MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
2005/06 TO 2006/07
GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Monica Girouard - Board Member
Mario Santos - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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APPEARANCES

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Marla Murphy	)Manitoba Hydro
Karen Melnychuk David Brown	)Direct Energy Marketing)Limited/Municipal Gas
Nola Ruzycki	)Energy Saving (Manitoba))Corp.
Kris Saxberg	)CAC/MSOS
Peter Miller Randall McQuaker (np)	)TREE and Resource)Conservation Manitoba
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--- Upon commencing at 9:10 a.m.

THE CHAIRPERSON: Mr. Peters, do you want to bring us up to date?

MR. BOB PETERS: Yes just a housekeeping -- actually two (2) housekeeping matters. One (1) is after I have talked about closing arguments I'll suggest you refer to Mr. Saxberg, as I believe his Witness on reflection has one (1) minor correction from yesterday.

But, in terms of closing submissions, Mr. Chairman, when we looked at our plan it looked like Monday the 27th of June was the preferred date from Counsel and we brought it to the Board and the Board was considering that date and looking at its own schedules.

And I knew there was some conflict initially, but, as I understand it now, on Monday the 27th the Board is available starting at 9:00 in the morning for closing submissions. And I thought I should just alert all the parties who now, I think, are here today to that.

And I've also indicated to parties that for those who do not wish to provide oral closing submissions, the Board would receive their written submissions provided they were received by the Board the close of business on Friday and that will allow the Board to have them in time for the Monday oral arguments.

So, with that housekeeping matter, Mr. Chairman, and subject to any questions, I'd suggest we turn it over to Mr. Saxberg and tidy up from yesterday before we go back -- go to Ms. Murphy for her questions of this witness.

GREG MATWICHUK, Resumed:

THE CHAIRPERSON: Mr. Saxberg...?

MR. KRIS SAXBERG: Thank you Mr. Chairman. Mr. Matwichuk does have one (1) minor correction to put on the record.

Mr. Matwichuk...?

MR. GREG MATWICHUK: Thank you Mr. Saxberg. Yesterday I was discussing the issue, Mr. Chairman, about comparison of benefits on the Hydro side and on the Centra side.

And beginning on transcript page 1437 and continuing on to 1438, I was making the point that -- that there was no benefit on the Centra side and I was comparing to the Hydro that we have the $9 million of synergy benefits on the Hydro side and in the neighbourhood of $12 million, perhaps even $14 million of benefits on the Hydro side being the return on equity.

And what I had meant to say that the $12 million was the corporate allocation and over and above that corporate allocation was the net income amount that Centra's requesting for the benefit of Hydro. And those amounts are showing in the application now as almost $5 million and $14 million.

So, that's the correction I wanted to make, Mr. Chairman.

THE CHAIRPERSON: Thank you, sir.

Mr. Saxberg...?

MR. KRIS SAXBERG: And I believe that's it. Mr. Matwichuk is now available to be cross-examined.

THE CHAIRPERSON: Okay. Mr. Peters, remind we where we are in the order?

MR. BOB PETERS: I believe yesterday, I'm just not sure, Mr. Chairman, if I -- if it was on the record or not, but in terms of cross-examination, on page 2 of the procedures that have been circulated for this Witness, cross-examination was going to be by Intervenors first, followed by Centra, followed by Board Counsel.

And I know, at least informally, I spoke to a number of Counsel and representatives, my understanding is that Mr. Boyd had no questions for this Witness, my understanding is that Direct Municipal had no questions for this Witness, and likewise, Energy Savings

Manitoba Corp. had no questions for this Witness and Dr. Miller, I don't think was here yesterday afternoon and I don't see him here today.

So, I think that brought it down to Ms. Murphy's turn.

THE CHAIRPERSON: Okay, then we're on to Ms. Murphy.

MS. MARLA MURPHY: Thank you, good morning.

Just one (1) minor housekeeping matter of our own before we begin with our discussions with Mr. Matwichuk, and that is that I have provided the Board Secretary this morning with response to Undertaking 4 which was provided way back in the Cost of Gas Panel by Mr. Stephens.

And I would propose that that be marked as Centra Exhibit 25, Mr. Chairman.

THE CHAIRPERSON: Sobeit.

--- EXHIBIT NO. CENTRA-25: Response to Undertaking 4 provided in the Cost of Gas Panel by Mr. Stephens.

MS. MARLA MURPHY: Good morning, Mr. Matwichuk.

MR. GREG MATWICHUK: Good morning, Ms. Murphy.

CROSS-EXAMINATION BY MS. MARLA MURPHY:

MS. MARLA MURPHY: I wanted to begin by discussing with you the concept of no harm. And in your evidence filed in this proceeding I believe that you're suggesting that no harm now means that there's no harm to Centra's ratepayers if rates are calculated in accordance with the cost of service methodology and are less than or equal to the rates calculated in accordance with the rate base rate of return methodology; is that correct?

MR. GREG MATWICHUK: Okay. I think we'll have to -- I just want to understand your question correct -- correctly. In terms of no harm, I have outlined the principles in a conceptual fashion.

MS. MARLA MURPHY: Yes.

MR. GREG MATWICHUK: And with respect to the comparison between rate base rate of return and cost of service; that is your question?

MS. MARLA MURPHY: I'm asking you what -- what you view the comparator to be?

I got the impression from page 20 of your evidence that you were now comparing the -- the outcome of the different methodologies to determine whether or not there was harm. And I took that from lines 19 to 28.

MR. GREG MATWICHUK: Nineteen (19) to twenty-eight (28) on page 20?

MS. MARLA MURPHY: Yes.

MR. GREG MATWICHUK: Okay. On page 20 is the discussion of the differentials between cost of service and rate base rate of return methodologies.

MS. MARLA MURPHY: So, in your view, is the appropriate comparator to determine whether or not there's harm, a comparison of what the rates would have been absent acquisition?

MR. GREG MATWICHUK: Oh, okay, now I see where you're going.

At this stage, I think it's pretty difficult to determine what would happen absent acquisition and I think, as I tried to make clear yesterday, we're so far down the line that an attempt to determine what West Coast would have done, what operations would have looked like, what -- where we would be in the annual or bi-annual rotation of -- of hearings and then the subsequent purchase by Duke of West Coast and how they may have operated.

And so what each of the elements of revenue requirement might look like today would be very speculative at this stage.

MS. MARLA MURPHY: I appreciate there's some difficulty in making the calculation, but would you agree that the appropriate -- the appropriate calculation or comparison is what happened with Centra under Hydro ownership versus what happened with Centra under West Coast ownership?

MR. GREG MATWICHUK: That is something that could have been done at the time of the purchase and essentially what we're talking about in harm -- maybe we need to step back as what we're talking about in terms of harm because I think this is the essential issue is that we're talking about whether there is an attempt to, by the owner, to recover amounts in excess of net book value.

So, that's why I was referring a number of times yesterday to net book value, historic cost, costs when originally placed in public use, and any attempt over -- to collect over and above those amounts would be harmed.

Now, how you measure it, is a matter of most appropriately, determining at the time, and being able to specifically exclude amounts that would be not part of net book value. So, any amounts of the purchase premium, such as those included in the annual acquisition cost calculation, should not be included in the revenue requirement of Centra.

If they were included in the revenue requirement of Centra, that would be harm.

(BRIEF PAUSE)

MS. MARLA MURPHY: If I follow that through and Centra had $10 million in benefits, your view would be that any charge against that -- those benefits, would constitute harm; is that right?

MR. GREG MATWICHUK: No, I -- I think we have to step back, because I think what you're doing is looking at something in isolation. And my testimony is that as long as both ratepayers are held harmless, both gas and electric ratepayers are held harmless, and my evidence is that once you carry out the Board's plan, electric ratepayers are held harmless.

And to the ratepayers in the Centra side, they should not incur any costs above net book value. And if there are benefits, the principle states that ratepayers of the purchased company should be at least no worse off. So, if there are benefits, then they can fall to the Centra side.

And -- and I look at it also in -- from the perspective of the two (2) different sizes of the

Company, that if there is a differential, as there is on the Hydro side, because the benefits exceed the costs by 2 to $3 million, in benefits on the Centra side. By the time you net the two (2) we're talking a de minimus when -- in -- relative to the size and nature of Manitoba Hydro.

MS. MARLA MURPHY: You testified in 2003/04, at the Centra GRA, discussing the concept of no harm as well, didn't you?

MR. GREG MATWICHUK: Yes.

MS. MARLA MURPHY: And in fact, you attached an excerpt from that evidence to your evidence in this proceeding?

MR. GREG MATWICHUK: Yes.

MS. MARLA MURPHY: I'm looking at page 4 of the Appendix A excerpt --

MR. GREG MATWICHUK: Yes.

MS. MARLA MURPHY: -- and your question 8, in particular you describe the -- the no harm principle.

MR. GREG MATWICHUK: Hmm hmm.

MS. MARLA MURPHY: And you say at lines 6 through 8:

"Essentially the no harm principle states that ratepayers should be at least no worse off as a result of the sale transaction that they would have been had the sale not taken place."

Do you see that?

MR. GREG MATWICHUK: Yes.

MS. MARLA MURPHY: And that's different than what you're saying today isn't it?

MR. GREG MATWICHUK: No, it's not. What I'm referring to, that's the concept, and as -- I'll take you back to what I mentioned a few minutes ago is that how you measure it, how you measure that harm, it becomes problematic as time goes on.

And that's why I had difficulty with page 14 of Centra's rebuttal, because we're attempting to estimate costs on a speculative basis of what would have taken place under an unknown owner.

So, what I'm saying is, that's the concept. The next question is how you measure it.

MS. MARLA MURPHY: So, let's go back to looking at how we measure had the sale not taken place. Had the sale not taken place, rates would have been set based on the costs of the utility under private ownership, under West Coast, right?

MR. GREG MATWICHUK: That's correct.

MS. MARLA MURPHY: And in fact, yesterday when you were discussing Centra Exhibit number 24, in the context of determining no harm, you also looked at that absent acquisition scenario; isn't that right?

(BRIEF PAUSE)

MR. GREG MATWICHUK: Yes, we looked at it yesterday, and the discussion was about a), it being speculative, and b), the potential for error, and c), the fact that there is no benefit arising out of the comparison.

MS. MARLA MURPHY: I want to turn with you to the discussion of the allocation of synergies. And as I read your evidence you suggest that in the absence of other information, it's reasonable that the synergy benefit allocation would follow the overall cost allocation, do I have your evidence right?

MR. GREG MATWICHUK: Do you have a page reference?

MS. MARLA MURPHY: Page 7, line 21 -- sorry 17 through 21.

MR. GREG MATWICHUK: Right.

MS. MARLA MURPHY: And I take it, that's how you derived your split of $13.7 million to Hydro and $2.3 million to Centra that's on table 2 on page 8 of your evidence?

MR. GREG MATWICHUK: Table 2 you're referring to on page 8?

MS. MARLA MURPHY: Yes.

MR. GREG MATWICHUK: Yes.

MS. MARLA MURPHY: Would you agree with me that there's two main areas where synergy savings have occurred, those being administrative and operational areas?

(BRIEF PAUSE)

MR. GREG MATWICHUK: It's hard to think where else they might occur.

MS. MARLA MURPHY: I'll take that as a yes.

Looking at the administrative savings would you agree that the pre-acquisition cost levels would be a significant factor in determining which company would benefit from the savings?

MR. GREG MATWICHUK: The pre-acquisition cost levels?

MS. MARLA MURPHY: Yes, the cost in the Company prior to acquisition.

MR. GREG MATWICHUK: Yes, if your could

make an apples to apples comparison.

MS. MARLA MURPHY: Okay. Let's walk through an example and try that then. If executive costs were reduced by $2 million, by eliminating the costs associated with Centra's executive, then the benefit to Centra would be the difference between its previous cost level and the amount of executive costs allocated to them through the integrated cost methodology.

Do you agree with that?

MR. GREG MATWICHUK: If you isolate on one set of costs and you can specifically identify reductions that took place as a result of the acquisition, then yes there would be a benefit.

However, then you would have to take a look at all the costs and all the levels of those costs.

MS. MARLA MURPHY: So, if we carry on with that example and Hydro's executive costs were also $2 million and they were allocated on the basis of the total size of each company, 10 percent to Centra and 90 percent to Hydro, then Centra would be allocated about 10 percent of those costs, which would amount to two hundred thousand ($200,000).

Would you agree with me?

MR. GREG MATWICHUK: Your math seems correct.

MS. MARLA MURPHY: Good. And the benefit to Centra would be there $2 million original costs less the $200,000 of allocated costs or $1.8 million; do you agree?

MR. GREG MATWICHUK: Again your math seems correct.

MS. MARLA MURPHY: So, following my mathematical conclusion that's 90 percent of the synergy savings being apportioned to Centra, in spite of the fact that they incur only 10 percent of the total cost; is that right?

MR. GREG MATWICHUK: That's the way the calculation would work. Whether that actually transpired through the allocation model is an unknown at this stage.

MS. MARLA MURPHY: On the operational side, let's take an example of common line locates. And assume that the pre-acquisition cost level was similar for each utility, one hundred dollars ($100) per utility and that the integrated cost would be one hundred and fifty dollars ($150).

That would be a savings of fifty dollars ($50) correct?

MR. GREG MATWICHUK: Math seems correct.

MS. MARLA MURPHY: I'm good at that math stuff. And if the joint line locate was allocated 50/50, then Centra would be charged seventy five dollars ($75), correct?

MR. GREG MATWICHUK: Assuming that's all that was in the trench.

MS. MARLA MURPHY: Fair enough. That would represent a savings of twenty-five dollars ($25) to Centra, that original hundred dollar ($100) cost less the seventy-five dollars ($75) allocated cost would be twenty-five dollar ($25) saving, correct?

MR. GREG MATWICHUK: Your math again seems correct.

MS. MARLA MURPHY: And as I follow that through mathematically, that's 50 percent of the savings being allocated to Centra?

MR. GREG MATWICHUK: On -- on that particular cost, yes.

MS. MARLA MURPHY: I take it you would agree with the Public Utilities Board that a financially stable utility is in the best interest of customers?

MR. GREG MATWICHUK: It is. And fortunately we're looking at a company that, such as Centra, that has that financial stability and financial integrity through it's own operational means and the protection offered through the debt guarantee.

MS. MARLA MURPHY: Well, on the basis of

the stand-alone principle that you advocated yesterday you wouldn't advocate a circumstance where Centra was leaning on Manitoba Hydro or ultimately on the Province, would you?

MR. GREG MATWICHUK: I don't perceive it as -- as leaning at all because Centra ratepayers are paying for the debt guarantee in a fee of ninety-five (95) basis points.

MS. MARLA MURPHY: Which is no different than them paying for the borrowing costs of West Coast, is it?

MR. GREG MATWICHUK: No different than what, sorry?

MS. MARLA MURPHY: Than the costs they would have paid for West Coast to borrow money? They would have paid an interest differential in excess of the .95 percent that you're talking about?

MR. GREG MATWICHUK: No, I wouldn't agree with that. I don't know where you get your numbers when you say, "in excess".

MS. MARLA MURPHY: Well, my understanding is that in order for West Coast to borrow money they issued debt at at least one hundred (100) basis points over the long Canada Bond Rate?

MR. GREG MATWICHUK: That's spread over

the long Canada Bond rate, yes. Manitoba issues debt also with a spread over the long Canada Bond rate and then on top of that there's the ninety-five (95) basis points.

And what's unknown to me is whether there's a spread between what Manitoba Hydro pays to the Province and what Centra pays to Manitoba Hydro.

MS. MARLA MURPHY: All right. You suggest in your evidence that one point one (1.1) times interest coverage is sufficient or perhaps even excessive, I believe is one of the words you used yesterday, for Centra; is that right?

MR. GREG MATWICHUK: It should be more than sufficient given the ownership structure.

MS. MARLA MURPHY: Are you aware that Centra, on a stand alone basis, required an interest coverage of two and a half (2 1/2) to three (3) times in order to issue long-term debt?

MR. GREG MATWICHUK: That was part of the covenant and -- as I understand the evidence, I haven't read the document that provided for that so I don't -- I can't say I know that.

But, the relationship was different because Centra went directly to the market. It did not go exclusively to its parent for its financing requirements. So, it was exposed to capital markets.

MS. MARLA MURPHY: You suggested yesterday that the cost of service methodology isn't appropriate for Centra; is that -- is that a fair characterization of your evidence?

MR. GREG MATWICHUK: I'm suggesting that under the circumstances of how Centra has been regulated, under the circumstances of the acquisition and the -- the need to protect both sets of ratepayers and under the circumstances of the Board's plan, that it makes more sense for rate base rate of return regulation to continue.

MS. MARLA MURPHY: How did the circumstances of acquisition derive the need for rate base rate of return methodology?

MR. GREG MATWICHUK: It didn't derive the need. Rate base rate of return methodology is the one that has been used, is currently used and as I read the -- or a simple reading of the statute is that that's what's intended for Centra.

I'm saying that because of the acquisition and the balance to ensure that both ratepayers are harmless, the Board came up with a solution and that solution was provide the return -- return on equity as it would normally to its investor; in this case it's

Manitoba Hydro.

Manitoba Hydro could use that return on equity to the extent necessary to pull over to Manitoba Hydro to combine with its synergies to cover off the acquisition costs as articulated by the Board.

MS. MARLA MURPHY: And in your view that couldn't be accomplished with the cost of service methodology?

MR. GREG MATWICHUK: What my evidence states is it could be done but you're going to have to -- or, in my view, you're going to have to calculate what the return on equity would otherwise be anyway.

And there's a further reason that's rate base rate of return methodology is essential and that is that this is -- Centra is no longer part of investor-owned utility and as a result it doesn't have the profit incentive to maximize efficiencies.

That profit incentive helps drive efficiencies in investor-owned utilities. When we think of regulation, rate regulation, rate regulation is the embodiment of providing a surrogate for a competitive market.

So, if a Crown-owned operation is not on rate base rate of return regulation it does not have the incentive to minimize its actual costs. And typically what happens in rate regulation, as I'm sure most of the people in this room understand, is when a Board allows a revenue requirement, so all the costs are itemized in terms of on a forecast basis including the return on equity, should a utility be able to reduce its costs, such that they are below the forecast amount, they keep -- end up keeping the residual.

And so it's an incentive to beat the forecast that the Board approved. On a cost of service basis you don't have that incentive. As a matter of fact, it's almost a reverse incentive, such that the Utility on a cost of service basis can say, Well, this is what the Board allowed us, if you pick a number, a $100 million, and we came in at $105 million, so that caused us to incur a loss. So we need to recoup that loss.

So in that case there -- there can be a reverse incentive, in other words, to maximize your costs to generate a loss so that you can make a case before your regulator that you need even more money.

Whereas in rate base rate of return regulation, you -- you have an incentive to beat what the Board provides you.

MS. MARLA MURPHY: The circumstance where you described the incentive under rate base rate of return is actually a performance based regulation, or PBR arrangement, isn't it?

MR. GREG MATWICHUK: I'm talking strictly about rate base rate of return, the way it currently exists in Manitoba and other jurisdictions.

Performance based regulation is a derivative of that, and it is -- I've testified on performance based regulation on various occasions, and performance based regulation provides for longer fixed terms. So what the regulator would typically do is set a base year and set the revenue requirement for that base year, and then allow increments over a two (2), three (3), five (5) year period, based on inflation and productivity levels.

So, the -- the rates or the revenue allowed would be allowed to increase each year over the two (2), three (3) or five (5) year period, based on inflation, less a productivity factor. And that -- that revenue requirement would amount -- would create a ceiling above -- at or below which the Utility could design its rates.

MS. MARLA MURPHY: You cited one (1) of the reasons for continuing rate base rate of return as being that there was no profit incentive to maximize efficiency in the cost of service methodology, I think is what I just heard you say.

Would you also agree with me that under the rate base rate of return methodology with the private shareholder, there was an incentive to try and build rate base that no longer exists?

MR. GREG MATWICHUK: Maybe we can -- we can try rewording that, because I just want to make sure I understand your question. You're suggesting that there is an incentive to build up a rate base in rate base rate of return methodology?

MS. MARLA MURPHY: Yes, to increase the return on equity.

MR. GREG MATWICHUK: That incentive does exist in rate base rate of return methodology, and that is counteracted by regular Board review of rate base, to ensure that it is in the public interest.

MS. MARLA MURPHY: You're aware that Manitoba Hydro sets electricity rates on the cost of service methodology?

MR. GREG MATWICHUK: I'm aware that Hydro sets its rates on -- based on the cost of service methodology and that is regulated under separate legislation.

MS. MARLA MURPHY: Apart from the legislation, would you agree that there's no material differences between the operation of the gas and the electric utility that would require a very different regulatory methodology be used?

MR. GREG MATWICHUK: No difference in the operations that would require different methodologies. There is no requirement other than the way I read the Act. But if you're talking specifically, conceptually -- you are speaking conceptually?

MS. MARLA MURPHY: Well, I'm speaking practically of the two (2) utilities that we're talking about; Manitoba Hydro Electric, and Natural Gas.

MR. GREG MATWICHUK: Centra Gas?

MS. MARLA MURPHY: Centra Gas.

MR. GREG MATWICHUK: Centra Gas could be regulated on a cost of service basis. But what I'm saying is that given the circumstances of the acquisition and the high potential for Manitoba Hydro to attempt to recover its purchase premium in gas rates, that the Board, in its wisdom, and I think it's a very simple and effective methodology, indicated that return on equity be used as a balancing affect, and return on equity is something that' determined in a fair and equitable manner and it's determined objectively.

The cost of service has connotations of less objectivity, especially when it comes to net income. Because as I mentioned yesterday, net income is determined as I've seen it so far, based on management's judgment. Return on equity is determined based on Board's formula.

So, what I'm saying is you could go to cost of service, but, in order to determine the amounts that are available to be transferred to Manitoba Hydro and the amount to be retained in Centra, it would be prudent if not necessary to go through the return on equity calculation anyway.

MS. MARLA MURPHY: Mr. Matwichuk, are you aware that one (1) of the fundamental commitments of Hydro, since the date of acquisition has been that there will be no cross-subsidization between electric and gas ratepayers?

MR. GREG MATWICHUK: I'm unaware of that specific commitment, but I'm also aware of a commitment by Manitoba Hydro at the time of the purchase that all the synergies would cover the cost of the acquisition.

And I think what we've seen to date is that the synergies have not materialized to cover the cost of the acquisition. So, yes, I recognize that utilities make their best efforts to forecast the future and make commitments.

The question is, is whether you can hold to the commitment.

MS. MARLA MURPHY: To avoid a cross-subsidy, isn't the cost of service approach the more appropriate methodology in accordance with the Manitoba Hydro mandate, that is one that would be focussed on the cost necessary to serve customers, no more and no less?

MR. GREG MATWICHUK: That's rate base rate of return.

MS. MARLA MURPHY: It's also the cost of service, isn't it?

MR. GREG MATWICHUK: It's cost of service, but, rate base rate of return has more objectivity than it does in place with cost of service.

MS. MARLA MURPHY: So, you don't take issue with the methodology, you take issue with management applying their judgment?

MR. GREG MATWICHUK: Well, it's inherent in the methodology.

MS. MARLA MURPHY: That's your quarrel with cost of service is that you apply management judgment?

MR. GREG MATWICHUK: And it does not provide the incentive to minimize costs. Cost of service as I've heard it from Centra is that the costs are what they are. Well, how do you determine whether the costs have been minimized?

And the Board needs tests and incentives to be able to encourage cost of minimization.

And, in particular, in this situation and in other situations where you have an allocation methodology, that allocation methodology ends up being a black box. And I have not seen evidence where this proceeding has entitled parties to get into that black box to measure whether the allocations are appropriate on a line by line basis.

And if you have this black box combined with cost of service without the incentives, then I think you're potentially looking for costs that are excessive.

MS. MARLA MURPHY: You're aware that the acquisition of Centra by Manitoba Hydro was 100 percent debt financed; is that right?

MR. GREG MATWICHUK: That is my understanding.

MS. MARLA MURPHY: And you'd agree with me that on consolidation the share capital is eliminated once the balanced -- once the financial statements are consolidated?

MR. GREG MATWICHUK: I don't know why we're discussing that, that's outside the scope of this Hearing. We're talking about Centra Gas Manitoba. We're setting rates for a gas company, we're not setting rates for a consolidated entity.

MS. MARLA MURPHY: Well, we've had a fair bit of discussion about what the debt ratio might be. I think that becomes significant in that area, doesn't it?

MR. GREG MATWICHUK: Okay. If you'd like to go there.

(BRIEF PAUSE)

MR. GREG MATWICHUK: On consolidation retained earnings are eliminated. But, we're talking about a gas company. We're regulating the subsidiary. It is on a stand alone basis.

As I mentioned yesterday there are many organizations across the Country which are owned by Crowns. Many organizations -- Utility organizations owned by Crowns. Many Utility organizations owned by investor owned utilities.

None of those provide for regulation on a consolidated basis. When I look back when Centra acquired or sorry, Manitoba Hydro acquired Centra, look back in the financial statements and what took place was that Centra -- Centra's shareholder -- within Centra's shareholder equity, $82 million of retained earnings -- or sorry -- yes, of retained earnings, was converted to share capital.

Had that not taken place, the retained earnings today would have been $82 million higher. So, really what we're talking about here is a form over substance discussion.

Retained earnings and shareholder -- share capital are all part of shareholders' equity; that's the way the market looks at it. That's the way the credit rating agencies look at it. And that's the way regulators look at it across the country.

MS. MARLA MURPHY: My only point in raising the issue is that when you look at the standing of Manitoba Hydro, or indeed the Province of Manitoba, the share capital of Centra being 100 percent backed by debt doesn't contribute anything towards that debt ratio, does it?

MR. GREG MATWICHUK: I disagree entirely. Centra came into the proposition with in excess of -- let's see here, well, in excess of $121 million of equity.

