MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

GENERAL RATE APPLICATION

2013/14

Before Board Panel:

Regis Gosselin - Board Chairman

Marilyn Kapitany - Board Member

Larry Soldier - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 19th, 2013

Pages 1014 to 1197

APPEARANCES

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Marla Boyd		)Centra Gas Manitoba
Brent Czarnecki		)Inc.
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--- Upon resuming at 8:59 a.m.

THE CHAIRPERSON: Good morning. Do -- before we start, do we have to acknowledge any documents?

MS. MARLA BOYD: Yes, thank you. Good morning. I have one (1) document to be filed. It's an undertaking that wasn't required as such in the transcript so we've been a little creative in terms of the numbering.

It's response to Centra Undertaking 5-2. It was taken by Mr. Kuczek with respect to updating participation in the neighbourhood approach for the low-income furnace replacement program. I would propose that it be marked as Exhibit number 10, please.

--- EXHIBIT NO. CENTRA-10: Response to Centra Undertaking 5-2

THE CHAIRPERSON: Thank you, Ms. Boyd. Back to you, Mr. Peters.

MR. BOB PETERS: Yes, thank you. Good morning, Mr. Chairman, Board members. And good morning to Ms. Derksen.

CENTRA PANEL 3, RESUMED:

DARREN RAINKIE, Resumed

HANRI JACOBS, Resumed

MARK PRYDUN, Resumed

GREG BARNLUND, Resumed

KELLY DERKSEN, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Ms. Derksen, in your absence your revenue requirement panel has made a revenue request of the Public Utilities Board, and as I understand the annualized updated request they're asking the Public Utilities Board to approve three hundred and fifty-four million two hundred and fifty thousand six hundred and sixty-five dollars ($354,250,665) of revenues that you can work with in your job as the manager of the cost of service, and come up with rates that recover that amount.

And can you confirm that's the number you were working with, Ms. Derksen?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes, that's correct. That's based on the May 10th, update, Mr.

Peters.

MR. BOB PETERS: It is and thank you for not pointing out the error that I'll now point out is, Mr. Chairman, at page 103 of the book of documents that the panel has, and it's found at Tab 25, there is a Schedule 11.1.0 that Manitoba Hydro has provided to the Board.

And, Mr. Chair, that's at page 103 of -- I misspoke. It's actually at Tab 27. I apologize. Tab 27, page 103. With my colleague Ms. Boyd I was lamenting the lack of resolution on that printed page and it's, for a number of factors, certainly one (1) of which is the photocopying, the scanning, and the printing, the other could be the affliction of time on my eyes, but what we have done, Mr. Chair and panel members, is we have handed out this morning a document that is in handwriting in the top right-hand corner marked "103 revised."

And, Ms. Derksen, did that -- a copy of that make its way to you?

MS. KELLY DERKSEN: Yes, I have that.

MR. BOB PETERS: And, Ms. Derksen, what 103 revised is -- and I'll ask for -- I'll take the liberty of marking it as PUB Exhibit 12 if that's acceptable to Ms. Boyd?

(BRIEF PAUSE)

MR. BOB PETERS: Yes, we'll -- we'll take that as PUB Exhibit 12, Mr. Chairman.

--- EXHIBIT NO. PUB-12: Revised version of page 103 of Board counsel's book of documents

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Ms. Derksen, that's a portion of the updated schedule that's found on page 103 of Board counsel's book of documents?

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

MR. BOB PETERS: And in the bottom right-hand corner, Ms. Derksen, is that three hundred and fifty-four million two hundred and fifty thousand six hundred and sixty-five dollar ($354,250,665) number that Ms. Jacobs and Mr. Rainkie would have given you as the requested revenue requirement that they wanted to recover in rates from consumers?

MS. KELLY DERKSEN: Yes, that's fair.

MR. BOB PETERS: Now, what you have, Ms. Derksen, on page 103 revised is an update of what is in 1 -- is in Tab 27, page 103 of the book of documents, and it is updated in a couple of ways -- well, it is updated specifically because of the May 10th update that the Corporation provided, correct?

MS. KELLY DERKSEN: Yes, on May the 10th we provided the Board with an update that reflected a change in the cost of gas.

MR. BOB PETERS: And way back, Ms. Derksen, in -- probably in your absence, at page 151 of the book of documents, this is now under Tab 42, and you may not need to turn to it, but you're welcome to if you choose to.

At Tab 42 of the book of documents, page 151, we reviewed with the revenue requirement panel, Ms. Derksen, the column B called the "2013/'14 test year." And the Board will note that the numbers in that column don't line up with what you and I have just spoken about because the numbers on page 151 of the book of documents are expressed, first of all, in terms of a fiscal year impact, and they are also -- have the annualized net income included in what -- what numbers have been provided to you, Ms. Derksen?

MS. KELLY DERKSEN: Yes, there -- there are a couple of changes, Mr. Peters. Number 1, your Exhibit PUB number 12 reflects an update in the cost of gas. And in addition we reflect -- as part of rate-making we reflect the annualized net income and so those are two (2) of the noteworthy differences between those schedules.

MR. BOB PETERS: And the net -- the annualized net income is that while the application seeks $4.8 million of net income on an annual basis, that's -- that was assigned to you at $5.6 million?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Now, Ms. Derksen, in the limited time we have today I want you to explain to the Board how you take that number of $354 million and get it down to the customer class, and then ultimately to the rates that are -- are going to be used.

So, in your brief answer, how would you explain that? Perhap -- perhaps, Ms. Derksen -- this might be a bit unfair early in the morning, but if you were called into a -- a school and had to tell people what you did for a living, what would you say?

MS. KELLY DERKSEN: I'll try my best to keep this brief. The first thing that I do when I am allocating costs, is I decide very broadly how those costs should be flowing into our functions. So we set up a number of functions. Those functions rep

-- represent, very broadly speaking, the types of services that we provide to customers.

For the gas side of our business we have six (6) functions. We will segregate this 354 million into production, pipeline, and storage, which we know as our upstream functions. The downstream functions are transmission, distribution, and on-site.

So the first thing that I need to accomplish is, I need to put the -- the $354 million worth of total revenue requirement into one (1) of those broad catecor -- categories, which generally represents the type of services that we provide to customers.

The second -- the second component to what I do is, I then decide what the basis of variability of the costs in each of those functions are. So for ex -- we have three (3) predominant drivers of costs. The gas utility is no different than any other gas utility, and -- and pretty much very consistent with our electric operations as well.

And those are -- our costs are driven by either the number of customers on the system, the throughput that the volumes that customers use on our system, and then peak demand or the -- the volume of consumption that a customer uses on the peak day. And so, generally speaking, my next step is to -- to identify, of those functionalized costs, how they vary.

My -- my third step is to decide, then, on the basis of that variability, how they should be allocated to each of the customer classes. And I will look to see, based on how I've classified the costs, to allocate them to each of the customer classes on either the basis of the number of customers, the basis of the volume throughput or a -- or weighted volume throughput, and the basis of peak demand.

So that's, very broadly speaking, what I do, what I attempt to do. There's a number of complications, of course, that make it not so easy for me to -- to tackle this. But that's, very broadly speaking, what I do.

MR. BOB PETERS: Thank you, and well done. Ms. Derksen, if the Board turns to page 107 in the book of documents under Tab 27, there is a schematic presented. And I wonder if I could have you turn to that as well, ma'am?

(BRIEF PAUSE)

MR. BOB PETERS: I have it at page

107, Ms. Derksen, under Tab 27 of PUB Exhibit 10, which is the Board counsel's book of documents.

MS. KELLY DERKSEN: Yes, I have that. I've looked at it, and I just couldn't find it there, Mr. Peters, but I have it.

MR. BOB PETERS: Now, just to briefly summarize what your answer was to the Board, starting at the top of the page with the total revenue requirement, that's the three hundred and fifty-four million two hundred and fifty thousand six hundred and sixty-five dollars ($354,250,655) of revenue requirement that your panel mates are requesting from this Board, as part of this GRA?

MS. KELLY DERKSEN: This is a nice diagram of what I was trying to explain previously. And we do start with a -- a revenue requirement and then we work from there based notionally on this diagram.

MR. BOB PETERS: All right. And so the -- the -- then you take the revenue requirement and you functionalize it into one (1) of six (6) functions. And you explained the upstream and the downstream functions to the Board.

And that would be the next step in your process, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And once you know which function the dollar amount should be put in, you then have to take that dollar amount and then classify it as between commodity, capacity, and customer costs?

MS. KELLY DERKSEN: Yes, that's fair.

MR. BOB PETERS: And once you've classified the cost into a -- another classification, your third step would be to allocate that cost to the various customer classes, and the seven (7) customer classes of Centra are listed at the bottom of the page.

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And the objective, is it, Ms. Derksen, is to make the customer class that created the cost responsible to repay the cost?

MS. KELLY DERKSEN: Yeah. Very generally speaking, that's what we are attempting to do is to assign to customers the cost that we view that they impose or that are incurred on behalf of providing service to them.

MR. BOB PETERS: Ms. Derksen, in your direct evidence, through to Ms. Boyd, earlier in the week, you had indicated to the Board that there was a change made in your cost-allocation methodology from what was last done when you were before the Public Utilities Board.

Is that correct?

MS. KELLY DERKSEN: Yes, I did, Mr. Peters.

MR. BOB PETERS: And that was related to the way DSM costs are allocated?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And on the schedule on page -- or the chart on page 107, in the book of documents, Ms. Derksen, the -- the dark -- the darkest of the lines show the current path for what you're proposing in terms of the change to the cost allocation methodology for DSM costs.

(BRIEF PAUSE)

MS. KELLY DERKSEN: I'm going to see how far down this path I can go with you. One (1) of the struggles that I have with this particular diagram is that we haven't allocated DSM expense on the basis of customer classes differently in this -- in this application. What we have done -- so, for example, we have still allocated cost to each of the customer class as it relates to DSM expense, on the basis of expected participation in that particular program. That is unchanged.

What has changed is that we have functionalised those costs and classified those costs differently. And it was more for a rate design from -- for rate-design purposes than it was for cost-allocation purposes, Mr. Peters.

MR. BOB PETERS: All right. Thank you. And I may have misspoke. But what's on page 107 is the high level schematic of what is proposed in your application in terms of the cost-allocation study on DSM costs, as opposed to what is -- what is currently the situation, Ms. Derksen?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I'm going to go with you on this one, Mr. Peters. There -- there -- it's -- it's not quite as -- as simple as this. We have not changed how we allocate costs for DSM expense to customer classes. But what we have done is changed the makeup of the rate design on account of DSM costs.

MR. BOB PETERS: All right. What -- what I -- what I think you're telling the Board, Ms. Derksen, is that the dollar amount doesn't change in terms of how much gets allocated to the customer classes, it's just that once it's at the customer class level it's -- it's recovered in a different manner.

MS. KELLY DERKSEN: That's a good explanation, yes, Mr. Peters.

MR. BOB PETERS: Okay. Would it also be correct, though, Ms. Derksen, that you have changed the way you functionalise those DSM costs, and then it's also a change in the way you classify them, even though they get down to the customer class level for allocation in exactly the same dollar amount?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes, Mr. Peters.

MR. BOB PETERS: And I'm not sure that much turns on it, Ms. Derksen, but while we look at the schematic on page 107, as I understand the current approved methodology, where the Board sees the function called on-site, on the far right-hand side of page 107, that's where the DSM costs currently start off. And then they get classified down to customer which is one (1) of the -- the three (3) classifications underneath on-site. And then from customer they then get allocated over to the customer -- customer classes.

MS. KELLY DERKSEN: Yeah. I -- I'm with you, Mr. Peters. I'll -- I'm still going with you here.

MR. BOB PETERS: Okay. Where were you last week?

(BRIEF PAUSE)

MR. BOB PETERS: The reason Centra has made the change, Ms. Derksen, as I understood from your direct evidence, is that Centra now wants to align the recovery of DSM costs more with Centra's expectation as to which customers in the class will cause most of those costs.

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think I may have described it differently, Mr. Peters. I think what I have attempted to do is align the costs with the basis of variability. So those -- so -- so I think we -- we come to the same conclusion, Mr. Peters, but how I would describe how I get there might be slightly different.

MR. BOB PETERS: All right. Would you agree that for the customers in the high volume firm class shown at the bottom of the page, or the main line class, or the interruptible class, those customers that consume the most volumes will correspondingly be paying a higher portion of the DSM costs?

MS. KELLY DERKSEN: Yes, that's fair.

MR. BOB PETERS: And that's because Centra believes those customers will be driving the DSM costs that they're going to be paying?

MS. KELLY DERKSEN: I'm not sure that I could conclude that but the -- the larger variable portion of their -- of their bill that they can conserve the -- the better off they are in undertaking some of the DSM programs that we have made available to them.

MR. BOB PETERS: You're -- you're telling the Board that because they consume a larger volume of gas they have a greater opportunity to take advantage of the Power Smart programs?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I -- I think it's really an incentive type of issue, Mr. Peters. We're wanting to align our rate design to encourage participation in the DSM programs. And if they so choose to do that, number 1, they will pay -- they're -- they're going to pay more by virtue of having more recoverable in the variable charge but they have also then an opportunity to conserve more. So it's -- it -- it's more of an in -- an incentive.

MR. BOB PETERS: Okay, that's another way to look at it, Ms. Derksen. For the customers in those high volume firm/main line/interruptible class, has Centra been able to isolate what the greatest bill impact will be as a result of this change in methodology?

(BRIEF PAUSE)

MS. KELLY DERKSEN: You know, we've prepared that, Mr. Peters. Broadly speaking you can look to the bill impacts, and -- and have an appreciation of what the -- the impacts are based on the level of consumption of customers within those classes.

But we have also specifically isolated

just the impact of the change in DSM for each of those customer classes, as well. I don't have that immediately at my fingertips though.

MR. BOB PETERS: Ms. Derksen, would that be something that your -- and first of all, we're talking about a -- maybe a hundred, a hundred and fifty (150) customers in total for the -- for the high volume firm, the main line, and the interruptible class?

MS. KELLY DERKSEN: Yes. We're talking about approximately a hundred and fifty (150) customers. And in total, DSM costs allocated to the class, we're talking in the order of magnitude of maybe about a half a million dollars, I'd say.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, would Centra have notified the approximate hundred and fifty (150) customers of what the proposed change is, and how it may impact them, at least those at the larger volume side of the -- the class?

MS. KELLY DERKSEN: Through the day-to-day interactions, we -- we haven't made an explicit attempt to go out and identify to each of the customer class -- customers within those classes this change, but to the extent that we speak with them on a daily basis about conservation matters, we -- we would draw this to their attention.

MR. GREG BARNLUND: Further to that, Mr. Peters, I might note that as part of the process associated with the general-rate application, that we do serve notice on each of the individual customers in each of these larger volume classes at the outset of the application, understanding that there may be issues that -- that impact those customers, they do specifically receive our public notice at the outset.

MR. BOB PETERS: Where I'm going with this, Mr. Barnlund, and -- there was a situation, perhaps almost a decade ago, where one (1) of your larger volume customers received an impact as a result of demand changes that, in my words, may have taken them a bit by surprise as well as disappointment.

Do you recall that issue?

MR. GREG BARNLUND: Yes, I do.

MR. BOB PETERS: And is the Company confident -- is Centra confident that it has -- it has addressed this issue with the high-volume firm, the main line, and the interruptible customers, such that that wouldn't reoccur?

MR. GREG BARNLUND: I believe so. The change that you're referring to was, I would say a fairly significant change in terms of how we were calculating demand costs. And unfortunately, that had not been communicated to those customers at that time.

And so I think that this matter is -- while it is a change in allocation, I believe that it is -- the effects of it are, perhaps, more subtle than the -- than the impacts that we are describing from that previous situation.

MR. BOB PETERS: Ms. Derksen, I just want to go back to you and the Board. If we can turn ahead, please, ma'am, to Tab 29 and page 113 of the book of documents. I just want the Board to -- to see, in numbers, what one (1) of your last answers to me was, ma'am.

The essence of your response to my question as to the impact on these customers is you, first of all, reminded the Board that it's five hundred thousand dollars ($500,000) approximately, being shared over a hundred and fifty (150) members in the class.

And those class members that use more volumes will get the higher proportion of that allocation.

I understood that correctly?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: But now if we turn to page 113 with the Board, found at Tab 29 of the book of documents, and we look to the far right-hand column called, "Bill Impacts," and we'll look at the percentage column, and then we go over to line -- let's start at line 20, and we deal with, "High Volume Firm."

The Board will note that the customers in the high volume firm class, as their volumes increase in terms of annual use as you go down from lines 20 down to lines 31, there's a corresponding reduction in the bill impact as a result of this general-rate application on those customers, correct?

MS. KELLY DERKSEN: Mr. Peters, there's a lot more going on in this page than -- than specifically related to DSM. I think it'd probably be more fair to look at the page after, which is page 114 of -- of your documents. These are the base rate impacts. It removes the effect of anything that's occurring on a -- on an annualized bill ba -- basis on account of PGVAs and rate riders.

And so I think this is probably a better representation of what's going on. And even in here, it's difficult to segregate out the DSM, because when we're dealing with a general-rate application, of course, we're dealing with a $354 million worth of costs, generally speaking.

So to pick out five hundred thousand dollars ($500,000), and isolate it in these -- in terms of these bill impacts becomes, I -- I suppose, complicated.

MR. BOB PETERS: And it's perhaps almost lost as a rounding error.

MS. KELLY DERKSEN: Yes, that's true as well.

MR. BOB PETERS: And, so the -- the thrust of your -- your point, Ms. Derksen, and I -- I have it at page -- excuse me, at page 114 of the book of documents. What you meant to show the Board and say is: If you look at the actual percentage of increase on base bill to base bill, it's modest for those customers in the higher volume end of the high volume firm and the mainline customer classes, and only a small portion of that, in any event, is related to the DSM methodology change and cost allocation.

MR. GREG BARNLUND: Mr. Peters, I think for reference if we looked at line 43 on the schedule on page 114, our largest customer in the mainline class would be the one that would be probably most affected by this change. The annual change on a base rate basis is a thirteen thousand dollar ($13,000) increase or .19 percent.

So the -- that is all changes in totality in terms of our rate application, including the DSM change. So I -- I would view that as being a modest impact.

MS. KELLY DERKSEN: Mr. Peters, and I think I -- I might clarify for the record just so it's -- so it's neat and tidy. That what we're talking about is not an -- an incremental amount for these -- five hundred thousand dollar ($500,000) incremental amount because what -- they were assigned DSM costs in the last general-rate application as well.

Those costs have -- have increased on a net basis for those customer classes because we're pursuing DSM activities more for those larger volume customer classes than in the past.

But I just wanted to make clear for the record that the five hundred thousand dollars ($500,000) isn't something new for them. The -- the amount has increased but they have been able to participate in DSM programs in the past.

MR. BOB PETERS: Thank you for that

point, Ms. Derksen. And -- and because these costs have been previously allocated in -- in an amount, maybe not quite as large, they'll just be a redistribution of the recovery of those costs amongst the customers in the class?

MS. KELLY DERKSEN: Yes. Among the customers within the class, yes.

MR. BOB PETERS: Ms. Derksen, back on page 107 at Tab 27 of the book of documents, the Board notes at the bottom of the page that one of the customer classes is the SGS class. And that's the class, Ms. Derksen, that comprises all of the residential customers?

