MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
FOUR PARTY TRENCHING REVIEW

Before Board Panel:
Graham Lane - Board Chairman
Alain Molgat - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
December 12th, 2006
Volume I
Pages 1 to 248

APPEARANCES

R.F. Peters	)Board Counsel
Brent Czarnecki	)Centra Gas
Marla Murphy	)
Sandy Boyd	)CEP 681
Ivan Holloway	)CAC/MSOS

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UNDERTAKINGS

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1	Provide Centra's position on what would be a more accurate or fair test in terms of the costing of four (4) party trench going forward	

--- Upon commencing at 9:00 a.m.

THE CHAIRPERSON: Good morning, everyone. If I could have your attention, I'll call this Hearing to order. Today the Board is to hear a request from Centra in respect to a four (4) party trenching initiative that is underway.

My name is Graham Lane, I'm the Chairman of the Public Utilities Board. I'm joined by Mr. Alain Molgat, another Board Member and we're going to be assisted by Mr. Gaudreau, Board Secretary and Executive Director.

At Centra's last General Application which gave rise to Board Orders 103/05 and 135/05, Centra explained that it had embarked on a pilot construction program whereby natural gas mains would be installed in a common trench, electrical, telephone, and television cables, hence the term four (4) party trench.

In Orders 103 and 105 the Board granted tentative approval for Centra to continue with the four (4) party trench installations until December 31st, 2005. By that date Centra was to demonstrate the financial benefits of four (4) party trench ensure the Board as to safety of the new approach.

Since then there have been a number of

communications between Centra and the Board culminating in this Review Hearing. The purpose of this Hearing to review the situation and come to a conclusion as to whether grant Centra's most recent request or provide other direction and future steps related thereto.

I will now call on Board counsel, Mr. Peters, to provide his opening introductions and comments and set out the process to be followed today.

Mr. Peters...?

MR. BOB PETERS: Thank you and good morning, Mr. Chairman, Board Member Molgat, Ladies and Gentlemen. For the record my name is Bob Peters and I'll act as Board counsel this morning on this four (4) party trench matter.

The Board is also assisted by its engineering advisors from Energy Consultants International. Mr. Jack Winram on my right and Mr. Brady Ryall on my left.

Following up on your opening comments, Mr. Chairman, the Board gave directives in Orders 103/05 and 135/05 to the effect that Centra was to finalize its report on the assessment of costs and safety of four (4) party trenching by December 31, 2005.

Following Centra's report, the Board issued Order 10/06 which extended the time for Centra to

comply with certain Board directives to August 31, 2006. And in Order 10/06 there were also additional directives related to four (4) party trench.

What brings us here to day is Centra's further request of September 29th, 2006, to extend the time to March 31st, 2009, to fully implement four (4) party trench and to collect and analyze data and report to the Board.

From the Board's last letter on this matter dated October 25, 2006, the Board has permitted Centra to continue to optimize the four (4) party trenching methodology pending any further directives from this hearing.

In terms of the procedures, I suggest this -- this morning, Mr. Chairman, that following my opening comments you turn to the Intervenors who are here for their opening comments and I see that CAC/MSOS is represented by Mr. Ivan Holloway and also I see that the Communications, Energy, and Paperworkers Union Local 681 is represented by Mr. Sandy Boyd, also sitting across the room.

Following the opening comments, if any, from the Intervenors I suggest you turn to Centra's counsel Mr. Brent Czarnecki and ask for his opening comments, introductions of his witnesses, and the

swearing of his witnesses prior to their giving evidence. The Board will see the Centra witness panel this morning of Mr. Al Snyder, Mr. Dave Petursson, and Mr. Doug Kroeker, and Mr. Robin Wiens.

After the witnesses have been sworn they will have direct evidence to provide to the Board following which I'm prepared to cross-examine them on their evidence followed by CAC/MSOS, then followed by CEPU and any re-examination by Mr. Czarnecki.

Closing submissions can be expected to be brief today, Mr. Chairman, but following the evidentiary portion I'd be prepared to provide brief closing submissions and then followed by CAC/MSOS, followed by CEPU, and then perhaps after a brief recess by Centra's counsel.

In terms of exhibits and for the record I'm suggesting that Centra Exhibit Number 1 be the November 4th, 2006, letter and attachments.

I would pause at this time and indicate, Mr. Chairman, that Centra provided material. And the material -- there was also some revisions to the material recently and not to be satisfied with the revisions that corrected the material, I went and added a couple of documents.

One (1) of them appears erroneously but

they're all numbered from one (1) to eighty-eight (88) for ease of reference of the Board and when it comes time, if there are questions specifically the top right-hand corner of -- of Manitoba Hydro Exhibit 1, excuse me, has sequential page numbers which should make it easier to locate a document in that material -- in those materials.

--- EXHIBIT NO. CENTRA-1: November 4, 2006 letter and attachments - 88 pages

MR. BOB PETERS: I would suggest that Exhibit Manitoba Hydro Number 2 would be the witness qualifications of Mr. Snyder, Mr. Petursson, Mr. Kroeker, and Mr. Wiens and those have been provided by way of letter of December the 8th.

--- EXHIBIT NO. CENTRA-2: Witness qualifications of Mr. Al Snyder, Mr. David Petursson, Mr. Doug Kroeker, and Mr. Robin Wiens provided by way of letter of December the 8th.

MR. BOB PETERS: In terms of the PUB

Exhibit Number 1-1 through 1-16 I would suggest that would be the Information Requests on behalf of the Board and the responses provided by Centra Gas Manitoba Inc.

--- EXHIBIT NO. PUB 1-1 through 1-16: Information Requests on behalf of the Board and the responses provided by Centra Gas Manitoba Inc.

MR. BOB PETERS: So in conclusion and subject to any questions you have of me at this time, Mr. Chairman, I suggest you call on the Intervenors for their opening comments before calling on Centra counsel for any opening comments and introduction of witnesses. Thank you.

THE CHAIRPERSON: Thank you, Mr. Peters. Okay, we'll begin with Mr. Holloway from CAC/MSOS.

Mr. Holloway...?

MR. IVAN HOLLOWAY: Thank you, Mr. Chairman. We simply -- our intent is today to test the evidence to be presented based upon the materials filed so far. We have some concerns about both safety and the cost issues and we expect to test the evidence on both of those issues and then present brief closing remarks. Thank you.

THE CHAIRPERSON: Thank you, Mr. Holloway. Mr. Boyd...?

MR. SANDY BOYD: Good morning. We're here to hear what the Panel has to say and we may have some questions in cross but other than that we're observers.

THE CHAIRPERSON: Thank you, sir.

Mr. Czarnecki, would you mind providing opening remarks and introducing your Panel before I ask Mr. Gaudreau to swear them in.

MR. BRENT CZARNECKI: Yes. Good morning, Mr. Chairman, Member Molgat, ladies and gentlemen.

First by way of opening comments, I'll proceed directly to introducing the Witness Panel of Centra. To my immediate right is Mr. Al Snyder who is the Vice-President of Transmission and Distribution. Beside him is Mr. David Petursson who is Manager of Distribution Standards and Services and beside him is Mr. Doug Kroeker who is a Manager of Underground Construction and Services. And last but not least anchoring the Panel is Mr. Robin Wiens who is the Division Manager of Rates and Regulatory Affairs.

I also will take a moment just for the Board to introduce the back row, some of the faces are familiar, some of which are probably not.

Directly behind me is Marla Murphy who is co-counsel. Beside Marla is Mr. Dave Case and Mr. Case is Manager of Customer Services Operations for Winnipeg East.

Beside Mr. Dave Case to his right is Kristen Perrault who is a professional accountant for the Distribution and Planning and Design Department. And to Ms. Perrault's right is Mr. Trevor Geisbrecht. And Mr. Geisbrecht's title is Design Engineer.

Beside Mr. Geisbrecht is Christine Foulkes who is the co-ordinator of Gas Rates and Regulatory Affairs. Beside her is Mr. Rick Phillips and Mr. Phillips is the Joint Use Administrator with Hydro.

And to his right is Kelly Derksen. And Kelly is Manager of Gas Rates and Regulatory Affairs. And finally is Mr. Paul Chard, who is the Supervisor of Franchise Administration.

And with that, Mr. Chairman, perhaps we could have Mr. Gaudreau swear in the witnesses.

THE CHAIRPERSON: Thank you.

CENTRA GAS PANEL:

AL SNYDER, Sworn;

DAVID PETURSSON, Sworn;

DOUG KROEKER, Sworn;

ROBIN WIENS, Sworn;

THE CHAIRPERSON: Thank you, Gentlemen. Mr. Czarnecki...?

EXAMINATION-IN-CHIEF BY MR. BRENT CZARNECKI:

MR. BRENT CZARNECKI: Mr. Chairman, as Mr. Peters has eluded to the witness qualifications of Mr. Snyder and Mr. Petursson, Mr. Kroeker, and Mr. Wiens have been marked as Exhibit 2 to this Hearing.

These witness qualifications set out the positions of each Panel Member, their experience and educational qualifications, previous appearances before the Board, their areas of responsibility with respect to this application and their adoption of the pre-filed evidence as it relates to their areas of responsibility.

Mr. Snyder, would you please outline your areas of responsibility with respect to this filing?

MR. AL SNYDER: Yes. My areas of responsibility with respect to this filing relate primarily to policy issues and general oversight of the filing and related materials.

MR. BRENT CZARNECKI: Can you provide a brief description of the four (4) party trench initiative for the Board?

MR. AL SNYDER: For many years, Manitoba Hydro has cooperated with the communication utilities, that is, telephone and cable in the installation within a common trench of new utility distribution plant for urban residential subdivisions.

Beginning in late 2003, Centra began adding its natural gas distribution plant to the common trench. And today, four (4) party trench is the preferred method for installing natural gas mains in new residential subdivisions.

MR. BRENT CZARNECKI: Why did Centra decide to participate in the common trench installation method?

MR. AL SNYDER: The predominant reason for the four (4) party initiative was and remains to improve safety. It's expected that by changing the design for the installation of the distribution plant, the need to proceed across energized high voltage cables and natural gas mains during service installation could be reduced.

It was recognized that considerable excavation around energized plant was required during initial installation of utility services to homes. The four (4) party standards developed for the installation of electric, gas, telephone, and cable television as well

as water and sewer services virtually eliminated the need to cross the energized high voltage cables and the gas mains.

By designing this hazard out of the process for extending services to homes within subdivisions, safety was enhanced. And in addition, Centra actively works to prevent damage to gas lines with programs like Call Before You Dig by locating the buried -- the buried plant prior to excavation activity and through the ongoing communication with contractors.

This action identifies the hazard and communicates it to the contractor. The contractor still needs to excavate around the energized plant and in contrast the four (4) party design seeks to eliminate the hazard by eliminating the need to excavate around the energy -- energized plant.

Finally, elimination of the long gas services which are installed under the street using the conventional methodology prevents damage of gas mains during road rehabilitation, water, and sewer construction. Mr. Petursson's direct evidence will provide a clear illustration of this.

MR. BRENT CZARNECKI: Does the four (4) party process offer any scope for reductions in the cost of new distribution plant in subdivisions?

MR. AL SNYDER: Centra's motivation for the pursuit of the four (4) party trench initiative remains enhancement to safety processes. At the onset of the four (4) party initiative a high-level estimate indicated that along with the safety benefits the integration of gas distribution in the common trench could provide up to 25 percent saving in the actual cost of installation.

When a more thorough analysis of the potential of the four (4) party initiative was completed as part of Centra's December 15th, 2005 report, a more conservative target of equality with conventional cost and in some cases a saving of up to 20 percent depending upon the development configuration could be realized.

In contrast to the high-level estimate initially proposed, the report of December 15th, 2005, considered a wide range of development configurations which captured an increased amount of material required in some cases and considered in more detail the installation process itself.

The results of this analysis are still predicated on the complete optimization of all processes from the receipt of the developer request for service to the final commissioning of the plant.

I should emphasize the target of cost

equality with the conventional installation relates only to the capital cost of the installation services. This does not include any consideration of savings due to the avoidance of damage during plant installation or subsequently -- installation or subsequently -- pardon me -- and public safety benefits which have not been quantified.

MR. BRENT CZARNECKI: Why has Centra's four (4) party practice not yet achieved cost parity with conventional installation?

MR. AL SNYDER: Achievement of Centra's goal of cost parity with the conventional installation is dependent upon fully -- fully implementing its optimized four (4) party installation process and then refining that process over a second full construction season.

Implementation of this fully optimized four (4) party process requires significant changes in established processes, corporate systems and staff responsibilities. Centra has been apprehensive in beginning to make these significant changes to its processes and commit to the capital expenditures given the possibility that the Board may in fact shortly thereafterwards order the four (4) party initiative to be discontinued, thus requiring the changes to be undone.

With a greater degree of certainty with

respect to the future of the four (4) party initiative Centra is confident that it can achieve its target of at least cost parity.

MR. BRENT CZARNECKI: Please describe what Centra is requesting of the PUB in this process.

MR. AL SNYDER: Centra is requesting the PUB's approval to continue using the four (4) party methodology without limit as to time.

With respect to the filing of a response to Directive 9 of Order 10/06, Centra is requesting that the PUB extend the time until at least March 31st, 2009, to allow two (2) full construction seasons to fully implement an optimized four (4) party installation process, to evaluate and refine that process, and to provide a written response.

MR. BRENT CZARNECKI: What is Centra's intention with respect to the future of four (4) party trenching installations in residential subdivisions within Manitoba?

MR. AL SNYDER: Centra's intention is that the four (4) party method will be the preferred although not the only method of installation of underground utility plant in residential subdivisions. The reasons for this are: improved public safety; reduced damaged to plant; better responsive to developer

requirements; and once the method is fully optimized, equal or superior cost performance relative to the conventional installation process.

Development configurations and technology continuously change. Centra needs to adapt to these changes to ensure continuous improvement in installation methods and to respond to any changes where safety can be improved.

In some situations such as residential condominium developments, four (4) party is the only feasible method. In most other residential subdivisions, some variant of a four (4) party method will be the preferred method for reasons of safety, responsiveness to developer requirements and the efficient use of the space available for utility plant.

MR. BRENT CZARNECKI: Thank you, Mr. Snyder.

Mr. Petursson, would you please outline your areas of responsibility with respect to this filing?

MR. DAVID PETURSSON: Good morning, Mr. Chairman, Members of the Public Utilities Board, Ladies and Gentlemen.

In my testimony I will -- in my testimony I will be providing evidence related primarily to the design characteristics, installation methods, and safety

benefits of the four (4) party trench.

MR. BRENT CZARNECKI: At this point in time, Mr. Chairman, Mr. Petursson will present his presentation so that we all have a better visual understanding of what the four (4) party initiative is about.

(BRIEF PAUSE)

MR. DAVID PETURSSON: If everybody's ready we may proceed?

THE CHAIRPERSON: Any time you're ready.

MR. DAVID PETURSSON: Okay. Examining the characteristics of a conventional installation will assist in understanding four (4) party trench.

In a conventional installation, a gas main is installed in a stand alone trench on one (1) side of the street on public property. Service lines are then installed to homes on both sides of the street from that one (1) gas main. Each home on the side opposite the gas main has a service line installed beneath the street with this line referred to as a long service.

Conversely, a home on the same side of the street as the gas main, has a short service. In order to install each service the main -- the gas main must be

excavated to attach a service tee.

In a four (4) party trench installation a gas main is installed on an easement taken in the front of the lots. On the other side of the street, another gas pipe is similarly installed as a service header. A road crossing is used to bring the gas from the gas main to this service header.

All services on both sides of the street are then installed as short services. In a four (4) party trench installation multiple service lines across the road are avoided.

Fundamental to four (4) party trench is the installation of all four (4) shallow utilities in a single trench. This includes natural gas, electric power cables, and the cables and conduits for telephone and cable television.

After a single trench, approximately 750 to 900 millimetres, 30 to 36 inches, in width is excavated, the gas pipe is installed on one (1) side of the trench and the cables and ducts for electric power and communications are installed on the other side of the trench.

Wooden stakes are used to hold the pipe or cables to the sides of the trench and to ensure the required separate of 400 millimetres, or 16 inches, is

consistently established and maintained during installation and during the backfilling of the trench. These wooden stakes are visible in this photograph.

Another aspect of four (4) party trench is the installation of service stubs. For each lot served on the gas main or service header a service tee and a short length of gas pipe is installed and extended onto the property. After a home is built, this service stub will be extended to the home as a short service.

These service stubs are protected by ending in a wooden box which is marked by a marker post above ground for the ease of locating in the future. A similar wooden box is used to protect the electric and communication cables. An additional feature of four (4) party trench is the extension of the sewer and water stubs further onto property.

Thereafter, once a home is built and requires connection to water, sewer, gas, electric, and communications the stubs for both the deep and shallow utilities are excavated and the utilities are extended to the home. The only excavation required is to expose the ends of these service stubs.

Conversely, in a conventional installation to extend sewer and water from a property line to the home requires excavation around energized high voltage

electric cables. To install a gas service, excavation of the gas main is required to connect the service line and excavation of the energized high voltage electric cables is required for the gas service line to cross these cables. A four (4) party trench design eliminates this excavation of energized gas and electric cables.

And in a nutshell, that's four (4) party.

THE CHAIRPERSON: Thank you. Very helpful.

(BRIEF PAUSE)

MR. BRENT CZARNECKI: Perhaps as everyone's making it back to their seats, Mr. Chairman, we should attend to marking a copy of Mr. Petursson's presentation as the next exhibit?

MR. BOB PETERS: Number 4 (sic).

MR. BRENT CZARNECKI: Thank you.

--- EXHIBIT NO. CENTRA-3: A copy of presentation by Mr. David Petursson

CONTINUED BY MR. BRENT CZARNECKI:

MR. BRENT CZARNECKI: Following up on your presentation, Mr. Petursson, could you please

provide a description of the enhanced safety benefits that result from the four (4) party trench?

MR. DAVID PETURSSON: Yes. Centra recognizes that considerable excavation occurs around energized high voltage cables and natural gas mains during the installation of utility services to the home.

The four (4) party standards developed for the installation of electric, gas, telephone, cable television, as well as the water and sewer services virtually eliminates the need to cross the energized high voltage electric cables and gas mains. By eliminating this hazard, safety is enhanced during the process for extending services to homes.

When the shallow utilities, electric, gas and communications are installed independently, that is by the conventional method, the second utility in an area must excavate around the first utility to install its plant.

Working around the other's energized plant poses a safety hazard to both the workers and the plants itself. Damages to the first utilities plant are avoided by the coincidental installation of all shallow utilities in a four (4) party main trench.

Another safety feature inherent in the four (4) party design is the elimination of long gas

services traditionally installed under the street. With the long services under the street, damage was occurring to the long services during rotary habilitation as well as the renewal of water and sewer mains.

The four (4) party standard locates the gas mains in the common trench on easement and eliminates the long gas services. The shallow utilities also have to concern themselves with the renewal or enhancement of their plant.

For example, recent technological changes means that communication utilities now want to install significant amounts of fibre optic cables in areas that are already built up.

Recent installations of such enhancements by directional boring has caused damages to gas plant primarily the long services. By locating the four (4) party trench on easement and eliminating the long gas services, a clear corridor is left available for all the shallow utilities on public property to use in future for renewal or enhancement of their plant.

Another feature of the four (4) party trench design is the installation of service stubs for the future extension of the service to the customer. By installing these stubs initially, damage potential is reduced when installing service to a customer by not

needing to excavate the gas main to connect the gas service and not needing to excavate energized cables for crossing by the gas service line.

MR. BRENT CZARNECKI: Could you please describe the nature of the damages that could be avoided if the four (4) party trench method is deployed?

MR. DAVID PETURSSON: Centra has reviewed the below grade damages that occurred during the period of 2000 to 2004 and from January 2005 to October 2006 in areas where four (4) party trench could be installed today.

During this time, there were approximately two hundred and twenty-four (224) damages of which a hundred and thirty-six (136) or over 60 percent would have or likely would have been avoided by using the four (4) party trench design.

These damages were primarily attributable to sewer or water line installations, repair, replacement or rehabilitation, road bed rebuilding or rehabilitation and also to excavating around gas mains to install gas services to customers. A full description of these damages is provided in the attachments to the response to PUB/CENTRA-1.

Centra has also assessed the future for potential damages. We randomly reviewed three (3) mature

Winnipeg communities typical of those where four (4) party designs would be used and reported on that review in our report of December 15th, 2005.

This investigation supports the projection for fewer gas damages by locating the gas main adjacent to the electric and communication cables in a four (4) party main trench.

MR. BRENT CZARNECKI: Thank you, Mr. Petursson.

Mr. Kroeker, would you please outline your responsibilities with respect to this filing?

MR. DOUG KROEKER: Good morning, Mr. Chairman, Member of the Public Utilities Board, Ladies and Gentlemen.

In my testimony I will be providing evidence related to the plant for optimizing the four (4) party installation process and its implementation, the cost incurred to date using the four (4) party method, and Centra's expectation of future costs.

MR. BRENT CZARNECKI: Has Centra actually begun to implement its plan for optimizing the four (4) party method?

MR. DOUG KROEKER: Centra has begun to implement the optimized four (4) party process but key organizational changes and investments required to

optimize all four (4) party work throughout the Corporation have not yet been made.

The early steps taken toward optimization were the development of four (4) party design standards, which occurred early in 2005, the communication to developers of requirements and specifications for the installation of water and sewer stubs, also early in 2005.

The completion of a detailed process review encompassing all the process steps from the receipt of a developer request through to the energizing of the plant with recommendations for process improvements which occurred late in 2005 and the completion of the classroom training for approximately twenty (20) internal crew personnel and equipping one (1) internal crew to perform all aspects of the four (4) party installation work, including the gas work.

Centra's intention had been to implement the remainder of the implementation of optimization procedures beginning with the 2006 construction season. Centra then would have reviewed its procedures following the 2006 construction season and made any necessary adjustments during the 2007 construction season.

Centra has recognized the requirement for two (2) full construction seasons to put in place and

then refine the necessary procedures.

MR. BRENT CZARNECKI: What has delayed the optimization of the four (4) party process?

MR. DOUG KROEKER: The delay is a result of the uncertainty associated with the ongoing review of this initiative which began during the 2005/'06 GRA. During the summer of '05, Centra's program for implementing optimized procedures was identified and Centra was about to roll out the necessary communication information and training to all affected staff.

However, Order 103/05 issued July 12th, 2005 directed Centra to cease all gas pipeline installations through the four (4) party trench program as of December 1st, 2005 and thereafter to carry on using the conventional means of gas pipeline installation.

Unless or until such time as Centra can satisfy the Board that anticipated savings can be realized, there is no greater risk to public safety.

Consequently Centra suspended further roll out of its optimization plan until such time as the future of four (4) party initiative could be ascertained.

Order 135/05 issued October 12, 2005, restated the earlier directives and further directed that Centra complete its research on four (4) party trenches and submit a study with final conclusions by December

31st, 2005.

Consequently, effort was redirected toward the preparation and filing of the directed report.

MR. BRENT CZARNECKI: Was that report prepared and filed and if so, what were its main conclusions?

MR. DOUG KROEKER: That report was filed on December 16, 2005. It reviewed the development of the four (4) party initiative and its objectives, compared the typical four (4) party design with conventional design, demonstrated the scope for safety enhancement, discussed the reasons for the higher cost of four (4) party relative to conventional and demonstrated where future savings would likely be achieved.

The report conclusion regarding safety was that, over the previous five (5) years over 60 percent of below grade damages that occurred in the areas where four (4) party trench could be installed today would have been avoided if the four (4) party method had been used.

Regarding cost, the conclusion was that once the four (4) party concept was fully optimized, the average cost of four (4) party installations would be equal to the cost of conventional installations.

Centra requested that PUB rescind its directive to cease all four (4) party gas installations

in the cover letter to the filed report.

MR. BRENT CZARNECKI: And what happened subsequent to the filing of that report?

MR. DOUG KROEKER: The Public Utilities Board responded by letter dated January 12th, 2006, extending the deadline beyond which no further four (4) party installations were to occur to April 30th, 2006.

The letter also advised that a further order would be forthcoming. Order 10/06 issued January 24th, 2006, further extended the deadline to August 31st of 2006, subject to a number of future undertakings by Centra.

On page 6 of Order 10/06, the PUB concluded based on Centra's evidence that the four (4) party trench is not of greater risk than the conventional method of installation.

MR. BRENT CZARNECKI: Can you describe the future undertakings required of Centra in Order 10/06?

MR. DOUG KROEKER: The Order included a number of specific directives regarding four (4) party standards including reporting of any damages, developer agreements and procedures related to sewer and water installations, future measures to enhance safety and communication with homeowners regarding the location of

utility plant.

From the perspective of optimization and costs there were there (3) key directives. Directive 8 in the Order required Centra to file details of all costs associated with its optimization plan, including capital expenditure details, additional personnel and training details and operating cost details, together with an explanation as to how such costs had been factored into the feasibility tests for main extensions.

Directive 10 in the Order required Centra to provide the detailed costs of the four (4) party program from the initial installation to July 31st of 2006, compared to what the cost would have been had conventional main installation been utilized.

Finally, Directive 9 required Centra to track the costs of fully optimized four (4) party installation in three (3) different sized subdivisions and compare these to the cost of conventional installation.

MR. BRENT CZARNECKI: Did Centra file the required details of its optimization plan?

MR. DOUG KROEKER: Centra filed a response to the directive for further information on its optimization plan by letter and attachments dated April 4th, 2006. That response indicated the capital,

equipment, and training investment required to proceed with optimization of the four (4) party method.

Expected total capital cost was in the order of six hundred thousand (600,000) and the annual costs associated with that investment were estimated at about eighty-nine thousand (89,000).

MR. BRENT CZARNECKI: On April 27th, 2006, the PUB approved the capital expenditures related to the optimization plan. In September 2006, Centra advised the Board that it had not taken the necessary steps to proceed with the optimization initiative.

Could you please explain why Centra did not take those steps?

MR. DOUG KROEKER: In addition to the expenditure of approximately six hundred thousand (600,000) the implementation of the optimization plan requires significant changes in the established processes, corporate systems, and staff responsibilities.