Now, if you were to have a company and I were to buy it, that equity would still be in there. And why? Because equity represents the net book value, assets minus liabilities.

There's just no getting around that and if the liabilities in Centra, which they were, less than the assets, then you have net book value, $121 million worth. So, yes, they did contribute equity.

The audited financial statements, I'm assuming, are correct given that they are audited.

MS. MARLA MURPHY: I forgot in your example whether I bought your company or you bought mine, but in either case if one company borrows to buy another on consolidation there's no equity; isn't that right?

MR. GREG MATWICHUK: But your assumption is on consolidation. Consolidation has nothing to do with this Hearing.

MS. MARLA MURPHY: My question is on consolidation?

MR. GREG MATWICHUK: Well, again, it's outside the scope of this proceeding. So, it's -- it's--

THE CHAIRPERSON: It's a perspective. I think it's all right. Try it. Answer her question if you don't mind.

MR. GREG MATWICHUK: Fair enough, Mr. Chairman.

On a consolidated basis, which is unrelated to this Hearing, then -- and I think I -- I did acknowledge it earlier anyway, that yes there would be an elimination.

MS. MARLA MURPHY: Thank you. Those are my questions. Thank you, Mr. Matwichuk.

MR. GREG MATWICHUK: Thank you.

THE CHAIRPERSON: Thank you, Ms. Murphy.

Mr. Peters...?

MR. BOB PETERS: Yes, thank you.

Good morning, Mr. Matwichuk.

MR. GREG MATWICHUK: Morning, Mr. Peters.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: On Tab 14 of the book of documents that Mr. Saxberg has a copy of and on page 11 of Board Order 208 there was an indication as how the purchase price was established when Manitoba Hydro acquired the shares of Centra Gas; are you aware of that

MR. GREG MATWICHUK: Yes, sir. And I believe that was my source for Table 3 in my evidence.

MR. BOB PETERS: Yes. And I thought I would just refer to it here because it was in my book and we'll --

MR. GREG MATWICHUK: Fair enough.

MR. BOB PETERS: -- we'll keep working with that.

MR. GREG MATWICHUK: No, as long as we're speaking about the same numbers.

MR. BOB PETERS: All right. And in your discussions with Ms. Murphy the net book value of Centra's assets on July 31st, 1999 are the $121 million shown on that line item in the book?

MR. GREG MATWICHUK: Yes, that's correct.

MR. BOB PETERS: And you have no objection with that amount being included as the share capital of Centra Gas and you disagreed with Ms. Murphy as to whether that amount should disappear on consolidation?

MR. GREG MATWICHUK: No. When we were talking about consolidation, Mr. Peters, I believe we were talking about there being an elimination of that on consolidation.

MR. BOB PETERS: You've agreed with her that would happen, if you consolidated?

MR. GREG MATWICHUK: If consolidated.

MR. BOB PETERS: And for the purposes of this Hearing, you are suggesting to the Board that the -- the total acquisition price of $242 million actually ended up, you'd agree, being 254 million, when you add in the additional costs at Tab 15 of the Book of Documents that you have in front of you; on the schedule that's the last page in that Book of Documents?

MR. GREG MATWICHUK: This is the schedule

that is marked CAC/MSOS/CENTRA-100(E)?
MR. BOB PETERS: Correct.
MR. GREG MATWICHUK: Okay. And may I have your question again please?
MR. BOB PETERS: And what schedule -- what CAC/MSOS/CENTRA-100(D) -- 100(E) does, is it takes the $242 million purchase price, adds in the eligible integration and acquisition costs, and comes up with total eligible costs of acquisition and integration, correct?
MR. GREG MATWICHUK: And -- and we're at two hundred and fifty-three eight six one (253,861,000)?
MR. BOB PETERS: Yes, on line 40?
MR. GREG MATWICHUK: Yes.
MR. BOB PETERS: And at the bottom of the page is an indication as to how that was financed, and as I understand your evidence through Ms. Murphy -- in discussions with Ms. Murphy, how it was financed you say is irrelevant to these proceedings?
MR. GREG MATWICHUK: That's correct.
MR. BOB PETERS: Now, what's not irrelevant to these Proceedings is that that $254 million, or part of it, has to be repaid, correct?
MR. GREG MATWICHUK: How it has to be repaid; I think we better get more specific on this, Mr.

Peters.

MR. BOB PETERS: All right. Let me try it this way. You're aware, and I think in your Table 5 revised, you acknowledge that $18.8 million, or rounded to $19 million, has to be paid on an annual basis to service the debt, and to amortize the write-ups in assets and liabilities.

MR. GREG MATWICHUK: And just to be careful here, Mr. Peters, that is correct on Manitoba Hydro's books.

MR. BOB PETERS: When you say it's correct on Manitoba Hydro's books, what do you mean by that?

MR. GREG MATWICHUK: Well, it is the cost that Hydro has determined has to be repaid on an annual basis, and it -- as I understand it the cost of acquisitions, as ordered by this Board, are to be recorded on Manitoba Hydro's books.

MR. BOB PETERS: All right. So your concern is on which books it's located, as opposed to the actual amount?

MR. GREG MATWICHUK: Well, let -- let's be careful about the context here. The -- the actual amount is a concern because of the Board's plan, on how those costs will be covered off. And just to make sure we have the context's correct, those costs as deemed by the Board are to be covered off by the return on equity that Manitoba Hydro benefits from in Centra, added to the synergies that are in Hydro.

And those amounts as indicated in Table 5 revised, show that they are in excess of the $18.8 million annual acquisition costs, as calculated by Hydro for this proceeding.

MR. BOB PETERS: All right. Let's now move past what the Board's plan is -- and the Board's plan that you're referring to was what's contained in prior Board Orders, correct?

That's where you gleaned it from?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: All right. Well, let's -- will you accept then that under the present -- the present Application, $19 million is needed to be paid on an annual basis to service the debt and amortize the write-ups in assets and liabilities?

MR. GREG MATWICHUK: So, to around to $19 million, yes, that is the amount that Hydro has calculated.

MR. BOB PETERS: And you'll agree that somebody has to pay that amount on an annual basis?

MR. GREG MATWICHUK: I'll agree that it's the amount Hydro calculated. I don't know whether there's been due diligence to determine whether that's the amount that has to be paid on an annual basis.

MR. BOB PETERS: All right. Well, for the purpose of my question then, I want you to assume that that's the -- the amount supported by due diligence, and $19 million has to be paid on an annual basis to -- to service the debt and amortize the write-ups.

MR. GREG MATWICHUK: Fair enough, Mr. Peters, we'll -- we'll go with that assumption.

MR. BOB PETERS: All right. Now, if -- when I say somebody has to pay it, the choices are relatively few as to who has to pay that. And we're left with either -- either Manitoba Hydro paying it, Centra paying it, or a combination of the two (2) paying it.

Would you agree with that?

MR. GREG MATWICHUK: Conceptually the choices are limited to those parties.

MR. BOB PETERS: And again, I -- let's not talk about what the Board's plan was as you gleaned it from the previous Board Orders, but those two (2) parties have to pay the $19 million a year in some fashion?

MR. GREG MATWICHUK: Okay, well, if we're venturing outside the Board's plan then I must revert back to principles, which indicate that the acquired company the ratepayers acquired company would pay no amount related to the acquisition.

MR. BOB PETERS: All right. And if that was to happen, then here would be harm to the ratepayers of Manitoba Hydro electric side, correct?

MR. GREG MATWICHUK: Yes. And I believe that's why the Board came up with this plan. So don't get me wrong, Mr. Peters, I'm not an advocate of harm for either ratepayer. I take a look at -- and I know you wanted me to stay within the confines of outside the Board's plan, but, I think that was the balance that was drawn to avoid the harm.

MR. BOB PETERS: All right. But, let's keep going along this line. If we want the no-harm principle to apply, it can apply so that the Centra ratepayers are held harmless and the Hydro ratepayers are held harmless, correct?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: There's enough money to go around for that to happen is your evidence?

MR. GREG MATWICHUK: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of how much money Manitoba Hydro can contribute and still be held harmless, what is that amount, based on the record of these proceedings?

MR. GREG MATWICHUK: Okay. When you say how much Manitoba Hydro can contribute my understanding is that there are $9 million of synergies with respect that are within Manitoba Hydro and then there's Manitoba Hydro's entitlement to Centra's return on equity, which we have estimated to be about $13/$14 million in that range.

MR. BOB PETERS: All right. But, that's a contribution that would come from the Centra ratepayers and it would be up to Manitoba Hydro as to whether they took it or part of it, correct?

MR. GREG MATWICHUK: That's right. Manitoba Hydro would have to make its decision on distribution dividends or some other method.

MR. BOB PETERS: All right. And on their record that we have before the Board, how much can Centra customers contribute to the $19 million and still be held harmless?

MR. GREG MATWICHUK: Well, outside of return on equity which is an element that they've been regulated on for -- since I can remember, conceptually they should not contribute anything. But, the Board has decided that it -- Centra ratepayers will not suffer a rate increase if the return on equity is used, which is an amount that Centra ratepayers would contribute.

MR. BOB PETERS: All right. And so that return on equity is in the neighbourhood of the $13 to $15 million that we've talked about?

MR. GREG MATWICHUK: Yes sir.

MR. BOB PETERS: And in addition to that return on equity, Mr. Matwichuk, there also have been synergies that have been realized within Centra Gas, according to the evidence, correct?

MR. GREG MATWICHUK: The evidence indicates that there have been synergies.

MR. BOB PETERS: And you and Ms. Murphy had a discussion about whether you agreed or disagreed with how they were allocated and put on either side of the ledger, but, you understand the Corporation's evidence to be that there have been $7 million synergies on the gas side?

MR. GREG MATWICHUK: That is the Applicant's evidence, yes sir.

MR. BOB PETERS: And if there have been $7 million of synergies on the gas side, that money would also be available to contribute to pay off the $19 millions a year and the ratepayers would be held harmless from -- in this scenario?

MR. GREG MATWICHUK: Those synergies if they existed could amount to a contribution. What I see here is that that contribution would be unnecessary because of the amounts that are being contributed collectively are in excess of the needs of the $19 million.

MR. BOB PETERS: All right. And that's simply a mathematical calculation that you've done and we'll come back to that.

And it's unnecessary also if you revert back to what you interpret to be the Board's plan from the prior Board Orders, correct?

MR. GREG MATWICHUK: My interpretation as I understand is the same as Centra's interpretation.

MR. BOB PETERS: And the question was: Under that interpretation of what the Board's plan was, the synergy amount that accrues in Centra would be unnecessary in paying down the $19 million because there was another source available?

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: But the $7 million was -- would be available under the hold harmless principle because those $7 million, if those synergies exist,

existed as a result of the acquisition?
MR. GREG MATWICHUK: Yes, to the extent that they -- they exist.
MR. BOB PETERS: That's your qualification because you're just not convinced that $7 million exists within the gas company?
MR. GREG MATWICHUK: That's correct.
MR. BOB PETERS: Do you contest that there have been $16 million of synergies overall?
MR. GREG MATWICHUK: I guess I don't have confidence in that number.
MR. BOB PETERS: But you have no other number or calculation to provide the Board as to what that synergy amount should be?
MR. GREG MATWICHUK: No, I don't. No. And the reason I don't have confidence is -- is the -- the method used to -- to calculate the synergies and I look at -- and I'm not sure if I've got it here close at hand, but there was an exhibit -- oh yes, the one with the bar graphs.
I look at -- I look at -- this was Centra Exhibit 16 and just take 2003, for example, and there's a suggestion there that costs would have increased to $59 million and whereas actual costs for '03 were $53.6 million which, to me, shows a $5 million differential,

not a $7 million differential.

So, if the 5 million is suggested in Centra nd we're told that there's seven (7) then I'm wondering where the sixteen (16) comes from.

MR. BOB PETERS: All right. But you've said you have no evidence of your own to provide a what you would say is a more accurate number to the Board?

MR. GREG MATWICHUK: Well, I guess another way to question it, sir, is I look at the $62 or $63 million that Centra's suggesting would have happened absent the acquisition and I look at the Board's baseline of $49.3 million that it noted in Order 118/03 where it said this is the amount that would be used as a comparator for all future O&M amounts.

So, I -- I take that amount and I escalate that by inflation and -- and growth in customers and I come to something like $51 or $52 million for the current Application.

I add seven (7) to that and I only come up with fifty-nine (59) and I'm saying, well, where are the other four (4). So, another separate analysis throws doubt onto the sixty-three (63) which is used to assist in measuring the synergies from Centra and Manitoba Hydro's perspective.

MR. BOB PETERS: All right. And based on

Hydro's testimony though, there have been $7 million synergies and they've said that comes on the gas side of the business?

MR. GREG MATWICHUK: That's their evidence, yes, sir.

MR. BOB PETERS: All right. And that $7 million synergy would be monies available to utilize under the hold harmless principle should that -- should it be needed?

MR. GREG MATWICHUK: Should it be needed, yes, sir.

MR. BOB PETERS: And you've questioned, through your Counsel on direct, and I think also with Ms. Murphy, and you've just now referred to it to me, but the absent acquisition scenarios that are painted on page 14 of the rebuttal evidence, as well as, I think, in Exhibits Centra 23 and Centra 24, those are scenarios that, again, you've stated your concerns and your difficulties with how they come up with the approximate $9 million benefit to consumers as a result of the Manitoba Hydro ownership of the Centra shares?

MR. GREG MATWICHUK: Yes, I -- I have -- I have stated my concerns and just to be pedantic about it, that benefit, so-called, was in the '05/'06 calculation only from Centra.

MR. BOB PETERS: All right. And just let's cover that point off, does your Counsel have available for you a copy of Centra Exhibit 24; that would be the hold -- or the absent acquisition page.

MR. GREG MATWICHUK: Is it Undertaking 23, sir?

MR. BOB PETERS: It is Undertaking Number 23, yes, and it's Centra Exhibit 24, and it provides the 2006/07 test year, on a comparative basis with the test year compared to the absent acquisition.

MR. GREG MATWICHUK: I have that in front of me.

MR. BOB PETERS: And your last point before we started down this road was you don't see that in this year the $9 million gets continued, is what you're suggesting?

MR. GREG MATWICHUK: That's what I observed from the schedule, sir.

MR. BOB PETERS: And are you also saying then that if it was a $9 million benefit in the year before, you would expect the $9 million to be a benefit year over year over year?

MR. GREG MATWICHUK: One would expect that if there are benefits, that i.e. synergies, the way that they've been expressed at the time of the acquisition, and taken as assumptions by both Nesbitts and KPMG, that they would be annual benefits, yes, sir.

MR. BOB PETERS: And you've heard Mr. Warden, I believe, indicate when this document was filed, that the result in the '06/'07 year, was that there would be an additional $3 million flowing down to retained earnings, which would assist in the debt equity ratio; correct?

MR. GREG MATWICHUK: The $3 million is the difference between the net income shown there of 14 million, and 11 million, as previously filed. Is that the -- the $3 million you're referring to?

MR. BOB PETERS: I believe that was the 3 million Mr. Warden was referring to, so, yes, it is.

MR. GREG MATWICHUK: Okay. So that -- I -- I understood that that's what Mr. Warden said, but I don't agree with -- with his premise.

MR. BOB PETERS: Why -- why is that?

MR. GREG MATWICHUK: Well, first of all, the $3 million that moves down to retained earnings, the question is, is it necessary? Is it a cost that is required by Centra ratepayers to have service delivered to them? And I'm suggesting, no, it's not a cost that's necessary.

MR. BOB PETERS: All right, back to the

$9 million figure, which you understand to be Centra's evidence, to be the benefit in the '05/06 year, as a result in the change in ownership?

MR. GREG MATWICHUK: That's -- you're speaking of the $9 million on the farthest right hand column on page 14 of their rebuttal evidence?

MR. BOB PETERS: Yes, and also on Centra Exhibit 23, Undertaking Number 22, which was just a restatement of the corporate allocation amount and -- and a different debt equity ratio as requested by -- by your counsel.

MR. GREG MATWICHUK: I'm -- I'm just getting that one (1), sir, just so I have it in front of me. Yes, I -- I have that.

MR. BOB PETERS: And so my suggestion was that according to Manitoba Hydro's evidence, and what they're suggesting to the Board, is that this approximate $9 million is the benefit that ratepayers of Centra have -- have received as a result of the change in ownership.

MR. GREG MATWICHUK: That -- that is Centra's evidence, but I -- I quarrel with the calculations.

MR. BOB PETERS: And do you have another amount that you suggest is more accurate than the $9 million?

MR. GREG MATWICHUK: Well, I have not done a similar calculation, but I have done adjustments to this type of calculation on -- on the margin, and as I mentioned to you, I have concern about the $62 million, because that's probably $3 or $4 million off the mark.

I'm concerned about depreciation and amortization that Centra has simply taken the depreciation and amortization that it is currently forecasting. Who knows whether West Coast or Duke or any other owner, would have had the same policy with respect to expansion or with respect to rate base rehabilitation, et cetera, et cetera.

So, we don't know that it would have been $19 million on the amortization. And similarly, capital taxes, we don't know that that -- if rate base was different, then investment and capital would have been different. So that would have affected the capital and other taxes.

When we get down to income taxes and return on rate base, what I'm suggesting is that West Coast did not maintain its equity component at 40 percent. I mean the number does fluctuate from time to time.

And I recall when West Coast came to the Board and suggested that they wanted a deemed equity of

40 percent and the Board said, No, we don't think that's appropriate, we're going to use your actual equity, particularly if it's under 40 percent so that you don't get a bump.

And so when I look back on Centra Exhibit 23 shows a calculation based on 38 percent equity, 38 percent equity was a realistic scenario. But, when they did this calculation the problem is, is they didn't use apples to apples, Centra used a different rate base number on page 2 of 3 that they -- compared to what they used in their rebuttal evidence.

Also, quite significantly, the after tax return on equity they're suggesting would have been 9.5 percent, and they base that on a decision which pre-dates the decision on the formula. While the formula came in and in 1995 and it's pretty clear as to what their rate of return would be calculated as and it would be the same, no matter what owner today, it would be nine point two six (9.26), not nine point five (9.5).

So, there -- that would impact both the return on equity and the income tax. And I estimate that the differential there would be approximately $1 million.

MR. BOB PETERS: All right. So, you have $5 million of adjustment that you can mathematically calculate and then you have to speculate on what the other ones would have been?

MR. GREG MATWICHUK: Correct.

MR. BOB PETERS: All right. With that comment, those comments and qualifications, Mr. Matwichuk, again back to Centra's view of the evidence, view of the positions on acquisition there was a $9 million benefit which you've indicated you have questions with the number amount, but that there's evidence.

MR. GREG MATWICHUK: That's their evidence as I understand it.

MR. BOB PETERS: And the amount of benefit that would be available to consumers of Centra, that money would also be notionally available under the hold harmless principle to help pay off any amounts of acquisition, should it be required?

MR. GREG MATWICHUK: Should it be required, yes, sir.

MR. BOB PETERS: And that amount would be $9 million, it could be -- you're suggesting it could be -- maybe it's $4 million, maybe it's something else?

MR. GREG MATWICHUK: Yes sir.

MR. BOB PETERS: All right. Now, in terms of calculating the monies that are needed to pay off the $19 million, one (1) of the suggestions you have is that when it comes to paying the premium, the Centra customers money shouldn't be used in any way shape or form to pay off the premium?

MR. GREG MATWICHUK: That's what regulatory principles or regulatory precedent would say, sir, that are widely held and commonly established and generally accepted.

MR. BOB PETERS: And I was going to come to this later, but you had -- you had a number of sources that you were relying on when you said that to the Board, did you not?

MR. GREG MATWICHUK: Yes sir.

MR. BOB PETERS: And would you be able to file those sources for the Board's review of them at a subsequent time, as an undertaking to the Board?

MR. GREG MATWICHUK: I will undertake to do that, sir.

MR. BOB PETERS: All right.

--- UNDERTAKING NO. 30: TREE/RCM to provide Board with the sources for assertion that Centra customers money shouldn't be used to pay off the premium.

CONTINUED BY MR. BOB PETERS

MR. BOB PETERS: And so you're relying on some previous decisions where the premium was not paid by the Utility that was acquired by the ratepayers, the Utility that was acquired?

MR. GREG MATWICHUK: That's one of my sources, yes, are the decisions and the other are the well established regulatory principle fund in that regard.

MR. BOB PETERS: So in terms of the money that is available to pay the $19 million, you're suggesting that the full amount of synergies in Hydro be used as the first payment of the $19 million, would that be fair?

MR. GREG MATWICHUK: I better just make sure I understand your question.

MR. BOB PETERS: All right. Of the $19 million in terms of how it gets paid on an annual basis, you want the $9 million of synergies found in the Manitoba Hydro electric side of the business to be used to be the first payment against that $19 million?

MR. GREG MATWICHUK: And when you say first payment, you mean first payment for each year?

MR. BOB PETERS: Yes?

MR. GREG MATWICHUK: That's my understanding of the Board's intentions.

MR. BOB PETERS: Well, and let's not go back to the Board's plan, but, let's go back to what you're suggesting. You're suggesting that money be used every year to pay off a portion of the $19 million?

MR. GREG MATWICHUK: So allow me, Mr. Peters, to -- to indicate why. And the answer is, yes, and first of all I'm guided by the Board's plan which -- which I agree with, which is simple and effective.

I'm also guided by regulatory principles which indicates that -- that Centra ratepayers should not be incurring any part of the acquisition costs. I'm also guided by the fact that Hydro committed, at the time of the purchase, that synergies would be adequate to cover off the costs of acquisition.

And so to -- in an effort to ensure that ratepayers are held harmless the use of return on equity and synergies seemed to be a reasonable balance.

MR. BOB PETERS: There's common ground here, is there not, even under you and under Manitoba Hydro's evidence that the synergies achieved to date aren't sufficient to pay off the $19 million?

MR. GREG MATWICHUK: That's my understanding; they are not sufficient.

MR. BOB PETERS: All right. And so in addition to the $9 million that the electric side of the business has received, we now need to find another $10 million under your evidence to pay off the $19 million total annual amount?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: And your suggestion -- and well, in terms of the options that are available, there would -- it could be coming from the synergies found on the gas side; correct?

MR. GREG MATWICHUK: If -- okay, there -- there are options and I guess is, where -- where are we in the regulatory scheme of things. But if we're holding the Board's 118/03 order aside, then -- then, yes.

MR. BOB PETERS: All right. And as an option it would be the synergies found in the gas side because that would still hold the gas customers harmless if that money was used to pay towards the $19 million?

MR. GREG MATWICHUK: Conceptually that's correct. It's just with a -- with a great deal of risk. Given -- and I say that because the synergies, that's a number like trying to nail Jell-O to the wall as opposed to, just in the vernacular, but with return on equity, it's something that's objectively determined. It's based on numbers that can be tested.

There is a great deal of -- more reliability on that side of things. Synergies, I think you're entering into a world of risk there.

MR. BOB PETERS: All right. And you've given two (2) options and one of them is the synergies and the second is the return on equity amount; correct?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: The third option that you didn't give yet would have been the benefits that have been achieved by the gas company's customers as a result of the ownership which Manitoba Hydro has quantified at $9 million in the 05/06 year, and I know youÆve disagreed with that amount.

But those benefit amounts, whatever they are, that would be another source or option of funds to help pay off the $19 million and still hold the gas company ratepayers harmless?

MR. GREG MATWICHUK: I would agree with you, Mr. Peters. And just, again, I -- I reiterate, it was my understanding that the Board had looked at these options previously, in any event, and came to the conclusion of its plan that had balance because those numbers were reliable.

The synergy numbers, it seemed to me from reading of the Board's decision, gave the Board a fair bit of angst because of the difficulty in measuring, tracking them, particularly as we go further on in years since the acquisition.

So, yes, they are all conceptual options. The question is, what's the -- what's the fair option? What's -- what will stand the test of just and reasonable rates?

And as you know, Mr. Peters, that is the -- the standard that on which there's a lot of jurisprudence and it is the final test to determine whether rates are fair.

And what I'm suggesting to you is that in the final analysis if you are holding the acquired company harmless and you're holding the acquirer ratepayers -- the ratepayers of the acquirer harmless as well, then you've probably achieved your objective.

And -- and I understand that's -- that was the Board's intention.

MR. BOB PETERS: All right. And let's just follow that intent through. And the intent of the Board, as you've interpreted it, is -- is what you're urging on the Board today, to continue to be the Board's plan; correct?

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: And how much -- let's assume the return on equity is the -- is approximately $12 million, okay?

MR. GREG MATWICHUK: I'll assume that.
MR. BOB PETERS: You'll assume that. How much of that $12 million should be used to pay down the $19 million under your recommendation to the Board?
MR. GREG MATWICHUK: Okay, Mr. Peters, if I may take you to a document, and you'll help -- help us walk through that, is -- and I believe I've got the exhibit number correct today, PUB-5-1, which is IR Response to PUB/CAC/MSOS-1, and there's an attachment there. And I think this will assist in our discussion.
MR. BOB PETERS: If you can just give me and the Board a minute to turn it up?
MR. GREG MATWICHUK: Sure.
THE CHAIRPERSON: You might find it's in the Book of Documents, Mr. Peters. Is it in there?
MR. BOB PETERS: I'll need the reference again, Mr. Matwichuk?
MR. GREG MATWICHUK: Yes, I'll just double check the exhibit number PUB Exhibit 5-1. I'm getting the nod from Mr. Saxberg, and -- and so that is the response PUB/CAC/MSOS-1. And there's a table attached to that. There's an attachment, a sideways table.

(BRIEF PAUSE)

MR. GREG MATWICHUK: It was the Board's first Information Request to CAC/MSOS.

THE CHAIRPERSON: Mr. Saxberg, I take it you're looking directly at it?

