



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC'S
2019/20 GENERAL RATE APPLICATION
HEARING CONFERENCE

Before Board Panel:

Larry Ring, Q.C. - Panel Chair
Marilyn Kapitany - Vice-Chair
Michael Watson - Board Member
Carol Hainsworth - Board Member
Susan Nemec - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
August 14th, 2019
Pages 1 to 362

1 APPEARANCES

2 Bob Peters) Board Counsel

3 Dayna Steinfeld)

4

5 Brent Czarnecki) Centra Gas Manitoba

6 Jessica Carvell)

7

8 Brian Meronek, Q.C.) Consumers

9) Association of

10) Canada (Manitoba)

11) Inc.

12

13 Antoine Hacault) Industrial Gas

14) Users

15

16 Lewis Manning (by phone)) Koch Fertilizer

17) Canada, ULC

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24 CEPP	
25 PAUL STEWART CHARD, Sworn	

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1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-1	Letter dated November 30, 2018 -	
4		Centra Gas 2019-2020 General Rate	
5		Application filing.	
6	CENTRA-2	Centra Gas Manitoba Inc. 2019-2020	
7		General Rate Application	
8	CENTRA-3	CENTRA letter to PUB re: Correction	
9		to Appendix 3.2 - December 7, 2018	
10	CENTRA-4	Centra 2019-2020 General Rate	
11		Application - Commercially Sensitive	
12		Information Clarification - December	
13		12, 2019.	
14	CENTRA-5	Update to Appendix 6.1 and 13.2 -	
15		December 12, 2018	
16	CENTRA-6	PUB Completeness Review - Responses to	
17		Information Requests - December 12,	
18		2018	
19	CENTRA-7	Centra letter to PUB re: Pre-Hearing	
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23		Notice - January 24, 2019	
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3	CENTRA-9-1	Centra letter to PUB re: Motion
4		regarding confidential information -
5		March 8, 2019.
6	CENTRA-9-2	Centra letter to PUB re: Motion
7		regarding confidential information -
8		March 8, 2019. Revised Tab 7 - Natural
9		Gas volume forecast and Demand side
10		management.
11	CENTRA-9-3	Centra letter to PUB re: Motion
12		regarding confidential information -
13		March 8, 2019. Revised Appendix 7.1 -
14		2017 Natural Gas Volume Load Forecast.
15	CENTRA-9-4	Centra letter to PUB re: Motion
16		regarding confidential information -
17		March 8, 2019. Revised Appendix 7.2 -
18		2011/12 to 2019/20 customer and
19		volume summary schedules
20	CENTRA-9-5	Centra letter to PUB re: Motion
21		regarding confidential information -
22		March 8, 2019. Revised Tab 8 - Gas
23		supply and costs.
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3	CENTRA-9-6	Centra letter to PUB re: Motion
4		regarding confidential information -
5		March 8, 2019. Revised Tab 8 -
6		schedules.
7	CENTRA-9-7	Centra letter to PUB re: Motion
8		regarding confidential information -
9		March 8, 2019. Revised Tab 10 - Cost
10		Allocation and Rate Design.
11	CENTRA-9-8	Centra letter to PUB re: Motion
12		regarding confidential information -
13		March 8, 2019. Revised Tab 11 -
14		Schedules.
15	CENTRA-9-9	Centra letter to PUB re: Motion
16		regarding confidential information -
17		March 8, 2019. Revised - Attachment 8
18		- 2015 Natural Gas Volume Forecast.
19	CENTRA-9-10	Centra letter to PUB re: Motion
20		regarding confidential information -
21		March 8, 2019. Revised Attachment 9 -
22		2016 Natural Gas Volume Forecast.
23	CENTRA-10-1	Centra letter to PUB re: Supplemental
24		filing for 2019/20 General Rate
25		Application.

- 1 LIST OF EXHIBITS
- 2 CENTRA-10-2 Centra letter to PUB re: Supplemental
3 filing for 2019/20 General Rate
4 Application. Supplement to 2019/20
5 General Rate Application.
- 6 CENTRA-10-3 Centra letter to PUB re: Supplemental
7 filing for 2019/20 General Rate
8 Application. Appendix 3.6 - Gas
9 Operations projected financial
10 statements and financial ratios
11 updated for 2018/19 and 2019/20
- 12 CENTRA-10-4 Centra letter to PUB re: Supplemental
13 filing for 2019/20 General Rate
14 Application. Appendix 3.7 - Regulatory
15 deferral accounts Appendix 3.4 figures.
- 16 CENTRA-10-5 Centra letter to PUB re: Supplemental
17 filing for 2019/20 General Rate
18 Application. Appendix 3.8 - Manitoba
19 Hydro's forecast of key economic and
20 financial indicators for 2018/19 and
21 2019/20.
- 22 CENTRA-10-6 Centra letter to PUB re: Supplemental
23 filing for 2019/20 General Rate
24 Application. Appendix 5.8 - Financial
25 ratios.

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6	Service.	
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8	filing for 2019/20 General Rate	
9	Application. Appendix 5.13 - Tab 5	
10	figures.	
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12	filing for 2019/20 General Rate	
13	Application. Appendix 5.14 MHEB	
14	quarterly report for third quarter of	
15	2018-19	
16	Centra letter to PUB re: Supplemental	
17	filing for 2019/20 General Rate	
18	Application. Appendix 7.6 - 2018	
19	Natural Volume Gas Forecast.	
20	Centra letter to PUB re: Supplemental	
21	filing for 2019/20 General Rate	
22	Application. Appendix 7.7 - 2017	
23	residential energy use survey.	
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1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-10-12	Centra letter to PUB re: Supplemental	
4		filing for 2019/20 General Rate	
5		Application. Appendix 10.1 - Impact	
6		of Regulatory deferral accounts on	
7		rate base.	
8	CENTRA-10-11	Centra letter to PUB re: Supplemental	
9		filing for 2019/20 General Rate	
10		Application. Appendix 7.7 - 2017	
11		residential energy use survey.	
12	CENTRA-10-12	Centra letter to PUB re: Supplemental	
13		filing for 2019/20 General Rate	
14		Application. Appendix 10.1 - Impact	
15		of regulatory deferral accounts on	
16		rate base.	
17	CENTRA-10-13	Centra letter to PUB re: Supplemental	
18		filing for 2019/20 General Rate	
19		Application. Appendix 11.1 - timeline	
20		- base rates and riders.	
21	CENTRA-10-14	Centra letter to PUB re: Supplemental	
22		filing for 2019/20 General Rate	
23		Application. Completeness review	
24		attachment 4 - Manitoba Hydro Corporate	
25		Performance dashboard.	

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-10-15	Centra letter to PUB re: Supplemental	
4		filing for 2019/20 General Rate	
5		Application. Tab 6 - schedules	
6		(updated)	
7	CENTRA-10-16	Centra letter to PUB re: Supplemental	
8		filing for 2019/20 General Rate	
9		Application. Tab 10 - schedules	
10		(updated)	
11	CENTRA-10-17	Centra letter to PUB re: Supplemental	
12		filing for 2019/20 General Rate	
13		Application. Tab 11 - schedules	
14		(Updated)	
15	CENTRA-11	Centra letter dated March 27, 2019 re:	
16		Supplemental to Centra Gas Manitoba	
17		Inc. 2019/20 General Rate Application -	
18		Tab 7 Appendix 7.2	
19	CENTRA-12	Centra response to IGU motion for	
20		access to Centra's confidential	
21		information - public redacted - April	
22		26, 2019.	
23	CENTRA-13	Centra letter to PUB re responses to	
24		Round I Information Requests - May 10,	
25		2019.	

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-13-1	Centra letter to PUB re responses to	
4		Round I Information Requests - May 10,	
5		2019. Appendix 5.12 (updated) with	
6		revised Figure 4.	
7	CENTRA-13-2	Centra letter to PUB re responses to	
8		Round I Information Requests - May 10,	
9		2019. Appendix 8.9 - Schedule 1 and 2.	
10	CENTRA-14	Centra letter to PUB re Remaining	
11		Round I Information Requests, May 15,	
12		2019.	
13	CENTRA-15	Centra letter to PUB re PUB-CENTRA-1-10	
14		responses - May 16, 2019.	
15	CENTRA-16	Centra letter to PUB re Request for	
16		extension on Round II Information	
17		Requests - May 31, 2019.	
18	CENTRA-17	Centra letter to PUB re Round II	
19		Information Request responses - June	
20		11, 2019.	
21	CENTRA-18	Centra letter to PUB re remaining	
22		responses to Round II Information	
23		Requests - June 14, 2019	
24			
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1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-19	Centra response to KOCH Rule 13 motion	
4		- June 19, 2019	
5	CENTRA-20	Centra remaining responses to IGU IRs	
6		- June 21, 2019	
7	CENTRA-21	Centra letter to PUB re Information	
8		Requests on Intervener evidence -	
9		July 3, 2019	
10	CENTRA-22	CENTRA-CAC Intervener Information	
11		Requests - July 5, 2019.	
12	CENTRA-22-1	CENTRA-CAC Intervener Information	
13		Requests - July 5, 2019. Intervener	
14		application form.	
15	CENTRA-22-2	CENTRA-CAC Intervener Information	
16		Requests - July 5, 2019.	
17		Recommendations for projects planned.	
18	CENTRA-23	CENTRA-CAC (METSCO) Intervener	
19		Information Requests - July 5, 2019.	
20	CENTRA-23-1	CENTRA-CAC (METSCO) Intervener	
21		Information Requests - July 5, 2019.	
22		Retainer letter.	
23	CENTRA-23-2	CENTRA-CAC (METSCO) Intervener	
24		Information Requests - July 5, 2019.	
25		Safety and loss management system.	

LIST OF EXHIBITS		
EXHIBIT NO.	DESCRIPTION	PAGE NO.
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3	CENTRA-CAC (METSCO) Intervener	
4	Information Requests - July 5, 2019.	
5	Value gains or losses of investments	
6	(E.g. return of service of customers).	
7	CENTRA-CAC (METSCO) Intervener	
8	Information Requests - July 5, 2019.	
9	Capital projects.	
10	CENTRA-CAC (METSCO) Intervener	
11	Information Requests - July 5, 2019.	
12	Report recommendations.	
13	CENTRA-CAC (METSCO) Intervener	
14	Information Requests - July 5, 2019.	
15	Disclaimer	
16	CENTRA-CAC (Rainkie/Derksen) Intervener	
17	Information Requests - July 5, 2019.	
18	CENTRA-CAC (Rainkie/Derksen) Intervener	
19	Information Requests - July 5, 2019.	
20	Revenue in excess of allocation costs.	
21	CENTRA-CAC (Rainkie/Derksen) Intervener	
22	Information Requests - July 5, 2019.	
23	Minimum margin guarantee.	
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	LIST OF EXHIBITS
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2	CENTRA-24-3 CENTRA-CAC (Rainkie/Derksen) Intervener
3	Information Requests - July 5, 2019.
4	Minimum margin guarantee initial 10
5	year contract term.
6	CENTRA-24-4 CENTRA-CAC (Rainkie/Derksen) Intervener
7	Information Requests - July 5, 2019.
8	SGS rates include funding for Furnace
9	Replacement Program
10	CENTRA-24-5 CENTRA-CAC (Rainkie/Derksen) Intervener
11	Information Requests - July 5, 2019.
12	Retainer letter.
13	CENTRA-24-6 CENTRA-CAC (Rainkie/Derksen) Intervener
14	Information Requests - July 5, 2019.
15	Balancing fee proposal.
16	CENTRA-24-7 CENTRA-CAC (Rainkie/Derksen) Intervener
17	Information Requests - July 5, 2019.
18	Rate adjustments deferred until full
19	review of Cost of Service methodology.
20	CENTRA-25 CENTRA-IGU Intervener Information
21	Requests - July 5, 2019.
22	CENTRA-25-1 CENTRA-IGU Intervener Information
23	Requests - July 5, 2019. Customer's
24	consumption estimates and forecasts for
25	Maple Leaf and Simplot.

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-25-2	CENTRA-IGU Intervener Information	
4		Requests - July 5, 2019. Portion of	
5		Gerdau Long Steel North America -	
6		Manitoba Mill on balancing fee	
7		proposal for T-Service customers.	
8	CENTRA-25-3	CENTRA-IGU Intervener Information	
9		Requests - July 5, 2019. Stakeholder	
10		communication or consultations by IGU.	
11	CENTRA-25-4	CENTRA-IGU Intervener Information	
12		Requests - July 5, 2019. Adoption of	
13		evidence.	
14	CENTRA-26	CENTRA-IGU (Brown) Intervener	
15		Information Requests - July 5, 2019.	
16	CENTRA-26-1	CENTRA-IGU (Brown) Intervener	
17		Information Requests - July 5, 2019.	
18		Brandon plant or KCES or both.	
19	CENTRA-26-2	CENTRA-IGU (Brown) Intervener	
20		Information Requests - July 5, 2019.	
21		KES affiliate of Koch Canada Energy	
22		Services, LP (KCES)	
23	CENTRA-26-3	CENTRA-IGU (Brown) Intervener	
24		Information Requests - July 5, 2019.	
25		Pipelines constrained due to EPSQ.	

LIST OF EXHIBITS		
EXHIBIT NO.	DESCRIPTION	PAGE NO.
CENTRA-26-4	CENTRA-IGU (Brown) Intervener Information Requests - July 5, 2019. Agreements between KCES and KP and Koch Industries Inc.	
CENTRA-27	CENTRA-IGU (Labonte) Intervener Information Requests - July 5, 2019.	
CENTRA-27-1	CENTRA-IGU (Labonte) Intervener Information Requests - July 5, 2019. FFC tolerances and minimize or avoid imbalances	
CENTRA-27-2	CENTRA-IGU (Labonte) Intervener Information Requests - July 5, 2019. FFC existing 3 T-Service customers.	
CENTRA-27-3	CENTRA-IGU (Labonte) Intervener Information Requests - July 5, 2019. FFC able to buy unlimited gas quantities to balance but restricted from selling.	
CENTRA-27-4	CENTRA-IGU (Labonte) Intervener Information Requests - July 5, 2019. T-Service customers voluntarily complied.	

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-28	CENTRA-IGU (McLaren) Intervener	
4		Information Requests - July 5, 2019.	
5	CENTRA-28-1	CENTRA-IGU (McLaren) Intervener	
6		Information Requests - July 5, 2019.	
7		Retainer letter.	
8	CENTRA-29	CENTRA-KOCH Intervener Information	
9		Requests - July 5, 2019.	
10	CENTRA-29-1	CENTRA-KOCH Intervener Information	
11		Requests - July 5, 2019. KFC Brandon	
12		Plant.	
13	CENTRA-29-2	CENTRA-KOCH Intervener Information	
14		Requests - July 5, 2019. Historical	
15		impact or benefit to Koch regarding	
16		approved postage stamp ratemaking.	
17	CENTRA-30	Reply to Interveners submission on	
18		Hearing process - July 8, 2019	
19	CENTRA-31	Centra letter to PUB re: pre-hearing	
20		update - July 24, 2019	
21	CENTRA-32	Centra letter to PUB re: Interest rate	
22		forecast update - July 24, 2019	
23		(Updated Appendix 3.8, updated Round I	
24		responses PUB-CENTRA-1-99, Updated	
25		Round II responses PUB-CENTRA-II).	

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	CENTRA-33	Centra Rebuttal evidence - August 2,	
4		2019	
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LIST OF UNDERTAKINGS		
NO.	DESCRIPTION	PAGE NO.
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2		
3	1	
4	Centra will advise on the record of	
5	this proceeding whether or not it is	
6	able to file in confidence with the	
7	Board the audited statements that have	
8	been filed with the minister.	79
9	2	
10	Centra Gas to update PUB Round 1,	
11	Question 138, with the July 24th	
12	information	137
13	3	
14	Centra to seek to confirm who was	
15	assumed responsible for the replacement	
16	of furnaces in the out years, right,	
17	beyond 2019/'20.	229
18	4	
19	Centra to review that detailed report	
20	and tell the Board where the Red River	
21	Crossing at Latellier comes out in this	
22	2017 pipeline assessment	290
23	5	
24	Centra to determine whether there was	
25	special approval for this northwest	
	transmission loop from the Board of	
	Directors and the criteria for such	
	special approval	362

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

2

3 OPENING COMMENTS BY THE CHAIRPERSON:

4 THE CHAIRPERSON: We'll try that
5 again. Good morning, everyone, and welcome to the
6 Public Utilities Board oral evidentiary hearing for
7 Centra Gas Manitoba Inc.'s 2019/'20 General Rate
8 Application.

9 My name is Larry Ring. I serve as the
10 chair of the natural gas regulatory panel of the
11 Public Utilities Board of Manitoba. Joining me on the
12 panel of Board members to adjudicate Centra's
13 application, our Vice-Chair Marilyn Kapitany, and
14 Board members Carol Hainsworth, Susan Nemec, and Mike
15 Watson.

16 The panel is assisted in this hearing
17 by acting Board secretary Rachel McMillan, and
18 judicial hearing assistants Kristen Schubert and Diana
19 Villegas. Bob Peters and Dayna Ste -- Steinfeld will
20 act as Board Counsel. As in prior hearings, the Board
21 is also assisted by technical advisors from Ryall
22 Engineering and Cathcart Advisors.

23 On behalf of the panel, I would like to
24 welcome Centra and the Intervenors approved and
25 granted Intervenor status in Board Order 24/'19.

1 I will remind all parties that these
2 proceedings are being livestreamed from the Board's
3 website, so we also welcome those viewers.

4 At this time and on behalf of all in
5 attendance, the Board would like to acknowledge that
6 the Treaty 1 lands on which we now gather for this
7 hearing, as well as the Treaty lands which are the
8 territories on which Centra provides services, and
9 which are the traditional territories of the
10 Anishinaabe Cree, Oji-Cree, Dakota, and Dene peoples,
11 as well as the homeland of the Metis Nation.

12 Centra filed its General Rate
13 Application on November 30, 2018, and this General
14 Rate Application has been updated as follows. Centra
15 updated its financial -- financial information on
16 March 22nd, 2019 in the supplement following the
17 Manitoba Hydro Electric Board approval of the 2019/'20
18 test year budget on February 12th, 2019. And on July
19 24, 2019, Centra provided a pre-hearing cost of gas
20 update, as well as an update to its interest rate
21 forecast.

22 Centra has responded to two (2) rounds
23 of written information requests posed on behalf of the
24 board and Intervenors. Intervenors have filed expert
25 evidence and have responded to one (1) round of

1 written information requests on behalf of the Board,
2 Centra, and other Intervenors.

3 Centra's rebuttal evidence was filed
4 with the Board on August 2, 2019. The volume of
5 documentation and the number of issues that are within
6 the scope of this General Rate Application has
7 resulted in the board identifying issues that are the
8 subject of only written evidence and written
9 submissions, as well as other issues on which the
10 Board has determined it will hear additional oral
11 evidence from the witnesses.

12 The details of those decisions and
13 issues is set out in Order 98/'19. Order 98/'19 also
14 established the dates for the oral evidence, as well
15 as dates for oral closing submissions.

16 I will now turn the microphone over to
17 Board counsel, Ms. Steinfeld, for her opening
18 comments, together with her outline of the procedures
19 for the balance of this hearing.

20 Ms. Steinfeld?

21

22 OPENING COMMENTS BY BOARD COUNSEL:

23 MS. DAYNA STEINFELD: Thank you, and
24 good morning panel Chair Ring, Board, and Vice-Chair
25 Kapitany, Board members Hainsworth, Nemec, and Watson,

1 and good morning to all counsel and members of the
2 public present in the hearing room, as well as all
3 those members of the public who are viewing this
4 proceeding on the livestream.

5 For the record, my name is Dayna
6 Steinfeld, and together with my colleague Bob Peters,
7 we will act as Board counsel in Centra Gas Manitoba
8 Inc.'s 2019/'20 General Rate Application.

9 As mentioned, also assisting the Board
10 in this hearing is Roger Cathcart from Cathcart
11 Advisors, and Brady Ryall and David Bonin from Ryall
12 Engineering.

13 As mentioned by the panel Chair, the
14 intervenors in this hearing were approved in Board
15 Order 24 of '19. The ten (10) approved intervenors
16 are: BP Canada Energy Group ULC, Bunge Canada,
17 Consumers' Association of Canada, Manitoba, Inc., Koch
18 Fertilizer Canada ULC, Industrial Gas Users, McCain
19 Foods Canada, Richardson International Limited,
20 Simplot Canada Limited, TransCanada Pipelines Limited,
21 and Unifor Local 681.

22 Consumers' Association of Canada,
23 Manitoba, Inc. is represented by its counsel, Mr.
24 Meronek, who is in attendance this morning.

25 Industrial Gas Users represents

1 industrial gas consumers generally, and a number of
2 the other individual industrial Intervenors, as will
3 be explained by its counsel, Mr. Hacault, who is in
4 attendance this morning.

5 Koch Fertilizer is an Intervenor with
6 issues in common with other industrial gas users.
7 Where its interests are in common with other
8 industrial gas users, Koch will be represented by IGU
9 and Mr. Hacault. However, as there are additional
10 issues in this hearing that are unique to Koch, its
11 other counsel, Mr. Manning, will be representing this
12 Intervenor. We understand Mr. Manning is monitoring
13 the proceedings this morning from Calgary and joins us
14 on the conference line.

15 The other named Intervenors are also
16 monitoring these proceedings and are not scheduled for
17 cross examinations on the issues identified by the
18 Board for oral cross-examination in this portion of
19 the hearing.

20 Centra Gas Manitoba is represented by
21 Mr. Czarnecki and Ms. Jessica Carvell. I will
22 momentarily ask the panel Chair to call on Centra,
23 Consumers' Association, IGU, and Koch for any
24 introductions and brief opening comments before we
25 turn to the swearing in and cross-examination of

1 Centra's witnesses.

2 Before I do that, it may be informative
3 to review the outline of proceedings that has been
4 previously circulated to counsel to outline how we
5 envision this week and the next couple of weeks
6 unfolding. Following oral opening comments this
7 morning, the oral evidentiary portion of this
8 proceeding will commence with the first of Centra's
9 three (3) witness panels, which will be cross-examined
10 on the issues and scope for oral cross-examination
11 pertaining to the Utility's revenue requirement,
12 capital projects, and customer equipment problem
13 program, or CEPP.

14 Evidence on revenue requirement issues
15 is scheduled to continue the morning of August 15th
16 with cross-examination of the Consumers' Association
17 witness, Mr. Darren Rainkie. Centra's second witness
18 panel will then give evidence and be cross-examined on
19 the issues of mitigation of build rate impacts and the
20 heating value margin deferral account.

21 IGU's expert consultant on those
22 issues, Mr. Andrew McLaren, is scheduled to give
23 evidence and be cross-examined the morning of August
24 16th, while the experts for Consumers' Association and
25 Koch, Ms. Kelly Derksen, and Mr. Brian Collins

1 respectively are on the schedule for Tuesday, August
2 20th, 2019.