Although the capital expenditures were approved April 27th, 2006, and Order 10/06 only extended approval of the four (4) party process to August 31 of 2006, if Centra had proceeded with the capital expenditures following the April 27, 2006 approval most of those items would not have been received prior to the August -- prior to August 31st of 2006.

Centra was also required to file on July 31, 2006, the detailed costs of the four (4) party program from the initial installation to July 31, 2006, compared to what the costs would have been had conventional main installation been utilized.

Given the decisions -- given that decisions were going to be made on the future of four (4) party initiative without having the results of a fully optimized process, Centra was reluctant to incur capital costs and process re-organization if the program was to be discontinued shortly thereafter.

MR. BRENT CZARNECKI: Assuming the PUB approves Centra's -- Centra's request, how long will it take to complete optimization?

MR. DOUG KROEKER: As noted earlier Centra recognizes that it will take two (2) full years to fully implement its optimization plan. The original plan was for optimization to be completed during the 2006 construction season and evaluated and refined during the 2007 season.

With the approval of the request now before the Public Utilities Board, that timetable can now be accomplished during the 2007 and 2008 seasons.

MR. BRENT CZARNECKI: What steps are required to complete the four (4) party process

optimization?

MR. DOUG KROEKER: The necessary steps are detailed in Centra's response to PUB/Centra-12.

In summary, purchase of the tools and equipment, delivery of training, modification of the estimating procedures and re-organization of crews will take place during the first year. The modification of the current inspection practices will take place over both the first and second years; evaluation and refinement of the process will take place during the second year.

MR. BRENT CZARNECKI: What additional costs have been incurred to-date through use of the four (4) party method as compared to the conventional installation method?

MR. DOUG KROEKER: Centra has provided evidence in its filing dated July 26, 2006, that it -- that its estimate of the cost differential based on a total of sixty (60) projects analyzed at that time was approximately seven hundred and thirty-nine thousand dollars ($739,000) or about 35 percent.

The response provided to the PUB's Information Request 5A in this proceeding updated the estimate of the differential based on sixty-six (66) projects to seven hundred and eighty-eight thousand

(788,000) or about 31 percent.

MR. BRENT CZARNECKI: Can you discuss the reasons why the four (4) party costs have exceeded estimated conventional costs to date?

MR. DOUG KROEKER: Although many advancements have been made in the implementation of the four (4) party methods such as completing the development of the four (4) party standard, issuing the requirements and specifications for the installation of the sewer and water service stubs, and determining the optimum method of construction of four (4) party projects, cost parity with the conventional method is dependent upon the implementation of a fully optimized four (4) party process.

MR. BRENT CZARNECKI: And lastly, Mr. Kroeker, can you indicate the specific areas in which optimization will provide cost reductions to align the cost of four (4) party installation with that of conventional installation?

MR. DOUG KROEKER: Although there are a number of smaller areas where cost efficiencies will be achieved, there are two (2) areas where the majority of future cost reductions will flow from.

Future optimization efforts will address the high cost of construction inspection. Modification

of the current construction inspection practices from a model geared towards installation by a contractor to a model geared towards installation by in-house crews will provide noticeable cost reductions.

Secondly, completing the classroom and field training of the in-house crews and replacing the role of the contractor personnel with respect to fusing and testing of the gas lines with in-house personnel will allow the crew to achieve increased efficiencies in the work.

MR. BRENT CZARNECKI: Thank you, Mr. Kroeker.

Mr. Wiens, would you please provide and outline your areas of responsibility with respect to this filing?

MR. ROBIN WIENS: Good morning, Mr. Chairman and Members of the Public Utilities Board, ladies and gentlemen.

In my testimony, I will be providing evidence related to the regulatory treatment of costs incurred by the change from conventional to four (4) party installation of gas distribution plant in residential subdivisions and the impact of this process on the feasibility of future natural gas extensions.

MR. BRENT CZARNECKI: Centra's provided

evidence that, to date, the four (4) party method of installation has resulted in sixty-six (66) projects with capital cost totalling 3.3. million, which is seven hundred and eighty-eight thousand dollars ($788,000) more than the installation of service would cost had conventional methods been used for this installation.

Is it Centra's view that these additional costs should be borne by the gas ratepayer?

MR. ROBIN WIENS: When Centra first introduced the four (4) party method of installation, it was intended to achieve specific objectives, largely to do with safety.

The significant process improvements required to align installation procedures with the four (4) party practice could not be made overnight. Nevertheless, Centra believed that the safety benefits and the superior design characteristics of the four (4) party practice were worth pursuing and therefore Centra altered its installation practice prior to undertaking the extensive work study and process modifications required to optimize.

Those safety-related benefits have been delivered to the ratepayer and, therefore, should be built into rates.

Centra believes that the safety benefits

already achieved are sufficient to justify the incremental cost incurred by modifying installation practice prior to full optimization.

The response to Centra -- or to the PUB's information request Centra 5A, provides Centra's estimate that this incremental capital cost is about seven hundred and eighty-eight thousand (788,000), which would contribute approximately seventy-nine thousand (79,000) annually to Centra's revenue requirement.

Centra expects that its customers will receive the benefit of improved safety, including the anticipated future savings associated with fuel repairs.

Centra is also of the view that upon optimization of the four (4) party method, costs will, on average, reach parity with the conventional method and therefore future safety enhancement will be achieved at no incremental cost. Hence, additional costs being incurred today and in the recent past will continue to deliver safety benefits into the future.

While it's admittedly difficult to place a value on enhanced public safety, Centra is of the view that costs in the order of seventy-nine thousand (79,000) annually are not an unreasonable cost to achieve these improvements.

MR. BRENT CZARNECKI: Does the ongoing

use of the four (4) party method require changes to Centra's feasibility test of new distribution extensions?

MR. ROBIN WIENS: Centra currently believes that the ongoing use of the four (4) party method would require little, if any, changes to the parameters in the feasibility test.

It's Centra expectation that the capital costs will be aligned with the cost of conventional installation. The feasibility test also incorporates assumptions regarding operating costs and revenues.

While Centra anticipates little change in these parameters, as well, it will be reviewing them to determine if any changes are required to accommodate the impacts of the four (4) party process.

MR. BRENT CZARNECKI: Centra's September 29th, 2006 letter indicates that the Company would prefer that the PUB approve the four (4) party method without limit as to time.

Please explain why the PUB should do this, given the construction costs being incurred?

MR. ROBIN WIENS: Centra is of the view that as long as the PUB is satisfied as to the safety aspects of distribution design, the selection among alternative methods should be made in light of the conditions faced in each particular subdivision, as well

as the utility's design standards and judgment.

The cost consequences of that selection are always subject to review by the Public Utilities Board on a regular basis.

In addition, Centra is committed to the optimization of its four (4) party method but does require certainty going forward that it can undertake the necessary investment and organizational change required to achieve the goals of optimization.

MR. BRENT CZARNECKI: Thank you, Mr. Wiens.

Mr. Chairman, that concludes the direct evidence of the Centra Panel.

THE CHAIRPERSON: Thank you, Mr. Czarnecki. Thank you, Panel.

Mr. Peters, it's over to you if you want to begin your cross-examination now.

MR. BOB PETERS: Thank you.

THE CHAIRPERSON: We'll probably take a break at 10:30 so just to give you some time.

MR. BOB PETERS: Thank you very much.

QUESTIONS BY MR. BOB PETERS:

MR. BOB PETERS: Good morning, Panel Members. My questions will be addressed to the Panel and

as I've told previous Panels from your company in the last short while, you can fight amongst yourselves as to who wants to answer it, please.

Mr. Snyder, I'll suggest this one is to you although you may wish to pass it down. From the direct evidence you provided the Board this morning, one (1) of the requests you're asking of this Panel is to extend the time to comply with Directive 9 in Board Order 10/06. Is that your understanding?

MR. AL SNYDER: That is correct.

MR. BOB PETERS: And 10/06 was an Order where the 9th Directive wanted Centra to track the costs of three (3) test case projects and report on the actual cost compared to what those would have been had it been done on a conventional basis.

MR. AL SNYDER: The -- I guess the evidence was provided back in July of 2006 with respect to the sixty (60) different projects that we had done.

MR. BOB PETERS: And the sixty (60) projects you had done were done -- were not -- I'll use the word fully optimized as I understand the Company's position.

MR. AL SNYDER: That's true.

MR. BOB PETERS: And so once fully optimized the Board has asked you to report on three (3)

test cases of different sizes to compare actual cost to what those costs would have been had the installations been done on a conventional construction.

MR. AL SNYDER: That's also true.

MR. BOB PETERS: And in terms of what else you're asking from the Board - and Mr. Wiens I think referred to it in those last couple of questions to Mr. Czarnecki - you're asking for final and absolute approval of four (4) party trenching methodology.

Would that be fair?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Mr. Wiens, has Mr. Snyder and the executive of Centra Gas provided unconditional approval for four (4) party trench methodology?

MR. AL SNYDER: The answer is "yes."

MR. BOB PETERS: And Mr. Snyder, you provided that unconditional approval not knowing what the financial consequences would ultimately be?

MR. AL SNYDER: We did expect what the financial consequences would be and did expect that we would reach at least parity and -- and hopefully achieve some benefit in the long run.

MR. BOB PETERS: Without having optimized the entire process, Centra Executive has given absolute

and unconditional approval to proceed with four (4) party trench provided this Board does likewise?

MR. AL SNYDER: We've given unconditional approval under the auspices that we will guardedly watch out for -- for costs and with optimization we would hope to achieve at least parity and certainly hope to benefit that by a margin of 20 percent in some cases.

MR. BOB PETERS: Is it your understanding, Mr. Snyder, that some cases will be more expensive to install even when optimized under four (4) party trenching methodology compared to conventional installations?

MR. AL SNYDER: There may be some instances where construction flexibility is -- makes four (4) party trenching more difficult.

MR. BOB PETERS: And if it's more difficult it may result in costs that are greater than conventional installation?

MR. AL SNYDER: We would hope that they would be at least parity.

MR. BOB PETERS: But they may result in costs that are greater than conventional installations?

MR. AL SNYDER: On occasion they may.

MR. BOB PETERS: And so the Board should take from the evidence that the best-case scenario will

be a net zero in terms of additional costs; would that be fair?

MR. AL SNYDER: No. I don't think that's fair because I think that we can optimize and that we should expect to be at least parity, but I would hope that we would be better than parity.

MR. BOB PETERS: Back to Directive 9, the time extension that you're seeking is until March 31 of 2009 to provide a report to the Board on the -- on the cost of the test cases?

MR. AL SNYDER: That is correct.

MR. BOB PETERS: From what you have filed now, Mr. Kroeker, is directive 9 going to provide the Board with the information that it appears to be seeking in that directive and that is, the actual costs of three (3) test cases compared to what the -- the costs would have been had it been done conventionally?

MR. DOUG KROEKER: If Centra's allowed to complete those three (3) test cases and then file the results of those, after we've implemented our fully optimized process, I think that it will provide that look of costs of our optimized process compared to that of conventional.

But I would also suggest that we're achieving cost parity on average of a large number of

subdivisions and not on an average of (3) subdivisions.

So in that case, we might find that all three (3) of those subdivisions were under cost parity and yet, going forward, we might only achieve an average of cost parity or those three (3) subdivisions, because of their particular layout, may come in higher than what we would expect the average to be.

So we have to keep in mind that it's -- it's only three (3) out of a large number of subdivisions that we hope to achieve an average of cost parity on.

MR. BOB PETERS: At this point in time, as I understand your evidence to the Board and maybe you could turn with me, and hopefully the Board Members, to page 66 of Centra Exhibit 1.

(BRIEF PAUSE)

MR. BOB PETERS: And what you should have before you on this, Mr. Kroeker, is appendix A, attached to a letter of July 26, 2006. Have you that document?

MR. DOUG KROEKER: I have the reference, yes.

MR. BOB PETERS: And this document shows a large number of urban residential development installations comparing four (4) party trench costs to

conventional costs, correct?

MR. DOUG KROEKER: That is correct.

MR. BOB PETERS: And I probably have it somewhere later in my notes, but this is not comparing actual four (4) party trenching costs for each of those subdivisions is it? It's based on average -- an average cost calculated for the installation?

MR. DOUG KROEKER: It is a comparison of actual four (4) party cost to conventional. What was done to achieve the actual four (4) party costs, there were nine (9) subdivisions that were analyzed in detail and it took a significant amount of time to analyze those nine (9) subdivisions.

And from those nine (9) subdivisions we found that there were similarities in the data that needed to be cleansed. And so we applied those -- I guess findings to the remainder of those sixty (60) projects to come up with what we believe to be the average cost of them.

MR. BOB PETERS: So what you're telling the Board is that the actual costs for all sixty (60) of these subdivisions were not tracked separately?

MR. DOUG KROEKER: No, the actual costs of those subdivisions were tracked separately in our accounting records.

MR. BOB PETERS: Well then I'm confused because I thought you told the Board that you took nine (9) subdivisions and took an average installation cost and used that -- those costs for the subdivision?

MR. DOUG KROEKER: Just give me a moment here to find a reference.

MR. BOB PETERS: Yes, certainly.

(BRIEF PAUSE)

MR. DOUG KROEKER: When we went -- when we went through the records, our accounting records of those nine (9) projects, we did find that there were certain charges that didn't appear in those accounting records that should have appeared in them for those projects.

We also found cases where there were charges that were in the accounting records that should not have been in those records.

Some of those charges of -- that we found that were in those records that shouldn't have been were some overhead allocations, as an example. Some costs associated with items that should have been in there but were not, we found in cases that there were material that was installed but did not get charged to the right

account number by field personnel and, therefore, didn't make it into the SAP reports.

So those are the types of things that we found when we looked at those nine (9) projects and given the amount of effort it took to analyze those nine (9) projects and given the timeline for filing of the response we made a decision that what we had found in those nine (9) projects was likely similar to what we would find in the remaining fifty-one (51) and, therefore, we applied those on an average basis across the remainder of the projects.

MR. BOB PETERS: Can you be more specific as to which -- did -- did you come up with an average cost per -- per metre or did you come up with average cost per installation? What was the exact averaging?

(BRIEF PAUSE)

MR. DOUG KROEKER: When we analyzed those nine (9) projects we broke it down into the different components where costs would be incurred on the projects. We broke them down into our standard segregation of -- of costs if you -- you could call it that. Property survey, design, and GIS is one (1) category; construction

inspection another, material another; contractor labour another. Permits from the City of Winnipeg another category and joint use transfer costs of internal labour.

Those were the categories that we analyzed those nine (9) projects and so when we looked at those nine (9) projects we looked at those individual categories to determine what was appropriately charged to the accounts in those areas and what hadn't been and then we came up with percentage differences for each of those categories and then applied those percentage differences across the remaining fifty-one (51) projects.

MR. BOB PETERS: Perhaps to assist the Board as I just conclude in this area, Mr. Chairman and Board Member Molgat, and PUB Centra-13 was an Information Request that was asked of the Company and I'm going to ask the Board and also Mr. Kroeker to turn to page 4 of 13 of PUB/Centra-13.

Have you located that, Mr. Kroeker?

MR. DOUG KROEKER: I have, yes.

MR. BOB PETERS: And on page 4 of 13 of PUB/Centra-13, are many of the cost items that you just referenced in your second-last answer to me?

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: And are you now telling the Board that those cost items that you list there, you

now have an average amount for each of those that you will use in the four (4) party trench cost calculations?

(BRIEF PAUSE)

MR. DOUG KROEKER: What I've -- what I tried to suggest in my last response was that the -- we've gone into detail on those nine (9) projects and determined that some of our charges in the SAP did not reflect what they should have regarding actuals for items like construction inspection, items like material. We found that there was errors in account coding and we have come up with over those nine (9) projects what the average was, as an example, for material.

If we determine that there was material that was not included in the projects that should have been, it got charged to the wrong account numbers and the -- the information I have as an example is 38 percent for material that the -- an additional 38 percent was required to be included in the accounts for material for those nine (9) projects. So what we then did was take that 38 percent and add it. Based on the amount of material we added an additional 38 percent to each of the following projects.

MR. BOB PETERS: All right. I think I

have a better understanding now. Your -- your study of the nine (9) subdivision projects provided you with data that would give you percentage changes from estimated conventional costs?

MR. DOUG KROEKER: That's right.

MR. BOB PETERS: And the example you just gave was in a conventional installation, if you spent one dollar ($1) on materials, you know you would need to spend 38 percent more in a four (4) party trench example.

MR. DOUG KROEKER: No, no. That's -- I don't think we're on the same page just yet, Mr. Peters. What -- what I was suggesting was that when we analyze those nine (9) four (4) party projects not -- not the conventional estimates but the four (4) party estimates, when we analyze those that we found that on average 38 percent less material had been charged to those projects than what should have been charged based on what was actually installed.

And so we adjusted the actual four (4) party costs by that amount.

MR. BOB PETERS: Okay. Maybe the light's turning on on this side of the room. Having said that, Mr. Kroeker, if the Board wants to see comparisons, you've told the Board there's a weakness in what they ordered in 10/06 - and you said it quite politely I think

- in that for -- for what may happen is the Board could pick any one of these type of developments as found on page 66 of Centra Exhibit-1 and just by chance the Board may pick one where the costs are not parity and the cost may be -- may be higher or lower.

Would that be true?

MR. DOUG KROEKER: Yes, that would be true.

MR. BOB PETERS: All right. Now to eliminate the -- the chance aspect and -- and to review how -- how successful four (4) party trench installations are from a cost perspective, what would be a better test for the Board to do in your view?

MR. DOUG KROEKER: I think that what Centra has requested is -- would be a better thing to do. We haven't yet implemented our fully optimized process. I talked in my opening comments about a couple of the key important steps that are still required to optimize and that is changing our methodology for construction inspection from a contractor driven model to inspection of in-house crews and as well, completing the training and equipping of our internal crews.

And if we were allowed to continue to do that over the next two (2) construction seasons, and then to evaluate us some time after that, I think would be a

better way to proceed.

MR. BOB PETERS: All right. Following that further, Mr. Kroeker, if you're allowed to optimize the installations and then do -- and then provide the Board with cost information, how many of the URD's should you provide cost information to to the Board so the Board can get a good idea as to whether or not from a cost perspective four (4) party trench is at parity with conventional or perhaps better, as Mr. Snyder hopes?

(BRIEF PAUSE)

MR. DOUG KROEKER: That -- that question is not something that we've given considerable thought to the answer on. The number would certainly need to be more than three (3), I think, to have a good average.

Sitting here at this table and discussing it briefly with my colleague, Mr. Petursson, we think that possibly taking a look at the last half of the construction season of 2008 and the number of projects that would be done during that time frame might provide a -- a better look at how our optimization is proceeding.

MR. BOB PETERS: All right. Let me leave it this way and recognizing I -- I don't want to put you on the spot while the microphones are on, you'll have an

opportunity over a break to speak amongst yourselves and perhaps you can relay any final position of Centra to your counsel and your counsel may choose to use that in closing submissions in terms of suggesting to the Board what would be a more accurate or fair test in terms of the costing of four (4) party trench going forward.

Would you accept that as an undertaking?

MR. DOUG KROEKER: We will accept that as an undertaking.

MR. BOB PETERS: Okay, thank you for that.

--- UNDERTAKING NO. 1: Provide Centra's position on what would be a more accurate or fair test in terms of the costing of four (4) party trench going forward.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Snyder, one of the--

THE CHAIRPERSON: Mr. Peters, just one (1) thing. Mr. Kroeker, just to confirm you'd indicated earlier, one (1) of you had, that in your costing of the four (4) party trench approach, you have not provided any estimate of sort of present value of future savings

associated with an approach not expected to result in so many problems, as compared to the conventional approach.

You haven't built into your cost forecast for four (4) party trench any estimate of savings that could be expected to be realized in the future as a result of having done it the four (4) party way, as opposed to the other way, although you've identified the four (4) party trench as being safer than the other approach?

MR. DOUG KROEKER: That's right, we've identified it as safer and then, on average, hope to achieve cost parity, but that's as far as we've gone with the future estimates.

THE CHAIRPERSON: So the answer is, yes, like you said for example, at one point that you'd examined a couple of hundred cases of difficulties, okay, of which you said a hundred and thirty (130) or so would have been avoided by the use of the four (4) party trench.

You haven't provided any estimate of value of those hundred and thirty five (135) avoided cases?

MR. DOUG KROEKER: No, we have not.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Is that something that

is quantifiable?

MR. DAVID PETURSSON: It's very difficult to quantify, trying to you know, quantify the -- especially economically the cost of a future -- of a damage or future damages.

The -- we have not at this point taken a look at the reduction in estimated damages and quantified it to include in our economic picture of four (4) party.

MR. BOB PETERS: Just before I leave that, if a homeowner should have the misfortune of damaging your plant, it's at the homeowner's expense, is it not?

MR. DAVID PETURSSON: Generally, that is the case.

MR. BOB PETERS: And if a construction company, a third-party contractor damages your plant, that contractor has to pay for the repair and the damage, would that be correct?

MR. DAVID PETURSSON: If the damage is attributable to the contractor doing the work, we will submit a bill to the contractor for the damage.

MR. BOB PETERS: And then you'll sic your lawyers on them to get payment.

MR. DAVID PETURSSON: I'll let Mr. Czarnecki answer that one.

MR. BOB PETERS: All right. I guess the point where I'm going with that, Mr. Petursson, is in terms of some of these damage claims then, the damages that may result are not damages that presently are being charged through to consumers in your rates, because they're paid for by third parties?

MR. DAVID PETURSSON: My understanding is we do -- we will charge for the damages that occur if the party is at fault in causing those damages.

And the safety benefits I believe, go beyond just straight economics of the cost of a damage repair.

MR. BOB PETERS: The safety benefits include things like reduced frequency of unwanted results such as even explosion or migrating gas?

(BRIEF PAUSE)

MR. DAVID PETURSSON: That's -- from a safety benefit we're looking at the damages to our plant and -- with the intent that if we have fewer damages to our plant, there would be less gas that would be leaked from the plant and ideally all of our efforts on damage prevention, the Call Before You Dig, for example, focus on reducing damages.

The safety benefits would reduce in fewer third-party contacts with our plant.

MR. BOB PETERS: All right. Fair enough. Mr. Snyder, one (1) of the things you told me a little earlier was that Centra was hoping to reach parity.

What happens, sir, if by the time optimization is fully completed Centra has not achieved parity?

MR. AL SNYDER: We would obviously report to you with respect to the -- you know what we had achieved and it would be hoped that if we were close to parity, that the extension of the four (4) party trenching would continue.

MR. BOB PETERS: In that answer, Mr. Snyder, what you're telling the Board is, even if you don't achieve parity, you're going to ask for the additional cost to be contained in consumer's rates?

MR. AL SNYDER: It is our objective to get to parity.

MR. BOB PETERS: And if you -- at this point in time, you're not at parity?

MR. AL SNYDER: No, at this point in time we're not at parity.

MR. BOB PETERS: And at this point in time, you're asking for the additional cost to be paid

for by consumers?

MR. AL SNYDER: That is correct.

MR. BOB PETERS: And in the future if you don't achieve parity, I'm suggesting you still intend to ask consumers to pay for the additional costs; would that be fair?

MR. AL SNYDER: No, that wouldn't be fair. If we're -- if we're close we would -- we would ask for that but if we're not close then we have to take a recognition in our own view that this maybe isn't the best solution.

MR. BOB PETERS: Okay. And then how do you quantify being close?

MR. AL SNYDER: Well, I would say if we're within 5 to 10 percent, that to me would be close.

MR. BOB PETERS: And if you're not within 5 to 10 percent of the -- of the conventional costs through using four (4) party trenching installations, the Utility would not seek to pass those costs onto consumers?

MR. AL SNYDER: At this particular stage we haven't given that any consideration.

MR. BOB PETERS: But what you have said then is that if you are not within 5 to 10 percent of the costs, that may give the Corporation pause and may result

in the -- in -- in changes and maybe even reverting back to conventional installation?

MR. AL SNYDER: We would have to take a look at -- at our methodology, the way in which we can optimize the -- the projects, the way in which we can deploy crews, the equipment that we're using. We would really have to do a -- a thorough evaluation of what we're doing because all of us want to make sure that the costs are minimized.

MR. BOB PETERS: Okay. If I can, I'd like to turn to a couple of quick definitions just to make sure that my questioning the balance of the morning -- I've use the right terms.

In -- in the PowerPoint presentation as well as in Centra Exhibit 1 there's reference to gas mains and this whole four (4) party trench initiative involves gas mains; would that be correct?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And I would consider gas mains to be running from the transmission pipelines as part of the distribution system and end up providing the natural gas to the front of the properties that are going to be served; would that be correct?

MR. DAVID PETURSSON: In the presentation we -- we have gas mains included. We also have the

service stubs that would be installed as part of the gas mains. We also define a service header which is a gas main on the opposite side of the street serving a -- typically a fewer number of houses.

MR. BOB PETERS: All right. You can easily lose me and I'm hoping you don't lose the Board on this. So if we could turn to page 15 of Centra Exhibit 1 we can maybe show the Board Members what we're specifically talking about. And I'd use your PowerPoint presentation but it'll take too long to set up.

On page 15, Mr. Petursson, you have a conventional single party gas line layout, correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And the upshot of this diagram shows the Board that there's a gas main on only one (1) side of the street and the service lines run from the gas line to the properties to be served?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: If we turn the page to page 16, we see a four (4) party trench configuration where there still exists a gas main but now the gas main is moved into a trench with the other three (3) utilities and it's only on one (1) side of the street, correct?

MR. DAVID PETURSSON: Yes, we have the gas main on one (1) side of the street.

MR. BOB PETERS: On the opposite side of the street you have what you call a gas service header but for purposes of our discussion, is that not the same as another gas main on the other side of the street?

MR. DAVID PETURSSON: Generally, it will the same type of pipe. We may -- it may be a smaller pipe depending on the individual design and it is different in one (1) sense in that it will only serve those houses on that particular side of the street; it's limited in scope. The gas main may continue to go serve another street or carry gas further.

MR. BOB PETERS: Fair enough. And then the gas main is connected to the gas service header on the opposite side of the street by another gas service header?

MR. DAVID PETURSSON: Yes, that's the way it shows in this diagram; that simply would just be a road crossing pipe just to bring gas across the street.

MR. BOB PETERS: Well, you need to bring gas across the street in some fashion and that's how you design it here?

