40, which, by the way, used to be Tab 1, but Tab 40 at Volume II of II is the application. And just so the -- the Board panel can appreciate the focus of this panel, as I understand it, Mr. Rainkie and Mr. Barnlund, the revenue requirement panel will speak on page 145 of book of documents to Item A, and then on page 146, Item I, and on page 147, items K and L.

Would that be correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: Thank you, Mr. Barnlund. Now, looking at Item A on page 145, Centra is seeking approval of an approximate 2 percent general revenue increase effective August 1st, 2013, sufficient to generate additional revenues of $6 million and projected net income of $5 million in the 2013/'14 fiscal year of Centra, correct?

MR. DARREN RAINKIE: That's correct, Mr. Peters.

MR. BOB PETERS: And we heard, Mr. Rainkie, that Ms. Derksen just told the Board that the typical residential customer would expect to see an increase in the range of approximately 2.6 percent, correct?

MS. KELLY DERKSEN: Yes, Mr. Peters.

MR. BOB PETERS: So for purposes that the Board needs to be clear on is that while Centra has framed its request for additional revenues as a percentage of general revenues, the bill increases will not necessarily match the percent revenue increase?

MS. KELLY DERKSEN: Yes, that's true, Mr. Peters. There is more to our application than the 2 percent that's specified under Part A of this particular tab. We also have changes to non-primary gas costs. They are decreasing from approximately 94.9 million to 73.5 million. So we have a reduction in non-primary gas costs.

We also have the addition -- addition of rate riders that we have to contemplate as part of that bill impact.

(BRIEF PAUSE)

MR. BOB PETERS: And, Mr. Rainkie, when we talk about generating additional revenues of 6 million and projected net income of $5 million in 2013/'14, that's in the approximate eight (8) months remaining in the fiscal '14 year of the Corporation?

MR. DARREN RAINKIE: That's right, given that these rates were proposed to go into effect August 1st, 2013.

MR. BOB PETERS: And, Mr. Rainkie, if these rates were approved by the Board as filed and the requests were granted as filed, on an annualized basis that projected net income number would increase to approximately $5.7 million?

(BRIEF PAUSE)

MR. DARREN RAINKIE: It's somewhere in the range of 5.6 or 5.7 million, Mr. Peters. We can -- we can narrow that number down, I'm sure, in our further conversations, but for now I'll give you that.

MR. BOB PETERS: Thank you, sir. And

would you also give me that in terms of generating additional revenues, instead of the additional revenues of approximately $6 million in what's left of this fiscal year, on an annualized basis that would come out closer to $6.7 million, Mr. Rainkie?

MS. KELLY DERKSEN: Yes, Mr. Peters, that's correct.

MR. BOB PETERS: Thank you, Ms. Derksen.

(BRIEF PAUSE)

MR. BOB PETERS: And if I turn on page 146, Mr. Prydun, I'm not sure if this was one (1) that would be a matter spoken to by yourself, sir, but Centra is asking the Board to vary a previous order of this Board so that Centra doesn't have to submit a feasibility test for approval prior to commencement and construction of future expansions greater than 500 metres in the rural municipalities of Woodlands and Bifrost?

MR. GREG BARNLUND: Yes -- yes, Mr. Peters.

MR. BOB PETERS: Thank you, Mr. Barnlund.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Barnlund, you can explain to the Board, sir, that back in 2000, in an order of this Board for main extensions greater than 500 metres Centra was requested and required to provide a feasibility test, correct?

MR. GREG BARNLUND: Yes, as a result of the deliberations at the public hearing on the Interlake expansion project. It was determined that for main extensions in those two (2) rural municipalities that Centra would be requested to pre-file feasibility studies on main extensions greater than 500 metres for the PUB's approval.

MR. BOB PETERS: And you were specific in your response, as you often are, Mr. Barnlund, to this time narrow it to the Interlake region, correct?

MR. GREG BARNLUND: Yes, sir. That requirement is only placed upon feasibility studies associated with those two (2) rural municipalities, Bifrost and Woodlands.

MR. BOB PETERS: And do you recall the circumstances and the reasons for -- for that requirement, sir?

MR. GREG BARNLUND: I wasn't present

at that hearing, but I understand that there was some possible concern with some parties in -- that were in those municipalities that was -- was being discussed, and that it was determined that it was appropriate for Centra to pre-file feasibility studies in advance of construction.

MR. BOB PETERS: And Centra's not filing those feasibility tests with respect to any other rural expansion greater than 500 metres in any other municipality, sir?

MR. GREG BARNLUND: That's correct. That's not a requirement, and -- and neither is it a requirement or -- do we do so.

MR. BOB PETERS: Mr. Barnlund, does Centra still prepare a feasibility test in circumstances of expansion?

MR. GREG BARNLUND: Yes, sir, we do.

MR. BOB PETERS: And Centra does not proceed unless the feasibility test is satisfied economically?

MR. GREG BARNLUND: Correct, we would prepare the feasibility study and if -- should there be a -- a contribution required in aid of construction, we would be approaching the customer requesting that service to ensure that we obtained a financial commitment to that contribution in aid of construction prior to the commencement of any further work.

MR. BOB PETERS: And, generally speaking, Mr. Barnlund, Centra's feasibility test requires that before Centra expands its system, it wants to make sure that there's a -- a positive revenue-to-cost ratio that will exist after the fifth year?

MR. GREG BARNLUND: I -- there are really two (2) criteria that need to be met to satisfy the feasibility study requirements. The first one is, as you mentioned, that the revenue-to-cost ratio is expected to be one in -- at the conclusion of the fifth year. In addition, the net present value must be greater than ye -- than zero for the project.

MR. BOB PETERS: And -- and just to stick with my first point, in terms of the revenue-to-cost coverage ratio, what that's suggesting to the Board is that by the end of the fifth year customers who are added on to the system will not be subsidized, but -- excuse me, by customers already on the system?

MR. GREG BARNLUND: Correct. Within those policy considerations there's an acceptance that there is some cross-subsidy in the first five (5) years from existing customers to the new customer being added to the system. It's also expected that by the fifth year -- by the end of the fifth year, that that cross-subsidy is -- is diminished or disappears. Beyond that, it's conceivable that the new customer may be actually making a -- a subsidy back to the other customers on the system. In other words, their revenue-to-cost ratio may continue to grow beyond the fifth year.

MR. BOB PETERS: And the second part of the feasibility test, Mr. Barnlund, is that the net present value of the economics of the expansion has to be -- has to be positive, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And that net present value measures over a thirty (30) year period?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And if, doing the net present value analysis, there is -- it's not a positive result, that would trigger a requirement for a customer contribution?

MR. GREG BARNLUND: Yes, there would be a -- a calculation made to determine the level of customer contribution that would be required to provide the positive net present value. And, in addition, we would be assessing the -- any additional contribution that may be necessary to satisfy the other requirement, which is to meet the hundred percent revenue-to-cost ratio at the end of the fifth year.

MR. BOB PETERS: Thank you, sir. The -- on page 147 at Tab 40 was a listing of interim orders respecting franchising feas -- feasibility tests for listed municipalities.

And those have all been provided in the materials, Mr. Barnlund?

MR. GREG BARNLUND: The -- the orders were provided in these materials, and also in -- I spoke to those in our opening statement.

MR. BOB PETERS: And the terms and conditions of service changes that -- that are being sought, those are the matters that I'll be speaking, I suppose, with Mr. Prydun on, will I, when -- when I come to those in my notes?

MR. GREG BARNLUND: Insofar as the changes to the Customer Equipment Problem Program, yes. And certainly with respect to damages, or the charges for damages, for investigation of third-party damage.

MR. BOB PETERS: All right. Thank

you. Mr. Chairman, while -- this may be an appropriate time to take the lunch recess. I'll be starting on some different lines of questioning.

THE CHAIRPERSON: I wonder if I could ask a question of guar -- regarding the pre-filing of feasibility tests, a little bit opaque to me again, still. Could you -- could you explain that to me again, the -- why the pre-filing was required in -- in respect of those -- those municipalities?

MR. GREG BARNLUND: My understanding was that there was concern expressed at the hearing by certain residents, or there was some certain intervention made by some parties with concerns about the expansion of natural gas to the Interlake.

And I believe that, in response to that, that there was a requirement for the Corporation to pre-file studies for extensions that were going to be made greater than 500 metres.

And -- and I really -- not being there, I don't know exactly the -- the other circumstances related to it, but as we had discussed, this is a very unique commitment that we have and we do not need to make that same undertaking with respect to the main extensions in any the other -- the rural municipalities.

THE CHAIRPERSON: Now, the pre-filing would have -- would have meant that those documents became public. Is that...

MR. GREG BARNLUND: Conceivably we would have -- if we would have had a main extension greater than 500 metres, what we would have done would have been prepared an interim ex parte application and submitted it to the Pubic Utilities Board.

THE CHAIRPERSON: Okay. I suggest -- I think we should recess for about an hour and back in this room at one o'clock. Thank you.

--- Upon recessing at 12:00 p.m.
--- Upon resuming at 1:01 p.m.

THE CHAIRPERSON: Good afternoon. I noticed that we had a document on our chairs. That -- we need to acknowledge this, the documents, Mr. Peters?

MR. BOB PETERS: Not at this time. I might just alert Ms. Boyd. Perhaps the short version of that, Mr. Chairman, is included in the book of documents that the Board has, are pages 184 and 185. These are pro -- proposed to be revisions to that that I had shared on Saturday with Ms. Boyd and Mr.

Czarnecki.

I'm just not quite sure if the witness panel is comfortable with them. But I will probably get to them this afternoon. So maybe at that point in time we can -- we can address them. But I am prepared to continue on the -- on the questions of the revenue requirement panel, sir. Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: At page 40 -- I'm sorry, at Tab 41 of PUB Exhibit 10, which is Board counsel's book of documents, and I'm in Volume II, Tab 41, page 149, for those who are following, this chart shows the requested rate increase by Centra for this year as well as what was requested and awarded in -- in prior years, correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And, Mr. Barnlund, if we go over to the fourth column from the far right, it's headed "Non-gas costs approved annual increase."

Would it be correct that the number at the bottom, the 5.3 percent, represents what is proposed as the non-gas cost increase as a result of this general rate application?

MR. GREG BARNLUND: Yes, sir. That's

footnote 3. And it says it is proposed.

MR. BOB PETERS: And this number, just to put it into perspective, is -- is -- equates to the 2 percent number that I spoke to the panel about before lunch once the gas costs are removed from the calculation in terms of the percentage of revenue increases that the Corporation was seeking?

MR. GREG BARNLUND: Generally speaking, yes.

MR. BOB PETERS: All right. I may have worded that poorly, so thank you for helping me. But the upshot of it is, when the Corporation has the better part of $200 million of gas costs, that can dilute the impact of the rate increases?

MR. GREG BARNLUND: I would say that what we do is, from a planning perspective, we look at the percentage increase on the total amount of revenue requirement that we're forecasting, and that in -- would include gas costs and non-gas costs. And that is how those increases are presented to the Manitoba Hydro board of directors.

MR. BOB PETERS: Right. And in fairness, what you've told the Board in your direct evidence was you try to show a consumer what their bill was, or would be currently on an annual basis compared to what it would be on an annual basis so that they have some comparison -- some way to compare it?

MR. GREG BARNLUND: That's our preferred method of representing it, yes.

MR. BOB PETERS: Yeah. Right.

(BRIEF PAUSE)

MR. BOB PETERS: And would it be correct to say that that 5.3 percent would manifest itself primarily in the rate of -- in the way of distribution rate increases?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And while we turn to page -- sorry, to Tab 41 and page 149, this chart also shows what non-gas cost increases have been in previous years, correct?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And then an accumulative basis on page 149, the third column from the right shows that on accumulative basis since the '03/'04 year the non-gas costs that have been approved by this Board including the request that Centra has proposed would amount to 25.3 percent?

MR. GREG BARNLUND: Yes, that's what's represented in that bottom of that column.

MR. BOB PETERS: And then that would measure against the -- the consumer price index from Manitoba of 21.9 percent?

MR. GREG BARNLUND: If you chose to do that it would, yes.

MR. BOB PETERS: Does Centra do that? Does Centra ever measure their rate, their non-gas rate increases against the cumulative CPI?

MR. DARREN RAINKIE: Mr. -- Mr. Peters, what -- I'm not sure that we measure, but what we try to do when we're looking at the next rate application, if we can, is keep rate requests, in terms of general overall revenue increases, to around inflation if we can.

So it's more of a goal, I guess, on a -- on a go-forward basis than on a retrospective look at it. But I -- I should note, Mr. Peters that I think we need some perspective on that 25.3 percent number because it's not directly comparable in my mind. These summary tables are great, but sometimes some of the details behind them gets lost.

So if you look at the 2003/'04 non-gas costs of 120 million, let's just round it, and the requested of 150 million, there's a couple things in -- so that's a change of $30 million over that period of time, which is the 25.3 percent.

But there's a couple things in there that are not directly comparable and I would like the Board to understand that before we move on. First of all, in 2003/'04 we did not have a DSM program, so about $7.2 million of that change is related to DSM amortization that you'll see in the 2013/'14 test year.

We've also had accounting changes of about $7.8 million that we detail in Tab 5 of the application. I think it's Appendix 5.7. So pretty much half of that change over that period of time is related to either a new program, DSM, and accounting changes.

So, you know, I think we just want -- I just wanted to put that number in perspective, because that kind of gets lost in a -- I mean, these summary tables are great, but it kind of gets lost in the shuffle.

MR. BOB PETERS: Thank you, Mr. Rainkie. That said, the -- the use of DSM program and also the accounting changes are in fact increasing the costs to Manitobans?

MR. DARREN RAINKIE: Yes, they are. I just wanted the Board to be aware of some of the factors that are underlying that -- on the face of it you would say, Well, the non-gas costs have increased at about the same rate as inflation. My point is that there's a couple other factors in there that I think you'd want to consider when you were making that type of an assessment.

MR. BOB PETERS: And I understood from Ms. Morrison on the last panel, Mr. Rainkie, and you may have heard her as well, that those expenditures on DSM are designed to reduce the customer bill?

MR. DARREN RAINKIE: Yes, they're designed to promote energy conservation is probably the best way to describe that, but...

MR. BOB PETERS: That suggests the bill may not decrease, but it may be lower than what it otherwise would be?

MR. DARREN RAINKIE: Well, I think what we're trying to do is help customers man -- customers pay bills, so we're trying to help customers manage their bills. Rates may have to increase, but if -- hopefully if they can manage their bills better they -- there is some offset against rate increases.

(BRIEF PAUSE)

MR. BOB PETERS: Turning to Tab 42, if I could, with the panel, this chart has been put together on page 151 in an attempt to show the Board the updated revenue requirements as being requested by the Corporation. And, Mr. Rainkie or Mr. Barnlund, you can confirm that the column labelled 'B' would represent the test year application before the Public Utilities Board?

MR. DARREN RAINKIE: Yes, Mr. Peters, those numbers look familiar to me.

MR. BOB PETERS: You wrote them, so it looks like your handwriting. But, Mr. Rainkie, the last approved column, in column A, that happened to be as a result of a -- as the second year of a GRA for the two (2) fiscal years of fiscal '10 and fiscal '11 of the Corporation?

MR. DARREN RAINKIE: That's correct, Mr. Peters.

MR. BOB PETERS: The cost of gas at line item number 2 has been updated to reflect the May 10th update by the Corporation that was spoken to by the previous panel?

MR. DARREN RAINKIE: Yes, that's my

understanding.

MR. BOB PETERS: And also your understanding, Mr. Rainkie, that the other revenue requirement items are as originally filed?

MR. DARREN RAINKIE: Yes, that's the case, Mr. Peters.

MR. BOB PETERS: And maybe what I'll do, just to mention it at this time, Mr. Rainkie, although with Mr. Schultz we'll have a further discussion, when we go over to finance expense down on line 8 and follow it to column B, there's a number of $17.296 million, sir?

MR. DARREN RAINKIE: Yes, Mr. Peters.

MR. BOB PETERS: I understand that as a result of the Corporation's updating its interest rate forecast, that number has dropped by approximately two hundred thousand dollars ($200,000) in terms of the revised forecast.

Would you be aware of that, sir?

MR. DARREN RAINKIE: I think we indicated in recent correspondence that -- that the number would, if updated, would be two hundred thousand dollars ($200,000) lower than that figure. But we haven't revised -- officially revised our application, Mr. Peters, given we don't see that to be a material change in the total revenue requirement.

MR. BOB PETERS: And -- and thank you, Mr. Rainkie, that's the point I want to come to, is that with the change in the interest rate forecast, as Mr. Schultz will explain further to this Board, Centra is not formally requesting any revision in its GRA filing?

MR. DARREN RAINKIE: No, Mr. Peters. If I was going to do that I'd have to go out to the other line items and -- and I don't think I want to do that on a continuous basis, given the immateriality of the amount.

MR. BOB PETERS: Let's turn to the numbers that maybe aren't as immaterial, Mr. Rainkie, in the -- the cost of gas numbers. First of all, we saw in the previous chart how we removed the cost of gas, so that we can just look for the non-gas cost items, correct?

MR. DARREN RAINKIE: Yes, it's a way to analyze the revenue requirement, Mr. Peters.

MR. BOB PETERS: And this revenue requirement under column B on line 2 of cost of gas, there's a number of $183.2 million, sir?

MR. DARREN RAINKIE: Yes, that's correct.

MR. BOB PETERS: And way back, Mr. Rainkie, at Tab 1 of the book of documents -- and I'm not asking you to turn there -- I reviewed with your previous panel the cost of gas was $199.8 million that they were asking for in the revenue req -- or, sorry, that -- that they were asking approval on, correct?

MR. GREG BARNLUND: Mr. Peters, I think what we're talking about is, perhaps the gas supply panel was speaking to it on a gas-year basis. This would be on a fiscal-year basis, more reflective of our financial reporting.

MR. BOB PETERS: And that's the point I want to come to is -- so for purposes of the Board, Mr. Rainkie and Mr. Barnlund, the $183.2 million of gas cost is the -- is the quantification of the gas cost in the fiscal year, not the gas year?

MR. GREG BARNLUND: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: As we work our way down the schedule on page 151, we see that the non-gas revenue requirement gets isolated at $153.7 million under column B for the test year, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And this is approximately $6.658 million more than what was previously approved?

MR. DARREN RAINKIE: Yes, that would be the difference between the one fifty-three six nine two (153,692) in column B and the one forty-seven zero three four (147,034) in column A.

MR. BOB PETERS: And then, Mr. Rainkie, if we -- if we figure out what the revenue would be on existing rates and we subtract that from the -- the revenue requirement, we come up with the $5.745 million non-gas revenue deficiency?

