

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 24th, 2013
Pages 1198 to 1399



“When You Talk - We Listen!”



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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Good morning, ladies
4 and gent -- and gentlemen. I'd like to call the
5 proceedings to order. I hope that you have had a good
6 weekend, as today and tomorrow will be planned to
7 complete the oral evidence in this Centra Gas General
8 Rate Application.

9 While we have experienced considerable
10 rainfall in the past week here in Manitoba, we are
11 mindful of the situation in Alberta, and our thoughts
12 and best wishes go out to those in Alberta who are
13 facing unprecedented and unexpected flooding. Mr.
14 Meronek will introduce us formally to Mr. McCormick
15 today, but from his pre-filed evidence, we know Mr.
16 McCormick is from Calgary, so we hope he and his
17 property have not been directly affected by the
18 rainfall. We appreciate his attendance here today and
19 expect his weekend was anything but relaxing.

20 Before I call on Ms. Boyd to advise as
21 to whether there are any documents to be filed, I want
22 to remind you of the process laid out by Board counsel
23 last Wednesday, starting on page 1,194 of the
24 transcript.

25 CAC counsel will complete the cross-

1 examination of Centra's revenue requirement panel this
2 morning. Following the conclusions of -- for the
3 revenue requirement -- revenue requirement panel and
4 any reexamination that Centra counsel may have, CAC
5 will present Mr. McCormick as the first of two (2)
6 witnesses. Following Mr. McCormick's direct evidence
7 through CAC counsel, Mr. McCormick will be cross-
8 examined by Centra and then by Board counsel.

9 As indicated last Wednesday, the Board
10 panel is available to sit later tonight to ensure the
11 CAC witnesses are concluded by the end of the day
12 Tuesday. I will ask Mr. Meronek, Ms. Boyd, and Mr.
13 Hombach to monitor the expected timelines as the day
14 proceeds and to advise the Board as to the requested
15 sitting times for tonight.

16 Mr. Oppenheim is scheduled to testify
17 Tuesday, and again counsel can advise the Board at --
18 of any time in sitting requirements beyond the usual
19 sitting hours. Before I turn the microphone over to
20 Mr. Meronek to continue his questions of Centra's
21 revenue requirement panel, I will remind the witnesses
22 that they are still under oath.

23

24 CENTRA PANEL 3, RESUMED:

25

1 DARREN RAINKIE, Resumed

2 MANNY SCHULZ, Resumed

3 GREG BARNLUND, Resumed

4 MARK PRYDUN, Resumed

5

6 THE CHAIRPERSON: I now ask Ms. Boyd
7 whether there are any -- there are any further
8 exhibits to be marked at this time? Ms. Boyd...?

9 MS. MARLA BOYD: Thank you. Yes, good
10 morning. I have three (3) exhibits which have been
11 circulated throughout the room. They are Centra's
12 response to Undertaking number 3, which was provided
13 at transcript page 297; Centra's response to
14 Undertakings number 7, 8, and 9, which are -- begin at
15 transcript page 1,067; and Centra's response to
16 Undertaking number 1, which would be beginning at
17 transcript page 188. And I would propose that those
18 be marked as Centra Exhibit 11, 12, and 13
19 respectively.

20

21 --- EXHIBIT NO. CENTRA-11: Response to Undertaking 3

22

23 --- EXHIBIT NO. CENTRA-12: Response to Undertakings

24 7, 8, and 9

25

1 --- EXHIBIT NO. CENTRA-13: Response to Undertaking 1

2

3 MS. MARLA BOYD: There's also one (1)
4 other undertaking, Mr. Chairman, that we would like to
5 speak to this morning. That actually is in response
6 to the question from you, sir, that you posed to our
7 panel on Wednesday afternoon.

8 Beginning at transcript page 1,185 you
9 indicated that you wish to understand where Centra's
10 going in the next two (2) to three (3) years, from a
11 corporate perspective, including the kind of
12 investments that Centra wishes to make and the I've --
13 issues facing the Company on a go-forward basis.

14 You also asked us at transcript page
15 1,187 for information regarding the risks faced by
16 Centra and how those might impact retained earnings
17 and, at transcript page 1,191, posed the question the
18 question from the perspective of a customer:

19 "What am I getting from Centra Gas
20 that's new and better in the year
21 coming up?"

22 You asked for a sense of what Centra
23 has improved or will be improving over the coming year
24 and the way in which we provide service or the range
25 of services that we offer.

1 There are many facets to that question,
2 Mr. Chairman, and we've addressed some of them at Tab
3 10 of the application which outlines Centra's mandate.
4 And just to remind the Board, it's to acquire, manage,
5 and distribute supplies of natural gas to meet the
6 Manitoba market requirement in a safe, cost effective,
7 reliable, and environmentally appropriate manner.

8 You've heard some evidence already
9 regarding our supply arrangements and the commodity
10 storage DSM. But the piece that's missing and the
11 subject of the undertaking relates to reliability.
12 And Mr. Prydun is prepared to speak to that in
13 response to your question, sir. Mr. Prydun...?

14 MR. MARK PRYDUN: Good morning, Mr.
15 Chairman Gosselin, panel members Ms. Kapitany and Mr.
16 Soldier, Public Utility Board, Manitoba
17 representatives, Intervenors, ladies and gentlemen.

18 To respond to the question of where
19 Centra is going in the next two (2) to three (3) years
20 and to help bring a level of understanding to the
21 technical issues and risks Centra is currently facing
22 and how we intend to address those concerns, I am
23 prepared to speak briefly on six (6) key themes: the
24 change in gas supply moisture content, pipeline
25 integrity, system reliability, load growth,

1 encroachment of pipelines, and operational work
2 practices.

3 With respect to changes in gas supply
4 moisture content, I note that the abundance of shale
5 gas in the central part of the North America continent
6 has caused a shift in gas transportation patterns of
7 the major carriers. In the past, TransCanada
8 Pipelines transported gas from Western Canada to its
9 customers in the east. Today, the TransCanada
10 Pipeline between Emerson and Ile-des-Chenes just south
11 of Winnipeg carries natural gas from the shale gas
12 production facilities in the United States region -
13 Central United States region.

14 While this natural gas is the same
15 product for Manitoba customers, the content of
16 moisture contained in the gas from this new region is
17 not as dry as we have been accustomed to. This higher
18 moisture content presents operational challenges at
19 our high-pressure regulator -- regulator stations, as
20 it has the potential to cause freezing.

21 This may, in turn, disrupt flow --
22 proper flows of gas to our customers. We anticipate a
23 requirement to increase station operations labour in
24 the short term while we study this issue, determine
25 the best operational strategy to maintain our high

1 degree of reliabil -- reliabil -- reliable gas
2 delivery to our customers.

3 This could involve piping modifications
4 or the installation of line heaters at several
5 pressure regulator stations, both of which may
6 contribute to increased capital investment.
7 Maintaining dependable station performance is
8 important to maintaining reliable gas delivery to our
9 customers.

10 With respect to maintaining pipeline
11 integrity, as you may be aware, some of Centra's
12 pipelines are approaching sixty (60) years in age. A
13 substantial amount of ga -- natural gas pipe was
14 installed in the 1960s and 1970s, when gas
15 distribution in Manitoba was rapidly expanding.

16 This buried pipe, along with Centra's
17 pressure regulation facilities and each customer's
18 meter set, are aging. And Centra now -- is now
19 facing condition issues with this older plant. Centra
20 operates several programs intended to direction
21 preserve the integrity of its pipelines, such as
22 corrosion prevention, damage prevention, and depth of
23 cover surveys.

24 Centra has initiated and completed many
25 integrity-driven projects to address aging plant

1 concerns, such as changing compression fittings, a
2 riser rehabilitation project to address leakages near
3 meters due to soil movement, and, more recently, a
4 fabricated riser project and a below-grade entry
5 project to address corrosion issues.

6 We also continue to review, observe,
7 and analy -- analyze data to identify activities that
8 should be undertaken to maintain or enhance the
9 integrity of our system.

10 Example of some act -- activities
11 currently under study are the conducting of inline
12 inspections on some of Centra's major pipelines using
13 electronic tools inserted inside the pipeline to
14 identify imperfections and developing a strategy for
15 the replacement of older regulators on customer
16 premises. These studies could lead to the requirement
17 for additional operating funds and new capital
18 projects to preserve the integrity of our distribution
19 assets.

20 While the integrity of the pipeline
21 system has always been a focus of Centra, industry
22 movement towards a more rigorous approach to integrity
23 management is a more recent development and is
24 expected to grow. This will bring an increased focus
25 on documentation, maintenance of records, analysis,

1 and initiation of integrity-related projects requiring
2 operating and capital funding.

3 Our goal is to maintain the integrity
4 of our pipeline system to provide safe, reliable gas
5 delivery to our customers. With respect to system
6 reliability, the loss of a key pipeline can cause a
7 major outage to tens of thousands of customers and
8 would require a significant operational emergency
9 management effort to restore gas supply to all
10 affected customers.

11 There have been very few events in the
12 past because we maintained the integrity of the
13 pipeline system to reduce the probability of such
14 events occ -- occurring. However, to be prepared in
15 the event of a major outage Centra is studying its
16 system operating characteristics and undertaking
17 simulation studies on pipeline performance to identify
18 where our system is robust and where we are
19 vulnerable.

20 This will lead to an assessment and
21 consideration of options to increase the reliability
22 on our main pipeline feeders. In Winnipeg and Brandon
23 where we have multiple pipelines delivering gas to our
24 distribution network, maintaining an adequate supply
25 for homes and businesses during the loss of a single

1 main feeder pipeline would be a key measure of
2 reliability on these systems.

3 Centra may determine that it is
4 necessary to install additional pipelines or
5 facilities to better enable us to respond in the event
6 of the loss of a feeder pipeline to a large customer
7 base. Having a robust system with operational
8 flexibility helps to maintain the reliability of the
9 gas supply to our customers.

10 Regarding load growth, while Centra has
11 seen a steady increase in the number of its customers,
12 the aggregate load on the distribution system has not
13 been increasing due to the provision of energy
14 conservation programs and demand-side management.
15 Although this is observable on a system wide basis,
16 some geographic specific areas in Manitoba are
17 experiencing accelerated growth in both the number of
18 customers and the volume of gas customers require.

19 Meeting the increased load for existing
20 customers and providing service to new customers has
21 been accomplished using our existing capacity with the
22 addition of some minor system betterment projects.

23 Recognizing that we are approaching the
24 capacity limits on some major supply arteries that
25 were built decades ago, Centra is developing a longer-

1 term view to address the strategy and capacity of some
2 major feeder pipelines. We are also studying
3 alternatives to reinforce or supplement these major
4 supply pipelines to accommodate continued growth.
5 This could lead to significant pipeline investment in
6 the future in order to provide necessary capacity for
7 current customers, future load growth, and the
8 addition of new customers.

9 With respect to the concern of
10 encroachment on pipelines, as Winnipeg and surrounding
11 areas continues to expand, new housing developments
12 and businesses are being constructed closer to
13 Centra's high-pressure pipelines. Such development
14 adjacent to these pipelines, while meeting regulatory
15 codes, is still not preferred from a risk-management
16 perspective.

17 Centra monitors these developments and
18 evaluates alternatives in conjunction with other
19 pipelines' system plans and urban development
20 planning. This may lead to changes, modifications, or
21 relocations in the future with the objective of
22 maintaining safe operations and a reliable gas supply
23 to our customers.

24 Centra continues to adopt a number of
25 work practices directed at public and employee safety

1 that have an operational and financial impact to our
2 gas operations. Some examples include the more
3 widespread use of soft diving -- digging techniques to
4 protect buried plant, changes to excavation shoring
5 regulations to ensure employee safety, and the use of
6 fire-resistant clothing. All of these work practices
7 have a direct impact on Centra's operating budget.

8 Centra also recognizes the importance
9 of a highly trained and competent workforce and will
10 therefore make the necessary increases to its
11 operating budget for workforce training.

12 The adoption of trenchless technology,
13 also known as directional drilling, it now enables
14 contractors and internal crews to construct below
15 grade installations such as pipelines, cables, and
16 fibre optics with minimal surface disruption.
17 However, it does increase the requirement for
18 additional field labour with the obligation to provide
19 a more comprehensive on-site safety watch.

20 In the years ahead, these emerging
21 technical issues are expected to require additional
22 capital investment. There also appears to be a
23 stronger acknowledgement that a growth and operating
24 expenditures is a function of not just wage and salary
25 increases, but also the need to train staff to greater

1 degrees to remain compliant with our work practices
2 and to perform our work using better safety procedures
3 to preserve public and employee safety.

4 In response to the question of what new
5 or incremental benefits Centra customers can expect
6 arising from this Application, and from anticipated
7 future operating and capital funding for technical
8 needs, one must consider the objectives of proper
9 engineering, construction, and operations practices.

10 It is our goal that customers to
11 continue -- continue to enjoy a safe and reliable
12 supply of natural gas to their homes and businesses
13 with the peace of mind that all technical issues are
14 being addressed in a competent manner as they arise.

15 The incremental benefit Centra
16 customers will receive from increased funding is a
17 level of confidence that a highly regarded technical
18 team is re -- is equipped to develop and maintain
19 distribution natural gas plant in Manitoba so that
20 service levels to customers will not be compromised.

21 From our perspective, Mr. Chairman, we
22 want customers to take us for granted. We will manage
23 the supply and distribution of natural gas such that
24 customers do not have to be concerned with the safety
25 or availability of supply. It is the absence of

1 outages or incidents that means we are doing our jobs
2 well such that customers can be confident that a safe
3 and reliable supply of natural gas is available to
4 them when they turn up the thermostat or turn on their
5 natural gas appliances.

6 Centra's challenge will be to continue
7 to provide that safe and reliable service in a cost-
8 effective manner, recognizing some of the technical
9 issues and challenges that I have outlined.

10 MS. MARLA BOYD: Thank you, Mr.
11 Prydun.

12 Mr. Chair, as we carry on there's two
13 (2) more undertakings that are now printed and
14 available for filing if you're prepared to have me
15 file them. They would be the response to Centra
16 Undertaking number 6, which was taken at transcript
17 page 827. We propose to mark that as Exhibit number
18 14. And Centra Undertaking number 10, which is from
19 transcript page 1,150, and we propose that that be
20 marked as Exhibit 15. And subject to my check, I
21 believe that that will complete all of Centra's
22 undertakings.

23

24 --- EXHIBIT NO. CENTRA-14: Response to Undertaking 6

25

1 --- EXHIBIT NO. CENTRA-15: Response to Undertaking 10

2

3 MS. MARLA BOYD: And just before I
4 turn the mic over to Mr. Meronek, there is one (1)
5 matter Mr. Schulz -- three (3) matters, actually, Mr.
6 Schulz would like to speak to in terms of clarifying
7 items that he took subject to check on June the 18th.
8 So if we could have just a moment with Mr. Schulz.

9 It would be useful, I think, for the
10 Board to have in front of them Centra's rebuttal
11 evidence which will help in understanding Mr. Schulz's
12 comments. And that was Centra's Exhibit 4-2, if you
13 have it available. And I did note it's actually in
14 Mr. Hombach's book of documents that I expect will be
15 marked this morning at Tab 64. And I would also ask
16 that you have available Centra's response to
17 CAC/CENTRA-1-18 Attachment 1, and CAC/CENTRA-1-19.

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: Thank you.

22 MR. MANNY SCHULZ: Well, good morning,
23 Mr. Chairman, members of the Board, all interested
24 parties. As indicated by Ms. Boyd, I just have a few
25 housekeeping matters I'd like to take care of first of

1 all.

2 I'd like to first of all take you to
3 page 21 of 26 in the rebuttal if I could, please? And
4 you will note that in this portion of the rebuttal you
5 will see descriptions of recent Centra financings.
6 And in the transcript on page 953 lines 24 to 25 I
7 stated that:

8 "We took out some new debt as we
9 converted accumulated balances with
10 CG-9 and, I think, CG-13."

11 And in order to clarify the record you
12 can see in Section 2.8 in the document that CG-4 was
13 refinanced with CG-13, and as described in the middle
14 of the page in Section 2.9 the issuance of new long-
15 term debt was with CG-14.

16 Then regarding the \$30 million of new
17 financing that's scheduled in IFF-12 to occur in March
18 of 2014. Mr. Peters and I had a brief discussion on
19 the record on pages 954 and 956 of the transcript
20 regarding the quantification of interest expense that
21 would flow through to the 2013/'14 test year. And I
22 can confirm that IFF-12 has new forecasted financing
23 scheduled for March 31, 2014. And in accordance with
24 our convention interest does not start to accrue until
25 the following day, which in this case would take us to

1 April 1, 2014, which would put us outside of the
2 2013/'14 test year. So just as a bit of a
3 clarification to the record on that.

4 And in the transcript on page 949 lines
5 24 and 25, I think this was in a conversation, Mr.
6 Chairman, between you and I. When indicating the
7 amount that would be left in short term debt after the
8 scheduled \$30 million conversion of short to long-term
9 debt on March 31, 2014.

10 I said, subject to check, it leaves, I
11 think, 17 or \$18 million. So just as a point of
12 clarification, if you would go to CAC/CENTRA 1st Round
13 18, Attachment 1, page 4 of 8, and that schedule shows
14 the actual and forecasted quarter ending balances of
15 short-term debt, floating-rate debt, fixed-rate debt.

16 And when looking at the first row,
17 called, "Short-term debt," and working across the page
18 to the far right, you'll see that the balance for the
19 quarter ending March 2014 is 9.149 million. And just
20 for the record, that also indicates that the
21 percentage of short and -- short-term and floating-
22 rate debt at the end of March 31, you can see that in
23 the green shading shortly below that is at 17.7
24 percent.

25 So, Mr. Chairman, this was in reference

1220

1 to the conversation we had about how much of that 30
2 million should be floating. And the conversation
3 there was pertaining to -- we wanted to keep within
4 the target range. So you can see the -- the
5 information there in that table.

6 So unless there's any further
7 questions, this concludes my clarification comments.
8 Thank you.

9

10 (BRIEF PAUSE)

11

12 MR. SVEN HOMBACH: Mr. Chairman,
13 barring any further comments from Ms. Boyd, this might
14 be an opportune time to introduce Board counsel's
15 supplementary book of documents as an exhibit. I have
16 handed it out to everyone this morning. I understand
17 that this would be Exhibit PUB 13.

18

19 --- EXHIBIT NO. PUB 13: Board counsel
20 supplementary book of
21 documents

22

23 THE CHAIRPERSON: I don't believe
24 there's any other business to be conducted.

25 MS. MARLA BOYD: No. Thank you, Mr.

1 Chair.

2 THE CHAIRPERSON: So, Mr. Meronek,
3 good morning. Finally we get to you.

4

5 CONTINUED CROSS-EXAMINATION BY MR. BRIAN MERONEK:

6 MR. BRIAN MERONEK: Is it still
7 morning? Just before we start, some roster items.
8 First of all, I'm sure Mr. McCormick will speak for
9 himself with respect to your kind words. Mr.
10 McCormick's present, sitting behind me. I can advise
11 the Board it wasn't a very good weekend.

12 Mr. McCormick advises me he is on high
13 ground but very close to the Elbow River, where there
14 was catastrophic damage, so. I don't know about
15 anybody else, but I'm glad he made it here.

16 Secondly, Mr. Masi is not here today.
17 He is preparing for tomorrow. He'll be doing the --
18 the direct of Mr. Oppenheim. I see no reason why we
19 cannot complete our evidence both today and tomorrow
20 within the confines of regular hours. So call me a
21 liar at the end of the day, but I -- I don't see any
22 problem at this point in time.

23 And I think that's about it for my
24 housekeeping. Ms. Desorcy should be here later on
25 this afternoon, as well. But I will be confining my

1 questions this morning to the financial forecasting
2 components.

3 So good morning, panel. I expect to be
4 addressing most of my questions to Mr. Schulz if Mr.
5 Rainkie will let me.

6 Mr. Schulz, is it fair to say this is
7 your first gas -- Centra Gas GRA as a witness?

8 MR. MANNY SCHULZ: Good -- good
9 morning, Mr. Meronek. And best wishes to you, Mr.
10 McCormick. Yes, this is the first time that I've
11 testified at a Centra GRA.

12 MR. BRIAN MERONEK: But you did
13 testify in the 2010/'11 Manitoba Hydroelectric GRA,
14 correct?

15 MR. MANNY SCHULZ: Correct.

16 MR. BRIAN MERONEK: As well as the
17 2013/'14 Manitoba Hydroelectric GRA?

18 MR. MANNY SCHULZ: Correct.

19 MR. BRIAN MERONEK: I notice from your
20 CV, which is part of Centra Exhibit 5, that you joined
21 Manitoba Hydro in 2006, correct, as a corporate
22 controller?

23 MR. MANNY SCHULZ: Correct.

24 MR. BRIAN MERONEK: And then you
25 became corporate treasurer in 2008?

1 MR. MANNY SCHULZ: Correct.

2 MR. BRIAN MERONEK: In connection with
3 the 2009/'10 and 2010/'11 Centra Gas GRA, did you have
4 any involvement directly or indirectly in that
5 application?

6 MR. MANNY SCHULZ: As indicated, I did
7 not testify at the time that I was back row to the
8 individuals that were testifying. And I did have a --
9 a hand in preparing some of the Information Requests
10 and preparing the panel for their testimony.

11 MR. BRIAN MERONEK: Did you have any
12 involvement in the directives that arose out of Board
13 Order 120/'09 directly or indirectly?

14 MR. MANNY SCHULZ: The directives out
15 of Board 128/'09 for which I would have either direct
16 or indirect responsibility would have been Directives
17 9 and 10. Number 10 pertaining to the true-up would -
18 - would have been directly in my area in treasury.
19 And Directive number 9 pertaining to interest rate
20 forecasting is an area that I had indirect
21 responsibility for, because economic analysis does not
22 report into treasury. However, I can take on that
23 subject matter.

24

25 (BRIEF PAUSE)

1 MR. BRIAN MERONEK: For the purposes
2 of this hearing, did you have responsibility directly
3 or indirectly in terms of the preparation of the
4 Centra Gas Information Request responses to the Board
5 NCAC?

6 MR. MANNY SCHULZ: Yes, pertaining to
7 matters of interest rate forecasting, finance expense,
8 debt management. All of those matters would have
9 either been directly performed in my area, or I would
10 have reviewed them prior to them being put on the
11 record.

12 MR. BRIAN MERONEK: So it would have
13 been under your direction and/or control?

14 MR. MANNY SCHULZ: Understood, yes.

15 MR. BRIAN MERONEK: What about with
16 respect to the rebuttal evidence?

17 MR. MANNY SCHULZ: Also under my
18 jurisdiction.

19 MR. BRIAN MERONEK: Now, you have
20 described yourself in these proceedings at page 970 as
21 a 'practitioner'.

22 Could you describe what you mean by
23 'practitioner'?

24

25 (BRIEF PAUSE)

1 MR. MANNY SCHULZ: Well, I think those
2 that would know me would know that I have a
3 theoretical bent. I love to do research having
4 researched Bank of Canada documents and so on.

5 But at the end of the day I am the
6 treasurer for the Corporation, for Manitoba Hydro as
7 well as for Centra. And as a practitioner, you know,
8 I live -- I live in the real world of what can be
9 executed, what can't be executed. We look at real-
10 time financial market indications.

11 So from a practitioner's perspective
12 it's -- it's really the combination of what can be
13 best put into play from what is best understood to be
14 theoretical constructs, but the -- living in the real
15 world, putting it into play in terms of what can be
16 executed, what can't be, what are the best terms and
17 conditions to do so.

18 MR. BRIAN MERONEK: And as treasurer,
19 could you describe what your function is?

20 MR. MANNY SCHULZ: As treasure, I
21 mean, it's a variety of functions. It ranges from
22 ensuring that we have proper liquidity and cash
23 management for the Corporation and for subsidiaries
24 such as Centra. We look from a financial market's
25 perspective at looking at managing the interest rate

1 risk, the foreign exchange risk, the liquidity risk
2 for the Corporation. We work with the Province of
3 Manitoba in terms of executing the long-term debt
4 financings. We perform all of the short-term debt
5 undertakings and -- and executions within treasury.

6 I mean, those are broadly sort of
7 standard-fare treasury matters. Also, in terms of
8 other responsibilities, look at and work in
9 combination with the -- the good people we have in
10 economic analysis department, and -- and seeing that
11 there's good integration of information flows moving
12 back and forth between our entities.

13 Also look -- look and work very closely
14 with the corporate controller area in terms of any
15 accounting hedges that might pertain, perhaps not so
16 relevant to the Centra finances but certainly with
17 respect to the Manitoba Hydro, and ensure that from an
18 accounting perspective that the financings are done in
19 a proper manner.

20 Those are sort of the highlights of it,
21 but those are standard fare treasury matters to make
22 sure that we have proper cash management, and we take
23 care of interest rate risk, foreign exchange risk, and
24 liquidity risk for the Corporation.

25 MR. BRIAN MERONEK: So it would be

1 fair to say in -- in two (2) words if you had to
2 condense it down, you -- you're really a -- an
3 overseer of -- of risk management as it relates to the
4 finances of the Company?

5 MR. MANNY SCHULZ: I don't think that
6 I would contract it quite to that degree, I think I
7 hold to what I had just spoken to. I mean, like I
8 said, we do in treasury manage the Corporation's
9 interest rate risk, foreign exchange risk, and
10 liquidity risk among other activities, cash
11 management. So I wouldn't condense it down to two (2)
12 words, sir.