MR. DAVID PETURSSON: Yes. With -- the nature of it, though, is where we'd have a single road crossing to bring gas across the street for quite a few houses that are served by the gas service header.

MR. BOB PETERS: All right. And the point that you're making then is you don't need a service line running from the gas main to go under the street to each and every property to be served, rather you have one (1) gas service header which connects to the opposite side gas main or gas service header, and that will then have services running to the homes.

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: Would it be fair to say that there is more plant generally needed for four (4) party trench than in conventional?

MR. DAVID PETURSSON: No. I don't think that would be fair. It can depend on the layout. If we were to look at the absolute footage of plant we would -- we are introducing the service header which is an increase in plant but by the same token we are reducing the amount of pipe in all of the service lines.

We may introduce a larger or greater plant, say of a gas main size, say a two (2) inch pipe, but reduce the number of service lines and service line length.

MR. BOB PETERS: So at this point in time you haven't come up with any averages as to whether a four (4) party trench on average is more or less plant.

(BRIEF PAUSE)

MR. DAVID PETURSSON: Our studies to date have shown that it's about the same. We -- depending on the particular configuration, which could be a straight street, it could be cul-de-sacs or bays, in some cases it will be more plant, other cases it could be less, on average about the same.

MR. BOB PETERS: All right. And, Mr. Petursson, just to draw your attention to Centra -- sorry, PUB/Centra-13, page 3 of 13, this is again that same Information Request. And on page 3 of 13, at the top of the page, lines 1 to 4, you talk a little bit about the amount of plant needed and in some cases I think your -- your answer was the same, it depends on the design, that the two (2) inch gas pipe that needs to be installed could reach nearly double that of convention and then conversely on cul-de-sacs it would be less, and on average you think it would be about the same.

MR. DAVID PETURSSON: If we are talking about the two (2) inch gas pipe, two (2) inch gas pipe will require more gas pipe, but with the corresponding reduction in length of the services, because we have all short services and no long services, if we are -- if we're taking a simple length of pipe in total, it will be

the same.

MR. BOB PETERS: All right. Fair enough. Back to page 15 then of Centra Exhibit 1, can you confirm to the Board that while the four (4) party trench methodology related to the gas main is the new initiative, what isn't new is the use of a four (4) party trench methodology for the services.

MR. DAVID PETURSSON: That is correct. We've been using a four (4) party trench methodology for services for quite some time now.

MR. BOB PETERS: Since the early 90's?

MR. DAVID PETURSSON: Mid-90's, I believe.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Snyder, would I be correct in concluding that the issue of four (4) party trench is not the kind of issue that would make its way through to the Centra Board -- Board of Directors?

MR. AL SNYDER: I'm not a member of the Board of Directors, so I wouldn't know that.

MR. BOB PETERS: Does any Member of the Panel have any knowledge as to whether any submissions or approvals for four (4) party trenching have made its way

through to the Centra Gas Manitoba Inc. Board of Directors?

(BRIEF PAUSE)

MR. AL SNYDER: No, we haven't heard that it has.

MR. BOB PETERS: All right. I'll take that. Thank you.

I also heard you to say and summarize your evidence, Mr. Snyder, by suggesting that if four (4) party trenching is not safer than conventional methodology Centra won't proceed with it?

MR. AL SNYDER: I believe that four (4) party trenching is safer.

MR. BOB PETERS: Yes, and if it was not safer, Centra wouldn't be proceeding with it?

MR. AL SNYDER: No.

MR. BOB PETERS: Centra accepts the responsibility to install and operate its distribution system safely?

MR. AL SNYDER: That is true.

MR. BOB PETERS: And if four (4) party trenching is not cheaper than conventional installation, Centra may still want to proceed with it?

MR. AL SNYDER: There may be instances where from a safety perspective that it is the right thing to do.

(BRIEF PAUSE)

MR. BOB PETERS: You'd agree with me, Mr. Snyder, that as we sit here today there is no actual safety data that the Company can look at to determine whether four (4) party trenching is safer than conventional installation?

MR. AL SNYDER: In terms of hard and fast data, the answer is probably correct.

MR. BOB PETERS: What the Company does have is data from past damage claims of conventionally installed gas mains and has looked back to see if some of those damages could be avoided had it been in a four (4) party trench installation, would that be fair?

MR. AL SNYDER: That's true, that's true.

MR. BOB PETERS: And in terms of actual safety data the Corporation will need a year or two (2) or more to get actual information as to whether the safety expectations are realized; would that be true?

MR. AL SNYDER: That's true, although I think we've realized to date, with the number of

incidences of contacts, that we are achieving those safety benefits.

(BRIEF PAUSE)

MR. BOB PETERS: I'm sorry, can you quantify for the Board your last answer?

MR. AL SNYDER: I can't quantify for the Board, all I can suggest is that the number of contacts with our physical plant, we feel, has been less in a four (4) party trench environment.

MR. BOB PETERS: And is that as a result of having moved the four (4) party trench utilities onto private property?

MR. AL SNYDER: No, we don't believe so.

MR. BOB PETERS: Is it then because of the simultaneous installation of the four (4) utilities?

MR. AL SNYDER: That would be part of it.

MR. BOB PETERS: And the other part?

MR. AL SNYDER: The other part would be the fact that the arrangement within a trench itself confines the space over which either a contractor or owner can contact one (1) of our utilities.

MR. BOB PETERS: Mr. Petursson, I'm not sure if -- I think you were speaking to the safety

aspects. Is it Centra's position that by moving four (4) party trench onto private property, it is safer than if it was on public property?

MR. DAVID PETURSSON: The safety aspects primarily come from the four (4) party arrangement, whereby we have verifiable separation, verifiable depth of the installation by everything in one (1) trench, coincidental install.

That would occur whether its on public or on private property. And the elimination of the long services, is also independent of whether we would be on public or private property.

MR. BOB PETERS: Except the services get longer if you're back onto public property?

MR. DAVID PETURSSON: They would be slightly. The short services would be slightly longer, yes.

MR. BOB PETERS: And whether you call them short or long, there's really no hard and fast length measurement, it's just a relative term.

MR. DAVID PETURSSON: It's more than just relative. The characteristic of what we call a long service, is that those services go below the road.

And that is where we are -- our conventional plant is subject to damage due to road

excavation, road rebuilding, water, sewer, rehabilitation, that happens usually many years after the plant is installed.

MR. BOB PETERS: Can you confirm to the Board, Mr. Petursson that the three (3) party trenching that was going on before Centra tried to hop in the trench, that three (3) party trenching was done on private property?

MR. DAVID PETURSSON: Primarily, yes.

MR. BOB PETERS: And is it correct that there's now a movement afoot as a result of city and municipal bylaws that Centra may be required to push back its four (4) party trenching plans back onto public property as opposed to private property?

MR. DAVID PETURSSON: Yes. In some cases we are seeing zoning changes whereby the setback for houses is greatly reduced not leaving sufficient room from the front of the property for the shallow utilities.

MR. BOB PETERS: Thank you. Mr. Chairman, this might be an appropriate time for a break and I'll review my notes and progress after the --

THE CHAIRPERSON: We'll take your advice on that, Mr. Peters. We'll see you back in fifteen (15) minutes.

--- Upon recessing at 10:30 a.m.
--- Upon resuming at 10:51 a.m.

THE CHAIRPERSON: Welcome back, everyone. Mr. Peters, we're hanging on your every word.

MR. BOB PETERS: Thank you, Mr. Chairman. I have two (2) housekeeping matters to start with and the first is just to correct the record and mark the PowerPoint slide presentation as Centra Exhibit 3. I think that'll be consistent with where we were in the numbering.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And the -- the second matter is -- Mr. Petursson you've -- or maybe Mr. Kroeker, you've tried to explain to me your 38 percent averaging number and I've given it some thought over the break and you may want to help educate me further on that.

MR. DOUG KROEKER: Yes, thank you, Mr. Peters, and I hope I don't confuse us all any more than I may have earlier this morning.

The -- I did want to go back to my earlier testimony regarding the averaging of the nine (9)

projects and the 38 percent that I had mentioned.

The first point of correction is on that 38 percent and it's regarding the material differences. I -- I indicated that 38 percent of the capital cost of each of those nine (9) projects was related to materials; that was not the case.

The 38 percent relates to -- when we did the analysis of the nine (9) projects and we found that on a review of what the actual costs were for those nine (9) projects, we did find a difference between that number and the number that was shown in our SAP reports.

And for materials, we found that the differences for materials made up 38 percent of that number. So the -- or 38 percent of that difference was attributable to materials. And materials were not 38 percent of the capital project.

The second point I would like to add is that on those projects when we did the averaging, the result of that was that the actual cost of those nine (9) projects from our analysis it showed to be 5.14 percent lower than what was included in SAP.

So the remaining fifty-one (51) projects then had their numbers -- that we got out of SAP had their numbers reduced by 5.14 percent. And that's what was filed in Centra's July report.

The results of the total four (4) party main install -- main install, the service install column in that attachment in our July report for those sixty (60) projects, each of those numbers is 5.14 -- 5.14 percent lower than what would be shown in Centra's SAP system. Thank you.

MR. BOB PETERS: All right. Thank you for that. I'm hoping to tidy up on this with you, Mr. Kroeker, and ask you to turn to PUB/Centra-13 page 6 of 13.

(BRIEF PAUSE)

MR. BOB PETERS: And just by way of introduction to this, Mr. Kroeker, at the GRA hearing the Board was given some information as to the costs of four (4) party trenching and in the various reports from Centra the costing of the four (4) party trench numbers changed, correct?

MR. DOUG KROEKER: That is correct.

MR. BOB PETERS: And in some respects the costs of four (4) party trenching went down and the costs of conventional installation went up?

MR. DOUG KROEKER: That is correct.

MR. BOB PETERS: And just mathematically

by doing -- by that happening that had the effect of reducing the cost differential between the two (2) construction methods?

MR. DOUG KROEKER: Yes, that is correct.

MR. BOB PETERS: And in PUB/Centra-13 on page 6 of 13 you try to explain to the Board why the costs of four (4) party trench that was reported to them at the GRA hearing were reduced in the analysis that has been done subsequently; would you agree with that?

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: And in the table that is included on page 6 of 13 of PUB/Centra-13, property, survey design, inspection, materials, contractor, and permits are all numbers that have changed because of the use of some averaging; would that also be correct?

MR. DOUG KROEKER: Could you repeat those -- all of those again, Mr. Peters, so I could follow along?

MR. BOB PETERS: Yes, I'm -- I'm looking -- and if I can maybe ask it a little differently, I see that for the -- for the first five (5) items listed in the chart or the table there is Note 4 that is applicable to those items.

And in Note 4 just below the chart you're telling the Board that those numbers for those various

items including property, survey design, inspection, material, contractor, and permits, those numbers have changed because Centra is now using the average of the changes required to the nine (9) four (4) party projects investigated that you've already told the Board about?

MR. DOUG KROEKER: Yes, that's correct.

MR. BOB PETERS: All right. So those numbers were averaged and that accounts for some of the difference in how the -- in the -- in the costs?

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: And while we're on that page -- and I believe somewhere I was going to come back to this and I'll try to remember not to -- for the joint use trench and the overhead and interest, you've simply removed those. You've removed some -- some overheads?

MR. DOUG KROEKER: Yes, that's correct.

MR. BOB PETERS: And that also has given rise to a cost differential making the four (4) party trench costing -- cost numbers cheaper?

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: Okay. The items in that chart, while we're on it, the service installation and the line locates, I took those numbers to simply be linear mathematical numbers that you multiply by a factor depending on the size of the project and -- and that's

how -- how they were determined. They were size related; is that your understanding?

MR. DOUG KROEKER: Yes, that's -- that's correct.

MR. BOB PETERS: All right. And just to complete that chart, you removed some overheads. And can you explain to the Board -- I know in -- in Item -- sorry, in Note 5 there's a brief explanation but you remove overheads from the four (4) party trench costing but you don't remove those overheads from the conventional costing; is that correct?

(BRIEF PAUSE)

MR. BOB PETERS: Let me rephrase the question. In terms of removing the overheads for joint use trench and overhead and interest, you don't include overheads in either the conventional construction or in the four (4) party trenching construction; would that be correct?

MR. DOUG KROEKER: That's correct. The purpose of removing them was to be apples to apples and they are not included in either of the estimates, either conventional or actual four (4) party.

MR. BOB PETERS: Well, let's just make

sure we're not comparing fruit to fruit here in some other fashion that -- when you use conventional installation you're using third-party contractors; correct?

MR. DOUG KROEKER: Yes. Our third-party contractors provide the installation labour, yes.

MR. BOB PETERS: And Centra doesn't run any overheads related to those third-party contractors, do they?

MR. DOUG KROEKER: In our system the third-party contractors do not attract -- currently do not attract overheads in the same way that internal labour does.

MR. BOB PETERS: Well, and that's why we're trying to get apples to apples, in your words. But when you do four (4) party trench installation -- when you do four (4) party trench installation your plan is to use internal Centra/Manitoba Hydro crews; correct?

MR. DOUG KROEKER: Yes, that's correct.

MR. BOB PETERS: And those crews do attract overhead costs; correct?

MR. DOUG KROEKER: There is an overhead allocation for accounting purposes, yes, for those internal staff.

MR. BOB PETERS: Well, in fact everything

-- and maybe I learned this from a different movie that Mr. Wiens took me to with Manitoba Hydro as the general rate applicant, but when you do cost -- or internal allocations for various matters, one of the costs that is allocated is an overhead cost or a cost of overheads.

MR. ROBIN WIENS: Yeah. We do that when we -- when we carry on a cost of service study, Mr. Peters, because we have to recover those costs in the fairest way as to apportion them to all customers. But what we're saying here is that it doesn't change the overhead, the fact that we do a four (4) party trench versus a conventional installation, it doesn't change the overhead.

So in order to make an apples to apples comparison of four (4) party and to make a fair comparison we've taken the corporate overheads out.

MR. BOB PETERS: Well, Mr. Wiens, please, if the cost of labour internally at Manitoba Hydro/Centra Gas doesn't change whether or not you do four (4) party trenching, because you've got the same number of employees for the year; would you accept that?

MR. ROBIN WIENS: I couldn't accept that without reservation, Mr. Peters, because if we -- as we move away from contractor and towards four (4) party we're going to have more internal labour and less

contractor labour.

MR. BOB PETERS: All right. But my point, Mr. Wiens, is that if you're suggesting that you don't charge overheads to four (4) party trench even though they would be attracted for accounting purposes, the only reason you're not doing that is because they don't get attracted for accounting purposes to third-party contractor work such as conventional installations; would you agree?

MR. ROBIN WIENS: Yes, I would agree. But what we are saying here is that whether or not we did that installation on a four (4) party basis, the corporate overheads would not change.

MR. BOB PETERS: All right. I have your point. We may come back to that. I want to turn to just a brief discussion then of the conventional methodology and make sure that the Board is aware that when we talk about gas mains being installed conventionally, it is a single-party installation.

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: And whatever methodology is used -- and I don't profess to know them all but there's plowing, there's trenching, there's directional boring, there's different methods that can get the gas main into the ground.

MR. DOUG KROEKER: Yes, that's correct.
MR. BOB PETERS: And it's been done conventionally since approximately the 1950's, when -- since 1950's?
MR. DOUG KROEKER: I would think so, yes.
MR. BOB PETERS: And is it correct that the longstanding practice of Centra Gas is to use third-party contractors to do that installation?
MR. DOUG KROEKER: Certainly in -- in the last many years. If we go back to the 50's, I'm not certain what happened then, but certainly through the 80's, 90's and up until four (4) party.
MR. BOB PETERS: That's long enough for my purposes, Mr. Kroeker. Those use of third-party contractors that would have also been pursuant to tendered contracts that the company let out; would that be true?
MR. DOUG KROEKER: Yes, that's correct.
MR. BOB PETERS: And why did Centra tender out those contracts rather than do it internally?
MR. DOUG KROEKER: My -- I wasn't around at Centra at the time that the decision was there to go in-house. I know at some point in Centra's past the majority of the work had been done by some internal crews.

And in my own thinking, I have concluded correct or incorrect, that probably what happened is that as Centra's systems started to expand the internal folks that were dedicated to construction of the system were then moved over to look after the maintenance of the system, and rather than hire more employees, contractors were brought on board.

There was also times in our past when there was many upgrades required to the system. There was an off oil program in the City of Winnipeg in the 1970's that required -- and the 60's, that required a significant number of services to be installed and mains.

And I think that, at that time, in order to bring on the required construction capacity, contractors were sought after.

MR. BOB PETERS: But bringing it more current to maybe I'll flatter myself, your vintage and mine, the use of contractors has continued presumably because it's cost effective?

MR. DOUG KROEKER: We -- for the -- definitely for the single party installations of Centra it proved to be a cost effective way to construct, certainly.

MR. BOB PETERS: To your knowledge, Mr. Kroeker, was the third -- was the there (3) party trench

which excluded Centra, which was just hydro, the telephone and the television, that was -- that was done by contracted crews, as well?

MR. DOUG KROEKER: No, the three (3) party installation was done by in-house crews of Manitoba Hydro and at some point in the not too distant past, in-house crews of MTS also did some of the three (3) party installations.

MR. BOB PETERS: All right. So it's done by -- by -- different utilities have the ability to do three (3) party installation. They don't just do their own, they do it for everybody?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: When you went from the long standing practice, Mr. Kroeker, of tendering out to the contractors for the installation of the conventional gas main installation to what you're telling the Board you're doing for four (4) party trench, you're not changing to internal Centra/Manitoba Hydro internal crews, is that correct?

MR. DOUG KROEKER: Yes, using internal crews will be a preferred method of construction.

MR. BOB PETERS: And why is it your preferred method of installation?

MR. DOUG KROEKER: With the work that --

the review work that went on during our efforts to come up with an optimized design for the process, we did look at alternatives for contracting out the work or completing the work in-house.

And it was the collective wisdom of that group that did that review, that the in-house work force would be a more cost effective way to construct than to contract it out. And so we deferred to the in-house model.

MR. BOB PETERS: When you say "more cost effective," you mean cheaper?

MR. DOUG KROEKER: Yes, I mean cheaper.

(BRIEF PAUSE)

MR. BOB PETERS: Am I correct that the present four (4) party trenching that is done, even though you have internal Manitoba Hydro/Centra crews on it, you also bring in third-party contractors?

MR. DOUG KROEKER: Yes, the four (4) party work is primarily accomplished through the use of in-house crews, but we do have external contractors providing us with the excavating equipment to dig the trench and on some of the crews -- on most of the crews, we have contractor personnel continuing to provide us

with the fusing and testing services for the gas mains.

MR. BOB PETERS: Why do you go outside to dig the trench when you were doing it -- when Manitoba Hydro was doing it internally for three (3) party trenching?

MR. DOUG KROEKER: When we started down the path of four (4) party trenching, it moved away from the three (3) party, the equipment that it required to dig a four (4) party trench, we were required to dig a -- a thirty (30) or a thirty-six (36) inch wide trench for four (4) party and Manitoba Hydro doesn't own the equipment that can dig that type of trench.

We -- the equipment that's used on the three (3) party was to dig a -- a twelve (12) inch wide trench and had no capacity to go up to the size required. So we -- rather than purchase or lease the type of excavating equipment required to dig the trench for four (4) party we decided to contract it out.

MR. BOB PETERS: Mr. Petursson, remind the Board when you showed them slide 5 of your PowerPoint presentation now marked as Centra Exhibit 3, how wide is that trench that now is dug?

MR. DAVID PETURSSON: The trench is a minimum of seven hundred and fifty (750) millimetre and can be as wide as nine hundred (900) millimetre, that's

thirty (30) to thirty-six (36) inches.

MR. BOB PETERS: The contractors who -- who dig the trench, Mr. Kroeker, you said also helped fuse the pipe and I -- you said one (1) other thing.

Was it testing the pipe?

MR. DOUG KROEKER: Testing, that's correct.

MR. BOB PETERS: And are those contractors engaged as a result of a tendered arrangement from the utility?

MR. DOUG KROEKER: The -- we primarily use one contractor for that work although there's another one engaged and the -- the rates currently paid to that primary contractor are from a tendering process.

MR. BOB PETERS: When lawyers get answers like that, they get nervous because I'm not sure you answered my question.

I take it then that you have a preferred contractor that you now use to help you with the four (4) party trench as it's presently installed?

MR. DOUG KROEKER: Yes, we do.

MR. BOB PETERS: And that preferred contractor was not engaged as a result of a -- a tender but rather as a result of Manitoba Hydro's and Centra's experience with them?

MR. DAVID PETURSSON: No, the rates that we are paying that contractor are from a tendering process.

MR. BOB PETERS: All right. Maybe I misspoke. I accept that the rates -- when were the rates tendered?

MR. DOUG KROEKER: They were tendered in -- or the contract was signed off in the spring of 2004.

MR. BOB PETERS: Was that tender also looking to see which contractor you would engage or was the -- was the tender only as for the rates?

MR. DOUG KROEKER: I would suggest it would be for both. We were -- at the time we were looking for a contractor to complete gas line construction so I would suggest it was for both.

MR. BOB PETERS: And if you learn of anything different, you can correct the record through your counsel.

Are those -- is that contractor -- is it paid by the hour then and not by the job? Is that what I'm understanding from your answer?

MR. DOUG KROEKER: For four (4) party installations, it is an hourly rate for personnel and equipment, yes.

MR. BOB PETERS: Can you tell the Board

how many members are on a four (4) party trench crew right now?

MR. DOUG KROEKER: Are you looking for exact numbers or sort of ballpark figures and are you looking for just contractor personnel or in-house as well, Mr. Peters

MR. BOB PETERS: No, I'm looking for a total number of workers on a four (4) party trench crew today and then I'm going to ask you another question as to how many people will be on a four (4) party trenching crew once it's optimized?

MR. DOUG KROEKER: Today the -- the primary four (4) party trenching crews that operates here in the City of Winnipeg today would have ten (10) in-house Manitoba Hydro personnel on it and it would have one (1) contractor operating a track hoe. And we would have another contractor operating a backhoe. So there would be approximately twelve (12) people on that crew.

MR. BOB PETERS: And when you optimize as you indicate you -- your intentions are, what would the Board see in a fully optimized four (4) party trench crew? How many people?

MR. DOUG KROEKER: We would probably -- you would probably see the same number of people on the crew.

MR. BOB PETERS: Except the only difference would be that instead of having two (2) external third-party contractors in the trench with you, these would also now be employees of the utility?

MR. DOUG KROEKER: They would be employees of the Utility and today those two (2) additional people in the trench from the contractor that are doing the fusing and testing, today that's the only work that they perform for us, handling of the gas pipe and doing some fusing and testing.

When we move to Manitoba Hydro's optimized model of all in-house people on the crews those people will be able to do not only the fusing and testing and work on the gas lines but they will be able to help out with the electric cables and perform other functions on that work crew thereby delivering some increased efficiencies to us.

MR. BOB PETERS: All right. Thank you. Is the contract for the installation of services tendered?

MR. DOUG KROEKER: Yes, it is.

MR. BOB PETERS: And the plan is to continue to tender that contract for the service installation in the four (4) party trench?

MR. DOUG KROEKER: Yes, it is.

MR. BOB PETERS: And that's considered a more cost effective methodology of providing services to the home?

MR. DOUG KROEKER: I haven't been involved in -- in any kind of a cost estimate comparison between in-house or external contractors for that method of installation for a long, long time, more than ten (10) years, but we do consider it to be cost effective. Whether or not it's the cheapest, I haven't seen any recent analysis on that.

MR. BOB PETERS: All right. Maybe a -- when you say "cost effective," Mr. Kroeker, I'm -- I'm thinking cheapest but you're not thinking the same?

MR. DOUG KROEKER: I certainly think that our tendering practices deliver good value in the way of costs. I do think that we get the cheapest rates available on the market for our work but, like I said, we haven't taken those rates and compared them to an in-house model and I haven't seen anything in more than ten (10) years of that type of comparison.

MR. BOB PETERS: Would it be fair to say you also haven't compared the cost of four (4) party trench internal crews to an external crew doing the four (4) party trenching?

MR. DOUG KROEKER: We did do that type of

comparison with internal crews and external crews as a part of our review exercise. We've made some assumptions and have done it there and then in addition to that, this fall we thought that the workload was going to increase to a point where our internal crews would not have been able to handle all of the volume on four (4) party and in order to help us meet that required volume, meet our commitments to the developers, we did prepare a tender document for four (4) party main installations and we did tender it and receive competitive bids back in.

And after analyzing those bids we decided not to proceed for a couple of reasons. First, we took another look at the work volume and decided that we could probably -- that some of the conditions had changed. We had favourable construction weather through the 2006 season and we chewed through more work than we thought we would have and therefore we thought we could handle some increased volume.

And you have to keep in mind that the decision to tender that four (4) party work needed to be made back in June of '06 in order to have contractors available in the fall of '06. So by the time the tender was issued, prices were back in, we were into the fall of 2006 and having a few more months of hindsight and a few more months of good construction, we determined that our

internal crews would be able to handle the remaining volume of four (4) party work required.

And the second point on that was that the labour rates tendered to us by the contractors represented a 30 percent increase over our actual experience on four (4) party analysis. And so with those two (2) pieces of information in hand, we decided not to proceed with external contractors.

MR. BOB PETERS: Does that suggest that you're paying 30 percent too much for your four (4) party service installation?

MR. DOUG KROEKER: I have never thought of it that way and have not done any analysis to compare in-house to external so I -- I'm sorry, I wouldn't know, Mr. Peters.

MR. BOB PETERS: Would that same answer apply as to whether or not the 30 percent additional costs that came back in '06 would mean that your conventional installation of gas mains is -- is 30 percent more expensive by contracting it out rather than by doing it internally?

MR. DOUG KROEKER: No, I don't think that that's -- I don't necessarily think that that analogy would -- would follow. I...

MR. BOB PETERS: You'd agree with me that

when you went out looking for a tendered four (4) party gas main installation contract, that the Manitoba labour market in the construction field was -- was tight, everybody was busy?

MR. DOUG KROEKER: Certainly in the fall of the year that it's a busy time.

MR. BOB PETERS: And if -- if the labour market was tight and everybody was busy, there was also a relatively short notice in the tender document you put out?

MR. DOUG KROEKER: Yes. There was a -- a few weeks' notice, but, it could be considered short by some.

