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 731 to 1013

APPEARANCES

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Marla Boyd		)Centra Gas Manitoba
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Paul Kerr	(np)	)Shell Energy
Kim Johnston	(np)	)CEPU

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

THE CHAIRPERSON: Good morning, everyone. I believe everybody's in position. Before I start I should acknowledge the presence of Jennifer Dubois, who is assisting the proceedings today. Jennifer is the assistant associate secretary of the Board.

Now, I wonder if there are any matters to attend to, Mr. Peters...?

MR. BOB PETERS: Yes, good morning. And my apologies for the delay in the start this morning. It was on me and my friends in the parking lot that used to be Portage Avenue. The -- yesterday, the Board will recall that Mr. Rainkie and I discussed in the book of documents pages 184 and 185, but I put to him a revised version.

I think, for the completeness of the record, we should mark those as PUB Exhibit 11. We'll mark them both as one (1) exhibit. They're marked themselves, "Page 184 revised," and, "Page 185 revised," so that if anyone is wanting clarity they can -- we refer to them by their specific revised page numbers, so.

If that meets with approval, then we'll

just mark those as PUB-11.

--- EXHIBIT NO. PUB-11: Revised version of pages 184 and 185 of Board counsel's book of documents

CENTRA PANEL 3, RESUMED:

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

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: If I could continue then, Mr. Chairman, with this panel. We were talking about operating and administrative expenses, which I often call as OM&A expenses. And I believe Ms. Jacobs, as well as Mr. Rainkie, and I were in discussion on that matter. If we could start the day at page -- sorry, at -- at Tab 46 of the book of documents. We have a document that provides a comprehensive view of the components of the operating expenses, this time by business unit.

Would that be correct, Ms. Jacobs?

MS. HANRI JACOBS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: If we turn ahead to page 192 in the Tab 46, Ms. Jacobs, this document provides that view of the operating expenses by business units. As well, it includes what perhaps in accounting terms you call the 'bridge year', the 2012/'13 year?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Yes, Mr. Peters, that's what we usually call the year before the test year, 2012/'13 in this case. I should say good morning, Mr. Chairman, members of the Board, and ladies and gentlemen in attendance.

MR. BOB PETERS: Yes, thank you, Mr. Rainkie. The components allocated to each business unit include primary costs, which we have reviewed the activity charges, and an overhead allocation.

Would that be correct?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And, Ms. Jacobs, the majority of spending on OM&A are in the customer service and distribution area, as well as the customer care and marketing?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: Yesterday one (1) of the panel members assisted me in explaining to the Board when we had our discussion about meters and meter exchanges. And, Ms. Jacobs, we can see here under customer service and distribution, the last item is meter changes. And that reflects the discussion we had yesterday about costs that are, on the Centra side of the business, expensed, but on the Hydro side are currently capitalized?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And then if we also look on this page 192 at Tab 46, under 'customer care and marketing', we see another line item called 'meter repair and calibration'.

And, Ms. Jacobs, that's the line item where you indicated the meters are taken out for the regular repair and testing of the meters?

(BRIEF PAUSE)

MR. MARK PRYDUN: Good morning, sir. That is correct. That is done in a -- a separate facility, a production facility, our -- our metering facility. And its intention is to sample meters and to restore them back to their -- to their proper condition.

MR. BOB PETERS: Thank you, Mr. Prydun. Trust me, I don't want to go too far down the engineering road here with you, sir, but I may have misspoke yesterday on the record that -- let's assume that meter 'A' is on a -- a home. And then for reasons, including Measurement Canada's requirements, Centra comes along and needs to take meter 'A' off of the home, it will install meter 'B' onto the home, correct?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And then the meter 'A' is taken to this facility that you've just mentioned to the Board about meter repair and calibration facility, and the meter is tested to see if it still is within the tolerances prescribed by the federal government?

MR. MARK PRYDUN: That's correct. Typically, it's a sampling program where meters of a -- a certain lot number will be sampled. And if that sample, in general, is out of Measurement Canada tolerance limits then all meters associated with those serials will then be required to be replaced.

MR. BOB PETERS: And without getting to specific on that, Mr. Prydun, if the -- if the lot number of meters, if there's a thousand (1,000) of them for -- for example, and Measurement Canada requires them to be sampled and tested, you may take ten (10) of them out of service to test them, to test the -- you test ten (10) out of a thousand (1,000) to get some representative indication of the -- of the larger group?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And now you've taken meter 'A' off of the home, you've put on meter 'B', you've now tested meter 'A' back at the meter repair and calibration shop, and meter 'A' is still within tolerances, and enough meters of the same lot are within tolerances that Centra concludes that all meter 'A's are still within tolerances.

That happens?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: In that case, you don't go back to the home where you've put on meter 'B' and -- and re-install meter 'A'. You just leave the meter 'B' that's on that house?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: All right. What you also then know is that from your testing, the ten (10) meter 'A's that you've taken off out of this thousand (1,000) lot number, or size, if they're all still within tolerances, you know that you don't have to change out the -- the nine hundred and ninety (990) meters that are all on that lot size?

MR. MARK PRYDUN: That's correct, based on that sample.

MR. BOB PETERS: All right. And, Mr. Prydun, the meter repair and calibration costs that are in -- that are shown here -- and in the test year, the 2013/'14 test year in the far right-hand column, down at the meter repair and calibration line, there's $1.911 million forecast to be spent on the meter repair and calibration program, correct?

MR. MARK PRYDUN: That's my understanding, sir.

MR. BOB PETERS: And that cost is then expensed as opposed to capitalized?

MR. MARK PRYDUN: That's my understanding, sir.

MR. BOB PETERS: And is it also your

understanding, Mr. Prydun, that on the electric side of the business the meter repair and calibration is treated exactly the same way?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: Thank you.

(BRIEF PAUSE)

MR. BOB PETERS: Of note, Ms. Jacobs, to the Board will be the corporate allocation -- corporate allocations and adjustments line item found on page 192. And it is in the test year approximately $6.8 million, correct?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: Previously, and when I say previously, I think we can flip backwards a page to page 191, this corporate allocations and adjustment was in 2011/'12 only $1.7 million, correct?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And so the Board can conclude that under corporate allocations and adjustments this is where, for accounting purposes, Centra records the expenses that it no longer capitalizes as it moves away from full-cost accounting?

(BRIEF PAUSE)

MR. BOB PETERS: Do you agree with that?

(BRIEF PAUSE)

MS. HANRI JACOBS: Ye -- yes, it sounds like it's correct.

MR. BOB PETERS: Thank you, Ms. Jacobs. And in addition, the depreciation, interest, and taxes line that was previously in some way included in all of the above numbers is now stripped out and it's allocated to other categories of expense?

(BRIEF PAUSE)

MS. HANRI JACOBS: The depreciation, and interest, and tax line is reduced from previous as the program cost currently does not include the interest on common assets and facilities. So that's why we see the reduction.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, the breakdown of that figure is actually on page 224 of your book of documents if that's of any assistance.

MR. BOB PETERS: Mr. Rainkie, you've been reading ahead. Thank you, sir.

MR. DARREN RAINKIE: Like a good book, Mr. Peters, you have to read ahead to understand what's going on.

MR. BOB PETERS: All right, Mr. Rainkie, let's jump there right now with -- with the Board just so we can complete that thought. At Tab 49 of the book of documents we get into the corporate allocations and adjustments issue.

And, Ms. Jacobs, what you're showing here on page 224 is that, where previously the items listed have been around the $2 million mark, you've now taken over and added in all of the additional items that you've removed from the -- from the OM&A activity charges and primary costs that we see on page 192?

MS. HANRI JACOBS: That's correct. The CC&A amounts reflected here on page 224 relates to the cost. Most of the cost was either in activity rates or overhead allocations.

(BRIEF PAUSE)

MR. BOB PETERS: So, Ms. Jacobs, Centra has taken the costs from the business units and the activity rates as well as the overheads, and it now directly assigns them over to Centra Gas?

(BRIEF PAUSE)

MS. HANRI JACOBS: That's ri -- correct, Mr. Peters. This is the cost that is not eligible for capitalization, hence the reason of removing it from the activity rates and the overhead capitalization rate.

MR. BOB PETERS: It's not eligible for capitalization under IFRS. Is that your suggestion?

MS. HANRI JACOBS: It's not eligible under capitalization under CGAAP.

(BRIEF PAUSE)

MR. BOB PETERS: I just want to make sure the Board is under -- understanding that, Ms. Jacobs. This move away from full-cost accounting is not driven as a mandatory requirement of IF -- IFRS, is it?

MR. DARREN RAINKIE: Mr. Peters, it is. In the standard that relates to property, plant and equipment under IFRS it's abundantly clear that overhead costs are not eligible as a cost of par -- property, plant and equipment.

What we're talking about here, and it's -- this is just the other side of the equation from what we've talked about at the electric hearing, is that we have been reviewing our overhead practices under Canadian generally accepted accounting principles for some time now and recognize that we have been on the aggressive side historically. So we've been making changes as we've gone along to try to remove those parts that we feel will ultimately not be compliant under IFRS.

The chairman and I had this discussion at the electric GRA several times, is the changes that we're making right now we believe are appropriate under Canadian GAAP, but they won't have to be unwound when we move to IFRS. In fact, it'll be going even further when we move to IFRS in -- in the longer run.

So this is the -- the similar cost that -- that we talked about at the electric hearing just now, the allocation to the gas item. And it's really just -- what we're doing is we're moving those costs that we believe will no longer be compliant under IFRS out of activity rates and overhead rates into these -- into the corporate accruals and adjustments.

And primarily it's related so that we can segregate these costs when we do move to IFRS, it's easier to do the comparable year reporting because they're in a bucket. They're not, you know, pieced in all the activity rates and the programs that you see.

So -- so it's really just a different way of representing the -- the same thing. And, of course, it's fair that we allocate these costs. These costs are being expensed at the corporate level, so it's fair that there's an allocation to the gas side of the business as well as the electric.

MR. BOB PETERS: And so, Mr. Rainkie, I think you indicated to the Board that leaving these charges as part of overheads and in the activity rates is permitted under Canadian GAAP?

MR. DARREN RAINKIE: Well, Mr. Peters, we had this same discussion at the electric GRA, is that we believe that we've been aggressive historically. And -- and the reason for these changes is to pull our overhead practices more consistent with other utilities in Canada under -- under CGAAP. So this is a change in estimate under Canadian general accepted accounting principles, but we won't have to unwind this when we move to IFRS. In fact, we'll have to go even further in terms of expensing more overheads and capitalizing less. But this change was made under Canadian GAAP. It was reviewed by our auditors as being a reasonable change.

MR. BOB PETERS: So I think the answer -- I'm sorry...

(BRIEF PAUSE)

MR. DARREN RAINKIE: I might add, Mr. Peters, that in past Board orders, the -- the PUB itself has indicated their belief that our practices were aggressive and has encouraged us to try to make some of those changes. And in the last electric Order 43/'13, if I'm not mistaken, I think they -- they were accepting of our changes on a -- on a corporate level. So this is simply that same change, the allocation of that same change, to the gas side of the business.

MR. BOB PETERS: But, Mr. Rainkie, my question was whether or not, under Canadian GAAP, you could have left it the way it was. And I think the answer is, yes, you could have, but you wanted to move away from full-cost accounting for a number of reasons. One (1) of which may be the previous PUB orders.

MR. DARREN RAINKIE: Well, Mr. Peters, our auditors are becoming increasingly concerned about those practices. So I'm not sure it's -- it's correct to say that we could have left it. We've been down this road and they've agreed with it, so.

You know, it's -- it's -- and then we talked about this fully at the electric GRA as being something that we believed we needed to do under Canadian GAAP to have consistent practices with other Canadian utilities. So, in my mind, the industry practices are Canadian GAAP. So when we do this we are conforming with Canadian GAAP.

MR. BOB PETERS: And this is a change in accounting policy then, Mr. Rainkie?

MR. DARREN RAINKIE: No, it's a change in accounting estimate because we're not changing our policy of capitalizing overhead. What we're doing is, we're changing the -- the pool of overhead, if you like. We're saying -- we're relooking at it and saying, you know, for some of the costs that we historically have been capitalizing, the connection between those costs and capital isn't as direct as -- as what it should be. So we're -- we're going to expense those.

Obviously, if you're putting pipe in the ground and you have pipe and labour, you know, to put that pipe in the ground, that is a directly, you know, related cost to putting capital in. And so those -- that's fairly capitalized.

So -- but when we get back to the head office, and we have things like accounting staff and depreciation on our -- on our buildings and those types of things, those types of costs that are less directly related to putting an asset into service, the accounting rules are becoming much more strict about capitalizing those types of indirect costs, if you like. And -- and that's -- that's the reason for these changes.

MR. BOB PETERS: With that explanation, Mr. Rainkie, you're indicating that you call it 'changing the accounting estimate' as a -- as opposed to changing a policy, correct?

MR. DARREN RAINKIE: That's right.

MR. BOB PETERS: And wouldn't it be also a change in estimate if the meter exchange costs got put into the overhead rate category?

MR. DARREN RAINKIE: No, that's -- that's definitely a change in policy because we're chan -- we're changing our method. We're moving from expensing to capitalizing. That is a change in policy. As it relates to overheads, Mr. Peters, it's -- it's a change in estimate because we're still capitalizing overheads. We're just changing the amount that we're capitalizing.

So that's why it's considered a -- a change in estimate. We still have an accounting policy of -- of capitalizing overheads, but what we're doing is moving those overheads that are really indirect and have very little to do with the level of capital activity out of the overhead pool.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Jacobs, back at page 192 under Tab 46 of PUB Exhibit 10, which is Board counsel's book of documents, the Board will note, as it looks to the bottom line on page 192, under the column of activity charges, that the activity charges represent the -- the largest portion of the -- of the OM&A expenses?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And the activity charges are made up of labour and benefits?

(BRIEF PAUSE)

MS. HANRI JACOBS: So the activity rate is basically -- consists of mainly labour, but it also includes the benefits, travelling, and motor vehicle and tools and equipment.

MR. BOB PETERS: But by far the largest portion of that would be the labour and benefits.

Would you agree?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And the labour and benefits are subject to collective agreements?

MR. DARREN RAINKIE: Yes, when -- when employees are unionized, Mr. Peters.

MR. BOB PETERS: What percentage of Centra's employees are -- or -- or the employees providing services for Centra are unionized, Mr. Rainkie?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, as you would recall, Centra does not have any of its own employees any longer. We all -- we have a -- all of the employees are Manitoba Hydro employees and we allocate costs between -- to the gas side of the business.

I'm informed there's about two hundred (200) CEPU members, Mr. Peters, that -- that work on the gas side, but -- but I'm not sure about our overall -- Manitoba Hydro's overall complement, how much is unionized and how much isn't. We could -- we could get that stat for you if you like.

MR. BOB PETERS: For explanation to the Board, Mr. Rainkie and Ms. Jacobs, does the Board then consider all of the activity charges shown on page 192 relate to CEPU activities?

MR. DARREN RAINKIE: No, Mr. Peters. Tho -- those activity charges would be any employee that have -- that has charged to the various programs that you see.

MR. BOB PETERS: And is the only union that has employees performing work for Centra Gas CEPU or are there other unions?

(BRIEF PAUSE)

MR. DARREN RAINKIE: I mean, there -- there would be CUPE workers as well, Mr. -- Mr. Peters, and AMHSSE, our -- our other association.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, while you estimated there may be as many as two hundred (200) CEPU equivalent full-time positions, as I understood your answer, providing services on the Centra Gas side, approximately how many would be under the other unions that you've mentioned?

MR. DARREN RAINKIE: Mr. Peters, I'd have to get that stat for you. I don't have that readily available. And what -- what we're doing here, of course, is we're allocating bits and pieces of people's time through activity charges.

So you -- it's -- it's not a figure you could just discern right from your general ledger. You'd have to, I think, estimate it somehow, Mr. Peters. If you know what I -- you know what I mean.

It's -- we -- we've got an activity rate for a particular individual and they might charge two (2) hours here, or four (4) hours there, or five (5) hours here, so it's not something that would pop out of our financial system easily.

MR. BOB PETERS: And those activity -- those activity charges, Mr. Rainkie, are tracked by way of time sheets?

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

MR. BOB PETERS: And at page 193, at Tab 46, of the book of documents we see the -- the wage settlements with Centra's unions. And while it reflects only one (1) union, Mr. Rainkie, CEPU, can the Board take it that the comparable information applies to the other unions such as CUPE, regardless of the number of employees whose activity charges are provided to Centra?

MR. DARREN RAINKIE: Mr. Peters, I'm -- this is one (1) area where I'm deficient, given my predecessor who had the benefit of being both on the finance and administration HR -- HR side of the business all at once.

I -- given that they -- they each collectively bargain with us there may be some similarities, but I wouldn't assume that they're -- they're 100 percent the same. They're all bargaining units that we bargain with individually.

I'd have to refresh my memory what the

other -- other bargaining units got during that time frame, Mr. Peters. I wouldn't want to hazard a -- hazard a guess.

MR. BOB PETERS: And you've already indicated that Mr. Warden worked harder than you, because he was involved in more activities, Mr. Rainkie, so I think -- I think I'll be a little gentle with you here in case -- in case he's reading the transcript.

What -- what --

MR. DARREN RAINKIE: He -- he probably is, Mr. -- Mr. Peters.

MR. BOB PETERS: Mr. Rainkie, what you've shown on page 193, at PUB Exhibit 10, is the wage settlements over the past number of years with respect to at least CEPU, correct?

MR. DARREN RAINKIE: Yes, that's what this is depicting.

MR. BOB PETERS: And, Mr. Rainkie, it indicates as a footnote that in 2008 there was a special adjustment made. Can you tell the Board the circumstances that gave rise to that special adjustment or are you aware?

MR. DARREN RAINKIE: Mr. Peters, I -- I followed up on that because it was puzzling to me.

And I think -- I'm not so sure that this IR is correct. I -- I think there was just a 2.9 percent general wage increase. I think at some point during the negotiations they had talked about a 2.2 -- a 2 percent general wage increase and a special adjustment for certain classes, but I think -- my understanding is, by the end of it, it was applied as a 2.9 percent general wa -- wage increase.

MR. BOB PETERS: All right. We'll take that last answer of yours in substitution for the -- for the indication on page 193, unless you advise the Board otherwise, Mr. Rainkie, are you okay with that?

MR. DARREN RAINKIE: Yeah, that would be great, Mr. Peters.

MR. BOB PETERS: And, Mr. Rainkie, you'll recall when this panel first was seated and I started asking questions I reminded you that none of my questions are designed to elicit what would be considered confidential information. But we see that, as effective December 22nd, 2012, and beyond, the wage settlement that applies to CEPU had not yet been settled.

Is that still the case, sir?

MR. DARREN RAINKIE: Yes, I -- I'm

advised that as recently as last week they were still in negotiations, Mr. Peters, and it can -- it's ongoing.

MR. BOB PETERS: And those negotiations are retroactive?

MR. DARREN RAINKIE: Yes. My understanding is they would apply back to the end of the last -- sorry, the end of the last agreement, the start of the new one.

MR. BOB PETERS: And, Mr. Rainkie, have -- has Centra put on the public record what's in its forecast in terms of the wage settlement amounts?

MR. DARREN RAINKIE: No, Mr. Peters. And of course we wouldn't want to do that while we're bargaining. But what -- what we ty -- typically do is we assume a certain level of productivity in -- so -- so we know that wages and benefits are -- are going up higher than -- then inflation.

So what we typically do is we budget for an inflationary increase in our operating costs, assuming a productivity factor, you know, between half and 1 percent. So I don't think you'll see anywhere in the material an explicit forecast, if you like, of -- of wage settlements, but rather a general budgeting provision of 2 percent in terms of wages, salaries.

MR. BOB PETERS: And, Mr. Rainkie, does Centra compare its wage -- wages and its wage settlement amounts with other jurisdictions?

MR. DARREN RAINKIE: Do you mean other utilities, Mr. Peters, or other juris -- other settlements in Manitoba?

MR. BOB PETERS: Well, let's start with other utilities.

MR. DARREN RAINKIE: I think there -- there were some que -- questions on this during the IRs, Mr. Peters. And I think there were some -- some comparisons of a few different classifications but not a comprehensive benchmarking study, if you like.

MR. BOB PETERS: And in terms of Manitoba wage settlements, Mr. Rainkie, Centra monitors its wage settlements relative to -- to other provincial settlements?

MR. DARREN RAINKIE: Yes, Mr. Peters. We would -- we would be looking at what's happening in the Moni -- Manitoba marketplace.

MR. BOB PETERS: And if there's a provincial mandate for -- for no wage increments, is that carried through to Centra's negotiations and its -- its unions?

MR. DARREN RAINKIE: Yes, there have

been times when there has been a zero percent wage increase.

(BRIEF PAUSE)

MR. BOB PETERS: Let's continue on the OM&A changes in accounting policies, if we can, Mr. Rainkie and Ms. Jacobs. On Tab 47 -- sorry, in Tab 47 at page 195 of Volume II of Exhibit PUB-10 the Board will see a chart where the Centra Gas OM&A expenses have increased from approximately $53 million over to $68.8 million, correct?

MR. DARREN RAINKIE: Yes, that's the top line increase in the cost, Mr. Peters.

MR. BOB PETERS: Yes. And -- and what -- what is then depicted is the accounting changes by year and amount in the second line item, Mr. Rainkie, that will -- will show how Centra has increased its accounting change amounts to include those in OM&A expenses rather than -- than in capital?

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

MR. BOB PETERS: And one of the things this chart does attempt to show, then, is that the compounded annual increase from '11/'12 through to

'13/'14 would, on the face of it, appear 5.2 percent. And then, as I think was said in the direct evidence of Centra, if you back out the accounting changes, the increase is closer to 2 percent.

MR. DARREN RAINKIE: Yes, for that particular time frame it's about 1.7 percent, Mr. Peters.

MR. BOB PETERS: That said, Mr. Rainkie, this is a method of presentation but it is the same amount of money that is being expended by the Corporation, it's just accounting for it differently?

MR. DARREN RAINKIE: Well, Mr. Peters, operating costs -- our operating costs, I mean, there's lots of -- lots of accounting. We're look -- we're -- we're looking at the incremental accounting changes of 7.8 million here, which is a, you know, a large increase in -- in terms of Centra's operating costs. But operating costs inherently are -- are a mix of cash and -- and, you know, accounting accruals.

So I'm -- I'm not sure, you know, this notion that, well, that there's no change in the costs. I mean, embedded in the -- that number of 61.004 million is a -- is a number of accounting conventions. So it's not like that's all cash and the

7.8 million is just accounting entries, Mr. Peters.

So, you know, I -- we just should be careful about those types of -- those types of notions. Operating costs are what they are. We follow generally accepted accounting principles, and that's how we get our operating costs.

What this schedule is trying to do is give the Board some perspective on -- on those kinds of costs that are controllable versus those that are -- are more or less controllable because of changes in accounting practices, nothing more than that. It's -- it's an analytical tool to give the Board some information on -- on how -- how we're doing, in terms of cost containment.

MR. BOB PETERS: Well, Mr. Rainkie, I think we're back to our same discussion that from a factual perspective, Centra could have left the $7.796 million in the capital expenses of the Corporation and -- and continued to be as aggressive as it had been in the past, at this point in time, for the test year.

MR. DARREN RAINKIE: No. No. Some of those accounting changes are re -- we're required by changes in -- in -- in standards, like, the intangible one was a change in standard, Mr. Peters. And I -- I -- I don't think I agree with your proposition. I think that there are -- there are, in the industry, generally accepted way -- overhead practices, and we are changing our practices to be consistent with what's in the industry.

You -- you won't find the -- the -- the CGAAP section on property, plant and equipment is about three (3) pages long and provides very little direction on -- on how to go about deciding what -- what gets capitalized, what gets expensed.

There are conventions in the industry in terms of that. And the changes that we are -- we have made are -- are designed to be consistent with what's happening in the utility industry and, as I pointed out earlier, are also consistent with past, I guess, recommendations of the Public Utilities Board, in terms of -- of looking at that and capitalizing less.

So -- so I think when you have objective evidence out there in the industry, and you also have your regulator pushing you to -- to make some change, that I -- I'm not so sure I agree with your proposition.

MR. BOB PETERS: Well, let's turn to page 198 and see if we can keep hammering you on this point, Mr. Rainkie. On page 198 in the book of documents, there's a breakdown of the summary of the accounting changes that Centra has made in its IFF-12, sir and ma'am.

MR. DARREN RAINKIE: Part of those, this doesn't include the pension benefit changes and the reclassification of operating expense recoveries to -- to other income. But these are the -- the ones that are -- are more overhead related, if you like, Mr. Peters.

MR. BOB PETERS: And that's why it doesn't add up to $7.8 million. You've just --

MR. DARREN RAINKIE: That's --

MR. BOB PETERS: -- indicated what --

MR. DARREN RAINKIE: That's my --

MR. BOB PETERS: -- the difference was.

MR. DARREN RAINKIE: -- point exactly. Yeah.

MR. BOB PETERS: All right. Well, let's deal with the items that are listed. And when we first of all get down to the very bottom of the page, on page 198, there are intangible assets which are ineligible for capitalization. That, to me, I'm suggesting to you, Mr. Rainkie, was -- was a required or a mandatory change that the Corporation had to make.

Is that correct?

MR. DARREN RAINKIE: Yes, when the good will and intangibles section of the handbook came in place, our -- our view of that was that we had to make that change. Yes.

MR. BOB PETERS: And, conversely, my suggestion is that those line items above that total $4.978 million, those would be what I would put to you, sir, as being voluntary changes, although made for the reasons that you've enunciated, to move away from full-cost accounting and to be -- what you believe to be more compliant with previous directions that the Board has given on the -- on the electric side?

MR. DARREN RAINKIE: Well -- well, we've certainly done them by our own hand, Mr. Peters. When you're looking at an accounting estimate -- an overhead is an accounting estimate, and it's like depreciation in many regards. When you have evidence out there that your practices are not consistent with what's going on, you can't just ignore that -- as a professional, ignore that evidence.

So, for instance, when we did our depreciation study in 2011/'12, it was a very comprehensive study. It took a little longer than what we expected. We didn't have that finished until the middle of the 2011/'12 fiscal year. We implemented that retroactive to April 1st, 2011. We had evidence that we should be changing our accounting estimate.

Granted, it comes from -- perhaps more from the preparation for IFRS, but we've been looking at our overhead practices for a number of years now, going back to 2008, at the very least. And we've always made changes, Mr. Peters, I suppose.

But we started looking at this in a comprehensive way back in 2008. And as we got more and more information, we talked more with our auditors, we talked more with our -- our IFRS advisors, KPMG. We did some surveys through the Canadian Electrical Association. We understood that our practices were aggressive.

And I suppose what I'm trying to suggest to you is that when you have that evidence in your storehouse, you just can't ignore it. You just can't say, Oh, well, we'll -- we'll just, you know -- you know, wish it away. We have that evidence and that's the nature of a change in accounting estimate. When you have that evidence you have to act on it professionally. And we did.

And as I -- as I said, we had this discussion in a significant way at the last electric GRA and I think that the findings of the Board were that they were accepting of our changes for rate setting purposes. And as I sit here today, I know this is a separate proceeding, but I -- I don't think there is any differences in the businesses between the gas and electric side that would cause that determination to be any different.

MR. BOB PETERS: Mr. Rainkie, the changes that you're making will not have to be unwound under IFRS.

Is that correct?

MR. DARREN RAINKIE: That's correct. I -- I think the Chairman and I had several discussions with that in the electric GRA. Because, I mean, you certainly wouldn't want to make a change and have to unwind it. But, in fact, as we move to IFRS we'll probably have to get even more aggressive in terms of making these changes, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, you

talked about having evidence of -- well, your peer group and -- and how others were -- were dealing with the full-cost accounting and moving away from it issue.

When we look at page 198, it appears that the decision by Centra to move away from that started in 2011 fiscal year and became even more prevalent in the 2013 year, correct?

MR. DARREN RAINKIE: Yes, Mr. Peters. You can see the two (2) line items under the 2012/'13 and the 2013/'14 years of IT infrastructure and related support costs, and billing depreciation and operating costs. So those were fairly large changes in accounting estimates, as you can see in the order of 1.8 million for the first and 1 million or so for the second.

MR. BOB PETERS: What was it that led Centra to make those changes as late as 2013 when it didn't come in for a GRA in that particular year? But why is that the year in which that accounting change was made, as opposed to previously, Mr. Rainkie, if -- if the Corporation was concerned about their peer group moving away from full-cost accounting?

MR. DARREN RAINKIE: Well, Mr. Peters, we -- we have been doing this gradually. As -- as better information has come about in terms of what our longer-term future is in terms of overheads, because it's a -- it's an area of significant judgment by the nature.

And -- and what we're doing here is we're taking the cost of the -- the whole consolidated organization and breaking it between gas and electric, Mr. -- Mr. Peters, but we have a very complex organization.

By -- the nature of utilities are that they're partly a construction company. So it isn't an easy task to figure out which overheads are just simply corporate administration that shouldn't go to capital, and those types of kind of semi-direct overheads, if you like, Mr. Peters, that should go to -- sorry, it's tho -- those that are really far away from the activity of capital and should be expensed, and those that are kind of in that middle zone where they -- they have some relation to the capital.

So it's taken a while for the industry to kind of go through. There's no guidance. While IFRS is very specific that there should be no capitalization of administrative in general overhead, it doesn't provide any guidance in terms of what that is, so it's left to the preparers of financial statements to sit back and decide, you know, what -- from a matter of professional judgment, I suppose, what's in and what's out.

