MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

2007/'08 TO 2008/'09

GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman

Len Evans - Board Member

Eric Jorgensen - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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TABLE OF CONTENTS

LIST OF EXHIBITS

--- Upon commencing at 9:02

THE CHAIRPERSON: Okay, good morning, everyone. Very nice colour, by the way, selection. It fits with the spring and everything. My wife would particularly appreciate it because that's all we've got in front of our condo is purple flowers, so I hope you don't think it's going to someway influence us because it won't.

Anyway, first of all, we'll turn to Mr. Peters who always lets us know where we are.

MR. BOB PETERS: Thank you and good morning, Mr. Chairman, Board members, ladies and gentlemen. The first matter this morning that I would suggest is just to acknowledge that the undertakings by Mr. Matwichuk have been filed through Mr. Saxberg's office, and through the Board's office they've already been given exhibit numbers.

So for the record, the Undertaking Number 18 from Mr. Matwichuk has been marked as Exhibit CAC/MSOS Number 8. Undertaking -- I should just describe, sorry -- the Undertaking 18 had to deal with revisions to the tables in Mr. Matwichuk's pre-filed evidence.

--- EXHIBIT NO. CAC/MSOS-8: Response to Undertaking 18

MR. BOB PETERS: The next exhibit would be Undertaking Number 20 from Mr. Matwichuk which is marked as Exhibit CAC/MSOS-9 and it is a copy of a collaborative process -- committee terms of reference for benchmarking of IT services done in an -- in an ATCO case that he mentioned he had involvement in.

--- EXHIBIT NO. CAC/MSOS-9: Response to Undertaking 20

MR. BOB PETERS: And the last exhibit to be marked was Exhibit (sic) Number 19 from Mr. Matwichuk and it's been marked as Exhibit CAC/MSOS-10. And this one had to do with the calculation of interest rates used in his CAC Exhibit Number 7 for the finance expenses.

--- EXHIBIT NO. CAC/MSOS-10: Response to Undertaking 19

MR. BOB PETERS: So I believe those are all the undertakings to be marked, Mr. Chairman, and at this point I believe it's time to turn to Centra Gas for their closing submissions.

THE CHAIRPERSON: So, Mr. Peters, just to confirm. I'm not aware of any more outstanding undertakings, are you?

MR. BOB PETERS: No, -- no, sir, I

believe that now completes all of the undertakings and we're ready to have Centra conclude the argument phase of the Hearing as well.

THE CHAIRPERSON: Very good. So over to you, Ms. Murphy.

CLOSING SUBMISSIONS BY CENTRA:

MS. MARLA MURPHY: Thank you, Mr. Chairman and Members of the Board. Good morning. Just by way of introduction you have noticed already our book of documents and authorities which has been provided, I believe, around the room. I will be referring to it from time to time.

To begin Centra filed its 2007/2008, and 2008/'09 General Rate Application on January 19th of 2007. Centra is seeking approval of the following items arising out of this application:

A 2 percent increase in overall revenue, effective May 1st, 2007, sufficient to generate additional revenue of approximately $10.7 million per year.

A further increase of 1 percent of overall revenue, effective May 2008, sufficient to generate additional revenue of approximately $5.4.

Final approval of 2 -- of April 1st, 2006 to March 31st, 2007 gas costs of approximately $419.2 million.

Final approval of the balances and disposition of the 9 billion -- sorry $9 million refund of the non-primary gas PGVA, and gas cost deferral accounts as at March 31st, 2007 with carrying costs to July 31st, 2007.

Approval of an increase in non-primary gas costs of $1.2 million for the 2007/2008 fiscal year.

And approval of Interim Orders 5/07 and 60/07, related to the February 1st, 2007 and May 1st, 2007 primary gas applications, respectively.

Centra is also seeking approval of changes to Centra's terms and conditions of service including company labour rates, the calculation of the gas loan mechanism, and the calculation of the short-term debt rate.

Finally Centra is seeking approval of the special contract class transportation service contract renewal, which has been provided in the material.

For your ease of reference Centra's letter of application can be found at Tab 1 of the book of documents.

Now, I'd like to turn first to the requests with respect to the non-gas costs. In this application Centra is seeking approval of non-gas revenue requirement of $137.7 million for 2007/'08 and $143 million for 2008/'09. The non-gas revenue requirement that was approved by the Board in 2006/'07 test year was $131.2 million.

As Ms. Derksen testified this represents an increase of $10.7 million for 2007/'08, consisting of cost increases of $6.5 million and a forecast volume reduction of $4.2 million. The additional non-gas revenue requirement for 2008/'09 consists of cost increases of $5.3 million and a small forecast volume reduction of approximately $.1 million.

Schedules 3.0.0 and 3.1.0 have been provided in Tab 2 of Centra's book of documents and summarize the overall revenue request and the components of Centra's non-gas revenue requirement.

There was a lot of discussion during this Hearing about the approach to setting of the non-gas revenue requirement of Centra and I'll deal with some of the more pertinent technical arguments in a moment but first I'd like to deal with the reasonableness of Centra's overall proposal.

As Mr. Warden testified in his direct evidence on the revenue requirement panel the mandate of Centra gas is to acquire, manage, and distribute supplies of natural gas to meet the requirements of Manitoba in a safe, cost-effective, reliable, and environmentally appropriate manner.

In assessing whether or not the requested rate increases of Centra are reasonable, each of the components of safety, reliability, cost effectiveness, and the environment must be considered.

The long-term financial integrity of the Gas Corporation is also very important. It is for all of these reasons that Centra is requesting modest rate increases, a total of 3 percent over 2 years. If Centra's requested rate increases are approved by the Public Utilities Board, net income of Centra is projected to be $6 million in 2007/'08 and $7 million in 2008/'09.

This level of net income will allow Centra's retained earnings to increase from the current level of approximately $20 million to about $33 million by March 31st of 2009.

Without the requested rate increases, Centra projects losses of $5 million and $9 million respectively in the test years, that would reduce retained earnings down to approximately $6 million at March 31st, 2009.

That situation would definitely jeopardize the financial integrity of Centra and would not be in the interest of Centra's customers or stakeholders. Granting the increases sought in this application will allow the Corporation's retained earnings to modestly increase to $33 million, which will improve the debt:equity ratio of Centra to about 85:15.

As noted by Mr. Warden, this is still a high debt:equity ratio, but definitely moving in the right direction towards Centra and Manitoba Hydro's consolidated target of 75:25. This can hardly be considered an excessive request by any measure, especially when you consider that retained earnings in a public corporation are there for the benefit of customers to protect them from financial and other risks, rather than for the benefit of a private shareholder.

Centra's IFF is provided at Tab 3 of the book of documents and demonstrates that Centra's debt to equity ratio of 75:25 will result in $85 million of retained earnings by 2017, based on the cost, volume, and rate projections contained in the IFF.

All parties seem to accept that it's important for Centra to have retained earnings. The question appears to be, what is the appropriate level and the speed at which to move towards that goal.

Now with respect to the debt:equity ratio, this took on more importance than perhaps it needed to at this Hearing. As Mr. Warden explained in his direct evidence, there are alternate and acceptable ways of calculation debt:equity ratios. The important point in calculating a debt:equity ratio is to use a consistent methodology so that progress towards a comparable predetermined target can be consistently measured. It is only a means to an end. Manitoba Hydro has a consistent way of calculating Centra's debt:equity ratio, which recognizes the integrated nature of Centra's operations within the consolidated operations of Manitoba Hydro and the fact that the share capital is -- on Centra's balance sheet has been financed by debt at Manitoba Hydro's balance sheet.

Upon consolidation the share capital no longer exists and does not enter into the debt equity calculation on a consolidated basis. Therefore, from a cost of service perspective and from Manitoba Hydro's consistent target setting purposes, it is most appropriate to exclude share capital from the debt:equity calculation.

Manitoba Hydro compares this ratio to the consolidated target of 75:25, which is a consistent and fair measurement of the financial integrity of Centra for rate setting purposes.

If the Board wants to use the standalone debt:equity calculation and include $121 million of share capital in the denominator, this will yield a ratio of 70:30. However, a debt:equity ratio calculated in this manner would require a corresponding standalone debt:equity target ratio of 60:40.

The end result of these two (2) different methodologies is that the rate increases required to attain each of these ratios are virtually identical. The fact can be verified by reviewing the attachment to the response to PUB/CENTRA-137B, which is contained at Tab 4 of Centra's book of documents.

If one uses a standalone debt:equity calculation and a standalone debt:equity target of 60:40, this results in an accumulative rate increase of 6.9 percent over the time frame of the IFF. When one views Tab 3 of Centra's book of document, the cumulative rate increases based on Manitoba Hydro's methodology of calculation of the debt and equity ratio and a 75:25 debt:equity target, is 6.1 percent over the ten (10) year time frame of the IFF.

Mr. Chairman, Centra believes that cumulative rate increases of 6.1 percent over the next ten (10) years is a fair and customer sensitive approach to attaining Centra's long term financial targets and will ensure the ongoing financial integrity of the gas utility.

We started this Hearing with a discussion of the merits of considering the no-harm principle and the associated calculations as a means to test the success of the purchase of Centra by Manitoba Hydro. The Board has already found that this transaction does not result in harm to Centra's customers in Board Order 135/05, at pages 71 and 72. The real value of the no-harm calculations as presented in Centra's Exhibit 7, which is contained at Tab 5 of Centra's book of documents, is to demonstrate the reasonableness and fairness of Centra's overall revenue request.

Mr. Chairman, the purpose of this proceeding is to set an overall revenue requirement that is fair and reasonable to customers while insuring that Centra continues to meet its mandate in a safe, cost-effective reliable and environmentally appropriate manner.