MR. BOB PETERS: Would you also agree that in your tender document you were looking for a one (1) time contractor to do some work rather than committing to a long-term arrangement?

MR. DOUG KROEKER: Yes, that's -- or that's correct. It was for a specified period of time this fall.

MR. BOB PETERS: Would you agree with me that those last three (3) factors that I cited may have contributed to the cost being higher?

MR. DOUG KROEKER: I think that they -- they could have. It's been Centra's point of view for

quite some time that longer-term contract arrangements definitely deliver more value in the way of costs than short-term arrangements for some types of work. And the pricing we received in the contracts could have reflected the, I guess, robust construction presence that we found ourselves in this fall.

So certainly, if we tended it another time the results may be different.

MR. BOB PETERS: Fair enough. Can you confirm, Mr. Kroeker, to the Board that nowhere in the materials is there information about what it would cost to tender out a fully optimized four (4) party trench installation?

MR. DOUG KROEKER: When you refer to the costs of tendering out, Mr. Peters, are you referring to some estimates we have on the capital cost of construction for four (4) party and comparing that to a tendered option, or are you referring to the costs of preparing the tendered document and issuing it?

MR. BOB PETERS: I apologize for the lack of clarity, Mr. Kroeker.

What I was trying to get at was: How is Centra convinced that doing the four (4) party trench gas main installations with internal crews is less expensive than doing it by way of a tendered contract to external

contractors?

MR. DOUG KROEKER: That goes back to some earlier work done in-house where we had some of our construction folks familiar with both types of work get together and compare the two (2) options.

MR. BOB PETERS: But you'd agree with me that since that work was done other factors have come into play and the -- the savings assumptions in that previous work have not materialized?

MR. DOUG KROEKER: Not yet. The savings assumptions have not yet materialized and I noted in my direct two (2) important areas that we intend to -- if allowed, to continue with four (4) party that we fully intend and expect to achieve some savings, and that is when we modify our construction inspection processes and we complete the training and equipping of the in-house crews.

For the purposes of the review that was done that compared the cost of in-house crews to the cost of contractor crews, we did assume an optimized process. We did assume that we would achieve benefits of lower inspection costs as well as the required productivity on the crews.

MR. BOB PETERS: I'll come back to that when we talk about costs but before we get there, in

terms of the location of the four (4) party trench for gas mains, the only choices you have are public property and private property.

Would that be correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And presently the three (3) party trenching going on by everybody but Centra is on private property?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And when you talk about private property in the urban residential developments, we're talking about homeowners' lots?

MR. DAVID PETURSSON: That is correct. An easement is taken on the, you know, front few metres of the lot to locate the electric plant.

MR. BOB PETERS: And your lawyers get those easements from the developers not from the homeowners, would you know about that?

MR. DAVID PETURSSON: That's my understanding.

MR. BOB PETERS: All right. And so the developer who is owning the lots and developing them will grant an easement agreement to Centra to allow Centra to bring its utilities onto the private property?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And in a public property situation, public property -- the Board should consider public property to include things like the boulevards, the roadways, the sidewalks, that area?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And presently the conventional installation is on the public property and that's what you've shown in your PowerPoint slides, correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And you require a City of Winnipeg permit in order to put your conventional installation onto public property?

(BRIEF PAUSE)

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And the cost of the permit is one (1) of the increased costs or additional costs of conventional installation compared to four (4) party installation?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: You don't attribute any cost to the development of the easement or the registering of the easement or any of that nature?

MR. DAVID PETURSSON: One moment.

(BRIEF PAUSE)

MR. DAVID PETURSSON: Those costs are included. They are built in to the cost of the four (4) party and allocated to the four (4) parties. So gas would pay its share of those costs.

(BRIEF PAUSE)

MR. BOB PETERS: When the four (4) party trench is installed, it terminates at what you've called a stub; have I got that right?

MR. DAVID PETURSSON: The services are installed with service stubs, yes. The main -- the main would not end in a stub, but the services do.

MR. BOB PETERS: And then in terms of going from the stub to the -- extending the service to the home, that's done at a later point in time by this four (4) party trench service installation crew?

MR. DAVID PETURSSON: Yes, the crew would come and they would excavate the end of those service stubs, that's those wooden boxes I referred in the presentation that protect the end of those service stubs.

You know, those would be excavated and then the services extended to the homes.

MR. BOB PETERS: And that also is done by a third-party external crew?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Turning to the issue of safety, before the recess, Mr. Petursson, you gave me three (3) reasons I believe, why Centra proposes four (4) party trench installation being safer than conventional gas main installation.

And I have them noted here. One (1) of them was that there was verifiable separation between the utilities in the trench.

Secondly, is there was a simultaneous installation. And thirdly, there was the elimination of long services. Did I accurately record your comments?

MR. DAVID PETURSSON: Yes, those are three (3) of the safety reasons.

MR. BOB PETERS: Did you want to add more to that list?

MR. DAVID PETURSSON: There are several others. The elimination of the -- the elimination of digging around the plant by others. For example, the -- if sewer and water are stubbed in, there's the elimination of the -- undermining plant or digging around

plant for -- for extension of sewer and water.

There is the -- oh, I'm sorry, I was thinking long services, but we did have that on the list.

MR. BOB PETERS: That pretty well exhausts your list?

(BRIEF PAUSE)

MR. DAVID PETURSSON: The simultaneous installation is one little phrase but it's got quite a bit behind it. What that amounts to is having one (1) trench open installing all plant in a single trench with all plant being un-energized at the time.

All crossings are installed with in -- in an open trench setting where the -- the separation between the plant can be verified and established and -- and avoids all excavation around energized plant in order to make these installations.

That -- that is a key component to the four (4) party.

MR. BOB PETERS: Can all of those safety considerations be summed up in the expectation of the Company being that there will be a lower frequency of damages to the installed plant?

MR. DAVID PETURSSON: There will be a

number of damages avoided. The -- presently we do incur damage to the gas plant -- to the gas main when the main has to be excavated to install services.

And -- and that -- those damages will be avoided with the installation of service stubs. So I expect that there will be a reduction of damages, you know, for -- for that reason and also with avoiding having to cross the electric high voltage cables in order to put our services in, there's a safety benefit to the workers in that regard too.

MR. BOB PETERS: And when we say "lower frequency of damages," we don't just mean damaged plant, we can also then include injuries to either the utility's personnel or to the contractor's personnel or maybe even to the homeowners themselves?

MR. DAVID PETURSSON: Unfortunately, injuries can occur when damage to energized plant does happen. Should also note that the reduction in damages are not going to be immediate but can be long term.

The installation of the long services can generate damages to those services many years down the road when it comes for road rehabilitation or sewer and water work.

By avoiding those long services and four (4) party, those damages, many years down the road, will

be avoided. The sewer and water works will have a much clearer or more open trench in order to do their work and will not have to contend with our long services.

MR. BOB PETERS: And while these damages may -- or the fewer damages and the -- the benefits of it may manifest themselves years down the road, the fewer damages is something that is presently being tracked by Centra pursuant to Board Order 10/06; would that be true?

MR. DAVID PETURSSON: Yes, we do track our damages.

MR. BOB PETERS: And those would be actual damage cases not just interpellation of existing damage claims as to what might happen had that been four (4) party instead of conventional installation?

MR. DAVID PETURSSON: Yes, that's correct.

MR. BOB PETERS: And in your answer to me, Mr. Petursson, no where did you mention that it is safer by moving from public property onto private property; did you?

MR. DAVID PETURSSON: The -- by moving onto public pro -- or private property, we are increasing our separation from the sewer and water alignment and there will be reduced risk of future excavation of our mains if we are on public pro -- or private property, I

should say, rather than public.

However, the -- the main safety attributes of the four (4) party, you know, tie in with the -- with the aspects of the coincident installation, one (1) trench having everything open and avoiding of long services are the primary safety aspects as opposed to public or private.

MR. BOB PETERS: And that recognizes does it, Mr. Petursson, that if four (4) party trench has to move from private property onto public property, that will narrow the corridor in which there is a clear run for the water and sewer utilities and maybe the upgrading of the shallow utilities?

MR. DAVID PETURSSON: Yes. It should be noted that if we move onto public property, the alignment -- the proposed alignment of the gas main would be the same as it is right now in a stand-alone situation.

So, by moving a four (4) party onto public, the proximity of the gas main to the deeper utilities is no different than we've got everywhere right now on conventional.

MR. BOB PETERS: Except now, you're also bringing with it the electrical cable and the telephone and the television?

MR. DAVID PETURSSON: In a four (4) party

setting on public, yes, they would be there. Our present or proposed layout, I should say, for the public -- the electric and communication infrastructure would be further from the sewer and water lines than what the gas would be.

MR. BOB PETERS: So if there's any suggestion that by going onto private property, you would avoid future damages such as from the sewer and water renovations and the road rehabilitations, that argument no longer applies if the four (4) party trench has to go back onto public property?

MR. DAVID PETURSSON: No, the primarily -- primarily the avoiding of the long services has the benefits for the sewer and water. But, the proximity of the gas pipe to the sewer and water is tighter or closer if its on public than on private.

MR. BOB PETERS: How many long services do you avoid for every one (1) gas service header you run under the road?

(BRIEF PAUSE)

MR. DAVID PETURSSON: My answer is going to sound like some stuff we said before in that it depends on the particular layout.

We have seen some cases where it can be as few as two (2) or three (3), other cases it can be many. I would expect it would be in the order of, you know, maybe one (1) road crossing for a service header compared to ten (10) or twelve (12) long services, possibly more.

MR. BOB PETERS: In terms of rehabilitation of some of those deep utilities or the roadway, you'd agree with me that your four (4) party trenching right now is going into new neighbourhoods, new developments?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And so the time horizon in which utilities will have to renew, refresh or rehabilitate their infrastructure is probably timed in terms of decades as opposed to months?

MR. DAVID PETURSSON: It would be more in terms of decades than months, but I can't really attribute to the quality of those installations these days and how long they're going to last.

MR. BOB PETERS: Has it been definitely determined that four (4) party trenching has to now move back onto public property as opposed to being on private property?

MR. DAVID PETURSSON: We are looking at some areas whereby the City zoning has altered and has

much reduced setbacks.

And there is no room left on private in order to locate plant, either gas or electric. Some of the designs that are being contemplated right now do have four (4) party or looking at four (4) party on public to serve those customers.

MR. BOB PETERS: Does that suggest that in the future you will look to put four (4) party trench on private property, if there's sufficient room and only if there isn't will you move to the public property?

MR. DAVID PETURSSON: At this point, that would be the -- focus we would have, subject to reviewing the designs on a situation-by-situation basis.

MR. BOB PETERS: The default position is it goes on private property, four (4) party trench goes on private property.

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Does Centra acknowledge that there may be different damages to gas mains on private property than there would be on public property, different types of damage?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And on public property you're talking about road rehabilitation doing some damage or the sewer and water deep utilities doing damage

to the gas plant, but on the homeowner's property you also have introduced the homeowner as a potential damager of your plant.

Would that be true?

MR. DAVID PETURSSON: I would -- yes, it would be true.

MR. BOB PETERS: Who is harder to educate on the Call Before You Dig program; homeowners or contractors?

MR. DAVID PETURSSON: Very good question. The -- it would be nice if we could educate them all.

Right now we have a lot of plant on customer property already. We have service lines, you know, run, you know, to the customers and -- and those service lines are subject to damage by the homeowner; that's whether you're talking conventional or four (4) party.

The only difference would be having the mains running across the front of the lot would be increased plant on customer property.

MR. BOB PETERS: I'll take from that non-answer that they're both hard to educate.

But, would you agree with me that perhaps the homeowner is -- is more difficult to educate on these matters because they're traditionally not excavating,

digging or boring as frequently as the professionals who do that for -- for a living?

MR. DAVID PETURSSON: Well, if I look at a lot of recent damages to the underground plant, we see a lot more done by contractors than we do by homeowners. Homeowners I believe may have a less cavalier approach to the excavation than what some of the contractors have and will take more precautions.

MR. BOB PETERS: Does that suggest you need to increase your educational programs related to the professional contractor?

(BRIEF PAUSE)

MR. DAVID PETURSSON: The education of all parties to call before a dig is -- is an ongoing process. If we do it regularly and we -- and we will keep doing it regularly to try and educate them to avoid damages.

MR. BOB PETERS: No, I can appreciate that. But in Board Order 10/06 there was some discussion by the Board about whether a better educational program was needed for the homeowners.

Can I conclude from your answers that Centra's position is the Call Before You Dig program, the

way it's presently run and operated, is sufficient and no more is needed?

(BRIEF PAUSE)

MR. DAVID PETURSSON: We are always looking for improvements. We will -- we analyze the damages, we look for the nature of the damages and we see what needs to be done to try and prevent those damages. So the -- we will definitely be looking at the nature of our education and refine it on an ongoing basis.

MR. BOB PETERS: Is the primary cause of homeowners damaging your plant because the homeowners failed to call before they dug?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And the education of homeowners is presently done through mass media, as well as bill stuffers?

MR. DAVID PETURSSON: It's mass media, bill -- and bill stuffers. There's television, I believe television advertising, billboard, numerous methods.

(BRIEF PAUSE)

MR. BOB PETERS: In some of those

communities in which you're putting four (4) party trench, I understand there are homes in which natural gas service is not going to be used by the homeowner.

Is that your understanding?

MR. DAVID PETURSSON: That could be the case.

MR. BOB PETERS: And Centra understands that could be the case?

MR. DAVID PETURSSON: I believe in some cases we do not serve 100 percent of the customers with gas, yes.

MR. BOB PETERS: And does Centra know what their market penetration rate is in terms of providing natural gas to -- to new constructed homes in the City of Winnipeg?

(BRIEF PAUSE)

MR. ROBIN WIENS: Our understanding, Mr. Peters, is that in the City of Winnipeg it's in excess of 90 percent.

MR. BOB PETERS: And in those homes where gas or those 10 percent of homes where gas is not going to be utilized by the homeowner, that homeowner may still have a gas main on their private property; would that be

true?

MR. DAVID PETURSSON: That is true.

MR. BOB PETERS: And if not a gas main, they'd have a service header or an almost gas main on their property?

MR. DAVID PETURSSON: They would have a gas main or a service header, yes.

MR. BOB PETERS: And in addition to the -- to the gas main or the service header, they'd also have a stub box or -- the term escapes me but the -- the services would be terminated in stubs also on the private property?

MR. DAVID PETURSSON: Yes, there would be a service stub on that property.

MR. BOB PETERS: And those -- and those gas mains, service headers, and stubs will be there because Centra has an agreement with the developer who owned the lot before the homeowner did?

MR. DAVID PETURSSON: That is correct. The original agreement was with the developer but the -- the -- it carries through onto the title of the property for the homeowner.

MR. BOB PETERS: All right. Leaving those legalities aside, do you envision that there may be some homeowners who have no expectation that there is gas

plant on their private property because they're not subscribing for the service, for example?

MR. DAVID PETURSSON: I would expect there would be homeowners who would -- may not have gas but I would expect the homeowners would be aware that gas is in the neighbourhood.

MR. BRENT CZARNECKI: And just, Mr. Peters, on the legal front, of course, the caveat will be filed against the title of the property?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I don't want to go too far down the road with Mr. Czarnecki, not only because he's not sworn, but -- but I'm not sure -- does the Corporation expect that a new homeowner has knowledge of where on their private property Centra has put the four (4) party trench and the services?

MR. DAVID PETURSSON: I expect that the homeowner is well aware that they've got electricity and the -- and in these new developments the electricity is on the front property. It's quite visible by the pad mount transformers that are there and in a four (4) party trench area where you have all the shell utilities there, the front of the property is a utility space on easement.

So I would expect the homeowners would be

aware that there is plant in the front and they should be cautioned -- cautious about digging.

MR. BOB PETERS: And it follows then from Centra's thinking that if the homeowner is or should be aware that there's electrical plant on their property, by default, they should know that there's gas plant somewhere close by that?

MR. DAVID PETURSSON: I would expect that the homeowner, knowing the electricity is there, would call before -- would call before they dig in which case both the electric plant and the gas plant would be located to make the homeowner aware of the presence of the buried plant.

MR. BOB PETERS: And if that homeowner calls the electrical side of the utility and asks for a line locate, does that automatically transpire that there will be a gas line located as well as the electrical line?

MR. DAVID PETURSSON: In four (4) party, yes.

MR. BOB PETERS: Do I take from those answers, Mr. Kroeker, that at this point in time you have no specific changes to make to your Call Before You Dig program to take into account a four (4) party trench methodology that's going to be utilized?

MR. DAVID PETURSSON: Not specifically no. The -- if a homeowner was to call before they dug, we would definitely notify them of all buried plant in the area that they are going to be excavating, both the mains, the main electrical cables and all service lines, also.

MR. BOB PETERS: But you've told me that the problem with homeowners is they don't call before they dig and those are the ones that lead to the most damage, correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And so if they don't call before they dig and they're still going to put in a tree, a fence post, a deck, whatever, the consequences of their actions, they may not hit the electrical cord, but they may hit the gas pipe?

MR. DAVID PETURSSON: They might. Anytime a homeowner was to dig without having locates done, there is potential for damage. The one (1) aspect is with the electricity in the ground also, with the cables, the homeowners maybe more aware that there is buried plant and they may call before they dig for the electric, in which case, they would have everything marked and they would be far more aware of the buried plant.

MR. BOB PETERS: And that's all supposition from your perspective?

(BRIEF PAUSE)

MR. DAVID PETURSSON: That part was supposition on my part. A couple of things to note. The -- a lot of the damage occurs to service lines which are located by the side of the property.

And they occur on the -- and we have damages occurring also in the backyards where we do have plant, most of the homeowner excavation is in the rear of their lots, not in the front.

Particularly, in these four (4) party developments, the amount of excavation in the front yards is typically very little.

MR. BOB PETERS: All right. In terms of the proximity of the gas main to the dwelling, do you agree with me that under four (4) party trenching the gas main comes closer to the residence than it did under conventional methodologies?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Would you also agree with me that one (1) of the factors in measuring safety is the proximity of a gas pipeline to an occupied or a

habitable dwelling or building?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Has Centra conducted any risk assessment for the use of four (4) party trenching?

(BRIEF PAUSE)

MR. DAVID PETURSSON: We have not conducted a formal risk assessment, we just have examined the prevalence of damages in the -- in gas plant.

MR. BOB PETERS: Would you be aware as to whether the utility has conducted a risk assessment in other areas of the Province, Mr. Petursson?

MR. DAVID PETURSSON: I don't follow your question.

MR. BOB PETERS: From a previous hearing, I was of the understanding that Centra had done a risk assessment in southeastern Manitoba, perhaps in Hanover/La Broquerie area?

MR. DAVID PETURSSON: Yes, I'm aware of that.

MR. BOB PETERS: And did that risk assessment confirm that where safety was being assessed the proximity to dwelling homes of the gas mains is a factor?

MR. DAVID PETURSSON: That risk assessment did identify that proximity to dwellings was a factor. That risk assessment addressed the proximity of homes to a gas transmission line.

MR. BOB PETERS: In principle, is there a difference between the transmission line and the gas main, other than the size and the pressure?

MR. DAVID PETURSSON: They're both round pipes that carry gas.

MR. BOB PETERS: Now, you're thinking like I'm thinking but --

MR. DAVID PETURSSON: But size and pressure are very definite differences.

MR. BOB PETERS: Right. The reason it becomes a concern is that when you assess the risk you want to determine not only the frequency of these damages that are going to result, but also the potential consequences, would that be true?

MR. DAVID PETURSSON: That is true.

MR. BOB PETERS: And so while you may have fewer line damages or line hits or whatever they're called in the industry, what really needs to also be considered is, what are the consequences of those hits when they -- when they do occur?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: It's not a question of if they occur, from what I'm hearing, it's just a question of when they occur. Would you agree with that?

MR. DAVID PETURSSON: I would agree with that. It should be noted that the -- with a lot of the damages that typically occur in the front yard of residences are excavation damages.

If the -- they typically occur in the summer time and the -- if the damage is hitting a gas pipe in an open excavation in which case any gas is released to the atmosphere until the repair can fix that problem.

With the gases released to atmosphere, it's not desirable but it's different than some of the issues that were being addressed on that transmission line.

MR. BOB PETERS: All right. What you're telling the Board is that if damages or when damages occur, that's a bad thing but it's a good thing if they vent to the atmosphere?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: And that's because if they don't vent to the atmosphere when the line is damaged, the gas could migrate underground and end up in a dwelling or some other building.

MR. DAVID PETURSSON: Yes. Gas dissipating to atmosphere is -- is a concern but far less of a concern than having gas accumulate.

MR. BOB PETERS: And gas accumulating is a problem because if there's a source of ignition then you've really got a problem.

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Have there been any incidences in Manitoba in your four (4) party trenching to date where there have been damages?

MR. DAVID PETURSSON: Yes.

MR. BOB PETERS: Do you know how many?

(BRIEF PAUSE)

MR. DAVID PETURSSON: Nine (9) damages.

MR. BOB PETERS: In any of tho -- in those cases, have there been any explosions?

MR. DAVID PETURSSON: No.

MR. BOB PETERS: Any loss of life?

MR. DAVID PETURSSON: No.

MR. BOB PETERS: Any personal injury?

MR. DAVID PETURSSON: No.

MR. BOB PETERS: Has it resulted in the gas being ignited?

MR. DAVID PETURSSON: No.

MR. BOB PETERS: In a four (4) party trench situation, if there is damage to the gas line, how does the utility propose to correct that damage?

MR. DAVID PETURSSON: We would respond similar to how we would in a conventional sense by, you know, stopping the gas supply and effecting a repair of the damaged area.

MR. BOB PETERS: When you repair and I guess I'm thinking of what happens, something happened up in the Stonewall area or the Inter Lake where you had valves you could turn off, does four (4) party trenching install valves that lend itself to isolating the -- the damage or do you have to go in and squeeze the line off?

MR. DAVID PETURSSON: To date, we've been installing valves in four (4) party areas to facilitate stopping the gas supply.

MR. BOB PETERS: Is that what was used in those instances of nine (9) damages?

MR. DAVID PETURSSON: In some cases, yes, other cases, no.

MR. BOB PETERS: In the cases where the valves weren't used, what did the Company do to stop the gas from continuing to flow?

MR. DAVID PETURSSON: Dug and squeezed,

as we do conventionally.

MR. BOB PETERS: Mr. Chairman, I see from my notes I want to turn to the issue of costs and would suggest that that might be a matter for after the lunch recess if that suits the Board.

THE CHAIRPERSON: Mr. Peters, how much -- how much longer do you think your cross-examination will require? I'm going to ask Mr. Holloway the same question.

MR. BOB PETERS: I'm thinking an hour.

THE CHAIRPERSON: Mr. Holloway, do you have an estimate as to how long you would expect to examine the Panel?

MR. IVAN HOLLOWAY: Well prior to hearing Mr. Peters, it would have been quite a while. But many of my questions have been usurped so it's becoming a lot less.

Depending upon on what Mr. Peters has to ask because it's limiting the number of my questions, right now I'm probably looking at maybe half an hour.

THE CHAIRPERSON: Mr. Boyd, have you developed any view as to your cross-examination of the Panel?

MR. SANDY BOYD: No questions so far.

THE CHAIRPERSON: Okay. Well then we'll

come back at one o'clock, and thank you.

--- Upon recessing at 12:00 p.m.
--- Upon resuming at 1:05 p.m.

THE CHAIRPERSON: Okay, Mr. Peters, whenever you're ready.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Petursson, before the lunch break you told the Board that there were four (4) instances of damages related to the four (4) party trenching that has been in installed in the past several years; is that correct?

MR. DAVID PETURSSON: I show that we've got nine (9) damages in four (4) party areas.

MR. BOB PETERS: I -- thank you for that correction. I misspoke.

In terms of those nine (9) damages, can you indicate how many of those were contractor and how much -- how many of those were homeowner-caused?

MR. DAVID PETURSSON: All of those were contractor; none -- none were homeowner.

MR. BOB PETERS: Were any of those contractors hired by homeowners?

(BRIEF PAUSE)

MR. DAVID PETURSSON: That is not apparent right now on the records I've got, however, these were all involved on the initial construction of the -- of the areas, whether it was the developer or homeowner hiring somebody, say, to install sewer is not -- we -- we don't keep track of who hires the contractors.

MR. BOB PETERS: Well, typically a homeowner wouldn't hire the -- the sewer contractor would they; that would be done through the developer?

MR. DAVID PETURSSON: Typically that is the case.

MR. BOB PETERS: I was thinking more along the lines and if you're -- if you're inclined like me driving a fence post could be a challenge and so you would -- you might engage a contractor to help you with some of your landscaping and the like?

MR. DAVID PETURSSON: By the look -- by the nature of the work being done by these contractors I -- without being able to confirm with their hard data right now I strongly suspect that they were hired by developers, not by the homeowners.

MR. BOB PETERS: Thank you. And were those damages then front-yard damages as opposed to side

yard or backyard?

MR. DAVID PETURSSON: Of the nine (9) damages seven (7) were on the gas main, two (2) were on the service lines. The damage of those service lines, even though they were four (4) party areas, would have occurred likely regardless of whether they'd been four (4) party or not and -- but they were all front yard.

MR. BOB PETERS: Sorry, I didn't understand that last comment. Of the contacts with the gas service line, that would have happened whether or not it was four (4) party is what you said?

MR. DAVID PETURSSON: Yeah. Our service line is -- our service line's in a similar -- similar spot to where it would be on four (4) party or conventional and the difference really with the four (4) party is the presence of the four (4) party main trench. And damage to a service line could happen -- these damages could have happened on conventional or four (4) party regardless of where the main trench was located.

MR. BOB PETERS: And turning to the issue of capital costs and some of this was discussed in the response to PUB/Centra Information Request Number 3, can I summarize it this way that initially at the GRA Centra expected it would be optimized by the fall of 2005; that was the expectation?

MR. DOUG KROEKER: Yes, I think the response to one (1) of the IR's as part of the GRA said that we would optimize by the end of 2005.

MR. BOB PETERS: And the Board orders that issued gave you a year-end deadline?

MR. DOUG KROEKER: Yes, and that was that all the optimization be completed by the end of 2005. It was the design of the process and then we would commence the implementation in January of '06.