13 MR. BRIAN MERONEK: All right, but you
14 would include risk management in that description?

15 MR. MANNY SCHULZ: As indicated, the
16 -- the risk management portion that we manage in
17 treasury would be interest rate risk, foreign exchange
18 risk, and liquidity risk. There are other risks in
19 the Corporation which is why a little bit hesitant to
20 -- to take the broader umbrella of risk manager for
21 the Corporation.

22 MR. BRIAN MERONEK: Now when it comes
23 to issuing debt and, specifically, assignments to
24 Centra from Manitoba Hydro, who plays a role in making
25 that determination, is it you or is it a combination

1 of people?

2 MR. MANNY SCHULZ: So just as a point
3 of clarification, Mr. Meronek, are you referring to
4 the actual issuance of debt by Manitoba Hydro or the
5 assignment?

6 MR. BRIAN MERONEK: Well, both.

7 MR. MANNY SCHULZ: Okay, so let's
8 piece this apart and answer it one (1) at a time
9 perhaps if -- if that's will be working for you.

10 MR. BRIAN MERONEK: That seems
11 logical.

12 MR. MANNY SCHULZ: Okay. So first of
13 all, for long-term debt, Manitoba Hydro works closely
14 with the Province of Manitoba in determining what
15 types of issuance that we would be looking for, what
16 term, will it be fixed, will it be floating, will it
17 be Canadian issuance, will it be US dollar issuance
18 and so on. The province for long-term debt undertakes
19 all of the financings and provides advances to us.

20 The recommendations come from Manitoba
21 Hydro from the treasury area through the authorization
22 end and approval of the vice president's position, and
23 then we meet with the province and we execute those
24 long-term debt.

25 For short-term debt, however, just for

1 the record Manitoba Hydro does issue our short-term
2 debt on our own and so that we don't need to go
3 through the advanced process through the province of
4 Manitoba.

5 With respect to the assignment, there
6 again the recommendations are made from the treasury
7 division for the assignments of the originating issues
8 that are generated out of Manitoba Hydro's portfolio.
9 And for the assignments, the recommendations are made
10 by treasury, forwarded on to the chief financial
11 officer, or now the vice president of Finance and
12 Regulatory, for approval and assignment for record
13 keeping.

14 MR. BRIAN MERONEK: So in terms of
15 assignments to Centra you would be -- it would firstly
16 be your department's recommendation?

17 MR. MANNY SCHULZ: It would be the
18 treasury division's recommendation based on the
19 analysis and work that we would have performed, and
20 then based on those recommendations we would have
21 forwarded that on for approval for -- as I indicated,
22 to the chief financial officer or to the vice
23 president of finance role.

24 MR. BRIAN MERONEK: Do you have any
25 guidelines you use to determine how, when, and how

1 much and for how long debt gets assigned from Manitoba
2 Hydro to Centra?

3 MR. MANNY SCHULZ: The policy and
4 guideline constraints and mechanisms that we have for
5 Centra during the assignment generally follow
6 harmonization to the overall debt management approach
7 that we have for the Corporation.

8 A good example of that would be even as
9 we discussed or I clarified this morning with respect
10 to fixed- and floating-rate debt. We have a policy at
11 the corporate level that we cannot have short-term and
12 -- the combination of short-term and floating-rate
13 debt exceed 30 percent, and we try to stay within the
14 target of 15 to 25 percent.

15 So that is a policy and/or guideline
16 target issue that we look at when we are not only
17 issuing debt into the marketplace, working at Manitoba
18 Hydro at the debt origination, but also under
19 assignment. So for instance at March 31, 2014, that's
20 part of the consideration when we looked at the -- the
21 forecasting of how much of that \$30 million tranche
22 would be fixed and how much would be floating.

23 MR. BRIAN MERONEK: There are some
24 examples of policy in that regard, and you've --
25 excuse me -- identified one (1). Is there a document

1 somewhere that one could look at to identify these
2 guidelines and policies when it comes to assigning
3 debt to Centra from Manitoba Hydro?

4

5 (BRIEF PAUSE)

6

7 MR. MANNY SCHULZ: Much like I think
8 you would find at the Manitoba Hydro level, we have
9 guidelines in -- in place. And you can read the debt
10 management strategy. You can see that there are many
11 different moving parts and considerations that we do
12 have. And so the assignment generally follows along
13 the same kind of management principles that we have.

14 The -- the assignments of long-term
15 debt and the utilization of short-term debt for Centra
16 are in accordance with corporate practices, and -- and
17 practices and guidelines that we've had long-standing
18 and established. The best codification I could
19 suggest to you would be that, from a strategy and
20 practice perspective, can be found in the debt
21 management strategy.

22 MR. BRIAN MERONEK: But there's no
23 discrete document that you can identify which would be
24 specific to Centra's needs?

25

1 (BRIEF PAUSE)

2

3 MR. MANNY SCHULZ: Again I would point
4 you back to the debt-management strategy. There are
5 lots of moving parts to these things, and many times
6 the policies and guidelines require balance and -- and
7 so on.

8 So, again, the target range on fixed
9 and floating is -- it's a target range. We had a
10 target range for the amount of refinancing as a -- as
11 a guideline, to have no more than 15 percent of debt
12 maturing within one (1) year -- guidelines, and so
13 when we look at our debt maturity schedule, when we
14 look at the percentage of fixed and floating, when we
15 look at terming decisions, we try and keep all of
16 these things in balance.

17 And so having a highly prescriptive
18 process in that regard, you know, I would suggest we
19 point to the debt management strategy. It gives a
20 good sense of balance to those measures.

21 MR. BRIAN MERONEK: So I take it the
22 answer to my question is, No, you do not have a
23 discrete document that identifies the strategies,
24 policies, and guidelines with respect to debt issue as
25 it specifically relates to Centra?

1 MR. MANNY SCHULZ: I would disagree.

2 As indicated, it's the debt management strategy, and I
3 think it's included as an attachment to CAC/CENTRA-4 -
4 - 14, rather.

5 MR. BRIAN MERONEK: That's an overall
6 debt strategy management of Manitoba Hydro, right?

7 MR. MANNY SCHULZ: And included for
8 Centra, and we do look to harmonize Centra's
9 approaches in with Manitoba Hydro.

10 MR. BRIAN MERONEK: Now, prior to
11 joining Manitoba Hydro in 2006 in your prior life,
12 were you involved in any risk manage -- financial
13 risk-management endeavours for the people with whom
14 and for whom you were employed?

15 MR. MANNY SCHULZ: Well, I think that
16 the hallmark of any financial professional is dealing
17 with risk matters. So the answer would be that, be it
18 as vice president of finance for Dow Bio Products, be
19 it as chief financial officer for GB Architects in my
20 prior working capacities, I -- I think I would have
21 been a risk manager for some of the financial
22 considerations that we would have been working with at
23 that time.

24 Certainly different context than I'm
25 dealing with now, but very familiar with the concepts

1 of financial risk. And -- and as an accountant and as
2 a executive and -- and a person working in this area,
3 that's very normal and -- and part of the job.

4 MR. BRIAN MERONEK: In your prior
5 life, being employed with the GBR Architects, were you
6 involved in any dead issuings?

7 MR. MANNY SCHULZ: No long-term debt
8 issuance for GBR Architects, no.

9 MR. BRIAN MERONEK: And with respect
10 to Dow Bio Products Ltd., that's that particle board
11 company that's in Elie?

12 MR. MANNY SCHULZ: That was the straw
13 board plant out in Elie, Manitoba.

14 MR. BRIAN MERONEK: And which is no
15 longer in existence?

16 MR. MANNY SCHULZ: Which is no longer
17 in existence.

18 MR. BRIAN MERONEK: And you didn't do
19 any dead issuing for Dow Bio Products Ltd.?

20 MR. MANNY SCHULZ: Correct. But I
21 will say, therefore, Dow Bio Products's matters of
22 issues for us were, again, liquidity risk, foreign
23 exchange risk. We did look at interest rate risk. We
24 -- there were different matters in different context.
25 But clearly -- clearly in that capacity, I mean, we're

1 looking at financial risks.

2 MR. BRIAN MERONEK: Now, I want to
3 concentrate for the next little while on the
4 directives that were issued out of Board Order
5 129/'09. And one which was under your guidance, I
6 believe you indicated, was Directive 9, correct?

7 MR. MANNY SCHULZ: Directive 10,
8 pertaining to the true-up, was one (1) in my area.
9 Directive 9 was to do with interest rate forecasting.
10 I can speak to both of them, whichever move order you
11 would like, sir.

12 MR. BRIAN MERONEK: I'm not so
13 interested in 10. I'm interested in 9. And what I'm
14 going to do is prevail upon you to have before you
15 CAC/CENTRA-1-10 Information Request response. I'll be
16 going through that.

17 MR. MANNY SCHULZ: I have that, sir.

18 MR. BRIAN MERONEK: Was that
19 particular Information Request response authored under
20 your direction and approval?

21 MR. MANNY SCHULZ: Yes.

22 MR. BRIAN MERONEK: You would have
23 read Board Order 128/'09, I would assume, at the time
24 it was rendered or shortly thereafter?

25 MR. MANNY SCHULZ: Correct.

1 MR. BRIAN MERONEK: And you will have
2 noted in Board Order 128/'09 -- and I'll direct you to
3 page 136.

4

5 (BRIEF PAUSE)

6

7 MR. BRIAN MERONEK: Do you have that,
8 sir?

9 MR. MANNY SCHULZ: I do.

10 MR. BRIAN MERONEK: You will have seen
11 that that particular item, number 9, with respect to
12 forecasting methodology was an order of the Board, not
13 a recommendation.

14 Would you agree with that, sir?

15 MR. MANNY SCHULZ: What came out of
16 Board Order 128/'09 is a directive.

17 MR. BRIAN MERONEK: It was an order of
18 the Board.

19 Will you agree with that, sir?

20

21 (BRIEF PAUSE)

22

23 MR. DARREN RAINKIE: Mr. Meronek, do
24 you mind if I take the muzzle off for a second? Mr. -
25 - Mr. Schulz is responsible for many things at

1 Manitoba Hydro and Centra, but regulatory compliance
2 is not necessarily one (1) of them. So, yes, we would
3 look at that as an order of the Board. It's in the
4 ordering paragraph.

5 And good morning, Mr. Chairman, members
6 of the Board, ladies and gentleman. And good morning,
7 Mr. McCormick. I'm glad to see --

8 MR. MERONEK: Thank you, sir.

9 MR. DARREN RAINKIE: -- you arrived
10 safely to Manitoba.

11

12 (BRIEF PAUSE)

13

14 MR. BRIAN MERONEK: Now, the order of
15 the Board that I'm interested in is '09-D:

16 "A process to retrospectively test
17 the accuracy of forecasters to
18 assess the inclusion in future
19 forecasts."

20 Is that a -- an order that you would
21 have been responsible, Mr. Schulz, for dealing with?

22 MR. MANNY SCHULZ: That matter would
23 have been undertaken within our Corporation in the
24 economic analysis area.

25

1 (BRIEF PAUSE)

2

3 MR. MANNY SCHULZ: It was an area that
4 was undertaken with the economic analysis department
5 within our Corporation. That being said, I -- I
6 certainly was a highly interested individual and party
7 to that and can speak to it.

8 MR. BRIAN MERONEK: Would the buck
9 have stopped with you on that particular aspect?

10 MR. MANNY SCHULZ: Well, as treasury
11 the -- treasurer, the buck stops with me on many
12 matters. The undertaking would not have been taken on
13 by treasury, per se. However, in response to this
14 Information Request as you have in CENTRA/CAC-10, as
15 well as the testimony that I've provided in the past,
16 I can take -- accept, you know, responsibility for
17 that.

18 MR. BRIAN MERONEK: Now, after Board
19 Order 128/'09 was issued on Sept -- in September of
20 '09, there was a -- an update, if I can call it that,
21 which has been referred to in -- on page 2 of CENTRA-1
22 da -- Centra -- sorry, CAC/CENTRA-1-10. And that's a
23 confirmation of interim orders in response to PUB
24 directives.

25 And there's a specific reference to

1 Directive number 9 and how -- and what progress Centra
2 had made, and that was December 18th, 2009. Do you
3 have that directive in front of you, sir? Page 3 of
4 7.

5

6 (BRIEF PAUSE)

7

8 MR. MANNY SCHULZ: Excuse me, sir, I -
9 - I can't quite locate the page.

10 MR. BRIAN MERONEK: For ease of
11 reference, certainly on page 2 of 6 of the response
12 there's a reference to part of the -- Centra's reply
13 to that directive. But let me just read you the prior
14 sentence. And it says, and I quote, "The directive
15 requires Centra to file this for review," and that --
16 that's referenced back to a revised interest rate
17 forecasting methodology for rate-setting purposes.
18 And I repeat:

19 "The directive requires Centra to
20 file this for review and approval
21 prior to the next general rate
22 application."

23 Will you accept that, sir, that I can
24 read accurately?

25 MR. MANNY SCHULZ: Again, it would be

1 helpful to know where you're reading that from, sir.

2 MR. BRIAN MERONEK: It's page 3 of 7
3 of Tab 9 of the Centra Gas 2010/2011 cost-of-gas
4 application, and it's referenced in Information
5 Requisition number 10.

6 MS. MARLA BOYD: Sorry, Mr. Meronek,
7 we're not following the same page as you are. The
8 response to CAC/CENTRA-1-10 consists of six (6) pages?

9 MR. BRIAN MERONEK: That -- yes. And
10 on page 2 there's a reference to Centra's response to
11 Directive number 9, and there's a quote and then a
12 source. And I've -- I've read the sentence before the
13 quote.

14

15 (BRIEF PAUSE)

16

17 MS. MARLA BOYD: Sorry, item number 2
18 begins on December 18th, 2009, "Centra provided the
19 following status update." Is that where you're
20 reading from?

21 MR. MANNY SCHULZ: Yes.

22 MS. MARLA BOYD: Okay. Perhaps you
23 can pose your question again; I think we're with you
24 now.

25

1 CONTINUED BY MR. BRIAN MERONEK:

2 MR. BRIAN MERONEK: Right. There is a
3 reference to Centra's response and it starts with:

4 "Work has progressed on enhancing
5 the interest rate forecasting
6 methodology and Centra plans to file
7 a report on this matter in advance
8 of its next general rate
9 application."

10 Do you see that, sir?

11 MR. MANNY SCHULZ: I see that.

12 MR. BRIAN MERONEK: Was a report filed
13 prior to this particular hearing?

14 MR. MANNY SCHULZ: Well, I think some
15 context is in order here. I mean, what's the report?
16 Is it a capital-'R' report that's bound and -- and
17 distributed in five thousand (5,000) copies, or is it
18 also included in all of the deliberations that would
19 have occurred very extensively at the intervening
20 general rate applications and in the -- the
21 Information Requests that have been supplied.

22 The information as at December 18,
23 2009, indicated that we had been working on all of the
24 adjustments for average and end of period and all
25 those matters. And I would suggest to you that all of

1 the matters, perhaps outside of number 'D', were all
2 taken care of and completed.

3 The filing of the report, if one were
4 to look at the context of the subsequent electric GRAs
5 -- there were two (2) of them -- to where we are today
6 there has been extensive deliberations both in written
7 form as well as on transcript, on the record, that
8 describes, I think, fairly clearly Manitoba Hydro and
9 Centra's position on these matters. So to that
10 extent, I think that we did comply to the requirements
11 to say that we provided information.

12 MR. BRIAN MERONEK: I take it the
13 answer to my question is, no, there was not a
14 separate, discrete report prepared and filed with this
15 Board, prior to this Application, dealing with
16 Directive number 9?

17 MR. DARREN RAINKIE: Mr. Meronek, as
18 outlined on these six (6) pages there was --

19 MR. BRIAN MERONEK: Is the answer
20 'yes' or 'no'? It's a simple question. Was --

21 MR. DARREN RAINKIE: Yes, there were a
22 number of reports filed, Mr. Meronek, and I would hope
23 that you would give us the courtesy that we'll extend
24 to your expert this afternoon, in terms of responding
25 to questions.

1 MR. BRIAN MERONEK: We're going to be
2 here all day, Mr. Rainkie, if I don't get a straight
3 answer. I asked a simple question whether there was a
4 specific report prepared for filing before -- before
5 this Board in accordance with what Centra said it was
6 going to do.

7 And I would ask for an answer to that:
8 Yes or no?

9 MR. DARREN RAINKIE: Yes, there were a
10 number of reports filed at a number of proceedings, as
11 is listed on these six (6) pages, Mr. Meronek. Yes.
12 The answer is yes.

13 MR. BRIAN MERONEK: Mr. Schulz, over
14 on the next page there is a reference to a letter
15 dated December 10, 2010.

16 Do you have that, sir?

17 MR. MANNY SCHULZ: I see on page 3 of
18 6 under first -- I think it's third paragraph that --
19 in a letter to the PUB, dated December 10, 2010.

20 Is that what you're referring to, sir?

21 MR. BRIAN MERONEK: Yes, sir.

22 MR. MANNY SCHULZ: I see that.

23 MR. BRIAN MERONEK: Now, the reference
24 is that the directive is complete. Do you see that,
25 sir?

1 MR. MANNY SCHULZ: Yes.

2 MR. BRIAN MERONEK: And would it be
3 fair to say, in summarizing the response to that
4 directive, in terms of completeness, only three (3) of
5 the six (6) items have been completed by Centra as of
6 that date; namely, adjustment to third-party forecast
7 data to reference comparable average data, interest
8 forecast based on statistically independent source
9 forecasts, and current forecasts are being used?

10 MR. MANNY SCHULZ: I disagree. I
11 think 9A was complete; 9B was complete; 9C was
12 complete; 9E was complete; we will talk further about
13 9F. And I would suggest to you that 9D with respect
14 to retrospective testing, our position was understood
15 and -- and we deemed it to be a settled matter.

16 MR. BRIAN MERONEK: On December 10,
17 2010, when you submitted this report I had you
18 identify to the Board the manner in which you felt
19 that item 9D had been complete.

20

21 (BRIEF PAUSE)

22

23 MR. MANNY SCHULZ: Well, Mr. Meronek,
24 it was our posit -- position that it was complete, and
25 that is why shortly thereafter we issued a rebuttal

1 that further clarified that position. And under
2 testimony as part of the electric hearing on -- on
3 January 11th of 2011, shortly thereafter, it came
4 under cross-examination by Mr. Peters, and the
5 transcript was provided.

6 And -- and again our position was well
7 articulated and I think understood by all members that
8 were there. I will note that CAC brought forth a
9 witness and -- and also deliberated very extensively
10 on this matter. And as a consequence of those
11 deliberations we received no further directive or
12 redirect from the PUB on this matter. So we consider
13 that matter then therefore to have been settled.

14 At the subsequent electric hearing --

15 MR. BRIAN MERONEK: Mr. -- you know,
16 Mr. Schulz, I -- I'm going to going through this point
17 by point by point. So if you'll -- if you'll grant me
18 that opportunity, you'll be able to respond to each
19 and every one of these facets.

20 But I'm asking the question as of a
21 certain date, and that is December 10, 2010. And the
22 answer is, I would think, on the record, that there
23 was no response to the -- the Directive 9D -- of why
24 Centra believed that cen -- that 9D had been complete
25 as of that time. Is that fair?

1 MR. MANNY SCHULZ: It was our view, as
2 I'd indicated, that the matter was complete. We
3 understood that there would be -- subject to further
4 cross-examination, which occurred.

5 And as I began to describe to you, Mr.
6 Meronek, that cross-examination did occur for all
7 interested parties, the Public Utilities Board, CAC,
8 as well as -- as your witness, that was again further
9 deliberated upon. So our matter -- our sense was that
10 -- and our view was that this matter was complete.

11 MR. BRIAN MERONEK: In the -- the
12 electric GRA, item number 4, there's a reference that
13 the subject matter of interest rate and finance
14 expense forecasting methodology, including Directive
15 9, was extensively canvassed.

16 Do you see that, sir?

17 MR. MANNY SCHULZ: I do, sir.

18 MR. BRIAN MERONEK: And by
19 'extensively canvassed', can I take it that that was
20 predicated upon your response to certain questions
21 posed to you by Mr. Peters?

22 MR. MANNY SCHULZ: Oh, I think it was
23 far more than that, sir. It was -- there would have
24 been under -- you know, there would have been
25 Information Requests in the electric hearing that

1 preceded the date of the rebuttal that would have
2 included evidence that would have been brought forth
3 by CAC's witness.

4 There would have been -- would have
5 been our rebuttal evidence at that point in time.
6 There would have been a number of considerations.
7 There would have been testimony provided by -- by the
8 panel, and myself included, at the time of the
9 electric hearing. There would have been significant
10 conversation brought forth by the witness for CAC, Mr.
11 McCormick. There was an extensive deliberation on
12 that -- on this matter. And --

13 MR. BRIAN MERONEK: Can -- can I just
14 stop you there. And it -- would it be fair to say
15 that anything to do with retrospective testing at that
16 hearing has been put on this record by Centra Gas by
17 virtue of this response?

18 MR. MANNY SCHULZ: Can you please
19 repeat the question.

20 MR. BRIAN MERONEK: Yes, sir. Would
21 it be fair to say that anything -- any discussion, be
22 it by way of Information Request responses or evidence
23 at the general ele -- sorry, the electric GRAs, would
24 have been incorporated into this Information Request
25 response?

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(BRIEF PAUSE)

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MR. MANNY SCHULZ: Mr. Meronek, you referred it -- your question rather broadly to any deliberations, I would undertake to -- to say to you that all conversations, all Information Requests, and -- and all deliberations being brought forth by not only us, but by CAC, are not necessarily on the record.

I mean, you can -- the Public Utilities Board would have access to that, of course, through their auspices with review of the information on the electric side. But did we bring forth every single shred of paper and every transcript for this Centra proceeding? No, we did not.

MR. BRIAN MERONEK: Now, you make reference to PUB/MANITOBA HYDRO-146-B which describes its revised in -- interest rate forecasting process.

Do you see that, sir?

(BRIEF PAUSE)

MR. MANNY SCHULZ: That's in the middle of page 3 of 6 with respect to CAC/CENTRA 1st

1 Round 10. Under caption number 4 we did indicate that
2 there was extensive canvassing. And just as a -- as a
3 general comment, that included a description of the
4 revised interest rate forecasting process, and it was
5 filed as PUB/MH 1st Round 46B at the electric hearing.

6 MR. BRIAN MERONEK: Will you confirm
7 for me, sir, that there's no reference to any talk
8 about retroactive testing of forecasts in that
9 particular Information Request response?

10

11 (BRIEF PAUSE)

12

13 MR. MANNY SCHULZ: Mr. Meronek, I can
14 undertake to review that and get back to you, sir. I
15 don't have that immediately in front of me.

16 MR. BRIAN MERONEK: Thank you, sir.
17 If you would.

18

19 --- UNDERTAKING NO. 10: Centra to confirm that
20 there's no reference to
21 any talk about retroactive
22 testing of forecasts in
23 Information Request
24 response PUB/MH 1st Round
25 46B at electric hearing

1 MR. BRIAN MERONEK: Will you confirm
2 for me, sir, that in the rebuttal evidence in that
3 hearing there was no reference to Manitoba -- or
4 sorry, Manitoba Hydro's position as it relates to
5 retroactive testing of forecasts?

6 Confine yourself to the rebuttal
7 evidence, sir. We'll get into the viva voce later.

8 THE CHAIRPERSON: Mr. Meronek, would
9 you mind repeating the question, please?

10

11 CONTINUED BY MR. BRIAN MERONEK:

12 MR. BRIAN MERONEK: Yes, sir. On page
13 3 of 6, Manitoba Hydro filed rebuttal evidence on --
14 on December 31, 2010. I would just like the witness
15 to confirm that there was no reference in that
16 rebuttal evidence to the retrospective testing of
17 forecasts.

18 MR. MANNY SCHULZ: You know, Mr.
19 Meronek, I'll have to take a quick look. And -- and
20 just bear with me for a minute, but I do believe that
21 our -- our rebuttal did, in fact, at that hearing,
22 indicate our view on retrospective testing in response
23 to evidence produced by Mr. McCormick, so just bear
24 with me.

25 MR. BRIAN MERONEK: If you want to do

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1 it by way of an undertaking so we can move along, that
2 would be fine.

3 MR. MANNY SCHULZ: No, I'm comfortable
4 just proceeding along. Thank you.

5

6 (BRIEF PAUSE)

7

8 MR. MANNY SCHULZ: Looking at the
9 rebuttal evidence, page 21 of 92, as filed December
10 31, 2010. And there is a section in there, and we can
11 discuss it later if you like or you -- you may want to
12 look at it at the break perhaps, forecaster accuracy
13 and pruning. And there was a discussion about
14 retrospective testing at that point in time.

15 MR. BRIAN MERONEK: Thank you for
16 that, sir. In the direct-evidence -- or, sorry, the
17 viva voce evidence, if I could summarize your exchange
18 with Mr. Peters thusly -- and I'm sure you'll correct
19 me if I don't get it properly recited -- there were a
20 few points.

21 One (1) is that I take it from your
22 evidence that you felt that -- that accuracy was an
23 important consideration with respect to forecasting?

