

1 MANITOBA PUBLIC UTILITIES BOARD

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

Before Board Panel:
Graham Lane - Board Chairman
Monica Girouard - Board Member
Mario Santos - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 8th, 2005
Volume V
Pages 1011 to 1240

APPEARANCES

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	TABLE OF CONTENTS	
1		
2		Page No.
3	List of Exhibits	1014
4	List Of Undertakings	1015SO YO
5		
6	PANEL 2	
7	VINCE WARDEN, Resumed	
8	DARREN RAINKIE, Resumed	
9	WILLIE DERKSEN, Resumed	
10	DAVID CASE, Resumed	
11	AZIZ AZIZ, Resumed	
12		
13	Continued Cross-Examination by Mr. Bob Peters	1016
14	Cross-Examination by Mr. Kris Saxberg	1126
15		
16		
17	Certificate of Transcript	
18		
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-14	Centra to provide Board with final	
4		true-ups for the Interlake and the	
5		Bifrost/Woodland projects.	1091
6	CENTRA-15	Response to Undertaking No. 10 which was	
7		taken at page 850 of the transcript	1096
8	CAC/MSOS-4:	Book of Documents.	1126
9	CENTRA-16:	Graph.	1200
10	CENTRA-17:	Response to Undertaking No. 9 which	
11		was taken at transcript page 816.	1200
12	CENTRA-18:	Response to Undertaking No. 16.	1201
13	CENTRA-19:	Response to Undertaking No. 18 which	
14		was the Updated Cost Forecast for the	
15		Keniston Underpass Relocation.	1201
16	CENTRA-20:	Response to Undertaking No. 17. The	
17		cost comparison for the four-party	
18		and the single-party for Royalwood	1202
19			
20			
21			
22			
23			
24			
25			

	LIST OF UNDERTAKINGS		
	No.	Description	Page No.
1			
2	No.		
3	15	Centra to advise Board if the forty	
4		thousand dollars (\$40,000) is a 25	
5		percent allocation of Centra's costs	
6		for doing the four-party trench.	1027
7	16	Centra to provide Board with a	
8		comparison of costs of four-party	
9		trenches and single-party trenches.	1036
10	17	Centra to provide Board updated cost	
11		estimates of Kenastin Underpass Project.	1059
12	18	Centra to indicate to CAC/MSOS whether	
13		Centra agrees with position taken by	
14		Mr. Matwichuk with respect to the	
15		calculation of eliminating the premium	
16		which is contained on page 11 of his	
17		evidence.	1131
18	19	Centra to provide the Board with	
19		general rate increases for non-gas	
20		costs from 1990 through to the current	
21		date, applied for and actually granted	1196
22	20:	Centra to provide a comparison for CAC/MSOS	
23		of the test year, '06/'07 against '06/'07	
24		absent ABS (Phonetic) and acquisition.	
25		Footnote any different assumptions.	1226

1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Good morning everyone.

4 Mr. Peters ...?

5 MR. BOB PETERS: Yes, good morning Mr.

6 Chairman, Board Members, Panel Members, ladies and
7 gentlemen.

8

9 VINCE WARDEN, Resumed

10 DARREN RAINKIE, Resumed

11 WILLIE DERKSEN, Resumed

12 DAVID CASE, Resumed

13 AZIZ AZIZ, Resumed

14

15 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Case, I'll maybe
17 start the morning with you. Looking over from what we
18 discussed yesterday, there was just a point that I wanted
19 to go back on.

20 And we were talking safety and the steps
21 that Centra takes to prevent third-party damage to
22 Centra's plant. And we did talk about line location and
23 educational plans you have. You also have a program out
24 there, what are -- call before you dig, and I'm not sure
25 if that's just your utility or is that a joint utility

1 project?

2 MR. DAVID CASE: It's actually two (2)
3 parts to that I suppose. Manitoba Hydro, including
4 Centra Gas have a -- we have our own program, as far as
5 call before you dig awareness.

6 And so we promote call before you dig
7 through billboards. You'll see those on major
8 thoroughfares, as well as there's information that goes
9 out with bills to provide information to customers
10 regarding call before you dig.

11 And then we also participate with the
12 inner utility community, which is a damage prevention
13 committee as well in Manitoba.

14 MR. BOB PETERS: What do you do
15 specifically for contractors, as opposed to homeowners?

16 MR. DAVID CASE: For contractors there's
17 a number of conferences held throughout the winter
18 season, part of the construction season. We attend those
19 and we have a display booth, we're available to answer
20 questions and provide information to contractors relative
21 to the safe excavation.

22 MR. BOB PETERS: Would it be fair to say,
23 Mr. Case, that in light of all of your activities you
24 still continue to have damages where individuals did not
25 call before they dug?

1 MR. DAVID CASE: Yes, that's correct.
2 MR. BOB PETERS: And have you charted the
3 statistics of year over year?
4 MR. DAVID CASE: Yes.
5 MR. BOB PETERS: Is it decreasing?
6 MR. DAVID CASE: In which category?
7 MR. BOB PETERS: Well, let's start with
8 homeowners?
9 MR. DAVID CASE: I'm sorry, I don't have
10 that right handy, but, I can get the information for you.
11 MR. BOB PETERS: That would be helpful I
12 think to the Board, but, do you have a general sense of,
13 whether or not, these programs are resulting in fewer
14 line damages, less line damages?
15 MR. DAVID CASE: I would suggest that the
16 programs are certainly raising the awareness. The -- I
17 think the latest statistics would show that the number of
18 line locates we performed were in the area of thirty-
19 three thousand (33,000) last year, or thirty-two thousand
20 (32,000) -- thirty-three thousand (33,000). And prior to
21 that we were in the range of twenty-seven thousand
22 (27,0000). So certainly the level of activity has
23 increased.
24 Relative to the number of damages related
25 to that I think -- I think the residential sector is

1 fairly stable and the contractor one seems to fluctuate.
2 But, I need to check that.

3

4

(BRIEF PAUSE)

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MR. BOB PETERS: Wouldn't you expect the contractor level of line damage to go down after all these year over year over year educational plans that you do?

10

MR. DAVID CASE: Yes, sir.

11

MR. BOB PETERS: And why doesn't it?

12

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MR. DAVID CASE: I don't know that we have a good answer for that. I guess, as we talked yesterday, there's a number of factors why these damages occur. And I think that, not unlike ourselves, there's changes in staff, there's changes in experience. You're dealing with the human factor and people don't always follow the rules as they're supposed to.

20

But, it's not from a lack of trying and I think obviously there's still more that can be done to improve the level of compliance with the regulation.

21

22

23

24

MR. BOB PETERS: Mr. Case, other than the 'do not call' situations, what other causes of line damage is Centra experiencing?

25

MR. DAVID CASE: I guess the other major

1 category is that there's been numerous occasions where
2 we've provided a clearance, the excavator knows where the
3 pipeline is, in fact the pipelines maybe already exposed.
4 The operators of the power equipment get too close to the
5 line and even though the line's exposed, they
6 accidentally hit the line and rupture it.

7 MR. BOB PETERS: And what -- what do you
8 consider that; is that human error or is that some -- how
9 do you consider that as a cause?

10 MR. DAVID CASE: I would consider that
11 human error.

12 MR. BOB PETERS: Are you expecting that
13 once the -- once the excavation is underway, at some
14 point the shovels come out and it's done by hand?

15 MR. DAVID CASE: The requirement is that
16 there's no excavation with power equipment within three
17 (3) feet of the line until such time as it's exposed and
18 then you can work in towards the line.

19 But we don't expect people to be working
20 with large drots (phonetic) or power excavating equipment
21 over top of the pipelines.

22 MR. BOB PETERS: But you're finding
23 that's factually happening.

24 MR. DAVID CASE: In some cases it does.

25 MR. BOB PETERS: Is there anything that

1 you're doing specifically in that area to curb that
2 activity?

3 MR. DAVID CASE: In the past six (6)
4 months we've been working closer with Workplace Safety
5 and the reason we -- we started that route is that the
6 excavation contractors have a permit for excavation in
7 the Province of Manitoba.

8 And it seems that there's -- they carry
9 more weight as far as a deterrent versus other activities
10 that we've done. So, what we've -- we've tried to do is
11 that every time there's a negligent act relative to
12 excavation and the Pipeline Act, we have contacted the
13 Workplace Safety and Health and they're building a
14 database and, in fact, in some cases they've actually met
15 with the contractor on site.

16 MR. BOB PETERS: Have they ever pulled a
17 permit or taken away the contractor's ability to
18 excavate?

19 MR. DAVID CASE: I'm not aware of that to
20 date. There was one (1) earlier this spring where they
21 received a caution in that area.

22 MR. BOB PETERS: Is it a three-strikes
23 and you're out or do you know what the leniency is of
24 workplace health and safety?

25 MR. DAVID CASE: I can't answer that

1 question. I don't know what their leniency is.

2 MR. BOB PETERS: Do you make
3 recommendations to workplace health and safety or do you
4 just simply alert them to the occurrence?

5 MR. DAVID CASE: We alert them to the
6 occurrence and also the significance of the risk and
7 consequence.

8 MR. BOB PETERS: And in these situations
9 where the contractor does cause damage, I think your word
10 was through their negligence or working too close with
11 power equipment and having accidents, it's the contractor
12 who has to pay for the cost of the repair?

13 MR. DAVID CASE: That's correct.

14 MR. BOB PETERS: Is it coming from the
15 contractor's insurance or do they -- does the contractor
16 have to pay it out of their own pocket or do you know?

17 MR. DAVID CASE: I would expect it
18 depends on the deductible on the insurance that the
19 contractor has with the insurance agency.

20 MR. BOB PETERS: Without knowing the
21 specifics of that, does your answer suggest that the
22 degree of damage is usually such a high that it's -- it's
23 not the deductible that's covered by insurance for the
24 most part?

25 MR. DAVID CASE: I really can't answer

1 that question. I'm not sure. In some cases I would --
2 I'm sorry, I just don't know the answer because, I mean,
3 these damages range from four thousand dollars (\$4,000)
4 to forty thousand dollars (\$40,000) so it's hard to say.

5 MR. BOB PETERS: Thank you. Mr. Aziz,
6 you told Ms. Murphy yesterday that you have a pilot
7 project underway known as the four-party trench; have I
8 got that right?

9 MR. AZIZ AZIZ: Yes sir.

10 MR. BOB PETERS: And that's where
11 Manitoba Hydro, Centra Gas, MTS and Shaw get together and
12 have one (1) trench in which they put their
13 infrastructure?

14 MR. AZIZ AZIZ: That's right.

15 MR. BOB PETERS: And the purpose of four
16 (4) parties sharing one (1) trench is to try to provide
17 some economies of scale and scope in that activity?

18 MR. AZIZ AZIZ: This is one (1) of the
19 benefits.

20 MR. BOB PETERS: In the materials that
21 have been filed before the Board, there was some
22 questions asked of you about the four-party trench and
23 you had advised the Board that there was -- that there
24 was an actual pilot project underway or it had been done
25 in an area known as Royalwoods; have I got that right?

1 MR. AZIZ AZIZ: That's right.
2 MR. BOB PETERS: And it looked to be that
3 the cost to install Centra's cost to partake in the four
4 (4) party trench plan, was forty thousand dollars
5 (\$40,000) approximately?
6 MR. AZIZ AZIZ: The forty thousand
7 dollars (\$40,000) we provided this is Centra costs or
8 Centra portion of the trench, it's not the total cost of
9 the project.
10 MR. BOB PETERS: All right. Help me
11 understand and have the record explain to the Board, was
12 that for the labour only for the pipe installation by the
13 electrical crews?
14 MR. AZIZ AZIZ: The is cost for the
15 portion of the labour to open and close the trench.
16 Like, as you know, there is more than one (1) utility in
17 the trench and the actual cost of the trench is shared
18 between all four (4) utilities, so this is our -- the
19 Centra portion of the trench cost.
20 The installation of the pipe and the
21 material is added over and above this. So this is only
22 one (1) portion of the cost of the project.
23 MR. BOB PETERS: My first question then
24 is: Does your answer imply that it costs a hundred and
25 sixty thousand dollars (\$160,000) then for the trench and

1 one-quarter (1/4) of that is Centra's responsibility?

2 MR. AZIZ AZIZ: The -- I'm not saying as
3 pro-rated 25 percent. The total cost of the trench plus
4 other activities, like we have I think as we provided to
5 the Board in our reply, detailed the process for pro-
6 rating the costs of the trench plus also those other
7 activities, which as -- we might be doing it for MTS or
8 for Hydro, but for Centra the cost of the trench plus --
9 is pro-rated to us -- is it 25 percent?

10 I can't -- maybe -- I cannot answer this.
11 I don't think it's pro-rated based on the number of
12 utilities in the trench. Because we do other things for
13 other utilities so --

14 MR. BOB PETERS: All right. We'll let's
15 leave that aside. But, in a planning -- and first of
16 all, this is -- this whole project is a pilot project,
17 correct?

18 MR. AZIZ AZIZ: That's right.

19 MR. BOB PETERS: And I'm having a
20 difficulty understanding and I want to make sure the
21 Board Members are clear as to why the costs of opening
22 and closing the trench aren't shared equally by the four
23 (4) different utilities.

24 MR. AZIZ AZIZ: I didn't say it's not
25 shared. Did I say -- when we -- I mentioned it's a joint

1 use trench, this is our cost of the trench. When we sent
2 to all other utilities -- the rest of the utilities,
3 parts of the cost we share with all other utilities
4 trench plus other things.

5 We do other services -- other utilities.
6 So the trench is shared equally between all four (4)
7 trenches, but I'm saying the forty thousand dollars
8 (\$40,000) might not be only for the trench.

9 MR. BOB PETERS: All right. Just so that
10 I'm clear then, and I want to leave aside the other
11 services that Centra and Hydro perform for other
12 utilities, we'll come to that, but, for the basic program
13 of opening a trench and closing a trench, Centra's costs
14 are approximately forty thousand dollars (\$40,000)?

15
16 (BRIEF PAUSE)

17
18 MR. AZIZ AZIZ: As far as I know is the
19 trench is shared equally between the four (4) utilities
20 and the thirty-nine thousand dollars (\$39,000) we have to
21 look into it if this is for the trench or for the trench
22 plus other activities provided by Manitoba Hydro.

23 Like I know Manitoba Hydro lays the pipe
24 in the trench too. We do other activities in the trench;
25 laying also certain extra work for MTS or for Cablevision

1 for cable companies.

2 So, the -- the joint -- this is called
3 joint use trench, it -- it includes activities or the
4 cost of the trench plus other things Manitoba Hydro might
5 be providing.

6 MR. BOB PETERS: Thank you, Mr. Aziz, and
7 I'm going to come to that. But you'll let the Board know
8 if that forty thousand dollars (\$40,000) is a 25 percent
9 allocation of Centra's costs for doing the trench?

10 MR. AZIZ AZIZ: Yes, sir, I will clarify
11 this.

12 MR. BOB PETERS: All right. If you can
13 just check that and undertake through your Counsel to
14 provide that to the Board we'd appreciate that?

15 MR. AZIZ AZIZ: We're looking into it
16 right now.

17
18 --- UNDERTAKING NO. 15: Centra to advise Board if the
19 forty thousand dollars
20 (\$40,000) is a 25 percent
21 allocation of Centra's costs
22 for doing the four-party
23 trench.

24
25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Well then if it's -- and
2 let's assume it's forty thousand (40,000) and if it's not
3 the -- you're going to correct that. How much would it
4 cost Centra to do its own trenching on a one-party system
5 where it would be the only one installing it's -- it's
6 pipes.

7 And let's -- let's keep this specific
8 project in mind, the Royalwoods project?

9 MR. AZIZ AZIZ: The labour cost for
10 installing this line as a single-party trench, the
11 information I have is twenty thousand five hundred and
12 sixty-four (20,564).

13 MR. BOB PETERS: All right. Now, on the
14 face of that, that raises some questions as to why it
15 would cost twice as much if you have a four-party trench
16 and only half as much if it was a single-party trench?

17 MR. AZIZ AZIZ: The -- when we're going
18 right now with the four-party trench, we don't have --
19 like our plans for less serious to develop and safe and
20 efficient standards for designing and installation of the
21 pipeline.

22 So, we -- we were concentrating all our
23 effort last year in developing the -- the efficient
24 standards for this -- for the design and installation.
25 And we went through this in order to find out how we can

1 design the four-party trench, where we can install them,
2 does it work this way or -- or other way.

3 And when we define all our design during
4 the process of -- of the pilot project, we -- when we say
5 single party we have tender out for the contractor to bid
6 on the whole work of our -- for the whole year.

7 And because of -- we -- we were trying to
8 look into what -- how we can install the four-party
9 trench. So, we don't have a typical method of
10 installation of typical bed unit prices to be included.

11 So, what we've decided is to hire a
12 contractor or -- or get the contractor to work on hourly
13 rate to open and close the trench. And this is one of
14 the attributed for the increase in cost because he was
15 working hourly rate.

16 MR. BOB PETERS: All right. So, one (1)
17 of the optimization processes that you're telling the
18 Board has yet to be done is you've got to break it down
19 into unit costs so when you let out the contractor -- let
20 out the contract your contractor will quote you unit
21 costs, not hourly rates?

22 MR. AZIZ AZIZ: This is one (1) of the
23 things and also how we're going to be doing it. Is it
24 going to be done by a contractor or going to be done by
25 internal company crews or going to be done by

1 combination.

2 This is one (1) of the things we're
3 looking through the optimization process right now.

4 MR. BOB PETERS: All right. What I
5 understood and I want to make sure the Board is clear
6 from your previous answer, Mr. Aziz, was that the gas
7 pipeline itself was being installed by the Manitoba Hydro
8 electrically trained individuals?

9 MR. AZIZ AZIZ: It's a combination. Is -
10 - the pipe was laid by the Manitoba Hydro crews and the
11 fusion for the pipeline was done either by a contractor
12 or by our own inspectors. So, it was a combination of
13 two (2) or three (3) methods for installing the pipe and
14 the four-party trench.

15 MR. BOB PETERS: Are you able to tell the
16 Board what the additional costs for the crews to come in
17 and do the fusing and the cleaning are, in this
18 particular project?

19 MR. AZIZ AZIZ: Like, the costs of the
20 contractor is forty-four thousand three hundred and
21 fifty-three (44,353). And our inspection is forty-nine
22 thousand, six hundred and eighty (49,680).

23 MR. BOB PETERS: Are there any other
24 labour costs associated with that from Centra's
25 perspective?

1 MR. AZIZ AZIZ: There is other labour we
2 incurred which is with the four-party trench, we usually
3 take an easement in the front of the property and we
4 install all utilities on this easement. So we do survey
5 activities and the register the easement on title and our
6 share of the costs for this specific project was twenty
7 two thousand, six hundred and fifty-eight dollars
8 (\$22,658).

9 MR. BOB PETERS: I'm not saying we
10 shouldn't make more work for lawyers, but the point I got
11 from that is you -- you're going onto to private
12 property, if you have to get an easement, correct?

13 MR. AZIZ AZIZ: That's right.

14 MR. BOB PETERS: Before when Centra
15 crews would do this, you would go on City owned property?

16 MR. AZIZ AZIZ: That's right.

17 MR. BOB PETERS: And you wouldn't need
18 an easement?

19 MR. AZIZ AZIZ: We don't need an
20 easement, but we get permits from the City.

21 MR. BOB PETERS: And they don't cost
22 twenty-two thousand dollars (\$22,000)?

23 MR. AZIZ AZIZ: No, sir.

24 MR. BOB PETERS: They're -- they're not
25 very much money, at all?

1 MR. AZIZ AZIZ: It's maybe a thousand
2 dollar (\$1,000). It might cost more if -- if the
3 subdivision is already developed, but we're talking about
4 new subdivision here. So the cost is -- is a lot.

5 MR. BOB PETERS: Okay. The example we're
6 talking about is a new subdivision?

7 MR. AZIZ AZIZ: That's right.

8 MR. BOB PETERS: All right. You haven't
9 told the Board yet the material cost. And let me ask it
10 of you this way, Mr. Aziz:

11 Do you use exactly the same amount of
12 material from the gas company's perspective, whether it's
13 a four-party trench or a two-party trench?

14 MR. AZIZ AZIZ: In the four-party trench,
15 we use more material than a single party trench.

16 MR. BOB PETERS: Why is that?

17 MR. AZIZ AZIZ: Because in single party
18 trench, we going to install a single line through the
19 road and we service the houses on both sides of the road.
20 So, the short services, like where the line is crossed
21 the houses, we call it short services; we don't cross the
22 road.

23 And then the other side of the street, we
24 do road crossings and cross the road. In the four-party
25 trench, our design is including, because we are in

1 private easement, so we install pipe in both sides of the
2 road. So we don't have to cross the road.

3 MR. BOB PETERS: Sounds to the layman at
4 this microphone that you have to use twice as much
5 material?

6 MR. AZIZ AZIZ: Yes, twice as much
7 material, but it's not twice as much cost -- dollars.
8 Because we might end with bigger pipe on one (1) side and
9 smaller size pipe on the other side.

10 MR. BOB PETERS: I didn't quite
11 understand that. If you're putting in a pipe on both
12 sides of the road, you told me it's about twice the
13 amount of materials, but it might not be twice as much as
14 the cost of what used to be the case; is that what you're
15 saying?

16 MR. AZIZ AZIZ: That's right.

17 MR. BOB PETERS: And it's not twice as
18 much of the cost as the single-party system because
19 you're using smaller pipe?

20 MR. AZIZ AZIZ: In some cases, yes, if we
21 have a bigger pipe running. If we have four (4) inch
22 pipe running through the subdivision we go to the other
23 side with two (2) inch, we don't put four (4) inch on the
24 other side.

25 MR. BOB PETERS: You told the Board

1 yesterday, that as the system ages and yourself and Mr.
2 Case, that there has to be maintenance done on the
3 system, correct?

4 MR. AZIZ AZIZ: That's right.

5 MR. BOB PETERS: And if there's twice as
6 much pipe in the ground would that also suggest that in
7 the future there's going to have to be twice as much
8 maintenance?

9 MR. AZIZ AZIZ: It is subjective matter,
10 the maintenance, because we're talking about installing
11 polyethylene pipe. Like, the leak survey, yes, will be
12 increased because we have pipe on both sides, but the
13 maintenance is minimum on plastic pipe underground.

14 MR. DAVID CASE: Mr. Peters, there's
15 another aspect I guess to the long term maintenance.
16 Today if there's street and road projects where they have
17 to excavate those streets, and we have long side services
18 crossing the streets, every single premise has a service
19 line crossing that street.

20 Under the four-party trench system you may
21 have one (1) carrier that may service numerous homes on
22 the other side. So instead of dealing with a service
23 crossing for every single premise you have maybe one (1)
24 crossing on the street.

25 MR. BOB PETERS: That would happen, Mr.

1 Case, only in the event the City would want to rip up a
2 residential street here?

3 MR. DAVID CASE: And that's the case in
4 many of the older areas today.

5 MR. BOB PETERS: And where this project
6 is being done is that -- is that an area where the roads
7 are being reconstructed or relocated?

8 MR. DAVID CASE: You know, I -- I think
9 as we mentioned yesterday that will be beyond my time,
10 but at some time in the future, you know, whether it's
11 twenty-five (25) years from now, I'm not sure, but when
12 the City is left with reconstruction projects, those
13 service lines will not be in the way.

14 MR. BOB PETERS: Mr. Aziz, you've got a
15 lot of information about this four-party trench pilot
16 project in the Royalwoods area, have you got that reduced
17 to writing that you could file the comparison with the
18 Board to show the four (4) party trench costs of Centra,
19 compared to the single party trench costs of Centra?

20 MR. AZIZ AZIZ: Yes.

21 MR. BOB PETERS: I'll ask if you could
22 work with your Counsel and provide an undertaking to the
23 Board on that to provide them with that in writing, so
24 they can -- so they can examine those costs.

25 Are you prepared to do that?

1 MR. AZIZ AZIZ: Yes.
2
3 --- UNDERTAKING NO. 16: Centra to provide Board with
4 a comparison of costs of
5 four-party trenches and
6 single-party trenches.
7
8 CONTINUED BY MR. BOB PETERS:
9 MR. BOB PETERS: Your materials suggest
10 that this is -- you're attempting to optimize this four
11 (4) party trench program, meaning you're still trying to
12 work out some efficiencies?
13 MR. AZIZ AZIZ: That's right.
14 MR. BOB PETERS: Would it be fair to
15 conclude, without having seen your materials, that the
16 costs of the four-party trench to centra right now are
17 more expensive than if it was a single-party trench.
18 MR. AZIZ AZIZ: From the pilot project,
19 yes.
20 MR. BOB PETERS: And your optimization is
21 to decide whether or not you can bring the costs down so
22 that it's not -- that there's a cost benefit of doing it.
23 MR. AZIZ AZIZ: I think this is one (1)
24 of the objectives of our exercise or optimization --
25 optimization process is to target to return -- a cost

1 savings to the Corporation, to Manitoba Hydro for 25
2 percent or even more.

3 MR. BOB PETERS: I just want to make sure
4 I understood that answer. Is it -- is it the
5 optimization for the electrical side of the business, or
6 is it the optimization for the gas side of the business
7 that you're looking at?

8 MR. AZIZ AZIZ: When we're looking into
9 it we're looking into it from the higher level or global
10 as -- as the owner, the Company, from Manitoba Hydro
11 impact. So, we're looking to both.

12 And some of the savings might come into
13 the gas side, and some of the savings might come to the
14 electric side. So the 25 percent, our goal to reach my -
15 - I cannot say it's going to be in the gas side, but as a
16 Corporation, we might reach 25 percent or more savings.

17 MR. BOB PETERS: Well then, Mr. Aziz, is
18 it possible that the four-party trench system will cost
19 more for the gas customers than the single-party trench,
20 but it'll be cheaper for the electric customers?

21 MR. AZIZ AZIZ: I'm not ready to come to
22 this conclusion or to reach this, because we're in --
23 still in the process of optimizing the four-party trench
24 process.

25 MR. BOB PETERS: Okay, well that's fair.

1 You plan on reporting further to the Board on this in
2 subsequent hearings that you'll have before the Board?

3 MR. AZIZ AZIZ: Yes, Mr. Peters.

4 MR. BOB PETERS: And -- and the -- and
5 the materials you're going to provide to the Board by way
6 of undertaking would show the total cost to install this
7 Royalwoods Project, on a four-party trench system,
8 compared to a single party trench system?

9 MR. AZIZ AZIZ: That's right.

10 MR. BOB PETERS: All right. And before
11 we leave this, one (1) of the aspects that has to be of
12 consideration in light of our discussions yesterday, is
13 the safety of it, correct?

14 MR. AZIZ AZIZ: Yes.

15 MR. BOB PETERS: As I understand the
16 situation, you now have a trench that has a live
17 electrical cable in it, and it's next to a gas line?

18 MR. AZIZ AZIZ: That's right.

19 MR. BOB PETERS: How far apart are they?

20 MR. AZIZ AZIZ: They're the -- two (2)

21 feet.

22 MR. BOB PETERS: Sixty (60) centimetres?

23 MR. AZIZ AZIZ: That's right.

24 MR. BOB PETERS: Is that closer together

25 or further apart than they would be under the single-

1 party trench system for Centra?

2 MR. AZIZ AZIZ: I'd like to confirm the
3 distance we said before. It is minimum -- actually our
4 standards indicate minimum sixteen (16) inches. So we
5 install them no less than sixteen (16) inches and can go
6 up to twenty-four (24) inches, which is -- to do the math
7 is forty (40) centimetres, can go up to sixty (60)
8 centimetres.

9 MR. BOB PETERS: And the question I had
10 after that, Mr. Aziz, was whether that proximity between
11 the electrical cable and the gas line is closer or
12 further apart under the four-party trench, than it would
13 have been under the single-party trench?

14 MR. AZIZ AZIZ: It's -- like -- this
15 clearance between the gas and the electric is in
16 accordance with the code requirement and CSA code
17 requirement. It is recommended by the Canadian Standard
18 Association. And we're in compliance with code
19 requirement, which has been adopted in the Province here.

20 To say prior to this what was the
21 clearance could have been in certain instance, far apart,
22 in certain instance within the same clearance. It can --
23 varies. It depend on the gas and electric because they
24 are not installed in the same time.

25 So, installed in different time. And when

1 we install the gas after the electric or the electric
2 installed their cable after the gas, they have to confirm
3 or conform to the standards.

4 MR. BOB PETERS: Okay. I accept that
5 there's a code and a standard that has to be met and
6 you're telling the Board that it would be met whether it
7 was four-party trench or two-party trench -- or single-
8 party trench, sorry?

9 MR. AZIZ AZIZ: That's right.

10 MR. BOB PETERS: But, you're also telling
11 the Board that if it was a single-party trench, there
12 would be more instances where the separation would be
13 greater than the forty (40) to sixty (60) centimetres?

14 MR. AZIZ AZIZ: It is. Yes, I agree with
15 that. Because when you're trenching, you -- especially
16 beside the live line beside you, you wanted to ensure,
17 you know, you don't damage the power line or gas line, so
18 you intend it to go further apart from the existing
19 lines.

20 MR. BOB PETERS: All right. What you're
21 telling the Board is if you're the gas pipeline installer
22 and you know there's an electrical cable buried under the
23 ground, you're going to make sure that your trenching
24 machine is over far enough that you're not going to nip
25 into that cord?

1 MR. AZIZ AZIZ: That's right.
2 MR. BOB PETERS: Well, let's -- let's put
3 our self in the situation of the homeowner that Mr. Case
4 tells us doesn't call the company to locate the lines
5 when they want to put in their fence their -- or dig a
6 hole a in their backyard.
7 Is this now a situation where the gas and
8 the electric will always be in very close proximity to
9 each other in a four-party trench situation?
10 MR. AZIZ AZIZ: The gas and electric will
11 be close to -- yes -- and in the same trench, like this -
12 - and will be in the same trench in front of the
13 property, yes.
14
15 (BRIEF PAUSE)
16
17 MR. BOB PETERS: You were telling me the
18 distance between the gas line and the electrical cable
19 and the minimum sixteen (16) to twenty four (24) inches,
20 which was forty (40) to sixty (60) centimetres; was that
21 for services or was that for mains?
22 MR. AZIZ AZIZ: This is for mains.
23 MR. BOB PETERS: What about for
24 services, because services could end up in the same
25 trench, correct?