There has been a lot of discussion and quotes put on the record with respect to past Board Orders going back to the acquisition in 1999, but let's be clear, in Orders 103/05 and 135/05, the Board found that corp -- that a corporate allocation to Centra of $12 million was reasonable and it allowed net income to Centra of $2 and $3 million in 2005/'06 and 2006/'07.

The implication of approving net income to Centra was that the PUB accepted the goal of generating retained earnings as both acceptable and necessary. The issue is not whether or not Centra should have a net income, but rather what is the right amount and the pace towards achievement of a reasonable level of retained earnings.

Centra's position in this application is that the Board should allow an increase in the net level of income to between $6 and $7 million in test years to ensure that Centra will not experience losses in the test years as has been the case in the previous four (4) years, and to ensure that Centra will start to build retained earnings towards its goal of having $85 million of retained earnings as was discussed by Mr. Warden at page 226 through 230 of the transcript.

So how does the Board go about testing the reasonableness of Centra's rate proposals? As I suggested earlier, one (1) of the tests is based on the no-harm calculations in Centra's Exhibit 7. I think the record is already sufficiently detailed to provide conclusive evidence that Centra's no harm calculation is a reasonable approximation of the revenue requirement that would otherwise be required absent the acquisition.

I won't belabour the details other than to note that column of Centra Exhibit 7 demonstrates that if the PUB approves the application, the financial det -- benefits resulting from the acquisition that accrue to gas customers will be in the order of $7 to $8 million in each of the two (2) test years.

The value in this demonstration is that if you include the benefits of the transaction through lower operating costs, income taxes and return, it is inherently fair and appropriate to include a share of the cost of the acquisition in Centra's revenue requirement.

As Mr. Rainkie testified, any regulatory methodology whether it's cost of service or rate base rate of return should be robust enough to deal with both the benefits and the costs of a transaction. If you look at the big picture, the real area of substantial disagreement between Centra and CAC/MSOS is the inclusion of the corporate allocation in the rate base rate of return calculations.

Centra believes that there's ample justification to include the corporate allocation in the rate base rate of return calculation, in recognition of the offsetting cost reductions that Centra's customers enjoy as a result of the transaction.

As the evidence of Centra clearly shows, the substantial synergies and other benefits that have resulted from the transaction exceed the cost, but these synergies did not come at no costs. Fairness, which is a basic overriding regulatory principal, dictates that the recovery of the share of the cost of the acquisition of Centra is reasonable regardless of the methodology used to set rates.

To do otherwise would be unfair and would be contrary to the fundamental economics on which the purchase transaction was based. I'd like to respond to the notion that Centra's rate proposals somehow represent excess return. Mr. Warden has testified on numerous occasions that Manitoba Hydro is the owner of Centra and not looking for a return from Centra, but rather its goal is to recover reasonable costs and build retained earnings for the benefit of customers.

Mr. Warden has assured the Board that Manitoba Hydro has no intention of paying the retained earnings of Centra to Manitoba Hydro through the form of a dividend or through any other means. The annual earnings and accumulated retained earnings of Centra stay in Centra for the benefit of Centra's customers.

If you accept that it's reasonable to recover Centra's fair share of the acquisition costs through the corporate allocation, a proposition that the Board accepted in orders 103/05 and 135/05, then the

Board should consider that corporate allocation to be a cost recovery and not a return.

The question that's left is how the Board assesses Centra's net income request based on its statutory requirements. While Centra does not agree with the prospective that it is requesting a return, if the Board needs to test the net income proposals against the return considerations under rate base rate of return then whether you use a 30 percent or a 40 percent equity ratio, the evidence clearly demonstrates that the return would be a minimum of 11 million and more likely in the range $14 million; a fact that Mr. Matwichuk concedes in column 4 of his no-harm calculation, which I'll deal with in a minute.

It's not a complicated calculation to ma -- to realize that net income of $6 or $7 million, as requested, is lower than the $11 to $14 million generated by the rate base rate of return calculations, and as such, does not result in an excess return, if the Board needs to apply that test.

My Friend on behalf of CAC/MSOS has referenced various sections of the PUB Act and provided his perspective on how the PUB ought to determine just and reasonable rates. Mr. Saxberg has very narrowly construed the Board's ability to exercise its discretion in setting rates.

Under part 4 of the Public Utilities Board Act, which is titled, "Rates and Other Matters Related to Gas," the Board has clearly been given a broad discretion to consider a number of factors which it considers important in setting gas rates.

I've provided at Tab 6 of the book of documents, Section 126(1), which sets out a number of criteria which the Board may consider in making its order, including whether rates are just and reasonable, the financial stability of the company, and I would draw your attention to Part E, which specifies that the Board, in its discretion, may consider any other criteria that the Board deems appropriate.

There is nothing in the PUB Act addressing the corporate allocation or requiring the PUB to consider the corporate allocation to be an element of return. The Board has the discretion to find the corporate allocation is a method of cost recovery.

With respect to the statutory provisions relating to rate base race of -- rate of return, Section 112, which is at the second page of Tab 6 of Centra's book of documents, defines rate of return on shareholder equity to be the net income of a public utility expressed as a percentage of the amount of shareholder equity invested in the business of the public utility.

On this basis, Centra's net income request of $6 to $7 million is in the order of 3.7 and 4.55 percent of the total equity provided in Schedules 5.7.3 and 5.7.4 of the application and is well within the allowed return on equity of $11 to $14 million at 8.21 percent, under the rate base rate of return calculations.

Centra is firmly of the opinion that the Board can approve Centra's rate proposals in full and be in compliance with its mandate under the PUB Act. If the Board accepts CAC/MSOS's recommendation to remove the corporate allocation from rate base rate of return and sets rates on the resulting figures, the implication is that Centra would incur losses of $1 million in each of the test years and further reduce Centra's retained earnings by $2 million.

This recommendation is clearly not in accordance with the Board's direction in Order 103/05 and 135/05 in which the Board made provision for a net income, nor is it in the public interest.

I would like now to deal briefly with the calculation of no-harm, as prepared by the CAC/MSOS witness, Mr. Matwichuk, which as fate or Murphy's Law would have it, was marked as CAC Exhibit 7 to this proceeding. For you ease of reference I have provided that at Tab 7 of Centra's book of documents.

The areas of disagreement with CAC/MSOS relate to operating costs, depreciation, and finance expense. As it relates to operating costs, Mr. Matwichuk has advanced the notion that a private company would have been able to generate more synergies than Manitoba Hydro did through the acquisition, on the basis that it would earn a higher return.

There is no other way to describe this claim than outrageous and there's no evidence to support it. No evidence has been offered as to how such a level of synergies could be generated, other than by the unique opportunity for Manitoba Hydro and Centra to combine their operations within the same service territories, as Mr. Rainkie testified to at page 440 of the transcript.

Mr. Matwichuk knows, or ought to know, that a regulated utility would not be able to achieve a higher rate of return by reducing operating costs, as these cost reductions would be passed on to customers in accordance with well-established regulatory practices.

To impute Centra's current level of operating cost that is net of synergies, and to further remove the O&A contingency from the figure, makes no logical sense. The only defenceable standalone or absent acquisition O&A cost analysis on the record is Centra's baseline OA -- O&A analysis, which is located as Attachment 1 of Centra's rebuttal evidence.

With respect to the level of depreciation expense in Mr. Matwichuk's Exhibit 7, to suggest that a private owner would not request changes in its depreciation rates on a periodic basis, in accordance with prudent management practices, and in the face of a Board directive for Centra to file a depreciation study every five (5) years, is equally specious.

With respect to the long awaited Undertaking Number 19, which was marked this morning as Exhibit 10, and the recalculation of finance expense, Centra notes that this analysis replaces existing debt with new debt at lower interest rates and ignores the fact that Centra has outstanding debt issues that were approved by the Board in Order 135/20 and 118/03 and the regulatory practice under rate base rate of return to calculate return on long-term debt based on the historic embedded cost of debt. Mr. Matwichuk also failed to add the interest on common assets and inventory as part of his calculation of finance expense.

And by the way, Mr. Chairman, I should note that contrary to Mr. Matwichuk's evidence the details and costs of Centra's long-term debt -- debt issues can be found in Section 7.4 -- sorry, 4.7.1 of

Centra's application and in the response to PUB/CENTRA-40B. And the calculation of the embedded costs of long-term debt can be found in Schedules 5.8.3 and 5.8.4 of the application.

The only element of Mr. Matwichuk's no-harm calculation that Centra agrees with is his use of the 40 percent equity ratio in the calculation of return on equity, which is the longstanding equity target of Centra and predecessor companies when it was a standalone private utility, and that was approved by the Board in numerous rate decisions over the years.

Mr. Chairman, we submit that Mr. Matwichuk's no-harm calculation ought not to be seriously considered by the Board in light of those very serious deficiencies.

It is also interesting to note, Mr. Chairman, that while CAC/MSOS Exhibit 7 paints a very negative perspective of the acquisition of Centra by Manitoba Hydro, CAC/MSOS seems to believe there are excessive synergies flowing to the electric operations.

In his final submissions, Mr. Saxberg indicated that Manitoba Hydro should be experiencing a further $4 million of savings related to the implementation of a common customer information system. However, that suggestion neglects to consider the cost of achieving those savings.

The integration required an investment of $21 million which translates into annual depreciation and interest expense of approximately $3.6 million. Mr. Saxberg is incorrect in his suggestions at pages 1564 and 1565 of the transcript that there has been significant new money found to help pay for the acquisition.

To summarize the issues with respect to the non-gas revenue requirement, Centra is not advocating that we embark on a calculation of the absent acquisition scenario in each rate case. You may recall that we advocated during the 2005/'06 GRA that this was increasingly difficult as time elapses. We argued and the Board found that the acquisition of Centra by Manitoba Hydro was a benefit to ratepayers. However, with the filing of CAC/MSOS' evidence in this proceeding and the allegations of harm these matters were back in the regulatory limelight.