And as well, we're -- we're conscious that we're a regulated utility. We charge rates to customers. So we did -- we don't want to push this all through in one (1) year. We've been making these changes over time to move this into our revenue requirement, because we haven't forgotten the customer in all this.

We know we're -- we're eventually going to have to go and refresh our rates, so we've been doing this and, you know, in -- in steps. We're trying to take out the most offensive parts. I shouldn't use that term, but, you know, as we sit down every year to look at this, and we do look at this every year, and we've made changes almost every year that I've been involved, but these are just larger changes, because of the real change in -- in thinking and then counting on this, we -- we have been moving out the parts that seem to be the -- the most offensive, you know, as soon as possible.

And -- and that's been our approach is to try to kind of move this into the revenue requirement over time, so there isn't a large impact to the customers all at once.

MR. BOB PETERS: Thank you, Mr. Rainkie. You're suggesting to the Board that Centra has systematically moved those costs out of capital that are most suspect to, perhaps, a disallowance or offending the IFRS standard, and then is working its way towards the least suspect of those items in the -- in the latter years before it gets to IFRS?

MR. DARREN RAINKIE: Yeah, that's -- that seemed like a systematic approach for us, Mr. Peters, in terms of how we deal with this rather significant issue.

MR. BOB PETERS: Mr. Rainkie, just turning to page 197 with yourself and Ms. Jacobs, the graph that was provided here is -- again, to demonstrate perhaps what you -- what you put into your words in a previous answer to me, sir, the red line represents Centra's OM&A expenses before the accounting changes, or more accurately, it's Centra's OM&A, which includes the accounting changes, correct?

MR. DARREN RAINKIE: Yes, this -- this can get confusing, like a before and after tax for tha -- I think that's the best way to put it, Mr. Peters, is the red line includes the accounting changes.

MR. BOB PETERS: Whereas the green

line, the accounting changes have been removed?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: The reality is Centra's red line is the reality of where your OM&A numbers are, correct?

MR. BOB PETERS: That's right. Those are the amounts -- the red line represents the amounts we've included in revenue requirement and rates.

MR. BOB PETERS: And again, this was an attempt to show that once Centra removed the accounting change impacts from its OM&A, it was a lower impact and was, perhaps, tracking the 2003/'04 OM&A amount escalated by inflation?

MR. DARREN RAINKIE: Yes, that was the purpose of the chart.

MR. BOB PETERS: All right. Mr. Rainkie, to the extent that your counsel will allow me to go here, I want to turn to page 200 with the panel, and also for the Board's edification.

Page 200, in Tab 47 represents the scheduled view of the OM&A changes that are being made by Centra, and they're broken down into Canadian GAAP changes as well as IFRS changes.

Would you agree with that, Mr. Rainkie and Ms. Jacobs?

MR. DARREN RAINKIE: Yes, that's how this chart is constructed, Mr. Peters.

MR. BOB PETERS: All right. And so when we get -- when we get to the test year, in particular the -- the 2014 test year, we see the -- the total Canadian GAAP changes of the $8 million, and those are the numbers we've spoken about heretofore?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Now, this chart is incorrect, Mr. Rainkie, is it not, because there appears to be an assumption that IFRS will be in place for fiscal 2015 for the Corporation.

MR. DARREN RAINKIE: Probably more or best -- or best to say that it's outdated, Mr. Peters, not incorrect. But it's -- since the preparation of the 2012 forecast, of course, the Accounting Standards Board has given us the additional one (1) year deferral to 2016.

MR. BOB PETERS: Didn't mean to be pejorative, Mr. Rainkie. But the -- the heading -- the line -- the fiscal year label 2015 would be probably more accurately seen by this Board as 2016.

Would you go that far?

MR. DARREN RAINKIE: Yes, that -- that's probably the best way for the Board to think of it.

MR. BOB PETERS: And so now we're talking beyond the test year, Mr. Rainkie. And there are IFRS changes looming in 2016, according to this schedule.

That be correct?

MR. DARREN RAINKIE: Yes, Mr. Peters. Just before we go too much farther though, this -- this table was also produced and the forecast was produced on the assumption that we were going to write off rate-regulated assets and start expensing those expenses.

And as we talked about, I think it was yesterday, at least the interim standard, if it's approved, would allow us to at least push that off, if not, permanently.

MR. BOB PETERS: What you're telling the Board, Mr. Rainkie, is that in the bottom third of the chart under, "IFRS changes," that DSM line item of $8 million may not be there?

MR. DARREN RAINKIE: Yes, and as well as the regulatory cost line of 1 million.

MR. BOB PETERS: Yes.

MR. DARREN RAINKIE: That particular year might -- might not be there.

MR. BOB PETERS: Because the regulatory cost is also currently treated as a rate-regulated asset?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: But what you -- what you do tell the Board is that, in addition to the OM&A changes you've been making now as accounting changes, it appears there's going to be another $2 million forecast of future changes.

Would that be a correct interpretation?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And without getting into any specifics of that, Mr. Rainkie, I think you had agreed with me that you have moved the most suspect of the cost current -- currently capitalized over to OM&A, and are working towards the costs that are least suspect under IFRS regime to be expensed as opposed to capitalized.

What's left in that $2 million?

MR. DARREN RAINKIE: Mr. Peters, it's -- there's a number of components of it -- trying to -- trying to think myself. I think there's training costs in there. There's the capitalization of department and division managers. There's -- I'm trying to think what else is in that bucket.

At the corporate level, we're talking about $36 million of costs, if I remember correctly. Just hold on one (1) second, Mr. Peters. There's another category or two (2) that's escaping my mind right now.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, also in that category would be service areas, like accounting and HR, that currently little pieces of those are being capitalized in -- in the overhead, fleet management and store's management costs, those types of costs, Mr. Peters.

So -- so the 2 million here is an allocation of what we expect we're going to have to do at the corporate level to the gas operations.

MR. BOB PETERS: That exhaust your memory on that, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, it does. If you're interested in the gory details, Mr. Peters, I think there are several schedules in the electric GRA that -- that break that -- the number at the consolidated level down.

MR. BOB PETERS: No, no, I'm not

looking for that undertaking, Mr. Rainkie. But you did mention that, on a corporate level, the amount of expenditures that are still identified as, perhaps, offending the IFRS rule of no capitalization of overheads on OM&A, total about $36 million?

MR. DARREN RAINKIE: That's my memory, Mr. Peters.

MR. BOB PETERS: And so this $2 million represents a corporate allocation of that -- of a share of that $36 million to the gas subsidiary?

MR. DARREN RAINKIE: Yes, that's what this is trying to do.

(BRIEF PAUSE)

MR. BOB PETERS: And Mr. Rainkie, just because we've talked about it already, there's a line item on page 200 called, "Meter changes," under, "IFRS changes." It's the last item.

And it shows that there would be a reduction in OM&A costs of about $5 million under IFRS related to what we now know is the -- the Meter Exchange Program, correct?

MR. DARREN RAINKIE: Yes, Mr. Peters, this -- this was the -- as you said, the simplifying assumption we made in the 2012 forecast, that we would harmonize the accounting policy to one of capitalizing. As I indicated yesterday, that's very much in dispute whether that's going to happen or not, so we should be careful about reading too much into that line item at this point.

MR. BOB PETERS: When you say, "In dispute," Mr. Rainkie, what you mean is it's under discussion, or is there a boardroom fight that we don't know about?

MR. DARREN RAINKIE: Once again, Mr. Peters, you're more eloquent in your speaking than I am, but you're -- you're right, it's under review.

MR. BOB PETERS: It's under review by the Corporation, by Centra, together with its -- its auditors and its IFRS consultants?

MR. DARREN RAINKIE: Yes. Once we take a position ourselves, we will be referring to our auditors and perhaps, our IFRS advisors, I'm not sure on this particular case, but certainly our auditors, Mr. Peters.

MR. BOB PETERS: When does Centra expect to come down on a definitive position that will be commented on by the auditors, Mr. Rainkie?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, as I indicated yesterday, we're juggling a number of balls in terms of IFRS compliance, so this one hasn't got a specific timeline associated with it. But obviously, in the next year, we're going to have to come to -- to grips with this particular item given that we're transitioning to IFRS in 2015/'16.

MR. BOB PETERS: And, Mr. Rainkie, there was one (1) point in time when Centra thought you'd be under IFRS today. Wouldn't that be correct?

MR. DARREN RAINKIE: Yes, Mr. Peters. And then the mess of rate-regulated accounting, and the continuing off -- on again, off again discussion happened for a number of years, and threw the industry into to a bit of a -- a bit of a curve ball.

MR. BOB PETERS: But the point that I'm getting to, Mr. Rainkie, is that, had that first date come to fruition, a final decision would have had to been made on these meter changes and meter charges, correct?

MR. DARREN RAINKIE: Well, Mr. Peters, as I said yesterday, this -- this was not really on the radar screen because previous to the changes in --

in Measurement Canada's requirements, at least on the gas side of this business, this was a pretty immaterial transaction.

So it's been those -- those recent changes that have alerted us to the fact that we have a harmonization issue here that we have to look at. So this was not something that was in our plan to look at back in 2008 or 2009 or 2010. It's been a relatively recent issue that's pro -- cropped up.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, I -- in light of that last answer, I flip back to page 190 of the book of documents. And I'm -- I'm looking at the meter repair and calibration costs for the test years going back to '08/'09, following it through to '09/'10, and I'm seeing it come in around the $2 million mark. This is under, "Meter repair and calibration."

And then we go up again under the, "Customer service and distribution," and the 'meter changes' item that I believe is the one that is still being determined. We're still in excess of $3 million, going back to those early years.

Are you with me, Mr. Rainkie?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Well, first of all, Mr. Peters, I don't think there's any dispute about the meter repair and calibration costs. Those are -- those are not betterment costs. Those are -- those are expensed on both sides of the business, as we talked about. And the meter exchanges, I mean, the costs have doubled, Mr. Peters, over that time frame, from two point three (2.3) to -- well, maybe not quite doubled -- to four point four (4.4).

So it wasn't as a material item, as I indicated a couple years ago. I mean, we've been dealing with issues of overhead, Mr. Peters, and -- and pension and benefits, and writing off rate-regulated assets that far dominate this one. This is a fairly small item in the grand scheme of things.

MR. BOB PETERS: And that's why it wasn't given a higher priority then, Mr. Rainkie?

MR. DARREN RAINKIE: That's correct.

(BRIEF PAUSE)

MR. DARREN RAINKIE: I should add, while we're on this page, may -- Mr. Peters, that there -- part of the reason for the debate is, is that we are expensing meter repair and calibration costs. And -- and as I said yesterday, the meter exchange costs, there is a good argument that they're of a similar ilk to the meter repair and calibration costs. And -- and that's why we've decided to take a careful look at this, rather than just assuming that we would follow the Manitoba Hydroelectric policy.

MR. BOB PETERS: So that's part of the internal discussion that's going on in the boardroom?

MR. DARREN RAINKIE: Well, it hasn't quite made it to the boardroom yet, but in the meeting rooms, Mr. Peters.

MR. BOB PETERS: And you're just giving the Board one (1) side of that argument as to, perhaps, the meter charges -- sorry, the meter changes expense that is being expensed as an OM&A expense annually, maybe should stay that way because that's what's happening under the meter repair and calibration line item?

MR. DARREN RAINKIE: Yes. Yes, I mean, there are other sides to the argument. And I'm also influenced by what I -- what I understand is happening in the natural gas industry and that -- that mostly this is expense. So -- I mean, I take notice of those types of things, Mr. Peters.

MR. BOB PETERS: Perhaps, though, Mr. Rainkie -- and we've covered this topic, I think, for a -- probably enough. But on Tab 48 of the book of documents --

MS. MARILYN KAPITANY: Could -- could I just ask one (1) clarification question --

MR. BOB PETERS: Oh, I'm sorry.

MS. MARILYN KAPITANY: -- before we move from this tab? It's on page 197. I think I heard you say that, in terms of what's included for the rate requirement, it would be the numbers that are represented by the top red line and not the bottom green line?

MR. DARREN RAINKIE: That -- that's correct. What we're asking for in revenue requirement is our total operating costs, which is represented by the red line. What this chart is really trying to do is lay out for the Board how successful we've been, in terms of trying to contain costs within the rate of inflation. So we're -- we're trying to just analytically remove those accounting changes to -- so that there's a consistent apples-to-apples comparison of the rest of our operating costs.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie --

THE CHAIRPERSON: There -- sorry, Mr. Peters. Were you -- were you intending to -- to ask any questions regarding the net salvage value?

MR. BOB PETERS: I was, but at a -- a later point in time, but not in great depth, sir. If you -- feel free if it's something you want to deal with now.

THE CHAIRPERSON: Well, I guess, without trying to resurrect a discussion that we had some weeks ago with respect to the electricity rate application, I -- you know, we -- we did agree that net salvage would be addressed at the time of conversion to IFRS. And now, I guess, the question I have to ask is: What are -- what are your goals now that -- with respect to -- I'm sorry.

What is your perspective with respect to net salvage value given the -- what's going on at the -- with IFRS and rate-regulated assets?

MR. DARREN RAINKIE: That's a good question, Mr. Chair, because that -- that is -- that's going to cause us to -- to look at that very carefully again. I mean, as we expressed at the electric hearing, the concept of negative salvage value is a -- is a regulatory concept that's been around for a long time.

And it's not that we don't believe in that concept; it's just that our reading of IFRS was telling us that that was no longer acceptable for accounting purposes. So we were going to -- to follow IFRS and remove those costs from depreciation.

And, as we -- as we talked about before, there was an element of, that was a way for us to manage the overall impacts of IFRS for the customers. So while we were willing to give up the concept, there was an -- an aspect of managing the overall impacts for customers.

So now, with the prospect that rate-regulated accounting will continue, it would allow us to continue that appr -- that practice if the interim standard is approved as we -- as we know it today. But then I think we still have that -- that issue of what are the other impacts to -- to the customers? And should we use that as a -- as a way of trying to, you know, ease our way into IF -- IFRS and reduce the cost to the customer?

So we're going to have to go -- this is

another debate. We're going to have to go back and say, Well, we still believe in the concept of negative salvage value. Do we -- do -- should we still use it as a bit of a buffer, in terms of the impact to customers?

And -- and we haven't come down on a -- on a final -- a final determination on that. As well, the debate over ELG. Average Service Life and ELG will still be alive, and we'll have to see how that all comes together and whether we maintain negative salvage value on a principal basit or -- basis or use it as a -- as a buffer against immediate rate increases.

I'm sorry I can't -- I don't have a definitive -- definitive decision for you today, but this is part of the mix that we're going to have to consider and bring it back to the Board in some of our next rate applications.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, let's just explore your discussion with the Chairman, a couple of areas.

The net salvage accounting policy used by Centra is not a rate-regulated asset, is it, sir?

MR. DARREN RAINKIE: Well, it's -- it's not captioned as a rate-regulated item, but it's a rate-regulated practice. And as we talked about yesterday, under the new interim standard, if it's approved, we would have to segregate out -- that out of our accounts, at least on a go- forward basis.

So if we're going to continue that practice, it would have to be more scrupulously segregated in our financial statements, and as a rate-regulated liability, I -- I supposed in this case, Mr. Peters.

There are a number of -- of accounting practices in the utility business that are particular to the utility business, that aren't segregated on the financial statements as rate-regulated assets or liabilities.

And one (1) of the things I think that this new standard is trying to accomplish is that it'll have to be much more explicit so that readers of financial statements across the world can compare and contrast different types of accounting policies more readily.

MR. BOB PETERS: The exposure draft to which you referred in your answer, Mr. Rainkie, is that most recent one that was referenced in the book of documents that we reviewed yesterday?

MR. DARREN RAINKIE: Yes, that handy summary that you had, Mr. Peters.

MR. BOB PETERS: You're welcome. The exposure draft was talking about existing policies that would be allowed to continue, as opposed to creating new policies, correct?

MR. DARREN RAINKIE: It was, but -- and Ms. -- Ms. Jacobs talked about this though, is that -- and this is -- this is some of the -- the devil is in the details, I guess, I suppose, of this exposure draft is -- what you need to do under the exposure draft is, first, apply all of the IFRS standards as they exist, which in this case would -- you wouldn't be applying the concept of negative sal -- salvage value.

And then, once you get your total assets and liabilities, or your total income, before regulatory assets -- or before regulatory accounting, you then need to segregate out those items that are specifically rate-regulated assets, liabilities.

I guess -- I suppose they call them deferral accounts. They're not trying to use the term 'assets and liabilities', because they haven't figured out if they meet the conceptual framework of IFRS as assets or liabilities quite yet. They're using a neutral term, 'regulatory deferral accounts', to get us in -- past this interim phase.

So while we'll continue to apply these practices if the interim standard is approved, it is with a different presentation. The concept is apply IFRS first and then segregate out all of your regulated assets and liabilities.

So given that negative salvage value is a regulatory concept that does -- that wouldn't exist in IFRS, we're going to, if we continue this practice, have to segregate it out.

MR. BOB PETERS: You can confirm to the Board, Mr. Rainkie, that the PUB never -- never approved, as a rate-regulated asset or otherwise, the net salvage value policy used by the Corporation?

MR. BOB PETERS: Well, Mr. Peters, the Board has reviewed the depreciation studies of Centra Gas in detail in a number of hearings, and it's been very explicit that negative salvage value has been included in those depreciation studies.

So I don't -- they haven't -- they haven't said, Set this up as a regulatory asset, but they certainly have endorsed the practice through setting rates for decades.

MR. BOB PETERS: And -- and currently your depreciation rates include a factor on account of net salvage?

MR. DARREN RAINKIE: Yes, for the applicable accounts.

MR. BOB PETERS: And to -- and to catch up to you and the Chairman, Mr. Rainkie, on page 201 of the book of documents, at Tab 47, that page deals with the presentation of depreciation expense. And when we go under, "IFRS changes," just above the middle of the page, there's a line item called 'Removal of net salvage from depreciation rates', correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And while the heading is the fiscal 2015, I think you've agreed with me, that it would probably be more accurate to depict that now as the 2016 fiscal year, sir.

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

MR. BOB PETERS: And so what you and the Chairman were talking about is that if Centra was to remove the net salvage that is currently in depreciation rates, that would amount to about a $5 million reduction in those rates?

MR. DARREN RAINKIE: Yes, in those costs which would flow through to rates, yes.

(BRIEF PAUSE)

MR. BOB PETERS: In light of your discussion with the Chairman, Mr. Rainkie, should the Board conclude that, at the next general rate application, Centra will have landed on a position relative to how to treat net salvage value?

MR. DARREN RAINKIE: Yes, Mr. Peters. Assuming that in the not too distant future we're coming for 2014/'15 -- 2015/'16 rates, we'll -- we'll have to lead evidence and -- and -- for the Board, in -- in terms of how we think we should apply IFRS for rate-setting purposes.

On reflection, we didn't lead a lot of evidence at the start of the electric GRA on this. And so the next time we come, I think we will lead some evidence to -- to try to inform the Board how we see things.

Because when we pick accounting policies, it's simply not just to satisfy, you know, accounting requirements. Of course, we have to meet accounting requirements, but we also are cognizant of the fact that those accounting policies am -- have impacts on our revenue requirement and that our business is a very long lived business. So we -- we try to incorporate both financial reporting and rate setting in our selection of accounting policies where judgment is allowed.

And, you know, I don't think it's any secret, Mr. -- Mr. Peters, that we would like to -- I -- I'm not sure, during this NFAT proceeding, exactly how we're going to deal with the need for rate changes. We might have to come to the Board on an interim basis just because we're all going to be very busy for the '14/'15 year, if I've got my years right.

But certainly, as we come to the '15/'16 year, we're going to have to file a full test year. And I think what our -- our plan is to, hopefully, with the endorsement of the Board, to file an integrated electric and gas hearing so we can have this discussion about IFRS once and not have to have it duplicated in -- in two (2) -- two (2) separate proceedings.

But definitely, Mr. Peters, we'll have to come and wrestle with the idea of how -- how to -- how to incorporate IFRS into the rate-setting process. And -- and we'll explain our selection of accounting policies under IFRS, the rationale for them, and why we believe they are good for both financial reporting and rate-setting purposes.

Short question, long answer.

MR. BOB PETERS: It gets longer, Mr. Rainkie. I'm wondering whether, included in that evidence, you will be in a position, or Centra will be a position, to come back with the -- the cost allocation study that the Corporation has deferred, if I can use those words, pending IFRS?

MR. DARREN RAINKIE: Let me just reflect on that on the open record here, Mr. -- Mr. Peters. Yes, I -- as I said yesterday, I think the source of that directive, as I reflect on it, was the complexity of our current allocation system. And when the Board has asked us to do a review of it, I'm not sure if I should imply that they wanted anoth -- another external review, as we did many years ago through KPMG, or if it was more an internal review.

But before we go hiring people at, you know, two (2) to five hundred dollars ($500) an hour to do an independent review of this, I think what we'll -- what we have to do is settle down the accounting and what -- how we think the allocation is going to work between the two (2) utilities, once we pick our -- our final overhead practices under IFRS. And then -- and then we will come to the Board and explain what changes we are making in our systems. And hopefully, some of those changes are to simplify the process.

So whether we need to go to that extent of having an -- an external review, I'd like to think that we could articu -- we could change our system and -- and -- and articulate it in this forum so that people understood it for rate-setting purposes and not have to spend a bunch of money on an ex -- an external review.

So to the extent that inherent in the mix of all this is that we're going to have to figure out our final overhead practices as we move to IFRS and we're going to have to explain them to the Board, we're going to have to explain them to the Board. We're going to have to explain why we believe they're appropriate for both financial reporting and rate-setting purposes.

I'm hoping that we satisfy that directive through that, rather than some expensive external review, just because I -- I truly do believe that the source of that directive was one of confusion because of the complexity. And I'm not sure we need to go -- we have lots of the experts here, in terms of how this works, I think.

Perhaps through workshops or other -- other less confrontational processes, we can, you know, inform the Board advisors and Intervenor advisors on how this system works. So I'd like to take a shot at that, Mr. Peters, rather than just kind of going right directly to some expensive internal review and get all the -- the experts in here arguing back and forth. That's -- that's my views at this point.

THE CHAIRPERSON: I might add that -- my two (2) cents' worth. The -- I like your proposal that, you know, instead of negotiating this in -- in this venue, perhaps doing it through some other means. The experience of this Board with respect to cost allocation methodology changes has been a difficult one because of -- I'm specifically talking about MPIC, where the change to the methodology in that particular utility -- or service provider, rather -- took a number of years before it was accepted by this Board.

So alternative approaches to resolving this matter quickly, I think, would be quite interesting, I think, to PUB. And I guess one (1) concern I have, though, is in terms of timing, particularly if there are significant IFR -- IFRS changes that we do not hit later on with significant changes because of cost allocation methodology differences.

You know, I'm worried about, you know, there being a different increm -- increased cost to Centra that might have been handled more effectively through doing a bunch of changes together and having a more rational approach to effecting change.

I'm not sure if that's clear, but it's certainly clear in my mind.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, the cost allocation methodology is another one (1) of those issues that is a common or generic issue, if I can use that word, to the Hydro side of the business as well as the gas side of the business, correct?

MR. DARREN RAINKIE: Exactly, Mr. Peters. And that's why it -- it makes sense to review this once and -- and to get a certain level of understanding by all parties before we, you know, go at the combative IFR -- IR process. I -- I'm not sure, after almost a quarter of a century in this, that the IR process gives us that understanding that you could have when you have a whiteboard in front of you and you explain to parties how things work.

And so I'd like to take a shot at it, in terms of a less combative process, more of a collaborative process in terms of, like I said, maybe some -- some workshops or something like that, so we can get some understanding between the various parties before we start banging away at each other through IRs.

MR. BOB PETERS: All right, Mr. Rainkie, we did briefly talk about the cost allocation yesterday and the extant report or review. And we -- I think we agreed that the directive from the PUB was for Centra to propose the terms of reference that would be, in its view, appropriate, correct?

MR. DARREN RAINKIE: Yes, yes, I -- I think that you're right. The -- the actual directive does not give us the review but give us the process, if you like, to get to the review. And that's -- that's what stewing in my head as we speak, in terms of how we productively get -- go down that road.

MR. BOB PETERS: So the transcript of this proceedings is your draft of the terms of reference?

MR. DARREN RAINKIE: Well, yeah. I

don't want to get too far ahead of myself, but I think that hopefully, the Board is open to -- to some different ways of -- of going about our -- our regulatory business rather than just simply having hearings all the time.

I think we're -- we all reflect on our experience over the years. And -- and maybe there's other -- other jurisdictions use these types of more collaborative processes more than we have in the past. And -- and, you know, I'm kind of excited, in a way, to -- to start one, and to get some experience about how they work, because I know there's concerns about how they work and how the Board does its job in terms of, you know, being the decider in the end.

But I'm -- I'm sure, with reasonable people on all sides, we can work through those issues and come up with something appropriate. Other jurisdictions have been doing it for decades, so I don't see why there's any reason that we can't try that in Manitoba.

MR. BOB PETERS: And you're envisioning, Mr. Rainkie, a process that does include Intervenors and their consultants, as required?

MR. DARREN RAINKIE: Yes, yes. I mean, I think to be fair, when you're dealing with complex technical matters, I understand the Intervenors have to have some representation, and some people that can go through and understand it. And that's all part of being reasonable.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, just one (1) further thought. I -- I think, though, for all invol -- all involved in the room as -- as we enter this NFAT proceeding, though, I think we would like to see 2000 -- the 2014/'15 rate changes probably done through a -- some type of an -- an interim or paper process, if we could.

And what we're talking about is coming back on these types of matters in the context, I guess, of a, you know, 2015/'16 rate application -- maybe 2015/'16 -- '16/'17. So, obviously, people are going to be very busy in the next -- including the Board and advisers, et cetera, Intervenors -- during the next eight (8), ten (10) month period. And so we have to be, I think, careful of that period that we're not overloading everybody in the room.

And then the good thing about IFRS being deferred one (1) more year is it gives us that little bit of a breathing -- breathing room, in terms of being able to -- for the Company to pick its policies and its practices, and then be able to share them with the Board and Intervenors at the appropriate time.

MR. BOB PETERS: Mr. Rainkie, thank you for that answer and your -- your blue-skying on the record. But I -- I'm not going to make it come back to haunt you, sir. I'll -- I do want to turn, though, on a topic that we were talking about, in terms of the corporate allocations to overhead, and -- and turn up to Tab 49 of the book of documents. And maybe, specifically, we'll turn to page 219.

(BRIEF PAUSE)

MR. BOB PETERS: And I think when, specifically, if we look to the -- page 219, and maybe even also ahead to page 220, is where I'll start my questions.

Page 220, Mr. Rainkie, brings current the information up to and including the test year, correct?

MR. DARREN RAINKIE: Yes, it spans the time frame 2008/'09 to 2013/'14.

MR. BOB PETERS: And Centra reallocated information technology support costs and administrative building costs, previously included in activity or overhead rates, and those are now directly allocated to Centra through corporate allocations and adjustments?

MR. DARREN RAINKIE: Yes, Mr. Peters. Those changes --

MR. BOB PETERS: Those -- those are done using cost drivers?

MR. DARREN RAINKIE: Yes, Mr. Peters.

MR. BOB PETERS: And, specifically, do you know what the cost drivers are and -- and the types of cost drivers used?

MR. DARREN RAINKIE: I'm sure they're in this book somewhere, Mr. Peters. There's a variety of them, so let's -- let's try to find the right source for the Board.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, efficient as you always are, I think if you go to page 217 of your book of documents, the drivers are talked about on that page.

(BRIEF PAUSE)

MR. BOB PETERS: And, Mr. Rainkie, on page 217 -- and thank you, sir, for turning to Tab 50 in -- sorry, Tab 49 in the book of documents, page 217.

In terms of interest on common assets and the interest on motor vehicles, IT infrastructure, that allocation is done based on activity charges, correct?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And 90 percent goes to the electric operations and 10 percent goes to the gas operations?

MS. HANRI JACOBS: That's the current allocation that we're seeing by some of the activity charges being charged both to electric and gas.

MR. BOB PETERS: And, Ms. Jacobs, that 90/10 split is one (1) of the items that Mr. Rainkie was talking to the Chairman and myself about in terms of a generic issue that affects both utilities?

(BRIEF PAUSE)

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And, Ms. Jacobs, on page 217, when the Board sees the general and administrative department costs are allocated as between the gas and electric operations, the method of distribution is based on the total assets as a percentage for each corporation?

MS. HANRI JACOBS: That's correct. The corporate governance activities are allocating using -- using the total asset base as determining the percentage to allocate.

MR. BOB PETERS: And mathematically, Manitoba Hydro had 96 percent of the -- of the consolidated assets and Centra has 4 percent of the assets?

MS. HANRI JACOBS: That's correct. You can also see that in -- on the table in -- on page 223.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Jacobs, while we look at page 219 and 220 together, we start off on page 219, and we see that the percent allocated changes from -- and I'm looking starting with 2009 fiscal year. The amount allocated to Centra shown is

13 percent in that year, and it goes down over the next number of years.

And as we turn the page, it's now down to 10 percent, correct?

MS. HANRI JACOBS: Again, the allocation reflected in here is not how the cost is allocated. This is just taking the total program cost on the gas side and -- and -- as a percentage of the total consolidated cost.

(BRIEF PAUSE)

MR. BOB PETERS: Excluding the corporate allocations, ma'am?

MS. HANRI JACOBS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: The allocation to the business unit goes down; the direct allocation to Centra goes up?