1 MR. AZIZ AZIZ: Yes.

2 MR. BOB PETERS: And what would be the
3 separation between the electrical cable and the gas
4 service line?

5

6 (BRIEF PAUSE)

7

8 MR. AZIZ AZIZ: The separation for the
9 service line is twelve (12) inches or thirty (30)
10 centimetres.

11 The -- by the way, also too, for the
12 matter of the records, we've been installing service --
13 like, it's not four-party trench, we're installing common
14 trench for services between gas and electric for too many
15 years in the past. So this is not new to our company.

16 MR. BOB PETERS: Thank you for that, Mr.
17 Aziz.

18 Can you tell the Board, sir, whether there
19 have been any third-party damages involving a gas
20 pipeline in a four-party trench?

21 MR. DAVID CASE: I believe we've had two
22 (2), Mr. Peters.

23 MR. BOB PETERS: Have there been any
24 third-party damages involving an electrical cable in a
25 four-party trench?

1 MR. DAVID CASE: I'm not aware of that.
2 MR. BOB PETERS: And you're not aware of
3 that because that's on the other side of the business?
4 MR. DAVID CASE: No, sir, I'm not aware
5 that there's been electrical cable damage in a four-party
6 trench.
7 MR. BOB PETERS: Would you be if there
8 was?
9 MR. DAVID CASE: I believe I would be but
10 not for certain.
11 MR. BOB PETERS: I take it from your
12 third previous answer to me that there have been two (2)
13 instances where the gas line in a four-party trench has
14 been -- has been struck?
15 MR. DAVID CASE: That's correct.
16 MR. BOB PETERS: And this was by a
17 contractor or a homeowner?
18 MR. DAVID CASE: The one (1) was a
19 contractor for sure.
20 MR. BOB PETERS: One (1) was a homeowner?
21 MR. DAVID CASE: One (1) was in Brandon.
22 I'm not -- I'm not so much aware of the details there.
23 But the recent one in Winnipeg was a contractor.
24 MR. BOB PETERS: Well, Brandon was your
25 old stomping grounds you told us yesterday and I'm

1 surprised you don't know, Mr. Case, but we'll -- we'll
2 let that one go.

3 In those situations you're also telling
4 the Board that while the gas line was hit the electrical
5 line wasn't hit?

6 MR. DAVID CASE: That's correct.

7 MR. BOB PETERS: Pretty fortuitous that
8 was the case; would you agree?

9 MR. DAVID CASE: Yes, I would agree.

10 MR. BOB PETERS: And the consequence of
11 hitting the gas line and the electrical line
12 simultaneously could be disaster?

13 MR. DAVID CASE: It really depends on the
14 order.

15 MR. BOB PETERS: The order of what?

16 MR. DAVID CASE: When you say
17 "disastrous" I guess you have to think about what that
18 might look like. If you were to hit the electrical cable
19 first you would see an arc and there would be an
20 immediate shutdown of the electrical system because it
21 would trip out.

22 If you were to hit the gas line first and
23 then simultaneously as the gas lines were ruptured and
24 you continued on with your bucket and you ripped through
25 the electrical cable and you caused the arc you could

1 cause a flash and ignition of that released -- or the gas
2 that's released to atmosphere.

3 That, in itself, is not such a bad thing
4 though because it's -- it's not -- and the reason I say
5 that it's not like -- people would think of that as an
6 explosion or, you know, it could be, you know, a
7 devastating occurrence.

8 In reality, if that were to occur you
9 would end up with a large torch coming out of the trench
10 and at least you would know where the gas is. So -- and
11 to control it in a way it's easier than not knowing where
12 it is because gas is invisible and you can't see where
13 it's going.

14 So as long as it's burning you know very
15 clearly where it is.

16 MR. BOB PETERS: I'm not sure we're
17 inviting you over for the barbeque, but I guess -- and we
18 -- and let's not -- let's be clear here, let's be serious
19 for a moment, I mean it's a very serious situation that
20 you're -- that you're depicting, but you're saying that
21 in practical terms there's not usually devastating
22 consequences?

23 MR. DAVID CASE: I think in each of these
24 occurrences, whether it's four-party or not, there's
25 always a potential for a serious consequence. We've seen

1 that over history, so we know that to be the case.

2 We've seen it in other jurisdictions. We
3 don't have a lot of experience in Manitoba with four-
4 party trench at this time. But it -- just walking
5 through the scenario that you just offered up, you know,
6 it's -- it really depends on what happens there.

7 I guess the other thing that we did -- or
8 we have done to date is that for these four-party trench
9 installations they've all been done in new sub-divisions.
10 We've also added distribution valves to those sites. So
11 that there's another control measure.

12 If you do have a rupture and you're faced
13 with a situation where you may have gas migrating you do
14 have the option of shutting valves off. That's not the
15 case in the majority of our systems.

16 MR. BOB PETERS: That extra valve that
17 you talk about, Mr. Case, that's only when trained
18 personnel arrive on the scene and can find a way to shut
19 it down?

20 MR. DAVID CASE: That's correct.

21 MR. BOB PETERS: Just moving on from
22 four-party trench and concluding on it, we've -- you're
23 looking for the benefit still, as I understand, the
24 optimization program, and when looking at the -- for
25 those benefits, you also will look at what the

1 disadvantages are, correct?

2 MR. AZIZ AZIZ: Or look -- yes --

3 MR. BOB PETERS: And other than increased
4 cost and perhaps increased safety concerns, are there
5 other disadvantages that you can identify?

6 MR. AZIZ AZIZ: It's always easy to find
7 more advantage than disadvantage, but we're -- we're
8 looking into the whole issues here, surrounding the four-
9 party trench from the advantages and disadvantages long
10 term for the benefit for the company, and what other
11 benefits will might be realized in the future.

12 And keeping also abreast with the
13 development in -- in the industry, this has been used --
14 the four (4) party trench is not nothing we dreamt about
15 it, or we came new to apply in the Province of Manitoba.
16 It's already been applied in Alberta.

17 It's -- ATCO Gas is using it exclusively
18 for all new subdivisions. Enbridge Gas in Ontario are
19 using it for all new subdivision. I attended conferences
20 in -- in the States and it's being used exclusively by
21 lots of utilities in the United States.

22 MR. BOB PETERS: Recognizing that, Mr.
23 Aziz, you're not prepared to tell the Board that just
24 because it may work in some other jurisdictions, that
25 it's necessarily better and the right thing to do in

1 Manitoba?
2 MR. AZIZ AZIZ: That's right. And this
3 is why we're going through the review of the existing
4 processes and trying to develop and optimize process for
5 us here in Manitoba.
6 MR. BOB PETERS: All right. Thank you.
7 One (1) of the other projects that you mentioned in your
8 materials was the Phase 3 South Loop Capacity Upgrade, if
9 I have that correct?
10 MR. AZIZ AZIZ: That's right.
11 MR. BOB PETERS: That was down in the
12 Winkler, Manitoba area?
13 MR. AZIZ AZIZ: Yes.
14 MR. BOB PETERS: It -- it appeared from
15 the materials, Mr. Aziz, that the -- the costs were under
16 estimated by about four hundred thousand dollars
17 (\$400,000); would that be correct?
18 MR. AZIZ AZIZ: Yes.
19 MR. BOB PETERS: And --
20 MR. AZIZ AZIZ: That's right, yes.
21 MR. BOB PETERS: -- the -- the
22 underestimate appeared to be traced back to crop damage,
23 legal survey and land titles office matters.
24 Do you recall that?
25 MR. AZIZ AZIZ: It's not the total

1 increase, this is part of the increases, yes.

2 MR. BOB PETERS: Well, it was part of the
3 increases on -- on what was roughly going to be a \$2
4 million project, the cost overruns were in the
5 neighbourhood of four hundred thousand dollars
6 (\$400,000), and I thought those were attributable to your
7 payments out on -- on legal survey and land titles and
8 some crop damage claims.

9 Have I got that correct?

10

(BRIEF PAUSE)

11

12
13 MR. DARREN RAINKIE: Mr. Peters, we're
14 trying to locate an Information Request, I think that has
15 this information in it.

16 MR. BOB PETERS: All right. To assist
17 you, Mr. Rainkie, and, Mr. Aziz, it could be one-o-six
18 (106) or PUB-11.

19

20

(BRIEF PAUSE)

21

22 MR. AZIZ AZIZ: Referring to, Mr. Peters,
23 to our reply to PUB-11 and PUB-106, it seems, yes, this
24 is -- the increase in cost is due to crop damage, legal
25 survey and land title.

1 MR. BOB PETERS: Those items were
2 overlooked were they, Mr. Aziz, when you were -- when you
3 were estimating the cost of the project?

4 MR. AZIZ AZIZ: It's not overlooked. We
5 run into problem getting easements, and we have -- for
6 the line we have to find different route. And we
7 incurred extra costs in order to change the routing for
8 the pipeline.

9 MR. BOB PETERS: So the route wasn't pre-
10 arranged when you did your initial engineering?

11 MR. AZIZ AZIZ: When we do engineering we
12 have a clear idea where the route is and -- but we don't
13 obtain 100 percent easement before we seek approval for
14 the project.

15 MR. BOB PETERS: Have you changed your
16 process, so that now you will get those easements before
17 you do your engineering?

18 MR. AZIZ AZIZ: Mr. Peters, it's -- the
19 dollars would be submitted -- like for now we're putting
20 projects two (2) years down the road in our applications.
21 So we don't go and obtain the easements for projects
22 that's happening in '06/'07 in our application.

23 So we're talking about actual costs
24 compared to estimate during the application time.

25 MR. BOB PETERS: On the Inkster Boulevard

1 8 Inch Main Project, there were additional costs in that
2 project, as well; is that correct?

3 MR. AZIZ AZIZ: That's right.

4 MR. BOB PETERS: And some of those costs
5 were attributed to the abandonment of a four (4) inch
6 main.

7 Do you recall that?

8 MR. AZIZ AZIZ: Yes.

9 MR. BOB PETERS: And that was overlooked
10 in costing out the program, or in designing the program?

11 MR. AZIZ AZIZ: When we raise our
12 internal process for approval to spend any money, part of
13 the approval for the fee or the approval for expenditure,
14 we have both the new project or new pipeline or
15 retirement, but during the application the same thing as
16 I mentioned a few minutes ago, we include in our
17 applications, three hundred and fifty thousand (350,000)
18 was high level estimate for the project during our
19 application.

20 But, when we went and did the total cost
21 estimate and actuals, our -- our actuals came higher
22 because of other actions overlooked during our high level
23 estimate for the application.

24 MR. BOB PETERS: And the additional costs
25 on that three hundred and fifty thousand dollar

1 (\$350,000) project were more in the neighbourhood of six
2 hundred and thirteen thousand dollars (\$613,000)?

3

4

(BRIEF PAUSE)

5

6

MR. AZIZ AZIZ: Has to be right for the -
7 - it's almost six hundred and fifteen thousand (615,000).

8

MR. BOB PETERS: Six hundred and fifteen
9 thousand dollars (\$615,000) of actual costs by the time
10 the project was done?

11

MR. AZIZ AZIZ: That's right.

12

MR. BOB PETERS: One (1) of the items
13 that you spent thirty thousand dollars (\$30,000) on was
14 relocating a fire hydrant and just not to dwell on this
15 number too long, but, was it your responsibility,
16 Centra's responsibility to relocate the fire hydrant?

17

MR. AZIZ AZIZ: I guess in order to get
18 the straight alignment of the eight (8) inch line, either
19 we have to find another way or we requested from the City
20 to relocate the fire hydrant in order to maintain the
21 alignment straight.

22

MR. BOB PETERS: Thirty thousand dollars
23 (\$30,000) seems pretty expensive to move a fire hydrant,
24 doesn't it?

25

1 (BRIEF PAUSE)

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MR. AZIZ AZIZ: Actually to make it a little bit easier, it's three (3) fire hydrants. So, it's ten thousand dollar (\$10,000) per hydrant.

MR. BOB PETERS: Is that comparable to what you've paid in the past to move fire hydrants?

MR. AZIZ AZIZ: We never paid before. I think this was the first time for us to field the problem. And the information we got, we hired a local consultant which she works for the City, and recommended by the City, and they did the work and they tender and today inform us this is the normal prices for work done by the City.

MR. BOB PETERS: You didn't get a chance to compare that cost to what other contractors would have charged?

MR. AZIZ AZIZ: We actually -- we -- the work has been done to us has been tendered by the consultants and we selected the -- one (1) of the lowest bidders so it's -- if I compare to other contractors it would be higher.

MR. BOB PETERS: In some of these projects, Mr. Aziz, you also build in contingencies, don't you -- or an amount that may be required if you've

1 underestimated your costs?

2 MR. AZIZ AZIZ: Yes, we sometimes we put
3 contingences as far as at the time of the estimate
4 percentage of the total cost of the project. So,
5 contingency can be between 10 percent to 20 percent,
6 depend on our estimate of the project at that time.

7 MR. BOB PETERS: And to the extent that
8 you're wrong in your contingency estimate, you want
9 consumers to still pay for that cost overrun, correct?

10 MR. AZIZ AZIZ: I'm not saying we were
11 wrong. Is at the time of the estimate we took a high
12 level estimate based on a routing which might not
13 materialize during the actual construction.

14 So, it's not -- I don't want it to make --
15 sound it as a wrong estimate or I'm not saying we're have
16 incompetent staff in our Company. I'd like to -- to
17 maybe bring it to your attention on the -- it is high
18 level estimate during the time of the application and
19 which can change when we start working on the detailed
20 design of the project.

21 And I think this is a matter from the
22 engineering side when you do estimates for a project, you
23 do it two (2) years down the road, we don't take the time
24 and efforts to work on it in advance to come with a
25 detailed engineering design and cost estimate two (2)

1 years ahead of the project.

2 MR. DARREN RAINKIE: Mr. Peters, I think
3 we're -- we're moving between rate setting and actual
4 operations of the Company. In fact, in that circumstance
5 if there was a lower estimate than what happened, the
6 customer has actually paid less than the actual cost so
7 they got a bit of a break for a year or two (2) until we
8 come and true it up in a General Rate Application.

9 So, as Mr. Aziz says, in a future test
10 year we need to make forecasts two (2) years ahead.
11 Those are very different, I think, than, you know, the
12 operational estimates that you would do a few days or
13 weeks before you do the job itself.

14 So, I think we need to distinguish those
15 two (2) things.

16 MR. BOB PETERS: Thank you. And I think
17 you've done that, Mr. Rainkie, with your comments.

18 Mr. Aziz, if you had a private contractor
19 performing a project and there were cost overruns, would
20 the private contractor be expected to absorb those or
21 would the private contractor be able to come back to the
22 company and get additional monies?

23 MR. AZIZ AZIZ: If the costs overrun due
24 to different unit prices, like if -- if doing something
25 extra wasn't part of the actual cost, I think it's fair

1 to include this extra cost for the contractor for any
2 project.

3 MR. BOB PETERS: I'm sorry, I didn't
4 understand your answer. You build in a contingency for
5 the contractors?

6 MR. AZIZ AZIZ: We build a contingency
7 for the contractor also too during the estimate of the
8 project. But, same thing, I'm going to go back again, is
9 we have to differentiate between the high level estimate
10 and the estimate before we do the project -- the detailed
11 engineering estimate before you do the project.

12 MR. BOB PETERS: And if the detailed
13 engineering estimate before the project, if there's cost
14 overruns related to that, the contractor is on his own
15 and they have to absorb those?

16 MR. AZIZ AZIZ: We have contingency too
17 when we do the estimates. And the contractor does work
18 for us based on unit prices and if the estimate is for
19 ten (10) units and the contractor does twelve (12) units
20 and we say costs overrun and we weren't -- because we
21 change the routing during the final design of the
22 project, or during the project, the contractor is not
23 going to be on his own or absorb this cost because he
24 gets paid on actual units installed in the field.

25 MR. BOB PETERS: Okay. I think I've got

1 your point on that.

2 Mr. Aziz, the floodway expansion project
3 is one where there are no costs being charged through to
4 the gas customer; have I got that right?

5 MR. AZIZ AZIZ: This is right.

6 MR. BOB PETERS: Is there significant
7 work to be done in relocating gas infrastructure for the
8 floodway to be expanded?

9 MR. AZIZ AZIZ: Yes. There is some work
10 on -- on our transmission line and also on the
11 distribution line. They are very different sizes of
12 lines. We provided our answer in PUB-18. And we have
13 some transmission distribution crossings has to be
14 relocated, yes.

15 MR. BOB PETERS: But all of those costs
16 for the relocation are played for -- are paid for by the
17 Manitoba Floodway Authority?

18 MR. AZIZ AZIZ: It's our position as of
19 today is for the gas and electric will be absorbed by the
20 Floodway Authority. Not sure if the final -- once
21 everything is added together it will be absorbed 100
22 percent or not. I am not in the situation.

23 But, our position we provided all our
24 estimates and as our Corp -- our Company position is for
25 both gas and electric will be absorbed by the floodway,

1 yes.

2 MR. BOB PETERS: On the Kenastin
3 Underpass Project, it appears there's going to be a half
4 a half a million dollars charged through to consumers to
5 relocate some pipe?

6 MR. AZIZ AZIZ: Our estimate was half a
7 million dollars for the relocation. During the time of
8 the Application further -- we looked into just some
9 further details and our estimate today, this work will be
10 done this year, so we have a more refined estimate, which
11 will be in the neighbourhood of eight hundred thousand
12 dollar (\$800,000).

13 MR. BOB PETERS: That would be additional
14 information filed since the GRA?

15 MR. AZIZ AZIZ: We haven't filed this
16 with -- in the GRA.

17 MR. BOB PETERS: No, that's -- it's new
18 information that you have that hasn't been filed with the
19 Board?

20 MR. AZIZ AZIZ: That's right.

21 MR. BOB PETERS: Could you, through your
22 Counsel, undertake to provide the Board with -- with
23 those updated costs, sir?

24 MR. AZIZ AZIZ: Yes.

25

1 --- UNDERTAKING NO. 17: Centra to provide Board
2 updated cost estimates of
3 Kenastin Underpass Project.
4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Can you maybe also
7 explain to the Board why should Centra's customers pay
8 for the relocation of pipe on the Kenastin Underpass?

9 MR. AZIZ AZIZ: We're -- we're not saying
10 Centra customer will be paying, like when we do projects
11 we -- we estimate our cut of costs and then offset by
12 contribution. We consider this is relocation project.
13 We're still provided our estimate to the
14 City, and we're trying to -- we're seeking reimbursement
15 for all our costs. I'm not sure if we'll be successful
16 or not, or the City will be exercising their rights by
17 going back again to the old agreement, or the existing --
18 I don't know if it's existing, but the agreement between
19 us and -- and them, by paying for the plant in the ground
20 and we pay for the relocation. But our position with the
21 City is to pay 100 percent for the relocation.

22 MR. DARREN RAINKIE: Mr. Peters, you
23 might want to check out a PUB Order from around 1963,
24 which indicates that the -- I think this matter was
25 brought before the Board for adjudication, and indicates

1 that I guess the City would pay the depreciated value of
2 the plant that's -- that's in the ground, and that Centra
3 would pick up the difference between that and the -- and
4 the new costs.

5 So, we're also abiding by that Order in
6 regard in this project.

7 MR. BOB PETERS: But, I understood from
8 Mr. Aziz that this matter is still subject to
9 negotiation, if I may?

10 MR. DARREN RAINKIE: Yes, but I guess the
11 other party might pull out that old Order, I think that's
12 what they're relying on probably from their position.
13 So, I wanted to make sure that the Board was aware of
14 something that happened many decades ago.

15 MR. BOB PETERS: But, for rate setting
16 purposes, Mr. Rainkie, you want this included for rate
17 setting purposes?

18 MR. DARREN RAINKIE: That's correct.
19 It's an estimate of what our costs are.

20 MR. BOB PETERS: Is this any different
21 than the floodway situation in theory, Mr. Aziz?

22 MR. AZIZ AZIZ: The floodway is under
23 different authority and it's outside of the City, so it's
24 not part of the City infrastructure.

25 MR. BOB PETERS: Mr. Aziz, in Tab 42 of

1 the Book of Documents that has been prepared and
2 circulated is a -- it's a copy of -- I'm sorry, Document
3 41 is the one I want to refer to now.

4 We looked at this yesterday; it's
5 PUB/CENTRA-44. And it shows that the distribution
6 cathodic protection numbers contained in the first line,
7 is that the total amount for cathodic protection, or is
8 this only a portion of them?

9 MR. AZIZ AZIZ: This is -- I will -- I
10 will let Mr. Case respond, this is his area.

11 MR. DAVID CASE: Mr. Peters, the line
12 regarding cathodic protection is actually the costs of
13 anode installations and cathodic protection that's
14 undertaken by the Gas Distribution Maintenance Group.

15 MR. BOB PETERS: So, there are additional
16 costs for cathodic protection for -- for the rest of your
17 plant?

18 MR. DAVID CASE: Yeah, we try to take
19 advantage of anode installation. If we're doing an
20 excavation in a certain area and there's a need for a
21 replacement anode or an additional anode in that area, we
22 try to use the advantage of that hole that's already
23 excavated to drop an anode in there.

24 And it also includes costs relative to
25 checkpoints where we do above ground tests to ensure that

1 the cathodic protection levels are up.

2 MR. BOB PETERS: Is the increase that is
3 evident on that first line of cathodic protection over
4 the years, is that due to the cost of the anode or is it
5 some other reason?

6 MR. DAVID CASE: It's primarily due to
7 the cost of the additional anodes and installation costs.

8 MR. BOB PETERS: So, in addition to
9 these costs for the distribution network, there's also
10 cathodic protection costs for the transmission system?

11 MR. DAVID CASE: There would be. This --
12 this could include transmission for our distribution
13 maintenance folks, as well. So it's distribution and
14 transmission; it's not separated.

15 But, it would primarily be on the
16 distribution side. There's also some other activity that
17 would be in there and that would be -- I think Mr. Aziz
18 mentioned yesterday that cathodic protection can be
19 affected when people unknowingly cause shorts on our
20 system.

21 In other words, they ground out the
22 cathodic protection. When those shorts are located and
23 it may require a modification to remove that short, any
24 costs associated with that repair to the cathodic
25 protection system would be included here, as well.

1 MR. BOB PETERS: Thank you Mr. Case. I
2 understood from Mr. Aziz yesterday that one (1) of the
3 targets on this program was 90 or 95 percent of the
4 system being protected at any given point in time; that
5 was one (1) of the targets?

6 MR. DAVID CASE: Correct.

7 MR. BOB PETERS: And also if there was a
8 problem to get it solved within approximately three (3)
9 months?

10 MR. DAVID CASE: Correct.

11 MR. BOB PETERS: I also understood from
12 yesterday's evidence that while those are the targets --
13 while those are the targets and they're striving to be
14 met, they may not yet -- or they may not be regularly
15 met.

16 So, in that case, what is the company
17 doing to try to make sure they're met?

18 MR. AZIZ AZIZ: Maybe to -- we're trying
19 -- actually striving by trying to complete the
20 installations of the RSU's so we can have automatic
21 readings for cathodic protection in all our system
22 regularly on daily basis. So, if we have any short or
23 any problem in the area, we'll be able to respond to the
24 problem and try to rectify it and bring back again the --
25 the system.

1 So this is one (1) of the things we're
2 striving in completing. And the other thing is we're
3 trying to deal with all the special -- our own people in
4 order to solve the problem in regularly and monitoring,
5 not to have anything going over ninety (90) days.

6 So this is -- by monitoring the progress
7 and work and maybe getting extra help in order to solve,
8 if we have too many problems down -- or too many systems
9 down.

10 MR. BOB PETERS: Thank you Mr. Aziz.
11 Yesterday, you had made a comment that -- you made a
12 comment that the loss of cathodic protection is the key
13 and you said that even if you didn't have cathodic
14 protection for a period of time, that doesn't in and of
15 itself mean there would be leaks in the system.

16 Did I understand you correctly?

17 MR. AZIZ AZIZ: I think that's right
18 because loss of cathodic protection in conjunction with
19 other things. Like hypothetically situation, if -- if
20 you have pipe installed with coating -- yellow jacket
21 coating and no exposure, like coating is an insulators,
22 insulate the steel from the ground, if there is no
23 contact between the steel pipe and the ground, we're
24 never having any corrosion or leaks.

25 But, this is a hypothetical case. And

1 this is --- it's not practical and this is why we install
2 cathodic protection on the pipe.

3 MR. BOB PETERS: Maybe not in a
4 hypothetical case, but a very real world case, Mr. Aziz,
5 the southwest transmission line that we talked about
6 yesterday was a situation where the Company determined
7 that there was a lack of cathodic protection within the
8 first couple of years of the pipelines being installed,
9 correct?

10 MR. AZIZ AZIZ: I think that this is one
11 (1) of the undertaking, Mr. Peters, or this is -- sorry -
12 - this is not undertaking, this is one (1) of the points
13 we raised yesterday and I think I'd like to clarify the
14 records.

15 I -- we have a letter on -- send by --
16 from the Company to the Board, dated July 15th, 2004 and
17 we indicated the two (2) periods the line was down.

18 One (1) period the line was down in June
19 from June 1995 until October 1996 which is approximately
20 sixteen (16) months. And this is as a result of not
21 installing the rectifier on ground bed until October
22 1996. So, this is during the initial installation of the
23 project.

24 And the second period was from July 1999
25 until February 2000 which approximately eight (8) months.

1 And this is due to the rectifier was struck by lightening
2 damage which damaged the output of the rectifier.

3 So, the period is -- yes, it's twenty-four
4 (24) months. Yesterday we were talking about eighteen
5 (18) months but now it's two (2) periods. During initial
6 installation of the project and the second period due to
7 lightening strike of the rectifier.

8 And further, I'd like to clarify there was
9 a question about what was the rectifier -- this rectifier
10 how -- length of pipe was protecting and was protecting
11 the pipe or the line in -- in question right now which is
12 43.6 kilometre. I recall yesterday I mention about fifty
13 50 miles or 50 kilometre, but the right length is 43.6
14 kilometre.

15 MR. BOB PETERS: Thank you for those
16 revisions, Mr. Aziz. We'll note those on the record and
17 review them in the transcript.

18 The sum and substance of the southwest
19 transmission line is that when there was no cathodic
20 protection, and now for a period of a total of twenty-
21 four (24) months, it ended up causing some leaks, did it
22 not?

23 MR. AZIZ AZIZ: This is as -- we have
24 some leaks but this is because the cathodic protection
25 was down for twenty-four (24) months or not, it's -- it's

1 questionable.

2 Yes, this might be affected to the leaks,
3 but we have other things to indicate other things --
4 damages to the coating and other things and as I mention
5 yesterday, the matter is going into litigation so I don't
6 want it to be on the record as coming to a conclusion
7 what of the cause of the leaks.

8 MR. BOB PETERS: All right. Well, that's
9 fair. I'll leave it at that.

10 Back to that schedule on PUB/CENTRA-44
11 found at Tab 41 of the documents, Mr. Aziz or Mr. Case,
12 the distribution damages and repairs number is trending
13 downwards, can you indicate to the Board why there has
14 been the reduction from back in the '03 fiscal year?

15 MR. DAVID CASE: The damages and repairs
16 are what they are. It's directly attributable to the
17 number of damages and the cost of those damages. It
18 isn't necessarily relevant to the number of damages, but
19 it's a measure of the significance I suppose.

20 MR. BOB PETERS: What you're telling the
21 Board is while the number of line hits may not have gone
22 down, the cost to repair them has gone down?

23 MR. DAVID CASE: That's correct.

24 MR. BOB PETERS: Under the gas
25 procedures, is this the line item, Mr. Aziz, where you

1 were telling the Board you were preparing procedures for
2 the various operations of the Utility?

3 MR. DAVID CASE: Mr. Peters, this is the
4 ongoing maintenance of our operating procedures.

5 MR. BOB PETERS: Is this relating to the
6 quality assurance program?

7 MR. DAVID CASE: Yes, it would be. The
8 quality assurance process, it really is a process that's
9 developed so that we do have operating procedures and
10 standards and it provides a measure to ensure that the
11 work that we're performing is in accordance with those
12 policies and procedures as well as legislated
13 requirements.

14 MR. BOB PETERS: And there were no costs
15 in the early years on this schedule because it wasn't
16 being done at that time, procedures weren't being
17 compiled?

18 MR. DAVID CASE: No, sir. There was a
19 shift in the reporting responsibility from a different
20 area and this is now falling under this jurisdiction.

21 MR. BOB PETERS: Does that same answer
22 apply as to why there's no vegetation management control
23 shown in the -- in the test years?

24 MR. DAVID CASE: Yes, sir. Under
25 Manitoba Hydro's jurisdiction vegetation management is

1 managed by the Forestry Group. We used to keep this line
2 item here for vegetation management under the gas utility
3 and it's -- it's actually a very small component of
4 Manitoba Hydro's vegetation management.

5 And I think that truly there's an
6 oversight here because there's always some ongoing
7 vegetation management. So, there should be some amount
8 here but it's probably in the area of twenty thousand
9 dollars (\$20,000) per year.

10 MR. BOB PETERS: All right. At the next
11 tab, gentlemen, in the Book of Documents, is a copy of a
12 schedule that was attached to PUB/CENTRA-103.

13 Down on line item 31, it's Domestic
14 Transmission and Distribution, Gas, Unallocated
15 Provision.

16 Have you located that line?

17 MR. AZIZ AZIZ: Yes, sir.

18 MR. BOB PETERS: It goes from a hundred
19 and thirty-four thousand dollars (\$134,000) to \$2.4
20 million over a short period of time, Mr. Aziz.

21 Can you explain, what is it an -- what is
22 the unallocated provision?

23 MR. AZIZ AZIZ: This is like when we do
24 engineering projects we have contingency funds for -- so,
25 when we look -- I look into this as a budget here and we

1 identify some of the work here, which we'll be doing, and
2 this is a line item which is -- if -- if we run into
3 anything that's unidentified, might be able to cover from
4 this unallocated -- it's not allocated to a specific
5 project at the time of preparing the Application to the
6 Board.

7 MR. BOB PETERS: And you -- you managed
8 to get this unallocated provision of \$2.4 million past
9 Mr. Warden with -- Mr. Derksen's going to tell us what --
10 what his view of it is?

11 MR. AZIZ AZIZ: I will maybe explain the
12 \$2.41 million, is -- is actually, if you take two point
13 one (2.1) out of this, which is at that year in 2008/09,
14 is the Riser Rehab Project will be completed in -- in
15 '07/08.

