



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
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Pages 456 to 730

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

2

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

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

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

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

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

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

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

1 you're ready, please proceed.

2 MR. BRIAN MERONEK: I'll proceed

3 whether I'm ready or not, sir.

4

5 CENTRA PANEL 2, RESUMED:

6 LLOYD KUCZEK, Resumed

7 LOIS MORRISON, Resumed

8 GREG BARNLUND, Resumed

9

10 CONTINUED CROSS-EXAMINATION BY MR. BRIAN MERONEK:

11 MR. BRIAN MERONEK: Good morning,

12 panel. I'd like to start by going back to the genesis

13 of this program. The program that I'm interested in

14 this morning is the Furnace Replacement Program. And

15 I understand that, prior to 2007, there wasn't a

16 Furnace Replacement Program for low -- lower-income

17 customers.

18 Is that correct?

19 MS. LOIS MORRISON: That is correct.

20 MR. BRIAN MERONEK: It's my

21 understanding that prior to 2007, there was a program

22 in place, generally. And that program represented a

23 two hundred and forty-five dollar (\$245) installation

24 incentive for anybody who wanted to avail themselves

25 of replacing a standard or mid-efficiency furnace with

1 a high-efficiency furnace?

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

7 MR. BRIAN MERONEK: And on the basis
8 of that program, Centra anticipated annually to
9 accomplish the replacement of sixty-eight hundred
10 (6,800) standard furn -- furnaces annually.

11 Is that correct?

12

13 (BRIEF PAUSE)

14

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

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

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

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

24

25 (BRIEF PAUSE)

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

14 MR. BRIAN MERONEK: Do you have the
15 numbers?
16 And if you don't have them, could you undertake to
17 provide me with the -- the numbers of furnaces that
18 were replaced up to the present time under that
19 program?

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

24 MR. BRIAN MERONEK: Could you do that
25 please?

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

3
4 --- UNDERTAKING NO. 5 Centra to indicate the
5 number of furnaces
6 replaced under Power Smart
7 Furnace Replacement
8 Program up until December,
9 2009

10

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

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

15 MR. BRIAN MERONEK: Now, there was
16 discussion in the GRA out of which Board Order 99 of
17 '07 was generated. And as a result, a furnace
18 replacement program and other programs for LICO
19 customers was created.

20 Is that correct?

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

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

1 MS. LOIS MORRISON: No, I was not.

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

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

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

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

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

20 MR. LLOYD KUCZEK: I can share what I
21 know about the program, but they did -- Centra did
22 undertake a number of consultations, including
23 consulting with local stakeholders and so -- some
24 social groups, I believe, as well as consulted or
25 compared and -- and discussed the issues across Canada

1 with other utilities that were looking at doing it.
2 And I believe they researched what was being done in
3 the United States, as well.

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

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

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

14

15 (BRIEF PAUSE)

16

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

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

25 MR. LLOYD KUCZEK: That's correct.

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

3 "The Board notes that Centra reports
4 having one (1) staff member to
5 administer the program. The Board
6 is of the view that engaging
7 external effort -- experts in the
8 delivery of the programs will better
9 ensure that the program is designed
10 and delivered appropriately, and
11 subsequently meets its goals."

12 You are aware of that statement by the
13 Board?

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

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

20 MR. LLOYD KUCZEK: We did not.

21

22 (BRIEF PAUSE)

23

24 MR. BRIAN MERONEK: The Board, in
25 2007...

1 (BRIEF PAUSE)

2

3 MR. BRIAN MERONEK: Stated, at page
4 137:

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

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

14

15 (BRIEF PAUSE)

16

17 MR. LLOYD KUCZEK: You know, I -- I'm
18 not sure how you would define 'fully operational'.
19 What -- what I understand, the program was evolving as
20 it was launched, and there was improvements --
21 continuous improvements made to the program over a
22 period of time. As I -- I reviewed some of the data
23 prior to the hearing -- my understanding was, jus --
24 based on the data, that the first few years were a --
25 were a transition period to getting the program up and

1 running, and there's still improvements being looked
2 at today. So it's -- it's an evolving process.

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

6

7

8 (BRIEF PAUSE)

9

10 MR. LLOYD KUCZEK: I said "no".

11 MR. BRIAN MERONEK: But we do know, as
12 of this hearing, approximately twenty-five hundred
13 (2,500) furnaces have been replaced through this
14 program?

15 MS. LOIS MORRISON: That is correct.

16

17 (BRIEF PAUSE)

18

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

24 And that was launched approximately
25 December of 2007?

1 MS. LOIS MORRISON: That is correct.

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

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

14 Were you aware of that directive?

15 MS. LOIS MORRISON: Yes.

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

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

25 MS. LOIS MORRISON: Could you repeat

1 that, please?

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

4

5 (BRIEF PAUSE)

6

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

11 MS. LOIS MORRISON: Yes, we were
12 aware.

13 MR. BRIAN MERONEK: And it's no secret
14 that a demographic study was not completed by February
15 28, 2008, as ordered by the Board, correct?

16

17 (BRIEF PAUSE)

18

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

23 MR. BRIAN MERONEK: And as I
24 understand -- understand it, the reason why Centra did
25 not file a demographic study as ordered by the Board

1 by February 28, 2008, is because it felt it didn't
2 need one.

3 Is that correct?

4

5 (BRIEF PAUSE)

6

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

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

12 "At a lower income technical
13 conference hosted in Manitoba Hydro
14 in January 2008, it was Manitoba
15 Hydro's understanding that the
16 consensus among conference
17 participants was that sufficient
18 demographic data exist and that
19 additional studies are not required.
20 Accordingly, Centra requested that
21 the Board consider this directive
22 fulfilled."

23 Could you accept that?

24 MR. LLOYD KUCZEK: Yes.

25 MR. BRIAN MERONEK: Did Centra ever

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

4

5 (BRIEF PAUSE)

6

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

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

16

17 (BRIEF PAUSE)

18

19 MR. BRIAN MERONEK: When we get to
20 2009, the GRA out of which Board Order 128/'09
21 emanated, that decision was September 16, 2009, the
22 Board confirms, and you've confirmed on the record,
23 that the Directive 13 had not been complied with.

24 Agreed?

25 MR. GREG BARNLUND: I have the order

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

3

4 (BRIEF PAUSE)

5

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

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

14 MR. GREG BARNLUND: Yes, I have that.

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

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

25 But the -- I -- I think the impression

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

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

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

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

23 MR. LLOYD KUCZEK: No. But I worked
24 fairly close with the vice-president at the time, and
25 also the manager that was responsible for the program

1 to the degree that I was involved in a number of the
2 discussions.

3

4 (BRIEF PAUSE)

5

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

12 MR. LLOYD KUCZEK: That is accurate.

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

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

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

1 Can you give us an extension?

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

4 MR. BRIAN MERONEK: Now, it's true,
5 sir, that the Board did give some dir -- specific
6 directives pertaining to what it felt was appropriate
7 in a demographic study, and that can be found at page
8 34 of Board Order 128/'09, and the Board wanted the
9 demographic study to attempt to determine or identify
10 the following, let me cite those on the record:

11 "The number of lower income
12 consumers; the numbers of standard
13 mid-efficiency and high-efficiency
14 furnaces and boilers among lower-
15 income customers; the number --
16 [sorry] the type of housing for
17 lower-income customers: single
18 multi-unit townhouse, mobile owned,
19 rented; the neighbourhoods where
20 lower-income consumers reside in
21 order that targeted mailings and
22 other marketing activities can be
23 directed where they will be best
24 achieved; and any relationship
25 between consumption and income

1 levels."

2 Do -- do you recall that, sir?

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

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

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

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

23

24 (BRIEF PAUSE)

25

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

6 As we -- as I noted earlier, we did
7 file the -- the study based on the preliminary
8 responses that we received as of the end of November,
9 2009, in a report that was provided in May, 2010, to
10 the Board. And so there -- there is a certain time
11 lag in terms of sending out the surveys, getting the
12 surveys back, that -- in order to -- to bring all of
13 that data together.

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

17 MS. LOIS MORRISON: I understand we
18 did not.

19

20 (BRIEF PAUSE)

21

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

1 CAC/Centra Information Request 1-20, correct?

2

3 (BRIEF PAUSE)

4

5 MS. LOIS MORRISON: In one (1) of the
6 responses to the subsections of 1-20, yes. Or, sorry,
7 1st Round 20.

8 MR. BRIAN MERONEK: And I think you
9 indicated as well there was a revision on August 31,
10 2010, correct?

11 MS. LOIS MORRISON: That is correct.

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

18 "Neighbourhoods where lower-income
19 cu -- consumers reside an order that
20 targeted mailings and other
21 marketing activities can be directed
22 where they will best -- be best
23 achieved."

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

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

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

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

16

17 (BRIEF PAUSE)

18

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

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

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

1 Yes. The program staff have used that data.

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

6

7 (BRIEF PAUSE)

8

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

11 MS. LOIS MORRISON: Yes.

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

16 MS. LOIS MORRISON: That is correct.

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

20

21 (BRIEF PAUSE)

22

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

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

7 MR. LLOYD KUCZEK: Not necessarily.

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

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

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

22 But people change homes once every six
23 (6) years, and so different people move into homes,
24 and they have incentives to change their furnaces and
25 -- for difference reasons, and they're at different

1 points in their lives.

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

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

15 I mean, the furnaces are almost given
16 away free and yet people continue not to participate
17 in the program. And we -- we experience the same
18 thing with the -- the furnace replacement program that
19 we ran that only offered two hundred and forty-five
20 dollars (\$245) and that wasn't generous, but the --
21 subsequent to that the federal government, through the
22 ecoENERGY Program, when they were trying to boost the
23 economy, they offered a very generous incentive
24 program for a number of energy efficient measures
25 including furnaces and you were -- you were eligible

1 up to, I think it was seven hundred and ninety-five
2 dollars (\$795) to replace the furnace.

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

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

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

20 And what I -- what I mean by the -- the
21 36 to 79 percent, I'm looking at the Forecast 2000,
22 the '13-'14 number and the 2015/'16 number in
23 relationship to the present.

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

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

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

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

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

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

24 MR. LLOYD KUCZEK: We can provide you
25 with an update in terms of the participation to date

1 through the neighbourhood approach, but it -- it is
2 very disappointing.

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

5

6 (BRIEF PAUSE)

7

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

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

20 And if they are not qualifying for
21 LIEEP, tells them about the other opportunities that
22 are available through Manitoba Hydro's Power Smart
23 Initiatives. So it's a door-to-door canvassing
24 approach within a targeted low-income neighbourhood.
25 And at this point in time, we have two (2) community

1 groups that we are working directly with, one (1) in
2 Winnipeg and one (1) on Brandon.

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

5 MS. LOIS MORRISON: December of 2012.

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

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

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

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

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

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

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

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

24 For example, we have one (1) household
25 in Winnipeg that wanted to get their house

1 retrofitted, and the organization -- the community
2 group, the neighbourhood group, is using a couple of
3 social enterprises to do the work. And it took two
4 (2) months, I believe, before one (1) of those social
5 organizations responded to -- in terms of getting the
6 work order ready to do it.

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

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

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

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

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

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

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

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

6 MR. LLOYD KUCZEK: Correct.

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

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

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

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

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

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

6 As I mentioned earlier, I -- I
7 personally thought, and I wasn't responsible for the
8 furnace replacement program, but I thought by offering
9 furnaces for only eleven hundred and forty-dollars
10 (\$1,140) and a nineteen dollar (\$19) per-month payment
11 over five (5) years, the participation would be fairly
12 significant.

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

20

21 (BRIEF PAUSE)

22

23 MR. LLOYD KUCZEK: We -- we have
24 outsourced some programs. In terms of outsourcing the
25 whole DSM effort at Manitoba Hydro, that was

1 thoroughly reviewed between Manitoba Hydro and the
2 government responsible for Manitoba Hydro. In
3 approximately 2003/'04, over a period of about a year,
4 there were extensive discussions, and it was concluded
5 at that time it was best left within Manitoba Hydro.

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

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

23 You know, give you an example. It's
24 outside the natural gas -- the natural-gas area, but
25 with the First Nations what we actually do is work

1 with each First Nation group that's willing to
2 participate in the program. And we have a partnership
3 with them and they -- they actually implement the
4 program for us. And we just work with them and that
5 works great.

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

13 Is that correct?

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

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

24 MR. LLOYD KUCZEK: That's correct.

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

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

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

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

10

11 (BRIEF PAUSE)

12

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

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

25 MR. BRIAN MERONEK: Other than the two

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

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

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

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

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

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

1 (BRIEF PAUSE)

2

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

11 Do you re -- do you recall that?

12 MR. LLOYD KUCZEK: Yes.

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

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

21 We also know that the -- if you -- if
22 you are intimate with running a program, how valuable
23 it is in terms of having synergies within an
24 organization. You have access to the billing
25 information. You have access to our technical

1 engineers that can provide advice, and they're
2 continually providing advice on the lower income
3 program. We have advice to our legal department in
4 terms of any legal issues that come up; and they do
5 come up, by the way. And the contact centre is there.

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

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

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

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

24 MR. LLOYD KUCZEK: We're never
25 satisfied that we're doing all we can. We're always

1 looking to do more in terms of making improvements,
2 and I think we have evidence to demonstrate that
3 within the lower-income program. And I think that's
4 consistent with our other programs, as well.

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

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

18

19 (BRIEF PAUSE)

20

21 MS. LOIS MORRISON: Yes, we have it.

22 MR. BRIAN MERONEK: Thank you.

23 Approximately eighteen thousand three hundred and --
24 and three hundred (18,300) standard efficiency
25 furnaces are in the LICO-125 percent group, correct?

1 MS. LOIS MORRISON: That is correct.

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

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

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

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

17 MR. LLOYD KUCZEK: I recall that.

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

22

23 Is that correct?

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

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

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

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

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

25 MR. BRIAN MERONEK: Now, that

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

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

12 MR. BRIAN MERONEK: And you will agree
13 with me, sir, that it -- if all LICO customers, LICO-
14 125 customers, replace their furnaces assuming that,
15 it will cause other significant economic problems for
16 them.

17 Would you agree with that, sir?

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

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

24 MR. LLOYD KUCZEK: Correct.

25 MR. BRIAN MERONEK: And that's going

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

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

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

10 Would you agree with that, sir?

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

15

16 (BRIEF PAUSE)

17

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

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

25 MR. LLOYD KUCZEK: Correct.

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

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

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

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

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

23 MR. BRIAN MERONEK: Right. So by that
24 proposition, Mr. Kuczek, why are you putting money in
25 -- into 2014/'15 or even now, in terms of the

1 forecast? It sounds like you've got enough money.

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

7

8 (BRIEF PAUSE)

9

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

13 Is that -- is that fair?

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

21 And internally, I've communicated to
22 people that I think they need to be patient with this
23 approach, because I still think there's an opportunity
24 for more success than we're currently seeing. And, in
25 fact, I'd like to see it expanded to some other

1 neighbourhoods, including Portage and some other
2 areas, so that we can continue to increase the number
3 of participants in this program.

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

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

20 MR. BRIAN MERONEK: We'll -- we'll get
21 into that now or shortly. I -- I do want to talk
22 about the issue of co-payments. And as I understand
23 the -- the material, and it -- it clearly is a high-
24 level understanding, there's a moniker called energy
25 burden, which is essentially the fraction of -- sorry,

1 the -- a gas bill to a low-income consumer as a
2 percentage of -- of his or her or their overall
3 income.

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

6 MR. LLOYD KUCZEK: Yes.

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

11 Will you accept that?

12

13 (BRIEF PAUSE)

14

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

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

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

24 MR. BRIAN MERONEK: And
25 correspondingly then, the energy burden is more than

1 double. It's about two point six (2.6) times that of
2 non-LICO customers?

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

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

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

24 And so -- so in the ideal case, which
25 you -- you could try to do, is just design a program

1 so that the -- the non -- or the participating
2 customer is no worse off, and, therefore, there's no
3 reason for them not to participate. And you could
4 theoretically have that payment of nineteen dollars
5 (\$19) across the twenty (20) years and they'd be no
6 worse off.

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

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

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

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

24 MR. BRIAN MERONEK: How is that number
25 calculated?

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

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

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

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

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

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

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

1 realize the benefit of that capital of contribution.

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

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

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

12

13 (BRIEF PAUSE)

14

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

23 MR. BRIAN MERONEK: So a tenant who
24 receives a monthly savings of eighteen dollars (\$18) a
25 month, or -- or two hundred and sixteen dollars (\$216)

1 a year may end up paying seven hundred and twenty
2 dollars (\$720) in increased rent, or a difference of
3 five hundred and four dollars (\$504).

4 Is that not possible?

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

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

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

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

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

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

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

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

12 MS. LOIS MORRISON: That is correct.

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

16 MS. LOIS MORRISON: That is correct.

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

19 Is that correct?

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

1 could do, specifically.

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

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

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

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

25

1 (BRIEF PAUSE)

2

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

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

19

20 (BRIEF PAUSE)

21

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

1 2011/'12 Manitoba Hydro GRA?

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

4

5 (BRIEF PAUSE)

6

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

11 Do you recall that?

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

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

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

25 As I mentioned earlier, we actually

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

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

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

24 MR. BRIAN MERONEK: But -- but the
25 object of the exercise is to assist LICO-125 consumers

1 to take advantage and avail themselves of this
2 program, correct?

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

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

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

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

19 So, you know, the -- the -- I'll agree
20 with the generic statement, the -- the more you offer
21 customers in terms of monetary benefit, in theory, and
22 it -- it should be in practice, then more people will
23 participate. But that is not how we look at programs.
24 There's -- there's broader issues involved with it, as
25 I just mentioned. And in combination with those, and

1 when designing a program, you need to consider all
2 those factors.

3 MR. BRIAN MERONEK: Has Centra
4 performed any analysis to determine whether there
5 would be a greater participant -- participation rate
6 by the target market if co-payment was reduced, say to
7 25 percent, or eliminated all together?

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

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

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

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

1 THE CHAIRPERSON: Let's do that.

2 Let's get -- resume proceedings at twenty (20) to
3 11:00.

4

5 --- Upon recessing at 10:26 a.m.

6 --- Upon resuming at 10:43 a.m.

7

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

10 MR. BRIAN MERONEK: Thank you, sir.

11

12 (BRIEF PAUSE)

13

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

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

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

1 '05/'06, and there was twelve hundred and twenty-eight
2 (1,228) furnaces that year. In '06/'07, there was
3 seven thousand twenty-eight (7,028). In '07/'08,
4 there was six thousand six hundred and thirty (6,630).
5 In '08/'09, there was seven thousand two hundred and
6 ninety-five (7,295). And in December -- or in
7 '09/'10, there was five thousand one hundred and
8 ninety (5,190). And the program ended December 31st,
9 '09, so that was just part of a year.

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

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

1 in terms of incentives.

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

5

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

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

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

1 correct?

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

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

10

11 (BRIEF PAUSE)

12

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

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

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

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

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

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

16 MR. LLOYD KUCZEK: I -- I would like
17 to add a comment, as well. Like, I'm not as concerned
18 about the nineteen dollar (\$19) payment with the
19 furnace replacement program as I am with having a co-
20 payment with the insulation component of the program.
21 I -- I believe that customers that have these older
22 furnaces, for the most part, view that program as
23 fairly generous and a great opportunity to replace
24 their furnace as opposed to being ex -- exposed to
25 having to do it themselves at some point, or having to

1 call a furnace repair guy in the middle of the night
2 or on a weekend.