MR. DARREN RAINKIE: Yes, Mr. Peters, that's how the math works.

MR. BOB PETERS: All right. And where I'm going with this then, Mr. Rainkie, is that while the non-gas revenue deficiency is $5.745 million, the increase in non-gas revenue requirement from the last approved is $6.658 million, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: So the non-gas costs have gone up $6.658 million and the Company is only asking for $5.745 million of additional revenues?

MR. DARREN RAINKIE: That is correct, as well.

MR. BOB PETERS: And so we've isolated that nine hundred and thirteen thousand dollars ($913,000) drops off. And that nine hundred and thirteen thousand dollars ($913,000) is an amount that will come from Centra's updated load forecast when applied through to the rate structure, which will produce additional revenues?

MS. KELLY DERKSEN: Predominantly, yes, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: And, Mr. Rainkie, the $6.658 million of increased cost to operate the Utility includes the $5.6 million of profit that the Corporation is seeking to recover for the fiscal year?

MR. DARREN RAINKIE: Actually, Mr. Peters, it's $4.8 million.

MR. BOB PETERS: My apologies, 5.6 on an annualized basis?

MR. DARREN RAINKIE: That's right, and 4.8 for the 2013/'14 test year.

MR. BOB PETERS: Ms. Derksen, the nine hundred and thirteen thousand dollar ($913,000) number we talked of, that nets the load growth against the conservation impacts.

Would that be a high level summary of that number?

MS. KELLY DERKSEN: Yes, that is a high level summary of that number, Mr. Peters.

MR. BOB PETERS: And what you're politely telling me is that there are competing factors in coming to that nine hundred and thirteen thousand dollars ($913,000) number, such as the -- the increased load growth would be one (1) factor that has to be considered by the Corporation?

MS. KELLY DERKSEN: Volumes, if that was what you mean by load growth. Volumes are declining in this test period, so it actually has the opposite effect. But there's also a change in customer numbers. Customer numbers in this application are increasing.

So all else being equal, of course, we're going to generate more revenue. The combination of those two (2) roughly equate to an additional nine hundred and thirteen thousand dollars ($913,000) that we will generate absent no cost changes.

MR. BOB PETERS: And so you've told the Board that while the customer numbers have increased on average, the -- the customers' volumes would be decreasing, for example, for the residential customer?

MS. KELLY DERKSEN: Yes, that's what I said.

MR. BOB PETERS: And -- and the decrease in volumes is determined by the Corporation to be as a result of conservation efforts?

MS. KELLY DERKSEN: I think that's fair, Mr. Peters, yes.

MR. BOB PETERS: Would it also be correct, Ms. Derksen, that by the Corporation changing from ten (10) year weather normal methodology to twenty-five (25) year weather normal methodology there's been a slight volume increase?

MR. GREG BARNLUND: To the extent that the -- as we saw last week, the difference between the two (2) methodologies, clearly the twenty-five (25) year methodology tends to smooth the change on a year-over-year basis compared to the ten (10) year methodology.

And so there'll be -- there'll be actually less volatility in -- in revenue at existing rates going forward using the twenty-five (25) year methodology as the means of deriving that load forecast.

MR. BOB PETERS: And while there's less volatility, Mr. Barnlund, does it, in absolute -- in absolute terms for this application, increase the volumes that are needed, or are you aware of that?

MR. GREG BARNLUND: I'm not aware of the specific effect you're ask -- asking about.

MR. BOB PETERS: All right. Well, we're still on page 151. What we see at line 2 in the far -- and we follow over to column D, the Board will see that gas costs have declined approximately 45 percent since those last approved by Board at a GRA?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And in any event, those gas costs are flown through -- are -- are flow-through costs where the Corporation seeks to recover only the expenses it incurs in respect of gas costs?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And if we go down to the operating and administrative expenses, which we'll discuss with Ms. Jacobs soon, those have increased 14 percent since the last approved amount by this Board?

MR. DARREN RAINKIE: Mr. Peters, yes, the -- the total has increased by 14 percent. But just to be clear, and I'm sure we'll go through this with Ms. Jacobs and myself in some -- at some later tab in your book of documents, but of the 8.5 million about -- there's in increase in operating costs of about 3.7 million. There's also accounting changes between 2010/'11 and 2013/'14 of about $4.8 million.

So there's -- once again, there's two (2) things happening that is generating that $8.5 million increase.

MR. BOB PETERS: All right. And your high-level summary at this time, Mr. Rainkie, is that three point seven (3.7) is as a result of $3.7 million of additional ON -- OM&A costs. And then the four point eight (4.8) is -- while it's additional costs, it -- it comes over as a result of accounting changes.

MR. DARREN RAINKIE: Yes, Mr. Peters, I'm not trying to break your flow here, I'm just trying to make sure the record's correct.

MR. BOB PETERS: you are under oath, Mr. Rainkie. Sorry.

Mr. Rainkie, the net income item, as well, on line 10 jumps out because it's a 92 percent increase, correct? Mathematically over what was last approved?

MR. DARREN RAINKIE: Yes, that's -- that's the mathematic calc -- mathematical calculation, Mr. Peters.

MR. BOB PETERS: And just to remind the panel, this was the 4.8 million in the test year, but on an annualized basis the 5.6 or 5.7 million, that would be on an annualized basis?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: If we turn to Tab 43 --

THE CHAIRPERSON: Mr. Peters, could I just --

MR. BOB PETERS: Yes.

THE CHAIRPERSON: -- just to improve my understanding here, if we had used the -- the ten (10) year instead of twenty-five (25) year, in practical terms, what would that have meant in relation to what's being requested?

MR. GREG BARNLUND: Well, in essence, what it would do would -- it would change the shape of your next load forecast. And then when you calculate revenue at existing rates, you would take your existing rates and evaluate them, using different numbers in terms of each customer classes usage.

And so, there would be some difference between using a ten (10) year average, which would force that forecast to move further in that next year than you would if you were just using the twenty-five (25) year average. And the reason we moved to the twenty-five (25) year average was because we view ourselves as being regulated on a cost-to-service basis, and we look at it not on discrete one (1) year segments but we look at it as a forecast over a period of time, be that ten (10) or twenty (20) years.

And the -- the twenty-five (25) year load forecast is more appropriate under the circumstances of us using a cost-of-service approach. We're looking at changes in retained earnings over a longer period of time. We're not like a rate-based rate of return utility where you're focussed on what is happening in only the test year.

And so that was a -- a strong motivator for us to move from the ten (10) year methodology to the twenty-five (25) year methodology.

THE CHAIRPERSON: But twenty-five (25) years would give you a higher volume than -- than a ten (10) year, based on the graph that we saw a few days ago?

MR. GREG BARNLUND: Well, and I think what the graph was representing was that it was -- it was cutting down the middle of volatility that was -- that was exhibited by the -- the ten (10) year calculation. So, as the ten (10) year calculation is saw-toothing its way through time, the twenty-five (25) year average will smooth through the centre of that data.

In the long run -- and we view the financial requirements of the Utility in the long-run. In the long-run it should even itself out.

THE CHAIRPERSON: Okay. Higher volumes -- higher volumes mean what, in practical terms, to the client? I mean, I'm trying to understand what it means for rates if you use a higher volume than a lower volume.

MR. GREG BARNLUND: Well, if you use -- if you have a forecast that generates a high volume, you're going to say that your existing rates are going to produce more revenue, right? So your revenue deficiency is less in that regard.

If you have -- if you have greater conservation and lower customer volumes in that forecast, you will generate a lesser amount of revenue compared with your existing rates.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Barnlund, maybe see if you can help me understand what your answers were to the chairman by turning back to Tab -- in the first volume, Tab 16 of the book of documents. If you could borrow a copy, if you've take yours home already.

(BRIEF PAUSE)

MR. BOB PETERS: And on page 69, Mr. Barnlund, is the -- is a graph that I believe the chairman referenced in his last question to you.

MR. GREG BARNLUND: Yes, I have that.

MR. BOB PETERS: And on page 69 of PUB Exhibit 10, under Tab 16, we look to the far right-hand side of the graph, Mr. Barnlund, and we see that the ten (10) year average, in blue ink on the -- on the graph, would result in a lower number of effective degree day heating for the -- for a normal year, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And conversely, if it was -- if Centra uses a twenty-five (25) year average, it indicates the -- the weather normal is -- is colder than what would be under the ten (10) year methodology?

MR. GREG BARNLUND: Yes, that's

correct.

MR. BOB PETERS: And by going to the twenty-five (25) year average by it being colder, that would signify that you would need additional volumes, which was the last point that you made with the chairman?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And this general rate application, coming as it does, will reinitialize then what would be the -- the volumes required to go forward on a weather-normal basis?

MR. GREG BARNLUND: Bearing in mind that -- yes, I would say that will be the case. Yeah.

MR. BOB PETERS: Does it follow that under the ten (10) year methodology the revenue deficiency, as a result of the update for -- for weather normal, would be greater?

(BRIEF PAUSE)

MR. GREG BARNLUND: If volumes forecast are higher, then the revenue deficiency would be less, compared to existing rates.

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peters, if I could interject there. I would say that, all else being equal, the rates that we would need to seek would have -- would be lesser of an increase if we had a -- if we had used a higher load forecast.

MR. BOB PETERS: Thank you. That's my point, and I appreciate that clarification. Thank you, Ms. Derksen.

I -- I do want to turn to Tab 43 of the book of documents, and want to look at Centra's integrated financial forecast that is presented. And this document would have been based on the economic outlook for 2012.

Is that correct?

MR. DARREN RAINKIE: Among other forecasts, Mr. Peters, but, yes, that -- in 2012 -- this forecast was finalized in November, so it would have used the 2012 economic outlook.

MR. BOB PETERS: And it was used -- Mr. Rainkie, this IFF was used to underpin Centra's general rate application?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And this IFF then, Mr. Rainkie, based on what you've told me, would be nine (9) months of actual experience and three (3) months of forecast experience?

MR. DARREN RAINKIE: It is approved by our board in November, but there are probably actuals up till July or August, Mr. Peters, just the time it takes to prepare it and go through the various approvals. So it -- I wouldn't -- I wouldn't say nine (9) -- nine (9) months and three (3) months, Mr. Peters. That's not correct.

MR. BOB PETERS: You'd say five (5) months and seven (7) months? Five (5) months of actual, and seven (7) months forecast?

MR. DARREN RAINKIE: You know, I could probably go back and put a fine point on it, but I'll accept that, Mr. Peters. And if -- if there's something I'm missing I'll -- I'll correct the record.

MR. BOB PETERS: Yeah. No, nothing -- I just wanted the Board to be aware as to the -- the relative time-lines in which that was prepared.

So when we look to the column, Mr. Rainkie, that's under 2013 as a fiscal year end, that signifies March 31 of 2013, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: A couple of months ago?

MR. DARREN RAINKIE: Yes, it seems

like ancient history, but it is.

MR. BOB PETERS: Well, what doesn't seem like ancient history, Mr. Rainkie, is on last Thursday, if I go down to that net income line under 2013, I made a note that that $2 million should be crossed off, and I wrote in "$8 million."

Is that -- is that reasonable?

MR. DARREN RAINKIE: Yes, I indicated that was our preliminary net income figure for 2012/'13, Mr. Peters.

MR. BOB PETERS: And wh -- while 2 million was the number that was written there, I think the filing shows that the 2 million was really a round up of $1.56 million?

Will you take that, subject to check?

MR. DARREN RAINKIE: Yes, Mr. Peters, we -- we round to the millions here.

MR. BOB PETERS: Now, Mr. Rainkie, you also indicated to the Board that Centra's financial statements for the last fiscal year are required to be submitted to the Legislature before they can be released publicly.

Have I got that right?

MR. DARREN RAINKIE: Yes, that's my understanding of our requirements, Mr. Peters.

MR. BOB PETERS: And I understand the Legislature is still sitting, so are your -- are your financial statements en route to the Legislature at this time?

MR. DARREN RAINKIE: No, they have to go to the board next, Mr. Peters, before they're approved to go to the Legislature. And that won't happen until, I think, June 26th.

THE CHAIRPERSON: We're talking of the Hydro board, aren't we?

MR. DARREN RAINKIE: Yes, the Manitoba Hydro Electric Board.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And the Manitoba Hydro Electric Board serves as the same Board of Directors for Centra Gas Manitoba Inc.?

MR. DARREN RAINKIE: Yes, it does, Mr. Peters.

MR. BOB PETERS: Can the Board take from your answer, Mr. Rainkie, that the financial statements have been prepared and the auditors have signed off, as they do, on those statements? And the next step is only Board app -- Manitoba Hydro Electric Board and Centra Gas Manitoba Inc. board approval?

MR. DARREN RAINKIE: Not quite, Mr. Peters. When the statements are presented at our audit committee, as was done last Wednesday, I think it was -- I know it was last Wednesday; I was there. The auditors still have a few outstanding procedures to complete from their field work. So we won't -- and -- and one (1) of the requirements is is that the auditors do a review of subsequent events all the way to the actual Board of Directors meeting. So we will not get the signed audit opinions from Ernst & Young until after the board meeting.

(BRIEF PAUSE)

MR. BOB PETERS: I'm just going to ask through you, Mr. Rainkie, that your counsel take under advisement a request to file in confidence with the Board at the earliest opportunity that these financial statements can become available? And that's a matter that -- that we'll need to -- to discuss and consider the logistics. But if you could pass that on, Ms. --

MS. MARLA BOYD: We can take that under advisement.

MR. BOB PETERS: That's appreciated, Ms. Boyd.

MR. BRIAN MERONEK: Mr. Peters, can you maybe elaborate on why it would be in confidence?

MR. BOB PETERS: My understanding, Mr. Meronek, is that until -- until the Manitoba Hydro and its subsidiary Centra Gas have had their financial statements filed in the Legislature, they're not -- they're not able to release them publicly by -- pursuant to, I believe it's the Manitoba Hydro Act, or a regulation related thereto.

MR. BRIAN MERONEK: So 'confidence', in your jargon, means only the Board gets to receive them?

MR. BOB PETERS: Pursuant to the PUB rules, yes, Mr. Meronek.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And just while I'm on that Mis -- Mr. Rainkie, just while I'm on that, I've heard various media reports as to the expected duration of the sitting of the Legislature. And I'm not sure where that sits -- or sorry, where that -- where that will -- will end up. But it is possible that these will be available before early August had been your previous answer to the chairman?

MR. DARREN RAINKIE: Mr. Peters, I --

I don't think that's the case. It goes -- our statements go to the government. I'm not quite sure what happens, quite frankly, once it gets there. But the annual report is not usually released to the public until early August, so the statements will not be available before that, despite -- despite the fact that the Board meeting is on the 26th of July.

MR. BOB PETERS: All right. I'll discuss that further with -- with counsel.

Mr. Rainkie, still on page 153 of Board counsel's book of documents at Tab 43, I see in the 2014 test year, under the line item called, "Additional revenue requirement," with the asterisk, there's a $7 million number under 2014, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And, Mr. Rainkie, is that the rounded annualized amount from the August 1st increase being sought in this rate application?

MR. DARREN RAINKIE: Not quite, Mr. Peters. When the forecast was prepared we were assuming a May 1st implementation of rates, and that's why that number rounds to seven (7) as opposed to six (6) for an August 1st implementation, Mr. Peters.

So in the forecast that was prepared we assumed a May 1st implementation which would have generated $7 million of additional revenue on a rounded basis. When we put the application together, we recognized that -- I think, that May 1st wouldn't -- wouldn't -- was unlikely to happen and that we like to make all of our rate changes coincident with a quarterly rate change so there isn't two (2) or three (3) rate changes within one (1) quarter.

So we pu -- put the application in as effective August 1st, and that's what generates the $5.7 million worth of additional revenue in 2013/'14.

(BRIEF PAUSE)

MR. BOB PETERS: I was scrambling back to page 145, Mr. Rainkie, just to make sure the Board is clear, that the additional revenues that the Company is seeking are to generate an additional $6 million in the remainder -- in the remaining eight (8) months of the test year.

You agreed with me on that, you'll recall?

MR. DARREN RAINKIE: Yes, Mr. Peters.

MR. BOB PETERS: And so did your last -- second last answer to me indicate that, on an annualized basis that amount would be 7 million?

MR. DARREN RAINKIE: No, what I am -- what my last answer indicated, maybe in as simple -- simple as possible terms, Mr. Peters -- sorry if I'm confusing everybody -- is, is that implementation of rates on August 1st versus May 1st will mean that we'll generate $1 million less revenue between that time period.

What that does to the annualized rates, I'm not sure. I haven't -- annualized revenue requirement -- I'm not sure I have in front of me right now, Mr. Peters. But the $1 million is what we lose between May 1st and August 1st as a result of a -- of a later rate implementation in 2013/'14.

MR. BOB PETERS: All right. When I look, Mr. Rainkie, under the 2015, 2016, 2017, I see the same $7 million number on the additional revenue line item, which suggests that rounded the additional revenue being sought in this case would round up to $7 million on an annualized basis.

Would you -- wouldn't that be correct, the way it's presented?

MR. DARREN RAINKIE: Yes, that would be correct, the way it's presented.

(BRIEF PAUSE)

MR. BOB PETERS: And, Mr. Rainkie, I do note that under the additional -- if we go down to the -- near the bottom of the chart, where that asterisk is explained, and under, "additional revenue requirement," the "percent increase" line talks about the 2 percent under 2014, which is the -- which is the test year before the Board, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And then, Mr. Rainkie, in the next three (3) years after that, there is zero percent rate increase noted in the IFF, correct?

MR. DARREN RAINKIE: Yes, there is, Mr. Peters. There's a couple of things that are going on in there in terms of assumption of IFRS and assumptions around the Furnace Replacement Program. So I would be cautious of taking too much out of those three (3) zeroes at this point. I don't know if we're going to get into more questions to clarify that later, but I -- I would just put some caution around just looking at this summary schedule once again.

MR. BOB PETERS: No, that's a fair comment, Mr. Rainkie. And I -- I'm probably not going to go in any further detail.

But these are what some -- I think I've

learned the word -- are indicative rates, but they're not necessarily binding rates and there's been no firm decision by the Utility as to whether a rate increase will be sought for those following years, and if so at what amount?

MR. DARREN RAINKIE: That's correct, Mr. Peters. We have not sought our board -- board approval of -- the Centra board approval of rate increases other than '13/'14. And -- and up and above that, I'm just saying, is that to understand what those numbers mean you have to understand what's underneath the assumptions in the numbers, Mr. Peters.