MR. KRIS SAXBERG: Yes, I am.

THE CHAIRPERSON: Is it one (1) page?

MR. KRIS SAXBERG: It's one (1) page. And I -- I mean I can --

THE CHAIRPERSON: Perhaps Mr. Singh --

MR. KRIS SAXBERG: -- give my copy to Mr. Peters.

THE CHAIRPERSON: -- could quickly copy it and --

MR. BOB PETERS: Perhaps we should just take a short recess for the morning and we'll copy it and --

THE CHAIRPERSON: We'll have our morning recess now. Thanks.

--- Upon recessing at 10:20 a.m.
--- Upon resuming at 10:43 a.m.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Matwichuk, before the break I was fumbling to locate a chart in the prefiled evidence that you provided, it shows you my filing system, why I use a Book of Documents. But, having said that we've now got a copy provided to the Board and to, I think, other parties.

So, you wanted to refer to that and I now have it, so please proceed.

MR. GREG MATWICHUK: Well, I have two (2) comments. First, you and I are having a discussion about the three (3) options and I was thinking about that over the break. And I just wanted to make sure that we had clarity about those three (3) options that you were saying; that there's one (1) with respect to the return on equity, one (1) with respect to the synergies, and one (1) with respect to the benefits.

And when we were discussing the benefits you had taken me to page 14 of Centra's evidence and also Centra Exhibits 23 and 24. But, the clarity I wanted to bring to that is when we were talking about the benefits in that context, those include the synergies.

And I just want to make sure that we're of the same mind on that and those synergies as I understood it. Again when I was speaking about risk, I heard yesterday where there was a -- I don't know if it was yesterday or in the transcripts, where there's a $2 million margin of error, as there was sort of $6 to $8 million of synergies.

And when you look at what's in Centra 23/24 on page 14 of the rebuttal, once you take out the synergies of $8 million that Centra has chosen or is showing there, than you've only got $1 million of benefits, to come to the 9 million that you were referring me to.

So, I just wanted to point that out, just so that we're not -- just so that we're not double counting or mis-interpreting each other.

MR. BOB PETERS: I have your point. Thank you.

MR. GREG MATWICHUK: And -- and my second point was with respect to the schedule, was that I trust this isn't the first time you've seen it.

But, any way, your question sir was with respect to assuming the $12 million, if I understood it, of return on equity, how would that be divided up between what's retained in earnings of Centra and what is distributed to Manitoba Hydro to assist in covering off the acquisition costs; is that correct?

MR. BOB PETERS: That's where we were before the break, yes.

MR. GREG MATWICHUK: Okay. And the reason I selected this schedule for reference purposes is that if you look to line 11, you will see in each year under rate base rate of return, give or take a few hundred thousand dollars, we're talking about $12 million; that would be in return on equity, line 11, which says return on rate base-equity.

I hate to ask a question, but are you with me so far?

MR. BOB PETERS: I'm following.

MR. GREG MATWICHUK: Good. And so we start there that rate base rate of return being an objective measure of what is fair to return to an owner as part of a cost of service.

Now, that's the other thing I wanted to mention, when we talk about cost of service it's a difficult concept because revenue requirement is often referred to as cost of service because that's what it is, it is the cost of service, it just happens to include a cost element that is a return to shareholders.

But that's an aside. So, what I had indicated in the evidence is the rate base rate of return as an anchor, standard, or highwater mark, would indicate what's available to the shareholder.

So, that 12 million then can also be demonstrated to be used in the COS columns. So, if you look at lines 14 and 16, you'll see line 14 indicates net income, and that's the net income that could be retained in Centra, so that's effectively $2 million there, in both years.

And then at Line 16 there's an additional net income to reflect flexibility in RBROR, rate base rate of return, and that is an amount that would be available to be distributed, dividend out, however you want to do it to Manitoba Hydro.

So, you have in each year a two (2) and ten (10) combination. Obviously adding up to the twelve (12). And so there would be two (2) available for retention in -- in Centra. And that would achieve a one (1) time -- a one point one (1.1) times interest coverage.

And then the ten (10) would be available for distribution to Hydro to combine with the $9 million of synergies that would more than cover off the $19 million you and I were discussing earlier.

MR. BOB PETERS: All right. Thank you for that. When we -- when we look here at the income -- the net income on line 14, you've used one point one (1.1) times interest coverage in your calculation because you -- you were of the understanding that was the policy being used by the Utility?

MR. GREG MATWICHUK: That was -- one (1)

of the sources that I looked to for assurance or comfort on that issue, as well, I looked to interest coverages that have been taking place, interest coverages that were forecast, and considered what Centra, in its new capacity as a company that obtains its financing through a debt guarantee and that debt guarantee diminishes significant risk associated with financing.

And so when you provide a cushion above interest coverage, it can be there to cover off any other risk that may persist; allow a cushion in retained earnings, if I could put it that way.

MR. BOB PETERS: And the primary reason you say one point one (1.1) is sufficient, if not excess -- excessive is based on the Provincial guarantee fee?

MR. GREG MATWICHUK: Largely.

MR. BOB PETERS: Provincial guarantee?

MR. GREG MATWICHUK: Largely, yes, sir.

MR. BOB PETERS: From a conceptual basis, Mr. Matwichuk, do you agree that Centra customers should not receive a $9 million benefit, or whatever the amount you would suggest it is, at no cost?

MR. GREG MATWICHUK: On a conceptual basis, Centra customers should not receive a $9 million benefit at no cost? Have I got your question?

MR. BOB PETERS: Let me rephrase it?

MR. GREG MATWICHUK: Sure.
MR. BOB PETERS: When we reviewed Centra Exhibit 23 and the absent acquisition scenarios, you had comments as to whether or not it was really a $9 million benefit, including synergies, that has been received by the Corporation, correct?
MR. GREG MATWICHUK: Yes, sir.
MR. BOB PETERS: And do you agree though that whatever the amount is, there has been some benefit as a result of the change in ownership?
MR. GREG MATWICHUK: There likely has some -- been some benefit and I would think that the greatest portion around that is the income tax.
MR. BOB PETERS: And do you think then in terms of fairness that it's appropriate that Centra customers should pay something on account of that benefit they've received, whatever amount it is?
MR. GREG MATWICHUK: Okay. And again I -- I'm loathe to look at it in isolation, and I think we have to step back again and say, have ratepayers been held harmless. And if there is a way to -- to hold ratepayers harmless, such as that provided by the Board, the Board's plan, then -- then it's a question as to how much there is in additional benefits, and how significant are they.

You know, then I think you're into sort of a size test issue, and but if you -- if you wanted to be pedantic about it, then there -- you know, then you're into earmarking dollars of savings. And I think if you're going to do that, earmarking dollars of savings or synergies or benefits, I think we need to be very -- have a very high degree of assurance that those actually exist.

And I think when I -- when I say that, I make reference to a previous Board decision where the Board -- it was put to the Board that there were $15.3 million, and I referred to this $15.3 million of synergies, that were estimated at one (1) time, and the Board looked at this in 208/02, and suggested that really a good portion of those didn't exist, and disallowed them.

So, I think you know, we have to keep in mind that the Board has looked at these synergies at various levels, and has disallowed synergies, and I think that's why we have to have extra caution when we look at the savings levels, or however we apportion them. And if we're going to use them, if we're going to make use of them, let's make sure that they are measurable, reliable, clearly understood.

MR. BOB PETERS: All right. With that

qualification, and I'll call it a repeated qualification, Mr. Matwichuk, would you agree with me then that using of the -- the case put forward by Manitoba Hydro, that so long as the Centra customers pay through rates an amount that doesn't exceed the return on equity portion, plus the synergies and benefits portions, then their customers would be no worse off as a result of the acquisition?

MR. GREG MATWICHUK: With the qualification, yes, sir.

MR. BOB PETERS: And they'd be held harmless under the held harmless principle, with your qualification?

MR. GREG MATWICHUK: With the qualifications, yes, sir.

MR. BOB PETERS: And if we look to see the components of the revised revenue requirement for '05/'06, and we'll look on Centra Exhibit 23, that would be the answer to Undertaking Number 22.

MR. GREG MATWICHUK: I'm just retrieving it, sir.

MR. BOB PETERS: All right.

(BRIEF PAUSE)

MR. GREG MATWICHUK: Yes, I have it.

MR. BOB PETERS: Well, just before we get there. The -- the ROE portion that you'd referenced was considered by the Board in previous orders, that was in the range of $15 million; would you agree with that?

MR. GREG MATWICHUK: There -- there was a range and I think it was based on the '03/'04 timeframe, yes.

MR. BOB PETERS: All right. And would you accept that there was, under your interpretation of the Board's plan, an implied commitment from the Board to approve an annual ROE in the range of approximately $15 million, to fund a portion of those acquisition costs?

MR. GREG MATWICHUK: That's not the way I read the decision, sir.

I -- I read it as defining as the amount to be transferred as the ROE. And it's estimated that it has been in this range over the years. But I certainly wouldn't advocate a fixed amount, if -- if that's where we're going with this, because then you're certainly at risk of cross-subsidization, one way or the other.

MR. BOB PETERS: So, other than the fixing of it, you'd agree that the amount, however it is determined annually, let's say, would be available to fund the costs of acquisition?

MR. GREG MATWICHUK: Yes, and -- and just the one (1) qualification on that is that I would view that the use of the Board -- continued use of the Board's formula, would be the fair and objective way to proceed.

MR. BOB PETERS: All right. If we look at Centra Exhibit number 23, and we look at the test year components of the revenue requirement, in terms of what would accrue for the benefit of Hydro, you're telling the Board that it would include, under the cost of service model here, the $12 million of corporate allocation and the $5 million under the net income or return on equity?

MR. GREG MATWICHUK: For a total of $17 million, which in my view would be excessive.

MR. BOB PETERS: Well, yes, while you say it will be excessive, you would acknowledge though that that would still -- those numbers would still hold Centra customers harmless, under the hold harmless principle?

(BRIEF PAUSE)

MR. GREG MATWICHUK: I'm not sure I'd agree with you and -- because what we're looking at here is a $17 million going to the owner and I think I indicated yesterday that that would result in a return to the owner of 13.6 percent return. And I don't believe that that's a fair return. I don't think you would find a return going to the owner in any jurisdiction in Canada at that level.

MR. BOB PETERS: Will that separate the revenue requirement in terms of how we recover it, but, in terms of an amount of money, whether that $12 million was a corporate allocation or a return on equity, it would be something to which the owner would be entitled?

MR. GREG MATWICHUK: Yes. And I guess, just to make sure that we're speaking about the same terms, the $12 million I'd be fine with because that coincides with the table attachment to PUB-1 that we were just looking at, in terms of $10 million being available to Hydro and $2 million of that being available for retention. What Centra Exhibit 23 has is another $5 million.

MR. BOB PETERS: And that's the part you object to and suggesting that that contributes to the double count?

MR. GREG MATWICHUK: Yes, it would be excessive.

MR. BOB PETERS: And just for clarity, it would be excessive, in terms of what is needed to provide just and reasonable rates for Centra ratepayers because the net income would be rendered unnecessary, the net income of $5 million would be rendered unnecessary because there's already $2 million that's built into the $12 million because there's only $10 million or less that's needed to be transferred over to Manitoba Hydro.

MR. GREG MATWICHUK: And that's because you're using the synergyÆs in Manitoba Hydro to make up the difference between the $10 million and the $19, that's all that was needed.

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: All right. Well let's step back from that thought. If you think of the corporate allocation as compensation for benefits received and that is nothing to do with ROE, do you still consider it to be a double count?

(BRIEF PAUSE)

MR. GREG MATWICHUK: Well again, sir, I hesitate because I think we have to look at the whole -- the entire picture. And I don't think we can look at these numbers in isolation. We have to look at all of the claims for synergies, all of the amounts of income, corporate allocation, retained earnings.

And that's why -- I just refer to my evidence in, on page 5 and 6. There are three (3) components to analyze. The return, the synergies and the annual amount related to acquisitions.

So we have to look at the sum total of it all so that we make sure that we're not leaving out key components that may provide for -- harm for one (1) class of rate -- one (1) set of ratepayers versus another.

MR. BOB PETERS: You'd agree -- I think you agreed with me earlier that the -- not only do you look at hold harmless principle, the synergies in Centra would also be available to hold Centra harmless and still contribute to the amount of the acquisition costs, should that have been an option selected.

MR. GREG MATWICHUK: Yes, as long as we are taking into consideration all the costs and savings.

MR. BOB PETERS: Which is your usual qualification when it comes time to the û- without acquisition numbers and synergies associated with that?

MR. GREG MATWICHUK: Right.

MR. BOB PETERS: I've got your point. And just following up on that, the -- the top of page 6 of 30 of your evidence, you carried that through, I think, and you revised a table for Mr. Saxberg in CAC Exhibit 9, which was your Table 5, revised, correct?

MR. GREG MATWICHUK: That's correct.

MR. BOB PETERS: And the purpose of Table 5, revised, was to demonstrate in the bottom half of that table that there were sufficient synergies in the Hydro company together with the equity component, the return on equity from Centra, to more than compensate for the $19 million annual amount that was needed to be paid?

MR. GREG MATWICHUK: Yes. That is correct. And the revision was promulgated by the revised synergies and the revision to the annual amount of acquisition costs. And those revisions were provided by Centra.

MR. BOB PETERS: Well, I wasn't attributing mistakes in your work, you were responding to what you understood to be the evidence --

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: -- that has come forward?

MR. GREG MATWICHUK: Exactly.

MR. BOB PETERS: There was earlier discussion, Mr. Matwichuk, that the $12 million annual corporate allocation charge was considered to be one that would be required in perpetuity to pay for the $19 million annual costs; you're aware of that?

MR. GREG MATWICHUK: I may have missed that discussion, but I'll -- I'll take it subject to check.

MR. BOB PETERS: All right.

MR. GREG MATWICHUK: Your point is perpetuity.

MR. BOB PETERS: And the alternative to perpetuity appeared to be that an additional amount of money could be paid to start paying down the principal if that was a financing choice selected and then the -- the $19 million wouldn't be needed in perpetuity, it would rather be -- it could be amortized and paid off over thirty (30) years?

MR. GREG MATWICHUK: I guess Manitoba has the choice as to how long it intends to amortize. But I'm -- maybe I'm missing your point, sir.

MR. BOB PETERS: Well, let me start it this way, when you last appeared before the Board there was a discussion of an annual amount needed of approximately $20.9 million, correct?

MR. GREG MATWICHUK: That's correct. Yes.

MR. BOB PETERS: And that number has now been reduced down to $19 million?

MR. GREG MATWICHUK: That's my understanding, yes.

MR. BOB PETERS: And you understand the reason it's come down $3 million is because the -- the net book value, shall I say, of the -- of the purchase price will never be paid off in terms of the principal, the debt against it will continue to stay debt. There will be debt against that amount in perpetuity?

MR. GREG MATWICHUK: That may be the testimony, but I think that a prudent investor would work to pay off its -- its debt so.

MR. BOB PETERS: But, so long as there's a value of the corporation, Manitoba Hydro could carry debt?

MR. GREG MATWICHUK: Manitoba Hydro could support its debt by the holding of that net book value, yes.

MR. BOB PETERS: And are you suggesting that the debt against that net book value should be paid off or should never be paid off?

MR. GREG MATWICHUK: Well, I think a prudent investor would have to make a choice in terms of relative risks of its investments. And if they found that it was more prudent to -- to pay off that debt versus incurring debt for other projects, then -- then that's what they do.

I -- that would be -- have to be a decision of management. But, again, that's -- should be of no consequence to this proceeding.

MR. BOB PETERS: All right. I have your

point. You -- you brought to the Board's attention, through your direct evidence yesterday to Mr. Saxberg, that your Table 1 of your evidence was revised and that was included in CENTRA/CAC/MSOS-2 Attachment 1; have I got that right?

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: And in your Table 1 revised I just want to cover a couple of quick points here. You removed the corporate allocation of $15.1 million and you now understand that would be $12 million, is what the Application is?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: And you also removed the synergy transfer and yesterday you said that, as I understood your evidence to Mr. Saxberg, it's your understanding that that $3 million has not yet been removed from the revenue requirement of the corporation; have I got that right?

MR. GREG MATWICHUK: That was my understanding from reading the transcripts of the interim ex parte Hearing, yes.

MR. BOB PETERS: In these Proceedings Centra has indicated that the $3 million has not been put back into revenue requirement; do you accept that?

MR. GREG MATWICHUK: I'll accept that

subject to check.

MR. BOB PETERS: Okay.

MR. GREG MATWICHUK: And then I guess what we're left with is the Board's base line of $49.3 million, relative to Centra's request of $54 million for '03/'04. So it's -- we're either faced with a 10 percent increase in O&M or the $3 million synergy is still in there. It's got to be one or the other.

MR. BOB PETERS: And the rate increase that's being asked for and that was asked for at the interim ex parte Hearing, did amount to approximately a 10 percent increase on non-gas cost items?

MR. GREG MATWICHUK: That's my understanding, yes.

MR. BOB PETERS: And there's a further 10 percent increase on non-gas cost items sought for the second test year?

MR. GREG MATWICHUK: I'll take that subject to check.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Matwichuk, have you compared Centra's debt equity ratio at the time of acquisition by Hydro to the current debt equity ratio?

MR. GREG MATWICHUK: I did not specifically examine it, but my recollection would be that at the time of the acquisition, it -- it would have been -- the time of the GRA, would have been close to 60:40. However, as a result of the GRA decision, there -- there was significant write-offs, and so I think the debt equity was compromised somewhat.

So, I don't know exact number, but what I do recall from Centra's current Application is that it -- debt equity currently is about 67:33.

MR. BOB PETERS: Well the 67:33 is -- is premised on certain methodology and calculation, correct?

MR. GREG MATWICHUK: It's premised on the widely accepted methodology of determining debt equity ratios.

MR. BOB PETERS: What it -- how it's calculated is that it -- it keeps the $121 million of share capital in as equity?

MR. GREG MATWICHUK: Yes. And as I mentioned earlier this morning, $121 million of that -- that share capital equity of that $82 million was retained earnings in Centra when it was under West Coast, that was converted to share capital.

MR. BOB PETERS: What -- what's your advice to this Board in terms of where the debt equity ratio should be for Centra Gas Manitoba Inc.?

MR. GREG MATWICHUK: Oh, you mean at -- what's the optimal level?

MR. BOB PETERS: Yes, going forward, where do you -- where do you think is the optimal level?

MR. GREG MATWICHUK: I have not examined the optimal level. However, what I -- what I can tell you is this, sir, is that while it was under West Coast 60:40 was -- was acceptable to this Board.

And I can tell you that that is consistent with my understanding of what other Boards would have allowed for a stand-alone entity with an A level credit rating at the time. Now, that it has a debt guarantee and Centra ratepayers pay the debt guarantee fee, that the -- the level of 60:40 is not likely as -- as important -- has a diminished importance, as I pointed out in my evidence, because of the protection that the debt guarantee affords.

MR. BOB PETERS: Does that last answer suggest that 75:25 would be more appropriate for Centra?

MR. GREG MATWICHUK: I wish I could give you a better answer, sir, but it's not something I was asked to look at, and I -- I did not look at optimality. But it -- it's certainly a thinner equity than the 60:40 previously allowed by the Board. But if it's something that you'd like me to look at, I can take an undertaking.

MR. BOB PETERS: Well, it sounds like an offer that I won't refuse, Mr. Matwichuk. Perhaps as the second undertaking from me, you would provide the Board with your view as to what would be the optimum recommended debt equity for Centra, and provide your -- your rationale and supporting references, if you could?

MR. GREG MATWICHUK: Very good.

--- UNDERTAKING NO. 31: TREE/RCM to provide Board with what would be the optimum recommended debt equity for Centra, and provide rationales and supporting references.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: On that point, recognizing you haven't studied it, do you consider Centra's dead equity ratio of any practical relevance in terms of accessing capital markets?

MR. GREG MATWICHUK: There is very little practical need for retention of debt equity. I mean once you have a debt guarantee fee, accessing the capital markets is being taken care of by accessing the capital markets through the Province of Manitoba.

And as I mentioned in my evidence in my IR responses, DBRS which was the only credit rating agency that was looking at -- continued to look at Centra, in 2002, the last rating that was provided noted that its rating for Centra, which it gave an A level to, A stable, was a recognition that there are some ratios that have been compromised since the acquisition.

But, because of the debt guarantee, because of the ownership structure through Manitoba Hydro and up the chain through the Province of Manitoba, it was compensating that those compromises and retaining the same debt rating because of the assurance that is provided through the debt guarantee.

So, the importance of maintaining the debt equity level pre-sale is significantly diminished because of the protection.

MR. BOB PETERS: I understood from your evidence that if there was a $12 million approximate return on equity that was available to Manitoba Hydro, and as you demonstrated under your attachment PUB/CAC/MSOS-1, of that $12 million the parent could choose to take $10 million to help it pay the $19 million annual cost of the acquisition and leave $2 million in the gas utility?

MR. GREG MATWICHUK: Yes sir.

MR. BOB PETERS: And that was your -- that's your recommendation, I take it.

MR. GREG MATWICHUK: Yes sir.

MR. BOB PETERS: And as a result of leaving the $2 million what, if anything, does that do to the debt equity ratio?

MR. GREG MATWICHUK: Well, I guess it will depend on the amount of any further debt that's taken on for expansion. But, it's -- my understanding that there's an undertaking being provided by Centra with respect to the debt equity in terms -- going forward.

Certainly, it will not harm the debt equity ratio by providing that level of income. So, it should help it remain the same or enhance it.

MR. BOB PETERS: In your view, Mr. Matwichuk, would Centra's ability to achieve its financial targets, whatever they may be, be different under a cost of service methodology than under a rate base rate of return methodology?

MR. GREG MATWICHUK: Did you say its ability to meet its targets?

MR. BOB PETERS: Yes.

MR. GREG MATWICHUK: Okay. And again I have to circle back and apologize for this, but I think it's important to raise is that the answer is going to be; it depends.

It depends on what's awarded and how it proceeds. But, if the Board continues with its plan, which I urge it to do, then whether it's under rate base rate of return methodology or the cost of service methodology, and the latter using the Board's formula for determining an ROE, so that we can set how much is retained and how much is turned over to Manitoba Hydro, then both can be accomplished and the ability to achieve the targets should be relatively the same.

MR. BOB PETERS: So, with those qualifications, it sounds like their ability to achieve the targets, you don't see a significant difference whether it's under cost of service or under rate base rate of return methodology.

MR. GREG MATWICHUK: That's right. But, I still have concerns about cost of service relative to rate base rate of return in terms of how it would help it --achieve, minimize cost.

MR. BOB PETERS: I took from your evidence partly through Ms. Murphy and partly through Mr. Saxberg, that your main concern was the use of management judgment or judgment in any event to determine net income was -- was the primary concern you had?

MR. GREG MATWICHUK: Yeah, that's a significant concern. Yes.

MR. BOB PETERS: And the second concern that I noted was that you felt that there was an incentive in rate base rate of return regulation to do better than your forecast which means the dollars would accrue to the bottom line?

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: All right. And those were the two (2) -- the two (2) main reasons that you're advocating that rate base rate of return remain as the method used?

MR. GREG MATWICHUK: Yes, those are the two (2) main ones -- look at. But, also in terms of, you know, first of all, historically, it would provide us a good level of comparison from year to year. It's what Centra has been -- has been doing.

It's what the regulator is familiar with. But, more importantly, is the transparency that would be -- would be affordable -- afforded there because of the objectivity related to the Board's formula of determining how much residual, after all other costs, how much net income should be available.

So, cost of service is one way of determining net income. Rate base rate of return has another way of determining net income. The rate base rate of return has it more objectively.

MR. BOB PETERS: All right. Let me just -- let's -- let's go to the cost of service methodology. How do you object to what you determine the fair return for a sub of a Crown Corporation using the cost of service methodology?

MR. GREG MATWICHUK: And -- and that's what I attempted to show in my response to PUB-1, the attachment, where -- and also in the -- in the discussion which proceeded it that a one point one (1.1) times interest coverage would probably be the best way of achieving that for this type of entity which has the debt guarantee.

MR. BOB PETERS: So, I take that answer to mean that if -- if cost of service was the method of regulation, you'd still want a -- a benchmark against which to test being the -- in this case, the interest coverage ratio which you recommend be one point one (1.1)?

MR. GREG MATWICHUK: Yes. But, I -- I come back to -- so -- no, I'm going to stay with your parameters of -- of strictly within the cost of service basis. Yes, is the answer.

MR. BOB PETERS: Mr. Matwichuk, you're

aware that the Board for Centra is the same as the Board for Manitoba Hydro?

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: And you're aware that Centra Gas Manitoba Inc. no longer has any employees?

MR. GREG MATWICHUK: That's my understanding.

MR. BOB PETERS: You understand that the labour costs are allocated through internal allocations over to the gas company?

MR. GREG MATWICHUK: Yes. Based on various cost drivers. Yes.

MR. BOB PETERS: And you also understand that all common costs are now paid by Manitoba Hydro and allocated over to Centra as well?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: And I think you've indicated that your understanding is that the debt needed by the gas company is not raised by the gas company but it's raised through the parent -- through the parent company?

MR. GREG MATWICHUK: Well, it's actually raised in the market through the Province.

MR. BOB PETERS: Based on the parent's requests?

MR. GREG MATWICHUK: Yes.

MR. BOB PETERS: And the rate at which that debt is charged to the gas company is also based on a flow-through of the -- the Provincial rate through the parent down to the sub?

MR. GREG MATWICHUK: I have not seen evidence of that. I -- I -- I have seen evidence that they's mirroring down from -- from the Province to Manitoba Hydro. However, when I attempted to find the comparable debt issues as to the term sheets that are included in this application on -- from external sources, I could only find one (1).