Simply put, the appropriate test for no-harm -- the appropriate test for no-harm is the absent acquisition scenario, which is shown in column 4 of Centra's Exhibit 7 at Tab 5. This includes a 60:40 debt equity target and does not include the corporate allocation. The operating costs are projected based on what they would have been under private ownership without the benefit of synergies arising from the purchase transaction. This demonstrates that the requested application does not result in harm to ratepayers.

We encourage the Board to give direction to all parties that this type of analysis is not required in the future and that allegations of harm arising from the purchase transaction ought not to be made in future proceedings.

With respect to meeting its legislative requirements the middle column of Centra Exhibit 7 is, in Centra's view, the appropriate highwater mark that PUB should use to determine the reasonableness of its rates proposals. It offers the Board a convenient, fact-based calculation to demonstrate that the rates applied for under the cost of service methodology do not exceed the amounts generated under a rate base rate of return calculation. You can see that this generates a lower revenue requirement than the absent acquisition scenario, and that the applied for cost of service amounts are lower still.

We suggest that this calculation is the only calculation of the highwater mark necessary in the future. However, it must represent reality and there are two (2) important facts to that reality.

First, operating and administration,

income taxes and return are lower because of the synergies arising from the transaction.

And second, the corporate allocation is the quid pro quo for receiving those synergies and should be included in the rate base rate of return calculation. You can't have one without the other, regardless of the regulatory methodology employed in setting rates.

Ultimately the good news in all of this is that the net return requested -- sorry, the net income requested by Centra in this application is lower than the return that would have been generated under both rate base rate of return Manitoba Hydro scenario and the rate base rate of return absent acquisition scenario, and is clearly not excessive as CAC/MSOS suggests.

The Board can on this basis be confident that the rates requested are just and reasonable, both from the ratepayer and the Utility's perspectives.

Now, Mr. Chairman, I'd like to turn to the matter of Centra's proposed O&A costs.

Centra's operating and administration costs for the 2007/2008 test year are forecast to be $56.6 million and for the 2008/'09 test year are forecast to be $58 million. These cost levels represent increases of 2.5 percent for each year, which in light of the cost pressures being faced by the organization are reasonable and appropriate.

Centra is facing increasing costs on various fronts.

First, as Mr. Warden indicated in his evidence in-chief, Centra and other utilities across Canada are facing loomer -- looming labour shortages. This issue which relates to demographics and a booming economy in western Canada is translating into new issues and higher costs. As well, this is occurring at a time when the effects of aging infrastructure are increasing the demands and the requirements for skilled resources.

Further evidence regarding expected cost increases was also provided at this Hearing. Commodity costs are increasing for basic requirements such as material, odorant and fuel. As well, contractor rates are also being increased, sometimes dramatically, as a result of those same labour pressures and the booming western economy.

In terms of measuring the reasonableness of Centra's O&A costs, one (1) benchmark which can be considered is the costs per customer. In 1998, Centra's cost per customer was $209, which you'll find in the response to CAC/MSOS/CENTRA-78. And it is presently at a proposed level of $220 per customer as set out in the response to PUB-CENTRA-19 for the 2008/'09 year, which represents an increase of approximately 5 percent.

On a constant dollar basis, the cost per customer shows a substantial decrease from $257 in 1998 to the forecast amount of $220 in the test years. These positive results include program changes and other factors that have exerted upward pressure on the operating costs, such as the implementation of the western transportation service, the replacement of Centra's mainfame -- mainframe-based billing system, substantial wage pressures relating to the suppressed wage increases experienced in the mid-1990's, fuel and commodity cost increases and the expansion of programs.

But these cost pressures have been largely offset by efficiencies and synergy savings that have been achieved throughout the same timeframe. AS has been evidenced, the realization of synergy benefits resulting from the integration of the two (2) utilities has substantially been completed and there are new operating and cost pressures looming in the upcoming periods.

You've heard substantial discussion about productivity during the course of this Hearing, as indicated in the response to CAC/MSOS/CENTRA-82, productivity related cost reduction of from 1 to 2 percent are embedded into the operating and administration cost targets of Centra.

The wages of employees are increasing at a rate of 4 to 5 percent, which includes negotiated cost of living adjustments plus merit and progression increases to compensate employees for the benefit of enhanced skills, experience and performance. At the same time, operating targets are only allowed to be increased by 2 to 2 1/2 percent.

Wages and benefit comprise the majority of the operating costs of Centra and the overall increase below the level of wages -- wage increases demonstrates the requirements of achieving productivity savings, and the incorporation of those productivity savings into operating cost levels.

In his Argument on Friday, Mr. Saxberg indicated that because Centra's forecast increase of O&A expense is higher than inflation minus a productivity reduction, there must not be productivity improvements embedded in the forecast. This is not correct.

In Centra's case, its wages are going up by a factor of 4 to 5 percent. Many other costs such as fuel, contractor charges and materials are increasing at a level higher than inflation and there are new programs being introduced where -- which were not in the base costs.

After considering these factors, Centra's costs are forecasted to increase by only approximately 2 1/2 percent per year. These results clearly demonstrate Centra's commitment to productivity.

CAC/MSOS has taken exception to the incorporation of a contingency amount in Centra's operating budget. As explained by Mr. Derksen in his testimony, the contingency amount represents cost level and program changes that have not yet been incorporated into detailed budgets. Examples of these changes were provided in the evidence of Mr. Warden and Mr. Derksen.

These differences include a gap in wages; commodity cost increases that are well above inflationary level for fuel, materials and odorant; contractor labour costs increasing, reflecting the booming western economy; and the looming skills and labour shortage which has and will cause increasing cost pressu -- pressures and challenges for Manitoba Hydro and Centra.

With regard to the skills and labour shortage, Mr. Derksen, at pages 283 through 285 of the transcript, had indicated an unbudgeted trainee program has already been initiated which will cost in excess of $1 million annually. He also noted the timing difficulties associated with having these expenditures included in the detailed budgets which were prepared a year ago, and expressed Centra's conclusion that the O&A

budgets, including the contingency amount, are the amounts required in order to operate the Utility effectively and appropriately.

Further, as noted in Mr. Derksen's evidence, the PUB has approved similar contingencies in previous rate applications. Previously the contingencies included in operating targets were reductions. These reflected the conditions at the time. Costs were more stable and the realization of further synergy opportunities were still expected.

Centra has now successfully realized substantially all of the synergies associated with its integration with Manitoba Hydro. The issue of the day is dealing with -- dealing successfully with labour and skill shortages and the cost increases that are well above Manitoba's CPI. The incorporation of contingencies into Centra's budget are appropriate and reflect the total expected cost levels to be incurred by the Corporation in delivering safe and reliable service to its customers.

Contingencies represent real costs. The costs are known and will be incurred irrespective of whether or not they are built into the program details that have been submitted. If the Board were to remove the contingency amount costs such as wages, fuel, odorants and the trainee program would still be required and the result would be an increased risk that Centra would not recover its O&A costs in rates.

Mr. Saxberg, in his final argument, also suggested that previously Centra had had positive contingencies and he made reference to Tab 13 from the CAC/MSOS book of documents which contained a transcript from 2003/'04. And in those transcripts Mr. Derksen was explaining the actual cost components of corporate allocations and adjustments for 2001/'02. This was not a contingency. These were real costs that were incurred in that year that were not program-related costs.

Contingencies represent only one (1) component of the corporate allocation and adjustment section and are used only for forecasting purposes. There are no actual costs which are classified as contingency.

Whether the contingencies are positive or negative is not the issue. As Mr. Saxberg also indicated, his expert witness Mr. Matwichuk had never seen a contingency in any regulatory proceeding that he'd been involved in. However, as we know, Centra has incorporated contingencies into both of the last two (2) GRAs and Mr. Matwichuk was involved in both of those proceedings. These contingencies were appropriately disclosed by Centra and reviewed and accepted by the Board in those proceedings.

The contingency being requested today has been supported by evidence of cost increases that were not considered in the detailed budgets and is certainly a reasonable request.

Mr. Saxberg also took the position in his final argument that Board Order 118/03 defined an O&A baseline of $49.3 million for 2003/'04 against which all future O&A costs could be measured. This is incorrect.

As was explained in the response to CAC/MSOS/CENTRA-79, Order 118/03 approved a cost of operations amount of $49.3 million plus a synergy benefit transfer of $3 million, a total O&A of $52.3 million for 2003/'04.

In Order 118/03 the Board stated, and I quote:

> "The total operating costs of Centra approved in this Order, including the synergy benefit transfer, is reasonable when compared to the cost of operations approved by the Board in 1998 after adjusting for inflation." End quote.

CAC/MSOS' own witness, Mr. Matwichuk, calculated a 2003/'04 cost of operations of $52.1 million by taking the 1989 approved balance of 48.6 million and adjusting for inflation and deficiencies.

As stated by Centra in the response to CAC/MSOS/CENTRA-79 the correct baseline, if one is to be established, is the actual O&A costs incurred for 2003/'04 of $52.8 million.

And, Mr. Chairman, for you reference we've included a copy of the response to CAC/MSOS/CENTRA-79 at Tab 8 of Centra's book of documents.

I'd like to turn to the issue of the allocation of costs between Centra and Manitoba Hydro. As evidenced in this proceeding and in previous proceedings, an integrated cost allocation methodology is used by Manitoba Hydro to charge costs to Centra.

This methodology was developed for the express purpose of charging costs to Centra in the most efficient and appropriate way. It has been reviewed by external specialists who found it to be well designed and operated and appropriate for the intended purpose. The report of KPMG has been filed as an exhibit, CENTRA-9, to this proceeding.