MR. BOB PETERS: And then when the Board provided its Orders 103/05 and 135/05 there was still a year-end deadline, December 31 of '05, to report back on the savings and no increased risk to public safety as part of the -- as part of Centra's review?

MR. ROBIN WIENS: Yeah. That headline I believe was in Order 135 was to report back by the end of that calendar year.

MR. BOB PETERS: And then when Centra filed its December 15th report, Mr. Wiens, indicating that there had been no optimization yet and the Board continued the four (4) party trench approval and indicated an order to follow, and that order that followed was in Order 10/06?

MR. ROBIN WIENS: That's right.

MR. BOB PETERS: And you'd agree with me

that Order 10/06 further extends the time for optimizing and complying with the directives to August 31 of '06?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And in addition to extending the time, the Board also wanted to see the capital costs that -- that Centra said had to be expended in order to implement the optimized plan?

MR. ROBIN WIENS: That's also correct.

MR. BOB PETERS: And Centra did show the Board those capital costs -- and I think they're found on page 52 of the Centra Exhibit 1, if you want to see them in specific -- but in addition to showing -- I'm sorry, they're attached at page 58 of the Centra Exhibit 1.

And, Mr. Wiens, that was Centra telling the Board what their expectation was of additional costs or capital costs that needed to be expended to implement the optimized four (4) party trench process?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And when the -- when Centra sent in that costing information, Centra wanted then to await the Board's advice as to whether to continue or not continue?

(BRIEF PAUSE)

MR. ROBIN WIENS: Yeah. To be precise, Mr. Peters, Centra was -- was waiting for the approval to actually incur those capital expenditures.

MR. BOB PETERS: And that's what's said on page 52 of Centra Exhibit 1, in the last paragraph, Centra was going to await the Board's advice prior to incurring the costs?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And Centra did receive the Board's approval by way of a -- of a letter of April 21 of '06?

(BRIEF PAUSE)

MR. BOB PETERS: Found at page 60 of the exhibit.

MR. ROBIN WIENS: Yes, I have that.

MR. BOB PETERS: That was the Board giving the green light?

MR. ROBIN WIENS: Yes, that's -- that's correct.

MR. BOB PETERS: And that's how Centra interpreted it, that it had the green light to proceed?

MR. ROBIN WIENS: It had the green light to incur the capital expenditures, yes.

MR. BOB PETERS: And to incur the capital expenditures to proceed with the implementation of the optimized construction methodology?

MR. ROBIN WIENS: Yes. And I'll point out that along with that the -- the letter that's dated April the 21st requested a report based on total costs to March 31st, 2006, in order that the Board might receive the information by July the 31st of 2006.

MR. BOB PETERS: And Centra could comply with that because it was asking for historical costs that the Corporation had?

MR. ROBIN WIENS: Yes. We believed we could comply with that.

MR. BOB PETERS: And when you submitted the information in the July 26th report, there was no suggestion that Centra had stopped implementing its optimized four (4) party trench methodology, did it?

(BRIEF PAUSE)

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Was there some reason that Centra didn't tell the Board that it had put the four (4) party trench optimized process on hold?

(BRIEF PAUSE)

MR. ROBIN WIENS: I think there was some concern, on our part, that the extension of the process by a month or two (2) at a time wasn't giving Centra a lot of confidence that we were going to complete that and evaluate it in time for the potential directive that would effectively end our ability to carry out this program.

MR. BOB PETERS: And if that was the internal thinking, and I'm not suggesting it wasn't, Mr. Wiens, there was no communication of that to the Board at that time?

MR. ROBIN WIENS: That is correct.

MR. BOB PETERS: And so in PUB/Centra IR-3, when Centra indicates it delayed implementing its optimized process for reasons that the panel have said is due to uncertainty, that's the uncertainty that's being referred to, is you weren't sure whether in the long run this was going to get the -- keep the green light?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And the greater certainty being sought and this may be a repetition, but being sought in this proceeding is you want the Board to approve the four (4) party trench methodology in

principle, and then come back before the Board when the cost information is known and defend your costs as you would in any other application before the Board?

MR. ROBIN WIENS: Well, I think, yeah, that's -- that's generally what we're asking for. I think I could say that over the course of this process and I'm sure that it will roll out this way, we will have opportunities to communicate with the Board on a regular basis and advise them of our situation at that time.

MR. BOB PETERS: In terms of the cost to date that have been incurred the information -- the latest information the Board has is found at PUB/Centra IR-5 and it's found on page 2 of 3, if I've got it right?

And that is, in total to March of '06, there's been seven hundred and eighty-seven thousand six hundred dollars ($787,600) approximately of additional costs through the four (4) party trenching initiative, compared to conventional methodology?

MR. ROBIN WIENS: That's what's represented on the first page of that response, PUB/Centra 5A.

MR. BOB PETERS: And since this response was prepared there's additional information that the Corporation has, meaning that there's been more than sixty-six (66) projects that have been completed under

four (4) party trench methodology?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, I'm advised there are no more where we have actually closed the work orders on them. There are some that are pending that were occurring the during the period up to July 31, but the work order haven't been closed, so we haven't gone back and analyzed those costs.

MR. BOB PETERS: Thank you for that, Mr. Wiens. Mr. Wiens, on page 2 of 3 of Centra -- sorry of PUB/Centra 5, there's a historical chart providing information of the additional costs.

What was intended to be asked for was the information for the fiscal year ending 2005 and the answer may have mis-interpreted the question only because I was expecting to see 2004 fiscal year represented in the answer or have I -- is all the information before the Board in terms of the -- the costs incurred what would have been in the year ending March 31, 2005?

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Wiens, can I try it

this way? To come to your figure of seven hundred and eighty-seven thousand six hundred dollars ($787,600) would the -- would the information on page 2 of 3 provide a partial answer as to those additional costs and whatever amount is missing would be attributed to the fiscal 2005 year?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, I think we've sorted it out. What says -- what states fiscal year 2005 at the top of page 2 is in fact fiscal year 2005, the year ended March 31, 2005, and what is said to be fiscal 2006 is, in fact, the year ended March 31, 2006.

MR. BOB PETERS: And the Company also did -- did four (4) party trench installations in the year ending March 31, 2004?

MR. ROBIN WIENS: Yes, there were some.

MR. BOB PETERS: And the additional costs from that year when added to the additional costs of '05 and '06 would come up with -- would -- would total the seven hundred and eighty-seven thousand six hundred dollars ($787,600)?

MR. ROBIN WIENS: Yes, that's correct.

MR. BOB PETERS: All right. I apologize for the tortured questions.

MR. ROBIN WIENS: We also apologize for the tortured answers.

MR. BOB PETERS: There was a question asked in PUB-15, maybe more an observation, that the further you got from the perimeter highway, the higher the cost for four (4) party trench went, although perhaps not directly proportionate.

The highest cost four (4) party trench installations seemed to be outside of the City of Winnipeg and in Brandon; do you agree with that?

MR. ROBIN WIENS: Yes, I do.

MR. BOB PETERS: And the answer seems to suggest that the -- the reason for that is that the -- the model that was used in Brandon wasn't the same as the model used in Winnipeg?

MR. ROBIN WIENS: Yes, that's correct.

MR. BOB PETERS: And by that what you mean is that there was -- there were more bodies onsite in the Brandon installations and those bodies cost more money?

MR. ROBIN WIENS: That is correct.

MR. BOB PETERS: And the Winnipeg model, the only additional bodies that you have are the -- the

fuser and the tester that you add to the Centra crew; is that correct?

MR. ROBIN WIENS: That's right. It's not a -- a full complement contractor crew; it's only a portion thereof as opposed to the Brandon model which was a full complement crew.

MR. BOB PETERS: Why -- why didn't you use the Winnipeg model in Brandon?

MR. DOUG KROEKER: It was -- it wasn't used in Brandon for practical reasons considering the other work that was there. We have a contractor engaged under the General Maintenance Services contract for the gas pipeline portion of our business. We have a crew stationed in Brandon and there isn't -- we can't split that crew up and have a portion of this crew go on to other gas-related work and -- and only use a portion of this crew on four (4) party. And we also don't want to do that to the contractor and then have the rest of that crew leave and go to other work for other companies and then not be able to get them back.

So it was a practical way to manage the -- the workload and ensure the stability of that crew for us.

MR. BOB PETERS: That came at -- at an additional cost?

MR. DOUG KROEKER: And that did come at an additional cost.

MR. BOB PETERS: But when this four (4) party trench is optimized, as proposed by the Company, it won't have the same inefficiencies built into it?

MR. DOUG KROEKER: That's true. We plan to train personnel -- in-house personnel in the Brandon area and equip them with the required tools in order for them to complete the work themselves and at that point we would only see additional personnel on the crew associated with the fusing and testing, as -- as would be the case in Winnipeg.

MR. BOB PETERS: One of the things you've indicated in answer to PUB/CENTRA-15 on there, Mr. Kroeker, is that you're going to cut back on the inspection of the four (4) party trenching and that's going to generate some cost savings?

MR. DOUG KROEKER: Yes, that's correct.

MR. BOB PETERS: And, as I understand it then, presently you would have an inspector on site during the entire time that the four (4) party trench is being installed?

MR. DOUG KROEKER: That is correct.

MR. BOB PETERS: And what the inspector is looking at is the gas line being put in tighter

proximity to the other utilities and making sure it's a safe distance away?

MR. DOUG KROEKER: That's right. His responsibilities relate to the gas portion of the work. For that, not only the placement and alignment but, as well, he's there to monitor the fusing and the testing of the gas pipe lines.

MR. BOB PETERS: And you expect to be able to reduce the inspections that you do so that it's not done 100 percent of the time; would that be true?

MR. DOUG KROEKER: That's correct. We won't have an independent inspector watching over the workers. They will be, as in the case of other in-house staff, performing work on the gas system. We make those staff responsible for the quality of their work, and it's not a normal practice of us to have someone watching over their shoulders regularly, inspecting work and -- and so that's what we would adopt here.

MR. BOB PETERS: Does that mean there's going to be fewer people involved in terms of you don't need an inspector on site at all?

MR. DOUG KROEKER: That -- I guess when we talked this morning about the number of people on site and I had indicated that currently there would be twelve (12) people on site, I was thinking of the folks doing

the installation and I wasn't thinking of the inspector.

So if we would add to that number, today there would be thirteen (13) people on site for that crew that I was speaking of if we include the inspector in that. Then, going forward into the future, that inspector would not be on site full time and we would be back to the twelve (12) workers.

MR. BOB PETERS: And if the inspector is not on site full time, who's doing the inspections?

MR. DOUG KROEKER: The workers themselves will be responsible for the quality of their work. On those construction sites we also have a foreman of the crew who's responsible for scheduling, responsible for the progress of the work, as well as the -- as well as ensuring it's completed to our standards and specifications. And there is also a lead-hand on the crew which has oversight responsibilities for the work as well. And those two (2) individuals would -- would be looking, too, to attest to the quality of the work.

MR. BOB PETERS: Aren't the workers presently responsible for the quality of their own work?

MR. DOUG KROEKER: The workers, are you referring to the contract workers on the gas side of the business or the electric --

MR. BOB PETERS: I'm referring to the

people you put in the trench to install the four (4) party trenching.

You suggested in -- in one of your answers to me that you didn't need an inspector because you were going to make the workers responsible for the quality of their own work, if I heard you correctly?

MR. DOUG KROEKER: Yes. And that's exactly what I did say, Mr. Peters. Today our model for inspection is to always have an inspector on site when a contractor is performing work on the gas pipe line system. And so with our implementation of four (4) party we have that carry-over where we have that inspector there, watching over the work completed by the contractor primarily in the area of the fusing and testing on those crews.

And when we do move to the in-house model fully, where -- where we replace the contractor personnel performing those activities with in-house people, then that will allow us to eliminate the need for the inspector because those people are responsible today for the quality of their work. And when they are -- when they continue or when they pick up the work of the fusing and testing it will allow us to also not inspect that portion of their work with an independent inspector.

MR. BOB PETERS: Will there still be a

need for any inspector once four (4) party trench is optimized?

MR. DOUG KROEKER: We have decided that when we go to that model of in-house crews, when we get them trained, the inspector will be on site with them for a period of time as we start down that path and then we will reduce the level of inspection. And what we will replace that with is some auditing. So there will be no inspection per se as we do it today but there will be auditing of the work performed by the crews.

MR. BOB PETERS: Does auditing suggest you have to take the earth back out of the trench to see what was done?

MR. DOUG KROEKER: No. The auditing that we would be doing would be during construction auditing. I can't rule out the fact that we may do some line locating and tracer wire continuity type checks after the fact but I was primarily referring to during construction that the auditing would take place.

MR. BOB PETERS: And the largest savings in terms of human resource costs will come from the fact that you're changing the way in which you inspect the construction on four (4) party trenching compared to conventional?

MR. DOUG KROEKER: Yes. Our inspection

costs on four (4) party have been quite significant with our current model and will be significant savings as we move away from the current model.

MR. BOB PETERS: Mr. Wiens, I think you're answering questions on the feasibility test and if you are, am I correct that when you do a feasibility test presently to extend gas to an urban residential development you embed the assumption that only 65 percent of the -- of the customers will use natural gas?

MR. ROBIN WIENS: Yes, in Winnipeg.

MR. BOB PETERS: Does that number change outside the city?

(BRIEF PAUSE)

MR. ROBIN WIENS: We use 50 percent in the city of Brandon. And outside of Winnipeg and Brandon the assumption is that it will be even a smaller proportion of services -- of new homes will take gas.

(BRIEF PAUSE)

MR. ROBIN WIENS: That would be in the first five (5) years. And I'm advised as well that the 50 percent would apply to other growth areas in the

province such as Winkler.

MR. BOB PETERS: In the feasibility study, Mr. Wiens, you are currently putting in the assumed conventional gas main installation costs as part of the cost component?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: You're not using the four (4) party trench costs?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Why don't you use the four (4) party trench costs in the feasibility tests for these new developments?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, part of the reason is consistency and, of course, part of the reason is that we do believe we're going to take those costs down in future.

(BRIEF PAUSE)

MR. BOB PETERS: The last part of your last answer, Mr. Wiens, suggests that the company expects the costs of four (4) party trench installation to be on

par if not better than with conventional installation; correct?

MR. ROBIN WIENS: Well, we -- we're hoping we will be able to get them as low as possible but our assumption at this point is that we would achieve cost parity.

MR. BOB PETERS: All right. If we assume that you can't reach cost parity or even, I think Mr. Snyder indicated, five (5) or 10 percent of parity -- within 5 percent or 10 percent of parity, would Centra consider using the actual installation costs for four (4) party trench rather than the estimated conventional costs presently used in the feasibility test?

MR. ROBIN WIENS: Well, there's a whole host of questions that we would want to answer if it became apparent to us that we were only going to get down to, say, within 5 or 10 percent. We would be -- certainly the feasibility test is -- is one (1) issue that we would be looking at.

We'd obviously be looking at what are the barriers to us getting down to -- right to parity and we might very well be inclined to undertake a further review that we may be looking at a situation in which it was not realistic to assume using any method that we would get down to where the assumptions are -- regarding

conventional installation are today.

Mr. -- Mr. Peters, --

MR. BOB PETERS: I though the Liberal candidacy election was over and that political answer, Mr. Wiens, I guess what you're telling the Board is you're going to look at that in the future if it arises.

You're not going to be prepared to commit today?

MS. ROBIN WIENS: That's correct.

MR. BOB PETERS: All right. Thank you, Mr. Ignatiuk -- I meant, Mr. Wiens.

MR. ROBIN WIENS: Well, if you're going to confuse me with any of them, that's probably the best one (1).

MR. BOB PETERS: In terms of the present installation and let me get back to my notes here, does Centra have agreements with developers as to how they're going to install their gas mains and services?

(BRIEF PAUSE)

MR. DAVID PETURSSON: No, we do not.

MR. BOB PETERS: Would it suffice to say, Mr. Petursson, that the developer expects that -- excuse me, the developer expects that Centra and the other

utilities will install the necessary infrastructure to support the buildings that are being built?

MR. DAVID PETURSSON: I think that's a fair statement.

MR. BOB PETERS: And if you need an easement on which to put your utilities, they do grant it and they will grant it?

(BRIEF PAUSE)

MR. DAVID PETURSSON: Sorry, Mr. Peters, could you repeat your question? I believe it was about the developers granting the easement? Yeah, the developers will grant the easement as required for us to install the plant but the -- the developers actually are quite supportive of this. They -- there are benefits to the -- to the developers that four (4) party presents.

First the -- getting all the shallow utilities in, you know, in a short timeframe and coincidentally is a benefit to the developers to allow them to continue and -- with the developments that they are putting in and building houses, yeah.

MR. BOB PETERS: There's no mandatory requirement from any developer that you use four (4) party trench compared to conventional installation?

MR. DAVID PETURSSON: We've got no -- no hard agreements where they require it but many have come to expect it and very much appreciate it.

MR. DOUG KROEKER: Let me just add to Mr. Petursson's answer if I could. The -- you know, one (1) noticeable exception to that is in the City of Brandon they -- there's no formal agreements with the developers in the City of Brandon but they -- the City of Brandon operates on a different method for completion of developments and starting home construction.

In the City of Brandon, the City requires all services to be installed into a subdivision and to the -- and for the streetlights to be operational before they will issue building permits to home builders. And that's certainly very different than what's done in the City of Winnipeg.

But because of that the developers in Brandon want to get the shallow utility services installed as quickly as they can so the fact that we come in there with four (4) party, one (1) crew, and all of the services installed are at one (1) -- are installed at one (1) time and the we move out, they like that. It's very conducive to -- or at least service in the development and to an early turn-on of all the lights and then to the sale of the lots and the issuing of the

building permit so they're very much in favour it -- in favour of it and would be very disappointed to see us go back to the former method.

MR. BOB PETERS: And you expect that's the same from Winnipeg developers although maybe not quite as concrete?

MR. DOUG KROEKER: The feedback we have from the Winnipeg developers is that they do like it, but the City of Winnipeg does have a different permitting practice for homes and will issue permits for home construction before utility services are in and they do that on a regular basis.

MR. BOB PETERS: Speaking of other jurisdictions, Mr. Kroeker, in PUB/Centra-9, it looked like Centra did a survey of some of the other utilities including Union, Embridge and Atco, I think.

And in those cases, there were cost savings realized by the utility in four (4) party trenching, is that correct?

MR. DAVID PETURSSON: That is correct.

MR. BOB PETERS: And Mr. Petursson, have you analyzed why other utilities can save money by going to four (4) party trenching, but Centra's expectations is now cost parity with conventional installation?

MR. DAVID PETURSSON: I haven't got

sufficient information to analyze it. One (1) thing is clear though, is they've been at it longer than what we have and I suspect they've had ample opportunity to optimize their processes.

MR. BOB PETERS: Is another matter that's clear, is that other jurisdictions use external contractors?

MR. DAVID PETURSSON: Some do, but not all.

(BRIEF PAUSE)

MR. BOB PETERS: In PUB 11 -- PUB/Centra IR-11, there were some steps that Centra still needs to take to optimize the four (4) party trench process. And I take it these are the steps that Centra would embark on if the Board approved the application and the continued use of four (4) party trenching?

MR. DOUG KROEKER: Yes, those are the significant items left to be done.

MR. BOB PETERS: In terms of the timeline, you find on page 3 of 3 of Centra -- PUB/Centra 11, a fully costed activity plan with timelines in it.

Do I take from this that even if the Board gave approval as being requested today, when would be the

earliest that four (4) party trench in an optimized form would be out in the field?

MR. DOUG KROEKER: Twelve (12) months from the date of approval.

MR. BOB PETERS: And between -- excuse me, in the interim, Centra is taking incremental steps as indicated on the fully costed activity plan to reach a fully optimized construction process?

MR. DOUG KROEKER: That's correct, Mr. Peters.

MR. BOB PETERS: So, if it takes a full twelve (12) months, why is it that you want to wait twenty-four (24) months before the Board looks at the data that is collected, in terms of the cost efficiencies?

MR. DOUG KROEKER: We believe that it's going to take us twelve (12) months to make the number of changes that we need to make to get to the point where we believe that the model is fully optimized.

And then at that point, we would like to be able to do a number of projects to help us see where the costs are coming in and monitor it and then make any more modifications that need to be made.

As well, we consider it to be quite a significant step to move away from our current method of

construction inspection to the one I described earlier and we certainly want to take our time in moving away from that and then allow some time for monitoring of it.

MR. BOB PETERS: Would that suggest then that the -- that the true optimization won't occur until approximately eighteen (18) months from the date of Board approval?

MR. DOUG KROEKER: No, our process of optimization is a continuous process. As soon as we get the green light, we'll continue to make as many steps as we can ahead of time and I don't think -- well I certainly know that they -- all of the steps won't wait eighteen (18) months -- we'll be taking many smaller steps along the way.

But, certainly after the twelve (12) months timeframe we believe that we will have implemented all of the items of our process that are part of the optimized process.

And then having a few months to practice that and work at it and review the results, then I would think that eighteen (18) months from the time of approval that we would be fully optimized and that would be the point in time at which we should identify projects for the purposes of a cost analysis.

MR. BOB PETERS: All right. Back to

PUB/Centra-11B and the steps to optimize, there's an indication that there has to be the completion of the training of internal staff to complete all aspects of gas installation necessary for URD projects.

Do I take from this answer that you have to train internal staff to do the things that you're presently contracting out?

MR. DOUG KROEKER: That is correct.

MR. BOB PETERS: And presently, is there any restriction on the employees that you have -- the internal employees doing the work, where their prohibited from doing some gas work?

MR. DOUG KROEKER: Do you mean by your question, Mr. Peters, is there something -- something preventing -- some sort of a policy or procedure preventing us from training these people?

MR. BOB PETERS: Let me ask it a different way.

It looks from the way you've set out the plan that you're going to optimize, that you have people right now, in the three (3) party trench that you will want to be able to do the work in a four (4) party trench, would that be fair?

MR. DOUG KROEKER: Yes, that's right.

MR. BOB PETERS: And the only change

that's happening is you're introducing a gas line into the trench nothing else?

MR. DOUG KROEKER: To move from the three (3) party to four (4) party, yes, that pretty much sums it up.

MR. BOB PETERS: All right. And the people that you have presently in the three (3) party trench, aren't able to do the gas work and hence you're bringing in external contractors?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: And you have people in the organization though, who would be qualified, don't you, to do the gas work in the trench?

MR. DOUG KROEKER: Yes, we do have people that work and maintain the pipelines on a regular basis and are familiar with the required procedures.

MR. BOB PETERS: And why aren't those people being included in the four (4) party trench crew at this time, rather than the external contractor?

MR. DOUG KROEKER: Those folks are fully engaged on the maintenance of our system. And we -- if we were to free them up to work on construction projects, then it would leave the maintenance of our system unattended to.

MR. BOB PETERS: So you need to hire more

people?

MR. DOUG KROEKER: Yes, we are going to train more personnel. We also, in an earlier report and I believe it was in our July report, we've identified five and a quarter (5 1/4) additional EFT's that would be directed towards the gas side of four (4) party installations.

MR. BOB PETERS: And that's still the plan?

MR. DOUG KROEKER: That is still the plan.

MR. BOB PETERS: And those five (5) people you hire will be able to do the gas installation work in the four (4) party trench, where presently that information or that ability is lacking?

MR. DOUG KROEKER: That's correct. We may use people that are already employees of Manitoba Hydro to do the gas work and these five and a quarter (5 1/4) EFT's would backfill those people.

MR. BOB PETERS: Are there any professional requirements that your employees have to have to go into the trench to work on either the gas or the electricity?

MR. DOUG KROEKER: For Manitoba Hydro staff, there isn't any professional designation. They

are required to have certification through our training centre, but no external certification.

MR. BOB PETERS: Does it matter which union an employee belongs to as to whether or not they can perform work in the four (4) party trench?

MR. DOUG KROEKER: I might be interested in hearing Sandy -- Mr. Sandy Boyd's comment later, but I -- I don't believe there is. I believe that the unions have sorted out jurisdiction and have identified core gas jobs.

We certainly have a number of positions in our Corporation where employees work on both -- unionized employees work on both gas and electric, and I think that we'd be able to accomplish that here as well.

MR. BOB PETERS: From a previous answer I take that you will certify and internally train any employee that you have so that that employee could do the gas or the electric installation in the four (4) party trench?

MR. DOUG KROEKER: That's right. We will have on each of those construction crews over time -- all of the personnel on there will be familiar with the gas and electric procedures, although the work of fusing and testing will predominantly fall to a small number of people on that crew that -- that can work at it on a

regular basis and obtain a higher level of proficiency in that work.

MR. BOB PETERS: But those people who do the fusing and testing of the gas line don't have to have any professional designation, they don't have to belong to any particular union from the Corporation's point of view?

MR. DOUG KROEKER: They do not need any external certifications but they will certainly need to belong to one of Manitoba Hydro's unions.

MR. BOB PETERS: And it doesn't matter which one of the unions they belong to?

MR. DOUG KROEKER: Well, I think the -- the unions will definitely determine that jurisdiction. I would think it would be the IBEW Union but the jurisdiction will -- will definitely need to be sorted out.

MR. BOB PETERS: Maybe my lack of familiarity is -- is making the questions clumsy but using your last answer, can a -- can a Manitoba Hydro/Centra employee who belongs to the International Brotherhood of Electrical Workers go into the four (4) party trench to work on a gas main if properly trained by the Utility?

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: Yes. And likewise, can a member of the Communication Energy & Paperworkers' Union go into the trench and work on electricity matters if certified by the Company?

MR. DOUG KROEKER: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: There was one bullet -- I'll try to find it -- here it is -- on page 2 of 3 of PUB/CENTRA-11 about reinforcing the feedback loop to foster continuous improvements.

What does "reinforcing a feedback loop" mean?

MR. DOUG KROEKER: It's just our terminology for a continued improvement or a continuous improvement process whereby we continually need to be looking not only forward but backwards to measure past performance.

(BRIEF PAUSE)

MR. BOB PETERS: Am I correct in interpreting your answer to PUB/CENTRA-13 as meaning that the Corporation presently has one internalized crew that

is now fully optimized?

MR. DOUG KROEKER: What page reference are you referring to, Mr. Peters? Do you have that?

MR. BOB PETERS: I was hoping you wouldn't ask me that. Page 2 of 13.