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

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

14 MR. LLOYD KUCZEK: That's correct.

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

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

22 MR. BRIAN MERONEK: Thank you. I want
23 to switch gears now and talk about Centra's
24 methodology with respect to cost savings to customers.
25 And to begin with, the established record to date

1 indicates that Centra evaluates savings using its own
2 staff, correct?

3 MR. LLOYD KUCZEK: Correct.

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

7 MS. LOIS MORRISON: That is correct.

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

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

23 MR. LLOYD KUCZEK: I -- I could add to
24 that, too. What the furnace replacement program --
25 when we started promoting high efficient furnaces from

1 standard, I was interested in that as well, and I had
2 my load forecasting staff at the time actually do some
3 analysis of homes that replaced their furnaces. And
4 the numbers came in fairly close to exactly what we
5 would have thought based on those engineering
6 calculations of 90 percent efficient from sixty (60).
7 So we were really comfortable with the -- with the
8 furnace replacement program in terms of those numbers.

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

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

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

23 MR. BRIAN MERONEK: Now, you -- you
24 did mention that Centra's approach in terms of
25 engineered estimates and evaluations is consistent

1 with other North American jurisdictions?

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

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

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

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

23 Do you recall that, sir?

24 MR. LLOYD KUCZEK: Yes, I do.

25 MR. BRIAN MERONEK: I take it that's

1 not something that Centra agrees with?

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

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

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

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

25 I certainly wouldn't pay for it for a

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

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

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

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

23 MS. LOIS MORRISON: The purpose of
24 those inspections is first to set the pre-level of
25 insulation and the post-level so that we can determine

1 if the Power Smart levels were reached within the
2 installation.

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

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

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

23 MR. LLOYD KUCZEK: Yes, I see value in
24 doing that. We're -- we're going -- we're expecting
25 to see behavioural changes. I think one (1) of the

1 data inputs were -- that I -- I seen was there was a
2 number of customers that have moved. So we'll have to
3 exclude those customers and try to analyze the
4 customers that participated in the program that
5 haven't moved.

6 Having said that, I know from even my
7 personal experience that, boy, the behaviour changes
8 of people even within your household. If you have an
9 18-year-old daughter or a 16-year-old daughter
10 certainly could change things over the years.

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

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

19 MR. LLOYD KUCZEK: I -- I'm not really
20 interested in assessing that because we -- we've done
21 an assessment of the furnace replacement program. But
22 having said that, it probably wouldn't take a
23 significant effort to add that component to it. And
24 we -- we probably would look at that and just see what
25 the differences are. And if they're showing some

1 statistical differences from what we would expect,
2 that would be a cause for concern and make me question
3 the validity of the -- the study based on the
4 insulation measures.

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

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

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

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

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

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

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

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

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

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

24

25 (BRIEF PAUSE)

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

7 MR. BRIAN MERONEK: And --

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

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

25 Will you accept that?

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

4 MR. BRIAN MERONEK: Page 41.

5

6 (BRIEF PAUSE)

7

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

11 MR. BRIAN MERONEK: Right.

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

14 MR. BRIAN MERONEK: Yes.

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

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

23 MS. LOIS MORRISON: Okay. So -- well,
24 it -- it might be, for the purposes of this hearing,
25 and the fact that we're discussing natural gas, it

1 might be if we're looking at the LICO-125, apartment
2 suites have a -- what's deemed to be an energy burden
3 of 5 percent. And single detached natural gas billed
4 customers, meaning customers that get an natural gas
5 bill, are at 8.8 percent.

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

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

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

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

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

1 accurate story?

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

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

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

20 But as I noted in my previous
21 testimony, we take things into consid -- we take
22 deemed savings based -- that is augmented by
23 information specific to the customer, such as square
24 footage of the home, type of the home, that type of
25 information. So I think we're kind of both saying the

1 same thing to a certain extent.

2 MR. BRIAN MERONEK: I'll accept that.

3 Just moving onto a discrete topic, a brief topic, and
4 it's the weighted average cost of capital that's
5 employed as a discount rate for these programs.

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

9 Is that correct?

10 MS. LOIS MORRISON: That is correct.

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

15

16 (BRIEF PAUSE)

17

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

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

3

4 (BRIEF PAUSE)

5

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

9

10 (BRIEF PAUSE)

11

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

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

24

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

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

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

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

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

12 MR. BRENT CZARNECKI: Fine by me.

13

14 (BRIEF PAUSE)

15

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

18

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

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

21

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

1 administer the oaths, please.

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

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

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

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

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

16

17 CENTRA PANEL 3:

18 DARREN RAINKIE, Resumed

19 HANRI JACOBS, Sworn

20 MARK PRYDUN, Sworn

21 KELLY DERKSEN, Sworn

22 GREG BARNLUND, Resumed

23

24 EXAMINATION-IN-CHIEF BY MS. MARLA BOYD:

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

1 recall that the evidence of -- direct evidence of Mr.
2 Rainkie and Mr. Barnlund was put on the record on the
3 13th of June. So we'll carry on with the direct
4 evidence of Ms. Jacobs.

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

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

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

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

22 MS. HANRI JACOBS: Yes. Centra op --
23 Centra's operating and administrative costs for tve --
24 2013/'14 are forecasted to be 68.8 million, including
25 CGAAP accounting changes of 7.2 million, reflecting

1 the removal of certain costs from overhead capitalized
2 and reclassification of operating expense recoveries
3 to other revenue of .6 million.

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

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

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

21 Items removes -- items removed from
22 overhead pools include interest on equipment and
23 facilities, building depreciation and operating costs,
24 IT infrastructure and related support, as well as
25 various corporate department costs. These changes are

1 compliant with CGAAP and have been fully endorsed by
2 Manitoba Hydro's external auditors.

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

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

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

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

1 application?

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

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

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

23 MS. KELLY DERKSEN: Yes, Centra is not
24 proposing any substantial changes in its approach to
25 cost allocation in this application. Centra's

1 application describes a mo -- a modification made to
2 the allocation process related to DSM amortization
3 expense, which represents a change from the last GRA.
4 Centra continues to -- to assign DSM amortization
5 expense, which in this application is forecast at \$7.2
6 million, on the basis of anticipated participation
7 forecast by each customer class.

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

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

24 There is no impact of this change to
25 the SGS and LGS customer classes because the basic

1 monthly charge is set independently of costs
2 determined to be customer-related, with the residual
3 being recovered through the volumetric distribution
4 rate.

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

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

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

25 MS. MARLA BOYD: And could you please

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

3 MS. KELLY DERKSEN: Yes, Centra is
4 proposing to implement a number of rate riders that
5 will recover from customers a net amount of
6 approximately fourteen thousand dollars (\$14,000) of
7 gas cost deferral account balances as of October 31 of
8 2012, plus carrying costs to July 31st. These rate
9 riders are based on PGVA and gas cost deferral account
10 balances for both the '10/'11 and '11/'12 gas years.
11 No changes were made to these balances as a result of
12 the cost of gas update that we filed on May the 10th.

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

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

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

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

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

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

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

21
22 The commodity cost component is dealt
23 with through Centra's various fixed rate offerings.
24 For purposes of cost allocation Centra has included an
25 estimate of its cost, which is used to drive

1 allocations within the cost allocation study, but not
2 to establish the rate.

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

7 The non-gas cost reflected in this rate
8 can be identified in Centra's Schedules 11.1.4 and
9 11.1.5 as per the cost of gas update filed on May
10 10th. As identified in these schedules the program
11 cost rate reflects direct costs of approximately a
12 hundred and ten thousand dollars (\$110,000) related to
13 marketing, call centre, and gas supply, unamortized
14 regulatory and startup costs of approximately a
15 hundred thousand dollars (\$100,000), and another --
16 and a further thirty thousand dollars (\$30,000) of
17 indirect costs, which are related to audit, IT, gas
18 accounting, regulatory, finance, and corporate
19 allocation.

20 Centra is seeking approval of the --
21 the fixed rate primary gas service program cost rate
22 of thirty-one dollars and forty-one cents (\$31.41) per
23 103M3. This rate can be found also on 11 -- on
24 Schedule 11.1.2, line 49 of the May 10th update.

25 MS. MARLA BOYD: Ms. Derksen, can you

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

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

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

24 The primary gas rates remain constant
25 and therefore do not contribute to this impact. The

1 impact results from changes to the primary gas
2 overhead component that I've just spoken of are also
3 not reflected in -- in these calculations, but will be
4 reflected as part of the August 1st, 2013, primary gas
5 application.

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

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

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

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

24 MR. MARK PRYDUN: In recent years,
25 Centra has undertaken a number of major projects

1 related to system reliability, relocation of plant due
2 to provincial road alignments, restoration of gas
3 service due to a river-bank failure, and upgrading of
4 its computerized gas delivery monitoring system.

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

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

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

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

24 New service installation, due to system
25 load growth, are forecast to remain stable or decrease

1 slightly, and capital programs related to distribution
2 system improvement are projected to modestly increase.

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

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

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

21 MR. MARK PRYDUN: Centra is proposing
22 to modify the wording of Section 4, General Terms and
23 Conditions, Part E, to limit the pro -- the provision
24 of service under the customer equipment problem
25 program to primary natural gas, space and water

1 heating, residential and commercial appliances under
2 400,000 BTUs or British thermal units per hour.

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

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

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

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

1 third-party damage.

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

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

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

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

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

25

1 CROSS-EXAMINATION BY MR. BOB PETERS:

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

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

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

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

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

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

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

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

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

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

23 Your answers are not restricted to
24 those books of documents. If there's some information
25 that you want the Board to -- to see that's not in

1 there, you're certainly welcome to provide that to
2 them. But two (2) copies have been marked as Exhibit
3 10, and I'll be referring to them in my questioning.

4 Would that be satisfactory, Mr.
5 Rainkie?

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

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

19 Would that be correct?

20 MR. GREG BARNLUND: Yes.

21 MR. BOB PETERS: Thank you, Mr.
22 Barnlund. Now, looking at Item A on page 145, Centra
23 is seeking approval of an approximate 2 percent
24 general revenue increase effective August 1st, 2013,
25 sufficient to generate additional revenues of \$6

1 million and projected net income of \$5 million in the
2 2013/'14 fiscal year of Centra, correct?

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

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

10 MS. KELLY DERKSEN: Yes, Mr. Peters.

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

17 MS. KELLY DERKSEN: Yes, that's true,
18 Mr. Peters. There is more to our application than the
19 2 percent that's specified under Part A of this
20 particular tab. We also have changes to non-primary
21 gas costs. They are decreasing from approximately
22 94.9 million to 73.5 million. So we have a reduction
23 in non-primary gas costs.

24 We also have the addition -- addition
25 of rate riders that we have to contemplate as part of

1 that bill impact.

2

3 (BRIEF PAUSE)

4

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

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

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

18

19 (BRIEF PAUSE)

20

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

25 MR. BOB PETERS: Thank you, sir. And

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

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

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

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: And if I turn on page
14 146, Mr. Prydun, I'm not sure if this was one (1) that
15 would be a matter spoken to by yourself, sir, but
16 Centra is asking the Board to vary a previous order of
17 this Board so that Centra doesn't have to submit a
18 feasibility test for approval prior to commencement
19 and construction of future expansions greater than 500
20 metres in the rural municipalities of Woodlands and
21 Bifrost?

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

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

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Barnlund, you can
4 explain to the Board, sir, that back in 2000, in an
5 order of this Board for main extensions greater than
6 500 metres Centra was requested and required to
7 provide a feasibility test, correct?

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

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

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

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

25 MR. GREG BARNLUND: I wasn't present

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

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

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

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

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

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

21 MR. GREG BARNLUND: Correct, we would
22 prepare the feasibility study and if -- should there
23 be a -- a contribution required in aid of
24 construction, we would be approaching the customer
25 requesting that service to ensure that we obtained a

1 financial commitment to that contribution in aid of
2 construction prior to the commencement of any further
3 work.

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

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

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

23 MR. GREG BARNLUND: Correct. Within
24 those policy considerations there's an acceptance that
25 there is some cross-subsidy in the first five (5)

1 years from existing customers to the new customer
2 being added to the system. It's also expected that by
3 the fifth year -- by the end of the fifth year, that
4 that cross-subsidy is -- is diminished or disappears.
5 Beyond that, it's conceivable that the new customer
6 may be actually making a -- a subsidy back to the
7 other customers on the system. In other words, their
8 revenue-to-cost ratio may continue to grow beyond the
9 fifth year.

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

14 MR. GREG BARNLUND: Yes.

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

17 MR. GREG BARNLUND: Yes.

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

22 MR. GREG BARNLUND: Yes, there would
23 be a -- a calculation made to determine the level of
24 customer contribution that would be required to
25 provide the positive net present value. And, in

1 addition, we would be assessing the -- any additional
2 contribution that may be necessary to satisfy the
3 other requirement, which is to meet the hundred
4 percent revenue-to-cost ratio at the end of the fifth
5 year.

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

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

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

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

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

25 MR. BOB PETERS: All right. Thank

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

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

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

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

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

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

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

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

12

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

14 --- Upon resuming at 1:01 p.m.

15

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

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

1 Czarnecki.

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

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: At page 40 -- I'm
11 sorry, at Tab 41 of PUB Exhibit 10, which is Board
12 counsel's book of documents, and I'm in Volume II, Tab
13 41, page 149, for those who are following, this chart
14 shows the requested rate increase by Centra for this
15 year as well as what was requested and awarded in --
16 in prior years, correct?

17 MR. GREG BARNLUND: That's correct.

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

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

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

1 footnote 3. And it says it is proposed.

2 MR. BOB PETERS: And this number, just
3 to put it into perspective, is -- is -- equates to the
4 2 percent number that I spoke to the panel about
5 before lunch once the gas costs are removed from the
6 calculation in terms of the percentage of revenue
7 increases that the Corporation was seeking?

8 MR. GREG BARNLUND: Generally
9 speaking, yes.

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

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

22 MR. BOB PETERS: Right. And in
23 fairness, what you've told the Board in your direct
24 evidence was you try to show a consumer what their
25 bill was, or would be currently on an annual basis

1 compared to what it would be on an annual basis so
2 that they have some comparison -- some way to compare
3 it?

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

6 MR. BOB PETERS: Yeah. Right.

7

8 (BRIEF PAUSE)

9

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

14 MR. GREG BARNLUND: Yes.

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

19 MR. GREG BARNLUND: Yes, sir.

20 MR. BOB PETERS: And then an
21 accumulative basis on page 149, the third column from
22 the right shows that on accumulative basis since the
23 '03/'04 year the non-gas costs that have been approved
24 by this Board including the request that Centra has
25 proposed would amount to 25.3 percent?

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

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

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

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

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

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

24 So if you look at the 2003/'04 non-gas
25 costs of 120 million, let's just round it, and the

1 requested of 150 million, there's a couple things in -
2 - so that's a change of \$30 million over that period
3 of time, which is the 25.3 percent.

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

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

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

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

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

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

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

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

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

25

1 (BRIEF PAUSE)

2

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

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

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

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

21 MR. BOB PETERS: The cost of gas at
22 line item number 2 has been updated to reflect the May
23 10th update by the Corporation that was spoken to by
24 the previous panel?

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

1 understanding.

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

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

7 MR. BOB PETERS: And maybe what I'll
8 do, just to mention it at this time, Mr. Rainkie,
9 although with Mr. Schultz we'll have a further
10 discussion, when we go over to finance expense down on
11 line 8 and follow it to column B, there's a number of
12 \$17.296 million, sir?

13 MR. DARREN RAINKIE: Yes, Mr. Peters.

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

19 Would you be aware of that, sir?

20 MR. DARREN RAINKIE: I think we
21 indicated in recent correspondence that -- that the
22 number would, if updated, would be two hundred
23 thousand dollars (\$200,000) lower than that figure.
24 But we haven't revised -- officially revised our
25 application, Mr. Peters, given we don't see that to be

1 a material change in the total revenue requirement.

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

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

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

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

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

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

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

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

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

17 MR. GREG BARNLUND: Yes.

18

19 (BRIEF PAUSE)

20

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

25 MR. DARREN RAINKIE: That's correct.

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

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

8 MR. BOB PETERS: And then, Mr.
9 Rainkie, if we -- if we figure out what the revenue
10 would be on existing rates and we subtract that from
11 the -- the revenue requirement, we come up with the
12 \$5.745 million non-gas revenue deficiency?

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

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

20 MR. DARREN RAINKIE: That's correct.

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

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

1 MR. BOB PETERS: And so we've isolated
2 that nine hundred and thirteen thousand dollars
3 (\$913,000) drops off. And that nine hundred and
4 thirteen thousand dollars (\$913,000) is an amount that
5 will come from Centra's updated load forecast when
6 applied through to the rate structure, which will
7 produce additional revenues?

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

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: And, Mr. Rainkie, the
14 \$6.658 million of increased cost to operate the
15 Utility includes the \$5.6 million of profit that the
16 Corporation is seeking to recover for the fiscal year?

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

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

21 MR. DARREN RAINKIE: That's right, and
22 4.8 for the 2013/'14 test year.

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

1 conservation impacts.

2 Would that be a high level summary of
3 that number?

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

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

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

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

23 MR. BOB PETERS: And so you've told
24 the Board that while the customer numbers have
25 increased on average, the -- the customers' volumes

1 would be decreasing, for example, for the residential
2 customer?

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

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

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

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

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

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

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

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

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

12 MR. GREG BARNLUND: Yes.

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

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

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

23 MR. DARREN RAINKIE: Mr. Peters, yes,
24 the -- the total has increased by 14 percent. But
25 just to be clear, and I'm sure we'll go through this

1 with Ms. Jacobs and myself in some -- at some later
2 tab in your book of documents, but of the 8.5 million
3 about -- there's an increase in operating costs of
4 about 3.7 million. There's also accounting changes
5 between 2010/'11 and 2013/'14 of about \$4.8 million.

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

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

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

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

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

24 MR. DARREN RAINKIE: Yes, that's --
25 that's the mathematic calc -- mathematical

1 calculation, Mr. Peters.

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

6 MR. DARREN RAINKIE: That's correct.

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

8 --

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

11 MR. BOB PETERS: Yes.

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

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

23 And so, there would be some difference
24 between using a ten (10) year average, which would
25 force that forecast to move further in that next year

1 than you would if you were just using the twenty-five
2 (25) year average. And the reason we moved to the
3 twenty-five (25) year average was because we view
4 ourselves as being regulated on a cost-to-service
5 basis, and we look at it not on discrete one (1) year
6 segments but we look at it as a forecast over a period
7 of time, be that ten (10) or twenty (20) years.

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

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

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

22 MR. GREG BARNLUND: Well, and I think
23 what the graph was representing was that it was -- it
24 was cutting down the middle of volatility that was --
25 that was exhibited by the -- the ten (10) year

1 calculation. So, as the ten (10) year calculation is
2 saw-toothed its way through time, the twenty-five
3 (25) year average will smooth through the centre of
4 that data.

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

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

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

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

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Mr. Barnlund, maybe
25 see if you can help me understand what your answers

1 were to the chairman by turning back to Tab -- in the
2 first volume, Tab 16 of the book of documents. If you
3 could borrow a copy, if you've take yours home
4 already.

5

6 (BRIEF PAUSE)

7

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

11 MR. GREG BARNLUND: Yes, I have that.

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

19 MR. GREG BARNLUND: Yes.

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

25 MR. GREG BARNLUND: Yes, that's

1 correct.

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

7 MR. GREG BARNLUND: Yes.

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

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

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

18

19 (BRIEF PAUSE)

20

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

24

25 (BRIEF PAUSE)

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

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

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

14 Is that correct?

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

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

22 MR. DARREN RAINKIE: That's correct.

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

1 months of forecast experience?