And so it troubled me that there is the potential for a spread between what Manitoba Hydro borrows at, i.e. the mirrored down rate from the Province, and what Centra borrows at and whether the terms are even the same.

But if -- if there is evidence, I'm -- I'm happy to take that, subject to check.

MR. BOB PETERS: All right. Well, that's an interesting point because I noted that in your direct evidence and I wanted to ask you about that.

Your suggestion to the Board was that even with the Provincial Government providing debt down through Manitoba Hydro and Centra paying the Provincial debt guarantee fee, it still may be cheaper for them to get it on the market than going through the parent?

MR. GREG MATWICHUK: What I'm suggesting is that an A-rated company may be able to find debt at the same level as that, that is being provided through Manitoba Hydro, which includes the debt guarantee fee.

MR. BOB PETERS: But you provided no evidence to that affect in your materials?

MR. GREG MATWICHUK: No, that's right. I -- it's just in -- in my discovering -- in going through the Bloomberg publications, that it appeared -- it appeared that that -- you know, we're around about the same level. But, you know, it might be -- it might be slightly less.

But that's -- just the reason I raised it is that -- is that we don't -- or at least I haven't seen evidence that there is precise mirroring down from the Province to Manitoba Hydro to Centra. And -- and I'm familiar with that concept in -- in other jurisdictions, where debt that is acquired in the market is mirrored down to the operating utilities.

MR. BOB PETERS: All right. That's not something then that you can do any further calculations on, but you just raised that as a possible concern that--

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: -- you want the Board to make sure they're satisfied before they accept the debt as necessarily cheaper in the way it's financed now?

MR. GREG MATWICHUK: Yes, sir.

MR. BOB PETERS: All right. That's fair. But in light of those factors where there's the same Board, the employees are from Manitoba Hydro, the common costs are paid by Manitoba Hydro, and the debt comes through the parent, would you agree with me then, that -- that Centra really isn't a stand-alone utility?

MR. GREG MATWICHUK: No, I would not agree with you, sir.

MR. BOB PETERS: Well, where does it stand alone if all of these other factors come into play?

MR. GREG MATWICHUK: It's stand-alone in terms of setting rates for regulatory purposes.

This is not a unique situation, Mr. Peters. There are utilities across this country that have costs allocated. For example, in EPCOR, which is an Edmonton City owned entity, it has two (2) regulated entities, EPCOR Transmission Inc., and EPCOR Distribution Inc. Both are essentially shells with allocations from their parent EPCOR Utilities.

The second example is Direct Energy in Alberta, and I understand Direct Energy is a Intervenor in this Proceeding. In Alberta, through the wisdom of the Government, there was an opportunity to separate retail operations from wires and pipe, both on the gas and electric side. Direct Energy purchased the commodity business from both ATCO Gas and Pipeline and ATCO Electric Ltd. And when they did that, they then became subject to regulation themselves.

Now the entity that provides the regulated service for both gas and electricity in Alberta, has no employees. It's a shell company. It -- it gets all its financing through its -- its parent. It gets -- its costs are allocated through affiliates.

But for setting rates for both the gas side and the electric side, there are separate revenue requirements. There are separate tariffs for each of gas and electric. And each of those utilities are regulated on a stand alone basis.

Another example, which I have a great deal of familiarity with is the Pembina Pipelines. The entity which is -- which operates the pipeline in -- in BC and Alberta, they -- the entity has no employees. It -- the employee driven company is -- is a trust. The -- the entity that applies for tariffs under the BCUC, gets all its costs allocated.

Another entity is AltaLink Limited

Partnership. It -- it too has no employees. All its costs come from either the general partner or -- or other sources.

But in all of those cases, they are regulated as stand-alone entities. And the reason for that, sir, is that it avoids cross-subsidization in one (1) way or the other.

So, I just wanted to highlight that for you, because, I mean, in ATCO Gas and Pipeline the part that's left is wires and pipes and those entities are still regulated.

So, the corporate entity is ATCO Gas and Pipelines Ltd. Within it there are two (2) divisions, not even corporate entities. And those allocations -- they get allocations from its parent which is Canadian Utilities Limited and it's, quote/unquote, ôgrandparent,ö which is ATCO Ltd.

So, one provides gas ELDC service and a second provides gas transmission service. You had ATCO Gas, ELDC and ATCO pipeline the transmission service. Further within each of those entities, are further divisions, north and south.

So, we have four (4) entities there. ATCO Gas north, ATCO Gas south, ATCO Pipelines north, ATCO Pipelines south. They all have regulated tariffs. They are different parents. They are regulated as stand alone entities. So they have four (4) separate revenue requirements, four (4) separate sets of tariffs.

So, the point is, that even in company's providing both services, there are separate revenue requirements and separate rates.

MR. BOB PETERS: Thank you Mr. Matwichuk. You mentioned the ones that you've just put on the record now. You also mentioned yesterday you had some authorities, including Dr. Moran who had û- who actually has testified here in Manitoba --

MR. GREG MATWICHUK: Right --

MR. BOB PETERS: -- and you also reference some OEB and AEUB decisions, do you recall that?

MR. GREG MATWICHUK: And in addition to what you've provided just now, can you provide those by way of undertaking to the Board for their future reference?

MR. GREG MATWICHUK: Yes, sir, I can.

MR. BOB PETERS: And you'll be providing copies of decisions of the regulator respecting those dealing with the stand-alone principle?

MR. GREG MATWICHUK: Yes. So just for practicality, sir, would you prefer to have the entire decision or the excerpts that I read from, or the sections excerpts where I read the sections, Board findings?

MR. BOB PETERS: I think the entire decision electronically would be fine, but you can highlight or draw attention --

MR. GREG MATWICHUK: Sure.

MR. BOB PETERS: -- for the Board to the specific quotes that you're relying on.

MR. GREG MATWICHUK: Very good.

--- UNDERTAKING NO. 32: TREE/RCM to provide Board with references to had authorities, decisions as well as full decisions of the regulator dealing with the stand-alone principle.

MR. BOB PETERS: Mr. Chairman, with those answers, I'd like to thank Mr. Matwichuk. That completes the questions that I have for him.

MR. GREG MATWICHUK: Thank you, Mr. Peters.

THE CHAIRPERSON: Thank you, Mr. Peters. I have a couple of my own.

Mr. Matwichuk, when you're speaking of stand alone, I gather you're talking about it from a -- sort of the legal reality of it and from the regulatory perspective.

MR. GREG MATWICHUK: Sorry, Mr. Chairman, I just thought it better I switch microphones.

Yes, speaking from a regulatory perspective given that's why we're here today.

THE CHAIRPERSON: So, to say, stand alone, from your perspective isn't speaking to the degree of integration into another organization from an operating perspective?

MR. GREG MATWICHUK: No, its recognizing that while there may be integration and the examples that I just gave Mr. Peters where there is integration, is not a factor in how rates are set for the entity that they are set on a stand alone basis.

The issue, on an integrated basis, is clearly one (1) of determining appropriate allocations. And sorry, if I may just continue on, this is not a new issue to Centra.

The issue took place with respect to under the West Coast ownership when it had shared costs. So it was more just a matter of degree. West Coast had a number of common costs at an administrative level where

as Manitoba Hydro has it fully integrated.
THE CHAIRPERSON: I'd suppose you'd accept that there are -- that tax can be another consideration in determining whether a corporation continues or not?
In other words, one (1) of the reasons why a company may hold a subsidiary could be tax reasons, to do with the treatment under income tax?
MR. GREG MATWICHUK: There may be, yes, maybe we could explore that a little further.
THE CHAIRPERSON: What I was suggesting was that along with regulatory reasons there could be other factors that would explain why you would have a company continue it, even though it had no employees?
MR. GREG MATWICHUK: There -- there could be a number of reasons, yes, sir, as to why a purchase may be made and continuing his operations and the style of operations, I agree.
THE CHAIRPERSON: You speak of generally accepted regulatory principles, are you aware of any exceptions to those principles, in place?
MR. GREG MATWICHUK: There -- there are always exceptions to the rule, sir, and it's just a matter of whether there is justification and usually it's -- it's rarely a -- an exception outright. It's -- it

can be more of an exception in terms of trying to maintain the principle but suggesting that there may be an overriding principle.

But as long as it's -- it's based in -- you know, the end decision is based in principle, then I think parties can agree.

THE CHAIRPERSON: You're saying then that the regulatory principles are subject to overriding concerns too?

MR. GREG MATWICHUK: Well, is -- I -- what I'm suggesting to you, sir, is that there -- there are a number of principles and it's a matter of ensuring -- determining whether there are any principles that are in conflict.

And which can happen from time to time and it's a matter of a regulator determining what is appropriate for the ratepayers and but there are overriding principles such as what -- what's going to be considered just and reasonable rates.

And I mean that's the ultimate test that any application is put to and any Board decision is put to.

THE CHAIRPERSON: So you're suggesting then that there could be conflicts between different criterion within a set of principles?

MR. GREG MATWICHUK: Yes, sir.

THE CHAIRPERSON: And that the conflict is generally resolved by looking to the higher principle, just and reasonable; is that what you're saying?

MR. GREG MATWICHUK: Yes.

THE CHAIRPERSON: Before the whistle, wherever it came from, you gave examples of Canadian utilities that had been -- or you spoke of Canadian utilities that had been acquired by Crown Corporations and suggested that they had been continued to be treated as stand alones and regulated on rate of return rate base; can you provide any specific examples of that situation where a Crown has acquired a private utility and -- and continued to operate it on a rate of return rate base methodology?

MR. GREG MATWICHUK: I can't think of any off the top of my head. But --

THE CHAIRPERSON: Would you take it as an undertaking --

MR. GREG MATWICHUK: Yes, sir.

THE CHAIRPERSON: -- if you come to it in the next little while you could advise us, Mr. Peters.

MR. GREG MATWICHUK: So the undertaking, sir, just to make sure I understand is a Crown --

THE CHAIRPERSON: If you could advise of

any examples which you're aware in which a Crown Corporation, a non-taxable organization, acquired a private utility and continued for some time operating that utility as a stand- alone, regulated on a rate of return rate base methodology?

MR. GREG MATWICHUK: I will undertake to do that, sir.

--- UNDERTAKING NO. 33: TREE/RCM to advise Board of any examples in which a Crown Corporation, a non-taxable organization, acquired a private utility and continued for some time operating that utility as a stand-alone, regulated on a rate of return rate base methodology.

THE CHAIRPERSON: Thank you. You indicated that the rate of return on equity or rate of return on rate base was a test, if you like, as to -- one test -- you described it in a variety of different ways, to ensure cost effective management. In other words that, you know, costs didn't get out of control or rates rose.

Can you think of or acknowledge that there could be other motivations to hold down costs and rates that are not related to return on equity?

MR. GREG MATWICHUK: Sir, it's been my experience in both the business world and, more specifically, with related to utilities that individuals have economic incentives and they're motivated by those economic incentives and --

THE CHAIRPERSON: I'm just wondering whether there's any, if you like, non-monetary incentives that could come into play to hold down cost in rates? Like, for example, obviously there could be a legal restriction, but could there be other factors, as well, at play?

MR. GREG MATWICHUK: I'm just trying to think. Yes, there -- there can be legal restrictions. So, I -- I'm trying to frame an example in my mind when you say legal restrictions.

If --

THE CHAIRPERSON: I wasn't intending to confine you to a legal restriction, and whether there was other factors that might influence the management of the Board to hold down costs and try to restrict rates, other than rate of return?

MR. GREG MATWICHUK: Well, I guess if

you're -- I'll explore this with you, sir, to make sure that we're on the same wave length. But if one (1) of the most common ways is an employee incentive system. And I'm not familiar with one (1) if it exists, within Manitoba Hydro.

But it is -- it's the most commonly used tool to optimize costs.

THE CHAIRPERSON: No, I think we all understand that how incentives and systems can work, and how a rate of return can be used as a -- as a test or a controlling factor. And it's all right, I was just wondering whether you could think of anything else that might drive cost control and restraint on a rate side.

MR. GREG MATWICHUK: Yeah, the most powerful tool is the economic incentives, and if -- if the economic incentives of a corporation are aligned with the economic incentives presented to the work force, then it can be a pretty powerful tool.

THE CHAIRPERSON: We've observed in our practice, in dealing with water and sewer utilities, that sometimes the Municipalities are not too eager to increase rates and hold down costs for other considerations other than net income ones.

MR. GREG MATWICHUK: I'm not sure --

THE CHAIRPERSON: Public acceptability is what I'm driving at?

MR. GREG MATWICHUK: Yes. And -- and I'm glad you pointed that out, sir, because I'm not sure of the -- the specific entities of which you're referring -- to which you're referring. But my experience with those types of utilities, for example, there is a fair bit of cross-subsidization, you know, whether it's transit, water, sewer. Because of public acceptability, rates have to be held down. And if it's a City organization, then there's typically cross-subsidization through the budget process.

THE CHAIRPERSON: We've observed that as well.

I'll just move on to something else. You'd indicated before, generally for a private utility, seemed to have a degree of acceptance at a 60:40 debt equity ratio was the norm for a private utility? Around that area, I'm not holding you to specific numbers. My question was a little bit different than that.

You also referred to one point one (1.1) interest coverage ratio as being acceptable in the case of Centra and its current -- what type of interest coverage ratios are acceptable for crated private utilities?

MR. GREG MATWICHUK: For private

utilities, they -- they would be higher, because they're going to the market. And I just want to address your -- your premises, that the 60:40 that I was talking about was with respect to a utility like Centra that is A rated. There may be other utilities that have additional risk that would have a different debt equity structure. I just wanted to clarify the record, sir.

THE CHAIRPERSON: Do you know of a lot of utilities, private utilities, that have debt equity ratios of 75:25 or higher, that can float their bonds?

MR. GREG MATWICHUK: It probably wouldn't happen, sir, because they don't have a -- a debt guarantee.

THE CHAIRPERSON: Yes. How long, just to take advantage of the fact that you're here, and obviously have expertise in the area.

How long would you suggest that the acquirer of a utility would be obliged to provide evaluations of the benefits flowing out of the acquisition?

MR. GREG MATWICHUK: That's -- that's the -- the sixty-four dollar ($64) question. And I'm -- I'm not sure that there -- there is an answer to that. And let me frame it this way is that, having seen a number of acquisitions, parties are anxious to, in the vernacular, cut the cord.

Let's -- let's determine this once and for all and get it behind us. And -- and I know there was some of that sentiment in -- in the previous Hearing, probably on a number of fronts. So I would encourage the Board to do that to the extent possible. And part of the concern, obviously, is the ongoing attempt to track these synergies.

And as I pointed out in my direct yesterday, they have vacillated in terms of totality and allocation and then the Board had an opportunity to review some of those synergies, being advanced by Centra at one (1) point and did not agree.

So I'm sure everyone in this room appreciates as time goes by it gets more difficult. And perhaps even to the extent of futility.

THE CHAIRPERSON: Thank you. In your survey of utilities you were referring to earlier in your practice and you spoke at some point about the fact that you could imagine, under a regulatory regime, that you could either use of cost of service or rate base rate of return.

Is there a particular category of utilities that you tend -- that you know use cost of service as opposed to the other system?

MR. GREG MATWICHUK: Yes. Typically they are Crown owned. But they are typically Crown owned that have very little equity in them.

And I think I made reference yesterday to one (1) of my old clients, Ontario Hydro, very -- very little equity component when it started and operated for some eighty (80) years before it was re-capitalized and divided into a number of organizations.

But after which, it became -- it did have an equity injection and it continues to be regulated on a formulate basis in Ontario.

But that's not to say that all Crown owned or government owned or City owned entities are regulated on cost of service. And I try to point out a few of those that are not, ENMAX and EPCOR, Newfoundland Power and Hydro, Newfoundland and Labrador Hydro and so forth.

THE CHAIRPERSON: Thank you, sir. Would it be fair for me to summarize some of your comments by saying that you would observe or prefer objectivity, consistency and adherence to generally accepted regulatory principles as the most important factors in regulating a utility?

MR. GREG MATWICHUK: Yes it would.

THE CHAIRPERSON: Thank you.

Mr. Saxberg, do you have reexamination?

MR. KRIS SAXBERG: No I don't sir.
THE CHAIRPERSON: Then we will stand down until 1:00. Thank you very much. Thank you sir.
MR. GREG MATWICHUK: Thank you Mr. Chairman.

(WITNESS STANDS DOWN)

--- Upon recessing at 11:44 a.m.
--- Upon commencing at 1:06 p.m.

THE CHAIRPERSON: Mr. Peters, we have a new Panel?
MR. BOB PETERS: Yes, Mr. Chairman, weÆve reached the point in the proceedings where we get to the Cost Allocation and Rate Design Panel, at least by name. It also has a number of matters to deal with, I'll call them Tab 13 issues and related issues.
And I believe, Ms. Murphy, can introduce the new members of the Panel and Mr. Singh can swear them in a few minutes.
MS. MARLA MURPHY: Thank you. Just by way of housekeeping, I guess, I've circulated and the Board Secretary has been provided with document entitled, Western Transportation Service Conference Call May 11th,

2005.

This is the final minutes that Mr. Stephens referred to in his direct and in his discussions with Mr. Brown he had asked him to hold off filing them until they were finalized.

I understand these are now the finalized minutes, so we propose to file them as Centra Exhibit 26.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. CENTRA-26: Document entitled, Western Transportation Service Conference Call May 11th, 2005.

MS. MARLA MURPHY: And just to take a moment to introduce the Panel, some of the faces are familiar to you. Immediately to my right is Mr. Warden, who's the Vice President Finance and Administration and CFO for Centra.

Seated beside him is Mr. Lloyd Kuczek who's the Division Manager of Consumer Marketing and Sales. Then we have Mr. Robin Wiens, Division Manager of Rates and Regulatory Affairs. Ms. Kelly Derksen, Senior Analyst of Gas Rates. And finally in the post position, Mr. Rainkie, who's the Manager of Regulatory Services.

There are a few new faces behind me in the back row as well. Next to Mr. Czarnecki is Greg Barnlund who is the Senior Consultant of Gas Rates and policy. Then we have Kim Cooper, who's the Supervisor of PowerSmart Planning and Market Research. Next to Kevin Sachvie is Michelle Carman who's a Rate Analyst. And Mr. Matwyczek at the end -- Stan Matwyczek, of our Regulatory Department.

And I should, I suppose, not let the hearing go by without acknowledging that we have Heather Johnson in the back room who works very hard to keep us all organized and all of our copies up to speed. So she's also in the back listening in as we proceed.

The Panel is available to be sworn and we could proceed with direct.

THE CHAIRPERSON: Mr. Singh...?

KELLY DERKSEN, Sworn:
ROBIN WIENS, Sworn:
LLOYD KUCZEK, Sworn:
VINCE WARDEN, Resumed:
DARREN RAINKIE, Resumed:

MS. MARLA MURPHY: Just as we begin, Mr. Chairman, I might indicate that the witness qualifications have been marked as Centra Exhibits.

Mr. Warden is Centra Exhibit 4-1, Mr. Kuczek is Centra Exhibit 4-8, Mr. Wiens as Centra Exhibit 4-10, Ms. Derksen as Centra Exhibit 4-7 and Mr. Rainkie is Centra Exhibit 4-4. And those have been provided, of course.

And there's extra copies available if anybody requires them.

THE CHAIRPERSON: Thank you, Ms. Murphy. You can begin at any time.

MS. MARLA MURPHY: Thank you.

EXAMINATION-IN-CHIEF BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Mr. Warden, would you please outline your areas of responsibility with respect to this Panel?

MR. VINCE WARDEN: Yes, good afternoon, Mr. Chairman, members of the Public Utilities Board, ladies and gentlemen.

In my testimony I will be discussing policy issues with respect to cost allocation rate design and terms and conditions of service.

MS. MARLA MURPHY: Mr. Warden, what is the impact of Centra's application on a typical residential consumer?

MR. VINCE WARDEN: The billed rates that are proposed for August 1st, 2005 result in a typical residential customer's bill increasing by approximately 3.1 percent or thirty-nine dollars ($39) per year, primarily due to the expiry -- expiry of rate riders on that date.

The annual bill impacts for the LGS, high volume firm and main line customers range from an increase of 2.6 to 5.6 percent. The annual bill impact for an interruptible customer is -- is decreasing -- a decrease ranging from 2.4 to 3.2 percent.

The billed rates that are proposed for May 1st, 2006 result in a typical residential customer's bill increasing by approximately 2.9 percent or thirty-seven dollars ($37) per year.

The annual bill impacts for the LGS, high volume firm and main line customers range from a decrease of 2 percent to an increase of 1.5 percent. The annual bill impacts for interruptible customers range from a decrease of 0.2 to an increase of 0.1 percent.

MS. MARLA MURPHY: Mr. Warden in Order 131/04 the Board directed Centra to file a draft integrated electric gas bill along with draft inserts and other communication material and requested that Centra consult with brokers and CAC/MSOS.

Could you please provide a summary of those consultations to the Board?

MR. VINCE WARDEN: Yes. Centra met with representatives of CAC/MSOS on October 2nd, 2004 and provided a presentation outlining the new bill format. Comments provided by CAC/MSOS have been filed in this proceeding in the response to an IR.

Centra also -- sorry, that is IR DIRECT-MUNICIPAL/CENTRA-5-1.

Centra also held a conference call with broker representatives on January the 7th, 2005. The minutes of this meeting are included in the materials in the response to DIRECT-MUNICIPAL/CENTRA-5(B).

Centra provided updated material in Attachment 3 to Tab 13 of the Application, which included the customer communication plan, delinquency messages and notices, sample letters and notices, and status of the new bill format and sample bills.

MS. MARLA MURPHY: Mr. Warden, natural gas brokers, which Centra consulted with on this initiative, requested that Centra include their logo and bill messages to customers on Centra's bill. Can you please discuss why this is not acceptable to Centra?

MR. VINCE WARDEN: Centra and Manitoba Hydro are not able to accommodate this request, as the new bill will be a combined one (1), which will include charges for electricity, natural gas and other services. Primary gas is only one (1) component of one (1) of the services on the bill.

In addition of broker logos on the bill, or bill messages from third parties could cause confusion about who was providing other components and services. Instead, Manitoba Hydro is of the view that the greatest clarity can be achieved by identifying a broker name on the primary gas line of the -- of the new Manitoba Hydro bill.

MS. MARLA MURPHY: Mr. Warden, would you please describe the status of the one (1) bill initiative.

MR. VINCE WARDEN: In November 2005, Manitoba Hydro will begin adding electricity customers to the Banner Customer Information System. As natural gas customers are already on the Banner system, we will begin issuing one (1) bill for all services.

The one (1) bill initiative is expected to be fully implemented by April of 2006.

MS. MARLA MURPHY: Thank you, Mr. Warden. Mr. Wiens, would you please outline your areas of responsibility with respect to this Application?

MR. ROBIN WIENS: Yes, good morning, Mr.

Chairman, Members of the Public Utilities Board. Good afternoon, Mr. Chairman, Members of the Public Utilities Board, ladies and gentlemen.

In my testimony I will be providing evidence related to cost allocation, rate design, terms and conditions of service. Specifically, I will be responding to questions arising with respect to the matters discussed in the evidence of RCM/TREE.

MS. MARLA MURPHY: Mr. Wiens, is Centra proposing any changes to its rate design in this Application?

MR. ROBIN WIENS: No, Centra is not proposing any changes to its rate design in this Application.

MS. MARLA MURPHY: And can you please address the status of the review of the level of the basic monthly charge directed by the Board in Order 131/04?

MR. ROBIN WIENS: Yes, since the PUB issued Order 131/04, Centra has undertaken an analysis of the basic monthly charge, including review -- reviewing the levels of basic monthly charges in other jurisdictions. Centra expects to be in a position to file its report with the Public Utilities Board in August of 2005.

MS. MARLA MURPHY: Mr. Wiens, could you please describe the changes to the terms and conditions of service, which Centra is seeking in this Application?

MR. ROBIN WIENS: Centra is seeking two (2) changes to the terms and conditions of service in this Application.

First, Centra is seeking approval of the changes made to the wording related to the allocation of partial account payments, arising out of Order 131/04. Centra is also requesting approval of corresponding changes to the terms and condition of billing and collection service, most recently approved in Order 105/97, and which were directed in Order 131/04.

Secondly, with respect to the company labour rates, Centra will provide the PUB with a schedule of rates as requested in Order 131/04, for consideration and approval. Centra requested in the Cost of Gas Hearing in 2004, that the Public Utilities Board replace the current approved miscellaneous service rate of fifty-five dollars ($55), with a reference to activity charges to properly reflect the cost incurred by the company, in providing these services.

In Order 131/04, the Board expressed the view that it must approve all rates. Centra has therefore compiled rates to reflect current charges, and will seek approval of the same. Given the administrative complexities associated with development of these rates, it is not the company's intention to seek changes to these rates on a quarterly basis.

Centra expects that this proposal will simply provide the regulator a process such that Centra will review the need for changes to these rates on an annual basis only. Centra will file will file with the Board its proposed schedule of rates tomorrow.

MS. MARLA MURPHY: Mr. Wiens, Mr. Weiss on behalf of TREE/RCM has filed evidence suggesting the incorporation of price signals with respect to environmental and conservation concerns in Centra rate design and the assessment of conservation programs.

Are you familiar with that evidence?

MR. ROBIN WIENS: Yes I am.

MS. MARLA MURPHY: Mr. Weiss has defined marginal value of gas to consumers, or MVGC, to include all of the normal costs of procuring transporting and distributing natural gas that are included in Centra's rates plus a notional value for environmental externalities, avoided transmission and distribution expansion costs and pecuniary opportunities and recommends that Centra use this information in setting rates and in a number of other policy areas, such as DSM evaluation, main extension policies and fuel switching.

Could you please discuss Centra's position regarding the use of MVGC in the setting of these rates?

MR. ROBIN WIENS: Yes, Centra does not agree that the MVGC is currently an appropriate consideration in determination of rates.