24

25 (BRIEF PAUSE)

1 MR. BRIAN MERONEK: The issue being
2 that you didn't know how to assess it, but you were
3 not resiling from the -- the importance from having
4 accurate forecasts?

5 MR. MANNY SCHULZ: I'm just hesitating
6 with respect to the characterization, Mr. Meronek. As
7 I indicated then and I indicated even as recently as,
8 I think, last week on the record --

9 MR. BRIAN MERONEK: I just want to
10 know from this evidence at that particular time, sir;
11 I'm not interested about what you said last week.

12 In your evidence with respect to Mr.
13 Peters, will you confirm for me that you felt accuracy
14 was important; it's just that you didn't know how to
15 assess it?

16 MR. MANNY SCHULZ: Well, Mr. Meronek,
17 I was getting to that. And -- and I think that the
18 matter and in my -- from the transcript and in -- in
19 my understanding of that then as well as today is that
20 while accuracy and precision does have a certain
21 appeal, there is -- I think it's a legitimate comment
22 to say that, you know, if there was a pragmatic
23 situation: How would we do retrospective testing?

24 That was the conversation, sir, at the
25 time of the transcript, as you've requested. And it

1 remains the challenge that we face today.

2 MR. BRIAN MERONEK: So I -- I got your
3 evidence correctly, that the evidence being that
4 accuracy is of interest and importance to Manitoba
5 Hydro and Centra, but there's a -- a pragmatic problem
6 in -- in your mind as to how to accomplish that.

7 Would that be a fair summary of what
8 your position was at the time and your position today?

9 MR. MANNY SCHULZ: Just wanting to be
10 precise, sir, I -- I said on the transcript -- and
11 this is on Attachment 2 to Centra -- CAC/CENTRA-10-A,
12 Attachment 2, page 3 of 4, on lines -- on page 1,105,
13 lines 7 through 11, and under questioning from Mr.
14 Peters, I said:

15 "I think just conceptually it's of
16 interest and importance for us to
17 determine to see if there's one (1)
18 forecaster that might be better than
19 another, but how do you
20 pragmatically assess that."

21 That's the position I took at that
22 point in time. Is it a matter, did I say, it was
23 accuracy? I'd have to check through the record to see
24 if I actually specified the word 'accuracy'. But it
25 is a question of which one (1) might be better.

1 You know, is that a matter of accuracy?
2 Is that a matter of -- of long run? Is it a matter of
3 frequency of -- of providing updates? There is more
4 to it than just accuracy. But certainly, how do you
5 pragmatically assess retrospective testing was a
6 challenge that we faced then, and we still face it
7 today.

8 MR. BRIAN MERONEK: Well, if you want
9 a -- a cite for the word 'accuracy', if you could go
10 back up to page 1,104. It starts with:

11 "We were reflecting even more dip --
12 deeply on this in terms of how best
13 to forecast and how best to assess
14 accuracy of these forecasters."

15 So we -- there's no -- there's no
16 misunderstanding here, is there, Mr. -- Mr. Schulz?
17 Accuracy, in your mind, is a -- an important
18 consideration, in terms of forecasting?

19 MR. MANNY SCHULZ: Accuracy is one (1)
20 of the number of considerations that we would be
21 looking at, sir.

22

23 (BRIEF PAUSE)

24

25 MR. BRIAN MERONEK: And your -- your

1 deep reflection on the issue of accuracy has not
2 developed to the point where you have a solution as to
3 how to best assess the accuracy of forecasters.

4 Would that be fair?

5 MR. MANNY SCHULZ: Again, you're
6 mischaracterizing and putting words in my mouth. It's
7 not necessarily just about accuracy. And in terms of
8 the serious deliberations that we have undertaken, we
9 have talked to -- I have talked to chief economists.
10 I have talked to the Bank of Canada. We have taken
11 this matter on very seriously.

12 Is it a matter of just pure play
13 accuracy? It's not the -- the be-all and end-all for
14 us; it is a factor among many. So, Mr. -- Mr.
15 Meronek, you know, the characterization that it is
16 particularly or specifically accuracy that we're
17 looking at is -- is not entirely correct, from my
18 perspective. But it is a matter that we -- we did
19 take a serious look at. It's -- you know, when we
20 received the -- the Board order, it was -- it was
21 something that we looked at.

22 And it remains the challenge today, Mr.
23 Chairman, that in spite of the undertakings and the
24 good work done by ourselves and economic analysts
25 whereby we have talked to economists, I have talked to

1 the CIBC chief economist; I have talked to the RBC
2 economist: How do you assess your performance?
3 Talked to -- I've done research. Talked to the Bank
4 of Canada authors on some papers. These are serious
5 deliberations that we have undertaken in treasury,
6 along with our economic analysis people, to find out
7 what is the best path, moving forward.

8 And understand again, in the context of
9 this, that -- that interest rate forecasts have been
10 moving and the financial markets and the financial
11 crisis were a significant undertaking and a
12 consideration for all of us. And so this is a serious
13 matter. This isn't something that we're flippant with
14 or -- or trying to be dismissive of.

15 And -- and is it a challenge today?
16 Absolutely, it still remains a challenge, which is why
17 it's -- it's not something that has had a lot of
18 success both in theory and in practice. And -- and so
19 it remains a challenge today, the same as it was a
20 number of years ago when I was under transcript for
21 this item, and I hold to my position, sir.

22 MR. BRIAN MERONEK: I -- I know you
23 do, sir. You haven't brought any evidence before this
24 Board in terms of the issue of retrospective testing
25 of forecasters in the form of an expert.

1 Is that correct, sir?

2 MR. MANNY SCHULZ: Well, Mr. Meronek,
3 I would --

4 MR. BRIAN MERONEK: Yes or no, sir?

5 MR. MANNY SCHULZ: Well, the answer, I
6 think, requires a bit more broadness to it. I think
7 that --

8 MR. BRIAN MERONEK: It -- ans -- with
9 all due respect, is -- the answer is simple: yes or
10 no. You can qualify it all you want, sir.

11 But have you brought before this
12 tribunal any expert to talk about whether you can do
13 retrospective forecasting or not?

14 MS. MARLA BOYD: I think, Mr. Chair,
15 with respect, that it's important to allow the witness
16 to answer the question fully. I appreciate Mr.
17 Meronek would like a 'yes' or 'no' answer, but if the
18 question requires explanation, it's appropriate that
19 the witness be given the opportu -- opportunity to
20 explain.

21 MR. BRIAN MERONEK: I am not limiting
22 the witness in any way, shape, or form, Mr. Chairman.
23 He can qualify anything he wants. But when I ask a
24 question that requires a 'yes' or 'no' answer, I
25 expect it. If he wants to elaborate, God bless him.

1 MR. MANNY SCHULZ: Then please ask the
2 question again.

3

4 CONTINUED BY MR. BRIAN MERONEK:

5 MR. BRIAN MERONEK: Sir, you've talked
6 about you've had lots of discussions with people in
7 the banking industry and investment industry, but you
8 have not brought anyone forward from that industry to
9 -- to analyze or render a position as to whether or
10 not retrospective forecasting -- testing of
11 forecasters is a good, bad, or indifferent thing, or
12 whether it can be accomplished, and if so how.

13 Is that correct, sir?

14 MR. MANNY SCHULZ: Well, Mr. Meronek,
15 I'm not sure how to answer that because I think there
16 were about three (3) or four (4) questions in there,
17 so...

18 MR. BRIAN MERONEK: Don't bother, sir,
19 I'll save you the time. I -- I know what the answer
20 is.

21 MR. MANNY SCHULZ: Well, the answer is
22 that we have had discussions with the economic
23 forecasters; we've had discussions with the Bank of
24 Canada people who have written specific articles on
25 this. In the rebuttal evidence that we put forth,

1 there's an article dated May 8th, 2013, from CIBC.
2 And in this article, while Mr. Shenfeld is not here to
3 testify today he did indicate that -- and this is in
4 the -- in the testimony, sir, that if you've been
5 caught off-guard by today's ultra low bond yields,
6 join the club. And he goes further on to say that the
7 reason for the forecast miss is that this bond market
8 rally has been like no other, so models and historical
9 analogies have to be thrown out the window.

10 This was just from a month ago. And we
11 have the chief economist from the -- from the CIBC
12 indicating the challenges -- and, Mr. Chairman and --
13 and panel members, this is the challenge. This isn't
14 just Centra. This isn't just Manitoba Hydro telling
15 you. This is the chief economist from the CIBC
16 indicating that the challenges that they have had with
17 respect to the economic condition and how to forecast
18 it.

19 And -- and so even here you have, I
20 would say, a fairly strong voice that speaks to this
21 matter in saying that models and historical analogies
22 had to be thrown out the window.

23 So when I'm looking at this, again
24 perhaps pragmatically, sir, but if the CIBC is having
25 challenges with this and their one (1) forecaster,

1 there likely would be others.

2 MR. BRIAN MERONEK: Just on that
3 score, sir -- and we can all read -- that's not the
4 latest economic outlook that CIBC has provided, is it?

5 MR. MANNY SCHULZ: No, and I think
6 CIBC provides fairly regular updates. And -- and,
7 actually, I think, you know, if we were to gather up
8 and combine all the forecasts from May, as -- as this
9 would be, you would find that they would still miss
10 what's happened in the last two (2) or three (3)
11 weeks.

12 And again, you know, Mr. Chairman and
13 others, you know, these are dramatic moments in
14 interest rate forecasting, as well as what we're seeing
15 in the real marketplace: forty (40) to fifty (50) base
16 point upswing in the long-term markets. The forecast
17 that you see here for May 8th of 2013, with all due
18 respect, it has not yet captured what I'm living in
19 real world today, and all of last week, and the -- the
20 very significant --

21 MR. BRIAN MERONEK: Mr. Schulz,
22 please, can we just maybe --

23 MR. MANNY SCHULZ: So the answer is --

24 MR. BRIAN MERONEK: -- get on with
25 this? We don't need any speeches. I asked you a

1 simple question. And we're going to be here all day
2 if you keep on giving speeches. Now, let's move on.

3 MR. MANNY SCHULZ: I'm a patient man,
4 sir.

5 MR. BRIAN MERONEK: Well, not as
6 patient -- you're more patient than I am. In terms of
7 -- going back to CAC/CENTRA-1-10, there was an order
8 issued, and it was Board Order 5/'12.

9 And will you confirm for me, sir, that
10 in Board Order 5/'12 there was no reference in that
11 order to the retrospective testing of forecasters?

12 MR. MANNY SCHULZ: Which is exactly
13 reaffirming our point, that after all of these
14 extensive deliberations that occurred at that time,
15 and presumably with some controversy from CAC that the
16 PUB, in that Board order, did not redirect or -- or
17 ask Manitoba Hydro to continue on, nor did they scold
18 us to undertake such a matter. Therefore, as a
19 consequence of that, we consider the matter to be
20 settled.

21 MR. BRIAN MERONEK: I know what you
22 consider. The answer to my question though is: There
23 was no reference in Board Order 5/'12 to any topic
24 dealing with retrospective testing of forecasters.

25 Will you concede that, sir?

1 (BRIEF PAUSE)

2

3 MR. MANNY SCHULZ: I don't have the
4 entire Board order in front of me, so I'm not prepared
5 to concede every minutia of every word. But there was
6 no Board order or directive for Manitoba Hydro to
7 undertake or redirect to take retrospective testing.
8 So that is correct.

9 MR. BRIAN MERONEK: There was no Board
10 -- reference in Board Order 5/'12 countermanding what
11 Board Order 128/'09 said. Would -- would you agree
12 with that, sir?

13 MR. MANNY SCHULZ: There was no Board
14 order indicating that we should do it so -- I mean,
15 I've already provided my answer, sir.

16

17 (BRIEF PAUSE)

18

19 MR. BRIAN MERONEK: Has Centra
20 discretely asked the Board, by way of a review and
21 variance, to not provide a retrospective testing of
22 forecasters pursuant to Directive 90?

23 MR. DARREN RAINKIE: Mr. Meronek, the
24 summary answer is no, but that's never been the
25 process here in Manitoba. We are directed to do

1 certain directives and reports. We file those reports
2 with the Public Utilities Board. And if there are
3 further follow-up, the Board will give that in its
4 order, as Mr. Manny -- Mr. Schulz indicated.

5 We talked about this in -- in the
6 2010/'11 and '11/'12 electric GRA. The Public
7 Utilities Board set rates based on the rate-setting
8 methodology. And in that order, they gave us no
9 further directives with respect to this -- this
10 information. So as we said many times, we considered
11 the matter complete.

12 MR. BRIAN MERONEK: Thank you for
13 that, sir. You -- that is, Centra -- followed up on
14 this topic with PUB/CENTRA-2-141B. And that was dated
15 May 7, 2013. And in that particular Information
16 Request response...

17

18 (BRIEF PAUSE)

19

20 MR. BRIAN MERONEK: ...there's a
21 reference on page 3 of 6 to the issue of retrospective
22 testing.

23 Do you have that in front of you, Mr.
24 Schulz?

25 MR. MANNY SCHULZ: So that we're all

1 looking at the same page, I'm looking at PUB/CENTRA
2 2nd Round 141B, page 3 of 6. Is that what you're
3 referring to, sir?

4 MR. BRIAN MERONEK: Yes, sir.

5 MR. MANNY SCHULZ: Okay, I have that
6 in front of me.

7 MR. BRIAN MERONEK: And was this
8 particular response prepared under your direction and
9 control?

10 MR. MANNY SCHULZ: Yes.

11 MR. BRIAN MERONEK: And I'm looking in
12 the middle paragraph. It says it was previously
13 recommended that Centra develop a, quote/unquote:

14 "Process to retrospectively test the
15 accuracy of forecasters to assess
16 their inclusion in future
17 forecasts."

18 Do you see that, sir?

19 MR. MANNY SCHULZ: I do.

20 MR. BRIAN MERONEK: And would you
21 agree with me, sir, that the word 'recommended' is not
22 correct; it was ordered?

23 MR. MANNY SCHULZ: It was in Directive
24 9.

25

1 (BRIEF PAUSE)

2

3 MR. BRIAN MERONEK: And this was the
4 first reference to PUB/CENTRA-50B, correct?

5 MR. MANNY SCHULZ: The first reference
6 to PUB/CENTRA-50B in this proceeding, sir? Is that
7 what you're referring to?

8 MR. BRIAN MERONEK: Yes. It wasn't
9 referenced back in previous IRs dealing with the issue
10 of retrospective testing?

11 MR. MANNY SCHULZ: It was not
12 previously stated in response to 1st Round IRs in this
13 proceeding.

14 MR. BRIAN MERONEK: And were you
15 involved in that cost-of-gas application out of which
16 PUB/CENTRA-50B arose?

17 MR. MANNY SCHULZ: It wasn't an area
18 that I was heavily involved with, sir. But the
19 PUB/CENTRA-50B was an IR for which I did have review
20 and -- and control.

21 MR. BRIAN MERONEK: And would you
22 confirm with me, sir, that in that particular hearing,
23 which was a written hearing, there was no reference to
24 retrospective testing in Board Order 65/'11, which was
25 the decision relating to that cost-of-gas application?

1 MR. MANNY SCHULZ: Yes. And again, I
2 think that it reaffirms our position that the matter
3 was settled. We brought forth our position. We
4 indicated our review with the Bank of Canada; and
5 again, no Board order or no commentary. And this
6 time, it wasn't a Manitoba Hydro proceeding, but
7 rather a Centra pro -- proceeding.

8 Again, no -- our -- our position was
9 very well articulated, I thought, and clear. And
10 there was no order or directive suggesting that
11 Manitoba Hydro and/or Centra should undertake such a
12 thing.

13 MR. BRIAN MERONEK: And so the end
14 result of this odyssey is that -- that there was no
15 directive indicating that that directive had been
16 completed, there's no directive indicating that it
17 hadn't been completed.

18 Is that fair?

19 MR. MANNY SCHULZ: There was no
20 directive to re -- to -- to move forward with it.
21 There was no commentary saying Centra, We asked you to
22 undertake such a matter and you haven't done it.
23 There was no commentary of that in the context of all
24 these matters. We consider the matter to have been
25 settled.

1 MR. BRIAN MERONEK: So you -- we've
2 come full circle and at this point in time you will --
3 can confirm for the record that you still are
4 struggling with the issue as to how to accomplish the
5 retrospective testing of forecasters.

6 Is that fair?

7 MR. MANNY SCHULZ: Yes and no. I
8 would say that it has been an odyssey, sir. It's been
9 a difficult and long and winding road, to quote The
10 Beatles. I would also say to you, sir, that this is a
11 matter that we just at this point in time find no
12 great benefit for doing, and -- and indicated in the
13 transcript of last week it's not clear how we would do
14 it and how it would add to the accuracy/benefit of the
15 interest rate forecasting methodology.

16 If there was a way to -- to have
17 undertaken such a thing, I can assure you, sir, that
18 we would have done so. It is our professional view
19 that this is an item that, quite frankly, is a stale-
20 dated item that, you know, we need to bring resolution
21 to. And -- and if that requires us to -- to ask for
22 the clarity from the -- the PUB pane -- panel members
23 to bring this matter to an end I think that would be
24 helpful. We just simply -- and we can agree to
25 disagree, Mr. Meronek and Mr. McCormick, but it's not

1 through lack of trying and it's not through a lack of
2 effort. We just simply disagree and we just don't
3 find much benefit in this, sir.

4 MR. BRIAN MERONEK: And has anything
5 changed between Board Order 128/'09 and today for
6 Centra to say it's not beneficial at this time? Are
7 there any ingredients that have arisen since that
8 Board order for Centra to take that position?

9 MR. MANNY SCHULZ: Well, you know,
10 it's been a passage of time, Mr. Meronek, and -- and
11 for me in particular it's been a bit of a journey as
12 I've been looking through this matter and seriously
13 undertaking to review this. And also keep in mind
14 that the financial crisis that we saw, which occurred
15 in the midst of the originating Centra hearing has --
16 we still witnessed ongoing challenges on the
17 economics, the forecasters have missed this.

18 And I've indicated this in my direct
19 evidence that the circumstances in terms of the
20 recovery period have been elongated. It's not clear
21 to me when we're going to get out of this. The
22 financial market movements in the last number of weeks
23 have reaffirmed this once again, sir.

24 So the challenges that one would face,
25 and in the context information from noted economists

1 such as Avery Shenfeld and others saying that this is
2 a pragmatic challenge for us, in context of all of
3 those matters and in context with discussions to Bank
4 of Canada and others, our position is that this is not
5 beneficial. So since 2009 when we first met and
6 deliberated on this, when it originated into Board
7 Order 128/'09, Directive 9, the world has changed and
8 has evolved, and we are not alone in that, so it
9 remains a challenge.

10 But from a retrospective testing of
11 forecasters, sir, we -- we simply don't see it to be
12 beneficial at this time.

13 MR. BRIAN MERONEK: You are trying
14 refinements, though. I think you indicated in your
15 evidence last week that you are contemplating looking
16 at what you call a -- an Olympic pool, where you take
17 the -- hive-off the -- a high and low score.

18 Is that -- did I get that correctly?

19 MR. MANNY SCHULZ: This is in
20 conversation with the very good people that we have,
21 econometricians and economists at Manitoba Hydro in
22 the economics department. We have been working on
23 this matter to find a pragmatic solution to this.

24 Retrospective testing simply won't
25 work. And -- but we still have to find a way to -- to

1 review the ways that we can add more robustness into
2 the forecast. One (1) of the things that we are
3 looking at is called the 'trimmed mean', or
4 colloquially known as the 'Olympic averaging'.

5 And you can see that in our second, I
6 think, revised response to PUB/CENTRA-141-D on page
7 10, I believe, where we indicate a proposed
8 methodology for that. So for every period, be a
9 quarter, or in latter parts of the forecast every year
10 we would perhaps see if we can -- we can -- I wouldn't
11 have them off. I don't know if I'd use that
12 characterization, Mr. McCo -- Mr. Meronek.

13 It would be more of just very
14 mechanistically saying, Okay, well, this was high,
15 this was low, and see what happens. What we're not
16 sure about is -- and we're deliberating on this
17 towards our IFF-13 is should we just take off the top
18 and the bottom, should we look at the top
19 decile/bottom decile, should we look at quartiles.

20 You know, the -- the mechanisms for
21 that. So that is something that we are still looking
22 at and -- and -- but we do like this approach and this
23 is something that we see as a pragmatic solution.

24 So instead of opining on and on and on
25 and -- and having this discussion about retrospective

1 testing, we do see that there might be benefit for the
2 olympic mean -- olympic averaging approach. Again,
3 still early days, but we are looking at this in the
4 context of our summer review and our fall review.
5 That takes us into IFF-13.

6 MR. BRIAN MERONEK: The object of the
7 exercise then is to have more robust results, I would
8 think, by looking at these particular refinements.
9 Would you agree with that, sir?

10 MR. MANNY SCHULZ: I think there would
11 be a number of objectives and benefits that we would
12 see. We wouldn't be exiling somebody off the island.
13 We wouldn't be doing things like keeping everybody but
14 Scotia and National. We wouldn't be kicking off
15 Informetrica. We wouldn't be kicking off Spatial.
16 We'd be keeping everybody in the -- in the portfolio
17 and -- and this is important for us and very important
18 for me as treasurer. I want to see the range of
19 forecasters. I want to see the highs and lows.

20 MR. BRIAN MERONEK: Sir, my --

21 MR. MANNY SCHULZ: As treasurer I look
22 in the dark corners. I want --

23 MR. BRIAN MERONEK: Can I -- please,
24 sir. Please. Be responsive to the question, sir.
25 Okay. Please, and we'll get out of here today. The

1 question was, in looking at these refinements, the
2 object of the exercise was -- would be to have a more
3 robust result in terms of forecasting.

4 Would you agree with that, sir?

5 MR. MANNY SCHULZ: Sir, I was
6 answering that. It's -- the robustness, and
7 describing the robustness, would be that we would want
8 to have all of these forecasters in there and that we
9 would also want to find a way to handle forecasters
10 that have twelve (12) month data points as well as
11 just the ones that have quarterly.

12 So it's a good way of -- of integrating
13 all these jagged edges of different forecasts. Does
14 that add to the robustness of the forecast? Does it
15 add to the robustness of the risk management? The
16 answer is yes. But one has to understand as well,
17 that the manner in which we would do this is not just
18 about accuracy. It's about understanding the risk
19 management and particularly in these volatile time to
20 understand it.

21 So it's not just exclusively, Mr.
22 Meronek, to the matter of accuracy or -- or looking at
23 -- at finding super precision on these things. For me
24 it's the matter of seeing the full range of it. And
25 does that add robustness? Robustness isn't measured

1 by, you know, the -- the tightness to the -- the mean.
2 It's also by seeing the -- the kurtosis and the skews
3 that occur on the far edges of it.

4 And so the answer to your question has
5 to be broader than just a yes or no, sir.

6 MR. BRIAN MERONEK: You, I believe,
7 have indicated that you want to keep everybody in, in
8 part, because they're respected forecasters.

9 Is that correct?

10 MR. MANNY SCHULZ: They're widely
11 respected. That would be one (1) of the reasons we
12 would keep them in. Yes, sir.

13 MR. BRIAN MERONEK: And so the fact
14 that they're respected doesn't speak to whether or not
15 they're good, better, or indifferent at forecasting.

16 Would you agree with that, sir?

17

18 (BRIEF PAUSE)

19

20 MR. MANNY SCHULZ: If they were bad,
21 they wouldn't be respected.

22

23 (BRIEF PAUSE)

24

25 MR. BRIAN MERONEK: And one of the

1 other reasons that I -- I garner from your evidence,
2 sir, is that you want to have diversity so you want to
3 have a wide spectrum of forecasters in the loop.

4 Would that be fair?

5 MR. MANNY SCHULZ: As stated,
6 diversity of opinion is something that's of
7 significant value to the Corporation, yes, sir.

8 MR. BRIAN MERONEK: And how do you
9 measure diversity? How do you define it?

10

11 (BRIEF PAUSE)

12

13 MR. MANNY SCHULZ: Well, in this
14 context it would be seeing the -- the full range of
15 potential outcomes there. Not every forecaster is
16 going to be the same. If they're all the same, it
17 would be redundant to capture all of their opinions.

18 MR. BRIAN MERONEK: And you've said
19 that before, sir. I'm asking: What -- how do you
20 define diversity?

21 MR. MANNY SCHULZ: Well, you know, I
22 don't have the -- the dictionary right in front of me,
23 sir, but if I have -- I'm looking at three (3) people
24 right now on -- on the Board panel. I'm assuming that
25 is diversity. You have different opinions, and having

1 the broad range of opinions adds to the mix. To my
2 mind, in a very practical way that adds to the
3 diversity of opinion, and it adds to a better opinion.

4 MR. BRIAN MERONEK: Okay. Then why
5 not put everybody in, sir? Why not have all the
6 forecasters in?

7 MR. MANNY SCHULZ: Well, some of them
8 may not be respected, sir. Others may not, in our
9 practical context, if I may -- we look at more than
10 just interest rate forecasting, when our good people
11 in economic analysis produce their forecasts they're
12 looking at a range of indicators that they have for
13 GDP. It could be populations. It could be a variety
14 of factors.

15 So when we're looking at the
16 forecasters, it's my understanding that the
17 forecasters need to provide more than just interest
18 rates. They need to provide the full range. So, you
19 know, there's other considerations than just being
20 well respected. I mean, it has to -- it has to -- are
21 they -- are they -- information that can be accessed
22 relatively readily for us.

