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MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
 2007/'08 TO 2008/'09
 GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Len Evans - Board Member
Eric Jorgensen - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 15th, 2007
Vol VIII
Pages 1493 to 1612

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3

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7 Paul Kerr (np)) Coral Energy

8

9 Sandy Boyd) Communications, Energy

10) and Paper Workers

11) Local 681

12

13 Kris Saxberg) CAC/MSOS

14

15 Eric Hoaken (np)) Direct Energy

16 Karen Melnychuk (np)) Marketing Limited

17

18 Nola Ruzycki (np)) Energy Savings

19) (Manitoba) Limited

20 Partnership

21

22 Dave Hill (np)) Koch Fertilizer

23

24 Nick Gretner (np)) J.R. Simplot

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APPEARANCES (CONT)

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1 --- Upon commencing at 1:06 p.m.

2

3 THE CHAIRPERSON: Okay, good afternoon
4 everyone. We're here now for closing submissions by the
5 Intervenors. I understand that first there's a few
6 undertakings that remain.

7 Mr. Peters, could you remind the Board
8 which parties owe us the undertakings?

9 MR. BOB PETERS: Thank you, Mr. Chairman.
10 I can indicate to the Board that, through the always good
11 graces of Ms. Foulkes, yesterday afternoon Centra's
12 undertakings were -- were provided to parties
13 electronically. And I believe a package of material has
14 been prepared and, not only have they been provided,
15 they've also been with proposed exhibit numbers, ranging
16 from Exhibit 19 to Exhibit 25 sequentially for all the
17 undertakings.

18 And Mr. Singh appears to be giving me the
19 approval for those numbers, so we will take those
20 undertakings as filed with the Exhibit Numbers as
21 proposed by Centra.

22 THE CHAIRPERSON: Very good.

23

24 --- EXHIBIT NO. CENTRA-19: Response to Undertakings 11,
25 15, 16 and 17

1 --- EXHIBIT NO. CENTRA-20: Response to Undertaking 19

2

3 --- EXHIBIT NO. CENTRA-21: Response to Undertaking 20

4

5 --- EXHIBIT NO. CENTRA-22: Response to Undertaking 21

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7 --- EXHIBIT NO. CENTRA-23: Response to Undertaking 22

8

9 --- EXHIBIT NO. CENTRA-24: Response to Undertaking 23

10

11 --- EXHIBIT NO. CENTRA-25: Response to Undertaking 26

12

13 MR. BOB PETERS: And that, I believe,
14 does complete the Centra undertakings. I think My Friend
15 opposite, Mr. Saxberg, has some undertakings outstanding
16 from his witness, and perhaps he can just indicate to the
17 Board when they might expect to -- to get those.

18 MR. KRIS SAXBERG: Yes, thank you, Mr.
19 Peters. I expect to be able to file those on Monday.

20 THE CHAIRPERSON: Okay. Then that
21 concludes all of the undertakings, correct, Mr. Peters?

22 MR. BOB PETERS: It does, sir, yes.

23 THE CHAIRPERSON: Okay. So we'll move
24 quickly on to closing submissions. I understand Mr. Boyd
25 has a good reason to be out of here earlier than

1 otherwise would be the case, so we'll move him up on the
2 agenda.

3 But first we will start with Board
4 Counsel, Mr. Peters.

5

6 FINAL SUBMISSIONS BY MR. BOB PETERS

7 MR. BOB PETERS: Thank you. I will not
8 be lengthy, Mr. Chairman, Board Members, Dr. Evans, Mr.
9 Jorgenson, Ladies and Gentlemen. With the close of
10 evidence last Wednesday afternoon, the Board has now set
11 this afternoon to hear the closing submissions from the
12 registered and the participating Intervenors.

13 Before turning to the Intervenors, Mr.
14 Chairman, I have a few comments in an effort to summarize
15 some of the issues that the Board may want to hear from
16 the parties about. And to illustrate the issues, I
17 propose to skip through the book of documents and would
18 request that those of you who didn't forget your book of
19 documents at home, skip along with me. I'm only going to
20 be referring to seven (7) or eight (8) of the tabs, Mr.
21 Chairman.

22 And I should also indicate that as counsel
23 to the Board in this matter, I take no position on the
24 merits of any of the issues or requests that are made,
25 and I will leave that to the parties to speak to

1 themselves.

2 While the Board has the formal application
3 at Tab 1, I really want to start on Tab 2 and
4 particularly the schedule on Tab 2 of the book of
5 documents from PUB/CENTRA-11, and I want to run down
6 column number 2.

7 I suppose, Mr. Chairman and Board members,
8 I could have turned to Centra Exhibit 7 or the CAC/MSOS
9 Exhibit 7 to run down the columns of the different --
10 different presentations of the case that's before the
11 Board, but I'm going to use the one found here on Tab 2.

12 Starting at line 22, the Board is going to
13 notice that there's a \$10.7 million number that falls out
14 of the math. And this represents the 2 percent increase
15 in overall revenue being sought effective May 1st, 2007
16 forecast, as I say, to generate the \$10.7 million of
17 additional revenue over a twelve (12) month period. And
18 this is to be included in rates that would -- are
19 proposed to be adjusted starting on August the 1st of
20 '07, but there will be a rate-rider to accommodate the
21 recovery of the revenue in the time permitted by the
22 recovery.

23 The Board will also notice on the far
24 right-hand column some numbers that add up to, not
25 counting the cost of gas adjustment, but approximately

1 \$5.3 or \$5.4 million, and that is the 1 percent
2 additional annual revenue that is being sought by the
3 Corporation for the second test year of 2009.

4 And while we're on this document, and
5 looking at column 2, there's other income shown at line
6 9, and one of the issues the Board has heard related to
7 other income in this proceeding is that a large portion
8 of it is generated by way of interest charges on past-due
9 accounts and there may be issues to be spoken to by the
10 parties as to the appropriate level of interest in that
11 respect.

12 Also on this column 2, but down at the
13 next line, are the operating and administrative expenses
14 requesting -- requested of \$56.6 million. And the Board
15 has heard as to the composition of the O&A costs. There
16 have been issues raised as to the transparency of how
17 that number comes before the Board, as it is a result of
18 an internal cost allocation process with the parent
19 company.

20 There's suggestions that the O&A costs
21 could be benchmarked and, if they were to be benchmarked,
22 those benchmarks could be set by way of a -- an inflation
23 factor less a productivity factor and that those
24 benchmarks could even be stated on a cost-per-customer
25 basis. Those may be matters the Board will need to

1 consider.

2 Included in that O&A expense line item is
3 the contingency of \$1.7 million which has been commented
4 on in the evidence of Mr. Matwichuk.

5 On the depreciation line item number
6 eleven (11), the Board has heard evidence about Centra's
7 request to approve new depreciation rates. And those new
8 rates result in the vast majority of the resulting
9 increase in the revenue requirement for that line item.

10 Moving down to finance expense, there are
11 matters that will concern the Board including that there
12 has been an increase in the debt guarantee fee which
13 manifests itself on that line item. And there have also
14 been concerns raised by Mr. Matwichuk as to whether the
15 amount of finance expense is appropriate, recognizing his
16 preliminary calculations. And I believe there is an
17 Undertaking from him outstanding and that's one of them
18 that we'll look forward to seeing.

19 The corporate allocation is next on the
20 schedule under column 2, line item number 14. And the
21 Corporation is asking for a \$12 million corporate
22 allocation. That number is contested by Mr. Matwichuk in
23 light of past Board Orders and I'm sure Mr. Saxberg may
24 have more to say on that.

25 The next line in the revenue items of net

1 income, the Board will see that the Corporation is
2 seeking \$5.3 million for the first test year and \$6.8
3 million in the second test year. The evidence from
4 CAC/MSOS's Witness challenges the propriety of that
5 amount and will ask the Board to consider the -- the
6 positions put forward, relative to the amount of net
7 income.

8 While we're no net income, there are some,
9 I suppose, related issues such as capital structure and
10 the impacts of weather normalized retained earnings and
11 how those impact on net income and what net income is
12 appropriate.

13 Down on line 35 near the bottom of the
14 page, you're going to see a line item on total rate base
15 and in this application there's a request for the Board
16 to approve the rate bases for the forecast test years.
17 And on rate base issues, the Board has heard evidence
18 related to the AMI Project.

19 If the Board was to turn the page, please,
20 to Tab 3 of the book of documents, there are some gas
21 cost issues to be discussed and at Tab 3 the Board will
22 find schedule 814, revised May 15th, '07. And it is
23 correct to say that primary gas commodity rates are not
24 the subject of this hearing, Mr. Chairman and Board
25 members, but those are matters that the Board deals with

1 on a quarterly basis. But please recognize that the
2 request of the Company is for final approval of some
3 interim primary gas rate orders, specifically 05/07 and
4 60/07.

5 There's also before the Board a request to
6 approve new primary gas overhead rates and those are the
7 non-gas components of the primary gas costs. This page
8 also sets out the supplementary -- supplemental gas, the
9 transportation requests, and also the distribution costs.
10 The distribution costs are predominantly the unaccounted
11 for gas that the Corporation charges back to the various
12 customer classes.

13 Tab 4 of the book of documents has the
14 final gas costs that the Corporation is asking be
15 approved. Those are found on line item 58 in the middle
16 column, and they total \$419.2 million. These numbers
17 include the impacts of hedging. The impacts of hedging
18 are found in that total number of \$419.2 million and,
19 likewise, capacity management results.

20 The hedging impacts come to the Board with
21 a schedule showing how they've arisen. There's also a
22 request before the Board, or certainly a -- information
23 before the Board, that there are new operating principles
24 and procedures, which, to my understanding, expand the
25 size of the collar that is being utilized by the

1 Corporation in their hedging activities.

2 Speaking of capacity management, as I was
3 just a few seconds ago, the issues on capacity management
4 were raised by Mr. Stauff, related to the options that
5 should be considered in an effort to gain more revenue
6 for the Corporation.

7 Mr. Chairman and Board members, Tab 5 of
8 the book of documents lists out the gas cost deferral
9 accounts. And I suppose if the Board goes down to line
10 15 in the middle column under the pre-hearing update,
11 there's the \$8.972 million that the Corporation proposes
12 be included as a refund to consumers by way of a rate
13 rider, and that would replace a rate rider for \$13.2
14 million that is coming off at the end of August -- no,
15 I've got that wrong, it would be at the end of July in
16 2007.

17 In speaking of the gas cost deferral
18 accounts, the one that attracted some attention was the
19 heating value marginal -- margin deferral account;
20 relatively uncontested, but it did give rise this year to
21 significant refunds to all customer classes, I think none
22 greater than to the special contract customer.

23 The Board will also hear from the parties
24 on terms and conditions of service, as there have changes
25 requested. The Board also heard on cost allocation

1 issues found way over on Tab 34 of the book of documents
2 that the special contract customer took issue with some
3 of the cost allocation methodology, specifically as it
4 affected the special contract customer class.

5 Included in the evidence, Mr. Chairman and
6 Board Members, were witnesses that spoke about demand
7 side management programs and the opportunities that
8 existed including opportunities in the low income
9 programs.

10 The final tab to reference would be Tab 35
11 because it contains the rate impacts that if the
12 application was approved as filed, those would be the
13 rate impacts on both the billed rate basis and on a base
14 rate basis that the Corporation is proposing.

15 So with that, Mr. Chairman, I'd like to
16 conclude my -- my comments and subject to any of your
17 questions I would suggest you -- you do call on Mr. Boyd
18 to -- to hear his argument. Thank you.

19 THE CHAIRPERSON: Thank you, Mr. Peters.
20 So we'll now turn our attention to Mr. Boyd.

21 Mr. Boyd...?
22

23 FINAL SUBMISSIONS BY MR. SANDY BOYD:

24 MR. SANDY BOYD: Thank you. Good
25 afternoon, Mr. Chairman, Members of the Board.

1 I'm here today to present to you CEP Local
2 68 summation on the GRA for 2007/'08 and 2008/'09 test
3 years by Centra Gas Manitoba Inc.

4 CEP represents members of Manitoba Hydro
5 who work on the gas side of the business and as such we
6 are one (1) of the major stakeholders in the natural gas
7 utility. I'll be addressing the following issue:
8 Advanced meter infrastructure known as AMI.

9 CEP local 681 does not support the
10 Company's request to include in the two (2) test years
11 7.6 million for AMI, nor do we support the revised amount
12 from Undertaking number 11 of 4,231,000 for 2008/'09.

13 These amounts should not be included in
14 advance of the pilot project proceeding and with no
15 proved business case to move forward on AMI program.

16 Meter readers do more than read meters.
17 They report gas leaks, excessive piping strain around
18 meter sets, some code violations and iced over regulators
19 to mention a few. These examples were before forward at
20 the 2005 GRA and Public Utilities Board Order 135/05
21 issued October 12th, 2005 directed Centra to consider
22 alternative means to address its problem of accessing --
23 accessing the meter for reading and safety purposes.

24 In the update on AMR and meter access
25 problems submitted to the PUB by Centra dated January

1 4th, 2006 CEP thought that PUB was directing Centra to
2 address in their status update report, how Centra was
3 going to address the safety issues surrounding the other
4 duties that the meter readers perform. This part of the
5 Board Order 135/05 is still to be completed. CEP
6 encourages the Board to direct Centra to complete this
7 work.

8 One (1) of the reasons Centra is using to
9 promote AMI is the hard-to-read meters. The Riser Rehab
10 Program and the Below Entry Piping Program where the
11 inside meters are moved outside has decreased the number
12 of hard-to-do -- hard-to-read meters by default. There
13 will be fewer meters inside a customer's home as these
14 programs continue.

15 When the pilot is completed and if Centra
16 wants to proceed with AMI, CEP would like the
17 opportunity to examine and test the findings that they
18 would be using to convince the PUB to allow Centra to
19 proceed with the AMI expenditures.

20 Thank you for the opportunity to present
21 our closing argument this afternoon -- it says "this
22 morning there" -- respectfully submitted on behalf of all
23 members of CEP local 681. Thank you.

24 THE CHAIRPERSON: Thank you, Mr. Boyd.
25 So moving quickly along, Mr. Saxberg, CAC/MSOS.

1 MR. KRIS SAXBERG: Mr. Chairman, I'm
2 waiting for my closing brief to arrive. It's just being
3 photocopied right now so perhaps we could change the
4 order a bit here and then that --

5 THE CHAIRPERSON: No problem.

6 MR. KRIS SAXBERG: Thanks.

7 THE CHAIRPERSON: Okay. We have some
8 paper filings. Mr. Peters, perhaps you could help by
9 introducing them?

10 MR. BOB PETERS: Yes, Mr. Chairman. As I
11 go down the list of Intervenors I'm aware that
12 communication has been received from Direct Energy and
13 the -- the essence of the communication was that Direct
14 was supportive of the submissions filed by Energy Savings
15 Manitoba Limited Partnership.