In making a decision to increase cost to Centra's customer an adequate justification needs to be provided. Centra believes that at least some of the externalities identified in Mr. Weiss' evidence are already incorporated into the market price of natural gas through lease payments, resource royalty fees and taxes.

Manitoba Hydro already incorporates consideration of greenhouse gases into its planning, reporting and in DSM evaluations. Additional policy treatment of greenhouse gasses should occur in the context of federal Kyoto initiatives and should not be taken in isolation of compliance in other Canadian jurisdictions.

The existence or quantity of pecuniary benefits is likewise insufficiently substantiated, extremely difficult to quantify and certainly non-existent unless provision is made for this factor all across North America.

With respect to the inclusion of avoided costs of transmission and distribution expansion, Mr. Weiss' evidence does not provide any clear justification for requiring Manitobans to pay incremental costs which might occur in another jurisdiction.

In addition to the documented embedded costs, they already pay for transportation and delivery to them. It is difficult to conceive of any jurisdiction that would require ratepayers to pay both the full embedded costs and the full incremental costs of any utility service.

It is noted that the incremental costs of transportation and delivery are incorporated into Centra's demand side management evaluation of programs targeted at natural gas customers.

MS. MARLA MURPHY: Mr. Weins, Mr. Weiss also recommends an inverted rate structure as a means to implement his MVGC concept into Centra's rates. In order to give the correct price signal without over collecting revenues, Mr. Weiss recommends pricing only the marginal usage at MVGC and pricing the remaining of base volume usage at a lower rate.

Can you please comment on this recommendation?

MR. ROBIN WIENS: Centra and Manitoba Hydro are not opposed to the concept of inverted rates in principle and where justified. However, Centra is not convinced that inverted rates are justified in the case of natural gas prices.

Unlike the current electricity price structure, the price of the natural gas commodity fully reflects its value in mature functioning markets. The market price of gas embedded in rates and which was adjusted quarterly, reflects marginal costs, including at least some externalities and is therefore a good price signal in itself and without requiring inverted rates.

Mr. Weiss' evidence does not convincingly demonstrate the value of externalities or the existence and value of so called pecuniary benefits which provide the basis for concluding that marginal cost is higher than market rate.

Much of Mr. Weiss' proposed added to arrive at marginal costs, may actually be reflected in the market price of natural gas or is more appropriately dealt with in the context of Federal Kyoto compliance plans which will, if properly developed and administered, provide a level playing field for all fuels and all end uses.

Further, the marginal cost of extending the distribution system is either captured in Centra's feasibility testing and contribution requirements or is less than the average cost of distribution which is recovered in the non-commodity portion of the rate structure.

So, to embark on changes which involve some very real costs to administer, such as changes in billing routines, administration of decoupling accounts, adverse impacts on customers with larger than average gas consumption needs, without being confident in the outcome, would not be prudent.

It is also important to note that the infra-marginal use in Mr. Weiss' scheme would be priced below marginal cost which has the potential, at any rate, to send a truly inappropriate price signal to many of Centra's customers.

MS. MARLA MURPHY: Mr. Weiss also suggests that DSM costs should be considered to be akin to a resource acquisition and allocated on a volumetric basis including transportation customers; can you please comment on this suggestion?

MR. ROBIN WIENS: Yes. There are a number of implications associated with instituting a fee to be recovered by all customers on an equivalent per unit volumetric basis as suggested by Mr. Weiss.

Imposing an arbitrary tax, as he describes, to all customers creates a cross-subsidy between those who contribute to the program and those who are eligible and able to gain access to the funds.

In fact, Mr. Weiss' proposal would cause a number of customers to contribute a significant amount and receive little or no benefit which leads to economic inefficiency.

The imposition of such a tax is also contrary to the longstanding principle of basing rates on embedded costs espoused by Centra and endorsed by the PUB over the past twenty (20) or more years in this jurisdiction.

As Ms. Derksen will explain in her evidence, Centra's proposal is to allocate DSM cost based on the benefits expected to be received by each customer class.

MS. MARLA MURPHY: Thank you, Mr. Wiens.

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

MR. LLOYD KUCZEK: Good afternoon, Mr. Chairman, members of the Public Utility Board, ladies and gentlemen.

In my testimony I will be providing evidence with respect to Centra's demand side management program, the reports which have been filed with respect to fixed price offerings and customer education.

I will also be addressing issues that will arise with respect to the preparation of the load forecast.

MS. MARLA MURPHY: Mr. Kuczek, Centra recently filed its demand side management program will operate in conjunction with the Manitoba Hydro DSM program.

Could you please briefly describe the program as it relates to Centra?

MR. LLOYD KUCZEK: The objective of Manitoba Hydro's 2005 natural gas plan is to provide a roadmap for the future direction of the Corporation's natural gas conservation program designs.

The plan sets targets for achieving energy efficiencies through various technologies and customer service initiatives.

The plan replaces the preliminary natural gas plan that was included in Manitoba Hydro's 2004 PowerSmart Plan and builds on the activities that have already taken place to integrate natural gas DSM into Manitoba Hydro's overall PowerSmart efforts.

In aggregate, Manitoba Hydro's 2004 PowerSmart plan represents the Corporation's first formal integrated PowerSmart plan.

MS. MARLA MURPHY: Mr. Kuczek, could you

please advise the Board as -- as to the implementation plans for the DSM program?

MR. LLOYD KUCZEK: The implementation plan for -- for the natural gas plan is already ongoing as an -- and is an integral part of implementing Manitoba Hydro's overall PowerSmart plan.

Implementing the plan involves taking steps to achieve those targets identified in the PowerSmart plan which involve efforts and activities on many fronts. For example, to mention a few, detailed programs still need to be designed to achieve the targets identified with specific technologies, partnerships with trade allies and industry still need to be developed, specific strategies need to be developed for achieving energy efficiencies in hard to reach customer segments including low income and first nation market segments.

Specific strategies and initiatives still need to be developed for incorporating energy efficiency standards into codes and standards. And as an ongoing exercise, existing program designs need to be reassessed on a regular basis in search of enhancement opportunities for both -- both in terms of achieving additional energy savings and for improving the effectiveness of program designs.

In this regard, as better and more

information is obtained, Manitoba Hydro's PowerSmart plan will be modified and updated with this information.

MS. MARLA MURPHY: Mr. Kuczek, in addition to those items noted in the DSM report, is Centra planning any initiatives to assist its low income customers?

MR. LLOYD KUCZEK: Manitoba Hydro has always considered the needs of low income customers. These needs must continuously be reassessed to monitor their compatibility with community needs and expectations.

Recently Manitoba Hydro has undertaken a number of steps to assist the low income customer segment and intends on continuing to explore ways in which it can provide further assistance to these customers.

In addition to the activities undertaken to date, Manitoba Hydro is in the process of hiring a dedicated staff person to focus on this market sector, is currently researching best practices in low income programs.

It is currently attending a national conference focussed on low income assistance programs and recently participated in a limited income housing progress through partnership workshop sponsored by the Winnipeg Housing and Homelessness Initiative.

MS. MARLA MURPHY: Mr. Kuczek, Mr. Weiss, in his evidence, recommends that Centra should use the MVGC, in its planning and evaluation of DSM Program choices and investment level. Can you please comment on that recommendation?

MR. LLOYD KUCZEK: Centra believes it is appropriate to use the total resource cost as its primary economic indicator for evaluating the effectiveness of natural gas incentive based programs.

As Mr. Wiens pointed out, Centra believes that -- that some of the externalities identified in Mr. Weiss's -- Weiss's evidence are already incorporated into the market price for gas and others are best dealt with as part of the national Kyoto compliance measures, and Provincial resource management measures.

To the extent that they are already included in the market price, those costs are already included in Centra's TRC calculation.

Mr. Weiss recommends, as a judgment call, that Centra add 10 percent to the commodity cost to account for issues that are difficult to estimate, if not impossible to measure, such as price elasticity of demand and indirect economic benefits to Manitoba.

Centra recognizes that in some regions a factor of a range -- in the range of 10 percent has been used to account for external factors, including environmental considerations. These regions use a test referred to as a societal test, or a modified TRC test, which is simply a -- a modification to the TRC test that we're using, with a 10 percent at or included in the benefits component of the calculation.

Centra is proposing to include the value of greenhouse gas emission reductions in the use of the total resource costs for evaluating natural gas efficiency programs. This value is more than half the 10 percent used by a few other regions that uses societal test.

It's expected that the marginal differential between the two (2) tests will result in virtually no impact on the economic potential of energy efficiency opportunities, as most of these opportunities are not on the margin in terms of being economic.

Further, Centra intends to promote these opportunities which are on the margin.

MS. MARLA MURPHY: Mr. Weiss recommends that large industrial and commercial customers should be allowed the opportunity to self direct a portion of DSM funds. Can you please respond to that suggestion?

MR. LLOYD KUCZEK: Centra is of the view that a self directed approach to DSM for industrial customers in Manitoba would not be the most effective or efficient option, for promoting natural gas conservation in Manitoba, nor would it be in the customer's best interest.

Manitoba Hydro's strategy is to design an integrated electric and natural gas power smart plan which involves promoting and offering customers assistance from a systems and an eco-efficiency approach.

Unlike most other jurisdictions, Manitoba Hydro has developed internal technical expertise in the area of industrial energy efficiency, and this technical advisory service is integrated into Manitoba Hydro's customer relationship management philosophy.

Manitoba Hydro's approach captures the knowledge and skills of both the industry and the Corporation's technical staff by partnering with industry in pursuit of energy efficiency opportunities.

This approach is -- is effective -- is especially effective, as Manitoba Hydro has integrated its industrial energy and conservation efforts with its customer relationship management efforts.

The combined effort provides Manitoba Hydro and its industrial customers with many opportunities to identify and pursue energy efficiency and efficient opportunities.

MS. MARLA MURPHY: Mr. Weiss recommends a system of standard hookup charges and credits, to replace the main extension feasibility test, with credits based on the efficiency that the customer plans in terms of gas usage. Can you please comment on this suggestion?

MR. LLOYD KUCZEK: As indicated in the Corporation's 2004 Power Smart Plan, Manitoba Hydro is currently assessing the merits of using service hookup fees to encourage conservation efforts.

MS. MARLA MURPHY: Mr. Weiss also recommends that Centra design a fuel switching program to provide customers with information and perhaps incentives to choose the most cost effective energy source. Can you comment on this?

MR. LLOYD KUCZEK: Manitoba Hydro's DSM efforts are focussed on promoting the efficient use of energy. It is the Corporation's view that the fuel choice is a customer's decision. Manitoba Hydro's role in this regard is to provide customers with information which will assist the customer in making a decision on fuel choice.

Manitoba Hydro does -- does recognize that there may be opportunities for the Corporation to include other considerations into the customer's decision making process, and is discussing the merits associated with these types of initiatives.

These considerations include some of the suggestions offered by Mr. Weiss, such as the benefits which may be realized through increased export electricity sales when customers choose to use natural gas rather than electricity.

Manitoba Hydro is in the process of assessing these opportunities, and expects to have these completed during the current fiscal year.

MS. MARLA MURPHY: Mr. Kuczek, would you please highlight for the Board the process Centra has undertaken, leading to its report on Fixed Price Offerings, and its conclusions?

MR. LLOYD KUCZEK: In connection with the preparation of Centra's report on Fixed Priced Offerings, Centra undertook consultations with CAC/MSOS, and requested input from the broker industry.

The comments received from these parties have been included in Centra's report. As requested by the Board in the last Order, Centra has considered some of the advantages and disadvantages of Centra offering fixed price offerings, however, no conclusion has been reached on whether the Corporation wishes to undertake such an initiative.

At this time, Centra is not proposing any change to the current -- current service -- service offerings, nor is Centra seeking any approvals in this Application arising out of this report.

MS. MARLA MURPHY: Mr. Kuczek, would you please describe for the Board, the consultation process which Centra undertook with regard to the topic of customer education?

MR. LLOYD KUCZEK: In Board Order 131/04 the Public Utilities Board directed Centra to consult with brokers and CAC/MSOS with respect to content and focus of customer education and primary gas and other related issues.

Centra held a number of informal discussions with CAC/MSOS and organized an initial conference call with the broker community. All parties were invited to participate in these subsequent conference calls to discuss the natural gas education issues.

The group agreed on a process to move forward over the next few months and will assess the success of that process over the next year. The outcome of those discussions is summarized in Centra's report.

MS. MARLA MURPHY: Thank you Mr. Kuczek. Ms. Derksen, would you please outline your areas of responsibility with respect to this Application?

MS. KELLY DERKSEN: Good afternoon, Mr. Chairman, Members of the Public Utilities Board, Ladies and Gentlemen.

In my testimony, I will be providing evidence related to the 2005/06 and 2006/07 Cost Allocation Study and the allocation of non-primary PGVA and gas cost deferral account balances as at March the 31st, 2005 and the related customer bill impacts for the various customer classes.

MS. MARLA MURPHY: Ms. Derksen, is the cost allocation methodology used in connection with this rate Application consistent with that used in previous applications?

MS. KELLY DERKSEN: Yes it is. Centra is not proposed any substantial changes in its approach to cost allocation in this Application.

Centra has adapted its cost allocation study to conform to a cost of service approach in determining its revenue requirement. While the appearance of Centra's cost allocation study has changed no substantial changes have been made in the allocation of costs. For example, previously Centra's return on rate base which included both a debt and equity component was allocated on the basis of rate base.

The move to a cost of service approach

replaces return on rate base with net income and finance expense, both of which have been allocated on the basis of rate base.

MS. MARLA MURPHY: Can you please describe how the corporate allocation has been allocated in rates?

MS. KELLY DERKSEN: The corporate allocation is primarily finance costs for the acquisition of shares of Centra Gas. Therefore, it is appropriate to allocate corporate allocation on the basis of rate base consistent with the allocation of net income and finance expense.

MS. MARLA MURPHY: Can you please discuss the allocation of unaccounted for gas or UFG following Order 131/04?

MS. KELLY DERKSEN: Order 131/04 approved a change in the allocation of unaccounted for gas or what we know as UFG. Previously, Centra allocated UFA volumetrically to each customer class with the SGS and LGS classes allocation weighted by two (2) times their annual volume.

In Order 131/04 the PUB approved Centra's proposed UFG percentages except for the special contract class. The PUB directed that the special contract classes allocation of 5.7 percent UFG be reduced to 2.8

percent and the residual be split between the SGS and LGS classes.

Centra has allocated UFG consistent with the -- with the UFG percentages approved in Order 132/04.

MS. MARLA MURPHY: Ms. Derksen, could you please outline for the Board how you've allocated DSM program costs?

MS. KELLY DERKSEN: Centra's 2005/06 General Rate Application describes the DSM program that Centra will undertake in 2005/06 and describes the proposed amortization of the program costs over a fifteen (15) year period beginning April the 1st, of 2006.

Due to the deferred nature of the cost treatment there is no recovery of DSM costs included in Centra's base rates for the 2005/06 year even though the program will be introduced at that time.

The DSM program was -- is directed to specific target markets. Not all customer classes will participate in an equivalent manner in the early stage of the program.

In the 2005/06 and 2006/07 test periods it is expected that 50 percent of the program budget will be targeted toward commercial end use applications and 50 percent of the budget will be directed to residential customers.

As such, Centra intended that the DSM costs in 2006/07 be only allocated to the SGS and LGS customer classes. Through the process of preparing the 2006/07 cost allocation study, Centra inadvertently allocated a small amount of costs related to DSM to the larger volume customer classes as found on Schedule 10.2.5, page 3 of 6.

While this amount is immaterial and does not affect the bill impact calculations, Centra does intend on updating the calculation in conjunction with the determination of final August 1st, 2005 rates assuming PUB approval.

MS. MARLA MURPHY: Ms. Derksen, could you please describe the allocation of cost to the primary gas rate?

MS. KELLY DERKSEN: Certainly. The primary gas base rate may be broken into two (2) components. By far the largest component representing over 99 percent of the base rate is the cost of the commodity itself.

This cost component is dealt with through the quarterly rate setting mechanism for the primary gas applications. For purposes of cost allocation in this application, Centra's included an estimate of its cost which is used to drive allocations within the cost allocation study but not to set rates.

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

In this Application Centra is seeking to increase the non-gas cost component of the primary gas base rate from a dollar, forty-five ($1.45) per ten (10) three (3) M-3's to a dollar, seventy-three ($1.73) per ten (10) three (3) M-3's on August 1st of 2005 and then to a dollar, eighty-four ($1.84) per ten (10) three (3) M-3 on May 1st of 2006.

As identified in the response to PUB/CENTRA-90, costs related to procuring natural gas, gas accounting, regulatory and other operating and administration costs as well as working capital which drive the allocation of rate base costs, such as taxes, finance expense, corporate allocation and income, are allocated to the primary gas rate.

MS. MARLA MURPHY: Ms. Derksen, could you please explain for the Board why Centra allocates these costs as they do?

MS. KELLY DERKSEN: The current allocation of non-gas costs to the primary gas rate reflects policy decisions that were made at the WTS hearing in 2000 that resulted in Order 19/00.

Centra's position at the WTS hearing was that choice in natural gas supply was to the benefit of all customers regardless of that choice made, be it system supply or be WTS service.

Based on this policy decision, Centra proposed the majority of costs of providing the primary gas service and all of the costs of administering WTS service would be collected from all customers through the distribution rate.

It is for this reason that Centra did not recommend a separate WTS or ADC fee to the brokers. With the former bi-cell program, brokers paid fees of approximately a hundred and thirty-three dollars ($133) per contract per month and fourteen point seven, two (14.72) cents per customer per month.

In Order 19/00 the PUB approved Centra's proposed treatment of the costs of providing primary gas service and administering WTS service. The Board -- the PUB also accepted Centra's proposal not to have a WTS fee but directed that the nominal -- a nominal ADC fee which was ultimately set at twenty-five (25) cents per customer per month be instituted to cover some of the costs of billing on behalf of brokers.

It is as result of these decisions made in Order 19/00 that most of the indirect costs related to the provision of primary gas service are recovered in the distribution rate and only some of the direct costs are included in the primary gas rate.

It is also the reason that Centra does not have a separate WTS fee as is common in other jurisdictions.

MS. MARLA MURPHY: Ms. Derksen, would you please outline the rate riders that Centra is proposing in this Application?

MS. KELLY DERKSEN: Centra's proposing to implement three (3) types of rate riders in conjunction with the 2005/06 and 2006/07 General Rate Applications.

The first set of rate riders disposes of balances in all non-primary gas PGVA's and gas cost deferral accounts as of March the 31st of 2005, including carrying costs and rate rider amortizations to July the 31st of 2005. These balances were updated as part of Centra's April the 29th, 2005 filing, and reflect actual information to the end of February of 2005, and forecast information to March -- for March of 2005.

The result of the update is to refund to customers, approximately six hundred and seventy thousand dollars ($670,000), as is summarized in Schedule 11.4.1.

The non-primary gas rate riders are proposed to be implemented on August the 1st of 2005, and will be disposed of over a twelve (12) month period, to expire on July the 31st of 2006, as is shown on the attachment to CAC/CENTRA-73.

The second rate rider, termed the Reconciliation Rider, has been established to reconcile the differences on a class by class basis, between the non-gas cost portion of the interim base rates that were implemented on February the 1st of 2005, and the non-gas cost portion of the bate race -- base rates that are proposed for August the 1st of 2005.

The reconciliation rider has been calculated to be disposed of over a nine (9) month period, beginning August the 1st, 2005, and ending on April 30th of 2006.

Centra has proposed to dispose of the reconciliation rider attributable to supplemental gas, through the distribution to customer charge, consistent with the treatment of the supplemental PGVA, for all customer classes except the interruptible class.

Centra is proposing a separate line item on the bill, for the interruptible class that includes the supplemental PGVA, as well as the supplemental gas reconciliation rider.

A third rate rider called the Rate Delay Rider, has been calculated. Rather than implementing new rates effective April the 1st of 2006, to coincide with the beginning of Centra's 2006/07 fiscal year, Centra's proposing to delay the implementation until May the 1st of 2006. This will avoid another rate change between the planned primary gas changes on February the 1st and May the 1st of 2006.

The difference in the revenues as a result of this one (1) month delay is approximately nine hundred and seventy thousand dollars ($970,000) owing to Centra.

It is Centra's preference to recover the rate delay rider over fifteen (15) months, rather than the remaining eleven (11) months of the '06/'07 test year, to synchronize it with the expected expiration of non-primary gas PG -- non-primary gas rate riders on August the 1st of 2007.

MS. MARLA MURPHY: Ms. Derksen, can you please explain for the Board how the reconciliation rider was calculated?

MS. KELLY DERKSEN: The interim rates that were put in place on February the 1st of 2005, were not based on a full cost allocation study. Rather the required $12 million increase in non-gas revenues was apportioned between the rate classes on the basis of the

2003/04 approved revenue requirement for each class, excluding primary and supplemental gas.

Centra stated that it intended on reconciling the difference between the non-gas costs embedded in February 1, 2005 rates, and what ultimately flowed from the cost allocation study.

Centra has calculated this rate rider by determining the difference and expected revenues generated by the non-gas cost portion of each base rate established on February 1, and the non-gas cost portion of each base rate that flows out of the full Cost Allocation Study.

Given that non-gas costs are embedded in each rate component, including primary and supplemental gas, as well as the basic monthly charge, if approved, all the rate components will be impacted by the reconciliation rider.

MS. MARLA MURPHY: Thank you, Ms. Derksen. Mr. Rainkie, would you please outline your areas of responsibility with respect to this Panel?

MR. DARREN RAINKIE: Good afternoon Mr. Chairman, Members of the Public Utilities Board, Ladies and Gentlemen.

In my testimony on this Panel I will be giving evidence with respect to the rate approvals Centra is requesting in its Application and responding to questions relating to Centra's feasibility and main extension tests as raised by TREE/RCM in their evidence.

MS. MARLA MURPHY: Mr. Rainkie, could you please explain to the Board how Centra intends to implement the approved non-gas revenue requirement for the 2006/07 test year?

MR. DARREN RAINKIE: Certainly. Centra intends to adjust the non-gas portion of any rates impacted by the 2006/07 non-gas revenue requirement approved by the Board and embed them in the rates applied for the in May 1st, 2006 correlated primary gas rate adjustment.

As such, on May 1st, 2006, Centra proposes to change both the primary gas costs and the non-gas costs. Centra expects that the non-primary gas costs will be adjusted on August 1st, 2006 flowing from a 2006/07 cost of gas application to be filed next year.

MS. MARLA MURPHY: Mr. Rainkie, in his evidence, on behalf of TREE/RCM, Mr. Weiss outlined the number of concerns with respect to Centra's main extension policy.

Could you please briefly outline how Centra's main extension test works?

MR. DARREN RAINKIE: As was discussed

last week with Mr. Peters, Centra uses the same feasibility test for main extensions as it does for out of franchise expansions.

The feasibility test is a thirty (30) year net present value test. The feasibility test has two (2) requirements or criteria that must be met to ensure that the extension does not unduly impact existing customers and is indeed feasible.

First, the present value of the revenue from the extension have to be equal to or greater than the present value of the costs over the thirty (30) year test period, thus producing a net present value that leaves zero over that timeframe.

Secondly, that the extension -- that the extension achieves a revenue to cost ratio of at least one point zero (1.0) or 100 percent by the fifth year of the extension and as such the revenues are sufficient to cover the cost from the point forward.

If the revenues of the extension are adequate to cover the cost and meet the two (2) criteria then no financial contribution from the customer is required. If, however, the revenues of the extension are insufficient to cover the costs and meet the two (2) criteria that I just talked about, then the test calculates a financial contribution required from that customer.

MS. MARLA MURPHY: Mr. Weiss is concerned that the main extension feasibility test should not include total revenues only the margin. Can you please respond to that concern?

MR. DARREN RAINKIE: Centra includes both the total revenues and the cost of gas in its feasability test and as such, it is indeed the margin that is derived from the test that is compared against the non-gas costs in accessing the feasibility of the extension and the resulting contribution, if any.

MS. MARLA MURPHY: Mr. Weiss also expresses concern that Centra's main extension policy is asymmetric in that it only ensures that there's no under-collection related to a new extension and does not pay monies to a new customer whose projected incremental revenue is in excess of the incremental cost to serve it.

Can you please respond to that concern?

MR. DARREN RAINKIE: Centra notes that there are some circumstances in which refunds are issued to customer who initially pay a contribution and subsequently generate more revenue than was originally assumed in the feasibility test.

As such, Centra assumes that Mr. Weiss' concern relates only to those customers who have not made an initial contribution. Mr. Weiss suggests that customers whose forecast incremental revenue is in excess of the forecast incremental cost and therefore don't have to pay a contribution should be given a refund.

This is unfair in that it would result in a new customer paying only incremental costs, while existing customers would continue to pay the full cost of the existing facilities on the system.

The test is designed to ensure that at least the incremental cost of the extension are covered by the revenues. If this results in a customer paying more than the incremental cost this is, in fact, a desirable result as a new customer will share in the fixed cost of the system to the benefit of all existing customers.

MS. MARLA MURPHY: Thank you Mr. Rainkie.

Mr. Chairman that concludes our direct examination and the panel is available for cross-examination.

THE CHAIRPERSON: Thank you Ms. Murphy.

Mr. Peters...?

MR. BOB PETERS: Yes. Thank you, sir.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie at Tab 13 of the Book of Documents, that you probably hoped you wouldn't have to refer to again, is a copy of your schedule 3.0.0.

Have you found that sir?

MR. DARREN RAINKIE: It's etched in my mind, Mr. Peters.

MR. BOB PETERS: Well, then you won't have to refer to the paper, Mr. Rainkie, although it's not a memory test.