MS. KELLY DERKSEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Would the Board understand correctly, Ms. Derksen, that this change in the cost allocation methodology for DSM costs will have no impact on the SGS customers, or the LGS customers?

MS. KELLY DERKSEN: Yes, that's correct. The -- the way our rate structure works for the smaller volume customers is that we cap the basic monthly charge at fourteen dollars ($14) for the SGS class, and at seventy-seven dollars ($77) at the SGS -- sorry, at the LGS class.

And previously, those costs would have flown into that basic monthly charge but it really didn't have any affect on that -- on the level that we established the basic monthly charge at, and any residual would then flow into the volume metric charge.

And now we've simply removed that step and everything flows into the volume metric charge. So there is -- there is no affect to those customers within the class.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, on page 104 of the book of documents is a unit cost component summary, again in Tab 27. There's a column from the left-hand side, the third column that's entitled 'Small General Service SGS Total'. It's the -- just beside 'System Total', Ms. Derksen.

That represents the SGS class that we've talk -- that you've just talked about?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: I think what you told the Board is if the Board goes down to -- to line item 33 and go -- goes over to the SGS column, this suggests that the downstream customer costs that should be assigned to the residential customer, if -- if all of the downstream customer costs were assigned, would result in a -- would result in a basic monthly charge of twenty-seven dollars ($27) as opposed to the fourteen dollars ($14) that you mentioned?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: So the current basic monthly charge is not even recovering a hundred percent of the downstream customer costs, is it? It's about 50 percent.

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And the one (1) -- the costs that are not recovered in the basic monthly charge are then recovered volumetrically, in any event, from this customer class?

MS. KELLY DERKSEN: Yes, that's fair.

MR. BOB PETERS: So to the extent that DSM costs are not recovered in the -- the express fourteen dollars ($14) a month, they would be included in the additional monies that's recovered volumetrically?

MS. KELLY DERKSEN: Yes, that's fair.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, back to the document handed out this morning, PUB Exhibit 12, which was a revision on page 103 of the book of documents. And even if I have page 103 close by, even if I can't read it, what -- what you've tried -- what you have done in -- in the document is, you have taken that three hundred and fifty four million two hundred and fifty thousand dollars ($354,250,000) and you have shown the Board how that will be allocated to each and every customer class that Centra serves?

MS. KELLY DERKSEN: Yes, that's fair.

MR. BOB PETERS: One (1) of the customer classes that Centra serves is the power station customer class.

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Power station customer class is comprised of those natural-gas burning generating stations owned by Manitoba Hydro?

MS. KELLY DERKSEN: Yes, we have two (2) power stations. We have one (1) in Brandon and one in Selkirk.

MR. BOB PETERS: And --

MS. KELLY DERKSEN: And we serve -- yes, we serve them using natural gas.

MR. BOB PETERS: You provide the distribution and transmission capability -- or the distribution capabilities to the power station class, but the power station class may purchase its gas from someone other than Centra Gas.

Would that be fair?

MS. KELLY DERKSEN: That's fair, Mr. Peters.

MR. BOB PETERS: Now, because Centra Gas organizes the distribution infrastructure, Centra wants to recover some of the costs that are incurred by the power station customer from the power station customer itself, correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: So Centra bills Manitoba Hydro?

MS. KELLY DERKSEN: Yes, we do.

MR. BOB PETERS: And on page -- on PUB Exhibit 12, which is 103 revised, the Board would understand correctly, Ms. Derksen, that Manitoba Hydro has assigned three hundred and eighty-nine thousand four hundred and seventy-three dollars ($389,473) total to the power station class, as their share of the revenue requirement that you're asking from this Board?

MS. KELLY DERKSEN: Yes, that's fair.

(BRIEF PAUSE)

MR. BOB PETERS: I believe you've told the Board that on PUB Exhibit 12, the net income number that is in the bottom right-hand corner just above the $354 million number, that $5.608 million number, it's the annualized portion because you want to set annualized rates, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Even though there's only eight (8) months left in the test year, you have to calculate what that rate would be if it was for a full twelve (12) months?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And PUB Exhibit 12, and your allocation of all these costs, Ms. Derksen, assumes there's going to be normal weather?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: It assumes that Ms. Jacobs and Mr. Rainkie are going to manage their OM&A

expenses as -- as they've budgeted?

MS. KELLY DERKSEN: On an overall basis, yes.

MR. BOB PETERS: It's going to also assume that Ms. Morrison and her load forecast are accurate?

(BRIEF PAUSE)

MS. KELLY DERKSEN: In the context of developing the rates, we assume normal weather. And so what happens on an actual basis is -- is what happens on an actual basis, Mr. Peters.

MR. BOB PETERS: And the load forecast would be based on normal weather?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And so with all of those variables assumed that we just did, Ms. Derksen, the assumption is that the power station class should be paying three hundred and eighty-nine thousand four hundred and seventy-three dollars ($389,473) to Centra to make sure Centra is kept whole for the costs it will incur on behalf of the power station customer class?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peters, the three hundred and eighty-nine thousand dollars ($389,000) represents the allocated portion of the revenue requirement to the power stations in -- as part of the '13/'14 test year.

MR. BOB PETERS: All right. I think we're saying the same things. If we turn then -- well, Ms. Derksen, even though Centra has allocated three hundred and eighty-nine thousand dollars ($389,000) to the power station class, Centra knows that it's going to receive more than that money from the power station customer, does it not?

MS. KELLY DERKSEN: Separate and apart from what we collect on an annualized basis, and in this case it's forecast at three hundred and eighty-nine thousand (389,000) for the power stations, the power stations are also obligated to -- to pay a minimum margin in the ext -- to the extent that that minimum margin isn't paid in the context of their rates.

(BRIEF PAUSE)

MR. BOB PETERS: What you've told the Board, Ms. Derksen, is that before Centra hooked up the power stations to the gas supply, Centra entered into a contract with them?

MR. GREG BARNLUND: More specifically, Mr. Peters, I think what would be accurate to say is we performed a feasibility study on the -- evaluating the incremental cost and the incremental revenues of connecting the power stations to the system. And at some point we had entered into contractual arrangements with them with respect to providing service to those stations.

MR. BOB PETERS: Thank you, Mr. Barnlund. And on page 99 at Tab 26 of the book of documents there's a -- an answer to an Information Request indicating that the minimum annual gross margin for the Brandon power station is three hundred and -- and seventy-two thousand six hundred dollars ($372,600) and the Selkirk power station is three hundred and seventy-four thousand five hundred dollars ($374,500), correct?

MR. GREG BARNLUND: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: If I misspoke I -- I meant to say five hundred and seventy-two thousand six hundred (572,600). I'm not sure if it came across that way, or --

MR. GREG BARNLUND: Sorry, I was reading as you were speaking. Maybe I was paying more attention to the page, sorry. Five seventy-two six (572,6) --

MR. BOB PETERS: As -- as usual.

MR. GREG BARNLUND: Five seventy-two six hundred (572,600) for the Brandon and three seventy-four five hundred (374,500) for the Selkirk.

THE CHAIRPERSON: Could you repeat the reference for that data?

MR. BOB PETERS: Yes, Mr. Chairman. I'm at Tab 26 of the book of documents, on page 99. And there's a one (1) sentence response to the Information Request A that lists the minimum annual gross margin for those power stations.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And to...

(BRIEF PAUSE)

MR. BOB PETERS: If we add those together as Centra did on page 102 of the book of documents at Tab 27 of the book of documents -- Mr. Chairman and Board members, there's a -- a line item called "revenue," it deals with energy, and then a minimum annual gross margin.

The minimum annual gross margin is the nine hundred and forty-seven thousand one hundred and four dollars ($947,104).

Is that correct? That's the -- that's the combination of the Selkirk and the Brandon margins that are going to be paid to Centra?

MS. KELLY DERKSEN: The combination of the min -- the minimum margins for each of the power stations is -- is near a -- a million dollars. It's nine hundred and forty-seven thousand one hundred dollars ($947,100). But in -- in terms of what's at page 102 of your book of documents, Mr. Peters, I'm proceeding a little cautiously with this one (1).

I think in the hustle and bustle of preparing Information Requests at the time that we were preparing these, I think we were looking to be responsive to an Information Request that I'm not sure is an appropriate analysis to have been -- have been made. I'm not sure really what page 102 tells us, and so I'm -- I'm going to proceed cautiously with you on this one.

MR. BOB PETERS: And you've put me on notice, and thank you.

What -- well, let's -- let's look at it from this perspective, Ms. Derksen. If -- if we go back to page 102, in addition to the minimum annual gross margin of nine hundred and forty seven thousand, one hundred and four dollars ($947,104), Centra is also expecting that there's going to be some energy charges to the power station customer class in the range of a hundred and twenty-five thousand dollars ($125,000).

Is that correct?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I'll agree with you for now, Mr. Peters, yes.

MR. BOB PETERS: Would you understand that hundred and twenty-five thousand dollars ($125,000) to be probably -- I -- I forget the provisioning or testing or the monthly start-up costs or as often as the engineers decide to fire up the -- the gas turbines, they're going to draw gas, it's going to end up resulting in some energy charges, and that's the approximate hundred and twenty-five thousand dollar ($125,000) number that's -- that's recorded?

MS. KELLY DERKSEN: Well, let's understand that the power stations procure their own supply of natural gas. And what this energy portion is representing from -- from Centra's perspective is -- is related to unaccounted-for gas, primarily.

MR. BOB PETERS: And because power stations are a customer class, and there's -- they're going to have some -- some flow-through expected on their -- their volumes, they're also going to be held responsible for their portion of the unaccounted-for gas.

MS. KELLY DERKSEN: Yes. That's the same like all -- all customer classes.

MR. BOB PETERS: All right. And all-in it's about a million dollars, a million and seventy-two thousand dollars ($1,072,000) is what the expected revenues will be, then, from the power station class, based on this calculation, Ms. Derksen?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peters, in -- in terms of total revenue that we are going to expect to -- to collect from this customer, I'll agree with you.

MR. BOB PETERS: And so, Ms. Derksen, you're going to expect to collect a million dollars from the customer, but the customer is only going to be allocated three hundred and eighty-nine thousand, four hundred and seventy-three dollars ($389,473) of costs in your cost-allocation study, correct?

MS. KELLY DERKSEN: I think here's -- here's where I need to -- to weigh in here a bit. The minimum margin and the allocated costs that we assign to the power stations, serve different purposes. And so that's why I struggle, I -- I'm -- I'm regretful of having prepared this Information Request 'cau -- because it's mixing a minimum margin concept that was put in place for different purposes than what we attempt to do from a cost-allocation perspective, which is some embedded costs to the -- the an -- the annual -- representation of the annual embedded costs of the -- for the power stations.

And to me, in my mind, what this particular document is -- is showing, is similar to trying to add five (5) pennies to -- to five (5) nickels and concluding that you've got ten (10) cents. And so, I'm not sure that you can do that.

And -- and so let's understand that the minimum margin was put in place for purposes of the feasibility test that was ini -- initially prepared for the power stations back in about 2002, and then again in 2003. And so -- and -- and the reason that we did this is to have some consistent generation of revenue for context of determining what their contribution should be, if there should have been one (1) at all. And -- and of course, there was.

But, so that's different than what I attempt to do from a cost-allocation perspective, which is taking a look at today's revenue requirement and deci -- and trying to decide what costs that each customer class imposes on the system today. And the minimum margin was set for a different purpose.

(BRIEF PAUSE)

MR. BOB PETERS: Thank you, Ms. Derksen. The rates that you are designing for the power station customer will return, on the fiscal basis, the three hundred and eighty-nine thousand dollars ($389,000) worth of costs, correct?

MS. KELLY DERKSEN: That's what we're expecting to generate, assuming normal weather, from the power stations, correct.

MR. BOB PETERS: That's how the rates -- that's what the rates will be set to recover?

MS. KELLY DERKSEN: Excuse me, you're right. That's what the rates are set to recover.

MR. BOB PETERS: And based on Centra's forecast, we -- and we know then that if the forecast comes to fruition, Centra will actually collect closer to a million dollars from that customer.

MS. KELLY DERKSEN: If the forecast comes to fruition, and we assume -- so that normal weather is -- is what we expect, or is -- is what actually occurs in the upcoming fiscal year, then we will collect the three hundred and eighty-nine thousand dollars ($389,000) in terms of rates. And we will have to then issue a bill to the power station class for the difference between the million dollars and the three hundred and eighty-nine thousand dollars ($389,000) that we collect in rates.

If actual weather, or the usage of the power stations differs, and it te -- and it tends to do that, then we will collect something different than the three hundred and eighty-nine thousand dollars

($389,000) in rates. And we will either have to still have a top-up payment from the power stations, or they will have satisfied the minimum margin obligations that were established through their contract.

MR. BOB PETERS: Ms. Derksen, if it is the weather normal year that you talked about, and your rates recover the three hundred and eighty-nine thousand dollars ($389,000), but the Corporation -- but the power station customers end up living up to the forecast as presented on page 102 of the book of documents, Centra will recover an extra six hundred and eighty-two thousand seven hundred and eighty-eight dollars ($682,788).

Do you agree with that mathematically?

MS. KELLY DERKSEN: Yeah -- yes, I'll agree to that.

MR. BOB PETERS: Centra doesn't refund that six hundred and eighty-two thousand seven hundred and eighty-eight dollars ($682,788) to the customer, does it?

MS. KELLY DERKSEN: In the context of this particular year that we're speaking of, we wouldn't be refunding anything to them. However, there is a ten (10) year true-up obligation that we've committed to, and that the -- that will -- that will be the day of reckoning, Mr. Peters.

That will be when we look at everything that they've paid in terms of rates through the last ten (10) years, everything that they've paid in terms of minimum margin and contributions. And that will then true it -- true everybody up, the electric customers as well as the natural gas customers.

MR. BOB PETERS: And -- and when is that day of reckoning?

MS. KELLY DERKSEN: The -- the best I can say, at this point, it'll be toward the -- the latter part of this year.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, if then Centra collects an additional six hundred and eighty-two thousand seven hundred and eighty-eight dollars ($682,788) from this customer class, that would flow to the Corporation's net income in the normal course?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes. Yes, sir.

MR. BOB PETERS: If Centra has this

additional six hundred and eighty-two thousand seven hundred and eighty-eight dollars ($682,788) from the power station customer class, should it be used to reduce the allocations to all other customer classes?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think in theory that's -- that's a fair statement, Mr. Peters.

(BRIEF PAUSE)

MR. GREG BARNLUND: Mr. Peters, I might note that, again, these arrangements are very unique to the power stations. There are -- there's been maybe one (1) or two (2) instances in the last twenty (20) years where we've been involved in a margin-guarantee type contract with a service extension to a large customer.

And those are usually -- you know, the reason this was undertaken, at this point in time, was because of the magnitude of the capital investment, and because of the variability of usage of the power stations because they are very, very intermittent in terms of their usage.

So these contractual arrangements were put in place, in conjunction with the feasibility study, to be in alignment with the assumptions that were used in the feasibility study.

And our preference would be to true up this feasibility study, and abandon the use of a minimum margin guarantee, and basically, have this customer put on rates after that point in time, and pay rates in accordance with our -- our rate determination process as any other customer would.

We feel that the -- at the end of the ten (10) years that -- that, you know, there's -- we will have them sufficiently trued up, and that we could then proceed in that fashion.

MR. BOB PETERS: Thank you, Mr. Barnlund. I want to turn with Ms. Derksen to the bill impact table, and some bill impacts before this Board.

Ms. Derksen, at Tab 28, page 111 of the book of documents is a -- is a mock up of a -- of a Centra Gas Manitoba Hydro bill?

MS. KELLY DERKSEN: Mr. Peters, are you looking at page 109 or page 111?

MR. BOB PETERS: I meant to say one eleven (111).

MS. KELLY DERKSEN: Yes, I have that.

MR. BOB PETERS: And at the bottom half of page 111, Ms. Derksen, is the natural gas portion of the combined electricity/natural gas bill? And right now a consumer is billed for a basic charge, a primary gas charge, supplemental gas charge, transportation to Centra, distribution to customer, all of those charges?

MS. KELLY DERKSEN: Yes, it's complicated.

MR. BOB PETERS: Well, I didn't think that was complicated. What I thought was complicated, now that I have it here, Ms. Derksen, is the Board will note that the taxes paid on this bill, on the bottom half of the page, 2.5 percent city tax based on non-heating load. That's a tax that Centra's obliged to charge, I suppose collect and remit to the City?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And I think Mr. Rainkie told the Board about a -- a little bit about an audit. It had -- may or may not have had something to do with that. But the Corporation --

MS. KELLY DERKSEN: This -- this level of tax that is applied to the bill didn't have anything to do with the audit.

MR. BOB PETERS: Okay. The -- what

Centra does is it has to determine what the non-heating load is in a particular home?

MS. KELLY DERKSEN: Yes, we do.

MR. BOB PETERS: And when you say 'non-heating', you mean non-space heating?

MS. KELLY DERKSEN: Non-space heating, yes.

MR. BOB PETERS: Which means if there's a gas hot water tank, they would be tax charged on the gas used by the hot water tank at 2.5 percent for the City of Winnipeg?

MS. KELLY DERKSEN: Yes. If there are -- if there's equipment in the -- in the property that's anything but for space heating purposes, that equipment -- the -- this tax rate is applied against that usage.

MR. BOB PETERS: Centra must make some pretty high level assumptions as to what the non-space heating load would be?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peter -- Mr. Peters, we attempt to track that by -- by virtue of our billing system. We -- we attempt to identify to the extent that we can the type of equipment that is in a customer's property, and -- and assign a typical usage to that type of a -- that type of equipment.

(BRIEF PAUSE)

MS. KELLY DERKSEN: We look, Mr. Peters, at the -- the three (3) months -- I -- I think they're June, July, and August -- and the consumption that's used in those months for basis of -- of applying against this tax because it's assumed that those are the months when -- when space heating is not being used by a customer.

MR. BOB PETERS: And that's done for every residential customer or do you do that on block and then apply a certain percentage to all -- all residential customers?

MR. GREG BARNLUND: I understand that there's a separate base load calculation for each customer account, sir.

MR. BOB PETERS: Thank you. Then it also shows 1.40 percent provincial tax. And that again is on the non-heating load.

Is that correct?

MS. KELLY DERKSEN: Yes, that's

correct.

MR. BOB PETERS: Is there any provincial sales tax on the heating load?

MS. KELLY DERKSEN: For gas purposes there -- there is not.

MR. GREG BARNLUND: Just to -- I think for residential purposes there would not be, but for commercial purposes, commercial businesses would -- would attract a provincial tax on all of their gas bills.

MR. BOB PETERS: Ms. Derksen, if the home was heated by electricity as opposed to natural gas, would there be provincial tax on the electricity consumption?

MS. KELLY DERKSEN: Yes, there is. And -- and that's the difference between the gas bill. You can see it's a -- a 1.4 percent applied against the 7 percent that's applied on the electricity side of our operation. So there's -- there's tax on -- for space heating on the electricity side for residential customers.

MR. BOB PETERS: But if you assume that this bill is from a customer that uses a gas furnace, does that change your answer, Ms. Derksen?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I was going down this road with you, Mr. Peters, cautiously as well, because it's not my area of exer -- expertise, but if -- if you need us to follow up further we can certainly do that.