16 And in respect of Energy Savings Manitoba
17 Limited Partnership there has been a written submission
18 filed by Ms. Ruzycki and it was, I believe, filed late
19 yesterday. Parties have been provided a copy through the
20 graces of Mr. Singh and my suggestion, Mr. Chairman,
21 would be to ask Ms. Warnock to transcribe the -- the
22 submission into the closing document transcript at this
23 point in time and we will take it as read.

24 THE CHAIRPERSON: Very good, sir, yes.

25

1 FINAL SUBMISSIONS BY ENERGY SAVINGS MANITOBA LTD

2

3 Friday June 15, 2007

4 Final Submissions of Energy Savings (Manitoba) L.P. in
5 the Centra Gas Manitoba Inc. 2007/08 & 2008/09 General
6 Rate Application

7

8 Thank you, Mr. Chair, Members of the
9 Board, Ladies and Gentlemen

10 In this final submission, Energy Savings
11 (Manitoba) L.P. ("ESMLP") will be focusing on its concern
12 with respect to the proposed change to the Gas Loan
13 Determination.

14 Centra Gas Manitoba Inc. ("Centra") is
15 seeking approval from the Manitoba Public Utilities Board
16 for various changes to the Terms & Conditions of Service.
17 One of the proposed wording changes is in regard to the
18 Gas Loan Determination (Tab 11, 11.1.1. page 1 of 11 Line
19 16). Centra proposes to revise the wording of Section
20 VII) I), whereby all references to the determination and
21 tracking of gas loan amounts at the level of individual
22 WTS agreements will be changed to reflect the calculation
23 of these amounts at the aggregate level of the individual
24 broker.

25 ESMLP wishes to specifically comment on

1 the proposed changes to the Gas Loan Determination and
2 the impact it will have on the company.

3 ESMLP's business model is customer
4 oriented and requires customer consumption estimates in
5 the near and medium term to determine its supply
6 requirements.

7 Currently Centra meets ESMLP's requirement
8 to associate customer demand to the associated delivery
9 requirement by providing the following two reports, i)
10 the Contract Detail and; ii) the "Pre-MDQ" report.

11 The Contract Detail Report is provided
12 whenever the delivery requirements are refreshed, the
13 report provides a direct link between a customers
14 estimated consumption and its delivery requirements by
15 listing each customer and their estimated consumption.

16 The "Pre-MDQ" report is provided prior to
17 flow at the time of enrolment, and lists consumption and
18 rate class information for each customer. This report is
19 used and required by ESMLP to estimate customer
20 consumption prior to flow.

21 ESMLP could only support the requested
22 changes if the Contract Detail and "Pre-MDQ" reports
23 continue to be provided in the same format as they are
24 today.

25 If the Board approves Centra's proposed

1 change without requiring the continuation of the two
2 identified reports ESMLP would have to undergo
3 significant system changes in order to accommodate this
4 change and in addition would suffer the risk and the
5 associated costs of a disconnect between customer
6 consumption and utility mandated delivery requirements.

7 In conclusion, ESMLP submits that the
8 Board should approve Centra's request only if it also
9 requires Centra to continue providing the Contract Detail
10 and the "Pre-MDQ" reports.

11 ESMLP wishes to thank all participants in
12 this proceeding and hereby concludes its submission.

13 Thank you. Respectfully submitted,

14 Nola L. Ruzycki

15 Director, Regulatory Affairs Energy Savings Group

16

17 MR. BOB PETERS: And thank you then. I
18 can indicate that Koch Fertilizer Canada also submitted a
19 written closing submission and I would propose the same
20 treatment, Mr. Chairman, is that is the closing
21 submission from Koch Fertilizer Canada Limited has been
22 circulated and it now be incorporated into the closing
23 transcript for the reference of the Board and taken as
24 read.

25 THE CHAIRPERSON: The Board concurs.

1 FINAL SUBMISSION BY KOCH FERTILIZER CANADA LTD. (INSERTED)

2

3 KOCH Reference the testimony from the PUB
4 hearing on June 8, 2007 and June 11, 2007

5

6 1) KOCH agrees with Centra that those classes who
7 benefit from programs such as the DSM program should be
8 the ones who ultimately fund the program. Since the SGS
9 residential and commercial classes are the beneficiaries
10 of the programs, they are the ones who should fund the
11 programs. The Special Contract Class (SCC), as well as
12 other large volume customers, already employ their own
13 conservation and environmental programs which are above
14 and beyond DSM since such a large portion of their costs
15 are attributable to natural gas.

16

17 2) KOCH disagrees with the substantial increase in
18 proposed rates for the SCC. Despite the supposition of
19 postage stamp rates for all classes, KOCH believes the
20 "accident of geography" of the SCC makes the postage
21 stamp rate increase not applicable for the following
22 reasons:

23 a. Even though the section of pipeline
24 upon which the SCC ships gas is shared by
25 others, the expenditures on that section

1 of pipe are easily definable and could be
2 easily allocated to the shippers on that
3 section.

4 b. The SCC is such a large and ratable
5 shipper of gas over a short distance on
6 CGMI (<20 km) that it would cost less to
7 construct a bypass pipeline than to pay
8 the new proposed transportation rate. It
9 does not make sense that the proposed
10 transportation rate charged to the SCC
11 would be greater than the cost of building
12 a bypass pipeline.

13
14

15 MR. BOB PETERS: Thank you. If I follow
16 down the list I have received no further written
17 documentation and I think that would bring us to Mr.
18 Gange, if he's ready to proceed in advance of Mr.
19 Saxberg.

20 THE CHAIRPERSON: Are you ready to
21 proceed, Mr. Gange?

22 MR. WILLIAM GANGE: Yes, Mr. Chair.

23 THE CHAIRPERSON: Please proceed. Thank
24 you.

25

1 CLOSING SUBMISSIONS BY MR. WILLIAM GANGE:

2 MR. WILLIAM GANGE: Mr. Chair, Members of
3 the Board, first of all I'd like to acknowledge the fact
4 that this is my first hearing before the Public Utilities
5 Board and I'd like to thank Mr. Peters, Mr. Singh, Ms.
6 Murphy, Mr. Saxberg for their assistance in -- in helping
7 me on this.

8 With me today as -- as was throughout the
9 Hearing is Dr. Peter Miller, with just an encyclopaedic
10 knowledge of issues involving conservation and -- and
11 greenhouse gas emissions.

12 THE CHAIRPERSON: He must be taking his
13 B12 then.

14 MR. WILLIAM GANGE: It appears that he
15 is.

16 MR. WILLIAM GANGE: And also with me Dan
17 Rempel who is a lawyer as of yesterday at I think 10:30,
18 Dan, who was called to the Bar yesterday and is a member
19 of my firm.

20 THE CHAIRPERSON: Congratulations.

21 MR. DAN REMPEL: Thank you.

22 MR. WILLIAM GANGE: Thank you. As an
23 introduction, sir, Time to Respect Earth's Ecosystems and
24 Resource Conservation Manitoba are non-government
25 organizations committed to the advancement of a more

1 sustainable society in which our planet's natural
2 endowments of living and non-living systems and resources
3 are valued, respected, and conserved.

4 Recognizing that this natural legacy is
5 finite and subject to degradation and depletion these
6 organizations promote eco-efficiency improving the ratio
7 of social benefits to environmental harms and resource
8 depletion as an essential pillar of a sustainable
9 society.

10 Our objectives in this intervention have
11 been to explore and urge the implementation of measures
12 to make the production and use of energy in Manitoba more
13 sustainable and more just.

14 The notion of justice has a variety of
15 dimensions, several of which are relevant to these
16 proceedings.

17 One (1) is the idea of assessing revenues
18 proportional to cost responsibility for various customer
19 classes.

20 A second is the notion of
21 intergenerational equity to apportion costs and revenue
22 requirements over time.

23 A third is the recognition that a limited
24 amount of energy is a basic need and that a just society
25 addresses the basic needs of its citizens.

1 We have made some proposals to address the
2 needs of low income customers. Dealing with the powers
3 and responsibilities of the Public Utilities Board we
4 would like to remind the Board of its powers and
5 responsibilities with respect to the Sustainable
6 Development Act, another relevant legislation.

7 Section 78(1) (a) of the Public Utilities
8 Board Act states:

9 "The Board may by order in writing and
10 notice to and hearing of the parties
11 interested, require every owner of a
12 public utility:

13 (a) to comply with the laws of the
14 Province and any municipal bylaw
15 affecting the public utility or its
16 owner and to conform to the duties
17 imposed thereby or by the provisions of
18 its own charter or by any agreement
19 with any municipality or other owner."

20 The Sustainable Development Act is a law
21 of the Province binding on Centra. In addition the Crown
22 Corporation's Public Review and Accountability Act gives
23 the Public Utilities Board broad discretion to consider a
24 wide range of factors when reviewing Crown corporation's
25 charges.

1 Section 26(4) of the Crown Corporation's
2 Act states that with respect to factors to be considered,
3 in reaching a decision pursuant to this part, and that is
4 the Public Utilities Board rev -- review of rates, the
5 Public Utilities Board may take into consideration in --
6 in Section VIII, any compelling policy considerations
7 that the Board considers relevant to the matter, and IX,
8 any other matters that the Board considers relevant to
9 the matter.

10 RCM and TREE submit that the principles
11 and guidelines of sustainable development found in
12 Schedules A and B of the Sus -- Sustainable Development
13 Act, the province's commitment and national public
14 leadership on greenhouse gas emissions and provision for
15 the basic energy needs, including conservation of
16 Manitoba citizens as a matter of social justice are
17 compelling policy considerations that should guide the
18 Board in determining for Centra just and reasonable
19 rates, charges, standards, classifications, regulations,
20 practices, measurements or other services to be
21 furnished.

22 In any case, the susta -- Sustainable
23 Development Act provides legislated guidance to both the
24 Public Utilities Board and to Centra. The public policy
25 commitments that are relevant to this Hearing include

1 at least a halving of global emissions
2 by 2050." That's the quote from the
3 Prime Minister.

4 As stated in RCM/TREE Exhibit Number 5,
5 the National Roundtable on the Environment and the
6 Economy, in its advice to the Prime Minister has stated,
7 and this is a quote:

8 "The chief difficulty in significantly
9 reducing greenhouse gas emissions is
10 not the lack of relevant technologies,
11 rather, it is the lack of a long term
12 signal. Such a signal is needed to
13 help the private sector make shorter --
14 shorter term investment decisions that
15 take greenhouse gas reductions into
16 consideration. These decisions
17 effecting Canada -- Canada's energy use
18 and production infrastructure (sic) are
19 taken now every day. It is important
20 to send the appropriate signal as soon
21 as possible. The longer we wait, the
22 more difficult it will be." That's the
23 end of that quote.

24 From a provincial perspective, Manitoba
25 has positioned itself as a leader in conservation efforts

1 and reduction of greenhouse gas emissions. The Premier
2 this week announced that the Province of Manitoba has
3 joined with six (6) western American states and the
4 Province of British Columbia in the western climate
5 initiative.

6 The initiative is an agreement to
7 establish a regional gas reduction goal and to develop
8 market base strategies to achieve the goal. Further, the
9 Province has provided very clear signals of its
10 commitment to addressing the special energy concerns of
11 low income Manitobans.

12 In setting up the Affordable Energy Fund
13 the province has dica -- dedicated a substantial amount
14 of the avail -- available funds to the hard to reach
15 component of our society. All of these matters are
16 within the jurisdiction of this review and ought to be
17 addressed carefully by the Board in making its order.

18 One (1) of the concerns that arose
19 indirectly during Mr. Weiss' evidence seemed to be that
20 many of his ideas are based on his experience in the
21 United States. RCM/TREE would not want Mr. Weiss'
22 evidence to be taken less seriously because his views
23 arise out of his American experience, as opposed to a
24 Canadian perspective.

25 If a person has difficulty paying for his

1 energy bills, it does not matter if his money is American
2 or Canadian. Heat escapes from badly insulated houses
3 just as easily in Canada as it does in the United States.

4 Centra ought to be co-opting ideas from
5 whatever sources are available to improve the efficiency
6 of the heating system in Manitoba. The trans-boundary
7 dispersion of greenhouse gases on the negative side
8 should be countered by trans-boundary cooperation and
9 dispersion of best practices, a policy signified by the
10 pacts entered into by the Provincial and Federal
11 Governments.

12 Central to our review of Centra's
13 operation is a recognition that affordable energy is not
14 equivalent to low rates because:

15 A) Customers pay bills, not rates. The
16 efficiency of usage or amount of conservation is primary
17 determinant of the size of the customer's bill. If a
18 home and a heating system are wasteful in the use of
19 energy, low rates will not translate into affordable
20 energy.

21 And B) Affordable energy is relative to
22 income. An energy bill that is affordable to the wealthy
23 is not likely to be seen by the poor as affordable. The
24 evidence before the Board suggests that energy poverty
25 arises when the energy costs account for more than 9 or

1 10 percent of household income.

2 This point is recognized in the commitment
3 of \$19 million of the Affordable Energy Fund for low
4 income families. RCM/TREE's conclusion on affordability
5 and social justice is that to make energy more affordable
6 in Canada, Centra ought to focus on conservation. In
7 particular, Centra ought to find ways to focus programs
8 and relief on low-income Manitobans. Conservation
9 measures and efficiency of use are within the control of
10 Manitobans; the cost of natural gas is not.

11 I think that's an important point, Mr.
12 Chair, and -- and I would like to repeat that because I
13 think that it is central to what we were looking at; that
14 conservation measures and efficiency of use are within
15 the control of Manitobans, whereas the cost of natural
16 gas is not.

17 RCM/TREE would note further that there is
18 a convergence between the greenhouse gas reduction
19 policies to which Manitoba is committed provincially,
20 nationally and internationally and measures that focus on
21 consumption reduction as the primary tactic to make
22 energy affordable.

23 It is our view that Centra ought to be
24 developing deep and effective commitments and
25 implementation of DSM policies and policies for low-

1 income Manitobans commensurate with these policy signals.

2 We also believe with Guideline 1 of the --
3 of the Sustainable Development Act that resource pricing
4 and incentives informed by a full cost-accounting
5 framework are important expressions of the long-term
6 signal called for by the National Roundtable.

7 With that, Mr. Chair, RCM/TREE recommends
8 that the Board consider the following issues in making
9 it's order. Number 1. That Centra be directed to
10 establish programs and implementation schedules to at
11 least meet and preferably exceed our provincial, national
12 and international policy commitments.

13 In some instances it seems that Manitoba's
14 efficiency targets are being set by Winnipeg homebuilders
15 who select less than optimal design and construction
16 methods that could become the basis for the next building
17 code update. And I make specific reference to
18 RCM/TREE/CENTRA-52A and B-II.

19 In this situation, an important role for
20 the PUB would be to interpret public policy commitments
21 in a fashion to strengthen Centra's hand in its
22 negotiations with the Homebuilders' Association and other
23 trades. Such directives can also form important guidance
24 for planning activities within the Corporation and with
25 other stakeholders.