(BRIEF PAUSE)

MR. BOB PETERS: I'm not sure you

agree with me, that puzzled look, Ms. Jacobs. What -- what -- the -- the items removed have been as -- have been used and incorporated into the direct allocations, correct?

MS. HANRI JACOBS: If you're referring to the CCA, the corporate cost allocations and adjustments that in -- that did increase, as we've removed the infrastructure and common building depreciation and operations costs into CCIS (phonetic), opposed to having that including in eith -- either activity charges or overhead rates.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, it might be a little bit early, but I wonder if we could take the morning recess at this time, and I'm going to reorganize my notes, as I understand Mr. Schulz will be joining us after lunch, I believe, and I have some questions for him. And I'll just work around those questions at the break and just make sure I can continue with this panel.

THE CHAIRPERSON: Fifteen (15) minutes would do it?

MR. BOB PETERS: It would.

THE CHAIRPERSON: Okay. So let's take -- let's resume the proceedings at quarter to 11:00.

--- Upon recessing at 10:32 a.m.
--- Upon resuming at 10:51 a.m.

THE CHAIRPERSON: I believe we're ready to resume the proceedings. Mr. Boyd, do you have a document you'd like to enter into the record?

MS. MARLA BOYD: I do. Thank you. Good morning. Paper in hand. We have a response to Undertaking number 4, which was provided by Mr. Sanderson in response to a question from you, Mr. Chair, asking for a comparison of prices being offered on fixed rate primary gas service.

We're in a position to file that now. And I would propose it be marked as Exhibit number 8.

--- EXHIBIT NO. CENTRA-8: Response to Undertaking 4

MS. MARLA BOYD: While I have the microphone, there's also one (1) matter that we'd like to clear up from yesterday's discussion between Ms. Jacobs and Mr. Peters. It refer to page 199 of the document. And Ms. Jacobs would like to clarify the comments that she made regarding the program costs.

MS. HANRI JACOBS: Mr. Peters, I made the comment on page 198 around the purchase services, indicating that my notes reflected that the increase was due to distribution maintenance. But my competent staff in the back row alerted to me that it's -- the change from 2011/'12 to '13/'14 relates, mainly, to consulting associated with the environmental work and advertising in DSM programs.

MS. MARLA BOYD: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you, Ms. Jacobs. Ms. Jacobs, just want you to assist the Board in understanding the depreciation future rate change that is -- that is coming.

And are -- is it correct, Ms. Jacobs, that the new depreciation study was filed based on the 2010 year-end plant account amounts?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And the new service lives and component groupings that were recommended by Centra's external consultant took effect April 1st of 2011?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And as a result, depreciation expense has reduced by over a million dollars?

MS. HANRI JACOBS: One point two (1.2) million for the test year, yes.

MR. BOB PETERS: Now, on page 263 at Tab 52 of the book of documents, we have Centra's breakdown of their depreciation and amortization expense, and this includes four (4) main categories that are shown: intangible assets, transmission plant, distribution plant, and general plant, Ms. Jacobs?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And in addition to the depreciation items, then there's depreciation on common assets, correct?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And, likewise, there's an amortization of demand-side management costs?

MS. HANRI JACOBS: Deferred assets amortization, yes.

MR. BOB PETERS: And those -- those depreciation on common assets, like the demand-side management, those are -- those are on Manitoba Hydro's books, and a portion is allocated over to Centra?

MS. HANRI JACOBS: The common assets, there is a portion of common assets that's actually Centra book -- Centra's books, the Banner system. So in there it's -- it's not just all coming from Manitoba Hydro. So, in essence, there is a portion coming from Centra back to the electrical side, too.

MR. BOB PETERS: And you made a reference to 'Banner'. Can you just explain to the Board what the Banner program is?

MS. HANRI JACOBS: It's a customer billing system.

MR. BOB PETERS: Is it housed on the Centra side of the business?

MS. HANRI JACOBS: There is -- there's actually Banner costs reflected on both utilities. So it's not all solely under the Cen -- on the Centra books.

MR. BOB PETERS: And if we look to the 2012/'13 year on page 263, Ms. Jacobs, and we look at the total depreciation on common assets for the '12/'13 year, that would sum up to approximately $17 million, would it? I don't think that number is readily visible on the chart.

(BRIEF PAUSE)

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And just -- pointed out to me that on page 269 the details of the 2012/'13 year are -- are set out in -- in, perhaps, different detail. And it comes to the same number, though. And then for the test year you're at approximately $18 million for the depreciation on common assets?

(BRIEF PAUSE)

MR. BOB PETERS: I'm sorry, depreciation on the -- on the total plant assets.

MS. HANRI JACOBS: That's correct, sir.

(BRIEF PAUSE)

MR. BOB PETERS: And then added to the -- added to the depreciation on common asse -- is the depreciation on common assets shown on page 263 of an additional $4.6 million, as well as -- you mentioned before without quantifying it, the demand-side management amount of 8.4 million, for a total of $30.1 million?

MS. HANRI JACOBS: The eight-point-four (8.4) is mainly demand-side management, but it also include one point two (1.2) related to other regulatory costs that's deferred, and site restoration costs. That's also a -- a regulatory deferral account.

MR. BOB PETERS: All right. And the site regulatory costs for the Board, does that relate to the Wilkes propane storage facility? Does anybody -- does that -- is that what comes to mind?

MR. DARREN RAINKIE: Sorry, those are site restoration costs, Mr. Peters, and they relate to numerous facilities.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Jacobs, on page 265 at Tab 52 of the book of documents, there's an extract from Centra's depreciation study that was filed as Appendix 5.8 in its filing. And the numbers that are reflected throughout on the chart on page 265, would it be correct for the Board to again make a pencil notation that the -- the year that's labelled, "Fiscal 2015," is probably more accurately viewed as 2016?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And what you're showing by doing that then, Ms. Jacobs, is that, specifically, the additional new items of the change in methodology, that is ELG, or Equal Life Group, if it is made by the Corporation it would be made commensurate with the implementation of IFRS?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And then we have had this discussion earlier about the removal of asset retirement cost from the depreciation expense. And there's about $5 million that the Corporation is considering removing from depreciation expense because under IFRS it has to?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And as I understood Mr. Rainkie's answers earlier, it is a matter that -- adjustment that could be made before IFRS, there could be an early adoption of that view, but that's not the -- the current plans of Centra?

MR. DARREN RAINKIE: That's correct, Mr. Peters. We're, once again, not making any retrospective changes. We would -- because that's a change that would be required on -- on adoption of IFRS our plan was to make that change when we move to IFRS.

As we -- as the Chair and I chatted about this morning, the recent exposure draft causes us pause to, I guess, look -- look at that and re-examine that and make our final decision. But as it was depicted here, this was assuming that we would be removing that on transition to IFRS.

MR. BOB PETERS: Ms. Jacobs, the -- the depreciation study that was based on the 2010 fiscal year replaced a depreciation study that was previously done in 2005.

Have I got that right?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And the external consultant used by Centra was the same external consultant that was used by Manitoba Hydro?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: So the same consultant did the electric side as well as the gas side?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And the consultant was -- just for the record, I don't think it's any secret and it's not confidential, I don't believe, that it's Gannett Fleming is the firm?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And they recommended life extensions for several accounts based on statistical evidence as well as industry comparative date as well as discussions with Centra Gas employees -- or Centra staff, I should say -- as opposed to employees?

MS. HANRI JACOBS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: On -- on page 268 of the book of documents we see a presentation of the depreciation rates. The 'Effective April 1, 2011' column changes, those were the changes put into place April 1st, 2011, by Centra, correct?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And is it correct as well that prior to implementing those rates there was no GRA or no -- no formal approval from the Public Utilities Board with respect to the changes from the 2007 rates?

MR. DARREN RAINKIE: No formal approval. Mr. Barnlund may -- may correct me, but my recollection is that we informed the Board before we made the change, and their direction to us that it would be reviewed at the next general rate application. I think there was a letter that went back and forth.

MR. BOB PETERS: And the -- the effect, Ms. Jacobs, is that from the composite weighted average rate shown on page 268 of two point eight-zero (2.80), it declined to 2.62 percent effective April 1 of 2011?

MS. HANRI JACOBS: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: And the future rates that are shown, it says, "Effective April 1 of 2014." Is -- should that read April 1 of 2015 at this time?

MS. HANRI JACOBS: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: And the impact of this on this rate application for the test year of 2013 is to change the services lives by extending them, and that would lower the depreciation expense by about $1.2 million.

Is that the correct number?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: Would it be correct, Mr. Rainkie and Mr. Barnlund, that while the schedule shows the rates effective April 1st, 2014, which, I believe, the witness has agreed it would be more accurately depicted as April 1st of 2015, Centra is not seeking approval of that change at this time?

MR. GREG BARNLUND: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: The Board can take from that answer, Mr. Barnlund, that Centra will be seeking Board approval in advance of making that change, if it does so at all?

MR. GREG BARNLUND: I expect we will be in contact with the Public Utilities Board at the appropriate time about that, yes.

MR. BOB PETERS: And from what we've heard, Mr. Rainkie, in discussion with the Chairman, Centra may re-think the depreciation methodology, including the removal of asset-retirement costs, and that would be part of the communication, Mr. Barnlund, to the Board?

MR. GREG BARNLUND: I expect that

that's part of what we would be discussing, yes.

MR. BOB PETERS: And, Mr. Barnlund, in the order that Mr. Rainkie referenced in his evidence earlier this morning, that is, Board Order 43/'13, which related to the electric side of the business, the Utility was directed to do further work with respect to depreciation, was it not?

MR. GREG BARNLUND: Yes, it was.

MR. BOB PETERS: And is that something that Ms. Hooper and her colleagues are attending?

MR. GREG BARNLUND: I believe we will be working on that, yes.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, just on that -- on that point, there's probably -- at some point we'll have to correspondence with the Board. I recall what that order was directing us to was to do a Average Service Life depreciation study. And, of course, our last depreciation study was based on an ELG study, so that's no -- that's no small feat to do that.

And I'm a little concerned about the timing of -- of that if -- if we are to put an ASL depreciation study in front of the Board, I thi -- I think the spirit of the order, if I understood it -- and may -- maybe there needs to be some corre -- correspondence and clarification of it, was that they weren't quite convinced about ELG and they would like us to do an ASL study and also provide some information about ELG for further consideration.

The difficulty that we will have is, of course, is that it's good to talk about that conceptually, but we have $15 million worth of plant to componentize. And so we can have the -- the -- the study, while it's a costly and -- and difficult endeavour, is only a -- a smaller part of it, depending on the decision that we get it takes -- we've been working at componentizing our plants under our current depreciation study for a couple of years now.

So that po -- cau -- causes us some problems. So I think we're going to have to think through that and work with the Board to find a desirable outcome for both parties. It's not -- it's not just as simple as -- as doing a study and putting it before the Board, the conceptual part of the discussion; it's how do we actually implement that.

So, if -- if the thought pattern is,

well, you can come back to the Board and we can re -- re-look at the issue of ELG, if we were able to come back to the Board and convince them that ELG is the way to go, we don't have any time left to actually accomplish that in the real world, given -- given the timelines involved.

So, that presents us with a bit of conundrum. So, that's something, I think, we'll have to -- we'll have to work with the Board on over time. I don't think we're -- we'll be corresponding, I think, with the Board during that time frame, not just coming back at a rate application with the final product to -- to think through how we accomplish that.

(BRIEF PAUSE)

MR. BOB PETERS: While we're on the Centra side, Mr. Rainkie and Ms. Jacobs, we'll -- we'll look at page 270. And here the upshot of this schedule is to -- is to take the expected costs on the gas side of the business of their total gross plant, figure out what has been already accumulated -- sorry, depreciated, and then determine what is the net book value.

That's what's done in the first three

(3) columns?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And then whatever the result is in terms of the total gross plant, minus the accumulated depreciation, yielding the net book value, multiply that by the appropriate deprecian -- depreciation rate to come up with the $18 million of depreciation expense to be recovered in rates?

MS. HANRI JACOBS: The depreciation percentage is not applied on the net book value. So it's applied on the cost.

MR. BOB PETERS: Yes, on -- on each of the line items the cost items has its own depreciation rate and that would be -- would be summed as opposed to one (1) number applied against the net book value?

(BRIEF PAUSE)

MS. HANRI JACOBS: The depreciation rate is applied -- I mean, we use the depreciation rate on -- on the cost value, not on net book value to determine the depreciation expense.

(BRIEF PAUSE)

MR. BOB PETERS: And the cro --

MR. DARREN RAINKIE: Mr. Peters, the net book value is the net of the gross cost and -- and the accumulated depreciation. And to calculate what your depreciation charge is you apply the depreciation rate to the gross -- to the gross plant in the first column.

The net book value is just a -- a calculation that we've been asked to do on this schedule for illustrative purposes.

MR. BOB PETERS: But what you're showing with the accumulated depreciation and the net book value is what's left to be depreciated of any particular asset?

MR. DARREN RAINKIE: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: While I'm on that schedule, Ms. Jacobs, at page 270, under, "Distribution plant," there's that item, 'meters', third from the bottom.

Have you located that?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And if I follow

'meters' across, in terms of a depreciation rate it says, "4.15 percent"?

MS. HANRI JACOBS: Yes.

MR. BOB PETERS: And that 4.15 percent can be translated into years by essentially one (1) divided by four one five (415)?

(BRIEF PAUSE)

MS. HANRI JACOBS: The four point one (4.1) is based on -- it includes some true-up so it was based on the depreciation study. So it's not just taking the -- the average service lif -- life in to determine the right, so.

MR. BOB PETERS: So yesterday I think I threw out the number of twenty-four (24) years, and I think you corrected me politely on the record, Ms. Jacobs, and made it twenty-six (26) years for meters.

Is -- is twenty-six (26) the more accurate number for the service life of a meter?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And then that discussion that I had with Mr. Rainkie and yourself and also with Mr. Prydun on the -- the Meter Exchange Program, if the labour related to the meter replacement was to be capitalized, can you tell the Board which account it would be accumulated in?

(BRIEF PAUSE)

MS. HANRI JACOBS: We'll have to open a new account as the -- this account is related to the actual meter devices that has a useful life of twenty-six (26). We'll have to determine, if we capitalize this meter exchange labour activity, what would be an actual useful life as well, I mean, what's the asset that we actually would have to retire at -- at the end of the day and have to manage.

MR. BOB PETERS: Does the schedule on page 270 include any other labour costs, Ms. Jacobs?

MS. HANRI JACOBS: That would be normal for part of a construction asset, yes.

MR. BOB PETERS: And so you're telling the Board that even though meters may be depreciated over twenty-six (26) years, the labour -- the capital labour expenses related to those meters may be something different than that?

(BRIEF PAUSE)

MS. HANRI JACOBS: So the -- my understanding is the initial install of the meter normally forms part of the new service. So that's why -- I mean, the labour associated with installing the meter would form part of the -- the services account under the distribution section.

MR. BOB PETERS: All right. And what you're saying there is that, under the services item where the labour is included, the -- the distribution -- sorry, the depreciation rate is 2.89 percent?

MS. HANRI JACOBS: That's right.

MR. BOB PETERS: And that suggests, then, that it would be as much as a thirty-five (35) year amortization of those expenses?

MS. HANRI JACOBS: Mr. -- Mr. Peters, I'm not sure you can actually say the activity for the exchanging the meter is the same as installing the service, because the service has a longer useful life while the meter exchange activity is an actual -- my understanding is, an actual site, a meter could be changed two (2) or three (3) times during that twenty-four (24) -- or twenty-six (26) years life period. So, again, as the meter exchange activity doesn't correlate with the meter device, neither does it correlate with the actual service life of the service

-- installed service line.

MR. BOB PETERS: In terms of what that useful life would be, Ms. Jacobs, that's something that Ms. Hooper and her colleagues have not yet come up with a determination?

MS. HANRI JACOBS: This is part of the meetings discussions that we have around meter capitalization and whether Centra should be following the electric side of the business or not.

MR. BOB PETERS: On the electric side of the business, what is the useful life of the meter exchange labour costs, if you're...

MS. HANRI JACOBS: I'll have to come back with that, Mr. Peters.

MR. BOB PETERS: Well, that would be located in the electric depreciation study?

MS. HANRI JACOBS: It should be.

MR. BOB PETERS: All right. Because I put it on the record here, and for the benefit of the Intervenors, I -- I would ask that as an undertaking. If you could, Ms. Jacobs, come back and advise the Board as to the depreciation rate, as well as the useful life determination of the expense of labour related to meter exchange?

MS. HANRI JACOBS: Sure.

--- UNDERTAKING NO. 6: Centra to advise the Board as to the depreciation rate, as well as the useful life determination of the expense of labour related to meter exchange

MR. DARREN RAINKIE: Mr. Peters, one of our troubles -- and this is why this is an accounting conundrum, is what is the useful life? How many times are you going to exchange that meter? I -- I guess I don't understand why we're trying to manufacture a change in accounting policy here -- as we're sitting here.

We've indicated very clearly this is something we're going to look at at transition to IFRS. But, as I said, the conundrum is, is that these meter exchanges, I don't know -- I'm not sure they're capital. So the reason we don't have a service life is because, I guess, we're not sure of that.

MR. BOB PETERS: I think the Board has your -- your argument on that, Mr. Rainkie. But I just wondered in terms of the facts, what it's -- what -- what is done on the -- on the other side of the business.

MR. DARREN RAINKIE: Yeah, well --

MR. BOB PETERS: And that can be a matter for the closing submissions, I suggest.

MR. DARREN RAINKIE: Yeah, we'll find that for you, Mr. Peters.

MR. BOB PETERS: Thank you. And if we turn ahead to page 272 in the book of documents, also found under Tab 52, we see here that these are the new depreciation rates and the impact on depreciation expense.

Have I got that right?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: And in terms of what's driving the 1.1 or $1.2 million of savings, the Board can see over on page 273 that under, "Distribution plant," the services have gone down, as have regulators, and also the measuring and regulatory equipment being the major items, Ms. Jacobs?

MS. HANRI JACOBS: Correct.

MR. BOB PETERS: Can you explain why services have declined as much as they have, eight hundred and thirty-five thousand dollars ($835,000) of expense for '12/'13?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. -- Mr. Peters, I think it's unfortunately not in the book of documents. But the depreciation study that we filed as part of this material at page 2-25 -- sorry, let -- let me just give you a better reference on that.

In Appendix 5.8 of the original application we filed the depreciation study from Gannett Fleming. And there's fifty-five (55) pages in that appendice (sic). And at page 42, the bottom of page 42, top of page 43 of that appendice (sic), we talk about the -- the output, if you like, of that depreciation study.

So -- so I think it's, once -- once again, every -- every time we do a depreciation study the consultant looks at the retirements since the last depreciation study. He does a sta -- statistical analysis to figure out the remaining life of the plant.

And so just updating information on the -- on the remaining life of the plant will -- will cause some changes to the -- to the average service life. I think it's also something I don't pretend to understand a lot about, but looking at that and comparing to other western Canadian gas distribution utilities, my understanding is we don't have as much early generation plastic pipe that's historically been, I guess, poorer than the type of pipe that we're using.

So -- so both through the statistical analysis, which is baked into the -- the depreciation study, as well as reviewing the service lives of other gas utilities and -- and understanding the type of pipe that we have in our system, the consultant recommended a change. I think it was from fifty (50) to fifty-five (55) years.

So the study is a mix of statistical analysis, understanding of operational issues, as well as, as you mentioned, I think, in one (1) of your questions before, a peer -- peer-group analysis and -- and trying to understand the differences between the various utilities.

MR. BOB PETERS: Mr. Rainkie, what you've indicated in that answer is that a major reason for that reduction in depreciation expense is that the rates had been set using experience in the industry when it's been found now that the industry had some, what you called, 'early generation plastic pipe'.

That's something the Centra doesn't have and that early generation plastic pipe isn't -- isn't living as long as Centra's pipes?

MR. DARREN RAINKIE: Yes, Mr. Peters, we're both going to have an engineering designation now after that, but that's my understanding. I -- I think if I -- Mr. -- your -- your colleague there is shrugging at the suggestion of that.

But I -- I -- as I understand it, the statistical analysis itself pointed towards a fifty-five (55) year life. I think the discussion about the plastic pipe was just trying to understand our life versus some of the shorter lives in other jurisdictions.

Maybe I can just confirm that with Ms. Hooper behind me for one (1) second.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Yes, Mr. Peters, the -- the primary reason behind that was -- was the change in the statistical analysis based on the retirement analysis that was done and, of course, cross-referencing to other jurisdictions and -- and understanding that.

MR. BOB PETERS: And, Mr. Rainkie and Ms. Jacobs, in the new depreciation study there were four (4) new accounts established.

One (1) was in the transmission area and three (3) were in distribution?

MS. HANRI JACOBS: That's correct.

MR. BOB PETERS: Can you explain, Ms. Jacobs, why you added those new accounts where in the study it doesn't appear any dollars have yet been allocated to any of those items?

MS. HANRI JACOBS: These accounts were added as due to changes in -- in business environment. So the current accounts doesn't really reflect what these new technology systems' useful life would be, so, hence, the reason for adding these new accounts.

MR. BOB PETERS: There's new electronic equipment used in the regulating stations which has a shorter life than the mechanical equipment.

Is that the upshot of your answer?

MS. HANRI JACOBS: That's right.

MR. BOB PETERS: And so when you -- when you institute new -- new accounts for depreciation, why is it that there's no dollars yet allocated or attributed to those -- those accounts?

(BRIEF PAUSE)

MS. HANRI JACOBS: I mean, these accounts are created for moving forward. So we recognize that we're in the process of implementing or developing new technology.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. -- Ms. Jacobs, in light of your last answer, does that imply to the Board that some of the costs that are already in existing accounts will be transferred over to these new accounts?

(BRIEF PAUSE)

MS. HANRI JACOBS: We were not intending to transfer an -- any from the existing accounts. My understanding is -- is if there's -- it's very immaterial, embedded in the existing accounts.

(BRIEF PAUSE)

MR. BOB PETERS: And it goes without saying, does it -- so maybe we should say it -- Ms.

Jacobs, that these changes will be compliant with IFRS in its -- in the grouping of assets that are material?

MS. HANRI JACOBS: I assume so, yes.

MR. BOB PETERS: And that's the intention though, is that these changes would be compliant with IFRS going forward?

MS. HANRI JACOBS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of what's acceptable or not -- and I'm just not sure if there's an information request confirmation of it -- but, Mr. Rainkie, both Equal Life Group methodology and Average Service Life methodology are IFRS compatible and compliant?

MR. DARREN RAINKIE: Yes, if applied in the correct fashion, both -- both can be compliant.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, let's turn our discussion to -- to dollars and cents paid to -- to governments by Centra, in terms of capital and other taxes, found on -- under Tab 53 of the book of documents, specifically page 279.

And would it be correct for the Board to conclude, Mr. Rainkie and Ms. Jacobs, that the -- the capital other taxes are forecast to be $8.7 million for the test year?

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

MR. BOB PETERS: And this is comprised, Mr. Rainkie, of taxes paid to the province in the form of capital tax and payroll tax?

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: It also includes payments to municipal governments in the form of grants in lieu of taxes?

MR. DARREN RAINKIE: Probably more property taxes than grants in lieu of taxes, but it's the same concept, Mr. Peters.

MR. BOB PETERS: Well, maybe -- maybe then I'm not clear on the concept, Mr. Rainkie. Does -- is Centra taxable at the municipal level?

MR. DARREN RAINKIE: You know what, it always has been, but I don't know, maybe I'm wrong, maybe it is a grant in lieu of tax. I'm not quite sure legally where it comes from. Like I might be thinking of a -- of it prior to 1999.

We did pay municipal tax always on our pipe, Mr. Peters, in the old days, so maybe it is a -- a grant in lieu of taxes, given Manitoba Hydro's status as a Crown corporation.

MR. BOB PETERS: All right. But maybe that's just a terminology that we should explain to the Board, Mr. Rainkie, that when -- certainly when Centra Gas was owned by West Coast Energy, it paid municipal taxes based on the value of the plant it had in different municipalities?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And when -- when Manitoba Hydro acquired the interests and the shares of Centra Gas, that at some point may have transitioned into what are called 'grants in lieu of taxes', because there may not have been a legal obligation on the Crown corporation to pay these taxes?

MR. DARREN RAINKIE: That's what I'm trying to remember, Mr. Peters.

MR. BOB PETERS: But in any event, Mr. Rainkie, whether it's a grant in lieu or whether it's a municipal tax, it would equate to the same dollar amount?

MR. DARREN RAINKIE: Yes, the

methodology for determining the assessed value hasn't changed.

MR. BOB PETERS: And Centra -- Centra pays the grants in lieu of taxes to -- is that a voluntary contribution if it was a grant in lieu of taxes?

(BRIEF PAUSE)

MR. DARREN RAINKIE: I'm advised, Mr. Peters, it's by order in council, so I don't think it's a voluntary -- it's not a voluntary thing.

MR. BOB PETERS: Centra, one (1) way or the other, is going to pay the municipal tax rate on the assessed value of its plant in the various municipalities?

MR. DARREN RAINKIE: That's a fair summation, yes.

MR. BOB PETERS: Looking on page -- just a second, please.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, you've given us pause for cause, but back in the '07 GRA there was an indication that Centra continued to pay taxes to the municipalities using the same methodology as it did prior to Centra being purchased by Manitoba Hydro.

So while one (1) of us is probably right, we're both right in saying it's the exact same dollar amount?

MR. DARREN RAINKIE: Yes, and I assume probably over the lunch hour we can -- we can confirm verbally on the record at some point this afternoon the -- the exact legalities of it, Mr. Peters, but for now I think it's the same number, regardless of how we get there.

MR. BOB PETERS: All right. Thank you for that, sir. When we look at the Schedule 5.8.0 found on page 279 of the book of documents under Tab 53, it appears that the -- that there's a -- a line item called 'City of Winnipeg audit settlement', Mr. Rainkie?

MR. DARREN RAINKIE: Yes, we have that.

MR. BOB PETERS: Can you explain that to the Board, please?

MR. DARREN RAINKIE: There was an audit -- a number of years ago there was an audit performed by the City of Winnipeg on our billing system. And as a result of that audit, we eventually came to a settlement with the -- with the city, and these are the amounts that were booked with respect to gas operations.

MR. BOB PETERS: The audit had to do with Centra collecting and remitting tax?

MR. DARREN RAINKIE: Yeah, the central issue was whether or not we could -- we should be collecting city tax on top of GST. There were some other minor billing, you know, adjustments, but -- but the lion's share of it was related to the GST issue, the tax-on-tax issue.

MR. BOB PETERS: And that -- that obligation has been fully resolved at this point in time?

MR. DARREN RAINKIE: Yes, in my non-legal understanding, Mr. -- Mr. Peters, that settlement has been -- has been completed as of a number years ago and I think the -- there have been amendments to the City of Winnipeg Charter such that the GST issue will not crop up again in the future.

MR. BOB PETERS: Looking at the municipal tax line item on -- again, on page 279, we see that in '09/'10 the municipal taxes were in the range of $15 million, but in the next year they were recorded actually around 11 million, or $10.8 million.

Correct, Mr. Rainkie?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And that is a result of a re-assessment by the province on municipal property values?

MR. DARREN RAINKIE: Yes, 2010 was a -- a reassessment year, if I remember correctly.

MR. BOB PETERS: And I think I heard in your direct evidence, way back, Mr. Rainkie, I think to Mr. Czarnecki, that one (1) of the reasons Centra didn't come in for a previous rate application is it was living off the extra money it had in rates, on account of municipal taxes.

MR. DARREN RAINKIE: Yes, the fortuitous reduction in municipal taxes was one (1) of the reasons we were able to not have a general rate application in the last couple years.

MR. BOB PETERS: But the -- if we go down to the 'total tax' line item of $18.75 million forecast for the test year, Mr. Rainkie, that's lower than the current $24 million that is already embedded in rates on account of corporate and -- or capital on other taxes?

MR. DARREN RAINKIE: Yes, Mr. Peters.
MR. BOB PETERS: And the primary reason for that reduction between what's in rates now and what is -- what is being forecast and requested is on account of that property tax reassessment?
MR. DARREN RAINKIE: Yes, I think that's a fair statement.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, also on page 279, there's a deferred income tax line item, and we've had some discussion about that.
But you can confirm that that represents the amortization of the -- what became a one (1) time tax liability when Centra changed from a -- a taxable corporation to a Crown-owned corporation?
MR. DARREN RAINKIE: Yes, Mr. Peters.
MR. BOB PETERS: And that line item that -- that shows as $4 million in the test yea, includes both the principal and the interest related to that amortization, sir? MR. DARREN RAINKIE: Yes. It's the full amortization of that account, yeah, including interest.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, for greater definition of those costs, we could turn to page 289, also the last page at Tab 53 of the book of documents. And here is where you provide the Board with an indication of the specificity of the -- of the amounts paid to the provincial government.

It wasn't too hard to calculate the federal government payments and then the municipal payments, correct?

MR. DARREN RAINKIE: Yes, Mr. Peters.

MR. BOB PETERS: Paying tax isn't funny now, Mr. Rainkie.

So let's continue the -- what -- what you do show the Board here is that the debt guarantee fee forms part of the provincial payments as do -- as does an amount on account of payroll taxes on Manitoba Hydro's labour force?

MR. DARREN RAINKIE: That's right, Mr. Peters. And I just received my assessment notice a week or so ago, so - on my own property. So, yes, taxes are no funny matter.

(BRIEF PAUSE)

MR. BOB PETERS: The debt guarantee fee -- and we'll -- we'll mention it after lunch with Mr. Schulz -- but in case I forget, Mr. Rainkie, Centra Gas pays a 1 percent premium on top of its debt costs, because that's the 1 percent premium paid to the province of Manitoba for guaranteeing the debt of the Corporation?