MR. BOB PETERS: Well, let me rephrase the question, Ms. Derksen. If a customer uses electricity to space-heat their home, is the full provincial tax charged on that electricity consumption?

And maybe rather than -- maybe take that as an undertaking through your counsel would be probably the -- the safest answer.

MS. KELLY DERKSEN: I'll do that, Mr. Peters.

--- UNDERTAKING NO. 7: Centra to answer question: If a customer uses electricity to space-heat their home, is the full provincial tax charged on that electricity consumption?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: But what you can tell the Board is that if -- if natural gas is the source of energy for the space heating then there is no provincial tax charged on the space heating portion of the natural gas consumption?

MS. KELLY DERKSEN: I can confirm that, yes.

MR. BOB PETERS: Can you confirm that on July the 1st it looks like the provincial tax may increase to 8 percent as I understand the provincial legislation?

MS. KELLY DERKSEN: I understand that as well.

MR. BOB PETERS: And would it be correct that the bill impacts that you've calculated in this application don't reflect any tax components?

MS. KELLY DERKSEN: I'm sorry, can you repeat that question, please?

MR. BOB PETERS: Do the -- do the bill impacts that you have shown under Tab 29 include any sales tax or GST tax components to the customer?

MS. KELLY DERKSEN: They do not.

MR. BOB PETERS: Ms. Derksen, while I'm on page 111, if this customer -- if this customer converted from gas to electricity, Centra would then -- I guess I'll have to wait for that undertaking to decide whether they would increase the -- the PST on the electric bill.

MS. KELLY DERKSEN: I'll have to -- I'll have to take that as an undertaking, because I'm expecting that we'll have to do -- we'll have to deal with that tax increase on the gas side as well.

--- UNDERTAKING NO. 8: Centra to answer question: If this customer converted from gas to electricity, would Centra then decide whether they would increase the PST on the electric bill?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: If a customer is currently all-electric and converts over to -- to natural gas for their space heat they'd pay zero percent PST on the space heat then?

MS. KELLY DERKSEN: Correct. They would play -- they would pay the provincial tax on only the non-space-heat portion of their bill.

MR. BOB PETERS: Centra would update the billing -- the bill for that customer because of the changeover?

MS. KELLY DERKSEN: Yes, we would reflect in our billing system that the change of appliances.

THE CHAIRPERSON: The rather obvious question now is the comparison that we see regarding the heating costs and water heating costs. Space heating costs and water heating costs that we see, that, you know, we examined a few days earlier, obviously that does not include the tax -- the difference in tax?

MR. GREG BARNLUND: I believe that's correct. I believe that our calculations are absent tax.

THE CHAIRPERSON: So just based on the discussion we just had, the differences between electricity and -- and gas are magnified because you would be paying less tax if you shift to gas for heating purposes?

(BRIEF PAUSE)

MR. GREG BARNLUND: We'll have --

we'll have to confirm that, I think. Yeah, thanks.

MR. BOB PETERS: So to be clear on that undertaking, then, Mr. Barnlund, back at Tab 24 of the book of documents there were some coloured bar charts in terms of typical space heating and water heating. And as I understood the question from the chair, it was to confirm that, in this chart, what PST and tax would be exigible on the electricity portion, and then what would be charged on the natural gas portion in terms of comparison to -- to determine whether -- I -- I think the words were, 'the difference becomes even greater when you consider the provincial tax'?

MR. GREG BARNLUND: We'll undertake to do that, yes. Thank you.

THE CHAIRPERSON: Or, said another way, the -- the graphs are all-in costs, including the tax. If they are?

MR. GREG BARNLUND: Okay, we will do that.

--- UNDERTAKING NO. 9: Centra to confirm that, in the chart, what PST and tax would be exigible on the electricity portion,

and then what would be
charged on the natural gas
portion in terms of
comparison to determine
whether the difference
becomes even greater when
you consider the
provincial tax

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Ms. Derksen, on page 109 back up at Tab 28 of the book of documents, there's a schedule that's been prepared that deals with the rates as of May 1st, and then as to the proposed August 1st rates, and it breaks it down by virtue of a number of categories, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Would it be correct to say, in terms of presentation to the Board, this schedule on page 109 -- or maybe we should turn to page 110 to actually look at the -- at the billed rates. These -- these charts show the number of rate changes that would have to be effected for Centra to recover its new revenue requirement?

MS. KELLY DERKSEN: Yes, it's fair.

It's -- it's complicated because -- well, number 1, we have more than the -- the 2 percent general rate increase proposed in this application. We have also changes to non-primary gas costs, we have changes to rate riders. The complexity, because of the unbundled nature of our rates, means as well that we can't just apply a 2 percent adder to each one (1) of the rates.

In -- in addition, we set revenues equal to costs on the gas side of our -- of our business to 1, which means that when we -- when we calculate our rates -- or, when we calculate the costs to each of the customer class, broken down to their rate components, we have to set revenues or we have to set rates equal to those costs. And so it's -- it's complicated from that perspective.

We have influences in here on account of load forecasting changes. So revenues at existing rates will generate something different than what they were intended to generate when they were initially established back in -- as part of the '09/'10, '10/'11 general rate application. So we have that complexity in here as well. There's -- there's a myriad of things that's happening in here to cause -- to cause all of this.

MR. BOB PETERS: Would that be one (1)

of the reasons that when Centra makes application for its general rate increases, it expresses the number as a percentage of existing revenues rather than a specific rate -- rates that will increase?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I suppose the -- the short answer to your question is yes. It's -- it's the complexity, but we also feel that the bill comparison from what a customer is paying today versus what we expect that they're going to pay tomorrow, as a percentage difference, is the most meaningful calculation to the customer.

And so I -- I think it's a combination of not -- trying to not get too complicated from a -- for a customer's sake but also because we feel that the bill versus bill calculation is -- is most meaningful to the customer.

MR. BOB PETERS: Ms. Derksen, turning to page 113 and 114, pages that we've talked about earlier in this hour, first of all on -- these are located under Tab 29 of Board counsel's book of documents.

This is a snapshot summary by Centra of

the very bill comparison that you just mentioned in your last answer to the Board?

MS. KELLY DERKSEN: Yes, it is.

MR. BOB PETERS: What you are attempting to show the Board, and maybe we can start on page 114, Ms. Derksen, is that if you compare the base rate that is being proposed by Centra to the base rate that has been previously approved by this Board the typical residential customer shown on line 10 will be impacted by about sixteen dollars ($16) a year, or 1.99 percent?

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

MR. BOB PETERS: When all of the rate -- you mentioned rate riders a few times in your testimony. Rate riders is your calculation of a component of the rate that's either added onto the rate, hence the rate rider, or its subtracted from a rate to recover or refund some of these deferral accounts that the Board heard from your first panel of witnesses.

MS. KELLY DERKSEN: I think that's a fair statement, and I -- I'd like to take this opportunity to clarify from my perspective in the -- the seat that I sit in, some discussion that occurred last week about rate riders and about the PGVA balances.

We have seen that the net outcome of all the pluses and minuses of the PGVAs is about fourteen thousand dollars ($14,000) owing to the Company. And in the context of a $354 million -- $54 million revenue requirement that a number would get washed in -- in the rounding.

However, this is -- this is one (1) of those cases my -- my friend to the left would tell me -- Mr. Rainkie would tell me that the devil is in the details in this one, and if there was ever a case of that this is -- this is one (1) of those cases.

While on a net basis we're going to be collecting from customers about fourteen thousand dollars ($14,000) through rate riders attached to the bill, expected to be implemented -- or expected to be implemented on -- on August the 1st, that $14 million -- sorry, that fourteen thousand dollars ($14,000), if I take you to your Tab 9 of the book of documents, Mr. Peters, that Tab 9 shows a breakdown of that fourteen thousand dollars ($14,000).

And that fourteen thousand dollars ($14,000), if I just even look at the most material of the -- of the changes, includes a $9 million reduction in -- in supplemental gas, a $7 million increase in transportation-related costs, a $5 million increase in transportation-related costs, and another $1.7 million a reduction in -- in distribution PGVA.

And each customer class -- in the seat -- in the seat that I sit, each of those -- each customer class bears a different responsibility of those. So notwithstanding the fact that on an overall basis we're going to be collecting fourteen thousand dollars ($14,000), it could be very material because of course $7 million is going to hit a customer -- one customer class different than it will hit another customer class.

And so that -- my -- my point is that the $14 million on a net basis is -- is not material, but to each of the customer classes, when you look at the -- when you look at the individual makeup of that balance, it could be quite significant to them.

MR. BOB PETERS: Alright. Thank you for that -- for that explanation. I think that's very helpful, Ms. Derksen.

What -- what follows from that answer is that when we go to page 113 at Tab 29 of the book of documents, that is the billed-to-billed summary that will embed in it the impact on a customer class of each of those rate riders, whether they're refunding money or collecting money, for each customer class.

MS. KELLY DERKSEN: Yes. I allocate -- I don't allocate a fourteen thousand dollar ($14,000) balance. I allocate each of the individual balances that you see on -- on Tab 9 of your book of documents, that's correct.

MR. BOB PETERS: And as you've said, more eloquently than I, they hit each customer class differently so that while it may appear that there's going to be a refund to customers, it may be that some customer classes actually have to pay more on account of that item and other customer classes have to pay less.

MS. KELLY DERKSEN: I think, generally speaking, that's fair. And we're -- we're looking to collect on a net basis, though, fourteen-thousand dollars ($14,000), which is made up of pluses and minuses like we talked about.

MR. BOB PETERS: All right. Let's just focus, then, just for a couple of minutes, on page 113 then, at Tab 29 of the book of documents.

THE CHAIRPERSON: Can -- can I just clarify just to make sure I've got it straight in my mind. So, for example, looking at page 113, the highlighted portion of that page, line 10, 2.55 percent, that would embed it at the applicable rate rider for that class?

MS. KELLY DERKSEN: Mr. Chair, that's correct. And I also want to point out, though, to you, that this -- yes, that this is the updated schedule, so, making sure that we hadn't focussed on the original application.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And, Ms. Derksen, you showed us, back in Tab 9, that the number of PGVAs or purchased gas variance accounts, or deferral accounts as I sometimes call them, that exist, are numerous. It's not just one (1) deferral account, there's a multitude of deferral accounts.

MS. KELLY DERKSEN: There's a -- a multitude of deferral accounts, that's correct.

MR. BOB PETERS: And they're all brought and crystalized on page 113 in terms of a snapshot impact on the -- on the customers?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And so when the Chairman mentioned the typical residential customer, all of those rate riders, all those pluses and minuses that we've talked about, are crystalized on that line to reflect a nineteen dollar ($19) a year increase or a 2.55 percent annual impact?

MS. KELLY DERKSEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: I'm not sure if this level of detail is needed, Ms. Derksen, but in terms of that typical residential customer, you've agreed with me that nineteen dollars ($19) a year will be the billed versus build (phonetic) impact, correct?

MS. KELLY DERKSEN: I have agreed, yes.

MR. BOB PETERS: And if we turn the page to 114, we see that the base-to-base impact is only sixteen dollars ($16) a year, so that would signify that the rate riders add up to an additional three dollars ($3) a year.

Do you agree with me on that?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes, Mr. Peters.

MR. BOB PETERS: All right. We won't

do that for our other customer classes. But let's take the Board through some of the other customer classes, Ms. Derksen.

The -- the small general service, as we've said, is the -- all of the residential customers, correct?

MS. KELLY DERKSEN: Yes, correct.

MR. BOB PETERS: It could also be a -- a very small commercial enterprise, perhaps, that would be under that category?

MS. KELLY DERKSEN: Yes, Mr. Peters. Customers are actually eligible to choose either an SGS or an LGS customer class. Financially they're indifferent at about 15,000 cubic metres of gas a year, approximately. So that means that if you use more than that amount you're financially better off in the LGS class than the SGS class and -- and vice-versa would be the case.

MR. BOB PETERS: That's primarily because of the basic monthly charge impact on those two (2) different classes?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think it's more

than just the basic monthly charge, Mr. Peters. It's -- it's the assignment of costs to the LGS class in -- in general.

MR. BOB PETERS: Well, it's -- it's a -- the basic -- sorry, I -- let me as the question this way: It is possible for, let's say, a large residential customer to decide they want to become an LGS customer as opposed to an SGS customer, correct?

MS. KELLY DERKSEN: They can make that election, yes.

MR. BOB PETERS: And they would probably make that election, as you said, based on some financial analysis?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And if their volumes -- they may get a lower volume rate when they're in the LGS class, but they're going to pay a higher basic monthly charge while they're in the LGS class.

MS. KELLY DERKSEN: Yes, that's true.

MR. BOB PETERS: So they have to calculate where that break-over crossing -- or the break-even or crossover point is, and you've indicated it's at 15,000 cubic metres?

MS. KELLY DERKSEN: Approximately, yes. That's true.

MR. BOB PETERS: But the LGS customer class that's shown, and typically these are the -- the -- the smaller commercial enterprises in the city?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And you're showing, in the far right-hand column, Ms. Derksen, that they can expect and increase of between 1.88 percent and 2.64 percent?

MS. KELLY DERKSEN: Correct.

MR. BOB PETERS: Is the 2.64 the maximum increase that a -- that an LGS customer should expect to see?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think it's reasonably representative of -- of the highest that -- that a customer could expect in that class.

MR. BOB PETERS: When we move to the high- volume firm customer starting on line 20 at page 113 of Tab 29, Ms. Derksen, high-volume firm customers suddenly have -- they have a third part bill where their load factor or their demand on the system is -- becomes a component in their bill, correct?

MS. KELLY DERKSEN: Yes, that's

correct.

MR. BOB PETERS: And those customers -- for example, the -- the lowest of the load factor customers in the high-volume firm would be expected to pay the highest percentage increase, as I read your chart.

MS. KELLY DERKSEN: Yes, that's fair.

MR. BOB PETERS: And as the load factors improve, which means the -- the actual consumption to their average is -- is higher, their -- they would experience rate decreases on an annual basis.

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Remind the Board and its counsel about the cooperative class. Is that for the one (1) -- maybe you better explain that.

MS. KELLY DERKSEN: We have gone down history lane here a little bit in this hearing, and this is one of those historical issues. In around about 2003 time period, we were receiving -- we -- we were approached by a customer to offer a class that was specific for co-ops, and this is sort of the net result of it.

And what eventually happened though, that this -- this customer...

(BRIEF PAUSE)

MS. KELLY DERKSEN: We eventually assumed their operations, Mr. Peters, so there is no more cus -- there -- there was never a customer in this class because the timing was such that, by the time that this class was implemented on behalf of this specific situation, we were already in the process of negotiating an acquisition of -- of that co-op.

MR. BOB PETERS: All right. Thank you. Turning to the mainline firm customers shown on line 37 and following down to -- to 40 -- 43 in your chart -- in the chart on page 113, Ms. Derksen, here again, the mainline customer will experience predominantly rate decreases as a result of this application before the Board?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: What's primarily driving that?

(BRIEF PAUSE)

MS. KELLY DERKSEN: It's hard to pinpoint one thing but if I could give you a couple of reasons for their change. There is a supplemental --

a net supplemental refund owing to the mainline class. There is also an unaccounted for gas refund that's more than offsetting -- and there's a unaccounted for gas refund. I'll -- I'll take back my last statement.

So that's -- those are driving some of -- some of the bigger changes. If you look...

(BRIEF PAUSE)

MS. KELLY DERKSEN: Sorry, Mr. Peters, about that. And even from a base rate perspective, the cost of UFG is -- is down in comparison what's embedded in their current rates; and that's more than offsetting some of the other changes. For example, the -- the change that we've made on account of DSM that we spoke of this morning.

MR. BOB PETERS: Thank you, Ms. Derksen. The special contract customer class shown on line 45 at page 113, you can confirm to the Board, and I think it's a matter of public record, that that is one (1) and only one (1) customer in that class?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And that customer is there and had negotiated a -- I'll call it a special contract with -- with Centra Gas or its predecessor?

MR. GREG BARNLUND: I wouldn't say it's a negotiated -- I mean, we serve them under contract, but the rates they pay are allocated in the same -- using the same methodology as we allocate costs to all our customer classes. And they agree to pay those rates.

MR. BOB PETERS: And the power station customer, we -- we see that's been discussed this morning. But when we see on the bill-to-bill basis, it looks like -- it looks like this customer class won the lottery. And the -- the impact appears to be a significant reduction in the -- the bill of 90 -- 96 percent.

MS. KELLY DERKSEN: Yes, sir. There's a number of things happening in that class as well.

MR. BOB PETERS: Could you ex -- could you explain, at a high level, what those things are?

MS. KELLY DERKSEN: First off, their consumption on the peak day, which drives much of the allocation of demand-related costs, and in particular to this customer class. Which is, because they procure their own source of supply, it's not reflected in any of the calculations that we do here.

The predominant portion of their rate relates to demand. And because their usage on the peak day is forecast this year to decline dramatically over what it has in the past, their allocated portion of demand is -- is declining.

There are a couple of other things, unaccounted for gas, similar to what's happening for the main line class, is also declining. And it looks just much more significant because we're dealing with -- with much fewer dollars because there's gas costs are stripped out of this calculation. They procure their own source of supply.

MR. BOB PETERS: Lastly, the interruptible sales. Approximately how many customers does Centra have in the interruptible class?

MS. KELLY DERKSEN: I believe it's around forty (40), Mr. Peters.

MR. BOB PETERS: And what's the benefit to a Centra customer to be in the interruptible class?

MR. GREG BARNLUND: The interruptible customers would experience -- or would be able to have a slightly lower rate in terms of the -- the distribution and upstream demand charges, because we would assume them to be curtailed on the peak day. And, therefore, we would allocate capacity costs with that taken into consideration. So there is some difference, or reduction, in their rate what -- if you compare that to them being, say, a high-volume firm customer.

MR. BOB PETERS: So in exchange for Centra being able to interrupt the service to that customer, they get a slightly cheaper rate.

MR. GREG BARNLUND: That's right. That ability to curtail and -- is taken into consideration in terms of them being considered to be not consuming on the peak day, and would be reflected in the allocation of those costs.

MR. BOB PETERS: And, Mr. Barnlund, if Centra's interruptible customer said, Look at -- we know we're interruptible, we know we're getting the cheaper rate, but don't interrupt us, we need the gas. What does Centra do?

MR. GREG BARNLUND: Generally speaking, in case of curtailment, and if -- as long as the curtailment is not for, like an emergency reason, say some part of our distribution system, you know, having to shut them down for distribution system constraint reasons, we would attempt to acquire gas supplies in the market for them on the days that we would be curtailing.

We would -- if those prices -- or if

those supplies were priced in excess of what the supplemental rate is we would contact those customers, and offer them those supplies for that time period and they, you know, have the option to elect to purchase those supplies or else curtail, and consume their alternate fuel source.

MR. BOB PETERS: Thank you. Ms. Derksen, could you please turn with me, and hopefully, the Board to Tab 39 of the book of documents, page 1 --

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

MR. BOB PETERS: Yes.

THE CHAIRPERSON: Before you go -- move onto the next tab, I'm looking at page 113, specifically looking at the totals for lines 45 and 47. I'm wondering if there's not an error there. So it would be the column labelled, "Annual" for both the special contract and power stations -- Doesn't look like the total is right, which would affect the percentages.