MR. BOB PETERS: Well, let's go to the financial ratios, which are the last few items on page 153, line items, Mr. Rainkie. The equity ratio that is set as -- set in the schedule is the equity ratio for the subsidiary Centra Gas Manitoba Inc. only.

Have I got that right?

MR. DARREN RAINKIE: Yeah, it's a calculation that we've been asked to -- this is not how we present our -- our material to our -- to the Centra board. We were asked in this Information Request to include the equity ratio based on the PUB methodology. So it's a calculation based on what the PUB has specified in the past, Mr. Peters.

Our financial targets only apply to our consolidated operations. We don't have detailed financial targets for Centra.

MR. BOB PETERS: What you're telling the Board, Mr. Rainkie, is that Centra Gas Manitoba Inc. doesn't have its -- from the Corporation's point of view, its own standalone financial targets?

MR. DARREN RAINKIE: That's right. We were just asked in an Information Request -- or this Information Request, to calculate the targets similar to what you would see at the consolidated level. But I just want to be careful that our -- or the -- I keep saying 'our board'. The Centra board did not look at those ratios in terms of making this determination for a -- for a rate increase.

And that's probably the best -- the point I want to get across, Mr. Peters, is this is a regulatory calculation we've been asked to do as part of this proceeding, but it wasn't material that went to the Centra Board.

MR. BOB PETERS: Well, if the Centra board doesn't look at the financial ratios for Centra Gas, you're saying that it only looks at the financial ratios for Manitoba Hydro, the electric side of the business?

MR. DARREN RAINKIE: No, we manage the financial ratios at the consolidated level, not even at the electric level, Mr. -- Mr. Peters.

MR. BOB PETERS: Does that suggest the other subsidiaries that Manitoba Hydro has are -- are influencing that decision?

MR. DARREN RAINKIE: No, we do separate forecasts of the electric side of the business and the gas side of the business. And so one's not influencing the other in terms of the rate increases that we -- we look for, because there is no cross-subsidization between the two (2) entities. But what I'm saying is that, from a business perspective, we manage our ra -- ratios at the consolidated level.

MR. BOB PETERS: Okay. Mr. Rainkie, let's turn please to page 154 on the balance sheet that is presented in IFF/CGM-12. And as a -- as a starting point on this document, Mr. Rainkie, we'll go down to the retained earnings line, the last line item in the left column, and follow it over to the 2013 and 2014 years. This depicts the retained earnings dropping from $36 million down to -- sorry, going from 36 million to 41, before the Corporation is in a deficit position of 27 million, correct?

MR. DARREN RAINKIE: Yes, this --

that's what this reflects.

MR. BOB PETERS: And, Mr. Rainkie, this -- this balance sheet was presented by Centra at a point in time when it was considering that it may have to write off some rate-regulated assets, correct?

MR. DARREN RAINKIE: Yes, when this went to the Centra board in November of 2012, our expectation at that point is that we would transition to IFRS in 2014/'15. And it was up in the air whether there would be -- whether there would be an interim standard that would continue to allow rate-regulated accounting. So the assumption in this forecast is that we would have to write off all of our rate-regulated assets.

MR. BOB PETERS: So, Mr. Rainkie, in that last answer there's a few points here the Board should be aware of, is that the way this is drawn -- I'm now on page 154, the balance sheet of IFF Centra-12 -- Centra was expecting IFRS to be implemented in the fiscal '15 year, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: But we now know that the International Accounting Standards Board has granted, if I'm keeping track accurately, a fourth deferral for a year of the implementation of IFRS?

MR. DARREN RAINKIE: They used to say three's a charm, Mr. Peters, but -- but, yes, it's the fourth optional deferral that -- that the Canadian Accounting Standards Board has granted, and we qualify. And we're deciding that we're going to take that optional deferral.

MR. BOB PETERS: So that would mean the 2016 fiscal year would be the first year in which Centra would be under IFRS?

MR. DARREN RAINKIE: As we understand things today, Mr. Peters, that is the situation.

MR. BOB PETERS: All right. But let's not go that far yet. Let's stay with 2015. And we go down to the "retained earnings" line -- sorry, we go to the "regulated assets" line, and we see regulated assets of 79 million in 2013, and we see 78 million in 2014, and we see nothing in 2015, correct?

MR. DARREN RAINKIE: Yes, that reflects the assumed write-off in 2014/'15.

MR. BOB PETERS: All right. And if Centra -- Centra -- under IFRS, Centra's interpretation is that they would have been required to write off those $77 million of rate-regulated assets?

MR. DARREN RAINKIE: Yes, based on the

current IFRS standards.

(BRIEF PAUSE)

MR. BOB PETERS: Just on the $77 million, let's help the Board understand, Mr. Rainkie, the genesis of that, by turning to page 158, under the same Tab 43 of the book of documents. Centra's rate-regulated assets are set out on page 158, and they are comprised, the majority of them are the Power Smart programs and deferred taxes, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And then, in addition, there's 2 million for site restoration and 1 million for regulatory costs?

MR. DARREN RAINKIE: That's correct, Mr. Peters.

MR. BOB PETERS: And in terms of the Power Smart programs, the $44 million of rate-regulated assets on the gas side of the Utility's business, that represents the capital expenditures that Mr. Kuczek and Ms. Morrison have made since DSM has been implemented on the gas side of the business?

MR. DARREN RAINKIE: Yeah, that would represent the deferred cost since we've had a gas DSM program, less any accumulated amortization of those amounts, Mr. Peters. That's the other part of that equation.

MR. BOB PETERS: And the amortization, what you're telling the Board, Mr. Rainkie, is that, if Centra incurs capital costs, it also recovers a portion of those capital costs in -- the total capital costs from consumers in the rates?

MR. DARREN RAINKIE: Yes. In this case, amortized over a ten (10) year period.

MR. BOB PETERS: And so whatever the program total is, one-tenth (1/10th) of that is added to the -- added to the revenue requirement of the Corporation?

MR. DARREN RAINKIE: That's a crude description of it, Mr. Peters. I mean, of course, we -- we take last year's total divided by -- by ten (10). And -- and, for instance, the -- the DSM spending up to March 31st, 2013, would not start to be amortized until the '14/'15 year, but you --

MR. BOB PETERS: All right. I should have --

MR. DARREN RAINKIE: -- you had it -- you had it pretty much accurate, Mr. Peters.

MR. BOB PETERS: The message to the

Board is that Centra amortized their DSM expenditures over a ten (10) year time horizon?

MR. DARREN RAINKIE: Yeah, let's leave it at that.

MR. BOB PETERS: All right. Now, this deferred taxes of $30 million which shows up as a rate-regulated asset, Mr. Rainkie, you had something to do with that, sir, when Centra became owned by Manitoba Hydro?

MR. DARREN RAINKIE: No, Mr. Peters. I was one (1) -- well, I would not sure they would describe it as an asset that came over, but -- but I do know of it. And it was the -- it was the one (1) time tax -- it's the remaining unamortized balance of the one (1) time tax payment that was made when Manitoba Hydro required Centra Gas to move Centra from a taxable entity to a non-taxable entity.

MR. BOB PETERS: And Mr. Rainkie, I was subtly trying to suggest that you were on the Centra side of the utility business and when the shares of Centra Gas Manitoba Inc. were purchased by Manitoba Hydro, you were part and parcel of that purchase?

MR. DARREN RAINKIE: I guess so. I was just -- wasn't sure if I was an asset or a liability, Mr. Peters.

MR. BOB PETERS: Well, the hearing's not over.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, on page 157 of Tab 43, we -- we have an explanation of deferred taxes two-thirds (2/3s) of the way down the page. Just as you indicated, the deferred taxes arose as a result of a financial transaction back in 1999, which was Manitoba Hydro's acquisition of the shares of Centra Gas?

MR. DARREN RAINKIE: Yes. And of course, this is not -- not just a direct result of the -- of the acquisition. It is, but it -- it's under the Income Tax Act that this was done, Mr. Peters, ultimately; not the Sales Agreement, but the Income Tax Act.

MR. BOB PETERS: Yes. And Centra Gas Manitoba Inc. paid income tax when it was owned by Westcoast Energy?

MR. DARREN RAINKIE: Yes, my memory is we'd pay somewhere around 8 or $9 million in income tax, so this was the -- the payment to make us non-taxable.

MR. BOB PETERS: And the payment for Centra Gas Manitoba Inc. to be -- when acquired by Manitoba Hydro, it became, as you say, non-taxable for Federal income tax, and that triggered a one (1) time tax liability?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And that one (1) time tax liability was determined by this Board to be best amortized over a thirty (30) year time horizon?

MR. DARREN RAINKIE: I can't recall if that was our initial proposal or that was what the Board settled on, but it's some time ago now, but, yes, it's being amortized over thirty (30) years.

MR. BOB PETERS: And in addition to the $58 million of the one (1) time tax obligation, Mr. Rainkie, this obligation also attracts carrying costs or interest?

MR. DARREN RAINKIE: Yes, it does. I believe it -- we got agreement of the PUB that it would carry the overall cost of capital.

MR. BOB PETERS: And so there's -- in addition to the $58 million of tax liability, there's a $63 million interest bill, approximately, that's going to be attached to the repayment of that -- that obligation?

MR. DARREN RAINKIE: I presume you're getting that figure, Mr. Peters, from one (1) of the detailed IRS that we -- that we produced, because that's not a figure that's readily in my head. But --

MR. BOB PETERS: All right.

MR. DARREN RAINKIE: -- I'll take it, subject to check.

MR. BOB PETERS: Subject to check, PUB/Centra 1st Round 44B was my marginal note. So, if I'm wrong, you'll let me know if anything turns on that?

THE CHAIRPERSON: Mr. Peters, did you say 63 million?

MR. BOB PETERS: Yes, I did. And I indicated the source of my number, Mr. Chairman, although Mr. Rainkie doesn't have that top of mind, the $63 million according to my review of the materials.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, that was -- that 63 million was tended (sic) to be the -- the total amount after 2029 was -- when all the expenses had been amortized? Have I --

MR. DARREN RAINKIE: That -- that's correct. In fact, I now have the Information Request; as you indicated, PUB/Centra 1st Round 44B, and can confirm that over that thirty (30) year period of time there was $63 million worth of carrying costs on that -- on that balance.

MR. BOB PETERS: So, Mr. Rainkie, when we flip back to -- to page 154 and we look at the balance sheet, and we see in 2015, under "regulated assets" there's a dash or indicating no dollar amount or zero, the Board can expect that that number will be approximately $77 million at that time?

MR. DARREN RAINKIE: It might be slightly higher, Mr. Peters. Where we are right now, is that the DSM, the gas DSM spending is a little bit higher than the amortization. So the rate-regulated assets are going up by about a million dollars a year. But it'll be in that ballpark, Mr. Peters.

(BRIEF PAUSE)

MR. DARREN RAINKIE: So, in other words, we're adding slightly more to the account than the amortization that we're taking out each year, but just by a little bit.

MR. BOB PETERS: When Centra takes one-tenth (1/10th) of its DSM expenditures to date, in my crude methodology, they're now spending on an annual basis just slightly more than that is what you've told the Board?

MR. DARREN RAINKIE: Yeah, on a net basis when you include the other items of rate-regulated assets. But, of course, given that DSM is the largest one, it's the one that has the biggest impact on the account.

MR. BOB PETERS: And, Mr. Rainkie, the Centra Gas Manitoba Inc. board would have seen this balance sheet back in November of '12, before they made a determination to approve an application for a rate increase from the Public Utilities Board?

MR. DARREN RAINKIE: Yes, they see this material.

MR. BOB PETERS: They would have seen the $27 million retained earnings loss forecast for 2015?

MR. DARREN RAINKIE: Yes, they would have.

MR. BOB PETERS: Would it be

reasonable for this Board to understand that that was a factor, if not a major factor, in the Centra Gas board deciding to go ahead with the rate increase by way of this general rate application?

MR. DARREN RAINKIE: If you're asking me if there would have been a zero rate increase if we had assumed something different than the write-off, I think the answer would have been no. We need the rate increase to make a net income in 2013/'14.

And given that it's still very unsettled what's happening in terms of IFRS and rate-regulated accounting in the future, I don't think that was a big influence of the Board, other than from the perspective that we surely wouldn't be going another year without getting a rate increase, given if we are looking at a retained earnings write-off one (1) of the advantages of cost of service, as Mr. Barnlund alluded to, is that we can look at our balance sheet over a longer period of time. We don't have to look at a one (1) year snippet and try to recover that write off in one (1) year.

But certainly the risk of that large of a write off means that we would be looking for a rate increase and not going one (1) more year without one. But we do want to maintain net income in Centra. So regardless of the write-off or not, we would be asking for a rate increase.

MR. BOB PETERS: That last answer, Mr. Rainkie, suggests that one (1) of the reasons for the new rate increase is the Company wanted to show a positive net income for 2014?

MR. DARREN RAINKIE: Yes, we -- we don't want to cross-subsidize between the two (2) utilities, so we would -- and -- and our asset base is growing, you know, at a fairly large clip on the -- on the gas side now. So we certainly do not want to grind our retained earnings down any further than what they already are. We would like to get some moderate -- I think I used in my opening testimony -- moderate increase in retained earnings on a go-forward basis.

(BRIEF PAUSE)

MR. BOB PETERS: Well, let's turn to Tab 44, Mr. Rainkie, and look at another IFF that the Corporation ran. This was as a result of a -- an Information Request on behalf of the Board, correct?

MR. DARREN RAINKIE: Yes, a scenario on behalf of the Board.

MR. BOB PETERS: And this scenario

that was run on page 159 under Tab 44 of the book of documents, it deferred IFRS out to the 2016 fiscal year of the Corporation?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And it also grandfathered the rate-regulated accounting methodology?

MR. DARREN RAINKIE: Yes, it assu -- it assumed that we would continue to recognize rate-regulated accounting.

MR. BOB PETERS: All right. Maybe that's a better way to say it. From an accounting perspective, it assumes that the International Accounting Standards Board allows IFRS to include rate -- allows IFRS to include regulatory deferral account balances?

MR. DARREN RAINKIE: It assumes that, yes, over the ten (10) year period that the international board will allow that, but you have to segment that between the interim standard that the Board -- the international board is looking at and the longer term project, Mr. Peters.

So this was just a simple assumption that both an interim standard would allow us to transition to IFRS without the write-off, and that when the IASB, or the International Accounting Standards Board, makes its final determination on rate-regulated accounting that -- that it will be okay to do that for the long run, Mr. Peters. There's kind of two (2) assumptions, if you like, based -- built into this scenario. The first being that we get past 2015/'16, and the second being that rate-regulated accounting is allowed for the longer term.

MR. BOB PETERS: When you say "get past 2015/'16," Mr. Rainkie, you're -- you meant -- what I understood you to be meaning to say is, that's -- that's the year in which IFRS will now become operative for the Corporation is their fiscal '16 year?

MR. DARREN RAINKIE: Sorry, that was sloppy wording on my part, Mr. Peters. Let me try that again. The first assumption is that on transition to IFRS in 2015/'16, we'll have an interim standard that will allow us to continue to recognize rate-regulated accounting. The second assumption inherent in here is that on the lo -- for the longer term, when the International Accounting Standards Board finishes its rate-regulated activities project that -- that they will allow rate-regulated accounting for the longer-term.

MR. BOB PETERS: So, Mr. Rainkie, you have been kept current either by your own readings or those of your accountants and auditors of the latest IFRS issues, correct?

MR. DARREN RAINKIE: Yes, I was controller for five (5) years, Mr. Peters, so I've li -- lived the rate-regulated saga for that long.

MR. BOB PETERS: And now you've hoist it onto Ms. Jacobs. Sorry.

MR. DARREN RAINKIE: Yes. I -- I might add, she's only worked for the Corporation for three (3) months, so it's quite a feat to get up here and actually testify in front of the Public Utilities Board. So I just thought I'd get that in here.

MR. BOB PETERS: Well, thank you. Mr. Rainkie, on page 161 -- and, Ms. Jacobs, feel free, also, if you have anything further to add. But on page 161 is some literature related to a new, I'll call it, 'exposure draft' that has been sent out to deal with the -- I'll call it the grand-fathering of rate-regulated accounting?

MR. DARREN RAINKIE: Yes. Actually, it was quite a nice piece. I thought it was a good read.

(BRIEF PAUSE)

MR. DARREN RAINKIE: For accountants that get pleasure out of such things.

MR. BOB PETERS: I almost had to ask for a recess there, Mr. Rainkie, but I'm -- I'm prepared to continue. I'm prepared to continue. I'm sure it was a good read. But would -- would it -- on a serious level, Mr. Rainkie, would this document now contain the summary of Manitoba Hydro's most current understanding as to what is expected to happen with rate-regulated accounting?

MR. DARREN RAINKIE: Yes, it does a good job, all kidding aside, of -- of summarizing what we see in the exposure draft.

MR. BOB PETERS: And so it -- it appears to indicate that the -- the recommendation going forward is that rate-regulated accounting continues for those corporations that are currently using it in their regulated business?

MR. DARREN RAINKIE: It -- it will allow first-time adopters of -- of IFRS -- and that it's restricted to first-time adopters, like Canadian regulated entities, to continue to practice rate-regulated accounting while they figure out what they're going to do over the longer-term, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Did -- Mr. Rainkie and Ms. Jacobs, did Centra glean from the article starting at 161 of board counsel's book of documents to be trying to remove a barrier from corporations that have balked at implementing IFRS because of the impact that the rate-regulated accounting section would have on IFRS implementation?

MR. DARREN RAINKIE: Yes, we have a very fragmented re -- financial reporting landscape in Canada now with some -- some companies continuing on the old Canadian standards, some companies using US GAAP, some companies, at least on the electric side of the business, moving to some modified version of IFRS. So I think it was an attempt to settle things down, get everybody moving in the same direction.

MR. BOB PETERS: And as you say, Mr. Rainkie, and I think at least two (2) of the Board members would have seen it, the Hydro GRA, many Canadian utilities are planning to continue with rate-regulated assets and they were implementing accounting mechanisms to do so?

MR. DARREN RAINKIE: Well, they were trying their best to continue in the interim period. This is a replay of the electric hearing, but even moving to US GAAP was a short-term thing, Mr. Peters. It was not a long-term solution.

By the Canadian Accounting Standards Board moving to 2015/'16 as being the -- the date for companies to pick up IFR -- or to implement IFRS, that aligned nicely with the other companies that only have until that period of time to stay on US GAAP. So it really is a -- is a good mechanism to get the Canadian energy utilities back on the same financial reporting basis.