MR. DARREN RAINKIE: Yes. The total debt guarantee fee that we pay at the corpora -- corporate level is allocated to gas and ele -- electric operations, based on their relative proportions of a debt that's guaranteed by the province.

MR. BOB PETERS: The allocation is proportionate as between the two (2), a hundred percent of that debt would be guaranteed by the province, for which the provincial debt guarantee fee is extracted?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And, Mr. Rainkie, there are no payments to the federal government, maybe unlike your own personal notice of reassessment.

But this is because Centra is a Crown corporation?

MR. DARREN RAINKIE: That's correct,

Mr. Peters, and you should know that my taxes, my personal taxes, are paid up. I was talking about my City of Winnipeg taxes, so.

MR. BOB PETERS: Oh, I -- I understood what you were talking about, Mr. Rainkie. I want to turn, in the time left, I believe, to Mr. Prydun, and -- and turn to Tab 54 of the book of documents, and talk about capital expenditures, sir.

That's an area on which you're prepared to provide some information to the Board?

MR. MARK PRYDUN: I'll do my best, sir.

MR. BOB PETERS: And -- and this isn't intended to be a legal question, either, so I'm just alerting Ms. Boyd that one (1) of the -- the legislation speaks of this Board approving a rate base for the utility.

Are you familiar with that concept, sir?

MR. MARK PRYDUN: I'm not an expert on it, sir.

MR. BOB PETERS: But if we turn to Tab 55 then, we can see, Mr. Prydun, that Centra has provided a rate base schedule on what's reproduced at page 295 of the book of documents?

MR. MARK PRYDUN: Yes, sir.

MR. BOB PETERS: And would it be correct for the Board to understand, Mr. Prydun, that Centra is requesting approval from this Board of the four hundred and eighty-nine million two hundred and ninety two million (sic) dollar ($489,292,000) rate base total shown under the 2013/'14 test year?

MR. DARREN RAINKIE: Mr. Peters, I think what we're requesting is a rate increase based on the cost-of-service methodology. What -- what has been directed by the -- the Board in the past is that we also provide the calculation of -- of rate base, as they have a requirement to review that -- that figure in -- in determining rates.

So -- sorry, I'm -- I'm not trying to parse your words, but we are -- we are -- just to be clear, we are asking for a rate increase based on the cost of service, and we're providing this information that the Board requires to do its business.

MR. BOB PETERS: All right. And in that answer, Mr. Rainkie, Centra would understand it to be that the Board has, in the past, approved a total rate base number for the Utility?

MR. DARREN RAINKIE: Yes, yes, they have. Historically, yes.

MR. BOB PETERS: And in order to -- well, in -- in this particular case, the rate base information provided comes to that four hundred and eighty-nine million two hundred and ninety-two million (sic) dollar ($489,292,000) number that I had mentioned earlier?

MR. DARREN RAINKIE: Yes, that's the calculation.

MR. BOB PETERS: And that's Centra's calculation for the Board?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And, specifically, we're looking, Mr. Rainkie, on the bottom -- the bottom third of that page on 295 to come up with how rate base is calculated?

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: And part of approving Centra's rate base involves the Board approving Centra's historical capital expenditures?

MR. DARREN RAINKIE: Yes, part of the Board considering rate -- rate base in its deliberations is, yes, that -- that capital expenditures, obviously, when they go into service flow into the gas plant and service line that you see there, Mr. Peters. So, yes, inherently that's what happens.

MR. BOB PETERS: And in addition to that, Mr. Rainkie, there's the forecast capital expenditures in the test year that need to be considered by the Board as well?

MR. DARREN RAINKIE: Yes, that's part of having a future test year.

MR. BOB PETERS: And, Mr. Rainkie, when you say, "future test year," that may be a concept that the Board hasn't had much experience with.

But -- but you probably operated under a historic test year in -- in some of those twenty-three (23) years you were bragging about yesterday.

MR. DARREN RAINKIE: Not sure if I was bragging, Mr. Peters, but when you and I were working together on these matters, yes, we, for many years, had an historic test year up until about 1994 and 1995. And the concept of a future test year is simply one in which rates are set based on forecasts versus the concept of a historic test year, where rates would be set on known figures plus some known measurable adjustments for things like increases in salary cost, et cetera.

But it's been a long time since we've

had a historic test year in this jurisdiction.

MR. BOB PETERS: It's just a different regulatory methodology?

MR. DARREN RAINKIE: Yes, it's a different regulatory methodology, yes.

MR. BOB PETERS: And it'd be correct to say that Centra wanted to move to a -- to a future test year methodology back in, approximately, the years in which you mentioned it?

MR. DARREN RAINKIE: Yes, we did make application to the Board, and there was a review. And the Board decided to move to a future test year to more closely align the setting of rates with the actual costs that we expected in that particular year.

(BRIEF PAUSE)

MR. BOB PETERS: If we turn back to Tab 54 in the book of documents, we see that the CEF, or the capital expenditure forecast, from -- I think it was Appendix 6.1, is produced.

What -- Mr. Prydun, when -- when was this forecast prepared?

MR. MARK PRYDUN: This forecast would have been prepared through the course of the previous fiscal year. And I believe this forecast was Board approved by the Manitoba Hydro Electric Board in the month of November 2012.

MR. BOB PETERS: Mr. Prydun, the top half of page 291, found at Tab 54 of PUB Exhibit 10, shows Manitoba Hydro electrical capital expenditures while the bottom half shows the Centra Gas expenditures on gas plant?

(BRIEF PAUSE)

MR. MARK PRYDUN: That appears correct, sir.

MR. BOB PETERS: And Centra is putting forward, in the test year, total capital expenditures of approximately thirty-six point two (36.2) in the test year and thirty-six point three (36.3) are shown in the -- in the bridge year, or the 2012 year?

MR. MARK PRYDUN: Yes, sir, that would be -- appear to be the summation of gas capital for the customer service distribution, and customer care and marketing business units.

(BRIEF PAUSE)

MR. BOB PETERS: Included, Mr. Prydun, in the bottom half of the chart on page 291, under both, "Customer service and distribution," and also under, "Customer care and marketing," is a line item noted as, "Target adjustment."

Do you see that, sir?

MR. MARK PRYDUN: Yes, sir, I do.

MR. BOB PETERS: Can you explain under the, "Customer service and distribution," line, what is a target adjustment for?

MR. DARREN RAINKIE: Mr. Peters, you're probably getting tired of hearing me talk, but maybe I can help out while Mr. Prydun will probably talk to the specifics of the capital project, the projects. The target adjustment is a bit of a corporate animal.

So what the target adjustment is, is that when we're reviewing our -- our targets and our forecasts for the next following years, we have to make a decision whether we're going to allow more or less capital, or keep it the same.

And in this situation, I think between CEF-12 and CEF-11, we were hoping to hold to about -- to the same capital as was approved in CEF-11, so we introduced a target adjustment, which was just a budgeting tool to -- to indicate that we would like to keep the spending at the level that had previously be forecast.

Then it's thrown to the business units then to try to match within that -- that net figure.

MR. BOB PETERS: Mr. Rainkie, we see a target adjustment of 3.8 million in the 2012 fiscal year and a target adjustment of 3.7 million in the -- in the test year, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Is that supposed to mean that those amounts are -- are a budgeting tool to back out of the budgets those amounts to keep them consistent with the CEF-11?

MR. DARREN RAINKIE: Yes, in this particular case, that -- that's my understanding of how we move between CEF-11 and 12.

MR. BOB PETERS: All right, Mr. Rainkie, customer care and marketing on the gas side in the bottom part of the table also has a target adjustment for it, sir, and there's no target adjustment. It's a zero dollar amount.

Is that correct?

MR. DARREN RAINKIE: Yes, I think because the total of the specific projects weren't any higher than the previous CEF-11, so in that case, we probably shouldn't have had that line item in there. It was just for -- and I guess it's on the spreadsheet, so it was kept in as a -- as a zero.

MR. BOB PETERS: And so the Corporation has made a decision that the capital expenditures on the gas side should not exceed what they did in the capital expenditure forecast '11?

MR. DARREN RAINKIE: Yes, we were hoping to -- that we could manage to constrain capital expenditures to the level that had been forecast previously.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Prydun, would the Board be --

THE CHAIRPERSON: I wonder -- Mr. --

MR. BOB PETERS: Oh, yes.

THE CHAIRPERSON: -- Peters if I could intervene here. I just wanted to address this last comment by Mr. Rainkie. Specifically, you indicated the -- the Corporation wants to keep gas investments to the same level as 2011. And -- and could you -- could you explain that one to me, in terms of what's happening in other jurisdictions where gas investments are being ramped up dramatically in response to demand from customers?

Why is it that Manitoba Hydro -- or Centra, in this case --has decided to maintain investments, basically on a -- on a evil level -- even level for the next eight (8) or nine (9) years?

MR. DARREN RAINKIE: Well, therein lies the -- the trouble, Mr. Chairman, is that I think, on a general basis, our approach to CEF-12, for both the electric and gas side, was to try to -- to live within the previous capital forecast.

But as you're noting that, we're -- we're seeing -- and I think Mr. Prydun can probably speak to this far better, at a grander level than me -- but we are seeing more customer attachments. We are seeing plowing projects for large agr -- agricultural entities, as Mr. Prydun mentioned in his direct evidence yesterday.

So I think it's going to be very difficult to con -- despite our best wishes to con -- to constrain capital to that level, to meet these targets, and it's something we're going to have reassess at CEF-13, because I -- I'm not sure we're going to be able to -- to meet them on the longer-term basis.

(BRIEF PAUSE)

MR. MARK PRYDUN: If I could add, I -- I concur with Mr. Rainkie. What we have been experiencing on the capital investment side is an upward creep in capital expenditures. And although up to 2011/'12 fiscal year we have been somewhat successful in respecting the budget appropriated to us, we were not as successful in the 2012/'13 year.

And that year, due to plowing projects, due to new service installations in particular, and -- and a consistency in our major capital projects, we exceeded our budget by over $3 million.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. -- Mr. Prydun, Mr. Rainkie, if your capital costs are constrained, maybe you can't redo the rec room, add the garage, and the sunroom all at the same time.

That may not be gas terminology, but -- but in -- in the event that there are budgetary limits, the Corporation has tools to plan as to which capital programs become a priority, do they not?

MR. MARK PRYDUN: In customer service and distribution, we are initially engaging in a -- I guess what you'd call a -- a risk-management approach as to how we prioritize our capital work.

But based on the -- on the numbers before us, we have prioritized our work more so on a -- on a manual type of basis, where we -- we look at a project-by-project basis and understand the necessity of it.

Regretfully, when it comes to capital projects on the gas side, some of the work is -- I would not -- I would hesitate to say it -- it cannot be prioritized, but it is difficult to turn away from. If it is the request of new service installations due to customers, that is a nature of work that we typically cannot deny, similarly to plowing projects. If that type of work is requested, we -- we don't deny that work.

If it's major types of projects that are capacity based, and examples being where industrial customers in concert with load growth in particular geographic areas, once again, we have to plan, design, and construct accordingly to provide that supply of gas to those customers.

MR. DARREN RAINKIE: Mr. Peters, I

would add too, yesterday we reviewed the difference between the revenue deficiency and the increase in non-gas costs. And one (1) of those items was the reason that the -- the requested rate increase is lower than the increase in non-gas costs was while con -- customers are conserving in terms of the volume side, we have additional customers.

So -- so -- we're -- you know, you can't just look at one (1) side of the equa -- equation. Here, Mr. Prydun was -- was talking about revenue-generating capital, right? So it's not just a -- simply, a cost in our revenue requirement, it also generates revenue from customers, so we ought to be responsive to that as well.

MR. BOB PETERS: Well, maybe let's help that discussion in the time we have, Mr. Rainkie, by turning with the Board to page 292 and 293 of the book of documents, under Tab 54. And, Mr. Rainkie, here for the bridge year as well as the test year, Centra sets out some -- some capital projects. And then it has a classification code with them.

Mr. Prydun, were you responsible for affixing the -- the classification code?

MR. MARK PRYDUN: No, sir. This classification code, I think, is -- is based on another business unit.

MR. BOB PETERS: And, Mr. Rainkie, the essence of the classification code was, a project could be necessary, which often related to safety matters; could be considered essential if it, certainly, was a safety matter; and then justifiable if, as you just answered to the Chairman and myself, you could make a business case for doing it?

MR. DARREN RAINKIE: Yes, the essential was more related to the sa -- safety aspect; and necessary was -- was related to maintaining safe and reli -- sorry, reliable plant; and then the justifiable, as you said, is related to, you know, primarily, being revenue generating.

MR. BOB PETERS: Now, this methodology that's put on this chart, is that used internally at Centra? Because it doesn't appear that Mr. Prydun is familiar with it.

MR. DARREN RAINKIE: No, Mr. Peters, it was something that the Board had asked us to do a number of years ago. So we maintained it in -- faithfully, in the schedules, but it's -- we -- we've adopted, over time, Manitoba Hydro's ways of pri -- pritororizing (sic) plants. So this is really more of a classification for regulatory purposes, in accordance with minimum filing requirements that were established long ago.

MR. BOB PETERS: Mr. Rainkie, if you were budget constrained, which of these projects would be -- which classification of project would be the one (1) moved to the back burner?

MR. DARREN RAINKIE: Well, therein lies the conundrum. The necessary and just -- just -- sorry, the necessary and essential expenditures, we can hardly afford to avoid because that will just come back to haunt us in the -- in the future. I mean, just like our discussion on the electric side of the business, the gas side is the same way. We have aging infrastructure that needs attention to maintain reliable service.

When it comes to the reve -- revenue-generating side and our -- you know, our requirements to serve as a utility, I -- I don't know that we would be benefiting anybody, in terms of the public interest of turning away customers from attaching to natural gas.

So -- so we -- we do try to maintain within our budgets the best we can, but, you know, as we assess our plant we need to make those -- those necessary re -- reliability issues -- so we need to deal with those. And we need to deal with -- with customer growth too.

In -- in the case of those plowing projects, as I understand it, a lot of that has to do with customers moving from coal to natural gas. So the Company would be irresponsible if it wasn't, you know, making those expenditures to help customers with that transition.

MR. BOB PETERS: And that transition from coal to natural gas, though, it's shown in these two (2) years, Mr. Rainkie, at $4 million as plow projects, I believe on line 10 in both schedules on pages 292 and 293, those aren't expected to go on for many more years, are they?

MR. MARK PRYDUN: Our understanding, sir, at the present time is just that that activity has peaked, and the expectation is is that it will decline over time.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, in light of the hour, this might be an opportune time to take the noon recess, and we'll regroup for the afternoon.

THE CHAIRPERSON: Thank you, Mr. Peters. I think we should -- let's budget an hour for -- for lunch and be back in this room at 1:00. Thank you.

--- Upon recessing at 12:00 p.m.
--- Upon resuming at 1:04 p.m.

THE CHAIRPERSON: Good afternoon. I believe we're ready to resume the proceedings. Do we have any documents to recognize?

MS. MARLA BOYD: Not at this time. Thank you.

THE CHAIRPERSON: Okay.

MR. BOB PETERS: Mr. Chairman, we may not have documents to recognize, but we have people to recognize. And certainly Janelle Hoffman is one of them, who my colleague, Ms. Boyd, was going to probably introduce later. But Janelle Hoffman is in the gallery and is an articling student with Manitoba Hydro, and welcome her to the Public Utilities Board.

And in terms of other people to recognize, Mr. Brent Czarnecki finished in the top twenty-five (25) Manitoba marathoners, if my reading of the Internet is correct. And I only know one (1)

Brent Czarnecki, so congratulations to him. He set too fast of a pace, so my time may not be in the same category, yeah. But in any event, congratulations to him on the record. It was, no doubt, a well-done effort.

What I will turn to, Mr. Prydun, I didn't see your marathon time, so we'll talk about -- about capital expenses instead. The -- before the break, in a number of occasions, you've used the word 'plowing' activities related to gas expansions, correct?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: Plowing is a -- is a method of installing new gas service and distribution lines?

MR. MARK PRYDUN: It's a -- a method, sir, that has been employed to connect customers for an -- for agricultural purposes that have wanted to removed themselves from coal-space heating onto natural-gas-space heating.

MR. BOB PETERS: But isn't plowing simply the method of insertion of the pipe in the ground? Is that the methodology?

MR. MARK PRYDUN: Sir, it is the methodology in general, but they're larger-scale operations, so it would be typically a larger-scale operation than what would be employed within urban areas.

MR. BOB PETERS: All right. When we -- when Centra uses the word 'plowing', in my mind it is a newer technology than what used to be the -- the open-trench methodology. Would that be a correct way to understand it?

(BRIEF PAUSE)

MR. MARK PRYDUN: My understanding, sir, is just that it's a different technology.

MR. BOB PETERS: Different than the open-trench technically where a trench is left open, the pipe is put in, and then it's backfilled?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And so, plowing is a method of inserting the pipe in the ground without disturbing the ground in quite the same fashion as with the open-trench methodology?

MR. MARK PRYDUN: That's correct, sir, with less disturbance.

MR. BOB PETERS: All right. Thank you. Mr. Prydun, on page 291, there's just a couple of points I want to follow up with you on, in Tab 54 of the book of documents, Tab 54 of PUB Exhibit 10, page 291, in the top right-hand corner. This, sir, was the summary of the capital expenditure forecast for 2012 by Manitoba Hydro as well as for Centra Gas?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And just focussing on the bottom half of the page dealing with the gas side of the operations, the Board will see that there are some relatively large capital projects identified specifically. And the one (1) that I'm looking at is the -- the SCADA project.

MR. MARK PRYDUN: Yes, sir.

MR. BOB PETERS: SCADA is the acronym for Supervisory Control and Data Acquisition?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And this is a data gathering technology that Centra is installing on its plant so it can be better informed as to what's happening at any given time and at any given location?

MR. MARK PRYDUN: My understanding, sir, that this project is related to upgrading its current SCADA information system. And it's the -- the type of information that it is acquiring is related to pressures and flow rates.

(BRIEF PAUSE)

MR. BOB PETERS: Can the Board take from this schedule on page 291, Mr. Prydun, that the SCADA project has been concluded?

MR. MARK PRYDUN: No, sir. The -- this particular project has not reached completion as of yet.

MR. BOB PETERS: Yet there's only -- there's no money allocated to it in the capital expenditure forecast for the test year?

MR. MARK PRYDUN: At the time of the creation of this schedule, sir, it was anticipated that this project would have been completed as per the -- the schedule, and not in the test year. But as of today, that is not the case.

MR. BOB PETERS: So, how much money is left to be spent in the test year to finish this project?

(BRIEF PAUSE)

MR. MARK PRYDUN: I don't have that information completely at the top (sic) of my fingertips, sir.

MR. BOB PETERS: Can you give the Board the understanding that of the $2.8 million that was going to be expended in fiscal '13, some of that is leftover, so it'll be less than that amou -- less than that amount? The -- the two (2) years combined will be the two point six (2.6) or two point eight (2.8) number?

(BRIEF PAUSE)

MR. MARK PRYDUN: It would be less than that amount, sir.

MR. BOB PETERS: And it would be an amount just to complete the project that wasn't finished in the last fiscal year?

MR. MARK PRYDUN: That's correct. It would be the amount remaining that would be moved from one fiscal year over to the other to complete the project.

MR. BOB PETERS: And while I'm looking at the -- the schedule still on page 291, Mr. Prydun, the Ile-des-Chenes natural gas transmission network upgrade, has that project been concluded in 2013?

MR. MARK PRYDUN: Yes, sir, that project has been completed.

MR. BOB PETERS: And no more expenses expected for that project?

MR. MARK PRYDUN: No, sir.

MR. BOB PETERS: Has Centra identified any other large capital projects that will occur in the test year?

MR. MARK PRYDUN: There have been no new capital projects that have, as of this date, received executive approval other than in the test year we have the St. Francois Xavier project and we have the Morris project. I believe those are the two (2) that have received executive approval.

There are other projects that are in the -- under review at the engineering stage to determine if they need to go ahead in this current test year.

THE CHAIRPERSON: Could you enlighten us about the St. Francois Xavier and the Morris projects, please. Just high level.

MR. MARK PRYDUN: At a high level, sir, these are projects that are -- are based on increased gas supply requirements. The -- in the case of St. Francois Xavier, it's a combination of modest customer requirement load in the Headingley area in addition to one (1) industrial gas customer that requires a large amount.

Similarly, in the -- the vicinity of the town of Morris a modest increase in growth of residential and commercial customers. But the trigger there was an additional industrial requirement from a large customer that -- that required us to undertake these projects.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Prydun, when the Board looks at the line item headed "customer service and distribution domestic," which is found under the general heading of "customer services and distribution," there's a number that goes throughout for at least the -- the life of the CEF forecast, correct?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: Is that number a known number or is that a plug number that's put in just as a -- I think Mr. Warden taught us the word 'placeholder' for future use?

MR. MARK PRYDUN: Perhaps the word 'placeholder' is correct. That number is typically escalated on an annualized basis. And the -- the business unit -- this -- our business unit does its best to -- to accommodate that budget figure.

MR. BOB PETERS: Is that budget figure that's around $22 million in '13 and escalates up to 26 million and increases, it's just increased by -- by an escalator that the Corporation adds notionally but not with any degree of certainty at this point in time?

MR. MARK PRYDUN: My understanding, sir, that it is based on general escalation. Perhaps, that rate may be 2 percent, but I'm not sure of how it is quantified.

MR. BOB PETERS: But at this point in time, you may not have projects lined up that will total the -- the $26 million, but that's an expected amount that will be spent when the budgets are approved?

MR. MARK PRYDUN: The expectation, sir, is -- is that, based on our best information, is that we are in a need to expend all of that money, sir.

MR. BOB PETERS: Can you tell the Board on what types of projects fall into that category of customer service and distribution domestic?

MR. MARK PRYDUN: Sir, we group those

projects into different categories. One (1) category is -- is new business, which is related to increased business regarding the -- the new installation of commercial services and residential services. And that would include regulators, new meters and mains. That -- that value has -- is dependent on the -- the customer uptake.

The second area is projects that we consider to be system improvement, or another word is 'system betterment'. And that is -- those are typical projects that are related to the -- the normal wear and tear of natural gas facilities. And in order to maintain the reliability of the system, we will go ahead and we will upgrade the -- the assets in that particular area.

We have smaller items, if you will. One (1) is called 'cathodic protection', where we install anodes into the ground in order to prevent steel pipes from -- from corroding at a more rapid rate. And in -- in general, those make up the majority of the projects.

MR. BOB PETERS: Also shown on page 291, sir, is a customer care and marketing domestic line item under the general heading of "customer care and marketing".

Do you see that, sir?

MR. MARK PRYDUN: Yes, sir.

MR. BOB PETERS: And would this again be understood by the Board to be a number that the Corporation forecasts it will spend in the future, even though there's no exact approved programs or projects for that money at this point in time?

MR. MARK PRYDUN: I would like to defer that particular question for that business unit to Mr. Rainkie.

MR. DARREN RAINKIE: Yes, Mr. Peters, the con -- the concept of a domestic blanket, if you like, in the first place is it's very -- you know, a number of smaller projects that -- that we traditionally do. So the numbers are based on a -- our historic costs and the level of activity and then escalated in the forecast.

On this particular one, I think it's, as we outlined in our filing, it's related to connection of new customers to the system, as -- as well as the replacement of -- of meters. That's probably about as far as I could go into delving into that one at this point, Mr. Peters.

MR. BOB PETERS: No, I've got your -- I've got your point, and the Board can perhaps see some of those in the test year, as well as the bridge year, shown on pages 292 and 293, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, they're just categorized, of course, in a different fashion in projects over a hundred thousand dollars ($100,000).

MR. BOB PETERS: Mr. Prydun, on page 293 there's a line item 21, recorded as other distribution system upgrades at $4.2 million in the test year.

Do you see that, sir?

MR. MARK PRYDUN: Yes, sir.

MR. BOB PETERS: Have any specific projects now been determined for that category?

(BRIEF PAUSE)

MR. MARK PRYDUN: Sir, my understanding is, is that will be the amount of net plant and service that will be put in. The -- the specific project that that could relate to would be the -- the St. Francois Xavier project.

MR. BOB PETERS: And then where does the Morris project fit on that page 293, sir?

MR. MARK PRYDUN: Sir, I'm not aware that the Morris project would have been included in that, given I believe the executive approval for that project came at a little bit of a later time than the St. Francois Xavier Project approval came.

MR. BOB PETERS: Do you know the approximate dollar amount of the Morris Project?

MR. MARK PRYDUN: My records show that to be about $2.5 million, sir.

MR. BOB PETERS: And can the Board expect, then, that that 2.5 million will displace some of the other items listed in that schedule that total $28.9 million?

MR. MARK PRYDUN: The -- the Morris project is -- is a required project based on capacity supply, and our business unit would not be in a position to -- to defer that project based on cash con -- cashflow constraints. The -- the expectation that it would defer other types of capital items would be a consideration of senior and executive management.

MR. BOB PETERS: That decision has not yet been made?

MR. MARK PRYDUN: No, sir.

MR. BOB PETERS: All right. Thank you. Mr. Rainkie, I'm going to turn to you for my next line of questioning to talk about return on rate base, sir. And we had jumped around a little bit earlier this morning, but we were on page 295 at one (1) point in time looking at Manitoba Hydro's Schedule 9.0.0 found as the first document in Tab 55 of the book of documents, Mr. Rainkie.

MR. DARREN RAINKIE: Yes, Mr. Peters, I have that.

MR. BOB PETERS: And the -- you can confirm that the top half of the schedule is the revenue requirement on a rate base rate of return basis?

MR. DARREN RAINKIE: Yes, that's the intention.

MR. BOB PETERS: And would it also be the intention that to -- to come down to an exact dollar amount of a revenue requirement calculated under the rate base rate of return methodology, that the $12 million corporate allocation should be subtracted from the $341.7 million to come up with approximately $329.7 million?

MR. DARREN RAINKIE: No, Mr. Peters, I don't think I agree with that concept. I -- I -- as I said yesterday, I think we think of the corporate allocation as -- as the appropriate allocation as -- as the appropriate allocation of the cost of the acquisition and integration of Centra such that it is a cost, not a return, so that it's not double counting to include that on this -- on this schedule.

So I guess in -- in our view of the world we see that the total revenue requirement, our rate base rate of return methodology would be the three forty one six eight eight (341,688).

MR. BOB PETERS: And wouldn't the $12 million of corporate allocation, Mr. Rainkie, all be -- already be included in the return on rate base item found on line 19 on page 295?

MR. DARREN RAINKIE: No, no. That's -- I guess that's my point, is that -- is that we see the corporate allocation as being a cost, not a ret -- not a return on rate base.

Seeing -- we see the 12 million as being a fair allocation of -- of costs to the gas side of the operations. Otherwise, what you're going to have is the majority of the benefits falling in the gas side of the operation and the majority of the costs falling on the electric side of the operation to electric customers.

So I know this has been a little bit of bone of in -- contention in the past, but our view -- the Corporation's view is that it's appropriate to include that $12 million on the schedule and that it's not a double count of the return on rate base.

MR. BOB PETERS: And then the Board's view, as it were, Mr. Rainkie, is that in that thirty million seven hundred thousand dollar ($30,700,000) that includes the corporate allocation of 12 million together with the Corporation's net income request together with the finance expense, sir?

MR. DARREN RAINKIE: You know, I'm not sure, Mr. -- Mr. Peters, about the Board's intention in that. I can tell you what our intention is in terms of why we continue to include this on this schedule. How the Board wrestles between cost-of-service and rate base rate of return, I'm -- I'm not sure; that's part of its own deliberations.

MR. BOB PETERS: All right. You've indicated that at least Centra's view differs from that what the Board has previously published in its orders?

MR. DARREN RAINKIE: I'm not sure, Mr. Peters if I agree with that. I mean, it's -- I'm not quite sure how the Board has dealt with that issue to be -- to be truthful to you. We continue to have this position that it's -- it's not a double count to be on this schedule. And I think the Board has expressed concern with that in the past, but how they wrestle with the ultimate issue is something that's theirs and not mine to opine on.

MR. BOB PETERS: Okay. Let's move on then, Mr. Rainkie. The -- the bottom half of the schedule that comes down to a rate base item. And, Mr. Rainkie, you've calculated rate base numbers in your professional career, correct?

MR. DARREN RAINKIE: Yes, Mr. Peters.

MR. BOB PETERS: We start -- or the Centra would start with the gas plant in service and remove the accumulated depreciation to get the net plant in service?

MR. DARREN RAINKIE: Yes, that's the first part of the calculation.

MR. BOB PETERS: And that's the $439.7 million shown under the 2013/'14 column across from line 32?

MR. DARREN RAINKIE: Yes, exactly.

MR. BOB PETERS: And then contributions in aid of construction are removed from the calculation on rate base, correct?

MR. DARREN RAINKIE: Yes, they are in that they're essentially cost-free capital to the -- to the Corporation.

MR. BOB PETERS: Who has -- who has

given the Corporation that cost-free capital, Mr. Rainkie?

MR. DARREN RAINKIE: Customers primarily. I supposed there would be some -- some municipal amounts in there, as well.

MR. BOB PETERS: And so that when cor -- when Centra gets contributions in aid of construction from either the -- the end user or a level of government it removes that from its calculation of rate because it's capital that Centra is not procuring?

MR. DARREN RAINKIE: It's capital that we're not putting up, so to speak, in the -- in the rate-based rate of return paradigm. We're not making an investment, so we wouldn't earn a return on it.