23 There's a number of criteria and
24 factors, and -- and at the end of the day we added two
25 (2) forecasters just recently. We may yet add some

1 more. We're not inclined to remove some just for the
2 simple fact that we don't like their number. The
3 suggestion for instance that we should take out
4 Informetrica because they provide too high a forecast
5 strikes me as selection bias, and we choose not to do
6 that, sir.

7

8 (BRIEF PAUSE)

9

10 MR. BRIAN MERONEK: Just on that
11 score, sir. In the rebuttal, I believe you indicated
12 that there was an assertion that Centra was trying to
13 select or encourage an outcome. Do you recall that
14 concern expressed by Centra?

15 MR. MANNY SCHULZ: Can you clarify the
16 question and/or the reference, sir?

17 MR. BRIAN MERONEK: Page 4 of the
18 rebuttal.

19

20 (BRIEF PAUSE)

21

22 MR. MANNY SCHULZ: I have that, sir,
23 and what was your question?

24 MR. BRIAN MERONEK: At the top of the
25 page you indicate -- or it's indicated:

1 "The interest rate forecast is
2 unbiased as it -- it is not
3 developed with the intent of
4 selecting or encouraging one (1)
5 outcome over others."

6 Do you see that, sir?

7 MR. MANNY SCHULZ: I do, and thank you
8 for bringing that to everyone's attention. That is
9 exactly our position, that we are unbiased. And to --

10 MR. BRIAN MERONEK: Just let me ask a
11 question, sir. You see that -- that sentence?

12 MR. MANNY SCHULZ: I do.

13 MR. BRIAN MERONEK: Okay. Was there
14 any suggestion or allegation by my client that Centra
15 deliberately set out to select or encourage one (1)
16 outcome over another?

17

18 (BRIEF PAUSE)

19

20 MR. MANNY SCHULZ: Well, I think you
21 just look directly to the right of that just as a
22 quotation, sir, and I can read it if you like, or you
23 can read it, you know, where the opinion was of -- of
24 CAC's witness or expert on this matter, that:

25 "I'm of the opinion that to reduce

1 the degree of upward bias in
2 Centra's forecasting, the Board
3 should remove Informetrica, the
4 source of the highest forecasts in
5 Table 1 and Table 2 in PUB/CENTRA-
6 1st-6, from the calculation of
7 forecast interest rates" --

8 MR. BRIAN MERONEK: So you're --
9 you're taking from that that there was an aspersion
10 being cast on Centra for trying to manipulate the
11 outcome?

12 MR. MANNY SCHULZ: I didn't cast any
13 aspersions at all. I'm just reading the quote and
14 indicating our response is that our forecast is
15 unbiased, sir.

16 MR. BRIAN MERONEK: Would you agree
17 with this, sir, that, in statistical usage, bias
18 merely represents a mathematical property, and no
19 matter if it is deliberate or either unconscious or
20 due to imperfections in the instruments used for
21 observation?

22 MR. MANNY SCHULZ: Many definitions to
23 'bias' on a statistical basis, that would be one (1)
24 of them.

25 MR. BRIAN MERONEK: And would you

1 agree, sir, that while some individuals might
2 deliberately use a biassed sample to produce
3 misleading results, more often, a biassed sample is
4 just a reflection of the difficulty in obtaining a
5 truly representative sample?

6 Would you agree with that, sir?

7 MR. MANNY SCHULZ: That is one (1) of
8 the definitions of 'bias'. There are others, as well,
9 that --

10 MR. BRIAN MERONEK: Is that one (1)
11 that you would agree with, sir?

12 MR. MANNY SCHULZ: That's one (1) of
13 others that I would agree with. There are many
14 definitions of 'bias'. And I indicated that our view
15 is that we are unbiased. To remove someone because of
16 -- you don't like the result is to demonstrate
17 selection bias. That's a different form of bias, but
18 we're just stating what we have as our response, sir.

19 MR. BRIAN MERONEK: Now, in terms of
20 selection bias, can you tell us why, for example, JP
21 Morgan and Deutsche Bank were not included?

22

23 (BRIEF PAUSE)

24

25 MR. MANNY SCHULZ: Mr. Meronek,

1 Deutsche Bank, and there were others as well that
2 we're reviewing, and we may yet bring them forth, but
3 when we were looking at bringing in a forecaster we
4 want to make sure that they have the full range of
5 economic data points. It's not just about interest
6 rate forecast, not just about foreign exchange.

7 We look at the economic outlook as
8 being more than those matters. We look at GDP. We
9 look at population. We look at all those factors. So
10 the back row has just indicated to me that Deutsche
11 Bank, when we were looking at it at the time, was --
12 weren't yet certain if they provided the full suite of
13 economic data points that we use when we produce our
14 economic outlook, again, keeping in mind, the economic
15 outlook is used by many participants in the
16 Corporation for a variety of different means, it's not
17 just the interest rate forecast.

18 Will we be able to bring them in in the
19 future? That's something that we will be taking a
20 look at as we move forward. Again, if they're
21 respected, if they're solid, if they have -- meet all
22 of our needs, we would consider bringing them --
23 bringing them to the table.

24 MR. BRIAN MERONEK: You've added
25 Laurentian Bank and Desjardins. Are they underwriters

1 of Manitoba Hydro debt?

2

3 (BRIEF PAUSE)

4

5 MR. MANNY SCHULZ: I would take from
6 that you're asking if they're members of the syndicate
7 when we're undertaking long-term debt, sir. Is that
8 what you're asking?

9 MR. BRIAN MERONEK: Yes. Are they
10 involved in any debt issues in terms of underwriting?

11 MR. MANNY SCHULZ: I'd have to check
12 the record for, you know, the -- the depth of the
13 syndicate whenever the province undertakes long-term
14 debts. They are not typically one (1) of the managers
15 or co-managers that we would have. However, in
16 syndicates, there are often a large number of
17 participants, small -- in allocation of these matters.

18 And it is possible, deep within the
19 bowels, that somewhere in there, that Laurentian
20 and/or Desjardins may have a small allocation of -- of
21 the long-term debt requirements to undertake to find
22 investors, but they would not typically be part of the
23 primary suite of members in the syndicate for long-
24 term debt purposes.

25 MR. BRIAN MERONEK: You talked in your

1 evidence as well about dealing with outliers. And in
2 that connection, you used some examples. And if I can
3 reference you to your transcript, sir -- yes, it's
4 page 973, sir.

5

6 (BRIEF PAUSE)

7

8 MR. BRIAN MERONEK: Do you have that
9 before you?

10 MR. MANNY SCHULZ: I'm looking at page
11 973 in the transcript from this proceeding, yes, sir.

12 MR. BRIAN MERONEK: And partway down
13 in the middle of the page you say, and I quote:

14 "And so we have to find a way to --
15 to allow these forecasters who are
16 all respected to be in the pool but
17 find a way that any kind of
18 distortion that might occur by an
19 outlier, perhaps because they only
20 provide data points three (3) weeks
21 later or because maybe they provide
22 twelve (12) months of data as
23 opposed to quarterly granularity,
24 that they can be brought into play."

25 Do you see that, sir?

1 MR. MANNY SCHULZ: I do.

2 MR. BRIAN MERONEK: Yeah. So what
3 you're saying is that there may be some distortion
4 problems that you want to try to get rid of.

5

6 (BRIEF PAUSE)

7

8 MR. MANNY SCHULZ: There are -- when
9 you have far outliers for whatever purpose and for
10 whatever reason, and that may occur in this volatile
11 financial market situation, in order to find a true
12 mean, this is in the context of looking towards the
13 Olympic averaging, it is something that we are taking
14 a look at.

15 I should indicate that I don't consider
16 it to be -- an outlier to be a reason to kick someone
17 off the island. For me, this is -- those outliers are
18 part of what I, as a risk manager, want to take a look
19 at and see because in this volatile environment if
20 everybody was the same it would make my world simple
21 but the reality is there's lots of different opinions.

22 And outliers, while they may cause some
23 challenges from an econom -- econometric perspective,
24 you know, does it cause a distortion? There is a
25 distortion that occurs due to the skewedness of some

1 of the data points but from a risk management
2 perspective we still want to keep them in the pool,
3 which is what I'm referring to in the context of this
4 transcript.

5 MR. BRIAN MERONEK: So you -- you want
6 to find a way to somehow keep them in the pool but
7 temper the distortion, if there is any.

8 MR. MANNY SCHULZ: I would agree.

9 MR. BRIAN MERONEK: And the same with
10 people who -- sorry, forecasters who provide annual
11 data versus quarterly data, you want to keep them in
12 the pool but try to find some way perhaps to temper
13 the distortion, if there is any.

14 MR. MANNY SCHULZ: And again, that's -
15 - that's correct. And that's because people who
16 provide twelve (12) months worth of data any -- versus
17 the quarterly you'll often find that the first quarter
18 might be too high and the last quarter might be
19 slightly low just because of the way the averaging
20 works versus the -- the data integration and the
21 jagged edges of these different population sorts.

22 So this is a -- means that we would
23 keep them in the pool, but in those circumstances
24 where they may be too high or too low they would
25 deselect themselves just through the mechanics of the

1 -- the trim to mean mechanism.

2 MR. BRIAN MERONEK: And you will --
3 you will agree with me, sir, that Informetrica and
4 Spatial give annual averages as opposed to quarterly?

5

6 (BRIEF PAUSE)

7

8 MR. MANNY SCHULZ: That's correct.

9

10 (BRIEF PAUSE)

11

12 MR. BRIAN MERONEK: I'm going to be
13 moving onto a new topic, Mr. Chairman. I wonder if we
14 should take a break?

15 THE CHAIRPERSON: Let's take ten (10)
16 minutes.

17 MR. BRIAN MERONEK: Okay. Thank you.

18

19 --- Upon recessing at 10:57 a.m.

20 --- Upon resuming at 11:10 a.m.

21

22 THE CHAIRPERSON: I believe everyone's
23 in position. Before we resume to proceedings I'd like
24 to make a few comments, please. In the next round of
25 questioning by Mr. Meronek, I would ask you, Mr.

1 Schulz, to put greater emphasis on conciseness and
2 brevity in your responses.

3 Your lengthy responses result in your
4 repeating previously provided viva voce evidence. By
5 focussing more directly on the question, the panel may
6 actually get a better understanding of your testimony.

7 The panel acknowledges that a simple
8 response may -- may not always be possible, but where
9 it is possible I suggest that you opt for it. So with
10 that, I would like to turn the microphone over to Mr.
11 Meronek, please.

12 MR. BRIAN MERONEK: Thank you, sir.
13 Are we waiting for Mr. Rainkie?

14 MS. MARLA BOYD: I don't think I have
15 to answer that now.

16 THE CHAIRPERSON: By the by, we will
17 be here until the pigeons come home to roost tonight
18 if we have to. So we would like to get today done --
19 today's evidence done today if possible. Thank you.

20 MR. BRIAN MERONEK: And I'll do my
21 best, sir.

22

23 (BRIEF PAUSE)

24

25 CONTINUED BY MR. BRIAN MERONEK:

1 MR. BRIAN MERONEK: I want to
2 transgress over into another topic, sir, and that's
3 updated forecasts. And just to get things into
4 perspective, when this GRA was being prepared and
5 assembled for the forecast years 2012/'13 and
6 2013/'14, Centra indicated that it had used current
7 forecast data, and I get that in para -- sorry, page 3
8 of the rebuttal. And I'm looking at the top portion
9 of Centra's response, "The interest rate forecasts are
10 current."

11 Do you see that, sir?

12 MR. MANNY SCHULZ: I do.

13 MR. BRIAN MERONEK: And at the time
14 that the application was prepared, the forecasts that
15 were used were circa September 2012.

16 Is that correct?

17 MR. MANNY SCHULZ: September and
18 October of 2012, sir.

19 MR. BRIAN MERONEK: Then when Centra
20 updated -- sorry, when Centra responded to PUB/CENTRA-
21 1-6, and that's the Tables 1 and 2 relating to the
22 three (3) month T-bill rate and the Canadian ten (10)
23 year plus bond yield rate, that -- that was the same
24 forecast data that was used, correct?

25

1 (BRIEF PAUSE)

2

3 MR. MANNY SCHULZ: Just so we're
4 clear, I'm just referring to PUB 1st Round 6. Is that
5 what --

6 MR. BRIAN MERONEK: Yes, sir.

7 MR. MANNY SCHULZ: Yep. And those
8 data points are from September and October, sir.

9 MR. BRIAN MERONEK: The same data
10 points that were used for the purposes of the
11 application?

12 MR. MANNY SCHULZ: Correct.

13 MR. BRIAN MERONEK: And then in
14 response to PUB/CENTRA-2-141 on May 7, it's 141-B, you
15 will confirm for me, sir, please, that the data that
16 was used in that particular response was again the
17 September-October data? Sorry, I -- I misspoke. It's
18 PUB/CENTRA-2-141A.

19

20 (BRIEF PAUSE)

21

22 MR. MANNY SCHULZ: Same data point,
23 sir.

24 MR. BRIAN MERONEK: Yeah. Right.
25 Centra has updated PUB/CENTRA-2-141A on June 14 of

1 this year. And I -- I'm not sure, was that done
2 voluntarily or was that at the request of the Board?

3 MR. MANNY SCHULZ: Just out of
4 clarification, doing what, the produ -- production of
5 the economic outlook or the filing of the information,
6 sir?

7 MR. BRIAN MERONEK: The -- the
8 revision of PUB-2-141A.

9 MR. MANNY SCHULZ: I think it was our
10 intention to -- I mean, we always do the spring
11 economic outlook as a normal function, and we were
12 intending to file that as part of this proceeding.
13 And 140 -- PUB/CENTRA-146 provides those data points
14 for the information that went into the gathering for
15 the economic outlook Spring '13.

16 MR. BRIAN MERONEK: The latest
17 forecast data was in March of this year for the
18 update, correct?

19 MR. MANNY SCHULZ: The cutoff for the
20 2013 spring economic outlook was March 22nd. And so
21 the data points as collected date from January 8th to
22 March 19th of 2013.

23 MR. BRIAN MERONEK: Is there any
24 problem with Centra providing that update as a matter
25 of course, much like it updates its cost-of-gas

1 information in May of 2013, as it did in this
2 Application?

3 MR. MANNY SCHULZ: I think we do
4 provide updates to our base case as a matter of
5 course, sir.

6 MR. BRIAN MERONEK: So you're -- I
7 don't believe so, sir. Maybe you don't have my
8 question.

9 As a matter of course in a GRA
10 application, is there any issue or problem with
11 Centra, without being asked, to provide an update of
12 the forecast, much along the lines of the update of
13 cost of gas that it provides in the -- in the
14 application?

15 MR. DARREN RAINKIE: Mr. Meronek, just
16 so we're on the same page, are you asking updating the
17 application or simply providing the revised material?
18 Those are two (2) different things.

19 MR. BRIAN MERONEK: Providing --
20 providing that update information. I'm not suggesting
21 revising the application. But as a matter of course,
22 Centra Gas does provide updates for the cost of gas.

23 Is there any problem with doing the
24 same thing with respect to updated forecasts for
25 financial forecast?

1 MR. DARREN RAINKIE: Just subject to
2 the timing of the hearing and the proceeding, Mr.
3 Meronek, if it -- because this material goes before
4 our executive committee and is approved at a certain
5 point of the year for our planning purposes, so as
6 long as the hearing occurs, I suppose, after that
7 process, that internal process, we have no problem
8 providing that material.

9 MR. BRIAN MERONEK: And I'm not so
10 concerned about the economic outlook, but is there any
11 problem with providing Tables 1 and 2 on an updated
12 basis? Assuming the information is there, without
13 worrying about all the other ingredients that go into
14 the economic outlook.

15

16 (BRIEF PAUSE)

17

18 MR. DARREN RAINKIE: Well, Mr.
19 Meronek, the economic outlook is the official
20 corporate forecast, so we wouldn't provide that
21 material before it's been reviewed and approved for
22 corporate use. So by inference, all of the material,
23 including all the economic factors, would be included
24 as well.

25 MR. BRIAN MERONEK: And when is the

1 economic outlook -- we know it's prepared in the
2 spring, but -- but when does it get the fiat from the
3 board? I don't mean this Board. I mean from the --
4 Hydro's board.

5 MR. DARREN RAINKIE: Mr. Meronek, it
6 doesn't, per se, go to the board. The IFF goes to the
7 board in the fall, which includes all the forecasts.
8 It's approved, but the economic outlo -- outlook is
9 approved by the executive, usually, in late May of the
10 year.

11 MR. BRIAN MERONEK: Mr. Schulz, I'd
12 like to reference page 6 of your rebuttal, please.

13

14 (BRIEF PAUSE)

15

16 MR. MANNY SCHULZ: I have that, sir.

17 MR. BRIAN MERONEK: And that would be
18 Tab 64, page 397. And in that particular response,
19 Centra's comparing Mr. McCormick's recommended
20 forecast long-term interest rate and the T-bill rate
21 to current market rates, correct?

22

23 (BRIEF PAUSE)

24

25 MR. MANNY SCHULZ: Centra's response

1 compares the numbers that were derived by Mr.
2 McCormick to the outlook figures, as well as current
3 market conditions, as well as forward rates.

4 MR. BRIAN MERONEK: And the comparison
5 is -- from Centra's perspective, they're point-in-time
6 comparisons, correct, as of certain dates?

7 MR. MANNY SCHULZ: The realtime
8 information, as indicated in this response, are
9 related to point-in-time information. So we put some
10 information there, for instance, for June 11th of 2013
11 and also indicated the point of time as derived on
12 that date for what the forecast and market
13 participants said at the end of the fiscal year for
14 March 31.

15 MR. BRIAN MERONEK: Were you aware
16 that Mr. McCormick was using quarterly averages and
17 not a point in time?

18

19 (BRIEF PAUSE)

20

21 MR. MANNY SCHULZ: Mr. McCormick was
22 using information accessed in a public forum from some
23 of our forecasters that we use in our pool at those
24 dates, some of them being May and so on. And that I
25 didn't check through all of the calculations to see

1 their average or end of period, but I'll accept that
2 they reflect average either in form or as calculated.

3 MR. BRIAN MERONEK: I misspoke. It
4 was an annual average, actually. But you'll accept
5 that, sir?

6 MR. MANNY SCHULZ: Sure.

7 MR. BRIAN MERONEK: Now, in terms of
8 the comment in that box, it says:

9 "Note that the rate described by Mr.
10 McCormick does not include
11 transaction costs and credit
12 spreads."

13 Do you see that, sir?

14 MR. MANNY SCHULZ: I do.

15 MR. BRIAN MERONEK: You -- are you
16 aware that he was attempting to forecast the long-term
17 interest rates, per se, and the Canadian T-bill rates,
18 per se?

19 MR. MANNY SCHULZ: The T-bill rates
20 would not have any spread or transaction costs to it,
21 so there is no discontinuity there on the long-term
22 interest rates. It's a point of -- it's a very
23 important point of clarification that the numbers as
24 calculated by Mr. McCormick were just the benchmark
25 Government of Canada rates for ten (10) year plus and

1 that, for us, when we're undertaking financings at
2 Manitoba Hydro or the province, and Manitoba Hydro and
3 Centra through assignment, we have to consider the
4 full range to the Province of Manitoba, which on the
5 long bonds includes the credit spreads and transaction
6 costs.

7 So that's the finesse on that, sir. So
8 the two point three-six (2.36), one should not assume
9 -- or even our two point five (2.5) or whatever number
10 we calculated for the benchmark Canada, that is not
11 the -- the full range of cost. There's -- there's the
12 spreads and transaction cost as well.

13 MR. BRIAN MERONEK: If we can move to
14 page 18 of the rebuttal. It's page 409 and 410. Now,
15 I just -- I just want to understand, in connection
16 with this particular debt financing and assignment to
17 Centra, if -- if we go -- if we reverse engineer this,
18 let's go to page 410, there is -- for series 10 of \$35
19 million, there's a term of five (5) year.

20 And that emanates from Manito --
21 Manitoba Hydroelectric board series FM-4, correct?

22 MR. MANNY SCHULZ: Correct.

23 MR. BRIAN MERONEK: And if you go back
24 to page 409, you'll see that that series was a -- was
25 originally a -- a -- \$100 million issue, correct?

1 MR. MANNY SCHULZ: Correct.

2 MR. BRIAN MERONEK: Okay. Now, it's
3 my understanding that that particular issue had its
4 genesis out of series FM, which was a \$250 million
5 issue.

6 It -- is that -- is that to your
7 understanding, sir?

8 MR. MANNY SCHULZ: You would be
9 testing my memory, because I don't have the term
10 sheets for the Manitoba Hydro pieces. But I believe
11 that FM-4 was a segment that was -- came out of the
12 original FM-4, which was perhaps for the two hundred
13 and fifteen (215). Also, I'll accept that subject to
14 check.

15 MR. BRIAN MERONEK: Sure. I've --
16 I've got the term sheet in front of me. And I'm --
17 I'm sorry I don't have a copy, but it was original
18 issue of \$250 million at 3.05 percent. And then it
19 exploded or expanded into different swap arrangements.

20 Do -- do you recall that, sir?

21 MR. MANNY SCHULZ: It is my
22 reconciliation that FM-4 was three point zero-five
23 (3.05) in -- in that vintage, I think you said. And
24 it --

25 MR. BRIAN MERONEK: Series FM was.

1 MR. MANNY SCHULZ: FM was. And that a
2 portion of it was -- we subdivided that through swap
3 transactions at Manitoba Hydro, one (1) of which was
4 FM-4, which ended up being swapped to floating-rate
5 debt at CDOR03, plus forty-eight point four (48.4)
6 basis points for 100 million.

7 MR. BRIAN MERONEK: And at -- at --
8 the term sheet indicates at -- that this hiving off,
9 as it were, was as a result of a debt series EL, which
10 previously had forward interest rate swaps, which
11 locked the fixed rate at 6.25 percent.

12 Do you recall that, sir?

13

14 (BRIEF PAUSE)

15

16 MR. MANNY SCHULZ: I do. Again,
17 subject to check.

18 MR. BRIAN MERONEK: So can you explain
19 what is going on here? There's -- there was a -- an
20 original -- or a prior legacy debt obligation which
21 was at 6.25 percent, and Manitoba Hydro took the
22 original issue of -- at 3.05 percent and hived it off
23 into a higher interest rate plus the -- the floating
24 rate.

25 That's a crude description, but can you

1 tell me what was going on there?

2

3 (BRIEF PAUSE)

4

5 MR. MANNY SCHULZ: Thank you for your
6 patience on this. This was a rather complicated
7 series of transactions, and unfortunately I don't have
8 the paperwork in front of me, Mr. Meronek.

9 But by my recollection the series EL
10 had, I believe, \$150 million of -- of underlying debt
11 that was coming due. We have swap -- we had swap
12 arrangements on that particular debt issue with a --
13 with a contract on interest rate swap so we needed to
14 provide floating rate debt as the underlying to that.

15 And so of the total 250 million on FM-4
16 we swapped the whole transaction into floating-rate
17 debt at a point of indifference, so it would -- EAs
18 plus CDOR03 plus 48.4, 150 million of that went
19 against the existing swap arrangements that were on
20 EL. And I think at that point in time we also renamed
21 them as part of our convention so it was no longer EL.
22 It was FM-1, 2, and 3, I believe.

23 And then the residual amount that --
24 because we swapped the whole 250 million, again
25 subject to check, I think we left that 100 million

1 residual stay in floating, and that was essentially
2 for new cash requirements.

3 So of the 250 million, a hundred and
4 fifty (150) was essentially earmarked for the swap
5 transaction and the recalibration of the swap contract
6 prices, which were in the neighbourhood of the 6
7 percent I think that you quoted, leaving 150 mil --
8 100 million of -- of the swapped amount that was
9 available for new cash requirements and/or assignment
10 to Centra.

11 MR. BRIAN MERONEK: Thank you, sir.

12

13 (BRIEF PAUSE)

14

15 MR. BRIAN MERONEK: Now, moving over
16 to page 20 of the rebuttal evidence.

17

18 (BRIEF PAUSE)

19

20 MR. BRIAN MERONEK: We're talking
21 about the \$35 million issue, and your commenting -- or
22 at least Centra is commenting on Mr. McCormick's
23 analysis, and indicates in the third paragraph
24 starting at line 17:

25 "Unfortunately, this analysis

1300

1 eliminated key information regarding
2 the -- regarding the financial
3 market conditions in the early
4 stages of the financial crisis."

5 Excuse me. And then it goes onto talk
6 about what was out there in 2009 in terms of floating-
7 debt issues and the -- the basis points ascribed to
8 each of those. This was 2009, correct, that you're
9 referencing?

10

11 (BRIEF PAUSE)

12

13 MR. MANNY SCHULZ: Yes. So in the
14 middle of that page under line 21, for instance, when
15 you're -- when I describe:

16 "See issued debt series C-102 issued
17 by Manitoba Hydro in January of --
18 15th, 2009."

19 Then there was C-107 in June, and then
20 FM-4 had a September of 2009 transaction date, sir.

21 MR. BRIAN MERONEK: Yeah. Was there
22 anything in 2010 in terms of floating rate issues?
23 This -- this is 2009, and we've got Centra refinancing
24 in February 2010. Was there anything more current in
25 terms of yield for that -- that type of issue?