MR. BOB PETERS: And if memory recalls correctly, Mr. Rainkie, Manitoba Hydro was one (1) of only a few, if not the only electric utility in Canada that was going to jump both feet into IFRS without having some other mechanism to perhaps delay the impact on the rate rela -- rate-regulated accounting side?

MR. DARREN RAINKIE: Well, Mr. Peters, the Crown -- the Crown-owned electric utilities cannot move to US GAAP under the public sector accounting standards, so it was -- it was something that wasn't open to us.

We were not trying to break new ground, but it was something that we couldn't do. We're not -- our securities are not listed on any exchange, so we can't get the security regulators to allow us to move to US GAAP. And as I mentioned, that's not a longer term -- that's not a long-term solution anyway. That's coming to an end very quickly.

MR. BOB PETERS: But what's happened recently then, Mr. Rainkie, will now allow utilities to continue with their generally accepted accounting principles, whether it's US or Canada, and have those accepted by their regulator for rate-regulated assets?

MR. DARREN RAINKIE: Yes, what I -- you know, I -- I'm not sure exactly how things are going to line up, Mr. Peters. I'm not sure if there'll be another deferral of IFRS or not. But certainly if the international Board approves the interim standard this year and there are no other changes either from the Accounting Standards Board of Canada or the securities regulators of the utilities that have moved to US GAAP, all utilities will be moving to IFRS in 2015/'16.

So -- so it's -- it's bringing some clarity back into this fragmented reporting landscape, Mr. -- Mr. Peters.

MR. BOB PETERS: Mr. Rainkie, well --

MR. DARREN RAINKIE: If it's -- if it's approved, Mr. Peters. I mean, I -- we should just make that clear in front of the Board. It's not a done deal yet. It's --

MS. MARILYN KAPITANY: Can -- can I just clarify, did you say '15/'16 or is it going to be '16/'17 when you'd be making that move?

MR. DARREN RAINKIE: Currently it's 2015/'16 for us.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And, Mr. Rainkie, the document at page 161 at Tab 44 of the book of documents that we've been talking about, at least referring to it, it indicates that the new exposure draft is open for comment until September 4th of 2013.

Is that your understanding?

MR. DARREN RAINKIE: Yes, that's my understanding.

MR. BOB PETERS: And will Centra be responding to this exposure draft?

MR. DARREN RAINKIE: Yes, I think we'll -- we'll put a letter in and we'll also participate in the Canadian Electric Association letter. The -- the finance subcommittee of the CEA will likely put a letter in in support of this, Mr. Peters, and we'll put our two (2) cents into that communication as well.

MR. BOB PETERS: And when you say Centra will be responding, I take from your answer it'll be Manitoba Hydro that will -- that will sign the letter?

MR. DARREN RAINKIE: I think they'll sign it from both perspectives, Mr. Peters, yeah.

MR. BOB PETERS: Okay. Fair enough. There's no reason that that letter would be a -- would be a confidential document, is there?

MR. DARREN RAINKIE: No. In fact, I think our previous letters on this matter were -- were put on the public record in the electric hearing.

MR. BOB PETERS: And maybe I'll ask you to file your letter once it's sent in response to this exposure draft with this Board as well so they can be aware of the Corporation's position?

MR. DARREN RAINKIE: Certainly.

MR. BOB PETERS: And it may be that Manitoba Hydro and Centra Gas' position is different than the Canadian Electric Association.

Is that possible?

MR. DARREN RAINKIE: I guess anything's possible, but highly unlikely. I think -- I think we'll be putting in letters in support of it, Mr. Peters.

MR. BOB PETERS: Thank you. And will -- will Centra's auditors be responding to this exposure draft that requires or requests comments before September 4th of 2013?

MR. DARREN RAINKIE: I can't make promises for them, Mr. Peters, but typically the big four (4) accounting firms all have put in a comment letter. It won't be, obviously, Centra's auditors or -- or -- it could be one (1) letter for the whole world firm, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Then ag -- there again, Mr. Rainkie, is that a document that can be also filed with the Board once it has been sent in and a copy is obtained by Manitoba Hydro?

MR. DARREN RAINKIE: That one (1) I'm not sure about. I think they probably are in the -- on the International Accounting Standards Board's website, but I'm not sure if that material is copyrighted at all. It's something we could look at, Mr. Peters. I just can't tell you from one (1) way or another right here as I sit here.

MR. BOB PETERS: Fair enough. You could perhaps send a link if it is posted then and that would be as far as you may go if there's copyright issues?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, I'm advised, while you were having your sip of coffee, that -- I mean, this is a public -- the International Accounting Standards Board's process is a public process as well and that we -- we do believe that it will be available on the -- on the International Board's website. So perhaps when we do our undertaking to file our letter, we'll try to give you a link or try -- try to give the Board a link as well.

MR. BOB PETERS: Thank you for that, sir. The upshot, going back to page 154 at Tab 43 of the book of documents on the balance sheet, for what is presently filed before the Board, Mr. Rainkie, is that Centra no longer is expected to write off $77 million in the '15 fiscal year, correct?

MR. DARREN RAINKIE: That's correct, Mr. Peters.

MR. BOB PETERS: And that will put Centra in a -- a stronger equity position to 2015?

MR. DARREN RAINKIE: Yes, we will be in a positive position verus the negative position that we had previously forecast.

MR. BOB PETERS: And while -- and while the retained earnings will be positive, as you've indicated, Mr. Rainkie, those rate-regulated assets still need to be amortized and recovered in consumer rates, and that projected result is what is found at Tab 44, page 159 of the book of documents, sir?

MR. DARREN RAINKIE: Yes, that's the scenario that we were chatting about earlier, Mr. Peters.

MR. BOB PETERS: And -- and on this one as well, Mr. Rainkie, the -- the 2013, that $2 million of net income line item, we've already discussed that today, and that for purposes of presentation today here it would not be incorrect to change that to $8 million?

MR. DARREN RAINKIE: That's correct, on a preliminary basis. I do not want to break any laws of the province of Manitoba.

MR. BOB PETERS: I hear you. And would it -- would it -- Mr. Rainkie, when you sit back and you and Ms. Jacobs chat this over coffee, would -- would page 159 be a more accurate reflection, as you sit here today, of the IFF of the Corporation, compared to what was approved or looked at by your board of directors way back in early -- or late 2012?

MR. DARREN RAINKIE: Yes, Mr. Peters. I think for the purposes of this proceeding, and judging financial outlook, it's -- it's a better representation. Ms. Jacobs reminds me that one (1) of the things about this new standard, though, is that we'll have to very -- in a very pristine-like fashion, segregate out rate-regulated accounts. So there'll be some differences in presentation in terms of the income statement and balance sheet. And you -- you would have noted that on the summary you just took me through.

But other than that, the -- then the net financial results are probably more indicative than the -- than the original forecast from November of 2012.

MR. BOB PETERS: Okay, let's make sure I understood the point. And -- and then, help me, Ms.

Jacobs, if you can, and help the Board, what you're suggesting is that there's going to be a presentation change in the Corporation's annual financial reporting to deal with what we now know as rate-regulated assets?

MS. HANRI JACOBS: If you look through the exposure draft, you'll see that ultimately the presentation of assets and net income and liabilities will be IFRS compliant, presented IFRS compliant. And the impact of rate-regulated accounts would be isolated into a total on the -- total assets before rate-regulated accounts, and on the liabilities you'll have the total assets and then you'll have the total -- the right -- or created deferral accounts. And then on the income statement you'll have net income before rate-regulated accounts.

MR. BOB PETERS: Would it be the purpose of that, Ms. Jacobs, is to show people who are looking at the Corporation's financial statements, so that they -- so they see a full disclosure in front of them without hav -- having to hunt down what's happened --

MS. HANRI JACOBS: I --

MR. BOB PETERS: -- in the notes?

MS. HANRI JACOBS: I suspect it

actually would make it more complicated because now you would have the -- if you just look at our net income statement today, the DSM expenditures is going on the balance sheet through the deferred assets and then we amortize that under this exposure draft. What will happen is we will actually reflect the DSM as expenditure in the face of the income statement, and we'll have the amortization, and then we'll -- we'll actually have pulled the -- the net impact of the -- by capitalizing and amortization below the net income.

Bottom line, the number will be the -- the same. But any impact that's flowing through the income statement or on the balance sheet that's not IFRS compliant will be isolated in these three (3) accounts -- or three (3) amounts.

MR. BOB PETERS: So you're considering it not IFRS compliant until the results of the International Accounting Standards Board has ruled on the overall IFRS project?

MS. HANRI JACOBS: It's -- I mean, current -- that's how the -- the current exposure draft is dealing with this deferral account. It's saying, We're not making a statement if it's compliant with IFRS or not, we're just isolating it.

(BRIEF PAUSE)

MR. BOB PETERS: And while the financial statements that the Corporation will prepare will change in accordance with how you've explained it, Mr. Jacobs, does there need to be a change in the way the Corporation presents to this Board the integrated financial forecast, such as the one found on page 159 of Tab 44?

MR. DARREN RAINKIE: Mr. Peters, I -- I -- what we do when we -- when we do this is we usually present the forecast in the same format as our financial statement reporting because in the first year of the IFF we actually report against that for internal purposes.

So I think we would adopt the financial statement presentation in our IFF. And -- and I think that's good for the Board because, then, when you're trying to puzzle between actual results and forecast results you can see something on a comparable basis. If we didn't do that, we'd be forever reconciling results in terms of presentation.

MR. BOB PETERS: When the Board reviews the net income line item, Mr. Rainkie, it'll be the same as whe -- whether done under either methodology?

MR. DARREN RAINKIE: Yes. Unless there's some change in the ultimate approval of the exposure draft that we're unaware of, presentation will not change the net number, Mr. Peters.

MR. BOB PETERS: All right. Thank you for that, sir. Before I leave page 159, Mr. Rainkie and Ms. Jacobs, the -- when the Board compares it to the previous IFF that -- that we looked at at the previous tab and we see that net income is lower under this scenario, it would reflect amortization expense being higher by about $10 million, correct?

MR. DARREN RAINKIE: It looks like, yes, 9 or 10 million, Mr. Peters. I mean, what's -- what's happening here now, in a situation where you assume the continuation of rate-regulated accounting, is that the -- the amortization of the rate-regulated accounts would be higher than the expenses. So moving back to rate-regulated accounting is going to show a lower net income than the actual IFF that was produced in November of last year.

MR. BOB PETERS: And then that's a good segue, Mr. Rainkie, that OM&A is about $7 million lower when rate-regulated accounting continues because that does not reflect the annual expensing of DSM?

MR. DARREN RAINKIE: That's right. Thi -- this scenario reflects the deferral and amortization approach versus the immediate expensing approach.

MR. BOB PETERS: And likewise, Mr. Rainkie, the net income shown here on page 159 of Board counsel's book of documents compared to the previous Centra IFF would show net income down about $3 million in 2016, and that would be as a result of the amortization of that tax liability that we previous -- previously talked of?

MR. DARREN RAINKIE: Well, it's the net effect of all of the -- we -- we'd have the continued amortization of the tax accounts. We'd have the continued amortization of the -- of the DSM accounts. But what you wouldn't have is the immediate expensing of DSM costs. And the interplay between those -- all those factors actually reduces net income, Mr. Peters.

MR. BOB PETERS: It's the cumulative effect as opposed to isolating it on just one (1) of those -- one (1) of those factors?

MR. DARREN RAINKIE: Yeah, it's there are changes in -- in a number of the line items, Mr. Peters, not just the tax line.

MR. BOB PETERS: All right. Mr. Rainkie, we've talked a little about net income, so let's -- let's focus a bit more on net income by turning to Tab 45 of the book of documents. And while Ms. Jacobs can say she wasn't around when some of these Board Orders were written, Mr. Rainkie, I'm not sure you can use that same excuse.

So starting on page 169, this is an extract from Board Order 99/'07, sir, and it indicates, second paragraph from the bottom of the page, partway through:

"Given Centra's borrowings are guaranteed by the province, with a fee for the guarantee allowed in costs for rate setting, a 70:30 ratio is adequate rather than the 60:40 model that would be acceptable if there was no provincial guarantee."

You see that, Mr. Rainkie?

MR. DARREN RAINKIE: I do see that, Mr. Peters. It -- it's a concern of mine, but I -- I do see it. You've accurately read what's on the page, but how we got to that is a bit of a puzzlement to me, but...

MR. BOB PETERS: But in any event, you're telling this Board that the targets of Centra are set on a -- on a consolidated basis as opposed to by specific entity under the umbrella of Manitoba Hydro?

MR. DARREN RAINKIE: Yes. When we look at the overall financial health of the Corporation, consolidated, we -- we look at the financial ratios, but we don't break those down between gas and electric operations.

MR. BOB PETERS: All right. Also, in the last paragraph on page 169, Mr. Rainkie, I'll read:

> "The Board notes that Centra's debt-equity ratio already exceeds the 70:30 standalone test, and that this reinforces the Board's determination to hold Centra's allowable annual net income to $3 million, given the corporate allocation remains at $12 million."

I, again, read that accurately, sir?

MR. DARREN RAINKIE: You did, Mr. Peters, but I don't really understand the 70:30 standalone test, because, on a standalone basis, Centra Gas had a equity ratio of 40 percent for decades. So -- and as you and I used to go through many years ago, Mr. Peters, days and days of testimony to review capital structure and return on equity.

And then the 70:30 suddenly popped up in this order based on a quick question of Mr. Matwichuk on behalf of CAC, and no disrespect to Mr. Matwichuk, but he's not a cost-of-capital or capital-structure expert.

So I -- I don't know how we ever got to this, Mr. Peters. This was a bit of a -- I don't know, a surprise for me. To me, the appropriate application of the standalone principle of regulation would look at Centra's standalone equity ratio, which I -- as I said was for decades 40 percent. So how we suddenly got to 30 percent in the five (5) minutes of testimony, I don't know, Mr. Peters.

So this is a bit of a puzzlement of me, so while I can read the words, I wouldn't want to leave with the Board that I actually agree with this.

MR. BOB PETERS: Didn't mean to poke you there, Mr. Rainkie, but -- but maybe the answer to your question can be found almost in the middle of the page, the last sentence of the third paragraph, and it says:

"In short, the Board does not accept that a different target, other than the one based on a standalone view of Centra's balance sheet, should be utilized."

And that was a Board determination that Centra may or may not have agreed to at the time.

MR. DARREN RAINKIE: Well, what I don't understand from this is the application of the standalone principle, because if you're saying that Centra can have a 30 percent equity ratio because Manitoba Hydro's on the scene, then how -- how is that a standalone determination?

To me, the use of the principle standalone would say: Well, what would Centra have as a standalone entity? And it's widely known in the gas business that equity ratios for gas companies are usually between 35 and 40 percent. And for decades, Centra Gas had an -- an approved equity ratio before the Board of 40 percent, you know, for decades.

MR. BOB PETERS: Well --

MR. DARREN RAINKIE: So I -- I just -- when we use the 30 percent and the standalone principle, I don't equate those two (2) together in the same sentence, and -- and I'll have to -- if we want to have this discussion throughout the hearing, I'm going to stop every time and say, I don't agree with that, because I -- I don't think it's the proper application of the standalone principle.

MR. BOB PETERS: Well, I don't recall. Did Centra ask to review and vary or appeal this order, Mr. Rainkie? Do you recall that?

MR. DARREN RAINKIE: No, Mr. Peters, we did not ask for a review and vary. We -- we accepted it, but I don't -- I don't know. I -- I --

MR. BOB PETERS: Centra accepted it but Mr. Rainkie didn't.

Is that what the Board should take?

MR. DARREN RAINKIE: Well, I don't know. You know, Mr. Peters, the -- the focus for a number of years now, of course, hasn't been on rate-based rate of return and equity ratios and rate of -- rate of return. We -- the focus has been on a cost-of-service basis, and, you know, trying to ensure that we're not cross-subsidizing between the two (2) utilities, trying to ensure that we have a healthy enough balance sheet on the Centra, so that we don't have rate shock to customers if something bad happens to us, like a -- like a write off of IFRS of -- of rate regulated assets.

So I -- I'm not sure it would have served much purpose to fight with the Board over it, and do review and varies, and all those types of procedural things, Mr. Peters. But we have this weird kind of concoction, though, of -- of cost-of-service, and then we kind of step back into the rate based rate of return world here and there. So it worries me.

It worries me because sometimes where it's convenient, we slip back into rate based rate of return, and -- and I just have to be cautious that when conclusions are being drawn, that where we agree with them, I'll agree with them. Where I don't agree with them, I'll make sure that you know.

MR. BOB PETERS: Well, I certainly heard you. And then, thank you, Mr. Rainkie. But just to be clear now, when Centra was owned -- the shares of Centra were owned by West Coast Energy, there was no provincial debt guarantee that underpinned that -- Centra's borrowings, was there?

MR. DARREN RAINKIE: No, but neither was there a credit rating of the magnitude of the Province of Manitoba. And when we pay the provincial guarantee fee, that's what we're getting -- is the credit rating of the Province of Manitoba. So as far as I'm concerned, we pay the fee, we get the lower cost of debt, and that's -- that's to the benefit of the customer. And -- and that's the end of the equation.

That doesn't give us the ability to buy down the equity ratio by ten (10) points. There's no way that Centra, on a standalone basis, can get the -- the rates that -- that we can get through Manitoba Hydro through the credit rating of the Province of Manitoba -- just no way.

In fact, Centra used to have debt covenants that it could not issue one dollar ($1) of debt unless it had a two (2) times interest coverage, and then it was a graduated scale past that two (2) times interest coverage. And we had to maintain equity ratio of 25 percent, or we couldn't -- we couldn't issue any debt either.

So we forget about those things, Mr. Peters, like they are not benefits sometimes, but they are significant benefits. So, from my perspective, I don't agree with this assumption that the payment of the -- the provincial guarantee fee some -- somehow buys down the financial integrity to nothing, and we can just let equity ratios and -- and retained earnings plummet.

The other thing, when we're doing these

rate- based calculations, just while I'm on my soapbox, is that the rate of return formula was -- was pegged at a 40 percent equity ratio. So applying a rate of return against a 30 percent equity ratio doesn't make a lot of sense to me either. So -- so there's a lot of imperfections in some of the rate based rate of return material that we have in the filing.

And, you know, as long as we're looking at, and setting ra -- using cost-of-service as a primary basis to set rates, I'm okay with it. But when we slip back and forth between the two (2) methodologies, I get a little concerned and a little crabby at certain points.

MR. BOB PETERS: Mr. Rainkie, Centra does not need 40 percent equity to borrow the money to conduct its capital programs, does it?