MR. DOUG KROEKER: Yes. Thank you very much.

MR. BOB PETERS: I'm looking line 5.

MR. DOUG KROEKER: Thank you. Yes. We do have one (1) crew that is performing the gas work and fusing work.

MR. BOB PETERS: And this crew has been working this past summer?

MR. DOUG KROEKER: Yes. I don't recall off the top of my head exactly when it started but it would -- it would have been sometime this summer.

MR. BOB PETERS: And that crew would have been responsible for some of the URD projects found on page 66 of Centra Exhibit 1?

MR. DOUG KROEKER: No, not -- they would not have been -- that model of that crew -- I should step back.

Certainly that crew would have performed some of the -- some of the work of these project. It would have completed the installation of some of these

projects, but it would not have been done with the optimized model that they're now currently using because this history that's shown on page 66 would have occurred prior to the point in time when we trained the internal staff and equipped them to perform the work.

MR. BOB PETERS: All right. So I've heard from Mr. Wiens that then this crew would have done work this past summer but those work orders are not yet closed off so the costs haven't been totally accounted for?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: Could the Board take the projects on which this one (1) optimized crew worked and look at the costs of those URDs compared to conventional installation to see how successful optimization is?

(BRIEF PAUSE)

MR. DOUG KROEKER: I don't think using the work of that crew this past summer would be a fair comparison. For one, we're still incurring the cost of inspection. We still are inspecting with our model geared towards an external contractor and secondly it was the -- that crew just started recently performing that work and I think they need an acclimatization period so

if we look at their early projects I don't think they would be working to the same level of efficiency had they had more exposure to the work.

MR. BOB PETERS: You can confirm that they have all of the capital equipment that they need to -- to be optimized?

MR. DOUG KROEKER: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Wiens, something you told me before lunch didn't quite fit with something that your panel-mates told me after lunch and I -- maybe I didn't understand it, which is possible.

I understood you before lunch to be telling the Board that as a result of your four (4) party trench initiative the Corporation will not incur additional overheads; is that correct?

MR. ROBIN WIENS: Additional? Yeah, additional corporate overheads won't be incurred.

MR. BOB PETERS: I also thought I heard just now or a few minutes ago an indication that and confirmation that five point two five (5.25) EFTs or equivalent full-time positions will be added to get to an optimized four (4) party trench methodology?

MR. ROBIN WIENS: Mr. Peters, first bringing on additional staff is not what we mean when we talk about corporate overhead. Those are staff that we'd be charging directly to those projects. But second and at least equally important is that they would be replacing contractor personnel.

MR. BOB PETERS: Well, the costs of those additional employees may be covered by the costs that you would otherwise spend on contractors; that's your point?

MR. ROBIN WIENS: That's one (1) of them, yes.

MR. BOB PETERS: All right. And the second point is that -- that overheads don't appear when you have more bodies onsite, when you hire more bodies?

MR. ROBIN WIENS: Corporate overheads don't reappear when you hire more bodies but you spread existing overheads over -- over more individuals.

MR. BOB PETERS: And the -- maybe you should just educate me, Mr. Wiens, then as to what do overheads include?

(BRIEF PAUSE)

THE CHAIRPERSON: Without appearing in any way disrespectful probably the group that we're

looking at, along with buildings and --

MR. ROBIN WIENS: Now, that's -- that's even more painful than being compared to Mr. Ignatiuk, but quite correct, Mr. Chairman.

It involves the -- the expenses that are incurred to carry on business at a corporate level. It doesn't -- it -- it doesn't include, for example, my time. I don't believe it would include Mr. Kroeker's time because his time would be accounted for in the activity rates of the his staff but it would include buildings, it would account -- include accounting personnel, it would include some of the external expenditures that we incur.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Doesn't it follow, Mr. Wiens, that as you add more employees the overheads will also increase?

MR. ROBIN WIENS: I think if -- yes. Measured over a long enough period of time, you add enough employees you have to add more human resource managers, you have to add more buildings but I think if you're talking about at a -- at a level of -- of adding a few additional employees it's not going to add meaningfully to our overheads -- our corporate overheads.

MR. BOB PETERS: Same answer if we get down to capital equipment? You're buying more equipment, you've got to service it. There's costs associated with all of that; that doesn't contribute to the overheads?

MR. DOUG KROEKER: The -- one (1) of the -- one (1) of the strange things for some people to wrap their heads around was when we do hire more people, if we look at what I'll refer to as the direct overheads associated with the employees in the field, and that is the purchase and maintenance of tools and equipment, the monthly charges that we would receive for vehicles and fuel, et cetera, there is administrative staff in the office that are required to process their work orders and do timesheets, et cetera.

So if you look at those as being direct overheads, the more people you actually have in the field and the more chargeable hours reduces the direct overhead percentage.

So on one (1) hand as it relates to direct overheads, if the more people you have at the working level, the smaller your overhead percentage is. It gets spread over a larger base.

MR. BOB PETERS: And the more efficient your employees are, in terms of charging their time out to different -- to different cost centres, again, the

lower the overhead rate would have to be?

MR. DOUG KROEKER: Yes.

MR. BOB PETERS: I'm trying to conclude on PUB -- my questions on PUB-13. We talked about the comparisons and we used Royalwoods because Royalwoods was perhaps the pilot project that you brought forward at the general rate application where four (4) party was first discussed with the Board, would that be correct?

MR. DOUG KROEKER: Yes, that's correct.

MR. BOB PETERS: And in the cost comparisons that you've done and the variance analysis that you've done, it appears that the cost of four (4) party trench declined and I want you to confirm that one (1) of the reasons the cost declined is that the project was actually larger than it was estimated.

And therefore, that had the effect of giving lower costs the first time around, compared to what they actually were.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Peters, just so we can have some rough idea, about how much time do you think you'll have to complete?

MR. BOB PETERS: Ten (10) minutes,

assuming the answers come promptly.

MR. DOUG KROEKER: Yes, that's correct.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: You also -- you initially put forward the Royalwoods project as a hundred (100) units and it ended up being as much as a hundred and forty-four (144) construction units?

MR. DOUG KROEKER: Yes, it was a one hundred and forty-four (144) lot subdivision, as opposed to a one hundred (100) lot.

MR. BOB PETERS: All right. You've also removed the costs and we've talked about overheads, that was another major reduction in the costing of the four (4) party trench analysis?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: And we've also talked about the third method that you've reduced the four (4) party trench costing, it was by using average costs from nine (9) URD's that your surveyed and reconciling those averages with the expenditures you made?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: I want to split hairs with you, the few that I have, Mr. Kroeker. On page 4 of 13 of PUB/Centra 13, you have on page 4 of 13, a chart

which talks about actual four (4) party costs.

And where actual four (4) party costs are shown, I want to suggest to you that the proper heading might be, actual/average base costs?

MR. DOUG KROEKER: Sure, or adjusted actual costs.

MR. BOB PETERS: I like that. Because there's no dispute here with you and the Board that those are not the actual out of pocket costs or incremental costs incurred, those are arrived at by different methodologies that we've already talked about, including averaging, including removing overheads, those items?

MR. DOUG KROEKER: That is correct, Mr. Peters.

MR. BOB PETERS: All right. One of the things that led to the conventional costs increasing from when you last explained it to the Board was something called safety watches has increased the cost, and I am looking on page 8 of 13 of PUB/Centra 13.

Can you explain to the Board briefly what safety watches are and why that's increased?

MR. DOUG KROEKER: Under conventional installation, as Mr. Petursson has described it, for short services and long services, there's a requirement to excavate over the gas main, fuse on a service tee, and

then trench from that point across the remainder of the public property and then on to private property and trench across the easement containing the three (3) other utilities, the MTS, the cable, and the electric, and continue on up to the home.

The safety watch is required over the electric system. There is -- where there is high voltage cables, primary cables, Manitoba Hydro's practice is to have that excavating work done under the guidance of a qualified safety watcher.

And so those costs are incurred by the gas side of the business for that safety watch. They are billed out to the gas side of the business.

MR. BOB PETERS: As I understood it, an employee of Manitoba Hydro stands there while the gas -- while the gas line is being installed, but wasn't that employee's time and expense charged through to the electricity side of the business?

MR. DOUG KROEKER: No. The safety watcher's time and expense was charge through to the gas side of the business.

MR. BOB PETERS: Has it always been that way?

(BRIEF PAUSE)

MR. DOUG KROEKER: Since Manitoba Hydro has implemented the practice of safety watch, the practice to have that individual's time charged to the gas side of the business has been our practice.

MR. BOB PETERS: Do you charge it through to a third party who may be doing work as well when you have a safety watcher on site?

MR. DOUG KROEKER: Yes, we do.

MR. BOB PETERS: In terms of one of the other factors, the line location, you -- you indicate that the conventional costs would change as a result of line location and you add nine dollars and fifty cents ($9.50) per lot for a four (4) party trench; is that correct?

MR. DOUG KROEKER: That is correct.

MR. BOB PETERS: Is that an intuitive calculation or is there actual data to support that -- that increased cost?

(BRIEF PAUSE)

MR. DOUG KROEKER: There was an internal review of that and part of that review was some discussion with the line-locating personnel in the field that do the line locates, and they estimated for us the

time savings resulting from four (4) party installation and from that the nine dollars and fifty cents ($9.50) was calculated.

MR. BOB PETERS: All right. Thank you. On page 4 of 13 of PUB/CENTRA-13 we're back to a chart with estimated conventional costs and I think the new one is adjusted four (4) party costs.

Have you found page 4 of 13?

MR. DOUG KROEKER: Yes, I have.

MR. BOB PETERS: And the -- and as briefly as you can, recognizing I'm on the clock -- can you explain to the Board the difference between the estimated conventional and why the adjusted four (4) party costs differ, starting with the subtotal for property survey and design?

(BRIEF PAUSE)

MR. DOUG KROEKER: Mr. Peters, just so I'm clear, are you asking me to explain kind of the differences in construction between conventional and four (4) party and relate that to the costs?

MR. BOB PETERS: Well, just in -- in general terms you're showing that four (4) party trench under the adjusted four (4) party trench column is

approximately three (3) times as expensive as the estimated conventional.

Can you tell the Board what gives rise to -- to that being so much more money?

MR. DOUG KROEKER: Yes, I can. I just want to ask one question of the back row and I'll respond.

(BRIEF PAUSE)

MR. DOUG KROEKER: I will start then. The first one on the property survey design and GIS there's a difference there between about seventy-two hundred (7,200) for conventional and twenty thousand (22,000) for actual four (4) party. That's related to -- primarily to time charge of internal staff working on acquiring easements but more so working on the design of the four (4) party and the interaction between the gas designers and electric designers. It's an area that in the future we hope to also obtain some efficiencies in.

MR. BOB PETERS: Under the "Inspection" line where seven thousand (7,000) or eight thousand (8,000) is for the conventional and fifty-five (55) is for the four (4) party do you eventually see the four (4) party being zero?

MR. DOUG KROEKER: We eventually see the four (4) party being -- being close to zero. Again, we're going to incur some costs on these projects for the auditing that I spoke of but pretty close to zero.

MR. BOB PETERS: You've already told me about the materials, and then when I get down to the "Contractor" line, I'm just wondering whether you have broken the contractor out into two (2) different parts here under the four (4) party trench where you're comparing contractor costs of fifty-three thousand (53,000) to forty-five thousand five hundred (45,500), but in addition there are some joint use trench costs and contributions to electric shown as twenty-six thousand nine hundred (26,900).

Would the Board understand this to mean that those -- that the twenty-six thousand (26,000) and the forty-five thousand (45,000) should be added together to compare to the fifty-three thousand dollar ($53,000) number?

MR. DOUG KROEKER: That is correct. That would be the installation labour for four (4) party.

MR. BOB PETERS: In terms of the service installations, that's a unit pricing number that's just multiplied by the number of units installed? I think more accurately three hundred dollars ($300) per service

installation for conventional and two hundred (200) under -- under four (4) party?

MR. DOUG KROEKER: That's right and that represents the contractor lever portion for that work.

(BRIEF PAUSE)

MR. BOB PETERS: Not that it amounts to much. I shouldn't mean it -- I don't mean it in a negative way but is that service stub material in the wrong column? Should that be under the adjusted four (4) party cost or are you giving a credit back to conventional?

MR. DOUG KROEKER: No, what we wanted to do again comparing -- comparing the fruit as we did earlier on an apples to apples comparison, the four (4) party adjusted estimate includes the cost of installing service stubs because that's the way that we do the four (4) party.

There's the main and service header and then service stubs into chute boxes. So for the installation on a conventional side we wanted to include that material into the estimate to have a fair comparison.

MR. BOB PETERS: All right. In terms of

inspection -- I'm sorry, in terms of sod cut permits and inspections that's the cost for permits on public property; is it not?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: And there'd be no such costs to four (4) party trenches on private property?

MR. DOUG KROEKER: That's correct.

MR. BOB PETERS: If four (4) party trench was on public property, then you'd remove this number from the -- from the comparison or else add it under both columns?

(BRIEF PAUSE)

MR. DOUG KROEKER: There would be some amount included into the four (4) party if the -- if the main was on public property versus public property there's a very small cost for permits for the main installation but our plan -- where the majority of the costs come in for permits is on the service extensions and it's our plan even under four (4) party if the main is on public property, it is our plan to extend the service, to stub it out onto private property. So when we go later to connect at the chute box and take it to the home, there would be no permits required.

MR. BOB PETERS: Are the line locating costs, Mr. Wiens, and the safety watch costs, are those costs already embedded in the feasibility test that -- that you do?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, my understanding is that neither of those are included in the feasibility test.

MR. BOB PETERS: All right, thank you. Mr. Wiens, and Mr. Schneider, then, maybe last words to either or both of you.

In terms of what you're requesting, then, of the Board, is that, I want to be clear, that you're asking the Board to approve unconditionally the use of four (4) party trench methodology going forward?

MR. ROBIN WIENS: That would be our preference, Mr. Peters. That doesn't mean to say that it wouldn't necessarily be subject to review or certainly to a major report two (2) years down the road, but we would like -- we are looking for the certainty of knowing that we can continue to use this methodology for at least long enough time to allow us to optimize it or show that we can achieve it.

MR. BOB PETERS: Your alternative, but not your preference, would be to have this Board approve the four (4) party trench methodology at least until March 31 of 2009, by which time you will have had some time to optimize the process of installing four (4) party trench and at that time, also to report to the Board on your findings, including the cost findings?

MR. ROBIN WIENS: We would like until March 31st to comply with the Directive number 9 in Order 10/06 which would be to produce a report for the Board which does a cost comparison of different types of development situations with four (4) party as optimized and with conventional.

We would probably be looking for, and this speaks in part to our desire to have it approved unconditionally, there would obviously be some time required for the Board to review that report and to come to a determination on what it wanted to do.

So, clearly we would want to be able to continue to use four (4) party at least until such time as we received an order or some other direction from the Board based on the report that we would submit on or before March 31st, 2009.

MR. BOB PETERS: All right. Just continuing on that line, Mr. Wiens, should the Board

grant either unconditional approval to continue with four (4) party trench or conditional on the report and an order to subsequently follow, should at any point in time in the future the Board determine that the costs incurred in the four (4) party trench installation process were not prudently incurred, what options does the Company see that the Board has at that time if and when it made that determination?

MR. ROBIN WIENS: What options does the Company have to deal with it?

MR. BOB PETERS: No, what options does the Board have?

MR. ROBIN WIENS: With respect to prudence?

MR. BOB PETERS: Yes.

MR. ROBIN WIENS: I would -- my understanding would be that the Board would carry out its normal reviews of prudence during the course of a General Rate Application or future General Rate Applications and would make a determination based on the best evidence that it had at that time.

MR. BOB PETERS: And if the Board concluded that the costs or some of the costs related to four (4) party trench were not prudently incurred, the Board would have the option to disallow them from

recovery from consumers.

Would you agree with that?

MR. ROBIN WIENS: Yes, I would.

MR. BOB PETERS: Thank you, Mr. Chairman. Those complete my questions. I want to thank Messrs. Schneider, Petursson, Kroeker and Wiens; thank you.

THE CHAIRPERSON: Thank you, Mr. Peters.

Mr. Holloway, you've been quite patient and I'm sure you're raring to go.

MR. IVAN HOLLOWAY: I'm wondering, Mr. Chairman, if it might not be a bad idea to take a break right now as opposed to later on.

I presume there's going to be a break later on?

THE CHAIRPERSON: That's fine. If we came back at 2:30 would that suffice for you?

MR. IVAN HOLLOWAY: Yeah, no, that would be great.

THE CHAIRPERSON: Do you have any estimate right now as to the time that you expect to carry on?

MR. IVAN HOLLOWAY: Half hour, forty-five (45).

THE CHAIRPERSON: Very good, sir. We'll see you back at 2:30.

--- Upon recessing at 2:20 p.m.
--- Upon resuming at 2:37 p.m.

THE CHAIRPERSON: Okay, Mr. Holloway.

CROSS-EXAMINATION BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: Thank you, Mr. Chairman.

I'd like to refer the board of Witnesses -- or, pardon me, the Panel of Witnesses to the December 15th, 2005 response to Public Utilities Board Order 103/05, 135/05, specifically page 20 and 21.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: This is the document that pertains to an analysis of the damages under the conventional system and whether those damages would have been apparent in the four (4) party system or not.

Under the conventional system you avoid damages -- a number of damages as a result of road construction and as a result of -- of sewer and water repair because you don't have services or you have less services underneath the road; right?

MR. DAVID PETURSSON: That is correct.

MR. IVAN HOLLOWAY: And clearly that constitutes a reduction in potential damages that would likely occur in the future under the four (4) party system; right?

MR. DAVID PETURSSON: That's correct.

MR. IVAN HOLLOWAY: But at the same time what happens is that essentially the physical plant that would ordinarily be under the road is essentially transferred onto private property; right?

MR. DAVID PETURSSON: Well, it's the plant that would be just outside property goes just inside, it's not actually under the road surface. It would be -- would be going from 1-1/2 metres off of the property line to an alignment inside the property line on -- on private property.

MR. IVAN HOLLOWAY: Right. Right. But the general -- the general thrust is -- is that the -- the physical plant is moving from either under the sidewalk, under the road, under public property to -- mostly on to private property; right?

MR. DAVID PETURSSON: That is correct.

MR. IVAN HOLLOWAY: So what I don't -- what I notice from your analysis of the -- of the damages -- the previous damages is that there's -- it's -- at least for 2003/2004, I think it's also the same for the

2005/2006, is that there's -- the point is made there's going to be a reduction of damages as a result of street repairs and -- and sewer and water and so on, things that are happening on public property, but there's no -- there's no kind of correlative assessment that perhaps damages are going to increase as a result of having that physical plant on private property.

MR. DAVID PETURSSON: We've looked at that and -- two (2) things we've looked at.

One is that with our gas pipes adjacent to the electric and having the -- any locates done -- any Call Before You Dig to locate electric will locate gas, and -- and so all plant is located during any Call Before You Dig, and with all plant together we anticipate that anybody digging in that area would be more likely to -- to call.

The other thing we did is we, as referenced on the page 21, we looked at a number of areas in some Winnipeg communities typical of where some four (4) party designs would have been, you know, or could have been used, and very typical of developments.

And we looked at it to try and determine the indications of excavation in the area of our -- of the gas main that would be on private property. And we found very few front yard fences and -- or other such

excavations of -- or evidence of excavations that would have occurred.

So although the main is going on the front property, we do not expect there to be a significant increase in damages because of the main location on property.

MR. IVAN HOLLOWAY: I'll deal with your -- your first point first, then your second point.

Clearly though the Call Before You Did program, not everyone adheres to it because obviously there's some people that are still digging and -- and hitting things that they probably wouldn't have had they used that service, so clearly there's some people inevitably who don't use that; is that right?

MR. DAVID PETURSSON: Yeah, not everybody calls before they dig unfortunately.

MR. IVAN HOLLOWAY: Now, with respect to the front yard fences, if I could turn your attention to Exhibit 3, this -- the Centra Gas/Manitoba Hydro four (4) party presentation.

Actually, before I want to refer to that, though there may not be that many front yard fences, is it fair to say that there's quite a few side fences between properties?

MR. DAVID PETURSSON: Side fences are

more prevalent. One (1) thing we are doing now is we are working hard to keep the gas service location right near the front of the house as opposed to taking it further back which would have the service line less exposed to -- to fence installation but the -- we're still going to have to have a service line going to the house regardless of whether we have the main trench on property or on -- on easement, standalone, or four (4) party. The service line will still be there.

MR. IVAN HOLLOWAY: Right. But if you look at this Exhibit 3 page -- it's the third page in, Four (4) Party Trench Installation is what it says on the top.

When I look at this diagram I see that the -- the service header and the gas main is running from property -- from private property to private property to private property, right?

MR. DAVID PETURSSON: Yes.

MR. IVAN HOLLOWAY: And I also would see that if there's more prevalence of having side fences that there would be, at least on a theoretical basis, more likelihood that a person or contractor building a fence would be more likely to hit that gas main given that now it's on a -- on private property, right?

MR. DAVID PETURSSON: Yeah, there would

be more prevalence of hitting that gas main on private than there would be on public if the fence is going up on private property.

MR. IVAN HOLLOWAY: Right. But generally as a result of the fact that -- and I'm not talking about the services and I'm not talking about, you know, the -- the thing that crosses the road, but the fact that there's greater numbers of side fences, that's more prevalent, one (1) would think that -- and because there's gas mains that are crossing over people's personal property, that you would think that there would be more accidents related to fences running into the gas mains generally or more accidents general related to fencing; is that not fair to -- to say?

MR. DAVID PETURSSON: Generally, the fencing damage we find tends to be more on the service lines and they tend to be further back on the property. Fences extending out into the front yards near the front of the property line are quite rare in new developments, you know, typical of where we'd be installing four (4) party. The front yard fences really are quite rare so it -- I don't see much activity for excavation for fences in the future.

MR. IVAN HOLLOWAY: When you say, "front yard fences," are you referring to the fence facing the

street or are you -- are you referring to fences that are in the front yard facing neighbours' property just for clarification?

MR. DAVID PETURSSON: I would say both. The front -- front fences that would extend beyond the front facade of the house. Fences that would connect between the two (2) front corners of a house and extend to the back yard are far more prevalent. Fences that would go forward beyond the front corner of the house are far less common.

MR. IVAN HOLLOWAY: But clearly they do exist, right?

MR. DAVID PETURSSON: They do and that little survey we had, we found 2.2 percent of houses, say, you know, one (1) in fifty (50) had a -- a fence in the front yard in the area, you know, going as far forward as what the gas main might be.

MR. IVAN HOLLOWAY: Okay. And -- but the general point, I mean clearly you have more -- regardless of whether it's fence work or -- or building a deck, or putting in a basketball hoop, or planting a tree, or whatever it is, clearly when you have more plant on your private property, just the law of averages, the more likely is that there's going to be a strike at some point in time. Is that not fair to say?

MR. DAVID PETURSSON: It seems like a reasonable conclusion.

MR. IVAN HOLLOWAY: Okay. But that conclusion is not factored into page 20 of your analysis of future damages.

Is that fair to say?

MR. DAVID PETURSSON: Page 20, we were looking at damages that would be avoided. We did not -- we did not have anything overtly saying future additional damages that could be expected.

We did identify there was future damage potential and we recognized that there is, you know, future damage potential. And that was one (1) reason we looked at it and quantified those numbers.

We are seeing a -- I think a rather minor future damage potential but quite a significant potential reduction in damages.

MR. IVAN HOLLOWAY: But is it that minor? I mean, I notice from your testimony that you gave under cross-examination from -- to Mr. Peters that of the nine (9) damages to four (4) party trenches, that seven (7) of these (9) happened on gas mains, and that obviously would not have happened before on private property. And I'm assuming this is on private property.

So, I mean, I'm looking at seven (7) out

of nine (9), that's about 75 percent of your damages are happening on -- on your gas main which would be on private property.

MR. DAVID PETURSSON: Of these -- these are nine (9) damages in four (4) party areas. Definitely two (2) were on service lines and seven (7) were on -- on the gas mains. However, all of these were done by contractors and all of these were done in open excavation damages, all were associated with the initial construction in the -- in the development. And some of them were similar sort of damages that we would expect on conventional too, where you get a bunch of activity in new construction areas.

I think it's important to note that the -- all of these were done by contractors during the initial excavation and initial construction phases of these developments.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: That doesn't change the fact that it happened, I mean, regardless, right, whether it was during construction or not, the fact of the matter is, is that it is susceptible to having damage to it regardless, right?

MR. DAVID PETURSSON: Anytime we put plant in the ground and other activity is occurring, it's susceptible to damage. Our conventional plant is in the ground and activity occurs, it's susceptible to damage.

We are not saying that, you know, by putting four (4) party plant in the ground it is not going to be damaged, particularly on the initial construction phase in a development.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I believe some of the testimony previously, I think it was Mr Schneider -- Snyder, said that the damage strikes or -- or accidents, the experience has been over the short period of time of -- of four (4) party trenching in Manitoba, is that damages to plant have been reduced.

But I'm assuming that's a comparison to what you have in page 20 and 21 that I just referred to previously, where we're comparing all different types of neighbourhoods; new neighbourhoods, old neighbourhoods and so on, that are using the conventional approach.

Is that correct, is that fair to say?

MR. AL SNYDER: Yes, new neighbourhoods.

MR. IVAN HOLLOWAY: New neighbourhoods

that are being dealt with in page 20 and 21 of this December 15, 2005 Centra response to the PUB?

I mean, I'm assuming that what's being referred here is not just new developments but old developments, you know, middle-aged developments and so on.

Am I making myself clear?

MR. DAVID PETURSSON: On page 20 of that, when we talk about review of damages, we are looking at overall damages in the residential settings.

Many of these have been around for decades and we are examining, you know, what's the nature of the damages that occur and -- and we see the damages, we see things such as road bed rebuilding, sewer and water rehabilitation.

We see the excavation of gas mains, tie in services. We see activity that -- that results in damages and many of those damages -- for example, tying in for a new gas services occur fairly early in the life of the plant.

Other stuff, such as road bed rebuilding and sewer and water occur much later in the life of the plant.

What we -- the intent of the study that is documented on page 20 was to identify the nature of these

damages and try and identify whether or not a four (4) party design would have avoided these damages; that was the intent of that study.