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

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

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

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

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

22 MR. DARREN RAINKIE: That's correct.

23 MR. BOB PETERS: A couple of months
24 ago?

25 MR. DARREN RAINKIE: Yes, it seems

1 like ancient history, but it is.

2 MR. BOB PETERS: Well, what doesn't
3 seem like ancient history, Mr. Rainkie, is on last
4 Thursday, if I go down to that net income line under
5 2013, I made a note that that \$2 million should be
6 crossed off, and I wrote in "\$8 million."

7 Is that -- is that reasonable?

8 MR. DARREN RAINKIE: Yes, I indicated
9 that was our preliminary net income figure for
10 2012/'13, Mr. Peters.

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

15 Will you take that, subject to check?

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

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

23 Have I got that right?

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

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

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

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

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

13

14 CONTINUED BY MR. BOB PETERS:

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

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

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

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

12

13 (BRIEF PAUSE)

14

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

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

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

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

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

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

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

15

16 CONTINUED BY MR. BOB PETERS:

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

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

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

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

10 Mr. Rainkie, still on page 153 of Board
11 counsel's book of documents at Tab 43, I see in the
12 2014 test year, under the line item called,
13 "Additional revenue requirement," with the asterisk,
14 there's a \$7 million number under 2014, correct?

15 MR. DARREN RAINKIE: That's correct.

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

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

24 So in the forecast that was prepared we
25 assumed a May 1st implementation which would have

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

8 So we pu -- put the application in as
9 effective August 1st, and that's what generates the
10 \$5.7 million worth of additional revenue in 2013/'14.

11

12 (BRIEF PAUSE)

13

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

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

22 MR. DARREN RAINKIE: Yes, Mr. Peters.

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

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

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

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

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

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

24

25 (BRIEF PAUSE)

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

8 MR. DARREN RAINKIE: That's correct.

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

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

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

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

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

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

13 MR. BOB PETERS: Well, let's go to the
14 financial ratios, which are the last few items on page
15 153, line items, Mr. Rainkie. The equity ratio that
16 is set as -- set in the schedule is the equity ratio
17 for the subsidiary Centra Gas Manitoba Inc. only.

18 Have I got that right?

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

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

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

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

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

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

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

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

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

15 MR. BOB PETERS: Okay. Mr. Rainkie,
16 let's turn please to page 154 on the balance sheet
17 that is presented in IFF/CGM-12. And as a -- as a
18 starting point on this document, Mr. Rainkie, we'll go
19 down to the retained earnings line, the last line item
20 in the left column, and follow it over to the 2013 and
21 2014 years. This depicts the retained earnings
22 dropping from \$36 million down to -- sorry, going from
23 36 million to 41, before the Corporation is in a
24 deficit position of 27 million, correct?

25 MR. DARREN RAINKIE: Yes, this --

1 that's what this reflects.

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

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

15 MR. BOB PETERS: So, Mr. Rainkie, in
16 that last answer there's a few points here the Board
17 should be aware of, is that the way this is drawn --
18 I'm now on page 154, the balance sheet of IFF Centra-
19 12 -- Centra was expecting IFRS to be implemented in
20 the fiscal '15 year, correct?

21 MR. DARREN RAINKIE: That's correct.

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

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

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

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

12 MR. BOB PETERS: All right. But let's
13 not go that far yet. Let's stay with 2015. And we go
14 down to the "retained earnings" line -- sorry, we go
15 to the "regulated assets" line, and we see regulated
16 assets of 79 million in 2013, and we see 78 million in
17 2014, and we see nothing in 2015, correct?

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

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

25 MR. DARREN RAINKIE: Yes, based on the

1 current IFRS standards.

2

3 (BRIEF PAUSE)

4

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

12 MR. DARREN RAINKIE: That's correct.

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

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

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

24 MR. DARREN RAINKIE: Yeah, that would
25 represent the deferred cost since we've had a gas DSM

1 program, less any accumulated amortization of those
2 amounts, Mr. Peters. That's the other part of that
3 equation.

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

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

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

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

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

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

25 MR. BOB PETERS: The message to the

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

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

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

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

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

24 MR. DARREN RAINKIE: I guess so. I
25 was just -- wasn't sure if I was an asset or a

1 liability, Mr. Peters.

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

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: Mr. Rainkie, on page
8 157 of Tab 43, we -- we have an explanation of
9 deferred taxes two-thirds (2/3s) of the way down the
10 page. Just as you indicated, the deferred taxes arose
11 as a result of a financial transaction back in 1999,
12 which was Manitoba Hydro's acquisition of the shares
13 of Centra Gas?

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

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

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

1 taxable.

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

7 MR. DARREN RAINKIE: That's correct.

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

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

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

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

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

1 obligation?

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

6 MR. BOB PETERS: All right.

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

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

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

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

20

21 (BRIEF PAUSE)

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Mr. Rainkie, that was
25 -- that 63 million was tended (sic) to be the -- the

1 total amount after 2029 was -- when all the expenses
2 had been amortized? Have I --

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

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

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

21

22 (BRIEF PAUSE)

23

24 MR. DARREN RAINKIE: So, in other
25 words, we're adding slightly more to the account than

1 the amortization that we're taking out each year, but
2 just by a little bit.

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

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

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

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

20 MR. BOB PETERS: They would have seen
21 the \$27 million retained earnings loss forecast for
22 2015?

23 MR. DARREN RAINKIE: Yes, they would
24 have.

25 MR. BOB PETERS: Would it be

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

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

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

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

1 regardless of the write-off or not, we would be asking
2 for a rate increase.

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

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

16

17 (BRIEF PAUSE)

18

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

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

25 MR. BOB PETERS: And this scenario

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

4 MR. DARREN RAINKIE: That's correct.

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

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

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

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

23 So this was just a simple assumption
24 that both an interim standard would allow us to
25 transition to IFRS without the write-off, and that

1 when the IASB, or the International Accounting
2 Standards Board, makes its final determination on
3 rate-regulated accounting that -- that it will be okay
4 to do that for the long run, Mr. Peters. There's kind
5 of two (2) assumptions, if you like, based -- built
6 into this scenario. The first being that we get past
7 2015/'16, and the second being that rate-regulated
8 accounting is allowed for the longer term.

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

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

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

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

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

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

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

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

25

1 (BRIEF PAUSE)

2

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

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

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

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

21 MR. DARREN RAINKIE: It -- it will
22 allow first-time adopters of -- of IFRS -- and that
23 it's restricted to first-time adopters, like Canadian
24 regulated entities, to continue to practice rate-
25 regulated accounting while they figure out what

1 they're going to do over the longer-term, Mr. Peters.

2

3 (BRIEF PAUSE)

4

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

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

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

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

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

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

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

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

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

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

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

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

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

6 MS. MARILYN KAPITANY: Can -- can I
7 just clarify, did you say '15/'16 or is it going to be
8 '16/'17 when you'd be making that move?

9 MR. DARREN RAINKIE: Currently it's
10 2015/'16 for us.

11

12 CONTINUED BY MR. BOB PETERS:

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

18 Is that your understanding?

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

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

23 MR. DARREN RAINKIE: Yes, I think
24 we'll -- we'll put a letter in and we'll also
25 participate in the Canadian Electric Association

1 letter. The -- the finance subcommittee of the CEA
2 will likely put a letter in in support of this, Mr.
3 Peters, and we'll put our two (2) cents into that
4 communication as well.

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

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

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

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

17 MR. BOB PETERS: And maybe I'll ask
18 you to file your letter once it's sent in response to
19 this exposure draft with this Board as well so they
20 can be aware of the Corporation's position?

21 MR. DARREN RAINKIE: Certainly.

22 MR. BOB PETERS: And it may be that
23 Manitoba Hydro and Centra Gas' position is different
24 than the Canadian Electric Association.

25 Is that possible?

1 MR. DARREN RAINKIE: I guess
2 anything's possible, but highly unlikely. I think --
3 I think we'll be putting in letters in support of it,
4 Mr. Peters.

5 MR. BOB PETERS: Thank you. And will
6 -- will Centra's auditors be responding to this
7 exposure draft that requires or requests comments
8 before September 4th of 2013?

9 MR. DARREN RAINKIE: I can't make
10 promises for them, Mr. Peters, but typically the big
11 four (4) accounting firms all have put in a comment
12 letter. It won't be, obviously, Centra's auditors or
13 -- or -- it could be one (1) letter for the whole
14 world firm, Mr. Peters.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Then ag -- there
19 again, Mr. Rainkie, is that a document that can be
20 also filed with the Board once it has been sent in and
21 a copy is obtained by Manitoba Hydro?

22 MR. DARREN RAINKIE: That one (1) I'm
23 not sure about. I think they probably are in the --
24 on the International Accounting Standards Board's
25 website, but I'm not sure if that material is

1 copyrighted at all. It's something we could look at,
2 Mr. Peters. I just can't tell you from one (1) way or
3 another right here as I sit here.

4 MR. BOB PETERS: Fair enough. You
5 could perhaps send a link if it is posted then and
6 that would be as far as you may go if there's
7 copyright issues?

8

9 (BRIEF PAUSE)

10

11 MR. DARREN RAINKIE: Mr. Peters, I'm
12 advised, while you were having your sip of coffee,
13 that -- I mean, this is a public -- the International
14 Accounting Standards Board's process is a public
15 process as well and that we -- we do believe that it
16 will be available on the -- on the International
17 Board's website. So perhaps when we do our
18 undertaking to file our letter, we'll try to give you
19 a link or try -- try to give the Board a link as well.

20 MR. BOB PETERS: Thank you for that,
21 sir. The upshot, going back to page 154 at Tab 43 of
22 the book of documents on the balance sheet, for what
23 is presently filed before the Board, Mr. Rainkie, is
24 that Centra no longer is expected to write off \$77
25 million in the '15 fiscal year, correct?

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

3 MR. BOB PETERS: And that will put
4 Centra in a -- a stronger equity position to 2015?

5 MR. DARREN RAINKIE: Yes, we will be
6 in a positive position versus the negative position
7 that we had previously forecast.

8 MR. BOB PETERS: And while -- and
9 while the retained earnings will be positive, as
10 you've indicated, Mr. Rainkie, those rate-regulated
11 assets still need to be amortized and recovered in
12 consumer rates, and that projected result is what is
13 found at Tab 44, page 159 of the book of documents,
14 sir?

15 MR. DARREN RAINKIE: Yes, that's the
16 scenario that we were chatting about earlier, Mr.
17 Peters.

18 MR. BOB PETERS: And -- and on this
19 one as well, Mr. Rainkie, the -- the 2013, that \$2
20 million of net income line item, we've already
21 discussed that today, and that for purposes of
22 presentation today here it would not be incorrect to
23 change that to \$8 million?

24 MR. DARREN RAINKIE: That's correct,
25 on a preliminary basis. I do not want to break any

1 laws of the province of Manitoba.

2 MR. BOB PETERS: I hear you. And
3 would it -- would it -- Mr. Rainkie, when you sit back
4 and you and Ms. Jacobs chat this over coffee, would --
5 would page 159 be a more accurate reflection, as you
6 sit here today, of the IFF of the Corporation,
7 compared to what was approved or looked at by your
8 board of directors way back in early -- or late 2012?

9 MR. DARREN RAINKIE: Yes, Mr. Peters.
10 I think for the purposes of this proceeding, and
11 judging financial outlook, it's -- it's a better
12 representation. Ms. Jacobs reminds me that one (1) of
13 the things about this new standard, though, is that
14 we'll have to very -- in a very pristine-like fashion,
15 segregate out rate-regulated accounts. So there'll be
16 some differences in presentation in terms of the
17 income statement and balance sheet. And you -- you
18 would have noted that on the summary you just took me
19 through.

20 But other than that, the -- then the
21 net financial results are probably more indicative
22 than the -- than the original forecast from November
23 of 2012.

24 MR. BOB PETERS: Okay, let's make sure
25 I understood the point. And -- and then, help me, Ms.

1 Jacobs, if you can, and help the Board, what you're
2 suggesting is that there's going to be a presentation
3 change in the Corporation's annual financial reporting
4 to deal with what we now know as rate-regulated
5 assets?

6 MS. HANRI JACOBS: If you look through
7 the exposure draft, you'll see that ultimately the
8 presentation of assets and net income and liabilities
9 will be IFRS compliant, presented IFRS compliant. And
10 the impact of rate-regulated accounts would be
11 isolated into a total on the -- total assets before
12 rate-regulated accounts, and on the liabilities you'll
13 have the total assets and then you'll have the total -
14 - the right -- or created deferral accounts. And then
15 on the income statement you'll have net income before
16 rate-regulated accounts.

17 MR. BOB PETERS: Would it be the
18 purpose of that, Ms. Jacobs, is to show people who are
19 looking at the Corporation's financial statements, so
20 that they -- so they see a full disclosure in front of
21 them without hav -- having to hunt down what's
22 happened --

23 MS. HANRI JACOBS: I --

24 MR. BOB PETERS: -- in the notes?

25 MS. HANRI JACOBS: I suspect it

1 actually would make it more complicated because now
2 you would have the -- if you just look at our net
3 income statement today, the DSM expenditures is going
4 on the balance sheet through the deferred assets and
5 then we amortize that under this exposure draft. What
6 will happen is we will actually reflect the DSM as
7 expenditure in the face of the income statement, and
8 we'll have the amortization, and then we'll -- we'll
9 actually have pulled the -- the net impact of the --
10 by capitalizing and amortization below the net income.

11 Bottom line, the number will be the --
12 the same. But any impact that's flowing through the
13 income statement or on the balance sheet that's not
14 IFRS compliant will be isolated in these three (3)
15 accounts -- or three (3) amounts.

16 MR. BOB PETERS: So you're considering
17 it not IFRS compliant until the results of the
18 International Accounting Standards Board has ruled on
19 the overall IFRS project?

20 MS. HANRI JACOBS: It's -- I mean,
21 current -- that's how the -- the current exposure
22 draft is dealing with this deferral account. It's
23 saying, We're not making a statement if it's compliant
24 with IFRS or not, we're just isolating it.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: And while the
4 financial statements that the Corporation will prepare
5 will change in accordance with how you've explained
6 it, Mr. Jacobs, does there need to be a change in the
7 way the Corporation presents to this Board the
8 integrated financial forecast, such as the one found
9 on page 159 of Tab 44?

10 MR. DARREN RAINKIE: Mr. Peters, I --
11 I -- what we do when we -- when we do this is we
12 usually present the forecast in the same format as our
13 financial statement reporting because in the first
14 year of the IFF we actually report against that for
15 internal purposes.

16 So I think we would adopt the financial
17 statement presentation in our IFF. And -- and I think
18 that's good for the Board because, then, when you're
19 trying to puzzle between actual results and forecast
20 results you can see something on a comparable basis.
21 If we didn't do that, we'd be forever reconciling
22 results in terms of presentation.

23 MR. BOB PETERS: When the Board
24 reviews the net income line item, Mr. Rainkie, it'll
25 be the same as whe -- whether done under either

1 methodology?

2 MR. DARREN RAINKIE: Yes. Unless
3 there's some change in the ultimate approval of the
4 exposure draft that we're unaware of, presentation
5 will not change the net number, Mr. Peters.

6 MR. BOB PETERS: All right. Thank you
7 for that, sir. Before I leave page 159, Mr. Rainkie
8 and Ms. Jacobs, the -- when the Board compares it to
9 the previous IFF that -- that we looked at at the
10 previous tab and we see that net income is lower under
11 this scenario, it would reflect amortization expense
12 being higher by about \$10 million, correct?

13 MR. DARREN RAINKIE: It looks like,
14 yes, 9 or 10 million, Mr. Peters. I mean, what's --
15 what's happening here now, in a situation where you
16 assume the continuation of rate-regulated accounting,
17 is that the -- the amortization of the rate-regulated
18 accounts would be higher than the expenses. So moving
19 back to rate-regulated accounting is going to show a
20 lower net income than the actual IFF that was produced
21 in November of last year.

22 MR. BOB PETERS: And then that's a
23 good segue, Mr. Rainkie, that OM&A is about \$7 million
24 lower when rate-regulated accounting continues because
25 that does not reflect the annual expensing of DSM?

1 MR. DARREN RAINKIE: That's right.

2 Thi -- this scenario reflects the deferral and
3 amortization approach versus the immediate expensing
4 approach.

5 MR. BOB PETERS: And likewise, Mr.
6 Rainkie, the net income shown here on page 159 of
7 Board counsel's book of documents compared to the
8 previous Centra IFF would show net income down about
9 \$3 million in 2016, and that would be as a result of
10 the amortization of that tax liability that we
11 previous -- previously talked of?

12 MR. DARREN RAINKIE: Well, it's the
13 net effect of all of the -- we -- we'd have the
14 continued amortization of the tax accounts. We'd have
15 the continued amortization of the -- of the DSM
16 accounts. But what you wouldn't have is the immediate
17 expensing of DSM costs. And the interplay between
18 those -- all those factors actually reduces net
19 income, Mr. Peters.

20 MR. BOB PETERS: It's the cumulative
21 effect as opposed to isolating it on just one (1) of
22 those -- one (1) of those factors?

23 MR. DARREN RAINKIE: Yeah, it's there
24 are changes in -- in a number of the line items, Mr.
25 Peters, not just the tax line.

1 MR. BOB PETERS: All right. Mr.
2 Rainkie, we've talked a little about net income, so
3 let's -- let's focus a bit more on net income by
4 turning to Tab 45 of the book of documents. And while
5 Ms. Jacobs can say she wasn't around when some of
6 these Board Orders were written, Mr. Rainkie, I'm not
7 sure you can use that same excuse.

8 So starting on page 169, this is an
9 extract from Board Order 99/'07, sir, and it
10 indicates, second paragraph from the bottom of the
11 page, partway through:

12 "Given Centra's borrowings are
13 guaranteed by the province, with a
14 fee for the guarantee allowed in
15 costs for rate setting, a 70:30
16 ratio is adequate rather than the
17 60:40 model that would be acceptable
18 if there was no provincial
19 guarantee."

20 You see that, Mr. Rainkie?

21 MR. DARREN RAINKIE: I do see that,
22 Mr. Peters. It -- it's a concern of mine, but I -- I
23 do see it. You've accurately read what's on the page,
24 but how we got to that is a bit of a puzzlement to me,
25 but...

1 MR. BOB PETERS: But in any event,
2 you're telling this Board that the targets of Centra
3 are set on a -- on a consolidated basis as opposed to
4 by specific entity under the umbrella of Manitoba
5 Hydro?

6 MR. DARREN RAINKIE: Yes. When we
7 look at the overall financial health of the
8 Corporation, consolidated, we -- we look at the
9 financial ratios, but we don't break those down
10 between gas and electric operations.

11 MR. BOB PETERS: All right. Also, in
12 the last paragraph on page 169, Mr. Rainkie, I'll
13 read:

14 "The Board notes that Centra's debt-
15 equity ratio already exceeds the
16 70:30 standalone test, and that this
17 reinforces the Board's determination
18 to hold Centra's allowable annual
19 net income to \$3 million, given the
20 corporate allocation remains at \$12
21 million."

22 I, again, read that accurately, sir?

23 MR. DARREN RAINKIE: You did, Mr.
24 Peters, but I don't really understand the 70:30
25 standalone test, because, on a standalone basis,

1 Centra Gas had a equity ratio of 40 percent for
2 decades. So -- and as you and I used to go through
3 many years ago, Mr. Peters, days and days of testimony
4 to review capital structure and return on equity.