MR. DARREN RAINKIE: Only because it's part of the Manitoba Hydro chain, Mr. -- Mr. Peters. So, once again, is that a stand alone? Is that the application of the standalone principle? When you are referring to Manitoba Hydro to be able to borrow, is that the proper application of the regulatory standalone principle?

MR. BOB PETERS: And -- and in exch --

MR. DARREN RAINKIE: Not in my book.

MR. BOB PETERS: Okay. And in exchange for that being part of the Hydro chain, as you called it, there's a 1 percent debt guarantee fee that is paid by the ratepayers of Centra for the ability to have the province guarantee the debt of Centra Gas?

MR. DARREN RAINKIE: Yes, and the customers receive value for that 1 percent by us being able to access debt at lower levels, or low -- lower costs which, to me, is the end of the transaction. It does not mean that we can buy down the equity ratio by ten (10), and fifteen (15), twenty (20) basis points, Mr. Peters.

I mean, I don't know. I don't want to go too far into this because we've -- we've accepted the cost-of-service basis of rate setting for a number of years. But, as I said, I just -- cautious when we kind of slip back and forth between these two (2) methodologies that there is a reasonable result for the company and for the customer.

MR. BOB PETERS: Well, Mr Rainkie, on page 172 of the book of documents, under allowable returns to Manitoba Hydro, the last sentence of the second last paragraph reads:

"As well, the final test to be
applied is that any combination of
net income and charges to Centra by
Manitoba Hydro do not result in
higher rates for Centra customers
than would have been the case under
private ownership."

That's a sentence that Centra has long agreed with, is it not?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Well, I think that this -- that what we've agreed to in the past is, and then I think proven through the various material that we put in front of the Board over the last decade is that on balance the transaction has been beneficial to Centra customers.

How we go about constructing and bifurcating between that income and -- and corporate contributions and those types of things is a different matter. But certainly I think we all believe and have demonstrated that there's no harm to Centra's customers as a result of the purchase of Centra by Manitoba Hydro.

MR. BOB PETERS: Continuing on page 173, Mr. Rainkie, the first full paragraph, first sentence reads:

"The no-harm principle is of paramount importance with respect to the dealings between Centra and its parent, Manitoba Hydro."

Again, that carries on from the -- the last thought that we talked about, and it's Centra's view that the no-harm principle has been honoured since the acquisition?

MR. DARREN RAINKIE: Certainly, Mr. Peters.

MR. BOB PETERS: All right. And now the second last paragraph, Mr. Rainkie, on page 173, found at Tab 45 of Board Counsel's book of documents:

"The Board established in Orders 103/'05 and 135/'05 that the corporate allocation combined with Board-allowed net income is not to exceed the return previously provided to Centra's private owner prior to Manitoba Hydro's acquisition, which ranged from 14 to $16 million and allowed the

corporate allocation of --
allocation of $12 million and annual
net income of $3 million."

I read that almost correctly?

MR. DARREN RAINKIE: Almost, Mr. Peters. I think word for word.

MR. BOB PETERS: And the -- the sum and substance of that, Mr. Rainkie, is that when you were at Centra Gas Manitoba Inc., Centra Gas Manitoba Inc., as a subsidiary of West Coast Energy, was recovering in the range of 14 to $16 million a year for its shareholder?

MR. DARREN RAINKIE: Yes, rates were set to allow the company a fair opportunity to earn that amount of return based on the rate base at the time, and based on the rate of return at the time, Mr. Peters.

I mean, that calculation was a calculation that existed back in '98 or '99 -- 1998 or 1999. Whether that should be the net income for all time, I think is -- you know, is another -- another discussion, which I'm assuming we're going to have soon.

MR. BOB PETERS: We're going to have it real soon, Mr. Rainkie, so on -- on page 174 of the book of documents, the first full paragraph on -- on page 174 reads:

"The Board continues to accept the annual corporate allocation of $12 million, the premise that synergies have been sufficient to uphold the no-harm principle and that, as now to be reviewed, the annual net income of $3 million does not represent an unwarranted return on investment for Manitoba Hydro."

Again, I read that correctly?

MR. DARREN RAINKIE: Yes, you did, Mr. Peters. Once again, the use of the word "return," just for the -- the Board's perspective, who wasn't -- wasn't here to have the discussion on this, but I don't think Manitoba Hydro looks at that as a return, because once again, we've got these kind of private-like rate base rate of return words coming into the decision.

But there was a cost to acquire and integrate Centra. There were more benefits that were derived as a result of that -- of those costs. And what we're trying to do is get a fair apportionment of the costs to both the gas customers and the electric customers.

So there's no customer versus some big bad shareholder here. What Manitoba Hydro has is two (2) -- two (2) sets of customers, electric customers and gas customers. And what we're trying to do in this whole mix is make sure there's a fair apportionment of the benefits and the costs, so that there isn't harm to either party.

So I think that's the premise we have to deal with when you're dealing with Manitoba Hydro. Once again, from time-to-time, we slip back in time to this, you know, this notion of: Well, there's the company versus the customer. The shareholder that's going to take a bag of money in terms of dividends and, you know, take it to, you know, in the case of Westcoast, take it out to the west coast. But there isn't.

There's a public utility that's owned by the Province of Manitoba. It serves two (2) groups of customers. And if we advantage or disadvantage one (1) group, we're doing the flip-side to the other group of customers, and of course, the Board has to look out for both sets of customers.

So the notion of return, I don't know. We look at the corporation allocation as a cost to

Centra. It -- it's fair allocation of the costs of the -- of the co -- cost of the acquisition and integration of Centra. If we didn't allocate those costs to Centra, then the Centra customers would be getting all of the -- a huge chunk of the benefits of the integration to the detriment of the electric customers. There isn't a shareholder boogeyman in the middle here.

MR. BOB PETERS: Mr. Rainkie, the -- the corporate allocation that the -- the proper noun that -- that's shown in the Board order on page 174, it's been quantified at $12 million by the Board.

Is that correct?

MR. DARREN RAINKIE: It was accepted at $12 million by the Board. I think it was our proposition that $12 million was a fair allocation, Mr. Peters.

MR. BOB PETERS: And that $12 million is paid by Centra ratepayers as an expense. And the Corporation then transfers it over to the Manitoba Hydro side of the accounting ledgers?

MR. DARREN RAINKIE: Well, we have a corporate segment that includes all the costs of the acquisition and integration, and the 12 million gets -- if you look in our financial statements, the 12 million gets -- gets charged against that, Mr. Peters.

MR. BOB PETERS: But the $12 million is then used by Manitoba Hydro to help pay off its acquisition of the shares of Centra Gas?

MR. DARREN RAINKIE: Yes, it -- it's used by Manitoba Hydro to pay the costs of achieving the synergies for the benefit of customers.

MR. BOB PETERS: And, Mr. Rainkie, when the Board was reviewing the synergies over a number of hearings it ended up, perhaps even at Centra's request, that, at some point, you had to stop reviewing the benefits, and it's because they could no longer be tracked?

MR. DARREN RAINKIE: Well, it's because they can no longer be tracked. And, you know, trying to regulate based on what otherwise would have happened, I think the Board will find is a very difficult paradigm to try to -- to try to employ.

I mean, what would West Coast have done fourteen (14) years after the acquisition versus what -- the decisions of Manitoba Hydro? I mean, it's impossible to quantify or argue about. You'll just get into a big, black box of discussions between us and the Intervenor, to no benefit.

I think we had several goes at -- at --

quantifying that in the status-update hearing that happened in 2002 and -- and the subsequent Centra GRAs. And the Board felt that there was -- at least my understanding of the orders was that there had been sufficient information put on the public record to conclude that the transaction was beneficial for the customers of Centra, and there was no need to, you know, go over that time and time again was my -- is my memory of it, Mr. Peters.

MR. BOB PETERS: And the end result was a $12 million corporate allocation that's been charged each and every year to Centra's ratepayers?

MR. DARREN RAINKIE: That's right. It's formed part of the -- the Centra revenue requirement since that time.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, on page 176 also found under Tab 45, we have a different Board order. You'd notice that in the top right of the pages. You'll see the header -- this is now out of Board Order 128/'09. And I'm looking at the second last paragraph on page 176, sir.

And I'll read it.

"The Board regulates net income on a
weather-normal basis and is not
concerned that Centra exceeded its
approved net income in 2007/'08 and
2008/'09. Centra's net income has
been negative in previous years due
to weather, and the Board accepts
this scenario.
Year-to-year fluctuations in net
income caused by weather should not
affect the timing and magnitude of
the GRAs."

I read it correctly?

MR. DARREN RAINKIE: You did, sir.

MR. BOB PETERS: And is that a principle that Centra likewise endorses?

MR. DARREN RAINKIE: Yes, it's a -- it's a pretty common regulatory principle given that human beings, with all their computers, cannot predict the weather past -- accurately past a couple days, so.

So what you have is you have -- you have fair methods. In a future test year situation where you're looking at forecasts to set rates, you have fair methods of determining revenue requirement. And -- and the recognition is, is that some years there'll be colder weather, some years there'll be warmer weather, but that's not a deficiency or a lack of accuracy in -- in, you know, forecasting. That's, simply, mother nature doing what it will -- what she will. And it's a common principle in the regulation of gas utilities that are sensitive to weather.

MR. BOB PETERS: Simply put, Mr. Rainkie, if the weather was warmer than normal, and that drove a loss of net income to the Corporation in a particular fiscal year, that in and of itself should not be a reason for the Corporation to come in for a general rate application?

MR. DARREN RAINKIE: Well, not necessarily, Mr. Peters. I mean, you know, and once again, this -- this principle is there, it's very -- fairly consistently there in a private setting where utilities earn a rate of return, and part of the risk that they take is the risk of weather.

In a cost-of-service setting, I'm not so sure about your last statement. I mean, we -- we -- we need to focus on what our actual retained earnings are, calculating some fictitious number of what they otherwise would have been. I don't think I've never -- I've never seen this proceeding in the twenty-three (23) years that I've been involved in it.

So I -- we -- we base our decisions, in terms of rate applications, on our actual retained earnings. And really, the concept of weather normalization is there in terms of setting rates, it's -- except that we ca -- that we can't accurately predict what the weather is, so we use normal weather in ter -- terms of setting rates as a reasonable -- as a reasonable approach to setting rates.

What happens other -- after? Yes, there is, as expected, there will be pluses and minuses, but we still under -- you know, under our cost-of-service rate-setting methodology, much like we do on the electric side, have to look at what our actual return -- retained earnings are in terms of making judgments about future rate applications. We can't assume that away simply because weather will be plus and minus, Mr. Peters.

MR. BOB PETERS: But you look at it on a corporate basis, consolidated basis, Mr. Rainkie, not specifically related to Centra?

MR. DARREN RAINKIE: Well, Mr. Peters, what -- what I -- what I'm saying is, is that when it comes to setting rates, we don't have any particular targets for the gas utility. The -- the ratios that we look at are on a consolidated basis. So I'm not --

I'm not sure. I guess I'm not communicating it very good to you, Mr. Peters, 'cause we seem -- I seem to be confusing you more than -- than not.

But I'm not sure what -- what the financial ratios have to do with the discussion about weather normalization but...

MR. BOB PETERS: We'll come to it. It's nice to know that you're still learning things after twenty-three (23) years, Mr. Rainkie, that we can -- we can continue to peak your interest.

Mr. Rainkie, on page 177 of Tab 45 of the book of documents, again, the second last paragraph reads:

> "At the 2005 GRA, Centra confirmed that approximately $19 million was required annually to amortize Manitoba Hydro's costs arising out of acquisition, and that Centra's share of those costs was to be $12 million, with the other 7 million to be borne by Manitoba Hydro."

Correct?

MR. DARREN RAINKIE: Yes, that's what was talked about at that proceeding, Mr. Peters.

MR. BOB PETERS: And that was to

reflect that Centra's customers are getting benefits as a result of Manitoba Hydro's acquisition of Centra, and likewise, Manitoba Hydro would be getting some economies of scale or scope or both, related to that Corporation's acquisition of Centra?

MR. DARREN RAINKIE: That's a fair summary, Mr. Peters.

MR. BOB PETERS: Mr. Rainkie, one (1) of the things that I'd understood is that:

> "Centra bases its forecasts and rate proposals in accordance with a net income target of $3 million per year on average."

And I'm reading that, sir, from an Information Request that was -- that was provided in the 2011/'12 cost-of-gas application. Did I read that first sentence of the response correctly?

MS. MARLA BOYD: Maybe just give us a minute, Mr. Peters. It was just split across the desk.

MR. BOB PETERS: Certainly.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Yes, Mr. Peters.

I mean, we -- we've had that target for a few years. We're asking for something a little bit different in this application, Mis -- or a reconsideration of that, Mr. -- Mr. Peters. But yeah, we -- we played in accordance with the directive of the Board for a number of years. But in this current application we're asking for something a little different than this.

MR. BOB PETERS: All right. Thank you. I just wanted the Board to be clear, and -- and you've probably summarized it better than I, that this would represent the first application before the Public Utilities Board where Centra is setting a net income target in excess of $3 million per year.

Would you agree with that?

MR. DARREN RAINKIE: Yes, given the numbers we talked about a while ago, Mr. Peters.

MR. BOB PETERS: Well, and those numbers were $4.8 million for the fiscal year, or $5.6 million on an annual basis?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Thank you.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, I want to continue with you. I'm not sure, Mr. Chairman, if you'd like the afternoon recess now, or perhaps at a -- in a -- in a short while, but I do want to explore with Mr. Rainkie and the witness panel, the requested net income in this rate application, which on an annual basis is 5.6 million, and on the balance of the test year is $4.8 million.

THE CHAIRPERSON: Let's keep going.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you. Mr. Rainkie, would it be correct, sir, that when looking at the net-income request, the primary motivation for trying and requesting net income greater than $3 million is because the Corporation was concerned that it may have to write off $77 million as a result of rate-regulated assets?

MR. DARREN RAINKIE: Yes, Mr. Peters. And that risk still remains.

MR. BOB PETERS: That risk remains, Mr. Rainkie, but it's not as imminent, because two (2) things: One (1) is, IFRS has been pushed out to fiscal '16, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Two (2) full test years after the -- sorry, two (2) full fiscal years after the test year?

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: And the second -- the second reason is the recent exposure draft where rate-regulated assets are proposed to continue, and rate-regulated accounting is supposed to con -- proposed to continue in respect of those $77 million worth of assets, correct?

MR. DARREN RAINKIE: Yes, if the interim standard is approved, and for the in -- for that interim period, then maybe a year or two (2) until the -- the International Board gets its final determination on this matter.

MR. BOB PETERS: And the final determination can be to adopt that interim standard?

MR. DARREN RAINKIE: Can be to adopt it, can be to be silent, can be to not adopt it. It's -- it's -- all the options are open to it.

MR. BOB PETERS: But the -- but the $77 million is no longer looming as large of an issue in light of those two (2) recent pronouncements by the International Accounting Standards Board and the IFRS Foundation?

MR. DARREN RAINKIE: The immediacy of it has -- has changed, Mr. Peters, as you have alluded to. But if it does happen, we're -- it is a large -- it is -- it's a large change for Cen -- for Centra's balance sheet. So, yes, it's -- in terms of timing, it's been pushed off, but the magnitude of it is such that, as you saw on our forecast, that if it does actually come to play, it will take us ten (10) years to dig out of the trough for -- that it creates.

I mean, the other thing, Mr. Peters, is -- is, as I think I alluded to in my opening testimony, is -- is that this whole thing about a $3 million net income is very threadbare net income. More often than not we're -- we're seeing a loss and our retained earnings are -- are not growing at all. The size of our plant is increasing fairly significantly, but -- but our retained earnings are not -- not keeping -- keeping up in step. So it, perhaps, is time to think about a reconsideration of the $3 million.

I mean, when you look at the rate base now of Centra, if the -- if the test is no harm versus what a private owner would have -- have got in terms of return, you're looking at a rate base that's almost $500 million at a 40 percent equity ratio, because that's what our long-standing private ratio was. And if you correct the rate of return formula, because it is badly out of date, vis-a-vis some of the other formulas that are in existence in -- in other jurisdictions in this country, you know, to about 9 percent, you're looking at about an $18 million return in equity.

So -- so having a $12 million corp -- corporate allocation plus a $6 million net income is, in my mind, not -- does not violate the harm principle that the Board has previously annunciated in its decisions. In fact, it may be looked at as simply updating something that has been frozen in time for ten (10) years and needs another look at. Of course though, as I said earlier, the reason to do it is not to pay a dividend to Manitoba Hydro. It's simply to maintain a reasonable balance sheet, so that we have rate stability for our customers on the longer term.

MR. BOB PETERS: But, Mr. Rainkie, with the current retained earnings being positive, Centra has that stability that you're talking about?

MR. DARREN RAINKIE: It -- it does, but what I was trying to say, Mr. Peters, is that retained earning seem to be just -- with the current, I don't know what to call it, regime, or process of twelve (12) plus three (3), there -- the retained earnings are just seemingly going up and down and they're not really -- they're not really increasing much with the size of the company. It would be better, from a financial integrity perspective, if we could see some moderate growth in retained earnings, you know, over the next ten (10) years.

MR. BOB PETERS: All right. Mr. Rainkie, let's explore some of the facets of your last two (2) answers to me, sir. And I took from one (1) of them is that one (1) of the reasons that Centra is now asking for approximately -- well, rounded off, twice as much net income as previously had been the case, is because retained earnings have been flat over a period of time, correct?

MR. DARREN RAINKIE: Yes, since the current -- the current determination, they seem to have not grown much over that time period.

MR. BOB PETERS: And, Mr. Chairman, this is -- this is where that piece of paper on your chair may come in. I would like to discuss it with the witness. I didn't actually have a chance to speak to Ms. Boyd about it, but it was sent to her earlier, but I don't know if there was any issues that we should have discussed or should discuss still.

MS. MARLA BOYD: That's the revised pages 184 and 185?

MR. BOB PETERS: It is.

MS. MARLA BOYD: I think the witnesses are prepared to speak to that.

MR. BOB PETERS: All right. Thank you, Ms. Boyd.

Mr. Chairman, page 184 revised you will have on your chair, and in the top left -- or in the, I guess, top right when you landscape the document it says, "184 revised."

CONTINUED BY MR. PETERS:

MR. BOB PETERS: Mr. Rainkie and Ms. Jacobs, you have a copy of that?

MR. DARREN RAINKIE: Yes, we do, Mr. Peters.

MR. BOB PETERS: And in terms of retained earnings being flat, let's -- let's have a look at the retained earning's line, line 5, Mr. Rainkie. And they're starting in '03/'04 actual at 27 million, and they're increasing on the revised schedule in front of you to $42.3 million in '12/'13, and then to $47.1 million in fiscal '14 of the Corporation, correct?