16 So, if I look into my total budget as --
17 as a Company, and this is what I talked to Mr. Rainkie
18 and Mr. Warden, to keep the budget as it is, by not
19 getting rid of the \$2.1 million, which has been allocated
20 to the Riser Rehab, because we're looking into different
21 projects and different programs right now.

22 We don't know, like, below grade entry, we
23 didn't allocate any measure -- measure dollars in
24 '08/'09, when we went to '08/'09. So, during this year
25 and next year we might come with different issues facing

1 the Corporation, and this is why I think we -- I -- I
2 discuss with Mr. Warden to keep the dollars for allocated
3 to RR until we know what we're going to be doing in
4 '08/'09.

5 MR. BOB PETERS: So, you were successful
6 in years past in getting the 2.1 million allocated for
7 the Riser Rehab, but in the event you don't need all that
8 2.1 million, you don't want Mr. Warden to take it back
9 from you yet?

10 MR. AZIZ AZIZ: We're not sure it's -- if
11 we'll be faced with similar issues or -- or programs due
12 to our investigations and plant activities during '05/'06
13 and '06/'07.

14 MR. BOB PETERS: Mr. Derksen, what's your
15 take on the 2.4 million; how did you carry that forward?

16 MR. WILLIE DERKSEN: You know, I agree
17 with everything Mr. Aziz has had to say about that. I
18 think that the 2008/09 is far off into the future, and
19 the capital expenditure budgets are normally incremented
20 at that point in time, and so in fact, when that Riser
21 Rehabilitation Program is scheduled to be completed,
22 there is that \$2.1 million available.

23 And as Mr. Aziz has said, there's a
24 potential that new projects will be identified by that
25 time that will require that money.

1 There's certainly no commitment in here to
2 spend that money because it's in the IFF or in the CEF,
3 it's as he said. It's a -- it's -- it could be viewed as
4 a contingency appropriately.

5 MR. BOB PETERS: All right. And it's not
6 a matter that's a subject of the rate request for either
7 of the two (2) test years; is that correct?

8 MR. WILLIE DERKSEN: Yes, that's correct.

9 MR. BOB PETERS: But in the future if it
10 does go forward, it'll be -- it'll be substantiated in --
11 in further filings?

12 MR. WILLIE DERKSEN: Absolutely.

13 MR. BOB PETERS: All right. If I could
14 turn to another issue before the morning break perhaps,
15 and that's the Interlake Connection Fees.

16 As I understand this filing, Mr. Rainkie,
17 there was a separate application made to the Board for an
18 Order approving the reduction and ultimate elimination of
19 connection fees in the Interlake region; is that correct?

20 MR. DARREN RAINKIE: Are you referring to
21 what's in this material, or before we filed this
22 material, Mr. Peters?

23 MR. BOB PETERS: Well, my understanding,
24 Mr. Rainkie, is that there was a separate filing with the
25 Board prior to the general rate -- either prior to the

1 filing of the general rate or after the General Rate
2 Application was filed, but it was filed as a separate
3 matter.

4 MR. DARREN RAINKIE: That's correct. We
5 filed this initially on an ex parte matter and the Board
6 wrote us a letter back and said, please include it with
7 the General Rate Application.

8 MR. BOB PETERS: And so your request of
9 the Board, if I can turn with you and the Board Members
10 to Tab 43 of the Book of Documents, is you're asking the
11 Board Members here to agree with your proposal as
12 summarized on Attachment 4, which is found at Tab 43 of
13 the Book of Documents?

14 MR. DARREN RAINKIE: That's correct.
15 This is the revised schedule for the Interlake Project
16 that we're looking for the Board to approve. There's
17 also one (1) for the Bifrost/Woodlands Project that's in
18 the actual GRA binder. It's right behind it.

19 It's page -- I think it's Attachment 4 or
20 page 5 of 5. I forget how it was laid out in Tab 13 of
21 the materials.

22 MR. BOB PETERS: Yes thank you. And when
23 I say the Interlake area, there was two (2) specific
24 projects, one (1) was the Interlake expansion and one (1)
25 was the Bifrost/Woodlands expansion?

1 MR. DARREN RAINKIE: That's correct.
2 MR. BOB PETERS: Those are both Interlake
3 region areas, right?
4 MR. DARREN RAINKIE: That's right.
5 MR. BOB PETERS: And as the Board looks
6 at this Attachment 4, I found at Tab 43, what they're
7 going to see is that from the beginning of the project
8 for the Interlake natural gas expansion, the residential
9 customers had a connection fee of five hundred dollars
10 (\$500) that you're proposing be phased out or phased down
11 to three hundred and thirty-three dollars (\$333) in the
12 '05 calendar year, down to a hundred and sixty-seven
13 (\$167) in the '06 calendar year and starting January 1 of
14 '07, there are no connection fees at all?
15 MR. DARREN RAINKIE: That's correct.
16 MR. BOB PETERS: Would you agree with me,
17 Mr. Rainkie, that there is no evidence before the Board
18 that the sign-ups of customers will increase with the
19 removal of the connection fees?
20 MR. DARREN RAINKIE: Well, Mr. Peters,
21 there isn't an estimate, but I guess simple logic would
22 dictate that if there is a lower hurdle for a customer to
23 connect that the connections may increase. And we're
24 looking at the intentions of customers here, so I don't
25 think there's anyway of providing absolute proof of the

1 level of increase.

2 But, one would expect if there's less of a
3 deterrent to attaching that the attaches may increase.

4 MR. BOB PETERS: Well, it becomes
5 intuitive then does it, Mr. Rainkie, that intuitively if
6 somebody is having a concern about a five hundred dollar
7 (\$500) connection fee, they may not have the same
8 concerns about a three hundred and thirty-three dollar
9 (\$333) connection fee?

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

12 MR. BOB PETERS: And if someone is having
13 a concern with the three hundred and thirty-three dollar
14 (\$333) connection fee, they should wait until it goes in
15 half again until it turns out to be a hundred and sixty-
16 seven dollars (\$167)?

17 MR. DARREN RAINKIE: Yes, depending on
18 their particular financial circumstances, f that -- if
19 waiting -- if that amount of money makes sense for them,
20 in terms of waiting, yeah.

21 MR. BOB PETERS: And does it make sense
22 then if even a hundred and sixty-seven dollars (\$167) is
23 too much and you know that on January 1st, '07 it's going
24 to be free that you wait until January 1st, of '07?

25 MR. DARREN RAINKIE: Once again if that

1 amount of money is important to you, I guess in your own
2 particular circumstances, you'll wait. If it isn't, you
3 might say, well three thirty-three (333) is not a bad
4 deal, vis-a-vis five hundred (500) and I'll attach today.

5 I'm not sure that customers are -- look at
6 an attachment -- an obscure attachment in our filing and
7 make decisions solely based on this schedule. Some may
8 because that amount of money may be important to them.
9 Some may not. Some may be building a new home and want
10 natural gas and convert earlier.

11 MR. BOB PETERS: I take it, Mr. Rainkie,
12 you're going to agree with me that in terms of specific
13 evidence on what this will do to the increased number of
14 consumers in the area and the increased volumes, at this
15 point, you have no hard evidence to support any of that?

16 MR. DARREN RAINKIE: That's correct, Mr.
17 Peters. As I mentioned earlier, it's impossible to tell
18 exactly what individuals are going to do and what amount
19 of money will trigger a decision or no decision.

20 MR. BOB PETERS: And when -- when this
21 project came before the Board in the first instance, Mr.
22 Rainkie, the Company filed a feasibility test that
23 contained various assumptions, did it not?

24 MR. DARREN RAINKIE: That's correct.

25 MR. BOB PETERS: And one (1) of the

1 assumptions was the projected number of residential, for
2 example, sign-ups?

3 MR. DARREN RAINKIE: That's correct.

4 MR. BOB PETERS: And the materials,
5 although not in this Book of Documents, you projected
6 four hundred and sixty (460) residential customers would
7 sign up in the Interlake and you only got ninety-seven
8 (97)?

9 MR. DARREN RAINKIE: That was in an
10 Information Request, a rather microscopic schedule as I
11 recall, Mr. Peters. I'll take those numbers, subject to
12 check, so that we can move along.

13 MR. BOB PETERS: All right. They were
14 from CAC/MSOS/CENTRA-83, Mr. Rainkie, if you need to
15 check them. And -- and so you -- you were thinking four
16 hundred and sixty (460), you end up getting less than a
17 hundred (100), fewer than a hundred (100).

18 Did you ever go back to these people and
19 say what happened, because you did a survey at the front
20 end, did you not?

21 MR. DARREN RAINKIE: That's correct.

22 MR. BOB PETERS: And the survey on the
23 front end was -- was literally door to door, where you
24 would talk to as many people as possible; do you recall?

25 MR. DARREN RAINKIE: You're testing my

1 memory on that one, Mr. Peters. I -- I assume there was
2 a certain amount of that, and a certain -- certain amount
3 of assumptions that went into the -- the forecast
4 addition -- customer additions.

5 MR. BOB PETERS: All right. And -- and
6 you're way off in the actuals compared to forecast; would
7 that be correct?

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

10 MR. BOB PETERS: And you haven't gone
11 back to analyse why you're way off in those projections?

12 MR. DARREN RAINKIE: Well, I haven't
13 personally, Mr. Peters. We have a department that works
14 on these types of matters and they may have some -- a
15 better indication. Of course, we have marketing people
16 that are working in the field each day.

17 But we haven't compiled a report, that I'm
18 aware of, that -- I mean, one can probably guess that, to
19 a certain extent, higher gas costs may have something to
20 do with that.

21 I know there was another Information
22 Request where we were asked that question -- question
23 directly, whether higher gas costs had a lot to do with
24 that, and we said, well, we still are adding some
25 attachments, but that, of course, was a systemwide

1 answer; it wasn't particular to the Interlake itself.

2 MR. BOB PETERS: Now, in this -- this --
3 this Interlake situation, Mr. Rainkie, this is the only
4 expansion project where Centra is collecting connection
5 fees -- Interlake and -- and Bifrost?

6 MR. DARREN RAINKIE: Yes, I think there
7 might have been a connection fee in association with
8 rural expansion Phase 1, but I think the whole concept of
9 Centra having -- collecting the connection fee, versus
10 perhaps the municipality came out of the Interlake
11 orders, it was a directive of the Board, that Centra
12 collect these, as opposed to the municipality, if -- if
13 they wanted to, and as part of their funding of the
14 project.

15 MR. BOB PETERS: All right. And then
16 maybe we're onto a point here that we should be careful
17 on -- or be clear on, Mr. Rainkie.

18 The Interlake Natural Gas Co-op was
19 attempting to sign up customers, and they were the ones
20 who were seeking contribution by way of connection fees
21 to assist in the financing from their perspective?

22 MR. DARREN RAINKIE: Yes. In the
23 original -- in the original application that we brought
24 before the Board in 1999, that was the case.

25 And then the Board, through that Order, I

1 think 95/00, directed us to -- that Centra -- the Board
2 looked at -- let me back up here, Mr. Peters. I think we
3 had this -- this discussion -- very discussion at the
4 last GRA.

5 Connection fees previous to the Interlake
6 were looked at as a matter of funding. We would
7 calculate the amount of contribution that we needed from
8 the feasibility tests, and then we could go to the
9 various levels of government.

10 And how the concept of a connection fee
11 came into being is that rather than the municipality,
12 perhaps, giving us all their money up front, they would
13 collect connection fees from customers as the project
14 went on.

15 I don't think that was intended to be
16 forever, because I don't think -- you look at an
17 incremental -- you look at this project thirty (30) years
18 down the line as being incremental.

19 At some point these projects become part
20 of your base business, and I think we have too much of an
21 incremental perspective on these projects, and it gets in
22 the way of sound thinking sometimes, but I digress.

23 So the concept, previous to the Interlake,
24 was that connection fees were part of the funding that
25 the municipality would bring to the table. After the

1 Interlake, it was thought of as a rate that -- that
2 Centra would collect.

3 So I don't think we've ever been really on
4 page in terms of it should be Centra to collect this
5 fee, in any rate.

6 It puts the risk back onto us, quite
7 frankly, in terms of collecting the connection fees,
8 versus getting the contribution up front, before we put
9 the pipe in the ground, from the municipality.

10 MR. BOB PETERS: But in these instances
11 you didn't get the contribution up front, and the
12 connection fee was one -- one way to get some of that
13 money?

14 MR. DARREN RAINKIE: Yes, it was. I
15 don't think there was an intention that it would be there
16 forever, like I just mentioned. At some point, the
17 people at Interlake will say, well, isn't this just --
18 aren't we just part of your distribution system like
19 everybody else; why do we continue to pay these fees?

20 And so that's why I distinguish funding
21 from -- from a -- from a fee -- from a rate. I think if
22 -- if these types of things were left as funding it would
23 be a lot better because otherwise you have, you know, a
24 neighbour across the street that continues -- that pays a
25 connection fee just because we have an artificial

1 boundary -- Municipal boundary between them, you can have
2 a customer that's dealt with differently on the other
3 side of that boundary.

4 MR. BOB PETERS: In the feasibility test
5 that you run, Mr. Rainkie, the feasibility test runs out,
6 is it ten (10) years?

7 MR. DARREN RAINKIE: The feasibility test
8 runs thirty (30) years, I think the connection fees were
9 ran out ten (10) years, if I remember correctly.

10 MR. BOB PETERS: That was actually my
11 question, worded poorly obviously, but the -- the net
12 present value is over a thirty (30) year period, but the
13 connection fee portion stops after ten (10)?

14 MR. DARREN RAINKIE: Yes, we tend to only
15 forecast customer additions in the first ten (10) years
16 of the -- the feasibility test, we don't add customer
17 additions in past that. So -- so those two (2) would
18 have been forecast along the same time lines, ten (10)
19 years.

20 MR. BOB PETERS: So, if -- if it was a
21 ten (10) year time line, and Interlake would now be in
22 its -- would it be its sixth year?

23 MR. DARREN RAINKIE: Probably its fifth,
24 Mr. Peters.

25 MR. BOB PETERS: And in any event, in

1 year ten (10) they would be removed, is -- is your view?

2 MR. DARREN RAINKIE: Yes, I -- I think
3 so. I mean we might have actually asked for that
4 earlier. Like I said, at some point these projects
5 become part of your base business, and -- and you quit
6 treating them like incremental projects.

7 MR. BOB PETERS: The -- let's cut to the
8 chase here Mr. Rainkie, the -- the effect of eliminating
9 the connection fee means that other system customers
10 will, in essence, cross-subsidize people to hook onto the
11 system?

12 MR. DARREN RAINKIE: Well, that depends
13 on what happens in the future with respect to
14 connections. If reducing the connection fee enhances our
15 attachments, at some point there might be a cross over
16 where there's a break even point where it may enhance the
17 viability of the project; that, I think, is our -- is --
18 is the objective that's behind our request in the first
19 place.

20 MR. BOB PETERS: Your objective is to
21 eliminate the connection fees over time, hopefully to
22 have sufficient volumes that whatever cross-subsidization
23 has occurred would be -- would be -- would be cancelled?

24 MR. DARREN RAINKIE: That's correct. I
25 think it's better to have a customer that's -- that's on

1 than it is to -- looking for a connection fee. I mean we
2 have a -- if we have a customer there, and they're a
3 customer for ten/twenty (10/20) years I think it's better
4 than collecting a connection fee up front from them.

5 Hopefully the revenue derived from them
6 over the long run will more than make up for the lack of
7 connection fee in the first place.

8 MR. BOB PETERS: Again, that's
9 hypothetical and hopeful, at this point?

10 MR. DARREN RAINKIE: That's correct.

11 MR. BOB PETERS: Can it -- can it be
12 measured, Mr. Rainkie, into the future?

13 MR. DARREN RAINKIE: Probably not as
14 precisely as you would like, Mr. Peters, it's -- it's, I
15 guess, a policy decision.

16 MR. BOB PETERS: There's no -- the
17 Interlake National -- the Interlake Natural Gas Co-op is
18 not on the hook for any more amounts of money?

19 MR. DARREN RAINKIE: That's my
20 understanding.

21 MR. BOB PETERS: Is there any true up
22 monies that would be potentially coming back to them?

23 MR. DARREN RAINKIE: Funny you should
24 mention that, Mr. Peters. I'm in possession of the final
25 true-up for the -- for that -- those two (2) projects,

1 and if you recall, just so we're clear, the
2 Bifrost/Woodland Project was a bit of an adjunct to the
3 Interlake Project. The capital costs were a little lower
4 than what we expected, so the -- the Government has said,
5 well, use the money for this -- the second project then.

6 So the feasibility true-up is a
7 combination of both projects, and indeed there's no
8 refund to be had in that -- in that instance.

9 MR. BOB PETERS: You'll be filing those
10 true-ups with the Board, I take it, at some -- some
11 point, Mr. Rainkie?

12 MS. MARLA MURPHY: If it's of assistance,
13 they could be filed now.

14 MR. BOB PETERS: We can maybe file them
15 right after the break.

16 MS. MARLA MURPHY: Certainly.

17 MR. BOB PETERS: Or maybe before the
18 break so we can look at them at the break, Ms. Murphy, if
19 that would be available.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: And Mr. Rainkie, in the
23 -- in the situation where Centra puts forward a
24 feasibility test, with the assumptions in it, do you
25 accept that Centra bears the risk relating to those

1 estimates in the feasibility test?

2 MR. DARREN RAINKIE: I think Centra bears
3 the risk of imprudent actions. But there's always going
4 to be some risk in a -- in a feasibility test, and keep
5 in mind, Mr. Peters, that these tests are -- are -- and
6 the assumptions that go into them, are tested in this
7 forum.

8 So, you know, if -- if -- lots of times in
9 this forum we have the -- the benefit of hindsight. Just
10 because things don't work out as you expected, doesn't
11 mean that there was something imprudent that was done and
12 that I think you have to distinguish imprudence from
13 hindsight.

14 And just because the numbers weren't as
15 good as what we originally forecasted, doesn't mean that
16 there should be a disallowance in terms of rates. You
17 have to look at, did we take reasonable actions or not,
18 and I think the finding of imprudence is a pretty dire
19 finding by this Board.

20 So, I know we throw that -- that word
21 around lightly in this forum sometimes, but I don't take
22 it as lightly as that.

23 MR. BOB PETERS: What happens, Mr.
24 Rainkie, if the connection fees are reduced and
25 eliminated, and -- and yet there are no -- no additional

1 sign ups?

2 MR. DARREN RAINKIE: I'm not sure we're
3 any better or worse off. If we eliminate the connection
4 fees, but we don't add a customer, are we any better off
5 because we didn't get the money, the connection --
6 connection fee in the first place?

7 Is my logic tortured or --

8 MR. BOB PETERS: Well, I -- I am
9 suggesting to you that, if the connection fees are
10 reduced and eliminated, and there are no further sign
11 ups, then we're in exactly the same place as we are
12 today, in terms of volumes that are being utilized by
13 those customers.

14 MR. DARREN RAINKIE: So, you're agreeing
15 with my tortured logic, then, I think?

16 MR. BOB PETERS: Well, far be it for me
17 to ever do that, Mr. Rainkie, but, just one last point on
18 this before I'll ask for the morning recess.

19 Is the fuel being displaced primarily
20 electric heat in those areas?

21 MR. DARREN RAINKIE: Now, you're taking
22 me out of my zone of comfort. I -- I'm not sure. I
23 think in -- in some of the rural areas you can be
24 displacing many fuels, you know, there's people still
25 probably using fuel oil, and -- and wood, everything

1 under the sun.

2 MR. BOB PETERS: The answer may be at
3 hand.

4
5 (BRIEF PAUSE)

6
7 MR. DARREN RAINKIE: Sorry, Mr. Peters,
8 I'm back online.

9 MR. BOB PETERS: I was just asking about
10 displaced fuel, but, have you looked at it from the point
11 of view of what it would do from an overall corporate
12 perspective, that is from Manitoba Hydro and Centra's
13 view in terms of no further gas attachments; whether that
14 would be a bad thing overall, or globally as Mr. Aziz
15 would say?

16 MR. DARREN RAINKIE: Personally, Mr.
17 Peters, I'm not aware of any analysis. I mean I -- I
18 would look -- I would refer you back to the number of
19 customers that we're -- we're talking about here and
20 remind ourselves that we have two hundred and fifty
21 thousand (250,000) gas customers, and I think close to
22 five hundred thousand (500,000) electric customers.

23 So, to the extent that two or three
24 hundred (200-300) customers will really make much of a
25 difference, I -- I'm not sure in that regard.

1 MR. BOB PETERS: All right.
2 MR. DARREN RAINKIE: There's a
3 theoretical issue there, and I'm sure we'll lock horns
4 with RCM/TREE on that next week, but, in the reality of
5 this project I'm not sure it would make a material
6 difference.
7 MR. BOB PETERS: All right. And the
8 connection fees for the Gladstone/Austin (Phonetic)
9 Natural Gas Co-op have been eliminated as a result of
10 Centra's acquisition of that co-op?
11 MR. DARREN RAINKIE: That's my
12 understanding. We're using our own extension policy --
13 policies, if you like, from that area; it's been fully
14 integrated into our operations.
15 MR. BOB PETERS: And if these connection
16 fees are removed, there will be no connection fees in any
17 location currently in the province?
18 MR. DARREN RAINKIE: I think so, Mr.
19 Peters, subject to remembering what happened on the phase
20 one (1) infrastructure project if the connection fees
21 have been eliminate there, I'll -- I'll check and if I'm
22 wrong, I'll correct the record.
23 MR. BOB PETERS: Thank you Mr. Rainkie.
24 With that answer, Mr. Chairman, this might be an
25 appropriate time for the morning recess.

1 THE CHAIRPERSON: Just one (1) additional
2 question. Mr. Aziz and Mr. Case, can you provide the
3 Board with reasonable assurance that the -- Centra's
4 maintenance and safety efforts are not unduly hampered by
5 budget restrictions, or availability of human resources,
6 or contractors?

7 MR. DAVID CASE: From my perspective, our
8 safety initiatives are not hampered by resources, at all.

9 MR. AZIZ AZIZ: From our side, proceeding
10 with projects or doing any system betterment, it is
11 number one (1) priority for us, is project, which is in
12 fact, public safety, and system viability.

13 So this is our -- our goal in -- in the
14 company, and we ensure all our projects as being
15 proceeded into -- into approvals, and work being done
16 based on these priorities.

17 THE CHAIRPERSON: Thank you gentlemen.

18 So we'll take our break and come back in
19 fifteen (15) minutes. Thank you.

20 MS. MARLA MURPHY: Mr. Chairman, if I
21 might just before you break?

22 THE CHAIRPERSON: Yes, Ms. Murphy...?

23 MS. MARLA MURPHY: Mr. Peters had asked
24 that we file the true-ups, so he had an opportunity to
25 look at them, and they've been provided to Mr. Singh, so

1 if they could be marked as an Exhibit, we'd be tidied up
2 on that front. I believe they would be Exhibit 14.

3 THE CHAIRPERSON: So be it. Thank you.

4 MS. MARLA MURPHY: Thank you.

5

6 --- EXHIBIT NO. CENTRA-14: Centra to provide Board with
7 final true-ups for the
8 Interlake and the
9 Bifrost/Woodland projects.

10

11 MS. MARLA MURPHY: I might also indicate,
12 just for the record, that Mr. Peters' material at Tab 43
13 indicates that the connection fee schedule is attachment
14 4. I believe that may be the original filing, in the
15 materials that you have before you, it's at Attachment 2,
16 page 5 of 5 and page 4 of 5 for Tab 13.

17 THE CHAIRPERSON: Mr. Peters is nodding
18 acceptance. Thank you.

19

20 --- Upon recessing at 10:37 a.m.

21 --- Upon resuming at 11:00 a.m.

22

23 THE CHAIRPERSON: Mr. Peters, whenever

24 you're ready?

25 MR. BOB PETERS: Yes, thank you. I

1 - since our inspectors usually work the same hours as the
2 contractor crews, I just wanted to clarify this.

3 And in some instances inspectors might
4 leave the jobsite, with the contractor performing work
5 such as opening a trench and maybe surface restoration.
6 So they don't hang around.

7 If -- if at the end of the day the
8 contractor is closing -- doing surface restoration on a
9 trench, so they don't -- if they are on overtime more
10 they don't hang around until he closes a 100 percent and
11 does the restoration.

12 MS. MARLA MURPHY: The next undertaking
13 was Undertaking number 12, which is at page 894 of the
14 transcript. That was an inquiry regarding the number of
15 bidders for the 2005 contract and the award.

16 MR. AZIZ AZIZ: For the 2005 contract we
17 have seven (7) contractors that they took the tender
18 document. We received two (2) bids for the City contract
19 and one (1) bid for the rural contract. It's two (2)
20 portions of the contract; city and the rural.

21 And the 2005 contract was awarded to Crown
22 Utilities. And the term of the contract is for three (3)
23 year, for both the City and the rural. And there is no
24 option for any renewals.

25 THE CHAIRPERSON: Thank you, sir.

1 MS. MARLA MURPHY: There's a third
2 undertaking, as well, which was Undertaking number 13,
3 taken at page 901 of the transcript which was an inquiry
4 regarding number of inspectors which Centra has in a
5 typical year and in 2005.

6 MR. AZIZ AZIZ: The number of Centra
7 inspectors depend on, as I mention, on the level of the
8 work. And typically we, at the peak, we have between
9 eleven (11) and twelve (12) inspectors in a given year.
10 For this year we have -- we're planning to have twelve
11 (12) inspectors, eight (8) permanent, three (3) seasonal
12 and one (1) contract.

13 MS. MARLA MURPHY: Mr. Chairman, I might
14 also just take the opportunity; there was a couple of
15 items that Mr. Aziz wanted to clarify.

16 The first was with respect to whether the
17 tendering process for the 2005 contract had been open or
18 closed.

19 MR. AZIZ AZIZ: The tender document for
20 2005 is -- was a closed bid, which was private opening
21 process. And maybe to clarify, this is -- this process -
22 - the successful -- unsuccessful bidder can inquire and
23 be told about the award contract or name and the total
24 price.

25 And the public is in closed bid process

1 are only told who were the award contractor and not the
2 price.

3 MS. MARLA MURPHY: And with respect to
4 the 2003 contract there was some discussion yesterday
5 about the number of bids and whatnot that Mr. Aziz is in
6 a position to clarify, as well.

7 MR. AZIZ AZIZ: For 2003 contract, we had
8 fifteen (15) contractors took the tender document. And
9 the bids were sealed for the City contract and for the
10 rural portion from only one (1) contractor. And the
11 contract was awarded to Crown Utilities for one (1) year
12 with two (2) concurrent renewal options, each for one (1)
13 year.

14 And the contract was renewed only for one
15 (1) year to the contractor. And that year was 2004/05.

16 MS. MARLA MURPHY: There was also some
17 question yesterday regarding the amount of holdback that
18 was retained from a contractor and Mr. Aziz is in a
19 position to speak to that.

20 MR. AZIZ AZIZ: That's -- I want to
21 clarify also that Centra, we generate bi-weekly billing
22 letter and based on quantities installed by the
23 contractor. So, as we received bi-weekly invoices from
24 the contractor based on our bi-weekly billing letter.

25 And the holdback consists of two (2)

1 components. One (1) component is the builder --
2 builder's lien of 7.5 percent and the work deficiency 7.5
3 percent.

4 MS. MARLA MURPHY: Finally, Mr.
5 Chairman, one (1) more filing. We have a written
6 response to Undertaking 10, which was taken at page 850
7 of the transcript, which was the request of Mr. Peters to
8 advise as to the recoveries made from third-parties
9 that's being circulated now.

10 And by my records, I believe, would be
11 Centra Exhibit 15.

12 THE CHAIRPERSON: That's correct. Thank
13 you.

14
15 --- EXHIBIT NO. CENTRA-15: Response to Undertaking No.
16 10 which was taken at page
17 850 of the transcript.

18
19 MS. MARLA MURPHY: Thank you. Those are
20 all our matters.

21 THE CHAIRPERSON: Mr. Peters ...?

22
23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Thank you. Mr. Aziz,
25 just on some of those answers that you've given me, as I

1 understood your answers to Ms. Murphy, you had a contract
2 with Crown Utilities, it was a one (1) year contract with
3 two (2) single year options to renew of which Centra
4 exercised one (1) option to renew, correct?

5 MR. AZIZ AZIZ: That's right.

6 MR. BOB PETERS: You did not open -- you
7 did not exercise the second option to renew for the third
8 year?

9 MR. AZIZ AZIZ: That's right.

10 MR. BOB PETERS: But, instead you re-
11 tendered the contract and hired Crown Utilities back,
12 but, this time on a three (3) year contract?

13 MR. AZIZ AZIZ: It was the successful
14 bidder. That's right. That was the successful bidder
15 for --

16 MR. BOB PETERS: All right.

17 MR. AZIZ AZIZ: -- for -- on the bid
18 process this year.

19 MR. BOB PETERS: In -- in not renewing
20 the option for Crown Utilities for 2005 for the extra --
21 the last year, I assume there was some dissatisfaction
22 within Centra as to why you wouldn't renew it for that
23 last year?

24 MR. AZIZ AZIZ: A decision was not -- not
25 to renew the contract for Crown Utilities was not based

1 on performance. We -- we recommended to the executive to
2 renew the contract for one (1) more year but the
3 executive opted to re-tender the contract.

4 MR. BOB PETERS: So if --

5 MR. AZIZ AZIZ: So, it was not based on
6 performance or dissatisfaction.

7 MR. BOB PETERS: All right. Then on what
8 was it based?

9 MR. AZIZ AZIZ: As my understanding is
10 the executive decided to re-tender the contract and not
11 to use our own option of renewal. It's two (2) years
12 since we renewed one (1) year for the contractor and it's
13 time to re-tender it again.

14 MR. BOB PETERS: Was there a reason that
15 you didn't renew the -- take the option?

16 MR. AZIZ AZIZ: There -- I get my boss
17 telling me we're not renewing your -- the contract for
18 this year, I'm not going to challenge the executives and
19 I think a decision was taken and my -- usually I follow
20 their own instructions in the Company and we re-tender it
21 again.

22 MR. BOB PETERS: Mr. Warden, how about
23 you wading in on this? Was there a --

24 MR. VINCE WARDEN: Well, we -- we do get
25 a lot of contracts that come before executive committee.

1 But, I -- I do recall that the desire of executive
2 committee was to -- to try and open this up to more
3 contractors.