Schedule 3.0.0. What -- what you've done in your previous appearances in the last couple of weeks before this Board is you've asked the Board to award a revenue requirement of five hundred and fifty-eight million and eighty-eight thousand ($558,088,000) to the Utility to be recovered through the rates that this Panel's going to speak to; would that be correct?

MR. DARREN RAINKIE: I think that's correct, Mr. Peters. Keep in mind that the cost of gas number that we have on this schedule includes both a refresh number on the primary gas side which we won't intend to implement in this Application, which we will refresh each quarter in our primary gas Application.

So, what I prefer to do is to take the 558 million and the 575 million and back off the cost of gas number and talk about the -- the non-gas costs that we are asking for as the net number. And then another schedule, Schedule 9.1.4 provides the calculation of the non-primary gas costs that we're looking for.

So -- so, just to summarize, Mr. Peters, through all of that, really this Application is about changing non-gas costs and changing the non-primary gas costs. The primary gas costs forecast that we provide is really just for the Board's information as to the current level of cost expected in the next test year.

MR. BOB PETERS: If the Board follows your suggestion, Mr. Rainkie, and they subtract the cost of gas from the total revenue requirement found on Line 23, and let's pick column 1, it would be one hundred and twenty-nine million five hundred and forty-two thousand ($129,542,000) required of non-gas costs, correct?

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

MR. BOB PETERS: And then you want the Board to add to that amount from Schedule 9.1.4 which, I think, is also in this book of documents, the -- the amounts on account of non-primary gas costs, correct?

MR. DARREN RAINKIE: That's correct, sir.

MR. BOB PETERS: And that's found at Tab 3 of the Book of Documents?

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

Peters.

MR. BOB PETERS: And, again, the -- the supplemental gas on line 2, the transportation on line 3 and the distribution on line 4 are the only three (3) items from that schedule that you want then carried forward to the non-gas costs from the previous schedule that we've just talked about?

MR. DARREN RAINKIE: That's correct, sir.

MR. BOB PETERS: All right. I've got your point on that.

Mr. Kuczek, there are, once you know what money the Corporation is seeking, you also have to then decide how you're going to recover it and one (1) of those steps is to determine the customer count and the -- and the volumes; would that be correct?

MR. LLOYD KUCZEK: I'm sorry, you're going to have to repeat that?

MR. BOB PETERS: Are you -- you're conversant on this Panel with customer and annual sales volume forecasts; would that be correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And so when it comes time to consider and start building up the amounts we want -- the Corporation wants in rates, you have to compile your customer and volume forecasts, correct?

MR. LLOYD KUCZEK: That's correct. I have to apologize, I was reading when you were asking questions earlier.

MR. BOB PETERS: That's okay. I should sometimes do more of that before I ask the question.

So, it seemed from the materials that there were two (2) different approaches that you used for those customer and volume forecasts; would that be correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And the two (2) different methods for the SGS class and the LGS, you would take a regression analysis and -- and figure out a month by month what is your customer and volume forecasts?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And that's been done historically has it, Mr. Kuczek, from 1996 to 2004?

MR. LLOYD KUCZEK: I can't speak to prior to us purchasing Centra.

MR. BOB PETERS: All right. So, since you've purchased Centra that's the way it's been done?

MR. LLOYD KUCZEK: That's my understanding but I'd have to check. That's the way it's been done for the last few years.

MR. BOB PETERS: All right. And when we get to the larger volume customers, those would include the mainline customers, the high volume firm, the interruptible and the special contract?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And how do you calculate their customer numbers and volume forecasts?

MR. LLOYD KUCZEK: The approach is -- it uses a regression analysis as well but it's more on an account by account basis. We use, on the SGS and LGS, we only go back -- we go back eight (8) years and use historical data.

With the large industrial customers, we use the past three (3) years and we come up with the average monthly usage of those customers and then we go out and we talk to those customers and we get more detailed information on what those customers are planning do to in their businesses in the next couple of years and we take that into account in our forecasts.

Beyond that, we use regression analysis to forecast the monthly average use of those customers based on regression analysis, with the real GDP as the predictive indicator.

MR. BOB PETERS: Once you've done that, sir, you have to then take into account some estimate as to how many of those customers will become direct purchase or WTS customers; would that be correct?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And how do you -- how do you come to that conclusion?

MR. LLOYD KUCZEK: We -- we basically look at what the historical trends have been, and we also take into account other information that we have on hand, and come up with a forecast based on basically the best available information at hand, looking forward.

MR. BOB PETERS: In that answer, sir, looking at historical trends and also then looking at any matters into the future, have you anything in this Application to suggest to the Board that the number of customers utilizing WTS service will -- will change over the historic information?

MR. LLOYD KUCZEK: It's an interesting challenge for the forecaster, because we don't know where the market with the customers signing up with WTS service is going.

Based on the information we have looking historically, the trends are showing that there's going to be increased customers signing up with WTS service. However, we have market research that suggests that it can go in either direction.

The market research that we have was I believe filed with PUB last year, indicated that a number of customers that are currently signing up with brokers, there's 41 percent of them based on that market research.

I believe they signed up with Manitoba Hydro and aren't taking service from brokers. So we're not sure if those customers would continue with the brokers, and not going into -- into the future.

Based on that market information, we also know that only 13 percent of the customers prefer to have a hedged product greater than what's offered by Mani -- or Centra's current offering. And the number of customers that are currently signed up today is 17 percent in the residential, or as residential market.

So, based on all that information, we really don't know if the number of people -- customers signing up with WTS service is going to increase or decrease going forward. So what we decided to do was just assume going forward that it is what it is today, and that's our best guess.

MR. BOB PETERS: And is it correct it was 17 percent of your SGS customers are WTS customers?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And 7 percent of your LGS customers are WTS customers?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: In the second year of the -- or the second test year that's before the Board, do you include those same assumptions in terms of the number of customers that will be on WTS service, the same percentages?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Once you've got the number of customers, how do you determine the average use for these LGS and SGS customers?

MR. LLOYD KUCZEK: We look at historical average uses of the two (2) different separate customer classes, and we use that -- those averages to assume and forecast that the same monthly averages will be -- will continue into the future. So, we used historical -- historical data that provides us with information on the average use of the two (2) different customer classes, WTS and system supply and forecast the same average use going forward.

MR. BOB PETERS: And once you forecast the average use going forward, that's on a monthly basis, is it?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And then you'd convert that to annual basis by determining the number of customers you forecast, and multiplying it by that monthly volume consumption that you've estimated?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: When you forecast your future volumes, you also have to take into account there'll be some conservation efforts made, correct?

MR. LLOYD KUCZEK: Yes, that's taken into account.

MR. BOB PETERS: Are you using the historic conservation amounts, or are you projecting greater conservation amounts in this Application?

MR. LLOYD KUCZEK: We're actually projecting greater conservation efforts going forward.

MR. BOB PETERS: And that's based on the DSM programs that you're going to institute, not being successful?

MR. LLOYD KUCZEK: No, actually just the way the market has changed over the -- the past number of years, we've noticed the decrease in average use with -- without any gas DSM, and this is due to a number of reasons, including our Manitoba Hydro's PowerSmart efforts I'm sure influencing those customers, the natural gas prices influencing the customers and possibly other factors influencing those customers.

MR. BOB PETERS: Well, you call it --

it's gas -- you don't want to call it DSM because you don't have a formal program for it up until now?

MR. LLOYD KUCZEK: We didn't have a formal program, but we had a number of customer service initiatives that were promoting conservation or energy efficiency with natural gas use.

MR. BOB PETERS: So, it would be conservation by default then under those other programs not specifically under a gas DSM program?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: When it comes time to determine the annual volumes for the mainline, the high volume firm and the interruptible classes, as well as the special contract customer, how do you do that?

MR. LLOYD KUCZEK: How do we determine the volumes?

MR. BOB PETERS: Yes for the larger volume customers?

MR. LLOYD KUCZEK: Okay, I think I answered that question actually.

MR. BOB PETERS: For the -- specifically for these customers are there -- are there interviews done?

MR. LLOYD KUCZEK: Yes, actually we talked to each of the individual customers and inquire into what their business plans are and expected volume uses are on an individual basis and take that into account along with the historical information and forecast into the future.

MR. BOB PETERS: As a result of those interviews -- we're talking here about a hundred and fifty (150) customers, correct, in those higher volume classes?

MR. LLOYD KUCZEK: A hundred and forty-three (143) I believe, or a hundred and forty-four (144) plus the two (2) Manitoba Hydro generating stations plus Simplot.

MR. BOB PETERS: So, a hundred and forty-seven (147) customer then?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And in doing those interviews are there any specific downsizing factors that have come to your attention that are included in the forecasting of volumes?

MR. LLOYD KUCZEK: I would have to check, I'm not sure if there are or not. I don't believe there are, but, I would have to check that.

MR. BOB PETERS: Is the conservation amongst the higher volume customers comparable to what it was before the test year or are you forecasting increased conservation by these higher volume customers?

MR. LLOYD KUCZEK: The conservation efforts that were forecasting is on SGS and LGS customers. The forecast that we have with our large industrial customers doesn't take into account increased conversation effort on their part.

(BRIEF PAUSE)

MR. BOB PETERS: Would it be correct, Mr. Kuczek, to that your forecasting approach in this GRA is unchanged from the last hearing related to this matter?

MR. LLOYD KUCZEK: General methodology is the same, correct.

MR. BOB PETERS: And in terms of the historic results compared to what you're forecasting, average use has gone down and that's due to this -- I'll call it inadvertent DSM, if you will, or non-targeted DSM.

MR. LLOYD KUCZEK: Well, some of it actually is, well, I'm not sure if you want to call it targeted. But, it is targeted in the sense that we do provide customers with the information, with those -- under those customer service programs to help them or assist them in implementing energy efficiency measures.

Some of those could be -- or do include high efficiency furnaces, putting in insulation and other measures; caulking, weatherstripping.

MR. BOB PETERS: Do I take from those answers, sir, that the average use of all customer classes is generally on the decline, at least slightly?

MR. LLOYD KUCZEK: SGS and LGS, correct. Large industrial customers, I don't think it's necessarily on the decline. We've been helping those customers through our PowerSmart efforts for a number of years. So when you say on the decline, I don't think that's necessarily true.

MR. BOB PETERS: When the sales volumes then are estimated you still have to get that energy from wherever you're buying it to Manitoba, correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And once the sales volumes are calculated by Centra how are the volumes that Centra must purchase determined?

MR. LLOYD KUCZEK: Now, we're outside of my area of responsibility. We pass that onto to the supply side departments and they're responsible for it.

MR. BOB PETERS: All right. Do you have any responsibility for the unaccounted for gas portion?

MR. LLOYD KUCZEK: For estimating it,

yes.

MR. BOB PETERS: And you develop the estimate?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And what is the estimate that you're using in this Application?

MR. LLOYD KUCZEK: I don't recall the specific number but it's around 1 percent.

MR. BOB PETERS: Is that relatively the same as it was last time you were before the Board?

MR. LLOYD KUCZEK: I believe so.

MR. BOB PETERS: In addition to the unaccounted for gas, fuel gas is also factored into the equation?

MR. LLOYD KUCZEK: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, in the cost allocation process, you're provided with the costs of the utility that you have to then run through your cost allocation model; would that be correct?

MS. KELLY DERKSEN: Yes, it is, Mr. Peters.

MR. BOB PETERS: And when the costs are

provided to you, Ms. Derksen, is it a general ledger breakdown or is it in some other fashion that it's provided to you?

MS. KELLY DERKSEN: I would say, for all intents and purposes, what you have in the Application before you in Volume I is generally what I get. I get a little bit more specific information on the operating and maintenance side of things.

I get a -- a -- I guess, a program breakdown of each of the programs that compile to the $54.1 million and I am able then to assign costs to each of the customer classes on that basis.

MR. BOB PETERS: Once you get the costs, Ms. Derksen, you functionalise all of the upstream costs into one (1) of six (6) categories as I understand the materials?

MS. KELLY DERKSEN: I would actually say the upstream costs get functionalized to the upstream functions; those being production, pipeline and storage.

MR. BOB PETERS: And then the downstream costs of -- get into transmission, distribution and onsite?

MS. KELLY DERKSEN: Generally speaking, Mr. Peters, but I guess I should qualify that some of what we would generally say is downstream costs get embedded in our upstream functions. For example, some of -- which I'm sure we'll talk a lot about, Mr. Stephens' area of responsibility who's responsible to procure natural gas, some of the operating and maintenance expenses associated with that department find their way into the upstream functions.

MR. BOB PETERS: Is that the only exception that you can think of?

MS. KELLY DERKSEN: No, sir. There are many. There are a number of operating expenses. There are a number of rate base items, taxes, depreciation and so forth find their way in the upstream functions.

(BRIEF PAUSE)

MR. BOB PETERS: Once you've functionalised those upstream and downstream costs, Ms. Derksen, you then will classify them into one (1) of three (3) categories; would that be correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And one of those categories is called "commodity"?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Are those costs anything other than the -- the gas commodity that is purchased?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I believe the majority of the costs related -- that get classified as commodity related or energy related are the commodity -- the actual costs of the molecules itself.

There may be some other minor costs that are variable in nature that may be classified as commodity, but at the top of my head I couldn't think of one.

MR. BOB PETERS: Those other costs would be variable in proportion to the volume of gas that's purchased?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: All right. In terms of the second classification, that's known as customer costs?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And those costs are directly affected by the number of customers attached to Centra's system?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And the third classification is that of capacity which would affect costs that are -- or include costs that are needed to

meet the peak supply of the Utility?
MS. KELLY DERKSEN: Correct, sir.
MR. BOB PETERS: Do I take it that each and every aspect and element of the revenue requirement would then be functionally classified by the time you get to the end of the classification stage?
MS. KELLY DERKSEN: Yes, sir.
MR. BOB PETERS: And all that's left after the classification then, is to allocate those functionally classified costs into the appropriate customer classes?
MS. KELLY DERKSEN: Yes, that's true.

(BRIEF PAUSE)

MR. BOB PETERS: And the commodity costs would be allocated based on the relevant volumes for an appropriate time period for both system WTS and T Service customers?
MS. KELLY DERKSEN: Generally speaking you could look at it that way, but keep in mind that we have, kind of almost two (2) streams or two (2) different pools of commodity costs.
These days we have the primary gas costs, which are set through the quarterly rate mechanism, and

that's just pooled as one (1) lump sum amount. It's divided by total annual volumes that we anticipate to meet for an upcoming period. And so everyone pays the same price. So it's not allocated in -- in a traditional sense.

There are other gas costs that we incur, and those would relate to say supplemental, for example, or some of the fixed upstream costs that we incur in transporting natural gas from Alberta, for example, to Manitoba. And so I -- I kind of view them as in two (2) different camps.

MR. BOB PETERS: Those costs that you have functionally allocated considered to be customer costs, are allocated on the basis of the number of customers in each class?

MS. KELLY DERKSEN: Again, I -- I need to say generally speaking. For example -- and the reason I need to say that is, for example, we do a fairly in depth review of our meters and our -- and our service lines on a customer's property to -- to be able to identify what meters belong to what customers, what service lines belong to what customers.

We then are able to get information from our plan accounting folks, that provides the cost per meter, for example, or for service -- for the service line. And so while customers do drive the allocation of meters and services, we also have to take into account cost, because a cost of a residential meter is much less than a cost for an industrial meter, for example.

MR. BOB PETERS: Okay. Thank you for that. Those functionally classified capacity costs go down to the customer classes based on the peak and average use by the class?

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

MR. BOB PETERS: And how long have you used the peak and average methodology for allocating costs for capacity matters?

MS. KELLY DERKSEN: Sir, the peak and average methodology was implemented flowing out of the 1996 Generic Cost Allocation Proceeding. So I believe the first test period that it was used was for the 1997 General Rate Application.

MR. BOB PETERS: And based on what Mr. Rainkie has told us this afternoon, the rates that are up for being changed as a result of the Application that's now before the Board, would be the supplemental gas rates, the transportation to Centra rates, the distribution rate as well as for some customer classes, the basic monthly charge?

MS. KELLY DERKSEN: Yes, and I would add

that there's a small piece in the primary gas component on the bill that I outlined in my direct evidence, that I refer to as the primary gas overhead component, and that's the non-gas cost piece of the primary gas rate, which is also an issue at this Hearing.

MR. BOB PETERS: Thank you for reminding me; that was the 1 percent factor that you mentioned, correct?

MS. KELLY DERKSEN: Yes, I think it was actually less than 1 percent of the primary gas base rate, but, true.

MR. BOB PETERS: And just -- you drew the Board's attention in your direct evidence to PUB/CENTRA Information Request Number 90, and the evidence that you provided the Board, Ms. Derksen, didn't seem to be -- line up quite with that Information Request.

I wonder if you could bring that out?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I have it sir.

MR. BOB PETERS: The numbers in PUB-90 would have been updated on your buff coloured pages, when you filed the cost of gas update, would that be correct?

MS. KELLY DERKSEN: Yes that's true.

MR. BOB PETERS: All right. So, that's where the -- for the first test year, the 05/06 year the overheads were reduced to a dollar seventy-three ($1.73) per 10-3M3.

MS. KELLY DERKSEN: Yes, sir, they're slightly different than what's been identified on this information request because this was on the basis of our initial February 21st filing.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, on a purely theoretical sense would all allocated upstream fixed costs and consumer related or customer related costs be recovered through the basic monthly charge?

MS. KELLY DERKSEN: I guess I have trouble with the word, 'upstream'. There are no upstream customer related costs. There are only downstream customer related costs. And in theory, yes, we would -- they should be recovered through a basic monthly charge.

MR. BOB PETERS: I was asking the question from the perspective that there were actually two (2) categories of costs that would be theoretically recovered in a basic monthly charge. One (1) of those was the allocated upstream fixed costs and in addition to those would be the customer related costs, which you've correctly reminded us are also included in the basic monthly charge.

MS. KELLY DERKSEN: Yeah, I think I understand your point of view. You're suggesting that any fixed upstream cost which is primarily what we would consider capacity driven could potentially be recovered in a basic monthly charge.

If we look at the downstream side of the operations, anything that is capacity driven or customer driven could theoretically be recovered through a basic monthly charge.

Certainly not our -- it's certainly not our -- what we would recommend but -- our or position, but it's theoretically possible to do.

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes. And Mr. Rainkie kindly reminds me that we have answered an information request to the Public Utilities Board that identifies what a basic monthly charge would look like if we recovered all of our fixed capacity costs as well as our customer costs through a basic monthly charge. The number at the moment escapes me though.

Actually, I think it's in your Book of Documents, Mr. Peters.

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes, I think Mr. Peters, it's Tab 48.
MR. BOB PETERS: Well, because you've mentioned it, let's go there right now and you're ahead of me Ms. Derksen. You were referring to PUB/CENTRA-94(A) and the attachment to that?
MS. KELLY DERKSEN: Yes sir.
MR. BOB PETERS: And what you've shown on the attachment are three (3) tables, table 1, 2 and 3. And each of them contains a different assumption, correct?
MS. KELLY DERKSEN: Yes sir.
MR. BOB PETERS: And the first, table 1, is the basic monthly charge on the rates that are being proposed in this application which essentially is no change to the previous basic monthly charge, correct?
MS. KELLY DERKSEN: Yes, sir in the first table we are -- the rate structure is such that the basic monthly charge for the SGS class is ten dollars ($10) per month and seventy dollars ($70) for the LGS customer

class.

MR. BOB PETERS: And that's what it was before the Application that you've got before the Board?

MS. KELLY DERKSEN: Yes and it has been for some time.

MR. BOB PETERS: And what you're -- explain to the Board what you're showing in Table 2 then?

MS. KELLY DERKSEN: Table 2 is where I started off, where you and I started to disconnect a bit, Mr. Peters.

What I was suggesting is that if we recovered all of the customer related costs, so any costs that is driven by the number of customers on the system, if we were to cover all of those costs through a basic monthly charge for the SGS and LGS customers classes, those currently are the only two (2) customer classes that we do not recover the full amount of the customer related cost in the basic monthly charge.

MR. BOB PETERS: And it would go up to one-twelfth (1/12) of two hundred and ninety-one dollars ($291)?

MS. KELLY DERKSEN: From a hundred and twenty (120) to two hundred and ninety-one dollars ($291) yes.

MR. BOB PETERS: And why is it that you

haven't gone that route, Ms. Derksen?

MS. KELLY DERKSEN: It's something that's under consideration at the moment, Mr. Peters. We are working on a report on the level of the basic monthly charge which is to be filed sometime this summer.

And -- but what I can identify is that historically Centra has not moved off the ten dollar ($10) per customer basic monthly charge, at least it's been in this jurisdiction for fifteen (15) years, it could be even longer because we feel, and we have felt, that customers -- we would have a customer outcry if we increased to anything greater than the ten dollars ($10).

MR. BOB PETERS: On the Table 3 of PUB/CENTRA-94(A), Attachment found at Tab 48 of the Book of Documents, Ms. Derksen, that's where you and I reconnected on our questioning here and all customer costs, as well as capacity related costs could be embedded in a basic monthly charge and that's what it would look like on an annual basis?

MS. KELLY DERKSEN: Yes, sir. That's true.

MR. BOB PETERS: And what's of interest, Ms. Derksen, and I'm sure not lost on the Corporation or the Board, is that when the basic monthly charge increases there is a reduction in the volumetric cost recovery; is that correct?

MS. KELLY DERKSEN: That's true. That's generally what we'll find when you raise the level of the basic monthly charge, those costs are currently being recovered to the volumetric rate.

So, if you're raising the level of the basic monthly charge, the volumetric inherently has to decrease.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, to the extent that the basic monthly charge and the demand charges don't recover all of the related costs, the volumetric rate for all those classes was therefore distorted is what -- is what you're saying?

MS. KELLY DERKSEN: I just wanted to clarify on this particular page, Mr. Peters, we are talking about the SGS and LGS customer classes and we do not have a three-part rate structure for those two (2) customer classes.

We have a two-part rate structure. One (1) part -- component of that rate is the basic monthly charge. The other component of the rate is a volumetric charge. And, yes, the answer to your question is yes.

I guess you could look at it that if we do not recover all of the costs that are driven by the number of customers through a fixed customer charge, it will somewhat distort the volumetric charge. And we've accepted in this Corporation and the Board has accepted over the last, you know, fifteen (15) or more years that that distortion is -- is an appropriate one to make.

MR. BOB PETERS: That distortion is really an inter-class cross-subsidization?

MS. KELLY DERKSEN: Yes, I would agree that there is a cross-subsidy that occurs between the customers within the class.

(BRIEF PAUSE)

MR. BOB PETERS: Can you explain, Ms. Derksen, to the Board why a fairly elaborate cost allocation process is conducted and then when it comes to the rate design you deliberately do not recover all of the allocated costs on a consistent basis as amongst the customer classes?

MS. KELLY DERKSEN: I think, Mr. Peters, this has some history to it stemming back, likely beyond the 1996 generic cost allocation proceeding.

But, at that point we proposed to

structure the larger volume customer classes using a three-part rate including a basic monthly charge, a demand charge and a variable charge which exactly mimics the classification phase of the cost allocation study.

Because I think, generally speaking, we accepted that the larger volume customers were more capable of understanding a more complex rate structure than the lower volume customer classes.

And I -- I would suggest that's probably the -- the most fundamental driver of why we have a two (2) part rate structure for the SGS and LGS customer class, because we believe that from an understandability point of view, as well as a simplicity point of view, that that best meets our needs for the lower volume customers.

MR. BOB PETERS: You've mentioned in a previous answer, that the Corporation is studying the basic monthly charge, and plans on bringing forward a report?

MS. KELLY DERKSEN: We do, sir.

MR. BOB PETERS: That was in response to the Board's request in Order 131/04?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And I noted the timeline; was it August of '05?

MS. KELLY DERKSEN: Yes, our intention is to file in August of '05.

MR. BOB PETERS: Is that report being done internally, or is that also being done with the assistance of external consultants?

MS. KELLY DERKSEN: It's being done internally, sir.

MR. BOB PETERS: And, Ms. Derksen, in -- in -- just so I have the answer from -- that you gave Ms. Murphy correct, there are no changes in the cost allocation or rate design, from those approved by the Board in its last order?

MS. KELLY DERKSEN: I would say, yes. I just wanted to bring to your attention that we've proposed -- I'm just thinking off the top of my head here, that we've proposed a separate line item for the interruptible class.

Currently we have that type of treatment for the mainline customer class. We've separated out the supplemental gas PGVA from its base rate, and we are billing it out as a separate line item, because it is currently a negative amount for the mainline class, and we're proposing that same treatment, this time, for the interruptible class.

So, just that one (1) minor change is

being proposed in this Application.

MR. BOB PETERS: And carrying it forward from the '05/'06 test year to the '07 -- sorry, carrying it forward to the '06/'07 -- let me revise that question.

Has the cost allocation and rate design for the first test year of your Application been used in the second test year of your Application?

MS. KELLY DERKSEN: Yes, sir, we have not made any changes in the allocations, the classifications or the functionalizations, with the exception of perhaps the fact that we now have DSM costs finding their way into rates in 2006/07. Other than that change, we've functionalised, classified and allocated costs consistently between the two (2) test years.

MR. BOB PETERS: In Tab 44 of the Book of Documents, and also under Tab 45, we have schedules 10.1.0, and following, as well as 10.2.0, under Tab 45. You prepared those, or were responsible for those, Ms. Derksen?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And that is -- those schedules are to show a total revenue requirement allocated to each customer class?

MS. KELLY DERKSEN: Yes, we initially started this afternoon's discussion about the 558 million, and we can see that the 558 million has been split to each of the customer classes, as identified on this schedule.

MR. BOB PETERS: And also though on this schedule, there are three (3) -- you call them customer classes, but they're really -- I learned a new word, placeholder classes; is that -- is that what they are?

MS. KELLY DERKSEN: Pretty much, Mr. Peters, yeah.