3 The Board will also hear public
4 presentations by members of the public who pre-
5 registered with the Board. And I believe that will
6 occur on Thursday, August 22nd.

7 Centra's third witness panel will be
8 cross-examined on the issues of balancing fees and
9 eligibility for T-service on Thursday, August 22nd,
10 followed by the cross-examination of the IGU witness
11 panel on those issues.

12 Closing arguments are currently
13 scheduled to commence with Centra on August 28th,
14 followed by a Consumers' Association on that day, and
15 remaining closing argument of Intervenors on any res -
16 - reply submission of Centra on September 3rd.

17 Parties are reminded that subject to
18 travel plans and restrictions, should portions of the
19 hearing conclude ahead of schedule, parties should be
20 prepared to proceed to the next item on the hearing
21 schedule without delay. Regardless of the times
22 indicated in the circulated outline of proceedings,
23 parties should be prepared to sit into the late
24 afternoon or early evening as required by the panel on
25 any of the days set for hearing, and should continue

1 to hold the days currently indicated as overflow in
2 the schedule in their calendars.

3 Parties are also reminded that while
4 there has been confidential information filed, this
5 oral hearing is on the public record. The oral
6 hearing process does not seek to elicit information
7 that Centra or any party has filed with the Board as
8 confidential.

9 Should any witness believe that to
10 fully respond to a question the witness needs to also
11 provide confidential information, the witness should
12 immediately alert their legal counsel, who will be
13 requested to propose a process to provide that
14 confidential information to the Board. All parties
15 and their counsel are urged to use caution in the
16 information conveyed through their questions and
17 cross-examination.

18 Parties are aware that the Board has
19 circulated an exhibit list to record the exhibits in
20 this proceeding. Should any party wish to file any
21 additional exhibits, they are to send a pdf copy to
22 the Board and copy all other parties. Additionally,
23 should any party wish to file any additional exhibits,
24 they should also propose the exhibit number that is to
25 be applied to their exhibit.

1 The Board members should also be aware
2 that they should feel free to interrupt at any time
3 with any questions of clarifications that they may
4 have of the witnesses. Thank you panel Chair and
5 Board members. Those are our opening comments.
6 Please, call on us should there be procedural
7 questions throughout the Hearing.

8 We suggest you call on first Centra Man
9 -- Centra Gas Manitoba, followed by the Intervenors
10 for their introductions and brief opening comments.
11 Thank you.

12 THE CHAIRPERSON: Thank you. Thank
13 you, Ms. Steinfeld.

14 Opening comments, Centra?

15

16 OPENING COMMENTS BY CENTRA GAS:

17 MR. BRENT CZARNECKI: Thank you, Mr.
18 Chair, and good morning. Good morning, Vice-Chair
19 Kapitany, member Hainsworth, member Nemeč, and member
20 Watson.

21 My name is Brent Czarnecki, C-Z-A-R-N-
22 E-C-K-I, for the record. And as Ms. Steinfeld
23 indicated, I'll be assisted by co-counsel Jessica
24 Carvell, which is C-A-R-V-E-L-L, who is sitting
25 immediately behind me.

1 I'm -- just by way of introduction --
2 further introduction, as well, sitting beside me is
3 Sandy Bauerlein, who is Centra's corporate controller.
4 Beside Ms. Bauerlein is Mr. Chuck Steele, who is the
5 director of engineering and construction. And beside
6 Mr. Steele is Mr. Tim Starodub, who's a gas
7 engineering and construction department manager. And
8 one (1) other introduction; in the back row is Gina
9 Borschawa, who is the Financial Advisory Services
10 Department manager.

11 And, Mr. Chair, I won't propose that
12 these witnesses be sworn in until after opening
13 comments, and after the break. It seems to be a
14 logical sequence.

15 Mr. Chair and panel members, it's
16 indeed an honour and pleas -- pleasure to once again
17 appear before the Manitoba Public Utilities Board for
18 this general rate application. And although it has
19 indeed been a long time running since the last Centra
20 GRA order, in July of 2013, and a long time coming
21 since we filed this application on November 30 of
22 2018, from Centra's perspective, because of the very
23 positive natural gas news, this GRA has been well
24 worth the wait.

25 And from your perspective, Mr. Chairman

1 and panel members, we believe that all of the positive
2 news leads us to -- all to one (1) conclusion; a final
3 determination that the applications as filed results
4 in fair, just, and reasonable rates.

5 What such a final rate determination
6 means is that some that two hundred and sixty thousand
7 (260,000) typical residential natural gas costumers
8 will receive an unprecedented 10 percent reduction in
9 their natural gas bills as of November 1, 2019. And
10 that of course when the Manitoba winter starts
11 settling in.

12 This result is outstanding. Similarly,
13 a majority of industrial sale service customers will
14 see reductions of at least 5 percent, some seeing
15 reductions between 8 and 23 percent, depending upon
16 their load factors.

17 And I ask that you carefully consider
18 the following facts over the next several days and
19 during your deliberations.

20 Fact 1: In this GRA, the PUB is being
21 asked to approve Centra's O&A spending of 61.25
22 million, which is at the same level it was ten (10)
23 years ago, without factoring in inflation or customer
24 growth.

25 Fact 2: The non-gas revenue

1 requirement of 148.5 million, which will form part of
2 rates, is at the same level it was six years ago in
3 2013/'14, again, without factoring in inflation or the
4 growth in rate base over that time.

5 Fact 3: And as the PUB is well aware
6 through its quarterly primary gas rate-setting orders,
7 the cost of gas has also been declining for more than
8 a decade, now to historic or near-historic lows.

9 So, Mr. Chairman, panel members, I ask
10 that you keep these facts, the big picture for
11 ratepayers, at the top of your mind when we may get a
12 bit lower in the technical weeds today and over the
13 next several hearing days.

14 Over the next few weeks you may hear
15 evidence and submissions asking you to reduce certain
16 elements of Centra's forecasted revenue requirement
17 including O&A spending. In addition, you may hear
18 requests for expensive audit-like investigations into
19 areas such as Centra's debt-management and integrated
20 cost allocation strategies. Centra urges you to
21 resist such unnecessary temptations, bearing in mind
22 the significant and ongoing operating costs and debt-
23 management efforts at Centra that have resulted in a
24 non-gas revenue requirement that is at the same level
25 as it was six (6) in 2013.

1 The bottom line is that the customers
2 of Centra are receiving tremendous value from the
3 their utility. They continue to receive safe and
4 highly reliable service at historically low rates.
5 The proof is in the proverbial pudding.

6 Mr. Chairman, the panel members, focus
7 on the overall results.

8 And one (1) more important big picture
9 fact for you to ponder throughout this proceeding:
10 The typical residential customer's annual bill in 2009
11 was nine hundred (\$900) dollars. When the PUB
12 approved Centra's application, as filed and now
13 updated, that same typical residential customer's
14 annual bill will be six hundred and forty-seven (\$647)
15 dollars. That's an overall decrease of approximately
16 28 percent over ten (10) years. It represents an
17 annualized customer decrease of nearly 3 percent,
18 without adjusting for inflation.

19 Mr. Chairman, Board members, I would
20 submit to you that there's never been a better time to
21 be a customer of Centra Gas.

22 And Mr. Chairman, Board members, all of
23 us that work on behalf of Centra's customers, we
24 remain optimistic that in fulfilling your stat --
25 statutory role in determining this application, that

1 you recognize and commend the efforts of the Utility
2 in providing safe, reliable, and cost-effective
3 services to Manitobans by finalizing rates as of
4 November 1st, 2019 as we have requested. Such a
5 positive signal would be deeply appreciated at the
6 Utility.

7 Now, Mr. Chairman, panel members, we
8 recognize, as did you, that on the face of this
9 application there are significant bill impacts to
10 customers who have chosen to be in the T-service Class
11 and the Special Contract Class. However, past
12 precedent and context is especially important when you
13 consider the impacts to the limited number of these
14 individual customers.

15 Long est -- long established PUB
16 precedent instructs all of us that in order to
17 properly compare annual energy increases and
18 decreases, the cost of gas must be considered an
19 integral part of the total annual impact. In other
20 words, for bill comparison purposes, the total landed
21 cost of the commodity incurred by those customers who
22 have elected T-service must be considered.

23 As demonstrated in Ms. Derksen's
24 evidence on behalf of CAC and in Centra's rebuttal
25 evidence, when you factor in the cost of commodity,

1 low single digit impacts result to -- to T-service
2 Class and the special class customers, which, in
3 Centra's submission, are not all that shocking or
4 extraordinary and are well within the historical range
5 experienced by these customer classes when rates have
6 both increased and decreased.

7 And, Mr. Chard and Ms. Gregorashuk, on
8 behalf of Centra, look forward to discussing these
9 matters with you in more detail when they testify.

10 Likewise, Mr. Chairman and panel
11 members, Ms. Stewart and Mr. Kostick look forward to
12 testifying and further explaining all of the reasons
13 why Centra's balancing fee proposal provides a well-
14 balanced and reasonable solution for all of Centra's
15 customers while still respecting Centra's fundamental
16 obligation of being a downstream operator on the
17 Trans-Canada mainline.

18 In closing, Mr. Chairman, Board
19 members, Centra would like to thank the Board for its
20 efforts to work with Centra and Intervenors to
21 streamline and focus the oral portion of this process
22 to that matters most important to you as a panel. And
23 behalf of Centra, I would encourage you to ask as many
24 questions and interrupt when you may see necessary
25 because our panels are here to make sure that you

1 understand the matters before you fully and
2 completely.

3 And, again, to reiterate, we ask that
4 you please focus on the overwhelmingly positive big
5 picture results that Centra has delivered to all of
6 its natural gas customers.

7 Thank you, Mr. Chair.

8 THE CHAIRPERSON: Thank you, Mr.
9 Czarnecki.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: We're going to stand
14 adjourned for a few moments. Thank you.

15

16 --- Upon recessing

17 --- Upon resuming

18

19 THE CHAIRPERSON: Thank you, Mr.
20 Czarnecki. Your presentation was so good it broke the
21 system, couldn't...

22 Consumers Association, Mr. Meronek?

23 MR. BRIAN MERONEK: Thank you, Mr.

24 Chairman. Good morning and...

25

1 (BRIEF PAUSE)

2

3 MR. BRIAN MERONEK: Okay. I'll start
4 over again.

5

6 OPENING COMMENTS BY CAC (MANITOBA):

7 MR. BRIAN MERONEK: Good morning, Mr.
8 Chair, Vice-Chair Kapitan, panel members Hainsworth,
9 Nemec, and Watson. Good morning to Board counsel and
10 advisors, Centra Counsel and panel, and to the
11 Intervenors.

12 I would like to introduce to you,
13 directly behind me is Gloria Desorcy, who is the
14 Executive Director of CAC (Manitoba) -- Consumers
15 Association of Canada Manitoba Inc.

16 And I have beside me, no stronger to
17 this Hearing room, Darren Rainkie, who's a revenue
18 requirement consultant.

19 One (1) roster change. Initially, we
20 had scheduled Jeremy McKay to assist me, but in -- in
21 order to be cost-efficient, we've demoted him to
22 Triple A ball, so he won't be appearing today.

23 I asked Ms. Desorcy to provide an
24 opening statement, but she's too bashful to read it
25 herself, so I'll read it into the record.

1 CAC (Manitoba) is pleased to be able to
2 participate in this important Hearing into Centra's
3 GRA. Several things bring CAC to this Hearing,
4 including, most importantly, customer rights, namely
5 the right to access products and services to me -- to
6 meet basic needs at a fair, just, and reasonable rate,
7 the right to a voice and decision making for the
8 marketplace, the right to a safe and healthy
9 environment, and the right choice for which consumer
10 access to and participation in this Hearing is really
11 the only proxy.

12 Importantly, it has been noted by CAC
13 (Manitoba) that often in this room and outside this
14 room Centra is spoken of as a poor cousin to Manitoba
15 Hydro given the relative size of the two (2)
16 companies.

17 But for consumers of natural gas,
18 particularly residential consumers who often use gas
19 for heat, it is actually the natural gas portion of
20 their bill that is larger and the electricity portion
21 that is smaller.

22 What makes this proceeding increasingly
23 important is the fact that we've not had a hearing in
24 six (6) years. And I won't belabour that to death,
25 but it's important for a couple considerations.

1 Before I -- before I get into the rest
2 of my opening comments, I just want to say that I
3 agree with Mr. Czarnecki, this is a good news story.
4 It's always a good news story when there are decreases
5 in rates.

6 But I would caution the Board to
7 recognize why there are decreases in rates. And, in
8 part, it's because of external factors, because of the
9 historic low cost of gas, because of other external
10 factors, such as the reduction in interest rates.

11 So, I'm not sure that Centra could take
12 full credit for these reductions. In any event, we're
13 here to make the good news better news by promoting to
14 the Board a further reduction in rates.

15 Now, when it comes to the six (6)
16 years, and we'll deal with that in final written
17 argument, it must be noted that, in light of the cost
18 of -- cost in rate pressures that Centra's forecast in
19 its GCM18, there is, I think, a need for regular
20 oversight of Centra and regular GRAs and cost of gas
21 hearings in years between the GRAs.

22 And importantly, many of the rate
23 impacts of this application, both reductions and
24 recoveries, that have been built up over the last six
25 (6) years could have been dealt with in a -- in a more

1 timely and appropriate fashion with regular
2 applications and on a less adversarial basis.

3 CAC appreciates the opportunity to
4 participate in the issues that are the subject of this
5 oral hearing and will carefully use the time allotted
6 to it to follow up on the advice and recommendations
7 of its experts.

8 And recognizing the importance of this
9 Hearing, we have a cobble together of a fairly stellar
10 group of experts in energy regulation, gas utility
11 management, gas supply arrangements, and asset
12 management practices.

13 With respect to the oral portion of
14 this Hearing, we will be pursuing the following. We
15 will be asserting that the PUB should adjust Centra's
16 request of approximately \$61 million in O&A expenses
17 for 2019/'20 down to \$56 million to reflect, a) a more
18 appropriate share of the benefits of the VDP
19 (phonetic) and supply chain initiatives to gas
20 operations, b) to remove an unallocated contingency
21 for which no expenditures are planned and which has
22 not been justified for rate setting purposes, c) to
23 reduce the escalation factor for rate setting purposes
24 to 1 percent from 2 percent in the application, which
25 is consistent with the recent ruling of the PUB in

1 Manitoba Hydro's 2019/'20 application.

2 Furthermore, we will be asking the
3 Board to include the cumulative profit adjustment of
4 \$15 million related to the capitalization of gas meter
5 exchange labour, or GEMEL, from 2014/'15 to 2018/'19
6 as part of financial reserves for rate setting
7 purposes in Centra as gas customers have funded these
8 costs in rates during that time period.

9 And it was always Centra's intent to
10 make this change coincident with the transition to
11 IFRS.

12 On a more, not oblique, but -- but
13 perhaps esoteric point, when it comes to the furnace
14 replacement program where there's an excess of
15 approximately \$17 million which has been outstanding
16 for several years, there is this recent consultation
17 draft regulation proposing a transfer of these funds
18 potentially to Efficiency Manitoba.

19 We will be making recommendations in
20 that regard and will be commenting on the status and
21 the import of that draft regulation.

22 In terms of asset management, we will
23 be asking the Board to adopt the recommendation --
24 recommendations of Metsco, which I believe is evidence
25 filed in CAC Exhibit 7.

1 In terms of cost allocation and rate
2 design, CAC is in the -- in the same position in terms
3 of recommendations as Centra. We will be maintaining
4 that the cost allocation and bill impacts are
5 appropriate and expected based on current approved PUB
6 methodology.

7 However, should the Board find it
8 necessary for bill mitigation, we will be commenting
9 on what would the -- what the appropriate mechanism
10 should be, bearing in mind that it should not
11 negatively impact the SGS class.

12 In terms of power stations minimum
13 margin guarantee, I believe Centra has categorized
14 this issue as a bill mitigation measure. It's roughly
15 a \$1 million guarantee that was in place way back
16 when, but it has been not included in rates -- or in
17 revenue requirements for the last several years.

18 We don't categorize it as a bill
19 mitigation, rather a re-implementation of a guarantee
20 which, in our opinion, has not received Board sanction
21 for removal. It -- it's been raised as part of a
22 rebuttal evidence and we're prepared to address it in
23 -- whether oral or written argument.

24 And, lastly, there's -- there's an
25 update by Centra with respect to the power stations

1 addressing coincident peak allocation methodology
2 which has changed. We believe that that should be off
3 the table because it is a methodology change.

4 And in accordance with Board Order
5 98/'19, that's something that ought to be deferred
6 until the generic cost of service hearing, whenever
7 that is.

8 With those opening remarks, I'd turn it
9 back to Ms. Steinfeld or to you, Mr. Chairman.

10 THE CHAIRPERSON: Thank you, Mr.
11 Meronek. And for Industrial Gas Users, Mr. Hacault.

12

13 OPENING COMMENTS BY INDUSTRIAL GAS USERS

14 MR. ANTOINE HACAULT: Yes. Good
15 morning, everybody, Mr. Chair, Madam Vice-Chair,
16 members Hainsworth, Nemec, and Watson, all present.

17 I'm counsel for Industrial Gas Users.
18 My name's Antoine Hacault, for the record. We'll
19 sometimes be referred to as IGU, the Industrial Gas
20 Users.

21 We also thank the Board for the
22 opportunity to participate in this long-awaited
23 General Rate Application. Sitting behind me are two
24 (2) of the consultants from InterGroup Consultants,
25 Andrew McLaren and Melissa Davies.

1 We also wish to acknowledge Centra Gas
2 for its work to date, and also wish to thank all other
3 Intervenors and Board advisors and Board counsel.

4 Just a very short background on
5 Industrial Gas Users. We have some new members here.
6 It was developed as a direct response to this General
7 Rate Application. The purpose of the Industrial Gas
8 Users is to work together on issues of common concern
9 related to natural gas rates in Manitoba.

10 So it's an informal association of
11 companies who are substantial users of natural gas.
12 The current members are Gurdeau Long Steel North
13 America, the Manitoba mill in Selkirk, Koch Fertilizer
14 Canada ULC, Maple Leaf Foods, and Simplot Canada.

15 IGU has focussed its intervention on
16 issues impacting high volume, firm, mainline and
17 special contract customer classes, both sales service
18 through Centra, and also transmission service, but
19 that's where the gas is not bought from Centra.

20 Beyond the members proper, IGU has
21 reached out to other industrial Intervenors to
22 collaborate on the balancing fee topic in this
23 Hearing. Ongoing communication has occurred with BP
24 Canada Energy Group ULC and Bunge Canada.

25 And there's further consultation with

1 other industrials, including a future Centra Gas user,
2 Roquette; that's the \$400 million pea plant that's
3 under construction in Portage La Prairie, a pea plant
4 facility for the beyond meet burgers.

5 IGU has also engaged with Consumers
6 Association of Canada of matters of similar concern,
7 including some revenue requirement topics of which
8 CAC, as you know, has taken the lead in this
9 proceeding. We have collaborated where possible. We
10 have attempted to avoid duplication.

11 Individual Intervenor status was granted
12 to two (2) of IGU members, Koch Fertilizer Canada and
13 Simplot. Other than specific instances where Koch
14 Fertilizer has individual concerns that did not easily
15 overlap with the membership at large, the IGU
16 activities to date have been representative of large
17 industrial users broadly, focussing on issues of
18 concern to these types of users in Manitoba.

19 We also acknowledge the positive news
20 that's been happening with this utility, but there are
21 issues of concern for Industrials. And as we do for
22 the hydro industrial users, the Manitoba Industrial
23 Power Users Group, this is also concerned with
24 ensuring rates and fees are cost based and reflect
25 regulator principles, including used and useful.

1 They're concerned about stability and
2 predictability rates as big industrial companies.
3 They're concerned with fairness and reasonableness of
4 Centra's proposed change to certain terms and
5 conditions. I'll speak more about that.

6 And they're also concerned that Centra
7 operates as a service provider to all customers,
8 including 'T' Service, customers who purchase gas
9 independently from Centra Gas. Recall that is
10 basically a regulated monopoly. We have to deal with
11 Centra Gas. So it -- they need to provide services.

12 As a result, IG evidence focused on
13 four main topics in this proceeding. Firstly, the
14 terms and conditions of service including -- you'll
15 hear more about this -- balancing fee proposal and the
16 reduction of T service eligibility -- these are
17 numbers -- 2500 gigajoules per day to 200 gigajoules per
18 day for those wishing to be in a T service class.

19 So that would reduce the ability of
20 smaller new users to join that class and benefit from
21 and also bear the obligations of that particular
22 class.

23 An issue which is developed and has
24 drawn a lot of attention, as noted in this Board in
25 its order 2419 at page 21, is there is a commonality

1 of interest by several interveners in the balancing
2 fee issues. The Board commented and we agree that
3 there was a common desire of those customers to be
4 allowed to mitigate those imbalances through customer
5 pooling and inventory account transfers. They want to
6 improve and help Centra.

7 The problem arises because of the terms
8 and conditions that are being proposed and how it's
9 structured. The terms and conditions focus on a
10 company by company imbalance whereas Centra only pays
11 PCPL for an imbalance if its system as a whole is out
12 of balance. I'm not getting into evidence, but I want
13 to try and better define a little bit what the issue
14 is, so when you listen to the evidence hopefully it'll
15 assist and focus the discussion a bit more.

16 So this is an important issue. Centra
17 in answering questions has indicated that it would
18 have over collected 2016/2017 some \$677,000 from
19 T service customers if it had implemented these terms
20 of service back then. And in 2017/'18, the number is
21 lower, but it's still significant: \$487,000.

22 Now, these are over collections by
23 about 2 and 300 percent on actual costs. You wonder
24 how does that arise that you would be collecting 2 or 3
25 times what your actual costs are?

1 Well, that arises because of -- I'm
2 going to try to simplify it, but customer A is over
3 what it projects as volumes. It'll have to pay a fee.
4 If customer B is under its volume, it'll have to pay a
5 fee. When you pool customer A and customer B, there
6 is no imbalance. There is no charge to Centra. But
7 in that example, customer A will have paid Centra,
8 customer B will have paid Centra, but Centra has not
9 had to pay anything to TCPL.

10 One more comment to try and focus the
11 issue. If -- because there's nominating agents,
12 people that buy and sell -- know and find out that
13 customer A is going to be over, they could and would
14 naturally to try and assist Centra Gas. Say, well,
15 listen. We'll talk to customer B and see whether or
16 not we can do something to lower its volume.

17 Now, think about it. If they go to
18 customer B and say, can you lower your volume, what
19 essentially they're saying is under this tariff,
20 please lower your volume so you get charged a penalty.
21 Please pay this penalty to try and help solve the
22 problem. They can't help solve the problem without
23 incurring a penalty.