MS. KELLY DERKSEN: Mr. -- Mr. Chair, there's -- there's a complexity in here, and that is one (1) of -- what we've elected to do, particularly driven by the special contract customer is to refund or collect from that customer, as a lump-sum payment or refund, any residual PGVA amounts that may flow to that customer class.

And so, on an annual basis or whenever we reset PGVA amounts and we assign them to customer classes, if there is an amount owning or amou -- to the customer or from the customer, we will send that customer a lump sum bill for that amount or a refund for that amount.

We do this -- we are proposing to do, in this application, the same for the power stations. And the reasons that those numbers don't add is because we've included that lump sum amount in -- in this calculation.

MR. GREG BARNLUND: Further to that, and we've debated internally in terms of the representation of those two (2) classes on this schedule, the purpose of this schedule is -- is really to show the -- the range of impacts for customer classes that have multiple customers, and certainly, you know, it does that.

Where we have the special contract and power station classes and Ms. Derksen alluded, there are some significant differences in terms of how we handle the disbursement of -- of the deferral accounts that creates sort of a representational impact.

And -- and so I think that next time we file for a general-rate application, we might just look to represent that information more explicitly in another manner.

(BRIEF PAUSE)

THE CHAIRPERSON: No, it's a followup question, just an observation, and just the optics of this table, and specifically looking at the top end of the table, the very last column there, "Bill Impacts."

We're seeing increased percentages for the small general service. We're seeing it for large general service. And then there's a lot of negatives after that. So from an optics perspective, this table suggests that the residential class is bearing a significant increase relative to other larger customers.

And I guess the question is, what's going on there? I mean, we -- we talked in -- we talked at a fair level of detail on what's going on with the individual customer, but what's -- overall, what's going on?

What's -- what's transitioning in the

costs that would cause SGS customers to -- to see increases while others are not seeing increases?

MR. GREG BARNLUND: Well, let me start out and I'm sure Ms. Derksen will be able to pick up from there, but part of what we're seeing is that when we go back to talking about our -- our deferral accounts and we see that TransCanada Pipelines are the upstream transportation account; there is a large amount of money owning to the company.

Different customer classes use those resources differently. In other words, the larger volume customers, as Mr. Peters had alluded to, have a very high load factor. They use upstream transportation and downstream transportation every day, because they are, you know, using them much more consistently on a daily basis throughout the course of the year.

Our residential customers obviously have very low consumption in the summer, very high consumption in the winter. That is reflected in their load factor. And -- and obviously, when we allocate those -- those transportation costs to those customers, those are fixed costs that are going to be allocated largely, or, you know, importantly, on a basis of -- of load factor, on how they use the system.

So the smaller-volume customers that, you know, have much more seasonality to their usage actually attract more of those fixed costs than -- than they would if they had their usage smoothed out, you know, on an even basis throughout the -- the whole year. So that's how you see these things start to represent themselves.

MS. KELLY DERKSEN: The other point that I wanted to -- to make, which perhaps I wasn't clear about before, and hopefully, this will ease some of your concern. And that is, there's a difference here in terms of how we serve customers. The small-volume customers tend to take all of -- they -- they don't have any option but to take our upstream services from us.

So things like our transportation along TransCanada pipeline often -- and -- and those types of costs where -- and even gas costs are represented in here for them as well. But for some of our larger-volume customers, and many of them in -- in the big classes, they procure their own source of commodity. And so that has been stripped out of here.

And so the -- the disconnect, at least in my mind, of this table is that for -- on one (1) hand, we're representing the bill impact for the large-volume customers, which only reflects the services that Centra is providing, but doesn't reflect the entire natural gas bill that they may -- that they may have to pay, for some of the customer classes.

But for other of the customer classes, like the SGS customer class, it represents their total natural gas bill as -- as they would get it from Centra. But just -- because they have to take all of the -- the services from Centra for the smaller-volume customers. So there's a little bit of a disconnect here in terms of how we represent this because of the types of services that large-volume customers can make use of versus what smaller-volume customers need to -- to take from the utility.

THE CHAIRPERSON: Now, looking at -- looking at the small general service class again, the bulk -- the bulk of the increases for the various subclasses of that SGS group are over 2 percent. And we've had discussion already around the fact that from a perception standpoint, when you compare it to a consumer price inflation factor, you know, it's beyond 2 percent for most of them.

In terms of messaging, assu -- assuming that the -- assuming that the panel was to go along with the requested rate increases, the messaging from Centra Gas would be along what lines? What -- what messages will you be conveying to customers regarding the pro -- the increases that we're seeing here? I'm specifically thinking of those that are beyond 2 percent.

MR. GREG BARNLUND: Typically, how we communicate these increases is, again, through our bill inserts. We would be messaging to the customers that, on August 1, that -- that the utility is pre -- is going to be applying a certain rate increase, a certain percentage, over -- over their previously billed amounts.

The added complexity to this, too, is that we change rates four (4) times a year. Our 2 percent general revenue increase is based on information that we had prepared last summer in our integrated financial forecast. But the percentage change will roll forward and be different every quarter, because the -- your basis of comparison is what was last billed in May, for this application, now are May 1 rates. So our 2.55 percent is not compared -- is compared against our most recently quarterly bill.

Again, it's complex because of the

amount of, I guess, the distinct differences we have on the natural gas side of the business, how we've arrived at this rate design, and changing rates four (4) times a year. It introduces complexity.

We try and message as simple as possible to the customers. We report the amount of the increase. Generally speaking, for primary gas increases or non-primary gas cost increases, we would report to it as a -- as a change in gas costs. And when we announce the -- incorporate the impacts of a general rate application. We would mention to the -- using the typical residential customer as our point of reference, that their bill was changing 2.55 percent or nineteen dollars ($19) a year based on a combination of general revenue increases and changes in gas costs.

We find that consumers -- it's -- you -- we try not to overly complicate the message, and this has been our approach to this now for quite a number of years, and so I believe that customers are generally accepting of the way in which we provide that information to them.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Barnlund, just on your last answer to the Chair, the bill impacts shown on page 113 of the book of documents are likely not to be the bill impacts on August 1st if your application was granted exactly as filed.

Is that correct?

MR. GREG BARNLUND: Correct. Earlier we had mentioned that we would be filing for a change in primary gas rates. We would file early in July with respect to that. And we would look to accumulate all of the impacts in that application to be able to have rates August 1 that would reflect a change in primary gas rates as well the changes that we're asking and seeking in this application.

MR. BOB PETERS: And in terms of what's happening on August 1 for primary gas rates, what we saw from the mockup of the bill, that the primary gas portion is really the largest portion of a customer bill generally?

MR. GREG BARNLUND: Generally speaking, yes.

MR. BOB PETERS: And so any changes in the primary gas bill are -- are significant in the -- on a -- on a percentage basis.

MR. GREG BARNLUND: They do carry a

fairly large effect, yes.

MR. BOB PETERS: And, so as you sit here today you've told the Board that -- I suppose while -- while we're getting ready for final argument in this case Centra will be filing its primary gas application effective also for August 1st.

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And we heard from the previous panel, although I -- I don't have a transcript reference, that natural gas prices have, perhaps modestly, but there seems to have been some -- some bounce back in the -- in the pricing which suggested to me that it was perhaps increasing?

MR. GREG BARNLUND: I'm not sure. I mean, these things do move around quite a bit from day to day. But we did see obviously in May our -- our rate increase from our February level. But we wouldn't be able to have a handle on that until closer to the beginning of the month.

MR. BOB PETERS: Beginning of which month?

MR. GREG BARNLUND: Sorry, the beginning of July when we would take our strip (phonetic).

MR. BOB PETERS: Yeah. All right.

Thank you. The last area I'd like to talk with Ms. Derksen about in about the few minutes I have remaining is more than symbolically, Ms. Derksen, found on the last page of the book of documents, page 144.

(BRIEF PAUSE)

MR. BOB PETERS: Tab 39, page 144, please.

(BRIEF PAUSE)

MS. KELLY DERKSEN: I have that, Mr. -- Mr. Peters.

MR. BOB PETERS: And I'm going to read to you, as I did others, the paragraph second from the bottom from Board Order 156 of '08, page 61 of 73. It reads as follows:

> "Therefore the Board requires Centra to include its regulatory costs, both the costs incurred to date and anticipated future regulatory costs, in its cost allocation model. This will yield a new PCR..."

Which stands for 'program cost rate':

"Which Centra must submit to the Board for approval."

You're aware of that, Ms. Derksen?

MS. KELLY DERKSEN: Yes, I am.

MR. BOB PETERS: And, Ms. Derksen, turning to -- you were the person who was responsible for calculating the PCR for Centra's fixed rate primary gas?

MS. KELLY DERKSEN: I am, yes.

MR. BOB PETERS: And if we turn back to Tab 36 in the book of documents, and to page 133, can you confirm to the Board that Centra's regulatory costs are included in the program costs that Centra has related to the fixed rate primary gas service?

MS. KELLY DERKSEN: Well, maybe we need to break this down a little bit, Mr. Peters, what we just spoke of.

What you just read to me was an excerpt of an order, and it broke down regulatory costs in -- I guess into two (2) buckets. One (1) where the initial regulatory and startup costs that we incurred in -- by virtue of the competitive landscape hearing that happened -- I'm -- I'm sorry, the fixed rate offering regulatory process that happened in around

2008.

Those -- the amortization of those costs have been reflected in the program cost rate. And in addition to those annualized startup and regulatory costs we have also reflected ongoing regulatory costs in -- in the program rate as well.

MR. BOB PETERS: All right. Put another way then, Ms. Derksen, the costs for Centra to file portions of this general rate application, the cost of your attendance, to answer Information Requests, to do the market simulations that the Board has seen in the graphs, are those costs charged through in the program rate?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Those specific costs will not find their way in -- into the program cost rate, but we've made an attempt to assign some regulatory costs to the program cost rate based on what we expect as a reasonable representation of what we expect to incur in terms of regulation for -- for that particular offering.

MR. BOB PETERS: When I look at page 133, Ms. Derksen, am I going to find Centra's assignment of regulatory costs in the fiscal year 2012/'13 budget anywhere?

MS. KELLY DERKSEN: No, you will not.

MR. BOB PETERS: So what amount was assigned in respect of the most current offerings?

MS. KELLY DERKSEN: Mr. Peters, what's forecast to go into the '13/'14 program cost rate that flows out of this general rate application for regulatory costs is in the order of magnitude of about four thousand dollars ($4,000).

(BRIEF PAUSE)

MS. KELLY DERKSEN: And you can find that information on -- on some of the cost allocation rate design schedules, Mr. Peters. I can take you to our yellow-paged documents, and they are on Schedules 11.1.4 and 11.1.5. And it provides a breakdown of all of the costs that -- in addition to what you might see on your -- on your book of documents page 133 that will flow into that rate.

MR. BOB PETERS: That's not a cost-based rate, it's a -- it's a -- what -- can I call it a -- an arb -- well, I won't -- arbitrary in the sense that it's not down to the -- down to the exact component, but it's a -- a notional amount that's allocated for each of these programs?

MS. KELLY DERKSEN: Well, it's an amount, Mr. Peters, that flows into the program cost rate by virtue of how we allocate costs within the cost allocation study. So you can look at it maybe more as a -- an indirect kind of cost. But I guess as I -- as I sit here today I -- what I need to represent to you, Mr. Peters, is that I think that's probably a reasonable representation of the regulatory costs that we expect to incur in the -- in the upcoming test period in the -- in the fiscal year of '13/'14.

MR. GREG BARNLUND: Maybe further to that, Mr. Peters, I think that if we can assume that we're -- or if we do receive approval of our proposal in terms of the change to the pricing methodology for incorporation of self-insurance, the regulatory costs -- the ongoing regulatory costs associated with providing these offerings is very, very small.

It's -- you know, there's data that is obtained from the gas supply area. The rate area will basically put this into a spreadsheet and we'll compile it and then we will send it off. And -- and so it's -- it's almost in the matter of minutes, a few hours if you would, for each of the four (4) quarterly filings would be made. So it's an extraordinarily small amount of time that, quite likely for most activities within the Corporation, would be hard to be time-carding.

MS. KELLY DERKSEN: I -- I'd like to add to that if you don't mind, Mr. Peters. I guess my job at the end of the day is -- is -- it's not -- if you peel the layers of the onion back far enough you can pinpoint pluses and minuses that might -- that should be there or shouldn't be there.

The fact is that we have assigned regulatory costs. Whether they are as significant as -- as they ought to be, I suppose is -- is a judgment that -- that the Board will need to make. We also have other costs that are assigned there that probably won't actually materialize.

And so what you need to do is you need to look at the total amount that's being assigned to that program cost rate in the order of mag -- in -- of magnitude of two hundred and fifty thousand dollars ($250,000) approximately forecast in -- in this test period. And you have to ask yourself if that's a reasonable representation of the costs that you expect in providing this service to customers.

And I think that's -- that's the

benchmark. And -- and I suppose how that you might test that is -- is to look at last year's actuals and last year's budget amount, which is what we've done, and that might be a test for you to be able to judge the reasonability of that.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, Board members, I'd like to thank Mr. Rainkie, Ms. Jacobs, Mr. Schulz in absentia, Mr. Prydun, Mr. Barnlund, and Ms. Derksen. Those are my questions of this panel. Thank you.

THE CHAIRPERSON: Thank you, Mr. Peters. We should probably take a break. Let's resume proceedings at eleven o'clock, and we'll turn the microphone over to Mr. Meronek at that time.

--- Upon recessing at 10:47 a.m.

--- Upon resuming at 11:03 a.m.

THE CHAIRPERSON: I believe everybody is in position. I would -- unless we have some docents to acknowledge I will turn the microphone over to Mr. Meronek, please.

CROSS-EXAMINATION BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Thank you, Mr. Chairman. Good morning panel, especially to Mr. Rainkie. It's been a long time since we've faced each other mic-to-mic. You were -- I was kind of feeling left out when you were going down memory lane with Mr. Peters. I had forgotten that you used to occupy the seat that Mr. Cathcart occupies. That's when you were on the side of the angels before you went over to the dark side.

Mr. Rainkie, I -- I feel your pain as it relates to this whole issue of rate base/rate of return. It certainly is a legacy from the old days. Unfortunately it's still in the legislation, correct?

MS. MARLA BOYD: I think we can save those matters for final argument. We can discuss the legislation and the interpretation of it in argument.

MR. BRIAN MERONEK: Well, I won't be arguing the legislation but from -- certainly from Board orders that -- that's evident, would you agree with that?

MS. MARLA BOYD: Again, if you'd like me to put the particular provisions of the legislation on the record, I can but...

MR. BRIAN MERONEK: A good start.

MS. MARLA BOYD: Sorry. I'm happy to see you mic-to-mic as well.

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: The fact of the matter is, Mr. Rainkie, whether it's useful or not, it's -- it's still a measuring stick that the Board has historically used since the acquisition of Centra by Manitoba Hydro to -- to see what Centra reasonably requires in rates?

MR. DARREN RAINKIE: Yes, good morning, Mr. Meronek. It's good to see you back. It's been probably what, 2003, or 2005? So it's been a while. And good morning, Mr. Chair, members of the Board, other ladies and gentlemen. I've been strangely silent this morning, so I'll get back into action here with Mr. Meronek.

But, yes, you're -- you're correct. I knew that eventually you would ask a question that wasn't a legal opinion and that I would have to answer it. But, yes, we do provide rate base/rate of return calculations in the filing as has been previously directed by the PUB.

MR. BRIAN MERONEK: Now, in the good old days, I think you -- we went over this -- or Mr.

Peters went over this with you. Well, currently, most utilities in Canada are regulated on rate base/rate of return, other than public -- Crown corporations?

MR. DARREN RAINKIE: I think that's a fair statement, particularly in the gas business, Mr. Meronek.

MR. BRIAN MERONEK: And these utilities don't answer to the government directly, they answer to shareholders, correct?

MR. DARREN RAINKIE: Yes, particularly on the gas side they tend to be investor-owned utilities.

MR. BRIAN MERONEK: And I think you indicated on the record that they're motivated by profits because they have to please their shore -- shareholders, correct?

MR. DARREN RAINKIE: Yes, their -- obviously their shareholders are putting in money and they put in money to have the opportunity to earn a reasonable rate of return. So they have to respect that.

MR. BRIAN MERONEK: And in order to please the shareholders, there are two (2) ways to do it. One (1) is to go before the Public Utilities Board and -- and ask for a -- what the company believes to be -- or utility believes to be a -- an appropriate rate of return in equity?

MR. DARREN RAINKIE: I'm not sure I would say "please the shareholder," but allow the shareholder to have a reasonable rate of return for the investment and the risk that they're taking. So, yes, that's one (1) way to ensure that that's happening.

MR. BRIAN MERONEK: And what would happen is, the -- certainly before Centra was purchased by Manitoba Hydro, and before the formula I guess, Centra would come in and argue that there was a higher risk, therefore a higher rate of return should be app -- ascribed. And the Intervenors, such as myself, would come in and say, No, you're a pretty stable company and you don't need as much of a rate of re -- a -- a rate of return as you're asking. And the Board would come somewhere down the middle or -- or split the -- split the apple.

MR. DARREN RAINKIE: Yes, as I alluded to when we were chatting with -- with Mr. Peters, is that it used to be quite expert-intensive, different opinions, and we spent a lot of time and energy on the rate of return and capital structure. And usually in the end there was some -- the Board's determination was somewhere in the middle between the Company experts and the Intervenor experts.

MR. BRIAN MERONEK: And the Board got sick and tired of this and embarked upon a formula which it adopted from other jurisdictions. And as events unfold, some jurisdictions are re -- revisiting the whole idea of -- of the formulas, especially in Alberta.

MR. DARREN RAINKIE: Yes. In fact, it was the Company that first put forward an idea for a formalized -- sure, I think it was more than just the -- the Board being sick of it, Mr. Meronek, every year going through the same -- same routine with all the experts.

And, you know, in terms of your Alberta reference, yes, I -- I think all the four (4) major public utilities commissions that have rate of return formulas have reviewed them in some way, shape, or form the last few years. So I'm not sure it's particular to Alberta, but I don't think it -- that hangs on anything in terms of your question.

MR. BRIAN MERONEK: Thank you for that. The other way that the Company can placate the shareholders, or attempt to, is to enhance the rate base, because that's the -- the basis upon which a rate of return is -- derives the dollar amount, correct?

MR. DARREN RAINKIE: Well, once again, I'm not going to ascribe motive. I mean, certainly the rate of return is a function of the invest -- level of investment that you have, and the -- the rate of return that you're -- you're allowed to -- or a reasonable rate of return that you're allowed to earn.

So, those are two (2) different ways that net income can increase in a -- in a investor-owned utility under a rate base/rate of return construct.

MR. BRIAN MERONEK: And those, in -- in the good old days, where -- where some of the issues were joined, company would come in with a aggressive or, in my words, a healthy request for capital increases, and there would be a big debate over that.

MR. DARREN RAINKIE: Yes. Although, I would observe that, historically, the al -- amount of disallowed assets, I think, on the Centra balance sheet were pretty small.

MR. BRIAN MERONEK: Well, that means you did a good job.

MR. DARREN RAINKIE: Yes, of managing

the company. Yes, exactly. Glad you agree.

MR. BRIAN MERONEK: I didn't say 'agreed'.

And as a matter of fact, maybe even before your time, the -- that was a genesis of the feasibility's test because there had to be some parameters put around -- somebody's got their mike on, or is it -- I'm just -- I'm too close -- there had to be some parameters around, based on economics, as to whether the expansion should take place.