The methodology is embedded in the SAP accounting system used by Manitoba Hydro and Centra and has been used consistently since the workforces were integrated. Forecasts and budgets are based upon this methodology and there are appropriate system, budgetary, and reporting controls to ensure that the work being performed is consistent with plans and that costs are calculated accurately.

Finally, on an annual basis, the results of the cost allocation processes are reviewed by external auditors who test the system, controls, and results sufficient for them to provide assurance that the results of the operations of the Company are properly represented in the financial statements.

The Board has heard from CAC/MSOS that in order to ascertain the appropriateness of the allocation of operating cost to Centra, it is first necessary to review the entire costs of Manitoba Hydro. This position had been previously advanced by Intervenors and was rejected by the Board in Order 118/03.

On a conceptual level, the position of CAC/MSOS makes little sense. The operations of the electric utility and the gas utility are totally integrated, but have many discrete functions. Operational work performed on behalf of the gas utility is, for the most part, directly charged to the Utility.

In fact, a substantial portion of the gas work is performed by employees that are dedicated to gas operations. The activity rates being used to charge

Centra for the work performed on its behalf are calculated using a standard methodology. They cover the cost of operating the departments that perform the work on behalf of the gas operations.

Where, due to volume or cost variances, the activity rate does over-absorb or under-absorb the department's costs, the residual amounts are allocated proportionately to the gas utility in the corporate accruals and adjustment section in the O&A cost statement. In this way, there is assurance that gas and electric operations are charged the correct proportion of costs, no more and no less.

With respect to integrated operations, such as support for the customer information system, the costs, again, are segregated. The accumulation of these costs is then split into the gas and electric utility using appropriate cost drivers. These costs and the allocations are clearly provided in the response to PUB/CENTRA-20.

On a practical level, the position taken by CAC/MSOS is curious. One can superimpose that position on other situations to demonstrate how little sense it makes. The example given during the hearing was when a person has had their car repaired by a garage, what is important is the hours spent, the labour rates charged, and the parts used. What the garage has charged to all its other customers, and the details of all of its other costs are totally irrelevant to the charges made to that customer.

For the most part, the charges being made to Centra are based upon the actual time spent on the work performed on behalf of Centra. The services are being -- the services being provided are described, the hours spent on operating programs are provided, the rates used for charging to Centra are provided, the calculation of rates used to charge Centra are provided, and the details of the disbursements made are also provided. This is the relevant, meaningful, accurate, and appropriate information required to represent and understand Centra's operating costs.

In summary, this methodology may be better described as a direct charging system, rather than a cost allocation methodology. The methodology is robust and appropriate. Centra has provided all of the detail necessary to support its costs, and the cost increases being requested are moderate and reasonable in today's circumstance.

I would also like to respond to the suggestion made by Mr. Saxberg in his final submission, that there is a pattern of Centra's O&A forecast and actual results and that the applied for O&A is, in his words, "on the high side."

O&A costs have been below those forecasts in the previous two (2) test years and Mr. Warden testified as to the reasons for this. Mr. War -- Warden noted that warmer weather impacts customer service costs and cited the example of the Burner-Tip Program, which sees more activity during the very extremely cold weather.

He testified at pages 230 and 231 that when we have a mild weather, as we did in 2005/'06 winter, we did see a significant decrease in our cost of operations for that reason. The same logic applies to the 2006/'07 year, which was also warmer than normal.

Having reviewed the cost of gas, net income, O&A, and the corporate allocation, Centra's material also includes information with respect to other non-gas components of its revenue requirement. These components are depreciation and amortizations, capital and other taxes, finance expense, and other income.

There appears to be no issues with respect to these amounts, which are for your ease of reference, provided in Tab 4 of the Application and summarized in Schedule 4.0.0, a copy of which can be found at Tab 9 of Centra's book of documents.

As discussed during this hearing, particularly at pages 336 through 348 and 505 to 513 of the transcript, Centra wishes to proceed with a pilot AMI project, including the installation of a thousand (1,000) AMI units. The pilot project will be targeted at existing meter reading routes where there have been continuous problems gaining access to read the natural gas meters.

As Mr. Derksen testified, starting at page 344 of the transcript, Centra included forecast amounts assuming the pilot project would prove successful. He further stated that these amounts have been included in rate base given that the ultimate impact to revenue requirement and to customer's rate will be much lower than deferring and amortizing those costs over five (5) years.

As Mr. Warden testified at page 511 of the transcript, AMI would address the safety concerns of meter readers entering premises that could be dangerous. In addition, as part of the pilot project, Centra will be considering the economic and physical feasibility of leak, tilt, cathodic and icing devices that could provide additional safety benefits.

Such benefits would provide Centra with realtime data about meter leaks, strained risers and icing problems that under current conventional meter reading may be achievable only every two (2) months and in some cases rarely. All of these matters are detailed in the response to Undertaking number 17 updated, which was filed as Exhibit CENTRA-19.

Thus, in Centra's view, the pilot project is essential to ensure that we are fully aware and up to date on new technologies and to enable the preparation of a comprehensive business case.

Mr. Chairman, I'm going to turn to the issues related to demand side management and I'll be addressing the recommendations made by Mr. Weiss on behalf of RCM/TREE and the evidence of -- of Dr. Higgin on behalf of CAC/MSOS. I'm then going to turn the mic over to my colleague, Mr. Czarnecki to address the issues of inverted rates, sustainable development and bill payment assistance, as well as cost allocation and gas supply matters.

With respect to Centra's DSM planning and programming, Mr. Weiss proposes a number of solutions and recommendations which Centra has already incorporated and embedded into the Corporation's DSM strategy, planning process, program designs, evaluation process and day-to-day activities.

In Centra's rebuttal at pages 34 through

36, Centra has demonstrated that our DSM efforts are directly in line with most of Mr. Weiss' proposed solutions and suggestions and that Centra' DSM initiative is in line with industry leaders and best practises.

RCM/TREE has argued that Centra should form a conservation advisory group to help Centra optimize its efficiency programs. Centra remains firmly of the view that the formation of a single advisory group is not the best approach nor the most effective or efficient one for obtaining input from external organizations.

Optimization of energy efficiency programs is best achieved through a customized process that recognizes the specific attributes of the targeted market and the targeted technology. It is well understood to achieve optimum success and to capture energy efficient opportunities, all elements and barriers in the entire delivery channel need to be considered. It is for this reason that industry specific external stakeholders and contributors are consulted for program design and regular program improvements, and this approach is customized to the needs of the target market and the specific technology.

Centra's rebuttal evidence at pages 37 and 38 demonstrate the extensive and customized consultative approach used to design, enhance and implement its DSM programs. Mr. Weiss acknowledges that his comments were made without being aware of Centra's practises at transcript page 1099, lines 20 through 23. Mr. Weiss, however, maintains it would still be useful for Centra to have a group of people to look at the entire program.

Centra testified at pages 824 and 825 of the transcript that the Corporation used that process in the development of its market potential study and again in 2004. In both cases, Centra found that this process added little or no value, and as a result the current customized approach was developed and has proven to be very effective.

Centra's DSM efforts receive extensive review through the Public Utilities Board hearing process and Centra is of the view that adding a generic advisory group to further review its DSM efforts would be ineffective and inefficient and would add little, if any value, unless that process were to replace the review currently being undertaken through the regulatory process.

RCM/TREE has also proposed redesigning certain incentive levels, particularly for water and space heat, to remove the unintended consequences of customers switching to electricity. At page 728 and 729 of the transcript, Mr. Warden agreed that this is a concern and that the Corporation is considering the matter further.

Mr. Gange's final argument on -- last Friday included an assertion that it is the role of Centra and Manitoba Hydro to help customers to make proper choices among available energies. While Centra agrees that pricing and appropriate DSM programming can assist customers in making appropriate choices, the market will continue to have a role in those choices. In fact, using pricing and programming to overcome all of the other incentives existing in markets could be distorting in and of itself.

As Mr. Wiens noted at transcript page 822, electric water heating may have advantages to customers over and above the relative cost of gas and the electric energy sources, including capital and other life cycle costs relating to the two (2) fuels.

Mr. Weiss also proposes contracting for a thorough evaluation and review of the effectiveness and cohesiveness of Centra's DSM programs with a view to ensuring best practices. Mr. Weiss testified at page 1047 of the transcript that while a consultant could -- that a consultant could provide advice on better ways of doing it and what other utilities are doing.

In Centra's rebuttal evidence Centra demonstrated that it is already obtaining this input through other activities that are ongoing and provide the same information, however, in a more direct manner by having direct contact with utilities delivering programs throughout North America. Centra disagrees with Mr. Weiss' assertion that the Corporation has no formal method for evaluating its Power Smart Program and no process for providing -- for modifying program designs, including incentive levels and pace.

All of Centra's incentive-based DSM programs are formally evaluated to report net program savings and costs against targets, as well as cost-effectiveness of the energy savings. The results of the individual program impact evaluations are aggregated into the Power Smart annual review that assesses the success of the overall Power Smart portfolio, and this report is filed with the PUB.

Mr. Weiss states that his recommendations on page 28 through 35 of his previous testimony are still valid, and recommends that Centra should initiate a low income advisory committee made up of low income representatives and social agencies, among others, to review, evaluate, and make recommendations to the PUB regarding those programs.

As was provided in the response to PUB/CENTRA-135, Centra and Manitoba Hydro are developing a province-wide low income program and have gained experience working with the Centennial pilot project and the Island Lake project. The Corporation has also spoken with several utilities and other organizations and gained knowledge from their experiences in developing low income programs.