24 So these -- this tariff poses problems,
25 which will be discussed further in cross-examination

1 and in submission. The problem is also with some of
2 the wording where they say Centra may impose balancing
3 fees. It's not defined. It's an uncontrolled
4 discretion. It's a delegation to Centra to charge
5 basically pretty much what it wants. There's no
6 formula.

7 Before, there used to be a link. It
8 had to be costs and charges. That was the former
9 words -- costs or charges. Now that link to causality
10 and having to link it -- what Centra actually charges
11 is no longer there in the wording. So we're going to
12 have a discussion about that.

13 IGU has expressed to Centra the desire
14 to work collaboratively on a set of terms which would
15 be reasonable and fair. Unfortunately, it hasn't been
16 successful in that effort. And I say IGU -- IGU was
17 created I know for this hearing. So quite apart from
18 what's happened in the past, there has been an effort
19 to try and help resolve it now 'cause we want to work
20 together.

21 IGU views that there's a misalignment
22 of costs versus revenue collection on these proposed
23 terms. These proposed terms, because of the way
24 they're set up, eliminate viable and necessary options
25 for T services -- the balance, such as pooling,

1 transfers, jurisdictionally competitive thresholds.

2 And terms also in IGU's view are not
3 responsive to how much Industrial currently do for
4 Centra to help it balance and are not responsive to
5 working together to keep Centra in balance on its
6 volumes.

7 It turned out the heating deferral
8 account issue -- a couple words on that. It's IGU's
9 position that this is a rate design issue, a contrast
10 to what the CEC has characterized it as.

11 And there's going to be a discussion on
12 how that rate design could be better designed to track
13 and match costs. IGU is of the position that the
14 deferral account balances should be allocated to the
15 customer classes on the basis of total revenues --
16 that's not the way it's being done now -- and that
17 Centra's current volume metric approach does not
18 recognize the differences in revenue risks to each
19 customer class owing to the different rate structures
20 in different volume metric or commodity changes in
21 place. I know these are big statements that will make
22 more sense when you get into the actual evidence.

23 Last subject is: What should be done
24 pending a cost of service hearing in Centra's cost
25 allocation methodology and whether any bill mitigation

1 is required or appropriate?

2 First, IGU agrees, as stated in Board
3 order 98 of 19, that the evidentiary record in this
4 proceeding is not sufficient for this Board to conduct
5 a full review of cost of service issues. We use that
6 as a starting point. It, I think, following through
7 on a lot of other things.

8 While we don't need to get into these
9 issues, there's evidence on the record that the old
10 method is old and out of date from the current use in
11 useful considerations and the new tests set out by
12 this Board in the hydro utility decision.

13 And depending on the methods used, the
14 results are skewed substantially. The position of IGU
15 is until this cost of -- this study hearing occurs
16 that the cost allocation methodology underpinning the
17 revenue to cost ratios and rate change proposals is
18 unreliable and of limited value for rate setting
19 today.

20 I'll admit I'm kind of new again to
21 this -- these types of proceedings. I've only been
22 around for, like, 10, 12 years. I've been involved
23 30 years ago in a more substantial way again. But it
24 amazes me that if you go to what's considered a more
25 cost causation application of costs of service, you

1 get revenue to cost ratios that swing 30 percent.

2 So for a special contract, they are
3 currently under the old method at 62 percent. And as
4 the evidence discloses, I'm not prejudging anything
5 but you could have, according to the evidence,
6 92 percent revenue to cost coverage ratio for that
7 same customer class depending on whether or not you
8 moved to a more cost causation method.

9 Why do I mention this? If the movement
10 had only been 5 percent from 62 to 65, depending on
11 the methods, well then you could say well, it doesn't
12 matter really what happens. You're going to start
13 moving it.

14 But if there's swings of 30 percent, to
15 me it raises questions. How reliable is the current
16 study? Are we going to swing one way, have a hearing,
17 and perhaps then have to swing the other way?

18 To me, it would suggest well, perhaps
19 let's be prudent. Let's wait till that cost of
20 service study gets done. And once we know and have
21 properly analyzed based on current circumstances and
22 current methodologies enforced in the hydro hearings,
23 then let's start to make decisions as to whether we
24 need to get into bill mitigation and movement of
25 people across the categories.

1 So to conclude, the evidence that's
2 been filed in this proceeding is pre-filed testimony
3 in answers to IRs of a gentleman called Gill Labonte.
4 That's IGU Exhibit 8. That's on balancing fees.
5 Those are people that live and breath this treating
6 stuff and volume stuff.

7 The pre-filed testimony of Troy Brown
8 and his answers to interrogatories, that's Exhibit IGU
9 9, again on balancing fees. And finally, the pre-
10 filed testimony of Mr. Andrew McLaren, who's sitting
11 behind me.

12 As you know IGU has not filed any
13 evidence or had any say, but sometimes it's different
14 in hydro hearings. We have not had a stay in the
15 scope of evidence filed by CAC on revenue requirement
16 issues.

17 IGU needs to better understand both the
18 Centra evidence and the CAC evidence on revenue
19 requirement issues, and we intend to cross-examine to
20 touch on any points not dealt with by other counsel
21 both on the CAC evidence and Centra Gas evidence to
22 help formulate our position based on the evidence as a
23 whole.

24 Thank you. Subject to any questions,
25 that concludes my introductory remarks.

1 THE CHAIRPERSON: Thank you,
2 Mr. Hacault. We'll now call on Koch, Mr. Lewis
3 Manning who I believe is with us on the conference
4 line. Mr. Manning, are you hearing us? Mr. Manning,
5 I need we think more volume.

6 MR. LEWIS MANNING (by phone): Yes,
7 Mr. Chairman. Good morning. I'm ready when you are.

8 THE CHAIRPERSON: Perfect. Please go
9 ahead, Mr. Manning, and we can hear you loud and
10 clear.

11

12 OPENING COMMENTS BY KOCH FERTILIZER CANADA, ULC:

13 MR. LEWIS MANNING (by phone): Thank
14 you. Good morning, Mr. Chairman and Board members.

15 MS. DANA STEINFELD: Mr. Manning, if I
16 just might ask you, I think you have the live stream
17 on in your office. If you could mute it, we --
18 there's a delay, and we're hearing it.

19 MR. LEWIS MANNING (by phone): Thank
20 you. I realized the problem. So thank you. Good
21 morning, Mr. Chairman and Board members. I'd like to
22 thank you for the opportunity to make a brief opening
23 statement. My name is Lewis Manning, and I'm
24 appearing as counsel for Koch Fertilizer Canada, ULC.

25 Koch is the only fertilizer producer in

1 Manitoba, and it's one of the largest employers in the
2 Brandon area making significant contributions to the
3 local economy by directly employing 284 people.

4 Koch is also a major employer of
5 contracted services in the region to support capital
6 spending and for plant outage services. For example,
7 in 2017 over 1,000 contractors were brought in for the
8 maintenance turnaround.

9 It's important to note that the
10 economic impact of Koch's fertilizer manufacturing
11 operations extends well beyond its direct production.
12 Koch's manufactured product creates a demand for raw
13 materials, transportation, and other services all the
14 way through the production stream, the point being
15 jobs are created, income is generated, and taxes are
16 collected.

17 The issues that Koch is addressing in
18 this proceeding include the following: One, gas
19 balancing. Koch is presently paying balancing fees to
20 Centra.

21 However, Koch's costs would increase
22 under the proposed new structure, particularly when
23 there are large plant upsets caused by either internal
24 or external factors. Koch should not be charged for
25 balancing fees beyond its control such as during power

1 outages or extreme weather events. Balancing these,
2 in Koch's submission, should only be charged based on
3 actual costs incurred by Centra, consistent with
4 Koch's service contract with Centra.

5 The second issue is the heating value
6 deferral. Centra is proposing to charge Koch
7 approximately \$548,000 for a heating value deferral
8 account that has accumulated over the period 2015/'16
9 to 2017/'18. The charge is based on volume of gas
10 used and is based on the difference between the actual
11 heating value of the gas versus Centra's assumed value
12 used in invoicing.

13 As most of Koch's charges are fixed and
14 independent of volume, the heating value deferral
15 should not apply to Koch as recommended in Christensen
16 Associates Energy Consulting report in 2012 and
17 subsequently agreed to by Centra.

18 Koch does not view, as others have
19 suggested, that not having to pay the heating value
20 deferral would be considered bill mitigation. Just to
21 confirm, the balancing fee and heating value deferral
22 account issues are being addressed by Koch through its
23 participation in the IGU.

24 I'll move on to the fourth issue, and
25 that is cost of service and in particular the impacts

1 on Koch's business. Koch is a significant user of
2 natural gas in Manitoba which is used to make
3 fertilizers. Fertilizer is a global commodity with the
4 fertilizer industry being a price taker, not a price
5 setter.

6 Koch's Brandon plant competes against
7 fertilizer producers from Saskatchewan, Alberta,
8 United States, and other global manufacturers. Koch's
9 Brandon plant, along with the rest of the industry,
10 has limited ability to pass along costs in the supply
11 chain.

12 This proposed increase in rates is
13 coming at a time when fertilizer producers are already
14 facing pressure from increased carbon taxation. In
15 addition, Koch is the only fertilizer producer that
16 pays PST to Manitoba on the amount of natural gas that
17 is combusted at its site.

18 These increased rates would bring no
19 incremental benefit for Koch and would increase
20 operating costs. Cumulative effect of these increased
21 costs would reduce the competitiveness of the Brandon
22 plant in a highly competitive global industry.

23 Also under the issue of cost of
24 service, Koch has been active with respect to the cost
25 of service methodology. And in this regard, the PUB

1 has ordered a review of the underlying methodology of
2 Centra's cost of service.

3 There are potential changes to the
4 methodology, such as a change to direct allocation or
5 coincident demand that will be considered in the next
6 proceeding, and that could result in a significant
7 reduction in the rates applied to Koch and other
8 industrial users.

9 Under Centra's proposed rates, Koch
10 would experience a dramatic increase in its
11 transportation costs. Koch sees this as a clear case
12 of rate shock which might then require reversal once
13 the required cost of study -- cost of service study
14 review is completed.

15 As such, and dealing specifically with
16 bill mitigation, Koch recommends that the PUB refrain
17 from approving any change to the existing rates in the
18 interim until the rate methodology has been thoroughly
19 reviewed in the upcoming proceeding.

20 If the PUB determines that some changes
21 to rates are appropriate, Koch recommends that the PUB
22 take into account the following, 1) that Centra does
23 not require any additional revenues at this time.

24 In fact, as noted in this morning's
25 opening statements, its required revenues have

1 decreased and, 2) the PUB could establish a zone of
2 reasonableness as it did for Manitoba Hydro to
3 minimize the potential rate shock for those entities
4 experiencing sharp increases.

5 And thirdly, the PUB could phase in
6 costs over time so that increases would be minimal
7 while a thorough cost of service methodology review is
8 held.

9 Mr. Chairman, the Board is aware Koch
10 will be presenting Mr. Brian Collins, of Brubaker &
11 Associates, as a witness next week in accordance with
12 the schedule. And that concludes our opening remarks,
13 subject to any questions, of course. And we thank you
14 very much.

15 THE CHAIRPERSON: Thank you, Mr.
16 Manning. After that correction, you were loud and
17 clear. That concludes our opening comments. And
18 we're going to take a fifteen (15) minute break at
19 this point. Thank you.

20

21 --- Upon recessing at 10:04 a.m.

22 --- Upon resuming at 10:24 a.m.

23

24 THE CHAIRPERSON: Good morning again.

25 At this point I believe we were going to hear some

1 cross-examination and Ms. McMillin, if you will swear
2 in the witnesses.

3

4 CENTRA GAS WITNESS PANEL NO. 1: Capital Projects, and
5 CEPP

6 SANDRA LYNN BAUERLEIN, Sworn

7 CHARLES STEELE, Sworn

8 TIM STARODUB, Sworn

9

10 THE CHAIRPERSON: The witnesses, Sandy
11 Bauerlein, Charles Steele, and Timothy Starodub have
12 been sworn in.

13 Ms. Steinfeld...?

14 MS. BRENT CZARNECKI: Before Ms.
15 Steinfeld gets going, Mr. Chairman, just a couple of
16 housecleaning -- cleaning matters.

17 Yesterday we did file the CVs of these
18 witnesses and the other Centra witnesses that will
19 appear before you, and that was marked as Exhibit
20 Number 38, and we also did file affidavit of Paul
21 Chard, which is Exhibit Number 35, I understand, that
22 adopted the evidence of Centra for this entire
23 application. And just to be clear for your
24 understanding, we did that because Mr. Chard doesn't
25 testify today. He'll appear tomorrow, or sorry, he'll

1 appear later this afternoon, but he wasn't available
2 on this panel this morning, so we took care of that by
3 way of written affidavit.

4 THE CHAIRPERSON: Thank you.

5 MS. DAYNA STEINFELD: And, Mr. Chair,
6 a few housekeeping notes on my end as well. First,
7 Board counsel has filed and circulated to the parties
8 on Monday, Board counsel's Book of Documents, which I
9 believe has been marked as PUB Exhibit 25, and Ms.
10 McMillin will provide the Panel with hard copies.

11 THE CHAIRPERSON: And we have those
12 now.

13

14 CROSS-EXAMINATION BY MS. DAYNA STEINFELD:

15 MS. DAYNA STEINFELD: And for the
16 witnesses, just a reminder that none of my questions
17 on cross-examination are seeking or intended to elicit
18 confidential information. If at any time I ask a
19 question and you feel you cannot answer it without
20 revealing confidential information, please advise your
21 legal counsel before saying anything further on the
22 record.

23 And lastly, before I'll ask you to just
24 introduce yourselves to the Panel, I'll note that this
25 morning I expect most of my questions, if not all of

1 them, will be of Ms. Bauerlein.

2 That's of no disrespect to Mr. Steele
3 and Mr. Starodub. Your -- your turn will come later.
4 If at any time Ms. Bauerlein needs your assistance,
5 please -- please do step in, but I expect largely it
6 will be questions of Ms. Bauerlein this morning.

7 So with that, I'll just ask you to
8 quickly introduce yourselves to the Panel and we'll
9 turn to cross-examination.

10 MS. SANDY BAUERLEIN: Good morning,
11 Board Chair Ring, Vice-Chair Kapitany, Board members
12 Hainsworth, Nemec, and Watson. Good morning to
13 Intervenors, Board counsel, and advisors. My name is
14 Sandy Bauerlein. I am the Corporate Controller at
15 Manitoba Hydro. I've been with Manitoba Hydro for a
16 little over thirty (30) years, working in a variety of
17 -- of areas. I am a chartered professional
18 accountant.

19 My areas of responsibility as Corporate
20 Controller include all financial accounting,
21 managerial accounting, including our plant and asset
22 records. I also have responsibility for our middle
23 and back offices, for our gas trading and export
24 trading functions, as well as insurance services, and
25 finally I have responsibility for the group that

1 prepares our long-term planning financial forecast.

2 MR. CHARLES STEELE: Good morning,
3 everyone. I'm Charles Steele. I'm the Director of
4 Engineering and Construction at Manitoba Hydro.

5 In that role I am accountable for the
6 planning, design, and construction of distribution
7 facilities, both gas and electric, in the Province of
8 Manitoba. I've worked at Manitoba Hydro for
9 approximately twenty-two (22) years, and that's me.

10 MR. TIM STARODUB: Good morning, Mr.
11 Chair, Madam Vice-Chair, Panel members, counsels --
12 counsel, advisors, and Intervenors. My name is Tim
13 Starodub. I am the Department Manager of Gas
14 Engineering and Construction.

15 In my role I look after gas planning
16 activities, pipeline design, gas station design,
17 pipeline integrity, natural gas standards, and goes
18 construction. I'm a Mechanical Engineer for thirty-
19 five (35) years. I've been with Manitoba Hydro since
20 2005. And thank you very much.

21

22

23 MS. DAYNA STEINFELD: Ms. Villegas, if
24 we could please put on the screen Appendix 3.1 from
25 the Centra Gas application. Thank you.

1 Ms. Bauerlein, you'll agree with me
2 this is CGM 18, the ten-year financial forecast filed
3 by Centra in this proceeding?

4 MS. SANDY BAUERLEIN: I agree.

5 MS. DAYNA STEINFELD: And if we look
6 at the column labelled 2020, that would be the fiscal
7 year '19/20, or the test year in this proceeding?

8 MS. SANDY BAUERLEIN: That is correct.

9 MS. DAYNA STEINFELD: So if we follow
10 that column all the way down, we'll see the details of
11 the forecast of Centra's revenue requirement for the
12 test year?

13 MS. SANDY BAUERLEIN: Correct, as the
14 details as filed in the original application.

15 MS. DAYNA STEINFELD: And we are
16 currently in fiscal year 2019/20. That year is
17 ongoing?

18 MS. SANDY BAUERLEIN: That is correct.
19 It runs from April 1st to March 31st of 2020.

20 MS. DAYNA STEINFELD: And would you
21 agree that as these are forecast numbers, the numbers
22 that are contained in the 2020 column may change up or
23 down at any point in time throughout the year?

24 MS. SANDY BAUERLEIN: That is correct.
25 Many of the light items. This is a forecast and

1 actual results can vary from forecast.

2 MS. DAYNA STEINFELD: What is
3 Centra's view on updating forecast information as
4 information changes or new information becomes
5 available throughout the test year?

6 MS. SANDY BAUERLEIN: Centra's process
7 right now, we are governed under the Crown
8 Corporation's Governance and Accountability Act.
9 Under that act we have a requirement to prepare a
10 budget that will go to the Minister of Crown Services
11 for approval prior -- just prior to the start of the
12 fiscal year. As such, that -- that budget for 2019/20
13 was approved by our Board of Directors in February and
14 submitted to the province subsequently for approval.

15 That is the budget that we report
16 against for the fiscal year and are accountable to our
17 owner for.

18 We do provide the Government with
19 outlook information in terms of where we believe our
20 consolidated results will be, so we focus on
21 consolidated results throughout the year, looking at
22 our -- our net income.

23 So again, we do not provide the
24 Government with information by each of our segments,
25 so we have the electric operations, our natural gas

1 operations, and then some other smaller subsidiaries,
2 but we do provide a projected net income outlook
3 throughout the year, but this is the budget that we do
4 report against. So we do not update it throughout the
5 year. This is the final approved budget.

6 MS. DAYNA STEINFELD: And
7 Ms. Bauerlein, taking your last answer that you do not
8 update the budget throughout the year, you have in
9 this proceeding at the request of the Board filed
10 certain updated information specifically relating to
11 gas costs and interest rates but also including the
12 details of your O&A budget. Is that correct?

13 MS. SANDY BAUERLEIN: That is correct.
14 I do want to clarify that the budget that's submitted
15 here was actually filed in November.

16 So this was not our final approved
17 budget but a projection of what we thought our budget
18 would be for the 2019 year. It's actually appendix --
19 I think it's 3.6 where we have the final budget that
20 was approved. And then subsequently on request of the
21 Public Utilities Board, we have provided some updates
22 specifically to do with interest rate forecast
23 information and some projections as a result of that.

24 MS. DAYNA STEINFELD: And where the
25 updated information, such as the updated information

1 filed on July 24th, shows changes in the forecasts
2 from what was filed in the March supplement, is it
3 Centra's view that this Board should take those
4 changes into account in determining the amount of the
5 revenue requirement?

6 MS. SANDY BAUERLEIN: No, it is not.
7 Centra's view that they should take those into account
8 as part of revenue requirement. There was a specific
9 request for an update of what our finance expense
10 would look like as a result of changes in the interest
11 rate forecast using the summer of 2019 interest rate
12 projection.

13 But a number of other factors can
14 influence what are ultimately our finance expense ends
15 up coming into, specifically volumes -- how much
16 volume of debt we're going to procure, that the timing
17 of when that debt may happen.

18 So as a result, the interest rate
19 forecast is really only just one variable in what
20 would change finance expense.

21 And in addition, there are a number of
22 other line items on our income statement that again
23 this is a budget that actual results will be what
24 actual results are.

25 And so we're asking the Panel to make

1 their decisions based on the budget as filed that we
2 don't try and continually update our results and then
3 try and sort of -- I'm going to say it's like you're
4 chasing the dog if you're doing that because most of
5 the line items on here at some point throughout the
6 year may differ from what is actually our approved
7 budget.

8 But what we've submitted we believe is
9 a reasonable budget and should be the basis for the
10 decision of the Public Utilities Board.

11 MS. DAYNA STEINFELD: And
12 Ms. Bauerlein, have Centra's required revenue
13 decreased?

14 MS. SANDY BAUERLEIN: No, they have
15 not.

16 MS. DAYNA STEINFELD: What I heard was
17 Mr. Czarnecki say this morning and perhaps you can
18 confirm in evidence is that the non-gas revenue
19 requirement is the same as it was six years ago. Is
20 that correct?

21 MS. SANDY BAUERLEIN: That is correct.
22 You can actually -- there is some evidence we could
23 call up to demonstrate that. If you look at CAC's
24 evidence on page 23, if we could call that up for the
25 Panel.

1 MS. DAYNA STEINFELD: Would that be
2 CAC8?

3 MS. SANDY BAUERLEIN: It's their --
4 their evidence. I don't know the -- their evidence
5 prepared by Mr. Rainkie and Ms. Derksen.

6 And if I go to page 23 I believe -- if
7 you look at the column that says "CGM182020," we'll
8 just look on the far right. You can see that our
9 non-gas revenue requirement is approximately
10 148 million.

11 And back at the last hearing when the
12 forecasts for CG -- we called it Centra Gas IFF
13 forecast 12 for the 2013/'14 year, you can see that
14 the total non-gas revenue requirement was also
15 148 million.

16 So over that six-year period, we have
17 no change in the non-gas revenue requirement despite
18 six years of inflation and other cost pressures. And
19 you can see the primary driver for that is reduced
20 operating and administrative costs.

21 If you look at the change column --
22 change 2020 versus 2014, you can see that our
23 operating costs were actually down \$9 million from
24 they were in 2013/'14.

25 MS. DAYNA STEINFELD: Thank you,

1 Ms. Bauerlein. That is an excellent segue for where
2 I'd like to go next. So thank you for that.

3 Ms. Villegas, if we can bring up,
4 please, Appendix 3.6, which Ms. Bauerlein referred to
5 earlier.

6 And Ms. Bauerlein, this is the updated
7 2019/'20 budget that -- as you referred to earlier was
8 filed in March of this year after being approved by
9 the Board of Directors and submitted to the Minister.

10 MS. SANDY BAUERLEIN: That is correct.

11 MS. DAYNA STEINFELD: And so can you
12 just explain to the Panel what the column "Approved
13 Budget 2020" is telling us? This is the budget that
14 was approved by the Board of Directors and filed with
15 the Minister.