MR. DARREN RAINKIE: Yes. I mean, I'm -- I won't get into what isn't my realm, legalities in terms of obligation to serve and such, but I think it's recognized that in order to -- that -- that in terms of providing service and insuring that we're not cross-subsidizing between customers, that a feasibility test is a -- is a way of trying to ensure that when you're connecting new customers.

MR. BRIAN MERONEK: Those -- those kinds of issues seem to have settled down since Centra was taken over by Manitoba Hydro. It's not as much a -- a battle over a concern of -- over capital investment, in terms of projects?

MR. DARREN RAINKIE: That's correct. I mean, as we were reviewing the other day, a large chunk of our capital program is simply serving and hooking up new customers, which is a revenue-generating item, so it wouldn't make sense for us to try to deny that in terms of our -- our business. And you know, there's been no, for one (1) reason or another, no large-scale expansions for the last ten (10) years, that I can recall, anyway. So, this -- this whole -- this whole issue has settled down.

MR. BRIAN MERONEK: You had some discussion with Mr. Peters, I believe, yesterday, dealing with the risks, negative risks facing the company, there was a discussion about accounting changes and how that would be reflected, declining volumes and how that would be reflected. I don't want to mine that again.

But just -- just for the -- my own clarification, the biggest risk here relates to the potential write-off of 77 million-plus in rate-regulated assets, correct?

MR. DARREN RAINKIE: Certainly in terms of our retained earnings figure, that is a huge amount related to the Centra balance sheet.

MR. BRIAN MERONEK: And the issue, then, is if that were allowed, there would be a real risk of rate shock to the ratepayers?

MR. DARREN RAINKIE: Yes. Moving from a retained earnings' sufficiency into a deficiency would be concerning. Although, one (1) of the benefits, I suppose, Mr. Meronek, of a cost-of-service type of regime versus a rate base/rate of return regime is that -- and I suppose one (1) of the benefits of Manitoba Hydro ownership is that we would -- if that were to occur, we would not be asking the customers to replenish the retained earnings in one (1) fall (sic) swoop in one (1) rate application. We would try to do that over a period of time, obviously.

MR. BRIAN MERONEK: And that's kind of reflected in Mr. Peter's book of documents, Tab 43, if you could turn to that.

(BRIEF PAUSE)

MR. DARREN RAINKIE: I have that, sir.

MR. BRIAN MERONEK: It -- it's a projection as to what would happen if the rate-regulated assets were written off and -- is that correct?

MR. DARREN RAINKIE: Yes, in the 2012 forecast, that was the assumption.

MR. BRIAN MERONEK: And the way it was

going to be dealt with, on a projected basis, would be to increase the revenue requirement on the -- by almost triple by the end of 2022, correct?

MR. DARREN RAINKIE: Sorry, Mr. Meronek, I lost you in terms of what's tripling?

MR. BRIAN MERONEK: Okay. I'm looking at -- under revenues, the general consumers at approve rates additional revenue requirement. It -- it really ratchet -- ratchets up towards 2022.

MR. DARREN RAINKIE: Yes, it does, Mr. Meronek. But there's one thing that's imbedded in this forecast that I don't think we've chatted about yet, and it should be something that the Board is aware of is that I -- my understanding, if I'm remembering correctly 'cause I've -- I got a number of different scenarios on the record as usual -- is that we are assuming that the $3.8 million with respect to the finance -- sorry, the furnace replacement program is coming back into general revenues in 2015/'16 -- so no longer being recorded to a liabilities.

So, you know, these -- these zero percents that we have for the next three (3) years are perhaps a little misleading because of that because we don't have a determine -- we're not asking for that today for the Board, and we don't have a determination on that.

But in general, yes, this was depict -- depicting a scenario where if the write-off occurred, we would try to recover it over a period of time rather than one fell swoop.

MR. BRIAN MERONEK: I'm not too interested in the precise numbers. It's just, in terms of order of magnitude, that looks like how, at this point in time, Centra would plan to deal with that.

MR. DARREN RAINKIE: Yes. When -- if the actual event occurred and it was upon us, I mean, we obviously would be looking at it a bit -- a bit finer, whether it would be -- would be exactly as how this is depicted, or a bit more front-end loaded. I -- I couldn't say until we went to our Board, and the actual event had occurred, Mr. Meronek.

MR. BRIAN MERONEK: And -- and the net result, I'm not holding you to anything but just looking at this document, the retained earnings would -- would reverse themselves but they wouldn't return to pres -- present amounts.

MR. DARREN RAINKIE: That's right. And -- and of course, the thing that was concerning us is that if you look at the top line on page 154 of the book of documents, which is where we're -- close to where we're at anyway, you know, the -- the size of the company is increasing and -- and yet, we have very little retained earnings. So that concerns us from a perspective of rate stability.

MR. BRIAN MERONEK: But I think what you're saying, or what you said accords with what is shown here -- is that Manitoba Hydro would be helping out, and there wouldn't be a -- an absolute need to get back to the retained earnings that are shown presently.

MR. DARREN RAINKIE: Well, Mr. Meronek, I mean during that ten (10) year time frame, we would be taking a significant risk if there was something else that would occur in our business. So, as I said, if we went in front of our Board and this was being proposed, they may have a different view about how these rate increases would be --would come about.

And it's not the best situation to have $13 million of retained earnings in 2022, if this scenario was to unfold. I mean, I -- certainly, we would prefer to have a larger pot of retained earnings than the $42 million that we have right now, but we do have a policy at Manitoba Hydro of gradual rate increases which we would try to apply as best we could.

MR. BRIAN MERONEK: Yeah, and I appreciate that. It's just that I'm looking at what's been presented and that's what I see. And I don't think there's any disagreement.

MR. DARREN RAINKIE: No, but I don't know. I don't know. Once again, whether we would accept $13 million in that long of a time frame to get back to it, is a matter of debate, Mr. -- Mr. Meronek.

MR. BRIAN MERONEK: That means you and I would be out of a job if you kept to these numbers.

MR. DARREN RAINKIE: I don't know. There's lots of work to go around these days, Mr. Meronek, it seems, so we'll -- I'm sure -- I'm sure we'll have a job for some time to come.

MR. BRIAN MERONEK: Now, you had some discussion with Mr. Peters in terms of the -- the imminency of -- of this threat. And I think the record is quite clear that D Day, if it happens, won't happen for a couple of years. A couple of -- two (2) fiscal years past the test year.

MR. DARREN RAINKIE: Yes. As I indicated, I think in my opening remarks that we believe that the longer-term rate regulated activities project, that the International Accounting Standards Board is working on, won't be resolved until, at least, 2016 -- is kind of the best intelligence we have, at this point.

MR. BRIAN MERONEK: And -- and I -- I'm treading where angels fear to go, but I wasn't at the -- the electric GRA, I hadn't been invited. But from the little I gather, would it be fair to say that the International Financial Reporting Standards, or whoever's responsible on a worldwide basis, hadn't really looked at North American rate- regulated public utilities closely enough?

MR. DARREN RAINKIE: Well, not to go back over the old -- old -- trudge over old waters, but they had actually released a exposure draft allowing rate-regulated accounting back in 2009, and then after all the negativity that came back in the comment period from around the world, they withdrew from that in 2010.

And then there was a period of a few years where we weren't quite sure what was going to happen. And, Mr. Meronek, you're always -- you're always welcome to attend in the -- in the public forum on the electric side as well. So we -- your invitation must have got lost in the mail, but don't -

- don't take anything out of that.

MR. BRIAN MERONEK: So was my cheque. The -- as I sit here and try to analyze this, in terms of the latest intel that's on the record, it seems to me, and correct me if I'm wrong, that there's a good chance that the -- there will not be a -- a write-off of rate-regulated assets?

MR. DARREN RAINKIE: That is difficult. I mean, there is a -- I don't know. I can't -- I can't quantify it for you, Mr. Meronek. That's why I did mention that we have been here before where we had a standard and then it was ripped away from us.

So, you know, I -- I'm not going to -- I'm not going to put a probability on the International Accounting Standard Board's, you know, chances of this going through. I -- it's a really technical debate and -- and I don't have any influence over it myself individually, other than writing a letter that will be one (1) of hundreds, probably, or dozens, so.

But, I mean, the other -- the other point, Mr. Meronek, and I'm sure we'll get to it eventually, is that there's the write-off of -- of -- the potential write-off of rate-regulated assets. But there's also, as I observed with Mr. -- Mr. Peters a day or so ago, that the whole concept that we have now, that we would net a bottom line of $3 million in the last ten (10) years, hasn't really worked out.

Instead of having $27 million more retained earnings over the last nine (9) years that we would have expected if we were sitting there in 2003, we have, I think, about $7 million more retained earnings.

So there's the write-off of rate-regulated assets, but there's also the general assumption that as a company grows that, you know, it's good for its retained earnings to grow motertly -- moderately as well.

And I think that's part of our -- our thinking as well.

MR. BRIAN MERONEK: I'm disappointed, Mr. Rainkie, that you thought, perhaps, I wouldn't talk about that later.

MR. DARREN RAINKIE: I can't predict you anymore, Mr. Meronek, it's been too long, but you're always very -- very thorough as I recall.

MR. BRIAN MERONEK: So as we sit here today, you don't have a crystal ball that you can gaze into, and I take it you don't have a reasonable forecast as to what's going to happen?

MR. DARREN RAINKIE: No, Mr. -- Mr. Meronek, it's -- like, I can't speak for the International Accounting Standards Board and how they make their decisions. We will roll with the punches, I suppose, as things occur.

MR. BRIAN MERONEK: Now, you mentioned a letter, and there was an invitation extended to -- for people to put their two (2) bits worth in by September 4, and you've indicated to Mr. Peters you're going to be writing a letter?

MR. DARREN RAINKIE: Yes, we will partake in that.

MR. BRIAN MERONEK: And I'm sure it's not drafted yet, but ideologically speaking, I would assume that you would be promoting that rate-regulated assets don't be written-off?

MR. DARREN RAINKIE: Yes, Mr. Meronek, it's part of our current accounting policy. So it would seem counterintuitive for us to argue against it.

MR. BRIAN MERONEK: One (1) of the possibilities is that -- that, essentially, what it'll shake out is more of a discreet reporting change in -- in terms of segregating the rate-regulated component from anything else?

MR. DARREN RAINKIE: Yes, I think there's a greater certainty about that than anything, Mr. Meronek, is that IFRS as our world standards, and how they -- and IFRS allows, many times, different treatments. So how IFRS corrects for that is through much more extensive note disclosure and presentation disclosure.

MR. BRIAN MERONEK: Well, let's assume Armageddon happens, and -- and for reasons that escape me now, the standards are that their assets -- rate-regulated assets are written-off.

What does Centra do?

MR. DARREN RAINKIE: Well, first of all, what Centra does is, because we want to have audited financial statements that ultimately consolidate into the province of Manitoba, we -- we conform to the accounting standards that -- as they're dictated. Then we sit and we pause, well, what do we do for rate-setting purposes?

And because we employ a cost-of-service methodology, and not a rate base/rate of return methodology, we can write those assets off for financial reporting purposes, and then try to find a reasonable schedule, which -- to build up re --

retained earnings again from a rate- setting perspective. So I don't think we need to go down routes of two (2) -- two (2) sets of books and -- and that kind of thing because of the use of cost-of-service.

MR. BRIAN MERONEK: And -- and I take it, to the extent that Centra is struggling, it has to go to its parents, mom and dad, and -- and borrow, and -- in order to -- to fulfill its obligations?

MR. DARREN RAINKIE: Well, certainly the ultimate protection, I suppose, is the balance sheet of Manitoba Hydro. But, as you're aware, we try to strictly maintain costs and revenues, and we try to make sure that, as directed by the Board, that both sides of the -- of the customers are paying their fair share of costs.

So having a retained earnings deficiency, while we try to build up retained earnings, certainly puts us at risk that something else happens and that we would have to ask for a larger gas rate increase than would be, you know, hoped for.

So it's there as a protection, just as the parental guaran -- or the guarantee of the province is there as a protection against Manitoba

Hydro. But it's something you don't want to use. It's -- it's like your house burning down. You have insurance, but it's something that you don't want to occur just because you have insurance.

MR. BRIAN MERONEK: Well -- and let's talk about retained earnings for a minute. It -- it's a notional number, isn't it?

MR. DARREN RAINKIE: It is, but what retained earnings are is the absence of debt, and that's a real number. And we've had these discussions before about, you know, what's in your retained-earnings figure on the electric side; and is there liquid assets and all that kind of nonsense.

But the situation is, is that when you look at a debt-to-equity ratio, what it is, is the absence of debt. The more retained earnings you have, the less debt you have, which is a -- a fixed obligation. And so that's not something that you can just wish away as a -- as an accounting convention. When you have that debt on your books, somebody is expecting a payment in bo -- in terms of both the interest and the -- and the principle, Mr. Meronek.

MR. BRIAN MERONEK: Maybe we're -- we're flying at different levels here, Mr. Rainkie. I'm talking from Centra's perspective.

Centra doesn't have its own bank accounts, right?

MR. DARREN RAINKIE: Well, no, retained earnings are not a -- a bank account, a cash reserve. But what they are is the absence of debt, I suppose, is my -- my point, Mr. Meronek.

MR. BRIAN MERONEK: And -- and Centra really doesn't exist, other than notionally, correct?

MR. DARREN RAINKIE: No, it still exists as a comp -- a company. The employees are all Manitoba Hydro employees, but there's still a corporate shell, and still regulated by the Public Utilities Board, as you noted earlier.

And, I don't know, Mr. Meronek, if -- if nothing matters, then I don't know how we set rates. If we're going to go down this -- this line of questioning that, well, it's all notional so it doesn't matter anyway, then I'm not sure why we're here.

I've had those discussions on the public record before with various legal counsel. It doesn't matter. But then I go, Okay, well, then -- then why are we here? Why do we have hundreds of Information Requests and, you know, five (5) or six (6) days of hearings, if everything is just notional;

it doesn't matter. And I'm -- the reason we have a Public Utilities Board is it -- it does matter, in my mind anyway.

MR. BRIAN MERONEK: I'm not sure you want me to answer your questions. That would be a reverse -- reversal in roles. But I never suggested, it doesn't matter.

But in terms of the relative size of Centra from an asset perspective versus that of Manitou -- Manitoba Hydro, can you give me a percentage? I -- I couldn't find that readily.

MR. DARREN RAINKIE: Well, maybe we'll just use the tab that we're in if we can, Mr. Meronek. If you flip to page 154, we were projecting plant in service of $656 million at the end of 2013, and we -- we're pretty close to that in terms of preliminary actuals.

So you would compare that against, I think, something on the order of $15 million of -- of plant on the -- the electric side. Let me just verify that, Mr. Meronek -- somebody -- the good old handy dandy annual report of Manitoba Hydro.

MR. BRIAN MERONEK: That only a few of us have.

MR. DARREN RAINKIE: Once again, it's

there. It's -- it's not a secret. Yeah, on -- on the consolidated dollar sheet, we have about -- at least at the end of 2012, we had $13.6 billion of -- of plant, and $3.2 billion of construction progress. So, you know, $600 million, give or take, out of almost $17 billion worth of assets.

MR. BRIAN MERONEK: Okay, I'll do the math but it's -- it's a small portion of the overall consolidated picture?

MR. DARREN RAINKIE: Yes. It turns out that because of the two (2) different sides of our business, of course, Manitoba Hydro side and the electric side, we have to build expensive generating stations and transmission lines, and on the gas side, we just are in pretty much the distribution business. So they are two (2) very different businesses with two (2) different magnitudes in investment.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, on a cost to service, because it's really an allocation issue, the issue is really trying to -- to preserve the no-harm principle and not have cross-subsidization?

MR. DARREN RAINKIE: Yes, it would

mean -- one (1) of the founding principles of rate regulation, Mr. Meronek.

MR. BRIAN MERONEK: And that could be accomplished whether they're retained earnings or not?

MR. DARREN RAINKIE: Well, certainly through integrated cost allocation, you can decide how to allocate fairly the revenues and expenses of the Corporation. But -- but what we're talking about here is risk and -- and retained earnings are there to ensure that -- ensure that we don't -- we have rate stability for customers.

So I'm not sure that a cost allocation model can do that, Mr. Meronek, if I'm interpreting your question correctly.

MR. BRIAN MERONEK: Let me ask you this: I -- I'm having trouble conceptualizing the growth in assets, or the growth in plant with the growth in retained earnings. Can you help me with that?

It seems to -- it seems to me that there -- one concept relates to base rate -- rate of return regulation and the other is cost-to-service. Can you help me with that?

MR. DARREN RAINKIE: No, we apply the same -- the same principle on the -- on the electric side of the business under cost-of-service. We -- as the size of our company grows, we have a debt to equity ratio target, and we're trying to grow our retained earnings to -- to ensure that we can maintain stable rates over the long run.

So I don't -- I don't think that they're two (2) different concepts at all. The expectation would be -- in -- in the Board approving any level of net income at all, 3 -- $3 million or otherwise, is that it was a desirable thing from a customer perspective to build retained earnings over time, even under a cost-of-service approach.

MR. BRIAN MERONEK: I -- I am talking about the gas side, not the electric side. It seemed to me, on the one hand, that you were fairly disdainful of the debt equity ratio discussion but more in favour of cost-of-service. And I don't -- I don't necessarily disagree with that but I'm -- I'm struggling as to why -- just because the plant is going up to the extent that it is, that somehow retained earnings have to follow in step.

MR. DARREN RAINKIE: Well, Mr. -- Mr. Meronek, I mean it's just common finances in that -- as -- as the size of your company grows, if you have a certain, you know, target debt to equity ratio that --

that your retained earnings grow. The size -- as the scale of your operations and scope of your operations increases you have more assets out there, you have more customers, you're taking on more risks, that your retained earnings would -- would grow over time.

I don't know. I -- it's just kind of fundamental to me regardless of what rate-setting methodology you apply.

MR. BRIAN MERONEK: Now, as I understand your evidence, certainly in the last several years, good, bad, or indifferently that the Board has fixed Centra with $3 million of net income, correct, per year?

MR. DARREN RAINKIE: That's correct.

MR. BRIAN MERONEK: Now, is Centra coming forth today at this application saying, Let's visit that amount on a go-forward basis, or is it just saying that there's a reason for approximately $6 million in net income that is prudent for today?

MR. DARREN RAINKIE: Well, I -- I think we're -- we're asking for an increase in the net income for the future, Mr. Meronek, for the reasons that I just articulated. Is we have a -- we have a growing balance sheet. I don't think there's any dissension on that, and that under the current mechanism that we have, whatever we want to call it, the $3 million net income there, retained earning are just really fairly stagnant, and it -- it's probably a good thing to -- to revisit that issue.

In fact, the first Board order where we -- where the Board directed the 3 million, it said that -- it didn't say that this was going to be in place for all time. Unfortunately, that's -- that particular Board order is not on the record, I don't think, in this book of documents, but that it would be revisited as circumstances, you know, changed.

And so I -- I think that just reflecting on it, the $3 million net income is, obviously, quantitatively, a very low amount, and often -- more often than not, we find ourselves in a loss position, and when we come back to the Board that our retained earnings are less than the last time we were in front of the Board -- and I'm not so sure that was the intention, in terms of allowing a $3 million net income, in the first place. I would have thought that the Board would expect that as they saw us on each, you know, subsequent application that our retained earnings would be nudging up, you know, by $3 million a year on average.