MR. DARREN RAINKIE: Well, actually, they're starting at 35 million if you look at line 2 under 2003/'04. And then with the assumption of the rate increase and the very net income that we're asking for, Mr. Peters, they get to 47 million.

MR. BOB PETERS: And in fairness, Mr. Rainkie, these -- there -- there's some high level assumptions built into these numbers as you would have seen, but it was based on the Corporation's opening comments, and I believe also now on the anticipation of what Centra Exhibit 7 would -- would look like, and that was the -- the update of the '11/'12 year in terms of weather impact. So those -- those assumptions have been made and -- and put into this document.

So you accept them as -- as relatively accurate, Mr. Rainkie?

MR. DARREN RAINKIE: Sorry, Mr. Peters, are we still on lines 1 to 8, or have we migrated down to 9 to 13, because I -- I'm not sure what 9 to 13 is really telling me. So I would have to understand what that's telling me before I would agree to it. And then I might start talking about, you know, if the date is correct or not.

MR. BOB PETERS: All right. Well,

let's stay then on the top, lines 1 to 8 for now, Mr. Rainkie.

In terms of the retained earnings amounts, the retained earnings amount for your fiscal '13 year show a net income on line 3 of $8 million being added to the opening retained earnings of $34.3 million. And that $8 million number came from your lips on the first day of testimony, and that's the source of it, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, Mr. Peters. What we know right now is that our retained earnings are, preliminarily, at 42 million. We started off at about 35 million in the '03/'04 fiscal year, so over -- is that ten (10) years, Mr. Peters? I'd have to get my fingers and toes out to ca -- to calculate it.

But we've gone up about $7 million in ten (10) years, so I could hardly call that stellar retained-earnings growth.

MR. BOB PETERS: All right. Let's just continue with that then, Mr. Rainkie. You can confirm to the Board that the actual retained earnings experience of the Corporation has been -- has been as a result of the impact of weather?

MR. DARREN RAINKIE: Well, amongst other things, Mr. Peters, yes, weather can have quite a dramatic impact on our -- on our results, as you can see from these tables, but everything else rolls into that operating cost, municipal taxes, et cetera.

MR. BOB PETERS: And there have been accounting changes that the Corporation has made as well, Mr. Rainkie, that have impacted the retained-earnings amount?

MR. DARREN RAINKIE: Yes, and -- and accounting adjustments and all the above, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, when we look at line item 10, which you wanted me to help explain to you, we see the actual net income line which will mirror what was put on line 3 of the schedule, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And the actual net income of the Corporation is derived after the actual impacts of weather, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And weather can cause the Corporation, as you said, to earn more or to earn less than what it bases on weather normal forecasts?

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: And in line 11, the impact of weather on the Corporation's net income is shown.

Do you accept that, at least up until the 2012 fiscal year?

MR. DARREN RAINKIE: Yes. I -- I think -- yeah, I -- I think we accept that calculation up to at least 2011/'12. Somebody else on the panel can jump in if they see otherwise.

MR. BOB PETERS: What you're showing the Board is that, on the difference line, on line 12, that amount of difference represents how much money Centra was impacted as a result of weather not being normal in the particular year?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Yes, the differential between actual and weather normalized net income would be the impacts of weather not being normal. I think that follows, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, let's -- let's jump to that 2013 fiscal year, the 2012/'13 column second from the right and go down to line item 11, "weather normal net income." And actually, I'm going to step back, and I want to correct myself. And I want to look at the 2011/'12 year first, Mr. Rainkie.

And this is the year in which Centra has indicated was the warmest year on record, correct?

MR. DARREN RAINKIE: That's my understanding, Mr. Peters, yes.

MR. BOB PETERS: And as a result of it being the warmest year on record, Centra lost 5.5 -- sorry, $5.751 million that year in actual terms?

MR. DARREN RAINKIE: Yes, that's correct.

MR. BOB PETERS: Had it been normal weather, Centra would have made $7.1 million that year?

MR. DARREN RAINKIE: Yes, just accounting for the effects of weather, Mr. Peters. Of course, this doesn't account for financing charges and other things. But on a theoretical basis, yes. I'm -- I'm not going to be difficult with you. Let's move forward on this.

MR. BOB PETERS: Not going to be more difficult with me is what you meant to say, Mr. Rainkie, but let's continue. Mr. Rainkie, what that shows under the '11/'12 column, sir, on line 12 is that Manitoba Hydro's income was impacted $12.9 million on account of weather at the -- at the level you and I had been talking about.

MR. DARREN RAINKIE: Yes, that's correct.

MR. BOB PETERS: And now, Mr. Rainkie, let's move over to the '12/'13 year, and I appreciate that those numbers are not yet finalized, known, audited, approved, and published, but if we start from a premise of $8 million of actual net income, we can do some math based on the fact that weather was colder than normal in that year, by approximately $3 million worth of net income colder, to add on to what would have been the net income of $5 million had it been weather normal.

Can you accept those numbers at a high level, Mr. Rainkie?

MR. DARREN RAINKIE: Mr. Peters, I looked at a lot of numbers in the last while. What I'm drawing a blank on is where that $5 million number comes from. Maybe it should be abundantly obvious to me, but it isn't.

MR. BOB PETERS: Well, you weren't paying attention to the first panel, Mr. Rainkie, because the first panel told the Board back in Tab 16 of its book of documents what the weather normal numbers were looking for -- were looking like for -- for '12/'13; and it's on page 63 at Tab 16, Mr. Rainkie.

And you'll note, as the Board will, on the line item of 2012/'13, the bottom of the chart, the effective degree day heating numbers are recorded except for March and the annual number.

Are you with me, Mr. Rainkie?

MR. DARREN RAINKIE: I can see the numbers. I'm not sure I'm an expert on weather normalization, Mr. Peters, so --

MR. BOB PETERS: Good. Let's continue.

MR. DARREN RAINKIE: -- but I can -- I can see what -- yeah, I can see what you've --

MR. BOB PETERS: All right. So --

MR. DARREN RAINKIE: -- what you're --

MR. BOB PETERS: -- so Mr. Rainkie, here's -- here's how we unravel the mystery. The March column for 2012/'13, the -- the number that should be inserted there came from PUB/Centra 173A. And you can write in that number -- sorry, it was Second Round 173A, and that number is seven hundred and seventy decimal eight (770.8).

And then we get an annual effective degree day heating of four thousand seven hundred and thirty-one point two (4,731.2). And you can take that subject to check, Mr. Rainkie, and I'm sure you will be checking that over at the break.

Mr. Rainkie, what we then know, and I'm not sure if it was Ms. Morrison or whether it's Ms. Derksen, but the EDDH forecast for '12/'13 was set at four thousand five hundred and thirty-six (4,536) as being the forecast normal, and we know that that wasn't the case. We know that there were more EDDHs, meaning it was colder than normal.

We also know, Mr. Rainkie, that for every effective degree day heating that it's colder, you rub your hands because there's an extra fifteen thousand dollars ($15,000) of net income.

Are you with me so far?

MR. DARREN RAINKIE: Mr. Peters, I was rubbing my hands last winter 'cause it was really cold, but I'm with you.

MR. BOB PETERS: All right. My -- my

point, Mr. Rainkie, is that if we take Centra's numbers, and we update them for what we now believe to be actual information, we can see that the differences between what was forecast as normal and what the Corporation incurred is in the neighbourhood of a hundred and ninety-five (195) to two hundred and thirteen (213) effective degree days.

And we multiply that by the fifteen thousand dollar ($15,000) number, and we come up with 2.93 million, or there's another way to do it and come to 3.2 million. So I'm just estimating it at $3 million is the impact of cold weather.

Can we take that based on my explanation, Mr. Rainkie, or is that something that -- that you have comments on at this time?

MR. DARREN RAINKIE: I understand how you got that, Mr. Peters. So I'm okay to continue.

MR. BOB PETERS: And by understanding how I got it, you're not prepared at this time, or maybe you're not in a position at this time, to either agree or disagree with me on that?

MR. DARREN RAINKIE: It doesn't sound outrageous to me, Mr. Peters, so.

MR. BOB PETERS: Thank you. So the -- so the point that we're -- we're coming to, Mr.

Rainkie, is that if we look across on line 10, actual net income, and if we were to add up cumulatively from '03/'04 all the way along line item 10, it would equal the total column at the far right of 8 million -- 8.564 million. And we see that that was your actual net income gain since 2003/'04.

And you can confirm that, sir, as being approximately correct?

MR. DARREN RAINKIE: Sorry, Mr. Peters, I lost you there somewhere. You said we had an $8.4 million gain?

MR. BOB PETERS: I meant to say eight-point-five-six-four (8.564), the far right-hand column on line item 10, Mr. Rainkie, is the cumulation of the actual net incomes since 2003/'04.

MR. DARREN RAINKIE: Yes, Mr. Peters. So over that time frame, nine (9) years, we were expecting to get $3 million a year, or $27 million, and I'll round up for your purposes. We actually had nine (9).

MR. BOB PETERS: And the reason you had nine (9), Mr. Rainkie, is that the weather was warmer than normal over that ten (10) year period by about $16.989 million?

MR. DARREN RAINKIE: Yes, Mr. Peters,

but that does precious little for me to -- to sit there and wonder why and do theoretical calculations. But I guess your numbers are of the right magnitude.

MR. BOB PETERS: And then, Mr. Rainkie, at line item 12 under the difference row, the difference of eight million four hundred and twenty-five thousand dollars ($8,425,000) represents the cumulative ten (10) year impact of what weather has done, compared to the -- the net income actually recorded by the Company.

MR. DARREN RAINKIE: Again, I suppose theoretically correct, Mr. Peters. But I'm still wanting for what that has to do with our rate application.

MR. BOB PETERS: Stay tuned. And, Mr. Rainkie, under the 2012/'13 column, you show the Board at line item 5, under the 2012/'13 column, that ending retained earnings at the end of last fiscal year will be in the ballpark of $42.3 million, correct?

MR. DARREN RAINKIE: Yes, in that ballpark.

MR. BOB PETERS: And had the weather been normal over that period of time -- we'll drop down to line item 13, also under the 2012/'13 column, and had the weather been normal the Corporation would have received and earned $50 million -- $50.726 million, correct?

MR. DARREN RAINKIE: Are you simply taking in the 42.3 million and adding the 8.4 million? Is...

MR. BOB PETERS: Yes, I did, Mr. Rainkie.

MR. DARREN RAINKIE: I guess so, Mr. Peters. I'm still kind of a little not understanding where this calculation's going in the end, but...

MR. BOB PETERS: Well, on average over the ten (10) year period, the weather has been -- has been warmer than what normal has been determined to be under the -- the normalization methodology? That you can agree with, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, I suppose.

MR. BOB PETERS: And can you also agree that over that ten (10) year period, that the average over that ten (10) years is that weather has -- has cost the Corporation, if you will, approximately eight hundred and forty-two thousand dollars ($842,000) a year on average because it's been warmer than normal?

MR. DARREN RAINKIE: I don't know, Mr. Peters. Once again, we can do the calculations but I

-- I'm not sure what -- what it means. I have $42 million of retained earnings at the end of '12/'13. That is the basis on which we'll make future financial decisions, not based on some theoretical calculations, so.

I -- I guess my problems is, like I said, I've been doing this stuff for twenty-three (23), twenty-four (24) years. I've never seen this calculation before, so I'm not sure what it's trying to do. And, particularly, the $55.5 million of weather-normalized retained earnings is a new topic or a new thing for me that I haven't dealt with before.

I'm not sure what good it tells me in terms of saying what otherwise would have happened. We have $42 million worth of retained earnings sitting in 2003/'04. Under the presumption that we would have a bottom line of $3 million, I would have expected my retained earnings to be about $27 million higher. They're about $7 million higher.

MR. BOB PETERS: Well, Mr. Rainkie, what --

MR. DARREN RAINKIE: And that's the reality that we're looking at from a financial perspective.

MR. BOB PETERS: And I appreciate, and

I'm sure we'll hear that submission as well from -- from your counsel. But in terms of the facts, sir, if it was weather normal, Centra's retained earnings at the end of 2013 would have been in the ballpark of $50.726 million?

MR. DARREN RAINKIE: And once again, the purpose of that calculation, Mr. Peters? I mean, there's no -- we have not been regulated on that basis in the past. This is a new one to me, so I -- I don't know what -- I don't know what that figure means. I've never seen this calculation before, Mr. Peters. It's interesting but I'm not sure what you're suggesting in terms of -- of the rate application.

MR. BOB PETERS: Well, I'm not suggesting anything, Mr. Rainkie, other than that factually had it been weather normal for those ten (10) years, instead of $42 million of retained earnings, the Corporation would have expected $50 million of retained earnings.

MR. DARREN RAINKIE: I guess so, Mr. Peters.

MR. BOB PETERS: Maybe with that, Mr. Rainkie, I'll ask for the afternoon recess, Mr. Chairman.

THE CHAIRPERSON: Okay, let's take,

say, fifteen (15) minutes.

MS. MARLA BOYD: Mr. Chairman, I'm sorry to interrupt, but if you would like, just before we break, Centra is in a position to file its rebuttal evidence, the remaining rebuttal evidence, so.

THE CHAIRPERSON: Please, let's do that.

MS. MARLA BOYD: Sure. It has placeholder on the exhibit list, I believe, as Centra Exhibit 4-2. So with your concurrence, I'd propose that we mark it as such. Thank you.

--- EXHIBIT NO. CENTRA 4-2: Centra's rebuttal evidence

THE CHAIRPERSON: Let's break.

--- Upon recessing at 3:11 p.m.
--- Upon resuming at 3:27 p.m.

THE CHAIRPERSON: I believe we're ready to resume the proceedings. Are there any documents to acknowledge or...?

MR. BOB PETERS: Not at this time, Mr. Chairman. I think the -- the rebuttal evidence of

Centra respecting Mr. McCormick is the most current. I'll continue with Mr. Rainkie, if he's -- if he's cooled down.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, I -- I shouldn't be so glib on the record. You and I have -- you said twenty-three (23) years. And I think I probably have been with you, if not beside you, for many of those years, so perhaps my informality is -- is showing.

But, Mr. Rainkie, let's step back still with that 180 -- page 184 revised in our hands. And as I look down the retained earnings line item 5, and I go over to the 2011 year, I see that the Corporation had $34.3 million in their retained earnings account at that fiscal year, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And, Mr. Rainkie, when you were considering whether to have this -- to make a rate filing for this GRA, Centra had given a forecast of its 2012/'13 expected retained earnings and additional net income, correct?

MR. DARREN RAINKIE: Yes, that's correct.

MR. BOB PETERS: And so the assumption that Centra was making when it filed its GRA is that you had $34.3 million of retained earnings and you expected another $1.5 million of net income for the '12/'13 year, correct?

MR. DARREN RAINKIE: Yes, I'm -- I keep looking at the rounded $2 million number in the forecast, Mr. Peters. And I should check on the 1.5, but I'll accept it so -- for now, subject to check so that we can move forward.

MR. BOB PETERS: All right. And I think it might be closer to 1.56, Mr. Rainkie, but we'll -- we'll decide if that's material at some point in time. So, Mr. Rainkie, when the GRA was filed the expectation by Centra was that its retained earnings at the end of 2012/'13 were going to be $35.8 million?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Give or take, Mr. Peters, yeah.

MR. BOB PETERS: And instead of thirty-five point eight (35.8) your confident sitting before the Board that that number is going to be closer to $42.3 million as you sit here?

MR. DARREN RAINKIE: I'm confident without breaking the laws of the Province of Manitoba, Mr. Peters.

MR. BOB PETERS: All right. Thank you, Mr. Rainkie. So in any event, the Corporation is the better part of $7 million better off in their retained earnings than you -- than -- than Centra expected to be by the time you got to this GRA?

MR. DARREN RAINKIE: Well, Mr. Peters, there was some rounding in the $8 million number, so it's probably -- you're -- you're saying the two (2) that I'm seeing in the IFF -- or CGM-12 is one point five (1.5). There's probably a $6 million differential there, Mr. Peters, rather than seven (7).

MR. BOB PETERS: You're six (6) -- Centra is $6 million better off than it expected to be by the time this GRA got started?

MR. DARREN RAINKIE: Yes, luckily, happily.

MR. BOB PETERS: Well, except, Mr. Rainkie, the luckily part is Centra endured a very warm year and that knocked the net income line item by a considerable amount in the -- in the '11/'12 year, correct?

MR. DARREN RAINKIE: Yes, Mr. Peters,

that's why I said in my opening direct since the last time we saw the Board our retained earnings are up a couple million dollars since the last -- since -- that -- that's my perspective.

We were down six (6), up eight (8). To be fair, we're really up $2 million over those two (2) years in the actual world.

(BRIEF PAUSE)

MR. BOB PETERS: Just so I can put it on the record and save you the searching, Mr. Rainkie, the $1.56 million of 2012/'13 net income forecast can be found in the Information Request PUB/Centra Second Round 148A. And if there's anything you need to say as a result of that you're welcome to do it, probably tomorrow.

Mr. Rainkie, let's turn, if we can, to page 185 revised. And before we do, Mr. Rainkie, I think you've acknowledged -- and I just want make sure that -- that I have it correctly, that this is the first general rate application wherein Centra shares have been owned by Manitoba Hydro and the net income request exceeds the $3 million number?

MR. DARREN RAINKIE: No, I -- I think

-- I think some of the early applications before the Board we had a higher net income request, Mr. Peters, just to be correct. I think -- and I'm not -- what I'm not sure about is what we started the 2008/'09 and '09/'10 application with. I'd have to go back to check that.

MR. BOB PETERS: But it's been then the -- the Board --

MR. DARREN RAINKIE: I'm missing history, Mr. Peters.

MR. BOB PETERS: No, I -- I accept your qualification, Mr. Rainkie, but the -- the Board orders have -- have tended to focus on that $3 million net income being allowed to the Corporation since the acquisition by Manitoba Hydro?

MR. DARREN RAINKIE: Yes. Yes, they focussed on the 3 million. I think in the last order the confluence of all the events was a little lower at 2.5 million, Mr. Peters, but the focus, I think, in terms of the orders, to be fair, has been around the $3 million dollar rang -- mark, sorry.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, for that

2010/'11 GRA, Centra targeted 3 million in its application is my suggestion to you, sir.

Can you confirm that, or would you like to take that subject to check?

MR. DARREN RAINKIE: I'll take that back, Mr. Peters. I -- that application was one (1) of the ones that I had the last amount of input into, so --

MR. BOB PETERS: And, Mr. Rainkie, for the 2012 year, IFF-10 -- and I don't have it in my materials, sir, but do you recall that in IFF-10, when you're looking at the 2012 fiscal year, there was an indication that there could be approximately $4 million of net income, and Centra chose not to come in for a GRA in that year?