16 MS. SANDY BAUERLEIN: That is correct.
17 I guess I'm not sure what you're asking me.

18 MS. DAYNA STEINFELD: These are the
19 numbers that we should be looking at if there are any
20 variations from CGM18.

21 MS. SANDY BAUERLEIN: Correct.

22 MS. DAYNA STEINFELD: And so the
23 column "Approved Budget 2020" may vary to some extent
24 from the CGM18 filed November 30th but as you
25 explained earlier that that filing in November was

1 more a prospect of and this is what was actually
2 approved by your Board of Directors.

3 MS. SANDY BAUERLEIN: That is correct.
4 In order to have an application filed in November, we
5 had to do a sort of preliminary budgeting exercise.
6 Using some assumptions, we then fine-tuned those
7 assumptions based on -- so it's the timing of when our
8 budgeting cycle is.

9 And so as a result of that, this is the
10 final budget that was approved by our Board and then
11 submitted to the Minister.

12 MS. DAYNA STEINFELD: And if we scroll
13 down to "Expenses," we see in the "Approved Budget"
14 column, which is on the far right, that \$61 million --
15 or if we put a finer point on it, I believe it's
16 61.25 million -- is the approved operating and
17 administrative expense budget for the test year.

18 MS. SANDY BAUERLEIN: That is correct.

19 MS. DAYNA STEINFELD: And am I right
20 in understanding that that expense line would include
21 costs related to things like customer service? Would
22 that be one example?

23 MS. SANDY BAUERLEIN: Yes. Again, I
24 could take you to another IR if --

25 MS. DAYNA STEINFELD: I think that at

1 this moment, we can stay high level.

2 MS. SANDY BAUERLEIN: Yeah.

3 MS. DAYNA STEINFELD: We may get into
4 more detail. So customer service as well as
5 operations and maintenance of things like system
6 maintenance and equipment failures?

7 MS. SANDY BAUERLEIN: That is correct.

8 MS. DAYNA STEINFELD: As well as at a
9 high level what Centra might call organizational
10 support?

11 MS. SANDY BAUERLEIN: That is correct.
12 So organizational support really represents those sort
13 of, you know, governance-type functions that Centra
14 would also have in terms of things like IT, HR,
15 financing costs, finance people -- areas like my own
16 area. Those would be considered -- and departmental
17 division directors would be considered organizational
18 support.

19 MS. DAYNA STEINFELD: And so in this
20 line item, what we're seeing are costs that are
21 related to employees like yourselves, wages, salaries,
22 benefits for activities that are related to the
23 ongoing operations and maintenance of Centra's
24 operations and system.

25 MS. SANDY BAUERLEIN: That is correct,

1 though I do want to make a point that for Centra --
2 Centra itself does not have employees. The
3 consolidated entity has the employees.

4 So as a result of that, the costs of
5 employees are allocated to Centra through a few
6 mechanisms.

7 And we -- back in November of 2016 for
8 those were able to attend, we did a presentation
9 outlining how those costs are allocated to Centra.
10 And it's really through three factors: time carding,
11 what we call an overhead charge -- surcharge, and then
12 through some other sort of electronic system postings
13 through cost drivers.

14 MS. DAYNA STEINFELD: And we'll get
15 into plenty of detail on that particular topic,
16 Ms. Bauerlein, but for the moment, what you're
17 explaining to the Panel is that employees of Centra
18 actually work as employees of Manitoba Hydro.

19 All employees of the corporation are
20 employees of Manitoba Hydro and the costs of those --
21 of the activities that relate to Centra are allocated
22 to Centra through the integrated cost allocation
23 methodology or ICAM?

24 MS. SANDY BAUERLEIN: Thank is
25 correct.

1 MS. DAYNA STEINFELD: And in addition
2 to the types of costs that we just spoke about, there
3 are certain salaries and benefits that are not
4 included in O&A expense, is that correct, such as
5 capitalized salaries and benefits?

6 MS. SANDY BAUERLEIN: Yes. When you
7 pay an individual salary, that individual then can do
8 work. They can do operations and maintenance work or
9 customer service work, which is an O&A cost, or they
10 can do construction work, and that would -- those
11 costs would be capitalized.

12 So, again, their salary through -- I'm
13 going to use an example of time carding. Some weeks
14 they may be working on a construction activity, so
15 their salary is being allocated to that construction
16 or capital, and some weeks they're working on an
17 operating or maintenance activity which is then going
18 to O&A.

19 MS. DAYNA STEINFELD: So, maybe if we
20 could for now put aside the capital salaries and --
21 and benefits and focus on what's included in O&A. If
22 I could summarize what you've explained, is it that
23 this expense is largely costs related to the
24 activities of -- of people and employees?

25 MS. SANDY BAUERLEIN: Yes, it's the

1 costs of those employees who provide, as you said
2 earlier, customer service type work, maintenance type
3 work, things like inspections, as well as provide
4 organizational support functions to the benefit of --
5 of the Centra subsidiary.

6 MS. DAYNA STEINFELD: And for
7 background, Mr. Bauerlein, and I believe you are
8 familiar with this from the electric side of the
9 Board's regulatory work, as well, that back in
10 February of 2017, Manitoba Hydro commenced a cost
11 containment plan to reduce its total workforce by 15
12 percent, or nine hundred (900) positions.

13 Are you familiar with that?

14 MS. SANDY BAUERLEIN: Yes, I am. So,
15 we -- we call it the Voluntary Departure Program, or
16 VDP, and it was launched in spring of 2017. And it
17 did result in close to nine hundred (900) employees of
18 the consolidated entity leaving Manitoba Hydro.

19 MS. DAYNA STEINFELD: And when we talk
20 about the O&A budget or O&A targets, were the targets
21 for 2018/'19 and 2019/'20 finalized before the VDP
22 began?

23 MS. SANDY BAUERLEIN: No, they were
24 not. Employees began leaving in June of 2017, so our
25 '18/'19 year would have begun in April of 2018.

1 MS. DAYNA STEINFELD: If we could,
2 please, Ms. Villegas, bring up on the screen PUB 25,
3 which is Board counsel book of documents, at page 27.
4 And right there is perfect.

5 Ms. Bauerlein, if you could just help
6 me understand the response to 'D', which says:

7 Centra held the 2018/'19 target
8 constant with 2017/'18 actual
9 performance given the uncertainty
10 associated with the impacts of the
11 VDP.

12 Do you see that on the screen there?

13 MS. SANDY BAUERLEIN: Yes, I do.

14 MS. DAYNA STEINFELD: And what I'm
15 understanding that to be saying is that, because the
16 VDP was coming down the pipe, there was uncertainty,
17 so Centra took the 2017/'18 actual numbers and
18 developed the 2018/'19 budget by keeping those numbers
19 the same.

20 Is that a correct understanding?

21 MS. SANDY BAUERLEIN: Can you repeat
22 the question again?

23 MS. DAYNA STEINFELD: In this IR
24 response, is Centra telling the Board that, due to the
25 uncertainty with the VDP, to develop the 2018/'19 O&A

1 budget, Centra took the '17/'18 actuals and kept the
2 numbers the same?

3 MS. SANDY BAUERLEIN: That is correct.
4 Again, we -- I'm trying to think through my dates.
5 So, the VDP was launched. We had people leaving in
6 June, but many of them could still declare when they
7 were actually going to retire.

8 So, there was still some continuous
9 movement in terms of what was happening with the VDP,
10 where the people would land, who would be accepted as
11 we were still trying to build those budgets for those
12 targets for the '18/'19 year.

13 At that point in time, we were trying
14 to understand what the VDP impacts might be.

15 MS. DAYNA STEINFELD: And so, what
16 you're explaining to the panel is that you set the O&A
17 budget or target for 2018/'19 without developing a
18 detailed budget because those details were uncertain
19 at that point in time?

20 MS. SANDY BAUERLEIN: Correct. We
21 didn't fully understand what the impact was going to
22 be of the VDP until much, much later.

23 MS. DAYNA STEINFELD: And I was going
24 to come to it later, but maybe let's talk about it
25 now. My understanding is, and -- and we can pull up

1 the legislation, but that the Manitoba Hydro Act
2 requires that an annual report be filed within four
3 (4) months after the end of the Corporation's fiscal
4 year.

5 Is that your understanding?

6 MS. SANDY BAUERLEIN: That is correct.

7 MS. DAYNA STEINFELD: And so, when
8 we're talking about 2018/'19, have those actual
9 numbers now been filed with the minister?

10 MS. SANDY BAUERLEIN: They are. Yes,
11 they have been filed with the minister's office.

12 MS. DAYNA STEINFELD: And that would
13 be both the consolidated and segmented financial
14 statements?

15 MS. SANDY BAUERLEIN: That is correct.
16 However, they will not be released, as the blackout
17 with the election, until following the election.

18 MS. DAYNA STEINFELD: Is Centra able
19 to provide an undertaking to file those audited
20 statements in confidence with the Board until such
21 time that they are able to be publically released?

22

23 (BRIEF PAUSE)

24

25 MS. SANDY BAUERLEIN: I'm not sure if

1 we can. We'll have to -- I would like to take that
2 back and just verify with the blackout and what some
3 of our restrictions are whether or not we can -- can
4 provide that information.

5 MS. DAYNA STEINFELD: So, perhaps then
6 I'll ask for an undertaking that Centra will advise on
7 the record of this proceeding whether or not it is
8 able to file in confidence with the Board the audited
9 statements that have been filed with the minister.

10

11 (BRIEF PAUSE)

12

13 MS. SANDY BAUERLEIN: Yes, we can
14 undertake that, just acknowledging that, given the
15 election, there is quite amount of sensitivity about
16 releasing information.

17 I know I did provide sort of an update
18 at the electric hearing, and I can do at a very sort
19 of high level on the gas that, again, we -- from a
20 bottom line perspective, we are, on a weather-
21 normalized basis, within the amount that we had
22 projected; it's reasonable.

23

24 --- UNDERTAKING NO. 1: Centra will advise on the
25 record of this proceeding

1 (BRIEF PAUSE)

2

3 MS. DAYNA STEINFELD: ...which should
4 be a few more pages in highlighted yellow. There we
5 go.

6 So, Ms. Bauerlein, this section of the
7 -- the Crown Act is requiring an annual report to be
8 made to the minister within four (4) months after the
9 end of the fiscal year.

10 Do you see that?

11 MS. SANDY BAUERLEIN: Yes.

12 MS. DAYNA STEINFELD: And that annual
13 report is to include specific items, including the
14 audited financial statements, but also a comparison of
15 actual versus target or forecast, explanation for any
16 variances and other requested information.

17 Is that a fair summary?

18 MS. SANDY BAUERLEIN: Right. Yes.

19 MS. DAYNA STEINFELD: And has this
20 report also been provided?

21 MS. SANDY BAUERLEIN: Yes, the
22 information's been provided to the minister's office.

23 MS. DAYNA STEINFELD: And is the
24 public release of this also subject to the blackout
25 period?

1 MS. SANDY BAUERLEIN: Correct.

2 MS. DAYNA STEINFELD: How --

3 MS. SANDY BAUERLEIN: This is the
4 annual reporting outcomes, which is -- at the end of
5 the day, also is embedded within your annual report.
6 So, all of this is part of the blackout information.

7 MS. DAYNA STEINFELD: If I could ask
8 for the same undertaking, that Centra will advise as
9 to whether this report can be filed with this Board in
10 confidence prior to it being publically released.

11 MS. SANDY BAUERLEIN: It is the same
12 report. It's one and the same.

13 MS. DAYNA STEINFELD: Thank you.

14

15 (BRIEF PAUSE)

16

17 MS. DAYNA STEINFELD: So, all of that
18 to say, Ms. Bauerlein, that we should continue in this
19 proceeding working off of the 2018/'19 target or
20 forecast because the actuals are not available to this
21 Board at this time?

22 MS. SANDY BAUERLEIN: Yes. I believe
23 we phrase it as a current outlook was the projection.
24 When we filed in March 22nd of this year, we called it
25 a current outlook submission.

1 And as a result of that, it did have
2 some updates versus the actual approved budget. And
3 that number is -- I'm telling you that's were -- were
4 reasonable to that number in actual results.

5 It's the 4. -- I believe it's \$4.4
6 million of net income is what the current outlook
7 projection was that was filed on March 22nd.

8 MS. DAYNA STEINFELD: And if we stay
9 on the IR response that's on the screen now, the
10 response to CAC (Centra) around 2133D, you've already
11 explained that you took the '17/'18 actual numbers,
12 held them constant for '18/'19.

13 And then you used that same target to
14 then develop the 1920 budget. Is that correct?

15 MS. SANDY BAUERLEIN: No. I just also
16 want to make one (1) other point on the '18/'19.
17 Following, when we actually knew who was leaving, we
18 were also undergoing significant reorganizational
19 changes.

20 So, when you prepare a detailed budget,
21 you need to know where people are going to be working.
22 And because that was all up in the air, as well, is
23 why -- another reason why we -- we didn't really have
24 a full appreciation as to how '18/'19 would look when
25 we were doing that.

1 When we did the '19/'20, we did that
2 again just this past winter, so, you know, winter of -
3 - of 2018/'19, and we reviewed the target. So, we
4 looked at what the target had been because we've
5 always had sort of a longer term outlook.

6 And we reviewed that number to assure
7 ourselves, as a corporation, whether or not that's the
8 right number. So, there was -- there was discussions
9 in terms of we set a target.

10 So, there's a detailed budgeting
11 exercise. But then there's a high-level target that's
12 set by executive committee, and then endorsed by the
13 Board.

14 And we look at that target every single
15 year to verify that that number is a reasonable
16 number, and it doesn't look at all the details. What
17 it tries to look at is things like are there any
18 significant changes happening in the environment where
19 we would want to adjust the target.

20 So, for example, for '19/'20, one (1)
21 of the items for discussion is that -- you'll note in
22 -- in the application, that there's been an increase
23 in the meter reading fees that are charged to Manitoba
24 Hydro from Manitoba Hydro Utility Services to the tune
25 of a little over five hundred thousand dollars

1 (\$500,000).

2 So, the question was whether or not
3 should we adjust our target. And we decided not to
4 adjust our target because we felt that, again, the
5 impacts of the VDP and the savings we were seeing
6 would offset that.

7 So, there's always a high-level target
8 discussion that happens typically in the, I want to
9 say, you know, November -- November time frame where
10 we try and set what the target is going to be for O&A
11 for the upcoming fiscal year, looking at any
12 significant factors that may influence that.

13 Once the target and the budget are
14 approved, so the -- the -- that O&A target goes into
15 our formal budget, the budget being all our revenue
16 items and all our expense items, we then engage in
17 doing a detailed budgeting exercise where every
18 department and ever cost centre builds their detailed
19 budgets to align us with that target.

20 So, that's a detailed exercise where we
21 budget for every employee, you know, what department
22 they're working in, what their wage might be, what
23 wage settlement impacts are, et cetera.

24 So, there's a detailed budgeting
25 exercise, but then there's a high-level target

1 exercise. And I just want to clarify that because
2 it's an important point that I think will come out
3 through this proceeding.

4 MS. DAYNA STEINFELD: So, although it
5 may look like you simply took the 2018/'19 forecast
6 numbers, took out the amount for the meter sampling,
7 testing, and exchange that you're proposing be
8 capitalized, and then applied an escalation, you're
9 saying it was actually much more involved than that in
10 developing the text year numbers?

11 MS. SANDY BAUERLEIN: That is correct.
12 There's always discussion for both our electric and
13 gas operations as what the appropriate target should
14 be for operating costs.

15 Again, it doesn't look at all the
16 details, but it looks at sort of the bigger picture
17 items from a very senior oversight perspective.

18 MS. DAYNA STEINFELD: And, Ms.
19 Bauerlein, at -- at the time the 2018/'19 target was
20 developed, the -- the evidence in the proceeding is
21 that there was no detailed budget due to the VDP.

22 Was that detail later developed by
23 Centra?

24 MS. SANDY BAUERLEIN: No, it was not.
25 We managed our actuals. We watched our actual

1 results. Things were constantly changing throughout
2 '18/'19 and it's a large work effort to build detailed
3 budgets for -- for the hundreds of departments that
4 are within Manitoba Hydro.

5 So, instead, we chose to not have a
6 detailed budgeting exercise for the 2018/'19 year.
7 And we managed and monitored our actual results to see
8 that they were in line with what we expected.

9 MS. DAYNA STEINFELD: Ms. Villegas, if
10 we could please put Appendix 3.6 back on the screen
11 for reference. Again on that expense line, what we
12 see in the operator and administrative expense is that
13 O&A has decreased from 63 million in '18/'19 to 61
14 million in 1920, correct?

15 MS. SANDY BAUERLEIN: That is correct.

16 MS. DAYNA STEINFELD: And is the
17 reason -- or the primary reason for that decrease
18 Centra's proposal to capitalize what I'm going to
19 refer to as meter sets costs, which are the sampling
20 testing exchange costs?

21 MS. SANDY BAUERLEIN: That is correct.
22 In '18/'19, those costs were expensed as a period
23 cost. And in '19/'20 and on a go-forward basis, we
24 are proposing to capitalize those costs consistent
25 with our electric operations.

1 So, again, it's one (1) of the primary
2 drivers for the decrease, but there are other types of
3 puts and takes within there. But the primary reason
4 for it is the -- those costs no longer being expensed
5 as a period cost.

6 MS. DAYNA STEINFELD: So, in -- in
7 other words, the reduction that we see between '18/'19
8 and '19/'20 is not as a result of cost containment
9 efforts by Centra necessarily, but a change in
10 accounting policy?

11 MS. SANDY BAUERLEIN: The cost
12 containment is reflected in both the '18/'19 and
13 '19/'20. So, again, majority of the -- actually,
14 almost all of the staff, majority of the staff, left
15 by January of -- and I get my years mixed up
16 sometimes, January of 2018.

17 So, again, that would have influenced a
18 lot of the '18/'19 fiscal year, as well. So, those
19 cost containment efforts are already reflected in the
20 sixty-three (63) and in the sixty-one (61).

21 MS. DAYNA STEINFELD: But the decrease
22 between the two (2) years is not because of any
23 additional cost containment efforts but rather the --
24 the change in the accounting -- or the proposed change
25 in the accounting policy?

1 MS. SANDY BAUERLEIN: It's not a
2 result of a significant -- you know, the VDP was a
3 huge undertaking for the Corporation. But I do want
4 to emphasize that the Corporation always manages its
5 costs.

6 We've limited the escalation factor
7 here to 2 percent. If -- on an IR PUB 29 you'll see,
8 again, Hydro has many unions.

9 So, if can call that up. I just want
10 to talk a little bit what some of the cost pressures
11 are that we're facing, and then why the 2 percent was
12 deemed an appropriate escalation factor given where
13 we've already come from.

14 MS. DAYNA STEINFELD: And maybe, Ms.
15 Bauerlein, just to -- given the limited time Board
16 counsel has, I will give you the opportunity to walk
17 us through all the information about the 2 percent
18 escalation.

19 And if we for -- if I forget to call up
20 this IR, you'll remind me, or your counsel will remind
21 me. But for now, I -- I'd like to move on with the
22 area I'm on. Thank you.

23 If, Ms. Villegas, we could put up
24 Exhibit PUB 25, Board counsel book of documents, page
25 38. And again, we'll come back to this.

1 At this point, Ms. Bauerlein, I'd just
2 like to confirm that in the update that you filed on
3 July 24th of this year with the detailed O&A budget,
4 the total O&A expense has remained 61.25 million.

5 MS. SANDY BAUERLEIN: Correct. There
6 was no change to the target even though the target was
7 verified -- revalidated. However, the individual
8 detail components were revised as you see in this IR
9 response reflecting, you know, the current business
10 requirements.

11 MS. DAYNA STEINFELD: And if we could
12 please go to page 4 of the same exhibit and just
13 scroll down a little bit. Thank you.

14 Over time, Ms. Bauerlein, there have
15 been changes in the amount of Centra's O&A expense
16 year over year and maybe if we can scroll down so we
17 can see the totals. Right there is perfect. Thank
18 you.

19 So if we look at the bottom row of
20 this, we see in each year beginning in 2013/'14, O&A
21 expense has differed. Do you agree with that?

22 MS. SANDY BAUERLEIN: Correct. You're
23 seeing the increase as a result of cost containment
24 effort -- primarily as a result of cost containment
25 efforts and the voluntary departure program.

1 So you can see we started with actual
2 results of 68.8 million, and we are now down to
3 about -- in '19/'20 expecting \$61 million of operating
4 costs.

5 MS. DAYNA STEINFELD: And maybe if we
6 could stick with 2015/'16, which is the 66.607 number
7 at the bottom mainly because the difference between
8 CGAP and IFRS confuses me. So let's stick with
9 '15/'16 forward.

10 And what we see is 66.6 in that year,
11 65.3 in '16/'17, 63.1 in '17/'18, and then the numbers
12 we've already discussed for 2018/2019. Are you with
13 me there?

14 MS. SANDY BAUERLEIN: Yes.

15 MS. DAYNA STEINFELD: The column on
16 the far left which gives the 68.8, that was the O&A
17 expense approved by this Board at the last GRA?

18 MS. SANDY BAUERLEIN: Yes.

19 MS. DAYNA STEINFELD: And you'll agree
20 with me that based on the information here, actual O&A
21 expenses have been less than that in every year.

22 MS. SANDY BAUERLEIN: That is correct.

23 MS. DAYNA STEINFELD: Does that mean
24 that ratepayers have been paying too much for O&A
25 since the last GRA in 2013/'14?

1 MS. SANDY BAUERLEIN: I wouldn't
2 characterize it as paying too much O&A. You have to
3 look at the overall again revenue requirements. So
4 it's broader than just O&A.

5 So with the rate rollback impacts, I
6 believe we've been recovering our costs with a
7 reasonable level of net income on a weather normalized
8 basis. So again, it's -- you can't look at O&A in
9 isolation. You have to look at the entire financial
10 picture.

11 MS. DAYNA STEINFELD: And if we were
12 to look at that entire financial picture,
13 Ms. Bauerlein, we would see that Centra was earning
14 net income in excess of the amount that the Board has
15 approved.

16 MS. SANDY BAUERLEIN: On a weather
17 normalized basis or just overall?

18 MS. DAYNA STEINFELD: Let's take
19 weather normalized.

20

21 (BRIEF PAUSE)

22

23 MS. DAYNA STEINFELD: You can take
24 that subject to check if you'd like.

25 MS. SANDY BAUERLEIN: Yeah. I'd like

1 to go subject to check. I'm trying to just remember
2 off the top of my head what IR I want to refer to.

3 MS. DAYNA STEINFELD: Sure. We can
4 come back to that.

5 Taking that subject to check though, if
6 net income has been higher than approved, is one
7 reason for that potentially that O&A expense has been
8 lower than the amount approved at the last GRA?

9 MS. SANDY BAUERLEIN: That is correct.
10 Yes. O&A has been lower.

11 MS. DAYNA STEINFELD: And you've --
12 I've think already told this Board that one of the
13 reasons --

14 MS. SANDY BAUERLEIN: I -- some things
15 are just popping up in my head as we're going here. I
16 think -- yes. I do agree that we have earned more
17 over the last few years as a result of lower O&A
18 costs.