5 And then the 70:30 suddenly popped up
6 in this order based on a quick question of Mr.
7 Matwichuk on behalf of CAC, and no disrespect to Mr.
8 Matwichuk, but he's not a cost-of-capital or capital-
9 structure expert.

10 So I -- I don't know how we ever got to
11 this, Mr. Peters. This was a bit of a -- I don't
12 know, a surprise for me. To me, the appropriate
13 application of the standalone principle of regulation
14 would look at Centra's standalone equity ratio, which
15 I -- as I said was for decades 40 percent. So how we
16 suddenly got to 30 percent in the five (5) minutes of
17 testimony, I don't know, Mr. Peters.

18 So this is a bit of a puzzlement of me,
19 so while I can read the words, I wouldn't want to
20 leave with the Board that I actually agree with this.

21 MR. BOB PETERS: Didn't mean to poke
22 you there, Mr. Rainkie, but -- but maybe the answer to
23 your question can be found almost in the middle of the
24 page, the last sentence of the third paragraph, and it
25 says:

1 "In short, the Board does not accept
2 that a different target, other than
3 the one based on a standalone view
4 of Centra's balance sheet, should be
5 utilized."

6 And that was a Board determination that
7 Centra may or may not have agreed to at the time.

8 MR. DARREN RAINKIE: Well, what I
9 don't understand from this is the application of the
10 standalone principle, because if you're saying that
11 Centra can have a 30 percent equity ratio because
12 Manitoba Hydro's on the scene, then how -- how is that
13 a standalone determination?

14 To me, the use of the principle
15 standalone would say: Well, what would Centra have as
16 a standalone entity? And it's widely known in the gas
17 business that equity ratios for gas companies are
18 usually between 35 and 40 percent. And for decades,
19 Centra Gas had an -- an approved equity ratio before
20 the Board of 40 percent, you know, for decades.

21 MR. BOB PETERS: Well --

22 MR. DARREN RAINKIE: So I -- I just --
23 when we use the 30 percent and the standalone
24 principle, I don't equate those two (2) together in
25 the same sentence, and -- and I'll have to -- if we

1 want to have this discussion throughout the hearing,
2 I'm going to stop every time and say, I don't agree
3 with that, because I -- I don't think it's the proper
4 application of the standalone principle.

5 MR. BOB PETERS: Well, I don't recall.
6 Did Centra ask to review and vary or appeal this
7 order, Mr. Rainkie? Do you recall that?

8 MR. DARREN RAINKIE: No, Mr. Peters,
9 we did not ask for a review and vary. We -- we
10 accepted it, but I don't -- I don't know. I -- I --

11 MR. BOB PETERS: Centra accepted it
12 but Mr. Rainkie didn't.

13 Is that what the Board should take?

14 MR. DARREN RAINKIE: Well, I don't
15 know. You know, Mr. Peters, the -- the focus for a
16 number of years now, of course, hasn't been on rate-
17 based rate of return and equity ratios and rate of --
18 rate of return. We -- the focus has been on a cost-
19 of-service basis, and, you know, trying to ensure that
20 we're not cross-subsidizing between the two (2)
21 utilities, trying to ensure that we have a healthy
22 enough balance sheet on the Centra, so that we don't
23 have rate shock to customers if something bad happens
24 to us, like a -- like a write off of IFRS of -- of
25 rate regulated assets.

1 So I -- I'm not sure it would have
2 served much purpose to fight with the Board over it,
3 and do review and varies, and all those types of
4 procedural things, Mr. Peters. But we have this weird
5 kind of concoction, though, of -- of cost-of-service,
6 and then we kind of step back into the rate based rate
7 of return world here and there. So it worries me.

8 It worries me because sometimes where
9 it's convenient, we slip back into rate based rate of
10 return, and -- and I just have to be cautious that
11 when conclusions are being drawn, that where we agree
12 with them, I'll agree with them. Where I don't agree
13 with them, I'll make sure that you know.

14 MR. BOB PETERS: Well, I certainly
15 heard you. And then, thank you, Mr. Rainkie. But
16 just to be clear now, when Centra was owned -- the
17 shares of Centra were owned by West Coast Energy,
18 there was no provincial debt guarantee that
19 underpinned that -- Centra's borrowings, was there?

20 MR. DARREN RAINKIE: No, but neither
21 was there a credit rating of the magnitude of the
22 Province of Manitoba. And when we pay the provincial
23 guarantee fee, that's what we're getting -- is the
24 credit rating of the Province of Manitoba. So as far
25 as I'm concerned, we pay the fee, we get the lower

1 cost of debt, and that's -- that's to the benefit of
2 the customer. And -- and that's the end of the
3 equation.

4 That doesn't give us the ability to buy
5 down the equity ratio by ten (10) points. There's no
6 way that Centra, on a standalone basis, can get the --
7 the rates that -- that we can get through Manitoba
8 Hydro through the credit rating of the Province of
9 Manitoba -- just no way.

10 In fact, Centra used to have debt
11 covenants that it could not issue one dollar (\$1) of
12 debt unless it had a two (2) times interest coverage,
13 and then it was a graduated scale past that two (2)
14 times interest coverage. And we had to maintain
15 equity ratio of 25 percent, or we couldn't -- we
16 couldn't issue any debt either.

17 So we forget about those things, Mr.
18 Peters, like they are not benefits sometimes, but they
19 are significant benefits. So, from my perspective, I
20 don't agree with this assumption that the payment of
21 the -- the provincial guarantee fee some -- somehow
22 buys down the financial integrity to nothing, and we
23 can just let equity ratios and -- and retained
24 earnings plummet.

25 The other thing, when we're doing these

1 rate- based calculations, just while I'm on my
2 soapbox, is that the rate of return formula was -- was
3 pegged at a 40 percent equity ratio. So applying a
4 rate of return against a 30 percent equity ratio
5 doesn't make a lot of sense to me either. So -- so
6 there's a lot of imperfections in some of the rate
7 based rate of return material that we have in the
8 filing.

9 And, you know, as long as we're looking
10 at, and setting ra -- using cost-of-service as a
11 primary basis to set rates, I'm okay with it. But
12 when we slip back and forth between the two (2)
13 methodologies, I get a little concerned and a little
14 crabby at certain points.

15 MR. BOB PETERS: Mr. Rainkie, Centra
16 does not need 40 percent equity to borrow the money to
17 conduct its capital programs, does it?

18 MR. DARREN RAINKIE: Only because it's
19 part of the Manitoba Hydro chain, Mr. -- Mr. Peters.
20 So, once again, is that a stand alone? Is that the
21 application of the standalone principle? When you are
22 referring to Manitoba Hydro to be able to borrow, is
23 that the proper application of the regulatory
24 standalone principle?

25 MR. BOB PETERS: And -- and in exch --

1 MR. DARREN RAINKIE: Not in my book.

2 MR. BOB PETERS: Okay. And in
3 exchange for that being part of the Hydro chain, as
4 you called it, there's a 1 percent debt guarantee fee
5 that is paid by the ratepayers of Centra for the
6 ability to have the province guarantee the debt of
7 Centra Gas?

8 MR. DARREN RAINKIE: Yes, and the
9 customers receive value for that 1 percent by us being
10 able to access debt at lower levels, or low -- lower
11 costs which, to me, is the end of the transaction. It
12 does not mean that we can buy down the equity ratio by
13 ten (10), and fifteen (15), twenty (20) basis points,
14 Mr. Peters.

15 I mean, I don't know. I don't want to
16 go too far into this because we've -- we've accepted
17 the cost-of-service basis of rate setting for a number
18 of years. But, as I said, I just -- cautious when we
19 kind of slip back and forth between these two (2)
20 methodologies that there is a reasonable result for
21 the company and for the customer.

22 MR. BOB PETERS: Well, Mr Rainkie, on
23 page 172 of the book of documents, under allowable
24 returns to Manitoba Hydro, the last sentence of the
25 second last paragraph reads:

1 "As well, the final test to be
2 applied is that any combination of
3 net income and charges to Centra by
4 Manitoba Hydro do not result in
5 higher rates for Centra customers
6 than would have been the case under
7 private ownership."

8 That's a sentence that Centra has long
9 agreed with, is it not?

10

11 (BRIEF PAUSE)

12

13 MR. DARREN RAINKIE: Well, I think
14 that this -- that what we've agreed to in the past is,
15 and then I think proven through the various material
16 that we put in front of the Board over the last decade
17 is that on balance the transaction has been beneficial
18 to Centra customers.

19 How we go about constructing and
20 bifurcating between that income and -- and corporate
21 contributions and those types of things is a different
22 matter. But certainly I think we all believe and have
23 demonstrated that there's no harm to Centra's
24 customers as a result of the purchase of Centra by
25 Manitoba Hydro.

1 MR. BOB PETERS: Continuing on page
2 173, Mr. Rainkie, the first full paragraph, first
3 sentence reads:

4 "The no-harm principle is of
5 paramount importance with respect to
6 the dealings between Centra and its
7 parent, Manitoba Hydro."

8 Again, that carries on from the -- the
9 last thought that we talked about, and it's Centra's
10 view that the no-harm principle has been honoured
11 since the acquisition?

12 MR. DARREN RAINKIE: Certainly, Mr.
13 Peters.

14 MR. BOB PETERS: All right. And now
15 the second last paragraph, Mr. Rainkie, on page 173,
16 found at Tab 45 of Board Counsel's book of documents:

17 "The Board established in Orders
18 103/'05 and 135/'05 that the
19 corporate allocation combined with
20 Board-allowed net income is not to
21 exceed the return previously
22 provided to Centra's private owner
23 prior to Manitoba Hydro's
24 acquisition, which ranged from 14 to
25 \$16 million and allowed the

1 corporate allocation of --
2 allocation of \$12 million and annual
3 net income of \$3 million."

4 I read that almost correctly?

5 MR. DARREN RAINKIE: Almost, Mr.
6 Peters. I think word for word.

7 MR. BOB PETERS: And the -- the sum
8 and substance of that, Mr. Rainkie, is that when you
9 were at Centra Gas Manitoba Inc., Centra Gas Manitoba
10 Inc., as a subsidiary of West Coast Energy, was
11 recovering in the range of 14 to \$16 million a year
12 for its shareholder?

13 MR. DARREN RAINKIE: Yes, rates were
14 set to allow the company a fair opportunity to earn
15 that amount of return based on the rate base at the
16 time, and based on the rate of return at the time, Mr.
17 Peters.

18 I mean, that calculation was a
19 calculation that existed back in '98 or '99 -- 1998 or
20 1999. Whether that should be the net income for all
21 time, I think is -- you know, is another -- another
22 discussion, which I'm assuming we're going to have
23 soon.

24 MR. BOB PETERS: We're going to have
25 it real soon, Mr. Rainkie, so on -- on page 174 of the

1 book of documents, the first full paragraph on -- on
2 page 174 reads:

3 "The Board continues to accept the
4 annual corporate allocation of \$12
5 million, the premise that synergies
6 have been sufficient to uphold the
7 no-harm principle and that, as now
8 to be reviewed, the annual net
9 income of \$3 million does not
10 represent an unwarranted return on
11 investment for Manitoba Hydro."

12 Again, I read that correctly?

13 MR. DARREN RAINKIE: Yes, you did, Mr.
14 Peters. Once again, the use of the word "return,"
15 just for the -- the Board's perspective, who wasn't --
16 wasn't here to have the discussion on this, but I
17 don't think Manitoba Hydro looks at that as a return,
18 because once again, we've got these kind of private-
19 like rate base rate of return words coming into the
20 decision.

21 But there was a cost to acquire and
22 integrate Centra. There were more benefits that were
23 derived as a result of that -- of those costs. And
24 what we're trying to do is get a fair apportionment of
25 the costs to both the gas customers and the electric

1 customers.

2 So there's no customer versus some big
3 bad shareholder here. What Manitoba Hydro has is two
4 (2) -- two (2) sets of customers, electric customers
5 and gas customers. And what we're trying to do in
6 this whole mix is make sure there's a fair
7 apportionment of the benefits and the costs, so that
8 there isn't harm to either party.

9 So I think that's the premise we have
10 to deal with when you're dealing with Manitoba Hydro.
11 Once again, from time-to-time, we slip back in time to
12 this, you know, this notion of: Well, there's the
13 company versus the customer. The shareholder that's
14 going to take a bag of money in terms of dividends
15 and, you know, take it to, you know, in the case of
16 Westcoast, take it out to the west coast. But there
17 isn't.

18 There's a public utility that's owned
19 by the Province of Manitoba. It serves two (2) groups
20 of customers. And if we advantage or disadvantage one
21 (1) group, we're doing the flip-side to the other
22 group of customers, and of course, the Board has to
23 look out for both sets of customers.

24 So the notion of return, I don't know.
25 We look at the corporation allocation as a cost to

1 Centra. It -- it's fair allocation of the costs of
2 the -- of the co -- cost of the acquisition and
3 integration of Centra. If we didn't allocate those
4 costs to Centra, then the Centra customers would be
5 getting all of the -- a huge chunk of the benefits of
6 the integration to the detriment of the electric
7 customers. There isn't a shareholder boogeyman in the
8 middle here.

9 MR. BOB PETERS: Mr. Rainkie, the --
10 the corporate allocation that the -- the proper noun
11 that -- that's shown in the Board order on page 174,
12 it's been quantified at \$12 million by the Board.

13 Is that correct?

14 MR. DARREN RAINKIE: It was accepted
15 at \$12 million by the Board. I think it was our
16 proposition that \$12 million was a fair allocation,
17 Mr. Peters.

18 MR. BOB PETERS: And that \$12 million
19 is paid by Centra ratepayers as an expense. And the
20 Corporation then transfers it over to the Manitoba
21 Hydro side of the accounting ledgers?

22 MR. DARREN RAINKIE: Well, we have a
23 corporate segment that includes all the costs of the
24 acquisition and integration, and the 12 million gets -
25 - if you look in our financial statements, the 12

1 million gets -- gets charged against that, Mr. Peters.

2 MR. BOB PETERS: But the \$12 million
3 is then used by Manitoba Hydro to help pay off its
4 acquisition of the shares of Centra Gas?

5 MR. DARREN RAINKIE: Yes, it -- it's
6 used by Manitoba Hydro to pay the costs of achieving
7 the synergies for the benefit of customers.

8 MR. BOB PETERS: And, Mr. Rainkie,
9 when the Board was reviewing the synergies over a
10 number of hearings it ended up, perhaps even at
11 Centra's request, that, at some point, you had to stop
12 reviewing the benefits, and it's because they could no
13 longer be tracked?

14 MR. DARREN RAINKIE: Well, it's
15 because they can no longer be tracked. And, you know,
16 trying to regulate based on what otherwise would have
17 happened, I think the Board will find is a very
18 difficult paradigm to try to -- to try to employ.

19 I mean, what would West Coast have done
20 fourteen (14) years after the acquisition versus what
21 -- the decisions of Manitoba Hydro? I mean, it's
22 impossible to quantify or argue about. You'll just
23 get into a big, black box of discussions between us
24 and the Intervenor, to no benefit.

25 I think we had several goes at -- at --

1 quantifying that in the status-update hearing that
2 happened in 2002 and -- and the subsequent Centra
3 GRAs. And the Board felt that there was -- at least
4 my understanding of the orders was that there had been
5 sufficient information put on the public record to
6 conclude that the transaction was beneficial for the
7 customers of Centra, and there was no need to, you
8 know, go over that time and time again was my -- is my
9 memory of it, Mr. Peters.

10 MR. BOB PETERS: And the end result
11 was a \$12 million corporate allocation that's been
12 charged each and every year to Centra's ratepayers?

13 MR. DARREN RAINKIE: That's right.
14 It's formed part of the -- the Centra revenue
15 requirement since that time.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Mr. Rainkie, on page
20 176 also found under Tab 45, we have a different Board
21 order. You'd notice that in the top right of the
22 pages. You'll see the header -- this is now out of
23 Board Order 128/'09. And I'm looking at the second
24 last paragraph on page 176, sir.

25 And I'll read it.

1 "The Board regulates net income on a
2 weather-normal basis and is not
3 concerned that Centra exceeded its
4 approved net income in 2007/'08 and
5 2008/'09. Centra's net income has
6 been negative in previous years due
7 to weather, and the Board accepts
8 this scenario.
9 Year-to-year fluctuations in net
10 income caused by weather should not
11 affect the timing and magnitude of
12 the GRAs."

13 I read it correctly?

14 MR. DARREN RAINKIE: You did, sir.

15 MR. BOB PETERS: And is that a
16 principle that Centra likewise endorses?

17 MR. DARREN RAINKIE: Yes, it's a --
18 it's a pretty common regulatory principle given that
19 human beings, with all their computers, cannot predict
20 the weather past -- accurately past a couple days, so.

21 So what you have is you have -- you
22 have fair methods. In a future test year situation
23 where you're looking at forecasts to set rates, you
24 have fair methods of determining revenue requirement.
25 And -- and the recognition is, is that some years

1 there'll be colder weather, some years there'll be
2 warmer weather, but that's not a deficiency or a lack
3 of accuracy in -- in, you know, forecasting. That's,
4 simply, mother nature doing what it will -- what she
5 will. And it's a common principle in the regulation
6 of gas utilities that are sensitive to weather.

7 MR. BOB PETERS: Simply put, Mr.
8 Rainkie, if the weather was warmer than normal, and
9 that drove a loss of net income to the Corporation in
10 a particular fiscal year, that in and of itself should
11 not be a reason for the Corporation to come in for a
12 general rate application?

13 MR. DARREN RAINKIE: Well, not
14 necessarily, Mr. Peters. I mean, you know, and once
15 again, this -- this principle is there, it's very --
16 fairly consistently there in a private setting where
17 utilities earn a rate of return, and part of the risk
18 that they take is the risk of weather.

19 In a cost-of-service setting, I'm not
20 so sure about your last statement. I mean, we -- we -
21 - we need to focus on what our actual retained
22 earnings are, calculating some fictitious number of
23 what they otherwise would have been. I don't think
24 I've never -- I've never seen this proceeding in the
25 twenty-three (23) years that I've been involved in it.

1 So I -- we -- we base our decisions, in
2 terms of rate applications, on our actual retained
3 earnings. And really, the concept of weather
4 normalization is there in terms of setting rates, it's
5 -- except that we ca -- that we can't accurately
6 predict what the weather is, so we use normal weather
7 in ter -- terms of setting rates as a reasonable -- as
8 a reasonable approach to setting rates.

9 What happens other -- after? Yes,
10 there is, as expected, there will be pluses and
11 minuses, but we still under -- you know, under our
12 cost-of-service rate-setting methodology, much like we
13 do on the electric side, have to look at what our
14 actual return -- retained earnings are in terms of
15 making judgments about future rate applications. We
16 can't assume that away simply because weather will be
17 plus and minus, Mr. Peters.

18 MR. BOB PETERS: But you look at it on
19 a corporate basis, consolidated basis, Mr. Rainkie,
20 not specifically related to Centra?

21 MR. DARREN RAINKIE: Well, Mr. Peters,
22 what -- what I -- what I'm saying is, is that when it
23 comes to setting rates, we don't have any particular
24 targets for the gas utility. The -- the ratios that
25 we look at are on a consolidated basis. So I'm not --

1 I'm not sure. I guess I'm not communicating it very
2 good to you, Mr. Peters, 'cause we seem -- I seem to
3 be confusing you more than -- than not.

4 But I'm not sure what -- what the
5 financial ratios have to do with the discussion about
6 weather normalization but...

7 MR. BOB PETERS: We'll come to it.
8 It's nice to know that you're still learning things
9 after twenty-three (23) years, Mr. Rainkie, that we
10 can -- we can continue to peak your interest.