MR. BOB PETERS: And then, to that, working capital allowance is a concept that is added to come up with the total rate base amount, correct?

MR. DARREN RAINKIE: Yes. If you think of a corporate balance sheet, not only do you have assets that you're financing, but you also have working capital. You know, in our case, we have things like storage inventory, gas storage inventory. We have receivables.

And this working cap -- capital

methodology takes the -- you know, the -- the current assets, if you like, and -- and pulls off the current liabilities to get to a working capital, which is part of the Utility investment, as well.

MR. BOB PETERS: And I didn't put it in the book of documents, Mr. Rainkie, but you were referring to, I think, your Schedule 9.6.5. But included in that $102.6 million of working capital is an amount of approximately 48 million on account of DSM.

Would you accept that subject to check?

MR. DARREN RAINKIE: Oh, yes, that's right, we've included the investment in that, as well. Thanks for reminding me, Mr. Peters.

MR. BOB PETERS: Okay. So 48 million for DSM. And you mentioned the gas in storage. That's $39 million approximately, sir?

MR. DARREN RAINKIE: I'll take your number subject to check, Mr. Peters.

MR. BOB PETERS: All right. And then another component in the working capital allowance is -- is the -- is the cash that Centra uses. It needs cash before it maybe collects it from its customers?

MR. DARREN RAINKIE: Yes, Mr. Peters. It's a -- it's a bit of a different methodology to --

called the lead/lag methodology to calculate this. But crudely I think of it as, you know, we have receivables on our balance sheet. We have payables on our balance sheet.

So we have receivables from -- that people owe us, mostly customers. We have liabilities that we owe others. And this is kind of a provision for that net investment. Usually your receivables are higher than your li -- than your current liabilities or current -- current payables.

MR. BOB PETERS: And because of that, Centra -- Centra has $17 million of -- of cash put in to keep it whole while it pays its bills and waits for the revenues associated from customer invoices to come in?

MR. DARREN RAINKIE: Yes, the whole -- the whole concept betine -- behind the rate-based rate of return paradigm is that -- you know, that a company makes an investment in plant and working capital and that it has an opportunity to earn a return on that investment.

MR. BOB PETERS: And in terms of the return, Mr. Rainkie, if we turn to page 260 -- 296, found also in the same Tab 55 of the book of documents, this schedule depicts a formula that was established some years ago in respect of Centra Gas, sir?

MR. DARREN RAINKIE: It brings a tear to my eye, Mr. Peters, when I look at this one. This is exactly the same spreadsheet that I created in 1995, and it doesn't even look any different. It hasn't even changed in terms of the formatting, so it's just been updated over the years.

MR. BOB PETERS: All right. Well, you can autograph mine later. But this was established back in 1995?

MR. DARREN RAINKIE: Yes, between 1994 and 1995. I think it's part of the 1995 test year.

MR. BOB PETERS: And, Mr. Rainkie, the -- the spreadsheet that -- that has been developed by you and is now owned by Centra, it adjusts the allowed return to the Utility based on a formula that was settled on back in 1995?

MR. DARREN RAINKIE: Yes, a very different place and time, a very different interest rate environment it was set, Mr. Peters.

MR. BOB PETERS: While it's -- it's different for Centra Gas Manitoba Inc., but, Mr. Rainkie, but for our neighbours to the west, wouldn't most every other gas utility in Canada be using a rate-based rate of return methodology?

MR. DARREN RAINKIE: Certainly the -- yeah, the inv -- the investor owned utilities usually use that kind of a methodology. Cost of service is more consistent with, you know, a Crown corporation.

MR. BOB PETERS: And the cost of service methodology, as you mentioned before, is a process the Board has migrated to in terms of setting of the rates. But it still does a calculation under the rate-based rate of return to at least provide a measure as against what -- what it's finding on the cost of service side.

MR. DARREN RAINKIE: I think that would be a fair summation, Mr. Peters.

MR. BOB PETERS: And back in 1995, Mr. Rainkie, the allowed return on equity was established at 12.12 percent, according to this schedule?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And then there was supposed to be an adjustment made, and that was going to be the difference between the thirty (30) year forecast bond rate, and the thirty (30) year rate that was in effect in 1995?

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

MR. BOB PETERS: And instead of taking a hundred percent of that rate change, the formula mitigated that by taking only 80 percent of that change, whether that change was up or down?

MR. DARREN RAINKIE: I'm not sure it mitigated it. It just was based on, at that point, an understanding of some empirical evidence about the relationship between the change in rate of return and the change in the overall interest rate environment. I keep saying "at that point in time," because I think in terms of what we've gone through in the last three (3) to five (5) years, that this -- this number of 6.89 percent that we have here doesn't make any -- much sense any more.

But -- but that was the general concept, that utility boards were tired, year after year, of having rate of return capital structure discussions. They tended to be very long, costly affairs with experts coming in and arguing back and forth with different opinions. So in about 1994, I think it was, there was a move in the industry to try to find some -- a formula-based approach of setting this. And then at maybe every five (5) years or so, we would have the full, you know, full review.

Of course, we've kept this calculation

and haven't adjusted it over the years because as we moved to cost of service it didn't make sense for us to spend a bunch of money, time, and energy trying to update this calculation any -- any longer. We continue to produce it every year, but to me it's kind of -- you know, obv -- obviously, and I think you've seen our evidence in the Information Request. It's kind of -- this calculation has kind of fallen by the wayside and it's really outdated. I don't -- I don't think anybody would expect that, you know, a 6.89 percent return would be a fair return.

Because, let's face it, the re -- the reduction in interest costs have a lot to do with government policy in terms of trying to -- this is maybe a prelude to some of the discussion with Mr. Schulz, but obviously monetary policy has been there in terms of trying to encourage in -- investment.

So just because central banks are holding down interest rates doesn't mean your required rate of return would drop. And what other jurisdictions have been doing is adjusting that 80 percent formula, recognizing that there isn't such a high correlation between changes in interest rates and -- and rate of return.

MR. BOB PETERS: Well, Mr. Rainkie,

let me just see if I can rein you in a little bit. The -- the number that's on page 296 is just a mathematical derivation if the exact formula from '95 was applied to today's information, correct?

MR. DARREN RAINKIE: Yes, it's simply a compliance filing, yeah.

MR. BOB PETERS: And you probably also recall that the formula set back in 1995, had parameters where if the long-term bond rate exceeded 8 percent, or fell below 6 percent, that was going to trigger an adjustment to the formula.

Do you recall that being those -- those parameters that would -- would do that?

MR. DARREN RAINKIE: I'll accept that, Mr. Peters. I don't remember the exact specifics, but that doesn't sound too far off.

MR. BOB PETERS: And as Mr. Schulz will no doubt tell us, the thirty (30) year bond rate is well below the 6 percent number that was the -- the parameter set back in '95?

MR. DARREN RAINKIE: Yes, has been for some time. Yes.

MR. BOB PETERS: And so that would, in fact, trigger a -- a review of the formula, but as you've indicated, Centra's position is the formula is outdated, but it's really only there notionally for information and it's not one that Centra uses to govern its -- its actual return?

MR. DARREN RAINKIE: That's right. Had Centra continued as an investor owned utility, we would have been reviewing this many years ago, Mr. Peters.

MR. BOB PETERS: And the -- the actual math for the formula is contained in the spreadsheet that you have now given up copyright interest on. And this simply shows the Board how you derived that negative 5.23 percent that was plugged into the top half of the formula?

MR. DARREN RAINKIE: Yes, it goes through the -- the calculation of the -- of the long -- the forecast long Canada bond. And then it takes 80 percent of the difference and removes that from the rate of return.

MR. BOB PETERS: And, Mr. Rainkie, in one (1) of your prior answers you indicated that other jurisdictions have updated their formulas and reset them, correct?

MR. DARREN RAINKIE: Yeah, some have updated and reset. Some have moved off the formulas, as I understand it, with the intention of perhaps reviewing -- reviewing it at a later date when the interest rate environment settles down a bit.

I'm sure we'll probably get back to some formulas in the -- in the end in other jurisdictions. I -- I can't see them having a lengthy cost of capital hearing every hearing.

I remember back to when you and I were working on these things, Mr. Peters. We would spend many nights and days in -- in a meeting room trying to develop cross on these types of issues, and there was usually about three (3) or four (4) days of hearing before the Board just to set this -- set this in the capital structure.

MR. BOB PETERS: And mercifully, we are not doing that to this day, correct, Mr. Rainkie?

MR. DARREN RAINKIE: That's correct, but I do miss it from time to time.

MR. BOB PETERS: Mr. Rainkie, you -- you have your hand a little bit on the pulse of what other jurisdictions are doing. Is there any other jurisdiction that has a methodology that you think is more appropriate for the notional calculation here in Manitoba of what -- what an appropriate return on equity formula would be?

MR. DARREN RAINKIE: You know, they --

they all started off fairly similar. I think it was the NEB that first started, and then maybe the BCUC, and then us, and then the OEB. I might have the order slightly mixed up, but, you know, they all have their merits. And we did file a re -- information on that at PUB/Centra 1-84A which you have in your book, the start of it, anyway, the next page, Mr. Peters, on page 297 of your book of documents.

So, you know, you see that there's a range there in terms of from 7.6 to 9 1/2 percent, but I -- I can't -- you know, each one of these jurisdictions had a very detailed generic hearing on this, I think, to come to these conclusions. So I could do no better than to point the Board to that range in terms of what's out there right now.

It's something that the -- the Company hasn't, you know, did any investigation on or engage any consulting on for -- well, since 1994 probably.

MR. BOB PETERS: So that said, Centra can do no better, saying that's the -- that appears to be the market range at this point in time, depending on the -- the type of utility perhaps and the risk involved with respect to that utility?

MR. DARREN RAINKIE: Yeah, that -- that's true. I mean, what -- what these are, are generic rates of return. And then usually, in most of these jurisdictions, they're regulating multiple utilities, so they take the generic rate of return and they adjust it for things like changes in capital structure or -- or different risk -- risk assessments.

So they might, you know, adjust it fifty (50) basis points up or down, I suppose, for -- for corrections of risk and -- and capital structure, because rate of return doesn't exist in a vacuum. And, also, you have to look at your capital structure. The more debt you have, the more risk you have, so the higher rate of return, theoretically, you would -- you would have on your -- on a -- on a more levered capital structure.

So these -- that's why these are called generic rates of return, as they tend to be there in general, and the -- the Boards -- the public utilities commissions will make slight adjustments for the particular utility.

MR. BOB PETERS: Mr. Rainkie, on page 298 of the book of documents an overall rate of return number for the test year is -- is calculated. And in this particular example, the corporate structure -- sorry, the capital structure of the Corporation is -- is to reflect its short-term, long-term, as well as its equity components, correct?

MR. DARREN RAINKIE: Yes, that's the -- the way that this works. It's a weighted average cost of capital calculation.

MR. BOB PETERS: And I think we saw yesterday on what we've now marked as PUB Exhibit 11, that the equity percentage on line 12 in column 2 would be -- would likely be different than what was initially calculated by Centra?

MR. DARREN RAINKIE: Yes, under this methodology it would be, I think, more in the 34 percent range, I think. Although, I did say yesterday I'm not sure this methodology is -- is correct, really. It's -- when you look at the capital structure, that number of four eight-one six two seven (481,627) is not equal to our rate base, so why we continue to do a calculation that -- to -- in order to determine a return on rate base that doesn't have the same quantum as a rate base is beyond me, and it's a matter we brought to the Board's attention at least three (3) times in the past and haven't had any traction on, so.

MR. BOB PETERS: And the cost rate determined for long-term debt is based on a thirteen (13) month average debt financing to come to the embedded cost of long-term debt?

MR. DARREN RAINKIE: Yes, that's how it's done.

MR. BOB PETERS: And the short-term rate is based on the embedded cost of short-term debt in and of itself?

MR. DARREN RAINKIE: That would be a forecast, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: That comes from the forecast that was embedded into the IFF, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, it does.

MR. BOB PETERS: And the overall average return on rate base then is a number that flows from this mathematical formula, and the unrevised number is the 5.63 percent?

MR. DARREN RAINKIE: Yes. Of course, it includes the 6.89 percent equity rate, which I think is -- is -- low, but yeah, that's the -- that's the calculation, Mr. Per -- Mr. Peters.

MR. BOB PETERS: Right. And that's the percentage that was then used for the rate base rate of return methodology that we've talked about, and it's also used in the feasibility test purposes.

Is it not, Mr. Rainkie?

MR. DARREN RAINKIE: I think what we use is, usually, the last approved. So whatever came out of the 2009/'10 and '10/'11 GRA, I think would be what we're using in the feasibility tests. So I think it was a higher number than the six point eight nine (6.89), but I don't recall, specifically.

MR. BOB PETERS: Right, but in getting at the weighted cost of capital, whatever -- whatever the revised numbers would be, that would be a -- a number that would also be carried forward into your feasibility testing?

MR. DARREN RAINKIE: Yes, they -- they use -- they still use a concept of rate of return and rate base, so yes, it's -- I was just pointing out that we usually don't switch the assumptions in the feasibility test until they're approved by the Board through a hearing.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of those feasibility tests, Mr. Rainkie, do you go through the same process that we've gone over in the last five (5) minutes to determine a weighted cost of capital for use in the -- in the feasibility tests?

MR. GREG BARNLUND: We would simply be using the latest or most recently approved weighted cost to capital that would have been dealt with in the most recent general- rate application.

So the last general-rate application resulted in Order 128 of '09, and so a feasibility test being run today would be using the weighted cost to capital that would have been in the second test year of that particular application.

MR. BOB PETERS: But it would come from your -- your Schedules 9.75, Mr. Barnlund?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: All right. And so going forward for future test -- for future feasibility tests, Centra will revise Schedule 7. -- sorry, will revise Schedule 9.75 to update it for its -- I suppose, the equity percentage, and come up with a new weighted cost of capital?

MR. GREG BARNLUND: Well, for feasibility purposes, we would rely on what we have filed here in this application, in this Schedule 9.7.5, and upon, you know, receiving approval of the Public Utilities Board, we would assume implicit approval of that weighted cost to capital, and that would be the number that would then be applied in the feasibility studies.

(BRIEF PAUSE)

MR. BOB PETERS: So, Mr. Rainkie, in terms of thinking to the feasibility test, which I actually might have a few questions on later, is there a -- a different number for weighted cost of capital that the Corporation proposes be used in the feasibility test, if not the methodology used to calculate it here on Schedule 9.7.5?

MR. DARREN RAINKIE: No, Mr. Peters, we -- we have not put forward a -- a number to replace the -- the equity return that you see here. So our plan would have been to continue to use whatever is embedded in this schedule.

As I said, we don't really have the inclination, the time, and energy to try to update that number when it's really not particularly used for -- for rate-setting purposes any longer.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, do you know enough about the other jurisdictions to, perhaps, make a suggestion to the Board that the simple average be used from the jurisdiction -- jurisdictions as shown on page 297?

MR. DARREN RAINKIE: Mr. Peters, I -- I don't really know the specifics, I -- I must admit. Although I enjoy this part of the discussion, I haven't kept up with all the detailed filings. So I -- I'm not sure I can provide a lot of advice to the Board in that regard.

I suppose, if we wanted to, we could, at a future proceeding, look at how the formulas are working out, and -- and propose -- propose something just by taking the concepts from another jurisdiction, and -- and importing them here. I would not want to get into a situation where there was Intervenor evidence, and all that kind of cost in the proceeding. But we had not -- we have not, thus far, taken that step, and thought about it in a fulsome way to be able to do that.

MR. BOB PETERS: Just jumping ahead of myself, Mr. Rainkie, from that last answer. Looking still at page 298 with the Board, if the feasibility test uses, going forward, a weighted cost of capital of 5.63 percent, at this point in time, Centra believes that's incorrect because the cost rate for the equity is too low -- for the reasons you've spoken about, correct?

MR. DARREN RAINKIE: Well, that's my judgment based on what I -- what I know, both from a finance background, and from the other formulas that we've -- that we've just chatted about.

MR. BOB PETERS: So if the equity cost rate goes up from 6.89 percent to some higher number, that will end up becoming a higher portion of the weighted cost of capital, particularly in light of the weight to be given to equity -- also increasing as a result of your latest financial information.

MR. DARREN RAINKIE: Well, I think the update of a -- of a true cost rate would far dominate the weighting part of it, Mr. Peters. But, yes, if the -- the logical flow would be if you were to, probably, make this number more current, is this going to increase the -- the cost rate of equity and the weighted average cost of capital.

MR. BOB PETERS: And if the -- if the weighted cost of capital is increased, Mr. Rainkie, what does that do in terms of the contributions required in respect to feasibility tests?

MR. GREG BARNLUND: All else equal, a higher weighted cost to capital would drive out a higher required contribution. I might note, though, that when we're talking about the feasibility study -- and, again, its -- its age is similar to Mr. Rainkie's calculation of return on equity itself. It -- it emerged in deliberations in the early 1990s. And it was really kind of an offspring of a rate base rate of return concept.

And so we use it because we've always used it, and because, you know, in terms of how we've consistently applied it to evaluate all of our system extensions. Which isn't to say that -- that it isn't, you know, conceivable that it should be looked at. And when we were talking about using a weighted cost to capital to evaluate DSM investments, we were referring, at the corporate level, that we refresh that number every year through -- through the work that our economic analysis folks normally do.

One (1) possible alternative, going further down the road, is to be adopting that type of an analysis, or adopting that weighted average cost to capital to be updated annually, with respect to the feasibility study. But I'm just wanting to draw, you know, attention to the fact that we're really dealing with a legacy model here in terms of this feasibility study. And we're -- we're simply following the -- the practices that we have followed here in the past, in terms of the use of -- of the weighted average cost to capital for discounting purposes.

MR. BOB PETERS: Mr. Barnlund, in response to your comment, can you acknowledge that, in prior years, Centra would have simply updated the formula to keep the -- the feasibility test current?

MR. GREG BARNLUND: Certainly. We would have just updated our assumptions upon the receipt of a -- a Board order that would have allowed us to refresh this particular assumption.

MR. BOB PETERS: All right, Mr. Rainkie, let's see if we can finish up, then, this return on rate base by looking at -- starting at page 299 of Tab 55 of the book of documents.

There, in Schedule 995 of the Corporation, the total return on rate base is about $27.5 million plus interest on common assets and inventory which are retained on Manitoba Hydro's balance sheet?

MR. DARREN RAINKIE: Yes, those are common assets that I think there -- there are parts on both balance sheets, and they're grouped together, and then allocated back to the gas and electric operations. And so that's additional financing costs that we believe is appropriate in -- to include in the total return rate base.

MR. BOB PETERS: And when the Board looks then at -- at the spec -- specific items, the long-term debt costs are weighted in the -- in the formula, and they drive out a return. And the intention is that return is -- is a hundred percent payment of the -- of the debt cost for the long-term debt?

MR. DARREN RAINKIE: Yes, the concept of return on rate base is to provide the Company with both a return to the creditors through paying interest expense, and return to the shareholders through a return on equity.

MR. BOB PETERS: And in the rate base rate of return methodology, the creditors' portion of the approved revenue requirement is -- is compensated dollar for dollar?

MR. DARREN RAINKIE: Sorry, Mr. Peters, I'm not following. Why would you not be compensating them dollar for dollar? If you borrow a piece of debt at 5 percent, you pay 5 percent, not some other number. I may -- I'm not understanding your question.

MR. BOB PETERS: Oh, I think you did. I wasn't debating it. But you're just acknowledging to the Board that the -- the debt costs are -- are included in the rates that are charged to consumers -- exactly what the Corporation is expecting to have to spend on that debt?

MR. DARREN RAINKIE: Yes. But just to be clear, our cost-of-service calculation, which is the application before the Board, we have our forecast of our debt cost from our IFF in -- in those figures. This is the way that you derive a like figure, if you like, fro -- under the rate base rate of return methodology, so those numbers are not necessarily the same.

MR. BOB PETERS: Correct. Thank you, Mr. Rainkie, for that distinction. And then -- then the -- the actual return on the equity portion of -- of the capital structure, that, you said, used to be the -- the profit that used to go to the shareholder, correct?

MR. DARREN RAINKIE: Yes, that was the return that was -- the shareholder was allowed to earn.

MR. BOB PETERS: And in your answer,

what you're telling the Board is the rates would be set. And if the Corporation managed itself within the confines of its budget as it proposed to the -- to the Board, it would be allowed to earn up to, in this case, $11.166 million?

MR. DARREN RAINKIE: Yes, the concept is not the guarantee of a return, but the reasonable opportunity to earn that return, if your forecasts come to fruition.

MR. BOB PETERS: And, Mr. Rainkie, what would cause the Corporation not to earn in this example $11.166 million?

MR. DARREN RAINKIE: Many things. As we talked about yesterday, differences between actual and normal weather, difference between actual and forecasted expenses, difference -- differences in customer numbers, pretty much anything that could happen in your business that would make your actual revenues and expenses different than what you had forecast.

MR. BOB PETERS: And those differences from what was forecast would be then borne by the shareholder because the return on equity would be -- would reflect a reduction, if the -- if the forecasts were -- were not lived up to?

MR. DARREN RAINKIE: Yes, with the exception, of course, of cost-of-gas, that is a pa -- pass-through item, because there is no -- no rate of return that the customer would be willing to pay that would compensate the owner of a public utility for taking the risk on the cost-of-gas changes.

MR. BOB PETERS: Mr. Rainkie, you said that, in terms of a methodology difference, the cost-of-service methodology being used to underpin Centra's application -- on page 300 of the book of documents, there's an indication there of the expenditures for finance expense, corporate allocation, and net income; and those are the three (3) items taken from your IFF forecast, correct?

MR. DARREN RAINKIE: Oh, sorry. I didn't know that there was a question there, Mr. Peters. Yes, that's -- that's correct.

MR. BOB PETERS: Well, and -- and the point of bringing this up, Mr. Rainkie is to -- you mentioned on the -- when we looked at the previous page at 299 that the total return on rate base would be in the area of $30.7 million, but under Centra's current application under cost-of-service side before the Board, it would be $34.1 million?

MR. DARREN RAINKIE: No, Mr. Peters,

that's not what I was trying to get at. My -- what -- what I was trying to get at is that from our vantage point, the corporate allocation is not a return to Manitoba Hydro. It's the fair apportionment of the costs of acquiring and integrating Centra Gas.

I mean, we don't think in -- in the terms of return any longer. We think -- we think in terms, as a Crown corporation, ,that we have costs and we have to recover those from either our electric or gas customers, and we're trying to fairly allocate those, because the Board has a responsibility to set rates on -- for both customer groups.

So while there's been lots of chatter at previous hearings about that corporate allocation being a return, that's certainly not how the Corporation looks at it.

In -- in fact, I don't know if -- if the Board actually -- if the Board has our annual report handy, but it might be -- going back to Mr. Warden who often referred to our annual report to help the Board understand these issues.

If we -- if we looked at the segmented note in the annual re -- the last annual report as an example -- and maybe I -- and maybe I'll wait until you can grab it, but it's on page 85 of our last annual report.

Oh, maybe it wasn't in the filing, sorry. I think we just did the quarterly... Sorry. What I was --

MR. BOB PETERS: Well, Mr. Rainkie, why don't you give us your point, and we can -- we can --

MR. DARREN RAINKIE: Sure.

MR. BOB PETERS: I'll run back and we'll -- we'll look at it, thank you.

MR. DARREN RAINKIE: What -- what I was -- if -- if you -- when you do find a copy of it, if -- what I was trying to demonstrate is that we have three (3) segments that consolidate into our financial statements, the electric segment, the gas segment, and the corporate segment.

And in the corporate segment, we include the costs of the acquisition and integration of Centra Gas, which is about $21 million, between finance expense, and a couple million dollars of depreciation and amortization.

And then what we do is we take that $21 million total, and we allocate it to gas and electricity. We allocate the costs to -- $12 million to gas and $9 million to the electric segment.

And as we talked about yesterday, that was based on kind of a relative assessment of the -- the benefits of the acquisition, and how they fell to the general ledger of the gas and electric side of the operation.

So -- so we look at this as not a return, not net income to the Corporation, but simply, the fair apportionment of those costs so that both sets of customers are held harmless from the -- from the acquisition.

I mean, of course the prin -- the principle we talked about is there should be no harm to Centra cust -- to Centra customers as a result of the acquisition. Well, we want that to be true for our electric customers as well.

And this corporate allocation is what we've devised to -- to honour that commitment, if you like. So getting back to the return con -- concept, that's why we disagree with taking finance expense and net income, and adding the corporate allocation and saying that's a return.

We don't look at the corporated -- corporate allocation as a return. We look at that as a cost.

MR. BOB PETERS: And the Board has

issued its order, Mr. Rainkie, in respect of that matter, on a previous occasion. Do you acknowledge that?

MR. DARREN RAINKIE: It has, but with some new Board members, I'm hoping I can put a different -- a different spin on it. I shouldn't use the word "spin", Mr. Chairman. I mean, I -- I think I need to explain what the corporate position is, on this matter, for the new panel members.

MR. BOB PETERS: All right. Mr. Chairman, I'm going to turn to My Friend, Ms. Boyd, and I can either proceed with Mr. Prydun, or we can have a cameo appearance by Mr. Schulz, who has yet to give his direct evidence to you.

So I'm at your pleasure on that. And if he's available maybe we should -- should hear from him.

MS. MARLA BOYD: Certainly. We can -- we can introduce Mr. Schulz. He's -- he's available to the Board now, and I do appreciate the accommodation of the Board and Mr. Peters, and I've sort of wrecked havoc with Mr. Peter's order of cross, but we will, if you just give us a few minutes, bring Mr. Schulz in and we can have him sworn.

And he has a very small amount of

direct evidence to give, and then he's available for cross-examination.

MR. BOB PETERS: And while we're taking a short recess to accommodate Mr. Schulz attending the hearing room, Mr. Chairman, I just would like to ask the Board members to have available some information that was handed out, I believe, on the end of day, Friday.

And it -- it was -- it was not marked as a exhibit because it was updated Information Requests. And included in that is an economic outlook for '13 to '34. As well, there are updates to PUB/Centra 1st Round -- 1st Round question 9, and 2nd Round question 141. And that information, if the Board has it at hand, may be something that will be required.

So if we could take just a few minutes, take a five (5) minute break, and we'll -- we'll set up again.

THE CHAIRPERSON: Thank you, Mr. Peters. Let's take five (5) minutes.

(PANEL RETIRES)

--- Upon recessing at 2:00 p.m.

--- Upon resuming at 2:09 p.m.

THE CHAIRPERSON: Ms. Boyd, please.

MS. MARLA BOYD: Thank you. It's my pleasure to introduce for the Board, Mr. Manny Schulz. Mr. Schulz is the corporate treasurer for Manitoba Hydro and Centra Gas. He's here today to provide his evidence, both direct and cross-examination, in what he's holding Board counsel to be a cameo appearance. Supporting Mr. Schulz and behind him are Susan Stephen, who is the manager of financial markets, and Anitha Paspaporn, who is a business analyst who will be assisting Mr. Schulz.

If we could ask Ms. Dubois to swear Mr. Schulz, we could begin with some direct examination.

CENTRA PANEL 4:

MANNY SCHULZ, Sworn

EXAMINATION-IN-CHIEF BY MS. MARLA BOYD:

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

MR. MANNY SCHULZ: Good afternoon, Mr. Chairman, members of the Board, all interested observers. Thank you very much for your patience today. I will be providing evidence related to the company's interest rate forecast, finance expense, and debt management.

MS. MARLA BOYD: And could you please advise the Board of the impact of the updated interest rate forecast in the 2013 economic outlook on interest expense for the 2013/'14 test year?

MR. MANNY SCHULZ: Certainly. Centra recently filed a revised response to PUB/CENTRA 1st Round 9B, which summarizes the changes to the interest rate forecasts. The Board will note from this response that the forecasted three (3) month Canadian T-bill rate has declined twenty-five (25) basis points. The CDOR-03 rate used for Canadian floating rate long-term debt has declined thirty (30) basis points. And the forecasted long-term ten (10) year plus rates have increased twenty (20) basis points.

The total interest on debt expense is forecast to decrease by ninety-five thousand dollars ($95,000). And taking into account capitalization of interest and changes to the carrying costs associated with various deferral accounts, the total impact on revenue requirement for the test year is a reduction of two hundred thousand dollars ($200,000).

MS. MARLA BOYD: In Mr. McCormick's evidence filed with the Board, he characterizes the difference between the interest rate inputs used in the development of IFF-12, which underlies this application, and the more current estimates as, quote, "materially different," closed quote.

Do you agree with this characterization?

MR. MANNY SCHULZ: No, I do not. By way of comparison, during the 2009/'10, and 2010/'11 Centra GRA, in the midst of the financial crisis, short-term interest rates decreased approximately three hundred (300) basis points between the filing of the application and the commencement of the hearing.

Considering the magnitude of that change, and in combination with other factors, Centra determined, at that time, that it was appropriate to revise its application.

This year, as I just indicated, interest rates have only slightly changed, decreasing in the order of twenty-five (25) to thirty (30) basis points for the short-term rates, and increasing twenty (20) basis points for the long-term rates.

For reference, it should be noted that the financial markets may experience volatility over short periods of time. For example, during the past month, benchmark Government of Canada ten (10) and thirty (30) year yields have increased over thirty (30) basis points, with movements within a single day of five (5) to ten (10) basis points being a common occurrence.

In that regard, a relatively modest decline, of twenty-five (25) to thirty (30) basis points, in short-term rates between the date of the Fall 2012 Economic Update and the Spring 2013 Update stands in sharp contrast to the three hundred (300) basis points changes that occurred during the previous Centra GRA.