Provincially, we work closely with the Manitoba Science, Technology, Energy and Mines and have sought input from Indian and Northern Affairs, Canada Mortgage and Housing Corporation, Ininu Connections (phonetic), Ivan Lake Tribal Council, and local community groups, including Community Education Development Corporation, West Broadway, and the Brandon Neighbourhood Renewal Corporation.

Centra disagrees with Mr. Weiss' recommendation that a special low income advisory group needs to be formed. Similar to the strategy to seek input on the other Power Smart programs, the Corporation takes a more customized, targeted and program-specific approach whereby input is sought from external parties that bring the most value to the specific initiative or program. Experience has demonstrated that this process is very efficient and effective.

Centra disagrees with Mr. Weiss' conclusion that the Corporation does not have a strategy to deal with low income market segment. As part of developing a low mark -- low income program Centra's strategy has been and continues to involve leveraging other funding sources to provide a province-wide program. Centra recognizes that one (1) of the key barriers to increasing low income participation in its Power Smart programs is related to the customers' ability to pay and Centra's strategy is intended to address that barrier.

Centra also recognizes that there are benefits beyond just energy savings. As such, it is Centra's view that other parties can contribute to an enhanced Manitoba low income program, including program attributes solely beyond energy savings. By leveraging other sources, Centra is of the opinion that a more effective and meaningful low income program can be delivered in Manitoba with the Corporation's ratepayers contributing a reasonable portion of the total costs related to the energy savings expected.

As part of the Corporation's efforts to assess the cost effectiveness of a low income program, Centra has further assessed the potential of cost savings associated with low income programs, as suggested by Mr. Weiss' 2005 evidence. In particular, he detailed costs in eight (8) different areas at pages 31 through 34 of that evidence.

Centra has concluded that the estimates of cost savings, provided by Mr. Weiss in 2005, cannot be substantiated. Centra accepts the fact that some cost savings will be realized through a low income program, however we have concluded that these perceived benefits are much smaller than those suggested by Mr. Weiss and that they are very difficult to verify.

Dr. Higgin, on behalf of CAC comments on the attributes for successful DSM programs for hard-to-reach markets and suggests that Centra should have dedicated budgets for the hard-to-reach program as a percentage of total residential budgets based on the study of the number of low income customers and seniors. Dr. Higgin comments that there is a mismatch between costs and benefits for low income customers.

As you've heard Centra does not monitor participation by income level and therefore has no data to demonstrate the past and current participation by income level.

An assessment was undertaken by Centra by postal code, which indicated participation in the low income area was lower than participation levels in other areas of the Province. The assessment also indicated that although participation levels were lower in the low income areas, the level of participation was not substantially lower.

This assessment suggests that a much lower limit would need to be placed on Centra's Hard to Reach Program, as compared to the percentage determined by a ratio of low income customers to the total number of customers based on Dr. Higgin's rationale of the attempt to match benefits to costs. Given that Centra's Hard to Reach budget is approximately 14 percent and that the Hard to Reach initiative is further complemented by additional dollars from the Affordable Energy Fund, having a minimum budget based on Dr. Higgin's rationale would be unduly restrictive.

Further, establishing a minimum budget based on that rationale, would suggest that this amount would also be the maximum budget to avoid cross-subsidization and would restrict Centra's ability to pursue opportunities in the Hard to Reach markets during opportune times, currently and in the future.

Centra is of the view that given Centra's current budgets include 14 percent of funds allocated over the next two (2) years for low income initiatives, and comparing that amount to the amount to the amounts designated for low income programs in Ontario and Quebec, as outlined by Dr. Higgin in his evidence, the Board can be confident that Centra has made appropriate provisions, even without the demographic studies Dr. Higgin suggests.

Dr. Higgin also recommends that the low income program design should include comprehensive pre- and post-retrofit audits. Centra intends to require a home audit as long as the energy -- sorry -- the Federal ecoENERGY Retrofit Program exits because that program requires that these audits be undertaken in order to be eligible for the Federal grants. However, Centra and a growing number of energy efficiency entities recognise that these home audits are very expensive and are not always the most efficient or effective use of funds.

As was noted in Mr. Kuczek's testimony, most cost effective retrofit measures are well established and well known. These measures include furnace replacements, adding insulation and basic weatherization measures. Most low income programs focus on the basic cost effective opportunities and it's questionable whether these expensive audits would be necessary or efficient in all cases.

Mr. Chairman, that concludes my discussion this morning. I'm going to turn the matter over to Mr. Czarnecki. I don't know if you care to take a short break before we do that or if you'd like us to carry on.

THE CHAIRPERSON: How long do you think you'll be, Mr. Czarnecki?

MR. BRENT CZARNECKI: I expect to be about forty-five (45) minutes.

THE CHAIRPERSON: Okay, we'll have a short break then because Ms. Murphy presented a lot of information, it doesn't hurt to have a bit of a break. Thanks.

--- Upon recessing at 9:56 a.m.
--- Upon resuming at 10:14 a.m.

THE CHAIRPERSON: Welcome back, Mr. Czarnecki, and you can start at any time.

MR. BRENT CZARNECKI: Thank you, Mr. Chairman -- Mr. Chairman, members of the -- of the Board.

Firstly, turning to the topic of inverted rates and externalities to be incorporated into natural gas rates, Centra notes that Mr. Weiss, in this proceeding, has recommended, as he did in 2005, that Centra incorporate a number of environmental externalities and other costs not actually incurred by Centra into its volumetric charge for natural gas.

In order to maintain revenue neutrality, he has proposed that Centra adopt an inverted rate structure such that above a certain level of annual usage -- and Mr. Weiss had used 1,000 to 1,200 cubic metres for residential customers -- all of these costs would be incorporated into the volumetric rate, but the rate for usage below that amount would be correspondingly reduced.

Mr. Weiss suggests Centra include, as costs for the purpose of rate design, not only all of the normal costs of procuring, transporting, and distributing natural gas that are included in Centra's rates, but also a notional value for environmental -- environmental externalities, avoided transmission and distribution expansion costs, and pecuniary opportunities related to the price elasticity of demand and indirect economic benefits of conservation in Manitoba.

Mr. Weiss has stated that an appropriate amount would be in the order of fifteen (15) cents per cubic metre, including a value of sixty dollars ($60) per ton in respect of greenhouse gases or GHGs. This is found at transcript pages 1113 to 1115.

Centra has noted that an adder of this magnitude is equal to about 50 percent of the current commodity price of natural gas. It exceeds the curre -- current volumetric unit charges related to both transportation and distribution rates to residential customers. Centra has provided, in both its direct evidence and rebuttal, its perspective on these externalities and Mr. Weiss' proposed inclusion of them in rates. This is summarized in the direct evidence of Mr. Wiens on pages 667 through 670 in -- of the transcript.

With respect to land use and resource scarcity, Centra's position is that these impacts currently are, or should be, priced into the wholesale price of gas by the producing provinces. Mr. Weiss has agreed that some of these impacts may be included in price and, to that extent, don't need to be added in again. And that's found at transcript page 1090.

With respect to GHGs, Centra notes that it already incorporates consideration in its evaluation of the alternatives to natural gas, namely DSM programming. In this regard, the practice in Manitoba is as -- is as advanced as it is in the jurisdictions with which Mr. Weiss is familiar with. And that's at transcripts pages 1096 through to 1099.

To include further consideration of this factor by incorporating an adder in rates would be equivalent to applying a carbon tax to natural gas home heating, which accounts for only about 4 percent of Manitoba's GHG output, while all other contributions would not be subject to such a tax. Centra believes that further consideration of any carbon tax on natural gas usa -- usage within the province is more appropriate within the context of a more comprehensive Canadian policy dealing with carbon emissions from all sources.

Mr. Weiss has acknowledged that quantifying the value of externalities related to GHGs is somewhat subjective and that -- that there is a wide range of views as to what the appropriate value -- value would be. And that is found at transcript pages 1114 and 1115.

Now with respect to avoided transmission and distribution costs, Mr. Weiss apparently continues to believe that a further cost adder should be put in place to reflect them. And that -- at page 5 of his evidence, lines 29 to 30.

In his 2005 evidence, Mr. Weiss estimated the avoided costs of future TND expansions to be fifty-five (55) cents per gigajoule, or about two point one (2.1) cents per cubic metre. In the current proceedings he has implied that the current value may be less than that because natural gas usage in Manitoba is reducing. And that's at transcripts page 1091.

Mr. Chairman, it is important to recognize that Mr. Weiss is in effect suggesting that Centra's customers should pay for both the full imbedded and the avoided costs of natural gas transmission and distribution facilities. He had tried to suggest, in response to Ms. Murphy, that customers would not be paying twice, since with his inverted rate proposal there are no new net funds being provided by customers.

At transcript 1092 he stated:

"There's no advance payment happening; it's just a price signal."

I would suggest that this assertion is quite disingenuous since larger volume customers certainly would be making an advance payment to recognize Mr. Weiss' T&D costs. The revenue neutrality provision simply means, in effect, that these payments would be used instead to subsidize the current transmission and distribution costs incurred on behalf of low volume customers.

In summary, Centra believes that the various elements included in Mr. Weiss' proposed adder, either are not real costs -- and for example, the pecuniary benefits -- or they are currently included in the actual cost of procuring, transporting, and delivering natural gas to Manitoba; or they are more appropriately dealt with in another policy framework; and lastly they are already incorporated into Centra's pricing and DSM regimes. Hence there is no need to build an inverted rate framework to incorporate these considerations, as suggested by Mr. Weiss.

The Board has also heard evidence during this proceeding that even the steep degree of inversion implied in Mr. Weiss' proposal may not provide the price signal Mr. Weiss is seeking. Mr. Weiss has acknowledged that most customers will not look at the rate but at their bills. And this was at transcript 1093.