11 Mr. Rainkie, on page 177 of Tab 45 of
12 the book of documents, again, the second last
13 paragraph reads:

14 "At the 2005 GRA, Centra confirmed
15 that approximately \$19 million was
16 required annually to amortize
17 Manitoba Hydro's costs arising out
18 of acquisition, and that Centra's
19 share of those costs was to be \$12
20 million, with the other 7 million to
21 be borne by Manitoba Hydro."

22 Correct?

23 MR. DARREN RAINKIE: Yes, that's what
24 was talked about at that proceeding, Mr. Peters.

25 MR. BOB PETERS: And that was to

1 reflect that Centra's customers are getting benefits
2 as a result of Manitoba Hydro's acquisition of Centra,
3 and likewise, Manitoba Hydro would be getting some
4 economies of scale or scope or both, related to that
5 Corporation's acquisition of Centra?

6 MR. DARREN RAINKIE: That's a fair
7 summary, Mr. Peters.

8 MR. BOB PETERS: Mr. Rainkie, one (1)
9 of the things that I'd understood is that:

10 "Centra bases its forecasts and rate
11 proposals in accordance with a net
12 income target of \$3 million per year
13 on average."

14 And I'm reading that, sir, from an
15 Information Request that was -- that was provided in
16 the 2011/'12 cost-of-gas application. Did I read that
17 first sentence of the response correctly?

18 MS. MARLA BOYD: Maybe just give us a
19 minute, Mr. Peters. It was just split across the
20 desk.

21 MR. BOB PETERS: Certainly.

22

23 (BRIEF PAUSE)

24

25 MR. DARREN RAINKIE: Yes, Mr. Peters.

1 I mean, we -- we've had that target for a few years.
2 We're asking for something a little bit different in
3 this application, Mis -- or a reconsideration of that,
4 Mr. -- Mr. Peters. But yeah, we -- we played in
5 accordance with the directive of the Board for a
6 number of years. But in this current application
7 we're asking for something a little different than
8 this.

9 MR. BOB PETERS: All right. Thank
10 you. I just wanted the Board to be clear, and -- and
11 you've probably summarized it better than I, that this
12 would represent the first application before the
13 Public Utilities Board where Centra is setting a net
14 income target in excess of \$3 million per year.

15 Would you agree with that?

16 MR. DARREN RAINKIE: Yes, given the
17 numbers we talked about a while ago, Mr. Peters.

18 MR. BOB PETERS: Well, and those
19 numbers were \$4.8 million for the fiscal year, or \$5.6
20 million on an annual basis?

21 MR. DARREN RAINKIE: That's correct.

22 MR. BOB PETERS: Thank you.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Rainkie, I want
2 to continue with you. I'm not sure, Mr. Chairman, if
3 you'd like the afternoon recess now, or perhaps at a -
4 - in a -- in a short while, but I do want to explore
5 with Mr. Rainkie and the witness panel, the requested
6 net income in this rate application, which on an
7 annual basis is 5.6 million, and on the balance of the
8 test year is \$4.8 million.

9 THE CHAIRPERSON: Let's keep going.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Thank you. Mr.
13 Rainkie, would it be correct, sir, that when looking
14 at the net-income request, the primary motivation for
15 trying and requesting net income greater than \$3
16 million is because the Corporation was concerned that
17 it may have to write off \$77 million as a result of
18 rate-regulated assets?

19 MR. DARREN RAINKIE: Yes, Mr. Peters.
20 And that risk still remains.

21 MR. BOB PETERS: That risk remains,
22 Mr. Rainkie, but it's not as imminent, because two (2)
23 things: One (1) is, IFRS has been pushed out to
24 fiscal '16, correct?

25 MR. DARREN RAINKIE: That's correct.

1 MR. BOB PETERS: Two (2) full test
2 years after the -- sorry, two (2) full fiscal years
3 after the test year?

4 MR. DARREN RAINKIE: Yes.

5 MR. BOB PETERS: And the second -- the
6 second reason is the recent exposure draft where rate-
7 regulated assets are proposed to continue, and rate-
8 regulated accounting is supposed to con -- proposed to
9 continue in respect of those \$77 million worth of
10 assets, correct?

11 MR. DARREN RAINKIE: Yes, if the
12 interim standard is approved, and for the in -- for
13 that interim period, then maybe a year or two (2)
14 until the -- the International Board gets its final
15 determination on this matter.

16 MR. BOB PETERS: And the final
17 determination can be to adopt that interim standard?

18 MR. DARREN RAINKIE: Can be to adopt
19 it, can be to be silent, can be to not adopt it. It's
20 -- it's -- all the options are open to it.

21 MR. BOB PETERS: But the -- but the
22 \$77 million is no longer looming as large of an issue
23 in light of those two (2) recent pronouncements by the
24 International Accounting Standards Board and the IFRS
25 Foundation?

1 MR. DARREN RAINKIE: The immediacy of
2 it has -- has changed, Mr. Peters, as you have alluded
3 to. But if it does happen, we're -- it is a large --
4 it is -- it's a large change for Cen -- for Centra's
5 balance sheet. So, yes, it's -- in terms of timing,
6 it's been pushed off, but the magnitude of it is such
7 that, as you saw on our forecast, that if it does
8 actually come to play, it will take us ten (10) years
9 to dig out of the trough for -- that it creates.

10 I mean, the other thing, Mr. Peters, is
11 -- is, as I think I alluded to in my opening
12 testimony, is -- is that this whole thing about a \$3
13 million net income is very threadbare net income.
14 More often than not we're -- we're seeing a loss and
15 our retained earnings are -- are not growing at all.
16 The size of our plant is increasing fairly
17 significantly, but -- but our retained earnings are
18 not -- not keeping -- keeping up in step. So it,
19 perhaps, is time to think about a reconsideration of
20 the \$3 million.

21 I mean, when you look at the rate base
22 now of Centra, if the -- if the test is no harm versus
23 what a private owner would have -- have got in terms
24 of return, you're looking at a rate base that's almost
25 \$500 million at a 40 percent equity ratio, because

1 that's what our long-standing private ratio was. And
2 if you correct the rate of return formula, because it
3 is badly out of date, vis-a-vis some of the other
4 formulas that are in existence in -- in other
5 jurisdictions in this country, you know, to about 9
6 percent, you're looking at about an \$18 million return
7 in equity.

8 So -- so having a \$12 million corp --
9 corporate allocation plus a \$6 million net income is,
10 in my mind, not -- does not violate the harm principle
11 that the Board has previously annunciated in its
12 decisions. In fact, it may be looked at as simply
13 updating something that has been frozen in time for
14 ten (10) years and needs another look at. Of course
15 though, as I said earlier, the reason to do it is not
16 to pay a dividend to Manitoba Hydro. It's simply to
17 maintain a reasonable balance sheet, so that we have
18 rate stability for our customers on the longer term.

19 MR. BOB PETERS: But, Mr. Rainkie,
20 with the current retained earnings being positive,
21 Centra has that stability that you're talking about?

22 MR. DARREN RAINKIE: It -- it does,
23 but what I was trying to say, Mr. Peters, is that
24 retained earning seem to be just -- with the current,
25 I don't know what to call it, regime, or process of

1 twelve (12) plus three (3), there -- the retained
2 earnings are just seemingly going up and down and
3 they're not really -- they're not really increasing
4 much with the size of the company. It would be
5 better, from a financial integrity perspective, if we
6 could see some moderate growth in retained earnings,
7 you know, over the next ten (10) years.

8 MR. BOB PETERS: All right. Mr.
9 Rainkie, let's explore some of the facets of your last
10 two (2) answers to me, sir. And I took from one (1)
11 of them is that one (1) of the reasons that Centra is
12 now asking for approximately -- well, rounded off,
13 twice as much net income as previously had been the
14 case, is because retained earnings have been flat over
15 a period of time, correct?

16 MR. DARREN RAINKIE: Yes, since the
17 current -- the current determination, they seem to
18 have not grown much over that time period.

19 MR. BOB PETERS: And, Mr. Chairman,
20 this is -- this is where that piece of paper on your
21 chair may come in. I would like to discuss it with
22 the witness. I didn't actually have a chance to speak
23 to Ms. Boyd about it, but it was sent to her earlier,
24 but I don't know if there was any issues that we
25 should have discussed or should discuss still.

1 MS. MARLA BOYD: That's the revised
2 pages 184 and 185?

3 MR. BOB PETERS: It is.

4 MS. MARLA BOYD: I think the witnesses
5 are prepared to speak to that.

6 MR. BOB PETERS: All right. Thank
7 you, Ms. Boyd.

8 Mr. Chairman, page 184 revised you will
9 have on your chair, and in the top left -- or in the,
10 I guess, top right when you landscape the document it
11 says, "184 revised."

12

13 CONTINUED BY MR. PETERS:

14 MR. BOB PETERS: Mr. Rainkie and Ms.
15 Jacobs, you have a copy of that?

16 MR. DARREN RAINKIE: Yes, we do, Mr.
17 Peters.

18 MR. BOB PETERS: And in terms of
19 retained earnings being flat, let's -- let's have a
20 look at the retained earning's line, line 5, Mr.
21 Rainkie. And they're starting in '03/'04 actual at 27
22 million, and they're increasing on the revised
23 schedule in front of you to \$42.3 million in '12/'13,
24 and then to \$47.1 million in fiscal '14 of the
25 Corporation, correct?

1 MR. DARREN RAINKIE: Well, actually,
2 they're starting at 35 million if you look at line 2
3 under 2003/'04. And then with the assumption of the
4 rate increase and the very net income that we're
5 asking for, Mr. Peters, they get to 47 million.

6 MR. BOB PETERS: And in fairness, Mr.
7 Rainkie, these -- there -- there's some high level
8 assumptions built into these numbers as you would have
9 seen, but it was based on the Corporation's opening
10 comments, and I believe also now on the anticipation
11 of what Centra Exhibit 7 would -- would look like, and
12 that was the -- the update of the '11/'12 year in
13 terms of weather impact. So those -- those
14 assumptions have been made and -- and put into this
15 document.

16 So you accept them as -- as relatively
17 accurate, Mr. Rainkie?

18 MR. DARREN RAINKIE: Sorry, Mr.
19 Peters, are we still on lines 1 to 8, or have we
20 migrated down to 9 to 13, because I -- I'm not sure
21 what 9 to 13 is really telling me. So I would have to
22 understand what that's telling me before I would agree
23 to it. And then I might start talking about, you
24 know, if the date is correct or not.

25 MR. BOB PETERS: All right. Well,

1 let's stay then on the top, lines 1 to 8 for now, Mr.
2 Rainkie.

3 In terms of the retained earnings
4 amounts, the retained earnings amount for your fiscal
5 '13 year show a net income on line 3 of \$8 million
6 being added to the opening retained earnings of \$34.3
7 million. And that \$8 million number came from your
8 lips on the first day of testimony, and that's the
9 source of it, Mr. Rainkie?

10 MR. DARREN RAINKIE: Yes, Mr. Peters.
11 What we know right now is that our retained earnings
12 are, preliminarily, at 42 million. We started off at
13 about 35 million in the '03/'04 fiscal year, so over -
14 - is that ten (10) years, Mr. Peters? I'd have to get
15 my fingers and toes out to ca -- to calculate it.

16 But we've gone up about \$7 million in
17 ten (10) years, so I could hardly call that stellar
18 retained-earnings growth.

19 MR. BOB PETERS: All right. Let's
20 just continue with that then, Mr. Rainkie. You can
21 confirm to the Board that the actual retained earnings
22 experience of the Corporation has been -- has been as
23 a result of the impact of weather?

24 MR. DARREN RAINKIE: Well, amongst
25 other things, Mr. Peters, yes, weather can have quite

1 a dramatic impact on our -- on our results, as you can
2 see from these tables, but everything else rolls into
3 that operating cost, municipal taxes, et cetera.

4 MR. BOB PETERS: And there have been
5 accounting changes that the Corporation has made as
6 well, Mr. Rainkie, that have impacted the retained-
7 earnings amount?

8 MR. DARREN RAINKIE: Yes, and -- and
9 accounting adjustments and all the above, Mr. Peters.

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Mr. Rainkie, when we
14 look at line item 10, which you wanted me to help
15 explain to you, we see the actual net income line
16 which will mirror what was put on line 3 of the
17 schedule, correct?

18 MR. DARREN RAINKIE: That's correct.

19 MR. BOB PETERS: And the actual net
20 income of the Corporation is derived after the actual
21 impacts of weather, correct?

22 MR. DARREN RAINKIE: That's correct.

23 MR. BOB PETERS: And weather can cause
24 the Corporation, as you said, to earn more or to earn
25 less than what it bases on weather normal forecasts?

1 MR. DARREN RAINKIE: Yes.

2 MR. BOB PETERS: And in line 11, the
3 impact of weather on the Corporation's net income is
4 shown.

5 Do you accept that, at least up until
6 the 2012 fiscal year?

7 MR. DARREN RAINKIE: Yes. I -- I
8 think -- yeah, I -- I think we accept that calculation
9 up to at least 2011/'12. Somebody else on the panel
10 can jump in if they see otherwise.

11 MR. BOB PETERS: What you're showing
12 the Board is that, on the difference line, on line 12,
13 that amount of difference represents how much money
14 Centra was impacted as a result of weather not being
15 normal in the particular year?

16

17 (BRIEF PAUSE)

18

19 MR. DARREN RAINKIE: Yes, the
20 differential between actual and weather normalized net
21 income would be the impacts of weather not being
22 normal. I think that follows, Mr. Peters.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Rainkie, let's --
2 let's jump to that 2013 fiscal year, the 2012/'13
3 column second from the right and go down to line item
4 11, "weather normal net income." And actually, I'm
5 going to step back, and I want to correct myself. And
6 I want to look at the 2011/'12 year first, Mr.
7 Rainkie.

8 And this is the year in which Centra
9 has indicated was the warmest year on record, correct?

10 MR. DARREN RAINKIE: That's my
11 understanding, Mr. Peters, yes.

12 MR. BOB PETERS: And as a result of it
13 being the warmest year on record, Centra lost 5.5 --
14 sorry, \$5.751 million that year in actual terms?

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

17 MR. BOB PETERS: Had it been normal
18 weather, Centra would have made \$7.1 million that
19 year?

20 MR. DARREN RAINKIE: Yes, just
21 accounting for the effects of weather, Mr. Peters. Of
22 course, this doesn't account for financing charges and
23 other things. But on a theoretical basis, yes. I'm -
24 - I'm not going to be difficult with you. Let's move
25 forward on this.

1 MR. BOB PETERS: Not going to be more
2 difficult with me is what you meant to say, Mr.
3 Rainkie, but let's continue. Mr. Rainkie, what that
4 shows under the '11/'12 column, sir, on line 12 is
5 that Manitoba Hydro's income was impacted \$12.9
6 million on account of weather at the -- at the level
7 you and I had been talking about.

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

10 MR. BOB PETERS: And now, Mr. Rainkie,
11 let's move over to the '12/'13 year, and I appreciate
12 that those numbers are not yet finalized, known,
13 audited, approved, and published, but if we start from
14 a premise of \$8 million of actual net income, we can
15 do some math based on the fact that weather was colder
16 than normal in that year, by approximately \$3 million
17 worth of net income colder, to add on to what would
18 have been the net income of \$5 million had it been
19 weather normal.

20 Can you accept those numbers at a high
21 level, Mr. Rainkie?

22 MR. DARREN RAINKIE: Mr. Peters, I
23 looked at a lot of numbers in the last while. What
24 I'm drawing a blank on is where that \$5 million number
25 comes from. Maybe it should be abundantly obvious to

1 me, but it isn't.

2 MR. BOB PETERS: Well, you weren't
3 paying attention to the first panel, Mr. Rainkie,
4 because the first panel told the Board back in Tab 16
5 of its book of documents what the weather normal
6 numbers were looking for -- were looking like for --
7 for '12/'13; and it's on page 63 at Tab 16, Mr.
8 Rainkie.

9 And you'll note, as the Board will, on
10 the line item of 2012/'13, the bottom of the chart,
11 the effective degree day heating numbers are recorded
12 except for March and the annual number.

13 Are you with me, Mr. Rainkie?

14 MR. DARREN RAINKIE: I can see the
15 numbers. I'm not sure I'm an expert on weather
16 normalization, Mr. Peters, so --

17 MR. BOB PETERS: Good. Let's
18 continue.

19 MR. DARREN RAINKIE: -- but I can -- I
20 can see what -- yeah, I can see what you've --

21 MR. BOB PETERS: All right. So --

22 MR. DARREN RAINKIE: -- what you're --

23 MR. BOB PETERS: -- so Mr. Rainkie,
24 here's -- here's how we unravel the mystery. The
25 March column for 2012/'13, the -- the number that

1 should be inserted there came from PUB/Centra 173A.
2 And you can write in that number -- sorry, it was
3 Second Round 173A, and that number is seven hundred
4 and seventy decimal eight (770.8).

5 And then we get an annual effective
6 degree day heating of four thousand seven hundred and
7 thirty-one point two (4,731.2). And you can take that
8 subject to check, Mr. Rainkie, and I'm sure you will
9 be checking that over at the break.

10 Mr. Rainkie, what we then know, and I'm
11 not sure if it was Ms. Morrison or whether it's Ms.
12 Derksen, but the EDDH forecast for '12/'13 was set at
13 four thousand five hundred and thirty-six (4,536) as
14 being the forecast normal, and we know that that
15 wasn't the case. We know that there were more EDDHs,
16 meaning it was colder than normal.

17 We also know, Mr. Rainkie, that for
18 every effective degree day heating that it's colder,
19 you rub your hands because there's an extra fifteen
20 thousand dollars (\$15,000) of net income.

21 Are you with me so far?

22 MR. DARREN RAINKIE: Mr. Peters, I was
23 rubbing my hands last winter 'cause it was really
24 cold, but I'm with you.

25 MR. BOB PETERS: All right. My -- my

1 point, Mr. Rainkie, is that if we take Centra's
2 numbers, and we update them for what we now believe to
3 be actual information, we can see that the differences
4 between what was forecast as normal and what the
5 Corporation incurred is in the neighbourhood of a
6 hundred and ninety-five (195) to two hundred and
7 thirteen (213) effective degree days.

8 And we multiply that by the fifteen
9 thousand dollar (\$15,000) number, and we come up with
10 2.93 million, or there's another way to do it and come
11 to 3.2 million. So I'm just estimating it at \$3
12 million is the impact of cold weather.

13 Can we take that based on my
14 explanation, Mr. Rainkie, or is that something that --
15 that you have comments on at this time?

16 MR. DARREN RAINKIE: I understand how
17 you got that, Mr. Peters. So I'm okay to continue.

18 MR. BOB PETERS: And by understanding
19 how I got it, you're not prepared at this time, or
20 maybe you're not in a position at this time, to either
21 agree or disagree with me on that?

22 MR. DARREN RAINKIE: It doesn't sound
23 outrageous to me, Mr. Peters, so.

24 MR. BOB PETERS: Thank you. So the --
25 so the point that we're -- we're coming to, Mr.

1 Rainkie, is that if we look across on line 10, actual
2 net income, and if we were to add up cumulatively from
3 '03/'04 all the way along line item 10, it would equal
4 the total column at the far right of 8 million --
5 8.564 million. And we see that that was your actual
6 net income gain since 2003/'04.

7 And you can confirm that, sir, as being
8 approximately correct?

9 MR. DARREN RAINKIE: Sorry, Mr.
10 Peters, I lost you there somewhere. You said we had
11 an \$8.4 million gain?

12 MR. BOB PETERS: I meant to say eight-
13 point-five-six-four (8.564), the far right-hand column
14 on line item 10, Mr. Rainkie, is the cumulation of the
15 actual net incomes since 2003/'04.