We -- we understand that weather will -

- one (1) -- one (1) year might hurt you, one (1) year might help you financially, but I think aft -- my perspective as, I guess crude as it is, is that after nine (9) years and the original Board directive on this, we would have expected that our retained earnings might have been $27 million more -- higher than -- than what they were in 2002/'03 when we started this regime and they're not.

So, you know, $3 million does not provide much of a margin for error in a -- even in a business the size of Centra, granted. Not as large as Manitoba Hydro electric operations, but it's a very threadbare net income.

If the principle was that the net income should be such that there's no harm to customers, given the size of our rate base now that we've calculated, and assuming that the no-harm principle refers back to the equity ratio that the private company would have had a 40 percent, you know, so if -- as I said with Mr. Peters, a $500 million rate base, a 40 percent equity ratio, to be fair, looking at the formulas in other jurisdictions, a 9 percent rate of return, that gets you to 8 -- $18 million in net income, roughly.

So 12 plus -- a $12 million corporate

allocation plus $6 million in net income, annualized or otherwise, is around $18 million. So I think the request in front of the Board honours the no-harm principle that was announciated (sic) ten (10) years ago.

I don't think there's anything more magical to it than that, Mr. Meronek.

MR. BRIAN MERONEK: Are -- are you wanting us to -- to go back into rate of return -- return on equity, you know, to debate whether or not you're getting an appropriate interest rate or -- I got the impression that you kind of wanted to forget that.

MR. DARREN RAINKIE: Well -- well, no, but if the principle that we're regulated under is that what otherwise would have happened in terms of what a private company -- let's back up. The current system regime principle that we have right now is that, at crossover, when Centra Gas becomes a -- a subsidiary of Manitoba Hydro. The Utility, at that point, under West Coast's ownership was own -- earning between 14 and $16 million of return in equity. I think the Board took the midpoint in that of fifteen (15), and said, Okay, we'll allow you a $12 million corporate allocation and a $3 million net income. So that was the principle that the current mechanism is working on, I suppose, in my mind, currently.

What I'm observing, if that is the principle then, is that ten (10) years later, the asset base of the Corporation has increased at a -- at a -- not a rapid pace, but a, you know, a fairly moderate pace. And then, perhaps, it's time to revisit that with the goal of having an appropriate pot of retained earnings to ensure rate stability for the customers.

We're not paying out any dividend. Mr. Warden, before me, and I'm -- I will confirm once again that Manitoba Hydro -- sorry. That Manitoba Hydro has no intention of taking a dividend from Centra Gas. We're not earning any bonuses on the -- on the net income. The intention is to have retained earnings to promote rate stability in the future.

MR. BRIAN MERONEK: Hypothetically, if I was to -- my client was to support even looking at the rate of return on equity and rate base component, would you support me?

MR. DARREN RAINKIE: You mean going through a full -- full blown hearing, Mr. Meronek?

MR. BRIAN MERONEK: No, I got the impression that -- that you really didn't -- you had some disdain for looking at rate base/rate of return on equity. You couldn't understand the -- the way the Board got at the debt equity ratio and -- and really emphasized that this is a cost-of-service regulated utility.

And all I'm saying is, if I supported you on that, or if I recommended that, would you support me on that?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sorry, Mr. Meronek, I'm -- I'm a bit thick this morning, I suppose.

MR. BRIAN MERONEK: Got you where -- got you where I want you.

MR. DARREN RAINKIE: Maybe I haven't had enough coffee this morning to get me up to speed. But, sorry, I -- I hate to ask you this. Could you repeat or rephrase that one (1) more time so I can give you a proper answer?

MR. BRIAN MERONEK: Sure. If you had your druthers, would you just forget about having to look at rate base/rate of return and return on equity as a -- as an ingredient of determining whether Centra gets reasonable rates?

MR. DARREN RAINKIE: Yes, Mr. Meronek, thanks for that clarification. Yeah, I think that most parties to the hearing agree that cost-of-service in a public utility is the better -- is the best way to go, much like Manitoba Hydro is -- is regulated, and I assume MPI, to a certain extent.

I'm not sure it was disdain. What it was, was puzzlement that -- that the 30 percent ratio that was quoted wasn't really an issue at the hearing that we talked about. We had no opportunity to file any evidence or have any discussion.

And it was really just a side bar question of Mr. Matwichuk who -- not to be unfair, but I don't think holds himself out as a cost-to-capital or capital structure witness -- threw out a 30 percent figure. And then suddenly, it appeared in the Board order, you know, a month or so later without really any opportunity to discuss it in a wholesome way, like we had in the past.

So that was -- it's more my puzzlement and surprise over that occurrence. But, as I said with Mr. Peters, to the extent that it really didn't seem to play into the ultimate rate decision, I guess I -- I wiped my tears away from my face, and we went on with business.

MR. BRIAN MERONEK: I don't think -- I don't -- I think maybe you've forgotten, but you haven't forgiven.

(BRIEF PAUSE)

MR. BRIAN MERONEK: So the -- the end result is that, in any event, your ear -- well, first of all, before this Board, Centra's asking for, in rounded numbers, $6 million in net income, correct?

MR. DARREN RAINKIE: Yes, that will be the annualized effect, Mr. Meronek, because rates are going in place in August 1st. The -- the material shows a $4.8 million net income in '13/'14. But, yes, the annualized effect, if we -- if the Board grants our application, would be the -- I think the $5.6 million figure Mr. Peters has been quoting.

MR. BRIAN MERONEK: And -- and given the busy schedule of Hydro and the Board, I think you've suggested there -- there would be paper hear -- paper hearings after this for the foreseeable -- not the foreseeable future, but for the next year?

MR. DARREN RAINKIE: Yeah, I think that would be a reasonable approach to get us through the 2014/'15 year, at least, Mr. Meronek.

MR. BRIAN MERONEK: Is it the recommendation, or -- or the request of Centra that that be the new target, the $6 million, or does that get revisited every year?

MR. DARREN RAINKIE: Well, at this point, we would ask that that, you know, five point eight (5.8) million be the new target. We -- we -- you know, if we're going to ask for a rate change next year, which we have -- which our Board hasn't determined to be clear yet, we will do that in November, and if we expect to do that on some kind of an interim basis, I don't think I would throw in a change in net income into that mix, Mr. -- Mr. Meronek.

I -- I should be cautious because our Board, ultimately, is the one who looks at what the recommendation of management is, and -- and the rate increase is a function of our cost plus our net income. But certainly my recommendation to the Board wouldn't be to be asking for another increment in net income, if we were expecting to get, you know, some -- an interim process.

I -- I don't think, in an interim process, you want to add a bunch of new yardsticks, if

-- if I'm being clear. You want to, you know, keep it fairly simple for all parties involved.

MR. BRIAN MERONEK: I -- I'm just trying to get to the -- to the point where I can determine when Centra will be -- if Centra will be coming in, at some point in time, and saying to the Board, Look $3 million -- well, you've said $3 million isn't enough. Let's go for six (6) million, or eight (8) million, or ten (10) as the new paradigm.

MR. DARREN RAINKIE: Well, I -- I don't think I can give you much more right now than trying to explain what our current application is before the Board, and the fact that my recommendation to our Board would not be to complicate any type of an interim process with -- with a higher level of net income than the five point eight (5.8) million, Mr. -- Mr. Meronek.

I -- I can't really bind myself to what a future -- just like the PUB can't bind itself in terms of future decisions, I can't bind what our Board will do -- what Centra -- the Centra Board will do in the future. But I think we, as a company, through the NFAT period, want to work responsibly with the Board and other parties to try to help out a rather difficult time.

And I certainly am conscious that we wouldn't want to add a bunch of additional reasons to have to have a public hearing in the -- and -- and Intervenor evidence, and all that kind of stuff, Mr. -- Mr. Meronek.

MR. BRIAN MERONEK: Just to put a bow on this topic, the druthers of Centra is not to wait till a determination of IFRS before asking for an increase, in part, because of a concern that there might not be enough retained earnings?

MR. DARREN RAINKIE: Yes. And -- and of course, we -- we look at each -- each fall, we prepare our financial forecast so I'm -- I'm not saying there will be a rate increase for '14/'15. I mean, what the Board determines out of this particular application will, in part, determine whether we ask for a '14/'15 rate change, Mr. Meronek. So, yeah, you know, we -- we -- I'm almost forgetting the question now, sorry, Mr. Meronek.

But I -- I -- we haven't predetermined there will be a '14/'15 rate increase but there is a possibility. And I'm not sure that we would wait until after IFRS to ask for that rate increase.

MR. BRIAN MERONEK: Moving onto the topic of OM&A. Morning, Ms. Jacobs.

MS. HANRI JACOBS: Morning.

MR. BRIAN MERONEK: Could I get you to turn to Tab 46?

(BRIEF PAUSE)

MR. BRIAN MERONEK: And page 187.

(BRIEF PAUSE)

MS. HANRI JACOBS: I have it.

MR. BRIAN MERONEK: Now, if the Chair's neighbours were to ask, because my neighbours don't really care, what is it costing the individual customer for OM&A, is it the two hundred and fifty-two dollars ($252) or is it two hundred and twenty-three dollars ($223)?

MR. DARREN RAINKIE: Mr. Meronek, the -- the two fifty-two (252) is what is built into rates because, ultimately, the total operating cost figure, including accounting changes, is built into our revenue-requirement request.

MR. BRIAN MERONEK: So, the Chair's neighbour should be looking at that line, in terms of determining the increases that were -- are occurring over time, with respect to cost per customer?

MR. DARREN RAINKIE: Yes, in absolute terms, in terms of understanding what the rate change will be, the two twenty-three (223) figure is, I think, for understanding of the Board, trying to segregate out those things that are related to accounting-policy changes versus operational cost or drivers, Mr. Meronek.

MR. BRIAN MERONEK: We discussed the -- the intention Centra vis-a-vis its position in seeking increased rates, in part, because of IFRS, but with respect to the cost-allocation methodology, you'll just confirm for the record that Centra would wish to wait till the dust settles with IFRS before embarking on a further cost-allocation methodology between Manitoba Hydro and Centra?

MR. DARREN RAINKIE: Yes. I think, what we -- we don't see a lot of value in doing a review, regardless of the form of the review, while our accounting practices are still under review. Oh, sorry, lots of reviews there, Mr. -- Mr. Meronek. But I mean, why would you review something then change it and come back and review it? I'm not sure that would be the most efficient thing.

What -- what I was blue-skying, as Mr.

Peters talked about, or how he called it on the record, was that should that be more of a -- an exercise rather than -- an expensive exercise of going out and getting an external review once again, one (1) of trying to see if we -- if the changes in accounting, result in us simplifying our cost-allocation methodology between the two (2) utilities -- then maybe what we should try is take another shot at a series of workshops or something, to try to get some understanding first before we roar into an adversarial regulatory process.

And that's what I was blue-skying about, Mr. -- Mr. Meronek -- that's clear.

MR. BRIAN MERONEK: It is clear. And -- and believe me, I'm not trying to get you to repeat on the record what you've already said quite clearly, I'm just trying to get a score card here. And this is one (1) of the -- this is one (1) of the components where, for reasons that you've articulated -- seems reasonable, in a way.

You're going to wait?

MR. DARREN RAINKIE: Yes, yes. I -- sir, see, there's no purp -- there's no purpose of reviewing something that's subject to change.

MR. BRIAN MERONEK: Now, just moving

to the meters changes, and again, it's kind of score card here because there was a lot of tos-and-fros, first of all, as I understand, and -- and Mr. ma -- Mr. Prydun, maybe you can help -- there was, at some point in time, a -- an increase in -- in the requirement of replacing meters because of the anticipation of more stringent rules by meader -- Measure -- Measurement Canada.

Is that correct?

MR. MARK PRYDUN: That is correct, sir.

MR. BRIAN MERONEK: When did Centra first become aware that there would be more stringent rules in place?

(BRIEF PAUSE)

MR. MARK PRYDUN: Subject to check, sir, I would say approximately two (2) years ago. But we could confirm that for you.

MR. BRIAN MERONEK: If you could just turn to PUB Centra 1-18B, if you could look that up for me, please.

(BRIEF PAUSE)

MS. MARLA BOYD: -- 'D' as in dog, Mr. Meronek?

MR. BRIAN MERONEK: B as in Bob.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Panel members have that now, Mr. Meronek. Or maybe Mr. Prydun doesn't. I shouldn't speak for all -- all panel members.

(BRIEF PAUSE)

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Have you got it, sir?

MR. MARK PRYDUN: Yes, sir, I have it.

MR. BRIAN MERONEK: And looking over at page 2 of 7 -- sorry, page 2 of 7 at the bottom, page 1 of 6 at the top.

(BRIEF PAUSE)

MR. MARK PRYDUN: I'm sorry, sir, could you repeat that?

MR. BRIAN MERONEK: Yes, in -- in that particular Information Request response, it's page 2 of 7 at the bottom, or page 1 of 6 at the top.

(BRIEF PAUSE)

MR. BRIAN MERONEK: It's headed, "Activity Charges Primary Costs and Overheads." -- "Activity Charges by Program 2009/'10 Actual."

(BRIEF PAUSE)

MR. MARK PRYDUN: Yes, sir.

MR. BRIAN MERONEK: Now, if you go down to meter changes there's a note that says:

> "There are higher metering activities in both urban and rural locations in anticipation of the new Measurement Canada standards."

Do you see that, sir?

MR. MARK PRYDUN: Yes, I do. Would that be about 2/3 down the page?

MR. BRIAN MERONEK: Yes, sir.

MR. MARK PRYDUN: Yes, I have that, and that's under the customer service and distribution category?

MR. BRIAN MERONEK: Right.

THE CHAIRPERSON: Mr. Meronek, could you give us the reference again, please?

MR. BRIAN MERONEK: I'm sorry, sir, it's PUB/Centra 1-18. And it's page 2 of 7 of that particular Information Request.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Do you have it, sir? Okay.

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: In reading this, Mr. Prydun, would -- is it accurate to say that it would have been sometime in 2009 that this was anticipated?

MR. MARK PRYDUN: I think we might have a couple of different things going on here, sir. It is true that -- I think we'd stand behind that we had knowledge about a couple of years ago of Measurement Canada increasing their -- their strindent -- stringency, requiring that Centra would require to replace more meters.

But prior to that, based on sampling methods and -- and based on the results of those sampling methods, the requirements of -- for Centra to replace meters deviates -- could deviate significantly from year to year.

In my experience, this has been the -- we could be replacing as much -- as much as fifteen thousand (15,000) meters in a year, but the next year, it could be as low as five (5) or six thousand (6,000). So based on the -- the results of the -- the sampling methods, it could have an impact on these numbers. So my interpretation of this schedule, sir, is just that the results would be due to the variation and -- and the sampling methods prior to Measurement Canada imposing more stringent guidelines.

MR. BRIAN MERONEK: Well, that -- but I'm just reading your words and it says that -- that the forec -- the actual was greater than the approved in anticipation of the new Measurement Canada standards. So it -- it seems to me that this was something that Centra was alerted to, or cognizant of, back in 2009?

MR. MARK PRYDUN: Subject to check, sir, again and based on the history we can confirm a -- a more accurate clarification of these particular numbers, but my suggestion would be -- is -- is that we certainly had more than one (1) factor going on in the interpretation of these numbers.

MR. BRIAN MERONEK: All right. As I understand it --

MR. DARREN RAINKIE: Mr. Meronek, there is a -- there is an IR -- sorry to interrupt, but PUB/CENTRA 170A, that does talk about the number of meters that are -- that have been tested, I suppose, or changed each year. And we indicate in that IR that -- we say that there was a large increase in the residential meters that were replaced due to the failure or certification expiry.

So I think we should check into this in terms of -- this -- this sheet that we were looking at is prepared by our financial accountants. And whether that was a generic description that was really intended to apply to later years or not, I think we should take a look at that and make sure that that explanation is correct or not, just to -- that we have on -- on page 2 of 7 where you were pointing us earlier is really a correct interpretation, or just a generalization that should have been different.

But there -- Mr. Prydun is indicating there are -- there could be different reasons for that increase in the level of activity. And we can -- we can clarify that for -- for yourself and the Board.

MR. BRIAN MERONEK: Without speculating, maybe it will be that, from what you're saying, they're -- there's an ex post facto explanation of -- of events as opposed to an -- an insertion of a description at -- at a particular point in time?

MR. DARREN RAINKIE: Yes, it -- it might have been the accounting understanding of it that doesn't accord well with the operational understanding for that year. But we can clarify that for you.

MR. BRIAN MERONEK: Thank you, sir.

(BRIEF PAUSE)

MR. BRIAN MERONEK: Now, Mr. Chairman, I'm in your hands. It's twelve o'clock. I may be another half an hour to an hour. And I'm prepared to plow right through or -- or take a break at your --

THE CHAIRPERSON: I think we should plow right through.

CONTINUED BY MR. BRIAN MERONEK:

MR. BRIAN MERONEK: Okay. Now, Mr. Prydun, just so that I have the scorecard straight. For first time installation of meters, obviously the meters get capitalized on both the gas and electric side, correct?

(BRIEF PAUSE)

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

MR. BRIAN MERONEK: And for meter exchanges, the -- obviously the meters, again, are capitalized on both the gas and electric side?

MS. HANRI JACOBS: The meter devices itself, yes.

MR. BRIAN MERONEK: And the -- but on the expense -- on the labour side, the -- the labour is expensed for the gas side and capitalized for the electric side?

MS. HANRI JACOBS: For the initial install it will be capitalized on both sides.

MR. BRIAN MERONEK: I'm talking about meter exchange.

MS. HANRI JACOBS: For the meter exchange the sampling activity is ex -- expensed on the gas side. It's capitalized on the electrical side.

MR. BRIAN MERONEK: And for meter testing, the labour is expensed on both the gas and electric side under meter repair and ca -- calibration?

(BRIEF PAUSE)

MS. HANRI JACOBS: Yes.

MR. BRIAN MERONEK: And, Mr. Rainkie, you had a lengthy discourse with Mr. Peters that, intuitively, you would have initially -- or Centra or Manitoba Hydro would have thought that, for the labour on the meter exchange, that expense should be capitalized. But on reflection, you're still reviewing whether the electric side will follow the gas side. Do -- do I have that correctly?

MR. DARREN RAINKIE: Yes. I think for finan -- for forecasting purposes we made the simplifying assumption that we would simply adopt the electric policy but once we got into this a little further we started to think that that might -- that might have been a little hasty on our part, and that we should review this issue.

I think if you looked in the manuals of some of the public utilities, you know, in Alberta and such that they -- their accounting of this that they specify to the various utilities that they regulate would indicate that these costs are expensed. I -- I think so. So this is still an open issue for us, Mr. Meronek.

MR. BRIAN MERONEK: And just on the score card, Centra or -- or Hydro are going to wait until the dust settles on IFRS before it comes to a determination of that?

MR. DARREN RAINKIE: Yes. As I explained yesterday, we would not want to make any retrospective adjustments in our accounting at this point in time.

MR. BRIAN MERONEK: Now, as I understand your -- your discussion with Mr. Peters, Manitoba Hydro has been capitalizing the labour and meter exchange for decades?

MR. DARREN RAINKIE: Yes, as the gas side would have been expensing, Mr. Meronek.