MS. MARLA BOYD: Mr. McCormick's evidence suggests that there is a systemic upward bias in Centra's interest rate forecathing -- forecasting methodology. Could you comment on that, please?

MR. MANNY SCHULZ: Centra disagrees with Mr. McCormick's suggestion that there is any upward bias in Centra's interest rate forecasting methodology. The Corporation's interest rate forecasting methodology has been extensively canvassed in recent hearings, and this methodology considers forecasts from respected banks and independent sources to derive a consensus forecast.

The interest rate forecast is unbiased, as it is not developed with the intent of selecting or encouraging one (1) outcome over others. Centra does not support removing forecasters from the pool in order to purposely produce a higher or lower combined forecast.

Centra values the diversity of forecaster opinion, and from a risk management perspective, the diversity of external information also provides beneficial insight into the range and distribution of potential interest rates.

MS. MARLA BOYD: Mr. Schulz, could you comment on whether Centra has observed a change to external forecasters' opinions during the past few years, as actual interest rates continue to move lower than their earlier forecasts?

MR. MANNY SCHULZ: Yes. Forecaster opinions do change through time in response to changing market conditions. This was readily apparent at the height of the financial crisis as virtually all forecasters missed both the timing and magnitude of the economic downturn. In response to the dramatic macro-economic changes occurring during that time, the external forecasters sharply lowered their interest rate forecasts.

And since then, the global ecomony -- economy has witnessed numerous ongoing challenges, and the economic downturn has become more prolonged than originally anticipated. And in the past few years, the global, the North American and Canadian economies have seen extraordinary monetary policy intervention by central banks. Short-term interest rates remain anchored at artificially low rates. Long-term interest rates have also been affected by central bank interventions.

It is clear that actual interest rates have fallen in the past few years, and that the depth and breadth of the economic downturn has surpassed forecaster expectations. This, simply, points to the fact that the macro economy is a continually-moving target. And as the external forecasts have evolved through time, the Corporation's interest-rate forecasting methodology has gathered and combined their opinions in an unbiased manner.

Centra remains of the view that the existing forecasting methodology provides a representative interest-rate forecast at the time that it is produced. To remain current in -- to changing conditions, the Corporation monitors financial markets on an ongoing basis, and reviews its interest-rate forecasts at regular intervals throughout the year.

MS. MARLA BOYD: Mr. McCormick has suggested that revised long-term interest rate forecast be incorporated into Centra's application. Can you please comment on the rates that are cited by Mr. McCormick?

MR. MANNY SCHULZ: Yes. Mr. McCormick's recommended forecast Government of Canada ten (10) year plus interest rate for the 2013/'14 test year of 2.36 percent was already below the actual market rate of 2.53 percent as at June 11th of last week, and this morning's real rate time of 2.43 percent.

Further, when considering the forward Canada ten (10) year plus interest rates for March 31, 2014, Mr. McCormick's proposed rate is already 19 basis points below the Bloomberg Ford (phonetic) rate of 2.55 percent, as taken this very morning.

It is important to note that Mr. McCormick's recommendations do not include Manitoba credit spreads or any other associated transaction costs, which would be paid out by the Corporation. For all of these reasons, Mr. McCormick's recommended interest-rate forecast is unlikely to occur.

Centra notes that the actual long-term

interest rates have been moving upward in the past year, and again, most recently in the past few weeks. For example, the indicative all-in cost for Manitoba Hydro for a ten (10) year bond has risen in the past month by over twenty (20) basis points, from approximately 2.8 percent in mid-May to over 3 percent today.

This suggests that the period of historically low interest rates may be coming to an end.

MS. MARLA BOYD: Can you please briefly describe the recent changes to Centra's debt portfolio and, in particular, how recent refinancings have benefited consumers?

MR. MANNY SCHULZ: Certainly. Since April 1, 2009, Centra has refinanced three (3) of its legacy debt issues, which had existing interest rates ranging between 5.5 and 6.3 percent with new lower interest rates. Centra's refinancings have also minimized the concentration of interest rate refinancing risk by subdividing larger debt issues into smaller segments with different maturity dates.

In addition, Centra rebalanced its overall debt portfolio by converting balances from short-term to long-term debt as well as introducing floating rate long-term debt into Centra's debt portfolio. These financings took advantage of actual debt issues undertaken by Manitoba Hydro in the marketplace.

And with these changes, Centra was able to reduce the weighted average interest rate, and then made these changes more permanent, and reduce interest rate risk by lengthening the weighted average term to maturity. The reduction in actual finance costs through the past years has been to the benefit of all Centra ratepayers. For any absence of these advantageous results, Centra may have had to seek more frequent and/or higher rate increases.

This concludes my direct evidence.

MS. MARLA BOYD: Thank you, Mr. Schulz. Thank you, Mr. Chair, for the accommodation again. And we turn the mic back over to Mr. Peters.

(BRIEF PAUSE)

THE CHAIRPERSON: Sorry, I was just noting what you said. Mr. Peters, please.

MR. BOB PETERS: Yes. Thank you.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Welcome, Mr. Schulz.

MR. MANNY SCHULZ: Delighted to be here once again, Mr. Peters, and hopefully, for a good cameo appearance.

MR. BOB PETERS: You are under oath.

MR. MANNY SCHULZ: Indeed, I understand that.

MR. BOB PETERS: Thank you, sir. Cameos have different durations. But I understand that in addition to my questions this afternoon, that you'll be coming back Monday morning to answer further questions from CAC's counsel?

MR. MANNY SCHULZ: That is my understanding. And I'm totally fine with that.

MR. BOB PETERS: And, Mr. Schulz, I've circulated, previously, a book of documents. And I want to turn to Tab 50 of that book of documents, if you can borrow one (1) from one (1) of your colleagues, or perhaps you've -- you have one (1) of your own.

And, Mr. Schulz, on page 227 of that book of documents, the Board will see a summary of the finance expense, which is one (1) of the areas that you're speaking to for this panel?

MR. MANNY SCHULZ: Yes, I see that, sir.

MR. BOB PETERS: And the components of finance expense are listed down the left-hand column. And we've already talked somewhat about interest on long-term and short-term debt. The Board is aware of the provincial guarantee fee.

The, "amortization of debt discounts," do you want to briefly explain what line item refers to, Mr. Schulz?

MR. MANNY SCHULZ: When undertaking financings, there is often circumstances where the coupon rate is different than the yield rate, and so, thereto, you would get arising either debt discounts or premiums.

So what you're seeing on this schedule on page 227 is the legacy debt discounts as they are working themselves through the system. And so the -- the reduction in some of these debt discounts are related to, for instance, as we move in 2009/'10 to 2010/'11, the drop of one million 262 (1,262,000) to two ninety eight (298) is associated with the refinancings of CG-4 that had debt discounts, and then the refinancings -- the matter in which we do this is we assign over the entire yield, so that we no longer have to deal with debt discounts and premiums moving forward.

So by the time that we move to 2010/'13 with the financial refinancing of CG-1, there are no more remaining debt discounts and premiums on historical record, nor do we forecast any moving forward.

MR. BOB PETERS: And then the point that I think you just made is that going forward, based on the financing activities of Manitoba Hydro and the province, you don't anticipate any further debt discounts or premiums to have to be reflected through this schedule?

MR. MANNY SCHULZ: That's correct. On the Manitoba Hydro side we would continue to have them, because we, at the point of debt origination, do have debt discounts and premiums due to the difference between coupon rates and the all-in yield rates, but when we make the assignment over to Centra to simplify an assumption we just bring across the all-in yield rates and thereby eliminating the need for it in the future.

MR. BOB PETERS: Mr. Schulz, what shows up under the 'total interest on debt' line, the Board will note that from '07/'08 through to the test year of '13/'14 that the total interest on debt has -- has dropped significantly, approximately $6 million?

MR. MANNY SCHULZ: A large and significant amount, I would agree.

MR. BOB PETERS: And that's as a function of the -- what you've spoke to a bit in your direct evidence, in terms of the interest rate adjustments that have occurred in those intervening years?

MR. MANNY SCHULZ: Well, there are always puts and takes, in terms of volumes as well as rates. But significantly, there has been a -- a major drop in rates that have manifested themselves through the interest costs in both long- and short-term debt. And so you're seeing the reflection of that in this schedule.

MR. BOB PETERS: In terms of interest on common assets, sir, that represents assets that are owned by Manitoba Hydro, the interest on which is transferred over, or allocated over, to Centra Gas?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And the carrying costs on deferred taxes are a deduction from the finance expense. And perhaps, Ms. Jacobs or Mr. Rainkie, if you're not aware, sir, would that item be moved over to capital on other taxes?

MR. MANNY SCHULZ: I believe this is a -- a balance sheet item and the -- the carrying costs are distributed through to -- on an amortized basis through to sen -- finance expense. And it results out of the acquisition by Manitoba Hydro in -- in 2009 for Centra.

Be -- Centra became non-taxable and in so doing incurred a non-recurring tax expense, and that's been deferred and amortized over thirty (30) years. And if you look to subsequent pages, I think you see that it comes to a conclusion in the -- in the forecast period due to being written off, I think, in prospect of IFRS moving forward.

MR. BOB PETERS: All right. We've had some discussion about that already, Mr. Schulz, so we don't need to go over that further unless your answers require that. In terms of the total finance expense shown on page 227, sir, again, total expense from 2007/'08 to the test year has again dropped from 21.7 million.

It's now down to 17.3 million in the forecast?

MR. MANNY SCHULZ: That's correct. And I would consider that to be a major advantage to ratepayers. And -- and that's really us taking advantage of the financial market conditions that were in effect during this time.

MR. BOB PETERS: And it's an advantage to the ratepayers, because their rates are lower by approximately 3 1/2 or $4 million to reflect the lower finance expenses that the Corporation incurred over that period of time?

MR. MANNY SCHULZ: Well, it's a reduction in revenue requirement, because our finance expense has gone down on an actual basis through that time. And that's to the benefit of ratepayers, because in the absence of that, we may have had to have seek higher rate increases and/or more frequent ones.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, on page 228 of the book of documents is a comparison between actual finance expense at the top of the table and what was forecast at the last general rate application based on what I think was Centra Gas IFF-08.

Can you --

MR. MANNY SCHULZ: With --

MR. BOB PETERS: -- confirm that?

MR. MANNY SCHULZ: -- that this is based on the revised rates that were put in play with -- in May of 2009.

MR. BOB PETERS: I'm sorry, I missed your qualification on that, sir?

MR. MANNY SCHULZ: Well, was -- the original application was based on IFF, but then we, in May of 2009, supplied an update for those interest rates. And so the updated application numbers are what you see in the middle portions of this page.

MR. BOB PETERS: So just that we're clear on that, Mr. Schulz, let's pick the '08/'09 year, in terms of actuals at the top of the page. That was what was initially forecast in your IFF-08, sir?

That's the top third of the page at, let's say, twenty million one hundred and fifty-eight thousand dollars ($21,158,000)?

MR. MANNY SCHULZ: No, those are actuals, so on that first column there for 2008/'09, on the top third of the page, those are all actuals. In fact, that whole piece of it is. The middle section pertains to -- and you can see that just under the dates is the forecast CGM-08-1. And those are the rates from the interest rates update that were applied in May of 2009. We put that through the IFF. And so the implications in the forecasts, they're two (2) generated are the ones that are represented there in the middle section of that page.

MR. BOB PETERS: I think then we're saying the same thing, Mr. Schulz. And then the difference between what was forecast by way of the May 9 -- May 2009 update and what actually occurred drops off -- drops out at the bottom of the page?

MR. MANNY SCHULZ: I think we agree.

MR. BOB PETERS: All right. Now, what we see in '08/'09 is that the total finance expense forecast -- and I'm in the middle of the page now, under the 2008/'09 column -- was $22.225 million, sir, you'll agree?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And then the actual, you've drawn the Board's attention, is up at the top of the page. The total finance expense on the actual basis was only twenty million one hundred and fifty-eight thousand dollars ($21,158,000).

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And so there was a difference of two million and sixty-seven thousand dollars ($2,067,000)?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And where did that difference go?

(BRIEF PAUSE)

MR. MANNY SCHULZ: Where did the difference go, or how did it arrive?

MR. BOB PETERS: Did it flow to the bottom to the net income?

MR. MANNY SCHULZ: The net income is the summation of all of the actuals that you would have seen flowing through. From a forecast basis, you would see this as a forecast favourable to the original forecast. So that would have been -- from a forecast basis, this is $2 million favourable to the forecast.

MR. BOB PETERS: All right, Mr. Schulz. And then going through the other columns, we can see likewise the very last line on the -- on the page, where we look at the differences, interest rates were, in my words, over-forecast in the IFFs compared to what they actually turned out to be.

MR. MANNY SCHULZ: I would suggest

that the interest rate forecast in May of 2009 ended up being higher than actually experienced.

(BRIEF PAUSE)

MR. BOB PETERS: And, likewise, in each of the other years, the forecast was higher than the actual?

MR. MANNY SCHULZ: In terms of the bottom line on the difference, third of the page at the very bottom, those amounts reflect the difference between actual finance expense and what was forecast. And that reflects a variety of a host of things. But interest rate decline certainly had a major part in that.

MR. BOB PETERS: Was the column that depicts the 2011/'12 actual results, Mr. Schulz -- was that impacted by the Board's order, in terms of what would be the appropriate way to determine the finance expense and the interest rate calculations?

MR. GREG BARNLUND: Mr. Peters, just to clarify here. Rates that have been in effect since May of 2010 would likely have been based on the forecast numbers that are shown for 2010/'11. We had a two (2) -- two (2) test year application, '09/'10 and '10/'11. And we received an order from the Board in September of '09, which directed us to make adjustments to finance expense, and we refiled those rates for May of 2010.

So I think that perhaps the forecast number in '10/'11 is closer to what would be representative of being in rates than what you would see in the '11/'12 forecast.

MR. MANNY SCHULZ: And I'll -- what I would add to that is the actuals are the actuals. So, you know, in terms of the -- the Board order, you would have seen that cascade itself through the subsequent forecast, as Mr. Barnlund had suggested, but our actuals were based on actual performance.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Barnlund, I'm appreciating your -- your assistance on this, sir. When the Board looks at the column for 2008/'09 and they see at the bottom total finance expense was -- the forecast was $2 million higher than actual, does that $2 million flow to the betterment of the Company's bottom line?

MR. GREG BARNLUND: I'd have to check

and see which -- in terms of which rate's being approved and which rate approval -- whether CGM-08-1 (phonetic) is the relevant comparator. I'm not -- I can't tell you right now.

MR. BOB PETERS: All right. What we're -- what you're telling the Board is that, in a prior PUB order the Board directed Centra in terms of how to calculate the interest rate. And that took place for the '09/'10 and the '10/'11 test years, correct?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And as a result of the Board's directed methodology, if I can call it that, compared to what had been actually incurred, what was the difference as between those two (2)?

MR. GREG BARNLUND: There is a difference. I -- I don't have that right at my disposal. We can do a check on that if necessary. But like I'm -- I would also like to reflect that we had an IFF which was approved, became the basis for our rate application. Subsequently, our finance expense was amended as a result of the Board order.

I'm not sure if there had been any adjustment made to the IFF itself or whether that simply would have been reported as a variance for that year.

MR. BOB PETERS: Mr. Barnlund, in those -- in that test year for 2009/'10 and '10/'11, one (1) of the proposals that came before the Board was for the Board to establish a deferral account respecting finance expense.

Have I got that correct?

MR. GREG BARNLUND: I believe it was proposed.

MR. BOB PETERS: It wasn't -- it wasn't directed by the Board at that time?

MR. GREG BARNLUND: No, sir, there was no direction to apply that.

MR. BOB PETERS: And can you confirm, Mr. Schulz and Mr. Rainkie and Mr. Barnlund, that when the Corporation is forecasting its finance expense it's not looking for that to be a profit centre for the -- for the gas company, it's -- it's looking to -- to come in as close to actual as it can?

DARREN RAINKIE, Resumed

MR. DARREN RAINKIE: Well, Mr. Peters, yes, we're not looking to make a profit off the difference between actuals and forecast. What we're looking to do, in the context of a future test year which recognizes that we're making forecasts, and sometimes forecasts, you know, two (2) years in advance in the terms of a second test year of a -- of a rate application, it's not about accuracy. It's about was there a reasonable basis of setting rates. That's what a future test year is based on.

This kind of discussion we've been having about forecast accuracy, there's going to be lots of things that are going to throw the numbers off, both vo -- volumetrically and from a rate perspective. But the central question in a rate hearing is: Do you have a reasonable basis of determining rates based on what you knew at the time?

It's nice to do a post facto review and try to draw conclusions from it, but you should be careful about how -- the conclusions that we draw and this notion that there's going to be complete accuracy, especially during this timeframe, when -- when rates were dropping, and they were dropping much more than anybody had expected.

MR. BOB PETERS: Much more than anybody had forecast?

MR. DARREN RAINKIE: That's right. I mean, that was the -- there's lots of data on the record, lots and lots of data, lots of discussion about averaging numbers and -- but I think what the Board has to keep in mind during this period is what was happening. There was nobody that had forecast the reduction in interest rates during this period of time that occurred.

And after that, all the forecasters were assuming that there was a return or recovery in the economy that never materialized. So there's definitely no systematic bias here in terms of the forecast. It's simply a reflection of what happened in the macroeconomic environment during those periods of time.

And I -- and I know there's lots of data on the record, thousands and thousands of page in -- pages in this proceeding. But I think to understand those pages, you need to understand and remember, I guess, what was happening in the financial markets at the time. And I think that's what Mr. Schulz was trying to indicate in his direct evidence.

MR. BOB PETERS: And the point that I'm not clear on, though, Mr. Barnlund, with you, sir, is that in the last GRA Board order, Centra was directed to use a short-term interest rate of half of 1 percent for the '09/'10 and -- and 1 percent for the

'10/'11 test year.

Do you recall that?

MR. GREG BARNLUND: Yeah, I take that subject to check, sure.

MR. BOB PETERS: And they also -- and the Board also directed that a long-term interest rate of -- I think it was 4.05 percent be used, excluding the debt guarantee fee?

MR. GREG BARNLUND: I seem to recall that, yes.

MR. BOB PETERS: And is that reflected in the column shown as 2011/'12? Would that be the -- the forecast expense is shown as 23.375 million, does that include and take into account the directives of the Board, or -- or does it not at this point in time?

MR. GREG BARNLUND: It would not on a forecast basis because the forecast was generated prior to that order, and it would not have been amended subsequent to the order. The forecast is the forecast, and we would report actuals against it throughout the course of the year. And one (1) of the variances that would be driven would be the fact that rates were set a low -- at a level that was lower than what would otherwise have been if -- if they would have been set in adherence with the forecast in that

IFF.

MR. MANNY SCHULZ: I should point out that we were responding to this PUB Information Request based on the request for this infor -- you know, for the information on this IFF, on this iteration of the IFF. If it is the will of the, you know, counsel and the Board to receive information that was emanating out of the Board order, it would -- there would have been a subsequent iteration, or -- or variation thereof that cer -- certainly we can supply.

But, again, this Information Request was specific to what was in effect at the application. And -- and, as I indicated, in the May, 2009 update, if you're looking to see what was the actual difference act -- the difference between the actuals and the amounts post-Board order, that's something that we can certainly provide. Those data points are all available, So we stand ready for your guidance on that.

MR. BOB PETERS: Well --

MR. DARREN RAINKIE: Mr. -- Mr. Peters, I can help you out for the second test year on this comparison, if I understand where you're going. On page 151 of your book of documents you had outlined the last approved numbers from the 2010/'11 rate hearing. Unfortunately, the numbers from '09/'10 are not -- not there, but we can find them.

But -- so just as a point of reference, what the Board had approved in the '10/'11 rates for finance expense was at line 8 of page 151 of your book of documents, nineteen million one hundred and five thousand dollars ($19,105,000). And that compares with the actuals of seventeen million eight hundred and eighty-eight thousand ($17,888,000).

Unfortunately, I don't have the last -- the -- the approved number from the '09/'10 test year. I couldn't find it in your book of documents. But, as Mr. Schulz says, it's probably in the material in spades and we can find that number and make that comparison for you here.

So this -- we were -- we -- we answered what we were asked to do in this. This was a comparison of what actually happened versus the -- I think the updated application. The comparison of what actually happened versus what was included in rates is a different comparison, and the differential is not as large as what's indicated on this sheet.

MR. BOB PETERS: And -- and so in terms of order of magnitude, Mr. Rainkie, let's stay with that 2010/'11 year. And thank you for ferreting out that information from page 151. The -- the Board approved amount, which would then appear in the middle of page 228 under a new analysis, instead of it being 21.017 million, it would be 19.105 million; would have been what the forecast would have been, or embedded in the rates at that point in time.

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

MR. BOB PETERS: And that compares to the actual, which was $17.888 million. And so the difference between the two (2) would be -- would be a couple of million dollars.

MR. DARREN RAINKIE: It would be $1.2 million, approximately.

MR. BOB PETERS: Right. One point -- yes, $1.2 million.

And the rates that were in effect at the time did recover the $19.105 million?

MR. DARREN RAINKIE: They were set to do that, Mr. Peters. I mean, I can't remember what the volumes were in that year, but that's -- that's what they were designed to do.

MR. BOB PETERS: So in moving forward to the next year, for the '11/'12 year, the -- the rates would still be set at the $19.105 million?

MR. DARREN RAINKIE: That's correct, yes. There was no rate change -- no general rate change in that year.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, at page 328, at Tab 61, of the book of documents, there's also a -- a schedule and attachment from Centra on a pro forma revenue requirement statement, and it shows that the finance expense in the 2011/'12 year under IFF-10 would have been forecast at $19.058 million?

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

MR. BOB PETERS: And then we see the actual was the eighteen four sixty-four (18,464) on page 228?

MR. DARREN RAINKIE: I'm with you, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: And, Mr. Rainkie, if -- if we can just layer on top then of -- of page 228, the updated finance expense that we've now found in different parts of the book of documents would serve to reduce the surplus, if you will, at the -- shown in the bottom of the page?

MR. DARREN RAINKIE: Sorry, Mr. Peters, I didn't understand that question.

MR. BOB PETERS: All right. The way page 228 is depicted it's based on a -- and the IFF-08 as Mr. Schulz as acknowledged?

MR. DARREN RAINKIE: Yes, updated for the appli -- or before the application -- sorry, before the public hearing.

MR. BOB PETERS: Right. And then if we look to the -- to the actual forecast numbers that existed you've picked out the approved of 19.105 million and we see that that's roughly the same as it would be for the following test year, based on IFF-10 from page 328 of the book of documents?

MR. DARREN RAINKIE: Yes, at the time of preparation of IFF-10 it was looking pretty consistent with what was in the approved rates. I -- I do have the figure for 2009/'10 approved, Mr. Peters, if we want to tidy this -- this item up, if that's --

MR. BOB PETERS: Please.

MR. DARREN RAINKIE: -- acceptable.

So under the eighteen nine two one (18,921) number, which is the actual number that you see for 2009/'10, what was included in rates was 19 million seven two five (725) if you want to pencil that number in. So it was about an eight hundred thousand dollar ($800,000) difference.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Schulz, back to you, sir. The upshot of the Board order, as we've now, with the benefit of Mr. Rainkie, quantified the -- the difference between what CGM-08 IFF was forecasting and what the Board directed be forecast, captured the majority of the difference that factually would have occurred had the IFF remained as the source of the finance expense forecast?

MR. MANNY SCHULZ: Can you please just restate that question?

MR. BOB PETERS: I'll try it in a different way. Based on the Corporation's forecast compared to what the Board ordered, the Board ordered methodology came in closer to what was actually expended as opposed to what Centra was forecasting?

MR. MANNY SCHULZ: The difference was less, I agree.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, as I flip back to page 229 in the book of documents, this information was predicated and based on the 2012 economic outlook, sir?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And that was premised on September and October of 2012 interest rate forecasts?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And in your direct evidence to Ms. Boyd, you've told the Board that by way of a summary in PUB Centra 1st Round Information Request number 9 revised, that by providing a further update on the economic outlook, the net difference is finance expense has gone down by approximately two hundred thousand dollars ($200,000) from what was forecast in the general rate application?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And I think, in your absences, sir, Mr. Rainkie had told the Board that there's no official request by Centra to revise its -- its -- its filing as before the Board, based on the immateriality, which is my word, of the two hundred thousand dollars ($200,000)?

MR. DARREN RAINKIE: Yes, Mr. Peters, that's a accurate summary of what we chatted about.

MR. BOB PETERS: It's not to suggest that two hundred thousand dollars ($200,000) is an immaterial amount, Mr. Rainkie, but in terms of relative numbers that was the essence of the position of the -- of the Utility?

MR. DARREN RAINKIE: Yes. And a $300 million revenue requirement. I doubt if it would change the last decimal place on the rates.

As well, I know there's other things out there. Like, we had to reduce our pension discount rate this year, once again, which will increase the expenses to Centra for the 2013/'14 test year, probably by over a million dollars. But I haven't included that in here eith -- either.

So, you know, there are always puts and takes every day we get new information; we could be updating the application every day. But once again, setting rates is about putting reasonable forecasts, it's not about trying to determine pinpoint accuracy. If we were, I suppose we'd go back to a historic test year, based on audited financial information and -- not that I'm suggesting that.

MR. BOB PETERS: Didn't you say you longed for those days, Mr. Rainkie?

MR. DARREN RAINKIE: Once in a while I long for a discussion of capital structure, but not for the days of the historic test year.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. And, Mr. Schulz, in terms of the debt management that you're responsible for, on Tab 50 -- Ta -- in Tab 50 of the book of documents, starting on page 230, is an Information Request that records the debt issue by Centra and what the -- what the new terms are respecting that. That was something done under your -- your supervision, sir?

MR. MANNY SCHULZ: Yes, indeed.

MR. BOB PETERS: And -- and what is noted as CG-1, I guess, which is Centra Gas issue number 1, was $62.67 million, and it had an average yield rate of 5.98 percent, and that matured on September 18th of 2012?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And as a result of that, Centra refinanced that in three (3) separate tranches of debt?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And as depicted on page 230, it did so at different interest rates, although, significantly lower than the 5.98 percent that was underpinning the original CG1, correct?

MR. MANNY SCHULZ: Correct. And a description of that, actually, is included in the rebuttal evidence for each one (1) of the refinancings and new financings that were undertaken in that period of time, in terms of the debt issues, where they emanated out of in terms of the Manitoba Hydro issue, what the interest rates were for the -- the segments, as well as the relative performance on the assignment date.

MR. BOB PETERS: Well, what we also have, Mr. Schulz, on page 231, is an indication that part of CG-1 was replace by CG-15, correct?

MR. MANNY SCHULZ: Correct. So --

MR. BOB PETERS: And --

MR. MANNY SCHULZ: Yeah.

MR. BOB PETERS: And while my suggestion, sir -- sorry to interrupt -- is that of that original $62.67 million, $20 million was placed out for ten (10) years at a coupon rate, or a yield rate, of 3.178 percent?

MR. MANNY SCHULZ: Yes, so with CG-15 -- we subdivided CG-1 into three (3) parts, because we wanted to reduce the concentration of that as a lump-sum amount, so we divided it into three (3) pieces.

CG-15 was 20 million for 3.178 percent for ten (10) years. CG-16 was 3.281 percent for twenty-one (21) years. And CG-17 for 20 million for 3.413 percent for thirty (30) years.

So instead of having it all landing in one (1) maturity date, we subdivided it and -- and had it going into ten (10), twenty-one (21), and thirty (30) years, using the originating pieces of debt as indicated in the term sheets that follow.

MR. BOB PETERS: And as indicated on page 230, Mr. Schulz, the weighted average yield rate of five point nine-eight (5.98) that existed for CG-1 dropped down to 3.291 percent, correct?

MR. MANNY SCHULZ: Correct, but I'll add a finesse to this. So, I mean, it -- first of all, it's -- it's an -- it speaks to the financial market conditions and the advantage that has arisen due to just the financial market conditions and interest rates being so much lower at the point of refinancing that we were able to refinance that whole piece, or the 60 million of it, from 5.98 percent to these lower numbers.

The finesse that I would add is that the weighted average yield rate for CG-15/17 of three point two-nine-one (3.291) is really just the initial rolled-over amounts. So the finesses on this is that the effective weighted average yield for the entire stream is 3.329 percent, and that's indicated in the rebuttal as well.

And the simplest way of thinking about this is the simple average of -- and you can look at this on page 230. The average of those three (3) interest rates, the simple average is 3.291 percent.

So for the first ten (10) years, that is the interest rate that these -- that CG-1 was rolled over at. But as soon as CG-15 has matured then you're only left with 'C' -- three point two-eight-one (3.281) off CG-15 and the three point four-one-three (3.413) for CG-17. So then you've got a new weighted average for those periods of time from years 10 through 21. And when CG-16 mat -- matures, then you're left only with the strand of debt for CG-17. And that has a three point four-one-three (3.413).

So when you do the cash flow basis back for all of those pieces on this whole portfolio, the effective weighted average yield for the entire stream of cash flows is 3.329 percent. So just a finesse to show the difference between what it landed at immediately following and what -- from a effective yield perspective it was for the entire portfolio finances.

MR. BOB PETERS: The weighted average will be three point two-nine-one (3.291) for the next ten (10) years, correct?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And thereafter that it will change, because a couple of the tranches are still -- are still out there, whereas one (1) has matured?

MR. MANNY SCHULZ: Correct. And according to my arithmetic, it's three point three-four-seven (3.347), and then for the last legs of this, from years 21 to 30, then the -- the interest is 3.413 percent.