MR. BOB PETERS: And that's for primary gas, supplemental gas and supplemental gas for interruptible customers?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Can you explain to the Board why it's necessary to -- to do such an allocation?

MS. KELLY DERKSEN: It became necessary to split up primary and supplemental gas between firm and interruptible, through the unbundling of rates that occurred on July the 1st of 1999.

These were not previously separated on the bill, as they are today. And we needed to establish a separate rate class, in order to make sure that the appropriate costs were assigned to each of -- each of those classes, and that they ultimately then flowed through onto the bill.

So the bill that's being provided to customers today will have a primary gas rate, a supplemental rate if you're a firm customer, and a supplemental rate if you're an interruptible customer.

So, I guess it really stemmed from the unbundling of rates in 1999.

MR. BOB PETERS: But, recognizing you have these three (3) placeholder customer classes as I call them, you take the revenues that are -- sorry, you take the costs that are allocated to those three (3) placeholder classes and you have to go back and then figure out how much belongs to each of the PUB approved customer classes?

MS. KELLY DERKSEN: Oh, I'd say they all -- are all PUB approved and I don't want to leave the impression with the Board that a placeholder class is of any less importance than any of the other customer classes on the bill.

But, essentially we allocate costs to those customer classes no different than they allocate costs to the SGS class. So, for example, if I have in western Canadian supply costs I will allocate them directly to the primary gas class; no different than I would do with any other costs.

MR. BOB PETERS: All right. And maybe it

was my choice of words, Ms. Derksen, but, you take then the costs from those three (3) placeholder customer classes and you have to them flow that back into the customer classes that would end up being shown on the bill?

MS. KELLY DERKSEN: You don't really flow it back to the customer class, I think in the sense that you're describing. It ultimately flows through to the customer bill. Obviously all the costs that we incur are recovered through -- from the customer; and primary gas, for example, is one (1) of those costs.

So, we don't actually figure out what needs to be allocated to the primary gas class and then reallocated back to the SGS class. The amount in the primary gas -- primary gas is a bad example because you know, we set that rate on a quarterly rate mechanism, but, let's say the supplemental gas rate.

Once we have assigned the cost to the supplemental firm class, I will divide by the number of volumes that we are anticipating purchasing supplemental firm costs and that cost will not hit a customer class, it will hit the customer's bill.

MR. BOB PETERS: All right. Thank you. What will hit the customer's bill then on a class by class basis, is also found under Tab 49 of the Book of

Documents, where you take information that you would have had from schedule 10.1.0 and then restated it in terms of the SGS, LGS, high volume firm, co-op, main line and special contract?

MS. KELLY DERKSEN: You know, we're responding in this particular question was an information request from the Board. And we were providing it for information purposes only. I don't actually deal with allocation of costs in this way.

But, this gives a representation of what the SGS class, for example, may see in terms of annual costs. So, it's really just for information purposes only.

MR. BOB PETERS: So, when we looked at the primary gas customer class under Tab 45, for example, you would take the volumes by each other class of customer and allocate them to those customers on their bill?

MS. KELLY DERKSEN: What I've done is I've taken -- I've established a supplemental gas firm rate, for example, and I've taken that rate and multiplied by the number of volumes that we expect that the SGS class, for example, will consume in the 2005/06 test year. I've multiplied those two together and that will tell me roughly what the annual revenues would be on account of supplemental gas for the SGS class and that's what you see then.

MR. BOB PETERS: All right. Thank you Ms. Derksen.

MS. KELLY DERKSEN: Sorry, in Tab 49.

MR. BOB PETERS: Yes. Ms. Derksen, in terms of what you're asking the Board to approve in this Application by way of rate schedules and I believe Mr. Warden spoke briefly to this, there are base rate schedules and billed rate schedules for 2005/05, effective August 1st of 2005, for which you're seeking approval, would that be correct?

MS. KELLY DERKSEN: That is one (1) set of rate schedules we are looking approval -- for approval of, yes.

MR. BOB PETERS: All right. And another set of rate schedules that you're looking for this Board to approve is for the base rates that will be effective on May the 1st of 2006?

MS. KELLY DERKSEN: I would say actually billed rates on May the 1st, 2006 because what we anticipate happening on May 1st of 2006 is that the reconciliation rider that is going to go on on August 1st of 2005, assuming PUB approval, will come off the bill on May 1st of 2006 and a new rate rider will go on and that's called the rate delay rider.

So, we're really looking for approval of billed rates effective May 1, 2006.

MR. BOB PETERS: Do those billed rates for May 1st of '06, Ms. Derksen, include assumptions as to what will happen at a cost of gas hearing that will be filed upcoming in early 2006?

MS. KELLY DERKSEN: Mr. Peters, there are no assumptions included in rates today on account of changes in gas costs for the 2006/07 test year. None.

MR. BOB PETERS: But you'll acknowledge, Ms. Derksen, that the -- the non-primary gas cost component of the rate schedules will change following a cost of gas application?

MS. KELLY DERKSEN: Yeah, I think what we envision, Mr. Peters, is that we would have changes to the non-gas cost component of the bill on May 1st, 2006 and that we would file with the Board sometime in early 2006 changes on account of non-primary gas costs for the 2006/07 year.

And those rates would come into effect, assuming everything, you know, goes as planned, on August 1st of 2006.

MR. BOB PETERS: So I take that answer, Ms. Derksen, to say to the Board that for the non-gas cost items, the Board can give a final order as to what those rate impacts will be, stemming from this hearing?

MR. DARREN RAINKIE: That's what we're seeking in this application, Mr. Peters. You're correct.

MR. BOB PETERS: And in terms of the primary gas costs, Mr. Rainkie, Ms. Derksen, we're going to deal with those on a quarterly basis as we have in the past?

MR. DARREN RAINKIE: That is correct, sir.

MR. BOB PETERS: And for the non-primary gas costs for which the company's indicated it would be making a filing, I believe early 2006, any rate impacts flowing from that filing would be dealt with on the August 1st, quarterly adjustment time?

MR. DARREN RAINKIE: That's our intention, sir. Yes.

MR. BOB PETERS: All right.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, can you please just assist the Board and myself with Tab 50 of the book of documents on the Schedule 11.1.0 as well as 11.1.1.

For the first test year of 2005/06 you have billed versus billed, new volumes and load factors; have I got that correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And when I compare it to the next page, 2 of 3, of Schedule 11.1.0, you're talking about previous volumes and load factors?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And can you indicate why page 2 of 3 is required or what is it demonstrating to the Board?

MS. KELLY DERKSEN: Sir, that was really meant to provide information only to the -- to the Board. Really, only -- the only difference between the two (2) is -- well, there's a couple of differences.

There was a -- the SGS class' average volume for a typical residential customer, on the very first page, is indicated at twenty-eight hundred and two (2802) cubic metres per year.

Whereas on the second page, it's at what's been previously used which was the thirty-two hundred and one (3201) cubic metres a year. In addition, we've added a load factor. We've expanded, let's say, the range of customers in the high volume class as well as in the interruptible class.

And the reason that we've done that is that, Mr. Peters, you and I have had a conversation a number of times in the last couple of years and the question was always, you know, are all of the customers represented -- represented on these rate schedules?

So we did a little work and identified that there are not some customers -- not all customers are identified on the rate schedules.

So we decided to expand the range to include as many customers as we could on these impact schedules.

MR. BOB PETERS: You didn't answer the question I'm going to ask you. Are all customers now shown on the -- on the new volumes and load factors, Schedule 11.1.0 page 1 of 3?

MS. KELLY DERKSEN: The majority of customers are on this class. Customers loads and so forth change -- can change from month to month, for example, or from year to year. So to the extent that we'd continuously have those changes, not all customers may necessarily be identified.

MR. BOB PETERS: When Mr. Kuczek and I were talking about volume usage, it indicated there had been some -- some reductions. Is it now Centra's position that the typical SGS customer consumes two point eight (2.8) ten (10) three (3) M-3's on an annual basis, as compared to three point two (3.2) in previous years?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: So going forward you're redefining the typical residential customer as using two point eight (2.8) ten (10) three (3) M-3's?

MS. KELLY DERKSEN: A typical residential customer is two point eight-o (2.80) to ten (10) three's (3's), yes.

MR. BOB PETERS: And a typical residential customer is not an average residential customer?

MS. KELLY DERKSEN: They are not the same, Mr. Peters, that's true.

MR. BOB PETERS: What's the difference?

MS. KELLY DERKSEN: The customers within the SGS class vary to some degree. There are some commercial type of customers who use the -- the residential, or sorry, the SGS class; that's what we bill them under. So, for example, we might have some local mom and pop corner stores that would use that type of consumption and be billed under that rate.

So customers of that nature who would use more than our -- an average normal residential customer, would tend to increase the -- the average usage from what a typical residential customer would use.

MR. BOB PETERS: Just a couple more questions on the -- the documents here at Tab 50, Ms. Derksen. If I go to Schedule 11.1.0 on page 3 of 3, also found under Tab 50, you are putting forward proposed base rates; correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And so long as there are rate riders in effect, the base rates will -- will not be in effect, would that be correct?

MS. KELLY DERKSEN: They're not billed, I guess that's the best way of describing it. Base rates will be in effect, but there will be a rate rider that's attached to that base rate, so the customers will not see the base rate.

(BRIEF PAUSE)

MR. BOB PETERS: In your -- what you're telling the Board is that the base rate is billed, but in conjunction with a rate rider, and that makes it into a billed rate?

MS. KELLY DERKSEN: Yes. A billed rate is a combination of the base rate plus the rate rider. So it's the billed rate that is ultimately put on the customer's bill.

MR. BOB PETERS: And on the present rates that Centra charges its customers, there is a rate rider that was intended to refund approximately $16.6 million, ending July 31 of 2005?

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

MR. BOB PETERS: And when that rate rider is removed, there will be a residual balance; is that correct?

MS. KELLY DERKSEN: There is -- I guess there's a couple of things that I'd like to clarify first. When this $16.6 million is removed, that inherently is going to make the -- the billed impacts go up, because you're -- you're removing something that was good to the customer. So inherently you're -- you're billed impact is going to go up.

And secondly, I think that's probably sufficient.

MR. BOB PETERS: In your answers to Ms. Murphy, you indicated that you'd calculated what that rate rider coming off would be, and it would be a residual left over; correct?

MS. KELLY DERKSEN: That was the second thing I was going to add. There's roughly six hund --

six hundred and seventy thousand dollars ($670,000) owing to customers left, or of the PGVA amounts. All of the PGVA amounts left up to March the 31st of 2005, including carrying costs to July the 31st of 2005.

So that residual will -- will go on the bill effective August the 1st of 2005, assuming PUB approval.

MR. DARREN RAINKIE: So, Mr. Peters, just to summarize so we're all on the same page here, a $16.6 million refund is coming off on July the 31st, 2005, a $.7 million refund is going into affect on August 1st, 2005, which is likely $15.9 million increase in rates, in terms of the pro-rate impacts.

MR. BOB PETERS: That's what the customer will see, is what you're trying to tell the Board?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And in terms of the actual number, just before I lose that point, Ms. Derksen, your numbers that you filed here were based on actuals plus some forecast material; correct?

MS. KELLY DERKSEN: Yes. What is shown on the Schedules 11.1.0, all of them for the first test year includes actuals to the end of February 2005, and a forecast for March of 2005.

MR. BOB PETERS: Are you going to be

revising the -- the number to a more accurate number, or are you going to be throwing that into a PGVA account?

MR. DARREN RAINKIE: Sir, because of the small amount of the number, we hadn't intended to adjust our Application. But I guess we're at the pleasure of the Board in that regard, if it maintains our current Application we'll do it. If they order us to update it to the numbers that Mr. Sanderson put on the record in the first Panel, we'll do that as well.

THE CHAIRPERSON: Mr. Peters, are you close to a natural break?

MR. BOB PETERS: I think we're right there.

THE CHAIRPERSON: Okay. We'll have our break. Natural or artificial.

--- Upon recessing at 2:46 p.m.
--- Upon resuming at 3:08 p.m.

THE CHAIRPERSON: Mr. Peters...?

MR. BOB PETERS: Yes, thank you, Mr. Chairman.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I'd like to turn back to

Tab 48 of the Book of Documents and look at PUB/CENTRA-94(A), the attachment that had Tables 1, 2 and 3 on it.

Ms. Derksen, you and I were talking about that and Table 1 shows the existing situation under the Board approved rates; is that correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: If I go down to lines 9 and 10 under Table 1, if I consume, as a consumer, eleven thousand, three hundred (11,300) cubic metres, I -- I can choose to be either an SGS customer or an LGS customer; would that be right?

MS. KELLY DERKSEN: Yes. Well, in fact, you could consume any amount that's identified in this table and choose if you wanted to be in the SGS or LGS class.

MR. BOB PETERS: And one (1) of the factors that would influence my decision would be the basic monthly charge compared to the total costs?

MS. KELLY DERKSEN: It could be, yes, sir.

MR. BOB PETERS: So, for the same -- well, what you're telling the Board is on lines 9 and 10, for consuming the same volume, you pay different amounts just by being in different classes?

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

MR. BOB PETERS: And that's true, because there's a different basic monthly charge, and there's also a different volumetric rate?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And if you went down to Tables 2 and 3, Tables 2 and 3 don't presently exist under your -- your rates; is that correct?

MS. KELLY DERKSEN: Correct.

MR. BOB PETERS: And then hypothetically if they did, again on lines 23 and 24, a customer who consumes eleven thousand three hundred (11,300) cubic metres, could again elect to be either LGS or SGS; correct?

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

MR. BOB PETERS: But what we see here is that the total costs in the far right hand column diverge as a function of the basic monthly charge increasing; would that be correct?

MS. KELLY DERKSEN: On account of the basic monthly charge increasing and the volumetric component decreasing, the annual bill is different under the Table 1 and 2, which identifies different rate structure options.

MR. BOB PETERS: And what you're doing under this Table 2 is you are more accurately putting the customer related costs into the basic monthly charge for the customers; correct?

MS. KELLY DERKSEN: Well I guess it depends on how you define accurately, it's been assumed today that a basic monthly charge at ten dollars ($10) for a residential customer or for an SGS customer, meets the goals and objectives that we need it to meet. And so from that perspective you could define accurate as today's situation.

If you assume that it's in our best interest to increase the basic monthly charge to reduce cross-subsidy that would otherwise occur in the SGS class, for example, you could define Table number 2 to be more accurate.

MR. BOB PETERS: And if you wanted to further eliminate any cross-subsidization and -- and arguably totally eliminate it, you could go down to Table number 3 and look at lines 36 and 37, and examine how that customer would be treated under the two (2) different classes.

MS. KELLY DERKSEN: Could you say that question to me again please, sir?

MR. BOB PETERS: I will rephrase it, which means I can't remember what I asked you. But does Table 3 totally eliminate the cross-subsidization as between the SGS and the LGS class, and let's pick lines 36 and 37?

MS. KELLY DERKSEN: Well perhaps between the SGS and LGS class it may, but you're introducing a different level of cross-subsidy when you start introducing or recovering your capacity related costs that are really incurred to meet maximum consumption used by a customer, when you're recovering those types of costs that are influenced by demand on the system, and recovering them on the basis of the number of customers in the class.

So while you might be fixing one (1) situation, I think you're causing a problem from a different perspective, and that is you're trying to recover a cost that's not influenced by the number of customers, but rather is influenced by the demand on the system or in that class.

MR. BOB PETERS: And that's perhaps one (10 argument as to why instead of including capacity related costs in the basic monthly charge, you would set up a three (3) part bill for those types of customers?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: So what the Board will see when it reviews this schedule, Ms. Derksen, is that the existing customer, who would be an LGS customer on line 10, of PUB/CENTRA-94-A attachment, would see their total costs go from about forty-five hundred dollars ($4500) to up to eight thousand dollars ($8,000) on line 37, if all customer as well as capacity related costs were included in the basic monthly charge?

MS. KELLY DERKSEN: That's true, that's the direction the costs are going.

MR. BOB PETERS: Ms. Derksen, the last tab in the book, Tab 50, and let's look at Schedule 11.1.0, page 1 of 3, because these are the proposed bill rates for which you're seeking PUB approval, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And we did focus before the break on the SGS customer, which includes the residential customers; correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: If we go to the high volume firm customer, and let's take the high-volume firm customer that's functioning at a 25 percent load factor, their total annual bill currently would be approximately three hundred and thirteen thousand dollars ($313,000) and under the increase of 3.66 percent, that customer's bill would go to three hundred and twenty-five thousand dollars ($325,000)?

MS. KELLY DERKSEN: True.

MR. BOB PETERS: And when I look at the components that go along with that, Ms. Derksen, the basic monthly charge is increasing from eighty-one hundred dollars ($8,100) to eleven thousand seven hundred dollars ($11,700); correct?

MS. KELLY DERKSEN: That's true.

MR. BOB PETERS: Why is the basic monthly charge increase seem disproportionate to the overall increase?

MS. KELLY DERKSEN: Well, there's a couple of reasons that that -- or, actually, I guess about three (3) reasons that that is happening.

First, in my direct evidence I identified that there will be a reconciliation rider that reconciles the difference between the non-gas costs embedded in the February 1 rates and the August 1st, 2005 proposed rates. And so there is a rider that has been attached to the basic monthly charge for every class, including this customer class, the high-volume firm class.

So that's one (1) of the reasons that you see a -- an increase in the basic monthly charge.

More importantly though, we've had a number of migrations of customers out of that class, out of the high-volume firm class, and either into the LGS class, the mainline firm class, or just have left the

system entirely. And, in fact, even if I were to propose the same level of costs on account of customer-related costs in that class, my basic monthly charge would go up because I'm recovering it over a fewer number of customers in that class.
So if I did nothing at all, I would see an increase in the level of basic monthly charge for that -- for that customer class.
And third, and not to discount it, is the fact that there has been an overall increase in the level of customer-related costs and that's -- that we're proposing in this application.
MR. BOB PETERS: Does -- do those same three (3) explanations apply when we look down to a cooperative customer or a mainline customer, and looking at their basic monthly charge currently compared to what will be proposed?
MS. KELLY DERKSEN: I wouldn't say for the co-op class. In actuality, there is no customer in the co-op class. It was a class that was created for -- at the request of the Public Utilities Board as well as a customer, and no customer ever materialized in that class.
So it could be a reconciliation rider, it could be the level of costs that have customer-related

costs that is causing the co-op class to increase.

For the mainline customer class, there is actually an increase in the number of -- of customers in that class. So theoretically that should cause, all else being equal, the basic monthly charge to decrease. But, again, on account of increase in costs, it's very possible that the basic monthly charge increase for that class as well.

MR. BOB PETERS: From your answer, Ms. Derksen, on the mainline customer at 40 percent load factor, because the basic monthly charge is increasing, the only thing that can be attributed to is the increase in customer-related costs?

MS. KELLY DERKSEN: I think so. I think that's probably what I could conclude as well.

MR. BOB PETERS: All right. And, just to conclude on the schedule, the special contract customer class has no demand component but rather all of those costs are recovered through a basic monthly charge; would that be correct?

MS. KELLY DERKSEN: Yes. There is no demand rate, there is no three (3) part rate for the special contract class. We've agreed with the customer that we will recover all of their fixed costs, both customer and capacity related, through the basic monthly charge.

MR. BOB PETERS: And that was by way of a contract and that was approved -- or that rate arrangement was approved by the Board?

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

MR. BOB PETERS: Ms. Derksen, you have looked with me to the high-volume firm customer class on Tab 50 on Schedule 11.1.0, page 1 of 3, and the high-volume firm customer has a demand rate as part of its three (3) part rate structure; correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And the demand rate for this customer class is now set based on the peak day in the winter month?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And this is a change in the last approximate year or two (2) where it used to be set on the daily average of the winter peak month?

MS. KELLY DERKSEN: Yes. Previously what we did is instead of bill on the maximum day in a winter month that's registered on the demand meter for this customer class, we took a -- we took a look at all of the consumptions on a daily basis during the highest winter month for a particular customer and we simply divided by the number of days in that month to come up with a -- an amount to bill demand on.

MR. BOB PETERS: But with your meters in place now, you can actually get to the -- the peak day in the winter month?

MS. KELLY DERKSEN: Yes, we're able to know exactly how much customers use every day of the year.

MR. BOB PETERS: And with being able to measure how much customers use on the peak day that the system is required to serve the peak, that's the basis on which you allocate the demand costs?

MS. KELLY DERKSEN: We allocate demand costs on the basis of coincident peak day for that class.

MR. BOB PETERS: Which means that the extent to which one (1) customer contributes to the overall peak of the class, that's their share of the class peak costs?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: With the inclusion of the demand rate in the billing, does that reduce the cross-subsidization intra-class?

MS. KELLY DERKSEN: I guess you'd have to be a bit more specific, sir. Certainly from the perspective of having a two-part rate the -- the downside of a two-part rate is that you have a number of costs that are imposed on the system which are attributable to demand or maximum usage on a specific day.

To the extent that you now have a rate that recovers those costs, you reduce the cross-subsidy within the class. So I guess from that perspective I could answer yes.

MR. BOB PETERS: For the particular class that we're talking about, the high volume firm, not 100 percent of the demand costs are recovered in the demand rate; would that be correct?

MS. KELLY DERKSEN: That's true. Only 65 percent of the demand related costs are recovered in the demand rates.

MR. BOB PETERS: But that's only for the high volume firm and the interruptible class?

MS. KELLY DERKSEN: For those two (2) customer classes, yes.

MR. BOB PETERS: And all other three-part classes have -- three-part rate classes have 100 percent of the demand costs recovered?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And you're not asking in this application to increase the percentage of demand costs recovered through the demand rate for this customer class or the interruptible class?

MS. KELLY DERKSEN: Sir, we are not?

MR. BOB PETERS: Why is that?

MS. KELLY DERKSEN: I guess, quite honestly, I -- I think we're a bit gun shy after the amount of negative feedback we've received from a particular customer in that class.

We think it's the right thing to do, particularly in the high volume firm class. We're not exactly sure for the interruptible class because we have a number of seasonal customers that, if we move to recovering 100 percent of the demand costs in the demand rate, those seasonal customers would contribute nothing to the -- the demand-related costs and we're not sure that that's 100 percent fair.

We're not sure that it's unfair but we're not sure that it's fair either. So for the interruptible customer class, we haven't looked at it any further.

For the high volume firm class, I think we need to let things settle. We need to sort things out with this customer before we go any further.

MR. BOB PETERS: Without getting specifics of the customer or the sorting out, are there steps being taken to address concerns raised by that customer?

MS. KELLY DERKSEN: We have been working with this customer. We have been in contact with them very regularly. We were to meet with them again this month to talk about different energy saving methodologies that we could employ in their plant to help reduce the level of, I guess, both the gas and the electricity bills.

And so that's, kind of, where we're at. We have been conversing though, frequently with this customer.

MR. BOB PETERS: Do those conversations to your knowledge, include discussions of multiple metering, say one (1) for process load and one (1) for space heat?

MS. KELLY DERKSEN: We have had those conversations with the customer. It's something that we are currently evaluating, so I'm not sure that there's anything concluded from -- from that analysis or those -- those conversations yet.

MR. BOB PETERS: And there's no recommendations coming to the Board as a result of those discussions at this time?

MS. KELLY DERKSEN: As to how to improve -- help the energy bill be reduced; is that the question?

MR. BOB PETERS: I'm just wondering if as a result of your discussions you are -- you're not proposing any -- any specific rate measures or rate design measures in this Application to the Board?

MS. KELLY DERKSEN: No, sir, we're not.

MR. BOB PETERS: I'd like to turn to the one (1) bill initiative. Mr. Warden, is that -- is that one (1) that falls to you, sir?

MR. VINCE WARDEN: Partly, Mr. Peters.

MR. BOB PETERS: All right, well let's start. Would it be correct that the Board is only being asked in this Application to approve the wording in the terms and conditions of service, as well as billing, for the pro-ration of partial payments?

MR. VINCE WARDEN: Yes, that's correct, Mr. Peters.

MR. BOB PETERS: You're not asking this Board to approve the actual format of the bill, are you?

MR. VINCE WARDEN: No, we're not.

MR. BOB PETERS: Is it correct, sir, that on the -- on the messages on the -- the bill, let's say on the gas side, the Board had issued Order 13/04, which set out the disconnection and reconnection procedures, and that procedure is being used in designing the one (1) bill format?

MR. DARREN RAINKIE: Sir, you're

referring to the Board Order that came out of the 2003/04 GRA, that approved the revised disconnection and reconnection policies; because there had been several, I'll call them letters of agreement, between the Board and the company over a number of years, and amended -- essentially amended those -- those -- that procedure or policy?

MR. BOB PETERS: Yes, Mr. Rainkie, and in Order 13/04 dated February 3rd of '04, the service disconnection and reconnection policy and procedures attached as Appendix A, and dated January 30th, were approved by the Board?

MR. DARREN RAINKIE: Now I think my memory's with you, Mr. Peters.

MR. BOB PETERS: All right. My -- my question is, in the disconnection and reconnection process, you will be putting messages on the customer's bill?

MR. DARREN RAINKIE: Yes, as we always have for quite some time.

MR. BOB PETERS: And as you always have, Mr. Rainkie, has been in compliance with Board Order 13/04?

MR. DARREN RAINKIE: That's certainly my understanding, Mr. Peters. In fact, it was my Department and others working with the people in the credit and collection areas that put together those -- those very -- that very policy that we revised in the Order that you mentioned.

MR. BOB PETERS: And so if the customer's delinquent the messages are then spelled out in the attachment to the Board Order 13/04, and those are the messages that you're putting on the new revised one (1) bill format?

MR. DARREN RAINKIE: That's certainly my understanding, Mr. Peters. I'm not as familiar with this particular topic as I would like to be.