19 But if you go back in time, we had the
20 opposite. So over -- looking at the long term, we
21 feel that we are still overall within sort of the
22 acceptable limits of the PUB in terms of looking at it
23 from, for example, the deemed 30 percent equity ratio.

24 So looking at things just in isolation,
25 like one year at a time versus -- I believe our

1 application talks about looking at it over the longer
2 term. 'Cause every year, you're going to have
3 fluctuations. Right? I mean, you can never be
4 exactly bang on to \$3 million.

5 And so it is one of the topics that we
6 do address in our application.

7 MS. DAYNA STEINFELD: And when you say
8 that you have to look at it in a broader picture and
9 there have been times when Centra hasn't been over
10 earning, are you referring to a period before the last
11 GRA?

12 MS. SANDY BAUERLEIN: Correct.

13 MS. DAYNA STEINFELD: Okay. And one
14 of the reasons you've already pointed to for the
15 reason that Centra has achieved reductions in O&A is
16 that you have engaged in some cost containment
17 measures such as the VDP. Correct?

18 MS. SANDY BAUERLEIN: Correct. It was
19 a very conscious decision of our executive and Board
20 to accelerate those cost reductions.

21 MS. DAYNA STEINFELD: So the declining
22 O&A that we see on the screen in front of us would
23 primarily be as a result of management reductions and
24 the voluntary departures that have been undertaken.

25 MS. SANDY BAUERLEIN: Correct.

1 MS. DAYNA STEINFELD: And if we look
2 at page 14 of the same PUB25, we see here,
3 Ms. Bauerlein, that the total number of employees who
4 left the corporation as a whole was 821. Is that
5 correct?

6 MS. SANDY BAUERLEIN: That is correct.
7 That is the number of employees that left under the
8 voluntary departure program. There was other
9 employees who left management restructuring that went
10 on on top of the voluntary departure program.

11 MS. DAYNA STEINFELD: And is it
12 Centra's position that the number of employees who
13 left Centra specifically cannot be identified because
14 there are no Centra employees per se?

15 MS. SANDY BAUERLEIN: That is correct.
16 For example, if I think of my own area -- so I had
17 staff who I'm under the finance and strategy group.
18 So we had 33 people leave.

19 While many of those functions benefits
20 both our electric and gas -- so again you can't say
21 well, how much exactly went to the gas side of the
22 business versus the electric? We know we had these
23 people leave. We know that they work on both electric
24 and gas -- or support both the electric and gas lines
25 of business.

1 MS. DAYNA STEINFELD: Aside from your
2 area though, Ms. Bauerlein, would you agree that there
3 would be some employees whose time cards would show
4 that a hundred percent of their time is spent on
5 activities related to Centra's operations?

6 MS. SANDY BAUERLEIN: If you went
7 through the process of pulling individual time cards
8 of employees -- so given -- you know, you have
9 821 people that left. You would had to have gone
10 through the time -- to see if any of them do time
11 card -- do the time card a hundred percent of their
12 time -- so it would be a very extraordinary effort to
13 try and identify that -- if that was even the case or
14 then trying to calculate what percentage of time.

15 And also that can fluctuate from year
16 to year. So, you know, you may have some folks that
17 are working on a regulatory -- a gas -- I'll use
18 regulatory affairs as an example.

19 Regulatory affairs has a gas hearing.
20 So in one particular year, they're spending a lot of
21 time on the gas side of the business versus the -- in
22 a previous year, you had an electric rate application.
23 So now they're spending more time on the electric.

24 So would you pull the time card just
25 for the prior year? Would you pull the time card and

1 look at averages for the last five years? So we
2 weren't able to do that.

3 MS. DAYNA STEINFELD: And maybe,
4 Mr. Starodub, bringing you off the bench for a
5 softball -- is a hundred percent of your time spent on
6 Centra's activities?

7 MR. TIM STARODUB: Technically, no.

8 MS. DAYNA STEINFELD: Okay. What's
9 the technicality of that?

10 MR. TIM STARODUB: Well, Manitoba
11 Hydro also owns another subsidiary called the Minell
12 Pipeline, which is Nationally (sic) Energy Board
13 regulated. So a portion of my time is associated with
14 that organization.

15 MS. DAYNA STEINFELD: Would there be,
16 in your experience, employees based on their skills
17 and experience and expertise who do spend a hundred
18 percent of their time working on Centra activities,
19 such as gas distribution maintenance employees? Would
20 that be ...

21 MR. TIM STARODUB: I would say that
22 there are certainly some that will be a hundred
23 percent to gas. But there is certainly, as Sandy
24 mentions, that there are certainly lots of people who
25 have different portions of their time.

1 MS. DAYNA STEINFELD: And,
2 Ms. Bauerlein, I think what you were just telling me
3 is that it would maybe in theory be possible to
4 identify the employees who left through the VDP based
5 on their time cards were a hundred percent Centra, but
6 it would a fairly onerous task if it was even
7 possible.

8 MS. SANDY BAUERLEIN: It wouldn't be
9 practical. It wouldn't be worth the work effort,
10 given again that we've had 800 leave.

11 We're trying to re-manage the work.
12 That would not be viewed as a very value-added task to
13 undertake to try and go through 821 people and try and
14 figure out how much of their time was -- should be
15 apportioned to gas.

16 MS. DAYNA STEINFELD: And an added
17 complication of that, I'm guessing, would be
18 employees, like yourself, who may in certain months --
19 perhaps this one -- spending most of your time, if not
20 all, on Centra, but at other points in time, their
21 time is divided.

22 MS. SANDY BAUERLEIN: Yes. And even
23 when I'm preparing financial statements, I'm preparing
24 financial statements of the consolidated entity, the
25 electric, and the gas all at the same time. So how

1 would I apportion that?

2 So there would be so many complexities
3 if you took it down to that level of detail at that
4 employee level.

5 MS. DAYNA STEINFELD: And really
6 practically speaking, Centra and Hydro have a way to
7 avoid some of the complexities of that issue about how
8 do we allocate things, and that's the ICAM and the
9 allocators that have been developed to allocate those
10 different costs. Is that correct?

11 MS. SANDY BAUERLEIN: That is correct.
12 We recognize we are an integrated -- full integrated
13 utility. And so we had to develop processes and
14 systems to be able to allocate costs to our gas line
15 of business for our -- to, you know, the benefit of
16 our gas customers.

17 MS. DAYNA STEINFELD: And in addition
18 to costs, we also have in this proceeding the issue of
19 allocating savings, and that would be the savings of
20 the VDP. Correct?

21 MS. SANDY BAUERLEIN: That is correct.

22 MS. DAYNA STEINFELD: If we look at
23 Board Counsel book of documents page 6 and scroll down
24 right there, is this showing us that total O&A as
25 between electric and gas -- total O&A expense has been

1 allocated to Centra at 11 percent since 2015/'16.

2 MS. SANDY BAUERLEIN: That is correct.

3 MS. DAYNA STEINFELD: In CGM18 and as
4 further validated in your supplemental update, Centra
5 has allocated 4 percent of the savings from the VDP to
6 Centra. Correct?

7 MS. SANDY BAUERLEIN: Correct. When
8 we were trying to set the targets and trying to
9 understand what the target should be, we had to
10 determine, like, how much of the savings is
11 attributable -- would benefit the gas operations
12 versus the electric operations.

13 And so we chose a cost driver because
14 as you explained to actually try and go through the
15 savings associated with 821 people's salary -- but
16 there's other savings. There's efficiency savings --
17 right -- as a result of -- now you're -- you've
18 reorganized your groups. You're doing things
19 differently.

20 So we have a number of cost drivers
21 that we use to allocate costs where it's not -- you
22 know, there's not sort of a clear direct causation.
23 Like when time carding when I'm, you know, doing some
24 maintenance work, I can directly -- on some pipe, I
25 can directly time card to that.

1 So we chose the -- we call it the asset
2 driver which says 96 percent of the costs will go to
3 the electric -- or 96 percent will go to the electric
4 operations and 4 percent would go to the gas
5 operations.

6 And so we believe that that was an
7 appropriate allocation given, you know, some of the
8 information we knew at the time. What we didn't know
9 at the time, we felt it was a reasonable cost driver.

10 And if I now, like, consider actual
11 results, I'm seeing that that's appropriate. The
12 4 percent is materializing in actual results. So that
13 tells me that that was an appropriate level of savings
14 to allocate to the gas line of business.

15 So it was viewed as a reasonable driver
16 of how much savings should be allocated, recognizing
17 those savings really go on into perpetuity.

18 MS. DAYNA STEINFELD: And when you --

19 MS. SANDY BAUERLEIN: Once you don't
20 have that in person or you do something different, you
21 benefit from that every single year in the future.

22 MS. DAYNA STEINFELD: And when you say
23 that you've determined now that the 4 percent is
24 reasonable because of actual results, that are actual
25 results that are not available in this proceeding.

1 MS. SANDY BAUERLEIN: Correct.

2 MS. DAYNA STEINFELD: And the --

3 MS. SANDY BAUERLEIN: And to let you
4 know that it's showing it's reasonable. It's --
5 again, drivers are never meant to be exact or perfect.
6 It's a reasonable allocation of the savings.

7 MS. DAYNA STEINFELD: And to the
8 extent that you can explain this on the record, how or
9 what you're seeing the actual results -- how is that
10 demonstrating the reasonableness of the 4 percent?

11 MS. SANDY BAUERLEIN: Because we're
12 managing with that target. So again, we set a target,
13 and that target says, okay, assume you're going to
14 have 4 percent of savings.

15 But actuals are based on, you know,
16 people doing work and charging their time, and that's
17 materializing. So -- and we're seeing that we've got
18 those 4 percent of savings that are coming through.

19 MS. DAYNA STEINFELD: And the
20 4 percent when you selected it at the time, as you
21 said, was based on an allocator that gives 4 percent
22 to Centra and 95 percent to Hydro and that's based on
23 the total -- the split of the total assets of the
24 corporation?

25 MS. SANDY BAUERLEIN: That's correct.

1 It was -- it's viewed as a very stable cost driver. I
2 know CAC is recommending another cost driver where
3 we're using activity charges labour as the cost driver
4 in setting -- what we would have set is the target.

5 But again, that can have fluctuation
6 from different years. And so we felt this was -- it
7 was well established. There was limited volatility on
8 it over the years. It was reasonable given the size
9 of the utility and really the unknowns of the VDP at
10 the time when we were trying to set our targets.

11 MS. VICE-CHAIR KAPITANY:

12 Ms. Steinfeld, could I just ask one (1) clarification?

13 Ms. Bauerlein, I think I heard you say
14 before that it wasn't practical to go back to time
15 cards or to look at specifically how much time was
16 spent by different employees working for Centra versus
17 working for the corporation as a whole.

18 So I'm not quite clear on how you came
19 to the 4 percent as being reasonable then.

20 MS. SANDY BAUERLEIN: We felt -- again
21 not knowing, you know, exactly sometimes where the
22 benefits would be, what employees would leave, what
23 areas they would work in, we looked at the total
24 assets as being: Is that a reasonable allocation of
25 how the savings -- based on their reflective sizes of

1 each of the utilities, based on their assets, we felt
2 that the savings should be apportioned for target
3 setting purposes -- 96 percent to electric and
4 4 percent to gas.

5 Again, it was viewed as you have to
6 come up with some mechanism to allocate the savings --
7 how actual results will play out, how efficiencies
8 will be gained, where people left, what savings would
9 we have -- we said it's -- you can't do it on a micro
10 level.

11 So on a very macro level, we said let's
12 base it on the size of each of the utility. So we did
13 a 96/4 split of the savings.

14 And again at the electric hearing this
15 past spring, the target that we had set for '19/'20
16 included 96 percent of the savings and gas was
17 4 percent. So if we were to change the gas, you would
18 have to also change the electric 'cause you need to
19 total to a hundred percent. Does that help?

20 MS. VICE-CHAIR KAPITANY: Some.

21 MS. SANDY BAUERLEIN: Some?

22

23 CONTINUED BY MS. DAYNA STEINFELD:

24 MS. DAYNA STEINFELD: And maybe,
25 Ms. Bauerlein, if I can pick up on that last point,

1 the electric revenue requirement is significantly
2 larger than the Centra revenue requirement. Would you
3 go so far as to say that?

4 MS. SANDY BAUERLEIN: Yes.

5 MS. DAYNA STEINFELD: And I believe
6 what we're talking about when we're talking about the
7 savings allocated to Centra, right now it's
8 \$2.7 million. Correct?

9 MS. SANDY BAUERLEIN: Yes.
10 Approximately.

11 MS. DAYNA STEINFELD: And I might be
12 getting this wrong, but the Manitoba Hydro electric
13 revenue requirement is in the area of \$2 billion,
14 subject to check?

15 MS. SANDY BAUERLEIN: Roughly, yes.
16 Subject to check, yes.

17 MS. DAYNA STEINFELD: And if we take
18 Centra Gas's non-gas revenue requirement, it's
19 \$150 million approximately?

20 MS. SANDY BAUERLEIN: That is correct.

21 MS. DAYNA STEINFELD: And so would you
22 say that \$2.7 million is material to Centra but
23 immaterial to Hydro?

24 MS. SANDY BAUERLEIN: Relatively
25 speaking it would be, yes, given their revenue

1 requirement is that much lower, their O&A costs are
2 that much lower. So 2.7 is much more material to them
3 than it would be on our electric operations.

4 MS. DAYNA STEINFELD: And you take
5 this subject to check, but I'll tell you, Mr. Ryall
6 did this math for me that if we increase Manitoba
7 Hydro's revenue requirement by 2.7 million, it would
8 equate a 0.16 increase to Manitoba Hydro electric's
9 revenue requirement. Will you take that subject to
10 check?

11 MS. SANDY BAUERLEIN: I'll take that
12 subject to check.

13 MS. DAYNA STEINFELD: And you
14 mentioned earlier that there are other allocators
15 other than the 4 percent that you've used, and you
16 gave the example of the activity allocator that uses
17 8 percent to Centra. Correct?

18 MS. SANDY BAUERLEIN: Yes. So there
19 are certain functions that are allocated using the
20 8 percent. We chose to take the VDP savings and
21 allocate them 4 percent.

22 Again, this is for -- I want to make it
23 very clear this is for target setting purposes. When
24 you have actuals, you don't allocate your savings.
25 They are -- your actuals are what your actuals are.

1 But to set the target, we deemed the
2 4 percent to be -- to be a reasonable allocation of
3 the savings as a result of the VDP.

4 MS. DAYNA STEINFELD: Not just to set
5 the target though, Ms. Bauerlein. It's also what you
6 used to set the revenue requirement that you're asking
7 this Board to approve.

8 MS. SANDY BAUERLEIN: That is correct
9 'cause the revenue requirement is based on that --
10 that target, that approved budget.

11 MS. DAYNA STEINFELD: And,
12 Ms. Villegas, if we could please turn to page 19 of
13 Board Counsel's book of documents and just stop there.

14 And in the middle of response C, it
15 reads:

16 "Activity charges represent close to
17 70 percent of the overall
18 allocations to Centra."

19 Do you see that there?

20 MS. SANDY BAUERLEIN: Yes, I do.

21 MS. DAYNA STEINFELD: And if we turn
22 to page 12 of the same document and stop there, when
23 we're looking at labour and benefits specifically, we
24 see that approximately 85 percent of those costs are
25 allocated based on direct activity charges.

1 MS. SANDY BAUERLEIN: That is correct.
2 But I think -- you have to understand that would
3 assume that the people who took the VDP were the
4 people that are in the 85 percent and less in the 15,
5 and how many in the 85 were actually working on Centra
6 work?

7 So because all of that was unknown, we
8 decided not to use the 8 percent, which is based on
9 the labour that's time carded. So there was a lot of
10 thinking and -- and discussion as to what would be an
11 appropriate allocator for the savings.

12 And given that yes, 85 percent of
13 labour and benefits get to Centra through time
14 carding, but who's taking the VDP are those same
15 people, or is it different people? Where do these
16 people come from? What do they work on?

17 So because those questions were still
18 being addressed, we had -- we decided not to use the
19 8 percent, which is being recommended by CAC. We
20 chose to use the 4 percent.

21 MS. DAYNA STEINFELD: I think I need
22 some help understanding that answer, Ms. Bauerlein.

23 If we don't look at it in terms of
24 which employees are taking the VDP and which aren't,
25 if we look at it in terms of there is a set amount of

1 savings -- I believe it's in the order of 92.6 million
2 resulting from the VDP -- once you know that, why not
3 allocate the savings to Centra based on the allocator
4 that is the vast majority of the O&A costs allocated
5 to Centra?

6 That was a little convoluted. Let me
7 know if I can say it again.

8 MS. SANDY BAUERLEIN: I think I'm
9 understanding. So I'm trying to remember the IR where
10 we show the \$92.6 million of savings.

11 MS. DAYNA STEINFELD: It should be on
12 page 14 of this book of documents.

13

14 (BRIEF PAUSE)

15

16 MS. SANDY BAUERLEIN: So the
17 92.6 million is made up of 821 -- that's the
18 savings -- the total estimate savings is made up of
19 employees across the organization.

20 This is, like, after the fact. So we
21 know this now. We know that there's 821, and these
22 are the areas they came from.

23 If you were to -- yes, Centra gets
24 85 percent of its costs through time carding. But of
25 these 821 people, how many of them left that were

1 actually part of that 85 percent who time card?

2 So you're trying to -- so we're saying
3 we don't know that. We don't understand that fully.
4 So we're going to base it based on the size of the
5 utility for rate setting purposes.

6 MS. DAYNA STEINFELD: But when we look
7 at the savings that resulted from the VDP, we're not
8 talking about there being fewer buildings necessarily,
9 or fewer assets. We're talking about there being
10 fewer people and a reduced amount of activity.

11 MS. SANDY BAUERLEIN: Fewer people,
12 right, and fewer activity, I -- I guess, is the way
13 you could describe it, right? Your hours might be
14 different because your processes are different, so how
15 much you maybe timecard now might change, because you
16 do the work differently. So again, at the beginning
17 of the year, we set the -- or that -- at the time when
18 we set that, we felt that the 4 percent was a
19 reasonable allocator. And again, that's for target
20 setting purposes, so.

21

22 (BRIEF PAUSE)

23

24 MS. SANDY BAUERLEIN: So Mr. Steele
25 just sort of clarified for me, I -- I -- because I'm

1 not probably making myself very clear. So we chose
2 the 4 percent, so that was set on a target based on
3 what we knew was leaving. As I said earlier, our
4 actual results are coming in at that.

5 If we actually lower that amount, so if
6 we say, We're not going to have -- we're going to --
7 we expect now to see 8 percent of savings, well, where
8 are we getting those savings from? We've already
9 reduced the people. They're working on the services
10 and programs that need to -- to happen right now. So
11 to actually achieve that as a real cut is -- you're
12 cutting your target. You're not cutting your actuals.

13 So for us to actually reduce that
14 savings allocation from 4 percent to 8 percent, you
15 would need to actually reduce the amount of hours that
16 get time carded and work that's done on Centra's
17 programs. So if you reduce that, then you are
18 actually impacting the services that customers of
19 Centra have, because your actual results need to
20 reflect your target.

21 So we try and say we have a target or a
22 budget we work towards, and that target incorporated 4
23 percent worth of savings. For us to get lower than
24 that means we actually have to reduce the services
25 that we provide to Centra.

1 So I know that's -- it's sort of one
2 (1) of the points I -- I probably haven't been making
3 very clear, and it's going to be the same point I'm
4 going to try and make on the -- the 1 percent
5 reduction in the inflation costs.

6 You can nickel and dime -- you can say,
7 well, the allocator should have been 8 percent. You
8 should have allocated more savings. You should have
9 more -- a lower escalation factor. You should remove
10 the contingency.

11 But if you do all those things, and you
12 set a target, as Mr. Meronek has said, of \$56 million,
13 then Centra needs to work towards \$56 million, and
14 that \$56 million means less services to the customers.
15 And as you saw in -- in Ms. Steinfeld's response,
16 those -- those functions are customer service
17 functions, maintenance functions, and the
18 organizational support, things like IT, finance.

19 So where do we actually put those cuts?
20 Do we -- do -- reduce what services? Do we reduce our
21 billing function? Do we reduce our maintenance
22 function? Because at the end of the day, we can talk
23 about changing these allocators, and whether or not
24 they were reasonable, but at the end of the day, it's
25 got to be reflected in what you actually want to

1 achieve. That's what a budget or a target is. It
2 says, this is what I want to achieve, and I want
3 management to work towards that.

4 So I think that's a point I am -- you
5 know, we can talk on and on about whether or not this
6 should be 8 percent or 4 percent, but if you lower it,
7 you lower your reven -- your -- your target, and as a
8 result of that, then you have the need for Centra to
9 find out where do we find those cuts? How do we
10 manage to that target?

11 MS. DAYNA STEINFELD: Ms. Bauerlein,
12 the 92.6 million, that is an amount of savings that
13 has been achieved corporation-wide, correct?

14 MS. SANDY BAUERLEIN: Yes, it's the
15 anticipated savings, expected saving as a result of
16 these individuals leaving. So it reflects what their
17 salary was at the time they left. So you actually
18 have -- would have theoretically additional savings,
19 because had those employees stayed with Manitoba
20 Hydro, they would have got general wage increases as a
21 result of, you know, our collective bargaining. So
22 this is the savings based on what their salaries were
23 at the point in time that they left.

24 MS. DAYNA STEINFELD: And then when we
25 talk about 4 percent versus 8 percent, or perhaps even

1 arguably 11 percent, the -- the split of the total
2 O&A, what we're talking about is shifting the
3 proportion as between Centra and Manitoba Hydro. Is -
4 - is that correct?

5 MS. SANDY BAUERLEIN: You would
6 shifted between the gas and electric, yes.

7 MS. DAYNA STEINFELD: Yes, sorry.
8 I'll --

9 MS. SANDY BAUERLEIN: Yes.

10 MS. DAYNA STEINFELD: -- have to be
11 careful to use those terms. So you're -- you're --

12 MS. SANDY BAUERLEIN: But we changed
13 the allocator here, then we're saying the O&A cost for
14 Centra would need to be lower, and as a result of
15 that, your electric O&A would need to be higher,
16 because you're just going to shift between the two
17 (2).

18

19 (BRIEF PAUSE)

20

21 MS. DAYNA STEINFELD: And, Ms.
22 Bauerlein, you -- you mentioned a few moments ago that
23 there's also an issue in this proceeding of the
24 escalation level that has been used in building the
25 budget for '19/'20, and that there is an assumption of

1 a 2 percent escalation level in the test year. Is
2 that correct?