4 So, that was the reason we went out with
5 that -- with the -- another request for proposal. As it
6 turned out, we didn't -- we didn't receive a lot of bids
7 from other contractors and we're thinking that in future
8 we're going to have to break this up into smaller
9 contracts in order to encourage -- I think what's --
10 what's happened is the contract is so large that it
11 limits the number of people that can bid.

12 And so when we go out in future we are
13 going to attempt to break it up into smaller pieces.

14 MR. BOB PETERS: Will you also examine
15 breaking it up into shorter time durations?

16 MR. VINCE WARDEN: Well, that's possible.
17 I'm not sure that that's a deterrent in any way though
18 from -- from others bidding on the -- on the contract.

19 MR. BOB PETERS: Will you seek some
20 feedback from the fourteen (14) parties who took the
21 documents but didn't bother bidding? I'm talking about
22 the '03 contract.

23 And then for the '05 contract there were
24 seven (7) that took the documents and only two (2) bids
25 for the City work came in?

1 MR. VINCE WARDEN: Mr. Peters, I don't
2 have that information as to whether we would be seeking
3 that feedback. It would seem like a reasonable thing to
4 do, but I'm not aware that that's been done.

5 MR. BOB PETERS: No, I wasn't suggesting
6 it had been done, Mr. Warden. But I'm just saying, is
7 that something that you'll look at possibly doing then?

8 MR. AZIZ AZIZ: As -- yes, we will be
9 looking into -- we always seek reasons for not submitting
10 bids from the contractor and as you know, contractors
11 might take the bid document and then at the same time
12 during the bidding time, they might be engaged in other
13 bids or awarded another contract so they don't submit to
14 us.

15 And this has happened to us in too many
16 instance. We get contractors take the document and they
17 don't bid on the project because they already got other
18 work.

19 MR. BOB PETERS: Let me conclude, Mr.
20 Aziz and Mr. Warden. You conclude that -- you will agree
21 that it's better for consumers if there's a lot of
22 competition in these -- in the bidding process because
23 that usually drives the price down to the consumers?

24 MR. VINCE WARDEN: Absolutely, we agree
25 with that, yes.

1 MR. BOB PETERS: Can you tell the Board
2 whether the contract that was from the 2003 contract that
3 you did not renew for the last year, whether the unit
4 prices are lower in that contract or lower in the 2005
5 contract?

6 I'll maybe repeat the question for Mr.
7 Aziz?

8 MR. AZIZ AZIZ: I'm not sure about the
9 actual unit price, and I -- I can't comment on this.
10 Keeping in mind, is -- it is private opening for the
11 contract. The previous tender was a public company.

12 MR. BOB PETERS: So, what you're telling
13 me is -- is you -- you've told the parties you were going
14 to keep this confidential and you don't want to disclose
15 that on the public record?

16 MR. AZIZ AZIZ: Yes.

17 MR. BOB PETERS: All right. If the Board
18 wants to follow that up, you'd entertain a request for a
19 confidential reply to the Board on whether or not the new
20 contract is cheaper than the old contract?

21 MS. MARLA MURPHY: Well, we can certainly
22 look into that. We may need to get the consent of the
23 contractor to file it, but we can certainly look into
24 that if it's of interest to the Board.
25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: All right. Well, then
3 we'll -- we'll leave it at that. We won't ask for a
4 formal undertaking on it at this time; that'll be
5 something the Board can communicate further.

6 But, I understood the point, Mr. Aziz,
7 that you don't want to answer that question and make it
8 public, because the essence of your tendering process was
9 to promise parties it would be kept confidential?

10 MR. AZIZ AZIZ: That's right.

11 MR. BOB PETERS: All right. What isn't
12 confidential is a news release that I saw last week from
13 the Province of Manitoba, that there's gas expansion
14 coming to Shoal Lake.

15 Mr. Rainkie, is that one (1) of your
16 projects?

17 MR. DARREN RAINKIE: It's not my project
18 personally, but I -- I assume it'll come to the Board
19 sooner or later and I'll have a hand in it.

20 MR. BOB PETERS: That one (1) came out of
21 the blue did it, or was this one (1) in the works for a
22 while?

23 MR. DARREN RAINKIE: It's been in the
24 works for a while, but I was surprised to see the
25 announcement on Friday, as I was preparing for the

1 Hearing on Monday.

2 MR. BOB PETERS: You were surprised
3 because Centra hasn't done a feasibility test yet have
4 they?

5 MR. DARREN RAINKIE: I was briefed on the
6 project a couple months ago, and at that point we had
7 some scenarios put together, Mr. Peters, because that
8 indicates the -- you know, the level of funding that we
9 would need to go to the Governments with to get.

10 So, there's been some preliminary
11 information put together in that regard, but not final
12 feasibilities, no.

13 MR. BOB PETERS: All right, when the
14 final feasibilities are together, that will be part of an
15 application to the Board for -- for approval?

16 MR. DARREN RAINKIE: Yes, it's a new
17 franchise area.

18 MR. BOB PETERS: And the new franchise
19 agreement will be brought before the Board to approve,
20 together with the underpinning of a feasibility test?

21 MR. DARREN RAINKIE: Yes, Mr. Peters,
22 that's the past requirements, and I assume that will
23 continue in the future.

24 MR. BOB PETERS: All right. And from
25 your answers, has it been determined how much money

1 Centra's going to contribute to this project?

2 MR. DARREN RAINKIE: I think it's going
3 to be the levels of Government that are paying for this
4 project, Mr. Peters. From what I've saw there's not much
5 of an investment on Centra's part.

6 MR. BOB PETERS: And, Mr. Rainkie, if
7 there's not much of an investment by Centra, that might
8 suggest that the project is not economic without the
9 Government funding that's -- that's been announced?

10 MR. DARREN RAINKIE: That's correct.

11 MR. BOB PETERS: And it's to the point of
12 being uneconomic that Centra won't invest much of its
13 money, because it doesn't appear that it would satisfy
14 the feasibility test requirements?

15 MR. DARREN RAINKIE: That's correct. We
16 would need the cont -- another way of saying that is we
17 need the contributions to make the feasibility test work.

18 MR. BOB PETERS: Mr. Rainkie, we, before
19 the break, talked about connection fees.

20 Are connection fees the order of the day
21 for the Shoal Lake area?

22 MR. DARREN RAINKIE: Mr. Peters, that's
23 probably getting into it a bit too far, given that we've
24 just had the funding announced. I think our -- I can say
25 this much, our general view is that we're not looking for

1 connection fees in this project or -- or future projects,
2 for the reasons that I outlined before.

3 They were at one (1) point looked at as
4 perhaps a matter of collecting funding on the parts of
5 the Governments. But we would prefer to have our money
6 up front before we went to the project and -- and not
7 take that risk, and not have that -- those differences in
8 franchise areas between new projects that pay connection
9 fees for attachments, and existing franchises where
10 customers don't have to pay connection fees to become
11 attached.

12 MR. BOB PETERS: Can you tell the Board
13 at this preliminary point, Mr. Rainkie, if the third-
14 party funding is dependent on meeting connection and
15 attachment levels?

16 MR. DARREN RAINKIE: You know, Mr.
17 Peters, I think I probably read exactly what you read.
18 There was a one (1) page release from somewhere that
19 Premier Duerr was speaking on the matter.

20 And you know, I assume there has to be
21 funding agreements struck and all those types of things.
22 And I'm not aware of those -- those very detailed pieces
23 of information yet, Mr. Peters.

24 MR. BOB PETERS: And those detailed
25 pieces of information will come to the Board at a later

1 date, you're telling the Board?

2 MR. DARREN RAINKIE: Yes we -- we -- as
3 part of our package of filing, we usually put the funding
4 agreements, so that the Board understands the
5 arrangements.

6 MR. BOB PETERS: Can you provide the
7 Board with an estimated timeline as to when they would
8 receive a -- an application from the utility?

9 MR. DARREN RAINKIE: All that I know, Mr.
10 Peters, is that I don't think that this would be
11 constructed this year, it would be constructed next year.
12 So, probably sometime in the spring of next year, maybe
13 earlier, I -- I'm not sure Mr. Peters.

14 I'd have to get back to my real expansion
15 folks, and -- and see what this funding means, and I've
16 been here since the announcement.

17 MR. BOB PETERS: All right Mr. Rainkie.
18 I think I'll leave my other questions, it might be --
19 might be for another day, we'll have to see.

20 In the materials provided, there's an
21 explanation of main extensions done by Centra in excess
22 of five hundred (500) feet, or sorry, five hundred metres
23 (500) it's -- is it metres?

24 MR. DARREN RAINKIE: Yes, it is, Mr.
25 Peters.

1 MR. BOB PETERS: And those are also
2 supported by a feasibility test, is that correct?

3 MR. DARREN RAINKIE: That's correct.

4 MR. BOB PETERS: And it's the test that
5 was last approved by the Public Utilities Board?

6 MR. DARREN RAINKIE: That's right, we
7 used the same test in franchise and ex-franchise.

8 MR. BOB PETERS: And are the assumptions
9 in the feasibility test still valid, Mr. Rainkie, or are
10 there any of those that Centra thinks needs to be
11 examined, and possibly changed?

12 MR. DARREN RAINKIE: I'm not sure on
13 that, Mr. Peters. I think we -- in light of changing our
14 standard for the typical residential customer, in which
15 we measure the rate impact, we might want to look at the
16 volume assumption for a typical residential customer in a
17 new expansion area.

18 That might be one that needs a bit of
19 revisiting.

20 MR. BOB PETERS: What about the O&M
21 expense per customer, per year?

22 MR. DARREN RAINKIE: I'm not sure if we
23 have a plan to revisit that, it -- it might be time to
24 revisit that Mr. -- Mr. Peters, given that we haven't
25 done a -- a big expansion filing for a while. I think

1 we're going to have to get our ducks in a row on the --
2 on the forthcoming application as you -- as you just
3 mentioned.

4 MR. BOB PETERS: Maybe one (1) other
5 thought, and I may have, in previous years, mentioned
6 this to Mr. Warden, but, do some gas expansions help, or
7 benefit the electric side of the corporation?

8 MR. VINCE WARDEN: Mr. Peters, we don't
9 have good data to support that. We -- it is study
10 actually that is currently underway, at Manitoba Hydro,
11 to determine the extent to which there is benefit from
12 fuel switching.

13 As you know, we have a lucrative export
14 market, so if we can encourage customers to go to gas,
15 and sell those kilowatt hours on the export market, is it
16 a net benefit to Manitoba?

17 We don't have a good answer on that
18 question. We have to consider a lot of the long term
19 implications of -- of that question, so it's not a real
20 easy one (1) to answer.

21 But, we do -- we have, I think, defined
22 the question at least, and -- and there will be some
23 economic studies over the next short while to give a more
24 definitive answer, hopefully at future proceedings.

25 MR. BOB PETERS: Thank you, Mr. Warden.

1 And -- and future proceedings would be ones where you
2 would come before the Board and indicate whether or not
3 the feasibility test assumptions should be modified to
4 reflect, perhaps, a synergistic benefit on the electric
5 side of the business that should be factored into the
6 economic analysis?

7 MR. VINCE WARDEN: Yes, that would have
8 an impact on the feasibility study.

9 MR. BOB PETERS: All right. Thank you.
10 Mr. Rainkie, on the gain -- sorry -- the Gladstone/Austin
11 Natural Gas Co-op that Centra acquired, do you recall how
12 many customers that we added through that acquisition?

13

14 (BRIEF PAUSE)

15

16 MR. DARREN RAINKIE: Mr. Peters, I -- I
17 have that just give me one (1) second please. Mr.
18 Peters, I think it was in the neighbourhood of four
19 hundred (400) customers, just looking at the filing that
20 we did a year and a half ago.

21 MR. BOB PETERS: And at that time, Mr.
22 Rainkie, there was a range in values that was determined
23 to be the amount that would have to be paid for Centra's
24 acquisition of this Co-op?

25 MR. DARREN RAINKIE: That's correct. The

1 -- the purchase price was dependent on the total
2 liabilities and obligations that the -- that the coop had
3 on closing.

4 MR. BOB PETERS: And you're asking the --
5 the Board right now to include \$1.758 million as
6 additions to plant, on account of this acquisition, Mr.
7 Rainkie?

8 MR. DARREN RAINKIE: That's correct.

9 MR. BOB PETERS: And if I read the
10 materials correct, you're also asking the Board -- well,
11 you've also incurred various costs, that you have
12 expensed, in the time period in which they were incurred,
13 correct?

14 MR. DARREN RAINKIE: That's right.

15 There's been various internal and external costs.

16 MR. BOB PETERS: Well, certainly internal
17 costs that you've expensed, Mr. Rainkie, correct?

18 MR. DARREN RAINKIE: That's correct.

19 MR. BOB PETERS: Did I note that there
20 was an external cost of sixty-seven thousand dollars
21 (\$67,000) that was going to be amortized over five (5)
22 years?

23 MR. DARREN RAINKIE: That's correct.

24 That was the -- the hearing costs.

25 MR. BOB PETERS: And why --

1 MR. DARREN RAINKIE: Paper hearing costs.

2 MR. BOB PETERS: I'm sorry, it was?

3 MR. DARREN RAINKIE: We had a paper
4 hearing process on it, if you'll recall, on -- on that
5 particular application, Mr. Peters. So that was things
6 like the cost of the notice, CAC/MSOS' bill, et cetera.

7 MR. BOB PETERS: Well, why would you be
8 amortizing that over a five (5) year period instead of
9 expensing that, as well in the -- the period in which it
10 occurred?

11 MR. DARREN RAINKIE: Our normal practice
12 is to defer and amortize all -- all hearing costs --
13 related costs, Mr. Peter -- Peters, over the period of
14 benefit.

15 Now, if it isn't -- when it's a rate
16 application, it may be amortized over one (1) or two (2)
17 years. If it's the -- if it's related to a longer term
18 project we usually take five (5) years as the default
19 time period.

20 MR. BOB PETERS: All of the internal due
21 diligence costs were expensed?

22 MR. DARREN RAINKIE: Yes, those were done
23 within existing staff levels. And indeed, staff exist to
24 expand our business so they are already there, and we're
25 able to use their skills.

1 MR. BOB PETERS: Was there anything
2 capitalized from this acquisition, Mr. Rainkie?
3 MR. DARREN RAINKIE: In terms of internal
4 costs, Mr. Peters?
5 MR. BOB PETERS: Yes.
6 MR. DARREN RAINKIE: Not to my knowledge.
7 MR. BOB PETERS: Has the operations, and
8 have the assets been integrated into the Centra system?
9 MR. DARREN RAINKIE: Yes, Mr. Peters.
10 MR. BOB PETERS: And what are the costs
11 of integration? I'm not sure I could -- sorry, find that
12 discreetly in the application, but...
13 MR. DARREN RAINKIE: Mr. Peters, I'm not
14 sure what the -- what the cost of integration would be, I
15 don't have that information. I -- I'm not even aware of
16 what the various categories of integration would be, let
17 alone the costs, unless some of my friends to the right
18 of me can help me out in that regard.
19 MR. BOB PETERS: It looks like they're
20 running away, Mr. Rainkie. But I wonder if you could --
21 if you could just undertake -- unless Mr. Case has a
22 number, but just to provide with the Board with the costs
23 -- any costs that were attributable to the integration,
24 and how they were treated?
25 MR. DAVID CASE: I'm not able to provide

1 the costs, Mr. Peters. But, just briefly on the
2 integration activities, all the operations of Gladstone-
3 Austin Natural Gas now fall under the common standards
4 and procedures for Centra Gas.

5 As well as the ongoing operation and
6 maintenance has also been integrated into our operations.
7 So, actually, the Portage district is acting as a backup
8 for that area.

9 The original employee with Austin Natural
10 Gas Co-op is still located in Gladstone, and he works out
11 of the local Manitoba Hydro district office there.

12 MR. AZIZ AZIZ: Mr. Peters, is -- if I --
13 my memory will help me here, in our previous application
14 we had an engineering assessment report by our sub-
15 consultants, which identifies some dollars for in the
16 neighbourhood of eighty -- eighty (80) something thousand
17 dollar for system improvement. And this is, I would
18 consider, we have a short-term, a long-term planning for
19 system improvement of -- of the Gladstone/Austin Gas Co-
20 op.

21 And I think that the short-term or the
22 immediate, we identified in the neighbourhood of -- of
23 eighty (80) plus thousand dollar to do some of the safety
24 items, and upgrade some of their systems to bring it to
25 our own standard.

1 MR. BOB PETERS: Thank you for that. The
2 St. Agathe situation, Mr. Rainkie, is one that has been
3 before the Board on a number of occasions; correct?

4 MR. DARREN RAINKIE: That's -- that's
5 correct, Mr. Peters.

6 MR. BOB PETERS: And in a prior Board
7 Order the expenses of the Corporation in the St. Agathe
8 area have been reviewed, and if I recall, the expenses of
9 approximately \$1.3 million were put into construction
10 work in progress?

11 MR. DARREN RAINKIE: That was the result
12 of the last GRA, yes Mr. Peters.

13 MR. BOB PETERS: And -- and the reason
14 for putting it in construction work in progress is
15 because the -- the anchor tenant out there, if I may, the
16 Can-Agra Plant, as it was once known, has not been
17 operational since gas has been provided to the area?

18 MR. DARREN RAINKIE: Yes, it's a -- I
19 guess we can refer to it generically as the Canola
20 Crushing Plant.

21 MR. BOB PETERS: Fair enough. What
22 you're indicating is that the original proponents are --
23 are no longer involved, and now it's being studied by
24 others to see if it's useful for them?

25 MR. DARREN RAINKIE: Yes, it's -- it's

1 being more than studied, Mr. Peters.

2 MR. BOB PETERS: What do you mean by
3 that, Mr. Rainkie?

4 MR. DARREN RAINKIE: My understanding in
5 preparing for the Hearing is that we're getting close to
6 ordering materials to attach the new customer, that's --
7 that has taken over that plant, and plans on using it.

8 MR. BOB PETERS: In your materials you're
9 asking for the \$1.4 million that was in construction work
10 in progress, to be transferred over into rate base, would
11 that be -- or into -- into plant additions?

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

14 MR. BOB PETERS: And -- part that I
15 wasn't clear on, Mr. Rainkie, is how much of this \$1.4
16 million is -- is attributed to incremental costs to serve
17 the Canola Crushing Plant, and the industrial park out
18 there?

19 MR. DARREN RAINKIE: Without getting too
20 much into the history, Mr. Peters.

21 I think on this file what we've done is
22 we've -- the way we've interpreted the Board Order is we
23 quantified the total costs of -- of that particular
24 expansion project, and keep in mind that we are servicing
25 the community of St. Agathe, and we backed out the amount

1 of costs that would be -- commensurate with the volumes
2 that we're getting from the community, and the net figure
3 is the 1.4 million I think maybe, or 1.3 or 1.4 million
4 figure that you -- that you referred to earlier.

5 So, it's a net of -- I guess what the --
6 the amount of plant that would be justified by the
7 volumes in the community itself.

8 MR. BOB PETERS: Mr. Rainkie, I should
9 have brought to yours and the Board's attention, the
10 document at Tab 40 of the Book of Documents, it's an
11 extract from PUB/CENTRA-17, and these are the costs
12 attributable to the St. Agathe facilities, correct?

13 MR. DARREN RAINKIE: Sorry, Mr. Peters,
14 can you give me that reference again?

15 MR. BOB PETERS: Yes, I was looking at
16 Tab 40 of the Book of Documents that I circulated, which
17 contained PUB/CENTRA-17, and I'm actually looking at page
18 2 of 2, of the document that's in that booklet.

19 MR. DARREN RAINKIE: I have it now, sir.

20 MR. BOB PETERS: And as I interpret this
21 page, the 1.4 million shown on line 21, in the far right
22 hand side, is the request to transfer that essentially
23 out of construction work in progress, and into plant; is
24 that right?

25 MR. DARREN RAINKIE: That's -- that's

1 correct, in the context of our rate base calculations
2 that we provided.

3 MR. BOB PETERS: And in terms of how much
4 is incremental to serve the Canola Crushing Plant or the
5 industrial park, what you're saying is this amount of
6 money was expended and isn't justified to support the
7 other customers in the area?

8 MR. DARREN RAINKIE: I'll generally agree
9 with that, Mr. Peters. The -- the justified work has a
10 connotation of pure feasibility tests, there might be
11 other ways of justifying this project, rather than just
12 leaving at the feasibility test. But let's move on and--

13 MR. BOB PETERS: Okay --

14 MR. DARREN RAINKIE: -- we can talk about
15 that if it's important.

16 MR. BOB PETERS: -- when -- when will the
17 plant be in start up mode, do you suspect, Mr. Rainkie;
18 do you have any idea?

19 MR. AZIZ AZIZ: My understanding is the
20 new owner is contacting us to provide facilities for
21 them, and we're working on the design of the facilities,
22 and the tie in. We hope this work will take -- actually
23 will be happening sometime this year.

24 MR. BOB PETERS: In -- all you're saying
25 is sometime in 2005?

1 MR. AZIZ AZIZ: That -- that's right.
2 And my understanding, all the extra facilities and the
3 connections from the transmission line will be paid, 100
4 percent, by the customer.

5 MR. BOB PETERS: All right. Thank you
6 Mr. Aziz. Is the request to put this into -- into rate
7 base, Mr. Rainkie, based on the assumption that it
8 becomes in service in 2005?

9 MR. DARREN RAINKIE: That's part of it
10 Mr. Peters, but the other part of it is our growing
11 concern that -- that CWHIP not be used as a -- a holding
12 account for capital projects that I guess are difficult,
13 in the Board's mind, in terms of rather approving
14 outright or disapproving.

15 CWIP is an accounting convention that
16 holds -- that's designed to hold projects that are under
17 construction. Once those projects are finished, under
18 the rate based rate of return methodology, that's up to
19 the Board to decide whether or not they become part of
20 rates, or they -- they don't.

21 When they sit in CWIP, what they do is
22 they accumulate interest during construction, and -- and
23 you know, the CWIP has been used a number of times, most
24 recently in Order 55 -- 54/05 related to a small project
25 in the RM of Rosser, so I think we've -- we're becoming

1 concerned that that is just a holding account, and it
2 shouldn't be used in that way.

3 So I think we need the Board to either
4 decide whether it's allowed for rate setting purposes, or
5 not, but I don't think the default on difficult items
6 should just be CWIP.

7 MR. BOB PETERS: All right. So are you
8 saying then the Board should say it's imprudent and
9 disallow it? And the -- the only other option is to
10 consider it's prudent and -- and permit it in, and
11 attract the full consequences of being allowed in.

12 MR. VINCE WARDEN: Mr. Peters, maybe I'll
13 just comment -- comment on that briefly. I think holding
14 it in a work in progress, to this date, has been the
15 right thing to do, inasmuch as the future of that plant
16 has been uncertain.

17 There has been activity going on, over the
18 last couple of years, and it looks like it will, in fact,
19 now be used, and that is the appropriate time in which it
20 should be added to -- to our plant in-service; so
21 transfer from work in progress, and the plant in service,
22 and the interest costs thereon, should be charged against
23 current operations, rather than being accumulated in --
24 in work in progress.

25 So from an accounting perspective, I think

1 what we've done to date is appropriate. Going forward,
2 the fact that it's -- it is going to be a place in
3 service, I think is very good news. If it hadn't, we
4 would have reached a point where we would have to make a
5 decision to write this off against operations in some
6 manner.

7 We might amortize it over a period of
8 time, but I think what we've done to date is -- has been
9 appropriate.

10 MR. BOB PETERS: Thank you for that, Mr.
11 Warden. We'll -- we'll leave it at that.

12 Mr. Rainkie, all the matters on which you
13 were going to report on true ups were contained in the
14 last Exhibit filed by Centra?

15 MR. DARREN RAINKIE: Mr. Peters, those
16 are the ones that have been done to date. There are a
17 few others that are -- that -- where -- where the true up
18 date was December 31st, 2004 and we continue to -- to
19 work on those and we'll file those with the Board when
20 they're finished.

21 MR. BOB PETERS: Which ones were those,
22 Mr. Rainkie?

23 MR. DARREN RAINKIE: I -- Just give me
24 one (1) second, Mr. Peters, I can give you the list.
25

1 (BRIEF PAUSE)

2
3 MR. DARREN RAINKIE: There's the RM of
4 East Portage, there was an RM of Grey, and an RM of
5 Rosser project, and it was outlined in the material, Mr.
6 Peters.

7 MR. BOB PETERS: And those are expected
8 by when, Mr. Rainkie?

9 MR. DARREN RAINKIE: I think they are
10 nearing completion this week, or next week. And I'm
11 hoping to have them in before the decision on this --
12 this rate case.

13 MR. BOB PETERS: And to the extent that
14 you're no longer before a microphone, if somebody has
15 questions of those, you'd entertain those in -- in
16 writing, would you, Mr. Rainkie?

17 MR. DARREN RAINKIE: That sounds like a
18 decent process, Mr. Peters.

19 MR. BOB PETERS: Rather than call you
20 back before the microphone, you'd be -- you'd be amenable
21 to that?

22 MR. DARREN RAINKIE: Yeah, the -- the
23 issues are -- are financial and they relate to numbers so
24 I'd probably have to -- if you had any detailed
25 questions, I'd probably have to go back to the shop

1 anyway and -- and figure them out. So --
2 MR. BOB PETERS: All right.
3 MR. DARREN RAINKIE: -- so written
4 questions would be wholly appropriate in that situation.
5 MR. BOB PETERS: I think my last area
6 gentlemen, is the interim orders for which you're seeking
7 final approval and to some extent we've talked about
8 this.
9 The primary gas ones, Mr. Rainkie, on --
10 on your first panel you talked to me at length about
11 whether it should be final or interim approval when
12 they're granted.
13 But the primary gas orders that are issued
14 quarterly up to and including the one on May the 1st of
15 2005, is included in your request to be finalized at this
16 time, in this proceedings?
17 MR. DARREN RAINKIE: That's correct, Mr.
18 Peters.
19 MR. BOB PETERS: And the only other order
20 that wasn't listed in your materials for which you're
21 seeking -- for which you are seeking approval is the R.M.
22 of Rosser order?
23 MR. DARREN RAINKIE: That's correct.
24 MR. BOB PETERS: And the RM of Rosser was
25 a request to add one (1) customer -- a commercial

1 customer to the facilities?

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

4 MR. BOB PETERS: And as I recall the
5 materials, there was a seventy-one thousand dollar
6 (\$71,000) contribution by the customer, and approximately
7 thirty-five thousand (35,000) by Centra?

8 MR. DARREN RAINKIE: That's my
9 understanding, yes, Mr. Peters.

10 MR. BOB PETERS: Has that construction
11 started?

12 MR. DARREN RAINKIE: My understanding is
13 the -- the services are in, and the mains are being
14 constructed this week.

15 MR. BOB PETERS: Has there been any
16 additional requests to join in the gas distribution
17 that's now being put in?

18 MR. DARREN RAINKIE: Yes, there's one (1)
19 residential customer that wants to hook up and another
20 residential customer is seriously considering it.

21 MR. BOB PETERS: And if those
22 residential do hook up, does that mean that the
23 commercial customer will see a refund to their customer
24 contribution?

25 MR. DARREN RAINKIE: That will depend

1 upon the economics of the additional capital costs versus
2 the -- the additional revenues. If there is more revenue
3 out of the incremental customer than cost, then it should
4 help out the commercial customer.

5 If not, the -- the residential customers
6 might have to cough up a -- a contribution as well.

7 MR. BOB PETERS: No more monies are
8 required from the commercial customer that was the focus
9 of this Application?

10 MR. DARREN RAINKIE: That's correct.
11 They wouldn't have to pay more because somebody else
12 wanted to attach to the system.

13 MR. BOB PETERS: Mr. Chairman, I want to
14 thank Mr. Warden, Mr. Derksen, Mr. Rainkie, Mr. Aziz and
15 Mr. Case for their answers to the questions that I have
16 posed. I appreciate the responses and thank them for
17 their efforts.

18 Those conclude my questions of this panel.
19 I will check on the one (1) matter with Mr. Rainkie, that
20 is the true up document, and if necessary I'll track him
21 down in the third panel.

22 THE CHAIRPERSON: Thank you, Mr. Peters.
23 And we'll now move on. I would think,
24 I'll just check with -- Mr. Boyd, do you have anything to
25 ask of this Panel?

1 MR. SANDY BOYD: Yes, I have some
2 questions, but if Kris would like to go now, I'm okay in
3 following him.

4 THE CHAIRPERSON: Mr. Saxberg, would you
5 prefer to begin fresh, so to speak, and we could have our
6 lunch break now and resume at one o'clock?

7 MR. KRIS SAXBERG: That would be my
8 preference.

9 THE CHAIRPERSON: Okay, then so be it.
10 We'll start again at one o'clock with Mr. Saxberg and
11 we'll follow with Mr. Boyd. Thank you.

12
13 --- Upon recessing at 11:40 a.m.
14 --- Upon resuming at 1:08 p.m.

15
16 THE CHAIRPERSON: Welcome back everyone.
17 Mr. Saxberg has been exceedingly patient but, CAC/MSOS',
18 time has arrived.

19 Mr. Saxberg...?

20 MR. KRIS SAXBERG: Thank you, Mr.
21 Chairman. Good afternoon, Board Members, Mr. Chairman
22 and Ladies and Gentlemen.

23 I'm going to take everyone back to the
24 issue of the corporate allocation. And I want to begin
25 with the reference to the Book of Documents that I've

1 produced, which has, I believe, been circulated, but not
2 yet marked as an exhibit.

3 Perhaps we could mark it as the next CAC
4 exhibit, and I think that would be Exhibit 4.

5 THE CHAIRPERSON: Subject to check, 4 it
6 is.

7
8 --- EXHIBIT NO. CAC/MSOS-4: Book of Documents.
9

10 CROSS-EXAMINATION BY MR. KRIS SAXBERG

11 MR. KRIS SAXBERG: So, if I get -- could
12 get everyone to turn to Tab 4 of the Book of Documents,
13 which is an undertaking provided by Mr. Warden at the
14 last GRA Hearing.

15 Mr. Warden, do you recognize the document?

16 MR. VINCE WARDEN: Yes, I do.

17 MR. KRIS SAXBERG: And in this Hearing
18 there's been a lot of talk about the \$19 million figure
19 being the amount of monies needed to ensure that
20 ratepayers are held harmless as a result of the
21 acquisition.