He then goes on to suggest, however, that they will notice the decline in their bills when they take actions. Of course, the purpose of a price signal would be to encourage customers to take actions, not simply to make them feel good after they've taken action in response to some other signal.

Further, the price signal recommended by Mr. Weiss is such that the average customer will not see any difference in their bill and lower than average customers will not have to take any action at all. They will see bill reductions just by the -- by virtue of the fact that most of their usage would be in the first and subsidized block, and another significant portion of customers may see bill increases but not enough to make them to consider action.

It was also very surprising to hear Mr. Weiss' comments on the usefulness of price signals in response to the suggestion that a low income program off -- as offered in Clark County would obliterate -- obliterate, pardon me, any price signal. He said that they had done studies and people don't change their behaviour, they just live the way they live. And again that's at page 1110 of the transcript.

Mr. Chairman, this seems to cast serious doubt of the value of price signals. To the extent that the Board may believe it prudent or reasonable to have natural gas volumetric rates incorporate some degree of adder to send a price signal, Centra's submission is that the price signal already exists in that volume -- in that volumetric charges to small volume customers include a recovery of fixed costs of approximately five (5) cents on every cubic metre of commodity used, over and above the recovery of actual costs to produce and deliver natural gas. Further, like Mr. Weiss' proposal, this recovery mechanism is revenue neutral since a corresponding amount is not recovered in the basic monthly charge.

Mr. Weiss' evidence states that Centra, in practice, denies the full cost accounting policy of the Sustainable Development Act in order to ignore accounting for externalities. And that's found at page 9 of his evidence.

Inverted rates are not a necessary requirement of compliance with the provisions of the Sustainable Development Act and therefore the absence of inverted rates from Centra's current sustainability practices, does not mean that Centra is not addressing it's obligations under the Sustainable Development Act. Overall an aggressive DSM program and proper pricing within the current framework utilized by Centra, are fully responsible -- fully responsible and responsive to the principles of sustainable development.

The principles and guidelines of the SDA, the Sustainable Development Act, although not embodied in legislation outlied -- in the spirit and intent of the legislation.

It is important to note that reference to full-cost accounting is employed in the context of providing better information for decision makers. In this regard the employment of full-cost accounting and the associated inclusion of externalities in the development and assessment of DSM initiatives fulfill the mandate of the SDA, in the context of Centra's resource management.

Full-cost accounting the help informed decisions does not neces -- not necessitate full-cost pricing. Environmental implications should be considered in major decisions.

However, this information is often complex, value-laden, and may involve conflicting environmental and social interests. While it is reasonable to consider this type of information it is not necessary to deliver full-cost pricing as defined by RCM/TREE to comply with the provisions of the Sustainable Development Act. It is also important that the other tenets of SDA decisions be considered. In particular, the principles of sustainable development mandate that economic decisions should adequately reflect environmental, human health, and social effects.

In that regard, inflating the cost of natural gas to the levels suggested by Mr. Weiss fails to consider the impact of such pricing on human health and society as a whole. Natural gas is an important source of heat in Manitoba and the health and well-being of many of Centra's customers could be detrimentally affected by pricing, which will make the purchase of natural gas difficult.

Similarly, increases in natural gas prices of the magnitude suggested by Mr. Weiss may have significant societal implications, in terms of driving customers to resource decisions which may have negative repercussions for the provincial economy and reduce electricity export revenues as a result of increased interprovincial electricity consumption and other business decisions with respect to plant expansions, relocations, layoffs, shutdowns and the like. Society as a whole is also impacted as commercial customers are forced to pass on to consumers the increased gas costs in the pricing of their products.

Centra is of the view that no further assistance can be offered by undertaking additional studies or debate in respect to the matter of inverted rates. Centra would certainly prefer that the Board render a decision that inverted natural gas rates are not appropriate and endorse the type of rate structure that currently exists in Manitoba and every other jurisdiction in North America, with the exception of California.

Mr. Chairman, I will now turn to the issue of bill payment assistance programs. RCM/TREE continues to advocate that Centra provide bill payment assistance on a means test base -- basis to a low -- to its low income customers.

In his final argument on Friday, Mr. Gange recommended that Centra be directed to establish pilot projects to assess more aggressive programs to assist low income Manitobans. Mr. Weiss has provided some information to these proceedings that such programs pay for themselves; and, for example, RCM/TREE Exhibit 6.

Centra takes the position that while such evidence has produced, it has not been exhaustively examined and that it remains only a hypothesis, that such programming could provide other ratepayers with benefits equal to or greater than the cost of the assistance. Such examination as did occur -- for example, the cross-examination of Mr. Weiss by Ms. Murphy on RCM/TREE Exhibit Number 6 on transcript pages 1103 through to 1110 -- demonstrated that the program evaluation was done sometime ago in an entirely different pricing environment for natural gas and may have had some questionable incentives with regard to natural gas usage.

As Centra noted in its rebuttal evidence, the establishment of discounted rates for means-tested low income customers is not a concept that has been applied by Canadian regulators and regulated utilities. In Canada, provincial governments have a mandate to provide social assistance and deliver social programs, and the Federal Government uses its taxing power to provide transfer payments to province to assist them in funding such social programs.

Social assistant -- social assistant payments are intended to provide for the necessities of life, including utility services such as natural gas, for those persons whose income would otherwise be insufficient to purchase such services.

If social assistant payments are deemed inadequate to fund the purchase of utilities, the correct appeal is, to governments to better recognize the cost of -- cost of living, not to other utilities customers to provide subsidies through their rates.

In fact, Mr. Chairman, this very issue was raised before the Ontario Energy Board in late 2006 in connection with a rate application by Enbridge Gas Distribution Incorporated.

In its decision, the Ontario Energy Board -- and the decision was EB-2006-0034, which was issued in April 26 -- April 26, 2007 -- the OEB concurred, by majority decision, that it did not have the jurisdiction to consider this matter, principally because it did not have the -- because it was not specifically empowered in statute to do so. An excerpt of this decision is provided at Tab 10 of the book of documents.

As well, this issue was recently decided upon in May of 2006 by the Nova Scotia Court of Appeal in the case entitled, "Dalhousie Legal Aid Service versus the Nova Scotia Power Corporation," wherein the Nova Scotia Court of Appeal affirmed the decision of the Nova Scotia Utility and Review Board that it had no power to approve a proposed program by an intervenor featuring power rate credits for low income customers.

And unfortunately, Mr. Chairman, this case has not been provided in our book of documents, but I would -- I'll undertake to provide Mr. Peters and other parties with copies of that decision for their review.

In addition, the Manitoba Public Utilities Board has also previously determined that it does not have the statutory authority to set rates based on ability to pay. In its order 17/04 on the matter of electricity rates in diesel communities, page 31 and 32 of that Order, the Board found that, and I quote:

> "The Board remains extremely sensitive to the rising costs of living in northern Manitoba and the ability to pay issue. However, the Board also has a duty and responsibility to Hydro and to the large population of all of Hydro's customers to set rates for diesel communities that are just and reasonable within the mandate of the Board in applying the principals of rate regulation. It is the Board's view that the ability to pay issue is one that lies outside of the regulatory

arena and lies more appropriately with -- within the provincial and Federal social policy area. Hydro grid customers presently subsidize electricity rates in remote diesel communities to a significant degree. The Board refers to the governments of Canada and Manitoba the need for improved social policy to address the ability of people living in remote northern communities to pay for essential services. It is not within the mandate of this Board to use the utility rates to affect social policy."

And we've also provided an excerpt of that Order for ease of reference at Tab 11 of Centra's book of documents.

It is the position of Centra that specific legislative direction would be required to establish the type of rate form sought by Mr. Weiss. Centra notes that Section 82.1A of the PUB Act provides that, quote:

"No owner of a public utility shall make, impose or exact any unjust or unreasonable, unjustly discriminates or unduly preferential individual rate or other special rate for any product or service applied or rendered by it within the province."

A copy of this section is provided at Tab -- Tab 12 of Centra's book of documents.

Centra is of the view that changes to the legislation to implement such bill assistance plans would be required. Mr. Gange also referenced the affordable energy fund, in his final argument, as evidence that the province has provided very clear signals of its commitment to addressing the special energy concerns of low income Manitobans. And that was at transcript page 1522.

Centra agrees that when -- the -- that the Winter Heating Cost Control Act, as included in our book of documents at Tab 13, set out the Government's concerns with respect to DSM programming targeted at the low income segment. Had the Government also intended that bill payment assistance be provided, the enacting of this legislation would've provided an opportunity to communicate this directive.

In his pre-filed evidence, Mr. Weiss took issue with Centra's late payment fee of 1.25 percent per month on the grounds that it -- it is twice Centra's cost of debt and thereby entails a subsidy to other customers.

And this was at page 18 of his evidence.

He disagreed with Centra's explanation that the fee is intended to recover a portion of the costs incurred by Centra to collect past due accounts, on the grounds that these costs are, or should be, included in collection fees or written off.

As outlined on pages 51 and 52 of Centra's rebuttal evidence, late payment fees under-recover the costs associated with collecting from late paying customers. This rebuttal evidence was not challenged in these proceedings.

I will now turn to cost allocation and rate design matters.

As you aware, Centra is not proposing any substantial changes in its approach to cost allocation or rate design in this application. Centra is proposing to implement new rate riders in conjunction with the '07/'08 and '08/'09 General Rate Application.

The PGVA rate riders proposed in this application will dispose of balances in all non-primary gas PGVA's and gas cost deferral accounts accumulated to March 31st of 2007. These balances were updated as part of Centra's May 15th pre-hearing update and result -- and the result is to refund to customers approximately 9 million as summarized in schedule 10.3.1, which has been provided at Tab 14 of Centra's book of documents.