3 MS. SANDY BAUERLEIN: That is correct.
4 If you take the '18/'19 target of 63 -- I think .3
5 million, and you back out the meter exchange costs
6 that we're now saying we want to capitalize, we have
7 an escalation of about 1.7 percent, which would round
8 to -- to 2 percent escalation. So that's what we've
9 built, and when we've set the target, and we felt that
10 was a reasonable escalation factor, given the wage
11 increases that we have.

12 Again, we have many unions and
13 collective agreements. We also have Manitoba CPI
14 itself is at around 2 percent. We -- on top of our
15 collective agreements that have been negotiated, we
16 also have in our collective agreements besides general
17 wage increases, within those agreements, we also have
18 merit and progression provisions. So that equates to
19 annually about an additional -- another 1 percent.

20 So if I actually look at -- I just want
21 to...

22

23 (BRIEF PAUSE)

24

25 MS. SANDY BAUERLEIN: Can we just call

1 up PUB Centra 1-29? I think this is 29, isn't it?

2 And if we scroll down.

3

4 (BRIEF PAUSE)

5

6 MS. SANDY BAUERLEIN: Yes. Here's
7 what I want. So this is the contracted wage
8 settlement. So the settlements that will impact this
9 current fiscal year we're in. You can see that
10 Unifor, again, is one (1) of the larger unions within
11 sort of the -- the groups that would typically
12 timecard to gas. So on January 1st of 2019, they got
13 1 and 1/4 percent. On January 1st of 2020, they'll
14 get an additional 1 1/2 percent. And then as I said,
15 you'll have merit and progression of an additional 1
16 percent.

17 We're seeing significantly higher fuel
18 costs. You know, fuel -- fuel costs keep fluctuating,
19 right, we -- as a result of, you know, for example,
20 the carbon tax. So we have to pay the carbon tax on
21 the fuel for our motor vehicles that we have. We've
22 got inflationary costs on all our materials, et
23 cetera. So to us, actually managing to a 2 percent
24 escalation factor is, in fact, controlling our costs,
25 because our -- our -- the things that impact Centra

1 beyond 2 percent. So our executive and our board felt
2 that the 2 percent was a reasonable escalation, given
3 where we've come from, and that we've significantly
4 reduced our workforce. We've put -- we've advanced
5 our cost-savings significantly, as noted by the
6 continual decrease in our O&A costs, and we have cost
7 pressures. We have cost pressures today, and so a 2
8 percent was viewed as a -- a reasonable assumption to
9 make for target setting purposes, given it recognizes
10 that management still has to find productivity
11 improvements, because the costs that they're being
12 faced with will exceed 2 percent.

13 MS. DAYNA STEINFELD: Ms. Bauerlein,
14 you explained to the panel earlier that Centra does
15 not have employees of its own, but rather employees
16 who work at a consolidated level, whose costs, or
17 their wages, are allocated to Centra through the ICAM,
18 correct?

19 MS. SANDY BAUERLEIN: That is correct.

20 MS. DAYNA STEINFELD: And you're
21 familiar that in the electric GRA, this Board rejected
22 the use for rate-setting purposes of a 2 percent
23 escalation level for the electric O&A?

24 MS. SANDY BAUERLEIN: Yes, they did.

25 MS. DAYNA STEINFELD: And with the use

1 of a 1 percent escalation level for the electric side
2 of the operations, wouldn't that 1 percent flow
3 through to Centra, given that Centra does not have any
4 employees of its own?

5 MS. SANDY BAUERLEIN: Again, that was
6 a decision of the PUB for rate-setting purposes.
7 There was some discussions following the Board Order
8 where it was made clear -- we had discussions with our
9 own Board of Directors who, for managing the
10 operations of the Corporation, have agreed to continue
11 to use a 2 percent escalation.

12 They were not prepared to reduce our
13 workforce any further to meet that 1 percent. And so
14 as a result, we have a disconnect between the PUB for
15 rate-setting purposes and how we're managing the
16 company. And so once again, we're trying to put
17 forward our case that we need to manage the company,
18 and we want rate setting and financial reporting to be
19 aligned, and so that our rates that we charge our
20 customers for -- for our electricity and natural gas
21 recover the costs that we will incur.

22 To reduce down to a lower escalation
23 means that we have to reduce the services, we have to
24 reduce the people. That's what it boils down to on an
25 actuals basis. So you can say for rate-setting

1 purposes it's at 1 percent, but our actual costs are
2 being managed at 2 percent, given we recognize we
3 cannot reduce -- we are not prepared at this point in
4 time to reduce our workforce any further.

5 MS. DAYNA STEINFELD: And Ms.
6 Bauerlein, CGM-15 used a 1 percent escalation level,
7 correct?

8 MS. SANDY BAUERLEIN: That is correct.
9 So prior to the Corporation's decision to embark on a
10 voluntary departure program, we had a forecast and a -
11 - a cost-saving approach where we were going to ask
12 for 1 percent inflationary increases up to 2021 -- I
13 just want to just double check.

14 MS. DAYNA STEINFELD: I believe
15 '22/'23.

16

17 (BRIEF PAUSE)

18

19 MS. SANDY BAUERLEIN: So the last year
20 of 1 percent was '21/'22, and in '22/'23, we would go
21 back to 2 percent. How the Corporation at that time
22 planned to meet the 1 percent was by reducing its
23 workforce through attrition, through natural
24 retirement. And so it felt that over time, over that
25 period from, like, 2015/'16 to '21/'22, it would

1 reduce its workforce by about that nine hundred (900),
2 just because that was based on what we were seeing in
3 terms of people actually retiring on an annual basis.

4 In late 2016, the Corporation made a
5 decision that it didn't want to wait that long to see
6 those types of reductions, so it embarked on what --
7 it was deemed an accelerated cost reduction program.
8 So instead of having it take to '21/'22 to have those
9 nine hundred (900) folks leave, it would now be done
10 over basically a year and half, two (2) year period.

11 And so if you look at...

12

13 (BRIEF PAUSE)

14

15 MS. SANDY BAUERLEIN: If you look at
16 CAC Centra 2-133, and you go to (g) --

17 MS. DAYNA STEINFELD: Sorry, Ms.
18 Bauerlein. Ms. Villegas has just left the room
19 momentarily, so we can't put it on the screen. Do you
20 have that in your Board book of documents? Do you
21 know which number...

22 MS. SANDY BAUERLEIN: Page 27.

23

24 (BRIEF PAUSE)

25

1 MS. SANDY BAUERLEIN: Yeah. So page -
2 - actually, if you go to page 28 of Centra's book of
3 documents.

4

5 (BRIEF PAUSE)

6

7 MS. SANDY BAUERLEIN: So what we've
8 done here is we've tried to compare -- show the
9 comparison between the two (2) plans. So the CGM-15
10 plan again had a 1 percent escalation built in, and
11 then 2 percent starting in '22/'23 to try and get
12 those nine hundred (900) people over a much longer
13 timeframe.

14 You can see, then, our actual results
15 are lower. We start to see the reductions in '17/'18
16 significantly, and then they continue to grow, because
17 as a result of the VDP, we took those savings and we
18 said we're going to accelerate them.

19 So over the long term, had we stayed
20 with the 1 percent plan up to '21/22, you would have
21 incurred total O&A costs over the ten (10) years of
22 739 million. You can see that in that -- that box.

23 Based on the current plan, you would
24 see O&A savings of six hundred and -- or O&A costs of
25 651 million. So close to \$90 million difference as a

1 result of the Corporation's decision to accelerate
2 those -- those cost savings. And those cost savings
3 then are impacting both the Electric to the benefit of
4 both Electric ratepayers and Gas ratepayers. So there
5 was always this view that following the reductions,
6 following seeing those nine hundred (900) leave, we
7 would go back to really managing within inflation.

8 So again, Manitoba CPI right now is 2
9 percent. We recognize we have wage pressures, and a
10 lot of the material and services that we procure are
11 actually higher than Manitoba CPI, because Manitoba
12 CPI is based on, you know, things like bread and milk,
13 et cetera, so a lot of our commodity costs are higher
14 than that but we're still committed to 2 percent
15 escalation, and which is what we've incorporated in
16 the '19/20 year. 1.7 percent is actually what we've
17 incorporated for the Gas operations.

18 MS. DAYNA STEINFELD: If we stick to
19 the test year, Ms. Bauerlein, we were looking at the
20 wage settlement and contract increases earlier -- I
21 think that might be 1-29. But we don't need to go
22 there.

23 Aren't those costs that are known to
24 Centra? They are wage settlements that have been
25 reached with the union?

1 MS. SANDY BAUERLEIN: Yes. So they're
2 going to be incurred. Yes, they're known.

3 MS. DAYNA STEINFELD: So why do they
4 need to be addressed through an escalation factor of 2
5 percent as opposed to in the budget proper?

6 MS. SANDY BAUERLEIN: So when we set
7 our targets, we have to ensure we can achieve, and so
8 if we know we're going to have wage increases, you
9 have to set your target to achieve.

10 So the target is 2 percent, and as I
11 said, wages are actually higher than 2 percent, so
12 we've set a target, we've allowed 2 percent growth,
13 but we recognize the actual wage settlements
14 themselves will be higher than that because we've got
15 the 1.25, the 1.5 for three (3) months, and we've got
16 the 1 percent of merit and progression on top of
17 things like fuel, et cetera. But overall we're just
18 asking for 2 percent inflationary increase over and
19 above what we would have incurred in the '18/19 fiscal
20 year.

21 MS. DAYNA STEINFELD: If Centra
22 achieved productivity improvements, would that offset
23 some of the increase?

24 MS. SANDY BAUERLEIN: The productivity
25 improvements are factored in setting 2 percent. So

1 what we're trying to say is all your cost increases
2 would be around the realm of, say, 4 percent, but
3 we're only allowing 2 percent because we're saying
4 there has to still continue to be, you know, a cost
5 constraint environment. We're just not going to have
6 the level of savings.

7 To have a 1 percent, you actually have
8 to reduce people, and we felt that we've already
9 reduced the people. We took, you know, nine hundred
10 (900) people out of our workforce and we feel that in
11 order to provide the services necessary to safe,
12 reliable electricity and natural gas service that we
13 experience that the level of employees we have today
14 is the right level of employees. And to go back to
15 continue with the 1 percent would require the
16 Corporation to actually further reduce its people.
17 Ultimately that's what happens.

18 In Centra's case we would -- we would
19 reduce the amount of hours that people work on the
20 programs, but in essence if you have less people doing
21 line inspections, then you -- or less hours for people
22 doing line inspections, then you need less people. So
23 leave if you lower your escalation factor further, you
24 can only get so much in productivity savings, and so
25 we would actually have to reduce staff ultimately is

1 what would happen.

2 MS. DAYNA STEINFELD: I'm hoping there
3 might be less people working on the outside of this
4 building soon, but if I move on to another area, if we
5 could bring up page 27 again, please, Ms. Villegas.

6 And just scroll down to "F" on the
7 screen. This IR Response, Ms. Bauerlein, is referring
8 to a contingency in the '18/19 funds and it's telling
9 this Board that those funds were held to assist
10 management in the restructuring process.

11 Do you see that there?

12 MS. SANDY BAUERLEIN: I do.

13 MS. DAYNA STEINFELD: And taking the
14 sub -- sorry, taking this subject to check, for '18/19
15 the contingency was 1.88 million?

16 MS. SANDY BAUERLEIN: Yes, it was
17 approximately 1.9 million.

18 MS. DAYNA STEINFELD: And subject to
19 check, in '19/20 the contingency was for 1.05 million?

20 MS. SANDY BAUERLEIN: The contingency
21 amount was revised with the March 22nd update -- the
22 July --

23 MS. DAYNA STEINFELD: Let's --

24 MS. SANDY BAUERLEIN: -- July 24th
25 update.

1 MS. DAYNA STEINFELD: Let's stick with
2 the original filing. So we'll come to the July 24th
3 update.

4 Prior to that update, the contingency
5 was 1.05 million?

6 MS. SANDY BAUERLEIN: Yes.

7 MS. DAYNA STEINFELD: And that 1.05
8 million was included in the \$61.25 million O&A budget
9 for the test year?

10 MS. SANDY BAUERLEIN: That is correct.
11 When the original application was filed, we had that
12 level of contingency. So again, that was based on a
13 preliminary budget. It wasn't the final budget of the
14 Corporation.

15 MS. DAYNA STEINFELD: And if we could
16 please go to page 20 of Board counsel Book of
17 Documents. And scroll down to "F," please.

18 We see on the screen, Centra saying in
19 its IR Response that for the nine (9) months ended
20 December 31st, 2018, there were no restructuring costs
21 recorded in O&A, and there are no restructuring costs
22 forecast in 2019/20.

23 You see that there?

24 MS. SANDY BAUERLEIN: Yes.

25 MS. DAYNA STEINFELD: And so this is

1 saying that for the first three (3) quarters of the
2 '18/19 fiscal year, there were no restructuring costs
3 incurred, correct?

4 MS. SANDY BAUERLEIN: There were no
5 restructuring costs incurred in O&A in '18/19. They
6 were charged to a different line item on your
7 financial statements.

8 MS. DAYNA STEINFELD: And which line
9 item were they charged to?

10 MS. SANDY BAUERLEIN: They were
11 charged to Other Expenses, the reason being they
12 weren't part of O&A. O&A is viewed as ongoing cost to
13 operate and maintain the Utility. The fact that we
14 decided to implement this voluntary departure program
15 and incur the restructuring costs was viewed as a one-
16 time cost, and so we typically put one-time
17 expenditures in Other Expenses --

18 MS. DAYNA STEINFELD: And so help me--

19 MS. SANDY BAUERLEIN: -- would not
20 show, you know, having your O&A do this, right.

21 MS. DAYNA STEINFELD: So help me
22 understand, Ms. Bauerlein, then if the restructuring
23 costs don't get charged to O&A, why is there a
24 contingency fund for restructuring costs in the O&A
25 budget?

1 MS. SANDY BAUERLEIN: It's
2 terminology. These are restructuring costs in terms
3 of like the -- the payments we had to make to
4 employees for -- for leaving. The contingency that
5 was held in O&A, we call it actually transitional
6 funding. So that was funding to help with initiatives
7 to try and manage the work following the VDP.

8 So, for example, in my area, we use
9 some of that funding to implement a robotics software
10 in our accounts payable function.

11 Again, we recognize we lost employees.
12 The volume of invoices to pay didn't change regardless
13 that we -- we lost the employees, so we looked to a
14 technology solution to -- to try and address that.

15 So that's what that funding in O&A was
16 for. It was for costs that the Corporation might
17 incur in trying to transition itself as a result of
18 the voluntary departure program.

19 MS. DAYNA STEINFELD: And were there
20 transitional funding costs recorded in O&A in 2018/19?

21

22 (BRIEF PAUSE)

23

24 MS. SANDY BAUERLEIN: Yeah. Centra
25 would have had an allocation, for example, for some of

1 these robotics costs, but it wouldn't be showing up in
2 Contingency; it would be showing up in -- in probably
3 Organizational Support, but there would have been an
4 allocation for some of the costs that were incurred.

5 MS. DAYNA STEINFELD: Maybe I'll put
6 it this way. In 2018/19 and so far in '19/20, have
7 there been any transitional funding costs that would
8 show up in the contingency, in O&A?

9 MS. SANDY BAUERLEIN: Not in the
10 contingency. The contingency is a budget line item
11 for a budget or a forecast. Actuals don't appear as
12 contingency. Actuals appear as where they are, in
13 what program they actually are. Contingency is just a
14 placeholder when you're preparing a budget because we
15 don't know exactly where the actuals will wind up, so
16 we create a contingency line item.

17 MS. DAYNA STEINFELD: And what you're
18 telling the Board is that certain of those actuals
19 that would show up in different line items, do relate
20 to transitional funding requirements?

21 MS. SANDY BAUERLEIN: Yes. Very
22 little though on the Centra side.

23 MS. DAYNA STEINFELD: Is Centra able
24 to provide the amount to this Board?

25

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: We can. We just
4 note that there is a work effort in doing that,
5 because it is done through our allocation processes,
6 so it might take a little bit of time to -- to -- to
7 get the exact amounts that were allocated.

8 MS. DAYNA STEINFELD: I'll speak with
9 your counsel at the break and then we'll determine if
10 we want to put an undertaking on the record in -- in
11 that regard.

12 Let's turn to what you wanted to go to
13 earlier, which is the July 24th update. And -- and
14 perhaps if we can put up Book of Documents, page 44.

15 We see starting at line 5, it says --
16 this is I believe Centra's rebuttal evidence, and
17 starting at line 5 it says:

18 "The detailed budget submitted on
19 July 24th reflects current
20 requirements for each program,
21 including internal labour,
22 materials, external contractors, and
23 other cost components. This has
24 resulted in Centra reflecting a
25 negative contingency of

1 approximately six hundred (600) K,
2 which will be managed over the
3 2019/20 fiscal year to meet the
4 approved target."

5 Have I read that correctly, Ms.
6 Bauerlein?

7 MS. SANDY BAUERLEIN: Yes, you have.
8 So you note we've gone from a -- what was a positive
9 contingency in the original application to now a
10 negative contingency when we've redone our detailed
11 budgets. So contingencies are -- we set a target at a
12 very, very high level and then we do that detailed
13 budgeting exercise. And when you do your detail, they
14 never quite come to a target, so you'll always have a
15 difference of pluses or minuses that -- when we have
16 our budget and we have a contingency that says now
17 this gets us to our target number. The expectation
18 though is we need to manage to the target.

19 So, while we don't know exactly where
20 all the different puts and takes will be in which
21 specific programs, line management is expected to
22 manage to within their target, and we monitor our
23 results and report them on a monthly basis to
24 executive, to department and directors within the
25 Corporation to ensure that our actual results are

1 aligned with where our target is.

2 So contingency, and we've had
3 contingencies -- it's a natural part of any budget
4 process for a large organization because there's no
5 way all your details are magically going to equal this
6 number. So you always have a positive or some -- in
7 this particular case now we've got a negative
8 contingency.

9 And so what we're suggesting is that's
10 just - that's part of normal budgeting, and our goal
11 is to manage to that -- to that -- to that target, and
12 as such, you know, if you take the line of questioning
13 that says, well, you should reduce your O&A when you
14 have positive contingencies, should you then increase
15 your O&A when you have negative contingencies, because
16 you're basically saying that your details are higher.

17 And -- and Centra doesn't take that
18 position. Centra says you'll always have
19 contingencies. That's part of your natural budgeting
20 process, but we manage to the target, and in our
21 actual results that's what we're trying to achieve.

22 So we're not asking that there be a
23 reduction in O&A for ratesetting purposes as a result
24 of the contingency, but we're not asking for an
25 increase in O&A. We're saying our O&A target of 61

1 million is appropriate and reasonable and we as a
2 corporation will work to achieving that number for the
3 2019/20 year. And if we reduce that number any
4 further, there has to be an impact to the -- the
5 programs and services that we provide.

6 MS. DAYNA STEINFELD: Ms. Bauerlein,
7 it may take a little longer to answer "yes" or "no" to
8 my question than I anticipated, but is --

9 BOARD MEMBER NEMEC: Sorry, Dayna, I'm
10 trying to push ... Just I wanted to question on a
11 negative contingency. I'm not quite sure I understand
12 what a negative contingency is.

13

14 (BRIEF PAUSE)

15

16 MS. DAYNA STEINFELD: Maybe Ms.
17 Bauerlein, if I can add to Board Member Nemec's
18 question, if you could perhaps explain the concept of
19 negative contingency.

20

21 (BRIEF PAUSE)

22

23 MS. DAYNA STEINFELD: So, Ms.
24 Bauerlein, if I can just add to Board Member Nemec's
25 question, if you could explain the concept of negative

1 contingency and explain to me, is what you're really
2 saying that Centra's forecasted O&A budget has
3 increased above the target?

4 MS. SANDY BAUERLEIN: Yes. I'm just
5 trying to find where the material is that supports
6 that. So it's in our July 24th update material.

7 MS. DAYNA STEINFELD: We can try page
8 38 or 39.

9 MS. SANDY BAUERLEIN: Yeah. So what -
10 - can you just scroll back up? So you can see that
11 the overall targets right there is saying that the
12 overall target is sixty-one two fifty, and we go back
13 and we do all the -- you know, we came up with the
14 preliminary budget of where we think those costs will
15 be expended. Can you scroll up? I just want to make
16 sure I have my columns right here.

17 So the test year submitted is what we -
18 - so the original submission was the column that says
19 2019/20 test year submitted. So, for example, at that
20 point in time when we filed in November of 2018, we
21 had program costs in billing and collections of
22 \$7,705,000.

23 When we -- we revalidated our target,
24 we said our target stays the same, but now we go back
25 to each of the departments and areas across the

1 Corporation to say okay, what work are you going to
2 do, where is our resources going to be expended. And
3 at the end of the day, billing and collections now is
4 saying we're not going to spend 7.7; we're going to
5 spend 7.3, because that reflects the new business
6 requirements.

7 So when you scroll down, at the end of
8 the day, if you add up all your programs, they will in
9 this case be higher. All the details will be higher
10 than what the target is, so we have to put in a
11 negative contingency.

12 If all our details were lower than the
13 targets, we would have to put in a positive
14 contingency. So that's what we did.

15 So the program costs when we revisited
16 the budget this past spring, we finalized the details,
17 the program costs are now higher than the individual -
18 - all the programs are now higher than what the target
19 is, so we put in a negative contingency, whereas when
20 we did the preliminary budget, all the details were
21 lower than the target, so we had a positive
22 contingency to get to the target.

23 So it's really just a balancing to try
24 and say here's all the details and they don't quite
25 add up to the target, so I put in a contingency, but

1 at the end of the day line management is expected to
2 manage to sixty-one two fifty. I just don't know
3 which specific programs those reductions or increases
4 would be found.

5 BOARD MEMBER NEMEC: Is there a
6 specific line item I see where that contingency is?

7 MS. SANDY BAUERLEIN: It is buried in
8 the Other. The trouble is there's other things in
9 Other. We could actually pull it out to show you
10 separately. It's in the Other line.

11 MS. DAYNA STEINFELD: Ms. Bauerlein,
12 perhaps we'll get an undertaking, if you're agreeable,
13 to provide the detail of the Other line based on the
14 July 24th update?

15

16 (BRIEF PAUSE)

17

18 MS. SANDY BAUERLEIN: Yeah. PUB-138
19 provides the details based on the original
20 application. We could endeavour to update that based
21 on the July 24th update.

22 MS. DAYNA STEINFELD: Yes. If we get
23 an undertaking to update PUB Round 1, Question 138,
24 with the July 24th information.

25

1 --- UNDERTAKING NO. 2: Centra Gas to update PUB
2 Round 1, Question 138, with the July
3 24th information
4

5 (BRIEF PAUSE)

6
7 MS. SANDY BAUERLEIN: Yes, we can
8 update it.
9

10 CONTINUED BY MS. DAYNA STEINFELD:

11 MS. DAYNA STEINFELD: Ms. Bauerlein,
12 rather than using a negative contingency, would
13 another option have been for the Corporation to simply
14 update its O&A revenue requirements so that it was
15 higher than 61.25?