1 Secondly, that Centra be directed to form
2 standing advisory groups with access to expert external
3 consultation in addition to Centra's experts to deal with
4 issues regarding DSM programs and low-income programs.

5 RCM/TREE views this Hearing as an
6 excellent example of the value of obtaining an outside
7 review of existing programs. The evidence of Dr. Higgin
8 addressed, amongst other matters, the difficulties faced
9 by low income Manitobans in obtaining access to DSM
10 programs. Dr. Higgin provided numerous suggestions on
11 how Centra could improve its programs, including
12 dedicated budgets, higher financial incentives, and the
13 use of audits.

14 This kind of analysis would be invaluable
15 to Centra in designing, implementing and monitoring its
16 programs. Similarly, Mr. Weiss has a vast knowledge of
17 what works and what fails in programs related to DSM and
18 low income families. His paper, which was introduced as
19 RCM/TREE number 6, on the effect of low income bill
20 payment assistant program -- assistance programs is an
21 example of a program that has not been tried or even
22 considered by Centra.

23 The evidence of Mr. Weiss is that this
24 program works, and works to an astonishing degree. His
25 views are further supported by the more detailed formal

1 studies for California, Washington, Oregon and Ohio,
2 cited in his evidence.

3 Centra's position with respect to advisory
4 groups is that it -- it has found it beneficial to have
5 consultations with groups on targeted issues. RCM/TREE
6 is in favour of Centra obtaining input from as many
7 sources as possible. Targeted advice does not, however,
8 take the place of the benefits of having standing
9 committees operating under public policy mandates that
10 would provide an external analysis of Centra's programs.

11 A standing committee ensures that -- that
12 diversity of opinions is available to provide guidance to
13 Centra. It would ensure that the perspective of low-
14 income Manitobans, seniors, conservationists, green
15 builders, efficiency experts and others is considered
16 when programs are being designed and monitored.

17 An excellent example of the shortfall of
18 targeted consultation, in our view, was provided in the
19 testimony with respect to Waverley West. The Board was
20 told that Centra had consulted with the various
21 stakeholders, including new home builders and developers.
22 There was no suggestion that seniors, conservationists or
23 low income Manitobans were consulted. The resulting
24 decisions do not reflect the perspectives that could have
25 been provided had a standing committee been in place.

1 Concerns were raised by Centra that there
2 were not enough choices available to it to staff such a
3 committee. It is not suggested that those committees be
4 limited to representatives of the current Intervenors.
5 There are groups that deal with public interesting issues
6 that would be available to provide their own perspectives
7 on these issues.

8 Another method of dealing with this concern
9 is for Centra to have what Dr. Higgin referred to as
10 "consultatives." Our understanding of this reference was
11 to workshops to which interested parties would be invited
12 to discuss policy initiatives of Centra. RCM/TREE would
13 welcome the opportunity to be able to discuss with other
14 interested parties those programs being developed by
15 Centra while they're in the planning stage.

16 Number 3. That Centra be directed to
17 establish pilot projects to assess more aggressive
18 programs to assist low-income Manitobans.

19 Mr. Weiss testified that Centra ought to
20 be instituting more aggressive programs that would
21 provide bill payment assist -- assistance and targeted
22 conservation efforts. Mr. Weiss's suggestion is tied in
23 with our -- with the previous recommendation. Centra
24 ought to initiate a low income advisory committee that
25 could review, evaluate and make recommendations regarding

1 these programs.

2 We understand that Centra expects shortly
3 to roll out its Hard to Reach DSM program, which could
4 address one (1) component of low income programming. In
5 addition to DSM, however, we believe that Centra and its
6 advisory committee should examine various options for
7 rate relief to ease the energy burden of the poor.

8 Three (3) different models for rate relief
9 have emerged in this hearing. The first was Mr. Weiss's
10 proposal to provide a lower first block of energy to
11 qualifying low-income customers.

12 The second example was the California CARE
13 model, the CARE, of discounted tiered rates for
14 qualifying low income customers, illustrated in the rate
15 schedule provided for Pacific Gas and Electric.

16 And thirdly, the Percentage of Income
17 Payment Plan, or PIPP model; the model adopted by the
18 Clark County which was explained in RCM/TREE
19 Exhibit number 6 and -- and has also been introduced in
20 parts of Ohio.

21 We believe that each of these models
22 should be examined in creating an appropriate one for
23 Manitoba. We do not believe that it would be appropriate
24 for the Public Utilities Board to design DSM or rate
25 programs for Centra, rather it would be the role of the

1 Advisory Committee to pass judgment on the programs
2 designed by Centra.

3 The role of the Public Utilities Board is
4 to provide direction to guide Centra and the committee by
5 interpreting the implications of public policy and the
6 public interest and to review the results of such
7 plannings.

8 Fourthly, that Centra be directed to
9 review its DSM programs with the input of an advisory
10 committee, including appropriate external expertise to
11 ensure maximum effectiveness and conformity to the public
12 policy commitments indicated at the outset.

13 It seems that the recent review of
14 commercial sector programs, under the leadership of the
15 sustainability and standard specialist of Centra,
16 provides an excellent model of effective consultation
17 firmly driven by public policy commitments. A similar
18 endeavour in the housing and industrial sectors is called
19 for. Both Mr. Weiss and Dr. Higgin have provided
20 extensive documentation of programs and measures to
21 contribute to that review.

22 Number 5. That Centra redesign incentive
23 levels, especially for water and space heat, to remove
24 the unintended consequence of customers switching to
25 electricity which is a less efficient resource.

1 During its testimony Centra adopted the
2 position that it is not the role of Centra to make
3 decisions on behalf of its customers. It takes the
4 position that it is the marketplace that ought to decide
5 whether customers use natural gas or electricity for
6 individual functions.

7 RCM/TREE, however, believes that it is the
8 role of Centra and Manitoba Hydro to help people make
9 proper choices. This is especially true in considering
10 issues related to new home design. The choice that is
11 made at the time of construction will result in decisions
12 which affect the environment for decades to come.

13 It is therefore in everyone's best that
14 proper incentives be designed to ensure that consumers
15 make choices consistent with the proper reduction of
16 greenhouse gas emissions and conservation efforts. It
17 would not be difficult to design a system that provided
18 for significantly greater hookup fees for less efficient
19 choices and rebates for better choices with respect to
20 choice of energy. Again, those incentives would most
21 appropriately be reviewed and commented on by an advisory
22 panel.

23 Number 6. That Centra adopt full cost
24 accounting in planning and evaluating its DSM programs
25 and in rate making. The Sustainable Development Act

1 contains -- defines full cost accounting as, quote:

2 "Accounting for the economic
3 environmental land use, human health,
4 social and heritage costs and benefits
5 of a particular decision or action to
6 ensure no costs associated with the
7 decision or action including
8 externalised costs are left unaccounted
9 for." Close quote.

10 This guideline is to be interpreted over a
11 timeline of future generations. The most important
12 externality for natural gas is greenhouse gas emissions,
13 including externalities -- pardon me, the -- the most
14 important externality for natural greenhouse -- for
15 natural gas is greenhouse gas emissions and their impact
16 on global warming.

17 Centra estimates that the full cost of
18 natural gas exclude -- including externalities amounts to
19 approximately twenty-seven dollars (\$27) per metric ton
20 of greenhouse gas emissions. That value is a matter of
21 dispute and it excludes upstream emissions and impacts.

22 It is RCM/TREE's position that Centra
23 ought to be presenting to PUB a proper full cost
24 accounting in order to assist in rate making and the
25 value -- the evaluation of DSM programs.

1 We note that in Order 117/06 the Public
2 Utilities Board ordered in Number 2, that future costs of
3 service filings should also include supplemental
4 information by customer class, including approximate
5 revenue to costs ratios related to the inclusion of
6 marginal gas -- marginal cost information and the
7 allocation of notional environmental emissions costs. We
8 believe that exercise should be extended to Centra Gas.

9 Number 7. That Centra design an inverted
10 rate structure in conjunction with Manitoba Hydro for its
11 residential and small commercial customers. I would note
12 in Tab 12, Attachment 7, page 5 of 18, lines 13 and 14,
13 Centra stated, and this is a quote:

14 "Centra acknowledges that inverted
15 rates would strengthen the price signal
16 given to some customers to encourage
17 conservation."

18 RCM/TREE agrees with that position and
19 states that there are three (3) convergent reasons that
20 justify the introduction of an inverted rate design and
21 taking into account the fact that this could only be done
22 in conjunction with Manitoba Hydro.

23 The first is that a limited amount of
24 energy is a basic human need and that a just society
25 addresses the basic needs of its citizens.

1 Secondly, an inverted rate design will
2 send the proper price signal to consumers with respect to
3 conservation. The first block of an inverted rate design
4 would be priced at or below the breakeven point for the
5 Utility. This would encourage customers to reduce their
6 energy demands in order to take full advantage of the low
7 cost energy.

8 The third reason is that the true costs of
9 energy are not always reflected in the local cost because
10 of externalities that are not included. An inverted rate
11 design would permit the recapture of externalities in a
12 more efficient system while still permitting the basic
13 energy needs of Manitobans to be met.

14 It is also the position of RCM/TREE that
15 the Sustainable Development Act gives prominence to the
16 calculation of externalities. The inverted rate design
17 would permit Centra to comply with the Sustainable
18 Development Act in an efficient system.

19 As I stated, RCM/TREE recognizes that an
20 inverted rate design could not be implemented independent
21 of Manitoba Hydro. To do so would send improper price
22 signals to consumers. Any design of an inverted rate
23 structure would have to be taken in tandem with Manitoba
24 Hydro. However, this ought not prevent Centra from
25 commencing the production of models of an inverted rate

1 design.

2 This would allow the parties to understand
3 how the inverted rate design might work in practice. It
4 would allow for a full assessment of whether the inverted
5 rate design took into account full cost accounting.
6 RCM/TREE would welcome the opportunity to participate in
7 workshops reviewing inverted rate design and
8 externalities.

9 Number 8. That Centra allocate DSM costs
10 on a volumetric basis to all customers, including
11 transportation customers, because it provides a general
12 societal benefit.

13 Centra argues that such a suggestion would
14 result in a cross-subsidization of customer classes. As
15 Dr. Higgin pointed out in his testimony, however, the
16 current method of charging -- of charging for DSM
17 programs results in a cross-subsidization bizarrely,
18 whereby the poor pay for the DSM programs for those
19 Manitobans that can actually afford to pay for
20 retrofitting projects and replacement furnaces. RCM/TREE
21 does not understand the reluctance that Centra has to the
22 concept of cross-subsidization.

23 The cold hard reality is that the less
24 fortunate in our society are less able to take advantage
25 of programs that require an infusion of personal capital.

1 Low income Manitobans are the very people that are most
2 in need to DSM programs. They are the parties that would
3 benefit the most from having proper DSM programs.

4 Assessing DSM programs -- DSM costs on a
5 volumetric basis would indeed result in some cross-
6 subsidization of these programs. In addition, a
7 volumetric charge would:

8 A) Reflect, in part, the cost contribution
9 of gas consumption to damage resulting from the
10 greenhouse gas emissions and B), would contribute to the
11 mitigation of that damage by greenhouse gas reduction
12 through DSM.

13 It is, thus, our position that a
14 volumetric charge in support of DSM would result in
15 benefits to society as a whole and is, therefore, more
16 than justified.

17 We also believe that it is important to
18 fund industrial DSM programs from these funds. In
19 addition to utility driven programs, Mr. Weiss proposes a
20 self-directed investment program whereby individual
21 customers would have the option to draw on their DSM char
22 -- surcharges for qualifying efficiency investments.

23 Number 9. That Centra adopt a decoupling
24 rate design for residential and small commercial
25 customers.

1 Because much -- much of Centra's
2 relatively fixed costs are collected from customers
3 volumetrically, changes in usage cause swings in the
4 Company's margin. Manitoba has the highest degree of
5 weather volatility in Canada. As a result, Centra is
6 subject to greater swings in revenues because of this
7 volatility. RCM/TREE recommends, therefore, that Centra
8 be directed to examine decoupling models that would
9 permit rate stability.

10 Number 10, and our final recommendation,
11 Mr. Chair. Mr. Weiss testified -- or the -- the
12 recommendation is that the rate making process before the
13 Public Utilities Board be amended to a certain extent.

14 Mr. Weiss testified of the potential means
15 of improving the rate making process. Included in those
16 suggestions was the adoption of a phase to encourage and
17 facilitate settlements between the parties, which would
18 include Public Utilities Board staff.

19 Mr. Weiss recommends that the schedule for
20 each docket explicitly provides for a couple of days for
21 face to face settlement discussions amongst all parties
22 after the Company introduces its case, but before
23 testimony.

24 Again, the details of such a process would
25 be in the control of the Public Utilities Board.

1 RCM/TREE would be happy to engage in discussions with
2 staff from the Public Utilities Board and other
3 interested parties to develop a process that would
4 encourage a more efficient use of time and that would
5 encourage resolution of issues without the need for
6 adversarial hearings.

7 A variant of a negotiated settlement is
8 the establishment of a rule making process conducted
9 under Board direction with the assistance of a
10 consultant. An example of this process, presented in
11 evidence, was the avoided cost rule making procedure,
12 which established the avoided cost methodology used in
13 California for the evaluation of DSM and alternative
14 power generation.

15 We believe that the topics of full cost
16 accounting and modelling potential inverted rate designs
17 are issues before the Public Utilities Board that could
18 benefit from the process. And our view is that in terms
19 of this consultative process that staff from the Public
20 Utilities Board would be central to -- to the process.

21 That concludes the recommendations on
22 behalf of RCM/TREE. I would like to conclude with the --
23 the comments that Mr. Weiss made during his testimony of
24 the fact that he believes that Centra is -- is a very
25 well run organization filled with very good people.

1 Dr. Miller, during a break, said to me,
2 You know Bill, I -- I haven't met a single person that
3 works at Centra that I don't like. That's -- that's the
4 attitude that we come here with. We come here with the
5 attitude that -- that -- that the -- that the ideas that
6 we've provided are meant to assist making this
7 Corporation better than it is. Thank you.

8 THE CHAIRPERSON: Thank you, Mr. Gange.
9 So Mr. Saxberg, I see your papers have
10 arrived, so if you want to begin at your leisure.

11 MR. KRIS SAXBERG: Thank you, Mr.
12 Chairman. Yes, and I am pleased to say that my closing
13 argument brief is here and doubly pleased that its in an
14 attractive colour that matches my suit. That wasn't on
15 purpose, so maybe things are going to turn out all right
16 today.

17 THE CHAIRPERSON: By the size of the
18 book, should we book a hotel room?

19 MR. KRIS SAXBERG: I hope that's not
20 necessary. I -- I guess I'll begin by circulating this
21 book of documents.

22 THE CHAIRPERSON: Mr. Singh, could you
23 assist Mr. Saxberg?

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Mr. Saxberg, at some
2 point in your review of your closing argument you might
3 give us a head's-up as when you think it would be a good
4 time to take a break.