22 Is the document that we're looking at in
23 Tab 4, is that the calculation of the 19 million?

24 MR. VINCE WARDEN: Yes, it is.

25 MR. KRIS SAXBERG: And the -- the

1 undertaking was to provide the details associated with
2 the 18.8 million incremental costs for 2003/04, assumed
3 by Manitoba Hydro related to the acquisition of Centra,
4 and that's provided in Part A of Undertaking 4 on the
5 next page over, correct?

6 MR. VINCE WARDEN: Correct.

7 MR. KRIS SAXBERG: And let me just start
8 at the bottom. Why is capital tax included in the amount
9 of two hundred and twenty-five thousand dollars
10 (\$225,000) a year?

11 MR. WILLIE DERKSEN: The two hundred and
12 twenty-five thousand dollars (\$225,000) was the
13 incremental capital tax that Manitoba Hydro had to pay as
14 a result of acquiring Centra Gas.

15 MR. KRIS SAXBERG: But that's not a -- a
16 matter that needs to be repaid over thirty (30) years, is
17 it?

18 MR. WILLIE DERKSEN: No, that's an annual
19 expenditure.

20 MR. KRIS SAXBERG: Every year, are you
21 suggesting, that Manitoba Hydro has to pay two hundred
22 and twenty-five thousand dollars (\$225,000), capital tax,
23 as a result of the acquisition?

24 MR. WILLIE DERKSEN: Yes, that's correct.

25 MR. KRIS SAXBERG: With respect to the

1 top line, which the \$18.2 million dollar calculation,
2 that is what, Mr. Warden, you were referring to as the
3 carrying costs on the total purchase price of 254
4 million?

5 MR. VINCE WARDEN: It is the -- the
6 financing cost, yes.

7 MR. KRIS SAXBERG: And a -- a very small
8 portion of that, approximately 4 million, is financed by
9 way of short-term debt, correct?

10 MR. VINCE WARDEN: Correct.

11 MR. KRIS SAXBERG: And by short-term,
12 what period are you talking about?

13 MR. WILLIE DERKSEN: Well, the debt
14 relating to the borrowings, related to that amount, are -
15 - have no fixed terms, therefore they're rolled over
16 periodically, thirty (30) days, let's say.

17 MR. KRIS SAXBERG: So, that -- that
18 figure of 18.2 million is -- is going to fluctuate
19 somewhat as the interest rate changes on the short-term
20 debt?

21 MR. WILLIE DERKSEN: Yes, but that would
22 be a very minor amount.

23 MR. KRIS SAXBERG: And at the end of the
24 thirty (30) year period, when the debt on what will be
25 remaining at that point, the 186 million is refreshed,

1 there's going to be a different interest rate then as
2 well; right?

3 MR. VINCE WARDEN: Yes, I believe we
4 talked about that a little bit yesterday. But, yes,
5 you're right, the -- the rate will most likely be
6 different at that point in time.

7 MR. KRIS SAXBERG: But notwithstanding
8 that that rate will be different, and the amount of
9 carrying costs will be reduced, since it will only relate
10 to 186 million, you're not proposing on changing the \$12
11 million allocation after thirty (30) years?

12 MR. VINCE WARDEN: Well, we're not
13 proposing a change at this time. I think we agreed that
14 there would be some change for the reasons you've just
15 cited, and it would be appropriate, at some point, when
16 that is recognized, when the amount can be computed, to -
17 - to make that change, but it's not imminent.

18 MR. KRIS SAXBERG: Okay. Thank you for
19 that. You agree that Centra was purchased at a price
20 which is approximately two (2) times its net book value?

21 MR. VINCE WARDEN: Approximately.

22 MR. KRIS SAXBERG: And the net book value
23 is \$121 million; does that sound right?

24 MR. VINCE WARDEN: Yes.

25 MR. KRIS SAXBERG: And the premium then,

1 around 121 million?

2 MR. VINCE WARDEN: Yes.

3 MR. KRIS SAXBERG: And if you were to
4 take the \$121 million-dollar premium out of the equation,
5 in terms of the calculation of the 19 million, what would
6 the impact be?

7 MR. VINCE WARDEN: Well, I don't know.
8 It would be a useless exercise, so I haven't done that.

9 MR. KRIS SAXBERG: Maybe just to speed
10 things up; Mr. Matwichuk has done that -- that in his
11 evidence.

12 MR. VINCE WARDEN: Like I said, it was a
13 useless -- well, sorry.

14 MR. KRIS SAXBERG: I know you -- you
15 disagree with -- with the premise of -- of taking the
16 premium component out, but do you disagree with the
17 mathematical calculation performed by Mr. Matwichuk in
18 his evidence?

19 MR. VINCE WARDEN: I didn't -- quite
20 frankly, I didn't check his mathematics, but I can
21 accept, you know, most of the mathematics that Mr.
22 Matwichuk conducts is accurate. I -- I don't agree with
23 his assumptions most of the time but his -- his math I
24 haven't found a problem with to date.

25 MR. KRIS SAXBERG: And perhaps you can

1 just undertake to let us know if Centra takes a position
2 contrary to the position taken by Mr. Matwichuk with
3 respect to the calculation of eliminating the premium
4 which is contained on page 10 of his evidence.

5
6 --- UNDERTAKING NO. 18: Centra to indicate to
7 CAC/MSOS whether Centra
8 agrees with position taken by
9 Mr. Matwichuk with respect to
10 the calculation of
11 eliminating the premium which
12 is contained on page 11 of
13 his evidence.

14
15 MR. WILLIE DERKSEN: Sir, is that the
16 calculation on page 11, at the bottom, where he says the
17 20.9 million?

18
19 CONTINUED BY MR. KRIS SAXBERG:

20 MR. KRIS SAXBERG: Sorry. You're right,
21 it is that calculation.

22 MR. WILLIE DERKSEN: I think I'd have a -
23 - like to have a chance to look it over. I mean, it
24 seems reasonable on the surface that half of the costs,
25 therefore half the value, but I -- I'd like to look it

1 over briefly and get back to you.

2 MR. KRIS SAXBERG: Thank you for that.

3 Now, looking again at the calculation of the 19 million
4 at Tab 4 of my Book of Documents, there is a portion of
5 the 19 million that relates to amortization of the net
6 write-up of assets, correct?

7 MR. VINCE WARDEN: Yes, that's correct.

8 MR. KRIS SAXBERG: And you've described
9 it on the record, Mr. Warden, as being approximately \$2
10 million, correct?

11 MR. VINCE WARDEN: That's correct.

12 MR. KRIS SAXBERG: And would that then be
13 the combination of the depreciation of capital asset
14 write-up, amortization of contribution write-down,
15 amortization of long-term debt write-up, and amortization
16 of acquisition and integration costs?

17 MR. VINCE WARDEN: Well, no. The --
18 actually, the amortization of the long-term debt write-up
19 is netted with the interest to derive the rounded \$17
20 million number that I had previously put on the record.

21 So, that's derived essentially by netting
22 those -- those two (2) numbers, the eighteen two thirty
23 (18,230) and the -- the one million four hundred thousand
24 (1,400,000).

25 MR. KRIS SAXBERG: And so the other three

1 (3) items then combined are what account for the 2
2 million?

3 MR. VINCE WARDEN: Yes, that's correct.

4 MR. KRIS SAXBERG: And, at this point in
5 time, we're -- we're five (5) years, approximately five
6 (5) or six (6) years into the thirty (30) year repayment?

7 MR. VINCE WARDEN: Yes. We're -- that --
8 that's correct, yes, I agree with that.

9 MR. KRIS SAXBERG: Is it -- is it then
10 fair to say that we've paid down about ten (10) or \$12
11 million of -- of principle relating to the net write-up
12 of assets?

13 MR. VINCE WARDEN: That seems
14 approximately right, yes. I -- again, I haven't
15 calculated that but yes, I can -- I can accept that as
16 being reasonable, yes.

17 MR. KRIS SAXBERG: And, therefore, the
18 transaction is no longer 100 percent debt financed?

19 MR. VINCE WARDEN: To the extent that we
20 have amortized a portion of that write-up and that
21 amortization has been recovered through -- from
22 ratepayers theoretically, the -- although the original
23 acquisition was a at 100 percent debt financed. The
24 remaining -- that has been reduced by virtue of the
25 amortization to date; yes, I agree with that.

1 MR. KRIS SAXBERG: And has that reduction
2 then been factored into your calculation of the Centra
3 debt/equity ratio?

4

5

(BRIEF PAUSE)

6

7

8 MR. VINCE WARDEN: The -- the simple
9 answer to your question is, is no that has not been
10 factored into the debt/equity ratio calculation. I am
11 thinking about whether it would be appropriate to
12 recognize that. In any event, it would be a relatively
13 insignificant amount, were that to be considered.

14 I -- I mentioned that we had taken the
15 rather conservative approach of simply ignoring the \$121
16 million of share capital, if we were to consider that as
17 debt, which it really is, then -- then the ratio would --
18 wouldn't go up. So, on balance I think we're -- we're
19 still being conservative with -- with the eighty four
20 sixteen (8416) that we've put forward in these
21 proceedings.

22

23

24

25

MR. KRIS SAXBERG: Well, you had three
(3) options with respect to how you could treat that
share capital. One (1) was to include it all as equity.
correct?

That would taking a stand-alone approach?

1 MR. VINCE WARDEN: Well, Mr. Saxberg, I -
2 - as I've indicated, I don't believe that to be an
3 option. I know that's the position that has been put
4 forward, but I -- I don't consider that to be an option.

5 MR. KRIS SAXBERG: The other two (2)
6 options would be, one (1) would be to include it all as
7 debt, which is what you've just mentioned.

8 MR. VINCE WARDEN: Yes.

9 MR. KRIS SAXBERG: And the third option
10 is what you have before the Board here today, and that is
11 to ignore it, correct?

12 MR. VINCE WARDEN: That is correct.

13 MR. KRIS SAXBERG: So, if we're remaining
14 consistent with that third option and you're not taking
15 that off the table, and you are indeed ignoring it, then
16 shouldn't you include the -- the amortized portion that
17 10 to 12 million, as part of your calculation of overall
18 equity?

19 MR. VINCE WARDEN: Well, I -- I think I
20 answered that question earlier, Mr. Saxberg. I can't
21 answer that any differently right now.

22 MR. DARREN RAINKIE: Mr. Saxberg, how can
23 you reduce something that isn't in the calculation in the
24 first place?

25 MR. KRIS SAXBERG: Well, let's just --

1 let's flip the page over on Tab 4 for a second then and
2 do some theoretical debating.

3 The next page in Tab 4, is the calculation
4 of the twenty point nine (20.9) figure, correct?

5 MR. VINCE WARDEN: Correct.

6 MR. KRIS SAXBERG: And the whole idea
7 behind that number was that after thirty (30) years,
8 you'd pay down the entire \$254 million borrowed, correct?

9 MR. VINCE WARDEN: Yes, as we, I think
10 covered earlier, with Mr. Peters, this -- this theory
11 would be what would happen if we paid that \$20.9 million
12 towards the original debt, that's what would occur.

13 MR. KRIS SAXBERG: And if that was
14 occurring, after thirty (30) years, there would be the
15 share capital in Centra, because it -- would it -- would
16 there not; once the debt's been fully extinguished?

17 MR. VINCE WARDEN: Well, if you have no
18 debt to offset the share capital. Yes, I agree.

19 MR. KRIS SAXBERG: Now, two (2) years ago
20 at the GRA, Centra told the Board that it was paying down
21 the -- the principal amount of the debt; and is that
22 fair?

23 That was the evidence?

24 MR. VINCE WARDEN: Do you have a
25 reference for that, Mr. Saxberg?

1 MR. KRIS SAXBERG: Well, the first page
2 of the undertaking in Tab 4.
3 MR. VINCE WARDEN: The first page -- I'm
4 sorry, I don't see that there.
5 MR. KRIS SAXBERG: Sorry. It's
6 Answer (b), which says:
7 "The calculation of the annual payment
8 required by Manitoba Hydro to ensure
9 all the costs of the acquiring Centra
10 are recovered."
11 And that's the attachment, Part B.
12 MR. VINCE WARDEN: I don't think that
13 says, though, that we were intending to -- to pay down
14 the debt over that period of time, that just provides a
15 calculation.
16 MR. KRIS SAXBERG: So, from -- was it
17 then from -- from day 1 essentially that -- that the
18 Manitoba Hydro decided that it wasn't going to be paying
19 the principal amount of the acquisition debt?
20 MR. VINCE WARDEN: I'd say from day 1
21 that was always the intention. We -- we did get into
22 some discussions and perhaps some confusion by
23 introducing the \$20.9 million calculation. But it was
24 only introduced as the -- as the amount that would be
25 required if we wanted to repay that amount over a thirty

1 (30) year period, principal and interest.

2 As we've been talking about for a few days
3 now, we're not doing that, and amounts that are recorded
4 in the financial statements of Manitoba Hydro are only
5 those costs necessary to service the debt and to amortize
6 the -- the write-up.

7 MR. KRIS SAXBERG: Did you get the
8 impression from reading Board Order 11803 that the Public
9 Utility Board thought that Centra needed \$20.9 million a
10 year -- or that Manitoba Hydro needed \$20.9 million a
11 year to pay all of the costs of the integration and
12 acquisition?

13 MR. VINCE WARDEN: Yes. And I think that
14 was consistent with some of the discussion at the time.
15 But, again, it was only a mathematical calculation as to
16 what would be required in order to extinguish that debt
17 over that thirty (30) year period.

18 MR. KRIS SAXBERG: So, the Board has
19 heard differently in this proceeding.

20 My question is: If Manitoba Hydro was
21 using the twenty point nine (20.9) figure and principal
22 was being paid down each year, wouldn't that then be one
23 (1) way of improving the equity -- the debt equity ratio?

24 MR. VINCE WARDEN: The fact of the matter
25 is principal is not being paid down each year and that

1 would not be the -- the right way to account for the
2 cost.

3 MR. KRIS SAXBERG: But, as you indicated,
4 if the principal was being paid down after thirty (30)
5 years, there would be share capital in Centra.

6 And so my question to you is: If it was
7 being paid down year over year, then wouldn't that year
8 over year be improving the debt equity ratio in Centra?

9 MR. VINCE WARDEN: Mr. Saxberg, the only
10 way we could do that would be to take an additional --
11 I'm rounding but an additional \$2 million from ratepayers
12 each and every year. If you're suggesting we should do
13 that, then -- I was going to say we'd consider it but I
14 would -- I would consider that to be the wrong thing to
15 do.

16 So, I would not advocate taking an
17 additional \$2 million from ratepayers every year to
18 accomplish what you just suggested.

19 MR. KRIS SAXBERG: Notwithstanding that
20 that's exactly what the Board thought you -- thought that
21 you were doing?

22 MR. VINCE WARDEN: I'm not sure what the
23 Board thought, Mr. Saxberg.

24
25

(BRIEF PAUSE)

1 MR. KRIS SAXBERG: Do I have it right
2 that Manitoba Hydro's view is that Centra ratepayers
3 should pay some of the acquisition and integration costs
4 because they enjoy benefits flowing from the transaction?

5 MR. VINCE WARDEN: Yes, you have it
6 right.

7 MR. KRIS SAXBERG: And at Tab 8 of my
8 Book of Documents I've included an IR, it's CAC-157. And
9 I'm flipping three (3) pages to get to the fourth page of
10 7, and looking at response -- or Question I; do you see
11 that?

12 MR. VINCE WARDEN: I do.

13 MR. KRIS SAXBERG: Are you -- are you
14 familiar with the question and the response, and does it
15 still hold true?

16 MR. VINCE WARDEN: Perhaps, you could
17 just summarize it for us, Mr. Saxberg, so that -- save
18 time reading.

19 MR. KRIS SAXBERG: Sure. It says that
20 there are three (3) major benefits of the acquisition;
21 being foregone return on equity, and number 2 being
22 foregone tax payment, and Number 3 being lower cost of
23 operations because of synergies.

24 The response from Centra is to agree with
25 those three (3) major benefits, and to say that there may

1 be other benefits that are financial, but they haven't
2 been quantified.

3 MR. VINCE WARDEN: Thank you. Yes, I can
4 agree with that.

5 MR. KRIS SAXBERG: Yesterday you talked
6 about some of those benefits that hadn't been quantified.

7 Would you agree with me on a general sense
8 that for -- that for everyone of those benefits that you
9 -- that you spoke of yesterday, there are also benefits
10 on the Hydro side of the equation?

11 In other words, one-stop shopping becomes
12 a benefit to Manitoba Hydro ratepayers as well.

13 MR. VINCE WARDEN: Agree.

14

15 (BRIEF PAUSE)

16

17 MR. KRIS SAXBERG: Now, in terms of the -
18 - those three (3) major categories of benefits then,
19 would you agree with me that the net -- that the
20 reduction in cost of operations, according to your
21 evidence in this proceedings, is \$7 million; that that's
22 the benefit of synergies in Centra?

23 MR. VINCE WARDEN: I think page 14 of our
24 rebuttal evidence, Mr. Saxberg, refers to a reduction of
25 8 million.

1 MR. KRIS SAXBERG: But, you're on --
2 you're on the record as saying the synergies in Centra
3 are 7 million.

4 MR. VINCE WARDEN: Yes. Yes, I am.
5 You're correct.

6 MR. KRIS SAXBERG: And in terms of
7 foregone net taxes, would you agree that the amount is
8 approximately \$4 million, being the difference between
9 what would have been charged, had there not been an
10 acquisition, which was around 9 million, according to
11 your evidence --

12 MR. VINCE WARDEN: Yes.

13 MR. KRIS SAXBERG: -- and what is being
14 recovered with this one-time only tax amortization of
15 carrying costs; is that correct?

16 MR. VINCE WARDEN: Yes, I agree with
17 that. For the test year, that's correct.

18 MR. KRIS SAXBERG: Okay. And now in
19 terms of foregone return on equity, you'll agree that --
20 that there has been in rates, a return on equity in every
21 year that Manitoba Hydro has owned Centra?

22 MR. VINCE WARDEN: Well, the return on
23 equity that was embedded in rates when Manitoba Hydro
24 acquired Centra Gas, has not been removed. So, to that
25 extent, I -- I can agree that there has been that return.

1 It has not -- we have not applied or have not had a
2 increase in that return or verified that return each and
3 every year since the date of the acquisition.

4 MR. KRIS SAXBERG: No. But, it was -- it
5 was changed from the 1998 GRA -- it was changed at the
6 last GRA in 2003 to be approximately \$15.1 million, in
7 revenue requirement, correct?

8 MR. VINCE WARDEN: Yes, we can agree with
9 that.

10 MR. KRIS SAXBERG: Do you remember what
11 it was in the years prior to that?

12 It was lower than fifteen point one (15.1)
13 though, wasn't it?

14 MR. VINCE WARDEN: In the range of 12 to
15 13 million, I believe, immediately preceding the
16 acquisition. I'm not sure prior to that date.

17 MR. KRIS SAXBERG: And if the Board
18 decides not to switch methods of regulation after this
19 Hearing, you're still applying for a return on equity
20 under the rate base rate of return methodology?

21 MR. VINCE WARDEN: Well, I think, as
22 directed by this Board, we filed our Application showing
23 both the cost of service with the emphasis on the cost of
24 service and return on rate base. We've demonstrated or
25 indicated in our filing that rate base return on rate

1 base is slightly higher than the cost of service approach
2 that we've taken.

3 MR. KRIS SAXBERG: And I will turn to
4 that at the appropriate time. But right now I -- I want
5 to ask some -- some -- I think they're straightforward
6 questions, just about the history of how the return's
7 being dealt with in the books of Manitoba Hydro.

8 Do you agree that for the year 2002-03,
9 that Manitoba Hydro received from Centra Gas \$15.1
10 million?

11 MR. VINCE WARDEN: No. No, I do not
12 agree with that. There -- there was nothing withdrawn
13 from Centra Gas.

14 MR. KRIS SAXBERG: Could I get you to
15 turn to Tab 1 of my Book of Documents.

16 And if you turn two (2) pages to the third
17 page, which is MIPUG/Manitoba Hydro 1-3; are you familiar
18 with this information request?

19 MR. VINCE WARDEN: Yes.

20 MR. KRIS SAXBERG: The information
21 request indicates that Manitoba Hydro credits to finance
22 expense the \$15 million.

23 MR. VINCE WARDEN: That was -- well, if
24 you -- if you'll flip over one (1) more page with me,
25 Mr. Saxberg, this was in the forecast and it was really

1 just the way the forecast was derived, that is the gross
2 finance -- and it includes all the acquisition costs.

3 So what we were trying to -- this was, I
4 believe, in support of our electric GRA and it was to
5 derive a net finance expense attributable to electric
6 operations. So that the bottom line of that for -- in
7 the '03/'04 forecast, for example, the four hundred and
8 seventy million seven ninety-two (470,792,000) was the
9 finance expense attributable to electric operations.

10 To get there we had to delete -- deduct,
11 I'm sorry, the amount that was attributable to gas
12 operations. That's all that does. But there's been no
13 removal, so to speak, of -- of monies from Centra.

14 MR. KRIS SAXBERG: I -- it must be
15 semantics but the calculation that you're referring to
16 has a line item that says "Centra Acquisition Allocation"
17 and it's a deduction of \$15.141 million, correct?

18 MR. VINCE WARDEN: Mr. Saxberg, only
19 because the amount, the gross interest, the first line of
20 that -- of that schedule includes Centra's finance costs,
21 that's gross for -- for the corporation, and we've
22 removed that because it would not be appropriate to
23 charge that to electric ratepayers.

24
25

(BRIEF PAUSE)

1 MR. KRIS SAXBERG: So your evidence is
2 that there's never been a credit on the books of Manitoba
3 Hydro in -- in any of the years, 2002/03 or 2003/04,
4 relating to the corporate allocation?

5 MR. VINCE WARDEN: There -- there's never
6 been any monies withdrawn from -- from Centra. There
7 were -- you may recall, we had an approach that was
8 slightly different from what we have today, whereby we
9 pushed all the costs into the financial statements of
10 Centra. And that has now been totally reversed, so that
11 we're on the same basis now historically as we are today.

12 There has never, at any time, on the basis
13 -- the way we're accounting for Centra costs, been any
14 monies removed from Centra Gas.

15 MR. KRIS SAXBERG: But in order to
16 determine the retained earnings in the IFF's, you have,
17 below the line, subtracted \$15 million in 2002/2003,
18 correct?

19 MR. VINCE WARDEN: Are you talking about
20 2002/03 actual now, the financial statements of Manitoba
21 Hydro actual?

22 (BRIEF PAUSE)

23
24 MR. VINCE WARDEN: Mr. Saxberg, sorry I
25 just -- were just reminded that was filed as Centra

1 exhibit number 12, undertaking number 6 so we have a -- a
2 copy of the segmented note which describes the -- below
3 the line as you referred to it as the -- the \$15 million
4 in 02/03 as a deduction from net income before the
5 allocation or to arrive at the -- the net loss that was
6 removed from the retained earnings of -- of Centra.

7 MR. KRIS SAXBERG: So in order to get a
8 net loss in 2002/2003 of what amount?

9 MR. VINCE WARDEN: The amount as indicated
10 on Centra exhibit number 12, a loss of -- after the
11 allocation of \$2 million.

12 MR. KRIS SAXBERG: And if that \$15 million
13 isn't deducted, then you've got a net income of \$13
14 million?

15 MR. VINCE WARDEN: As indicated on this
16 statement, yes.

17 MR. KRIS SAXBERG: And now you're telling
18 us in this hearing that there has never been a transfer
19 of the money into the hydro side; the money's never gone
20 in any way -- the -- the \$15 million in 2002/03 is -- is
21 never actually shown up as a credit on the books in
22 Manitoba Hydro, and so therefore why would we be making
23 the deduction?

24 MR. VINCE WARDEN: Well, I think that's
25 what -- why I -- or, why Centra did provide you with

1 exhibit number 12.

2 I think it's fairly clear, if you look on
3 that, that there's been no transfers of electricity
4 ratepayers.

5 The deduction -- the allocation to Centra
6 Gas is only for purposes of Centra ratepayers paying
7 their fair share of the acquisition.

8 MR. KRIS SAXBERG: I -- I don't mean to be
9 obtuse, but I -- I -- there's a \$15 million deduction
10 that's reducing net income from 13 million to minus 2
11 million, so the money must be going somewhere; where --
12 where does it go?

13 MR. VINCE WARDEN: Mr. Saxberg, do you
14 have exhibit -- Centra exhibit number 12, perhaps I can
15 take you through that.

16 MR. KRIS SAXBERG: Yeah, I've got it in
17 front of me.

18 MR. VINCE WARDEN: Okay, you'll see
19 there's four headings there; electricity, gas, corporate
20 and total, the total being the consolidated financial
21 statements of Manitoba Hydro.

22 Corporate, to make this perfectly clear,
23 held that allocation was flowing, the -- all the
24 acquisition costs of Centra Gas have been segregated into
25 corporate.

1 So for 2004 we have a total of \$19
2 million, for 2003 the same amount.

3 Corporate is zero, as you can see at the
4 end if you go follow down that -- that column. There is
5 no gain or loss residing in corporate after the
6 allocation. That allocation has to be made somewhere. It
7 is allocated to electricity and gas ratepayers.

8 The \$15 million has been allocated to
9 gas, \$4 million to electric. There has been no transfer
10 whatsoever from gas ratepayers to electricity ratepayers.

11 MR. KRIS SAXBERG: And is this treatment a
12 result of Board Order 208-02?

13 MR. VINCE WARDEN: Mr. -- I'd have to
14 check the Board Orders. I'm not sure whether that's the
15 -- the number or not.

16 MR. KRIS SAXBERG: The --

17 MR. VINCE WARDEN: Could you -- could you
18 refresh our memory as exactly what that Board Order
19 ordered?

20 MR. KRIS SAXBERG: That's the one that
21 says that all of the risks and benefits are to be
22 recorded on the books of Manitoba Hydro.

23 MR. VINCE WARDEN: Okay, I'll accept that
24 then because yes, we did change the method of -- of
25 recording costs, and I -- I will agree that as a result

1 of that order, it's much clearer where those costs now
2 reside.

3

4

(BRIEF PAUSE)

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6

MR. KRIS SAXBERG: So there is an
7 allocation then, from gas of 15 million in 2003; is that
8 -- that's reflected on, where it says "Corporate
9 Allocation" on -- under this Note 19, correct?

10

MR. VINCE WARDEN: There's an allocation
11 from corporate to gas, there's no allocation from gas.

12

MR. KRIS SAXBERG: And for electricity
13 here, it's \$4 million?

14

MR. VINCE WARDEN: Correct.

15

MR. KRIS SAXBERG: Is it -- can I say
16 that in 2002/03, that \$15 million was -- there was a cost
17 to Centra ratepayers of \$15 million related to the
18 acquisition?

19

MR. VINCE WARDEN: There was an
20 allocation to Centra ratepayers, that reduced the
21 retained earnings of Centra Gas by that amount, and to
22 the extent that we're rebuilding retained earnings over
23 time, ultimately Centra ratepayers do pay that cost.
24 Yes, I agree with that.

25

MR. KRIS SAXBERG: Okay. Yes. This will

1 sort of covering what has been covered on previous days
2 of this Proceeding, but, yes, we've made a reassessment
3 of that, in conjunction with our '04/'05 fiscal year, and
4 have reduced that 15 million down to twelve (12).

5 So from here forward until we change it
6 again, which may occur in -- occur in the future if -- if
7 circumstances warrant, for some of the reasons we've also
8 talked about. But our position now would be \$12 million
9 to gas ratepayers and \$7 million to electricity
10 ratepayers.

11 MR. KRIS SAXBERG: If the 12 million had
12 been applied in 2002/03, then we would have had a
13 \$1 million -- \$1 million net income that year?

14 MR. VINCE WARDEN: Well, that is, of
15 course the result, but that didn't happen.

16 MR. KRIS SAXBERG: It didn't happen, and
17 so what we're seeing is minus \$2 million.

18 Wouldn't it be fair that down the road
19 that the request for net income is adjusted to compensate
20 for the -- for what is essentially an overpayment in
21 2002/'03?

22 MR. VINCE WARDEN: Well I never said
23 there was an overpayment in '02/'03. As a matter of
24 fact, I guess, if you want to look, prior to '02/'03,
25 where there -- there was no allocation whatsoever.

1 So, if we backed it up to the date of
2 acquisition and handled this allocation in a similar
3 manner, there would be, I haven't done the calculation,
4 but there could be a deficit in retained earnings by now.
5 In fact, there would be.

6 MR. KRIS SAXBERG: I'm going to come back
7 to that point, because -- because I think Mr. Derksen's
8 evidence from the last proceedings, contrary to what --
9 what you've indicated, and I can come back to that and
10 ask him about it.

11 But, just to move forward then, into the
12 next year. In 2003/04 again there is a charge to Centra
13 ratepayers, an expense of \$15.1 million; correct?

14 MR. VINCE WARDEN: There's -- there's a
15 corporate allocation of \$15 million in '03/'04, yes.

16 MR. KRIS SAXBERG: And also there is a
17 synergy transfer amount of \$3 million in that same year;
18 correct?

19 MR. VINCE WARDEN: No. No. There is no
20 synergy transfer in that year.

21 MR. KRIS SAXBERG: The -- did the Board
22 not approve a synergy transfer for that year and that
23 synergy transfer was embedded into cost of operations?

24 MR. VINCE WARDEN: It's -- it's a little
25 confusing, Mr. Saxberg, but the \$3 million was an amount

1 that was approved for purposes of setting rates. The --
2 there was never though -- the costs are what they are in
3 Centra Gas and there was never a -- a transfer of \$3
4 million to -- to Centra ratepayers.

5 There was an amount for purposes of
6 computing the rate increase for Centra. The 0.4 percent
7 that was ultimately allowed did take into consideration a
8 \$3 million amount but there was never a transfer there.
9 You won't find anywhere in the expenses of Centra where
10 there's \$3 million has been added.

11 MR. KRIS SAXBERG: Well, if I look at
12 CAC-15(B) I -- I think I see it. And that, on the very
13 last page of that -- that IR --

14 MS. MARLA MURPHY: Could you give us that
15 reference, please. Is it in --

16 MR. KRIS SAXBERG: It's -- I've got
17 copies with me, and perhaps I'll hand them out because it
18 will be -- I'll be referring to it later with respect to
19 the cost of operations.