16 MS. SANDY BAUERLEIN: We could have,
17 but again our Board has said, and our executive, that
18 our target is sixty-one two fifty, and you management
19 need to figure that out. We're not going to come back
20 and ask for more money, just like if we had a positive
21 contingency we're not going to come back and ask for
22 less money. We're going to manage to that. It just
23 means that details haven't been sorted out, because
24 again there's so many departments and so many, you
25 know, details that make this up, and they just simply

1 don't add to the target.

2 So it's really a mathematical exercise
3 in terms of what you see on the screen here, but
4 management knows we have to work to the sixty-one two
5 fifty and that we manage that, as I said, on a -- we
6 report on it monthly, there's discussions on a monthly
7 basis of our actual results compared to where we're --
8 to our budget.

9 MS. DAYNA STEINFELD: So is Centra
10 saying then that management will be expected to manage
11 its expenses within the 61.25 but is not able to
12 manage within an escalation level of 1 percent.

13 MS. SANDY BAUERLEIN: The sixty-one
14 two five incorporates the 2 percent, which again their
15 -- their thoughts are to go to a 1 percent, would mean
16 we would have to further reduce our staff, because you
17 would -- to reduce that sixty-one two fifty down means
18 you have to figure out which programs you're not going
19 to do or -- or do less of, and at the end of the day
20 that will have a staffing impact.

21 Again, if you have less staff working
22 on system performance and reliability, less hours, and
23 you have less people, and so you need to reduce your
24 workforce. And the position of the -- the Manitoba
25 Hydro Electric Board, which is also the Centra Board

1 of Directors, is that they feel a 2 percent
2 escalation, given our other cost pressures, still puts
3 an emphasis on management to control costs.

4 MS. DAYNA STEINFELD: And does a
5 \$600,000 negative contingency, if that is not resolved
6 at the end of '19/20, to meet the 61.25, does that
7 result in staffing reductions?

8 MS. SANDY BAUERLEIN: We would
9 continue to monitor as to whether or not we're
10 achieving the sixty-one two fifty and whether or not
11 there were good business decisions on an actuals basis
12 as to why we were over. So, for example, if there was
13 a --

14 And maybe I could rely on -- on -- on
15 Mr. Steele or Mr. Starodub to give me an example of
16 where there may be a case to be made to say we want to
17 exceed our budget, there is business driver, a good
18 need for us to spend more money in this particular
19 area.

20 MR. CHUCK STEELE: You know,
21 hypothetically speaking, an example of where that
22 could occur is if there was a significant breakdown of
23 a pipeline that required additional -- significant
24 additional O&A expenditures to -- to address it and to
25 get customers back on line. So hypothetically those

1 would be included as potential variances to not be
2 able to achieve -- to achieve our budget that year.

3 MS. DAYNA STEINFELD: And Mr. Peters
4 will spend some time this afternoon talking to you
5 about the likelihood of that happening. So we'll --
6 we'll leave that for now. Unless Mr. -- Ms.
7 Bauerlein had something to add, I'm done with this
8 area, Mr. Chair, and would suggest this would be an
9 appropriate time for lunch, and I can resume following
10 the lunch break.

11 THE CHAIRPERSON: Very good. Thank
12 you. We'll -- we'll take our break now and reconvene
13 to 12:50 -- twelve five zero. Thank you.

14

15 --- Upon recessing at 12:09 p.m.

16 --- Upon resuming at 12:52 p.m.

17

18 THE CHAIRPERSON: Good afternoon.
19 Silence is golden. The -- the workers have moved on.
20 Welcome to Mr. Korchak and Mr. Chard. And I believe
21 they are going to be sworn in at this point.

22

23 CENTRA GAS WITNESS PANEL NO. 1: Capital Projects, and
24 CEPP

25

PAUL STEWART CHARD, Sworn

1 KENNETH RONALD KORCHAK, Affirmed

2

3 MR. BOB PETERS: Thank you, Mr. Chair.

4 Good afternoon, Mr. Chard and Mr. Korchak. Welcome
5 here.

6

7 CROSS-EXAMINATION BY MR. BOB PETERS:

8 MR. BOB PETERS: Before we start with
9 some questioning, I wonder, Mr. Chard, starting with
10 you, if you could just provide us a brief overview of
11 your responsibilities with Centra Gas Manitoba Inc.
12 And then I'll ask Mr. Korchak the same.

13 MR. PAUL CHARD: Thank you. Good
14 afternoon, Panel Chair Ring, Vice-chair Kapitany,
15 panel members, Watson, Nemec, and Hainsworth, Board
16 counsel staff, and advisors, Intervenors, Intervenor
17 counsel, and advisors.

18 My name is Paul Chard. I am currently
19 the acting director of rates and regulatory affairs.
20 I -- as well as overseeing this application since
21 assuming that position in May, I will be testifying
22 tomorrow on issues related to cost allocation and rate
23 design matters and the issue of bill mitigation.

24 I'm also here today to provide
25 assistance, as I understand it, on what may be

1 considered an issue of regulatory compliance.

2 MR. BOB PETERS: And, Mr. Korchak,
3 could you briefly tell us your responsibilities with
4 Centra Gas?

5 MR. KENNETH KORCHAK: Sure.

6

7 (BRIEF PAUSE)

8

9 MR. KEN KORCHAK: Good afternoon.
10 Good afternoon, Panel Chair Ring, Vice-chair Kapitany,
11 panel members, Nemec, Watson, Hainsworth, Board
12 counsel staff and advisors, Intervenors and Intervenors
13 counsel and advisors.

14 My name is Ken Korchak. I'm the
15 customer service operations manager for Winnipeg East
16 at Manitoba Hydro.

17 I've been with Manitoba Hydro and
18 Centra Gas prior to that for the last twenty-seven
19 (27) years. My area of responsibility is -- my focus
20 is natural gas operations. And staff who are first
21 responders, emergency first responders, maintenance
22 staff, inspectors of appliance inspections, service
23 personnel are all under my responsibility.

24 And I'm here to -- to provide any
25 information or assistance in regards to the customer

1 equipment problem.

2 MR. BOB PETERS: I thank you both.

3 And maybe at the outset I'd ask you to have your
4 microphones quite close to you. By default, we have
5 them too close. And when we get yelled at, we move
6 them further away rather than the other way around, so
7 welcome to that group.

8 Just a caution, witnesses, before I
9 begin with my questions on behalf of the Board, none
10 of my questions are seeking to elicit information that
11 Centra believes is confidential and should not be
12 disclosed on the public record.

13 Is that understood and acceptable to
14 you?

15 MR. KENNETH KORCHAK: Yes, it is.

16 MR. BOB PETERS: And should any
17 witness believe that to full respond to a question,
18 that witness needs to also provide confidential
19 information to the panel, we would want you to
20 immediately alert your legal counsel, who will then
21 propose a process to provide that confidential
22 information to the Board.

23 Is that also understood and acceptable?

24 MR. KENNETH KORCHAK: Yes, it is.

25 MR. BOB PETERS: Thank you. Centra

1 Gas Manitoba Inc. has what we have called a customer
2 equipment problem program, correct?

3 MR. KENNETH KORCHAK: Correct.

4 MR. BOB PETERS: And this morning, for
5 those who were early, they got a copy of Board counsel
6 book of documents. It's Exhibit 25. And on the
7 screen in front of you, Mr. Korchak, will be from tab
8 5, I'll alert the panel, are the documents I'm going
9 to refer to, page 220, 220.

10 And in to 220, we see the highlighted
11 portion if we keep scrolling that -- the portion
12 that's highlighted would -- would be correct in
13 understanding that this is the term and condition
14 under which Centra provides the customer equipment
15 problem program?

16 MR. KENNETH KORCHAK: Yes, it is.

17 MR. BOB PETERS: I'm sorry?

18 MR. KENNETH KORCHAK: Yes, it is.

19 MR. BOB PETERS: Thank you. And if
20 you could pull that microphone closer, that would be
21 great. And, Mr. Korchak, I understand that this
22 equipment problem program applies to the small general
23 service customers which includes residential customers
24 as well as the large general service customers that
25 have appliances that are rated lower than four hundred

1 thousand (400,000) British thermal units per hour?

2 MR. KENNETH KORCHAK: That's correct.

3 MR. BOB PETERS: All right. And so,
4 what that does, Mr. Korchak, is that just takes a lot
5 of the larger commercial and the industrial customers
6 out of this program?

7 MR. KENNETH KORCHAK: That's correct.

8 MR. BOB PETERS: And the small general
9 service customers are currently under this program
10 invoiced extra for any parts that are replaced under
11 this program.

12 Have I got that right?

13 MR. KENNETH KORCHAK: That's correct.

14 MR. BOB PETERS: But the cost of the
15 labour to come to the home or to the small business is
16 covered by what customers al -- are already paying in
17 their rates, correct?

18 MR. KENNETH KORCHAK: That's correct.

19 MR. BOB PETERS: And if I turn to page
20 226 of Board counsel Exhibit 25, we see some -- some
21 numbers here. And I'm just wondering if you can
22 advise the panel that current rates set by this Board
23 are recovering, let's say, approximately \$2 million
24 for the costs of the customer equipment problem
25 program.

1 Would you accept that, Mr. Korchak?
2 Ms. Bauerlein can maybe help out if she's more
3 familiar with that.

4 MR. KENNETH KORCHAK: In -- in the
5 2013/'14 year? Yes.

6 MR. BOB PETERS: All right. And
7 that's the last year prior to today that the Company
8 has appeared before the Board seeking any rate
9 changes.

10 Do -- are you aware of that?

11 MR. KENNETH KORCHAK: Yes.

12 MR. BOB PETERS: All right. So, the
13 last time the Board set rates, this Board approved
14 approximately \$2 million to come from consumer rates
15 to fund the customer equipment problem program?

16 MR. PAUL CHARD: If I might, Mr.
17 Peters, I -- I think we can accept that as being
18 approximately accurate. This is the actuals from that
19 fiscal year.

20 So in terms of what was included in the
21 application, I'm not sure that we could say, but --
22 but I'd accept that it would be in that range.

23 MR. BOB PETERS: All right. I
24 appreciate your assistance on that, Mr. Chard.

25 Now, back to page 220. This page 220

1 provides a description as to -- as to what is
2 performed by the Company as part of this program,
3 correct?

4 MR. KENNETH KORCHAK: That's correct.

5 MR. BOB PETERS: And is it also
6 correct that Centra is not asking this Board for
7 approval today for any changes to the customer
8 equipment problem program?

9 MR. KENNETH KORCHAK: That's correct.

10 MR. BOB PETERS: Would you agree, Mr.
11 Korchak, that there have been changes since the
12 General Rate Application in 2013 to the scope of work
13 that Centra will undertake with respect to this
14 customer equipment problem program?

15 MR. KENNETH KORCHAK: Could you repeat
16 that, please?

17 MR. BOB PETERS: Sure. I'm asking
18 that, since the Company last came before the Board in
19 2013, there have been changes since then to the scope
20 of work that Centra will undertake with respect to
21 this customer equipment problem program?

22 MR. KENNETH KORCHAK: I -- I don't
23 believe that the scope has changed. We continue to
24 provide the service as -- as indicated in the terms
25 and conditions.

1 MR. BOB PETERS: Okay. Well, then
2 let's look at that. Mr. Korchak, on page 222 of Board
3 counsel's book of documents there is, under the 'D'
4 part, a bullet point listing of the components on gas,
5 furnaces, and hot water heaters that Centra was to
6 provide and include in this consumer customer
7 equipment problem program, correct?

8 MR. KENNETH KORCHAK: Correct.

9 MR. BOB PETERS: And those are set out
10 in the 'D' portion of the response to Unifor Centra
11 First Round 7, correct?

12 MR. KENNETH KORCHAK: Correct.

13 MR. BOB PETERS: And if we turn the
14 page to 223 under the 'E' part of the Information
15 Response, we also see here the list of parts that are
16 currently being replaced under the consumer equipment
17 problem program, correct?

18 MR. KENNETH KORCHAK: Correct.

19 MR. BOB PETERS: Now, rather than
20 jumping back and forth as between these two (2) sub-
21 parts of the Information Request, there has been a
22 handy PUB advisor table prepared on page 224.

23 And I'm not sure if you've had a chance
24 before today to look at that. Have you?

25 MR. KENNETH KORCHAK: I have.

1 MR. BOB PETERS: Now, the -- the parts
2 that are listed -- let me go back to 223. I have
3 another thought here, Mr. Korchak. The part that's
4 shown up under 'E' part are the current parts that are
5 going to be replaced under your program, correct?

6 MR. KENNETH KORCHAK: That's correct.

7 MR. BOB PETERS: Now, this list
8 doesn't just exist in Board counsel's book of
9 documents. This list would also exist with each of
10 the service representatives that Centra sends to the
11 home or the small business, correct?

12 MR. KENNETH KORCHAK: The list would
13 be contained in our procedures that those people would
14 access, yes.

15 MR. BOB PETERS: And so, this -- this
16 -- what's under Unifor Centra First Round question
17 7(e), it documents the part lists that are also
18 documented in Centra's internal procedures that you're
19 telling the Board are used by the technicians that
20 respond to these CEPP calls?

21 MR. KENNETH KORCHAK: That's correct.

22 MR. BOB PETERS: Now, if you go back
23 to 224 -- page 224 of Board counsel's book of
24 documents, are you satisfied, Mr. Korchak, that we
25 have accurately depicted the control parts under Board

1 Order 49 of 95 that Centra was back in 1995 requested
2 to provide under the CEPP?

3 MR. KENNETH KORCHAK: I -- I wouldn't
4 agree that in all cases all parts are considered
5 control parts.

6 MR. BOB PETERS: Okay. So -- so I
7 shouldn't have used the word 'control parts' when I
8 described this list?

9 MR. KENNETH KORCHAK: Right. The
10 majority of the parts I would consider control parts,
11 but there are parts that -- that I wouldn't.

12 MR. BOB PETERS: All right. You're
13 perhaps at a level that's -- that I'm not going to
14 maybe at all or certainly yet.

15 But are you satisfied that the list in
16 the chart on page 224 that's in front of you comes out
17 of the Board order and all -- there's nothing missing
18 from that or nothing added to that?

19 MR. KENNETH KORCHAK: Yes.

20 MR. BOB PETERS: All right. And then
21 likewise, in the column on the far right under the
22 current procedures under Unifor's Centra first round
23 of question 7E, are you also satisfied that this chart
24 depicts accurately the information that Centra
25 provided in its response to Unifor's question?

1 MR. KENNETH KORCHAK: Yes.

2 MR. BOB PETERS: And on page 224 not
3 to be dramatic but just to show the difference, using
4 Xs and check marks in red ink versus green ink to try
5 to show that there's been some differences from what
6 was under order 49 of 95 to what the current procedure
7 is. You'll accept that?

8 MR. KENNETH KORCHAK: Yes.

9 MR. BOB PETERS: All right.

10 MR. PAUL CHARD: I'm sorry,
11 Mr. Peters. If I can jump in a bit.

12 MR. BOB PETERS: You certainly can.

13 MR. PAUL CHARD: There is some -- I
14 want to be precise about the language, and I think
15 there's some confusion that Centra is guilty of
16 introducing.

17 So if I take you back to page 222 and
18 Unifor Centra 7D --

19 MR. BOB PETERS: You have.

20 MR. PAUL CHARD: -- we have stated
21 that Centra was required to provide, and I think if we
22 read Board Order 49 of 95 that I would not agree with
23 that characterization that Centra was required to
24 provide.

25 So I just wanted to provide that

1 clarification because the questions, as you've been
2 asking them, talk about requirements. And I'm not
3 sure that that's what that order asks us to do.

4 MR. BOB PETERS: Okay. Let's hang on
5 to that thought, Mr. Chard, and I want to make sure we
6 give you an opportunity to explain to the Panel. And
7 we're getting there fairly quickly.

8 But Mr. Korchak, when I look at -- back
9 at page 224 and I see that the column with the green
10 check marks is different than the column with the red
11 Xs, when did Centra make that change that is visible
12 in this table? Do you know?

13

14 (BRIEF PAUSE)

15

16 MR. KENNETH KORCHAK: So the change in
17 the parts has really kind of evolved over time. Some
18 of these parts are no longer -- they're redundant.
19 The change to our procedure was made in January of
20 2018.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Now, on page 227 of
25 Board Counsel's book of documents, Centra provides

1 some correspondence to the Board from PUB Centra first
2 round question 154 A attachment as to what Centra will
3 do if Centra encounters a part that it needs to
4 replace but Centra doesn't stock that part. Correct?

5 MR. KENNETH KORCHAK: Correct.

6 MR. BOB PETERS: And in the
7 highlighted portion on page 227, Centra is indicating
8 that if -- or:

9 "When a service personnel member
10 encounters an equipment problem for
11 which a specific brand or model of a
12 part is required, the customer is
13 advised that Centra can order and
14 obtain the part and return to
15 install it, or the customer can call
16 a heating dealer who specializes in
17 that brand of equipment who may have
18 the part in stock."

19 Have I read that correctly?

20 MR. KENNETH KORCHAK: Yes, you have.

21 MR. BOB PETERS: And that is what
22 Centra currently is doing?

23 MR. KENNETH KORCHAK: It is.

24 MR. BOB PETERS: Now, keeping that
25 thought in mind and turning back to page 224, if

1 Centra goes to a customer's home and that home needs a
2 pressure temperature relief valve, as we all do, and
3 you don't have it stocked in the truck or in inventory
4 at your warehouse, the answer that you just gave me,
5 Mr. Korchak, suggests that the Centra personnel will
6 tell the customer that Centra can go and fetch the
7 part and install it. Have I got that right?

8 MR. KENNETH KORCHAK: So a pressure
9 temperature relief valve is -- is really a -- it's a
10 part on a water heater. It's a plumbing part.

11 MR. BOB PETERS: Ah.

12 MR. KENNETH KORCHAK: So it would be
13 the -- an example of a part that I wouldn't consider a
14 control part.

15 MR. BOB PETERS: All right. And
16 you're now going to -- you're picking up on a comment
17 that Mr. Chard made earlier. So let's go down this
18 list then. Which ones of these -- first of all, what
19 do you consider a control part?

20 MR. KENNETH KORCHAK: I would consider
21 a control part a part that is -- it's part of the
22 natural gas kind of order sequence. It's required to
23 operate the furnace.

24 In this case, we're talking about a
25 water heater. It's -- if a water heater was

1 overheating, it would relieve. It's not -- it's kind
2 of a -- it has nothing to do with combustion.

3 MR. BOB PETERS: Sorry. Are there are
4 control parts on a water heater as well as a furnace?

5 MR. KENNETH KORCHAK: There would be
6 the -- the parts for the combustion for the natural
7 gas. I would consider those control parts.

8 MR. BOB PETERS: All right. So
9 leaving aside, if we take out the word "control part"
10 from the schedule --

11 MR. KENNETH KORCHAK: Yeah.

12 MR. BOB PETERS: -- does that change
13 any of your answers in terms of what parts are
14 provided or are not provided currently on that charge
15 of -- on page 224?

16 MR. KENNETH KORCHAK: Well, I believe
17 the second column indicates the parts that are
18 provided currently.

19 MR. BOB PETERS: And so are you
20 telling the Board that the only reason you don't --
21 Centra doesn't replace pressure temperature relief
22 valves is because Centra doesn't consider those to be
23 control parts?

24 MR. KENNETH KORCHAK: We reviewed our
25 procedure as we normally do. We made some changes to

1 it based on what made sense, and that was a part
2 that -- that wasn't part of the natural gas
3 combustion.

4 It didn't fit with what the -- the
5 terms and conditions said. And that's why it was
6 removed. It is not a part that we replaced in the
7 past very frequently. It'd be very infrequent.

8 MR. BOB PETERS: Leaving aside the
9 frequency of the work --

10 MR. KENNETH KORCHAK: Yeah.

11 MR. BOB PETERS: -- it was a part that
12 previously you did install and replace at no
13 additional cost to the customer. Correct?

14 MR. KENNETH KORCHAK: Yes.

15 MR. BOB PETERS: Now, after, I think
16 you told me, January of 2018 --

17 MR. MICHAEL WATSON: Oh, sorry.

18 MR. KENNETH KORCHAK: I'm sorry.

19 MR. MICHAEL WATSON: So from what I
20 understand here on this list is from 1995 until
21 December 31st, 2017, the parts were changed, but now
22 after, they're not changed. Is that correct?

23 MR. KENNETH KORCHAK: The parts were
24 not changed from 1995 until this recent update. So
25 that's 25 years, and a lot of the parts that would be

1 applicable to equipment at that time, they -- they're
2 redundant. They don't exist anymore. So it was an
3 attempt to update and refresh our parts list.

4 MR. MICHAEL WATSON: So for example, a
5 high limit, which I believe is still on the part, it
6 was changed before but it's not changed in the last
7 18 months.

8 MR. KENNETH KORCHAK: So a high limit
9 would be on a -- on a standard furnace. We carry --
10 we still continue to have high limit parts.

11 Again, it's a part that's not changed
12 very often, and on new furnaces, it's -- it's an
13 integrated part. So we don't stock it separately.
14 There'd be just far too many models and -- and parts
15 that you'd have to stock.

16 MR. MICHAEL WATSON: Okay. Thank you.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: But staying with that
20 high limit, I suppose that part does what is sounds
21 like is it stops the furnace from overheating. If the
22 fan doesn't, for some reason, cut in or something
23 other engineering wise like that...

24 MR. KENNETH KORCHAK: Correct. The
25 purpose of a limit is if the furnace is overheating

1 that it cuts off the furnace.

2 MR. BOB PETERS: All right. And as
3 you just told Board Member Watson on this, the --
4 Centra used to provide them and right now you don't.

5 MR. KENNETH KORCHAK: So if we would
6 attend a call where a customer called and didn't have
7 heat and we found that the furnace was overheating and
8 it as going off limit, we would make safe, and we
9 would indicate that they could contact a heating
10 dealer, and -- and they can install the necessary
11 part.

12 MR. BOB PETERS: Do you also tell that
13 customer that if the customer wants, Centra will go
14 and obtain the part and come back and install it?

15 MR. KENNETH KORCHAK: Since we've
16 removed it from our list, that's not something that we
17 would offer. In the past, we would have -- we would
18 have done so.

19 MR. BOB PETERS: Is it correct that
20 Centra will offer and replace proprietary parts like
21 gas valves and -- and some limit switches?

22 MR. KENNETH KORCHAK: So we'll replace
23 a standing pilot gas valve, which was on the list in
24 1995. So, for a standard furnace, a gas valve that
25 essentially fits for any furnace, we'll continue to

1 replace those.

2 If it's an electronic gas valve, again,
3 that's -- if you consider that proprietary. There are
4 many, many different models every year. We wouldn't
5 stock that part, no.