5 MR. KRIS SAXBERG: Yes, thank you, Mr.
6 Chairman.

7 THE CHAIRPERSON: You can begin whenever
8 you like.

9

10 FINAL SUBMISSIONS BY MR. KRIS SAXBERG:

11 MR. KRIS SAXBERG: Good morning, Mr.
12 Chairman. Or good afternoon rather, Mr. Chairman, Board
13 Members, ladies and gentlemen.

14 With me in attendance today is Gloria
15 Desorcy from CAC. Laurie Hunter sends her regrets. We
16 have, the three (3) of us, carefully considered the
17 evidence that was presented and formulated our thoughts
18 on the matters. The turnaround time was a little tighter
19 than we're used to but I think that we got the job done
20 and that we will be covering off all of our major issues
21 of concern.

22 What I have in this closing argument brief
23 is an outline of my argument as I -- for everyone's
24 edification they can follow along and that way they'll
25 know when -- how close we are to being done and I promise

1 I won't throw in any extra areas.

2 Centra Gas Manitoba has applied to this
3 Board for a 2 percent overall increase in revenue
4 requirement, based on two (2) test years; '07/'08 and
5 '08/'09. Sorry, the 2 percent relates to the first test
6 year and for the second test year Centra is applying for
7 a 1 percent increase in overall revenue requirement.

8 If the application is approved as is
9 ratepayers will have seen four (4) straight years of non-
10 gas revenue requirement increases when the rates change
11 on May 1st, 2008, and if you're paying attention that is
12 five (5) rate increases in the past six (6) years if you
13 go back to 2003/'04.

14 Now, prior to the rates changing in 2005
15 and 2006, the non-gas revenue requirement was
16 approximately 120 million. On May 1st, 2008 it's going -
17 - if -- if this application's approved, it will be 143
18 million; that is an increase of approximately 19 percent.
19 Big numbers.

20 CAC/MSOS takes the position that Centra's
21 characterization of the current rate increase is in some
22 ways misleading. The increase sought is for 10.7 million
23 in the first test year followed by a further 5.4 million
24 increase in the next test year. In other words, as of
25 May 1st, 2008 costs will be up 16.1 million from what

1 current rates would collect in revenue if applied to the
2 '07/'08 forecast.

3 Now, I -- and I appreciate that of the
4 10.7 million and of the 5.4 million -- it's collectively
5 16.1 million -- there is a component there that relates
6 to reduced volumes. But notwithstanding that component,
7 these are still sizeable increases.

8 In simple terms Centra's overall revenue
9 requirement should be divided into two (2) main items and
10 Centra does that itself.

11 First the cost of gas, which in 2006/'07
12 is being finalized at \$419.2 million. The second element
13 is the non-gas cost, the Company related costs, that I've
14 just reviewed. Last approved those costs were 131
15 million.

16 Although it is important to note that the
17 approved costs from the '06/'07 test year, former test
18 year, of 131 million weren't the actual costs incurred by
19 the Utility of course. And if you turn to tab 1 of the
20 Argument brief, I've done some jotting on the right-hand
21 side of the page simply to show that when you look at the
22 approved costs in rates and you compare them to what --
23 at that point was the latest forecast -- we know now that
24 there are actuals, but they haven't been made public --
25 you look down the list and -- and what I have noted is

1 that for other income that would be a plus amount because
2 other income is a deduction of three hundred and thirty-
3 six thousand (336,000).

4 But when you go to operation -- operating
5 and administrative, although the numbers are identical in
6 -- in the material presented by Centra, I've put a minus
7 2.8 million there and that number doesn't come out of the
8 air. It comes from the actuals reported as of December
9 31st, 2006.

10 And that information is included in a CAC
11 information request, CAC/CENTRA-93, that has a breakdown
12 of how these actual costs, as of December 31st, 2006,
13 were determined. So I -- and -- and what the IR says is
14 that we were doing \$2.8 million better than we'd forecast
15 at that point in time. So I've put a minus \$2.8 million
16 there.

17 Depreciation and amortization, that's a
18 minus nine hundred thousand (\$900,000). We were
19 collecting more than -- than was required. Same goes for
20 property taxes. Centra was -- had forecast a property
21 tax increase that didn't come to fruition. And then
22 finance expense went the other way.

23 All together it -- it means that the costs
24 were approximately, according to the latest forecast in
25 this rough estimate, \$2.5 million less than what had been

1 approved. And that, we hear -- heard generated a weather
2 normalized profit of between 1 million and 2 million if I
3 am reading the lines correctly on the transcript, with
4 respect to Mr. Warden's comments about there being a
5 slightly positive result for the '06/'07 year. And then
6 he agreed with me that on a weather normalized basis,
7 you'd add \$1 million to that since -- and -- and I might
8 come back to that in more detail.

9 But the point is that when you're
10 comparing and looking at the non-gas cost revenue
11 requirement, we believe that customers should know the
12 percentage increase that relates specifically to that
13 component, and -- so that they can track how the gas
14 company's doing in terms of its operations and the costs
15 that it can control to a greater extent; certainly to a
16 much greater extent than the commodity costs.

17 And our suggestion is that that
18 information should be conveyed in a public notice in
19 advance of these types of proceedings. Instead of saying
20 we're asking for a 2 percent overall rate increase and
21 followed by 1 percent overall rate increase, I think it
22 would be a lot better to communicate the Company's costs
23 are -- are -- an application is being brought to increase
24 the Company costs by here, it's in the order of 8 percent
25 in the first year and -- and followed by that 12 percent.

1 And those -- those numbers may attract a
2 little bit more interest from the public in terms of
3 having an opinion as to whether or not the -- the
4 application -- they should be -- become involved in the
5 application or concerned about it.

6 Also I think the Board needs to note the
7 distinction between commodity costs and non-gas revenue
8 costs when it renders its decision. And I think that the
9 Company then, after the Board has made its decision,
10 should advise customers in a billing notice similar to
11 the -- the way that they advise customers after every
12 primary gas rate change.

13 So, therefore, CAC agrees with Mr.
14 Matwichuk's recommendation that non-gas increases be
15 expressed as a percentage of itself and not the relate --
16 unrelated gas costs. And if you look at Mr. Matwichuk's
17 Table 9, he has quite nicely set out the presentation
18 that he would offer, based on his analysis -- analysis of
19 the numbers. And that's at Tab 10 in the material where
20 I have extracted Mr. Matwichuk's tables; his important
21 tables that relate to this application. And if you flip
22 about six (6) pages in, you'll see Table 9.

23 Now here, this is a handy table to have at
24 -- at hand, because what it shows is that Mr. Matwichuk
25 is suggesting that what Centra's really applying for is a

1 percentage increase of four point seven (4.7) in the non-
2 gas revenue requirement. That's larger than the number
3 that I just indicated because Mr. Matwichuk is using the
4 131 million previously approved. I was launching off
5 from the -- my interpretation of the actual costs for
6 that last '06/'07 year.

7 But, in any event, what this also shows is
8 what Mr. Matwichuk -- if Mr. Matwichuk's recommendations
9 were accepted, the numbers would flow out so that there
10 was virtually no rate increase for the first test year;
11 that's as a result of his recommendations about the
12 calculation of the rate base rate of return and the
13 elimination of the contingency amount from O&A. And with
14 respect to the '08/'09 year, Centra would be given a 3.2
15 percent increase, according to Mr. Matwichuk's
16 recommendations.

17 Now, I want to talk about onus. The
18 Public Utilities Board Act clearly establishes that the
19 onus resides on Centra to justify and prove, beyond a
20 balance of probabilities, that its rate request, if
21 approved, would create just and reasonable rates. And
22 that is a very important concept.

23 And what I want -- what's new here that I
24 want the Board to remember is that the Board should keep
25 in mind that that burden of proof is ubiquitous

1 throughout the entire process. It's an essential
2 evidentiary requirement that Centra must discharge with
3 respect to all aspects of the application and with
4 respect to all material assertions that its putting
5 forward in support of these rates.

6 In the context of this hearing, Centra
7 requires some solid and convincing evidence that there
8 is:

9 Number 1, a skills deficit on the horizon.

10 And, number 2, that moving two thousand
11 (2,000) Hydro employees into the same office tower to
12 share space will result in productivity savings of \$20
13 million.

14 3. That the contingency component of O&A
15 that's included in the O&A forecast, is based on actual
16 indicia of -- of potential increased costs based on real
17 information and -- and quantified information.

18 And 4, that the O&A costs for the '08/'09
19 test year, which are simply being increased by 10 -- by
20 2.5 percent without any offsetting productivity
21 improvements, are appropriate.

22 With respect to these matters, you'll hear
23 CAC/MSOS submit that Centra has failed to discharge its
24 burden of proof.

25 Now, if there's a theme to this closing

1 submission, it is that the Board must continue to clearly
2 outline the principles upon which it regulates Centra.
3 It must define those principles and then continue to
4 rigorously and consistently apply them to these
5 applications that Centra brings before it.

6 These principles should never be altered
7 or deviated from unless Centra has clearly satisfied its
8 burden to demonstrate that it's appropriate to alter the
9 principle, and that altering it wouldn't have deleterious
10 affects down the road with respect to other
11 circumstances. And, also, they have to prove that it's
12 appropriate if the principle remains to deviate from it
13 in any regard for any period, based on the established
14 circumstances.

15 The principles that this Board has
16 espoused in previous decisions and which are applicable
17 to this case include:

18 Number 1, the no-harm principle. As
19 articulated by Mr. Matwichuk in the GRA held in two-o-
20 five (205), the principle encompasses the notion that
21 customers of an acquired company should be at least no
22 worse off because of this change in own -- ownership, and
23 B), customers should not be adversely affected by the
24 sale, whether in rates or in level of service or any
25 combination of the two (2).

1 The second principle is the standalone
2 principle. The standalone principle encompasses the
3 notion that the cost of capital incurred by ratepayers
4 should be equivalent to that which would be faced by a
5 utility raising capital in the markets on the strength of
6 its own business and financial parameters, rather than
7 its parents. This approach has been widely adopted by
8 regulators, including this Board in the GRA held in -- in
9 2005.

10 Another principle of important note is the
11 historic cost principle. The costs for just and
12 reasonable rates must be based on historic costs; that is
13 the costs of the assets when they were first devoted to
14 public use.

15 Section 61 of the Public Utilities Board
16 Act requires that rate base be calculated using the
17 original or historic cost of the assets. You cannot
18 include the current market value of the assets after a
19 sale or -- or the premium paid above the net book value,
20 in any way, in calculating rates.

21 The fourth principle that applies to this
22 case is the principle of just and reasonable rates. Just
23 and reasonable rates have been defined as rates which
24 would be fair to the customer on one hand, and which on
25 the other hand would secure the company a fair return on

1 capital invested in its enterprise as it would receive,
2 as if it were to invest the same amount in other
3 securities possessing an attractiveness, stability, and
4 certainty equal to that of the Company's enterprise.

5 Any owner of a utility in Manitoba, it
6 doesn't matter if they're private or public, is subject
7 to the Public Utilities Board Act -- they're subject to
8 the common law -- and they must charge just and
9 reasonable rates. Part of just and reasonable rates is
10 this idea of a fair return.

11 And the quo -- the definition that I just
12 gave of just and reasonable rates comes from our Supreme
13 Court in the Decision that I have included at Tab 3 and
14 I've in -- made it nice and simple for everyone, I've
15 only included two (2) pages and I've -- I've highlighted
16 the quote that I just read about what a fair return is.

17 And you'll see on page 5 bracketed -- the
18 second sentence is what I was quoting from:

19 "By a fair return, is meant that the
20 company will be allowed as large a
21 return on the capital invested in its
22 enterprise, [which will be net to the
23 company], as it would receive if it
24 were investing the same amount in other
25 securities possessing an

1 attractiveness, stability, and
2 certainty equal to that of the
3 company's enterprise."

4 So that's the Supreme Court of Canada
5 saying what just and rate -- and reasonable rates are and
6 what a fair return is. The Supreme Court -- US Supreme
7 Court has said the exact -- virtually the exact same
8 thing, and that's at the next tab, Tab 4; three (3) pages
9 in, again bracketed, the top of the page, quote:

10 "A public utility is entitled to such
11 rates as will permit it to earn a
12 return on the value of the property
13 which it employs for the convenience of
14 the public equal to that generally
15 being made at the same time and in the
16 same general part of the country on
17 investments in other business
18 undertakings, which are attended by
19 corresponding risks and uncertainties."

20 End quote.

21 The point being a fair return is something
22 that can be defined. It has been defined at law. And
23 that notion is important in this case and has to be
24 applied to the rate -- to the revenue requirement that
25 Centra is seeking, and we'll get into that as we

1 continue.

2 Now, to simplify the test, it's that no
3 owner of a utility, whoever it is, can collect a return
4 which is above the amount that it's going to get if it
5 invested in something that was similar.

6 The Board has calculated a formula for
7 determining this return and that formula hasn't been
8 changed. And if the Board wants to change it and Centra,
9 it -- it appears in its application has been inviting the
10 Board to change it and to update it, there has to be a
11 hearing on that matter.

12 There has to be a full debate on what the
13 return should look like in the present circumstances.
14 But that hasn't happened and until it does we are left
15 with the Board's present formula which laterally, Mr.
16 Matwichuk doesn't think is inappropriate and has -- and
17 Mr. Matwichuk has said, it is fairly congruent with other
18 formulas in place in other parts of the country.

19 Now, in terms of the no-harm principle --
20 and you know what? Just -- just -- I -- I think it's
21 important to do this. I -- I think we should just take a
22 quick moment to look at the Act at Tab 2 because all of
23 these things I'm saying from the case law are reflected
24 in the statutory language.

25 And so if you look at Tab 2 of my brief,

1 first of all the first page, Section 61, where it says:

2 "Where rate base is a factor in
3 determining just and reasonable rates
4 [you go to A] the original or historic
5 cost of the assets used in useful --and
6 prudently acquired less depreciation
7 are what to be used in that
8 calculation."

9 If you then flip two (2) pages in to the
10 definition section, under the rates and matters related
11 to gas, the definition sector, you see -- you'll see that
12 there's a definition of rate base and there's a
13 definition of rate of return on shareholder equity.

14 Quote, means:

15 "The net income of a public utility
16 expressed as a percentage of the amount
17 of shareholder equity invested in the
18 business of the public utility." End
19 quote.

20 And now of critical importance is to flip
21 a few more pages down to the last page; criteria for the
22 Board's orders. And sometimes you know we -- we've done
23 these -- these hearing so often that you forget to go
24 back and look at the basics, but here the very first
25 criteria for the Board here is to determine whether the

1 rates are excessive, unjust, unreasonable, or
2 discriminatory; that's the first thing to look at.

3 And to advi -- and to give that meaning
4 you have to look at the case law and as I've said the
5 Supreme Court's consideration of what a fair return is.
6 And anything that is above that is excessive.