16 MR. DARREN RAINKIE: Yes, Mr. Peters.
17 So over that time frame, nine (9) years, we were
18 expecting to get \$3 million a year, or \$27 million,
19 and I'll round up for your purposes. We actually had
20 nine (9).

21 MR. BOB PETERS: And the reason you
22 had nine (9), Mr. Rainkie, is that the weather was
23 warmer than normal over that ten (10) year period by
24 about \$16.989 million?

25 MR. DARREN RAINKIE: Yes, Mr. Peters,

1 but that does precious little for me to -- to sit
2 there and wonder why and do theoretical calculations.
3 But I guess your numbers are of the right magnitude.

4 MR. BOB PETERS: And then, Mr.
5 Rainkie, at line item 12 under the difference row, the
6 difference of eight million four hundred and twenty-
7 five thousand dollars (\$8,425,000) represents the
8 cumulative ten (10) year impact of what weather has
9 done, compared to the -- the net income actually
10 recorded by the Company.

11 MR. DARREN RAINKIE: Again, I suppose
12 theoretically correct, Mr. Peters. But I'm still
13 wanting for what that has to do with our rate
14 application.

15 MR. BOB PETERS: Stay tuned. And, Mr.
16 Rainkie, under the 2012/'13 column, you show the Board
17 at line item 5, under the 2012/'13 column, that ending
18 retained earnings at the end of last fiscal year will
19 be in the ballpark of \$42.3 million, correct?

20 MR. DARREN RAINKIE: Yes, in that
21 ballpark.

22 MR. BOB PETERS: And had the weather
23 been normal over that period of time -- we'll drop
24 down to line item 13, also under the 2012/'13 column,
25 and had the weather been normal the Corporation would

1 have received and earned \$50 million -- \$50.726
2 million, correct?

3 MR. DARREN RAINKIE: Are you simply
4 taking in the 42.3 million and adding the 8.4 million?
5 Is...

6 MR. BOB PETERS: Yes, I did, Mr.
7 Rainkie.

8 MR. DARREN RAINKIE: I guess so, Mr.
9 Peters. I'm still kind of a little not understanding
10 where this calculation's going in the end, but...

11 MR. BOB PETERS: Well, on average over
12 the ten (10) year period, the weather has been -- has
13 been warmer than what normal has been determined to be
14 under the -- the normalization methodology? That you
15 can agree with, Mr. Rainkie?

16 MR. DARREN RAINKIE: Yes, I suppose.

17 MR. BOB PETERS: And can you also
18 agree that over that ten (10) year period, that the
19 average over that ten (10) years is that weather has -
20 - has cost the Corporation, if you will, approximately
21 eight hundred and forty-two thousand dollars
22 (\$842,000) a year on average because it's been warmer
23 than normal?

24 MR. DARREN RAINKIE: I don't know, Mr.
25 Peters. Once again, we can do the calculations but I

1 -- I'm not sure what -- what it means. I have \$42
2 million of retained earnings at the end of '12/'13.
3 That is the basis on which we'll make future financial
4 decisions, not based on some theoretical calculations,
5 so.

6 I -- I guess my problems is, like I
7 said, I've been doing this stuff for twenty-three
8 (23), twenty-four (24) years. I've never seen this
9 calculation before, so I'm not sure what it's trying
10 to do. And, particularly, the \$55.5 million of
11 weather-normalized retained earnings is a new topic or
12 a new thing for me that I haven't dealt with before.

13 I'm not sure what good it tells me in
14 terms of saying what otherwise would have happened.
15 We have \$42 million worth of retained earnings sitting
16 in 2003/'04. Under the presumption that we would have
17 a bottom line of \$3 million, I would have expected my
18 retained earnings to be about \$27 million higher.
19 They're about \$7 million higher.

20 MR. BOB PETERS: Well, Mr. Rainkie,
21 what --

22 MR. DARREN RAINKIE: And that's the
23 reality that we're looking at from a financial
24 perspective.

25 MR. BOB PETERS: And I appreciate, and

1 I'm sure we'll hear that submission as well from --
2 from your counsel. But in terms of the facts, sir, if
3 it was weather normal, Centra's retained earnings at
4 the end of 2013 would have been in the ballpark of
5 \$50.726 million?

6 MR. DARREN RAINKIE: And once again,
7 the purpose of that calculation, Mr. Peters? I mean,
8 there's no -- we have not been regulated on that basis
9 in the past. This is a new one to me, so I -- I don't
10 know what -- I don't know what that figure means.

11 I've never seen this calculation before, Mr. Peters.
12 It's interesting but I'm not sure what you're
13 suggesting in terms of -- of the rate application.

14 MR. BOB PETERS: Well, I'm not
15 suggesting anything, Mr. Rainkie, other than that
16 factually had it been weather normal for those ten
17 (10) years, instead of \$42 million of retained
18 earnings, the Corporation would have expected \$50
19 million of retained earnings.

20 MR. DARREN RAINKIE: I guess so, Mr.
21 Peters.

22 MR. BOB PETERS: Maybe with that, Mr.
23 Rainkie, I'll ask for the afternoon recess, Mr.
24 Chairman.

25 THE CHAIRPERSON: Okay, let's take,

1 say, fifteen (15) minutes.

2 MS. MARLA BOYD: Mr. Chairman, I'm
3 sorry to interrupt, but if you would like, just before
4 we break, Centra is in a position to file its rebuttal
5 evidence, the remaining rebuttal evidence, so.

6 THE CHAIRPERSON: Please, let's do
7 that.

8 MS. MARLA BOYD: Sure. It has
9 placeholder on the exhibit list, I believe, as Centra
10 Exhibit 4-2. So with your concurrence, I'd propose
11 that we mark it as such. Thank you.

12

13 --- EXHIBIT NO. CENTRA 4-2: Centra's rebuttal
14 evidence

15

16 THE CHAIRPERSON: Let's break.

17

18 --- Upon recessing at 3:11 p.m.

19 --- Upon resuming at 3:27 p.m.

20

21 THE CHAIRPERSON: I believe we're
22 ready to resume the proceedings. Are there any
23 documents to acknowledge or...?

24 MR. BOB PETERS: Not at this time, Mr.
25 Chairman. I think the -- the rebuttal evidence of

1 Centra respecting Mr. McCormick is the most current.

2 I'll continue with Mr. Rainkie, if he's -- if he's

3 cooled down.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. Rainkie, I -- I

7 shouldn't be so glib on the record. You and I have --

8 you said twenty-three (23) years. And I think I

9 probably have been with you, if not beside you, for

10 many of those years, so perhaps my informality is --

11 is showing.

12 But, Mr. Rainkie, let's step back still

13 with that 180 -- page 184 revised in our hands. And

14 as I look down the retained earnings line item 5, and

15 I go over to the 2011 year, I see that the Corporation

16 had \$34.3 million in their retained earnings account

17 at that fiscal year, correct?

18 MR. DARREN RAINKIE: That's correct.

19 MR. BOB PETERS: And, Mr. Rainkie,

20 when you were considering whether to have this -- to

21 make a rate filing for this GRA, Centra had given a

22 forecast of its 2012/'13 expected retained earnings

23 and additional net income, correct?

24 MR. DARREN RAINKIE: Yes, that's

25 correct.

1 MR. BOB PETERS: And so the assumption
2 that Centra was making when it filed its GRA is that
3 you had \$34.3 million of retained earnings and you
4 expected another \$1.5 million of net income for the
5 '12/'13 year, correct?

6 MR. DARREN RAINKIE: Yes, I'm -- I
7 keep looking at the rounded \$2 million number in the
8 forecast, Mr. Peters. And I should check on the 1.5,
9 but I'll accept it so -- for now, subject to check so
10 that we can move forward.

11 MR. BOB PETERS: All right. And I
12 think it might be closer to 1.56, Mr. Rainkie, but
13 we'll -- we'll decide if that's material at some point
14 in time. So, Mr. Rainkie, when the GRA was filed the
15 expectation by Centra was that its retained earnings
16 at the end of 2012/'13 were going to be \$35.8 million?

17

18 (BRIEF PAUSE)

19

20 MR. DARREN RAINKIE: Give or take, Mr.
21 Peters, yeah.

22 MR. BOB PETERS: And instead of
23 thirty-five point eight (35.8) your confident sitting
24 before the Board that that number is going to be
25 closer to \$42.3 million as you sit here?

1 MR. DARREN RAINKIE: I'm confident
2 without breaking the laws of the Province of Manitoba,
3 Mr. Peters.

4 MR. BOB PETERS: All right. Thank
5 you, Mr. Rainkie. So in any event, the Corporation is
6 the better part of \$7 million better off in their
7 retained earnings than you -- than -- than Centra
8 expected to be by the time you got to this GRA?

9 MR. DARREN RAINKIE: Well, Mr. Peters,
10 there was some rounding in the \$8 million number, so
11 it's probably -- you're -- you're saying the two (2)
12 that I'm seeing in the IFF -- or CGM-12 is one point
13 five (1.5). There's probably a \$6 million
14 differential there, Mr. Peters, rather than seven (7).

15 MR. BOB PETERS: You're six (6) --
16 Centra is \$6 million better off than it expected to be
17 by the time this GRA got started?

18 MR. DARREN RAINKIE: Yes, luckily,
19 happily.

20 MR. BOB PETERS: Well, except, Mr.
21 Rainkie, the luckily part is Centra endured a very
22 warm year and that knocked the net income line item by
23 a considerable amount in the -- in the '11/'12 year,
24 correct?

25 MR. DARREN RAINKIE: Yes, Mr. Peters,

1 that's why I said in my opening direct since the last
2 time we saw the Board our retained earnings are up a
3 couple million dollars since the last -- since -- that
4 -- that's my perspective.

5 We were down six (6), up eight (8). To
6 be fair, we're really up \$2 million over those two (2)
7 years in the actual world.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Just so I can put it
12 on the record and save you the searching, Mr. Rainkie,
13 the \$1.56 million of 2012/'13 net income forecast can
14 be found in the Information Request PUB/Centra Second
15 Round 148A. And if there's anything you need to say
16 as a result of that you're welcome to do it, probably
17 tomorrow.

18 Mr. Rainkie, let's turn, if we can, to
19 page 185 revised. And before we do, Mr. Rainkie, I
20 think you've acknowledged -- and I just want make sure
21 that -- that I have it correctly, that this is the
22 first general rate application wherein Centra shares
23 have been owned by Manitoba Hydro and the net income
24 request exceeds the \$3 million number?

25 MR. DARREN RAINKIE: No, I -- I think

1 -- I think some of the early applications before the
2 Board we had a higher net income request, Mr. Peters,
3 just to be correct. I think -- and I'm not -- what
4 I'm not sure about is what we started the 2008/'09 and
5 '09/'10 application with. I'd have to go back to
6 check that.

7 MR. BOB PETERS: But it's been then
8 the -- the Board --

9 MR. DARREN RAINKIE: I'm missing
10 history, Mr. Peters.

11 MR. BOB PETERS: No, I -- I accept
12 your qualification, Mr. Rainkie, but the -- the Board
13 orders have -- have tended to focus on that \$3 million
14 net income being allowed to the Corporation since the
15 acquisition by Manitoba Hydro?

16 MR. DARREN RAINKIE: Yes. Yes, they
17 focussed on the 3 million. I think in the last order
18 the confluence of all the events was a little lower at
19 2.5 million, Mr. Peters, but the focus, I think, in
20 terms of the orders, to be fair, has been around the
21 \$3 million dollar rang -- mark, sorry.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Mr. Rainkie, for that

1 2010/'11 GRA, Centra targeted 3 million in its
2 application is my suggestion to you, sir.

3 Can you confirm that, or would you like
4 to take that subject to check?

5 MR. DARREN RAINKIE: I'll take that
6 back, Mr. Peters. I -- that application was one (1)
7 of the ones that I had the last amount of input into,
8 so --

9 MR. BOB PETERS: And, Mr. Rainkie, for
10 the 2012 year, IFF-10 -- and I don't have it in my
11 materials, sir, but do you recall that in IFF-10, when
12 you're looking at the 2012 fiscal year, there was an
13 indication that there could be approximately \$4
14 million of net income, and Centra chose not to come in
15 for a GRA in that year?

16 MR. DARREN RAINKIE: I'd have to check
17 what the forecast was in CGM-10, Mr. Peters, but, no,
18 we -- yeah, we didn't come in for a 2011/'12 or
19 2012/'13 rate application, general rate application.

20 MR. BOB PETERS: I'm not sure if it'll
21 help you, Mr. Rainkie, but if you turn to Tab 61, I
22 don't want to get your hopes up too high, but if you
23 turn to Tab 61 and page 328 in Board counsel's book of
24 documents, PUB Exhibit 10, there is a 2011/'12 year
25 depicted under IFF-10, shown as the second column,

1 sir.

2 MR. DARREN RAINKIE: Yes. Just given
3 that, though, this is a revenue requirement statement,
4 it would be better if I could check the actual IFF.
5 And I think I have it here with me, Mr. Peters. If
6 you give me thirty (30) seconds, I could confirm it
7 one way or another.

8

9 (BRIEF PAUSE)

10

11 MR. DARREN RAINKIE: Mr. Peters, just
12 to be clear, we were talking about the 2011/'12 net
13 income forecast in CGM-10 and, yes, it was indeed \$4
14 million, based on the assumptions in that forecast.

15 MR. BOB PETERS: And in a letter that
16 was dated December 9th of 2010, sent to Mr. Gaudreau
17 at the Public Utilities Board, Centra indicated that,
18 because of the net income of being approximately \$4
19 million a year, it wasn't coming in for a GRA but
20 rather it -- it filed for a cost of gas review?

21 MR. DARREN RAINKIE: That's my memory,
22 Mr. Peters, that we had a cost of gas application that
23 year and not a general rate application.

24 MR. BOB PETERS: And, Mr. Rainkie,
25 just to follow this through, in Tab 62 of the book of

1 documents there's an extract from CGM-11-2. That is
2 the IFF that Centra called 11-2. And when we look at
3 the 2013 test year, or look at that year in this
4 document, there's an indication that there would be a
5 -- a net income of \$5 million that year, sir?

6 MR. DARREN RAINKIE: Yes, assuming --

7 MR. BOB PETERS: But we also know, Mr.
8 Rainkie, that that \$5 million was premised on an
9 additional \$7 million of addi -- additional income, as
10 shown at the top of the IFF, second line in, as the
11 additional -- additional revenues?

12 MR. DARREN RAINKIE: That's what I was
13 just going to note, Mr. Peters.

14 MR. BOB PETERS: But Centra did not in
15 fact come in for that -- for a GRA based on that IFF,
16 did it?

17 MR. DARREN RAINKIE: No. In the end,
18 we didn't come in for a general rate application
19 during that fiscal year, Mr. Peters.

20 MR. BOB PETERS: Do you recall why
21 not?

22 MR. DARREN RAINKIE: Well, Mr. Peters,
23 if you recall, we were fairly busy on the electric
24 side of the business and -- in that time frame, and we
25 were thinking about filing a 2012/'13 and a '13/'14

1 GRA.

2 And as time wandered on, and we put
3 together forecast CGM-12, it indicated that we would
4 get a \$2 million net income. So at that point we
5 thought that it was getting late in the year to
6 implement our rate increase, anyway, in 2012/'13, that
7 we would simply ask for a 2013/'14 rate increase.

8 MR. BOB PETERS: Mr. Rainkie, we can
9 also now flip a bit more currently to Tab 43 of the
10 book of documents and look at another IFF. And we can
11 look at the IFF found on page 153. And under the 2013
12 -- and I'm on page 153, Mr. Rainkie, at Tab 43 of the
13 book of documents, PUB Exhibit 10.

14 MR. DARREN RAINKIE: I'm there, Mr.
15 Peters.

16 MR. BOB PETERS: All right. As I'm
17 reading that IFF CGMI-12, under the 200 -- 2013
18 column, a zero percent rate increase is shown to be
19 sought for 2013, but only a \$2 million net income
20 that, I think I've now suggested to you is actually
21 one point five six (1.56), shows up on the net income
22 line, correct?

23 MR. DARREN RAINKIE: Yes, that -- that
24 was our expectation at the time.

25 MR. BOB PETERS: So even with \$1.56

1 million rounded up to \$2 million of net income, that
2 did not prompt the Utility to come in on a general
3 rate application?

4 MR. DARREN RAINKIE: No, Mr. Peters.
5 By the time that this was produced and approved by our
6 board, it was November of 2000 -- late November of
7 2012. So we decided to forego a rate increase for
8 2012/'13 and -- and simply have a 2013/'14 rate
9 application.

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Now, Mr. Rainkie, one
14 (1) of the uses to which, at least notionally,
15 retained earnings is put, is to buffer against the
16 negative risks incurred by the Corporation.

17 Would you agree with that?

18 MR. DARREN RAINKIE: Yes.

19 MR. BOB PETERS: And to some extent,
20 if those negative risks would be in the form of
21 accounting changes, you'd simply show those in the
22 OM&A line items in a -- in a filing, correct? You'd
23 seek those by way of additional rate increases?

24 MR. DARREN RAINKIE: Yes, Mr. Peters.
25 We would include -- sometimes those accounting changes

1 are not only restricted to ON -- the O&A line item,
2 but we would seek them in future rate applications,
3 yes.

4 MR. BOB PETERS: And if there was
5 declining volumes from Centra's customers, that was a
6 -- a risk or occurrence or an actuality that
7 Corporation faced, Centra would reflect that in its
8 load forecast and in the unit rate adjustments that
9 would be used to calculate new rates?

10 MR. DARREN RAINKIE: Yes, in the
11 normal course through our load forecast, we would do
12 that.

13 MR. BOB PETERS: And if I take you now
14 to page 185 revised -- and this, Mr. Chairman and
15 Board members, was the second of the two (2) documents
16 that I had, unannounced, placed on your chairs. And I
17 believe I also gave copies to my friends opposite.
18 Page 185 revised, Mr. Rainkie, is -- is, again, an
19 update of what was in the book of documents at page
20 185. And it was updated based on, perhaps, the most
21 current information to the end of business Friday,
22 sir.

23 It was a separate document, Mr.
24 Rainkie, it was produced over the weekend. I'm not
25 sure if you have it.

1 MR. DARREN RAINKIE: Yeah, I -- I did
2 put it -- that -- that page in my book, Mr. Peters,
3 yeah.

4 MR. BOB PETERS: Oh.

5 MR. DARREN RAINKIE: I have it.

6 MR. BOB PETERS: All right. Thank
7 you, sir. And in the -- on this document, the equity
8 percentage of Centra's capital structure is shown on
9 line 9 of the -- of the chart, correct, Mr. Rainkie?

10 MR. DARREN RAINKIE: As calculated as
11 per what's been known to be called the PUB method,
12 yeah, Mr. Peters.

13 MR. BOB PETERS: Well, I'm not looking
14 to open that up for debate, Mr. Rainkie, but that's
15 the methodology that the PUB has been use -- using to
16 determine the equity percentage of the Corporation?

17 MR. DARREN RAINKIE: Yes, yes. I'm
18 just pointing out that's not a calculation that we do
19 ourselves.

20 MR. BOB PETERS: Fair enough. What we
21 see on this chart is that in '02/'03 the equity
22 percentage in the capital structure is 32.7 percent,
23 Mr. Rainkie?