MR. IVAN HOLLOWAY: Right. now, the -- the experience of four (4) party, as it is for the last couple of years, and the experience of damages that have resulted to the plant, in fairness, is only -- it's all very new, right? It's all no more than two (2) or three (3) years old, right?

So the renewal to roads, renewal to sewers that might have a twenty (20) or thirty (30) year cycle would not have been part of this two (2) or three (3) year review of four (4) party trench in Manitoba, right?

MR. DAVID PETURSSON: Well, clearly, yeah, because a lot of that occurs much down the road and four (4) party is so new there is no direct history of that right now.

MR. IVAN HOLLOWAY: And from your own numbers, it's clear that -- that, or it appears to be clear that a lot of the damage that's being -- that's happening on the plant and the conventional system has to do with sewer renewal, road repair and so on, right?

MR. DAVID PETURSSON: That's right. The -- with a lot of that conventional, where we have those long services under the road, that in -- there is a

potential they get hit and they do get hit with that activity, with -- you know, with four (4) party, with all short services, none of that under the road, in future road rebuilding and sewer line rehabilitation, you can't hit what's not there.

MR. IVAN HOLLOWAY: So in fairness, the -- the review of the last two (2) or three (3) years of damages, accidental damages on four (4) party trenches in Manitoba isn't entirely fair because we really need to have a full sense of what the damages are going to be.

We really almost need a twenty (20) or thirty (30) year cycle to be able to see that; is that fair to say?

MR. DAVID PETURSSON: We'd be happy to continue four (4) party for twenty (20) or thirty (30) years to find out.

MR. IVAN HOLLOWAY: But is that fair to say?

MR. DAVID PETURSSON: Yeah, at this point without that history, all we can do is predict, which is what we've tried to do.

MR. IVAN HOLLOWAY: Right. So over a twenty (20) or thirty (30) year cycle, all things being equal, likely that number is going to, on a yearly basis, increase because there's going to be more need for, you

know, various underground repairs.

Is that fair to say?

MR. DAVID PETURSSON: I don't understand the question.

MR. IVAN HOLLOWAY: Well, because you have a plant that's installed that's so new, you're not -- the -- and brand new developments, the regular renewal process and, of course, under the conventional system it would have to do with roads and so on which may not be as -- impact as much, but nonetheless, surely there is infrastructure renewal projects that would happen on a longer cycle that would likely, all things being equal, have an effect of damaging some of these -- some of this plant every so often; that hasn't -- essentially that hasn't been factored in; that's all I'm getting at, because it's so new what we're looking at.

(BRIEF PAUSE)

MR. DAVID PETURSSON: I think the benefits are a combination of short-term or immediate and long-term. The -- in the short-term some of the damages we have are with sewer and water installation, extending sewer and water lines to houses; you know, damages do occur there.

With the four (4) party design and stubbing the services in we expect to see a reduction of damages associated with that four (4) party and -- and that would be more of a short-term benefit.

On the longer term, I look forward to -- I look forward to many years from now sitting in a wheelchair rolling down the sidewalk watching road bed rebuilding twenty (20) or thirty (30) years from now when all they've got to worry about is one (1) gas line going across the road to take gas to the service header and -- and seeing no service lines at all to worry about.

MR. IVAN HOLLOWAY: Right. But I mean even if it's not -- even if we're not talking about renewal in the sense of road repairs and so on that would likely affect the four (4) party plant, there's obviously all kinds of other renewal that happens, I mean whether it's a person, you know, tearing down their house and building a new one or doing any number of things to -- to renew and improve their property which may not happen on a two (2) or three (3) year cycle but may in fact happen on a much longer twenty (20) or thirty (30) year cycle like road repair or sewage repair, et cetera; is that fair?

MR. DAVID PETURSSON: Yes. If we're looking at renewal from a very broad sense where you

could be dealing with -- with rehabilitation of roads or sewers or anything on property, the one (1) aspect with the four (4) party trench and having the gas located 400 millimetres, you know, from the electric plant consistently in the ground is overall the shallow utilities are taking a -- a smaller footprint and occupying, you know, less space in the ground which actually would leave more room for any kind of future renewal, either of shallow utilities and -- and less of a footprint, it would just give more room to work for other sorts of rehabilitations.

MR. IVAN HOLLOWAY: Would it be fair to say that City of Winnipeg or City of Brandon crew who does street repairs, sewer and waterworks and so on would be more experienced and more equipped to handle a -- a strike on -- on a gas line as opposed to a homeowner that decides to build a fence and -- and hits a gas line; is that fair to say?

MR. DAVID PETURSSON: I think the gas company is far more equipped to handle the damages as long as we're alerted to it by -- by any party that does the damage. We don't consider the City or any contractors as really equipped or capable of handling damages directly.

MR. IVAN HOLLOWAY: So essentially your

answer is "yes;" is that fair?

MR. DAVID PETURSSON: I'd say more my answer is "no," they are not equipped to handle damages than, you know, contractors. The City, or homeowners really are not equipped to handle damages; the gas company is.

MR. IVAN HOLLOWAY: So you're saying that the average homeowner John or Jane who fancies himself a fence builder goes out in the back -- in their front yard and, you know, bores a hole and hits a line and something happens is equally as capable of handling the -- out -- the impact of that as -- as a -- as a City of Winnipeg crew that does this for a living five (5) days a week, is -- is boring underground and -- and is, you know, much more aware of the hazards and so on?

(BRIEF PAUSE)

MR. DAVID PETURSSON: Well, neither party, neither the City nor a homeowner is equipped, trained or capable to handle the damage themselves. Our expectation is they would be more than capable of phoning the -- the gas company for us to come and handle the situation and effect the repair.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Do you have any breakdown in terms of injuries? I think Mr. Peters touched upon this before. The issue is not just the number of -- of strikes or damage, accidental damages to -- to the plant but also the injuries that result from that.

Do you have any statistics on injuries that have happened from accidental strike of a physical plant?

MR. BRENT CZARNECKI: Mr. Chairman, maybe if he could be more specific, either four (4) party or within Manitoba. I think it's been clear on the record earlier that of the nine (9) hits that we do know with four (4) party, that there was no personal injuries that were observed.

So I'm not sure what Mr. Holloway is in fact questioning on.

THE CHAIRPERSON: Mr. Holloway...?

CONTINUED BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: I'm actually referring to the conventional method in Manitoba, not necessarily, but I'm specifically referring to

conventional method in Manitoba.

(BRIEF PAUSE)

MR. DAVID PETURSSON: There have been some instances where property damage has occurred but we do not directly track those. We note them but we just don't have any reportable numbers to present.

One (1) thing though just to follow up. It should be noted that the -- quite often a lot of these damages that did occur on the four (4) party and often on conventional occur earlier, at the time of initial construction. And, you know, where the -- in a case like that they -- they happen and they get dealt with, they get repaired, and then -- but on an ongoing basis, you know, damages are less likely.

MR. IVAN HOLLOWAY: Let's talk about stubbing for a moment. As I understand stubbing, and please correct me if I'm wrong, it -- it's a short branch off from the main line prior to being attached to a house that is put in to -- or at least the end of it is put in to a wooden box with a marker underground so that when it's to be connected in the future it's something that's accessible without likely damage happening to the gas main.

Is that right?

MR. DAVID PETURSSON: That is correct.

MR. IVAN HOLLOWAY: And this is something that I think has been repeatedly attributed to or as a new benefit to four (4) party trenching. It's not clear to me why stubbing in this method could not also be done under single party trenching.

Could you tell us why that is?

MR. DAVID PETURSSON: There would really be no benefit to doing it under single party. If we had the -- if we wanted to put in a gas stub on -- to bring the gas line from a conventional alignment and stub it on to property, to the same point, we would still then be digging around the electrical cables in order to extend that stub; that is one (1) hazard that we would still incur regardless if we tried stubbing on conventional.

And the other aspect is on conventional we would be -- we do not have an easement on the property in order to locate these stubs, whereas on the four (4) party we do have an easement to locate these stubs.

MR. IVAN HOLLOWAY: And why wouldn't you be able to get an easement for this -- the single party?

MR. DAVID PETURSSON: If I could just finish on that previous question. The other is on a conventional we have the long services, if we want to

stub those, it would require a -- a rather long stub going underneath the road on to the property.

And if we're going to take it that far you might as well keep it going all the way to the house. Stubbing likely would not be cost-effective.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Are the fact that there's mains and services on private individuals' properties, is it going to have a -- what effect is it going to have on -- on their yards being dug up every whatever time that it might be in order to repair the -- the plant or -- or test it or renew it, or things like that?

Is there any concern from a homeowner's perspective that having this gas main on their property, they're likely going to have it dug up on a -- on a greater than usual basis?

MR. DAVID PETURSSON: I would not expect so. One of the primary reasons for digging up plant is to repair damages and the intent would be for four (4) party, is that with a reduction in damages we would expect to see less excavation required to repair those damages.

Down the road, if there is renewal of the plant, then of course we'd have to look at renewing the plant. With our -- the present materials we use, we expect that to be very, very far in the future.

MR. IVAN HOLLOWAY: If there is an accidental strike on a -- on a gas main on someone's property, I guess unlike a -- a service to the property, it could have the effect of affecting the rest of the block, is that fair, or the rest of the street?

(BRIEF PAUSE)

MR. DAVID PETURSSON: Well, it could, depending on the reason for which the gas line was excavated. Do I understand the question right?

MR. IVAN HOLLOWAY: Well, if -- if there's -- someone's drilling, you know, to -- to put in a tree or something like that and they -- they hit a gas line and the gas starts to leak, I presume it's more -- there's a greater likelihood than if it's just a service that -- that that leak could affect anyone else down the line from the gas main.

Is that right?

MR. DAVID PETURSSON: I don't believe that it would, not directly. If it was a, like, drilling

to put in a tree or excavation, typical excavation in a yard, the gas itself would simply escape to the atmosphere. It might stink up the neighbourhood a little but it would escape to the atmosphere and in that way not directly impact somebody.

If we -- to repair it there may be a -- a temporary shutdown of gas service to repair the leak and repair the damage, but then we would repair -- or restore service, much as we do conventionally now.

One (1) thing that I'd like to point out though too is a perception of homeowners as to where their property line is and the view of their front yard.

Right now there's a lot of consternation on conventional installations by some homeowners. When we go to install a long service across the street and we show up and we dig a hole, albeit on public property but, you know, for all outwards appearances in somebody's front yard, this big, gaping hole in their yard to tie in the gas service across the street.

And some homeowners really don't take too kindly to coming home from work and seeing a, you know, a big -- a big hole in their front yard.

That sort of invasive approach is going to be avoided because of all the service stubs and avoidance of the long services.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I'd like to refer you to PUB Centra's answer to IR-13B.

MR. ROBIN WIENS: Could you give us a page reference on that, please?

MR. IVAN HOLLOWAY: When I find it myself, I will.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I'm not sure if this is in your materials, Mr. Peters, in which you have the pages numbered.

The IRs that I have, that I went off of originally don't have consistent page numbers, except it's 1 of 13, IR question 13B. Sorry, 2 of 13.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Just for the record, I'd like to read part of the answer here and I'll ask a question on it.

"The installation costs of the gas

plant, whether in the conventional or four (4) party method is dependent on the amount of plant needed to service the sub-division. The difference in the amount of plant required between the conventional and four (4) party method dictates to a large extent the difference in cost."

I find that -- I think, Mr. Peters referred to this in his cross to some extent. I find that statement somewhat surprising, I guess, compared to the tenor and direction of most of the other information that we're receiving in that -- that the material is not that much of a factor, that it's really other factors such as, you know, the work structure optimization and so on.

I'm wondering if there's an explanation for that?

(BRIEF PAUSE)

MR. DOUG KROEKER: That part of the response refers to the fact that as a sub-divisions -- or the larger sub-divisions will definitely attract or require more material and then, of course, there's more

installation, labour, et cetera, required to install that material.

And -- and so that can lead to some differences when compared to conventional.

(BRIEF PAUSE)

MR. DOUG KROEKER: And that's, of course, depending on the layout of the sub-division and, you know, as we move forward to optimize, we expect that those differences are going to come down.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: But the optimization won't have any impact on the amount of plant required though, right?

(BRIEF PAUSE)

MR. DOUG KROEKER: No, not -- it's not -- optimization is going to have little impact on the plant. There may be something that we might learn about design down the road that we haven't seen today that might cause us to change something but -- but we don't expect much

change in the amount of material but we do expect to be able to get more efficient on the installation of that and to be able to lower the costs, as well as to reduce the level of inspection which again would bring the costs down of four (4) party closer to conventional and reach the parity that we're targeting for.

MR. ROBIN WIENS: I -- I think the point here is that whether we're optimized or not there are going to be differences in costs relative to conventional that depend on the configuration.

In those situations that have significantly more material under the four (4) party method we're probably not going to be able to get under the cost of conventional. In those that have a similar amount of material, once we're optimized we hope to be significantly under the cost of conventional.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: When the Panel referred before and I -- forgive me, I can't remember which witness it was, it might have -- it might have been a few of you -- said that we hope to reach parity on terms of cost some time in the future, maybe within the next year or a couple of years, when you're saying

"parity," do you mean parity between what it would be estimated of the conventional cost and what the actual cost of the four (4) party is?

I mean, I assume that's what it is in part but does that also include parity in terms of all the extra costs that have been incurred to-date and may be incurred in the future that are extra? Does parity include a factor in of those extra expenses?

MR. DOUG KROEKER: Are you referring to the seven hundred and eighty-eight thousand (788,000) as an example that we've incurred to date?

MR. IVAN HOLLOWAY: Yes.

MR. DOUG KROEKER: No, going forward our definition of parity is once the process is fully optimized that the average cost of four (4) party, if we look at a year in history the average cost of the projects completed on a four (4) party would be equal to what they would have been done under conventional, but there'll be no recovery or I should say the seven hundred and eighty-eight thousand (788,000) was not factored into that or not included in that parity.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I'd like to talk

about the costs for the inspection for a moment. That appears to be a significant cost in the process.

And my -- I guess my first basic question is, what is it in -- in the -- in the current system of -- of having a contractor as opposed to an internal crew that an inspector cannot either be trained as one (1) of the contractors who's already working on it or something like a model you were talking about which you hope to achieve or there would be an audit system of the contractor.

Why can that not be placed in the current contractor system as opposed to just something that could only be done under the in-house system?

MR. DOUG KROEKER: The -- I guess you could move to a model under a scenario whereby we use contractor personnel for installations that we do less inspection. We've tried that in various ways in the past, moving away from inspection during construction to audit and inspection of contractors' work after the fact and we haven't had a favourable experience with some of that and so we're reluctant to expand on that. Well, I guess it, you know, it could be an option for some.

MR. IVAN HOLLOWAY: Can you elaborate on the not being a favourable experience?

MR. DOUG KROEKER: We had situations with

one (1) of our transmission lines in the past, as an example, whereby we relied more heavily on some of the inspection after the fact and we ended up with a number of quality control issues on that project and on that pipeline that required significant remedial action.

MR. IVAN HOLLOWAY: And can you explain why you think those problems were just specific to or endemic, I guess, to the structure of contractors or is this something that could be just specific to that individual contractor?

MR. DOUG KROEKER: I don't think it's just specific to that individual contractor. I think that -- that there is a need with any contractor performing any type of work, whether it's on our gas lines or if it's the City of Winnipeg building streets, or it's Qualico constructing homes, there is a need for the inspection of the contractors, and it's certainly not -- not specific to our contractors working on our pipelines.

MR. IVAN HOLLOWAY: I'm not sure I quite follow. I'm not sure if it's an issue of -- of the, you know, contractors or, you know, there's an inherent trust issue because they're arm's length and they're not employee, or -- or what exactly is -- I'm just not following why there would be an extra requirement to

supervise a contractor, all things being equal, than an internal employee.

MR. DOUG KROEKER: At the heart of it, it probably does boil down to -- I don't know if it's the trust factor but it may boil down to the pride factor that I have certainly seen over time, that the employees that work for us, that work on our system take an increased pride in their work than a contractor that may be hired for a short period of time for a company that is not Manitoba Hydro or Centra, and then move on.

So I think that our employees are -- take an increased pride in their work. They're here for the long term. And that contributes to better quality and contributes to the fact that we find that we don't need to inspect internal employees and crews to the same level that we need to inspect external contractors.

MR. IVAN HOLLOWAY: But isn't there a way of being able to keep your contractors accountable? I mean, there's a number of ways I can think of. You know, if they do something wrong you could take them to Court, you could -- you could just not hire them again, you could, you know, refuse to -- to pay them the full amount of -- of their contract.

I mean, is there -- is there not other ways that we could kind of pursue that would keep the

contractor more accountable?

MR. DOUG KROEKER: There are certainly other ways, some of the ones that you've just described, to me, certainly don't sound easier and may not even be more cost-effective than the method of inspection. Doing -- ensuring the work is done right when the work is completed is a -- is a far easier process than trying to go back after the fact and -- and correct it and then deal with contractor through penalties or litigations.

MR. IVAN HOLLOWAY: I'd like to refer you to IR -- PUB/CENTRA IR-13, the question and answer, 13C on page 4 of 13.

MR. DOUG KROEKER: Sorry. Could you repeat the reference, Mr. Holloway?

MR. IVAN HOLLOWAY: Sorry. It's PUB/CENTRA IR question/answer 13C, page 4 of 13.

MR. DOUG KROEKER: Okay. I have it. Thank you.

MR. IVAN HOLLOWAY: I'm looking at the inspection costs under the conventional and it's seventy-eight hundred -- roughly seventy-eight hundred dollars ($7,800) and under the four (4) party it's fifty-five thousand (55,000), at least for the Royalwoods project.

It seems to me that the contractors and from your -- from previous evidence is that the

contractors were used to do the -- the conventional system, that their inspection requirements were relatively minimal.

Can you explain that?

MR. DOUG KROEKER: Certainly the cost to inspect the conventional main construction for gas or -- are a lot lower than the four (4) party and that relates primarily to the amount of plant to be installed up front for four (4) party versus conventional.

On the conventional main installation that's shown here in this response and the costs associated with it are for a contractor to trench in or plough in a distribution main on one side of a road and the inspection costs are for that and do not include any of the services going off.

Conversely with the four (4) party, it's installing the distribution main along one side of the road, the service that are crossing the road and the service header on the other side of the road, along with all of the service stubs.

And so as a result, in the conventional method a contractor might progress along to do fifteen (15), twenty (20) or even thirty (30) lots in a day to put a distribution main in front of that many lots or possibly more.

And therefore, the inspection costs associated with those lots are much lower individually than when you look at a four (4) party crew that has much more plant to put in and they are servicing approximately five (5) lots a day.

And so there's just more days required on site for a four (4) party crew to complete the installation of all of the plant.

You know, there's electric cables to go in; there's Shaw and MTS at the same time as the gas line, and so they're getting five (5) lots a day instead of thirty (30) and therefore the number of days on site goes up and so does the inspection costs.

THE CHAIRPERSON: Mr. Kroeker, didn't you say before that the -- initially through your test and piloting of four (4) party, the inspection costs would be higher than they will be in the long haul?

MR. DOUG KROEKER: Yes. We're expecting our inspection costs to drop off. We're going to move to a different model using in-house crews and we expect them to dramatically drop off.

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: Is part of those -- that drop off from your new model of the in-house crew, is part of that due to a system of auditing as opposed to a continual system of -- of inspection of everything that's happening?

MR. DOUG KROEKER: Yes, that's correct. Using in-house crews and then auditing their work.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Do you have an estimate on a project like Royalwoods as to how much -- I mean, currently we have fifty-five thousand dollars ($55,000) allocated for the four (4) party system to inspection.

Do you have a sense under a similar type of project what the inspection costs would be under the ideal optimized internal system?

(BRIEF PAUSE)

MR. DOUG KROEKER: No, I don't have those numbers available. We have never turned out an estimate like that.

MR. IVAN HOLLOWAY: You don't have any ball park sense? There's no one on the panel who could provide a ball park sense?

I mean, there seems to be a lot of confidence that this is going to -- this system is going to decrease that cost.

I'm assuming that, given there's a lot of confidence in that, that there would be some sense of how much the cost would be decreased?

(BRIEF PAUSE)

MR. DOUG KROEKER: Actually, I -- we may have some numbers here that we can take a look at. If I refer you to the exhibit handed out by Mr. Peters, I believe it's Exhibit number 1, page 24 is a reference to Centra's December 15th of 2005, report.

MR. IVAN HOLLOWAY: Sorry, what page is that?

MR. DOUG KROEKER: Page 24.

MR. ROBIN WIENS: I believe that page 24 is Mr. Peters' numbering of that exhibit.

(BRIEF PAUSE)

MR. DOUG KROEKER: And as you can see in the -- we've got three (3) columns there; conventional, single party estimated, actual cost for the Royalwoods, which I would suggest were after some adjustment and then our projected four (4) party costs are in the right-hand column. And with inspection there for this example we show them dropping from forty-nine thousand six eighty (49,680) down to eight thousand two eighty-one (8,281).

MR. IVAN HOLLOWAY: And I also noticed those inspection costs are actually slightly less for the four (4) party concept as opposed to for the conventional party -- single party estimate; do you see that?

THE CHAIRPERSON: Mr. Holloway, I'm wondering whether you have a further estimate of the time remaining in your cross?

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I don't think it'll be much longer, Mr. Chairman, ten (10) minutes maybe.

THE CHAIRPERSON: Thank you.

MR. DOUG KROEKER: To answer your question the -- the cost there, the eighty-two hundred (8,200) is just slightly lower than what's in the conventional. That includes -- the eighty-two hundred

(8,200) and it's factored it there, includes the cost for the auditing that we have talked about here today and as well it includes some of the time of the foreman and lead hand, you know, in recognition of their responsibilities in the area of ensuring the quality of the work of their crews.

CONTINUED BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: But that also tells me given that the relatively similar nine thousand two hundred (9,200), eight thousand two hundred (8,200) that -- that it wouldn't be much -- that the amount of plant wouldn't be much of a factor.

There would be other factors; is that fair to say?

MR. DOUG KROEKER: Are you suggesting -- I'm -- I'm trying to follow the question, Mr. Holloway. Are you suggesting that -- to me that the amount of plant installed is not a direct relation to inspection costs; is that what you were suggesting?

MR. IVAN HOLLOWAY: Well, part of my understanding of your -- of your answer to me originally as to what the difference in cost from a single party to the four (4) party under the Royalwoods project was that at least, in part, there were differences in terms of the

amount of plant and so on that would cause, all things being equal, more inspection and -- and so on.

But it seems to me based upon these numbers that in fact that those other characteristics are almost nonexistent because they're almost identical numbers?

MR. DOUG KROEKER: No, it's -- as it -- as it relates to the inspection our hope as we move towards parity in the area of costs for four (4) party, it's important for us to reduce out costs of inspection in order to be able to reach parity.

In this example it's important to drop the costs from forty-nine thousand six hundred (49,600) down to eighty-two hundred (8,200) and that will deliver in this example forty-one thousand dollars ($41,000) in savings that will help us reach parity with four (4) party costs.

If you do look at this example shown here and the combined total at the bottom, even with inspection costs being close to that of conventional we still show a bottom line savings in four (4) party. Our projected costs for four (4) party a hundred and fifteen thousand (115,000) and conventional estimated is one twenty-eight -- a hundred and twenty-eight thousand (128,000). So even though inspection costs are similar

to conventional we still have achieved our parity goal.

And so by reference earlier with the high cost of inspections, trying to reduce it from what we're currently experiencing on four (4) party to -- to something less than that.

MR. IVAN HOLLOWAY: And I guess that's part of what I'm getting it. If I can refer you back to that IR 13, page 4 of 13 which is the -- as I understand it is the most updated estimate of the -- of the costs of the four (4) party under the Royalwoods. Fifty-five thousand dollars ($55,000) is allocated to inspection and if -- and granted what you said before that, you know, it's -- it's -- Centra doesn't seem to want to go down the path of making its inspector -- or making its contractors more accountable by other purposes, but it seems to me that if you could reduce that fifty-five thousand dollars ($55,000) down to eighty-two hundred dollars ($8,200) which in my quick math is it's -- that would be a reduction of forty-seven thousand dollars ($47,000) and change.

You minus that from your bottom line, that you're actually -- your conventional system and your four (4) party system are virtually equal, and if not, your -- your four (4) party system is less expensive.

MR. DOUG KROEKER: Oh, it's -- you're

right on the money I think, Mr. Holloway. If we could reduce the cost of inspection for four (4) party we would be at parity with the conventional certainly.

MR. IVAN HOLLOWAY: But doesn't that just kind of directly lead to the point that -- that perhaps it's worth looking into making your contractors, as opposed to just changing the whole system, making your contractors more accountable, looking at that kind of more seriously, because the -- the potential savings are just so great?

MR. DOUG KROEKER: If we weren't, I think -- I think you may be suggesting inspection on -- on our current method of installation. On conventional the cost shown on that same page of the same reference is only seventy-eight hundred and forty-nine dollars ($7,849). So there's not a lot of room in there for savings.

We could change our inspection model with a contractor to attempt to make them more accountable for their work. I'm sure there would be some after-the-fact costs that would chew up some of those savings in the way of litigations and claims and time to deal with some remedial actions, et cetera.

But it's -- to move to that kind of a model on our current conventional model only allows us to save a portion of the seventy-eight hundred (7,800),

which I'm not sure is worth the risk of going after.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Atco in Alberta and Enbridge in Ontario use contractors for their four (4) party systems; right?

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: It's actually in your IR number 9, page 1 of 2, at the bottom.

MR. DAVID PETURSSON: Yes, they do.

MR. IVAN HOLLOWAY: I notice also, if you look at page 2 of your response to Information Request that Enbridge, which uses contractors for their four (4) party, according to your answer, saves approximately twenty (20) to 30 percent on their conventional and Atco saves approximately 10 percent.

I'm just wondering that given that they use contractors and given that they have such savings, that if there's been, you know, what attempt has been made to try to duplicate the type of system that they have in place?

MR. DAVID PETURSSON: Those are two (2)

facts and -- or that we've received from these companies when we enquired about this, but I do not see that they are directly related. There's no -- I don't know of the correlation that they -- they have cost savings because they use contractors or it may be due to a number of other factors.