The non-primary gas rate riders are proposed to be implemented on August 1st -- 1st, 2007 and will be disposed of over a twelve (12) month period, to expire July 21st, 2008. A rate delay rider is also proposed with respect to the 2007/'08 fiscal year.

As a result of the timing of this Application and Hearing, it was not possible to implement new rates flowing from this Hearing on May 1st, 2007 as requested. The rate delay rider deals with the difference between the revenues that will be recovered during the period May 1st, 2007 and July 31st, 2007 based on existing base rates and the revenues that would have been recovered through new base rates.

It is Centra's preference to recover the revenue gap through the rate delay rider over nine (9) months to synchronise it with the expected implement -- implementation of new base rates flowing from Centra's 2008/'09 test year on May 1st, 2008, as well as with the anticipated change to primary gas rates which will occur at that time.

With respect to DSM costs, Centra proposes to amortise the program costs over a fifteen (15) year period, consist -- consistent with the treatment of DSM costs in previous test years. Centra's rate proposal for the 2007/'08 test year includes eight hundred and seventeen thousand dollars ($817,000) and $1.6 million for the 2008/'09 test year.

The DSM Program is directed to specific targeted markets. Centra is proposing that only those customer classes, to which the program has been targeted, bear responsibility for those costs for the 2007/'08 and 2008/'09 test years. This means that 60 percent would be directed toward the residential con -- consumers and 40 percent would be allocated to the small commercial consumers.

The witness for RCM/TREE has opposed to Centra's allocation on this basis. Mr. Weiss has suggested those costs be allocated to all customer classes on a volumetric basis. However, at page 1148 of the transcript, he suggests that customers who do not have the ability to participate in DSM programs should be exempted from payment of the associated costs, or at least part of them.

Mr. Weiss, ultimately, concludes that some customers should be entitled to an exemption from such costs re -- specifically referring to the Power Station class at page 1149 of the transcript.

Centra suggests that the proposed allocation -- allocation accomplishes the same thing without the need to address issues of exemptions and special rules by following the accepted rate making principles that costs should follow the cause.

Dr. Higgin also confirmed that an allocation in which the costs follow the benefits was appropriate. Interesting -- interestingly, he was able to confirm that the Ontario Energy Board had directed that DSM costs are allocated on a cost -- cost causality basis, just as Centra has proposed; that is that the cost be shared among those classes of customers that impose the cost and receive the corresponding benefits.

During its final submission, RCM/TREE suggested that they could not understand Centra's unwillingness to cross-subsidize. With respect, Mr. Chairman, Centra does not understand RCM/TREE's reluctance to have the cost follow the benefits. And this is at page 1535 of the transcript.

As Centra has testified, at transcript page 909, Centra does not deliberately cross-subsid -- subsidize between or among customer classes. Centra recognizes that a certain level of cross-subsidization is inherent in the postage stamp rate making philosophy. However, to suggest that we embark upon a course of deliberate cross- subsidization would be a significant departure from the principles upon which rates are founded and which is directed by the PUB Act.

I would like to briefly address the subject of revenue decoupling which was canvassed in this hearing.

As the Board has heard, revenue decoupling originated with the goal of removing the disincentive for privately owned utilities to engage in DSM. All parties agree that this is not an issue for Centra, as Centra's DSM programs are among the top tier in North America.

Revenue decoupling has also been suggested as a means to protect the Company from variations in net income resulting from reduced consumption on account of weather and conservation, and to protect customers from overpayment in the event of colder than normal weather. Centra's evidence notes that at present, the cost of service methodology -- methodology satisfactorily addresses any financial impacts as a result of deviations of actual volumes from the forecast on account of weather and conservation.

In the event that at some point Centra wishes to consider a decoupling mechanism, Centra has noted and Mr. Weiss has admitted, that there are a number of mechanisms by which such rate designs can be accomplished. In the event that Centra determines that such a mechanism might be appropriate, it will, of course, bring such a determination to the -- to this Board, along with a proposal for what it views as an effective means of accomplishing the desired objectives.

I'll now turn to the presentation of rate impacts.

There was a suggestion during the course of the Hearing, in the written evidence of Mr. Matwichuk, that Centra ought to communicate the impact of its general rate changes to customers as a percentage of the total of the non-gas costs. Centra has noted its opposition to this suggestion.

Interestingly, the Board has heard from witnesses from all sides of the room that the information most helpful and relevant to customers is the bottom-line on their bill. How much they have to pay and how that bill will be affected by the application under consideration is the primary drivers.

Even Mr. Matwichuk could not produce any evidence to -- to support his conclusion that customers are demanding of this type of bill information when pressed by Mr. Peters during cross-examination and that was found at transcript page 578.

Centra is of the view that customers will be confused by too much information, particularly when one takes into account the fact that this will result in reporting not one (1) rate change but several rate changes to various components of a customer's bill. Centra has also noted, in its rebuttal evidence at page 22, that this will not provide clear information to customers with respect to cost changes, as volumetric impacts are also reflected in the changes to non-gas requirements of the Utility. For example, in the 2007/'08 test year approximately 40 percent of the additional revenue requested is attributable to reduced volumes and that's at page 22 of Centra's rebuttal evidence.

It seems that the motive for suggesting this change came out during final submissions when Mr. Saxberg suggested that issuing a public notice with larger numbers may attract a little bit more interest from the public. With respect, Mr. Chairman, I would suggest that deliberately creating customer confusion to entice customers to participate in these proceedings is not an appropriate means of generating public participation in rate applications.

Through this proceeding Centra's special contract customer expressed concern over the increases to that class proposed for the 2007/'08 and 2008/'09 test years. Centra is mindful of all impacts to its customers and has worked extensively with this customer in the past to ensure they understand Centra's proposals and rationale for the changes. Centra indeed has done so again as part of this application with this customer.

However, the fundamental disagreement lies in how rates for the customer ought to be set and whether the costs of the relatively short section of pipe that -- pipe that connects this customer to Centra's takeoff at TCPL are separately identifiable.

As Ms. Derksen stated, at page 80 -- 981 of the transcript, the transmission pipe that connects this customer to the TCPL takeoff is not discreetly identifiable as the customer suggests. This transmission pipe serves the power station customers as well as many customers in the southwest part of our province. This customer would not pay for the full freight of any construction costs on this pipe; they would be shared among all customer classes as has been done in the past and is -- and as is consistent with Centra's entire distribution system.

Although the final submission of this customer suggests that costs to bypass Centra's system would be less than those charged in rates, Centra notes that no evidence was introduced during this proceeding to support such an assertion, and if such information were to be forthcoming it would certainly be challenged by

Centra.

Centra submits that the level of the increase proposed for this customer is in line with transmission-related cost impacts. Centra further submits that the magnitude of the bill impact for this customer results from the fact that this T-service customer acquires its own supply and storage of gas commodity and is only responsible for a portion of the transmission-related costs of Centra's system. In Centra's view the rates proposed for this customer are based on the well-accepted principles of cost allocation as approved by the Public Utilities Board and should be approved by this Board.

I'd like to turn now to gas supply transportation and storage arrangements. Firstly, you will call -- you will recall that primary gas rates will not be affected by this Application as those rates are set quarterly. The Board can anticipate Centra's filing for new primary gas rates to be effective August 1st, 2007 in early July.

There have been no changes to Centra's gas supply, transportation, and storage arrangements since Centra's 2006/'07 non-primary gas cost application. However, Centra's supply arrangements for primary gas that will expire on October 31st, 2007 were renewed in

March 2007 with Nexen Marketing. The term of the renewed agreement is two (2) years, effective November 1st, 2007 and expiring October 31st, 2009.

As was testified to by the gas supply panel, the existing Nexen contract contained favourable terms to natural gas consumers in Manitoba. Nexen has been a proven performer to Centra and understands Centra's asset mix and the challenges associated with the variability of its loads.

As such, and in accordance with the recommendations received from EEA, Centra engaged in discussions with Nexen to renew the existing contract. The negotiations culminated in the execution of a two (2) year extension with very similar terms to the existing agreement.

Centra firmly believes that Manitoba consumers will be well-served during the term of the extension agreement at a minimal cost. EEA concurs, as does Mr. Stauft as he expressed at page 1443 of the transcript.

Just to review, there were only two (2) material changes to the renewal contract.

Firstly, the additional flexibility to accommodate monthly versus quarterly WTS enrollments, as was requested by the brokers, which resulted in a pricing premium of a half of one (1) cent per gigajoule on Centra's base-load volume purchases. This equates to approximately a hundred and sixty thousand dollars ($160,000) on an annual basis. For the first test year, this amounts to approximately eighty-seven thousand dollars ($87,000) which Centra has proposed to hold in a deferral account pending the determination of the upcoming competitive landscape hearing.

Secondly, the move from a seventy (70) to thirty (30) blend of the firm Nova toll and the AECO to Empress basis differential on Centra's base-load volume purchases to 100 percent firm Nova toll, a change which could result in a pricing change ranging from a potential reduction in gas costs in the approximate amount of thirty-five thousand (35,000) to a potential addition to gas costs in the approximate amount of two hundred and five thousand dollars ($205,000).

The only notable issues related to cost of gas matters in this Hearing were with respect to capacity management. Centra's actual capacity management revenues, excluding carrying costs, totalled $7.9 million as was shown on the updated Schedule 7.3.1. This was a record amount which largely was the result of the warmer than normal weather that occurred during the 2006/'07 fiscal year, thereby resulting in excess transportation capacity combined with attractive market conditions.

Centra continues to believe that it remains appropriate to use the five (5) year rolling average to forecast capacity management revenues. As Mr. Sanderson testified at page 1327, of the many unpredictable variables affecting the amount of excess capacity available for Centra to the market, the single biggest determinate is weather which is highly unpredictable.