20 MS. MARLA MURPHY: Is it part of this
21 filing?

22 MR. KRIS SAXBERG: Yes.

23 THE CHAIRPERSON: Mr. Singh, could you
24 assist Mr. Saxberg, please.

25

1 (BRIEF PAUSE)

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THE CHAIRPERSON: Mr. Warden, if you look at your Segmented Note 19 for Gas 2004, if West Coast still owned the company, the rate of return on rate base was in the rates.

As long as there's retained earnings, they could have taken a dividend, could they not?

MR. VINCE WARDEN: Yes, they could, and they did.

THE CHAIRPERSON: And based on your evidence before, just so I make sure that we're keeping this straight, if West Coast owned the company, they not only could have taken a dividend but your argument is, is that the actual costs of the gas company actually would have been higher in that year.

MR. VINCE WARDEN: Yes, they would.

THE CHAIRPERSON: So to take that dividend if West Coast owned it, the net loss for the year would actually have been higher, which would have required further debt to carry further costs, not to go on and on but..

MR. VINCE WARDEN: Yes. But I -- I don't believe though West Coast owned -- continued to own the company, that they would have gone for as long as we did

1 without a rate increase. So I believe that revenue would
2 have been adjusted and they wouldn't have tolerate or
3 couldn't have tolerated a loss of the magnitude in those
4 intervening years.

5 THE CHAIRPERSON: Without going into that
6 though, on a straight technical basis, the rate of return
7 is in the revenue line, it's in the rate base. So it's
8 in the rates.

9 So they could have taken a dividend and
10 since retained earnings were present, exceeding that
11 amount, they could have taken \$15 million, if you like,
12 and at the same time, nothing else having changed than
13 having taken the 15 million, your argument is, is that
14 the operating expense in some other categories costs
15 would have actually been higher.

16 MR. VINCE WARDEN: Yes.

17 THE CHAIRPERSON: So the retained
18 earnings would have actually fallen further than it did
19 under this example; is that not correct?

20 MR. VINCE WARDEN: Yes, that is correct.

21 THE CHAIRPERSON: I don't know if that
22 helps Mr. Saxberg, I'm just trying to understand it along
23 with you and everyone else.

24 MR. KRIS SAXBERG: Let me follow-up on
25 that then.

1

2 CONTINUED BY MR. KRIS SAXBERG:

3 MR. KRIS SAXBERG: Mr. Warden, under
4 West Coast, they could have taken the entire return on
5 equity and awarded it as a dividend or they could have
6 taken something less than that; correct?

7 MR. DARREN RAINKIE: Mr. Saxberg, I think
8 our -- our dividend policy previous to Manitoba Hydro
9 ownership to maintain a -- a 60:40 debt to equity ratio
10 was to take about 65 percent of the net earnings in the
11 form of a dividend, if that helps.

12 MR. KRIS SAXBERG: And what happened with
13 Hydro though is that the entire return on equity plus
14 some was taken out of the gas company in 2002/03, '03/'04
15 and continuing forward, correct?

16 MR. VINCE WARDEN: No, no it's not correct
17 Mr. Saxberg, sorry. But there is nothing, zero, taken
18 out of the gas company.

19 MR. KRIS SAXBERG: Well, I know you're --
20 I know we're having trouble with the semantics of, you
21 know, taken out or allocated, or an expense charged.

22 There was an expense charged of \$15
23 million in 2002/03, and that's more than the return on
24 equity.

25 MR. VINCE WARDEN: But it's not equivalent

1 to the return on equity though. The \$15 million is -- is
2 to offset costs that would otherwise have been there that
3 would -- which we said many times would have been much
4 higher than they would -- would have been under the --
5 would have exceeded the \$15 million.

6 So, we're not talking about returns being
7 removed, we're talking about costs being lower under what
8 -- under Manitoba Hydro ownership.

9 MR. KRIS SAXBERG: I'm just going to jump
10 right into it because -- we went over the benefits at the
11 beginning of this cross, and you said there was \$7
12 million in synergies, correct, in Centra Gas?

13 MR. VINCE WARDEN: Yes.

14 MR. KRIS SAXBERG: And you agreed with me
15 that the forgone tax benefit is about \$4 million,
16 correct?

17 MR. VINCE WARDEN: I agree with you that
18 that's the amount in the test year, yes, or at least the
19 first test year.

20 MR. KRIS SAXBERG: And, you'll agree that
21 in 2002/03 the rates included a full return on equity,
22 correct?

23

24

(BRIEF PAUSE)

25

1 MR. VINCE WARDEN: Mr. Saxberg, we are
2 getting into the return on equity, cost of service debate
3 again it seems, but regardless of the amount that was
4 included in revenue in '02/'03, it was not sufficient to
5 cover all the costs of operating the gas utility in that
6 year.

7 It was deficient by \$2 million after the
8 corporate allocation.

9 MR. KRIS SAXBERG: But the answer to my
10 question though is yes, right?

11 MR. VINCE WARDEN: I -- I don't think I
12 answered yes.

13 MR. KRIS SAXBERG: Yeah, I know you didn't
14 answer yes. That's why I asked.

15 There was a return on equity included in
16 rates in 2002/03 generated money that -- that was
17 received by Centra Gas?

18 MR. VINCE WARDEN: Well you know, I --
19 quite frankly I didn't go back and calculate. We -- we
20 asked for a rate increase in '02/'03 -- actually, I was
21 thinking that was '03, that's '03/'04 that we received
22 the .4 per cent rate increase that would, I expect -- I
23 suspect would work out, going through the old methodology
24 of rate base, that would work out to a very low return on
25 equity.

1 profit and loss statement, you've got to look at the
2 revenue side and the cost side, because the cost -- costs
3 would change between 1998 and 2002/03 as well, and I'm
4 sure you're going to come to that --

5 MR. KRIS SAXBERG: I'm going to flip to
6 the cost side --

7 MR. DARREN RAINKIE: -- and we're going
8 have to --

9 MR. KRIS SAXBERG: -- I'm going to flip
10 to the cost sides in a -- in a second. So, I'm on the
11 benefit side still, and I've got 7 million in synergies,
12 4 million in foregone taxes, and I'm saying that there is
13 zero in terms of that third major benefit, which is
14 foregone return on equity?

15 MR. VINCE WARDEN: There's been nothing
16 removed from Centra Gas in the -- in the form of
17 dividends. I don't think the previous owner would have
18 tolerated that situation for the time that the current
19 owner has.

20 MR. KRIS SAXBERG: I calculate benefits,
21 therefore, to be \$11 million. Of the three (3) major
22 benefits that you've quantified in the IR that I
23 referenced earlier, I'm quantifying the benefits to be
24 \$11 million.

25 Is that -- is there something wrong with

1 that calculation, that determination of benefits?

2 MR. VINCE WARDEN: Well, you're -- you're
3 taking a different approach than the -- than the benefits
4 that we provided in our -- our Rebuttal Evidence. I
5 think the numbers that we have there are prepared on a
6 more consistent basis, that is, we're comparing what the
7 -- the cost would have been in '05/'06, compared to what
8 were -- we are requesting.

9 And the benefits -- the savings are -- are
10 much greater than what you indicated.

11 MR. KRIS SAXBERG: I'll -- I'll get to
12 your base-line calculation, eventually. But I want to
13 look at it from a more pristine perspective, that is,
14 your own evidence in terms of what the quantifiable
15 benefits are, to Centra Gas ratepayers, as a result of
16 this transaction.

17 And your evidence right now is that it's
18 \$11 million.

19 MS. MARLA MURPHY: Mr. Chairman, that's
20 not the evidence of this Panel. It might be the evidence
21 of Mr. Saxberg, but it's certainly not what this Panel
22 has said, and I hope that the Panel's position has been
23 made clear to the Board. I'm not sure that we're going
24 to establish a lot more in covering the ground again.
25

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: Well, if we could go
3 back, then, to Tab 8, and where we started this whole
4 discussion, where -- flip three (3) pages to the fourth
5 page in, we talked about the three (3) quantifiable
6 benefits to Centra rate holders -- ratepayers, as a
7 result of this transaction.

8 And you agreed with me that the answer was
9 valid, and that the three (3) quantifiable benefits were
10 the foregone profit, in terms of the return and equity:
11 Number One; Number Two, being the foregone taxes; and
12 Number Three (3) being synergies.

13 MR. WILLIE DERKSEN: Mr. Saxberg, I think
14 the first benefit would manifest itself for customers
15 through lower rate increases than otherwise would have
16 happened, and I believe that's what we're trying to
17 explain.

18 As Mr. Warden has indicated, we've had one
19 (1) rate increase since 1998, and that is 0.4 percent.
20 West Coast would have had other rate increases, because
21 they would require greater profits. And so the benefits
22 to the customers are, with respect to that lower return
23 on equity, are achieved through lower rate increases.
24 Thank you.

25 MR. DARREN RAINKIE: In fact, sir, that's

1 what the response to this question says. You're reading
2 in your question to us, and maybe we shouldn't have said
3 confirmed, maybe we should have said, From our
4 perspective the benefits are X. But, if you want to flip
5 the page I think you'll find that we said exactly what
6 Mr. Derksen just reiterated.

7 MR. KRIS SAXBERG: the only reason that
8 there were no rate increases prior to 2003, was because
9 Manitoba Hydro didn't apply for a rate increase; correct?

10 MR. VINCE WARDEN: We applied for one (1)
11 rate increase which was withdrawn, and we talked about
12 that as well. What we're --

13 MR. KRIS SAXBERG: And you --

14 MR. VINCE WARDEN: -- what we're saying
15 though, is that West Coast would have probably operated
16 differently, we don't know for sure, but it's very highly
17 likely that they would have applied for rate increases in
18 those intervening years.

19 MR. KRIS SAXBERG: And -- and the
20 question though, is whether or not West Coast would have
21 received rate increases, had they applied, correct?

22 MR. VINCE WARDEN: Well, we don't know
23 for sure, do we? We can only go on past performance.
24 Does it seem likely, though, that in the -- those six (6)
25 years, that an investor-owned utility would have accepted

1 a 0.4 percent increase over that --

2 MR. KRIS SAXBERG: But --

3 MR. VINCE WARDEN: -- whole time.

4 MR. KRIS SAXBERG: -- but you withdrew
5 your first rate application because you'd received a new
6 stream of income in the form of the Provincial Government
7 saying that they weren't going to require certain taxes
8 to be collected, correct?

9 MR. VINCE WARDEN: Well, there were two
10 (2) reasons. Again, repeating what we did -- what we
11 talked about earlier, there was the -- the Government
12 withdrawal of the requirement to pay taxes, but also the
13 spike in gas prices that occurred at that time, so
14 ratepayers were already under stress.

15 MR. KRIS SAXBERG: It -- it was as though
16 you had received a rate increase when the Government
17 said, you no longer have to pay us the taxes that we once
18 told you had to pay us?

19 MR. VINCE WARDEN: Well, no, I wouldn't
20 characterize it that way. Our -- we -- we're trying to
21 operate as efficiently as we are, and reduce cost
22 wherever possible; that was a cost reduction that we --
23 was certainly welcomed to us because we were able to
24 forego our rate increase that we might otherwise have --
25 I think though, even in the absence of that change by

1 Government, because of the high gas prices that customers
2 were subjected to, at that time, it's most likely our
3 rate application would have been withdrawn on that basis
4 anyway.

5 MR. KRIS SAXBERG: The Government
6 decision though provided you with an additional revenue
7 stream, in effect?

8 MR. VINCE WARDEN: It -- it was a
9 reduction in expense, it allowed us to spread the
10 acquisition cost, that tax that was paid on acquisition
11 of \$58 million, we were amortizing that over nine (9)
12 years originally, it -- it allowed us to amortize it over
13 thirty (30) years.

14 And therefore, the bottom-line net income
15 of Centra was affected positively to a certain amount by
16 that -- by that action. But it was not a real
17 significant event in terms of -- of where we are today.

18 MR. KRIS SAXBERG: Intuitively, one would
19 think that if the gas company was foregoing rate
20 increases, that when it finally came for a rate increase
21 in 2003, it would have got a large one if it -- is that
22 not -- does that -- is there not some logic to that?

23 MR. VINCE WARDEN: Could you maybe expand
24 on that -- your thought, sir.

25 MR. KRIS SAXBERG: Well, you're saying

1 that there was a particular revenue requirement that had
2 been approved by the Board in 1998, and you didn't ask
3 for an increase in that revenue requirement until 2003,
4 correct?

5 MR. VINCE WARDEN: To be -- our rate
6 application was to be effective April the 1st, 2003,
7 correct.

8 MR. KRIS SAXBERG: So you didn't ask the
9 Board to change the revenue requirement between 1999 and
10 2003, with -- with the exception of the -- the withdrawn
11 GRA, correct?

12 MR. VINCE WARDEN: With that exception,
13 yes, you're correct.

14 MR. KRIS SAXBERG: And when you finally
15 did ask the Board to increase the revenue requirement,
16 they only increased it marginally, very -- to -- by --
17 turned into a rate increase of .4 percent, correct?

18 MR. VINCE WARDEN: Yes.

19 MR. KRIS SAXBERG: Well, doesn't that
20 suggest that you didn't need to come to the Board earlier
21 to adjust your revenue requirement because it was in
22 line, or perhaps even higher than it ought to have been?

23 MR. VINCE WARDEN: You can put that
24 interpretation on it, Mr. Saxberg, but I think the
25 results that we've demonstrated here, that we've had to,

1 because we didn't get the rate increase we've had asked
2 for, in the wisdom of the Board, we've had to draw down
3 retained earnings.

4 MR. KRIS SAXBERG: Now, we were -- we
5 were talking about 2003/04 and -- and the question was
6 whether there had been a synergy transfer in that year,
7 and your evidence is that there wasn't a synergy transfer
8 in that year?

9 MR. DARREN RAINKIE: I think,
10 unfortunately, we're mixing terms again. In terms of the
11 revenue that the Board allowed in the 2003/04 GRA, there
12 was a \$3 million synergy benefit transfer; that was on
13 the revenue side, included in our rates.

14 But we've also used that term for some --
15 a previous -- the previous agreement before that, where
16 we were taking operating costs out of Manitoba Hydro, and
17 transferring them to Centra, when we were transferring
18 all of the first \$12 million dollars of benefits to
19 Centra.

20 And in fact, I think it's -- hopefully
21 it's clear through the information requests, that we
22 reversed that once we found the new accounting treatment
23 coming out of order 20802.

24 So, there's \$3 million dollars in the
25 revenue that the Board allowed, but there isn't a --

1 there's isn't an additional transfer of costs from
2 Manitoba Hydro to Centra.

3 And fortunately we -- we've used fairly
4 similar terminology for those two very, very different
5 things, and I hope that's not what's causing the
6 confusion here.

7 MR. KRIS SAXBERG: I'm trying to use the
8 terminology that the Board used in 8 -- 118/03. They
9 called a \$3 million dollar amount a synergy transfer, and
10 it was put into revenue requirement for a very specific
11 purpose, and the purpose was to pay a portion of the cost
12 of acquisition, correct?

13 MR. VINCE WARDEN: Mr. Saxberg, I -- I
14 hope we've made it clear though, that that amount was
15 included in -- in revenue only for purposes of -- of
16 determining the amount of the rate change in that year.

17 If you look at our expenses, as referenced
18 in Centra Exhibit number 12, and you go down the line of
19 expenses there you will not find \$3 million dollars
20 expense that was charged to Centra ratepayers.

21 The revenue, the amount that's in -- you
22 could argue, the amount that is included in that revenue
23 number, the four hundred and ninety-four (494), is higher
24 than it would otherwise be by that \$3 million dollars,
25 because of the decision of the Board.

1 There's no expense though, no expense, of
2 \$3 million dollars in Centra's operating expenses.

3 MR. KRIS SAXBERG: Could you --

4 MR. RAINKIE: Mr. Saxberg, another way of
5 saying that is that there was \$3 million dollars on the
6 gas side of the equation, but there wasn't a \$3 million
7 dollar benefit on the electric side of the equation,
8 coming out of that decision.

9 I'm not sure if that's where you're going.
10 If you're thinking that in approving that \$3 million
11 dollar amount in Centra's revenue, somehow that was a
12 benefit to the electric customers because it wasn't.

13 MR. KRIS SAXBERG: And maybe that's why
14 we're butting heads. I'm not suggesting that -- that the
15 money, the \$3 million went to reducing the costs of
16 electric ratepayers.

17 I'm saying, though, that it was a charge
18 to Centra ratepayers, relating to the acquisition.

19 MR. VINCE WARDEN: We've agreed, I think,
20 if you look at the revenue, it's \$3 million dollars
21 higher than without that Order of the Board.

22 MR. KRIS SAXBERG: Okay. And then would
23 you agree that the total amount, which in 2003/04, is
24 being charged to Centra ratepayers for the acquisition is
25 \$18.1 million that -- which is the \$15.1 million plus the

1 \$3 million?

2 MR. VINCE WARDEN: No. No, we're -- we're
3 saying that the revenue that we derive -- that Centra
4 ratepayers did end up paying in -- in the year -- fiscal
5 year 03/04 was not sufficient to cover the fair
6 allocation to them, by a deficiency -- deficient amount
7 of \$8 million dollars.

8 MR. KRIS SAXBERG: If you look at CAC-15,
9 and you flip to the very last page; I'm looking at the
10 note on the right hand column that says, at the bottom of
11 the page,

12 "Synergy transfer benefit, \$3 million,
13 included in the forecast"

14 And that's under line 30, corporate
15 allocations and adjustments, do you see that?

16 MR. RAINKIE: Yes Mr. Saxberg, that --
17 when it came time to answering this IR, it was asking us
18 for a comparison of 2000 -- 2003/04 actual versus 2003/04
19 approved. We needed a way -- a place to group the \$3
20 million dollar synergy revenue transfer, I'll use that
21 terminology, and that's where we proved it was in that
22 line item, as a matter of presentation I guess.

23

24

(BRIEF PAUSE)

25

1 MR. KRIS SAXBERG: The total costs of
2 acquisition that need to be recovered, you've indicated,
3 amount to \$19 million, correct?

4 MR. VINCE WARDEN: Yes.

5 MR. KRIS SAXBERG: And in Order 11803 the
6 Board said how those costs should be recovered, correct?

7 MR. VINCE WARDEN: Do you have a
8 reference for us in that Board Order, Mr. Saxberg?

9 MR. KRIS SAXBERG: Yes. I've got page 65
10 of 11803, and I -- I have copies of it with me if -- if
11 that would be assistance.

12
13 (BRIEF PAUSE)

14
15 MR. KRIS SAXBERG: It's also found at Tab
16 18 of Mr. Peters' Book of Documents, second page in.

17
18 (BRIEF PAUSE)

19
20 MR. KRIS SAXBERG: I'm reading the first
21 two (2) paragraphs. Have you had a chance, Mr. Warden,
22 to review those first two (2) paragraphs of page 65?

23 MR. VINCE WARDEN: I haven't read them in
24 detail but perhaps you could ask your question and I'll -
25 - I'll try to respond.

1 MR. KRIS SAXBERG: The Board says Hydro
2 will, at minimum, realize annual benefits in the range of
3 17 million to 19 million; do you agree with the Board's
4 statement?

5

6

(BRIEF PAUSE)

7

8

9 MR. VINCE WARDEN: Well, Mr. Saxberg,
10 we've stated that our synergy -- synergies are \$16
11 million. We -- I think we've stated that quite
12 consistently, that our -- the amount of synergies are \$16
13 million, and that the benefits in Centra are over and
14 above that by the amount, according to our rebuttal
15 evidence, by a minimum of \$9 million.

16 So, well -- well you have to probably re-
17 read certain sections of this Order to see whether --
18 where the Board came up with the seventeen (17) to
19 nineteen (19). We know that's within the -- the range
20 that we're talking about here, and so therefore, for
21 purposes of proceeding, why don't we accept that at this
22 time.

23

24 THE CHAIRPERSON: Mr. Warden, as much as
25 I hate to involve myself in this, just as I read this in
the attempt of putting some clarification, is it not
possible that the choice of words in this first

1 paragraph, on page 65, is perhaps somewhat unfortunate?

2 It says, "realize annual benefits". It
3 seems clear, on simple reading, that it says:

4 "The Board notes that the Centra's
5 return on equity will be in the range
6 of \$14 to \$16 million."

7 Okay. It's simply adding that return of
8 equity to the synergies to come up to that amount, but
9 does it not ignore the cost of Hydro to finance the
10 operation, because you borrowed money; you didn't have
11 \$254 million to buy the shares of Centra, with no
12 financing cost attached to it, so I propose that as a
13 possibility?

14 MR. VINCE WARDEN: Yes, Mr. Chairman, I -
15 - I very much agree with that. And I think the way we've
16 characterized the acquisition in the past is -- is not as
17 clear as it is today.

18 Hopefully -- hopefully, with the way we've
19 displayed the acquisition, and the costs of that
20 acquisition and how we allocate that acquisition between
21 gas and electricity ratepayers, has been clarified in
22 this Application.

23 Trying to go back and regurgitate what we
24 said, they said, back in those days, is -- is, quite
25 frankly, I don't find productive. If -- if there's

1 something that's unclear about the way we're presenting
2 our evidence today, I'd be glad to explain it further.

3 MR. KRIS SAXBERG: I -- I just want to go
4 down this road, and I'm going to try to be as brief as
5 possible, but Corporate Hydro, you've told us today, is
6 the only entity here that has any debt, or any costs
7 relating to the acquisition of Centra Gas.

8 MR. VINCE WARDEN: Yes. That's the way
9 we've laid it out here, yes.

10 MR. KRIS SAXBERG: As a matter of fact,
11 Manitoba -- Manitoba Hydro Electric doesn't have any
12 costs on its book associated with this transaction.

13 MR. VINCE WARDEN: That's correct.

14 MR. KRIS SAXBERG: Centra Gas has zero
15 (0) costs in its -- in its books, and I'm a distinction
16 between costs and the allocation, corporate allocation.

17 MR. VINCE WARDEN: If you want to keep
18 the corporate allocation separate, you're exactly right,
19 there's no costs associated with the acquisition on
20 Centra's books.

21 MR. KRIS SAXBERG: So they're all there
22 in this entity which we'll call Manitoba Hydro Corporate,
23 and Manitoba Hydro Corporate needs to recover \$19 million
24 a year, to remain whole, to stay out of the red; correct?

25 MR. VINCE WARDEN: Yes.

1 MR. KRIS SAXBERG: And I interpreted
2 Board Order 11803 to be saying the following: that Centra
3 Gas produces a profit of \$15.1 million, based on the 2003
4 GRA every year, and within Manitoba Hydro, there are
5 synergies of 3 million, when we add those two (2)
6 together, they approximate \$19 million.

7 Am -- am I reading the Board's Order
8 correctly?

9 MR. VINCE WARDEN: Mr. Saxberg, again I -
10 - I state that I think there was some confusion as to
11 exactly how the transaction was being handled. Reading
12 the Board Order prompted us to lay it out differently, so
13 that everybody could understand exactly where those costs
14 are, how they flow, how they're allocated between
15 ratepayers.

16 I -- I guess I just can't put it any
17 clearer than that.

18 MR. KRIS SAXBERG: Your position in this
19 Hearing is that within Hydro there is now \$9 million of
20 synergies, correct?

21 MR. VINCE WARDEN: Yes, approximately.
22 Now, I have to qualify that by recognizing that there are
23 assumptions that go into the determination of synergies,
24 but based on our -- the evidence, we -- we can accept
25 that there is in the range of \$9 million of synergies in

1 the -- the electricity side of our business, yes.

2 MR. KRIS SAXBERG: And let me just put it
3 this way: if -- if Manitoba Hydro Electric transferred
4 all of its synergies to Manitoba Hydro Corporate, that
5 would be a transfer of \$9 million, correct?

6 MR. VINCE WARDEN: Well, we're -- we're --
7 we're having a transfer going the other way, to make it
8 clear, that Corporate, at the end of the year, is -- is
9 cleared of all costs.

10 And rather than the nine (9), we're -- we
11 transferred seven (7). So seven (7) has been transferred
12 from Corporate to Electricity, and you could say that the
13 benefits of all this, what we're going through to
14 electricity ratepayers is \$2 million, per year.

15 But those -- there are much greater
16 benefits in the gas side of our business.

17 MR. KRIS SAXBERG: When you apply a charge
18 to Centra Gas of \$15.1 million dollars in 2003/04,
19 doesn't that charge that you've applied completely
20 eliminate the profit which the Board allowed for Centra
21 Manitoba Gas of \$15.1 million?

22 Don't they offset each other exactly since
23 they are the same number?

24 MR. VINCE WARDEN: Well, I -- I can't
25 really say what the Board was thinking then, but the --

1 the Board may have been thinking that the \$15 million
2 dollars was the contribution towards the -- the
3 acquisition costs, thinking that as West Coast used to
4 do, take that money out of Centra and use it for that
5 purpose.

6 As I've explained, that wasn't done. The
7 -- we've allocated costs to Centra, and the -- the net
8 income before that allocation, in the year you're
9 speaking of, \$7 million, not fifteen (15), but the net
10 income before the allocation was only seven (7),
11 therefore there was a deficiency in that year of eight
12 (8).

13 MR. KRIS SAXBERG: You took \$15 million
14 dollars from Centra?

15 MR. VINCE WARDEN: No, we did not take \$15
16 million from Centra, we allocated an amount to Centra.

17 MR. KRIS SAXBERG: And that allocation
18 went to Manitoba Hydro Corporate, \$15 million credit.

19 MR. VINCE WARDEN: From -- from -- from
20 Manitoba Hydro Corporate to Centra.

21 MR. KRIS SAXBERG: Well, what difference
22 does it make which way it flows, it's the same
23 consequence. From the \$15 million --

24 MR. VINCE WARDEN: I'm trying to explain -
25 - I've -- I've --

1 MR. KRIS SAXBERG: -- the \$15 million
2 charge is a \$15 million dollar --

3 MR. VINCE WARDEN: -- I'm just trying to
4 explain to you the way it flowed, Mr. Saxberg, and that's
5 the way it was, so it does make a difference.

6 MR. KRIS SAXBERG: So -- but the bottom
7 line is, the Corporate allocation eats up the entire
8 profit return on equity which was allowed by the Board?

9 MR. VINCE WARDEN: Well, the profit as you
10 can see, was not sufficient for the Corporate allocation
11 exceeded the amount of the net income.

12 MR. KRIS SAXBERG: But you'll be
13 recovering it back in years to come as a result of the
14 way that you've calculated your retained earnings.

15 MR. VINCE WARDEN: To the extent that we
16 are allowed to achieve a 75:25 debt equity ratio over an
17 extended period of time, we'll -- we'll be achieving the
18 capital structure that we're striving for, and I wouldn't
19 say recover it back, but we'll have achieved the target
20 that we're -- we're -- we have set out in these
21 proceedings as being the appropriate one for the gas
22 utility.

23 THE CHAIRPERSON: Mr. Warden, just a point
24 of clarification. If retained earnings is higher than
25 otherwise would be, your -- the borrowing requirements

1 are less, are they not?

2 MR. VINCE WARDEN: Yes. Retained earnings
3 -- the higher the equity ratio, the more we're funding
4 internally, and yes the borrowing would be -- would be
5 that much less.

6 THE CHAIRPERSON: And if the borrowing is
7 less, the interest charges, presumably, are less?

8 MR. VINCE WARDEN: Correct.

9 THE CHAIRPERSON: And on a cost to service
10 basis, that means the input cost in the equation are
11 lower?

12 MR. VINCE WARDEN: Correct.

13

14 CONTINUED BY MR. KRIS SAXBERG:

15 MR. KRIS SAXBERG: Would you agree that if
16 the financial benefits flowing from the transaction in
17 Centra Gas are \$7 million synergies, \$4 million foregone
18 taxes for \$11 million, that transferring \$15 million to
19 Manitoba Corporate is causing harm to Centra ratepayers?

20 MR. VINCE WARDEN: No, Mr. Saxberg, I
21 would not agree to that at all. You have to look at our
22 evidence and -- and you wouldn't agree with that either.

23 MR. KRIS SAXBERG: And you'll agree with
24 me that the only -- the lynchpin of your argument is the
25 baseline calculation that you've done as to where Centra

1 would be if West Coast was still the owner?

2 MR. VINCE WARDEN: We've -- as weak as
3 that may seem, we have nothing else to -- to base that
4 on, but I think our evidence is reasonable. As a matter
5 of fact, if anything, I think we've understated the
6 benefits that -- that have been derived, and we've,
7 again, talked about this earlier with Mr. Peters.

8 MR. KRIS SAXBERG: If your baseline is
9 wrong, then the calculation of benefits is wrong; you can
10 agree with that?

11 MR. VINCE WARDEN: I'm sorry, if what is
12 wrong?

13 MR. KRIS SAXBERG: On page 14 of your
14 rebuttal evidence, you've set out a baseline which is
15 Centra Gas, no acquisition.

16 MR. VINCE WARDEN: We have set out in our
17 rebuttal evidence the absent acquisition scenario, in
18 which there are certain assumptions made, which, as we've
19 talked about earlier, we believe are conservative, that
20 is probably understating the amount of the absent
21 acquisition scenario.

22 MR. KRIS SAXBERG: And I'm calling it a
23 baseline because that's what it's been referred to --
24 that's how it's been referred to in prior hearings,
25 correct?

1 MR. VINCE WARDEN: Well, we can -- we can
2 it the baseline if you like, for purposes of our
3 discussion.

4 MR. KRIS SAXBERG: But the exercise of
5 trying to determine what Centra would be like without the
6 acquisition has -- has been done in previous hearings?

7 MR. VINCE WARDEN: Yes, it has.

8 MR. KRIS SAXBERG: And you've taken the
9 position, in those hearings, that the further down the
10 road we go, the more difficult it is to accurately
11 determine what Centra would have looked like without the
12 acquisition?

13 MR. VINCE WARDEN: And that's still our
14 position, yes.

15 MR. KRIS SAXBERG: And we're further out
16 in this Hearing than we were two (2) years ago, when the
17 same calculation was made, correct?

18 MR. VINCE WARDEN: We are.

19 MR. KRIS SAXBERG: So, if it had --
20 whatever weight it attracted at the last Hearing, is
21 going to be -- it's going to have somewhat less weight
22 this Hearing since we are further down the road, and
23 there are further assumptions that have to be made to try
24 to figure out where Centra with -- under West Coast
25 would have been; correct?