Our hope was that -- or our expectation is cost parity and our hope is that we'll do better than cost parity and -- and show a cost savings when we get fully optimized in our four (4) party operation.

MR. IVAN HOLLOWAY: But clearly these are two (2) utilities that have used this and -- and seem to have used it successfully.

Wouldn't it be advantageous to take a look at a more closer level as to what they've done, how they've done it, to -- to achieve their ostensible success before one makes, you know, the radical change of -- of going to internal crews and buying a whole bunch of capital equipment?

I mean, would that be something that's kind of important to investigate?

MR. DAVID PETURSSON: Part of it is, like, report of cost savings. Now, that's a cost savings that they report from earlier but we do not know the basis of their previous cost experience and -- and the

fact that they use contractors is only one (1) aspect of their present cost experience.

We definitely want to learn from every place we can to help us do our work better and we are continually keeping our eyes open to see what we can learn from others.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Holloway, I think if you've got suggestions with respect to their overall approach to in-house as opposed to external you could relate to them in your final remarks.

I think you've made your point.

MR. IVAN HOLLOWAY: Yeah, thank you, Mr. Chairman. I have nothing really more to ask.

THE CHAIRPERSON: Thank you, Mr. Holloway.

Mr. Boyd, do you have anything..?

MR. SANDY BOYD: No, I have no questions.

THE CHAIRPERSON: Thank you. Mr. Czarnecki, do you have any re-direct of your panel?

RE-DIRECT EXAMINATION BY MR. BRENT CZARNECKI:

MR. BRENT CZARNECKI: I do, Mr. Chairman,

and it'll be very brief. It's just relating to one (1) area.

I'd just like to re-direct the panel to the area which relates to the adjusted actual four (4) party costs that we've spoke about and to ensure everyone has a clear understanding of how those costs were determined.

Now, Mr. Kroeker, would you please refer to page 66 of Centra Exhibit 1?

MR. DOUG KROEKER: I have the reference.

MR. BRENT CZARNECKI: And could you please describe how the total four (4) party costs were determined?

(BRIEF PAUSE)

MR. DOUG KROEKER: As I discussed earlier, Centra completed an in-depth analysis of nine (9) of those sixty (60) projects that are shown.

And, based on that analysis, it was determined that the costs included in the work orders were 5 percent higher than they should have been, because of charges to incorrect work orders, et cetera.

As a result, the work orders of the remaining fifty-one (51) projects were adjusted to

reflect the findings of the in-depth analysis and the costs shown in the column entitled "Total Four (4) Party" have been reduced by that 5 percent.

MR. BRENT CZARNECKI: And then next, Mr. Kroeker, Mr. Peters referred you to the response to PUB/Centra 13 and specifically page 4 of 13.

MR. DOUG KROEKER: Okay, I have the reference.

MR. BRENT CZARNECKI: And you had indicated that material costs had been adjusted.

Can you please explain how that relates to the adjusted costs which we just went through on page 66?

MR. DOUG KROEKER: The tables shown here in -- on page 4 of 13 of PUB/Centra-13 is really the detail associated with one of the projects listed in Appendix A which is page 66 of exhibit 1.

It provides a breakdown of the 5 percent adjustment we've discussed. The example of material demonstrates one (1) component of the adjustments that were made as a result of the in-depth analysis. This is one (1) component of the total 5 percent adjustment.

The costs depicted do not represent an average of construction costs, but rather the cost of each project were adjusted by 5 percent to reflect the findings of our in-depth analysis.

Thank you.

MR. BRENT CZARNECKI: Thank you, Mr. Kroeker. Mr. Chairman, that's all for our re-direct.

THE CHAIRPERSON: Very good. Mr. Peters, do you have any closing remarks?

CLOSING REMARKS BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you, Mr. Chairman. I will be brief. I will take no position on the application but I will try to summarize certain aspects that the Board may find key.

I believe the Board was introduced to the four (4) party trench construction technique back at the 19 -- back at the 2005 General Rate Application for this Utility and apparently it's a new technique for Manitoba related to gas mains.

The Board looked at four (4) party trench from the perspectives of safety and of costs and reflected its findings in its Board Orders 103/05 and 135/05.

From the safety perspective, we have heard from the Company that Centra acknowledges that it carries the responsibility to design and create and operate safely its gas distribution system.

In terms of where four (4) party trench

and safety cross, I believe the witnesses have also testified that, in their view, the four (4) party trench installations of mains will be safer relative to conventional costs of main installations.

I noted five (5) reasons; the transcript will bear me out or correct me, and one (1) of them was the verifiable separation between the utility's -- the various utility's plants.

Secondly, there's the simultaneous installation, and that includes the installation of plant when it's un-energized and it also includes reduced need for crossing of other utility's plants.

The third reason related to safety was the elimination of long services under the roadway and what that may or may not contribute to safety concerns.

Fourthly, was the use of the stubs to start the service installations to dwelling. And fifthly, there was a reduced need to excavate an exposed plant during construction using the four (4) party trench methodology.

When I look at my notes from questions as to costs it may be that from the GRA, when this was last visited, to now there may have been some evolution in terms of the assessment of costs such that now Centra expects cost parity on average between four (4) party

trench and conventional installations. And perhaps depending on the specific design, there may be up to a 20 percent savings on some of those projects.

In terms of what this Board is being asked to do by the Utility, and I'm sure Mr. Czarnecki will address this in his comments, but it appears to me that Centra wants to continue to optimize its four (4) party trench installation process and defend its costs after March 31 of 2009.

I perceive, and I guess subject to Centra's counsel's comments, that the Board directive in Order 10/06 that makes the company nervous or apprehensive or uncertain, has to do with the end date after which the Board indicated four (4) party trench would not be permitted if the Board was not satisfied as to the merits of this new -- this new construction.

And I surmise, again subject to being corrected by Centra's counsel, that removing that defined end date would alleviate the Utility's concerns and still make Centra defend its costs after March 31 of 2009.

The Board will need to consider the safety and cost issues, and also consider directive number 9 from Order 10/06 and whether that directive needs removal or refinement based on the evidence it has heard in this Hearing.

As for the timing of the Board Order, I always surmise at these hearings that the earlier the better, and in this case the earlier the better would mean providing certainty on this matter. If four (4) party trench is not supported by the Board going forward, then Centra can plan accordingly. If four (4) party trench is supported by the Board going forward, Centra can also plan accordingly, which includes the expenditure of capital dollars for equipment, the training of staff and new hirings needed to optimize the four (4) party trench construction process.

So, in conclusion, I suggest you turn to CAC/MSOS's counsel for Mr. Holloway's closing submissions, and then to determine if Mr. Boyd has closing comments, representing CEPU Local 681, and then finally to Mr. Czarnecki for Centra's closing comments.

And in terms of a last comment I will apologize if I have pronounced incorrectly any of the witnesses' names. Having spent the weekend in Winkler and remember my heritage, I apologize to Mr. Kroeker if I have -- have misspoken. And, Mr. Petursson, I don't know how I could pronounce your name incorrectly, recognizing its root.

So, thank you. Thank you.

THE CHAIRPERSON: Thank you, Mr. Peters.

And thank you for this assistance in this matter, as well as our other advisors.

Now, we'll move on to Mr. Holloway. Do you have any closing remarks?

MR. IVAN HOLLOWAY: I will, Mr. Chairman. I'm in a bit of a difficult situation because I need to get instructions from my client in terms of the exact position.

We were going to wait for the evidence to come out before we were going to take a final position on things. I have their cell numbers. They weren't able to be in attendance today. I'm wondering if I could have leave to have, you know, five (5), eight (8) minutes to be able to contact them via cell.

THE CHAIRPERSON: Okay. We'll come back to you in a second.

Mr. Boyd, do you have anything?

MR. SANDY BOYD: No, I do not.

THE CHAIRPERSON: Our normal practice is to allow Mr. Czarnecki to bat clean-up but in this case we'll delay for ten (10) minutes if you want to make your phone call. Thank you.

MR. IVAN HOLLOWAY: Thank you.

--- Upon recessing at 3:53 p.m.

--- Upon resuming at 4:08 p.m.

THE CHAIRPERSON: Okay, Mr. Holloway, any time you're ready.

FINAL SUBMISSIONS BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: Thank you, Mr. Chairman. The position that CAC/MSOS is taking on this matter after having had an opportunity to review and test the evidence is that we don't believe the Board is in a position to be able to give Centra Gas a carte blanche green light to go ahead and -- and pursue its optimization process as it has requested.

And the -- the reason for that is that this project I think it's fair to say has been plagued with numerous mis-estimations from the beginning. The initial estimations were that this was going to be a neutral cost saving to a 25 percent cost saving; that hasn't panned out.

The initial reasons given for that began with the fact that this was in the beginning stages, that there were some kinks to be ironed out, that there was some -- some startup costs, engineering and so on in order to -- to get the project on track. And -- and that made a certain amount of intuitive sense but clearly

there's something more to it than that.

The -- the Royalwoods Project I think by the latest numbers was 24 percent over what it would have been for the -- in the -- in the four (4) party method as opposed to what it likely would have been under the one (1) party method.

That was the second project. We're at sixty-six (66) now and we're averaging, if I have this correctly, 31 percent over. And I can be corrected if I have those numbers wrong but I believe I'm right. Surely there should have been some greater increase in efficiency from -- from the second project to, you know, the -- the bulk of the sixty-six (66) projects and that clearly hasn't happened.

The -- the new or the -- the more recent reason for that that's been presented to us is that there needs to be internal crews, largely as I understand it and -- and I know there's more nuance in this but largely there needs to be this optimization process which needs internal employed people of Centra Gas and Manitoba Hydro that can do this work and that -- and it's the contractors and the inspection of the contractors and so on is what is causing these cost overruns and if we can buy the capital equipment, if we can -- if we can do this in-house we will be able to provide the cost savings or

at least likely provide the cost savings that -- that we were hoping to provide in the beginning.

And I submit that, number 1, I don't want to be disrespectful but there's a certain -- there's a certain credibility issue that plays into -- into effect here, that -- and I think it ties in to the -- the appearance that there doesn't seem to be real investigation into how to put this process together.

The idea of four (4) party trenching intuitively has some sense to it, and I'm going to grant that. There's been jurisdictions, Ontario, Alberta, that have done this. They appear to have done it successfully.

It's not clear to me why there wasn't more -- both two (2) years ago, three (3) years ago and today -- why there hasn't been more effort to find out exactly how they do what they do and if they're -- if they're successful or if they're not, although they appear to be successful, what is it and what they're doing.

It seems to me before we embark upon a holus bolus new arrangement, that that further kind of basic type of investigation is paramount, and it hasn't happened as far as I can see.

It's being offered up that internal crews that be more cost-effective than a contractor crew. It

hasn't been offered as to -- as far as I can see in the record, as to why that is. There hasn't been a detailed analysis presented to us as to what a -- an internal crew is capable of doing and why it's capable of doing it better than a contracting crew.

I mean, clearly a contracting crew has all these costs, you know, they have the cost of the amortization of their equipment, their operation and maintenance, their labour and so on. They have similar costs that an internal system would have. It's not clear as to why that would be in and of itself that much of a saving.

And the fact that these -- this work under the one (1) party trench has been done by contractors for, as I understand it, decades, it kind of lends support more to it not being a contracting issue but being something other than a contracting issue. What it is, I'm not entirely sure.

The -- but I think it's something that should be explored. I don't think it has been explored in -- in the requisite depth that it ought to be in order to determine, you know, what the real root cause of why these cost overruns are occurring.

In my cross-examination I focussed on -- one (1) of the things I focussed on was the -- the

inspection costs and -- and this was one of -- this was a relatively large cost that was happening on -- on the particular project that we were observing as an example, which is the Royalwoods project. A cost that's -- that's fifty-five thousand (55,000) out of a project that's two hundred and twelve thousand (212,000), when under the optimized approach it could be eighty-two hundred (8,200).

The -- and the explanation provided that -- that, you know, we can't reduce these -- these inspection costs for a contractor because, you know, there's something that -- an internal workforce takes more pride in their work and -- and, kind of, arguments of that nature, with respect, don't seem to have -- don't seem to have a lot of force and effect.

I don't see why the regular incentives that any professional contractor has to do their job properly, whatever they are, whether it's a bonus system or a -- or a penalty system, should not and cannot be implemented in this particular case here. And I don't think the Board has been given a proper explanation as to why that can't happen.

And I -- I am focussing on -- on inspection costs to some extent, but the fact of the matter is, is that, as I -- I tried to point out in my

cross-examination, if you were able to reduce these inspection costs by what it would be under the optimized situation, if you were able to have a -- an auditing process or something like that and drastically reduce them, let's say by, you know, in this particular case, forty (40) or forty-five thousand dollars ($45,000), you would be at cost parity.

You would be at cost parity between the four (4) party and the single party system without having to go through the monumental task of -- of training all -- training a whole bunch of workforce, buying a whole bunch of capital equipment and all the incidentals that would be involved in putting together an internal crew.

With respect to safety, you know, clearly there -- there's been -- there's been, and in terms of less likelihood of damage for street repairs and sewage repairs, in terms of the connecting of the -- of the -- of the plant to the house, clearly there's been evidence has been put forward that favours the four (4) party trench over the single party trench.

The concern that CAC and MSOS have is that the -- essentially the bulk of the plant is being moved from public property onto private property and that, I think as was acknowledged in cross-examination, that all things being equal, a home owner on his -- on his -- on

his property or a contractor after the fact drilling around -- all things being equal, if there's more plant on a given space there's more chance that it's going to be hit.

The numbers have borne that out, although it's hard to -- it's perhaps not entirely fair because the numbers haven't been out for a long time and that they -- they specifically deal with -- with when the plant was put in place the first time.

But nonetheless, the point is that -- is that -- that the gas mains are capable of being struck on private property, the likelihood is is that's going to increase because, and I'm not talking about necessarily the -- the damages incurred as a result of placing the material on -- on private property but as a result of anything done on private property after the fact, whether it be an outside contractor, a homeowner or whoever.

I submit to you that all things being equal, that's -- there's a greater chance of -- there's -- there's greater amount -- there's a greater likelihood of strikes as a result of that, just simply that, that wasn't captured in -- in the safety analysis that was presented to the Board that would occur under this four (4) party process.

And -- and the concern with that, and I

know it's the evidence of -- of the -- of -- of -- I believe it was Mr. -- Mr. Petursson, that a homeowner is probably no better or worse able to handle a -- an accidental gas strike than a City of Winnipeg or a City of Brandon crew -- street crew.

I respectfully disagree and I submit to the Board that that's not reasonable, that the street crew who's trained in safety presumably trained in safely -- safety who's used to -- who's job is to bore underground on a regular basis, who has safety equipment at his or her disposal, who has, you know, foremen and so on, has got all the contacts at their fingertips to Centra and hydro and so on, that that crew is much more capable of handling a disaster in which a gas line is struck than a homeowner, Jack or Jane homeowner who fancies themselves a -- a fence builder or a -- or a deck builder or a what have you that strikes a gas main and something happens.

And that the -- the -- the -- the -- not only is there increased possibility given that there's more plant underground but the potential effect of a strike on those -- that particular segment of the population, theoretically at least, could be more devastating.

Unfortunately, we don't have -- we don't

have facts or statistics that -- that -- that break down what the nature of injuries are when it comes to gas line breakage and I think it's unfortunate and it would be helpful to the Board to have that.

But, I mean, clearly, from one's day to day experience and knowledge of these things, someone who's smoking and -- and, you know, digging a trench in their back yard, having a couple of beers, you know, could put themselves at a lot greater risk than, you know, by -- by hitting -- by hitting a gas line, putting themselves at serious risk and at a heightened risk because there are simply more gas lines in their property than there was before.

And I don't think -- I know that the evidence of the witnesses were that while there's -- there's, you know, easements and -- and the fact that they know there's -- there's, you know, electrical works underground, that they're more likely going to be aware of the fact there's a gas main on the property, but the reality is that people don't go to their local land titles office and have a very good sense of what exactly are the easements on their property.

People have busy lives and so on and -- and the reality is, is there's going to be a portion out of any given number of people that decide that they're

going to build themselves something or do something and, you know, there's going to be a portion of those that aren't going to call before they dig and there's going to be a portion of those that are going to strike the equipment. And it's almost -- it's almost a sure thing.

The fact that there's more of this stuff in the ground than -- than before I -- I submit means that that likelihood is going to happen more and that these are the most vulnerable of the public. The City crews and the -- and the sewer and water crews and -- and the -- and the electrical crews and the -- and the gas crews -- they're not the most vulnerable. It's -- it's the homeowner and perhaps even the -- the average fence contractor.

So I submit that -- that there may be safety benefits in some areas. It's not clear that those safety benefits are in all areas. And it's certainly not clear that -- that the safety concern has not been shifted essentially from one (1) set of -- of our society to another set of our society who, in my respectful submission, is probably less capable of being able to handle it than who's handling it right now.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Subject to any questions you have, Mr. Chairman, Mr. -- Chairman, Member Molgat, that -- that's my submission.

THE CHAIRPERSON: Thank you, Mr. Holloway.

Mr. Czarnecki, are you all right providing closing statements now or do you want a short break, too?

MR. BRENT CZARNECKI: No, Mr. Chairman, I think I'm prepared to proceed.

THE CHAIRPERSON: Please.

FINAL SUBMISSIONS BY MR. BRENT CZARNECKI:

MR. BRENT CZARNECKI: Mr. Chairman, On September 29th, 2006, Centra submitted a formal request to the Public Utilities Board for an extension of time to evaluate the four (4) party trench initiative.

Centra is requesting the Board's approval to continue using the four (4) party construction process without limit as to time. The request seeks to vary Order 10/06 which provided that no further four (4) party installations were to occur past August 31st, 2006, which date was subsequently extended by the Board to allow Centra to further consider the four (4) party methodology.

With respect to the filing of a response

to Directive 9 of Order 10/06 Centra is requesting that the Board extend the time for filing of a response to this directive until at least March 31st, 2009. That date is significant as this time would -- is required by Centra to allow for two (2) full construction seasons to fully implement and optimize four (4) party installation processes, evaluate these processes, and provide a complete response to the Board.

Mr. Chairman, Centra remains firmly committed to the four (4) party methodology. The reasons underlying this commitment were articulated in the testimony of Centra's panel and are contained in the responses to the Board's Information Requests.

Mr. Snyder testified that development configurations and technology within the industry are continuously evolving. Centra needs to be responsive and adapt to these changes to ensure continuous improvement in installation methods where safety will be enhanced.

The four (4) party methodology exemplifies this and is the preferred industry method for installing natural gas mains in new residential subdivisions.

First and foremost, the impetus for the four (4) party methodology was and continues to be that of enhanced safety. Continuously monitoring and improving safety for its customers and the public is one

of Centra's primary -- primary strategic goals and continued use of the four (4) party methodology serves to better achieve this strategic goal.

Mr. Petursson described the enhanced safety benefits that result from the four (4) party method. In summary they include firstly the virtual elimination of the need to cross energized high voltage electric cables and gas mains when extending services to homes within subdivisions, and I think his presentation was helpful in demonstrating that to the Board and others.

The second of which is the coincidental installation eliminates the excavation of the second utility around the first utility's plant, which occurs when using the conventional method. And this also verifies the separation between the utilities, as Mr. Petursson spoke to.

Third, the elimination of long gas services traditionally installed under the street which correspondingly eliminates the damages historically caused during the road rehabilitation or renewal of the water and sewer mains.

Fourth, by eliminating the long gas services a clear corridor is left available on public property for future use for new or renewed plant.

And fifth, the convenient installation of service stub enclosed in a buried wooden box, which again eliminates excavation around energized high voltage electric cables and gas main when installing service to a customer.

It is also worth noting, Mr. Chairman, the Board's conclusion in Order 10/06 that four (4) party -- the four (4) party methodology is of not greater risk than the conventional method of installation.

Now, we've just heard from Mr. Holloway briefly on his views on safety and I would caution the Board to allocate whatever weight and a minimal amount of weight to his own personal views as to what may be the safety issues. I don't think there was any evidence that was produced by any party to this proceeding that questions that at least the safety is at the same -- and there was an abundance of information that was provided to this Board by the Centra -- Centra Panel as to how it in fact is enhancing the safety.

And I would just suggest, too, that Mr. Holloway, his suggestion on whether a contractor or a homeowner is in a better position to respond may be as a result of his misunderstanding of how natural gas leaks are reported and responded to.

Mr. Petursson was quite clear, and that is

that Centra is the expected first responder along with emergency personnel, and that is in fact what occurs. And contrary to his suggestion, I would suggest that neither a contractor or a homeowner are -- is in any better position to respond to any such occurrence.

We also heard from Mr. Petursson that 60 percent of the number of below grade damages would have or likely would have been avoided had the four (4) party design been used versus conventional installation methods. This is significant to Centra. Yes, we don't have a crystal ball going forward but we do look at the best information that was available and in doing so we make certain assessment and judgment from that assessment.

Once the method if fully optimized, the costs -- the costs are expected to be equal to or less than the costs of conventional installation practice. As Mr. Kroeker has testified, although there are expected to be a number of cost efficiencies achieved by Centra in using the fully optimized four (4) party methodology, future optimization efforts will focus primarily on, firstly, reducing the high cost of construction inspection by using in-house crews and, second, after completion of the required training, in-house crews will perform the fusing and testing of the gas lines as

opposed to incurring the costs of using a contractor.

As Mr. Wiens testified, Centra believes that the safety benefits already achieved are sufficient to justify the incremental costs incurred by modifying insulation practice prior to full optimization. Centra's estimate of this incremental capital cost is seven hundred and eighty-eight thousand (788,000), which would contribute seventy-nine thousand dollars ($79,000) annually to Centra's revenue requirements.

Upon optimization of the four (4) party process costs will, on average, reach parity with the conventional method. Therefore, the future safety enhancement of the four (4) party methodology will be achieved at no incremental cost to Centra's customers. Or, in other words, the investment of additional costs today and in the recent past will continue to deliver the safety benefits we have heard about into the future.

Mr. Peters invited Centra to comment on the appropriate time frame upon which the PUB should perform its cost analysis of the four (4) party methodology if it is approved by the Board. Mr. Kroeker testified that it would take at least twelve (12) months to fully optimize this process. This leads us to the 2008 construction season as being the most appropriate for the Board to perform its analysis from.

Most likely, the latter half of the 2008 construction season would be the most appropriate as the most recent and best information would be available at that time.

In closing and in summary, Mr. Chairman, Centra remains firmly committed to fully implementing and optimizing the four (4) party methodology.

It is the preferred, although not the only, industry method for installation of underground utility plant in residential subdivisions.

The reasons are: improved public safety, reduced damage in incidents relating to plant, better responsiveness to developer requirements and, once the method is fully optimized, equal or better cost performance relative to conventional installation practice.

As we heard from Centra's panel, proceeding with the implementation of a fully optimized four (4) party process requires significant changes to establish processes, corporate systems, and staff responsibilities.

Prior to embarking upon the significant processes -- process changes and committing to the necessary capital expenditures to do so, Centra requires certainty with respect to the future of the four (4)

party methodology from the Board.

The form of certainty requested and required by Centra is the Board's approval for Centra to continue to use the four (4) party method -- methodology without time restriction.

This will permit Centra to fully implement and optimize the four (4) party process over the next two (2) full construction seasons, after which time Centra will then be best positioned to fully respond to directive 9 of Board Order 10/06 by March 31st, 2009.

And lastly, in terms of timing of a potential Board Order, the sooner the better for Centra.

A quick turn around of a Board Order would facilitate the timely purchase of the required equipment and training of staff prior to the 2007 construction season.

And subject to any of your -- any questions you may have, Mr. Chairman, that concludes Centra's submission.

THE CHAIRPERSON: Thank you, Mr. Czarnecki. With respect to your last comment, we'd like to -- the panel would like to confer.

If you could -- if all the parties could give us ten (10) minutes, we'll be back.

--- Upon recessing at 4:35 p.m.
--- Upon resuming at 4:45 p.m.

THE CHAIRPERSON: Thank you for your patience. We realize what time it is.

The Board is quite familiar with the issues and the topic that was dealt with today. The Board will grant Centra's request for more time to continue with four (4) party trench towards establishing and hopefully confirming its value from both the safety and an economic perspective.

Accordingly, the Board will extend Centra's deadline for filing a response to Directive 9 of Order 10/06 to May 31st, 2009, as opposed to March 31st, 2009.

As well, the Board will approve the ongoing use of four (4) party trench. This is subject to the Board's review which will follow Centra's filing of its response to Directive 9 of 10/06 as may be amended to ensure a proper test.

Upon receiving and assessing Centra's filing, the Board will provide final approval and/or other direction. I'm talking about 2009, now.

In short, the Board will approve Centra's request to allow a two (2) full construction seasons to

implement, optimize, and experience four (4) party -- four (4) party trench, and some time after the 2008 season, to evaluate the results prior to providing its filing with the Board in 2009.

This, on the understanding that, if at any time from this date, Centra's current favourable view of the new approach changes, either in respect to safety or economics, that Centra would then advise the Board and propose action to mitigate.

I would remind the parties that opportunities arise from time to time and matters are discussed as things such as the GRA which presumably will occur in 2007 and reports of progress are always welcome as well.

For the Board is apparently as the -- also is the case with Centra and, as we interpret it, also CAC/MSOS safety concerns trump economic concerns.

This, of course, should not be taken to infer the Board or any other party to this proceedings isn't interested in cost effectiveness; far from it.

And when considering the prospects of reduced damage from four (4) party trenching the Board particularly notes that there are elements that extend beyond the financial. These factors will hopefully compensate for the additional accumulated costs through

the initial four (4) party trench implementation period.

The Board appreciates and counts on Centra's commitment to closely monitor four (4) party trench experience with the intent to amend where required and advise the Board where warranted. As to providing direction now rather than waiting for Order issuance, the Board is sufficiently assured that the public interest is furthered by four (4) party trench proceeding and concludes that an early indication from the Board is warranted.

We give this indication now partly in recognition of the costs that have been associated with past delays and the general cost of regulation.

The Order confirming this decision with comments and rationale will follow in due course, likely or hopefully by the end of January.

Thank you for your participation and this concludes the public phase of these proceedings. Thank you.

--- Upon adjourning at 4:50 p.m.

Certified Correct

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Wendy Warnock