7 You do also look at the financial
8 stability of the company. There's no question about
9 that. But we don't look at the financial stability of
10 the -- of the company in this case when you -- when
11 looking at the financial stability of the company you
12 have to -- you're going to have to be realistic about it.
13 The fact is that Centra Gas isn't at any risk in terms of
14 the business that it's operating. And I'll get into that
15 later and Mr. Matwichuk's specific comments on financial
16 stability but I just want to highlight that that is a
17 criteria that the Board's to be considering.

18 So -- and then if you look at Section 127,
19 it says the Board shall determine rate base and rate of
20 return on shareholder equity. So -- and that the Board
21 shall fix a rate of return that it determines to be in
22 compliance with this Act. In other words, in compliance
23 with fair and just -- just and reasonable rates, which is
24 defined as including a fair return, which is being
25 described as being something that would relate to a

1 similar opportunity.

2 So with that background -- it's important
3 to have the background in place as I move forward to
4 discuss the revenue requirement sought. But in terms of
5 the no harm principle it's important to get into how that
6 applies to this case as well because everyone agrees the
7 no harm principle applies, but there's a major divergence
8 in this case with respect to the test.

9 CAC/MSOS' view is that the Board put the
10 matter to bed in Order 103/05 and Order 135/05. The
11 Board's test is simple and easy to apply. The test is
12 that no combination of net income and charges, however
13 you want to characterise them -- here they're called
14 corporate allocation -- but no combination of those two
15 (2) items to Centra recovered by Manitoba Hydro should
16 result in -- in higher rates for Centra customers than
17 would have been the case at the time Centra was sold to
18 Manitoba Hydro. That amount of return has been
19 identified as between \$14 and 16 million per year.

20 And the Board -- the Board's quote was
21 essentially that the transaction was predicated on this
22 return, that would otherwise be paid to a private owner,
23 being around to help pay for the acquisition and that
24 that amount plus Synergy's being sufficient to hold
25 everyone harmless, there was no contemplation that that

1 amount fourteen (14) to sixteen (16) could then be added
2 on -- added to by way of a corporate allocation.

3 So that was the very nature of the
4 transaction. So to determine if customers are held
5 harmless, one need look at this \$14 to \$16 million range
6 that can't be inflated, because the test is what was
7 happening at the time of the sale. And that is the
8 amount that is the high watermark.

9 But that -- the story doesn't end there in
10 terms of setting just and reasonable rates. You'll see
11 that CAC's position, as reflected by Mr. Matwichuk and
12 MSOS's position, is that there's a distinction between
13 the fair and appropriate, just and reasonable rates and
14 the no harm principle; that a revenue request may not
15 result in harm but it may constitute an excessive return
16 that isn't in compliance with this dicta from the Supreme
17 Court of Canada and from the Act and regulatory
18 jurisprudence.

19 And the reason that that's applicable here
20 is because you'll see that the return that's calculated
21 presently on rate base rate of return is around \$11
22 million, whereas the private owner at the time that
23 Centra was sold was able to recover \$14 to \$16 million.

24 So there's an important difference here;
25 that no harm could be achieved if the overall revenue

1 requirement sought by Centra is between \$14 and \$16
2 million in terms of net income and corporate allocation,
3 but that that would still constitute an excessive return
4 in accordance with the law. And the reason for that is
5 that if anyone else owned Centra, the Act is clear -- the
6 law is clear; they can't get more than the fair return
7 otherwise it's not just and reasonable rates.

8 So why are we treating or considering
9 treating Manitoba Hydro any differently. As a public
10 company it should -- it should certainly not be entitled
11 to a special treatment. And if the Government wants to
12 legislate otherwise, it's -- it can do so. And if the
13 Board thinks that it's appropriate to recommend that to
14 the Government, then -- then it can do so. But for now,
15 we're stuck with the law.

16 Now what is Centra saying? Centra has its
17 own test for no-harm and for excess return in this
18 application, and what Centra asserts is that a fair
19 return is any return that passes the no-harm test.

20 And during a discussion between Mr. Peters
21 and Mr. Rainkie, Centra made it clear that for instance,
22 if the no-harm test disclosed \$23 million of return --
23 no-harm test calculated as Centra does, which would be
24 the return on equity under rate base rate of return plus
25 a \$12 million corporate allocation for 23 million and

1 Centra applied for anything including a dollar (\$1) less
2 than that, that would not constitute harm. And that --
3 that was the position taken during -- during the
4 examination.

5 And -- and that, Centra says here, that
6 the proper basis for the rate base rate of return
7 calculation should be based not on a standard rate base
8 rate of return calculation but based on its hypothetical
9 view of the costs of Centra absent the acquisition by
10 Manitoba Hydro. And that's set out in Centra's Exhibit 7,
11 where they have calculated their hypothetical of what the
12 -- the no-harm test is.

13 And -- but what they're saying is, they
14 can apply for anything up to a dollar less than that and
15 there won't be harm. But what I'm suggesting is that
16 clearly contravenes the Board's test for no-harm and it
17 clearly contravenes the law with respect to the
18 collection of a fair return.

19 Now, in order to establish just and
20 reasonable rates, CAC/MSOS is relying on these past
21 rulings of this Board. And what CAC/MSOS asked Mr.
22 Matwichuk to do is to take the Board's principles and the
23 Board's comments from previous decisions and apply them
24 to the revenue requirement that Centra has brought
25 forward and make sure that that revenue requirement

1 properly reflects the Board's directions. And what's
2 important is that the Board's main direction was that
3 rate base rate of return is to serve as the highwater
4 mark. Specifically, the Board stated, quote, and this is
5 in Order 135/05, quote:

6 "In that Order, the Board also found
7 that the allowed return on rate base
8 determined by the rate base rate of
9 return methodology represents the
10 absolute limit for return to Centra's
11 parent company. That limit applies
12 whether that return be by way of net
13 income and potentially subsequent
14 dividend, or by corporate allocation."

15 In this -- that's strong language; it's
16 absolute limit. It's clear language and the only issue
17 is did the Board mean what it said? And I'm fairly
18 satisfied that it did. But according to the revenue
19 requirement filed in this application, Centra doesn't
20 believe that the Board meant what it said there and that
21 is our dispute.

22 In simple terms, the dispute is whether or
23 not this revenue requirement calculated by Centra as the
24 highwater mark should include within it the corporate
25 allocation number of 12 million. All Mr. Matwichuk has

1 done, essentially, is to take out that \$12 million from
2 the rate base rate of return calculations produced by
3 Centra. And when he does so, the number that falls out
4 of that is less than the revenue requirement that Centra
5 seeks to recover in this application.

6 And that information is at Tab 10, where
7 I've taken some excerpts from Mr. Matwichuk's evidence
8 and I have included in here Mr. Matwichuk's calculation
9 of the amounts that he's saying constitute excessive
10 revenue requirement because he's simply taken out that 12
11 million.

12 And it's Table 3, the first page, at Tab
13 10; shows that for the first test year the number is 4.65
14 million. For the second test year it's 5.4 million, in
15 approximate terms.

16 Now, in terms of the Board's decision, our
17 view is that the Board's decision falling out of the
18 hearing in 2005 was that, in our words, Centra's owner,
19 Manitoba Hydro, is entitled to use its return to assist
20 in offsetting the acquisition costs, whether it is net
21 income, corporate allocation under cost of service, or
22 return on equity under rate base rate of return; all of
23 these items are, in fact, one (1) thing and one (1) thing
24 alone and that is return. And that's the way to look at
25 it.

1 And what happened was the Board also said
2 that Centra could go ahead and produce its revenue
3 requirement based on cost of service, which it has done.
4 And the Board said; as long as that cost of service
5 number is lower than the rate base return. But when
6 Centra filed its application here, it included the
7 corporate allocation plus this return on equity which,
8 essentially, means two (2) returns.

9 And here's what Mr. Matwichuk said in his
10 evidence that's important. He said that when you put
11 those two (2) returns together -- the corporate
12 allocation and the net -- and the return on equity -- you
13 get 23 million. And when you take 23 million, that would
14 constitute a return of 17.5 percent versus what the full
15 -- the Board's formula produces as an appropriate fair
16 return of 8.21 percent. So the 17.5 percent is nearly
17 double.

18 And then let's go back -- if you go back
19 to the Supreme Court of Canada's definition of a fair
20 return, Centra would have to establish that it's got --
21 it could take all of its money out of Centra and invest
22 it somewhere else and get a return of 17.5 percent.
23 That's what the Supreme Court is saying; is how you
24 determine if the return is fair. And I didn't hear any
25 evidence like that.

1 So in other words, the return that Centra
2 has included in its rate base rate of return calculation
3 is excessive, and at law our position is that it is in
4 breach of the law, in breach of the Act, in breach of the
5 common law.

6 And the Board should re -- reject Centra's
7 attempt to include that corporate allocation and should
8 therefore turn to Mr. Matwichuk's calculations and revise
9 the revenue requirements accordingly.

10 Now I thought perhaps I'd continue for ten
11 (10) more minutes before the break, if that pleases the
12 Board.

13 There was a counter argument that was
14 raised by Centra during the proceeding. Centra argues
15 that synergies are not free, and therefore Centra should
16 be charged in some form for the benefit of receiving
17 those Synergies. And the suggestion appears that in
18 addition to the return and the reasonable return, Centra
19 should be charged an additional amount to pay for these
20 synergies.

21 Now the Board considered virtually
22 identical arguments on two (2) separate occasions, and
23 established the principle that I've outlined previously.

24 And -- and if you look at the brief and
25 you turn to Tab number 7, Order 118/03, this is where the

1 Board at that time is indicating how synergies would be
2 and the acquisition costs would be paid for. And I know
3 the Board's familiar with this quote -- I'm just bringing
4 it to your attention that it's in -- in the materials and
5 it's application here shouldn't be modified in any way
6 whatsoever.

7 Now, what the Board had said was simple
8 that, \$14 to \$16 million in returns there to pay for your
9 acquisition costs, but also synergies and Hydro. And
10 back when this Order 118/03 was drafted, guess what the
11 synergies reported in hydro were? They were \$3 million.
12 That's what it says here in this first line.

13 "In addition, the Board has heard that
14 synergy's realized by Hydro as a result
15 of the acquisition exceed \$3.2
16 million."

17 Well, we know down the road at the last
18 hearing that the last reported synergies and Hydro was 9
19 million. And in this hearing Mr. Warden conceded that
20 Synergies and Manitoba Hydro may have increased further
21 as a result of the integration of the billing function
22 with that of Centra Gas. And that's at transcript page
23 499, beginning at line 1. And I'm quoting from the
24 transcript now. This is my question, quote:

25 "Maybe you could just undertake to

1 confirm my understanding from the
2 record that the 4 million of synergies
3 related, just to the electric side as a
4 result of the decision to integrate to
5 Banner, have not been included in the
6 last tally of synergies being in or
7 around \$16 million."

8 Mr. Warden answered:

9 "Yes, Mr. Saxberg. Actually I can -- I
10 can confirm that now. You are correct.
11 We did not include that in the \$16
12 million tally that was prepared as of
13 March 2005."

14 So there's some additional synergies
15 there. And -- and for the Board's edification, if you
16 turn to -- I've -- I've also included in the material a
17 quote from Board Order 208, it's at tab 6, where the
18 Board says, talking about CIS, it says:

19 "As discussed previously, Hydro is
20 evaluating the possibility of
21 transferring to electric -- it's
22 electric customers to the Banner
23 system. This annual operating cost
24 reduction associated with the migration
25 of electric customers to Banner was

1 forecast to be \$4 million."

2 Now we know that that -- that migration
3 has occurred and -- and we're all getting one (1) bill
4 now, which I appreciate.

5 And so I only make the point to say, from
6 when the Board decided that you look at the \$14 to \$16
7 million in return and you compare it -- and you also add
8 to it the synergies in hydro, there's been a material
9 change. The -- synergies and Hydro have gone up to nine
10 (9) million; maybe an additional four (4) million, so
11 there's a lot more breathing room there.

12 But what the Board also said was that
13 whatever you do, when you -- however this transaction
14 pans out, you cannot include any of the premium that
15 Manitoba Hydro paid to buy Centra Gas in rates. And the
16 premium that was paid was in the -- in the order of a
17 \$130 million above net book value.

18 And the Board here, in this Order 118/03
19 that I'm back on at Tab 7 says, quote:

20 "As well, the annual Hydro costs of
21 20.9 million include a component
22 related to purchased goodwill and the
23 write-up of net assets to fair market
24 value which arguably should not be paid
25 for by Centra ratepayers, but rather

1 Rainkie and Mr. Derksen, that the
2 acquisition premium was not allowed to
3 be carried through into rate base?

4 MR. RAINKIE: That's correct, Mr.
5 Peters. I've dealt with that through
6 the corporate allocation."

7 That's their argument. In the corporate
8 allocation they're trying to recover this premium that
9 the Board has already cannot be recovered in any way and
10 that ties back into the no-harm principle and to the
11 historic cost principle.

12 So that is -- if there was ever a reason
13 to take out that corporate allocation from the -- the
14 calculation of rate base rate of return, it's because
15 it's not legal for it to be there in accordance with the
16 Act and -- and the -- application of historic costs to
17 rate base.

18 Now -- but the -- the other point is this
19 on -- on synergies. The other point is this: Centra's
20 evidence in this proceeding, and I believe in prior
21 proceedings, is that synergies in the two (2) companies
22 have exceeded the threshold that was necessary to make
23 the acquisition pay for itself and they have stopped
24 tracking synergies. That's at transcript page 189 lines
25 16 to 19.

1 inclusion in revenue requirement of 12
2 million annual corporate allocation."

3 In that Order the Board also found that
4 the allowed return on rate base, determined by the rate
5 base rate of return methodology, represented the absolute
6 limit for a return to Centra's parent company. That
7 limit applies whether that return be by way of net income
8 and potentially subsequent dividend or by corporate
9 allocation.

10 So the biggest issue in this case is, do
11 you take that \$12 million out of the calculation of rate
12 base rate of return. And our strong argument -- our
13 strong position is, you certainly do and it results in
14 the reductions to revenue requirement Mr. Matwichuk's set
15 out.

16 This is a good point for me to break on as
17 that I'll be moving onto a new area.

18 THE CHAIRPERSON: We'll follow your
19 suggestion, Mr. Saxberg, and we'll come back in ten (10)
20 minutes or so.

21 MR. KRIS SAXBERG: Thank you, sir.

22 THE CHAIRPERSON: Mr. Saxberg, could you
23 give an idea of how long you expect to continue?
24 Approximate?

25 MR. KRIS SAXBERG: One (1) hour.

1 THE CHAIRPERSON: Very good, sir.

2

3 --- Upon recessing at 2:44 p.m.

4 --- Upon resuming at 3:05 p.m.