MR. BOB PETERS: Mr. Schulz, with the CG-15 being at 3.178 percent for ten (10) years, why didn't Centra take on more ten (10) year debt as opposed to putting it out for twenty-one (21) years or thirty (30) years for a higher interest rate?

MR. MANNY SCHULZ: We chose to do the -- first of all, we wanted to break up the concentration, so to break up the pieces into different maturity buckets, which we were able to do.

Then in terms of the weighted average, it comes into twenty point three (20.3), or approximately twenty (20) years. And so that's similar to what we have in our forecast. So our forecast is, as you may recall, has a forecasted term to maturity of twenty (20) years, so it aligns well with that. It also aligns well generally with our forecasted interest rate, which is a ten (10) year plus, which is the arithmetic average between ten (10) and thirty (30). We just call it ten (10) year plus.

And so there was the -- the desire to create something similar to forecast, in terms of the maturity as a weighted average, as well as the -- the term to maturity, and -- and try to create an interest rate that would be similar to what was in the forecast.

So if we had -- and we could have done this too, is to put a preponderance of this into the shorter term to maturity. That is something that we could have done. But again, a debt management decision to not only take advantage of these low interest rates for the here and now, but to make them more permanent for a longer period of time.

And so we extended the term to maturity in order to provide enhanced stability to the debt portfolio. So again, an amazing series of interest rates by anybody's calculations, I would assume.

(BRIEF PAUSE)

MR. BOB PETERS: If we turn to page 235 and 236, Mr. Schulz, the Board will see a continuity schedule for the long-term debt that we've been talking about. And we start off in the 2006 fiscal year. And the Board can see -- and if we follow specifically the Centra Gas 1, or the CG1, issuance, it flows through from '06. It continues on until we turn the page to page 236.

And we see it matures in the '12/'13 fiscal year?

MR. MANNY SCHULZ: Yes, correct.

MR. BOB PETERS: And then the very point you made about CG-15, CG-16, and CG-17, those are now in the picture starting in the '13 fiscal year?

MR. MANNY SCHULZ: Yeah. So in 2012/'13 is when the refinancing occurred. And so you see now the subdivision from the amount that was on

CG-1 is sixty two million six seventy-one (62,671,000). And we had three (3) tranches that rolled out after that for CG-15, CG-16, and CG-17 for 20 million each.

MR. BOB PETERS: Is there any significance to the numbers not totalling sixty-two point six seven one million dollars ($62.671), Mr. Schulz?

MR. MANNY SCHULZ: No great significance under -- other than it was a bit of a simplification. So the difference between the 62 million and the 60 million, which is the aggregate of those three (3) pieces, is a little over 2 million. We just took that into short-term debt.

You'll see a similar phenomenon that happens, actually, if I turn to page 235 with CG-4. This inverse is true on CG4. There the amount that was maturing was eighteen thousand-o-seven seven (18,077). And it was refinanced with CG-13 for 20 million.

So there it's just -- from a simplicity perspective, just rounding it out, and so just to clean up, much like we have no more discounts and debt -- debt discounts of premiums. We just take it across as yield. We just sort of rounded the numbers. And -

- and it wasn't highly material.

And so we took the difference plus or minus the short-term debt.

MR. BOB PETERS: It must be neat to work in that neighbourhood, but -- in terms of those rounding errors, sir. But when we look also on page 236, we see that there's new debt proposed from March of 2014 of another $30 million, correct?

MR. MANNY SCHULZ: That is currently in the base IFF-12. And the dating on that is for March 31, 2014.

MR. BOB PETERS: What's the significance of issuing that debt on the last business day of the fiscal year?

MR. MANNY SCHULZ: Well, one (1) of the things that we have understood with Centra, for instance, particularly as you are looking to tranche out short-term debt to long-term debt, is that the end of the year is -- aside from the fact that it's the end of the year and it provides a nice touchstone point, but it also is, from a cyclical perspective, the seasonality of short-term debt usage near the end of the seasonal -- short-term debt season, if you will, because we build up short-term debt through the course of the year as we have gas purchases.

And so gas purchases for the Centra working capital requirements, we fund that out of short-term debt as we build up through the winter season. As the winter season comes to a con -- conclusion, the inventory of gas moves down. The short term debt balances are paid back to Manitoba Hydro. And so then all you have is -- volume is really what was left that would otherwise just be for capital expenditures that might be accumulating.

So it's a good point to see absent the changes that might occur through the seasonality of gas purchases, what was residually left. And so this gives us a point to see how much could or should be converted from short-term debt for accumulated capital balances into long-term debt.

And so as we get closer to March 31 of 2014, we'll make that ascertation once again to see how much capital amounts for capital expenditures had been accumulating. And then we'll see -- in the forecast right now for IFF-12 was -- the assumption would be that they would have $30 million that would be available for tranching out. I think it leaves something in the magnitude of -- of -- it's in the rebuttal, I believe -- it's subject to check, it leaves, I think, 17 or $18 million of residual short term debt aft -- after the tranching.

But we'll see how much capital expenditures have been, and how much there needs to be tranched out. If it's 30 million, it'll be thirty (30). If it's fifteen (15), we'll make those decisions based on what our cash requirements -- and requirements have -- have demonstrated to be.

THE CHAIRPERSON: The -- the -- I'm looking at the date at the very last line, "New debt March 2014." Is that mis-labelled?

MR. MANNY SCHULZ: No, that would be new debt March of -- 31, 2014. So that would be in the 2013/'14 year.

THE CHAIRPERSON: Oh, I see. Okay. So there's a projection of -- okay.

MR. MANNY SCHULZ: Yeah, it's a projection. It's -- there's no certainty to it, and --

THE CHAIRPERSON: Okay.

MR. MANNY SCHULZ: -- in fact, it may very well occur in the subsequent fiscal year. We likely wouldn't do the tranche before, for the reasons I just described. Because we want to see the after effect of -- of the gas purchases working their way through the system.

THE CHAIRPERSON: Now, you referenced at the outset, the issuance of long-term floating rate debt. Could you -- it's not reflected here, is it? Or -- or did I mis -- did I misunderstand that reference?

MR. MANNY SCHULZ: Well, you certainly didn't miss anything. The -- the forecast, and I don't know if we've come to this yet, but the forecast has -- of that 30 million, has it subdivided into two (2) tranches. One (1) $15 million tranche in IFF-12, for 3.3 percent; and then the other $15 million tranche was intended to be floating long-term debt. And by my recollection, it was at the CDOR-03 rate plus forty-five (45) basis points.

So if we were to tranche -- the intention, as it stands right now with IFF-12, is to have $30 million of short-term debt being converted to long-term debt because of capital financing that would have occurred. And to have that 30 million subdivided into two (2) pieces, a $15 million fixed and $15 million floating. Will that occur is still something that'll be determined based on our actual cash burn through the year, in whole or in part, and whether or not we come to a decision if it should be fixed or floating.

THE CHAIRPERSON: Now, you're thinking about using floating rate debt relative to just fixed rate debt.

What -- how did you -- how does that fit into your strategy?

MR. MANNY SCHULZ: And, Mr. Chairman, we had a similar conversation, I think, at the recent hearing. We have a policy whereby -- and this is a consolidated policy. But it -- it is mirrored somewhat on the Centra side. There are some nuances to Centra because -- and -- and I think this is indicated in response to CAC/CENTRA 1st Round 19. You can see a chart that shows the balances of a short-term debt and a long-term debt percentages.

It is our policy, at the consolidated basis, to have short -- floating rate debt and short-term debt not exceed 30 percent, and stay within a target range of 15 to 25 percent. So when we're looking at the percentages of the floating rate and short-term debt for Centra Hydr -- for Centra de -- in its debt portfolio at the time in which we do the tranching, we kind of see well, how much short-term debt we have. How much do we expect the amount build up to be. And so the re-calibration and balancing of the debt portfolio is in accordance with that.

So right now, when we were looking at the forecast, we were thinking that we needed to augment, and have another $15 million of total quantum of floating rate debt into the portfolio in order to keep ourselves within the target range. So that's another decision, in terms of should it be fixed or floating, in terms of that 30 million and how much gets subdivided into which pieces.

So where we stood at the time of the IFF, in order to bring ourselves back into the range, into the target range, it was determined that we would need approximately $15 million of floating rate debt at March 31 to bring us into the target range.

(BRIEF PAUSE)

MR. MANNY SCHULZ: And just also, as a further clarification for information, we do already have floating rate long-term debt within the portfolio for Centra, and that's specifically in CG-10. And that was a decision that was made during the 2009 year as well. So not only did we do the refinancings of CG-5 and CG-4, and we took out some new debt as we converted, accumulated balances with CG-9, and I think CG-13. But we also -- as one (1) of these portfolio refinancings, we took on floating rate debt long-term.

And, again, that was in keeping, Mr. Chairman, with the notion of wanting to stay within the -- the target ranges as we understood them, at that time.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Schulz, before we leave that item you and the chairman were talking about, that is the new debt in March of 2014, how is that $30 million reflected back in the finance expense, perhaps, back on page 227 of the book of documents, if at all?

MR. MANNY SCHULZ: Well, finance expense is an accumulation of -- of expe -- you know, finance expense def -- that interests cost through the year. So to the extent that the financing occurs at the last day of the fiscal year, that fiscal year won't have much impact.

So for the test year, the finance expense emanating out of that financing decision will really be manifested in subsequent years because it's at the last day. So there's no really significant accrued interest that occurs on one (1) day of the year on that piece of debt.

Does that assist you?

(BRIEF PAUSE)

MR. BOB PETERS: Is that $30 million included in the IFF forecast amount of -- of debt, Mr. Rainkie? That 30 million that I'm referring to is the March 2014 new debt that we've talked of?

MR. MANNY SCHULZ: In the calculation of debt -- in which schedule, I mean, just as a point of clarification?

MR. BOB PETERS: Well, I was thinking of included in the IFF itself.

MR. MANNY SCHULZ: It's absolutely in IFF-12 in terms of the -- the balances. So in this particular schedule, if you were to -- I mean, that's why it's listed on page 236 as being new debt, is because that's in the IFF-12.

MR. BOB PETERS: And then the -- you're telling the Board that the impact is one three hundred and sixty-fifth (1/365th) of the interest rate that would be exigible on that debt on an annual basis?

MR. MANNY SCHULZ: I would have to see the exact quantification of that. I don't even know that it would manifest itself into the test year itself, because -- I'd have to actually to see the minutia of the detail, I mean, if it happened at the front of the day, at the back of the day. If it's at the back of the day, it wouldn't even be in there.

So I'm not a hundred percent sure. In either case, it's a microscopic amount for the test year.

MR. BOB PETERS: All right. I was just trying to gain a comfort level in terms of the quantification. If anything's different in -- when you're sorting through the minutia, you can -- you can let your counsel know and advise the Board accordingly.

I would like to turn with you to talk about the interest rate forecasts. And maybe at Tab 51, we could start. While there's some extracts from a Board order provided, but let's -- let's turn ahead to page 243, if we could, Mr. Schulz.

The forecast that's filed on Table 1 on page -- and it's on page 243, was the forecast based on September and October 2012 forecasts from various financial institutions?

(BRIEF PAUSE)

MR. MANNY SCHULZ: Yes, this is correct. This is the Canadian three (3) month T-bill rate for the fall update that went into the IFF-12 original calculation into the application. And you can see here from, for instance, BMO, which is the first line item, the forecast date is 8 -- October 2nd of 2012, and cascading all the way down through to Conference Board, which had a September 19, 2012, dating.

MR. BOB PETERS: And, Mr. Schulz, handed out, I believe, Friday afternoon was a response to an Information Request, PUB Centra Second Round 141 revised. And if the Board can locate that -- this would be an Information Request that -- that you authored, sir?

MR. MANNY SCHULZ: I was responsible for it, yes.

MR. BOB PETERS: All right. And on page 2 of 10 of the handout, and I'll just see if the Board has a copy at hand.

(BRIEF PAUSE)

MR. BOB PETERS: So we're looking at PUB/Centra Second Round Question 141 Revised and Part

D, in particular. This revision, Mr. Schulz, that you had responsibility for, updated what is on page 243 of Board counsel's book of documents?

MR. MANNY SCHULZ: Correct. So just to follow through on the page for the assistance of all those who are reading, for instance again, BMO Nesbitt Burns, the forecast date on this is March 18th, 2013, down to InFORmetrica, which had a January 9, 2013, dating.

MR. BOB PETERS: Are there not more current forecast dates than those that have been used in this -- in this response, Mr. Schulz?

MR. MANNY SCHULZ: Well, absolutely. I mean, if you look, any particular day of the week, you may find updated new ones on the treadmill. You may also, as I indicated in my direct, look at actual real-time performance.

And -- and you can also even look in the financial markets to forwards. At the time when the 2013 spring outlook was created, these were the most current forecasts available, at that time, for these forecasters. If one (1) were to look at the forecasts as of the more recent ones, and for instance, in the rebuttal evidence, we even included one (1) from CIBC for May 8th of 2013.

So you will see changes, because forecasters do change. My suggestion will be, as well, that the forecasters also have a lag relative to real-time performance. And -- and it'll be interesting, actually, from my perspective as a pragmatist here, to see the real term impacts that I have seen in the last two (2) or three (3) weeks to see how that manifests itself in the -- the new forecast that come out in the latter part of June.

Because it would be my suspicion that the rates may yet be higher than what they had forecast in May, which might be similar to what they had back in -- in March. And so this is part of the challenge that you have whenever you look at the cascading changes that occur, and -- and they've occurred since the economic downturn in large measure as -- as forecasters continually update and revise.

And -- and I would also encourage the Board to read that -- that article that was supplied at the rebuttal from CIBC, because it very clearly indicates, and -- and Avery Shenfeld is the author of that, is the Chief Economist, indicates that -- I think, the challenges that are faced by economists in -- in the changing market conditions and -- and some of the factors that go into his mind in terms of why the forecast may change.

So at the timing when this revision was produced for spring outlook, these were the most current at that point in time, and the Board had asked for those interest rates. And so therefore, you see them as indicated in this schedule along with the economic outlook document that was supplied along with this Information Request.

MR. BOB PETERS: Mr. Schulz, when was the economic forecast that's labelled 2013 to 2034 prepared?

(BRIEF PAUSE)

MR. MANNY SCHULZ: I mean, aside from the obvious that it was done in the spring, the last day of collection was March 22nd of 2013. Again, you know, there's always a cutoff point for when you start to collect and combine, just as you get into actual interpretation of the data -- in doing the arithmetic and -- and doing so on and so forth.

So the cutoff day, I've been advised, is March 22nd, 2013.

MR. BOB PETERS: And the update -- or the revised PUB/Centra Second Round 141(D) that was handed out last Friday is based on the economic outlook data, not on data that was available after the economic outlook was -- was cut?

MR. MANNY SCHULZ: The Information Request asked for updates for the spring economic outlook which we provided. And we updated Tables 1 and 2 in accordance with the information that was current, at that point in time.

So I think Table 1 is the short-term Canadian three (3) month T-Bill rate. The Table 2 is the long-term Canadian ten (10) year plus rate. Both were updated with the -- information that was most current, at that time.

And is there more-current information available? There always will be. And I will tell you even from today, you know, when I gave my direct, I gave you information from this morning. If I were to give you information that was at the end of day today, you will see changes once again within one (1) day.

You see changes in the last week or so, five (5) to ten (10) basis points within one (1) day in the long term. You see movements less dramatic on the short-term. But every single day that goes by, you will see changes, and that's just a function of -- of changing perspectives and actual expectations in the financial markets.

MR. BOB PETERS: Mr. Schulz, when the Board compares Table 1 in the revised PUB/CENTRA Second Round 141-D to what was filed on page 243, they'll find that there's a new forecaster that's been added to the mix.

Is that correct?

MR. MANNY SCHULZ: Not correct.

MR. BOB PETERS: Is Spatial Economics previously used as a forecaster, sir?

MR. MANNY SCHULZ: Yes, they're not a new forecaster. It's just that the forecast that was undertaken in the -- you will have seen Spatial Economics in the spring economic outlook for 2012. By the time we came to the fall, it was determined they were no longer current enough. So we didn't include them in the fall, which is why you don't see them listed there, because we have a -- a view that we want to have the most-current information at the time of production.

When we went to the spring 2013, we were able to get from Spatial an updated information from them, which we incorporated. So they were in our pool before. We just looked for most-refreshed information. But by the time fall came around, which is why you don't see them on that listing, they were no longer current and they weren't included in the calculation.

MR. BOB PETERS: When you say, "no longer current," we see here in revised PUB Second Round 141-D that the Spatial Economics forecast is dated 29 January of 2013, correct?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And at what point in time would it become stale-dated, from -- from Centra's perspective?

(BRIEF PAUSE)

MR. MANNY SCHULZ: You know, I -- I think that -- and if you're looking at the Table 1 for the revised information, you know, Informetrica at January 8th, that strikes me as being on the outer boundaries of -- of where we would want to go. So -- but they provide valuable information, these forecasters.

And so particularly for spring economic outlooks that we have, we have a strong desire to include long-run forecasters such as Spatial Economics, Informetrica, and others that provide information into the economic outlook beyond just the test years into the long-term planning cycle. And so when we have the opportunity to integrate these forecasters, we choose to do that because they provide information that adds and benefits to the forecast.

If it was significantly more outdated than that, Mr. Peters, I would suggest that we probably wouldn't have included it. But the judgment call was made that that value was there to be derived by -- by their inclusion and for -- therefore, they were brought into play.

MR. BOB PETERS: Mr. Schulz, while we're still on Spatial Economics, when the economic outlook was cast on March 22nd of 2013, was there a more current forecast for Spatial Economics, other than the January 29th, 2013, one? That would have been, at that point in time, almost three (3) months old.

MR. MANNY SCHULZ: No, there was not. And, in fact, had there been, we would have, of course, used it.

MR. BOB PETERS: And, likewise, that answer applies for each of the other forecasters in the schedule?

MR. MANNY SCHULZ: Absolutely.

MR. BOB PETERS: And as a result of the revision that was handed out and is not in the book of documents -- but that's the updated PUB/CENTRA Question 141-D -- the forecast for the test year has dropped from the 1.30 percent down to 1.05 percent, sir?

MR. MANNY SCHULZ: Correct. So the Canadian three (3) month T-bill rate dropped from 1.30 percent in IFF-12 down to -- you can see the number there for 2013/'14 of 1.05 percent.

MR. BOB PETERS: And that summary is also what you spoke to related to PUB/Centra First Round question number 9B that you revised as well?

MR. MANNY SCHULZ: Correct, and also included in my direct.

MR. BOB PETERS: If we look at page 244 of the book of documents and also the revised PUB/Centra Second Round 141D, the Board will now look at the Canadian ten (10) year bond rate forecasts, Mr. Schulz?

MR. MANNY SCHULZ: Yes.

MR. BOB PETERS: And in this particular case, again, Centra's intention was to refresh the forecast and is now using forecasts -- I guess the same forecasts that the Board had seen used in the -- in the three (3) -- the three (3) month T-bill rate.

The date of issue would be the same?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And as a result, the forecast ten (10) year long Canada bond yield rate came down by five (5) basis points?

MR. MANNY SCHULZ: Yes, this is one of the component that goes towards the calculation of the all-in cost towards Manitoba Hydro and to Centra, is we look at the benchmark Canada rates. And so that's being reflected here. You also have the spreads from benchmark Canada rates to the Province of Manitoba, Manitoba Hydro, and, therefore, to Centra.

And so that credit spread, when you add it into the calculations and -- and looking as well as where we are right now, in terms of our financing and -- and real terms, what you see here is that the forecast for the long-term interest rates for 2013/'14 all-in, excluding provincial debt guarantee fee, move from 3.3 percent to 3.5 percent.

So we're seeing an increase of twenty (20) basis points in the long-term all-in cost. So this is just a sub-component of the long-term debt. So this just a -- is information to although the participants, but particularly to the Board, that this is just one (1) component.

So when we do our financing at Manitoba Hydro and the province and then we assign to Centra, it's not just the benchmark Canada rates, because we have a credit spread to the Province of Manitoba. And then we also have transaction costs which tend to be plus or minus six (6) basis points.

And so the credit spread has widened. And so the all-in cost to us, when we have our forecast moving forward, moves from 3.3 percent in IFF-12 to 3.5 percent, so it's an increase. And this is consistent with what we're finding in the actual financing that we see in the realtime market, so this is just the reality.

And, in fact, it'll be interesting to see if it even undershoots, in terms of -- the interest may in fact be higher, as in the last week or so interest all-in on the long-term side have moved up very significantly.

So the forecast that you're seeing here is based on the -- the forecast dates and the forecasters as at the date when the September 13 -- or the spring 2013 outlook was produced, but it's only one (1) sub-component.

MR. BOB PETERS: Understood. And, Mr. Schulz, the Spatial Economics forecast, does it tend to be the highest of the forecasts that Centra uses?

(BRIEF PAUSE)

MR. MANNY SCHULZ: We're just checking to see where our Spatial Economics was, for instance, last spring, in 2012, to see, you know, where they are from a comparative perspective. One must always caution when one looks at this. For instance, the comment that has been made is perhaps that we should exile Informetrica because they produce interest rates that are too high.

Well, in this package you will see that if we actually were to eliminate Informetrica this year from -- in fall they were higher than everyone else, but now, on the long bonds, they actually would reduce it. So, you know, sometimes they're higher, sometimes they're lower. I'm just having the back row check to see potentially where Spatial was last year to see if there is something there.

But again, from my perspective and representing the view of the -- of the Corporation on straight forecasting methodology, we look to -- we look to gather all of the respected forecasters, high and low, and we do that in an unbiassed fashion. To start pruning them because we don't like their forecast because they're too high or too low, I think, shows selection bias.

From our view, as well, and -- and certainly from my view as a practitioner, I want to see all the range . I want to see the high and I want to see the low so I can see what the range of potential outcomes will be and the distribution.

One of the things that we are looking at, and -- and I'll perhaps speak to this now, is contemplating doing what we call the trimmed mean or what's often referred to as the Olympic averaging, where you get rid of the high and low. You still keep them in the pool, but it's like figure skating; perhaps you get one -- rid of one judge's mark verus the other. And so you'll see that in -- I think it's on -- it's one (1) of the subsequent pages in here, Mr. Peters, where we actually look at -- at the trimming of the -- the high and low and for any quarter, in order to determine -- and it's actually on page 10 of 10 in -- in response to the revised PUB-IFS -- PUB 141D.

So on page 10 of 10 you can see what we

are contemplating, whereby -- and if everyone has this for reference -- for any one (1) particular period that we're examining, we are looking to, while keeping them in the pool and allowing the risk managers such as myself to -- to see the range, but to capture some of the -- perhaps, some of the -- the -- the same concerns or thoughts that you may have about Spatial or someone else.

So in this case here you can see Spatial, being high, would get -- would -- would get -- for the calculation at the bottom of that column, would be trimmed. And then you do the -- the averaging from that point in time.

That's something that we're looking at for the perspective for IFF-13, And what makes this attractive for us is not only is it allowing me, as a practitioner, to still see the full range of the highs and lows and not kicking anyone off the island or not excelling anybody, because they add value. And Spatial Economics, in particular, adds value as a long-run forecaster, because they provide data points into the medium and longer term, which you don't see truncated on the schedule. So we want to keep them. But it doesn't allow -- it doesn't force us to have sort of the distortion that might otherwise occur.

And so this is also a format that's used for the CDOR rate calculations every day, where they have nine (9) banks and they just take the high and low every single day, and that's just the normal routine. So that's something that we are looking at, moving forward.

And so, just being very pragmatic to this, but we do want to keep Spatial Economics into play. We definitely want to keep a lot of these other ones in -- in play. We do not support the elimination of one (1) forecaster. But as a pragmatic solution, what we are looking at is something along these lines to see the high and the lows.

And so that seems to meet more of the checkmarks of requirements from a risk-management perspective, also shaping the mid -- the midline. Now, if the highs and lows are on the bell curve of normal distribution, it makes no difference. However, if there was a skewedness one (1) way or the other to the distribution statistically, then this process will slightly change the -- the mean calculation.

But again, you will find, even so, you're not going to find a major significant movement. But again, it's -- it's an accommodation that we're considering.

MR. BOB PETERS: Thank you, Mr. Schulz. I'll have to read the transcript for the question that I asked and make sure I don't ask that one again.

But, Mr. Schulz, you told the Board that you were thinking of doing the truncated version, where you throw away the high and the low and take the average of who remains.

Are you back-testing that against what the actual interest rates are in the -- in the particular quarter to find out if there's -- if there's -- if that improves the accuracy of your forecast?

MR. MANNY SCHULZ: Well, Mr. Peters, this brings me back to my first day ever testifying at the Public Utilities Board and -- and being under cross-examination by you, I think it was January 7th, 2011, when we spoke about retrospective testing of forecasters.

And I will say today what I said then, is that it's something that we do take seriously. But again, the challenge I face, quite frankly -- and this has been extensively canvassed at the subsequent electric hearings as well -- is that, pragmatically, how do you do that? How do you do that and to what aim?

And again, I will harken back and -- and it's the CIBC article that we supplied along with the rebuttal, where you have Avery Shenfeld, who's the chief economist for the CIBC, saying that all models and -- and algorithms had to be thrown out the window. Like, they have to redo these things.

When you had the economic downturn that occurred, none of the forecasters saw it. Since then, they all haven't fully captured the elongation of the economic downturn.

Does that mean they're all wrong? Does that mean that they're inaccurate? Does that mean that we should throw them out with the, you know, the laundry or such a thing? We can't do that. And so we have to find a way to -- to allow these forecasters who are all respected to be in the pool, but find a way that any kind of distortion that might occur by an outlier, perhaps because they only provide data points three (3) weeks later, or because maybe they provide twelve (12) months of data as opposed to quarterly granularity, that they can be brought into play.

That's why we like this Olympic averaging or trimmed mean as a proposal. But to do retrospective testing to see, you know, is this forecaster better than the other, I mean, here's the risk, that if you were to do retrospective testing with, say, CIBC, and if you were to find that, yep CIBC was really, really good from 2008 to 2009, perfect, hit it perfectly and so they're really good, so you keep them.

But we know full well that their models all had to change in the -- you know, as soon as the economic downturn happened. We also know that all their models are changing, and -- and Mr. Shenfeld even acknowledged that in that article. They're changing all the time. So we do a retrospective testing, were they worth even three (3) years ago. How accurate is that, because it's not reflective of the model that they're using today.

And so while it has an appeal to me as a theorist, perhaps, as a pragmatist I simply can't see how this could work, not in a real fashion. And I don't see how it could possible create more accuracy. It actually may have the inverse, which is it creates a false positive. You think you're more accurate, but you're not, because the models are changing.

MR. BOB PETERS: But you'd only know that, Mr. Schulz, if you actually did some retrospective testing, wouldn't you?

MR. MANNY SCHULZ: I don't agree. And the -- the point is that retrospective testing, what would it tell you, Mr. Peters? It'll tell you that in, say, in 2010/'11 that forecaster 'X' was quite close, but by the way, they're not using that model anyway, because they've changed it, but they're now moving on to something else, and moving parts.

The economy is a moving target. I mean, it's a tough thing being a forecaster, because things are moving all the time. So is it a function of their model being wrong? We know their models are changing.

You know, it's an honest question and -- and it's one (1) that we've been dealing with. But as I reflect on it today, as I did a couple years ago with you, Mr. Peters, I just struggle to see how we can pragmatically solve that. And in accordance with that, I -- I think that at this point in time it's not beneficial to undertake such an assignment.

MR. BOB PETERS: Is the Spatial Economics a -- a proprietary forecast, Mr. Schulz?

(BRIEF PAUSE)

MR. MANNY SCHULZ: Each of the

forecasters has their own models. So it's not like we can go underneath the hood of the car and see how they construct all their models.

However, the information that comes out of the chassis of that vehicle or the car is available for us to -- to review and to put into the record. So the information that you have for these forecasters, I think it was supplied as well in -- in this response, all the source documentation.

So the Spatial Economic data points were provided in response to this IR.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, on page 245 of the book of documents you had mentioned to the Chairman in one (1) of your previous answers how there's a -- how -- how the forecast is but one (1) component that results in the -- the interest rate forecast, correct?

MR. MANNY SCHULZ: Correct.

MR. BOB PETERS: And in the 2012 report you indicate a long-term interest rate of two point five-five (2.55). And to get that, you -- and to that you -- you added a credit spread of .75

percent in 2013/'14 and then a further point six-five (.65) in 2014/'15.

That's the bottom chart on page 245?

MR. MANNY SCHULZ: I see that, sir.

MR. BOB PETERS: And the provincial debt guarantee fee, well, no matter which -- what number you come to in terms of the forecast, that fee is added on, correct?

MR. MANNY SCHULZ: One percent, correct.

MR. BOB PETERS: And would it be correct that the credit spread is an attempt to quantify the value of the provincial debt to the value of the federal government debt?

MR. MANNY SCHULZ: I wouldn't describe it as 'the value'. I think that's the -- the credit spread that investors will need in order to undertake to sec -- to -- to invest in Manitoba and take on that bond.

So updating for spring, for instance, where for 2013/'14, where it had two-point-five-five (2.55), and the seventy-five (75) basis point credit spread, and a hundred basis points for guarantee fee to get to four-point-three (4.3). As a point of comparison, what the spring outlook shows is 2.50

percent for the Canadian ten (10) year plus, with a ten (10) year plus credit spread of 1 percent, guarantee of one (1), and the total, all in, of 4.5 percent.