MR. DARREN RAINKIE: I'd have to check what the forecast was in CGM-10, Mr. Peters, but, no, we -- yeah, we didn't come in for a 2011/'12 or 2012/'13 rate application, general rate application.

MR. BOB PETERS: I'm not sure if it'll help you, Mr. Rainkie, but if you turn to Tab 61, I don't want to get your hopes up too high, but if you turn to Tab 61 and page 328 in Board counsel's book of documents, PUB Exhibit 10, there is a 2011/'12 year depicted under IFF-10, shown as the second column, sir.

MR. DARREN RAINKIE: Yes. Just given that, though, this is a revenue requirement statement, it would be better if I could check the actual IFF. And I think I have it here with me, Mr. Peters. If you give me thirty (30) seconds, I could confirm it one way or another.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, just to be clear, we were talking about the 2011/'12 net income forecast in CGM-10 and, yes, it was indeed $4 million, based on the assumptions in that forecast.

MR. BOB PETERS: And in a letter that was dated December 9th of 2010, sent to Mr. Gaudreau at the Public Utilities Board, Centra indicated that, because of the net income of being approximately $4 million a year, it wasn't coming in for a GRA but rather it -- it filed for a cost of gas review?

MR. DARREN RAINKIE: That's my memory, Mr. Peters, that we had a cost of gas application that year and not a general rate application.

MR. BOB PETERS: And, Mr. Rainkie, just to follow this through, in Tab 62 of the book of documents there's an extract from CGM-11-2. That is the IFF that Centra called 11-2. And when we look at the 2013 test year, or look at that year in this document, there's an indication that there would be a -- a net income of $5 million that year, sir?

MR. DARREN RAINKIE: Yes, assuming --

MR. BOB PETERS: But we also know, Mr. Rainkie, that that $5 million was premised on an additional $7 million of addi -- additional income, as shown at the top of the IFF, second line in, as the additional -- additional revenues?

MR. DARREN RAINKIE: That's what I was just going to note, Mr. Peters.

MR. BOB PETERS: But Centra did not in fact come in for that -- for a GRA based on that IFF, did it?

MR. DARREN RAINKIE: No. In the end, we didn't come in for a general rate application during that fiscal year, Mr. Peters.

MR. BOB PETERS: Do you recall why not?

MR. DARREN RAINKIE: Well, Mr. Peters, if you recall, we were fairly busy on the electric side of the business and -- in that time frame, and we were thinking about filing a 2012/'13 and a '13/'14

GRA.

And as time wandered on, and we put together forecast CGM-12, it indicated that we would get a $2 million net income. So at that point we thought that it was getting late in the year to implement our rate increase, anyway, in 2012/'13, that we would simply ask for a 2013/'14 rate increase.

MR. BOB PETERS: Mr. Rainkie, we can also now flip a bit more currently to Tab 43 of the book of documents and look at another IFF. And we can look at the IFF found on page 153. And under the 2013 -- and I'm on page 153, Mr. Rainkie, at Tab 43 of the book of documents, PUB Exhibit 10.

MR. DARREN RAINKIE: I'm there, Mr. Peters.

MR. BOB PETERS: All right. As I'm reading that IFF CGMI-12, under the 200 -- 2013 column, a zero percent rate increase is shown to be sought for 2013, but only a $2 million net income that, I think I've now suggested to you is actually one point five six (1.56), shows up on the net income line, correct?

MR. DARREN RAINKIE: Yes, that -- that was our expectation at the time.

MR. BOB PETERS: So even with $1.56

million rounded up to $2 million of net income, that did not prompt the Utility to come in on a general rate application?

MR. DARREN RAINKIE: No, Mr. Peters. By the time that this was produced and approved by our board, it was November of 2000 -- late November of 2012. So we decided to forego a rate increase for 2012/'13 and -- and simply have a 2013/'14 rate application.

(BRIEF PAUSE)

MR. BOB PETERS: Now, Mr. Rainkie, one (1) of the uses to which, at least notionally, retained earnings is put, is to buffer against the negative risks incurred by the Corporation.

Would you agree with that?

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: And to some extent, if those negative risks would be in the form of accounting changes, you'd simply show those in the OM&A line items in a -- in a filing, correct? You'd seek those by way of additional rate increases?

MR. DARREN RAINKIE: Yes, Mr. Peters. We would include -- sometimes those accounting changes are not only restricted to ON -- the O&A line item, but we would seek them in future rate applications, yes.

MR. BOB PETERS: And if there was declining volumes from Centra's customers, that was a -- a risk or occurrence or an actuality that Corporation faced, Centra would reflect that in its load forecast and in the unit rate adjustments that would be used to calculate new rates?

MR. DARREN RAINKIE: Yes, in the normal course through our load forecast, we would do that.

MR. BOB PETERS: And if I take you now to page 185 revised -- and this, Mr. Chairman and Board members, was the second of the two (2) documents that I had, unannounced, placed on your chairs. And I believe I also gave copies to my friends opposite. Page 185 revised, Mr. Rainkie, is -- is, again, an update of what was in the book of documents at page 185. And it was updated based on, perhaps, the most current information to the end of business Friday, sir.

It was a separate document, Mr. Rainkie, it was produced over the weekend. I'm not sure if you have it.

MR. DARREN RAINKIE: Yeah, I -- I did put it -- that -- that page in my book, Mr. Peters, yeah.

MR. BOB PETERS: Oh.

MR. DARREN RAINKIE: I have it.

MR. BOB PETERS: All right. Thank you, sir. And in the -- on this document, the equity percentage of Centra's capital structure is shown on line 9 of the -- of the chart, correct, Mr. Rainkie?

MR. DARREN RAINKIE: As calculated as per what's been known to be called the PUB method, yeah, Mr. Peters.

MR. BOB PETERS: Well, I'm not looking to open that up for debate, Mr. Rainkie, but that's the methodology that the PUB has been use -- using to determine the equity percentage of the Corporation?

MR. DARREN RAINKIE: Yes, yes. I'm just pointing out that's not a calculation that we do ourselves.

MR. BOB PETERS: Fair enough. What we see on this chart is that in '02/'03 the equity percentage in the capital structure is 32.7 percent, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, the simple mid -- mid-year average, Mr. Peters.

MR. BOB PETERS: All right. And I may not have reflected that in the words or in the explanation, Mr. Rainkie. But if we go now to the 2012/'13 year that is forecast, and on the assumption that there would be an $8 million net income, the equity portion of the Corporation's capital structure increases from 32.7 up to 34.4?

MR. DARREN RAINKIE: That's what is on the page, Mr. Peters. But just sitting here, I notice that line 5, although you revised the net income figure -- or IR, I guess, sorry, the simple average of equity on line 4, there was no change in the total capitalization line on line 5. So I'm not sure if the 34 percent is some lower number or not if you were to update the calculation for that, Mr. Peters.

MR. BOB PETERS: And you're correct, Mr. Rainkie. What was done, just so that you're clear in checking this, if there's any further comments you choose to make as this hearing progresses, is that the short-term debt item ended up being a plug number by keeping the other ones constant. And the assumption was using your most current numbers on the total capitalization by way of a mid-year average and holding the long-term debt constant and letting the short-term debt -- letting the short-term debt bear the brunt of the calculation, Mr. Rainkie.

So you've -- you've correctly and quickly identified that that may be a number that could affect the 34.4 percent, but the Board won't know that unless you do the calculation based on your actuals and -- and tell them.

Would that be fair?

MR. DARREN RAINKIE: Yes, I suppose we'd be in a better position to calculate this than -- than the Board.

MR. BOB PETERS: But, Mr. Rainkie, the -- the methodology that I just explained to you would be the same methodology that Centra used in -- in creating its -- its capital structure?

MR. DARREN RAINKIE: Well, no, Mr. Peters. This calculation has been under dispute for as long as I can recall. We started this -- what's been called the 'PUB-approved methodology' was what we started off in our first future test year application in 1995.

The year thereafter, we realized that it was horribly a wrong calculation. And we've tried to change it three (3) times over -- over the years. And somehow it became known as the 'PUB-approved methodology' even though it was Centra who put it forward in the first -- first instance. And if I could go back in time with a time machine, I would redo it, but...

Yeah. But you're going to ask me if we asked for a variance, and we did three (3) times Mis -- Mr. Peters. But it's another one of those mysteries that all three (3) times I never really knew what was wrong with this, with the alternate proposals that we had. It just seemed that the Board was unwilling to change it, but...

So there's some problems with this calculation. And once again, it's more akin to a rate-based rate of return type of a world than a cost-of-service world, so I -- I don't know. I don't want to waste too much time at the hearing going -- trudging over old matters, Mr. -- Mr. Peters, but it -- it has some flaws, from my perspective, as well.

MR. BOB PETERS: All right, Mr. Rainkie, on line item number 9 under the 2008/'09 year we see an equity percentage of thirty decimal nine (30.9).

Do you note that?

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: That would have been, as you've called it, the PUB-approved method --

methodology for determining equity at the time when the PUB, in the orders that I've already shown you this afternoon, used the 70:30 capital structure split?

MR. DARREN RAINKIE: I suppose so, Mr. Peters, but I'm -- I'm not sure that that 70:30 determination ever really impacted anything in terms of -- of the rate decisions of the Board.

Since that time we've been working under a cost-of-service premise and I think the rate-based rate of return type calculations have been done to satisfy an old legislative requirement to have those calculations available for the Board.

But I'm not sure that the thirty (30) -- I guess one (1) of the reasons going back to an earlier question on why perhaps we didn't ask for a review and vary on it is I'm not sure that the 30 percent has really ever affected the Board's decision that I could ever discern in -- in one (1) of its orders, if you know -- if I'm being clear, Mr. Peters.

MR. BOB PETERS: When the Board fixed on $3 million of net income, Mr. Rainkie, it was based in that year of 2008/'09 when it indicated that a 70:30 capital structure was considered by the Board to be appropriate?

MR. DARREN RAINKIE: No, I think the -- the $3 million was under the premise that at the date of acquisition by Manitoba Hydro that Centra was earning a rate of return between 14 and 16 million. And I think the Board kind of rounded that to 15 million and said that if you want a $12 billion corpor -- corporate allocation then we'll give you a $3 million net income. You can call it what you want, but in the end we'll -- we'll give you $15 million in total.

I don't think that was ever set based on the 70:30 that I could ever discern, Mr. -- Mr. Peters. And -- and I guess what I was suggesting to you earlier is that is it appropriate that that $3 million -- and that $15 million and the $3 million net income be locked in for all time.

MR. BOB PETERS: Mr. Rainkie, thank you for that. Let's turn to page 181 at Tab 45 of the book of documents, back to an IFF that we had -- we had introduced to the Board earlier.

And, Mr. Rainkie, I had suggested to you that -- that this IFRS -- sorry, this IFF depicted IFRS being deferred until fiscal 2016. It continued with rate-regulated accounting and rate-regulated assets. And it also was constructed with a net income of $3 million, sir, correct?

MR. DARREN RAINKIE: Yes, the -- the scenario was specified to us, Mr. Peters --

MR. BOB PETERS: Yes. Thank --

MR. DARREN RAINKIE: -- to -- to force it to a $3 million net income.

MR. BOB PETERS: Yes. Thank you. And when we look at what is depicted for the test year of 2014 that's before the Board under this scenario, it shows a 1.19 percent rate increase would be required from this Board rather than that 2 percent number we talked about with this panel today to drive a $3 million net income number, correct?

MR. DARREN RAINKIE: Correct, except that assumed May 1st implementation. To drive $3 million net income we would actually need a 1.37 percent rate increase if rates are implemented August 1st, 2013, Mr. Peters. And you can find that in PUB/Centra First Round 16B I think it is.

MR. BOB PETERS: And maybe you've -- you're going to spare me the math, Mr. Rainkie, but then in terms of the -- if it was an August 1st implement -- implementation date, is the 1.19 percent number correct, or should it be a lower number?

MR. DARREN RAINKIE: No, the 1.19

percent is what would happen if you implemented the rate increase on May 1st. I'm suggesting to you a later implementation on August 1st, you would need a 1.37 percent rate increase, as I read the material, to generate a $3 million net income in the remainder of 2013/'14.

MR. BOB PETERS: All right. I've got your point. Thank you for that.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, I'm going to turn away from that discussion with Mr. Rainkie and I believe perhaps have a further discussion with Ms. Jacobs on OM&A matters.

(BRIEF PAUSE)

MR. BOB PETERS: And I would start on Tab 46 of the book of documents, if I could. Ms. Jacobs, OM&A is the largest non-gas cost component in Centra's revenue requirement, ma'am?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: And this non-gas component has increased from about $59.8 million to

$68.8 million over a five (5) year period?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And, as we've heard a little bit from Mr. Rainkie, the increase is primarily being driven by accounting changes?

MS. HANRI JACOBS: 7.8 million of that, yes.

(BRIEF PAUSE)

MR. BOB PETERS: You and Ms. Derksen both used cost allocation in your direct evidence through Ms. Boyd when you took the witness stand just before lunch today. The cost allocation that you talked about was different than the cost allocation that Ms. Derksen's responsible for, correct?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: And is it correct, Ms. Jacobs, that the -- that all costs are allocated from Manitoba Hydro through an integrated cost allocation methodology to Centra?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: And what we see on page 187, found at Tab 46 of PUB Exhibit 10, is a document that provides a view of the business units, and the allocation of operating expenses by those business units?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And there's a line item that talks about a program view in the left column. And here the program view of OM&A expenses have grown from 6.7 million over to 7 -- 7 -- sorry, 67.8 million over to $71.8 million?

MS. HANRI JACOBS: Including the 7.8 million accounting changes, yes.

MR. BOB PETERS: I'm sorry, I missed the first part of your answer?

MS. HANRI JACOBS: It includes the 7.8 million accounting changes.

MR. BOB PETERS: All right. Thank you. And we see that depreciation, interest, and taxes has decreased from $8 million in 2008/'09, to $3 million in '13/'14.

Have I got that correct?

MS. HANRI JACOBS: That's the adjustment for the depreciation, interest, and tax that was included in the program view, correct.

MR. BOB PETERS: All right. Let's just explain that to the Board. The -- the reason that the depreciation expense has been reduced is because what was previously capitalized, but is no longer being capitalized, is now coming down as increased operating expenses, so it's found in a different line item?

MS. HANRI JACOBS: Originally, the program view included depreciation and interest cost. So what we do is, as part of the financial statements, we do a reclassification. So this line is basically pulling out the depreciation and interest that's embedded in the O&A and put it against the tax, interest, and depreciation lines.

MR. BOB PETERS: And then we see, Ms. Jacobs, at the -- near the bottom, or two-thirds (2/3s) of the way through the schedule, Centra has a specific line item called 'less accounting changes', and this reflects, most recently in the test year, the $7.8 million number that you've mentioned this afternoon.

MS. HANRI JACOBS: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: And before we leave this schedule, if we look at the operating and maintenance expense, the compounded annual growth --

and it was broken into two (2) different time periods -- we can see that between the periods of '06/'07 through to '11/'12, the compounded annual growth was in the range of 3 percent a year.

And if you look simply for the last few years, from '11/'12 through to '13/'14 in the far right-hand column, we see that the compounded growth is 5.2 percent, correct?

MS. HANRI JACOBS: That is the OM&A including the accounting changes.

MR. BOB PETERS: And that's the point we should talk about next, then, Ms. Jacobs, is that in the line item OM&A after adjusting for accounting changes, the total of $53 million goes to $61 million, correct, in terms of dollar amounts?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And the compound annual growth number has been recalculated, and it shows that, by removing the accounting changes, the compounded annual growth from '06/'07 through to '11/'12 is in the na -- in the range of 2 percent, and it's even less than that for '11/'12 to '13/'14.

MS. HANRI JACOBS: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: When we turn to page 188 of the book of documents, Ms. Jacobs, we see a breakdown again of OM&A expenses by program. And if we focus in on the customer service and distribution items, we see that customer relations appears as a line item, and it appears to have increased by about 26 percent from '06/'07 through to '11/'12.

Do I have that correct?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: Can you explain to the Board what happened for that increase to be as dramatic as it appears?

(BRIEF PAUSE)

MS. HANRI JACOBS: During that period, we've actually looked at the integrated allocation methodology, and realized that part of the southern part of the province, the -- the customer-relation cost -- or the customer-relation cost was not allocated to Centra, so there was -- embedded in here is reflecting the correction for that, so that Centra is also bearing some of that cost.

(BRIEF PAUSE)

MS. HANRI JACOBS: What I should ask is we actually just look at the number of the customer base. That's what we use as -- to allocate the cost.

MR. BOB PETERS: I didn't quite follow then. If you look at just the number of customers as the determinant in allocating the costs, was Centra using an incorrect allocator?

MS. HANRI JACOBS: In effect, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Jacobs, is it correct that the cost-allocation study that you're using was prepared and reviewed back in 2002?

MR. DARREN RAINKIE: I was around for that one, too, Mr. Peters, so I can confirm that.

MR. BOB PETERS: And you can also confirm, Mr. Rainkie, that the Board has asked Centra to update its external review of that cost-allocation methodology?

MR. DARREN RAINKIE: Yes. I can't recall if it was on the electric or the gas side of the business, but at one point in the past, they've asked us to do another review.

MR. BOB PETERS: Would it matter on which side of the business, Mr. Rainkie? Because the -- the outcome would be the same, would it not?

MR. DARREN RAINKIE: Yeah, that's correct, Mr. Peters.

MR. BOB PETERS: Okay. Oh, I -- I -- okay. Maybe I missed your point earlier. The long and the short of that, Mr. Rainkie, is that, in '06/'07 when the Board asked for the cost-allocation methodology to be reviewed and updated, Centra requested from the Board an extension of time so that Centra could implement IFRS, if I recall?

MR. DARREN RAINKIE: Yes, given the flux that was happening in that time and the uncertainty, we didn't think it was an appropriate time to spend the -- the time and energy to do a review of it given that there were going to be changes that were -- were made, at any rate.

In -- in the way you articulated the question, Mr. Peters, you said that the Board directed us to review and update. I -- I wasn't sure about the second part. I thought we were asked to review it, but I'm not sure about updating it. I thought the directive was to review because I think this all kind of stems, just to fill in some of the history from the Board, it's a -- it's a fairly complicated, fully-allocated costing methodology. And from the outside, it can look like a bit of a black box.