5

6 THE CHAIRPERSON: Okay, Mr. Saxberg.

7

8 CONTINUED BY MR. KRIS SAXBERG:

9 MR. KRIS SAXBERG: Thank you, sir. I'm
10 turning now to O&A expense.

11 Centra's O&A is entirely made up of an
12 allocation from the larger parent, Manitoba Hydro.
13 Except for a description of the methodology, the inner-
14 workings of the allocation methodology remain somewhat of
15 a mystery, at least to these Intervenors, as Mr.
16 Matwichuk described, a black box.

17 In his view, the information presented on
18 the record is insufficient and the main problem is that
19 the information presents only one (1) side of the story.
20 We see allocated costs for various items and we now have
21 trends with respect to those allocations, which is
22 helpful. But we do not see the corresponding allocations
23 to Manitoba Hydro and we are not specifically made aware
24 of the individual drivers that create these allocations,
25 and that's a concern. Therefore, it leaves stakeholders

1 with a need to find alternative means for confirming or
2 challenging Centra's O&A forecast.

3 So in the face of these uncertainties,
4 CAC/MSOS asked Mr. Mat -- Matwichuk to do his independent
5 analysis. And Mr. Matwichuk has created a baseline and
6 I've included those tables at Tab 10 of the closing
7 argument brief and I won't spend too much time on them.
8 Mr. Matwichuk went through them. I want to bring them to
9 the Board's attention.

10 They're significant numbers. For
11 instance, Table 4, which is the second page in, indicates
12 that using a productivity -- well, first of all, these --
13 this baseline runs from the baseline which the Board
14 established in Order 118/03.

15 In Order 118/03, this Board, for the first
16 time, had the opportunity to look at this new cost
17 allocation system. And what it said was, Well, we're
18 switching methodologies here, it's unclear to us, we're
19 going to have to take a leap of faith, but one (1) thing
20 we can do is we're -- we've set the amount in this
21 hearing at 49.3 million, and from this point forward
22 we'll always be able to look back at that \$49.3 million
23 number and we'll be able to consider whether amounts
24 sought in the future are reasonable.

25 To quote the Board, quote:

1 "The Board notes that the 49 million in
2 costs of operations for '03/'04 will
3 represent a baseline from which future
4 applications will be measured, which
5 will allow the Board to review costs of
6 operations by activity and function on
7 a comparative basis." End quote.

8 So what Mr. Matwichuk did then was take
9 that \$49.3 million number and then he applied inflation
10 to it -- inflation that was provided to him through the
11 Information Request process -- and then he applied three
12 (3) sensitivities of productivity. And you'll see on
13 Table 4, what he comes up with is that if taking the two
14 (2) test years together and using only a modest .5
15 percent productivity, the O&A is overstated by 4.4
16 million. If you increase the productivity sensitivity to
17 .75, it goes up to 5 million, and if you increase it to a
18 factor of one (1), it goes up to 5.5 million.

19 Now he also looked at cost per customer
20 and did a similar comparison using cost per customer
21 numbers and that information is found at Table 6 which
22 indicates that there is an overstatement in the O&A of
23 the amounts indicated by Mr. Matwichuk in his table,
24 depending on the productivity sensitivities that he's
25 applied.

1 The Board asked Mr. Matwichuk to do the
2 same thing with respect to using the last year of actuals
3 and pulling the number forward. And Mr. Matwichuk did
4 that in the form of an Information Request. And that
5 also showed that the numbers, the O&A numbers, were
6 overstated.

7 And what he also did -- and this is --
8 this is that he took the December 31st, 2006 actual costs
9 and he pulled them forward using inflation and
10 productivity and that's information that's found near the
11 end of Tab 10; it's Appendix -- it's after the purple
12 sheet that everyone has, sorry, in that Tab 10.

13 And what it shows is that -- the reason
14 why Mr. Matwichuk did this is the very last actual
15 information on O&A costs is this December 31st, 2006
16 report on actual O&A. And the customer -- cost per
17 customer that comes out of it of two hundred and two
18 dollars (\$202).

19 Mr. Matwichuk has taken that two hundred
20 and two dollars (\$202) and simply applied inflation with
21 these modest productivity improvements. And it shows
22 that if you look at the -- the very last information that
23 we have on the record for an actual for Centra O&A of
24 December 31st, 2006, you look at it and you bring it
25 forward with this inflation and modest productivity, the

1 O&A is overstated by \$2.64 million for the first test
2 year and \$2.8 million for the second test year.

3 So all that's doing -- it's a very simple
4 analysis, but it's saying, let's look at how Centra is
5 actually doing. Let's take their actual costs and let's
6 give them inflation, but we have to charge them some
7 productivity. We're going to expect at least that much
8 out of the company. And that shows -- it's a test to
9 show that the O&A that's applied for is perhaps on the
10 rich side.

11 Now, one (1) of the criticisms that was
12 levelled at Mr. Matwichuk was that this is an over-
13 simplified process. But the only point I want to make to
14 that is it's a -- it's a test that's -- that because of
15 its simplicity, is at least going to give the Board a
16 guideline with respect to other critiques that we have
17 looking at the individual items on O&A.

18 But, also, it's what Centra did for the
19 test year '08/'09. I mean, Centra is putting forward its
20 forecast for '08/'09 and all it's done is increased the
21 cost from the previous test year by 2.5 percent for every
22 single item. So that's all they've done.

23 So, if -- whatever critique they want to
24 lay upon Mr. Matwichuk, they're going to have to lay it
25 on themselves in that respect. And, further, their 2.5

1 percent escalation does not include any measure of
2 productivity, and that's simply not appropriate.

3 As Mr. Matwichuk notes in his evidence,
4 quote:

5 "Any successful business engages in
6 seeking out productivities. If they
7 are successful, they achieve
8 productivity. Productivity and
9 efficiency gains are a reality in a
10 successful business."

11 And I know that Manitoba Hydra has -- has
12 achieved significant productivity gains in the past and,
13 as a matter of fact, their target is 1 to 2 percent.
14 That information was -- came out in several forms during
15 the hearing. But it's also noted by the Board in a -- in
16 a -- in a Board Order, which is the number which I don't
17 have at the tip of my tongue, but it shouldn't be a
18 matter of much contest that Manitoba Hydro's own
19 productivity factor is 1 to 2 percent.

20 So, here's the other important thing;
21 '05/'06 actuals -- '05/'06 actuals were 53.1 million.
22 That's \$1 million less than the amount that was forecast
23 and imbedded into rates of 54.1 million. So they -- they
24 -- they beat the forecast in the last -- in the '05/'06
25 year.

1 In '06/'07 we heard from Mr. Derksen that
2 they had, once again, beat the actual. They weren't
3 prepared to give us a number as to what that was,
4 however, I did press for the number and -- and I pressed
5 for it in the form of, well, can you at least then update
6 the December 31st, 2006 actual in terms of cost per
7 customer?

8 And Mr. Warden graciously gave me that
9 number as being around two hundred and six dollars (\$206)
10 per customer and the -- the transcript reference there -
11 I'll have to undertake to provide - but the exchange was
12 -- was one in which he agreed that the O&A -- the actual
13 O&A for '06/'07 was lower than the forecast O&A and that
14 on a -- but that it was slightly higher than the December
15 31st, 2006 results and that it drove out a cost per
16 customer of two hundred and six dollars (\$206).

17 THE CHAIRPERSON: I recall it.

18 MR. KRIS SAXBERG: Thank you, Mr.
19 Chairman.

20 And so how does the two hundred and six
21 dollars (\$206) then relate to what's in the application?
22 Well, the test year application numbers are two hundred
23 and sixteen dollars (\$216) for the first test year and
24 two hundred and twenty dollars (\$220) for the second test
25 year. That is at Tab 12.

1 And this is an important piece of
2 information from the application and what we can do then
3 is where it says '06/'07 forecast, we can scratch off two
4 twelve (212) and add in two-o-six (206). And so we see
5 two (2) years of actuals of cost per customer at two-o-
6 six (206) and then we see this large increase to two
7 sixteen (216) and two twenty (220) and that, in my view,
8 is an indication that the O&A applied for is on the high
9 side.

10 Also - and I'll just put this on the
11 record for the Board to note - if you look at PUB-26B and
12 calculate the average activity rate increases, you'll see
13 a similar trend which suggests higher increases than --
14 than inflation offset by productivity and, also, PUB-
15 26(d) has the activity charges per EFT and -- and that is
16 -- a similar analysis can be done there which is also
17 supportive of the in -- of the increase being a little on
18 the high side.

19 Now, if we come to specific items, as the
20 Board is no doubt aware, our concern is -- with the O&A
21 is that there is an amount in there which is a
22 contingency amount and our concern is that it's a
23 positive contingency, in other words, an adder to the O&A
24 costs sought. It is approximately 1.7 million in each of
25 the test years and for the Board's information, Mr.

1 Matwichuk's numbers in terms of -- of his recommendation
2 for the ultimate revenue requirement take out that \$1.7
3 million.

4 They -- Mr. Matwichuk doesn't rely on his
5 baseline to adjust the revenue require, he simply takes
6 out the 1.7 million contingency amount. And the reason
7 he does is because he said that he's never seen anything
8 like this in any regulatory environment that he's been in
9 and that putting in a contingency of this sort, in
10 express terms like this, is something that -- that
11 wouldn't be permitted in other jurisdictions, the reason
12 being, that you're essentially -- that the risk -- the
13 forecasting risk that comes with -- with setting a test
14 year O&A target is that -- that the target -- you'll
15 exceed that target in actual costs.

16 Well, the regulatory principle is that
17 that risk -- that you've compensated for that risk in the
18 form of a component of the return on equity which --
19 which is set at a higher amount than it would otherwise
20 be to compensate for this risk and Mr. Matwichuk makes
21 that point and had made that point during his evidence.

22 One (1) of the things that came out was,
23 well, maybe -- maybe it's a good point. Maybe we
24 shouldn't include a contingency amount because there is a
25 -- there is an onus, by the way, to establish what those

1 costs that you're suggesting are going to be incurred
2 relate to and that that -- that onus, in our view, hasn't
3 been discharged because although there was some
4 anecdotal evidence about a skills' deficit on the
5 horizon, fuel costs going up. I mean, there -- there was
6 no quantification of those and -- and you could always
7 make up those kind of things at -- at anytime.

8 And if they were serious about quantifying
9 them, why not just include them in the forecast? Put
10 them into the other components of the forecast. Put the
11 -- put them into the primary costs, into the activity
12 charges, put them in there and do a proper analysis.

13 So, the other point that came out was,
14 what about the fact that in previous years we had a
15 negative contingency. Well, the negative contingency was
16 explained by virtue of the fact that the budgets were
17 high level and were -- were determined to be on the high
18 side and needed to be reduced. And so, therefore, an
19 express productivity factor was put it in the form of a
20 negative contingency.

21 My suggestion is that -- that it -- if
22 it's working that way that's -- that's slightly more
23 acceptable than the opposite way because there's a burden
24 of -- of proof here that -- that has to be satisfied by
25 the -- by the company so that there is a difference

1 between a positive contingency and a negative.

2 But beyond that, there was one other item
3 worth noting and, that is, that in past proceedings there
4 had been a positive contingency. And that -- the last
5 one I saw was the '03/'04 hearing and I have included an
6 excerpt from the transcript of that proceeding in '03/'04
7 where I was questioning Mr. Derksen about the corporate
8 allocation.

9 And he was describing to me what's in it.
10 And at that time it was a positive number that went from
11 1.26 to 1.44 million. This is at tab 13, by the way, and
12 you can reference it later.

13 The point of it is, Mr. Derksen was
14 explaining in this passage the items that go into
15 corporate allocation and of that \$1.44 million for that
16 test year, there was no mention of -- of it being a
17 contingency-related matter; rather, there were specific
18 items that were set out as to what makes up that amount.
19 And so although it was called corporate allocation back
20 then, it wasn't a contingency. It was related to
21 specific factors.

22 One being, pension costs, one being an
23 adjustment for the fact that activity charges are
24 calculated one way and corrects for the 365 days paid
25 versus activity charges calculated on a pay-period basis.

1 The other was that there was an adjustment
2 component in terms of, if the activity charges don't
3 recover all of the budget and all of the costs for the
4 department, then there has to be an allocation of those
5 costs that weren't recovered. So you put those
6 unrecovered costs into the corporate allocation.

7 But that's different than a contingency
8 that's expressly set out because we think maybe we've got
9 bad news coming down the road in the form of a skills'
10 deficiency and in the form of higher prices at the pump.

11 So CAC/MSOS removed -- agrees with Mr.
12 Matwichuk that that one point seven (1.7) million in each
13 year should be removed; and that's the only suggestion
14 we're -- we're making with respect to the O & A.

15 And we're saying that that suggestion is
16 supported by the base line calculations that Mr.
17 Matwichuk's done and by the -- by the cost per customer
18 calculation that I went through with respect to the last
19 two (2) years of actuals being at two hundred and six
20 dollars (\$206) per customer.

21 I'm going to turn now to the new corporate
22 headquarters. I only have a brief remark here but I
23 think it's -- it's tied in.

24 The new corporate headquarters is going to
25 result in \$21 million of additional annual overhead

1 costs because the building costs around \$270 million and
2 the amortization over sixty (60) years is going to
3 generate costs in that range.

4 But to that amount should be added the
5 property taxes which are, obviously, going to increase as
6 a result of this building. Property taxes are based on
7 the value of the building, the assessed value of the
8 building.

9 And I have some expertise in these matters
10 and I -- I have been in -- had been in a lengthy dispute
11 with the City of Winnipeg over the value of the two (2)
12 casinos which are Provincially owned. And the City of
13 Winnipeg --

14 MS. MARLA MURPHY: Mr. Chairman, is Mr.
15 Saxberg now giving evidence because if he is, I'd like
16 him sworn.

17 MR. KRIS SAXBERG: Well, I'm giving my
18 opinion as a lawyer about property taxes. And how --

19 MS. MARLA MURPHY: I appreciate, that
20 should have been evidence and he should have been cross-
21 examined on if that's the case.

22

23 CONTINUED BY MR. KRIS SAXBERG:

24 MR. KRIS SAXBERG: In any event, one
25 thing to consider from a -- that's a fact that will --

1 will not be contested by anybody is that this new
2 building comes out of the purchase of Winnipeg Hydro.
3 And the City of Winnipeg was saying, you can purchase
4 Winnipeg Hydro, but one (1) condition is, you're going to
5 have to build an office building downtown. And I'm sure
6 that the city had considered the fact that that's going
7 to generate considerable property taxes.

8 And all I'm saying is that this is
9 something for the Board to keep in mind, that that \$21
10 million may be a lot higher. Now the evidence from
11 Manitoba Hydro, through an undertaking, was that the
12 property taxes will be in the range of 4 to \$5 million.
13 And I -- I think the Board should think critically about
14 whether or not that's a lowball estimate; in my opinion,
15 it is.