1 MR. VINCE WARDEN: I'm not sure I agree
2 with that. I think we'd have to test our assumptions
3 before we came to that conclusion.

4 MR. KRIS SAXBERG: Was it not your
5 position at the last Hearing that you wanted to abandon
6 trying to create a -- a Centra baseline because of the
7 difficulties associated with that?

8 MR. VINCE WARDEN: Yes. I -- I think
9 that's fair. We would like to, you know, leave the past
10 behind us and move forward, looking forward, and except
11 that -- but certain parties to these proceedings refuse
12 to do that.

13 MR. KRIS SAXBERG: I don't know who --
14 who you could be talking about, but -- at the last
15 Hearing you -- instead of the notion of a corporate
16 allocation of 15 million, what was presented to the Board
17 was a -- what was called a \$7 million synergy transfer,
18 correct?

19 MR. VINCE WARDEN: Yes.

20 MR. KRIS SAXBERG: And your position was,
21 Let's embed this synergy transfer into revenue
22 requirement for the next (30) years, and we'll never have
23 to talk about baselines or synergies ever again; correct?

24 MR. VINCE WARDEN: I think you might be
25 simplifying our position somewhat, Mr. Saxberg. I would

1 have to look at our evidence then. I'm sure it was
2 sound, but -- but we are where we are today.

3 MR. KRIS SAXBERG: You were not talking
4 about the corporate allocation of 15 million at the last
5 GRA, you were talking about a \$7 million synergy
6 transfer, correct?

7 MR. VINCE WARDEN: But, as I tried to
8 explain earlier, partly as a result of seeing some of the
9 confusion that we've had in the past, and as evidenced in
10 -- partly in Board Order 118/03, we've tried to lay this
11 out more clearly, so that we can understand going
12 forward, exactly how those costs are being transferred
13 between electricity and gas ratepayers.

14 MR. KRIS SAXBERG: But I -- I just wanted
15 to get it on the record that, at the last Hearing, you
16 were saying there should be an amount in revenue
17 requirement, that's fixed, that deals with Centra's share
18 of the cost of acquisition, so that we don't have to
19 revisit synergy calculations and cost calculations again.

20 MR. VINCE WARDEN: Well, as we're -- as
21 we're doing at these Proceedings, we were attempting to
22 put the acquisition behind us and move forward, and we
23 haven't achieved that yet, as you can see.

24 MR. KRIS SAXBERG: And back two (2) years
25 ago, you said that if we embedded \$7 million, we'd be

1 able to move forward and never revisit synergies or
2 baseline again.

3 MR. VINCE WARDEN: Well, I think you're
4 recycling back to that question that I -- I answered.
5 I'd have to go back and look at -- at the entirety of our
6 evidence, to answer your question, but I'm -- I'm not
7 prepared to just agree with your summary comment.

8 MR. KRIS SAXBERG: Are you prepared to
9 take it as an undertaking to determine if Centra's
10 position at the last Hearing was that if we embed
11 \$7 million into revenue requirement, we won't have to
12 deal with synergies, or baseline, or the costs of
13 acquisition ever again?

14 MS. MARLA MURPHY: I think, Mr. Chairman,
15 there's a whole whack of transcripts that -- that would
16 require summarizing, and I'm not sure that we're ever
17 going to be able to distill that to the kind of sense
18 that Mr. Saxberg's looking for, and I'm not sure how
19 helpful it would be if we were to go back and restate the
20 case that was put forward in '03/'04.

21 THE CHAIRPERSON: We will take it under
22 advisement. Just carry on, Mr. Saxberg.

23 MR. KRIS SAXBERG: I'm looking at your
24 baseline calculation now, on page 14 of your rebuttal
25 evidence, and your suggestion is that, had Centra not

1 been acquired by Manitoba Hydro, cost of operations would
2 be \$62 million; correct?

3 MR. VINCE WARDEN: At least.

4 MR. KRIS SAXBERG: And would you agree
5 with me, subject to check, that the last cost of
6 operations approved by the Board for Centra under West
7 Coast, was \$48.7 million?

8 MR. VINCE WARDEN: That sounds like the
9 right number; yeah.

10 MR. KRIS SAXBERG: And that --

11 MR. VINCE WARDEN: 1998, yes.

12 MR. KRIS SAXBERG: So that --

13 MR. VINCE WARDEN: Point -- point of
14 clarification.

15 MR. KRIS SAXBERG: In 1998, correct.

16 That -- you're suggesting then that rates -- sorry, the
17 cost of operation would have increased from forty-eight
18 point seven (48.7) to sixty-two point one (62.1) between
19 1998 and 2005; correct?

20 MR. VINCE WARDEN: Yes. Mr. Saxberg, it
21 might be helpful, we've plotted this on a -- on a -- on a
22 graph that very clearly, I think, sets out our
23 conservative assumptions in arriving at that number, and
24 if it's permissible, we'll -- we'll arrange to have that
25 copied and -- and distributed to the Board.

1 THE CHAIRPERSON: You have no problem
2 with that, Mr. Saxberg?
3 It might prove helpful, please.
4 MR. KRIS SAXBERG: Sure.
5 THE CHAIRPERSON: Yes, Mr. Warden?
6 MR. VINCE WARDEN: Sorry, we don't have
7 them immediately available, but we'll arrange for those
8 copies to be made and distributed very soon.
9 MR. KRIS SAXBERG: Sure. Thank you.
10 Would you agree, subject to check, that we're talking
11 about a 28 percent increase in cost of operations then,
12 between 1998 and 2005?
13 MR. VINCE WARDEN: I'm sorry, I missed
14 that question.
15 MR. KRIS SAXBERG: I've -- I've just
16 taken the 48.7 million, 1998 cost of operations, compared
17 it to the 62.1 million for 2005, and note that the
18 increase is 28 percent; do you agree with that?
19
20 (BRIEF PAUSE)
21
22 MR. VINCE WARDEN: What was your
23 calculation again, sorry?
24 MR. KRIS SAXBERG: 28 percent.
25 MR. VINCE WARDEN: My accountant is

1 coming up with a different number here.

2 MR. KRIS SAXBERG: Okay.

3 MR. VINCE WARDEN: We'll -- we'll have to
4 check that calculation, Mr. Saxberg.

5 THE CHAIRPERSON: Mr. Saxberg, in your,
6 basically, your table you're looking for, your base rate
7 -- or your base year is 1998?

8 MR. KRIS SAXBERG: Right. The last year
9 that West Coast actually owned Centra.

10 THE CHAIRPERSON: And you're comparing it
11 against the test year?

12 MR. KRIS SAXBERG: Number that is --

13 THE CHAIRPERSON: But which specific
14 year?

15 MR. KRIS SAXBERG: It says: "2005/06,
16 absent acquisition of sixty-two point
17 one (62.1)."

18 That's the...

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: In responding to Mr.
23 Saxberg, there's one thing that would be helpful to us,
24 just to cover it off and not have to ask it later, is
25 1998 a representative year?

1 MR. VINCE WARDEN: 1998, my
2 understanding, Mr. Chairman, was a very difficult year
3 for Centra inasmuch as there were a number of disallowed
4 costs in that year related to the derivative -- hedging
5 program.

6 Whenever I do any baselines personally I
7 always go back to the year previous to 1997 for -- I
8 think that's more representative of the -- of the costs
9 incurred by Centra at that time.

10 THE CHAIRPERSON: In fairness to Mr.
11 Saxberg though, he picked 1998, and that the year, I
12 think...

13

14 (BRIEF PAUSE)

15

16 THE CHAIRPERSON: In fairness, you could
17 comment on 1998, just footnote it as to what the
18 significant differences from norm is, and you could use a
19 different year that you feel more comfortable with as
20 well.

21 Would that be all right, Mr. Saxberg?

22 MR. KRIS SAXBERG: I hate to be difficult
23 but, no, because if you look at their Attachment 1, which
24 is the calculation of the \$62 million figure for the
25 baseline on page 14 -- if you -- if you go to Attachment

1 1 to the rebuttal evidence, that's Centra's own
2 calculation.

3 THE CHAIRPERSON: We have it.

4 MR. KRIS SAXBERG: And Centra begins with
5 1998 Approved Operating Costs; those are, of course,
6 approved by the Public Utilities Board, after which a
7 whole series of costs are added to it.

8 MR. WILLIE DERKSEN: Mr. Saxberg, maybe I
9 can be of assistance here. We did talk about this in the
10 last rate application as well. And the first years of
11 this forecast were based upon the executives of Centra's
12 forecast of costs that would be incurred in -- in future
13 years. And we'd gone over many of these individual items
14 themselves at that time.

15 The Board and the Intervenors were well
16 aware that we had to acquire a new CIS system, which was
17 going to result in significant increases in operating
18 costs. And it shows as \$2.8 million in here, and that is
19 the number that we talked about at that time.

20 And we've gone over various of these other
21 ones as well. And the last number that we came to at the
22 last GRA, in talking to all of these ones, was the number
23 at 2003/04, which is fifty-nine point two (59.2).

24 Now, we've been very conservative since
25 then, only taking CPI, the significant increase in

1 uncollectible accounts and a moderate customer growth
2 figure into consideration here.

3 Now, Mr. Warden has talked about other
4 changes that have happened in the company, other service
5 improvements. And as well, there have been a number of
6 accounting changes relating to benefits and other things
7 that have caused other significant cost increases and, to
8 be conservative, we have not tried to quantify those.

9 So we think this is a very conservative
10 estimate of the costs that otherwise would have been
11 incurred.

12 MR. VINCE WARDEN: I'd just like to make
13 one other point as well. The number that Mr. Saxberg
14 referred to back in 1998 was the amount that was allowed
15 by this Board. But if you go back to the audited
16 financial statements for 1998, the actual amount of
17 operating, maintenance and administrative expenses was
18 fifty-one point five (51.5).

19 So I suspect that the management at that
20 time would have been attempting to recover the difference
21 between what was allowed in that year and what the actual
22 costs were incurred in 1998. So, if anything, we -- we
23 definitely are -- and if I go back to the year previous,
24 1997, according to the audited financial statements, it's
25 forty-eight point seven (48.7) in that year.

1 So I think when we -- any kind of
2 retrospective is froth with all kinds of ifs and buts.
3 So I think we have to be very careful of the assumptions
4 we're making and back to the point that at some point we
5 have to move forward.

6 MR. KRIS SAXBERG: You'd agree with me
7 that you've made adjustments, including inflating costs,
8 but you haven't made any adjustments to reflect
9 productivity gains that may have been achieved in the
10 years.

11 MR. WILLIE DERKSEN: No, I wouldn't agree
12 with that sir because at the time of acquisition, Centra
13 had gone through a period of about four (4) or five (5)
14 years with minimal to zero wage increases, and with the
15 preferred future arrangement that was in place at that
16 time, it was recognized that the compensation levels
17 needed to be adjusted quite dramatically from the levels
18 that had been achieved by 1998.

19 And so what we've included in here is only
20 the inflation component recognizing that wage increase,
21 pressures and actual wage increases awarded would have
22 been, and have been, higher than that.

23 MR. KRIS SAXBERG: And year over year,
24 there may also have been other cost decreases relating to
25 programs, but you haven't included any cost decreases?

1 MR. WILLIE DERKSEN: We have included the
2 major cost decreases that we have identified, but our
3 evidence and -- and the -- and the reality of it is that
4 we've enhanced programs and increased programs rather
5 than reduced programs since that point in time.

6 MR. KRIS SAXBERG: And let's just pick one
7 specific one --

8 THE CHAIRPERSON: Excuse me Mr. Saxberg,
9 could you remind us of the exhibit that you referenced
10 to, we think you said two (2) or three (3) pages of
11 customer service improvements over a period of time; what
12 was that reference?

13 MR. WILLIE DERKSEN: Just a minute, I'll
14 find it.

15 THE CHAIRPERSON: I think all of us here
16 would agree that we're not, you know, sort of trying to
17 succeed in a debate from either perspective.

18 What we're trying to find out is what's a
19 reasonable comparison of the situation.

20 MR. WILLIE DERKSEN: Yes, the -- it's the
21 response to CAC/MSOS/CENTRA-158 is where the -- the
22 program enhancements are outlined.

23 THE CHAIRPERSON: Thank you Mr. Derksen.
24 Mr. Saxberg...?
25

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: There's an item that
3 you've included for 2003/'04 for uncollectible accounts,
4 and it's in the amount of \$1 million, correct?

5 MR. WILLIE DERKSEN: That's for 2004/'05,
6 yes.

7 MR. KRIS SAXBERG: Oh, I see.

8 MR. WILLIE DERKSEN: I believe in 1998,
9 the approved level of -- of bad debt expense was in the
10 order of 900,000, whereas I believe we've -- we've seen
11 evidence where it's approaching \$3 million in the test
12 years.

13 And so, the real increase is 2.1 million,
14 whereas I think the increases that we have over and above
15 inflation, I think there's \$500,000 in the first set of
16 numbers, and then a further million, so we've only got
17 1.5 million built into this.

18 MR. VINCE WARDEN: If you go back to
19 '02/'03, just to point out that the reduction that has
20 been included in the driving the \$62 million repatriation
21 of Banner, I doubt very much whether that would have
22 happened under West Coast ownership. That was an
23 initiative Manitoba Hydro undertook in that year.

24 There were benefits for West Coast to have
25 Banner where it was, with an affiliated company and so,

1 I'm not sure that's an appropriate deduction from this
2 total.

3 THE CHAIRPERSON: Mr. Saxberg, would it be
4 all right with you if we could just take a ten minute
5 break?

6 MR. KRIS SAXBERG: Yes.

7 THE CHAIRPERSON: Thank you.

8

9 --- Upon recessing at 2:48 p.m.

10 --- Upon resuming at 3:08 p.m.

11

12 THE CHAIRPERSON: Okay. If we could
13 start again. Firstly, with respect to the matter that we
14 took under advisement, I think, on thinking it over, not
15 trying to be unhelpful, Mr. Saxberg, but perhaps when you
16 come to closing argument you can make reference to
17 portions of Board Orders and statements made by Centra to
18 your choosing at that time rather than ask Centra to make
19 undertaking to pluck out of past data based on their own
20 perception. It's probably better if you do it yourself.

21 Mr. Saxberg referred to, I believe you
22 were talking about, you referred to rate increases that
23 were granted with respect to 2004, and I think you talked
24 about that subject going back a little bit of time.

25 And I was wondering if, Ms. Murphy, is

1 Centra could take it as an undertaking to provide the
2 Board with the rates applied for and approved, general
3 rate increases for non-gas costs from 1990 through to the
4 current date; like, applied for and actually granted.

5 MS. MARLA MURPHY: Yes. We should be
6 able to do that.

7 THE CHAIRPERSON: Because there could be
8 a difference between the two of them. Thank you.

9

10 --- UNDERTAKING NO. 19: Centra to provide the Board
11 with general rate increases
12 for non-gas costs from 1990
13 through to the current date,
14 applied for and actually
15 granted.

16

17 THE CHAIRPERSON: Mr. Saxberg...?

18 MR. KRIS SAXBERG: Thank you, Mr.

19 Chairman.

20

21 (BRIEF PAUSE)

22

23 CONTINUED BY MR. KRIS SAXBERG:

24 MR. KRIS SAXBERG: Mr. Warden, you'd
25 agree that the cost of operations estimate for Centra

1 absent the acquisition is subject to numerous assumptions
2 and hypotheticals?

3 MR. VINCE WARDEN: Well, it is, but to
4 the extent that we have to come up with something for
5 comparison purposes, it's the best we could do. And, as
6 we've indicated, we think we're being quite conservative
7 in that number.

8 MR. KRIS SAXBERG: Okay. And your
9 evidence on the record in this proceeding is that as a
10 result of the purchase of Centra Gas, cost of operations
11 is \$7 million lower than it would be otherwise, correct?

12 (BRIEF PAUSE)

13
14
15 MR. VINCE WARDEN: Well, I think that was
16 -- we were talking about how the synergies of \$16 million
17 would be split fairly between electricity and gas
18 ratepayers, and we came up with a seven (7) and nine (9)
19 split, seven (7) going to gas ratepayers and -- and nine
20 (9) to electricity ratepayers.

21 MR. KRIS SAXBERG: You told me previously
22 that the \$7 million calculation of synergies in Centra is
23 the best evidence to date of the level of cost reductions
24 at Centra Gas as a result of the acquisition?
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1 (BRIEF PAUSE)

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MR. WILLIE DERKSEN: Mr. Saxberg, maybe I could help here. We have looked at the cost savings to Centra in a number of different ways, and a conclusion is that it's in the order of 6 to 8 million.

The -- page 14 of the rebuttal evidence indicates \$8 million of -- of costs being lower than they otherwise would have been. But, you know, as Mr. Warden and myself have acknowledged, there are a number of assumptions and we can't -- the level of precision as indicated is maybe high on that particular one, as it is on anything else.

So, I think \$7 million is a reasonable estimate. We've looked at where the synergies would likely manifest themselves in terms of the operations, and we came up independently with a number of six point five (6.5) to seven (7); that range. So between six (6) and eight (8) I think is -- is the most likely number of cost reductions on -- on Centra, as a result of the acquisition.

And so seven (7) is -- is the number that's been used in this proceeding.

MR. KRIS SAXBERG: Okay. Well, thank you for that. Therefore, if I'm looking at page 14 and the

1 calculation of the baseline, the difference between the
2 test year and ABS (phonetic) and acquisition, should be
3 7 million then, according to your -- your analysis that
4 you've just given?

5 MR. WILLIE DERKSEN: Well, what I think
6 I've given you is a range of \$6 to \$8 million, and doing
7 this top-down approach, which is consistent with how we
8 did it last time, it shows the number of \$8 million and
9 so that's what's on this schedule.

10 I think, it was important to be consistent
11 and to be conservative; consistent with how we
12 represented it last time. But, if you look at it
13 independently, I mean, we all recognize there -- the
14 precision is -- is somewhat tight on this, relative to
15 the assumptions that have to be made.

16 MR. VINCE WARDEN: Mr. Saxberg, I'm just
17 going to mention that we do have this graph that I
18 referenced before the break, copied now, that might be
19 helpful to address the point, or give you some more
20 comfort with the \$62 million that we're referencing in
21 our rebuttal evidence.

22 It doesn't tell the whole story, but I
23 think it might be helpful if -- if you'll allow us to
24 distribute this now.

25 MR. KRIS SAXBERG: Sure.

1 THE CHAIRPERSON: Please, Mr. Warden.

2

3 --- EXHIBIT NO. CENTRA-16: Graph.

4

5 MS. MARLA MURPHY: Mr. Chairman, while
6 those are being distributed, there's three (3) other
7 undertakings that could be answered at this time, if --
8 if you'd like that.

9 THE CHAIRPERSON: Yes, please.

10 MS. MARLA MURPHY: We have the Response
11 to Undertaking Number 9, which was taken at transcript
12 page 816, which the difference between the increase in
13 costs of gas and the increase in the average industrial
14 wage, which you had inquired of.

15 THE CHAIRPERSON: Thank you.

16 MS. MARLA MURPHY: I'm just searching for
17 the Exhibit Number. I believe the graph that Mr. Warden
18 has referred to should be Centra Exhibit 16?

19 THE CHAIRPERSON: Yes, I believe that's
20 correct.

21 MS. MARLA MURPHY: Which would make
22 Undertaking Number 9, Centra Exhibit 17.

23

24 --- EXHIBIT NO. CENTRA-17: Response to Undertaking No. 9
25 which was taken at transcript

1 page 816.

2

3

MS. MARLA MURPHY: And then we also have
4 the responses to two (2) undertakings that were taken
5 today. We have them as Undertaking Number 16, which was
6 the calculation of the forty thousand dollars (\$40,000)
7 and whether that was 25 percent of the cost of Royalwood
8 four-party trench, which I believe should be Centra
9 Exhibit Number 18.

10

11 --- EXHIBIT NO. CENTRA-18: Response to Undertaking No.
12 16.

13

14

MS. MARLA MURPHY: And undertaking
15 Number 18 -- again, I don't have a transcript page
16 reference, it was from earlier today, which was the
17 Updated Cost Forecast for the Keniston Underpass
18 Relocation.

19

20

And I think once you have that in front of
you, it should be Centra Exhibit 19.

21

22

23

24

25

--- EXHIBIT NO. CENTRA-19: Response to Undertaking No.
18 which was the Updated Cost
Forecast for the Keniston
Underpass Relocation.

1 THE CHAIRPERSON: Thank you.

2

3 (BRIEF PAUSE)

4

5 MS. MARLA MURPHY: I believe you only

6 have one (1) more --

7 MR. KRIS SAXBERG: Mr. Chairman, could I

8 just --

9 MS. MARLA MURPHY: -- do you have one (1)
10 more in your package; is that correct?

11 The Response to Undertaking Number 17,
12 which is the cost comparison for the four-party and the
13 single-party, for Royalwood?

14 So, if we could have that marked as Centra
15 Exhibit Number 20, then I think I have everything.

16

17 --- EXHIBIT NO. CENTRA-20: Response to Undertaking No.

18 17. The cost comparison for

19 the four-party and the

20 single-party for Royalwood.

21

22 MR. BOB PETERS: And if Ms. Murphy could

23 just repeat the assigned numbers, that will ensure I get

24 them almost correct.

25 MS. MARLA MURPHY: Certainly. I had them

1 as Mr. Warden's O&A Expense growth versus CPI Customer
2 Growth Chart as being number 16.

3 The response to Undertaking Number 9,
4 being number 17.

5 The response to Undertaking number 16,
6 being Centra Exhibit number 18.

7 The response to Undertaking Number 18,
8 being Centra Exhibit number 19.

9 And the response to Undertaking Number 17,
10 being Centra Exhibit number 20.

11 THE CHAIRPERSON: By Job, I think we have
12 it.

13 MS. MARLA MURPHY: Thank you.

14 THE CHAIRPERSON: Mr. Saxberg...?

15 MR. KRIS SAXBERG: I'm missing a copy of
16 Exhibit 19.

17
18 (BRIEF PAUSE)

19
20 MR. KRIS SAXBERG: Oh, sorry. No, I'm
21 not. Thanks.

22
23 (BRIEF PAUSE)

24
25 CONTINUED BY MR. KRIS SAXBERG:

1 MR. KRIS SAXBERG: So, your -- your range
2 then, Mr. Derksen, for O&M reductions is between 6 and 8
3 million, so you're splitting the difference, and that
4 pushed, you're going to say, the number that the Board
5 should ultimate fasten to is 7 million, correct?

6 MR. VINCE WARDEN: Well the month -- the
7 number we have in our rebuttal evidence, with -- which we
8 think is a pretty good number, is the cost of six (6) --
9 O&A cost, absent the acquisition, of 62 million.

10 If I can just refer you to the chart for a
11 moment to give you some level of confidence in that -- in
12 that number. You can see that we -- the 1998 number that
13 we talked about for the 48 million, is on this chart.

14 But we -- but we also went back to five
15 (5) years, just to give you some -- some five (5) years
16 of history, just to show you that methodology we used in
17 coming up with the -- with the number of 62 million,
18 although it wasn't -- I must say, it wasn't the identical
19 methodology. But nevertheless, this was put together to
20 show you, or at least to demonstrate some level of
21 comfort with that number.

22 If you follow that through, you can see
23 that following the same methodology through from the
24 history of Centra, back to 1993, all the way through to
25 2006/07, the costs that would have -- would have been

1 incurred under the previous ownership, exceed the \$60
2 million number. And the actual costs incurred by Centra
3 since the date of acquisition are -- are well below that
4 line, and continue to be -- be below that line into the
5 future.

6 MR. KRIS SAXBERG: Do you know what the
7 number is for the year 2005, as depicted in this chart?

8 MR. WILLIE DERKSEN: Is that 2005/06 that
9 you're looking for?

10 MR. KRIS SAXBERG: Well, on the bottom it
11 -- it says 2005.

12 MR. WILLIE DERKSEN: The test year is
13 2006, that's why I'm wondering if it's '05/'06 or '04/'05
14 that you're looking for?

15 MR. KRIS SAXBERG: Oh, I see. So, if for
16 the '05/'06 test year I'd be looking at 2006?

17 MR. WILLIE DERKSEN: That's correct. The
18 number on this chart, the corresponding number would be
19 sixty-three point three (63.3).

20 MR. KRIS SAXBERG: And this is simply
21 measuring CPI customer growth, versus actual O&M,
22 correct?

23 MR. WILLIE DERKSEN: Yes, it's CPI and
24 customer growth, that is the line that's above it, and
25 the -- and the bars on the graph are the actual results,

1 and the forecasted results for the last three (3) years
2 indicated.

3 MR. KRIS SAXBERG: So in 1998 then, is
4 the actual number of fifty-two (52), rather than the
5 approved number of forty-eight point seven (48.7)?

6 MR. WILLIE DERKSEN: The actual number
7 for 1998 that's being used for this graph is a \$50.5
8 million number, which is based upon the actual number
9 that Centra incurred in 1998, but adjusted for changes in
10 accounting methodology, mainly the reclassification of
11 payroll taxes out of cost of operations.

12 MR. KRIS SAXBERG: And for 2001 the
13 number then is -- the actual number of O&A?

14 MR. WILLIE DERKSEN: Forty-nine point six
15 (49.6).

16
17 (BRIEF PAUSE)

18
19 MR. KRIS SAXBERG: And the actual for
20 2003?

21 MR. WILLIE DERKSEN: Fifty-three point
22 six (53.6).

23
24 (BRIEF PAUSE)

25

1 MR. KRIS SAXBERG: The dotted line would
2 be lower if you'd included productivity factors for each
3 of these years; correct?

4 MR. WILLIE DERKSEN: No. I think, as I
5 said earlier, since we're using just CPI and -- and wage
6 increases are -- have been above CPI, there's already an
7 embedded productivity factor included in that line.

8

9 (BRIEF PAUSE)

10

11 MR. KRIS SAXBERG: But, to be precise,
12 the CPI number is what it is. If you were to minus
13 productivity, it would be lower?

14 MR. WILLIE DERKSEN: I -- I'm not sure
15 what precision that would add to this information.

16 MR. KRIS SAXBERG: And customer growth,
17 what is that relating to; what is that inflating?

18 MR. WILLIE DERKSEN: That's the number of
19 customers. So if Centra incurs additional costs, of
20 course, as it adds customers to its system, and -- and I
21 suppose, especially in some years when we're doing more
22 rural work, the costs can be must higher than the average
23 costs. But West Coast's practice in the past has been to
24 inflate its budgets by an appropriate factor but also by
25 the amount of customer growth.

1 MR. KRIS SAXBERG: So you've -- you've
2 taken the CPI increase, whatever that is, for each year,
3 and then you've added on to it a customer growth factor,
4 which would be how much per customer?

5 MR. WILLIE DERKSEN: It would be a
6 percentage, so it would be in the order of two hundred
7 dollars (\$200).

8

 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: Would you agree with
11 me that in the five (5) years prior to 1998, Centra Gas's
12 cost per customer remained relatively flat, in or around
13 the two hundred dollar (\$200) per customer range?

14 MR. WILLIE DERKSEN: Well, the numbers
15 that I have show one ninety-five (195) in 1993, then one
16 ninety-two (192), then two-o-one (201), then two-o-eight
17 (208), then two-o-one (201), and then two-o-nine (209).
18 So they varied between one ninety-two (192) to two-o-nine
19 (209).

20 MR. KRIS SAXBERG: Those are based on
21 actuals, right?

22 MR. WILLIE DERKSEN: Absolutely.

23 MR. KRIS SAXBERG: If we were to look at
24 O&A, approved by the Board, from 1993 to 1998, we'd be
25

1 looking at an amount that's more even, at two hundred
2 dollars (\$200) a customer, correct?

3 MR. WILLIE DERKSEN: I -- I don't have
4 the numbers in front of me, Mr. Saxberg, so I -- I'm not
5 sure.

6 MR. KRIS SAXBERG: Well, could you just
7 take these numbers subject to check, that in 1993 the
8 approved cost per customer was two hundred dollars
9 (\$200), that in 1995 the -- the Public Utility Board
10 approved cost of operations was two hundred dollars
11 (\$200) per customer, that in 1997 the approved cost of
12 customers was two-o-one (201), and 1998 approved was one
13 ninety-eight (198)?

14 MR. WILLIE DERKSEN: That seems
15 reasonable to me, sir, but at the same time, as I
16 mentioned earlier, there are a number of things that were
17 causing increases to Centra's cost of operations, such
18 that those cost per customers could not be maintained.

19 And -- and one of the most significant
20 factors that I mentioned was the new CIS system, which
21 was about a \$2.8 million increase to its cost of
22 operations in that time. And as well, there was a
23 significant requirement to set wages at a more
24 appropriate level because of the several years that
25 employees had foregone wage increases related to the

1 the lower the equity component, the lower is the dollar
2 number for return on equity?

3 MR. DARREN RAINKIE: No, I don't agree
4 with that, because the lower the equity percentage you're
5 -- you're going to have, particularly in a private
6 company, the higher the rate of return you're going to be
7 asking for.

8 So, I do not accept that proposition.

9 MR. KRIS SAXBERG: You -- you might be
10 asking for a higher rate of return, but when it's
11 determined on a formula, you're not likely to get it.

12 MR. DARREN RAINKIE: No, I wouldn't say
13 that. I think the Board would look at reasonable
14 arguments.

15 If you're -- if you're -- when you're
16 trying -- when you're a stand-alone company that has to
17 borrow your own debt, if your equity ratio went from
18 forty (40) to thirty (30), I think the Board would accept
19 arguments on a higher rate of return, because your bond-
20 raters would be reducing your bond-rating, your -- your
21 interest expense would be going up, so it would be
22 counterproductive.

23 MR. KRIS SAXBERG: The current equity
24 calculation, including that the share capital is 32.3
25 percent; correct?

1 MR. DARREN RAINKIE: That's the
2 application of Board's proved methodology, yes.

3 MR. KRIS SAXBERG: And the Board hasn't
4 accepted a 40 percent notional equity component, and
5 didn't at the last GRA, notwithstanding that the request
6 was made, correct?

7 MR. DARREN RAINKIE: That's correct. Nor
8 are we asking for one in this Application.

9 MR. KRIS SAXBERG: Exactly. But however,
10 on page 14 of your rebuttal evidence, where you're
11 calculating the baseline, you have assumed a 40 percent
12 equity amount in order to determine the return on equity,
13 or the return on rate base and to determine the amount of
14 taxes that would flow from that calculation.