MR. BRIAN MERONEK: Now, one (1) of the hesitancies, as I understand your response to Mr. Peters, was that because it's an accounting policy you have to be careful and -- to -- to change any accounting policy for two (2) reasons: 1) there would be a retrospect -- retrospective adjustment required, and 2) it would have to be justified under GAAP. Is that a fair summary of what you said?

MR. DARREN RAINKIE: Yes. Those are the two (2) things that your auditors would be looking for when you change an accounting policy.

MR. BRIAN MERONEK: Right. Just explain for myself, a non-accountant, what retrospective adjustment means, and why it has to be done, and for how long?

MR. DARREN RAINKIE: Mr. Meronek, accountants are very diligent when it comes to comparability. So most standards, IFRS, CGAAP, require that when you make a change in accounting policy you restate for that change basically for all time. When you change an accounting policy you represent the financial statements as if you had been applying that -- that policy since the inception of the utility. It's a normal part of accounting.

MR. BRIAN MERONEK: Wow. You go back to when God was a child to -- to change the accounting in -- in the books of the Company?

MR. DARREN RAINKIE: Well, we go back as far as we reasonably can. IFRS has a higher standard on that. I think it's -- than GAAP. But, yeah, that's -- that's the intention. That you could go back and restate your books as far back as you can go.

MR. BRIAN MERONEK: But it doesn't change the financial results.

MR. DARREN RAINKIE: Well, what it does is it changes your opening retained earnings. That's where the -- the charge or the -- the debit or the credit goes to. So it would change your -- your opening retained earnings for your comparable year that you present in your financial statement.

MR. BRIAN MERONEK: Before -- for this year, for this application, but the adjustments are -- are a line entry change in -- for past years. It doesn't reflect a difference in the experience of the Company historically.

(BRIEF PAUSE)

MR. BRIAN MERONEK: I mean, the Company earned what it earned. It's not -- there's no -- you're not -- not going back and reconciling anything.

MR. DARREN RAINKIE: Well, what you do

is you would adjust the comparable year. So you have two (2) years in your financial statements, the current year and the comparable year.

So if you change your accounting policy, what you do is you adjust the current year that you're in obviously, you adjust the comparative year in terms of your net income, and then everything else is taken care of, if you like, through accumulative adjustment to retained earnings at the opening of your comparable year.

MR. BRIAN MERONEK: Maybe we'll get into specifics later. But the -- the second thing is that it's an accounting policy and therefore it has to be justified under GAAP.

MR. DARREN RAINKIE: Yes, you just can't decide to change your accounting policies because you woke up on the other side of the bed in the morning and felt that there was a better one. You have to explain why you believe that is a better policy.

And in this case what I was saying is that what is the act of exchanging those meters. We expense the cost of -- of testing those meters. So is the act of pulling that meter out associated with the act of -- of testing that meter, which is not a betterment of the meter, so it's -- it's expense.

So it caused -- it caused us -- it would be difficult, I think, to articulate to our auditors why we felt that this was a better policy.

MR. BRIAN MERONEK: So when you get out of bed in the morning it's your auditors you have to go to to convince?

MR. DARREN RAINKIE: Well, they're -- they're the ones that ultimately opine on our financial statements and that they represent generally accepted accounting principles, Mr. Meronek. So the comp -- it's the Company's policies, but they're the ones that sign off on them.

MR. BOB PETERS: And in this particular case, really isn't harmonization a -- a justification that the auditors would be satisfied with whether it was from the electric side to the gas side or from the gas side to the electr -- electric side?

MR. DARREN RAINKIE: No. The requirement is to harmonize. You still would have to explain why the policy that you selected is the appropriate one. You just can't say, Well, we're harmatiz -- harmonizing to something that doesn't make sense.

MR. BRIAN MERONEK: All right. Is it not the same auditors who were endorsing the capitalization of the labour on meter exchanges for several years? You have to convince the same auditors that it makes sense?

MR. DARREN RAINKIE: Well, what we're going to have to do is we're going to have to apply IFRS and convince them that whichever way we go in the end is the appropriate accounting policy.

Now, the other thing I would say is that these transactions, you know, aren't -- at least on the electric side as material as they are on the gas side. So it's not something that probably would have gained much traction over the years on the electric side in terms of review by the auditors.

But -- but you have to pick the -- the dominant thing is picking the right policy. I couldn't manipulate my books by saying, Oh, I'm going to harmonize to something. I have to -- the first requirement is to pick the right policy and then we would harmonize both sides of the business to the right -- to the right policy, Mr. Meronek. That's the order of operations here.

MR. BRIAN MERONEK: At the end of the day it's this Board that would make that determination as to whether or not there should be an expense or a capitalization irrespective of what IFRS says.

Would you agree with that?

MR. DARREN RAINKIE: Well, to be clear, this Board would figure out and have the ultimate say on what goes into rates, but between the comp -- Company and our auditors we would have the ultimate say in terms of what goes into financial reporting.

MR. BRIAN MERONEK: Now, moving away from meters and into the accounting changes with respect to the corporate allocations, it's the Company's -- it's Centra's determination at this point in time to move away from full cost accounting. And accordingly, there won't be any delay in those decisions pending the determination of the final stance that IFRS takes?

MR. DARREN RAINKIE: Well, we're still applying a certain degree of full cost accounting. What we've done is we've moved from kind of the aggressive side into the mean, if you like, if I can use that terms. And as I mentioned, I -- I think hopefully it was clear the distinction between a change in accounting estimate and a change in policy.

Overhead always has been an accounting

estimate. Every year we review our overhead practices and we've made some small changes or tweaks almost every year that I've been involved.

The issue here was -- is that when we started reviewing what was going to be required under IFRS we realized that we were aggressive and there was some reason on our part from a professional perspective then to take some action on that.

As well, the Board itself had noted through rate-setting procedures that they felt that we were -- or proceedings that we were aggressive and they were providing us at least a recommendation to look at that and try to tighten up our policies.

So there were two (2) drivers in terms of the overhead side in terms of a change in estimate.

MR. BRIAN MERONEK: This Board hasn't visited that issue on the gas side, correct? This is the first time?

MR. DARREN RAINKIE: It is. But as I said to Mr. Peters, I'm not sure there's any differences in terms of the businesses that would result -- that would result in -- in any different treatment, Mr. Meronek.

MR. BRIAN MERONEK: And -- and you use the word 'aggressive'. Aggressive doesn't mean that you're offside?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Not necessarily. But as I said, from a professional perspective, when you obtain that evidence that you are on that side, and when your regulator is giving you a nudge that way, you -- you take notice. And we decided to make some changes. And from a rate-setting perspective, once again, from a stability and predictability perspective, would we wait, would we store all of these changes up and do them all at once and then, you know, perhaps your client would be complaining that we did that.

And we've tried, as we explained on the electric side in the last hearing, to bring these into our financial reporting and revenue requirement over time so that it wouldn't hit rates and our financial books all at once. And at least on the electric side, my reading of the order of Board concluded that that was a reasonable approach.

MR. BRIAN MERONEK: But just to be clear, when you had this debate with Mr. Peters as to whether it was voluntary or not, there are no accounting police coming to arrest you, correct?

MR. DARREN RAINKIE: Well, Mr. Meronek, you didn't have the benefit of the electric hearing, is another reason why, perhaps, these are generic issues that should be dealt with under one -- one (1) hearing, but -- or at least another example of that, but -- our -- our --

MR. BRIAN MERONEK: No lobbying, please.

MR. DARREN RAINKIE: Our auditors did -- did express -- have -- expressed concerns about this over time, and they did file a letter at the electric proceeding indicating that they are happy about these changes because they're getting concerned about it.

So and, you know, Canadian GAAP in the end does have the requirement that -- that overhead be dir -- directly attributable. In the end the words are not that much different than IFRS. And what I've been trying to explain in these last two (2) hearings is that the industry itself had become aggre -- very aggressive on capitalizing of overheads. It's not just Manitoba Hydro. As we've done our research for IFRS, there's been numerous companies with overhead issues in the $200 million range -- I won't indicate who they are on the record, but the material is out there in rate hearings.

So the -- the industry has been particularly aggressive on this and has been tightening up on this. In my mind, generally accepted accounting principles on this is the industry standard. We went out there, we did lots of research, and we found out that we were aggressive vis-a-vis the industry standard.

So, I'm not sure I'd look at this as kind of just as a purely voluntary thing, but something from a professional perspective that we -- we should do when we get that information. That's what a change in estimate is. Just like on depreciation, there's a parallelism there. When we do a depreciation study and we have that -- that information in our wheelhouse, we don't wait for two (2) years to implement it. We do it then. That's what a change in estimate is. I'm not sure I can be any clearer than that in terms of accounting.

MR. BRIAN MERONEK: I wouldn't invite you to be clearer, in any event.

Will you give me this, that the -- the problem or the issue is much more extant on the electric side than the gas side?

MR. DARREN RAINKIE: Well, the absolute quantum is because of the size of the building -- of -- of the -- sorry -- the size of the building program on either utilities. But I don't know. Is a couple million dollars of overhead and a $3 million net income different than a 70 million and a two hundred (200) and -- or $150 million net income? I -- I don't know. They have -- there -- there is different relative sizes here, Mr. Meronek.

The fact of the matter is, this is a change in estimate. We had that information, we made the change. It flows through our integrated cost allocation system and it's an appropriate change. And it is better from a rate-setting perspective that we build that into rates over time, in my -- my opinion. Now, your client might have a different one and I'm sure we'll hear that in argument.

But I see no difference in terms of the gas side that's been articulated versus the electric side in terms of not adopting these changes. I don't know why we would store them up and then create this great big pent-up demand on transition to IFRS, and then there's going to be a different discussion about why is this happening, why didn't you do something.

You know, we often get criticized for

not doing things and then when we do it, you've done it ahead of time. I don't know. Let's pick which side of the fence we want to be on.

MR. BRIAN MERONEK: Well, I'll pick the side of the fence that you -- that you don't do anything and I won't come back and say, Why didn't you do it? How is that?

MR. DARREN RAINKIE: Can I get that in writing, Mr. Meronek?

MR. BRIAN MERONEK: It's on the record. Let's go to some discrete items. And for that, I -- I will have to prevail upon you to look at page 4 of 23 of Appendix 5.7. That schedule wasn't, I don't think, in its full form, put into Mr. Peters' book, so.

MR. DARREN RAINKIE: Sorry, Mr. Meronek. Can you just specify the page number again?

MR. BRIAN MERONEK: Yes, it's page 4 of 23, Appendix 5.7. It's got all of the summary of accounting changes.

MR. DARREN RAINKIE: Yes, we have it, Mr. -- Mr. Meronek.

MR. BRIAN MERONEK: Yeah, I don't think that -- that I can point to the -- the book of documents for that totality.

MR. DARREN RAINKIE: No, it didn't make the cut.

MR. BRIAN MERONEK: Now, with respect to the -- the first tranche, the reduction to cost capitalized, let me just understand. When you're looking at the $4.9 million, or roughly $5 million, when did these numbers first get imputed? And maybe, to be a little clearer, when you were before the -- the Board in Board Order 128 of '09, I -- I take it these numbers wouldn't have been in there?

MR. DARREN RAINKIE: No, they -- they weren't.

MR. BRIAN MERONEK: Obviously they wouldn't have been for the later years, but -- but we know that the Board Order 128/'09 with -- was with respect to 2009/'10 and 2010/'11. So under the 2010/'11 column, those numbers wouldn't have been there?

MR. DARREN RAINKIE: That's right. At that point we hadn't come to grips with what these qua -- the quantum of this information would have been.

MR. BRIAN MERONEK: Okay. So help me again. When did you come to grips -- when were the changes made?

MR. DARREN RAINKIE: Well, I think the

-- the first large change, as you see there, was made in 2000 -- the '10 -- 2010/'11 fiscal year. So I think in -- in preparation of -- of that fiscal year we made our -- our first fairly large change in terms of removing interest on common assets and motor vehicles and such, and some administrative and depart -- general administrative departmental costs from overhead.

As well, the overhead -- well, I -- I think the intangible asset -- not that you are there yet -- maybe -- maybe I'll just leave it at the overhead now. Because I'm sure you're going to migrate down the schedule.

MR. BRIAN MERONEK: I -- I'm trying to get a -- a sense for whether Centra worked backwards or they started in two (2) -- it started in 2010/'11 and -- and on an annual, or a fiscal-year basis, just inserted those numbers.

MR. DARREN RAINKIE: Well, I -- in -- in preparing, as I said, we look at our overhead practices each year in making a recommendation on the overhead rate for the next year. So, obviously, somewhere around the start of the fiscal 2010/'11 year, we made that -- those first series of changes that you see there. Because the only difference between the 2010/'11 and the 2011/'12 actual is really just some escalation, Mr. Meronek. They're the same changes.

MR. BRIAN MERONEK: So those would have been reflected in -- did that have any change -- I guess it would have had a change in the net income?

MR. DARREN RAINKIE: Yes, those were amounts that we took into our income that were not included in the rate case for those years. I mean, we didn't have a rate case for -- well, yes, we did have a rate case for '10/'11. So, yes, those -- those amounts would not have been included in the last approved figures.

MR. BRIAN MERONEK: Okay. So just so I understand it. For 2010/'11 that $2 million would have not have been reflected in rates?

MR. DARREN RAINKIE: That's right. And hopefully that demonstrates the principle, Mr. Meronek, that we -- we don't cherry-pick. There's -- there's some changes that happen, things like interest rates decrease and -- and there are some costs that go up. But we try to manage this thing on an overall basis.

MR. BRIAN MERONEK: I don't recall ever suggesting you cherry-picked.

MR. DARREN RAINKIE: Well, we'll see Monday morning if that -- if that's what we come -- comes out of the discussion, Mr. --

MR. BRIAN MERONEK: Oh, so that's the twitchiness.

(BRIEF PAUSE)

MR. BRIAN MERONEK: So just looking at reduction to costs capitalized, if that was not accepted by the Board what would the net result be? Would there be any impact other than for the 2013/'14 year?

MR. DARREN RAINKIE: I don't think so, Mr. Meronek. The only application in front of the Board is 2013/'14 and I -- as I said, I'm not sure why the Board would take a different view on these set of costs than they did on the electric side but that's a matter of debate, I suppose, and argument.

MR. BRIAN MERONEK: Yeah, I wish you would keep it to argument, Mr. Rainkie. You're -- you're -- it's not getting better by the repetition. Anyways --

MR. DARREN RAINKIE: If you want to ask the question, I'll answer it, Mr. Meronek.

MR. BRIAN MERONEK: Sure. Going down to intangible assets, that one is as I understand it impacted by IFR -- FI -- sorry, IFRS in terms of harmonization?

MR. DARREN RAINKIE: Yes. It was -- it was a standard that was early adopted into Canadian GAAP by the Accounting Standards Board of Canada but it's consistent with IFRS ultimately.

MR. BRIAN MERONEK: And -- and so maybe this is a good time to -- to discuss the -- the issue of retrospectivity here. You've -- you've gone back to at least 2008/2009 to make adjustments?

MR. DARREN RAINKIE: Yes, we did. We were required to by the standard.

MR. BRIAN MERONEK: Would you have gone further back than that?

(BRIEF PAUSE)

MR. DARREN RAINKIE: It's a few years ago, Mr. Meronek, so, sorry, my memory is waning. I -- I think we went back as -- as far as -- as we could, as far as we had information.

MR. BRIAN MERONEK: Sure. There -- there's nothing that turns on it. I just -- from my understanding, by going back all of this way for the purposes of this particular general rate application, are there any financial consequences of that?

MR. DARREN RAINKIE: Well, given that we're deferring and capitalizing -- sorry, capitalizing less I suppose there's less -- less amortization. And the -- the fact of the matter is, is now that $1.1 million is included in the revenue requirement, right. I mean, it's -- it's an operating cost.

So as we talked about at the start of your cross on this, the $7.8 million at the bottom of that table is now included in operating costs, and included in our revenue requirement requests.

MR. BRIAN MERONEK: No, I understand that. I'm talking about for the retrospective insertions going back. Those don't -- there are no financial implications to the ratepayers of having to -- having made those adjustments.

MR. DARREN RAINKIE: Well, to the extent that we wrote off a capitalized amount that would have been amortized, otherwise there would be some minor -- some minor differential there, if I'm thinking about this correctly, Mr. Meronek.

MR. BRIAN MERONEK: Just in terms of

pensions and benefits. As I understand it, there is -- there was a change in the discount rate for -- for the 2012/'13 period. It's -- it was six point five (6.5), correct?

MR. DARREN RAINKIE: Let me get my years straight here. We changed the pension discount rate from 6 1/2 percent to 5 1/4 percent at the previous year end 2011/'12.

MR. BRIAN MERONEK: So for the forecast 2012/'13 it was six point five (6.5), and for the forecast 2013/'14 it's five point two-five (5.25).

MR. DARREN RAINKIE: Yes, that -- that was what our forecast was based on, although at the end of 2012/'13 we decreased the rate further to 4 1/4 percent.

MR. BRIAN MERONEK: The lower the discount rate the higher the expense?

MR. DARREN RAINKIE: Yes, the lower the discount rate the higher the obligation. And if you're taking that obligation and apportioning it between the years, yes, the higher the expense, Mr. Meronek.

MR. BRIAN MERONEK: And just to demonstrate that I actually read these IRs, if you could go to CAC/Centra 1-8A, which is an explanation of -- of the GAAP changes in some of these things, over on page 2.

MR. DARREN RAINKIE: We're just sourcing that, Mr. Meronek.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Which part of that question, Mr. Meronek?

MR. BRIAN MERONEK: Mr. Rainkie, it's page 2 of 2.

(BRIEF PAUSE)

MR. DARREN RAINKIE: I have it now, Mr. Meronek.

MR. BRIAN MERONEK: I think that's a narrative that deals with this issue, the pensions.

MR. DARREN RAINKIE: That's correct.

MR. BRIAN MERONEK: And as I read it says:

"Section 3461 requires a discount rate to be reviewed annually and adjusted if necessary to reflect changes in market interest rates."

Do you see that, sir?

MR. DARREN RAINKIE: I do.

MR. BRIAN MERONEK: And was that done here?

MR. DARREN RAINKIE: Yes, it -- yes, it was, Mr. Meronek. I don't think I'm repeating myself if I give you a little bit of the history of this, but -- if you'll allow me.

MR. BRIAN MERONEK: I will. I just want to make sure that you understand what I'm asking. And I -- I look at pension and benefits and I see two (2) years of adjustments. I don't see anything before that. That -- that's really what I'm trying to -- to get at here. There -- there's no -- there are no changes for the prior years.

MR. DARREN RAINKIE: Yes, this -- the way this is entreated in accounting is a change in estimate, once again, where change in estimates are done on a prospective basis. So you -- when you change an estimate you do it in the current year forward. Changes in accounting policies are done on a retrospective basis. You have to go back as far as you reasonably can.

You know what, you're a Q.C., but maybe we'll make you a C.A. by the end of this -- this hearing.

MR. BRIAN MERONEK: I sincerely hope not. We don't have enough time. And so for -- for 2013/'14, because the -- the pension valuation hasn't come out, as I understand it, these are -- are projections or forecasts?

MR. DARREN RAINKIE: That's correct, 2013/'14 in that column is labelled as a forecast, Mr. Meronek.

MR. BRIAN MERONEK: Now, when the valuation comes out, it should be out imminently, would it not?