16 Now Manitoba Hydro has promised, though,
17 that it's going to achieve productivity savings and this
18 new building's going to be cost neutral. And -- but
19 there's been no evidence presented about how these
20 productivity savings are going to be achieved. But
21 listen, we're happy that Manitoba Hydro has that target
22 and wants to accomplish that and CAC/MSOS wants to hold
23 Manitoba Hydro to that promise of the building being cost
24 neutral.

25 And I think it's important for the Board

1 to ensure in this Order -- through this Order, that
2 Manitoba Hydro is able to track the costs that flow from
3 this new building to Centra and track the -- whatever
4 savings that flow to Centra and show, down the road, that
5 there's an offset. And to the extent that if they don't
6 offset each other, I -- we may be taking the position
7 that those costs shouldn't ever find their way into
8 rates.

9 Turning now to the -- to the calculation
10 of debt to equity, I simply want to point out that the --
11 that we are basing our case on the Board's decision in
12 this matter having already been made. We did present
13 evidence on it, out of an abundance of caution, but the
14 point of it is, if you look at the Board's Order 135/05
15 and the last page that I've included at Tab 9, which is
16 page 100 from this decision, at item Number 12:

17 "Future rate applications to be
18 prepared with Centra's debt:equity
19 calculation based on a standalone
20 methodology."

21 Now, all I want to say on that point is
22 that we are premising our -- our intervention and -- and
23 -- and the fact that I'm going to skip this area of my
24 argument on the fact that it's already been decided and
25 that there's been no request to review it or change it.

1 And so therefore, if there was going to be a request to
2 review or change it, we'd be given an opportunity to then
3 provide our comments and -- and -- and prevent -- provide
4 our -- our -- our position on that.

5 Now one (1) note in terms of how Centra is
6 calculating its cost of service revenue requirement. It
7 was pointed out during the hearing that the net income
8 increase that it's seeking, and most of these rate
9 increases flow from the increase in the net income under
10 the cost of service approach, but the net income that is
11 being sought is 70 per -- 77 percent higher than what was
12 awarded or allowed in the GRA held in 2005.

13 And that's not withstanding that when you
14 weather normalise for the last two (2) years, Centra's
15 made a profit. There's no -- there's no issue about
16 that, that the '05/'06 weather normalised would have
17 produced a \$2.2 million profit, and that's included in my
18 material at -- at Tab 11, second page. Oh, sorry, no,
19 that's not it, I apologise.

20 Well, I think it's -- it's not a matter of
21 -- of any contest, but weather -- weather normalised
22 '06/'07 was a \$2.2 million profit and then we heard this
23 year that there was a slight modest profit in the -- in
24 the operations. So, why are we asking for a 77 percent
25 increase in net income is -- is the rhetorical question

1 that flows out of that.

2 Now, one (1) of the reasons offered for
3 that was the -- the Company wants to achieve financial
4 stability by having a rainy day fund -- by having
5 retained earnings built up in case something untoward
6 happens.

7 Now, Mr. Matwichuk dealt with this issue
8 and what he said is that the risk associated with Centra
9 Gas and something like that happening is -- is small,
10 like it is with all other gas utilities, and that the
11 risk to the Company of something going wrong would if
12 it's a physical problem be covered by insurance and,
13 otherwise, most of the -- of the greatest part of the
14 revenue requirement comes from the commodity costs.

15 And so there's -- when you look at it,
16 critically, there's really no reason for a rainy day fund
17 in the -- in the way that there is a reason for that type
18 of approach with Manitoba Hydro, the parent company,
19 which of course can be affected severely by a drought.
20 You just don't have those kinds of considerations with
21 respect to the gas company.

22 And I'll move to the next topic which is
23 the weather normalization topic which ties into this net
24 income idea.

25 CAC/MSOS first became concerned about this

1 issue when some of Centra's evidence indicated there was
2 a possibility Centra wanted to recover losses due to
3 warmer years in subsequent test year filings. So Mr.
4 Matwichuk commented on the appropriateness of this and
5 the fact that most gas companies are regulated on the
6 weather normalized basis and that this -- that's the way
7 this gas company has been regulated for a long time and
8 it shouldn't change.

9 But during the course of the Hearing Mr.
10 Peters, at page 228, and then continuing on to 229,
11 discussed the matter with Mr. Warden who then admitted on
12 the record that -- that it -- there wouldn't be a reason
13 to -- to request increased net income simply because the
14 weather created net losses in previous years because over
15 the longer period those variances due to weather will
16 even out. And to the extent they don't, the Company is
17 compensated through the risk component of the equity
18 return.

19 But one has to wonder if the -- the real
20 reason for this rate application being brought is because
21 the weather has been so warm in the last couple of years
22 and it has resulted in revenue coming into Centra at much
23 lower than forecasted amounts and that driving this
24 negative on the bottom line and the company looking at it
25 through its Hydro goggles and saying that, you know, we

1 should do something about this and I'm -- I'm just
2 speculating that -- that if that is the motive then we're
3 saying, well, the time will resolve that.

4 And that's the whole point of the weather
5 normalized system is that you're going to have cold
6 years. It's not going to continue to get warmer and --
7 and the cold years will -- will take care of the concern.

8 Now, it is important to tackle this
9 briefly, this battle of the Exhibit 7s. And that's at
10 Tab 11. CAC's Exhibit 7 is first and then it's followed
11 by Centra's Exhibit 7.

12 Now, Centra is relying on its Exhibit 7 to
13 justify, on an overall basis, its revenue requirement.
14 Mr. Matwichuk was asked to prepare his own hypothetical
15 of what a company -- what the company would have looked
16 like absent acquisition.

17 And what he indicated was first of all
18 that he was reluctant to do it -- very reluctant to do it
19 I can advise -- and he said that it's incredibly
20 speculative. As we all know we're moving to ten (10)
21 years since the date of the purchase. Since the -- the
22 purchase West Coast itself has changed ownership on
23 numerous times and that's important because I don't think
24 that Centra had ever factored that into its calculation
25 of what would have happened absent the acquisition of

1 Manitoba Hydro but not absent the realities of what
2 happened in that business.

3 And so the point that Mr. Matwichuk was
4 making was that whenever someone buys a utility, you
5 know, they may buy it for more than its net book value
6 but they -- they do that for a reason, because they think
7 that they can get -- squeeze something else out of the
8 Company to make up for that premium, because they all
9 know that the premium can't be recovered in rates.

10 And so what we're suggesting is, it's
11 reasonable to conclude that -- that that squeezing of
12 value, those synergies would have been achieved by these
13 other subsequent owners. So it's just as hypothetical,
14 it's just as speculative as Hydro's approach and,
15 ultimately, the point that we're making is probably an
16 obvious one (1) and it's that these two (2) Exhibit 7s
17 equally support -- are equally supportive but yield
18 different results, and it would be a fool's game for
19 anyone to attempt to try to favour one (1) hypothetical
20 over the other.

21 As -- as you indicated, Mr. Chairman, when
22 -- at the outset of this hearing, a hypothetical is a
23 hypothetical; you can't prove or disprove it, but you can
24 pause it or argue. Well both sides are doing that; it's
25 another Mexican standoff.

1 the revenue matters, the Board may want to request that
2 Centra produce the '06/'07 actuals. If there is an issue
3 about what they -- where they stand now and -- and what
4 they mean, I have full confidence in the Board being able
5 to look at those actuals and -- and make the appropriate
6 determinations.

7 And so I -- I would recommend that and, as
8 Mr. Matwichuk testified at page 604 of the transcript,
9 other regulators are keenly interested in these -- in
10 that information and in the latest actuals whenever they
11 are available to assist in determining if the forecast
12 test years are reasonable. So I'll leave that with the
13 Board.

14 On to DSM, and I won't spend too much time
15 here because I think that the -- the recommendations made
16 by Mr. -- Dr. Higgin certainly weren't controversial and
17 I think -- and Centra can correct me if I'm wrong, but
18 most are embraced by Centra and Manitoba Hydro. The only
19 problem is, and the reason for Higgin testifying -- Dr.
20 Higgin testifying in this proceeding, is that we haven't
21 seen the low income programs of Centra Gas.

22 They -- they haven't been filed. Everyone
23 recognises that until these programs are in place, there
24 is going to be this perverse cross subsidization Mr.
25 Gange referred to. So once we -- the -- the issue for

1 this hearing then became, well, Centra's asking for money
2 for these low income programs. Can we approve that
3 request for funds for those programs without seeing the
4 programs themselves to ensure that they are appropriate
5 and -- and are going to, in fact, accomplish what we want
6 to accomplish.

7 And if the programs are reflective of all
8 of the matters that Dr. Higgin touched upon, then we'll
9 be supportive of them and we'll be supportive of the
10 funds be -- coming out of -- of rates to support them.
11 And what Dr. Higgin is saying is that, if anything, what
12 we want is to have at least a minimum floor with respect
13 to the funding of these programs, so that the issue of
14 cross-subsidization is eliminated. And that minimum flow
15 will be there in perpetuity. To the extent that you
16 exceed that floor, no problem at all and it's especially
17 appropriate in this case.

18 Especially appropriate because for the
19 last several years low income customers haven't had
20 access to DSM, yet they've been paying. So I think what
21 Dr. Higgin was saying was, why don't you set up -- take
22 the low income plan, make sure that it complies with the
23 suggestions that I've said, bring it to the Board for
24 approval and then at that point ensure that the
25 contribution and funding of those programs is -- is

1 sufficient to accomplish the objectives of that program.

2 And I'll -- I'll get to his exact
3 recommendations for that floor. But what he says, with
4 respect to the Affordable Energy Fund, is that this is an
5 amount of \$19 million which, at first glance, appears to
6 be significant and certainly should be used in -- in an
7 aggressive fashion to ramp up these programs.

8 But in terms of long-term funding, it
9 isn't much money because to weatherize homes, the average
10 price -- at least the dollar figured they were using in
11 Ontario was three thousand (3000) per house, \$19 million
12 would only retrofit six thousand (6000) houses.

13 So with an estimate of there being sixty-
14 five thousand (65,000) to do one estimate, another
15 estimate being fifty-one (51), there's a lot of work to
16 be done and it's going to take a lot of time because -- I
17 mean, obviously targets have to be set in order to be
18 able to determine how the program's doing.

19 And reasonable targets, according to Dr.
20 Higgin, would be in the five hundred (500) to a thousand
21 (1,000) homes per year. So, there's a lot of work to be
22 done and the sooner we get to it, the better.

23 Dr. Higgin's important recommendations
24 included that you have to do a demographic study to make
25 sure you do get the target group. You have to make sure

1 you're -- you're using the right figures and -- and you
2 are doing your best to eliminate this cross subsidy by
3 having demographic studies to target.

4 The next is to have these dedicated
5 budgets which will never fall below a floor amount and
6 the notional floor is relative to the proportion of low
7 income to non low income, as intuitively one would
8 expect.

9 The eligibility criteria that Dr. Higgin
10 recommends is 125 percent of LICO which is the low income
11 cutoff produced by Stats Can. He believes in pre and
12 post retrofit audits, although, he did qualify with
13 respect to post retrofit audits that they -- they don't -
14 - it doesn't have to be done in every instance.

15 That NGO's non-government organizations
16 should be used, when appropriate, as delivery agents; and
17 that the landlord/tenant issues have to be addressed and
18 that whatever happens, Centra has got to tackle this from
19 the beginning.

20 And Dr. Higgin wasn't suggesting that
21 there was any easy answer. All he was saying was, make
22 sure that you guys are working on it and it's part of the
23 plan.

24 So, in summary, CAC strongly endorses Dr.
25 Higgin's recommendations and further, recommends that the

1 to develop a social housing retrofit program and bring
2 that forward at the same time as the Hard to Read
3 program.

4 4. Centra should extend the scope of the
5 Hard to Reach program, for example, to include furnace
6 replacement and leverage funds in order to do this from
7 the Affordable Energy Fund and, of course, the Federal
8 ecoENERGY Retrofit Program.

9 And just as a blanket recommendation, we -
10 - we are supporting all of the suggestions made by Dr.
11 Higgin.

12 With respect to inverted rates, we only
13 wanted to mention and endorse Dr. Higgin's caution that
14 the DSM program should be fully running and -- and
15 successfully established in terms of reducing or
16 eliminating this cross-subsidy problem before you go to -
17 - before you even start to contemplate the merits of an
18 inverted rate approach.

19 And in the -- in the same way my client
20 advises that with respect to environmental organizations
21 have taken the -- the position that full recycling has to
22 be available before you'd go to a pay-as-you-go system
23 for garbage, you want to make sure that people are
24 protected first before you bring in place a measure that
25 could unduly and -- and prejudice or hurt the -- the very

1 people that you're trying to assist.

2 On now to gas supply issues. In this area
3 we do not have any serious concerns about the extension
4 of the Nexen contract or the EEA report. Mr. Stauff put
5 a few points on the record for future reference.

6 The only issue where there seemed to be a
7 -- a butting of heads was with respect to capacity
8 management and on that topic, Mr. Stauff raised two (2)
9 points first relating to the forecasting of those
10 revenues and the second, relating to the amount of
11 revenue generated from capacity management activities.

12 First with respect to the forecasting.
13 With respect to the forecasting issue, the contest is
14 between Centra's essentially statistical approach of
15 forecasting capacity management revenues using the five
16 (5) year rolling average and Mr. Stauff's suggestion that
17 Centra adopt a forward-looking approach that would take
18 into account at some level the causal factors that will
19 affect revenues and forward-looking information that
20 Centra has about these factors.

21 In my submission, it should be pretty
22 clear that as a matter of principle Mr. Stauff's
23 suggestion should be preferable. We're talking about
24 forecasts and predictions in both cases and, surely, it
25 makes sense all else equal to develop forecasts on the

1 basis of as much relevant information as possible.

2 I did get the impression from the witness
3 panel that they disagree with that or claim that they
4 couldn't do a forecast of this sort because of -- it
5 would be cumbersome and because the main random factor is
6 the weather and that's not something that could be
7 forecast.

8 I take the point, however, it's not
9 obvious that the task would be burdensome and Mr. Stauff
10 pointed out that he was able to do it in short order.
11 Also, if you look at the results of the forecasting using
12 the five (5) year rolling average in the past, you know,
13 quite simply, we can't get much worse so maybe trying
14 something else of this sort could bring some improvement.

15 In terms of the forecasts that have
16 occurred in the last five (5) years, every one of them
17 was off in terms of under-forecasting the capacity
18 management revenues. And if you look at PUB-97 it makes
19 that clear. So every year we're putting in an amount
20 that's lower than the amount we ultimately were able to
21 achieve.

22 That, to me, suggests that, if anything,
23 the Board should at least include the last year's record
24 amount into the five (5) year rolling average which would
25 produce a capacity management amount of \$5.7 million.

1 And I think the Board should look carefully at Mr.
2 Stauff's recommendations to finetune the forecasting
3 process.

4 And I'm going to -- I am -- I -- I know
5 it's all deferral treatment and I'm going to have some
6 brief comments on why it's important to sharpen your
7 pencils and try to get the best forecast as possible.