So I think it's the complexity of it that has resulted in this directive. Once again, me just putting my -- my thought pattern on top of the Board directive. And, you know, given some of the changes that have happened, the changes in -- in overhead allocations, it might be better to let us make some further changes to the methodology, and come back and review it.

I -- I think the directive to review it was because it was difficult for external parties to understand it. And I think there's a want in the Corporation to kind of unwind some of the complexity, and that might be better in terms of the Board and Intervenors understanding the methodology than actually going and getting ster -- getting external reviews and -- and the like.

So I think we're -- we're definitely looking at putting that on hold until IFRS settles down and -- so that we're not doing a review simply to change it again. But I wonder if -- if trying to reduce some of the complexity of the allocation and simplify it a bit would be better than doing a review.

MR. BOB PETERS: I'm not --

MR. DARREN RAINKIE: So I think -- I think both of those things, Mr. Peters, are under consideration, from the corporate perspective.

MR. BOB PETERS: Thank you, Mr. Rainkie. I think when you go back and review, as would I -- as will I, the directive specifically, Centra was going to file the terms of reference of that review as opposed to the review itself at, at least, an initial step.

Does that ring a bell?

MR. DARREN RAINKIE: That rings a bell, Mr. Peters, yes.

MR. BOB PETERS: So if Centra was going to file a terms of reference, that's something that it could file more imminently to, perhaps, capture the very points you're trying to make now in terms of updating or simplifying the -- the cost-allocation methodology?

MR. DARREN RAINKIE: Well -- well, Mr. Peters, I think what we need to do is de -- decide what this methodology is going to look like in the future when we trans -- transition to IFRS. And then we need to stop and engage with the Board in terms of whether the changes that we've made are sufficient to -- to get a great un -- a good understanding in this form, or whether we need to actually go and do an external review because I'm just -- I can't help but thinking that the complexity of it -- of the current methodology is, in large part, driving the -- the need for a review.

MR. BOB PETERS: Mr. Rainkie, maybe -- maybe you and I can agree to -- to move this to Ms. Boyd's plate, and on review of Order 99/'07, to look at Directive 25 and see if there's anything in closing submissions that you want to advance, at this point in time, in this Hearing.

Would that be acceptable?

MR. DARREN RAINKIE: Certainly. All right, thank you. Ms. Jacobs, we were looking at the schedule on page 188 of the OM&A costs of the Corporation. And there's another line item under, "Customer -- Customer Service and Distribution," called, "Meter Changes."

Do you see that?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And meter changes are $4.6 million in the test year, showing about a 27 percent annual growth since '06/'07.

Do you also see that?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: What's caused the meter changes to -- to increase as significantly as they have?

MS. HANRI JACOBS: This is mainly due to changes and requirements by Measurement Canada around the meter inspection and meter-exchange activities.

MR. BOB PETERS: So, Ms. Jacobs, Measurement Canada is requiring replacement and recalibration of meters on a more frequent basis?

MR. MARK PRYDUN: If -- if I might add, sir, Measurement Canada has increased its tolerance limits on its sampling program which suggests that when Centra -- when it samples its meters, it's -- there's a higher likelihood that it's going to fail those limits.

So the implication is, is that there will be a requirement for a greater number of meters to be changed in a particular year.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Prydun, I wasn't sure I quite connected the dots on that answer, in the sense that Measurement Canada has relaxed the standards on the sample size for Centra's testing?

MR. MARK PRYDUN: No, sir, on the contrary. The -- the tolerance limits have not been relaxed, but they've been tightened. So the implication is, is that when meters are sampled to determine if that -- if that -- those codes that are being sampled, that lots -- lot, if you will, there's a higher likelihood that the meters will fail because they're -- they're not with -- they're not being compliant as per the new standards because the standards are -- have been tightened up.

So, consequently, what Centra is required to do is, is to replace more meters on an annualized basis. Subsequently, the operating and maintenance costs will be higher in the course of a year.

MR. BOB PETERS: Thank you, Mr. Prydun. I'm going to come back to this with you, but as I understand the filing, the meters themselves are capitalized.

Is that correct?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And the labour to replace the meter forms part of the OM&A expense that Ms. Jacobs is talking about, correct?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: Ms. Jacobs -- Ms. Jacobs, you also have responsibilities on the electric side of the utility, correct?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: Is the electric side of the utility being handled exactly the same way as the gas side?

MS. HANRI JACOBS: No, my understanding is we capitalize the labour associated with the meter-exchange activities on the electrical side.

MR. BOB PETERS: So on the electric side, both the meters and the labour are capitalized, correct?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And on the gas side, only the meters are presently capitalized, and the labour forms part of the OM&A?

MR. DARREN RAINKIE: Mr. Peters, sorry, labour on what? The initial installation of a meter, or the exchange of a meter for testing. Those are two (2) different -- very different things. I'm sorry, sir, I can't ask you questions in this forum, but I'm -- it's unclear...

MR. BOB PETERS: That's never stopped you, Mr. Rainkie. It's never stopped you.

MR. DARREN RAINKIE: Back to our informality.

MR. BOB PETERS: All right, you've raised a good point. And we may need both Mr. Prydun and Ms. Jacobs to help -- help understand that. When a meter is installed for the very first time, there is a cost of the meter, and the cost of the labour.

Have I got that right, Ms. Jacobs?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And if it's the very first time a meter is installed at a service address on the gas side, the meter is capitalized as a -- as a cost?

(BRIEF PAUSE)

MS. HANRI JACOBS: Could you please re -- rephrase, or repeat question?

MR. BOB PETERS: Yes, certainly, ma'am. I want the Board to understand how Centra treats both the cost of the hardware meter, and how Centra treats the cost of installing the meter the first time. And how Centra treats the cost of replacing the meter the second time something has to happen with that meter.

So let's start with the very first time it's installed; I take it that the -- the meter itself is treated as a capital asset of the company?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: And, just to throw out a depreciation question for those in the audience who are so inclined, the meters are depreciated over about twenty-four (24) years?

Would you take that subject to check and confirmation with your colleagues?

MS. HANRI JACOBS: Sub -- subject to check.

MR. BOB PETERS: All right. You can -- you can check me up on that one (1). So the meters are treated as a capital asset. Now, when they're installed for the very first time at a brand new home, the labour to put that meter on, how does Centra treat that labour?

MS. HANRI JACOBS: It has been capitalized.

MR. BOB PETERS: And that's exactly the same as done on the electric side of the business?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: All right. So now let's go twenty-four (24) years after this new home has been built -- and it's determined if twenty-four (24) years is the right number; according to Mr. Prydun, it may even been sooner now.

But when the metre is determined to be replaced, and we're now only talking about replacement of meters, there's a -- a metre cost for the hardware. Is that capitalized as well?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, do we want to jump to when the meter's being replaced, or should we stop when the meter's being pulled for testing under this program, because I think that's -- the -- the accounting issue we were talking about, I think, is the exchange of meters when a meter is being pulled for testing, and the labour that it takes to actually go and pull that meter out and test it.

MR. BOB PETERS: Okay. Fair --

MR. DARREN RAINKIE: So -- so --

MR. BOB PETERS: -- fair comment, Mr. Rainkie. Let me see if I can get at it this way, and I think you're trying to help me here. If we go down to the meter changes on page 188 of Board counsel's book of documents, Ms. Jacobs is forecasting $4.569 million, if that's the right number I've read, of labour costs in 2013/'14.

Is that right, Ms. Jacobs?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: Now, what is that $4.5 million related to?

MS. HANRI JACOBS: This is the meter exchange activities to pull the meter as required under the sample test -- testing program.

MR. BOB PETERS: All right. So -- so I'm learning here as -- as you're answering my questions. There's a meter on this existing home, but Measurement Canada has told Mr. Prydun that he better start upping his sample size, and doing more -- more testing.

And every time Mr. Prydun sends somebody out to test the meters, there's a labour charge by disconnecting the meter from the house, maybe putting up a -- a loaner unit, if that's what's done, and then testing it and deciding whether it can be used going forward?

MR. MARK PRYDUN: Currently, the charge that you see in page 88 -- 188, that is related to labour. It would not be related to the actual replacements of the meter. The meter, in itself, would be capitalized.

MR. BOB PETERS: All right. Fair enough. And -- and, Mr. Prydun, the -- the point I'm trying to get to, a finer point, is is that related to the labour only associated with the -- I'll call it the exchange, where you take off the metre and test it to decide if it can be used anymore, or is that labour related to putting on a new metre after the old one (1) has been determined to be defective?

MR. MARK PRYDUN: The labour associated under the customer service and distribution would be related to field labour. It would be related to the field-service person actually removing that meter, and then installing a new one (1).

The cost that is associated with testing or sampling the meters would be under, 'customer care and marketing meter repair and calibration.' That would also be an operating cost.

(BRIEF PAUSE)

MR. BOB PETERS: And so with that answer, and thank you, Mr. Prydun, Ms. Jacobs, the $4.5 million represents what we've now called 'field labour', to replace metres that had previously been installed?

MS. HANRI JACOBS: Yes, that's the -- the labour associated what we call 'meter exchange activities'.

MR. BOB PETERS: And is it correct that on the electric side of the business, those labour costs are not expensed, but they are capitalized?

MS. HANRI JACOBS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: Is it a requirement, Mr. Rainkie, that under IFRS, Hydro electric side would be allowed to treat its meter exchange labour costs in one (1) fashion, such as capitalizing them, but on the gas side of Centra Gas, Centra could do something different and expense them?

MR. DARREN RAINKIE: No, Mr. Peters. When we move to IFRS, we will have to harmonize those policies. The issue that's up for debate is to harmonize to which policy. In the financial forecast, IFF-12, we made a simplifying assumption that we would harmonize to the electric policy of capitalizing the labour on exchanges, but on reflection, looking at this, we're not sure exactly which way we're going to go yet.

There's no betterment to -- at that point in terms of the metre exchange -- the labour on the metre exchange, so there may not be an accounting justification under IFRS for continue -- continuing to capitalize on the electric side.

So in the IFF, we made the assumption that the ga -- gas would follow the mother ship, but I'm not so sure that the mother ship isn't going to have to follow the gas side of the business on this one in the end, when we move to IFRS.

MR. BOB PETERS: But under IFRS, labour costs can be capitalized, can they not?

MR. DARREN RAINKIE: They can be capitalized if they're directly attributable to an asset, but if they're related to simply pulling the metre to exchange it and look at it, and see if the metre can, I guess, be cleaned up and put back into production or has to be trashed, sampling the metres is expensed at this point, right? It's expensed if there's no betterment associated with that.

So the -- the accounting issue is: Is the labour associated with pulling that metre -- does it -- should it follow the treatment of the sampling program, which is to expense those costs? You -- you can't just capitalize costs because you want to because they're labour.

You can capitalize them if they are directly attributable to an asset in service. And the question is: Is the exchange activity actually something that we can capitalize and not on transition to IFRS?

MR. BOB PETERS: Have your auditors given you a -- an opinion on that, Mr. Rainkie?

MR. DARREN RAINKIE: No. We're still deliberating internally on what our position is going to be, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: And so, Mr. Rainkie and Ms. Jacobs, back to page 188. If that $4.5 million of exchange labour was treated the same way as Manitoba Hydro electric side treats that item, that item would be capitalized.

Have I understood that correctly?

MS. HANRI JACOBS: That's correct, but, I mean, you'll have associated depreciation also following through.

MR. BOB PETERS: All right. So let's -- let's be careful that we're doing depreciation on the record here, but if it's $4.5 million, and if the metres are depreciated -- I think I used twenty-four (24) years in my previous question -- then we're probably looking at an annual-amortization expense of less than a quarter of a million dollars, would we not?

MS. HANRI JACOBS: That would be for the first year, but, I mean, in theory, the program continues. We will catch up and the amortization would be equal to the capitalization.

MR. BOB PETERS: At -- at some point, I guess, by the twenty-fourth (24th) year.

MS. HANRI JACOBS: Twenty-six (26) years.

MR. BOB PETERS: Twenty-six (26) years. Okay.

MR. DARREN RAINKIE: Mr. Peters, just coming back to one of your earlier questions, you talked about simply just doing what we do on the gas side in terms of what we do on the electric side. But changing this policy is a change in accounting policy. It's not so simple. It would require a retrospective adjustment, and we would have to meet the current GAAP accounting requirement of explaining why it's a better -- it's a better accounting policy.

So you just can't turn these things off or on. I mean, this is a -- a long-held accounting policy, and I would think that it's pretty consistent in the gas industry, from what I understand, to expense these metre-exchange costs.

So, you know, I think it's in the material somewhere here, but we are not proposing any changes in accounting policy that has to be retrospectively adjusted until we move to IFRS. So I just wanted --

MR. BOB PETERS: Yeah.

MR. DARREN RAINKIE: -- the Board to -- to understand that this is more complicated than simply switching the switch on or off. It requires a change in accounting policy if we were going to make it on the gas side.

MR. BOB PETERS: And -- and that change in accounting policy, Mr. Rainkie, is that you would have to look in the rearview mirror and restate a previous year's statement, correct?

MR. DARREN RAINKIE: Restrate -- restate for all time, Mr. Peters, but we are not really wanting to just make willy-nilly accounting changes until we moved -- until we moved to IFRS. We are really trying not to make any changes in accounting policy that require retrospective restatement, because if you recall, when we move to IFRS, we are able to -- we have an exemption from the International Accounting Standards Board where we can pull over our net-book value of our assets into I -- from CGAAP into IFRS without any need for retrospective restatements.

And so we're trying to avoid anything that's a change in accounting policy in the next couple of years, so that we can -- we can do that on a clean basis. So it's a fairly important thing for us in terms of our transition time for us.

MR. BOB PETERS: Well, that exemption and that move to IFRS, gives you that one (1) time opportunity not to have to go back and restate. Isn't that -- isn't that how it's best understood?

MR. DARREN RAINKIE: Yes, that's a -- a simplified version of it.

MR. BOB PETERS: And you're saying you

want to load up on as many accounting-policy issues as possible so that if -- if going forward you've made a number of changes, you can have those changes going forward without having to go back and restate?

MR. DARREN RAINKIE: That's correct. If we're going to make changes in accounting policies and harmonize those, we want to do that on transition to IFRS, not, you know, in the year or two (2) before those. So, we'll take some time to look at this one, because, as I said, I'm not quite sure which way it's going to go. There's evidence on either side. It is very much a judgment --

But I'm not so -- I wouldn't make the simplifying assumption that we're simply -- like we did in the IFF, that we're simply moving to the electric-accounting policy of capitalizing exchange costs, because there's some doubt in our minds that that's the right policy.

MR. BOB PETERS: No, and but whereas Manitoba Hydro can -- can make its accounting policies for rate-setting purposes, the Public Utilities Board can also prescribe what is the appropriate accounting methodology, correct, Mr. Rainkie?

MR. DARREN RAINKIE: Only if you want it to be a rate-regulated item, Mr. Peters. And as we talked about this morning, any rate-regulated items are going to have to be scrupulously segregated under the interim exposure draft. So the --

MR. BOB PETERS: Mr. Rainkie, it can hardly be said that IFRS is sneaking up on anybody if it's been deferred for four (4) years. Why isn't this particular issue one (1) on which the company has a determined position?

MR. DARREN RAINKIE: Well, Mr. Peters, we have a big complex company, and this really didn't come to our intention until the preparation of the last financial forecast. So we did make that simplifying assumption. But we -- we just have not got our final ducks in a row on this one yet.

MR. BOB PETERS: Does the Board understand that this item, along with maybe a multitude of other items, was one (1) that was brought to the Corporation's attention by your consultants and auditors?

(BRIEF PAUSE)

MR. DARREN RAINKIE: No, Mr. Peters, I think this came about, as I recall, came about as going through our fore -- forecasts and discovering that we had two (2) different treatments going on. The -- the gas treatment had been historically this way for decades, and I suppose the electric one had been around for decades as well, and something that had not been harmonized yet.

MR. BOB PETERS: Ms. Jacobs --

MR. DARREN RAINKIE: Or I -- I might -- sorry, Mr. Peters -- I might add that -- that in -- that before the -- these changes and these testing requirements, this was a fairly immaterial, you know, in terms of size-wise, transaction, so it wasn't the highest thing on our rating -- rating screen, just to -- just to fill in some of the blanks for you. But with the, you know, with the increased requirements from Measurement Canada, it certainly is a -- it's a larger item now to look at.

MR. BOB PETERS: Okay. Thank you. In the -- in the few minutes remaining, Ms. Jacobs, if we turn to page 189 of the book of documents, and we see here the OM&A presented with a view of the activity charges and the primary costs, would it be correct for this Board to understand, Ms. Jacobs, that in -- in the past the Corporation has tried to contain its sponsorship and travel-expense items? Are you aware of that?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: But if we go down and we look at the travel expenses, particularly since '12/'13 and '13/'14, compared to what they were previously, we see that the compounded annual growth rate is over 30 percent, correct?

(BRIEF PAUSE)

MS. HANRI JACOBS: That's correct. About fifty thousand (50,000) in absolute value.

MR. BOB PETERS: And do you know what's driving that?

MS. HANRI JACOBS: I'll have to take an undertaking, unless...

MR. BOB PETERS: No, I -- I'm not going to hold you to that. I -- I -- but has there been a -- a thawing of the freeze on travel?

Is that -- is that what's happened?

MS. HANRI JACOBS: Not that I'm aware of. No.

(BRIEF PAUSE)

MR. BOB PETERS: And -- and, likewise,

under purchased services, if we can just go down to that line item, ma'am, we see purchased services, you know, approximately a 20 percent compounded annual growth in the last few years related to purchased services.

First of all, can you explain what purchased services are to the -- to the Board?

MS. HANRI JACOBS: This would mainly include contractors' cost in here. But what I can tell you is, accordingly to my records -- I mean, we -- what you'll see is there's six hundred thousand (600,000) related to the reclass of the operation's activities is also reflected in -- in the -- the increase. As well as what -- in the budget or the test years, we've included some incremental costs associated with distribution, maintenance, and reg -- station maintenance.

MR. BOB PETERS: Sorry, I didn't catch the reclassification cost of six hundred thousand (600,000).

What does that relate to?

MS. HANRI JACOBS: It's the reclass of the operations recoveries that's also noted in the accounting changes.

MR. BOB PETERS: Mr. Chairman, in

light of the hour, this might be an opportune time to adjourn for the day, and I could pick it up tomorrow morning?

THE CHAIRPERSON: Is there any other business to be conducted before we -- we adjourn for today?

No. So we will see each other again tomorrow morning at nine o'clock. Have a good evening, everyone. Thank you very much.

(PANEL RETIRES)

--- Upon adjourning at 4:31 p.m.

Certified Correct,

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Bob Keelaghan, Mr.