And if we were to compare it to actual rates, even as we stand today, and we're not through the fiscal year, we're seeing credit spreads this morning of ninety-four (94) basis points. So, again, when we look at these forecasts, particularly on the credit spreads, we shoulder- check them against what we're seeing in the actual financial markets. And -- and it is indicative of what we're seeing right now.

MR. BOB PETERS: And that's the point I was getting to, is that in the update you've just provided the Board as of last Friday, the implied -- or the credit spread applied on the long-term debt was -- was 1 percent, which was an increase of twenty-five (25) basis points over what had been used in the last year's outlook?

MR. MANNY SCHULZ: Correct, and the credit spread from the -- that investors need to -- and -- and it also includes transaction costs, so it's the all in. But that is the -- the credit spread that investors are needing in order to take on the extra risk of taking on Manitoba credit versus the

Government of Canada. I mean, the Government of Manitoba is strong credit, but there is a difference and you're seeing that reflected.

And the credit spreads move up fairly volatile, and -- and they work in somewhat of an inverse relationship, often, to the benchmarks rates, and the graphing of that can be seen in the debt management strategy. You can see there's an -- often an inverse relationship between spreads and the benchmark Canada rates. So -- and, again, shoulder-checked against actuals. And so, yes, the credit spreads did move up during this time.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, would it be -- would it be available for Centra to sa -- to file with the Board, the Spatial Economics forecast that was used in your most updated revised information? I believe most of the other forecasts have been filed, but not that one.

(BRIEF PAUSE)

MR. MANNY SCHULZ: It's my

understanding that's included within the source documents that were filed, sir.

MR. BOB PETERS: All right. We'll check that and we just couldn't locate them as you were speaking, so we'll -- we'll do a further check, and get to your counsel if there's something missing. Thank you, sir.

Mr. Chairman, those are my -- my questions of Mr. Schulz. And I wouldn't be offended if he chooses to excuse himself, but I was going to maybe use some of the time remaining, and continue my discussions with Mr. Prydun on some -- some other matters.

THE CHAIRPERSON: Let's do that. Let's take five (5) minutes, though. So thanks very much, Mr. Schulz, for coming to -- are you -- are you completed with Mr. Schulz? You are for today?

MR. BOB PETERS: Yes, I am. And he will be back Monday morning, bright and early.

THE CHAIRPERSON: Thank you very much.

MR. MANNY SCHULZ: You're welcome.

THE CHAIRPERSON: Let's take five (5).

(PANEL RETIRES)

--- Upon recessing at 3:42 p.m.
--- Upon resuming at 3:53 p.m.

THE CHAIRPERSON: Mr. Peters, I believe we can resume the proceedings.

MR. BOB PETERS: Yes, sir. Thank you.

CENTRA PANEL 3, RESUMED:

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

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Chairman and Board members, you'll recall when I reviewed with this panel back on a page 147, there was the item labelled 'L', which talked about approvals to various terms and conditions of service that were included in the application.

And, Mr. Prydun, one (1) of those changes in the terms and conditions of service related to the Customer Equipment Problems Program.

Is that correct?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And for those old-timers, like Mr. Rainkie, would that also be known as the -- as the Burner Tip Program?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And do you know why Centra initially offered this Customer Equipment Problems Program, or the Burner Tip Program?

(BRIEF PAUSE)

MR. GREG BARNLUND: Mr. Peters, going back quite some time in the utility business, quite typically, Greater Winnipeg Gas predecessor company, and intercity gas utilities, predecessor companies to Centra offered a certain amount of appliance repair service as part of their -- part of their package of services that they offered to natural gas customers, in part, to promote the installation and use of natural gas appliances.

MR. BOB PETERS: And Centra has continued a Burner Tip Program, as I call it, since those years of inception, Mr. -- Mr. Barnlund?

MR. GREG BARNLUND: Yes, it has.

MR. BOB PETERS: And, Mr. Prydun, what

you're now asking the Board is that you on -- Centra only wants to propose continuing this burner tip service for primary space heating and hot water appliances.

Have I got that right?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: So let's just make sure the Board understands what you're asking. A customer could phone Centra because they have a problem with their fireplace, their barbecue, their pool heater. And -- and Centra would come out to provide servicing?

MR. MARK PRYDUN: Currently, that is what Centra does. What we are proposing is, is that for fireplaces, for pool heaters, barbecues, et cetera, we would refer those types of calls to a private contractor.

MR. BOB PETERS: Why does Centra want to stop servicing these other appliances other than the furnace and the hot water tank?

MR. MARK PRYDUN: Sir, as -- as part of our ongoing review of our services within our business unit, we have reviewed the Customer Equipment Problem Program. And we considered portions of that to be deemed as, perhaps, nonessential.

We are -- as part of our core business review, we are trying to understand the difference between a service that would be viewed as es -- essential and mandated to our operations, and that, perhaps, being viewed as somewhat not as essential to the health and well being of customers.

The types of appliances, such as fireplaces, barbecues, ranges, clothes dryers, the conclusion of customer service and distribution was that these types of calls would -- could be considered not dre -- detrimental if we discontinued that type of service.

MR. BOB PETERS: But if the customer phoned up and said, I've got a concern about the safety of an appliance because I might smell gas or something that I think is natural gas.

What does Centra do in that circumstance under the new proposal?

MR. MARK PRYDUN: Sir, under that proposal, or under the new proposal, those types of calls would continue to be coded as a safety-related call. Typically, if a customer calls in and says, I smell gas, or is panic stricken, or for any number of reasons, if the customer, and/or the -- the company believes that there is a safety situation or an emergency situation, we will continue to proceed with investigating the call.

MR. BOB PETERS: Maybe just a point of interest for the Board members, Mr. Prydun, is that one (1) is told that natural gas is odourless, but Centra puts into it a -- an odourant so that it can be detected?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And so Centra proposes that on any safety-related calls, it'll continue as business as usually?

MR. MARK PRYDUN: That is correct, sir.

MR. BOB PETERS: But if it's to come out and have a look at a dryer, a fireplace, a range, BBQ, pool heater, or anything but a furnace and a hot water tank, the customer will be directed to presumably the -- an HVAC dealer of their choosing?

MR. MARK PRYDUN: That is correct, sir.

MR. BOB PETERS: Will Centra make a recommendation as to which HVAC dealer to use?

MR. MARK PRYDUN: No, at -- no, we will not, sir.

MR. BOB PETERS: Centra does have

preferred HVAC dealers, if I can use that word, in respect of the furnace replacement program?

MR. MARK PRYDUN: Well, we do have a list of dealers that are participating under the furnace replacement program. The terms of those arrangements are only with respect to the installation of new furnaces for customers that will be addressed through that program itself.

MR. BOB PETERS: Mr. Prydun, if we turn to page 304 in the book of documents, Tab 56, the Board will -- will have a -- a better idea of the -- the parameters of the Customer Equipment Problems Program or the Burner Tip Program, as I've been calling it.

For the residential customer seen at the bottom of page 304, Mr. Prydun, it appears that in fiscal '12/'13, so fiscal '13, the Corporation went out on about eleven hundred and thirty-two (1,132) calls that dealt with something other than a space heat or water heat issue?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And then when we move over a few columns, and we see the average cost per call of seventy-eight dollars and twenty-one cents ($78.21), we can also see on page 305 that that's been quantified at eighty-eight thousand dollars ($88,000), correct?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: So Centra values and quantifies the savings at eighty-eight thousand dollars ($88,000)?

MR. MARK PRYDUN: From an activity rate for field-based labour, the eighty-eight thousand dollars ($88,000) would be correct, sir.

MR. BOB PETERS: And I suppose, Mr. Rainkie, is that eighty-eight thousand dollars ($88,000) material enough to be reflected in the -- in the application that's before the Board?

MR. DARREN RAINKIE: No, Mr. Peters, but I think there are other costs, as I understand it. Mr. Prydun's probably better to speak to this, but this is -- this is quantifying the cost of a call at the average activity rate, but there's also the cost of training staff, or the proliferation of various devices, I guess, natural gas devices that might be out there.

And so there are probably other costs other than just the raw costs of the labour going out there. And, you know, this is part of our review of our business to make sure that our costs are okay, and know it's -- you know, on the base of it the eighty-eight thousand (88,000) isn't a hugely material amount, but little amounts add up, I suppose, after time.

MR. BOB PETERS: And, Mr. Prydun, can you advise the Board of any additional costs over and above the eighty-eight thousand dollars ($88,000) that the Corporation expects to save if the Board approved the requested change in the terms and conditions of service?

MR. MARK PRYDUN: I cannot define quantitatively, the -- the costs that would be involved with training our field staff for the -- the undertaking of re -- servicing of fireplaces or -- or ranges, as -- as an example.

What we are aware of those is that the complexity of these types of appliances continue to grow, and the -- the variability and the types of models continues to grow as well. So it is putting a little bit of additional pressure on our ability to train our -- our field labour to competently undertake the -- the servicing of these appliances.

So consequently, we are experienced -- experiencing an upward trend in -- in training costs.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Prydun, does Centra Gas keep an inventory of spare parts, in my vernacular, or repair parts for some of these appliances other than the -- I'm talking other than the furnace and the water heater?

MR. MARK PRYDUN: Typically, the spare parts that are kept are for the -- the ones that are used for high volume. What we are also experiencing is just that there are parts that we do have to replace. And in the case of a fireplace, we would have to leave the premise. We'd have to leave the home because we would not stock that part.

We would have to go acquire that part, and then come back, and -- and service the customer on a second work order. That, in itself, is an inconvenience, as well.

MR. BOB PETERS: Is there a cost savings because of reduced inventory, or is it simply, you purchase what you need when you need it on these other than furnace and hot water tank calls?

MR. MARK PRYDUN: Typically, we purchase what we need, sir, because we're unaware what we would be looking to replace at the time.

MR. BOB PETERS: And, Mr. Prydun, do these costs manifest themselves by -- by fewer EFTs being allocated over the Centra side of the business? EFT meaning equivalent full-time employees.

(BRIEF PAUSE)

MR. MARK PRYDUN: There was a question, sir, that re -- asked on what the equivalent full-time pos -- field-time labour would be, and it was less than one (1). My -- from memory, I believe it was in the zero point eight (0.8) to zero point six (6) range.

And that associated labour also would be deployed to other types of work order assignments that is -- that is on our books.

MR. BOB PETERS: When Centra goes in and makes those calls, Mr. Prydun, does it do it for free?

MR. MARK PRYDUN: Under the Customer Equipment Problem Program, that's correct, sir.

MR. BOB PETERS: So the labour is free. The parts are extra cost?

MR. GREG BARNLUND: The labour is at no charge and the parts are at cost.

MR. BOB PETERS: And, Mr. Prydun, why doesn't Centra completely cease the program and recognize savings, if we look at page 305, perhaps, on average about $1.3 million a year total?

MR. MARK PRYDUN: If the question, sir, is was our proposal limited to just the -- the fireplace, the -- the ranges, the -- the pool heaters, et cetera, and not the water heaters and not the -- the space heating appliances, the answer to that was -- is that, in our business unit, we did not -- we could not demonstrate a high level of confidence that -- that we were going to be compromising customer well being and health of customers.

MR. BOB PETERS: So because of the customer safety factor, the Corporation's proposing to continue with the space heating and the water heating part of the equipment, the progra -- the -- the burner tip service, correct?

MR. MARK PRYDUN: Customer safety, customer well being, and customer health, sir.

MR. GREG BARNLUND: Mr. Peters, I might add, too, that we have to look outside the City of Winnipeg as well, in terms for our service territories. While City of Winnipeg -- there are quite a large number of mechanical contractors available to fill the market, that can't be said for every community that we provide service to. And so it's important -- we felt important to maintain service to the domestic space heating and water heating requirements of those customers, and we can be doing that across our service territory.

And -- and again, we have to look outside of just the City of Winnipeg, in terms of that.

MR. BOB PETERS: Is this request for the change in terms and conditions of service precipitated by the HVAC dealers in any way?

MR. GREG BARNLUND: I wouldn't say that it's precipitated by the HVAC dealers. I can tell you that there was consultation with the HVAC dealers in the last year, as we -- as we were evaluating the possibility of making this change. They've been consulted with and they've been advised, and we've also heard, I guess, their feedback throughout that process.

MR. BOB PETERS: They want you out of the business as much as possible, one would expect?

MR. GREG BARNLUND: I think that we're looking to work together quite collaboratively in the market. And we've been verbally reassured that they are satisfied with what we're applying for in this application.

MR. BOB PETERS: Did Centra consider going into competition with the HVAC dealers, and start charging a fee for the labour component, as well as the parts for the non-essential space heat and water heating?

MR. GREG BARNLUND: That is not one (1) of our objectives at all.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Prydun --

MS. MARILYN KAPITANY: Can I -- can I just ask --

MR. BOB PETERS: Yes.

MS. MARILYN KAPITANY: -- did you -- did you consider charging for the -- the space heaters and for the water heaters? And if not, why not?

MR. MARK PRYDUN: We -- we did undertake a cursory review of what other gas utilities are doing across Canada. It is correct that there are utilities that refer service to a private contractor. There are utilities that will perform a -- a fee-for-service as well.

The directions that -- that we were under, and -- and in the spirit of -- of how we wanted to focus on our -- our core services, the view was, is that this proposal was -- was in our bent -- best intr -- best interest as a business unit, and how we effectively use our -- our existing staff.

MS. MARILYN KAPITANY: Sorry, I wasn't asking if you had thought about charging for the non-essential. I was asking if you had thought about charging for what you called the 'essential', the -- the furnaces and water heaters?

MR. MARK PRYDUN: At this time, we did not.

MS. MARILYN KAPITANY: And can you just say why you didn't consider doing that?

MR. MARK PRYDUN: The overall spirit of -- of this, in part, was also due to rationalize our core services. And it was viewed, albeit this might be a very small part being considered to be a non-core service, the spirit of the exercise was such that -- that less than one (1) EFT could be deployed to a more important, perhaps, type of core service that is required to be offered by the company. If we would go ahead and charge for that service, it wouldn't economize the use of our internal EFTs.

THE CHAIRPERSON: I guess the question I have is with respect to the consultations that were done with HVAC dealers. Was any consultation done with consumers?

MR. GREG BARNLUND: Our consultations were strictly with the HVAC dealers that were involved in the industry.

THE CHAIRPERSON: Do you have some sense of -- some feedback or survey data that you collected that addresses the issue of customer satisfaction with this service?

(BRIEF PAUSE)

MR. MARK PRYDUN: We haven't done any for -- formal customer sur -- surveys, sir, since recently, I would say. At least, for the last decade.

THE CHAIRPERSON: I suspect that if I was to do a survey of my neighbours on this issue, that my neighbours would tell me that they're very satisfied with this service.

And do you -- I -- I guess I'm asking you, would there be any evidence to the contrary that you could provide that would cause me to change my view of my neighbours' opinion about this service?

MR. GREG BARNLUND: I -- I think it's important to re -- recognize that we're not speaking of eliminating the service entirely. We're -- we're speaking of -- of re-focussing the service to what we would say is the -- the core or the essential appliances that you would normally expect a homeowner to be concerned about, their -- their furnace and their water heater.

Typically, a lot of people will have a plumbing and heating dealer, or a appliance dealer that they bought their appliances -- their washer and dryer from -- from a -- a supplier. They'll probably go back to that particular dealer for service on the gas dryer.

We're just trying to make sure that we refocus on those core appliances. And -- and I'm not sure in terms of -- I think that there's a lot of acceptance from customers of the service we provide, in terms of us coming out to respond to any smell of gas, any carbon monoxide, any -- any issues like that.

And -- and obviously, there's probably a large number of customers, as we can see here, that would call us if they had difficulty lighting their furnace, or their water heater in the fall and we will still, without any hesitation, be providing that service.

THE CHAIRPERSON: Just for my -- my own understanding, I want to make sure I understand this, so the -- the burner tip goes out, and you get a call from a client or the cli -- you -- pardon me, is that typically how it happens, the -- the client tries to put on the device, and the device doesn't come on and so they call Centra.

You go into the house, you sort of establish that it's the -- pilot light's out or the burner's not functioning. You actually repair the device? I mean, you actually -- did I mis -- misunderstand you?

MR. MARK PRYDUN: It could be a variety of reasons, sir. Sometimes the -- the pilot light could be out, and it could be as simple as -- as Centra coming in and relighting the -- the appliance. Other times it could be a -- a certain component part that has failed, which we would replace, and then that would get the appliance restored to service again.

At other times, it could be a little bit more of a concerning safety problem. At times, we would undertake a rectification of that problem as well. In general though, the majority of calls related to furnaces though, are related -- are minor in nature, and are related to pilots that have gone out.

At times, and although this is diminishing with -- with the increasing trend towards new furnaces, customers would choose to shut off their pilot light deliberately, and then call Centra as the -- as we went -- came into the -- the fall time season, and ask to Company to come back and -- and relight their appliance.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: To be clear, those customers who blow out the pilot light in the spring and ask you to -- ask Centra to relight it in the fall, you're still going to answer that call and not charge them to relight it, as I understood?

MR. MARK PRYDUN: Under the current terms and services, that's correct, sir.

MR. BOB PETERS: And also under the proposed terms and services?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: It's just that if a customer and phoned you and said they had trouble with their BBQ, you'd be telling them to go talk to someone else?

MR. MARK PRYDUN: Because a BBQ, as per our discussions, would be viewed as a -- a less essential type of service, sir.

MR. BOB PETERS: Thank you. Mr. Prydun, I want to turn to the new company labour rates and activity rates, because you're also asking the Board to approve new rates for -- for the services that are provided by Centra that are charged out, sir?

MR. MARK PRYDUN: Yes, that's correct.

MR. BOB PETERS: And just by way of -- on page 310 of the book of documents found under Tab 57, the currently-approved activity rates, as approved by this Board are contained on -- on page 310, sir?

MR. MARK PRYDUN: Yes.

MR. BOB PETERS: And to some extent, the Board will note that the rates charged depend on the location in which the service is being done?

MR. GREG BARNLUND: In the last approved rates that we had, that was the case. And we are moving to amalgamate those into a single service charge instead of having a separate charge by district in this application.

MR. BOB PETERS: Yes, but in the previous application, if you were outside the City of Winnipeg, the -- the labour rate was -- was higher?

MR. GREG BARNLUND: For damage repairs -- that was the category that had a separate rate for each district.

MR. BOB PETERS: All right. Now, the new rates that are proposed are found on page 307, sir?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And these are going to be rates that Centra charges to third parties, correct?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And so if there's a service line alteration request, that would be charged out at a hundred and twenty-one dollars ($121) an hour regular time or a hundred and sixty-nine dollars ($169) overtime?

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

MR. BOB PETERS: And included on this service type are damage repairs. And we did see earlier damage repairs on -- on page 310. This is when a third-party contractor damages some of Centra's plant?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And then Centra

proposes to charge a hundred and twenty-one dollars ($121) an hour to repair that damage if they can do it during regular hours?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And Centra's prepared to charge that hundred and twenty-one dollars ($121) an hour over to Manitoba Hydro if it's Manitoba Hydro who damages Centra's plant?

MR. GREG BARNLUND: In terms of first-party damages, we would -- I think our general approach is that we are time-carding those costs appropriately between Manitoba Hydro and Centra, and so those would be reflected in a time-carding process as opposed to specifically charging them this rate as -- as though they were a third party.

MR. BOB PETERS: So there's no friends and family discount here. They're going to be billed the full amount by way of the time cards for the time expended to repair the damage caused by Manitoba Hydro?

MR. GREG BARNLUND: Essentially, that's correct, yes.

MR. BOB PETERS: Mr. Prydun, on page 307 there's an item called 'damage investigation'. There's an item called 'appliance relights'. And there's an item called 'as-built plans'.

And those are brand new service charges for which the Corporation is seeking approval to charge hourly rates on?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And dealing with appliance relights, let's be clear, the Chairman asked you previously what happens if somebody phones you to come and relight the -- the furnace or the hot-water tank. You told the Board, I believe, that that would be done free of charge?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: And so how is this different? How is this appliance relight at a hundred and twenty-one dollars ($121) an hour to be -- to be instituted?

MR. MARK PRYDUN: If I could illustrate perhaps a third-party damage. And if we have gas -- if we have gas being released from the damage of -- that was caused by that third-party contractor, part of the restoration would be is just that we would have to -- we would have to shut down the gas supply to that particular main that is servicing a group of customers.

And in the course of doing that, we

need to go to every household and we have to -- and we have to shut off the gas supply. And then after the natural -- after the repair is made, then our service personnel have to go back again and we have to basically relight all the appliances.

So the cost of doing that is -- it labour intensive, and that's the -- the purpose for attempting to recover this rate, this cost.

MR. BOB PETERS: You may have said that in your last sentence, Mr. Prydun, but the -- the cost to go and relight appliances that had to be turned off or were shut off when the gas was turned off to an area will be billed back to the third-party contractor that caused the damage?

MR. MARK PRYDUN: That's the proposal, yes, sir.

MR. BOB PETERS: And if that third-party contractor doesn't want to pay it, that's when you'll turn to your law department and see what they do with them?

MR. MARK PRYDUN: I would expect so, sir.

MR. BOB PETERS: All right. In terms of the as-built plans, Centra currently does provide as-built plans when it's planning on doing some changes to its infrastructure, does it not?

MR. GREG BARNLUND: Mr. Peters, we do provide these plans to municipalities. And this is -- this charge is arising from our Order 159/'11, I believe, related to matters we had with regards to franchise applications and municipalities.

So we would be -- as noted in that order, we would be providing free of charge to municipalities, as-built plans, as many as two (2) sets or twice a year in a -- in a twelve (12) month period. And should they request plans more frequently than that, we would seek to recover the costs from those -- from that customer with respect to providing those plans.

MR. BOB PETERS: So they still get their free plans, provided they're not seeking more than two (2) sets in a twelve (12) month period?

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

MR. BOB PETERS: And the damage investigation charge is also new?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: Can you explain the circumstances in which that charge would be envisioned to be charged?

MR. MARK PRYDUN: In a situation where a -- a third-party contractor would damage our plant, it requires a series of steps for -- for Centra to understand the nature of -- of that. It would re -- it would be an on-site investigation.

It would be collecting the -- the facts leading up to the -- the nature of the damage. It would be a determination whether the contractor was excavating within the designated area that was permitted within the line locate. It would be whether the -- a line locate was actually applied for and taken out. It would be based on consultations with a workplace safety and health and it would be internal discussions and also the creation of proper documentation and reporting, sir.

MR. BOB PETERS: And presently, that's being done by Centra, but Centra's not being compensated for it?

MR. MARK PRYDUN: That's correct, sir.

MR. BOB PETERS: Are these costs that we've talked about and all the ones found on page 307, Mr. Prydun, cost-based rates?

MR. GREG BARNLUND: Yes, they are.

MR. BOB PETERS: And is there an element of profit built into those, Mr. Barnlund?

MR. GREG BARNLUND: I would say no. I think if we turn to page 311 in your book of documents, we identify the makeup of each of those rates that we're seeking approval for.

MR. BOB PETERS: And nowhere do you build in the -- the net income component?

MR. GREG BARNLUND: No, these are -- these are the activity costs and the -- or the activity rates and related overheads that we'd be seeking to recover those costs dollar for dollar from a third party.

MR. BOB PETERS: And, Mr. Barnlund, you heard Ms. Jacobs and Mr. Rainkie talk about how they've pulled out of overheads various charges, but those have now been added back and called third-party provision?

MR. GREG BARNLUND: I think if you reflect on the conversation we've had with respect to this, that since we had rates last approved in 2009 there's obviously been changes that have changed the nature of the activity rate. So we've taken overheads out, and in addition we've adjusted overheads to remove some costs that are reported now in the corporate accruals and allocations.

So -- which is fine for an internal

costing, you know, method within the company. When we look to recover costs though and recover them fully from a third party, we need to make some accommodation to restore those elements to the -- to the charge so that we're going to be fully recovering our costs.

MR. BOB PETERS: Mr. Rainkie, let's turn to page 313 and review Tab 58 in the book of documents, sir, dealing with the feasibility test. This feasibility test has not been reviewed or adjusted by the Board since, when was it, 1997?

Is that what we settled on, Mr. Rainkie -- Mr. Barnlund, sorry?

MR. GREG BARNLUND: Mr. Peters. I believe the only adjustment we would have made would have been in the early 2000s, when we had removed provision for income taxes out of the study.

MR. BOB PETERS: And that would have been done when Centra became no longer liable to pay federal income tax?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And just so the Board can see how this -- this works, this is an actual main extension feasibility test. This one (1) was done in -- in the -- in the La Broquerie area?

MR. GREG BARNLUND: Yes, this would --

would have been, and appears to be a rural residential subdivision where we would have extended service to a new subdivision that a developer would have been undertaking.

MR. BOB PETERS: And in your application before the Board, you're telling the Board you're still going to do these for the main extensions, but you don't want to have to submit them on an interim ex parte basis to get approval before you can start the construction. You want to take care of that internally.

And as long as they past the test, you -- you want to be able to proceed?

MR. GREG BARNLUND: I -- I think we should correct that to some extent, Mr. Peters. What we're seeking to vary was really a requirement that was only put in place for the RM of Bifrost and the RM of Woodlands. That doesn't exist.

We do these on a prospective basis and we accumulate them and report them to the PUB in a general rate application. I think Appendix 15.1 has that schedule of the main extensions.

MR. BOB PETERS: And I -- if I didn't com -- you know, fully flesh that out, Mr. Barnlund, there are only two (2) municipalities in which you are required to submit them for Board approval prior to -- to installing the plant?

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

MR. BOB PETERS: And the nature of the request is to remove the requirement to submit them for Board approval.

Centra's not proposing to discontinue doing the feasibility test?

MR. GREG BARNLUND: Precisely, yes.

MR. BOB PETERS: And even though Mr. Rainkie may not like the -- the underpinnings of the feasibility test, this is a thirty (30) year net present value test that was developed to -- to figure out whether the installation was going to be economic from existing Centra customers' perspectives?

MR. GREG BARNLUND: Essentially, that's correct, yes.

MR. BOB PETERS: And so just in the minutes that are remaining, sir, what the Board can see in the year 5 column on page 313 is that there's a hundred percent revenue-to-cost ratio achieved. And that will mean, will it, Mr. Barnlund, that the revenues that are coming in from the customers are sufficient to pay the costs that are assigned to those customers?

MR. GREG BARNLUND: It's a combination of two (2) things, and I think if you look at -- there's also a reference to a net present value of two thousand and twenty-nine dollars ($2,029). So what would have occurred when this feasibility study was initially run is that you would have satisfied the net present value greater than zero, but you would have a revenue-to-cost ratio less than a hundred percent in the fifth year.

And so the contribution was then increased, and once the contribution is increased to nine thousand two hundred and forty dollars ($9,240), as you'd see in line 33, then you can meet that second eligibility or feasibility criteria. And the year 5 then reaches its hundred percent revenue-to-cost ratio.

MR. BOB PETERS: What this one shows up at line number 5 is that initially this project was embarked on with three (3) customers, and the forecast is that it was going grow to fourteen (14) customers by the fifth year, and it was going to level off at fourteen (14) customers throughout the -- throughout the thirty (30) year period.

MR. GREG BARNLUND: Right, and that's

fairly typical in terms of how we would handle a residential subdivision, is there's some timeline over which it's expected that that subdivision would infill. And that is reflected in our estimate of customer attachments and also customer revenues.

MR. BOB PETERS: And so provided the customers made a contribution of nine thousand two hundred and forty dollars ($9,240), Centra would undertake the investment that's shown here in detail. And that would allow the five (5) year revenue-to-cost coverage ratio to be -- to be positive, or to be one point zero (1.0) after the fifth year. And it would also ensure that on a thirty (30) year net present value basis, there was no cross-subsidy going on?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And, Mr. Rainkie, did the Board understand you to be suggesting that this may be time, or there may be a time in the near future, where this feasibility test methodology should be re-examined for the gas side of the business?

MR. DARREN RAINKIE: No, Mr. Peters. I -- I thought our earlier scrum was with respect to the rate of return that was going to be embedded in the -- in the calculation. I -- I don't think we're proposing anything in this application with respect to changing the feasibility test. We were just postulating this morning about various ways to calculate the cost of capital in the test.

MR. BOB PETERS: All right. With that answer, and, Mr. Chairman, I have no further questions, I believe, of Mr. Prydun. I will have some questions first thing in the morning of Ms. Kelly Derksen on some matters. She will be -- she will be here to address those. And perhaps a few follow-ups with Mr. Barnlund and Rainkie, but I expect that by coffee break I'll be turning the microphone over to Mr. Meronek tomorrow morning.

THE CHAIRPERSON: Are there any matters to attend to before we adjourn?

MS. MARLA BOYD: Just one (1), Mr. Chairman, thank you. Mr. Rainkie made reference earlier today to page 85 of Manitoba Hydro's 2012 annual report. And we did check over the break and discovered it is not on this record. So in the interest of keeping the record complete, I would propose to file just the single page 85 for your reference.

I believe, by my count, that would be marked as Centra Exhibit number 9. We are certainly willing to file the entire report if you'd like. I believe it was available in the Hydro hearing as well, but we'd prefer just to file the one (1), unless you want more detail.

THE CHAIRPERSON: Filing the one (1) page would be fine, unless Board member Kapitany, if she just --

MS. MARILYN KAPITANY: I don't mind --

THE CHAIRPERSON: -- we -- we keep this close at hand, so.

So I think, if there is no further business, everybody is back tomorrow morning, the same witnesses, so, we'll see each other again tomorrow morning at nine o'clock. Thank you very much. Have a good evening, everyone.

(PANEL RETIRES)

--- Upon adjourning at 4:32 p.m.

Certified Correct,

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Bob Keelaghan, Mr.

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