8 But with respect to Mr. Stauff's second
9 issue, the storage optimization amounts, as the Board
10 knows the CAC is concerned about the amount of revenues
11 that Centra is able to extract. And the difficulty has
12 been that Centra has been very tight with information
13 about what they do and how they do it.

14 Further information came out in the -- in
15 this proceeding, but it really is difficult to be
16 satisfied that it answers our questions or addresses our
17 cynicism. That Centra tells us that the traders are
18 diligent and do a good job and we want to believe that.
19 And -- but it would also be nice to have some independent
20 basis upon which to conclude that fact.

21 So CAC retained Mr. Stauff to look into
22 this and his analysis was at a very high level in
23 determining what the amount of value was -- what amount
24 of value was available in storage gas in Michigan. And
25 I'm sure that the Board understands the concept as -- as

1 to why there's value there being that -- being the
2 differential in prices between the Alberta location at
3 which Centra purchases most of its gas and the Michigan
4 market.

5 And that Centra Gas is fortunate in its
6 circumstance that the price in Michigan is much higher on
7 -- on many days than the price in Alberta and it creates
8 an opportunity.

9 The opportunity that was created allowed
10 Centra to move \$36 million worth of storage gas to
11 Manitoba last year as a result of exchanges. And that's
12 information I don't have in my book, but it's in Mr.
13 Peters' documents, and it's a -- it's a matter that I
14 reviewed with Mr. Sanderson.
15 There's a line item on Schedule 7.0; exchanges with
16 counter parties, \$36 million.

17 So, what that tells us -- by the way, \$36
18 million is approximately half of the total value of the
19 gas that came out of storage that year. So what it says
20 is that for half of the gas that was there in storage,
21 when it was being taken out, there was some margin there
22 for Centra to earn capacity management revenues.

23 Of the 36 million, what was earned was
24 \$1.3 million. And the big debate, and the Mexican
25 standoff, is while Centra says that's -- that was -- that

1 was as best as we could do. And we were doing everything
2 we could diligently on a day-by-day basis, moment-by-
3 moment basis looking at -- at the opportunities in the
4 market.

5 And, now, we can't prove a negative, that
6 that isn't the case. So Mr. Stauff simply did a high-
7 level analysis by looking at the forecast of -- of what -
8 - or, sorry, looking backwards at the actuals of what --
9 what occurred in terms of the market differential, and he
10 came up with a number that was approximately \$5 million
11 and -- as being what the value that could have been
12 extracted from that storage gas was in -- in the year
13 that has just passed.

14 Now, the -- the witnesses didn't dispute
15 the math or the sources of the information. Centra
16 certainly does, however, dispute that there's \$5 million
17 worth of value and adds on some other factors that --
18 that would have degraded that value. And that
19 information wasn't something that Mr. Stauff rejected out
20 of hand. However, he did offer some important
21 qualifications about it and expressed some puzzlement
22 that those factors would completely erase the -- the \$5
23 million or account for the difference between the one
24 point three (1.3) recovered and the five (5) million that
25 he saw as potentially being available.

1 So the question is: Where do we go with
2 all of this? And we're not here to suggest that Centra
3 should be penalized for not having gotten more exchange
4 revenue last year or to say that in '07/'08 they should
5 be rigidly held to producing some higher number based on
6 this theoretical and limited analysis which Mr. Stauff
7 readily conceded.

8 Nor are we interested in presuming to bury
9 into details of Centra's day-to-day trading activities
10 and how they do their job. What we want is to have much
11 more comfort than we get that Centra is doing what it can
12 to maximize benefits for ratepayers with its activities.

13 Assurances from Centra are nice but the
14 only objective benchmark we have is the type of analysis
15 Mr. Stauff provided, even although he acknowledged that
16 the benchmark is a long way from being precise.

17 For last year the situation, as I
18 indicated, was \$1.3 million in exchange revenue out of a
19 theoretically available five (5) million. But we did
20 find that through this, that certainly Centra
21 acknowledges the value that is -- resides in that storage
22 gas and that it is -- and that it's a value that could be
23 increased if they were -- if Centra was prepared to
24 increase the amount of risk that it -- that it's willing
25 to take on.

1 Now in this connection, one issue that
2 Centra and Mr. Stauff talked about is this -- this
3 conservatism within Centra's strategies to generate money
4 from storage gas.

5 Centra acknowledged that their strategy is
6 conservative and that their traders are directed not to
7 enter into transactions that pose a risk to ratepayers.
8 Conceptually, of course, that is what you want and that
9 is what you expect from a utility and, in particular,
10 this utility.

11 And we don't want a bunch of anonymous
12 traders speculating with ratepayer money - we want to
13 make that clear. At the same time as Mr. Stauff
14 indicated, though, you don't want Centra to be -- to be
15 silly about it either.

16 If -- if Centra is giving up 90 percent
17 probability of making money in order to avoid a 2 percent
18 probability of losing it, that's something that may not
19 make sense either.

20 And on a go-forward basis, what I can say
21 is that CAC/MSOS is not going to be satisfied just
22 passively accepting whatever capacity management results
23 Centra happens to generate based on the conceptual
24 framework that Mr. Stauff has provided. We have high
25 expectations for Centra's efforts in this area and we

1 note that the forecast going forward shows that if the --
2 if the forecast is accurate there's -- there looks like
3 there may be up to \$13 million in value in the storage
4 gas in the year ahead.

5 And even if you take into account all of
6 the
7 -- the degrading factors mentioned by the Centra Panel,
8 that's still a lot of value out there to be accessed and
9 Centra should be doing everything it can to diligently
10 tap into that for the benefit of ratepayers.

11 And in all of this, we will be looking
12 forward to receiving the business plan which should
13 include a robust discussion of the concept of hiring
14 third party to manage these capacity -- to manage these
15 assets so that a third party capacity manager, who has
16 greater tentacles out there in the North American gas
17 market, may be able to make more out of this important
18 asset, may be able to get closer to that theoretical pot
19 of gold as Mr. Stauff indicated.

20 Now, in terms of a reference for that \$1.3
21 million coming out of the thirty-six point seven (36.7)
22 in exchanges, I'll just note for the record that was at
23 transcript page 1396.

24 Now, what's -- one thing to note that 7.9
25 million was a record amount of capacity management

1 revenues that everyone's happy about. Unfortunately, it
2 occurred in a year where hedging losses wiped out the
3 seven point nine (7.9) million hedging losses in the year
4 that past were \$74 million.

5 Meaning that had no hedging occurred, we
6 would have paid \$74 million less for our gas; that's 20
7 percent less for our gas. Now the Company has at the --
8 at the insistence of the Board changed its hedging policy
9 so, hopefully, we never see that result again and so
10 we're somewhat -- we're -- we're obviously pleased about
11 that.

12 And on to the importance of an accuracy in
13 the non-primary gas cost forecast. Centra was drawing
14 down the importance of having the most precise and up-to-
15 date forecast. The assertion is that there is a deferral
16 treatment and so everything's going to come out in the
17 wash, what -- what are you worried about?

18 But take note of this. This year
19 ratepayers are getting refunded \$9 million from this non-
20 primary gas PGA and deferral accounts - 9 million; last
21 year 13.2 million. The year before that there was a
22 refund to customers; that's the '04/'05 year. The year
23 before that \$16 million refer -- refunded to customers.

24 The trend appears obvious and it's that
25 the forecasts, if anything, favour -- I mean, the

1 forecast is always going to be wrong but it's going to --
2 the deferral account's either going to have a positive or
3 a negative value in it. Our point is that -- that an
4 accurate forecast is going to be important because it
5 reduces into generational inequities and provides for
6 greater precision with respect to how you pay back that
7 over collection because an inaccurate forecast or over
8 collection by Centra, as has occurred as I indicate in
9 the last four (4) years, results in these inequities, the
10 most obvious being that a new customer who -- who signs
11 up on the system is going to benefit from these refunds
12 even though they didn't contribute to the overpayment.

13 The second inequity is that the refund is
14 based -- when the refund occurs, it's -- it's done in a
15 rider and it's based on current year usage as opposed to
16 the usage that drove the overpayment and the other point
17 is that the customers are getting their money back, you
18 know, over a prolonged period of time. While they wait,
19 Centra is incurring additional carrying charges.

20 Our point is that if there's going to be a
21 margin of error, maybe it should swing the other way.
22 The Company is better placed to bear the consequences of
23 the forecasting error given the high price of -- of
24 energy.

25 So the -- the best example of how we would

1 suggest a finetuning of the forecast in this case is with
2 respect to the exchange rate. The exchange rate forecast
3 should be updated to reflect the current presumptions and
4 the effect, we argue, would be material given the amount
5 of fixed transportation costs Centra pays in American
6 dollars. It would be worth doing it.

7 Mr. Sanderson testified that last year the
8 exchange rate was -- that was in -- embedded into the
9 forecast was -- produced \$1.7 million of -- of money that
10 was higher than what -- than it needed to -- to generate
11 and that each percentage that the exchange rate forecast
12 is off will produce approximately a hundred and eighty
13 thousand dollars (\$180,000).

14 The current exchange rate embedded in
15 rates is one point one six (1.16). The markets are
16 trading though at one point o six (1.06); that's ten (10)
17 basis points, so, ten (10) times a hundred and eighty
18 (180) is math that even I can do - \$1.8 million. And
19 analysts are suggesting that the trend in strengthening
20 of the Canadian dollar is going to continue, perhaps even
21 up to par.

22 In terms of materiality, well, just think
23 about this. The rate increase related to these non-
24 primary gas costs, which are essentially the
25 transportation and storage costs, there's a rate increase

1 being sought here of 1.2 million. Well, if you finetune
2 the exchange rate so that it's accurate with the current
3 information, you'd wipe out that rate increase. So it's
4 obviously material.

5 And by the way, go back to the 2005
6 General Rate Application and the application that was
7 filed before the Hearing started in May -- the Hearing
8 started in late May. The application's filed I guess in
9 April, the updated application.

10 What did it do? It updated the exchange
11 rate because that's been the practice of Centra. They
12 always update the exchange rate before -- in their
13 update. They didn't do it here and so, I don't accept
14 the logic that it's too hard to do and too cumbersome to
15 redo those numbers right now. And -- because that was
16 Centra's approach in the past.

17 And so we suggest that two (2) changes be
18 made to the forecast: One (1) with respect to the
19 exchange rate and two (2), with respect to capacity
20 management, at minimum to the 5.7 million which flows
21 from the most -- the more recent five (5) year rolling
22 average.

23 Those two (2) matters will wipe out the
24 cost -- the rate increase that's being sought for non-
25 primary gas costs.

1 With respect to electronic filings and
2 settlement conferences, we are supportive of the
3 electronic filing and -- and a collaborative process, and
4 Mr. Matwichuk's available to participate in that
5 participate in that process and to bring to bear his
6 knowledge of electronic filings in other jurisdictions.

7 Regarding settlement and technical
8 conferences, we're always prepared to be -- involve
9 ourselves in -- in those matters as we always have been.
10 Although, we're somewhat cynical about whether or not a
11 settlement could ever be achieved with respect to the
12 major issues that -- that we wind up discussing in -- in
13 these kinds of hearings.

14 And I think I was only five (5) minutes
15 off my estimate of one (1) hour and that -- those
16 conclude my closing arguments.

17 THE CHAIRPERSON: I don't think you're
18 out at all, Mr. Saxberg, because we came back a little
19 later after the break. So I think you were quite
20 accurate --

21 MR. KRIS SAXBERG: Good forecasting.

22 THE CHAIRPERSON: -- in your forecast
23 this time. So thank you, Mr. Saxberg.

24 We're not, of course, going to close down
25 the public phase because we still have Centra's closing

1 submission and I believe that's scheduled for next
2 Wednesday. So I'm going to turn it over now to Mr.
3 Peters who will explain the process from there on with
4 respect to this Hearing. And I'll have my closing
5 comments on this Hearing after Ms. Murphy and Mr.
6 Czarnecki completes their closing remarks.

7 But perhaps, Mr. Peters, you could cover
8 off the gas landscape issues -- processes.

9 MR. BOB PETERS: Yes, on both of those
10 matters, Mr. Chairman, let me just conclude that I do
11 believe that Centra is prepared to make their closing
12 submission, on the General Rate Application, Wednesday,
13 next, starting at 9:00 a.m., and I believe that's the
14 20th of June.

15 I see people nodding that I've got my
16 calendar dates right, so I trust that's the case, for the
17 record. I do want to turn --

18 THE CHAIRPERSON: We all know when
19 Wednesday is, anyway.

20 MR. BOB PETERS: Yes, even I can remember
21 that, I hope.

22 Having said that, Mr. Chairman, I want to
23 change gears and talk about the natural gas landscape
24 review that the -- the Board has embarked on. And the
25 Board will recall that the pre-hearing conference related

1 to both the GRA and the Natural Gas Landscape was held
2 together and the hearings have run a parallel track, so
3 to speak. And, in fact, the Intervenors who have
4 registered in the GRA have also registered in the Natural
5 Gas Landscape and the parties are the same, including
6 Centra.

7 So it is appropriate, perhaps, just for me
8 to indicate to the Board members and put on the record,
9 that the active parties in the Landscape Hearing have --
10 have been the Consumer's Association of Canada and
11 Manitoba, and the Manitoba Society of Seniors, and Mr.
12 Saxberg has represented them in that matter. Centra Gas,
13 as represented by their counsel here today, have also
14 been active in that matter. And Direct Energy Marketing
15 Limited and Energy Savings Manitoba Limited partnership
16 have joined forces in their joint intervention and are
17 represented by a Mr. Eric Hoaken from the Bennett Jones
18 firm.

19 I would indicate to the Board that by way
20 of a consensus agreement, the three (3) parties have
21 agreed, or at least agreed not to oppose, the Natural Gas
22 Landscape hearing being adjourned from the next planned
23 two (2) weeks to dates to be scheduled in September.

24 I can advise all that the Board has
25 accepted that consensus and has provided me with its

1 available dates in the month of September. I'll indicate
2 to the Board and the parties that I will be sending email
3 notice to all registered parties of this adjournment, as
4 I'm not aware of whether any of the other parties who are
5 not in the hearing room today will be active in that
6 matter at all.

7 I will also be working, Mr. Chairman and
8 Board members, with counsel for Centra, CAC/MSOS and
9 Direct Energy and Energy Savings, to plan and conduct a
10 process that will allow all parties to put their best
11 case before the Board in September. Of course, I will
12 report the results to the Board and all parties.

13 So, subject to any specific questions, Mr.
14 Chairman, that concludes my comments.

15 THE CHAIRPERSON: Okay. Thank you, Mr.
16 Peters. That will be it for today and we'll adjourn now
17 till next Wednesday at nine o'clock. Thank you.

18 MR. BOB PETERS: Thank you, sir.

19
20 --- Upon adjourning at 4:08 p.m.

21
22 Certified Correct,

23

24

25 _____
Wendy Warnock