1 MR. MANNY SCHULZ: If you're speaking
2 to the -- what was available at the assignment date
3 for CG-10?

4 MR. BRIAN MERONEK: Yes, sir.

5 MR. MANNY SCHULZ: Yeah. So it is my
6 understanding that there may have been -- there may
7 have -- may have been another debt issue that was
8 issued in and around February of 2010 but that was
9 assigned as part of -- I think it was FP-2 that we had
10 on the Manitoba Hydro books at that time.

11 So much like the early portions of that
12 EL transaction that you and I just spoke to, the first
13 150 million, we had a transaction whereby we needed
14 some floating rate debt as part of another commitment
15 we had on -- on another debt series.

16 So in terms of the availability of debt
17 issues from a floating-rate debt perspective, as part
18 of the assignment towards CG-10 there were no other
19 ones available for us.

20 MR. BRIAN MERONEK: Moving over to
21 page 25, there's a discussion relating to refinancing
22 risk and interest rate risk and Mr. -- and -- and the
23 comments by Centra in response to Mr. McCormick's
24 concerns that about -- about percentages of issues
25 maturity -- debt issues maturing in a twelve (12)

1 month period as well as in a concentrated period of
2 time.

3 And the response is that those
4 suggestions aren't practical at this point in time.
5 And I would take it -- is that because of events
6 having unfolded already and there's -- there's not
7 much readjustment that could be done?

8

9 (BRIEF PAUSE)

10

11 MR. BRIAN MERONEK: That was awkward.
12 Let me back up. In theory, would you agree with Mr.
13 Ma -- McCormick with respect to the -- setting limits
14 and setting limits on maturities to a period
15 concentration?

16 MR. MANNY SCHULZ: We've indicated in
17 the debt management strategy that we have a guideline
18 that we -- we seek to adhere to, which is to have no
19 more than 15 percent coming into any one (1)
20 particular fiscal year. And so that is important for
21 us in terms of just determining what kind of term we
22 may select so that if we have a big bucket of
23 maturities in the maturity schedule, we won't pile
24 more into there and create more congestion.

25 So we do try to find hollow spots and

1 valleys in our debt maturity schedule. So that is
2 something that -- that we do look at when we make
3 terming decisions among the other matters that we have
4 and are balancing.

5 The item there on lines 23 and 24 on
6 page 25 respecting the four (4) to six (6) year
7 guideline, in the written evidence of Mr. McCormick
8 there was not much specificity to that, so we weren't
9 sure what that would mean. -- but whereas at Centra,
10 we don't have an overly large abundance of debt issues
11 and our maturity schedule has some hollow spots on the
12 MH side, at Manitoba Hydro, with the amount of
13 congestion that we would have, I'm not sure what that
14 would mean to -- four (4) to six (6) years on what
15 percentages. Would that still meet 15 percent? There
16 just wasn't enough granularity to that comment.

17 So -- so we just -- at this point in
18 time, subject to getting more information, we just
19 would deem that to be impractical.

20 MR. BRIAN MERONEK: But on a higher
21 level, if, for the sake of argument, you had 50
22 percent of your debt maturing in a short period of
23 time, in four (4) to six (6) years, and you had a
24 reoccurrence of what was -- what took place in the
25 early 1980s, which lasted several years, is -- is that

1 a risk factor that you take into account and want to
2 avoid if you can in your planning?

3 MR. MANNY SCHULZ: As part of interest
4 rate risk management, one (1) of the factors of
5 interest rate risk is refinancing risk, and this is
6 this topic area of how many pieces of debt that you
7 have on your docket right now are coming up for
8 maturity.

9 And we do, as a matter of course, try
10 to have a smooth maturity schedule for that so as we
11 would avoid the -- the lumpiness that might occur.
12 Some of that just -- for instance, on the Centra debt
13 we had the legacy debt, so we were just sort of
14 peeling off of -- of some of those items. And -- and
15 that's why we subdivided some of the larger maturities
16 into smaller pieces. So we're certainly aware of
17 that.

18 But from an interest rate risk
19 perspective, we -- we have something, what's called a
20 'laddering strategy' whereby we have a ladder of
21 different maturities coming into play at any point in
22 time. We don't put -- we try not to have any
23 lumpiness to it. We have sort of a staggered approach
24 because we also have new debt that needs to come in.
25 And so not only are you refinancing old existing debt,

1 you have new debt that might come into those years.
2 And you also have floating-rate debt that comes into
3 play. So those are the components of interest rate
4 risk that we look at, but refinancing risk we do look
5 to smooth that out wherever and best we can.

6 MR. BRIAN MERONEK: On another topic,
7 it's my understanding that at any given time Manitoba
8 Hydro, on an actual basis, will have a percentage of
9 debt maturing, say, within ten (10) years. And -- and
10 factually speaking -- and you can take this subject to
11 check -- in 2010 -- sorry, March 31, 2009, Manitoba
12 Hydro had about \$6 billion maturing within ten (10)
13 years, or about 74 percent of its total debt.

14 Do those numbers ring a bell?

15 MR. MANNY SCHULZ: I mean, that would
16 have to be subject to check, sir. One (1) of the
17 occurrences that did come out of the financial market
18 crisis was that we were taking shorter debt. And
19 because of the lack of availability in some cases of
20 longer-term debt, we took shorter positions. And so
21 that caused the maturity schedule to get closer at
22 hand on refinancing. So that is why you will see that
23 we have undertaken in the past number of years, UL --
24 ultra-long.

25 So skipping over the -- the twenty

1 (20), thirty (30) years, we're into forty (40) and
2 fifty (50) year pieces of debt in order to try and
3 create some elongation to the maturity schedule to
4 deal with this exact same thing, which is why a longer
5 weighted average term to maturity is something that we
6 look at and we consider a good thing moving forward,
7 in terms of having a longer term to maturity to deal
8 with some of those matters.

9 MR. BRIAN MERONEK: Subject to check,
10 the -- from March 31, 2009, as at July in 2010, the --
11 the weighted average term to maturity was 8.7 years.

12 Take that subject to check?

13 MR. MANNY SCHULZ: Is that for
14 Manitoba Hydro, sir?

15 MR. BRIAN MERONEK: Yes, sir.

16

17 (BRIEF PAUSE)

18

19 MR. MANNY SCHULZ: I'm just looking at
20 the rebuttal page 16 of 26, where we have charts that
21 depict the weighted average term to maturity as well
22 as the weighted average interest rate. So on page 16
23 of 26 there is Chart 6, which is depicted there. And
24 the blue would be the consolidated line, and this is
25 for long-term debt. And so, Mr. Meronek, relative to

1 the year that you had just asked me about, I don't see
2 anything in the neighbourhood of eight (8) years on
3 that, sir.

4 MR. BRIAN MERONEK: Well, in your
5 subject to check -- and I'll give you the -- the cite;
6 it's MANITOBA HYDRO/CAC/MSOS -- sorry, yes,
7 CAC/MSOS/MANITOBA-2-148B of the 2010 General Rate
8 Application for Manitoba Hydro.

9 And the -- the point I'm trying to get
10 to, however awkwardly, is that the next GRA for that
11 same actual period of time, March 31, 2009, it shows
12 that -- subject to check again -- that Manitoba Hydro
13 had approximately \$3.4 billion maturing within ten
14 (10) years with -- which is a 45.8 percent of the
15 total for an average -- or, sorry, weighted average
16 return on maturity of thirteen point six (13.6) years.

17 So if -- if you take those subject to
18 check, can you tell us what's going on here? You --
19 you have actual figures for two (2) different years,
20 yet the maturity is increasing. I would have thought
21 that those numbers would have stayed constant.

22 Can -- can you help us out there?

23

24 (BRIEF PAUSE)

25

1 MR. MANNY SCHULZ: Just as a point of
2 clarification, I think you may find this on page 15 of
3 26 in the rebuttal under Footnote 27, and there -- it
4 may just be that CAC is pulling off a different
5 variation of the data points, sir.

6 The information that we chart is the
7 weighted average term to maturity of all of our most
8 outward bound obligations. So it's a technical matter
9 that would include the most outward date of any debt
10 issues that have interest rate swaps on them.

11 In circumstances where we have interim
12 refinancings for underlying debt, as we did in the
13 conversation, for instance, with EL, those would have
14 earlier refinancings. And so the schedule that was
15 produced and described in Footnote 27 just clears up
16 that matter. I think Mr. McCormick was -- was asking
17 for that reconciling item.

18 So when we do our charting, when we
19 look at our financial reporting, we always look at the
20 out -- most outward bound -- outward maturity date of
21 either the -- the physical debt, which might be there,
22 or the -- the final point of the -- of the interest
23 rate swap. And that is what we charted and -- in --
24 on page 16 of 26 on those charts, as well as what we,
25 I think, showed in one of the Information Requests

1 when we gave all the details for that.

2 So all those things reconcile. The
3 information that Mr. McCormick was speaking to is just
4 a different way of looking at it in terms of earlier
5 ref -- refinancing requirement for underlying debt on
6 swap arrangements, if that's helpful, sir.

7 MR. BRIAN MERONEK: Yes, sir. Thank
8 you. Mr. Chairman, those are my questions. Thank
9 you, panel. We got off to a rough start, but after
10 taking my medication at the break I settled down.

11

12 (BRIEF PAUSE)

13

14 MR. BRIAN MERONEK: And -- and I --
15 Mr. Chairman, it's about ten (10) to 12:00. Can I
16 recommend that we break now, and then come back
17 earlier to -- to start? I don't -- I don't see the
18 point in -- in setting up -- we can come back at an
19 ear -- earlier than one o'clock but that makes more
20 sense to me.

21 THE CHAIRPERSON: Do -- Ms. Boyd, do
22 you have any questions you'd like to ask of the
23 revenue panel before we adjourn --

24 MS. MARLA BOYD: No, sir, I don't.

25 THE CHAIRPERSON: -- or recess,

1310

1 rather?

2 MS. MARLA BOYD: Yeah, I don't. Thank
3 you.

4 THE CHAIRPERSON: Nothing -- nothing
5 further?

6 MS. MARLA BOYD: Nothing further.

7 THE CHAIRPERSON: Okay. With that, I
8 suggest that we break now, and we take one (1) hour
9 for lunch. So back in this room at ten (10) to 1:00,
10 please.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: I suppose before we
15 go I should thank the revenue panel. They're not
16 coming back, are they?

17 MS. MARLA BOYD: I don't believe so.
18 Subject to any questions you might have of -- of
19 undertakings.

20 THE CHAIRPERSON: So thank you all for
21 -- for attending the hearing, and all the best to you
22 in the coming summer.

23 MS. MARLA BOYD: Thank you.

24

25 --- Upon recessing at 11:49 a.m.

1 --- Upon resuming at 12:51 p.m.

2

3 THE CHAIRPERSON: Good afternoon. I
4 believe we are ready to resume the proceedings. I
5 wonder, Mr. Meronek, if you could introduce your
6 witness, please.

7 MR. BRIAN MERONEK: I will. Thank you
8 so much, Mr. Chairman. It's my pleasure to introduce
9 John D. McCormick as a CAC witness on financial
10 forecasting. And perhaps he could be sworn.

11

12 JOHN MCCORMICK, Sworn

13

14 EXAMINATION-IN-CHIEF BY MR. BRIAN MERONEK (QUAL.):

15 MR. BRIAN MERONEK: Now, Mr.
16 McCormick, I understand that you're, by profession, a
17 retired investment banker?

18 MR. JOHN MCCORMICK: Yes.

19 MR. BRIAN MERONEK: And laterally,
20 rather than clip coupons, you are in the consulting
21 business with -- under the auspices of JD McCormick
22 Financial Service Inc.?

23 MR. JOHN MCCORMICK: Yes.

24 MR. BRIAN MERONEK: And it's not a
25 company that trades on the Toronto Stock Exchange, is

1 it?

2 THE CHAIRPERSON: I think there's a
3 problem with your mic somehow.

4

5 (BRIEF PAUSE)

6

7 CONTINUED BY MR. BRIAN MERONEK:

8 MR. BRIAN MERONEK: Before we get into
9 your background, Mr. McCormick, you have, for the
10 purposes of this proceeding, prepared evidence?

11 MR. JOHN MCCORMICK: I have.

12 MR. BRIAN MERONEK: And it's located
13 in Exhibit PUB-13 at Tab 63. Do you have any
14 corrections to make?

15

16 (BRIEF PAUSE)

17

18 MR. JOHN MCCORMICK: I have six (6).

19

20 (BRIEF PAUSE)

21

22 MR. JOHN MCCORMICK: On page 21 of my
23 evidence, in Footnote 46, there is a reference to an
24 IR number 142. I believe that is 141.

25 Turning to page 38, in line 16,

1 beginning with the word 'and', the words, "and
2 collectively represented 73.4 percent of Centra's
3 debt," should be removed. They are repetitious.

4 Turning to page 46, Footnote 114, the
5 fifth word is 'this'. It should be 'these'.

6

7 (BRIEF PAUSE)

8

9 MR. JOHN MCCORMICK: Turning to the --

10 MR. BRIAN MERONEK: That's it for the
11 -- for the evidence. You also answered certain
12 Information Requests at the instance of the Board,
13 correct, sir?

14 MR. JOHN MCCORMICK: Yes.

15 MR. BRIAN MERONEK: And that is found
16 in Exhibit PUB-13, Tab 65?

17 MR. JOHN MCCORMICK: Yes.

18 MR. BRIAN MERONEK: Do you have
19 corrections to make with respect to the -- those
20 responses?

21 MR. JOHN MCCORMICK: The other three
22 (3) that I had not yet got to are in that series. On
23 page 21, in line 31, the first word is 'be', and that
24 should be deleted.

25 Also on that page, in Footnote 31, the

1 last two (2) digits of the sentence are '31' for no
2 reason I can justify at the moment, so they should be
3 deleted.

4 On page 22, below line 16, in the
5 columnar headings on the right, "December 12," should
6 be, "December 14"; "March 4," should be, "March 15."

7 And on page 23, in the columnar
8 headings under line 4, "DECT," should be without the
9 'T'.

10 There are a number of punctuation
11 mistakes but these are the changes that I have become
12 aware of.

13 MR. BRIAN MERONEK: Thank you, sir.
14 Just -- just in terms of your background, could you
15 briefly describe to the Board your background as it
16 relates to finance in a regulatory setting?

17

18 (BRIEF PAUSE)

19

20 MR. JOHN MCCORMICK: In a regulatory
21 setting, the first appearance that I had before any
22 board was in a Alberta regulatory proceeding related
23 to deferral accounts, where I was retained as,
24 essentially, a Friend of the Court by the board in the
25 middle of a proceeding to offer independent expert

1 evidence on financing rates that existed at that time
2 for some several hundred millions of dollars, the --
3 the recovery of which had been deferred. And I refer
4 to that as the 2000 deferral account proceeding.

5 Subsequent to that appearance, in -- in
6 a regulatory setting, I have appeared twice before the
7 British Columbia Public Utilities Board, the National
8 Energy Board at least twice, and the Alberta Board in
9 a number of proceedings, always related to financial
10 matters and spanning a -- a large range of financial
11 matters, interest rates to the specific provisions of
12 trust deeds that may be relevant to competing claims
13 between the utility and their shippers.

14 MR. BRIAN MERONEK: And also you've
15 appeared before the Manitoba Public Utilities Board
16 before?

17 MR. JOHN MCCORMICK: Yes, I have
18 appeared before the Manitoba Public Utilities Board on
19 two (2) occasions: one (1) in the 2009 Centra
20 proceeding, and again in the 2010 Hydro proceeding.

21 MR. BRIAN MERONEK: And I understand
22 that you have represented certain Intervenor groups in
23 -- in various regulatory proceedings.

24 Could you identify generically who
25 you've represented before?

1 MR. JOHN MCCORMICK: Well, the
2 Intervenor groups depend upon the transaction. Moving
3 from east to west, I represented the shippers on
4 Maritime pipelines -- Maritimes and Northeast
5 Pipeline, who included Mobil, Exxon, Pengrowth, and a
6 number of significant oil and gas concerns with
7 interest in the offshore area.

8 In terms of my proceedings in British
9 Columbia, I've generally dealt or appeared on behalf
10 of the consumer groups. In this province, it's either
11 been your firm, sir, or the Public Interest Advisory
12 Centre that has represented me on behalf of CAC or
13 CAC/MSOS.

14 In Alberta, it has been a more diverse
15 group. It has been, as I mentioned, the -- the Board
16 itself in my initial appearance. I have appeared once
17 for a utility, Alberta -- I'm sorry, AltaGas
18 Utilities, in a review and variance application.

19 But generally for consumer groups,
20 which would be represented by either a users group of
21 some sort or in the case of the city or -- City of
22 Calgary, or CAPP, the Canadian Association of
23 Petroleum Producers, who would have sponsored my
24 evidence from time to time when they thought the
25 matters were relevant to the proceeding.

1 MR. BRIAN MERONEK: Thank you, sir.

2 With that, Mr. Chairman, at the
3 pleasure of the Board, I'd like to have Mr. McCormick
4 qualified as an expert for the purposes of giving his
5 evidence today in these proceedings.

6

7 RULING (QUAL.):

8 THE CHAIRPERSON: We agree that the --
9 the -- the panel agrees that the -- Mr. McCormick can
10 serve as an expert for this proceeding.

11

12 EXAMINATION-IN-CHIEF BY MR. BRIAN MERONEK:

13 MR. BRIAN MERONEK: Thank you, sir.

14 Now, Mr. Chairman, rather than a canned dog and pony
15 show, I'm going to ask Mr. McCormick to summarize his
16 evidence and -- with certain emphasis on the rebuttal
17 evidence that's been filed and talked about in these
18 proceedings. So without further adieu, Mr. McCormick,
19 please proceed.

20 MR. JOHN MCCORMICK: Mr. Chairman and
21 the panel, thank you for receiving me today. My evid
22 -- evidence today is premised on one (1) specific line
23 of the decision, and that was 128/'09, in which the
24 Board suggested that in financial matters, it would be
25 preferred if Centra's individual best interest was

1 considered.

2 And with that premise, I'm going to
3 touch on two (2) topics. I'm going to talk about the
4 Board reaching a determination as to the reasonable
5 interest costs that should be reflected in the rates,
6 and I'm also going to talk about policies that I
7 believe might be help to consumers of Centra's
8 services in the long run, but not specifically related
9 to today's determination of the rates for this year.

10 Under the category of reasonable
11 interest rates, I'm going to talk about my view of the
12 importance of updates. I'm going to talk a little bit
13 about the forecast methodology, much of which came out
14 of the 2009 decision.

15 And I'm going to touch two (2) other
16 topics; I'm going to speak briefly about the changes
17 in debt that are -- or have taken place in Centra and
18 how they might impact consumers, and my use of public
19 market comparables to assist me in identifying what
20 may be the better rate for Centra debt transactions.

21 Under the policy side, there is a
22 policy aspect to the question of providing updates.
23 And in terms of the other policy aspect, I have
24 suggested that the new policy that Centra apparently
25 has to restrict its debt maturity to 15 percent of its

1 total debt in any particular year is a good policy.

2 But I would like to offer a suggestion that I hope
3 will make it better.

4 And I also may briefly touch on the
5 policies or practices under which Centra accesses debt
6 through Manitoba and Manitoba Hydro.

7 But to summarize my evidence under the
8 heading of 'Reasonable Interest Rates and Updates' in
9 particular, I believe, and continue to believe, that
10 the Board needs the best information to determine the
11 reasonable interest rates that should be included in
12 rates.

13 In -- in 2009 Centra did provide an
14 update on May 29th, sometime after my evidence was
15 filed on May 15th. And in that proceeding, that
16 update was a significant update. In the first two (2)
17 years in aggregate on the T-bill rates, they changed
18 the cumulative value by approximately five hundred and
19 seventy-five (575) basis points.

20 So that update was significant both in
21 the change in rates applicable to T-bills -- there
22 were changes also on the long-term rate forecast, but
23 it was also significant because at that time Centra
24 had a very large forecast amount of short-term debt.

25 So big change in basis points over two

1 (2) years, lots of debt, very significant. And if one
2 was to refer to page 51 of Order 1 -- 128/'09, you can
3 see a little table that the Board, at that time, put
4 forward showing the changes. But in an effort to not
5 abuse the Board's time, I'm going to race along.

6 In this Hearing, again, we have
7 received another update. And this update is in June;
8 again delivered after my evidence was filed. And the
9 change in the T-bill rates -- again restricting my
10 comments to T-bill rates at this time -- is about
11 ninety (90) basis points over the two (2) years when
12 you total the two (2) numbers together.

13 And that is less significant, because
14 it's smaller than five seventy-five (575), and it's
15 also less significant financially in that it now
16 applies to a smaller proportion of Centra's debt,
17 because Centra has increased the length of its long-
18 term fixed-rate financings.

19 So the update though is not
20 inconsequential, because it is bringing the Board new
21 information. And again, it is, in my view, important
22 that the Board get these updates in the proceedings,
23 ideally before the Intervenors would have to file
24 their evidence so that we could provide you with our
25 views of the update. And we would then be a position

1 perhaps to enhance regulatory efficiency. But we
2 would also be in a stronger position for the consumer
3 benefit, in that timely information has been delivered
4 in the process.

5 Now, the question of what is a timely
6 update is something that I feel very strongly about.
7 My evidence is structured using information generally
8 from April and May, with one (1) exception of a March
9 date of forecaster information.

10 The update, which I believe is in the
11 PUB/CENTRA Part 2 Number 141 uses data -- data from
12 January through March. And in terms of the updated
13 information, we are now closer, Centra and I, in terms
14 of our focus on rates and our estimates of rates, than
15 we were relying on their November data. Mine, I
16 think, are still a bit lower for the '14/'15 year, but
17 we have made progress.

18 But in terms of the timeliness, I do
19 appreciate that Centra has a long, involved process of
20 approving its economic outlook. But in terms of the
21 Board's requirement for information to perform its
22 function, I see that as a separate piece.

23 I -- I'm quite happy to have the
24 economic outlook available. But, frankly, once we've
25 nailed down forecasters that we prefer to use and once

1 we've got an Excel spreadsheet to take their data
2 points and turn them into the average for the
3 particular fiscal or calendar year, it's not an
4 overwhelming task to update matters.

5 Centra, in its rebuttal evidence, I
6 think, at page 3 and page 11, makes the point that, in
7 their thinking, this update is not a material change.
8 And I remain of the belief that we need the update in
9 all circumstances where we're meeting to decide on the
10 appropriate rate of return to the debt component to
11 cover the interest costs.

12 And I would suggest that we really have
13 two (2) recent hearings: one (1) where the update was
14 significant and material, other where it is a smaller
15 change. But, frankly, that's just luck. Had
16 circumstances been different, had Centra made
17 different choices, in terms of the amount of debt that
18 would be affected by T-bill rates or floating rates,
19 we would have bigger numbers. And to withhold an
20 update because it might be considered immaterial
21 raises the question of what is immaterial.

22 Again, focussing on T-bill rates, when
23 I look at the forecast for '13/'14, '14/'15, in the
24 Spring 2012 numbers, and I look at the fall numbers,
25 those two (2) year T-bill rates change by about ninety

1 (90) basis points. The fall to the January/March
2 numbers changed again by ninety (90) basis points.

3 So it's hard for me to say, Oh, yes,
4 this one is inconsequential, and set that as a
5 precedent, so...

6 THE CHAIRPERSON: Mr. McCormick, could
7 you direct your microphone just a foot so that it's
8 pointing directly to your mouth? Just move that arm
9 just ever so slightly. Okay, that's good. Thank you.

10 MR. JOHN MCCORMICK: Thank you, Mr.
11 Chairman. I'd like to move over to the topic of
12 upward bias. And in terms of the...

13

14

15 (BRIEF PAUSE)

16

17 MR. JOHN MCCORMICK: Page 17 of my
18 evidence provides two (2) tables, and the first table
19 is some TD economic forecasts for end-period data for
20 thirty (30) years -- thirty (30) year Canada bonds,
21 rather. And it provides four (4) March dates that I
22 happened to have on file as I prepared this chart.

23 The little dotted line is the actual
24 rates that are being forecast. So you can see in the
25 lead-up to the March 2010 forecast, we have lower

1 rates. The trend continues up. And in looking at the
2 four (4) lines, you'll see in some cases the
3 forecasters during this period had substantial
4 differences a year out.

5 If you look at the midpoint of the
6 graph, there is a large difference between the
7 slightly over 4.5 percent rate that was then forecast
8 and the actual rate. And that's a forecast that was
9 at that time only a year out. So forecasters have a
10 great deal of difficulty making forecasts.

11 Sometimes they do forecast low. And
12 you'll see in the Desjardins ten (10) year chart that
13 the Desjardins -- I think it's the January '09
14 forecast, the second one, actually was less than the
15 actual values that came to pass during the early part
16 of the forecast period.

17 I've been looking at forecasts for many
18 years now, and the occasions where forecasters are low
19 are few and far between. They tend to be early period
20 or specific times of turbulence, perhaps a year, say
21 late '93 early '94 for example, where they just miss
22 some event that's happening in just the same way
23 forecasters perhaps in 2007 missed the excitement of
24 2008.

25 But they tend to recalibrate very

1 quickly, and they tend to start their forecasts pretty
2 close to where the action is. And you'll see that in
3 each of those charts. But the ability to forecast for
4 next week is so much more strong than it is to
5 forecast a year or two (2) years out because there are
6 many aspects in motion.