24 MR. DARREN RAINKIE: Yes, the simple
25 mid -- mid-year average, Mr. Peters.

1 MR. BOB PETERS: All right. And I may
2 not have reflected that in the words or in the
3 explanation, Mr. Rainkie. But if we go now to the
4 2012/'13 year that is forecast, and on the assumption
5 that there would be an \$8 million net income, the
6 equity portion of the Corporation's capital structure
7 increases from 32.7 up to 34.4?

8 MR. DARREN RAINKIE: That's what is on
9 the page, Mr. Peters. But just sitting here, I notice
10 that line 5, although you revised the net income
11 figure -- or IR, I guess, sorry, the simple average of
12 equity on line 4, there was no change in the total
13 capitalization line on line 5. So I'm not sure if the
14 34 percent is some lower number or not if you were to
15 update the calculation for that, Mr. Peters.

16 MR. BOB PETERS: And you're correct,
17 Mr. Rainkie. What was done, just so that you're clear
18 in checking this, if there's any further comments you
19 choose to make as this hearing progresses, is that the
20 short-term debt item ended up being a plug number by
21 keeping the other ones constant. And the assumption
22 was using your most current numbers on the total
23 capitalization by way of a mid-year average and
24 holding the long-term debt constant and letting the
25 short-term debt -- letting the short-term debt bear

1 the brunt of the calculation, Mr. Rainkie.

2 So you've -- you've correctly and
3 quickly identified that that may be a number that
4 could affect the 34.4 percent, but the Board won't
5 know that unless you do the calculation based on your
6 actuals and -- and tell them.

7 Would that be fair?

8 MR. DARREN RAINKIE: Yes, I suppose
9 we'd be in a better position to calculate this than --
10 than the Board.

11 MR. BOB PETERS: But, Mr. Rainkie, the
12 -- the methodology that I just explained to you would
13 be the same methodology that Centra used in -- in
14 creating its -- its capital structure?

15 MR. DARREN RAINKIE: Well, no, Mr.
16 Peters. This calculation has been under dispute for
17 as long as I can recall. We started this -- what's
18 been called the 'PUB-approved methodology' was what we
19 started off in our first future test year application
20 in 1995.

21 The year thereafter, we realized that
22 it was horribly a wrong calculation. And we've tried
23 to change it three (3) times over -- over the years.
24 And somehow it became known as the 'PUB-approved
25 methodology' even though it was Centra who put it

1 forward in the first -- first instance. And if I
2 could go back in time with a time machine, I would
3 redo it, but...

4 Yeah. But you're going to ask me if we
5 asked for a variance, and we did three (3) times Mis -
6 - Mr. Peters. But it's another one of those mysteries
7 that all three (3) times I never really knew what was
8 wrong with this, with the alternate proposals that we
9 had. It just seemed that the Board was unwilling to
10 change it, but...

11 So there's some problems with this
12 calculation. And once again, it's more akin to a
13 rate-based rate of return type of a world than a cost-
14 of-service world, so I -- I don't know. I don't want
15 to waste too much time at the hearing going --
16 trudging over old matters, Mr. -- Mr. Peters, but it -
17 - it has some flaws, from my perspective, as well.

18 MR. BOB PETERS: All right, Mr.
19 Rainkie, on line item number 9 under the 2008/'09 year
20 we see an equity percentage of thirty decimal nine
21 (30.9).

22 Do you note that?

23 MR. DARREN RAINKIE: Yes.

24 MR. BOB PETERS: That would have been,
25 as you've called it, the PUB-approved method --

1 methodology for determining equity at the time when
2 the PUB, in the orders that I've already shown you
3 this afternoon, used the 70:30 capital structure
4 split?

5 MR. DARREN RAINKIE: I suppose so, Mr.
6 Peters, but I'm -- I'm not sure that that 70:30
7 determination ever really impacted anything in terms
8 of -- of the rate decisions of the Board.

9 Since that time we've been working
10 under a cost-of-service premise and I think the rate-
11 based rate of return type calculations have been done
12 to satisfy an old legislative requirement to have
13 those calculations available for the Board.

14 But I'm not sure that the thirty (30) -
15 - I guess one (1) of the reasons going back to an
16 earlier question on why perhaps we didn't ask for a
17 review and vary on it is I'm not sure that the 30
18 percent has really ever affected the Board's decision
19 that I could ever discern in -- in one (1) of its
20 orders, if you know -- if I'm being clear, Mr. Peters.

21 MR. BOB PETERS: When the Board fixed
22 on \$3 million of net income, Mr. Rainkie, it was based
23 in that year of 2008/'09 when it indicated that a
24 70:30 capital structure was considered by the Board to
25 be appropriate?

1 MR. DARREN RAINKIE: No, I think the -
2 - the \$3 million was under the premise that at the
3 date of acquisition by Manitoba Hydro that Centra was
4 earning a rate of return between 14 and 16 million.
5 And I think the Board kind of rounded that to 15
6 million and said that if you want a \$12 billion corpor
7 -- corporate allocation then we'll give you a \$3
8 million net income. You can call it what you want,
9 but in the end we'll -- we'll give you \$15 million in
10 total.

11 I don't think that was ever set based
12 on the 70:30 that I could ever discern, Mr. -- Mr.
13 Peters. And -- and I guess what I was suggesting to
14 you earlier is that is it appropriate that that \$3
15 million -- and that \$15 million and the \$3 million net
16 income be locked in for all time.

17 MR. BOB PETERS: Mr. Rainkie, thank
18 you for that. Let's turn to page 181 at Tab 45 of the
19 book of documents, back to an IFF that we had -- we
20 had introduced to the Board earlier.

21 And, Mr. Rainkie, I had suggested to
22 you that -- that this IFRS -- sorry, this IFF depicted
23 IFRS being deferred until fiscal 2016. It continued
24 with rate-regulated accounting and rate-regulated
25 assets. And it also was constructed with a net income

1 of \$3 million, sir, correct?

2 MR. DARREN RAINKIE: Yes, the -- the
3 scenario was specified to us, Mr. Peters --

4 MR. BOB PETERS: Yes. Thank --

5 MR. DARREN RAINKIE: -- to -- to force
6 it to a \$3 million net income.

7 MR. BOB PETERS: Yes. Thank you. And
8 when we look at what is depicted for the test year of
9 2014 that's before the Board under this scenario, it
10 shows a 1.19 percent rate increase would be required
11 from this Board rather than that 2 percent number we
12 talked about with this panel today to drive a \$3
13 million net income number, correct?

14 MR. DARREN RAINKIE: Correct, except
15 that assumed May 1st implementation. To drive \$3
16 million net income we would actually need a 1.37
17 percent rate increase if rates are implemented August
18 1st, 2013, Mr. Peters. And you can find that in
19 PUB/Centra First Round 16B I think it is.

20 MR. BOB PETERS: And maybe you've --
21 you're going to spare me the math, Mr. Rainkie, but
22 then in terms of the -- if it was an August 1st
23 implement -- implementation date, is the 1.19 percent
24 number correct, or should it be a lower number?

25 MR. DARREN RAINKIE: No, the 1.19

1 percent is what would happen if you implemented the
2 rate increase on May 1st. I'm suggesting to you a
3 later implementation on August 1st, you would need a
4 1.37 percent rate increase, as I read the material, to
5 generate a \$3 million net income in the remainder of
6 2013/'14.

7 MR. BOB PETERS: All right. I've got
8 your point. Thank you for that.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Mr. Chairman, I'm
13 going to turn away from that discussion with Mr.
14 Rainkie and I believe perhaps have a further
15 discussion with Ms. Jacobs on OM&A matters.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: And I would start on
20 Tab 46 of the book of documents, if I could. Ms.
21 Jacobs, OM&A is the largest non-gas cost component in
22 Centra's revenue requirement, ma'am?

23 MS. HANRI JACOBS: Correct.

24 MR. BOB PETERS: And this non-gas
25 component has increased from about \$59.8 million to

1 \$68.8 million over a five (5) year period?

2 MS. HANRI JACOBS: Yes.

3 MR. BOB PETERS: And, as we've heard a
4 little bit from Mr. Rainkie, the increase is primarily
5 being driven by accounting changes?

6 MS. HANRI JACOBS: 7.8 million of
7 that, yes.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: You and Ms. Derksen
12 both used cost allocation in your direct evidence
13 through Ms. Boyd when you took the witness stand just
14 before lunch today. The cost allocation that you
15 talked about was different than the cost allocation
16 that Ms. Derksen's responsible for, correct?

17 MS. HANRI JACOBS: Correct.

18 MR. BOB PETERS: And is it correct,
19 Ms. Jacobs, that the -- that all costs are allocated
20 from Manitoba Hydro through an integrated cost
21 allocation methodology to Centra?

22 MS. HANRI JACOBS: Correct.

23 MR. BOB PETERS: And what we see on
24 page 187, found at Tab 46 of PUB Exhibit 10, is a
25 document that provides a view of the business units,

1 and the allocation of operating expenses by those
2 business units?

3 MS. HANRI JACOBS: Yes.

4 MR. BOB PETERS: And there's a line
5 item that talks about a program view in the left
6 column. And here the program view of OM&A expenses
7 have grown from 6.7 million over to 7 -- 7 -- sorry,
8 67.8 million over to \$71.8 million?

9 MS. HANRI JACOBS: Including the 7.8
10 million accounting changes, yes.

11 MR. BOB PETERS: I'm sorry, I missed
12 the first part of your answer?

13 MS. HANRI JACOBS: It includes the 7.8
14 million accounting changes.

15 MR. BOB PETERS: All right. Thank
16 you. And we see that depreciation, interest, and
17 taxes has decreased from \$8 million in 2008/'09, to \$3
18 million in '13/'14.

19 Have I got that correct?

20 MS. HANRI JACOBS: That's the
21 adjustment for the depreciation, interest, and tax
22 that was included in the program view, correct.

23 MR. BOB PETERS: All right. Let's
24 just explain that to the Board. The -- the reason
25 that the depreciation expense has been reduced is

1 because what was previously capitalized, but is no
2 longer being capitalized, is now coming down as
3 increased operating expenses, so it's found in a
4 different line item?

5 MS. HANRI JACOBS: Originally, the
6 program view included depreciation and interest cost.
7 So what we do is, as part of the financial statements,
8 we do a reclassification. So this line is basically
9 pulling out the depreciation and interest that's
10 embedded in the O&A and put it against the tax,
11 interest, and depreciation lines.

12 MR. BOB PETERS: And then we see, Ms.
13 Jacobs, at the -- near the bottom, or two-thirds
14 (2/3s) of the way through the schedule, Centra has a
15 specific line item called 'less accounting changes',
16 and this reflects, most recently in the test year, the
17 \$7.8 million number that you've mentioned this
18 afternoon.

19 MS. HANRI JACOBS: Correct.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: And before we leave
24 this schedule, if we look at the operating and
25 maintenance expense, the compounded annual growth --

1 and it was broken into two (2) different time periods
2 -- we can see that between the periods of '06/'07
3 through to '11/'12, the compounded annual growth was
4 in the range of 3 percent a year.

5 And if you look simply for the last few
6 years, from '11/'12 through to '13/'14 in the far
7 right-hand column, we see that the compounded growth
8 is 5.2 percent, correct?

9 MS. HANRI JACOBS: That is the OM&A
10 including the accounting changes.

11 MR. BOB PETERS: And that's the point
12 we should talk about next, then, Ms. Jacobs, is that
13 in the line item OM&A after adjusting for accounting
14 changes, the total of \$53 million goes to \$61 million,
15 correct, in terms of dollar amounts?

16 MS. HANRI JACOBS: That's correct.

17 MR. BOB PETERS: And the compound
18 annual growth number has been recalculated, and it
19 shows that, by removing the accounting changes, the
20 compounded annual growth from '06/'07 through to
21 '11/'12 is in the na -- in the range of 2 percent, and
22 it's even less than that for '11/'12 to '13/'14.

23 MS. HANRI JACOBS: Yes.

24

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: When we turn to page
4 188 of the book of documents, Ms. Jacobs, we see a
5 breakdown again of OM&A expenses by program. And if
6 we focus in on the customer service and distribution
7 items, we see that customer relations appears as a
8 line item, and it appears to have increased by about
9 26 percent from '06/'07 through to '11/'12.

10 Do I have that correct?

11 MS. HANRI JACOBS: Yes.

12 MR. BOB PETERS: Can you explain to
13 the Board what happened for that increase to be as
14 dramatic as it appears?

15

16 (BRIEF PAUSE)

17

18 MS. HANRI JACOBS: During that period,
19 we've actually looked at the integrated allocation
20 methodology, and realized that part of the southern
21 part of the province, the -- the customer-relation
22 cost -- or the customer-relation cost was not
23 allocated to Centra, so there was -- embedded in here
24 is reflecting the correction for that, so that Centra
25 is also bearing some of that cost.

1

2

(BRIEF PAUSE)

3

4

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.

7

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?

11

MS. HANRI JACOBS: In effect, yes.

12

13

(BRIEF PAUSE)

14

15

MR. BOB PETERS: Ms. Jacobs, is it
correct that the cost-allocation study that you're
using was prepared and reviewed back in 2002?

18

MR. DARREN RAINKIE: I was around for
that one, too, Mr. Peters, so I can confirm that.

20

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?

24

MR. DARREN RAINKIE: Yes. I can't
recall if it was on the electric or the gas side of

1 the business, but at one point in the past, they've
2 asked us to do another review.

3 MR. BOB PETERS: Would it matter on
4 which side of the business, Mr. Rainkie? Because the
5 -- the outcome would be the same, would it not?

6 MR. DARREN RAINKIE: Yeah, that's
7 correct, Mr. Peters.

8 MR. BOB PETERS: Okay. Oh, I -- I --
9 okay. Maybe I missed your point earlier. The long
10 and the short of that, Mr. Rainkie, is that, in
11 '06/'07 when the Board asked for the cost-allocation
12 methodology to be reviewed and updated, Centra
13 requested from the Board an extension of time so that
14 Centra could implement IFRS, if I recall?

15 MR. DARREN RAINKIE: Yes, given the
16 flux that was happening in that time and the
17 uncertainty, we didn't think it was an appropriate
18 time to spend the -- the time and energy to do a
19 review of it given that there were going to be changes
20 that were -- were made, at any rate.

21 In -- in the way you articulated the
22 question, Mr. Peters, you said that the Board directed
23 us to review and update. I -- I wasn't sure about the
24 second part. I thought we were asked to review it,
25 but I'm not sure about updating it. I thought the

1 directive was to review because I think this all kind
2 of stems, just to fill in some of the history from the
3 Board, it's a -- it's a fairly complicated, fully-
4 allocated costing methodology. And from the outside,
5 it can look like a bit of a black box.

6 So I think it's the complexity of it
7 that has resulted in this directive. Once again, me
8 just putting my -- my thought pattern on top of the
9 Board directive. And, you know, given some of the
10 changes that have happened, the changes in -- in
11 overhead allocations, it might be better to let us
12 make some further changes to the methodology, and come
13 back and review it.

14 I -- I think the directive to review it
15 was because it was difficult for external parties to
16 understand it. And I think there's a want in the
17 Corporation to kind of unwind some of the complexity,
18 and that might be better in terms of the Board and
19 Intervenors understanding the methodology than
20 actually going and getting ster -- getting external
21 reviews and -- and the like.

22 So I think we're -- we're definitely
23 looking at putting that on hold until IFRS settles
24 down and -- so that we're not doing a review simply to
25 change it again. But I wonder if -- if trying to

1 reduce some of the complexity of the allocation and
2 simplify it a bit would be better than doing a review.

3 MR. BOB PETERS: I'm not --

4 MR. DARREN RAINKIE: So I think -- I
5 think both of those things, Mr. Peters, are under
6 consideration, from the corporate perspective.

7 MR. BOB PETERS: Thank you, Mr.
8 Rainkie. I think when you go back and review, as
9 would I -- as will I, the directive specifically,
10 Centra was going to file the terms of reference of
11 that review as opposed to the review itself at, at
12 least, an initial step.

13 Does that ring a bell?

14 MR. DARREN RAINKIE: That rings a
15 bell, Mr. Peters, yes.

16 MR. BOB PETERS: So if Centra was
17 going to file a terms of reference, that's something
18 that it could file more imminently to, perhaps,
19 capture the very points you're trying to make now in
20 terms of updating or simplifying the -- the cost-
21 allocation methodology?

22 MR. DARREN RAINKIE: Well -- well, Mr.
23 Peters, I think what we need to do is de -- decide
24 what this methodology is going to look like in the
25 future when we trans -- transition to IFRS. And then

1 we need to stop and engage with the Board in terms of
2 whether the changes that we've made are sufficient to
3 -- to get a great un -- a good understanding in this
4 form, or whether we need to actually go and do an
5 external review because I'm just -- I can't help but
6 thinking that the complexity of it -- of the current
7 methodology is, in large part, driving the -- the need
8 for a review.

9 MR. BOB PETERS: Mr. Rainkie, maybe --
10 maybe you and I can agree to -- to move this to Ms.
11 Boyd's plate, and on review of Order 99/'07, to look
12 at Directive 25 and see if there's anything in closing
13 submissions that you want to advance, at this point in
14 time, in this Hearing.

15 Would that be acceptable?

16 MR. DARREN RAINKIE: Certainly. All
17 right, thank you. Ms. Jacobs, we were looking at the
18 schedule on page 188 of the OM&A costs of the
19 Corporation. And there's another line item under,
20 "Customer -- Customer Service and Distribution,"
21 called, "Meter Changes."

22 Do you see that?

23 MS. HANRI JACOBS: Yes.

24 MR. BOB PETERS: And meter changes are
25 \$4.6 million in the test year, showing about a 27

1 percent annual growth since '06/'07.

2 Do you also see that?

3 MS. HANRI JACOBS: Yes.

4 MR. BOB PETERS: What's caused the
5 meter changes to -- to increase as significantly as
6 they have?

7 MS. HANRI JACOBS: This is mainly due
8 to changes and requirements by Measurement Canada
9 around the meter inspection and meter-exchange
10 activities.

11 MR. BOB PETERS: So, Ms. Jacobs,
12 Measurement Canada is requiring replacement and
13 recalibration of meters on a more frequent basis?

14 MR. MARK PRYDUN: If -- if I might
15 add, sir, Measurement Canada has increased its
16 tolerance limits on its sampling program which
17 suggests that when Centra -- when it samples its
18 meters, it's -- there's a higher likelihood that it's
19 going to fail those limits.

20 So the implication is, is that there
21 will be a requirement for a greater number of meters
22 to be changed in a particular year.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Prydun, I wasn't
2 sure I quite connected the dots on that answer, in the
3 sense that Measurement Canada has relaxed the
4 standards on the sample size for Centra's testing?

5 MR. MARK PRYDUN: No, sir, on the
6 contrary. The -- the tolerance limits have not been
7 relaxed, but they've been tightened. So the
8 implication is, is that when meters are sampled to
9 determine if that -- if that -- those codes that are
10 being sampled, that lots -- lot, if you will, there's
11 a higher likelihood that the meters will fail because
12 they're -- they're not with -- they're not being
13 compliant as per the new standards because the
14 standards are -- have been tightened up.

15 So, consequently, what Centra is
16 required to do is, is to replace more meters on an
17 annualized basis. Subsequently, the operating and
18 maintenance costs will be higher in the course of a
19 year.

20 MR. BOB PETERS: Thank you, Mr.
21 Prydun. I'm going to come back to this with you, but
22 as I understand the filing, the meters themselves are
23 capitalized.

24 Is that correct?

25 MS. HANRI JACOBS: Yes.

1 MR. BOB PETERS: And the labour to
2 replace the meter forms part of the OM&A expense that
3 Ms. Jacobs is talking about, correct?