Centra will continue to maintain a deferral account to capture the difference between the forecast amount and the actual amount which will be -- which will be disposed of as part of the rate-rider calculations. This ensures that the treatment of forecast capacity management revenues is consistent with the treatment of forecast gas costs and that treatment of capacity management deferral accounts is the same as other cost of gas deferral accounts.

Mr. Stauft suggested that instead of using the five (5) year rolling average, Centra ought to develop a forward-looking forecast of capacity management revenue. As Mr. Stephens testified at page 1328 of the transcript, performing a forward-looking analysis in order to generate a capacity management forecast would imply a degree of accuracy which simply does not exist.

Such an exercise would involve a series of guesses and assumptions which would ultimately result in a revenue forecast that is no more accurate than the one currently being used by Centra.

With respect to the capacity management results for the 2006/'07 year, Mr. Stauft accepted Centra's revenues relating to the disposition of excess transportation capacity as reasonable. And that was at page 1449 of the transcript.

However, Mr. Stauft suggested that there may be more opportunities for Centra to sell its storage gas in Michigan to sources downstream and replace that gas with lower-priced supplies from Alberta.

Ms. Stewart confirmed that none of Mr. Stauft's ideas were new to Centra and that Centra will continue to evaluate those potential opportunities.

It is appropriate, Mr. Chairman, to recognize that Mr. Stauft admits that his work is a simplistic analysis, particularly in light of his acknowledgement at page 1448 that the market is, and I quote, "Really complicated."

Mr. Stauft suggests that Centra may be leaving money on the table and that it only extracted 1.3 million of the alleged 5 million apparent embedded value of Centra's storage gas for 2006/'07.

Mr. Chairman, it must be remembered that first and foremost, as Ms. Stewart testified at page 1380, Centra's primary function is not to optimize supply opportunities, but rather to balance what she referred to as a three (3) legged stool, being the optimized -- optimization of supply, transportation and storage assets. Above all, Centra's first priority is to serve its market and to ensure that Manitoba consumers of natural gas have access to a safe, cost-effective, reliable and environmentally appropriate supply of the natural gas commodity.

Mr. Stauft admits that his analysis is rudimentary and artificial in that it only tallies up what the supply benefit might have theoretically been and fails to consider the following factors that actually affect the value of transactions.

It needs to be cold enough in Manitoba that Centra is backhauling storage gas from Michigan, is the first factor.

There also must be a willing counterparty with which Centra can transact with. There is a sharing of any DM margin or profit with Centra's counterparty to the transaction, which would -- which would in a risk neutral transaction generally -- generally result in the $5 million value being at least halved between those two

(2) parties. The deal margin is impacted by the construct of the deal; that is to say, which counterparty bears the financial risk of the transaction.

Storage cycling costs or penalties that may be incurred by Centra must also be taken into account. As well, additional transportation costs to bring the gas out of storage and to a market centre.

And finally, the fact that transactions are completed on a interruptible or recallable basis is a further degrading factor to that potential value of those transactions.

Each of these factors diminishes Mr. Stauft's preliminary suggestion that there may be additional margin or profit available to Centra. As Ms. Stewart confirmed at page 1391, Centra is in the market every single day and has several counterparties with whom it transacts. Ultimately, Centra has and will continue to delivery significant value to Manitoba natural gas consumers by way of its storage exchange transactions.

Counsel for CAC/MSOS also spent time focussing on the $36 million in storage exchanges that were conducted in 2006/'07 as -- as per Tab 4 in Mr. Peters' book of documents. He intimated that one could simplistically relate the 36 million of storage exchange business to the 1.3 million in capacity management revenues and logically conclude that Centra isn't doing all that it can do to squeeze storage exchange revenues out of its asset mix.

In fact, $10 million of the $36 million of total exchange business is associated with a peaking arrangement that Centra undertakes with a counterparty to provide a pre -- to provide a peaking service. This occurs at no cost. It facilitates Centra closing the gap between its firm arrangements and its peak day, should it -- should it be incurred, and is an excellent example of Centra's creativity in deal structuring for the benefit of natural gas consumers in Manitoba.

To close on this subject, Centra's capacity management arrangements are complicated. Physical movement of natural gas is complicated as that -- as that market with which in it takes place.

Centra's capacity management arrangement are also commercially sensitive. Thus, Centra appreciates that Intervenors may not fully understand it -- understand its capacity management activities. The business plan that Centra is preparing for its Capacity Management Program is being drafted to attempt to close this gap in understanding.

However, it is not possible to provide commercially sensitise information in that form and even the business plan will not overcome that hurdle. Having said that, submission on behalf of the Intervenors must not create a false impression that Manitoba consumers of natural gas are not being well served by Centra's Capacity Management Program. This is simply not the case, which leads into the next area of the argument of outsourcing of the Capacity Management Program.

Mr. Stauft suggests that Centra should consider the possibility of outsourcing the function of optimizing storage gas to a third party marketer. Centra does not believe such an arrangement to be in the best interests of Manitoba consumers because it has years of experiencing managing the variability of the Manitoba load and also attending to gas scheduling in the midst of physical pipeline constraints, and responding to market opportunities that result from its particular asset mix.

However, as alluded to by Mr. Stephens and Ms. Stewart, when Centra is solicited by counterparts who have an interest in managing Centra's assets, Centra engages in frank and open discussions with these potential counterparties in the interest of determining whether there is a better way.

To date, Centra has found that dealing with a number of know marketers and the resulting access to their assets and customer bases, provides Centra's customers with the benefit of these attributes without the attendant operational and financial risks and the loss of control inherent in an outsourcing program. And, lastly, they do not diminish -- these benefits are not diminished by the payment of a fee to a third party out-of-province asset manager.

With respect to the final submission of Energy Savings Manitoba, that the proposed changes to the gas loan determination would be acceptable to Energy Savings Manitoba if the pre-MDQ report and the customer detail would continue to be provided to brokers, Centra confirms that the pre-MDQ report will continue to be provided to the brokers.

As well, the customer detail report could continue to be provided under Centra's proposed MDQ calculation methodology as long as the brokers are willing to cooperate and work with Centra to arrive at a reasonable means of allocating the broker-level MDQs to the contract and/or the customer level that is common for all brokers, as long as it does not impact Centra's requirement to calculate the overall MDQs at the aggregate broker level.

If MDQs are unable to be initially set at the aggregate broker level, and this would occur prior to the allocation in the -- the aggregate amount to the individual contract or customer level, Centra will not be able to achieve any further improvements in the precision and accuracy of annual balancing of brok --broker deliveries versus broker customer consumption as been requested by the brokers.

And, Mr. Chairman, I'll turn to Mr. Saxberg's suggestion of updating exchange rates and capacity management revenues.

And Mr. Saxberg, in his closing submission, suggested two (2) changes to be made to update Centra's forecast. One (1) with updating the exchange rate and, secondly, to include the capacity management results for the 2006/'07 gas year in the amount of 7.9 million producing a five (5) year rolling average of 5.7 million.

The issue of having the most current information to the Board is a difficult one as it is necessary to balance the desire for refreshed information with the materiality and consistency of that information. Forecasts are, by their very nature, uncertain and setting them at one point in time versus another do not necessarily equate to a more precise way of measuring what the actual -- actual results will be.

Material intergenerational cross subsidies do not result, as suggested by Mr. Saxberg, in the absence of updating the forecast beyond what has already been provided to the Board by Centra. The fact is that the impact of such updates is very minimal when considered against the total revenue requirement of approximately $550 million.

Now, Mr. Chairman, members of the Board, to follow up on the comments of Intervenors on Friday regarding settlement conferences, Centra is willing to engage in discussions of ways in which this regulatory process can be improved or made more efficient. In the same vein, the Company is prepared to participate in discussions regarding electronic filings as well.

In conclusion, on behalf of Centra, we wish to thank the Board, its advisors and Intervenors for their attention throughout this entire process. Centra submits that the evidence in this proceeding has been thoroughly tested and that its requested rate proposals are just and reasonable and represent an appropriate balance of the interest of consumers for a safe and reliable supply of natural gas and the need for a financially stable utility.

On an administrative note, and as I mentioned earlier, Centra will be filing its next quarterly rate application with the Board in early July. In order to implement your directions arising from this proceeding on August 1st, 2007, Centra respectfully requests that the Board issue its order in respect of these matters on or before July 26th, 2007, in order to confirm final rate schedules in advance of the first billing run which is scheduled to occur on August 3rd, 2007.

Centra also looks forward to working with interested parties to conclude on a schedule for the recently adjourned Competitive Landscape Proceeding.

And with that, thank you, Mr. Chairman and Board members, for your attention and patience throughout this process. Subject to any questions that you may have and -- of myself or Ms. Murphy, that concludes Centra's remarks.

THE CHAIRPERSON: Thank you, Mr. Czarnecki, and thank you, also, to Ms. Murphy.

We also want to express our appreciation to all those who have participated directly or supported this proceeding. I appreciate both the efforts made in the approaches undertaken and conduct of the parties. We note the cooperation and civility that has been displayed, which is a credit to all parties.

The combined effort has left the Board with a complex task but, fortunately, one that will not have to be undertaken without an adequate information base. The Board expects to issue an order arising out of this proceeding in sufficient time to allow for determinations effecting rates to be taken into account with the schedule August the 1st rate setting.

On the gas landscape matter, we plan to proceed in September with the proceeding and Mr. Peters will be consulting with all of you to arrive at a schedule that hopefully works for everyone.

So with that, thank you. This concludes the GRA proceeding.

--- Upon adjourning at 11:01 a.m.

Certified Correct,

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Ashley Guillemin