7 And so when I describe this concept of
8 bias, it's in the inputs. And so when Centra takes
9 these inputs -- and, frankly, when Manitoba Public
10 Insurance takes the inputs -- of a smaller group and
11 develops the forecast for whatever purposes that are
12 respectively doing it, because the inputs tend to
13 assume higher end-point values than normally take
14 place, we're in a position that we have a very high
15 probable expectation that two (2) years out we will be
16 wrong, and the actual will be lower. In some cases,
17 materially.

18 And so one of the things that I have
19 wrestled with in this proceeding is trying to find a
20 way to help Centra modify its forecasting
21 methodologies, which came out of some of my comments,
22 I think, in 2009, so that they are more representative
23 of what will happen.

24 And even if we never achieve that, you,
25 the Board, have the authority to be cognizant of the

1 implications of these higher forecast rates than
2 actuals in your own assessment of the material that
3 comes before you.

4 Part of the discussion of bias --
5 sorry, just one (1) more point; this page is probably
6 the most important page in my entire evidence. So
7 before I -- I move on to selection bias, I -- I want
8 to just touch on an example which I think we may have
9 all heard of in the newspaper.

10 In several recent elections, the
11 pollsters have not been accurate in determining which
12 party would have achieved success. And one (1) of the
13 possible causes that has been discussed in the media
14 was that they used random telephone polls to ask
15 people their preferences. And there are a number of
16 problems in trying to get people to respond to surveys
17 anyway, but apparently if you're using landlines as
18 your source, you tend to get people who are older than
19 younger, and that can lead to a -- an unintentional
20 bias in the results.

21 It's a selection bias. Because of the
22 method you used to get the data, you're potentially
23 going to be off. But it's founded on a random process.
24 They don't phone every number. They don't phone a
25 particular subset of communities. They try and select

1 people randomly so that they have a -- a broad
2 consensus or a broad range of opinion.

3 By my count, there are at least twenty-
4 eight (28) forecasters who provide some measure of
5 information that is either embraced in the Centra
6 forecast pool, or other people who are represented on
7 Bloomberg, at least producing some portion of the
8 detail.

9 The choice of these forecasters is not
10 random. Centra has chosen them, I heard this morning,
11 because they provide what might be described as a full
12 slate of services that are of assistance to it in its
13 risk-management proceedings. And that's certainly a -
14 - a good justification for why they use this batch for
15 the various things they use it for.

16 But in terms of this particular
17 process, where we're discussing the reasonable
18 interest rates, it's still a selection bias. It's a
19 selection. We ended up with these names. The results
20 are bias and we see that because Centra has, over a
21 period of years, according to some of the IRs filed in
22 this hearing, have forecast more interest costs than
23 actually arose.

24 And in the discussion of this concern
25 in my evidence, we address some IRs asking for details

1 about why we may have included Desjardins but not JP
2 Morgan. And I -- I accept that they have had a reason
3 for doing this. But in terms of the net result, my
4 goal is to have you having the most accurate
5 information available to you to prepare your
6 reasonable interest costs in the rates.

7 And frankly, if we are constantly high,
8 it would be beneficial either for you to take that
9 knowledge into your judgment when you make your
10 decision as to the appropriate rates, or we prune the
11 sample to reduce the over-forecasting of higher
12 interest rates or the -- the bias, this -- that we
13 have in terms of coming up with forecasts that are
14 higher than the bullseye on the target. You think of
15 a dartboard, we're trying to come up with interest
16 rates that are that little green circle in the centre.

17 It would be wonderful if the
18 forecasters provided us with a complete circle around
19 the little green dot in the centre of the dartboard,
20 but that's not what's happening. What we're finding
21 is all of the forecasts, when we step out from the
22 first quarter or the second quarter, tend to be in the
23 upper half of the -- the dartboard. And so to fix
24 that we can make an adjustment or you can take into
25 consideration the fact that we are perennially high in

1 these forecasts. My goal is to be accurate.

2 Over the several proceedings that I've
3 been commenting on this in Manitoba, I -- I've given
4 written evidence and oral evidence touching on how we
5 might use tools at our disposal to make things more
6 accurate. And I -- I believe in Footnote 4 of the
7 rebuttal evidence -- I'm sorry, it's Footnote 6 on
8 page 4 of the rebuttal evidence, Centra reminds me of
9 my evidence and testimony with respect to Scotia and
10 National.

11 The Scotia and National discussion came
12 from Question 21 of my 2010 Hydro evidence, from pages
13 25 to 28. And in looking through that, I make clear
14 in that area that this is an example that, with the
15 small sample, were we to enlarge the sample, that the
16 analysis of who would be the best forecaster would
17 likely exchange, and that as with all examples this is
18 not intended to be an exhaustive methodology.

19 So when I say, as I have in evidence,
20 if I can find some guy who is consistently right for a
21 while I want to back him. If his projections are dead
22 on, he's the only guy I want to talk to.
23 Unfortunately, we haven't found those guys, but there
24 will be combinations of forecasters who may provide us
25 with very low error factors. And those are the people

1 that I'd like to be doing business with and like the
2 Board to have at their disposal when they go to make a
3 decision as to what are the appropriate interest rates
4 to be included in revenue.

5 I have no brand loyalty to Scotia, one
6 (1) of my former employers, or to National Bank, the
7 successor to me when I was a director of Levesque
8 Beaubien Geoffrion.

9

10 (BRIEF PAUSE)

11

12 MR. JOHN MCCORMICK: Before I leave
13 page 4 of Centra's rebuttal evidence, in the last
14 paragraph in the -- the boxes, Centra addresses two
15 (2) topics, and they suggest it's a
16 mischaracterization to refer to Centra's ability to
17 successfully take advantage of the prolonged low
18 interest rate environment as a chronic uncorrected
19 bias in the results of the forecasting methodology
20 when compared to actual results.

21 THE CHAIRPERSON: I'm sorry, you're on
22 what page, Mr. McCormick?

23 MR. JOHN MCCORMICK: I'm on page 4 of
24 26 of the Centra rebuttal evidence, sir.

25 MR. SVEN HOMBACH: And, Mr. Chairman,

1 if it helps, on PUB -- in Board counsel supplementary
2 book of documents, it's page 395.

3 MR. JOHN MCCORMICK: The chronic
4 uncorrected bias comes about from the data points that
5 we get from TD and Desjardins, the other forecasters,
6 that -- that I've graphed on page 17 of my evidence.
7 And I do not link them to Centra's ability to
8 successfully take advantage of the prolonged interest
9 rate environment. In my mind, those are two (2)
10 completely separate things.

11 Centra's opportunity to take advantage
12 of the low interest rate environment is due to a
13 number of factors. They had a relatively short
14 weighted average term to maturity. So in the last few
15 years they've had quite a bit of debt come up. Had
16 there been no maturities, there would have been no
17 refinancing and little opportunity to directly take
18 advantage of new issues at low rates.

19 And, similarly, as largely a price
20 taker, Centra is not big enough in its own demands to
21 move the interest rate markets in any significant way.
22 So on that basis, we're also very lucky that the large
23 amount of debt that has been refinanced over the last
24 few years did not happen at that ugly pinnacle time in
25 the interest rate chart, which you see in the debt

1 management document and several other documents in the
2 history, which occurred in the late '70s, early '80s,
3 where we had, depending on what you think was a bad
4 time, between four (4) and six (6) years of punishing
5 interest rates.

6 So with respect to Centra's concern
7 that I have linked those two (2) things, I would
8 clarify that I think they are broadly separate. And
9 Centra's ability to take advantage of the low interest
10 rate environment is due to historical facts and the
11 change in the interest rate.

12 And I would hope that should their
13 maturity schedules ever take them into a position
14 where they're dealing with punitive interest rates,
15 that they would not think that I was in any way
16 unpleasant by suggesting that they probably couldn't
17 have known when they selected the maturity date about
18 that condition. In just the same way, when they're
19 recently refinancing they didn't know that it was
20 going to be a wonderful time to be refinancing in the
21 last few years.

22 Now, on page 6 of Centra's rebuttal
23 evidence, Centra, with respect to the short-term rates
24 and longer-term rates, which are T-bills or ten (10)
25 year plus Canada's in these examples, they observe

1 that my annual average is below a rate that took place
2 on June 11th and the rate which may apply, according
3 to Bloomberg on March 31st, 2014.

4 I'm still very happy with my forecasts.
5 One (1) of the things I am aware of is that rates go
6 up and down. Centra, somewhere in the documentation,
7 notes that there has been a thirty (30) basis point
8 change in the last month, which have affected rates.
9 And thirty (30) basis-point changes aren't frequent,
10 but they're also not irregular events.

11 Having spent some time talking about
12 interest rates over a long period, I can tell you that
13 from 1990 to 2013, or 1990 to 2007, depending on which
14 period you'd like, we might have somewhere in the
15 order of 20 percent of the monthly changes being
16 thirty (30) basis points up or thirty (30) basis
17 points down, and the market corrects itself. The next
18 month it is rarely as significant, and -- and it may
19 not even be in the same direction in the next month.

20 So while I am not prepared to dispute
21 Centra's June 11th numbers, or the then-forecast for
22 2014, March 31st, I'm still quite comfortable -- and,
23 in fact, if you look at my quarterly average for the
24 ten (10) plus rates in -- in one (1) of my IRs I -- I
25 believe I thought that mon -- that quarter would

1 average about two point six zero (2.60). So no
2 surprise there.

3 Shifting for a moment to a new topic.

4 Centra has dramatically changed the type of debt that
5 it had and was forecasting from 19 -- 2009, rather, to
6 today. In 2009 Centra had had somewhere between 20
7 and 40 percent of its total debt in short-term debt.
8 And they have now moved away from that and have put in
9 a new floating rate issue of \$35 million, and will put
10 in others in their intention.

11 From the consumer point of view, I'm a
12 little bit sad to see this change. And as a very poor
13 golfer I -- I sometimes see children out on the golf
14 course with their little bags with three (3) tools in
15 it: they've got a putter, they've got an iron, and
16 they've got something that looks kind of like a
17 driver. And in no way to be disrespectful to Centra,
18 Centra kind of had three (3) financial tools available
19 to it for the last few years.

20 They had the short-term debt tool.
21 They had long-term fixed-rate debt. And they've now
22 started to use the new tool, the long-term floating-
23 rate debt. My sadness in the change, whatever the
24 justification of the change is, is that in the 2009
25 hearing we gained a true-up for the use of short-term

1 debt and it was at a very low spread.

2 I think it was a straight BA or T-bill
3 rate, depending on which time period you're speaking
4 of, but essentially there wasn't the addition of
5 twenty (20) or forty-five (45) basis points of spread
6 or margin in the rate. So rates have gone up. But I
7 -- I do -- I have read their justification for this.

8 The other thing that has happened is
9 that Centra and Manitoba Hydro, as we see from some of
10 the other schedules in the evidence, are prefunding to
11 take advantage of the short-term debt. And to the
12 extent that you have a very effective tool that gets
13 you low rates, like one (1) month T-bills or one (1)
14 month BAs, and you substitute that for longer-term
15 fixed rate debt, the short-term interest costs
16 increase.

17 And I know that Centra has a slightly
18 different view on this related to the full cost, and -
19 - and they have provided a lovely little chart in
20 their material. But in -- in the first year, the
21 nominal year, it looks to me like we have a particular
22 loss from that.

23 My final topic on interest rate
24 forecasting is the use of public market comparables.
25 And in my evidence I spoke of Series 10 and Series 15

1 as being ones that caught my interest. And that again
2 was related to the line from Order 128/'09 which spoke
3 of Centra's individual best interest. And I -- I do
4 know that treasury operations are consolidated.

5 In...

6

7 (BRIEF PAUSE)

8

9 MR. JOHN MCCORMICK: In page 9 of the
10 IR series related to PUB/CAC, I have a little table of
11 information drawn from Bloomberg showing the floating-
12 rate instruments outstanding at a particular period of
13 time for Manitoba.

14

15 CONTINUED BY MR. BRIAN MERONEK:

16 MR. BRIAN MERONEK: That would be Tab
17 65, page 439.

18

19 (BRIEF PAUSE)

20

21 MR. JOHN MCCORMICK: Now, coming from
22 Alberta, I -- I may not have understood some of the
23 nuances of how Centra is funded, but I had understood
24 over time that Centra was to have the Manitoba rate
25 plus a hundred basis points. And my uncertainty now

1 comes, because I'm not sure whether it's the Manitoba
2 -- Manitoba the province accessible rate, or whether
3 it is a subset of those rates that are under some
4 process made allocatable to either Hydro, or Hydro and
5 Centra.

6 And when I look at the history of
7 funding presented in this table I see that in January
8 of 2010, on a particular day, Manitoba was able to
9 enter the market and undertake a -- an issue for four
10 point two (4.2) years at quarterly CDOR, which is
11 essentially BAs plus 18 basis points in terms of
12 margin or spread.

13 And I -- I really don't know how the --
14 the internal process works, but I would have thought
15 that if we had known that there was going to be a
16 refinancing required in Centra in February, someone
17 might have picked up the phone and said, Gee, it would
18 be really nice if we could have some floating-rate
19 debt, some fresh, new floating-rate debt sometime in
20 the next little while.

21 And it looks to me like there may have
22 been an opportunity for Centra to be accorded a
23 floating-rate debt instrument, perhaps at 18 basis
24 points of margin or spread. Now, having gone through
25 some of the other material, I do see that Hydro, I

1 believe, participated in the issue also shown on this
2 table as a May 4th issue.

3 And again, I don't know the internal
4 workings to do that. What we do know is that there
5 was a transaction, a relatively complex transaction, I
6 think involving a forward interest rate swap that had
7 been entered into and -- on something called series
8 EL. And again, I have no information that series EL
9 had anything to do with Centra's business affairs, but
10 looking at the single statement of Order 128/'09,
11 suggesting we have to look at Centra's individual best
12 interest, it's puzzling to me that we were not able to
13 access that particular transaction.

14 And I will admit that Hydro has very
15 complex financial affairs. You can see that in the
16 information related to the historic manner in which
17 they were reporting the structure of their debt. And
18 in the 2010 Hydro hearing, in a particular IR,
19 CAC/MSOS/MH-11-148B, there's a table that I think is
20 based on the physical maturity dates. And it shows
21 during a period from March 2004 to March 2009, actual
22 data between eight point seven (8.7) and ten point one
23 (10.1) years weighted average term to maturity.

24 If one looks at the similar table
25 provided in 2012 in PUB 1-67G Revised, the methodology

1 appears to have changed. And I am unsure how we got
2 there, but I -- I suspect this one is the outward date
3 of the longest interest transaction date.

4 So in these complex affairs, there will
5 be issues that are related to broader-term strategies
6 that make it difficult to link the rate on a physical
7 issue done by Manitoba through to the Centra rates.
8 And I don't have an answer for you on these
9 strategies; I can only point out the difference or a -
10 - a couple of instances where they arise.

11 So enough about the Board. And finding
12 interest rates a fascinating topic, I'd like to just
13 touch on the policy aspect. And my request to the
14 Board, in terms of policy, would be that they -- were
15 they to think it fit, to ask the Board to set terms of
16 any update that you think is important to receive, in
17 terms of time limits, the proximity of the actual
18 forecasts to the date of delivery.

19 The other thing that you might consider
20 doing is to ask Centra, when they are bringing you the
21 update, that they adopt the methodology which was
22 discussed in CAC/MSOS/MH-2-161 Revised, in which at a
23 date in 2010 they seemed to suggest that they are
24 excluding Informetrica, Spatial Economics, Conference
25 Board, and IHS Global Insight from those forecasters

1 who are used to develop the forecast for years 1 and
2 2.

3 In this discussion and the evidentiary
4 filing that we have going back and forth, I've been
5 suggesting that to reduce the upward bias that I see
6 and have identified on page 17, we might take out
7 forecasters from the early period. It seems to me
8 that at some point in time, if I have understood this
9 IR correctly, Centra did, in fact, have -- pardon me,
10 this is a Manitoba Hydro statement -- Manitoba Hydro
11 did exclude some of the forecasters for a period of
12 the forecast.

13

14 (BRIEF PAUSE)

15

16 MR. JOHN MCCORMICK: My final comment
17 will relate to page 10 of the rebuttal.

18

19 (BRIEF PAUSE)

20

21 MR. JOHN MCCORMICK: Apparently, that
22 is page 401 of the book of authorities, supplement --
23 counsel's supplementary book of documents on Tab 64.

24 In line 3, it is suggested that I have
25 some thought that we need to protect Centra from

1 Hydro. If you look at the footnote, my point was we
2 need to better understand whether Hydro -- I'm sorry,
3 whether Centra is being financially disadvantaged or
4 exposed to higher levels of risk, other than those
5 experienced by Hydro.

6 To the extent that Centra had, in the
7 past, high levels of debt in a particular financial
8 year, that's a higher level of risk. I would see
9 those reduced. I'm greatly in favour of spreading
10 maturities. I don't think that we need to protect
11 Centra from Hydro, but it would be nice if we had
12 policies that were referable so that we would be in a
13 position to see that we have dealt with the risk that
14 Centra faces.

15 As I pointed out in my evidence, for
16 example, spanning -- I believe it's two hundred and
17 nine (209) days spanning a fiscal year-end, about 25
18 percent of Centra's debt will mature in a future year,
19 would -- that it would be spread out more just in case
20 that future year is one (1) of the years in which we
21 have a forecast of usurious rates.

22 The -- these would be my opening
23 summary comments. Mr. Chairman, I thank the Board for
24 listening so patiently to me. And I'm certainly
25 willing to receive questions now.

1 THE CHAIRPERSON: Do you need some
2 time, Ms. Boyd, to prepare your cross-examination, or
3 are you prepared to go ahead right now?

4 MS. MARLA BOYD: I would appreciate
5 perhaps about a fifteen (15) or twenty (20) minute
6 break, sir.

7 THE CHAIRPERSON: Okay, let's do that
8 then. Back together again at ten (10) after 2:00.

9 MS. MARLA BOYD: Thank you.

10 THE CHAIRPERSON: Thank you.

11

12 --- Upon recessing at 1:51 p.m.

13 --- Upon resuming at 2:12 p.m.

14

15 THE CHAIRPERSON: I believe we're
16 ready to proceed. Ms. Boyd, please...?

17

18 CROSS-EXAMINATION BY MS. MARLA BOYD:

19 MS. MARLA BOYD: Thank you, Mr. Chair.
20 You'll be pleased to know that I spent my allotted
21 time crossing out rather than adding in, so we will be
22 very brief. But good afternoon to Mr. McCormick, Mr.
23 Meronek.

24 I just want to start by clarifying, Mr.
25 McCormick. You understand that Centra is seeking

1 rates for a '13/'14 test year? There isn't a two (2)
2 test year period combined here?

3 MR. JOHN MCCORMICK: Yes, I understand
4 that.

5 MS. MARLA BOYD: So your references to
6 basis differentials that covered a period of two (2)
7 years, that included '14/'15, which are not the
8 subject of this Application?

9 MR. JOHN MCCORMICK: Yes.

10 MS. MARLA BOYD: You suggested in your
11 evidence today and in your earlier written evidence
12 that the appropriate ten (10) year plus interest rate
13 for the '13/'14 test year was 2.36 percent.

14 Is that right? I have it at page 22 of
15 your responses to IRs, if that helps.

16

17 (BRIEF PAUSE)

18

19 MR. BRIAN MERONEK: Would that be page
20 23?

21

22 (BRIEF PAUSE)

23

24 MS. MARLA BOYD: I had page 22, lines
25 6 and 7. It's a response to PUB/CAC-1-8.

1 MR. JOHN MCCORMICK: Yes. And the
2 calculation appears just before line 5 on page 23.

3 MS. MARLA BOYD: Thank you. Just to
4 be clear, that 2.36 percent does not include the
5 credit spread that would have to be applied, correct?

6 MR. JOHN MCCORMICK: It is the ten
7 (10) plus Canada rate. It does not include credit
8 spreads, it does not include your cost of borrowing,
9 or issue expenses, however you care to describe them.

10 MS. MARLA BOYD: And have you made an
11 assessment of what the appropriate credit spread would
12 be between Canada and Manitoba?

13 MR. JOHN MCCORMICK: I did not make
14 that part of my evidence in this hearing.

15 MS. MARLA BOYD: And it would also --
16 it would also not include the provincial guarantee fee
17 that's paid by Centra, correct?

18 MR. JOHN MCCORMICK: Correct. The ten
19 (10) plus is an average of ten (10) plus thirty (30)
20 year bonds.

21 MS. MARLA BOYD: And just by way of
22 reference, if I could take you to page 51 of your
23 written evidence, please.

24

25 (BRIEF PAUSE)

1 MS. MARLA BOYD: Do you have that,
2 sir? At your response to Question 34, you've provided
3 a table of recent Bloomberg data showing an indicated
4 yield curve for Manitoba, correct?

5 MR. JOHN MCCORMICK: Correct.

6 MS. MARLA BOYD: And if I were to take
7 the ten (10) year rate and the thirty (30) year rate,
8 and average them, that would result in the comparable
9 ten (10) year plus rate for Manitoba, correct?

10 MR. JOHN MCCORMICK: On the particular
11 day in question yes.

12 MS. MARLA BOYD: As of May...?

13 MR. JOHN MCCORMICK: Thirteenth.

14 MS. MARLA BOYD: Thirteen. Thank you.
15 And if I did my math right, I get 3.2141 percent.

16 Do you agree with that?

17 MR. JOHN MCCORMICK: I'll take it
18 subject to check.

19 MS. MARLA BOYD: And in addition to
20 that you'd have to add the transaction costs.

21 Is that correct?

22 MR. JOHN MCCORMICK: Yes.

23 MS. MARLA BOYD: And, of course, the
24 provincial guarantee fee?

25 MR. JOHN MCCORMICK: I thought you

1 already added that once. So just for clarity, it
2 would be the ten (10), plus the provincial guarantee
3 fee, plus the cost of issue which might be six (6) or
4 eight (8) basis points depending on the period you're
5 amortizing over.

6 MS. MARLA BOYD: So two (2) -- three
7 point two-one-four-one (3.2141) plus approximately six
8 (6) or eight (8) basis points would bring us to three
9 point two-seven (3.27) to two-nine (29), plus
10 provincial guarantee fee?

11 MR. JOHN MCCORMICK: Yes.

12

13 (BRIEF PAUSE)

14

15 MS. MARLA BOYD: Thank you, Mr.
16 McCormick. Those conclude our questions.

17 THE CHAIRPERSON: Thank you, Ms. Boyd.
18 I turn the microphone over to you, Mr. Hombach.

19 MR. SVEN HOMBACH: Thank you, Mr.
20 Chair, I'm ready to proceed.

21

22 CROSS-EXAMINATION BY MR. SVEN HOMBACH:

23 MR. SVEN HOMBACH: Good afternoon, Mr.
24 McCormick. I expect to take you through two (2) bound
25 volumes of documents, or at least refer to them in my

1 cross-examination. I just want to make sure that you
2 have those available to you. The first is Volume II
3 of II of Board counsel's book of documents.

4

5 (BRIEF PAUSE)

6

7 MR. SVEN HOMBACH: And the second is
8 Board counsel supplementary book -- book of documents
9 which was made PUB Exhibit 13 this morning, and which
10 also contains a copy of your evidence.

11 Now, Mr. McCormick, you testified that
12 you provided evidence on behalf of CAC in the last
13 Centra GRA. Is that correct?

14 MR. JOHN MCCORMICK: Yes.

15 MR. SVEN HOMBACH: And you're familiar
16 with Order 128/'09 that resulted from that GRA?

17 MR. JOHN MCCORMICK: I have read it,
18 yes.

19

20 (BRIEF PAUSE)

21

22 MR. SVEN HOMBACH: And in response to
23 one (1) of the PUB Information Requests you -- you
24 provided an opinion as to your interpretation of
25 whether or not the directives had been complied with.

1 And I refer you to Tab 65, page 431 of the
2 supplementary book of documents.

3 MR. JOHN MCCORMICK: I have that.

4 MR. SVEN HOMBACH: I'd like to just
5 spend a minute to go through those with you, Mr.
6 McCormick. First of all, in response to Directive 9A,
7 which indicated that the use of all forecasts should
8 be based on comparable average period -- on a
9 comparable average period data basis.

10 Your view remains that Centra is
11 broadly compliant?

12 MR. JOHN MCCORMICK: Yes.

13 MR. SVEN HOMBACH: What is your view
14 with respect to 9B, the use and alignment of current
15 date -- data forecasts excluding stale-dated and
16 superceded forecasts?

17 MR. JOHN MCCORMICK: With respect to
18 Centra's use of forecasts the update that they
19 provided in the hearing most recently in May 29th uses
20 January/February/March material, if my memory is
21 correct.

22 My information was March/April/May
23 material. There may be some forecasters who only
24 produce in a particular year, but in terms of having
25 the most timely data available to the Board and their

1 decision-making, frankly, bank forecasts from January
2 and February don't cut it when the March, April, or
3 May one is available.

4 MR. SVEN HOMBACH: Are you able to say
5 with some degree of certainty that the various
6 forecasters chosen by Centra all have April or May
7 forecasts available as opposed to prior dates?