MR. DARREN RAINKIE: Yes, we have it now. And as I indicated, we had to make a further change in our discount rate to 4 1/4 percent, so these numbers are going to be larger in terms of the impact. And to be clear, we're not adjusting our application for that.

MR. BRIAN MERONEK: And lastly, with respect to reclassifications, as I understand it, although there's an increase, there's an offsetting amount for -- in terms of other revenue?

MR. DARREN RAINKIE: Yes, this doesn't negatively affect our net income. It's just a change in the line item that it's presented on. So these --

these costs that used to netted in O&A -- on operating and administrative expense are now -- you can find them in other income.

(BRIEF PAUSE)

MR. BRIAN MERONEK: And just turning over to -- moving onto another topic that -- that you engaged in with the Chair and also with Mr. Peters, net salvage value. That is a decision vis-a-vis IFRS for our score card where there's going to be a delay in a determination as to what to do?

MR. DARREN RAINKIE: Well, I'm not sure there's a delay in the determination, it's IFRS that was forcing our hand to do anything, just to be clear. The con -- the concept of negative salvage value was allowable under Canadian GAAP. It's a -- it's a -- a rate -- a rate regulated type of -- well, it's not listed as a rate-regulated liability, it's a regulated concept. It was the -- the move to IFRS without rate-regulated accounting that would have caused us to do anything, so it's not us dragging our feet.

MR. BRIAN MERONEK: No, I -- I don't mean delay in the sense of -- of dragging feet. I meant in terms of doing something now versus later.

MR. DARREN RAINKIE: Is there a question there, Mr. Meronek. Sorry, I'm --

MR. BRIAN MERONEK: I'll -- I'll add on a question. I wasn't suggesting that Centra was dragging its feet. When I say 'delay' I mean action now versus action later. And so the question is, Centra will not take any action on this matter until such a time as IFRS is -- is in place?

MR. DARREN RAINKIE: That's right, until we understand that we have rate-regulated accounting through the interim standard when we transition to IFRS. That's the other part of this equation, Mr. Meronek.

MR. BRIAN MERONEK: So -- so that I understand it, is IFRS threatening to not acknowledge net salvage value?

MR. DARREN RAINKIE: Well, the -- the current standards as I -- as they exist do not have any rate-regulated accounting standard embedded in them, so they don't recognize these -- IFRS doesn't recognize these types of practices as being reasonable for financial reporting.

So it's not like there's a standard that prohibits rate-regulated accounting in IFRS, it's simply that the standards don't recognize these types of practices that are particularly North American practices.

MR. BRIAN MERONEK: And so just so that I understand it, net salvage value is -- is really a reflection of the Utility seeking funds -- or monies now from the ratepayers in order to assist it to decommission a plant when it -- it's retired?

MR. DARREN RAINKIE: Yes, it's kind -- it's an intergenerational equity type of a concept where you're trying to charge the costs -- the ultimate cost of an asset including any negative salvage costs to the customers that enjoy the use of that asset over time.

MR. BRIAN MERONEK: And so the jury is still out as to whether or not it'll be -- continue to be recognized by IFRS?

MR. DARREN RAINKIE: Yes, it -- it follows the rate-regulated asset and liability saga, Mr. Meronek. If -- if we transition to IFRS with either an interim or final standard that allows rate-regulated accounting then it would still be permissible.

If we don't, for financial reporting purposes we're going to have to eliminate that practice.

MR. BRIAN MERONEK: And in -- in your letter is this something that you're going to promote to be retained?

MR. DARREN RAINKIE: Well, our letter will not probably get into the specifics of the different categories of rate-regulated assets and liabilities because those differ amongst utilities. It will be a generic letter supporting the -- the concept of rate-regulated assets and liabilities, Mr. Meronek.

I've got to -- I've got to write that letter yet, so I can't -- I can't tell you the exact con -- content, but I -- I think it wouldn't be very helpful to the International St -- Accounting Standards Board to proliferate a list of all the minutiae. It's better to solidify the concept, if you like.

MR. BRIAN MERONEK: Well, I -- I don't want you to do your homework earlier, it's just that ideologically you were uncertain about what -- what you were going to promote then -- then you would say so. But you would -- whether you put it in or not, you -- you would rather see this still recognized, the net salvage value?

MR. DARREN RAINKIE: I mean, it's a con -- it's a concept that we have -- we believe in or else it wouldn't have been in our application and our past depreciation studies.

But, you know, it was -- it was something that we were using a little bit as a buffer, if you like, for lack of a better term. Recognizing that the collect -- the collections of all of these different accounting policy changes have impacts on our financials, our revenue requirement, and on -- ultimately on rates.

It was -- we were using a little bit as a buffer against some of those cost increases. That's why there's still the debate internally, I suppose, even if -- even if IFRS allows it, will we still use it as a -- as a reduction of our revenue requirement when we move as a -- as an offset, because there's only so many different things we can do here, right, the accounting centres are what they are. As I said, we can't just pick and choose whatever we want.

So that's why I -- as we've done throughout this whole process we'll continue to monitor the whole suite of changes, if you like, that is coming up with IFRS, and try to intelligently pick accounting policies that make sense for rate setting as well, and try to minimize the impact on customers as much as we can.

MR. BRIAN MERONEK: Kind of like a waterbed, I guess.

MR. DARREN RAINKIE: Yes, as long as we don't get thrown off the end of it.

MR. BRIAN MERONEK: Just lastly, just for clarification purposes, in terms of municipal taxes, was I correct in understanding that there was a re-assessment such that the municipal taxes or grant in lieu thereof, whatever you call it, was reduced from $14 million roughly to $10 million?

(BRIEF PAUSE)

MR. BRIAN MERONEK: Tab 53.

MR. DARREN RAINKIE: There -- there might be some accruals in there, Mr. Meronek, that's the order of magnitude, is the -- I -- I think in our test year we actually have $11 million. So it might be better to say from, you know, 15 to 11 million but, you know, I don't think you're worried about the fine point, sir.

MR. BRIAN MERONEK: No. What I'm wor -- what I want clarification of is this. It was a re-assessment. It -- it wasn't a question of Centra having paid too much in municipal taxes.

MR. DARREN RAINKIE: That -- that's correct. It was a general re-assessment that happened in 2010. And as a result of that, without getting into too much of the technicalities, I -- I think I can explain it at a high level here. What happen -- what's happening is Centra's plant was increasing -- the value of Centra's plant was increasing at a lesser rate than the less -- than the rest of the real property that was being valued so our taxes went down as a result.

MR. BRIAN MERONEK: Okay. So just so that I am clear on the record, it wasn't a case of -- of Centra having paid too much. There was a re-assessment and then an entitlement for a refund in taxes.

MR. DARREN RAINKIE: Yes. Yes. Some of the burden was shift on -- shifted to other real property because it was going up at a higher rate than Centra's property, as -- as the normal practice of setting municipal taxes is.

MR. BRIAN MERONEK: I'll try it one (1) more time. Centra wasn't entitled to a refund of taxes.

MR. DARREN RAINKIE: No. No. There was no refund in this.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Just for the clarity of the record to our understanding on the panel here is that we pay property taxes on the gas side, not grants in lieu of taxes. But as we discussed with Mr. Peters, it's still calculated the same way. It doesn't make -- make a difference in terms of the quantum.

MR. BRIAN MERONEK: Well, that's going to alter my argument a whole bunch. Thank you, Mr. Rainkie, panel members, and members of the Board. I'm -- I'm finished for today.

THE CHAIRPERSON: Thank you, Mr. Meronek. I do have some questions of my own, so I wanted to have a go at them if you don't mind before we adjourn.

I'll start off by -- by a statement, and we've gone over this before through -- in previous days of hearing. You know, I -- I would appreciate receiving updated financial statements from Manitoba Hydro, and I -- and -- and in particular the audited consolidated financial statements that we received that are generated by Manitoba Hydro that tend to come in late.

And, you know, we do read them. In fact, I do them -- read them very closely. And so do the other members of this panel and the Board. So it would be very useful to us to receive those statements as early as possible, recognizing that, you know, you have a responsibility to table them to your Board but also to the legislature.

But, you know, if there's some way in which we can access those documents early on. And I would say that's true, as well, of quarterly statements that you generate. I realize that there's a process you follow but the earlier we can get them the better. It gives us some confidence that we have the most up-to-date information at hand before we make decisions.

So we would very much appreciate to receive those quarterly statements and financial statements as early as possible, even if it's on a confidential basis. It gives us additional comfort and confidence that we're making an appropriate decision, recognizing that much of the data tends to be longer-term data. Short-term information can have an influence on outcomes. So that's a statement.

Now, I -- in terms of the fina -- of the overall corporate strategy of Centra, you know, I -- just an observation -- I tried to scrutinize the information to try to get some sense of where Centra is going with respect to its future. And I had some inkling of that through the evidence of Mr. Prydun, who told us where they're going to be -- where you're going to be investing some dollars. And we had some inkling in the discussion around the fact that you want to change the service offering for the Burner Tip Program.

But I'm trying to understand where it is you're going in next two (2), three (3) years. It's -- it's -- it's difficult to understand by looking at the information that you have provided to us, unless you could point to a document that I've missed, that gives us an idea of where you intend to go corporately. I recognize that Centra is a small part of an overall entity, it tends to get lost in the scheme -- overall scheme of things. But we should have some sense of where -- where you intend to go.

It seems to me that it would support rate requests if we have a better understanding of the kinds of investments you intend to make and the -- the issues you face on a go-forward basis.

So, could you comment on that, Mr. Rainkie, perhaps?

MR. DARREN RAINKIE: Yeah, your -- your observation is a fair one, Mr. Chair, that because of the relative size of the Utility, we tend to concentrate a lot on the electric side of the business.

And, boy, there's been -- been a lot of back-to-the-future in this hearing already. But I think back to some previous filings that we used to do where we would actually have a piece in the front of the filing that would kind of give an overall strategic view of the Company. Maybe it's -- maybe it's time we resurrected some of -- some of our history in that regard and outline some of the initiatives that are happening.

I mean, one (1) of things that I've observed over the years is that the panel members that we've had have tended to be dominated by accountants and, you know, and financial people trying to explain the -- the Company. It's nice to have Mr. Prydun and others here from the operational side that actually touch the customers and -- and explain what's going on out there.

And so that's a fair observation, something we should perhaps rectify in our next -- next filing in front of the -- the Board.

THE CHAIRPERSON: It certainly would help us to understand the underpinnings of -- of the application.

I might add that the other aspect that I would comment upon is the issue of risk. And, you know, there's -- there's a short page on -- in the financial statements, consolidated financial statements -- I'm looking to page 52, that describes the risks that are faced by the Corporation overall.

But there's, frankly, very little mention of the risks that are faced by Centra. And if the goal is to achieve a higher level of retained earnings, I -- I personally believe that understanding the risks you face and how those risks might impact on retained earnings, would -- would -- would be very helpful because it would help us to underpin the -- the basis on which we set appropriate retained-earnings level.

And as you know, we've had extensive discussions at the -- at the Hydro panel about, you know, what should be an appropriate level of cap -- of returned (phonetic) earnings and the drought risk --

risk you face and so on. And certainly, that's an approach that we take with MPIC. We -- we try to understand and quantify the risks so that we set an appropriate level of returned earnings.

And it seems to me that -- that a better understanding by the panel regarding the risks and -- and the quantification of those risks would helps us to arrive at the proper decision in return -- in respect of the appropriate level of returned earnings.

Recognizing it, you know, recognizing that risk is only one (1) part of a decision around retained earings, but nonetheless, I think it would help -- be very helpful.

MR. DARREN RAINKIE: Yes, Mr. Chair. That's -- that's another good observation. In fact, all been rather tied up in year end in this hearing for the last number of months. I, you know, haven't forgotten about the directive on the electric side in terms of, you know, reviewing our risks and providing information to the Board and that -- and, as it's no secret now, I've let the cat out of the bag that we're thinking about integrated hearings.

So, I -- I didn't take that directive of being just solely limited to the electric side of the business. I think we can talk about some of the risks on the gas side as well.

The difficult part of that one is in terms of quantifying. And -- and this is where we'll have to get a dialogue going. I mean, MPIC's business, of course, is to -- from an actuarial perspective, to quantify its risks on the right side of its balance sheet in terms of its liabilities.

Manitoba Hydro -- and, like, on -- in the energy business, it's a different business. And the ability to cross-quantify all the probabilities and all the risks is much, much more difficult. So I -- I'm not sure we -- we won't disappoint in terms of probabilistic analysis, and all that kind of stuff.

But -- because of -- the way I think about it is, is that -- at least, as I sit here, is when you look -- you look at targets related to capital structure; capital structure is related to risk. And usually industries have fairly narrow ranges of capital structure that they -- that they work within.

And even though you have different boards of different companies, if you look at industries, they usually fall within a fairly defined range of capital structure. Because that's the quantification of -- of risk -- is through capital structure. It's not through trying to quantify every last risk, and then saying, Well, what's the -- what's the chance that this might happen, and this might happen. So the -- the part of that directive that talks about discussing risks and -- and bringing some information back to the Board, is -- is a good one, I think.

I'm not sure that we can quantify every risk and the cross-dependency of that. So that probabilistic part of it concerns me a bit, that we might dis -- disappoint on that part of it. But -- but I think a general discussion of our -- our targets, it's probably high time that we've had them. And the risks that we see in the business is a good one. And -- and I appreciate the Board taking a higher level perspective on this, because sometimes, we do get caught in the minutia of all the questioning. So I support that.

THE CHAIRPERSON: Okay. Now, part of the role that we play as -- as a -- as a Board and as a panel is to serve as a proxy for competition. You know, given that you're a monopoly service provider, we -- we don't have competition that -- to drive the -- to drive the -- the performance of the -- of the provider. And I -- recognizing that you're competing with gas brokers and so on, but that's a very small part of the business.

And I guess the question I have is, and you don't have to answer today, Monday would be fine. In terms of, you know, in terms of looking at Centra Gas as a customer -- I'm sitting here as a customer. Okay, what am I getting from -- from Centra Gas that's new and better in the year coming -- coming up?

I'm -- I'm being asked for pay more money for the services, but am I -- can I look to -- can I point to a service that suggests to me that I'm -- I'm getting better service; I'm getting improved service; that I'm getting a -- a broader range of service delivery?

And I'm stymied, because I -- the -- what I -- what I remember, based on the hearings, is that we're -- I'm going to have to pay more for a very popular Burner Tip Program. And I -- and I -- if I look at the M -- if I look at the MPIC annual report, not -- not to compare, but, you know, the -- it would say, you know, here's the level of customer satisfaction that we're encountering. We've improved the car -- customer satisfaction levels.

We've -- so I'm trying to get a sense

of what it is that you have improved, or will be improving over the coming year, in the way in which you provide service or the range of services that you offer.

MR. DARREN RAINKIE: Let us take that under advisement, Mr. Chair, and we can perhaps, as you said, chat a bit about -- a bit more about that on Monday. That, you know, is a valid perspective. I mean, the other -- the other perspective, because you do ask me the question from time to time and I think it's a good one -- when the customer phones on the other end and says, You've allowed a rate increase, what -- what are -- why?

You know, and it -- it -- we -- we have been successful in the last number of years fo -- not having general-rate increases on the gas side, and cost pressures do build up over time. So I hope that that would be part of your response, if you were talking to the customer on -- on the other side of the line.

So, you know, these -- these applications are primarily about revenue requirements and costs. And so we are showing you our new level of costs, and -- and to continue to provide good reliable service because it's not all about just incremental service. It's -- there's an existing service there that I think we provide in a -- in a very decent manner.

And I'm not sure if, on the record of this proceeding, but I think we do have some customer surveys around customer satisfaction on the gas side of the business. And, boy, we usually found most of our important documents on the record in one (1) of these proceedings. And as I sit here, I'm not sure if it's on the record but I could -- I could, perhaps, look at that, and bring that back next week if -- if it's not on the record of this proceeding.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Peters, you had some comments?

MR. BOB PETERS: I was only going to talk about the -- the upcoming procedure, if -- if the Board had concluded its questions, sir.

THE CHAIRPERSON: Yes, we have.

MR. BOB PETERS: All right. I just wanted to put on the record my understanding of what's going to transpire going forward. And so if Ms. Boyd or Mr. Meronek or Mr. Masi have a different view, they have a brief opportunity to -- to put it on the record.

But on Monday -- well, we -- as I understand it, we will adjourn for today, and we will not sit tomorrow in respect of this hearing. We will reconvene Monday, June 24th at 9 a.m., in this hearing room, and it would be for the continuation of Consumers' Association's cross-examination of the revenue requirement panel, but refined at least, to deal with finance expense, debt management, and interest rate forecasts, I think, in particular.

So I would suggest that Mr. Meronek and Ms. Boyd could work out, who on the witness panel would be -- would be required for Monday, if there's any -- any concerns there.

So once CAC is finished Monday morning approximately with their cross-examination of the revenue requirement panel, subject to any re-examination by Ms. Boyd, the panel would be discharged.

And the next order of business would be to go back to our outline of procedures, and bring Mr. McCormick to the witness stand. Although I had him coming on the 25th, we'll just change that. He'll be here on the 24th.

And then he would testify immediately after the revenue requirement panel is released. He would provide his direct evidence through counsel for CAC. He would then be cross-examined by Centra, and then lastly by -- on behalf of the PUB.

I should alert parties, Mr. Chairman, that as thankful as they may be this afternoon for the extra time today, the Board may chose to sit a little bit later on Monday, and I say that to alert the Board that we have a hard deadline at the end of business, Tuesday, in terms of availability. So the Board's business with the CAC witnesses has to be concluded by the end of business on Tuesday.

So the Board may chose to sit a little later on Monday, depending on how the day goes, and hopefully, people are put on notice if they have family plans, including child care obligations, related to that.

Then turning to next Tuesday, the 25th, to the extent that Mr. McCormick was not finished on the Monday, he would finish on the 25th. Then Mr. Oppenheim is the intended witness from CAC, and he would again have his direct evidence through counsel for CAC followed by cross-examination, again, as outlined in the outline of procedures.

Following Mr. Oppenheim, we would adjourn until July the 5th. I think that's a Tuesday, but in any event, July the 5th in the morning at nine o'clock, we will reconvene for closing submissions. The Board counsel will have a brief -- a brief submission but the morning will belong primarily to CAC for their closing submission.

And the way it's presently scheduled, Mr. Chairman, is it would be -- it would be in the morning on July the 5th. I'm not sure if it's expected the submissions would go longer than the morning but that's what's presently scheduled.

And then on July the 9th, the Board would reconvene again at nine o'clock in this hearing room to hear the closing submission on behalf of Centra Gas.

So, Mr. Chairman, that's my outline of what the Board can expect in terms of continued procedure related to this hearing, and subject to any correction or clarifications from Ms. Boyd and Mr. Meronek or Mr. Masi.

(BRIEF PAUSE)

MS. MARLA BOYD: No, thank you.

MR. BRIAN MERONEK: I -- I think the 5th is a Friday, for what it's worth. I know it's a Friday.

THE CHAIRPERSON: There being no additional matters, I think I will adjourn today's session, and we'll see each other again on Monday morning next. Thank you very much, everybody, and have a good weekend.

(PANEL STANDS DOWN)

--- Upon adjourning at 12:59 p.m.

Certified correct,

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Bob Keelaghan, Mr.

P