4 MS. HANRI JACOBS: Correct.

5 MR. BOB PETERS: Ms. Jacobs -- Ms.
6 Jacobs, you also have responsibilities on the electric
7 side of the utility, correct?

8 MS. HANRI JACOBS: Yes.

9 MR. BOB PETERS: Is the electric side
10 of the utility being handled exactly the same way as
11 the gas side?

12 MS. HANRI JACOBS: No, my
13 understanding is we capitalize the labour associated
14 with the meter-exchange activities on the electrical
15 side.

16 MR. BOB PETERS: So on the electric
17 side, both the meters and the labour are capitalized,
18 correct?

19 MS. HANRI JACOBS: That's correct.

20 MR. BOB PETERS: And on the gas side,
21 only the meters are presently capitalized, and the
22 labour forms part of the OM&A?

23 MR. DARREN RAINKIE: Mr. Peters,
24 sorry, labour on what? The initial installation of a
25 meter, or the exchange of a meter for testing. Those

1 are two (2) different -- very different things. I'm
2 sorry, sir, I can't ask you questions in this forum,
3 but I'm -- it's unclear...

4 MR. BOB PETERS: That's never stopped
5 you, Mr. Rainkie. It's never stopped you.

6 MR. DARREN RAINKIE: Back to our
7 informality.

8 MR. BOB PETERS: All right, you've
9 raised a good point. And we may need both Mr. Prydun
10 and Ms. Jacobs to help -- help understand that. When
11 a meter is installed for the very first time, there is
12 a cost of the meter, and the cost of the labour.

13 Have I got that right, Ms. Jacobs?

14 MS. HANRI JACOBS: That's correct.

15 MR. BOB PETERS: And if it's the very
16 first time a meter is installed at a service address
17 on the gas side, the meter is capitalized as a -- as a
18 cost?

19

20 (BRIEF PAUSE)

21

22 MS. HANRI JACOBS: Could you please re
23 -- rephrase, or repeat question?

24 MR. BOB PETERS: Yes, certainly,
25 ma'am. I want the Board to understand how Centra

1 treats both the cost of the hardware meter, and how
2 Centra treats the cost of installing the meter the
3 first time. And how Centra treats the cost of
4 replacing the meter the second time something has to
5 happen with that meter.

6 So let's start with the very first time
7 it's installed; I take it that the -- the meter itself
8 is treated as a capital asset of the company?

9 MS. HANRI JACOBS: Correct.

10 MR. BOB PETERS: And, just to throw
11 out a depreciation question for those in the audience
12 who are so inclined, the meters are depreciated over
13 about twenty-four (24) years?

14 Would you take that subject to check
15 and confirmation with your colleagues?

16 MS. HANRI JACOBS: Sub -- subject to
17 check.

18 MR. BOB PETERS: All right. You can -
19 - you can check me up on that one (1). So the meters
20 are treated as a capital asset. Now, when they're
21 installed for the very first time at a brand new home,
22 the labour to put that meter on, how does Centra treat
23 that labour?

24 MS. HANRI JACOBS: It has been
25 capitalized.

1 MR. BOB PETERS: And that's exactly
2 the same as done on the electric side of the business?

3 MS. HANRI JACOBS: Correct.

4 MR. BOB PETERS: All right. So now
5 let's go twenty-four (24) years after this new home
6 has been built -- and it's determined if twenty-four
7 (24) years is the right number; according to Mr.
8 Prydun, it may even been sooner now.

9 But when the metre is determined to be
10 replaced, and we're now only talking about replacement
11 of meters, there's a -- a metre cost for the hardware.
12 Is that capitalized as well?

13

14 (BRIEF PAUSE)

15

16 MR. DARREN RAINKIE: Mr. Peters, do we
17 want to jump to when the meter's being replaced, or
18 should we stop when the meter's being pulled for
19 testing under this program, because I think that's --
20 the -- the accounting issue we were talking about, I
21 think, is the exchange of meters when a meter is being
22 pulled for testing, and the labour that it takes to
23 actually go and pull that meter out and test it.

24 MR. BOB PETERS: Okay. Fair --

25 MR. DARREN RAINKIE: So -- so --

1 MR. BOB PETERS: -- fair comment, Mr.
2 Rainkie. Let me see if I can get at it this way, and
3 I think you're trying to help me here. If we go down
4 to the meter changes on page 188 of Board counsel's
5 book of documents, Ms. Jacobs is forecasting \$4.569
6 million, if that's the right number I've read, of
7 labour costs in 2013/'14.

8 Is that right, Ms. Jacobs?

9 MS. HANRI JACOBS: Correct.

10 MR. BOB PETERS: Now, what is that
11 \$4.5 million related to?

12 MS. HANRI JACOBS: This is the meter
13 exchange activities to pull the meter as required
14 under the sample test -- testing program.

15 MR. BOB PETERS: All right. So -- so
16 I'm learning here as -- as you're answering my
17 questions. There's a meter on this existing home, but
18 Measurement Canada has told Mr. Prydun that he better
19 start upping his sample size, and doing more -- more
20 testing.

21 And every time Mr. Prydun sends
22 somebody out to test the meters, there's a labour
23 charge by disconnecting the meter from the house,
24 maybe putting up a -- a loaner unit, if that's what's
25 done, and then testing it and deciding whether it can

1 be used going forward?

2 MR. MARK PRYDUN: Currently, the
3 charge that you see in page 88 -- 188, that is related
4 to labour. It would not be related to the actual
5 replacements of the meter. The meter, in itself,
6 would be capitalized.

7 MR. BOB PETERS: All right. Fair
8 enough. And -- and, Mr. Prydun, the -- the point I'm
9 trying to get to, a finer point, is is that related to
10 the labour only associated with the -- I'll call it
11 the exchange, where you take off the metre and test it
12 to decide if it can be used anymore, or is that labour
13 related to putting on a new metre after the old one
14 (1) has been determined to be defective?

15 MR. MARK PRYDUN: The labour
16 associated under the customer service and distribution
17 would be related to field labour. It would be related
18 to the field-service person actually removing that
19 meter, and then installing a new one (1).

20 The cost that is associated with
21 testing or sampling the meters would be under,
22 'customer care and marketing meter repair and
23 calibration.' That would also be an operating cost.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: And so with that
2 answer, and thank you, Mr. Prydun, Ms. Jacobs, the
3 \$4.5 million represents what we've now called 'field
4 labour', to replace metres that had previously been
5 installed?

6 MS. HANRI JACOBS: Yes, that's the --
7 the labour associated what we call 'meter exchange
8 activities'.

9 MR. BOB PETERS: And is it correct
10 that on the electric side of the business, those
11 labour costs are not expensed, but they are
12 capitalized?

13 MS. HANRI JACOBS: That's correct.

14

15 (BRIEF PAUSE)

16

17 MR. BOB PETERS: Is it a requirement,
18 Mr. Rainkie, that under IFRS, Hydro electric side
19 would be allowed to treat its meter exchange labour
20 costs in one (1) fashion, such as capitalizing them,
21 but on the gas side of Centra Gas, Centra could do
22 something different and expense them?

23 MR. DARREN RAINKIE: No, Mr. Peters.
24 When we move to IFRS, we will have to harmonize those
25 policies. The issue that's up for debate is to

1 harmonize to which policy. In the financial forecast,
2 IFF-12, we made a simplifying assumption that we would
3 harmonize to the electric policy of capitalizing the
4 labour on exchanges, but on reflection, looking at
5 this, we're not sure exactly which way we're going to
6 go yet.

7 There's no betterment to -- at that
8 point in terms of the metre exchange -- the labour on
9 the metre exchange, so there may not be an accounting
10 justification under IFRS for continue -- continuing to
11 capitalize on the electric side.

12 So in the IFF, we made the assumption
13 that the ga -- gas would follow the mother ship, but
14 I'm not so sure that the mother ship isn't going to
15 have to follow the gas side of the business on this
16 one in the end, when we move to IFRS.

17 MR. BOB PETERS: But under IFRS,
18 labour costs can be capitalized, can they not?

19 MR. DARREN RAINKIE: They can be
20 capitalized if they're directly attributable to an
21 asset, but if they're related to simply pulling the
22 metre to exchange it and look at it, and see if the
23 metre can, I guess, be cleaned up and put back into
24 production or has to be trashed, sampling the metres
25 is expensed at this point, right? It's expensed if

1 there's no betterment associated with that.

2 So the -- the accounting issue is: Is
3 the labour associated with pulling that metre -- does
4 it -- should it follow the treatment of the sampling
5 program, which is to expense those costs? You -- you
6 can't just capitalize costs because you want to
7 because they're labour.

8 You can capitalize them if they are
9 directly attributable to an asset in service. And the
10 question is: Is the exchange activity actually
11 something that we can capitalize and not on transition
12 to IFRS?

13 MR. BOB PETERS: Have your auditors
14 given you a -- an opinion on that, Mr. Rainkie?

15 MR. DARREN RAINKIE: No. We're still
16 deliberating internally on what our position is going
17 to be, Mr. Peters.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: And so, Mr. Rainkie
22 and Ms. Jacobs, back to page 188. If that \$4.5
23 million of exchange labour was treated the same way as
24 Manitoba Hydro electric side treats that item, that
25 item would be capitalized.

1 Have I understood that correctly?

2 MS. HANRI JACOBS: That's correct,
3 but, I mean, you'll have associated depreciation also
4 following through.

5 MR. BOB PETERS: All right. So let's
6 -- let's be careful that we're doing depreciation on
7 the record here, but if it's \$4.5 million, and if the
8 metres are depreciated -- I think I used twenty-four
9 (24) years in my previous question -- then we're
10 probably looking at an annual-amortization expense of
11 less than a quarter of a million dollars, would we
12 not?

13 MS. HANRI JACOBS: That would be for
14 the first year, but, I mean, in theory, the program
15 continues. We will catch up and the amortization
16 would be equal to the capitalization.

17 MR. BOB PETERS: At -- at some point,
18 I guess, by the twenty-fourth (24th) year.

19 MS. HANRI JACOBS: Twenty-six (26)
20 years.

21 MR. BOB PETERS: Twenty-six (26)
22 years. Okay.

23 MR. DARREN RAINKIE: Mr. Peters, just
24 coming back to one of your earlier questions, you
25 talked about simply just doing what we do on the gas

1 side in terms of what we do on the electric side. But
2 changing this policy is a change in accounting policy.
3 It's not so simple. It would require a retrospective
4 adjustment, and we would have to meet the current GAAP
5 accounting requirement of explaining why it's a better
6 -- it's a better accounting policy.

7 So you just can't turn these things off
8 or on. I mean, this is a -- a long-held accounting
9 policy, and I would think that it's pretty consistent
10 in the gas industry, from what I understand, to
11 expense these metre-exchange costs.

12 So, you know, I think it's in the
13 material somewhere here, but we are not proposing any
14 changes in accounting policy that has to be
15 retrospectively adjusted until we move to IFRS. So I
16 just wanted --

17 MR. BOB PETERS: Yeah.

18 MR. DARREN RAINKIE: -- the Board to -
19 - to understand that this is more complicated than
20 simply switching the switch on or off. It requires a
21 change in accounting policy if we were going to make
22 it on the gas side.

23 MR. BOB PETERS: And -- and that
24 change in accounting policy, Mr. Rainkie, is that you
25 would have to look in the rearview mirror and restate

1 a previous year's statement, correct?

2 MR. DARREN RAINKIE: Restrate --
3 restate for all time, Mr. Peters, but we are not
4 really wanting to just make willy-nilly accounting
5 changes until we moved -- until we moved to IFRS. We
6 are really trying not to make any changes in
7 accounting policy that require retrospective
8 restatement, because if you recall, when we move to
9 IFRS, we are able to -- we have an exemption from the
10 International Accounting Standards Board where we can
11 pull over our net-book value of our assets into I --
12 from CGAAP into IFRS without any need for
13 retrospective restatements.

14 And so we're trying to avoid anything
15 that's a change in accounting policy in the next
16 couple of years, so that we can -- we can do that on a
17 clean basis. So it's a fairly important thing for us
18 in terms of our transition time for us.

19 MR. BOB PETERS: Well, that exemption
20 and that move to IFRS, gives you that one (1) time
21 opportunity not to have to go back and restate. Isn't
22 that -- isn't that how it's best understood?

23 MR. DARREN RAINKIE: Yes, that's a --
24 a simplified version of it.

25 MR. BOB PETERS: And you're saying you

1 want to load up on as many accounting-policy issues as
2 possible so that if -- if going forward you've made a
3 number of changes, you can have those changes going
4 forward without having to go back and restate?

5 MR. DARREN RAINKIE: That's correct.
6 If we're going to make changes in accounting policies
7 and harmonize those, we want to do that on transition
8 to IFRS, not, you know, in the year or two (2) before
9 those. So, we'll take some time to look at this one,
10 because, as I said, I'm not quite sure which way it's
11 going to go. There's evidence on either side. It is
12 very much a judgment --

13 But I'm not so -- I wouldn't make the
14 simplifying assumption that we're simply -- like we
15 did in the IFF, that we're simply moving to the
16 electric-accounting policy of capitalizing exchange
17 costs, because there's some doubt in our minds that
18 that's the right policy.

19 MR. BOB PETERS: No, and but whereas
20 Manitoba Hydro can -- can make its accounting policies
21 for rate-setting purposes, the Public Utilities Board
22 can also prescribe what is the appropriate accounting
23 methodology, correct, Mr. Rainkie?

24 MR. DARREN RAINKIE: Only if you want
25 it to be a rate-regulated item, Mr. Peters. And as we

1 talked about this morning, any rate-regulated items
2 are going to have to be scrupulously segregated under
3 the interim exposure draft. So the --

4 MR. BOB PETERS: Mr. Rainkie, it can
5 hardly be said that IFRS is sneaking up on anybody if
6 it's been deferred for four (4) years. Why isn't this
7 particular issue one (1) on which the company has a
8 determined position?

9 MR. DARREN RAINKIE: Well, Mr. Peters,
10 we have a big complex company, and this really didn't
11 come to our intention until the preparation of the
12 last financial forecast. So we did make that
13 simplifying assumption. But we -- we just have not
14 got our final ducks in a row on this one yet.

15 MR. BOB PETERS: Does the Board
16 understand that this item, along with maybe a
17 multitude of other items, was one (1) that was brought
18 to the Corporation's attention by your consultants and
19 auditors?

20

21 (BRIEF PAUSE)

22

23 MR. DARREN RAINKIE: No, Mr. Peters, I
24 think this came about, as I recall, came about as
25 going through our fore -- forecasts and discovering

1 that we had two (2) different treatments going on.
2 The -- the gas treatment had been historically this
3 way for decades, and I suppose the electric one had
4 been around for decades as well, and something that
5 had not been harmonized yet.

6 MR. BOB PETERS: Ms. Jacobs --

7 MR. DARREN RAINKIE: Or I -- I might -
8 - sorry, Mr. Peters -- I might add that -- that in --
9 that before the -- these changes and these testing
10 requirements, this was a fairly immaterial, you know,
11 in terms of size-wise, transaction, so it wasn't the
12 highest thing on our rating -- rating screen, just to
13 -- just to fill in some of the blanks for you. But
14 with the, you know, with the increased requirements
15 from Measurement Canada, it certainly is a -- it's a
16 larger item now to look at.

17 MR. BOB PETERS: Okay. Thank you. In
18 the -- in the few minutes remaining, Ms. Jacobs, if we
19 turn to page 189 of the book of documents, and we see
20 here the OM&A presented with a view of the activity
21 charges and the primary costs, would it be correct for
22 this Board to understand, Ms. Jacobs, that in -- in
23 the past the Corporation has tried to contain its
24 sponsorship and travel-expense items? Are you aware
25 of that?

1 MS. HANRI JACOBS: That's correct.

2 MR. BOB PETERS: But if we go down and
3 we look at the travel expenses, particularly since
4 '12/'13 and '13/'14, compared to what they were
5 previously, we see that the compounded annual growth
6 rate is over 30 percent, correct?

7

8 (BRIEF PAUSE)

9

10 MS. HANRI JACOBS: That's correct.
11 About fifty thousand (50,000) in absolute value.

12 MR. BOB PETERS: And do you know
13 what's driving that?

14 MS. HANRI JACOBS: I'll have to take
15 an undertaking, unless...

16 MR. BOB PETERS: No, I -- I'm not
17 going to hold you to that. I -- I -- but has there
18 been a -- a thawing of the freeze on travel?

19 Is that -- is that what's happened?

20 MS. HANRI JACOBS: Not that I'm aware
21 of. No.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: And -- and, likewise,

1 under purchased services, if we can just go down to
2 that line item, ma'am, we see purchased services, you
3 know, approximately a 20 percent compounded annual
4 growth in the last few years related to purchased
5 services.

6 First of all, can you explain what
7 purchased services are to the -- to the Board?

8 MS. HANRI JACOBS: This would mainly
9 include contractors' cost in here. But what I can
10 tell you is, accordingly to my records -- I mean, we -
11 - what you'll see is there's six hundred thousand
12 (600,000) related to the reclass of the operation's
13 activities is also reflected in -- in the -- the
14 increase. As well as what -- in the budget or the
15 test years, we've included some incremental costs
16 associated with distribution, maintenance, and reg --
17 station maintenance.

18 MR. BOB PETERS: Sorry, I didn't catch
19 the reclassification cost of six hundred thousand
20 (600,000).

21 What does that relate to?

22 MS. HANRI JACOBS: It's the reclass of
23 the operations recoveries that's also noted in the
24 accounting changes.

25 MR. BOB PETERS: Mr. Chairman, in

1 light of the hour, this might be an opportune time to
2 adjourn for the day, and I could pick it up tomorrow
3 morning?

4 THE CHAIRPERSON: Is there any other
5 business to be conducted before we -- we adjourn for
6 today?

7 No. So we will see each other again
8 tomorrow morning at nine o'clock. Have a good
9 evening, everyone. Thank you very much.

10

11 (PANEL RETIRES)

12

13 --- Upon adjourning at 4:31 p.m.

14

15

16 Certified Correct,

17

18

19

20

21 _____

22 Bob Keelaghan, Mr.

23

24

25

<u>\$</u>	582:23	\$3.8 504:22	\$50 678:1	\$720 513:5
\$0.88 553:13	583:14	\$30 578:2	680:18	514:2
\$1 603:6,11	\$19 493:10	612:6	\$50,000	\$77 609:23
644:11	509:13,15	\$30,000	489:18	610:5
\$1,140	510:5,22	554:16	\$50.726	616:14
493:10	511:21	\$31.41	678:1	630:24
\$1.5 683:4	518:23	554:22	680:5	661:17
\$1.56 597:14	526:18	\$34.3 668:6	\$500 663:25	662:9,22
685:13	527:5	682:16	\$504 514:3	\$795 486:2
690:25	555:8	683:3	\$53 704:14	\$8 597:6
\$10 636:12	658:15	\$35.8 683:16	\$55.5 679:10	631:23
\$100,000	\$199.8 583:4	\$36 607:22	\$58	668:5,7
554:15	\$2 597:5	\$4 687:13	614:16,23	672:14
\$110,000	631:19	688:13,18	\$59.8 700:25	684:10
554:12	683:7	\$4.5 717:11	\$6 563:25	694:5
\$12 639:20	685:6	719:3	566:3	702:17
649:2	690:4,19	721:22	602:17	\$8,425,000
650:4	691:1	722:7	664:9	677:7
652:12,15,	\$200 575:13	\$4.569 717:5	684:13,16	\$8.4 676:11
16,18	\$200,000	\$4.6 710:25	\$6.658	\$8.5 589:7
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