8 MR. JOHN MCCORMICK: I would say with
9 some certainty that your proposition is not true. I
10 believe there are a couple of forecasters that provide
11 annual data. The old IR that was produced in 2010,
12 CAC/MSOS/MH-2-161 Revised, suggests that Informetrica
13 and Spatial Economics provide annual data. And I --
14 I'm unsure of the date, I'm not a subscriber to either
15 of those publications. IHS Global is identified as
16 providing monthly and semi-annual data. There's no
17 information as to whether there is some subset of the
18 data that they're referring to.

19 And the conference board is shown as
20 providing quarterly data. But typically, the various
21 banks provide data approximately monthly. My memory
22 is that Laurentian might produce eight (8) documents a
23 year staggered over the year, but they are more
24 frequent in their publication.

25 And, if you like, we can go to my

1350

1 evidence and there we can see the dates for the T-bill
2 forecasts that I used on page 14.

3

4 (BRIEF PAUSE)

5

6 MR. SVEN HOMBACH: Now, Mr. McCormick,
7 those are -- I understand the ones at page 348 of the
8 book of documents, and if I read it correctly for a
9 number of them, the forecasts are either based on May
10 data or at least April data?

11

12 (BRIEF PAUSE)

13

14 MR. JOHN MCCORMICK: Yes, those are
15 April and May data. The most recent of them are April
16 and May data. And those are CIBC, Scotia, TD,
17 Desjardin, Laurentian, BMO, and RBC.

18 In the Centra update contained in
19 PUB/CENTRA-2-141 Revised, the dates of the forecasts
20 used there are provided in Table 1. And they include
21 a Scotiabank February 28th forecast where I'm using
22 one that's two (2) months later. It's page 472 in
23 your book of documents.

24

25 (BRIEF PAUSE)

1 MR. SVEN HOMBACH: Before we get
2 there, Mr. McCormick, let me ask you: The analysis
3 for short-term rates that you've just took us to in
4 your direct evidence, did you perform a similar
5 analysis for long-term rates?

6 MR. JOHN MCCORMICK: My memory is that
7 I provided a rate for a smaller period, and I provided
8 that in one of my IRs.

9

10 (BRIEF PAUSE)

11

12 MR. SVEN HOMBACH: Mr. McCormick,
13 taking you back to page 472, the revised interest rate
14 forecast charts that were filed by Centra in response
15 to PUB/CAC-2-148B, is your view then that these charts
16 are not sufficiently up to date for purposes of this
17 hearing?

18 MR. JOHN MCCORMICK: I always prefer
19 the most current data. The rationale for that is I'm
20 not sure when the data is going to change. In terms
21 of the difference between individual forecasters --
22 say the February Desjardins as to the later one that I
23 have used -- I could provide you with an individual
24 comment on the impact of the difference. But my
25 general view is that it would not, at this time, be

1 overwhelmingly significant. We're not going to jump
2 twenty (20) basis points in the two (2) months period
3 we're discussing. But I can assist you with the
4 individual numbers of change, if you would like.

5

6 (BRIEF PAUSE)

7

8 MR. SVEN HOMBACH: Let me take you to
9 page 20 your direct evidence for a moment. You cited
10 there a long-term forecast by RBC and contrasted the
11 Fall 2012 forecast with a May 2013 forecast?

12 MR. JOHN MCCORMICK: Yes.

13

14 (BRIEF PAUSE)

15

16 MR. SVEN HOMBACH: And the trend, if I
17 read it correctly, appears to be about a thirty-nine
18 (39) basis point reduction for the third quarter of
19 2013 and then a forty-nine (49) basis point reduction
20 for the fourth quarter of 2013?

21 MR. JOHN MCCORMICK: Yes, continuing
22 to a hundred and ten (110) basis point reduction in
23 the final quarter of '14.

24 MR. SVEN HOMBACH: Do you have any
25 evidence as to whether there are other forecasters

1 that have also revised their predictions downwards
2 since the fall?

3

4 (BRIEF PAUSE)

5

6 MR. JOHN MCCORMICK: Is there a
7 particular period you're interested in?

8 MR. SVEN HOMBACH: Just the current
9 test year.

10

11 (BRIEF PAUSE)

12

13 MR. SVEN HOMBACH: And, Mr. McCormick,
14 if it's not something for which you have an answer
15 right now, perhaps we could deal with it by way of
16 undertaking.

17 MR. JOHN MCCORMICK: Well, I have some
18 of the data before me, sir. And I'm not a hundred
19 percent sure whether you would like a particular
20 quarter, or the average for the time, or whether you'd
21 like me to essentially recast a table, as you see in
22 page 17, showing updates for the ten (10) plus thirty
23 (30).

24 MR. SVEN HOMBACH: A table on a
25 quarterly basis would actually be the most helpful,

1 keeping in mind again that it can be limited only to
2 the test year, not to future years.

3 MR. JOHN MCCORMICK: I will undertake
4 to provide you a table for an update to the data. And
5 you'd like me to compare the October 2012 numbers, or
6 you'd like me to compare the spring update numbers?

7 MR. SVEN HOMBACH: I'd like you to
8 compare the spring update numbers in the most recent
9 chart filed by Centra to the most recently available
10 forecasts.

11 MR. JOHN MCCORMICK: To the extent we
12 have the data, I will prepare a chart for you in that
13 regard.

14 MR. SVEN HOMBACH: Thank you.

15

16 --- UNDERTAKING NO. 11: CAC to compare the spring
17 update numbers in the most
18 recent chart filed by
19 Centra to the most
20 recently available
21 forecasts

22

23 CONTINUED BY MR. SVEN HOMBACH:

24 MR. SVEN HOMBACH: Okay, now, Mr.
25 McCormick, in your direct evidence you had recommended

1 that Informetrica should be excluded from the
2 forecast. And my understanding is that was because
3 you thought Centra had demonstrated a consistent
4 upward bias in the data and Informetrica simply was
5 the highest forecaster at the time.

6 Is that correct?

7 MR. JOHN MCCORMICK: We're very close.
8 The consistent upward bias comes from the bank data,
9 if you like, the individual forecasters which Centra
10 then averages. So they're carrying that bias forward
11 and, as a result, it creeps into their resulting
12 number.

13 But the TD Bank or Desjardins has an
14 upward sloping curve generally throughout their time,
15 and that is the difficulty of trying to forecast
16 anything. You'll be higher or low. They tend to be
17 high, and so that's where the bias comes from. So to
18 reduce the bias, I would remove a high forecaster.

19 MR. SVEN HOMBACH: Now, if you go back
20 to Centra's most recent update at page 472 of the book
21 of documents, Informetrica seems to be the middle of
22 the pack now and no longer the highest forecaster.
23 However, the late edition of Spatial Economics now
24 seems to be generally the highest forecaster.

25 Do I see that correctly?

1 MR. JOHN MCCORMICK: We're speaking of
2 the T-bill rate chart?

3 MR. SVEN HOMBACH: We're actually
4 speaking of both, but perhaps we can focus on the T-
5 bills first.

6 MR. JOHN MCCORMICK: Yes, Spatial now
7 appears to be the highest of the forecasters.

8 MR. SVEN HOMBACH: In light of that
9 fact, is it still your recommendation to exclude
10 Informetrica or would you revise your recommendation?

11 MR. JOHN MCCORMICK: From this
12 forecast, I would remove Spatial. I should also point
13 out that, in terms of my desire to reduce the impact
14 of the upward bias, I would not necessarily need --
15 remove the same party from each of the T-bill or the
16 ten (10) plus because my goal is to bring down what I
17 perceive to be a consistent error by removing a high
18 data point to bring my average down.

19

20 (BRIEF PAUSE)

21

22 MR. SVEN HOMBACH: Is there any
23 particular reason for your suggestion to just remove a
24 single highest forecaster in any given case, or is
25 that really just a -- a rough proxy?

1 MR. JOHN MCCORMICK: I -- I would
2 describe it as a rough proxy, to use your term. We
3 attempted, in the IR process, to help us quantify the
4 extent to which the forecast was the problem, in terms
5 of the excess interest costs be included relative to
6 the interest costs that was actually incurred.

7 And so to the extent that there are
8 other factors, say issuing a five (5) year deal as
9 opposed to a thirty (30) year deal that would affect
10 the forecast interest, it would be unfortunate to
11 punish Centra because they alter their position to
12 reflect different maturities. But in terms of the
13 forecast variance from reality being the problem, then
14 let's take out a forecaster.

15 And if one (1) isn't enough, ultimately
16 we might take two (2). Generally when I've been
17 describing this, I have viewed it as an iterative
18 process where we might test for a team or a single
19 forecaster who gives us the most robust or accurate
20 forecast.

21 MR. SVEN HOMBACH: Now, your evidence
22 earlier this afternoon was that unfortunately we still
23 have not found somebody that's consistently accurate.

24 I take it that has not changed?

25 MR. JOHN MCCORMICK: I have yet to

1 find someone. There may be someone out there that
2 I've not identified. I don't subscribe to some of the
3 services that Centra subscribes to.

4 MR. SVEN HOMBACH: Now, both Spatial
5 Economics and Informetrica, as I understand it,
6 provide annual data points only, as opposed to
7 quarterly data.

8 Is it your position that it's
9 acceptable to use forecasters that may not have
10 quarterly data points in the consideration, or should
11 those be eliminated?

12 MR. JOHN MCCORMICK: I think it very
13 much depends on what you're forecasting. And I've
14 referred to a -- a Hydro IR a couple of times in this
15 discussion. To the extent that we are forecasting for
16 interest rates in 2030, I'm fine with using Spatial,
17 Informetrica. They're not part of the revenue
18 requirement calculation, and they may provide good
19 input into the future interest rates for those time
20 periods.

21 With respect to a near-term forecast
22 where we are dealing with a offset fiscal year, such
23 as Centra has, we tend to import a few basis points
24 error, because typically we're dealing with a jump
25 from year 1 to year 2 interest rates. And the effect

1 of that, depending on the number of forecasters in the
2 pile, could be enough to tip us up a few basis points,
3 or over the five (5) point rounding methodology, which
4 I understand Centra and Hydro employ.

5 So because I perceive that we have
6 significant uncorrected upward bias, I would not rush
7 to include the annual forecasters in the first two (2)
8 years where we're attempting to identify the revenue
9 requirements.

10 MR. SVEN HOMBACH: Now, we've -- we've
11 established who you would like to exclude from these
12 types of calculations.

13 But let me ask you, is there anybody
14 else that you would like to see included?

15 MR. JOHN MCCORMICK: The short answer
16 is no. I have no favourites. I think that the
17 process should be as convenient as it can be. So in
18 terms of including a new party, I'd like to know that
19 they were providing consistent data without any
20 missing data points in the time series and the -- the
21 data was readily accessible.

22 Beyond that, I really don't have any
23 requirements.

24 MR. SVEN HOMBACH: This being your
25 second Centra GRA at which you're testifying, I take

1 it you're familiar with the procedural process of
2 filing the application having generally two (2) rounds
3 of Information Requests, filing of Intervenor
4 evidence, having Information Requests to the
5 Intervenors.

6 Do you understand that process?

7 MR. JOHN MCCORMICK: I believe I saw
8 it in the first case. I don't believe I saw it in
9 this case.

10 MR. SVEN HOMBACH: If your concern is
11 stale, dated data, when do you think updates should be
12 provided in the course of the hearing and, more
13 importantly, how frequently do you think those updates
14 should be provided, knowing that hearings may drag out
15 for approximately six (6) months? As I understand,
16 this application was filed at the beginning of the
17 year and we're now into June.

18 MR. JOHN MCCORMICK: I think you're
19 asking me a question of regulatory convenience for the
20 Board as opposed to how stale is stale. Because,
21 quite frankly, I would suggest that the Board should
22 always have the most current information, and I don't
23 view it as onerous to retake the Excel spreadsheet and
24 punch in eight (8) or ten (10) numbers for ten (10)
25 forecasters, times three (3) types of debt. It's not

1 a significant clerical exercise to do that.

2 So the hardship of collecting the data,
3 whether it's initially provided at an early point in
4 the process so that we have a, if you like, a current
5 filing within a month or six (6) weeks of the date the
6 application is put forward, that would be fine. But
7 my expectation would be it could be very easily
8 updated, in terms of the -- the small number of data
9 inputs we're putting into the Excel spreadsheet.

10 So I would see no reason why it could
11 not be updated by Board staff in very quick basis,
12 simply by asking Centra to supply the inputs.

13 MR. SVEN HOMBACH: Are you suggesting
14 it doesn't necessarily have to be tied to the update
15 of the economic outlook?

16 MR. JOHN MCCORMICK: If I haven't been
17 clear on that, let me try and be totally clear. I
18 think there's a separate process here. It's wonderful
19 that Centra has a comprehensive economic outlook for
20 their planning. But for the Board's purpose, which is
21 a different purpose -- to achieve reasonable rates --
22 the fact that the economic outlook is now three (3) or
23 nine (9) months old, in my mind, isn't an adequate
24 answer.

25 The Board, in my view, needs what

1 should be relatively easy data to compile for the
2 perhaps two (2) years to accurately forecast or to
3 accurately estimate the rates that should be applied
4 during this period.

5 MR. SVEN HOMBACH: Do you think it
6 would be appropriate to set any type of threshold of
7 materiality, either in terms of total rate impact or
8 in terms of changes in basis points, or do you believe
9 that that would not be appropriate?

10 MR. JOHN MCCORMICK: I'm not sure I
11 follow your question. To the extent that you have
12 asked me do I think we can dispense with a forecast if
13 there is only a cumulative five (5) or ten (10) basis
14 point change in the long or short rate in a particular
15 time period, I -- I would find that troublesome,
16 because you won't know that the interest rates have
17 changed by that small degree until you actually punch
18 the numbers into the Excel spreadsheet.

19 Now that we have the new data punched
20 into the Excel spreadsheet, my guess is that most
21 people aren't going to be upset about a five (5) basis
22 point change or a ten (10) basis point change on a
23 small component of the debt. Centra has now termed
24 out a lot of its long-term debt. And so unless they
25 start really rebuilding their system, there won't be

1 tremendous requirements for new debt.

2 So the financial impact of the change
3 may be smaller, but still in terms of providing
4 reasonable rates, which I think is some test set out
5 in the Act, I -- I don't know how you can have a
6 substitute for accurate information even though there
7 may not be a substantial change in the net result.

8

9 (BRIEF PAUSE)

10

11 MR. SVEN HOMBACH: I'd like to take
12 you to Volume II of the Board counsel's doc -- book of
13 documents for a second. That contains Centra's old
14 forecasts. They're found at page 243.

15

16 (BRIEF PAUSE)

17

18 MR. SVEN HOMBACH: You've found the
19 documents?

20 MR. JOHN MCCORMICK: I have.

21 MR. SVEN HOMBACH: In the original T-
22 bill forecasts, the rate forecast for the 2013/'14
23 fiscal year was 1.3 percent. Now, if I compare that
24 to the most recent forecast provided by Centra, which
25 is at page 472 of the supplementary book of documents,

1 and you might just ho -- have both of those sets of
2 documents for a second. It's subsequently been
3 revised downwards to one point o-five (1.05), so it's
4 about twenty-five (25) basis points less than before.

5 MR. JOHN MCCORMICK: Correct.

6 MR. SVEN HOMBACH: And if we do the
7 same exercise for the ten (10) year plus bond yield
8 rates, it was projected to be 2.55 percent for fiscal
9 2013/'14, and has now been revised downwards to 2.5
10 percent, so a five (5) basis point difference.

11 MR. JOHN MCCORMICK: Yes.

12

13 (BRIEF PAUSE)

14

15 MR. SVEN HOMBACH: Go to page 464 of
16 the supplementary book of documents for a moment,
17 please.

18

19 (BRIEF PAUSE)

20

21 MR. SVEN HOMBACH: Do you see the
22 chart for forecasted ten (10) year plus interest rates
23 excluding the provincial guarantee of 1 percent?

24

25 (BRIEF PAUSE)

1 MR. JOHN MCCORMICK: I believe that's
2 the first line in the chart.

3 MR. SVEN HOMBACH: The first line is
4 for three (3) month T-bills. The la -- the third line
5 is for ten (10) year plus interest rates?

6 MR. JOHN MCCORMICK: Yes.

7 MR. SVEN HOMBACH: For long-term debt,
8 the third line, if I'm reading this chart correctly,
9 Centra seems to have increased the assumed spread from
10 .75 percent to 1 full percent.

11 Can you verify that that is the case?

12 MR. JOHN MCCORMICK: I have not made
13 spreads a subject of research in this transaction.

14 MR. SVEN HOMBACH: In that case, then
15 I take it you're not prepared to comment as to whether
16 or not that increase in spread is reasonable?

17 MR. JOHN MCCORMICK: I am not.

18

19 (BRIEF PAUSE)

20

21 MR. SVEN HOMBACH: Now, this chart,
22 again, still at page 464, shows the difference between
23 the IFF-12 assumptions and the most recently filed
24 update. And if you look in the bottom right, it's a
25 difference in total finance expense of two hundred

1 thousand dollars (\$200,000)?

2 MR. JOHN MCCORMICK: Yes.

3 MR. SVEN HOMBACH: Would you consider
4 that to be material?

5 MR. JOHN MCCORMICK: Not in and of
6 itself. But if you accept my argument that extends
7 from page 17, this change in forecast is really a
8 change of the difference in two (2) forecasts, each of
9 which overstate the thing that is -- we wish to arrive
10 at, which is the best estimate of the appropriate
11 long-term debt rate during the test year period.

12 MR. SVEN HOMBACH: If you are going to
13 fulfill your undertaking to review the most recently
14 available data for the -- the forecasters, as you
15 indicated you would.

16 Would you be in a position, from this
17 chart, to recalculate those numbers and calculate the
18 impact based on the most recently available data, or
19 is there something that you'd be missing?

20 MR. JOHN MCCORMICK: There's a great
21 deal that I'd be missing, unfortunately. The
22 difficulty with this chart is that it deals with
23 capitalized interests and other items. In terms of my
24 evidence, I've dealt generally with gross interest
25 because that's the line that is possible for us to

1 see.

2

3

(BRIEF PAUSE)

4

5 THE CHAIRPERSON: Could you explain
6 that distinction to me?

7

MR. JOHN MCCORMICK: Looking at page
8 464, the interest on short-term debt and the interest
9 on long-term debt is -- greatly simplified is the
10 interest rate times the amount of debt. And clearly,
11 the interest rate will be the yield as opposed to the
12 coupon, in terms of these transactions.

13 So that number is relatively calculable
14 or observable as we discussed. The fact that we're
15 doing, say, a \$35 million fixed rate issue at a
16 particular time period, say midyear. So \$35 million
17 times six (6) months times a difference in forecast
18 interest is an easily identifiable number to come up
19 with.

20 What happens in the internal accounting
21 process, we deal with capitalized interest and the
22 change in the mix of interest. That is, the gross
23 interest may affect the capitalized interest. And in
24 at least one (1) of these similar schedules, a
25 reduction of gross interest led to a increase in total

1 finance expense, which was counterintuitive to me, but
2 I haven't spent the time to figure out exactly what
3 triggered that event in that time period that led to
4 the particular IR to which I am referring.

5 THE CHAIRPERSON: Thank you for that.

6

7 CONTINUED BY MR. SVEN HOMBACH:

8 MR. SVEN HOMBACH: Mr. McCormick, just
9 to follow up on the Chairman's question, I understand
10 that you would be able to recalculate the total
11 interest on debt that is show -- shown on the sixth
12 line on this particular chart because for that you
13 have the basic data available as opposed to
14 recalculating the impact on finance expense?

15 MR. JOHN MCCORMICK: Assuming that I
16 know the date of issue that is assumed, assuming that
17 I know what the initial rate is and the principal
18 amount, I can calculate the change in gross interest.
19 To the extent that I'm wrong in the assumption of the
20 issue date, then I would have more difficulty in
21 duplicating the process because I am not a party to
22 the internal assumptions.

23 MR. SVEN HOMBACH: If I understood the
24 evidence correctly this morning, Mr. McCormick, Centra
25 is not planning to reissue debt until March 31st,

1 2014, with interest not accruing until the beginning
2 of the next fiscal year on April 1st.

3 So I'm sure Ms. Boyd will correct me if
4 -- if that understanding is wrong, but if that is the
5 case, you'd be able to preform the calculation?

6 MR. JOHN MCCORMICK: Well, let's break
7 it down bit by bit. We have a certain number of
8 fixed-rate instruments of known maturities and of
9 known yields that are all outstanding through this
10 period. If there was a new issue during this period,
11 then there would be a different calculation for the
12 gross interest cost.

13 Now, with respect to the short-term
14 debt, I think there's a \$35 million floating-rate
15 instrument that's outstanding during this period. The
16 CDOR numbers are a little bit different than the
17 source I prefer, which is the Bank of Canada averages.
18 So we may be off by a few basis points there.

19 With respect to the third category of
20 debt, which is the short-term debt, which I think I
21 heard today might be \$9 million at the end of 2014,
22 that amount is going up and down on some sort of
23 complex cashflow calculation throughout the year, and
24 I will not be able to accurately identify what the
25 average balances are, because we only have annual

1 information.

2

3 (BRIEF PAUSE)

4

5 MR. SVEN HOMBACH: I take it, in light
6 of the evidence at four sixty-four (464), that finance
7 expense would be reduced by two hundred thousand
8 (200,000); though your recommendation would be that
9 the Board should reduce finance expense by that amount
10 for rate-setting purposes?

11

12 (BRIEF PAUSE)

13

14 MR. JOHN MCCORMICK: Since I have
15 little confidence in the current forecasts not
16 overstating the short-term interest rates for this
17 period, it would be inconsistent of me to accept that
18 proposition without the caveat that there may be
19 justification for further downward pressure on the
20 difference in the total interest, which is shown as
21 being some ninety-six thousand dollars (\$96,000).

22 So I would think the ninety-six
23 thousand dollars (\$96,000) should be a greater number
24 because of the bias that is built into the various
25 bank forecasts. And how that ninety-six thousand

1 dollars (\$96,000) gets extended down into the two
2 hundred thousand (200,000) is a calculation that I
3 cannot perform.

4 MR. SVEN HOMBACH: So your
5 recommendation is it likely would be less, but you're
6 not prepared to give us a -- a firm number?

7 MR. JOHN MCCORMICK: I would actually
8 think, if the forecasts are high, the reduction of
9 gross interest would be greater than expressed on this
10 table, and the mathematics that have made ninety-five
11 (95) or ninety-six thousand dollars (\$96,000) of gross
12 interest a change or a reduction of two hundred
13 thousand dollars (\$200,000) of finance expense apply,
14 we should have a greater increase in the negative
15 number. We should have a larger negative number. But
16 because of the nuances of the calculation, I can't be
17 sure.

18

19 (BRIEF PAUSE)

20

21 MR. SVEN HOMBACH: And we've dealt
22 with Direction 9B and the issue of stale-dated
23 forecast. Let's move on to Directive 9C. That is set
24 out at page 432 of Board counsel supplementary book of
25 documents.

1 (BRIEF PAUSE)

2

3 MR. JOHN MCCORMICK: We have it.

4 MR. SVEN HOMBACH: Okay. The Board
5 had directed in Order 128/'09 that forecast long-term
6 interest rates should align with the period in which
7 Centra intends on issuing new or refinancing existing
8 long-term debt. And if I understand your position
9 correctly, Mr. McCormick, your view is one should not
10 look at the fiscal year as a whole. If Centra knows
11 that that is going to be issued in a specific quarter,
12 one should look at the projection for that specific
13 quarter.

14 Do I have that right?

15 MR. JOHN MCCORMICK: Yes.

16 MR. SVEN HOMBACH: And in light of the
17 evidence which you heard this morning, that the next
18 debt issue is going to become effective March 31st,
19 2014, with interest accruing as of April 1st, 2014, is
20 it your recommendation that Centra should be looking
21 at the second quarter of the 2014 calendar year for
22 those interest rate projections?

23 MR. JOHN MCCORMICK: No. Typically,
24 if you're going to close a debt issue on the 31st of
25 the month, you would negotiate the price a day or two

1 (2) before and settle on that day, and -- in which
2 case it would be appropriate, even though for
3 accounting purposes we don't recognize any interest as
4 having been accrued in the first day, the clo -- the
5 day of closing, but we did set the day and the rate in
6 the March quarter. So I would think it would be
7 appropriate to use that March quarter.

8

9 (BRIEF PAUSE)

10

11 MR. SVEN HOMBACH: I'd like to focus
12 now on the forecasting methodology. And, Mr.
13 McCormick, you've taken issue in your direct-evidence
14 with there being some policies of which you hadn't
15 been aware. And -- and what I'd like to know is, are
16 you actually recommending any specific policies for
17 Centra, or are you merely seeking confirmation from
18 Centra whether or not policies exist and what those
19 policies are?

20 MR. JOHN MCCORMICK: I'm sorry, I'm
21 not sure what you're referring to, either in my
22 written evidence or my oral evidence. Can you take me
23 to a -- a page reference?

24

25 (BRIEF PAUSE)

1 MR. SVEN HOMBACH: One (1) of the
2 policies that you tak -- take an issue with was the
3 policy of not having more than 15 percent of any long-
4 term debt mature in any particular fiscal year, for
5 example. And I understand you had expressed some
6 frustration about that being a policy of which you
7 hadn't been previously aware?