Can I take that subject to check, that -- that the addition of electric and gas on -- on one (1) bill isn't somehow -- I wouldn't say changing the intent, but maybe changing a word here or there. I -- I think I'd like to -- to take that away, Mr. Peters, and just confirm that, unless -- unless there's somebody else on the Panel that -- certainly I don't think it's our intention in the -- in the material that we provided in Tab 13, to change the message or the content.

I'm just not sure that in combining the two (2) bills together, that there isn't some change in a line or two (2) in those messages. My general understanding is we're not, but I think I should confirm that.

MR. BOB PETERS: Well, certainly I'll take that and that's subject to check, and then you can check that, and if it's incorrect, through your Counsel, you can let the Board know.

Would you also then, Mr. Rainkie, let the Board know if, in Centra's view, Order 1 -- if, in Centra's view, Order 13/04 requires any revisions or changes or amendments with respect to the one (1) bill initiative?

MR. DARREN RAINKIE: I will, sir. I think you're suggesting to me that one would flow from the other.

MR. BOB PETERS: I expect they will. When I looked at the -- the one (1) bill initiative, it struck me that if I was an all-electric customer I wouldn't be affected by -- by this process other than getting a new format of a bill; would that be fair?

MR. VINCE WARDEN: If you were an all-electric customer, Mr. Peters -- do you mean if you were an electricity customer or are you -- are you referring to an all-electric in terms of all electric heating?

MR. BOB PETERS: Let me -- let me word it this way. If I lived -- or if a customer lived, I suppose, in a -- in a geographic region where there was no access to natural gas, would my bill from the electric utility have any mention of gas on it?

MR. VINCE WARDEN: No, it would not.

MR. BOB PETERS: I'd be considered an all-electric customer; is that how we've described such a --

MR. VINCE WARDEN: In that --

MR. BOB PETERS: -- customer?

MR. VINCE WARDEN: -- in that circumstance, yes.

MR. BOB PETERS: And you have approximately a quarter of a million of those?

MR. LLOYD KUCZEK: Correct.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: There -- there's approximately four hundred and fifty (450) electric customers and two hundred and fifty (250) gas customers, so the difference is about two hundred thousand (200,000).

MR. BOB PETERS: All right. So, I inflated your customer base there. You have two hundred thousand (200,000) all-electric customers who -- who don't utilize natural gas.

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And for those customers, Mr. Kuczek, the electricity will just still show their electricity consumption with some new information and -- and charts and graphs, as I read the materials, but everything else would be status quo?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And the only thing changing is the format, as I think you've just told me, and you have plans to educate them on the new bill format; would that also be correct?

MR. VINCE WARDEN: We do.

MR. BOB PETERS: And -- and that's where I referenced the graphs and the -- I'll call it self-imposed DSM records to see what their consumption is year over year or comparative time periods to comparative time periods?

MR. VINCE WARDEN: Yes. There will be charts comparing consumption for the current bill to previous periods, yes.

MR. BOB PETERS: All right. If an address receives both gas and electricity, this is where the one (1) bill initiative was really designed to provide some efficiencies; would that be correct?

MR. VINCE WARDEN: Well, it -- it will

certainly do that. The -- more than that though, the electricity billing system at Manitoba Hydro, the old customer service system was outdated, needed change. So -- so the efficiencies go beyond just combining electricity and gas. It's a new -- brand-new billing system for all customers.

MR. BOB PETERS: All right. If we have an address that receives gas service and electricity service, they're going to receive -- they have the option of receiving one (1) bill combining both utility charges on it?

MR. VINCE WARDEN: Oh, they wouldn't have the option, they will receive one (1) bill combining both gas and electricity charges.

MR. BOB PETERS: Well, I'm thinking of a situation, Mr. Warden, where the husband is the -- is the electricity customer and the wife is the gas customer and they each want to maintain their account records; that option will be presented to them, that they can still monthly -- or regularly get individual accounts?

MR. VINCE WARDEN: You're correct. That will be an option. We sincerely hope not too many people avail themselves of that option, but -- but it will be there, yes.

MR. BOB PETERS: And if -- I forget

exactly how I phrased that previous question but if the electricity customer is the husband and he doesn't want the gas portion showing up on -- on what's mailed to him, his bill format will look a lot like the one who's -- the two hundred thousand dollar ($200,000) electric customers; would that be correct?

MR. VINCE WARDEN: Fair enough.

MR. BOB PETERS: And so you don't have any customers who take gas but not electricity; do you?

MR. VINCE WARDEN: Not aware of any customers that would do that.

MR. BOB PETERS: All right. So the assumption is that every -- everyone taking gas also has an electricity account with you?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: If at one address there is both gas and electricity service provided you're hoping that that one address will identify somebody within the household whose name will then appear on the new bill format and be responsible for both the gas and electric portions of the bill?

MR. VINCE WARDEN: We're expecting that to be the case, yes.

MR. BOB PETERS: But there is an option being given to homeowners who are presently two (2) different names appear on the gas as compared to the electric bill?

MR. VINCE WARDEN: Not something we plan on promoting. But that would be available to a customer should they choose to go that direction.

MR. BOB PETERS: And for the -- for the one (1) address where there's going to be one (1) customer name for both gas and electric service; can you tell the Board, presently do all gas customers get one (1) gas bill a month?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes. Unlike the electricity accounts, there are no bi-monthly bills for gas customers.

MR. BOB PETERS: All right. On the electricity side you've indicated to the Board then that there could be an account every two (2) months?

MR. VINCE WARDEN: Depending on consumption, yes.

MR. BOB PETERS: There are residential customers, for example, who would get an electricity account every two (2) months?

MR. VINCE WARDEN: Yes, there would.

MR. BOB PETERS: And so as I understand it on month one (1) would be a gas bill, month two (2) would be gas and electric and month three (3) would be gas only again; is that how you envision it, that on the months where a homeowner normally would not get an electricity bill because they're billed bi-monthly, would they -- would that now change to monthly billing?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, I'm going to perhaps give an answer for you, for sure, on that question. I think it seems reasonable that when we're getting a reading for gas we would -- for that same customer we would also get a reading for electricity and therefore the reason -- the efficiency gained by reading those accounts every second month is no longer there.

So if we're going to be reading the gas meter, it seems logical that we also read the electricity meter. I would, though, like to confirm that.

MR. BOB PETERS: All right. I'll wait for your undertaking to provide an answer back through your counsel?

--- UNDERTAKING NO. 34: CENTRA to indicate to Board

if, on the months where a
homeowner normally would not
get an electricity bill
because they're billed bi-
monthly, would now change to
monthly billing.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, let me just ask this question now so I don't have to ask it of you later, if, for some reason, that's not the intention of the Corporation is to put out twelve (12) electricity accounts whereas before they would send out only six (6) in a year; what happens to the month when there's usually no electricity bill sent out?

You can explain, maybe, in your answer to the Board, if you're incorrect in your previous -- previous assumption, what would happen in that instance.

MR. VINCE WARDEN: We'll do that.

MR. BOB PETERS: Thank you, sir.

THE CHAIRPERSON: Mr. Warden, I presume one of the options is to have a monthly bill, since you'll be sending a gas one out in any case?

MR. VINCE WARDEN: Yes, Mr. Chairman, that's what I'm going to confirm in the answer we bring

back tomorrow morning.
THE CHAIRPERSON: And in this process you have been consulting with consumer groups on the single bill, I believe?
MR. VINCE WARDEN: Yes, there have been a number of consultations that have taken place with -- with consumer groups.

CONTINUED BY MR. BOB PETERS:
MR. BOB PETERS: And that brings me to the wording that's in the terms and conditions of service, Mr. Warden.
Have there been any further concerns raised with respect to the specific wording in the terms and conditions of service?
MR. DARREN RAINKIE: Mr. Peters, you're talking about the wording with respect to the allocation of partial payments, where there's no instructions from a customer?
MR. BOB PETERS: Yes, sir.
MR. DARREN RAINKIE: Certainly from my reading of the material I don't think so, Mr. Peters, that there's been any other concerns brought forward. That wording is fairly simple. I think we agreed on the principle at the last Hearing and it's pretty much pro

rata, based on the -- the vintage of the particular type of arrear or bill that you have.

MR. BOB PETERS: In the preface of the question you asked me, Mr. Rainkie, do I take that the consumers will be given a choice as to where to apply any or all of their partial payment, as a first step?

MR. VINCE WARDEN: Yes, they will. The payments will be applied to the oldest arrears first, that's step number one (1). But should -- beyond that, if the arrears are of equal vintage, then the customer can elect as to which account that should be applied to.

MR. BOB PETERS: All right.

MR. DARREN RAINKIE: Mr. Peters, I should note, just before we go too much farther, that this partial payment allocation only applies in the circumstance for a customer that just sends us a partial payment and doesn't specify where that bill will be -- where that bill should be split. So this is kind of the -- I guess the exception, not the rule.

MR. BOB PETERS: All right, will the consumers be alerted that they -- that there is an exception, that they can choose where to allocate their partial payment?

MR. DARREN RAINKIE: I'm not sure that's something that will be widely distributed to customers.

But if they -- if they tell us where they want that bill to be split, we will honour their intentions is my understanding, Mr. Peters.

If we just receive a random payment that's not the total bill, then we will use the -- the routine that is specified in the revised terms and conditions of service.

MR. BOB PETERS: Why wouldn't you educate the consumers that they can choose where the partial payment will be first applied?

MR. DARREN RAINKIE: Sir, I'm not sure through what venue we would -- we would do that -- that education. You kind of caught me flat footed here. I'm not sure that -- it may be something that the people that work in this area of the Corporation have thought of, but I'm not aware that we have any specific plans to do that. I mean, we have a number of things that we communicate to the customers every month, I'm not sure that's -- that's one (1) that -- that comes to the top of the list.

MR. BOB PETERS: Well, Mr. Rainkie, maybe I haven't thought it through well enough either, but you can put on your utility bill, the cost of your new high efficiency furnace that you buy from the H-Vac dealer on the corner; is that correct?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sir, there are definitely different charges on the bill, but I think we're missing the point that this is probably the exception and not the rule, and do you -- do you use your valuable communication time with the customer, explaining to them something that would hopefully be used very sparingly.

MR. BOB PETERS: As I take your answers, Mr. Rainkie, the Corporation doesn't see merit in educating customers who are in arrears, that they can choose where their partial payment will go?

MR. DARREN RAINKIE: Sir, I hope that -- I guess our hope as a Corporation is that customers won't be in arrears and that they will pay their total bill. So I'm not sure we want to send a message out there to customers, it's okay to pay your -- a partial bill.

MR. BOB PETERS: But you know currently, Mr. Rainkie, that you have many thousands of customers who are not current in their bill payments?

MR. DARREN RAINKIE: That's correct, sir, and I -- I don't really want to dig into this. I'm not trying to be difficult with you, I -- I'm not sure that -- that somebody may have considered this back at the shop, Mr. Peters, and -- and if you want me to undertake to -- to determine if they have or have not, and the reasons I will, I probably shouldn't -- shouldn't go much further with you on this right now.

MR. BOB PETERS: All right. I'll take you up on that undertaking offer, Mr. Rainkie, that you can advise the Board through your counsel then what the Corporation's plans are for providing consumers with choice as to where their partial payment goes.

And you can perhaps also indicate in your response how that is to work and whether there is a -- any information or education that will be provided to the consumer to assist them in that regard.

--- UNDERTAKING NO. 35: Advise the Board what the Corporation's plans are for providing consumers with choices to where their partial payment goes and indicate how that is to work and whether there is any information or education that will be provided to the consumer to assist them in that regard.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, maybe Mr. Warden, just another thought that I had, presently -- you have to excuse me if I have the programs named wrong, but there's an equal payment plan for electricity; is that right?

MR. VINCE WARDEN: That's correct, yes.

MR. BOB PETERS: And there's a similar equal payment plan for the gas utility?

MR. VINCE WARDEN: Yes, there is.

MR. BOB PETERS: And if I was one (1) of those electricity customers who received a bill bi-monthly, do those bi-monthly customers also have the option, Mr. Warden, of being on the equal payment plan?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, subject to check, again, and we're going to have the expert here tomorrow morning with us on this whole area but, subject to check, the equal payment plan is -- is a monthly plan, so that customers pay monthly rather than bi-monthly. So there's no -- again, subject to check, there's no provision for bi-monthly equal payment plan plans.

MR. BOB PETERS: When the one (1) bill

program comes into fruition and the resident receives both gas and electricity service from the utility, the consumer will be given an option to go on an equal payment plan as well?

MR. VINCE WARDEN: Yes, they will.

MR. BOB PETERS: Will that be equivalent to two (2) equal payment plans, one (1) is gas, one (1) is electric, or it will be one (1) combined equal payment plan?

MR. VINCE WARDEN: It will be two (2) separate equal payment plans.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, are you in a position to indicate to the Board the cost of this one (1) bill initiative?

MR. VINCE WARDEN: Well, there's cost of converting electricity customers onto the Banner billing system. The one (1) bill initiative is part of -- of that conversion. So there's a -- a total capital cost that is not segregated into a one (1) bill initiative per se but it -- it's more developing a new customer service system for electricity and gas customers.

MR. BOB PETERS: And do you know what

that total overall cost is?

MR. VINCE WARDEN: Yes. Total cost of -- of that project, including the cost of converting Winnipeg Hydro customers, when we acquired Winnipeg Hydro customers there was a -- they had their own billing system that had to be dismantled, the total cost of providing for those customer billings, including the conversion of electricity accounts in the Banner was -- is -- is $21 million.

MR. BOB PETERS: Are you also aware of what the synergies would be resulting from converting from two (2) separate bills to a single bill?

MR. VINCE WARDEN: The synergies that we had identified early on and -- and we're striving to achieve is in the area of $1 million per year.

MR. BOB PETERS: And that $1 million is then shared equally between the two (2) utilities in terms of allocation?

MR. VINCE WARDEN: No. It shouldn't be shared equally. There is a formula as to how that will be shared. I don't have that but I can -- I can certainly obtain that information.

MR. BOB PETERS: If you -- if you could, I'd accept that undertaking.

MR. VINCE WARDEN: I'll do that.

MR. BOB PETERS: Thank you, sir.

--- UNDERTAKING NO. 36: CENTRA to provide Board the formula that shows how the $1 million shared between the two (2) utilities in terms of allocation.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: In terms of terms and conditions, Mr. Wiens, I think it was you who testified that the hourly rate was also a subject of review; is that correct?

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

MR. BOB PETERS: The terms and conditions before the Board presently have a labour rate at fifty-five dollars ($55) an hour; is that right?

MR. ROBIN WIENS: I believe it's at -- at various rates depending on the appropriate hourly cost of the service that's being rendered, Mr. Peters.

MR. BOB PETERS: But you were proposing to go to fifty-five dollars ($55) for miscellaneous services, would that be a better way to say it?

MR. ROBIN WIENS: No. We were proposing

to bill out at -- at cost.

MR. BOB PETERS: The -- the fifty-five dollar ($55) number that I have is from the last application where I thought you were considering a category for miscellaneous at being fifty-five dollars ($55) and then changing that as the actual costs would come in on a quarterly basis?

MS. KELLY DERKSEN: Mr. Peters, I'll just clarify the situation. Prior to Order 131/04 of last year, we had in our terms and conditions of service billing out a miscellaneous fee for various services of fifty-five dollars ($55) per hour.

We propose, through the 04/05 cost of gas application to change that from fifty-five dollars ($55) an hour to various rates as approved by the Board from time to time.

And I think ultimately that's what was approved with the caveat that we would supply to the Board on a quarterly basis what those various labour rates were and that's what the subject -- that's what the issue is today.

MR. BOB PETERS: And the issue today is that you no longer want to change the rate quarterly, but rather you're -- you want to file it on an annual basis?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And the first filing, Mr. Wiens, would be, I noted, June 15th; is that when you intend to -- intend to file?

MR. ROBIN WIENS: That's tomorrow. I think that's what we said, June 15th.

MR. BOB PETERS: And is the request that the June 15th filing would be approved as part of the rates in -- in this application?

MR. ROBIN WIENS: Yes, it is.

MR. BOB PETERS: Is the June 15th rate that you're going to file a cost-based rate, Mr. Wiens?

MR. ROBIN WIENS: Yes, it is.

MR. BOB PETERS: And are the costs that support the fifteen dollars ($15) an hour explained in the filing that the Board will receive tomorrow?

MR. DARREN RAINKIE: Sorry, Mr. Peters, fifteen dollars ($15)?

MR. BOB PETERS: No, I may have misspoken. Will the -- will the filing on June 15th detail how these cost-based rates are derived?

MR. DARREN RAINKIE: Mr. Peters, the filing will outline the rate that we're seeking approval of. I'm not sure it'll be a complex detailed calculation. I think we were planning on filing a rate schedule for approval tomorrow, Mr. Peters.

MR. BOB PETERS: And my question, Mr. Rainkie, went just a bit further than that, wondering whether or not in addition to the rate schedule you'd be filing the backup material which would assist the Board in determining whether it was a cost-based rate?

MR. ROBIN WIENS: I'm advised, Mr. Peters, that what we will provide is a schedule of rates and we are hopeful we will be able to provide you a worksheet -- an example worksheet as to how, at least one (1) of those rates was determined.

MR. BOB PETERS: Thank you, Mr. Wiens. We'll -- we'll await the filing then and see if there's anything further that flows from it.

In terms of the fixed price offering, has this -- it's called a discussion paper, it's been filed as Centra Exhibit 9; have I got that right?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: Has this report been considered by Centra's executive committee?

MR. LLOYD KUCZEK: Not the executive committee, no.

MR. BOB PETERS: Has it been considered

by Centra's board?
MR. LLOYD KUCZEK: No.
MR. BOB PETERS: Has it been considered by Manitoba Hydro's board?
MR. LLOYD KUCZEK: No.
MR. BOB PETERS: And is it one that would ordinarily be expected to go to the board or would this be just a paper used at the managerial level?
MR. LLOYD KUCZEK: It was reviewed with two (2) of the executives at Manitoba Hydro.
MR. BOB PETERS: Am I correct that the reason this report has been filed with the -- with the Board is to satisfy a request made by the Board in prior Board Order?
MR. LLOYD KUCZEK: Correct.
MR. BOB PETERS: And in your direct evidence, and I believe it was your evidence, Mr. Kuczek, that this discussion paper really sets out the pros and the cons or the advantages and disadvantages of a fixed price offering but doesn't come down on one side of the equation or another for the company?
MR. LLOYD KUCZEK: Correct.
MR. BOB PETERS: And does the company have any plans to take this discussion paper to the next level, and come to a recommendation?

MR. VINCE WARDEN: Yes, Mr. Peters, at the appropriate time. At this stage it's a discussion document.

MR. BOB PETERS: And when you say the appropriate time, Mr. Warden, is there a time frame you can put on that?

MR. VINCE WARDEN: We have not put a time frame around that internally yet.

MR. BOB PETERS: A -- a prior time, Mr. Warden, and I'm going to go by memory on this one, so correct me if I'm wrong.

It was Centra's official position that a fixed price offering was not needed in the Manitoba market, unless and until -- I'll use the words price gouging was considered prevalent or existing in that -- in that market place. Was that -- am I correct in that?

MR. VINCE WARDEN: Well, I think, Mr. Peters, you may be referencing some comments I personally made at the Proceeding. I -- I probably was not necessarily stating the Corporate position, but it was a personal opinion at that time.

MR. BOB PETERS: Has that personal opinion changed?

MR. VINCE WARDEN: No.

MR. BOB PETERS: Has the corporate

position changed?

MR. VINCE WARDEN: Well, we -- as I say, we haven't really reached a firm corporate position. This has never really been a tremendously high priority for us, and it still hasn't risen to that level.

MR. BOB PETERS: I think I tried to sneak a few questions into your first Panel, and perhaps, Mr. Warden, you and Mr. Rainkie will recall that.

And I wondered whether or not the optimization of the gas asset portfolio would be impacted by any decision respecting fixed price contracts; has that been considered?

MR. VINCE WARDEN: It will -- will have an impact, Mr. Peters, there's no doubt about that.

MR. BOB PETERS: That hasn't been built into any further plans or intentions as to how you will proceed on the gas asset portfolio?

MR. VINCE WARDEN: Again, we're still in the midst of an internal review of that portfolio, and we don't have the corporate position on that yet.

MR. LLOYD KUCZEK: Mr. Peters, I would add that our market research shows only 13 percent of our customers would want a product that's greater than what's being offered today in terms of hedged products.

So, based on that information, even if we offered a -- a multiple or a fixed priced product with longer terms, we wouldn't expect a number of customers to sign up.

MR. BOB PETERS: Mr. Kuczek, for those 13 percent who want a product that is hedged further than what the Corporation provides, they can presently access that on the market?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And that's through -- through the broker community?

MR. LLOYD KUCZEK: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Kuczek, in your -- in your review with the market as to the offerings that Centra presently provides, did your consumers speak as to whether or not the current methodology of setting primary gas rates quarterly, as well as a rate rider for the PGVA that accumulates on primary gas, does that send an appropriate price signal to them?

MR. LLOYD KUCZEK: I don't think we actually researched that with that market research that we undertook.

MR. BOB PETERS: Did you -- do you know

whether or not that's a concern of your customers; that is the accurate pricing signals of -- of gas?

MR. LLOYD KUCZEK: Actually we don't know that, but what we do know is that we need to educate our consumers, and part of that education process would be to tell -- to educate them on what the -- the market price is, relative to what our product is, and what a five (5) year or other -- some other term product might mean to them, relative to market prices.

But the -- in terms of what the differential is going to be between market prices and some fixed term product, it's going to vary depending on the market conditions.

MR. BOB PETERS: Does Centra consider that its present methodology of setting primary gas quarterly together with the included rate rider for the primary gas PGVA, whether that creates any barriers to competition in the marketplace in Manitoba?

MR. VINCE WARDEN: We don't believe it does, no.

MR. BOB PETERS: Has that been -- been researched with any empirical evidence, Mr. Warden?

MR. VINCE WARDEN: No, we would have no empirical evidence to support that, Mr. Peters.

MR. BOB PETERS: Just to conclude on the

day on Centra Exhibit 21, Gentlemen and Lady, the consultation results on -- on consumer education, that was filed, I have it here, on June 13th; have you a copy of that?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And, Mr. Kuczek, this also stems as a result of a Board request from Order 131/04?

MR. LLOYD KUCZEK: Yes.

MR. BOB PETERS: And in my review of the document, the purpose -- or what's come out of this is a plan going forward as to how you were going to educate the consumers; is that correct?

MR. LLOYD KUCZEK: No, it's actually a -- an agreement among -- about a process that we'll use to consult with the brokers and get input from CAC and MSOS.

MR. BOB PETERS: And that's the Appendix B on page 15 of 17 of the Consultation Results; is that correct?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And is there any request being made of the Board in this proceeding relative to this document?

MR. LLOYD KUCZEK: No.

MR. BOB PETERS: And what this sets out

is an agreement that you believe you have with the stakeholder community, that is the broker community as well as CAC/MSOS, as to how you would go forward on an educational package?

MR. LLOYD KUCZEK: Yes --

MR. BOB PETERS: And that educational package could be for -- for primary gas initiatives?

MR. LLOYD KUCZEK: That's correct. The -- the plan is to try the process, see how it works and if it's successful, probably to continue with it.

MR. BOB PETERS: All right. And the process has not yet been tried as detailed on -- or set out on Appendix B?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And when would -- when does the corporation expect it will be in a position to launch primary gas educational initiatives in accordance with Schedule -- in accordance with Appendix B?

MR. LLOYD KUCZEK: Sometime this summer or later in the fall.

MR. BOB PETERS: Are there any further consultations taking place or is it now the ball in Centra's court to develop the -- the materials that it intends to put out?

MR. LLOYD KUCZEK: Staff have been

instructed to develop something right now, so that's where it's at.

MR. BOB PETERS: All right. And the process is staff will develop it, they'll share it with industry and consumer stakeholders and then decide if they're going to make any changes?

MR. LLOYD KUCZEK: That's correct.

MR. BOB PETERS: And the process includes an opportunity for parties who are -- have concerns with the materials to bring those before the Public Utilities Board?

MR. LLOYD KUCZEK: That's their option, correct.

MR. BOB PETERS: And if such a step was taken, would Centra hold off sending out its educational materials until the PUB had adjudicated the concern?

MR. VINCE WARDEN: Mr. Peters, would you repeat that question, please.

MR. BOB PETERS: I was just wanting to conclude, Mr. Warden, with an understanding that the primary gas educational initiative that has been developed in apparent consensus form with industry stakeholders and consumer groups, was that if somebody wasn't happy with what was proposed in Centra's educational package, they could bring that concern before the Board and seek some -- some relief; are you aware of that?

MR. VINCE WARDEN: That's my understanding, yes.

MR. BOB PETERS: And if -- if somebody did bring a concern before the Public Utilities Board in respect of the educational materials that Centra was planning on sending out, would the utility withhold sending out that material until the Board had adjudicated the issue?

MR. VINCE WARDEN: Well, as a matter of fact, I think there is a precedent for that. And certainly, if the Board requested us to withhold sending out information, we would comply with that.

MR. BOB PETERS: So it would be incumbent on the party bringing it to the Board to also ask the Board to notify Centra that it should withhold sending out its material until the matter had been dealt with?

MR. VINCE WARDEN: That would seem reasonable to me, yes.

MR. BOB PETERS: Mr. Chairman, in light of the hour, I suggest this might be a good time to adjourn for the day. And I will conclude my questions tomorrow morning, before coffee.

THE CHAIRPERSON: Well, with the weather, Mr. Peters, I just thought we'd just go right through the night.

MR. BOB PETERS: Well, we can do that too but --

THE CHAIRPERSON: Goodnight everyone, we'll see you tomorrow.

(PANEL RETIRES)

--- Upon adjourning at 4:04 p.m.

Certified Correct,

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Carol Wilkinson, Ms.