15 MR. DARREN RAINKIE: Mr. Saxberg, as Mr.
16 Warden said a few minutes ago, a private company would
17 not have had a reduct -- a net loss for two (2) or three
18 (3) years. Our retained earnings would not have ground
19 down.

20 We would have still been around 40 percent
21 for -- if you want to talk about the history, for fifteen
22 (15), twenty (20) years, we had around a -- a 40 percent
23 equity ratio.

24 I'm not sure what makes you think that we
25 would have, under West Coast ownership, let that

1 deteriorate to 33 percent.

2 MR. KRIS SAXBERG: If you look at your
3 Attachment 2 to the rebuttal evidence, line 5, Equity
4 Component is at 40 percent, correct?

5 MR. DARREN RAINKIE: That's correct.

6 MR. KRIS SAXBERG: And the Board's never
7 allowed 40 percent, whether it was West Coast or Hydro,
8 correct?

9 MR. DARREN RAINKIE: I think at times in
10 the past that number has been above 40 percent. It
11 depends what happened in a particular year.

12 It's hovered around 30 percent. If you
13 want to argue the difference between thirty-nine point
14 five (39.5) and forty (40), and you want us to
15 recalculate it, we can, Mr. Saxberg.

16 But it surely wasn't thirty-eight (38),
17 thirty-seven (37), thirty-six (36) or thirty-five (35).
18 It was fairly consistently close to 40 percent equity.

19 MR. KRIS SAXBERG: Well, we'll speed this
20 up then, and I'll take you up on your invitation, and ask
21 you to recalculate Attachment 2, with an equity component
22 of 32.3 percent, which is the current equity.

23 MR. DARREN RAINKIE: That's not what this
24 calculation is doing, Mr. Saxberg. It isn't saying what
25 is the equity component under West -- Manitoba Hydro

1 ownership, it's saying what is the base line rate of
2 return, rate -- return rate base, rather, under West
3 Coast ownership.

4 MR. KRIS SAXBERG: But isn't --

5 MR. DARREN RAINKIE: You can do the
6 calculation, but let's talk about what that calculation
7 will prove, nothing.

8 MR. KRIS SAXBERG: Well that's -- your
9 counsel can argue that in closing, but isn't the best
10 evidence of what the equity ratio would be, what it is
11 today?

12 MR. DARREN RAINKIE: No, it isn't.
13 Because under West Coast ownership we probably would have
14 consistently earned \$12 to \$15 million of net income a
15 year, paid out 65 percent as a dividend, and maintained a
16 40 percent equity structure so that we could actually
17 borrow debt to make \$20 million worth of investment in
18 the pipe in the ground in Manitoba.

19 At a 30 percent equity ratio, or a 32
20 percent equity ratio, our bond ratings probably would
21 have went down to investment grade, and I'm not sure what
22 we would have been able to borrow, and/or what the
23 interest rate would have been on those borrowings.

24 MR. KRIS SAXBERG: But you know, we heard
25 about the \$28 million disallowance, and I -- I think the

1 net disallowance to Centra was eighteen point (18.)
2 something, right?

3 MR. DARREN RAINKIE: Yes, but you have to
4 look at the after tax hit in order to look at the -- you
5 know, and you also have to look at the claw back from the
6 brokers, in terms of what the net amount was, and I'm not
7 sure. It wasn't twenty (20) -- Mr. Derksen reminds me
8 that West Coast would have topped up that equity
9 percentage as well.

10 MR. KRIS SAXBERG: The bottom line is
11 that with that huge loss, the equity component would have
12 been reduced, correct; that's what Mr. Derksen said the
13 other day?

14 MR. WILLIE DERKSEN: Yes, the equity
15 component would have been reduced, but I was involved
16 with West Coast at that point in time, and they were
17 preparing an equity injection, which would have happened
18 had the sale transaction not occurred.

19 As Mr. Rainkie has indicated, it's
20 necessary to maintain that high equity ratio in order to
21 maintain the bond rating that Centra had in order to
22 secure financing costs.

23 MR. KRIS SAXBERG: When there's an equity
24 injection, is that a 100 percent debt financed?

25 MR. WILLIE DERKSEN: From West Coast's

1 perspective we wouldn't know that, it would be very
2 unrelated to the parent company on a conglomerate such as
3 West Coast.

4 MR. KRIS SAXBERG: But there'd be an
5 opportunity cost associated with that money that's being
6 injected in to increase the equity, correct?

7 MR. WILLIE DERKSEN: There would
8 certainly be an opportunity cost, and they'd be
9 compensated for that opportunity cost through the return
10 on equity calculations.

11 MR. KRIS SAXBERG: But to be consistent
12 with your view in this Application though, the equity
13 that's injected by way of a debt financing or an
14 opportunity cost, shouldn't be included in the
15 calculation of share capital.

16 MR. WILLIE DERKSEN: This Application is
17 totally different than West Coast's Application -- than
18 the Application that West Coast would have had. What
19 we're trying to do, in this calculation, is show what
20 would have happened under West Coast, and this is what
21 would have happened under West Coast, and I have no -- no
22 qualms that -- that they would have maintained it at the
23 40 percent, or very close to that 40 percent.

24 MR. DARREN RAINKIE: And I have no qualms
25 that that would have been the equity ratio that would

1 have been allowed for rate setting purposes.

2 MR. KRIS SAXBERG: Do you have any qualms
3 with doing the calculation at 32.3 percent?

4 MS. MARLA MURPHY: I think Mr. Rainkie
5 made those qualms fairly clear.

6 MR. KRIS SAXBERG: Well I'd ask the Board
7 to direct that the calculation be made. It's not
8 something that's onerous is it? I mean, it's not
9 something that's going to take any time?

10 MS. MARLA MURPHY: Well, I guess, Mr.
11 Chairman, the point is, and the witnesses have been
12 fairly clear that that calculation doesn't provide any
13 useful information to the Board.

14 So we can send people off to do all kinds
15 of calculations that are useless, but until they provide
16 information to the Board, we don't think that it's an
17 appropriate use of resources, or that it ought to clutter
18 the record, given the objections that have been noted.

19 THE CHAIRPERSON: Well --

20 MR. KRIS SAXBERG: Hold on, Mr. Chair, I
21 would just note that the 40 percent equity, notional
22 equity, wasn't approved by the Board in the past, and I
23 think the Board had used actual amounts, and Mr. Derksen
24 had testified earlier that the actual amount would have
25 been lower than forty (40), because of the loss.

1 And I'm saying on that basis, we should
2 have an alternative calculation, which would affect the
3 base line.

4 MR. WILLIE DERKSEN: Mr. Saxberg, I also
5 mentioned that West Coast was preparing an equity
6 injection which would have restored the equity ratio, so
7 what you presented was half of what I said.

8 THE CHAIRPERSON: Mr. Saxberg, what I'm
9 pondering here is that they -- are they not going to have
10 to make a number of assumptions, because if they put --
11 they take -- use less of an equity, then they have to
12 assume what the rate of return on the equity is going to
13 be.

14 They're also going to have to assume what
15 the borrowing costs would have been. We don't know
16 whether there's any impact on the income tax and things
17 of that particular nature.

18 I mean, if they did this for you on the
19 same basis as right now, it would sort of be imbuing a
20 number of assumptions that things would be exactly the
21 same, and I don't know whether that helps you or not.

22 MR. KRIS SAXBERG: Well, my understanding
23 is that things would be --

24 THE CHAIRPERSON: Assuming the borrowing
25 rate would be the same, and the rate of return on the

1 equity would be identical if the equity fell 32 percent.

2 MR. KRIS SAXBERG: The equity drives a
3 number of the other figures, including the amount of
4 income taxes payable.

5 THE CHAIRPERSON: How difficult is it,
6 Mr. Rainkie, to do it, given with all the caveats that
7 I've just indicated?

8 MR. DARREN RAINKIE: I'm glad you've
9 understood what I've said in the last few minutes, Mr.
10 Chairman, because it is --

11 THE CHAIRPERSON: Occasionally I catch
12 it.

13 MR. DARREN RAINKIE: It isn't -- it isn't
14 a stand-alone proposition, you -- you're 100 percent
15 correct, it isn't. Change one (1) figure and all the
16 rest of the figures stay the same, you're 100 percent
17 correct, we would have to make some assumptions about
18 what our bond rating would be, what our debt costs would
19 be et cetera.

20 THE CHAIRPERSON: I think the problem is,
21 is that Mr. Saxberg -- correct me if I'm wrong, Mr.
22 Saxberg, you want them to do the calculations on the
23 basis everything stays the same, other than the reduction
24 in the equity ratio.

25 MR. KRIS SAXBERG: I want them to make

1 the exact same assumptions that they've made in --

2 THE CHAIRPERSON: So, in other words, the
3 income tax rate would remain the same, and the borrowing
4 rate would be the same percentages now.

5 MR. KRIS SAXBERG: Income tax rate of 36
6 percent, remains the same.

7 THE CHAIRPERSON: Yes. And the
8 borrowing, because obviously they have less equity, they
9 have to have more debt, so they're going to have more
10 interest expense. So that you're assuming, then, they
11 would use the same interest rate on the debt?

12 MR. KRIS SAXBERG: Yes.

13 MR. DARREN RAINKIE: Mr. Chairman, I
14 might indicate then we might have a problem theoretically
15 here because we had an interest coverage requirement in
16 order to make debt issues.

17 So, I don't know where we would have got
18 the money to invest in the plant that's embedded in the
19 calculations going to 2005/06, because we would have been
20 able to issue no debt.

21 So I -- I guess what I'm saying is the
22 integrity of the calculations aren't there. We can
23 change one (1) component but what do I assume in terms of
24 plant additions; where would we have got the long-term
25 debt to make those plant additions, at an investment

1 grade bond rating?

2 If our -- if our interest coverage sunk
3 below, I think it was a two (2) times interest coverage,
4 we couldn't have even made any -- or borrowed any money
5 in the company.

6 THE CHAIRPERSON: Are you saying, Mr.
7 Rainkie, just so I catch you, that this particular
8 scenario that you've modelled here is feasible from a
9 technical standpoint; this situation actually could have
10 occurred?

11 MR. DARREN RAINKIE: That's correct.

12 THE CHAIRPERSON: Whereas the one that
13 Mr. Saxberg is asking you to do, in your opinion,
14 couldn't occur, or may not be able to occur, so you'd
15 have less -- you'd attach considerably less credibility
16 to the model that you'd simulate for him?

17 MR. DARREN RAINKIE: That's correct. And
18 as you -- you noted, we'd might have to make a bunch of
19 assumptions, and I'm not sure -- how would we find
20 objective evidence on those assumptions.

21 THE CHAIRPERSON: Mr. Saxberg, would you
22 have any problem if they make those assumptions on their
23 chart?

24 MR. KRIS SAXBERG: The additional
25 assumptions that they believe would be necessary as a

1 result of such a lower equity?

2 THE CHAIRPERSON: Including the
3 possibility that they might be offside on their borrowing
4 covenants and things of that nature, if that actually
5 would be the case.

6 MR. KRIS SAXBERG: I -- I don't have any
7 objection to them doing the calculation in the way that
8 they -- they choose. All I'm asking is that -- what
9 would happen to the total taxes payable, and what would
10 happen to the total return on rate base if we used an
11 actual equity component, which is identical to the equity
12 component we have today.

13

14 (BRIEF PAUSE)

15

16 THE CHAIRPERSON: Mr. Rainkie, if it's
17 technically possible to do it with your assumptions, he's
18 taken off the wraps, he says that you can put down the
19 assumptions that would operate under that model.
20 Presumably you could even, I suppose that you're -- I'm
21 not trying to put in your objection, you're saying that
22 the model is not operative the way he's designing it.

23 MR. DARREN RAINKIE: Yes, Mr. Chairman.
24 I'm saying if I go back and try to model that, I might
25 find that we did not have an interest coverage enough to

1 borrow money. And then I'm not sure what that means,
2 vis-a-vis, the rate base number that we would use to
3 times it by the overall rate of return, because we never
4 would have been able to make the investment in the first
5 place to get there.

6 THE CHAIRPERSON: Okay. Well, why don't
7 you take it under consideration until Monday because
8 we're going to come back to it -- Mr. Saxberg will be
9 back undoubtedly on Monday -- and you might just want to
10 reflect on it for a little while.

11 Is that all right with you, Mr. Saxberg?

12 MR. KRIS SAXBERG: Yes, it is.

13 THE CHAIRPERSON: I'm reluctant to push
14 them into making a table up, without them understanding
15 the parameters and feeling comfortable how they design
16 it. On the other hand, I think in reflection, they may
17 find some way to produce the table.

18

19 CONTINUED BY MR. KRIS SAXBERG:

20 MR. KRIS SAXBERG: Do -- do those same
21 concerns arise, Mr. Rainkie, if we're talking about a
22 37 percent to 38 percent equity component?

23 MR. DARREN RAINKIE: Not to the same
24 magnitude, I wouldn't say that those concerns are totally
25 gone, but...

1 THE CHAIRPERSON: He seems a little bit
2 more acceptive to that. Are you okay with a 38 percent
3 test?

4
5 CONTINUED BY MR. KRIS SAXBERG:

6 MR. KRIS SAXBERG: Would you agree, Mr.
7 Rainkie, that 38 percent, it was as likely as 40 percent,
8 given the losses in 1998; that a 38 percent equity
9 component was -- isn't out of the question, in terms of
10 what may have happened with Centra Gas under West Coast
11 ownership?

12 MR. DARREN RAINKIE: It isn't. But I
13 think we would have topped up the equity. We would have
14 done an -- come before the Board and got approval for an
15 equity injection, to bring it up to 40 percent.

16 I mean, I would -- I would take the -- the
17 last point of departure, I would take the equity ratio
18 that was approved in the '98 GRA, and do the calculation
19 without any problem whatsoever, because I believe we
20 would have probably got something close -- back to that
21 by 2005/06, at the very least.

22 THE CHAIRPERSON: Well, even on a short-
23 term basis, if the loss had materialized into that, or
24 the equity portion had fallen below forty (40) to thirty-
25 eight (38), presumably you could put a footnote

1 indicating your perception that the equity be raised up
2 to forty (40) at the next round, what the implications
3 would that be.

4 Are you okay with that?

5 MR. DARREN RAINKIE: Sir, I think it's in
6 our calculation already, so we will provide you a --

7 THE CHAIRPERSON: Okay. Well then --

8 MR. DARREN RAINKIE: -- a guide place --
9 a post.

10 THE CHAIRPERSON: -- then it should be
11 easy for you then.

12 MR. DARREN RAINKIE: Okay.

13 THE CHAIRPERSON: Okay, Mr. Saxberg.

14 MR. DARREN RAINKIE: Thank you.

15

16 CONTINUED BY MR. KRIS SAXBERG:

17 MR. KRIS SAXBERG: Okay. Thank you.

18 Continuing with the rebuttal evidence and page 14, you
19 have done a comparison of the test year, which is
20 '05/'06, against '05/'06 absent ABS (phonetic) and
21 acquisition, correct?

22 MR. WILLIE DERKSEN: Yes, sir, that's
23 correct.

24 MR. KRIS SAXBERG: And the difference
25 being \$9 million. Would you undertake, or perhaps you

1 already have, to do the same analysis using the second
2 test year of '06/'07?

3 MR. WILLIE DERKSEN: Yes, sir, we could
4 do that.

5
6 --- UNDERTAKING NO 20: Centra to provide a
7 comparison for CAC/MSOS of
8 the test year, '06/'07
9 against '06/'07 absent ABS
10 (Phonetic) and acquisition.
11 Footnote any different
12 assumptions.

13
14 THE CHAIRPERSON: Mr. Saxberg -- I should
15 say Mr. Derksen, if you were to do that test year of
16 2006/07, would you necessarily use exactly the same
17 assumptions with respect to synergies?

18 I'm aware in another part of your
19 Application when you're talking about a single bill,
20 like, I'm trying to say, would you reflect other changes
21 that you might see coming?

22 MR. WILLIE DERKSEN: I think we reflect
23 upon that sir, yes. Thank you.

24 THE CHAIRPERSON: Okay. Mr. Saxberg...?
25

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: Well, you're not
3 suggesting that synergies are greater in the 2006/07 test
4 year than they are in the '05/'06 test year?

5 MR. WILLIE DERKSEN: I'm suggesting we
6 would think about what we'd include in the '06/'07 test
7 year.

8 THE CHAIRPERSON: All I'm saying, Mr.
9 Saxberg, was that there was a submission made suggesting
10 that the overall Corporation, presumably including
11 Centra, would save money with the single-bill proposal.
12 And I know it hasn't been launched, because we haven't
13 approved it yet.

14
15 CONTINUED BY MR. KRIS SAXBERG:

16 MR. KRIS SAXBERG: However, the synergy
17 savings associated with one bill are already included in
18 the calculation of 16 million, correct?

19 MR. WILLIE DERKSEN: What I'm not sure is
20 the impacts on Centra. I think there would be
21 incremental impacts on Centra and so we'd have to look at
22 that, sir.

23 MR. KRIS SAXBERG: You mean further
24 synergies as a result of the one-bill initiative; is that
25 what you mean by incremental impacts?

1 MR. WILLIE DERKSEN: All I'm saying, Mr.
2 Saxberg, is that I'd like to have a look at those sorts
3 of things. If I'm going to prepare this schedule, I want
4 it to be as -- as technically correct as possible. I
5 don't know, at this point in time, whether there would be
6 a change or wouldn't be a change. I'd have to look at
7 and -- and --

8 MR. KRIS SAXBERG: Okay. That's fair.

9 THE CHAIRPERSON: Mr. Derksen, would it
10 be fair that when you prepare the Table, if you make any
11 different assumptions that went into this one, you could
12 footnote it?

13 MR. WILLIE DERKSEN: Yes, I could do
14 that, sir.

15

16 CONTINUED BY MR. KRIS SAXBERG:

17 MR. KRIS SAXBERG: Mr. Matwichuk, in his
18 evidence, says that with respect to your rate base rate
19 of return calculation of revenue requirement, you've
20 double counted for the corporate allocation, and you
21 disagree with that; correct?

22 MR. DARREN RAINKIE: That's correct, Mr.
23 Saxberg.

24 MR. KRIS SAXBERG: Schedule 3.0.0 shows
25 that within the revenue requirement for the test year

1 '05/'06, is an amount of ROE of \$11.8 million. I've put
2 that in my Book of Documents at --

3 MR. DARREN RAINKIE: I see that, sir.

4 MR. KRIS SAXBERG: Let me -- let me put
5 it this way, this might speed things along.

6 If Mr. Matwchuk is considering return on
7 equity and corporate allocation to be synonymous in
8 purpose, then is there a double counting?

9

10 (BRIEF PAUSE)

11

12 MR. DARREN RAINKIE: Mr. Saxberg, the
13 problem is we disagree that they're synonymous, so if
14 he's right and I'm wrong, he's right is what you're
15 asking me -- or sorry, if he's right and we're wrong --
16 you know, it's too late in the day for that. I'm getting
17 back to my tortured logic I think.

18 MR. KRIS SAXBERG: Well let me -- let me
19 try it this way.

20 MR. DARREN RAINKIE: Mr. Saxberg, I think
21 I would rather that he came and explained his perspective
22 of the world, and that we explain our perspective of the
23 world, and the Board will adjudicate as it always does.

24 MR. KRIS SAXBERG: Okay. But do you
25 agree that the Board in Order 118/03, said use the rate

1 of the return on equity to pay for acquisition costs?

2 MR. DARREN RAINKIE: I agree, and Mr.
3 Warden has explained that that did not and will not
4 occur.

5 MR. KRIS SAXBERG: So if the assumption
6 is that the purpose of the return on equity is to pay for
7 the acquisition costs, then if you add another item to
8 pay for the acquisition costs, you've paid for the
9 acquisition costs twice?

10 MR. DARREN RAINKIE: Yes, but his -- the
11 first proposition, in that, is erroneous that the net
12 income of Centra has somehow flowed over to the electric
13 customers. As Mr. -- Mr. Warden took you through just an
14 hour ago or half an hour ago, that hasn't occurred. And
15 I think that's where the major difference in the -- in
16 the evidence is, and the understanding of the evidence.

17 And you know, I agree with Mr. Warden,
18 that I -- I think between our evidence and your evidence
19 at the last Hearing, I think we've confused the Board.
20 And I think that the corporate allocation is a
21 transparent way of doing this.

22 It says directly on the revenue
23 requirement line item, exactly how it's presented in the
24 financial statements that it's a charge, and -- and I
25 think it will help understanding, and coming back to this

1 Proceeding, in future Proceedings, in understanding what
2 we're doing and what has been accomplished.

3 MR. KRIS SAXBERG: Historically the --
4 there was no corporate allocation included in revenue
5 requirement.

6 MR. DARREN RAINKIE: Historically under
7 West Coast's ownership, or Manitoba Hydro ownership, just
8 to be clear?

9 MR. KRIS SAXBERG: Manitoba Hydro
10 ownership.

11 MR. DARREN RAINKIE: No, and I think
12 that's a problem and I think the Board recognized that in
13 Order 13/05, it -- it seemed to have concentrated on the
14 fact that there wasn't a corporate allocation before
15 2002/03, rather than the fact that there was one, because
16 it expected that there would be one, is my reading of
17 that order.

18 MR. KRIS SAXBERG: The Board expected
19 that the profit that Manitoba Hydro received from owning
20 the gas company, could be used to pay the acquisition
21 costs; correct?

22 MR. DARREN RAINKIE: Yes, I think that's
23 what they assumed on the face of the order, and I keep
24 going back to Mr. Warden's explanation earlier, about how
25 things actually worked out.

1 So I think we have two (2) things here,
2 Mr. Saxberg. One (1), what the Board took from all the
3 evidence that was provided in Order -- in the proceeding
4 that led to Order 118/03, and how that has actually
5 transpired in the years that have occurred since. So
6 those are two (2) different things in my mind.

7 MR. KRIS SAXBERG: Let me just -- let me
8 just try this at a -- at a really high level. As a crown
9 corporation, Centra Gas shouldn't be making a profit;
10 correct?

11 MR. VINCE WARDEN: To the extent that
12 Centra, as a crown corporation, requires a level of
13 equity, they should make a profit to achieve that equity.
14 Once that is achieved, we can have a breakeven scenario
15 each and every year, as long as that debt equity ratio is
16 maintained.

17 MR. KRIS SAXBERG: Okay. Well, let's --
18 assuming that there is a debt equity which ensures the
19 financial integrity of the crown corporation, you don't
20 need to make a profit on -- on top of that, and it's not
21 proper for a crown corporation to make a profit on -- on
22 top of what it needs to ensure financial integrity?

23 MR. VINCE WARDEN: We're not in the
24 business to make a profit, and pay dividends to
25 shareholders.

1 MR. KRIS SAXBERG: And a privately-held
2 gas company, though, expects to make a profit, and that's
3 what happened with West Coast, and its ownership of
4 Centra Gas; correct?

5 MR. VINCE WARDEN: Yes.

6 MR. KRIS SAXBERG: And is it not the case
7 that the -- this Board was simply nothing that it was
8 treating Centra Gas, the crown corporation owned by
9 Manitoba Hydro, as a private company, and allowing it to
10 have a profit for many years, when it ought not to have
11 had a profit?

12 MR. VINCE WARDEN: No, I can't -- I can't
13 agree with that, Mr. Saxberg.

14 MR. KRIS SAXBERG: And that the Board was
15 saying that that profit margin that you shouldn't be
16 receiving because you're a crown corp. is what is going
17 to go to offset the acquisition costs, and ensure that
18 Manitoba Hydro ratepayers are held harmless; isn't that
19 what they are saying?

20 MR. VINCE WARDEN: I think you're putting
21 your own interpretation on what the Board was saying, and
22 I don't think I would agree with that.

23 MR. KRIS SAXBERG: Mr. Rainkie, you've --
24 you've said that there should be a two-step process to
25 determining the question of income, proper income levels,

1 and to determine the fair amount that Centra should
2 contribute towards the cost of acquisition, you see that
3 as a two (2) step process; correct?

4 MR. DARREN RAINKIE: I see that as two
5 (2) issues, one clearing up an issue from the past in
6 terms of the acquisition, and the second one being an
7 issue in -- in the future in terms of what the
8 appropriate level of reserves to have on Centra Gas's
9 balance sheet. So two (2) issues rather than a two-step
10 process, but --

11 MR. KRIS SAXBERG: So do you agree --

12 MR. DARREN RAINKIE: -- I think we're on
13 the same page.

14 MR. KRIS SAXBERG: And yeah, I think
15 we're on the same page because I -- I think you were --
16 you were making these comments earlier, that we should
17 determine the appropriate amount of income as one matter,
18 and then as a separate matter, we should determine the
19 amount of contribution that Centra should make to pay
20 acquisition and integration costs.

21 MR. DARREN RAINKIE: And I think that's
22 what we've done -- did in the application, Mr. Saxberg.
23 If you look at Schedule 3-0-0, column 1, we -- we've went
24 down the line items and listed all of our normal costs
25 that we would have as a private company, including

1 finance expense.

2 And then we said -- Mr. Warden has
3 testified why we need the amount of money that we
4 requested in terms of the corporate allocation. And then
5 we're not adding another -- in terms of our requested
6 application, we're not adding another return on top of
7 that, a return on equity, we're adding a contribution to
8 reserves in -- that's appropriate in terms of
9 management's judgement.

10 So I think our application is trying to do
11 that, Mr. Saxberg.

12 MR. KRIS SAXBERG: But let's just focus
13 on rate base rate of return methodology. Under the rate
14 based rate of return calculations you've included a full
15 calculation of the appropriate return on equity, correct?

16 MR. DARREN RAINKIE: That's correct, Mr.
17 Saxberg. Because when we were doing that calculation we
18 said to ourselves, okay, you know, how does rate based
19 rate of return -- how do you calculate a net income out
20 of rate based rate of return?

21 You take -- you take the rate base, you
22 take -- times that by the equity percentage, times that
23 by the return on equity to get a number.

24 So we're saying that the formulaic way
25 that rate base rate of return works and throws up that

1 number, because if we don't include that number, I'm not
2 sure we're calculating rate based rate of return.

3 The -- the corporate allocation is there
4 to pay for past costs; it's not a theoretical return that
5 somebody's taking, you know, out of the -- out of
6 province to Vancouver, it is a cost that's recorded in
7 Manitoba Hydro Corporate, as Mr. -- Mr. Warden has
8 indicated.

9 So it's not a theoretical issue at this
10 point. That -- that amount is there under any
11 methodology that the Board wants to use.

12 And then, second issue, we can talk about
13 how do you calculate net income. You can do it on a
14 judgmental basis, as -- as we've done under the cost of
15 service method, or you can use the formula, the time
16 honoured formula that's there under rate based rate of
17 return.

18 That's how we prepared these calculations,
19 Mr. Saxberg, just to -- an understanding of what the
20 thought process was, and often we forget about the
21 objective, we get too tied up in the calculations
22 themselves.

23 MR. KRIS SAXBERG: If the Board decides
24 to continue with rate based rate of return regulation,
25 then, under your calculations, you will have \$12 million,

1 as the contribution from Centra, to pay down the cost of
2 integration and acquisition; correct?

3 MR. DARREN RAINKIE: Yes. That's there
4 under regular methodology, I think --

5 MR. KRIS SAXBERG: Yeah.

6 MR. DARREN RAINKIE: -- in our view.

7 MR. KRIS SAXBERG: And then you will have
8 a return on rate base, which includes a return on equity
9 component of around \$12 million; correct?

10 MR. DARREN RAINKIE: Under the way that
11 methodology works, yes. But I just want to make it clear
12 that we're not -- we're not asking for column 2 or column
13 4, we're asking for column 1 or column 3.

14 MR. KRIS SAXBERG: I -- yeah, I know
15 that. But we're -- we're just staying in line here with
16 under rate based rate of return regulation, and the
17 assumption that the Board wants to, or has to maintain
18 it.

19 In that case, is it right that a crown
20 corporation is going to be making a profit then by
21 receiving a return on equity; is that -- is that
22 appropriate?

23 MR. VINCE WARDEN: Mr. Saxberg, just
24 before Mr. Rainkie answers, Ms. Murphy just reminded me
25 that we've been referring to Centra as a Crown

1 corporation, and really that's not correct -- technically
2 correct; it's a Crown-owned utility, it's not a crown
3 corporation.

4 MR. DARREN RAINKIE: Mr. Saxberg, let's
5 -- let's engage on this because I think it's an important
6 point. If -- if the Board was to calculate our rates
7 that way and we did obtain the \$12 million contribution
8 to reserves, what is that money used for?

9 That money isn't paid out a 65 percent
10 dividend to a shareholder in another jurisdiction. It
11 would flow to retained earnings and it's there for the
12 benefit of customers in the future, from two (2)
13 perspectives: one, to have a -- a utility that's got
14 financial integrity to it, and the other one, you know,
15 in -- in terms of rate stability, which I think are the
16 goals and objectives of the application that we're
17 putting forward here.

18 I -- I think you might be too tied up in
19 the history of the world here that that money somehow is
20 -- is going to the big bad shareholder somewhere. It's
21 not; it's staying here in Manitoba for the benefit of
22 customers.

23 MR. KRIS SAXBERG: I note the hour --

24 MR. DARREN RAINKIE: For the gas
25 customers, Mr. Saxberg.

1 MR. KRIS SAXBERG: I note the hour, and
2 perhaps I could continue on, on Monday morning. And I
3 can advise that Mr. Matwichuk is available Tuesday
4 morning if -- if we're not able to finish him on Monday
5 as a result of continuing with this Panel at that time.

6 THE CHAIRPERSON: Thank you, Mr. Saxberg.
7 I imagine there's one (1) other possibility, in that we
8 could just carry on, on Monday, with him until we're
9 completed; you might want to think about that option as
10 well.

11 MR. KRIS SAXBERG: Well, my -- my strong
12 preference would be to complete this Panel, and hear
13 their evidence, before my witness takes the stand.

14 THE CHAIRPERSON: No, I meant that -- all
15 I meant was that we could always have an evening session
16 on Monday, if required, to complete him. We could take
17 that under -- as one (1) option in any case.

18 MR. KRIS SAXBERG: Oh, sure. Sorry, I
19 misunderstood you.

20 THE CHAIRPERSON: So, other than that,
21 we'll stand down now and we'll see all of you next
22 Monday.

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(PANEL RETIRES)

1 --- Upon adjourning at 3:59 p.m.

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6 Certified Correct,

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13 Carol Wilkinson, Ms.

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