8 MR. JOHN MCCORMICK: I -- I -- if I've
9 given you the impression that I'm frustrated of
10 learning of this policy, I have failed to adequately
11 communicate. I'm actually quite happy that they now
12 have a policy in what was a policy vacuum, if you
13 like. And the policy vacuum had perhaps 30 percent,
14 or more debt in the old Centra maturing in one (1)
15 year.

16 So I -- I rej -- I rejoice in the fact
17 that we had 75 million maturing in a relatively low
18 interest environment, because it would have been very
19 ugly to have that maturing in a -- a penalty style
20 environment.

21 So I like the 15 percent policy as a
22 step forward in terms of Centra's recognition that we
23 should not be overlaying too much debt in one (1)
24 point. The concern that I have with the policy is
25 that by focussing in on fiscal years we could have a

1 March 31st maturity of 15 percent and an April 30th
2 maturity of another 15 percent of the debt, leaving us
3 with 30 percent of our debt in one (1) year.

4 If we had a rolling twelve (12) month
5 test, I would think that would be superior. If we had
6 other tests that say we don't want to have 25 percent
7 of our debt maturing in two hundred and nine (209)
8 days, which I think was the example I presented in one
9 (1) of the IRs, I would think that would be more
10 prudent.

11 If you look at the maturity of Centra's
12 debt, I think the weighted average term to maturity
13 has gone from a level of three (3) or five (5) in
14 recent memory up to approximately eighteen (18) or
15 nineteen (19) currently. And that change means we've
16 churned out a great deal, so we have deferred interest
17 rate risk. And so I would recommend that we not be
18 consolidating it in the period from thirty-five (35)
19 to thirty-seven (37), by way of example. I don't
20 think we need to stick another issue in thirty-six
21 (36). I would view that as unwise.

22 MR. SVEN HOMBACH: And if it helps,
23 Mr. McCormick, I believe the reference to the
24 Information Request is the one at page 443 of the book
25 of documents.

1 (BRIEF PAUSE)

2

3 MR. SVEN HOMBACH: Tab 65.

4

5 (BRIEF PAUSE)

6

7 MR. JOHN MCCORMICK: Yes, sir.

8 MR. SVEN HOMBACH: The basic gist of

9 your evidence on that point is, if you do not look at

10 it purely on a fiscal year basis, if you look at it on

11 a twelve (12) month basis, the calculation comes out

12 quite different with close to 45 percent of the debt

13 maturing within a twelve (12) month time-frame?

14 MR. JOHN MCCORMICK: Sir, I -- I fear

15 you're not reading the chart correctly. The first

16 box, with 24.6 percent of the debt maturing, is a, I

17 believe, two hundred and nine (209) day period in --

18 between March and September, I think, of 2037. The

19 second box is a one (1) year plus one (1) day period

20 of 18.5 percent.

21 And so I look at the artificialness of

22 the fiscal year and think, when I go and look at that

23 chart in the -- the debt management document which

24 shows the long time in which we had a major spike in

25 interest rates, the difference between a year and a

1 year and a day is not meaningful if we end up
2 burdening the consumers with having to refinance
3 either twenty four point six (24.6) or eighteen point
4 five (18.5) in a approximately one (1) year period.
5 And if we end up totalling those two (2), covering a
6 period from 2034 to 2037, and we hit the ugliest
7 points in a long cycle of erratic interest rates, we
8 may not be pleased with the result.

9 MR. SVEN HOMBACH: Looking at those
10 maturity dates for purposes of issuing new data, what
11 would your proposal be going forward, in terms of
12 maturities?

13 MR. JOHN MCCORMICK: Now that Centra
14 has pushed out its weighted average term to maturity
15 into a range of say eighteen (18) or nineteen (19)
16 years, I would think we might want to in-fill some of
17 the open years in a shorter time period and enjoy the
18 benefit of the lower yield curve.

19 MR. SVEN HOMBACH: And looking at page
20 445 of the book of documents, there is a chart that
21 shows the maturities. Perhaps you could use that
22 chart to illustrate where you would like to in-fill
23 certain maturities.

24 MR. JOHN MCCORMICK: Well, both Centra
25 and Hydro are opportunists in entering the market. If

1 you have read their rebuttal, they refer to their
2 ability to enter into certain long-term or ultra-long
3 debt contracts at what they perceive to be superior
4 interest rates, referring by comparison to a thirty
5 (30) year number. And while those are delightful,
6 just by way of example, twenty-five (25) and twenty-
7 seven (27), twelve (12) or fourteen (14) years from
8 where we are, seem to be virgin territory, and
9 assuming that there are market opportunities in the
10 time-span in that period, I think you would reduce the
11 risk of financing large amounts if you use some of the
12 vacant years. So I wouldn't really recommend that we
13 rush ahead and put more debt into 2036 or 2033.

14

15 (BRIEF PAUSE)

16

17 MR. SVEN HOMBACH: Now, you've also
18 indicated that you'd view serial or sequential five
19 (5) year finances as an attractive proposal compared
20 to a ten (10) year fixed rate financing.

21 Is that still your position?

22 MR. JOHN MCCORMICK: Yes.

23

24 (BRIEF PAUSE)

25

1 MR. SVEN HOMBACH: Go to page 461 of
2 the book of documents, please. There's a -- there is
3 a chart in which you have outlined the indifference
4 rate for the second five (5) years, and perhaps you
5 could refer to this chart and guide the panel through
6 your explanation of the indifference rate.

7 MR. JOHN MCCORMICK: Panel, this is a
8 relatively simple attempt at a chart. It looks at
9 rates. It does not include guarantee fees or issues -
10 - issue costs for clarity.

11 In terms of the decision, we are
12 confronted with a yield curve from time to time that,
13 in normal circumstances, has higher interest rates
14 demanded for longer term obligations. In this
15 instance, I am comparing a five (5) year rate and a
16 ten (10) year rate.

17

18 (BRIEF PAUSE)

19

20 MR. JOHN MCCORMICK: Those rates are
21 drawn from page 51 of my evidence. In simple terms,
22 we have a very clear image today of what today's five
23 (5) year rate might be. We have a very clear image
24 today of what today's ten (10) year rate might be. We
25 also enjoy the benefit of a number of forecasts of

1 what future rates might be. I am, as you have come to
2 gather, suspicious of the accuracy of the forecasts of
3 future rates, believing them to be upwardly biased.

4 With a relatively high degree of
5 certainty, in the first five (5) years we would be in
6 a position where we would enjoy the difference between
7 the two (2) bottom lines as a reduction of our gross
8 interest costs, ignoring guarantee fee and issue
9 costs. In the second five (5) years we would be in a
10 position where ignoring issue cost, guarantee fee, and
11 the present value of funds, we would be able to pay a
12 higher rate on that second five (5) years and be
13 financially ind -- indifferent.

14 This is intended to be a simple example
15 of why sometimes moving down the yield curve works
16 very well.

17 Centra has, in their rebuttal, given us
18 a slightly different take on the matter. And, in
19 fairness, I would direct the panel's attention to page
20 23 of the rebuttal where they have suggested that,
21 with respect to a floating rate and a fixed rate
22 scenario, there may be a number of issues and
23 shortcomings in my analysis.

24 In either the short-rate or the long-
25 rate scenario, my suspicion as to the quality of the

1 forecast leads me to believe, as I think many people
2 taking mortgages may discover, that sometimes you're
3 better off taking the short rate and renewing it than
4 if you take the long-term rate. And I admit it is an
5 element that contains risk, it's a bet, in just the
6 same way making a long-term commitment which may
7 ultimately turn out to be less desirable than you'd
8 hoped can be a difficulty.

9 If you like, pre-funding in a falling
10 market may put you in a position where the money that
11 you could get, say, in 2011 or 2012 for exactly the
12 same term, ten (10) or twenty (20) years, will be less
13 in 2012 or '13. So, yes, I think there's an advantage
14 for consumers to have palliative rates in the short
15 term.

16 MR. SVEN HOMBACH: I'd like to move on
17 to the issue of retrospective testing. But before I
18 go there, I'd asked you about methodologies. And
19 we've dealt with one (1) methodology issue, the 15
20 percent majority policy. At page 2 of your direct
21 evidence you also indicate -- and I'm quoting from
22 your direct evidence for a second:

23 "Centra appears to have changed its
24 methodology as to how it includes
25 certain forecasters that forecast

1 annual data points."

2 I have the same question for you in
3 that respect. Are you just looking for confirmation
4 of what Centra's policies are so that you can follow
5 them, or are you making any specific recommendations
6 as to what Centra's policies should be?

7 MR. JOHN MCCORMICK: I would make the
8 specific recommendation that Centra or Hydro, whomever
9 is actually making the forecast, exclude Spatial,
10 Informetrica, and other people who have provided long-
11 term data forecasts that apparently at one (1) time
12 were not thought to blend in well with the calculation
13 of the first two (2) years of forecast information on
14 a quarterly basis, be excluded. I -- they had that
15 methodology at one (1) point; I don't know why they
16 changed it.

17

18 (BRIEF PAUSE)

19

20 MR. SVEN HOMBACH: So just to be
21 clear, you'd like to see them included for purposes of
22 the economic forecast.

23 But for rate-setting purposes, you'd
24 like to see them excluded?

25 MR. JOHN MCCORMICK: For rate-setting

1 purposes, because of the upward bias for forecasters
2 who are either high or provide annual data that make
3 it difficult to provide an accurate forecast in an
4 offset year, yes, I would exclude them. What Centra
5 chooses to do in terms of its long-term forecasts,
6 it's completely its business. I'm not in the business
7 of suggesting people can't read 'Catcher in the Rye'
8 or other literature that may be controversial. I -- I
9 encourage them to read every forecaster.

10 But in terms of the people we put into
11 the forecast for rate-setting purposes, I would like
12 them to be the most accurate so that we have the most
13 robust forecast.

14 MR. SVEN HOMBACH: And in response to
15 PUB/CAC Information Request I-3, you indicated that
16 you weren't prepared to commit to any ideal number of
17 forecasters to be used.

18 I take it that still remains your
19 position today?

20 MR. JOHN MCCORMICK: Yes.

21 MR. SVEN HOMBACH: And ultimately what
22 you'd like to see is some sort of retrospective
23 testing for reliability of the various forecasters and
24 then a reason -- reasonable number of reliable
25 forecasters to be chosen?

1 MR. JOHN MCCORMICK: Yes.

2 MR. SVEN HOMBACH: To retrospectively
3 test any number of forecasters, how many years of data
4 would you include?

5 MR. JOHN MCCORMICK: How many years of
6 data are we forecasting?

7 MR. SVEN HOMBACH: That wasn't the way
8 I intended my question, Mr. McCormick. What I meant
9 is, to retrospectively look at the accuracy of
10 forecasters, how many kicks at the can will you give
11 them?

12 Let's say if a forecaster provides a
13 result every single year and the forecast is then
14 updated, how far into the past would you go to assess
15 their long-term reliability?

16 MR. JOHN MCCORMICK: In my analysis of
17 forecasters, I went back to some data that I had from
18 1990 so that I could be in a position to assure the
19 Board that there was a general trend for over-
20 forecasting or forecasting higher results than were
21 actual for a long period of time.

22 In terms of the minimum period, I would
23 be interested in going back five (5) to seven (7)
24 years, at least.

25 MR. SVEN HOMBACH: You're aware of

1 Centra's view that one has to look at an entire
2 business cycle as opposed to a portion of a business
3 cycle?

4 MR. JOHN MCCORMICK: Yes. But I
5 thought they were expressing the view that one could
6 not begin to retrospectively test until one had gone
7 through the complete business cycle, not necessarily
8 that we would use the entire business cycle as the
9 test period.

10 MR. SVEN HOMBACH: At page 351 of the
11 book of documents, which is an excerpt of your direct
12 evidence, you have two (2) charts. The first one is
13 from successive TD economic forecast for thirty (30)
14 year Canada bonds. The second one is Desjardins
15 quarterly economic forecast for ten (10) year Canada
16 bonds.

17 And reviewing them, it strikes me that
18 for a period of four (4) successive years in the case
19 of TD and six (6) -- possibly -- well, at minimum,
20 five (5) successive years for Desjardins, both of
21 these forecasters consistently predicted interest
22 rates to go up when in fact, over a period of several
23 years, interest rates continued to go down.

24 Is that correct?

25 MR. JOHN MCCORMICK: Well, looking at

1 the TD chart, what you see is a consistent upward
2 direction in the March 2010 forecast, but you have
3 both a dip and an increase in 2010. So with respect
4 to how you premised your question, I cannot give you a
5 'yes' because, in fact, interest rates do tend to go
6 up and down in this time period.

7 The more recent period, interest rates
8 have been trending down. But if we go and look at the
9 data for Scotia for a period in the '90s which I have
10 studied, interest rates are moving up and down. And
11 the general experience was that, other than a period
12 around, say, '90 -- or late '93, early '94, the
13 forecasts were always high, or predominantly high.
14 There may be a first quarter that is correctly
15 forecast or forecast well as opposed to the general
16 overstatement, but the preponderance of data points
17 was over-forecast, so...

18 MR. SVEN HOMBACH: So if you were to
19 look only at these two (2) for the data points in
20 question for the four (4) or five (5) successive
21 years, would you conclude that these are unreliable?

22

23 (BRIEF PAUSE)

24

25 MR. JOHN MCCORMICK: All of these

1 forecasts were subject to error. The Desjardins
2 forecast had one (1) year in which the error was very
3 low because they actually under-forecast for a period
4 of time. That's the January 2009 forecast.

5 So I would expect for that particular
6 year we would find Desjardans had a very low overall
7 error.

8 MR. SVEN HOMBACH: Overall though, the
9 issue of these forecasters being high, is that an
10 issue of only a portion of the business cycle being
11 reflected, or is this an issue of simply not looking
12 far enough into the past to get accurate or
13 statistically relevant data?

14

15 (BRIEF PAUSE)

16

17 MR. JOHN MCCORMICK: Counsellor, may I
18 have the question again, please?

19 MR. SVEN HOMBACH: My question to you
20 was whether the issue of the successive forecast
21 always predicting that interest rates are going up and
22 ultimately not being correct in a -- in an environment
23 of decreasing rates is an issue of only looking at a
24 portion of the business cycle, or a general issue of
25 not looking far enough into the past to get a

1 statistically relevant sample of these forecasts?

2

3 (BRIEF PAUSE)

4

5 MR. JOHN MCCORMICK: I don't believe I
6 have enough information to answer that question. You
7 have given me two (2) possible alternative
8 explanations. And while I have seen in the '90s
9 interest rates ebbing and flowing, I can't come up
10 with a correlation to see whether it's the fact that
11 they may have fallen at some point during the business
12 cycle in the '90s that has triggered a forecasting
13 error or an increase.

14 But I -- as such, I'm unable to answer
15 your question.

16 MR. SVEN HOMBACH: Given that your
17 concern is the consistent up -- fairly consistent
18 upward bias, what would your approach be in situations
19 where one (1) forecasters isn't necessarily always
20 high like we have seen with Informetrica, which was
21 the highest in the previous forecast, but now it seems
22 to be the middle of the pack?

23 MR. JOHN MCCORMICK: I think I
24 attempted to address that by suggesting that if we
25 continue to be high with a sample of ten (10), but one

1 who was formally high has, if you like, seen the light
2 and adjusted his theory down, but another one has
3 maintained being high, I'm happy to use their
4 reduction as a adjustment for this difficulty of
5 forecasters generally being high.

6 So my -- my problem in telling you how
7 many we might need to take out or how we could
8 actually test the data is that we haven't run
9 scenarios that would address the offsetting behaviours
10 of certain forecasters, like Scotia and National,
11 during that six (6) quarter period that I've referred
12 to on -- on a couple of occasions.

13 MR. SVEN HOMBACH: Did you have an
14 opportunity to hear Mr. Schulz's evidence this morning
15 about Centra using, essentially, a truncated mean
16 method to exclude high and low forecasters?

17 MR. JOHN MCCORMICK: Yes.

18 MR. SVEN HOMBACH: Do you agree with
19 it?

20 MR. JOHN MCCORMICK: It would be
21 coincidental, related to the degree of variation that
22 removing the -- the high and the low would improve the
23 forecast, because the deg -- you haven't told me what
24 degree of variance the high person has relative to the
25 degree of variance of the low.

1 So if we have one (1) guy forecasting
2 1.2 percent, or herd forecasting 1 percent, and a
3 single guy forecasting .8 percent, truncating the top
4 and the bottom will still leave us at the same average
5 we had before.

6 MR. SVEN HOMBACH: And just to -- just
7 to illustrate this, perhaps we could go to page 480
8 for a second. Tab 68. This seems to be a chart where
9 Centra has done exactly that. It has truncated the
10 lowest and the highest forecaster in each quarter.

11 And I would suggest you take perhaps
12 thirty (30) seconds, if you need it, and comment on
13 the appropriateness of that approach as opposed to
14 simply truncating the highest?

15

16 (BRIEF PAUSE)

17

18 MR. JOHN MCCORMICK: In looking at the
19 forecast, we are changing a forecast of one point-o-
20 five (1.05) for T-bills into a forecast of one (1);
21 about a 5 percent change for that particular year.

22 For the -- the long-term rates, we're
23 changing it by again five (5) basis points on two
24 hundred and fifty (250), which is a order of
25 magnitude, 2 percent change.

1 To the extent that my evidence was
2 correct in suggesting that there were larger
3 differences between the forecast interest costs and
4 the actual interest costs, if we're only changing the
5 forecast by 2 percent, that would not seem to me to be
6 sufficient with the recent changes or differences
7 between forecast and actual interest rates.

8 But again, there will be variations
9 caused by term, or shifting from fixed to floating,
10 that will potentially affect the interest costs.

11 And so in terms of this methodology,
12 does a 5 percent or a 2 percent change solve the
13 problem? I don't think so. But at the moment, we --
14 neither of us have done the work to develop a sense
15 for what the appropriate pruning methodology would be
16 or the degree to which we would need to prune to have
17 a more robust forecast based on the degree that the
18 interest rate forecast methodology is leading to an
19 over-forecasting of interest rates among all the other
20 possible explanations for those variances.

21 MR. SVEN HOMBACH: And on the subject
22 of pruning, I believe your evidence earlier was that
23 there is about twenty-eight (28) available
24 forecasters.

25 Do I have that number right?

1 MR. JOHN MCCORMICK: Twenty-eight (28)
2 was the sum of all the names that were used by
3 Centra/Hydro, plus names of forecasters that provided
4 interest rate forecasts in Bloomberg, deleting
5 duplications.

6 MR. SVEN HOMBACH: Did you hear Mr.
7 Schulz's evidence earlier today that Centra partially
8 chooses forecasters based on other services that they
9 may also provide?

10 MR. JOHN MCCORMICK: Yes.

11 MR. SVEN HOMBACH: In your view, is
12 that a -- a relevant approach to the setting of
13 interest rates, or would you propose including all the
14 forecasters and pruning from that point?

15 MR. JOHN MCCORMICK: Frankly, I would
16 begin testing the existing group of forecasters that
17 Centra has, since it seems to be a relatively large
18 number. It's approximately a dozen. And I note that
19 Manitoba Public Insurance seems to get by with six (6)
20 or seven (7). So I'm -- I'm not sure that they're
21 harmed there. But I would not suggest that we need to
22 avoid studying other supplicants to be included in the
23 group of worthy forecasters.

24 MR. SVEN HOMBACH: How do you test for
25 accuracy? And more specifically, do you look at long-

1 term trends, or do you simply look at the biggest
2 outliers in every quarter?

3 Is there any specific methodology that
4 you have in mind?

5 MR. JOHN MCCORMICK: I think I've
6 proposed several over time. In the example that I
7 used with Scotia and National, I was hunting for
8 offsetting error of two (2) forecasters. And I don't
9 know whether that continued for a long period
10 thereafter.

11 But in terms of the id -- idyllic
12 circumstance where there are a number of investment
13 dealers or economists prognosticating and they are
14 generally close, I would suggest that we could choose
15 from that group, or perhaps include every one (1) of
16 that group if, over a period of time, they seem to be
17 doing a good job.

18 And I recognize that this is not an
19 area of certainty. We're not likely going to be able
20 to find a group of forecasters where we can add and
21 subtract names and have them result in perfection on a
22 quarterly basis over any number of years.

23 So I am willing to permit error, but
24 underscoring that with a robust forecast, the Board
25 can still be aware of the tendency of forecasters to

1 over-forecast or forecast at higher levels than will
2 actually be achieved.

3

4 (BRIEF PAUSE)

5

6 MR. SVEN HOMBACH: Mr. Chairman, I
7 expect that I'll be approximately ten (10) more
8 minutes. I'm at your mercy. We can either take an
9 afternoon break, or I'm prepared to continue and
10 hopefully get us all out before the crows come home.

11 THE CHAIRPERSON: I have canvassed my
12 fellow panel members, and we're prepared to continue.

13

14 (BRIEF PAUSE)

15

16 MR. SVEN HOMBACH: One (1) of the
17 items you take issue with, Mr. McCormick, is the
18 spread being applied to a variable rate, the -- to
19 variable interest rate data by Centra.

20 Is that correct?

21 MR. JOHN MCCORMICK: Yes.

22 MR. SVEN HOMBACH: And you've dealt
23 with that in page 24 of your evidence, which, for the
24 panel's convenience, is found at page 454 of the book
25 of documents.

1 (BRIEF PAUSE)

2

3 MR. SVEN HOMBACH: It's page 454.

4 MR. JOHN MCCORMICK: I have it.

5 MR. SVEN HOMBACH: There's a

6 statement:

7 "Mr. McCormick believes the better

8 view, based on more current

9 forecasts, would lead the Board to

10 adopt a T-bill forecast of 1.1

11 percent and the more typical spread

12 or margin of observed Manitoba

13 floating-rate offerance -- offerings

14 of eighteen (18) to twenty-three

15 (23) basis points."

16 MR. JOHN MCCORMICK: At line 9 and

17 thereabouts, yes.

18

19 (BRIEF PAUSE)

20

21 MR. SVEN HOMBACH: You're basing that

22 on T-bill forecasts that are dated April and May 2013.

23

24 Is that correct?

25

1 (BRIEF PAUSE)

2

3 MR. JOHN MCCORMICK: Yes.

4

5 (BRIEF PAUSE)

6

7 MR. SVEN HOMBACH: What is your source
8 for the 18 to 23 percent spread?

9

10 (BRIEF PAUSE)

11

12 MR. JOHN MCCORMICK: PUB/CAC-I-4, page
13 9 of the group of IRs, which...

14

15 (BRIEF PAUSE)

16

17 MR. JOHN MCCORMICK: Page 439 of your
18 book.

19

20 (BRIEF PAUSE)

21

22 MR. SVEN HOMBACH: Now, you've heard
23 the evidence that debt will be issued in March of next
24 year. What makes you certain that those spreads will
25 not increase by that time?

1

2

(BRIEF PAUSE)

3

4

MR. JOHN MCCORMICK: There can be no certainty that throughout the time period there will not be ebbs and flows of spreads or margins with respect to the particular floating-rate debt which Manitoba may extract from the capital markets.

9

The table that you see on page 439 shows a list of what I would describe as opportunistic transactions. Manitoba went to the market when they saw a good time to issue floating-rate debt. And between November 2009 and May 2013, these are the remaining outstanding issues.

15

There are other times that they've gone to the market for floating-rate debt during this period that have matured. And in terms of Manitoba actually accessing third-party money, the range of eighteen (18) to twenty-three (23) seemed eminently reasonable based on their past practices.

21

I do acknowledge that, in 2012, they entered the market at twenty five and a half (25 1/2) basis point spread or margin, but also they were able to raise some 380 million aggregate principle in respect of a May 2013 issue at a spread of twelve

1 (12). These are significant deals in the market from
2 time to time, but in terms of an assurance that in the
3 future the margins won't change, I cannot give you
4 that assurance because my evidence would be to the
5 contrary.

6

7 (BRIEF PAUSE)

8

9 MR. SVEN HOMBACH: Thank you. I have
10 no further questions for you.

11 As such, Mr. Chairman, I would propose
12 that we end the hearing for today and recommence
13 tomorrow morning with Mr. Oppenheim.

14 THE CHAIRPERSON: I'm just wondering
15 if there are any other matters to attend to before we
16 adjourn. Nothing from Manitoba Hydro?

17 MS. MARLA BOYD: We have nothing.
18 Thank you.

19 THE CHAIRPERSON: I have to apologize
20 to you that I didn't consult you when I agreed to have
21 Mr. McCormick serve as a -- as an expert witness so, I
22 apologize for that. But I assume that you would have
23 piped up if you had objected, so --

24 MS. MARLA BOYD: You assume correctly,
25 thank you.

1 THE CHAIRPERSON: -- I apologize.

2 Okay.

3 Mr. McCormick, I'd like to wish you --
4 I would like to thank you for your presence here
5 today, and -- and the evidence you've provided in --
6 in viva voce, or otherwise. So thanks very much for
7 coming to Winnipeg in this difficult time for your
8 city. And I wish you a safe trip back to Win -- to
9 Calgary.

10 MR. JOHN MCCORMICK: Thank you, sir.
11 Thank you, panel members.

12

13 (PANEL STANDS DOWN)

14

15 THE CHAIRPERSON: So we are adjourned
16 for today, and we'll see each other again tomorrow
17 morning at nine o'clock. Thank you, everyone.

18

19 --- Upon adjourning at 3:46 p.m.

20

21 Certified correct,

22

23

24 _____

25 Bob Keelaghan, Mr.

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