6 MR. BOB PETERS: Okay. But -- but
7 there's a difference to my thinking, Mr. Korchak, as
8 to not stocking and not replacing. And is there a
9 difference in your mind to those two (2)?

10 MR. KENNETH KORCHAK: Yes. In -- in
11 this case, we do not -- we do not have a nonstandard
12 gas valve and we wouldn't replace a nonstandard gas
13 valve --

14 MR. BOB PETERS: So, if --

15 MR. KENNETH KORCHAK: -- just -- just
16 the standard ones.

17 MR. BOB PETERS: All right. And
18 pretend I don't know the difference. And the customer
19 may not know the difference when -- when you show up
20 as to whether it's a standard or a nonstandard gas
21 valve, correct?

22 MR. KENNETH KORCHAK: I can't say if
23 the customer would know. It kind of depends on their
24 knowledge of their equipment. If it's an older
25 furnace, that's when I'm talking about a standard gas

1 valve.

2 New equipment and everything since
3 2009, which that would include, would be more of an
4 electronic part, and it would be more specific to that
5 type of equipment.

6 MR. BOB PETERS: And so, for that --
7 for that newer model, I heard you to say that you will
8 make the premises safe. And then you will indicate
9 that, if the customer wants heat, they're going to
10 have to call a heating dealer?

11 MR. KENNETH KORCHAK: Correct. We
12 would make sure that it's safe. That's the primary
13 purpose. We've always provided referrals to dealers
14 for -- for more extensive issues.

15 And so, this would be a case where we
16 would not have that limit. We may not be able to
17 obtain it within a short period of time. It may take
18 -- if we did attempt to buy it, it may take days to
19 get that, and they would be better served to go to a
20 heating dealer that -- that has that type of
21 equipment.

22 But, Mr. Korchak, you're now saying in
23 that last answer that -- that you're implying that
24 Centra is prepared to go and try to get the part, and
25 then install it?

1 MR. KENNETH KORCHAK: I said, If -- if
2 we did, that -- that's kind of what we would run into.
3 So, customers would have no heat, and they potentially
4 could have to wait days for us to be able to provide a
5 part.

6 So, that's one (1) of the reason why
7 proprietary parts are not something that -- that we
8 provide. And -- and we don't believe that we've
9 changed our position on gas valves. We continue to
10 provide the standard part if it's a standard furnace.

11 MR. BOB PETERS: And if it's 40 below
12 and the -- the home has no heat, what does 'making
13 safe' mean to you and to Centra?

14 MR. KENNETH KORCHAK: Well, trying to
15 provide heat.

16 MR. BOB PETERS: Well, let me just
17 interrupt. And I know Mr. Czarnecki's reaching for
18 the button. But if it's 40 below and there's no heat,
19 how do you -- and -- and you determine that one (1) of
20 these proprietary pieces of equipment is not on the
21 truck and it's not one (1) that's on your list that
22 your technicians have, how do you make it safe for
23 that family?

24 MR. KENNETH KORCHAK: We would refer
25 them to a heating dealer. And we would not have that

1 part, so we could not provide them with heat in the
2 short-term.

3 And so, their best option would be to
4 contact a heating dealer who -- who serves that type
5 of equipment and -- and may have that part.

6 MR. BOB PETERS: So, Centra's
7 personnel that come to the house are told that, if
8 it's not on this list on the right-hand side with a
9 green checkmark or a standard pilot type only or a
10 heat only, non-digital single pole thermostat, then
11 the utility cannot provide and will not provide the
12 part.

13 Have I got that right?

14 MR. KENNETH KORCHAK: Our staff would
15 follow our procedure which has these parts at the end,
16 and -- and they would -- they would provide parts that
17 -- that are on the approved procedure.

18 MR. BOB PETERS: All right. So, let
19 me ask the question again, Mr. Korchak. If the Centra
20 personnel is at the customers's door, at the
21 customer's furnace, and determines that it needs a
22 high limit that is nonstandard, no heat in the house,
23 the customer's told Centra will not provide the part,
24 will not install it, and the consumer has to phone a
25 heating dealer.

1 Have I got that right?

2 MR. KENNETH KORCHAK: We would not
3 have the part. And when we talk about limits, they're
4 specific to the different types of furnaces and
5 they're -- it would be impossible for us to stock
6 every type of limit.

7 MR. BOB PETERS: Mr. Korchak, I'm not
8 -- I'm not -- I appreciate the facts. I want the
9 Board to have the facts, but I was trying to use your
10 words, of a nonstandard high limit.

11 And I heard you to tell this Board that
12 Centra does not stock high limits that are not
13 standard. Put another way, maybe put better, Centra
14 only stocks and provides the standard high limits.

15 Is that correct?

16 MR. KENNETH KORCHAK: We do not stock
17 limits.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Centra used to stock
22 high limits?

23 MR. KENNETH KORCHAK: So, as -- as
24 part of our standard part kit, which was the size of a
25 -- of a fishing tackle box, we could -- we had parts

1 that could fix every furnace and water heater.

2 And there, essentially, were three (3)
3 limits; one (1) is a 3-inch, a 5-inch, and an 11-inch
4 limit, and we could fix anything with it. Now, those
5 limits are tied to the circuit -- circuit board and
6 they're proprietary to every type of furnace, and so
7 the part is really changed.

8 MR. BOB PETERS: Okay. And I thank
9 you for that explanation. And so, the customer whose
10 home the Centra technician attends that suffers from a
11 high-limit failure is told that Centra does not and
12 will not change out that part.

13 Is that correct?

14 MR. KENNETH KORCHAK: We do not have
15 the part, so we would refer them to a dealer that
16 would deal in that type of appliance, or that brand,
17 where they would have a better chance of having that
18 part, or they would have that part.

19 And the purpose of a limit is really if
20 a furnace is overheating, and usually there's a
21 reason. And, in many cases, it's things like their
22 filters need to be cleaned, and so things can be done
23 to rectify the problem.

24 It's not that the part necessarily
25 fails, it's a indicator of another problem.

1 MR. BOB PETERS: And I -- I thank you
2 for the diagnostic explanation. But if the part has
3 an 'X' on this chart on page 224 of Board counsel's
4 book of documents, it's not that Centra doesn't stock
5 the part, it's that Centra won't stock the part,
6 correct?

7 MR. KENNETH KORCHAK: It would be
8 impossible for us to stock every type of part that
9 falls under those headings.

10 MR. PAUL CHARD: Mr. Peters, if we
11 could maybe take this discussion up a level. And I --
12 I believe we provided some of this detail in -- in our
13 evidence.

14 The issue here is that the program is -
15 - and the -- and that parts list is dated. And the
16 equipment has evolved to a significant degree since
17 that parts list was created.

18 So, Mr. Korchak has talked about
19 standard parts. And, in many cases, he's referring to
20 parts that are -- were used on standard efficiency
21 furnaces, which were common, you know, up until the
22 late 1980s.

23 MR. KENNETH KORCHAK: Yes.

24 MR. PAUL CHARD: Mid-efficient
25 furnaces were similar. As we moved to high-efficient

1 furnaces, the electronic components in those furnaces
2 -- the furnaces became far more electronic, controls,
3 that sort of thing.

4 So, we're talking about a parts list
5 that relates to, essentially, old technology. Some of
6 it is still out in the marketplace. And -- and we do
7 address those issues still.

8 But the issue is the technology has
9 evolved. And looking strictly at a parts list is --
10 you know, is -- is a very narrow way of -- of -- first
11 of all, a very narrow way of -- of looking at, you
12 know, what the utility should be -- should or should
13 not do.

14 And so, I think there's perhaps a
15 better way to have this discussion if the Board is
16 interested. And, you know, Centra continues to offer
17 the safety -- you know, our focus is on safety, and we
18 continue to offer that service for that reason.

19 And we believe that the service that
20 we're offering is focused on safety. So, that has
21 been our focus.

22 MR. BOB PETERS: All right. Thank
23 you, Mr. Chard. I'll try to stay at your altitude
24 here. I think what you're saying in an implicit way,
25 Mr. Chard, is that Centra will not offer to order and

1 return to install parts if that part is excluded from
2 the current parts list.

3 Are we agreed on that?

4 MR. PAUL CHARD: No, we don't do that.

5 MR. BOB PETERS: You're agreeing that
6 Centra will not offer to order and return to install
7 the parts?

8 MR. PAUL CHARD: Correct. Correct.
9 We agree with that.

10 MR. BOB PETERS: All right. And, Mr.
11 Chard, you said that some of the parts that are on the
12 parts list under the Order 49 of 95 listing are from a
13 time when technology was simpler?

14 MR. PAUL CHARD: That's correct.

15 MR. BOB PETERS: Would -- would it be
16 correct, Mr. Chard, for -- for -- are you telling the
17 Board that Centra can acknowledge that it's not
18 perhaps in full compliance with each and every part
19 that's listed under Board Order 49 of 95 because they
20 don't offer to replace it free of labour, but the
21 reason that Centra does so is because, from a business
22 point of view, Centra can no longer stock and itemize
23 all of the different parts that would be needed to
24 strictly comply with what Order 49 of 95 was saying?

25 MR. PAUL CHARD: So, I think this

1 brings us back to our disagreement about what Order 49
2 of 95 says.

3 MR. BOB PETERS: And do you want to
4 take us back?

5 MR. PAUL CHARD: Would you like me to
6 go there?

7 MR. BOB PETERS: Well, that's where
8 I'm headed. And -- and I was heading there because on
9 page 222 of Board counsel's book of document, Centra's
10 response to the 'D' part of the question at the bottom
11 of the page indicates that Centra was required to
12 provide the following list of components.

13 And -- and we've now found out that
14 Centra no longer does that, but Centra has a rationale
15 for not doing it, Mr. Chard, correct?

16 MR. PAUL CHARD: Well -- so what I was
17 saying earlier is that, in part 'D', I think our
18 wording was a little loose because -- and the -- I
19 guess the -- yeah, so the -- the reference there to
20 49/95, certainly my reading of it is not that it
21 requires us to change that list of components.

22 MR. BOB PETERS: I'm sorry, your
23 reading of the Board Order?

24 MR. PAUL CHARD: Yes, is that it --

25 MR. BOB PETERS: And why is that, sir?

1 MR. PAUL CHARD: -- is that it doesn't
2 require us to change those parts. So, if I can be --
3 perhaps take a little -- ask for your indulgence a
4 little just to be complete in my response.

5 MR. BOB PETERS: Please.

6 MR. PAUL CHARD: I'm not sure if we
7 have Order 49 of 95 available, but I'm looking at page
8 117. And in the evidence so far, there's been
9 references to two (2) sections of this order, page
10 117, and then page 120.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: And Board Order 49 of
15 95, as requested, Mr. Chard, has been put before you?

16 MR. PAUL CHARD: Yes. So, we're --

17 MR. BOB PETERS: And you wanted to
18 bring the Board's attention to page 17 --

19 MR. PAUL CHARD: To page 117, so we're
20 almost there.

21

22 (BRIEF PAUSE)

23

24 MR. PAUL CHARD: So, at the top of the
25 page, in the first paragraph, picking it up partway:

1 Under the EPP, Centra completes a
2 diagnosis on the problem, makes
3 immediate safety repairs, provides
4 operating advice, and makes
5 referrals to heating dealers for
6 more significant repairs.

7 I'd suggest to you that's exactly what
8 Mr. Korchak has described to the Board today.

9 If we can then go to page 120 and for
10 this section, I think I need to provide a little bit
11 of context from my reading of the more complete order.
12 The issue before the Board at this time was services
13 that Centra was to offer and not to offer to
14 customers. And at the time, Centra was proposing to
15 offer more services to customers in their homes, to
16 complete more repairs, to complete inspection work.

17 And the Board concluded that the
18 previously existing EPP should continue -- that was
19 the safety component; that's the program we continue
20 to offer today -- and that the tuneup and service
21 program that Centra was proposing to offer at that
22 time should not be delivered by the Utility but should
23 be delivered by private heating dealers.

24 So in the Board finding section here on
25 page 120, the Board lists out a list of parts -- and

1 they're the part that we've been looking at so far in
2 the discussion -- but just prior to the list, it says:

3 "Centra should confine its service
4 activities to ensure the safety
5 objectives of the EPP are met and
6 confine the list of components on
7 gas furnaces and the hot water
8 heaters that it will replace under
9 the EPP to the following."

10 So I read this list not as a -- these
11 are the parts you must replace, but these are the
12 parts that you must confine your activities to.

13 And one of the issues that's happened
14 is that as these parts have evolved and been combined
15 with other parts, they are often combined with parts
16 that are not on this list.

17 MR. BOB PETERS: Has Centra asked the
18 Board, Mr. Chard, to vary order 49 of 95 at any point
19 in time?

20 MR. PAUL CHARD: No, we have not.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Mr. Chair, I'd like
25 to thank Mr. Chard and Mr. Korchak. I've got their

1 evidence on these points.

2 I would suggest that perhaps my friends
3 opposite Mr. Meronek and Mr. Hacault may or may not
4 have questions that they wish to ask. But this would
5 be an opportune time before excusing Mr. Chard and
6 Mr. Korchak who, unlike the rest of us, don't want to
7 be here.

8 THE CHAIRPERSON: Mr. Meronek...?

9 MR. BRIAN MERONEK: The only equipment
10 problem I have is the code to the washroom door, and
11 having severe bladder regulatory problems, I find it
12 very dangerous. But I don't have any -- I don't think
13 there's anywhere in your manual that you can repair
14 that? No. I have no questions. Thanks.

15 THE CHAIRPERSON: Thank you.

16 Mr. Hacault?

17 MR. ANTOINE HACAULT: I won't try to
18 top that one. I have no questions.

19 MR. BOB PETERS: Mr. Chair, if we
20 could just take a minute or two (2) as Mr. Chard and
21 Mr. Korchak excuse themselves. Ms. Steinfeld will
22 then continue back with some additional questions.

23 THE CHAIRPERSON: Very good.

24

25 (MR. PAUL CHARD STANDS DOWN)

1 (MR. KENNETH KORCHAK STANDS DOWN)

2

3 CONTINUED CROSS-EXAMINATION BY MS. DAYNA STEINFELD:

4 MS. DAYNA STEINFELD: Mr. Bauerlein,
5 I'm going to turn back to you. I understand you have
6 a few matters that you just wish to clarify for the
7 record from this morning?

8 MS. SANDY BAUERLEIN: Yes. Thank you,
9 Ms. Steinfeld. I believe I had misspoke this morning
10 when I said that we had a -- we did not have a
11 detailed forecasted budget for the 2018/'19 fiscal
12 year. It was actually the 2017/'18 fiscal year where
13 we did not have a detailed budget 'cause we were right
14 in the midst of the VDP at that time.

15 I also want to clarify. So it was at
16 that time that we decided on the 4 percent allocation
17 again being the appropriate allocator of the savings,
18 and as mentioned previously, we're seeing that through
19 our actual results that that 4 percent is reasonable.

20 And I just wanted to just make a
21 comment that we're continuing to evolve as a result of
22 the VDP. So how the savings should be allocated still
23 continues to change as we continue to restructure and
24 reorganize ourselves as a company. So again that -- I
25 just wanted to make those additional comments to the

1 panel.

2 THE CHAIRPERSON: Thank you.

3 MS. DAYNA STEINFELD: And

4 Ms. Bauerlein, perhaps at some time -- it doesn't have
5 to be now -- you can just confirm for the Board where
6 on the record the detailed '18/'19 budget can be
7 found? We don't need to worry about that now but --

8 MS. SANDY BAUERLEIN: Thank you.

9

10 CONTINUED BY MS. DAYNA STEINFELD:

11 MS. DAYNA STEINFELD: And just before
12 we leave this morning, I wanted to clarify one thing
13 for you. If we can go to PUB Exhibit 25 at page 8.

14 And here, Ms. Bauerlein, this table
15 provides examples of the different kinds of costs that
16 are allocated by the different allocators. Is that
17 correct?

18 MS. SANDY BAUERLEIN: Yes. These are
19 examples of costs where they're allocated between
20 electric and gas using a driver. And it talks about
21 the different types of drivers being customers, asset
22 base, activity charge, and then specifically sometimes
23 management's own estimate on how we should split the
24 costs between the two lines of business.

25 MS. DAYNA STEINFELD: And when we're

1 talking about the 4 percent asset allocator or driver
2 that we were discussing this morning, is that the
3 two (2) rows that we see on this chart that says
4 "Total Assets"?

5 MS. SANDY BAUERLEIN: That's correct.
6 So we allocate executive functions based on total
7 assets and audit costs. And we allocated the VDP
8 savings based on the same cost driver.

9 MS. DAYNA STEINFELD: And are the
10 two (2) types of costs on this charge in addition to
11 the VDP savings the only types of costs that are
12 allocated by total assets, or are there other kinds?

13 MS. SANDY BAUERLEIN: There would be
14 others. This is just examples. I don't -- I don't
15 have a comprehensive list of all the costs and the
16 various cost drivers that are used.

17 MS. DAYNA STEINFELD: But Centra and
18 Manitoba Hydro, I guess, at a corporate level decides
19 to use the total asset driver where the costs
20 correspond to the split in the total assets of the
21 corporation. So something like audit costs, those
22 costs are proportionate roughly to the size of the
23 respective utilities?

24 MS. SANDY BAUERLEIN: We believe again
25 that it's a reasonable cost driver to allocate those

1 costs based on again using asset being the size of the
2 utility.

3 And again just to emphasize that we're
4 seeing the 4 percent in actual results being
5 reasonable allocator as well, that the size of the
6 utility is reflective of how the savings are -- in
7 actually transpiring between the two (2) lines of
8 business.

9 MS. DAYNA STEINFELD: I was looking
10 for more of a general answer, I think, Ms. Bauerlein,
11 that that's the situation where you use the total
12 asset driver as where the corporation decides that the
13 costs are -- should be split in proportion to the size
14 of the utilities.

15 MS. SANDY BAUERLEIN: Correct. So
16 these are examples where the costs should be split in
17 proportion to the size of the utility. Agreed.

18 MS. DAYNA STEINFELD: Thank you. I'm
19 going to move on now, and again, I expect,
20 Ms. Bauerlein, it will be mostly you and I for the
21 next short period of time.

22 I'm going to talk about what I'm going
23 to refer to as "metre sets." And when I use that
24 term, I'm referring to costs related to sampling,
25 testing, and exchange of natural gas metres

1 undertaking to support compliance with the
2 requirements of the Electricity and Gas Inspection
3 Act.

4 Will you use or understand that
5 shorthand when I use it?

6 MS. SANDY BAUERLEIN: Yes.

7 MS. DAYNA STEINFELD: But in the
8 material, sometimes we might see this referred to as
9 the gas metre exchange or the metring program?

10 MS. SANDY BAUERLEIN: Yes.

11 MS. DAYNA STEINFELD: Would it be fair
12 to say that the costs that we're talking about are
13 primarily related to the activities of employees and
14 perhaps contractors carrying out the sampling,
15 testing, and exchange of gas metres?

16 MS. SANDY BAUERLEIN: Yes. It's
17 primarily the labour costs of those employees doing
18 those activities associated with that overall
19 function. Yes.

20 MS. DAYNA STEINFELD: And so these
21 costs are different from the costs that are associated
22 with the initial install of the metres. Correct?

23 MS. SANDY BAUERLEIN: That is correct.

24 MS. DAYNA STEINFELD: And the initial
25 install of the metres, those costs are capitalized

1 currently?

2 MS. SANDY BAUERLEIN: Yes, they are.

3 MS. DAYNA STEINFELD: Okay. So let's
4 put the capitalized install costs aside for now and
5 just focus on what I'm calling metre set costs.

6 And in this application, Centra is
7 proposing that those metre sets costs be capitalized
8 beginning in the 2019/'20 test year. Correct?

9 MS. SANDY BAUERLEIN: That is correct.

10 MS. DAYNA STEINFELD: And capitalizing
11 those costs results in a decrease in an O&A expense of
12 about \$3 million in the test year?

13 MS. SANDY BAUERLEIN: That is correct.
14 So previously, we have been expending those costs, and
15 we're now proposing to capitalize them consistent with
16 our electric operations.

17 MS. DAYNA STEINFELD: And for the
18 people in the room without any accounting acumen --
19 and I don't include myself in that group -- but for
20 the benefit of those people, when you say that the
21 costs were expensed, they were included in the O&A
22 expense line item.

23 MS. SANDY BAUERLEIN: That's correct.
24 Your line items on your income statement are period
25 expenses incurred in that year. And so they were

1 charged and incurred as an expense in that year rather
2 than capitalizing them and recording the depreciation
3 of that over a longer time frame in depreciation
4 expense.

5 When you capitalize, that's how you
6 recognize the cost on your income statement is through
7 depreciation.

8 MS. DAYNA STEINFELD: And with the
9 proposal to begin capitalizing the expenses in the
10 test year, am I right that Centra is proposing that
11 there be a ten-year amortization period?

12 MS. SANDY BAUERLEIN: Correct.

13 MS. DAYNA STEINFELD: And I think what
14 you've just explained is that the costs would be
15 removed from the O&A expense but that would, to an
16 extent, be offset through an increase in depreciation
17 and property plant and equipment over a period of
18 time.

19 MS. SANDY BAUERLEIN: Correct. So
20 your O&A goes down. You now have an asset. And you
21 depreciate that asset, so you will see charges in your
22 depreciation expense.

23 If you only bought one -- or you only
24 did this once, you would now see those costs. If it
25 cost you \$100, you would see \$10 each year for ten

1 years being in your depreciation.

2 MS. DAYNA STEINFELD: And if I put
3 that in another way, Ms. Bauerlein, if this Board does
4 not accept Centra's proposal to capitalize these costs
5 beginning in the test year, would that mean that O&A
6 expense of a test year would be \$3 million higher, all
7 else being equal?

8 MS. SANDY BAUERLEIN: That is correct.
9 For rate setting purposes, we would continue to
10 expense them.

11 MS. DAYNA STEINFELD: And you agreed
12 with me earlier that the costs we're talking about are
13 essentially labour costs. From an accounting
14 perspective, wouldn't it be more consistent with the
15 nature of the costs to expense them?

16

17 (BRIEF PAUSE)

18

19 MS. SANDY BAUERLEIN: We -- when we
20 changed the IFRS, we actually have an IR that
21 discussed this. It's CAC Centra 1-81, part A.

22

23 (BRIEF PAUSE)

24

25 MS. SANDY BAUERLEIN: So under IFRS,

1 there's accounting standards that we follow in
2 determining how we account for certain expenditures.

3 And under International Accounting
4 Standard number 16, which is called property plant
5 equipment, specifically, you'll see under, it talks
6 about paragraph 14.

7 And it talks about:

8 "A condition of continuing to
9 operate an item of property, plant,
10 and equipment may be performing
11 regular and major inspections for
12 faults, regardless of whether parts
13 of the item are replaced. When each
14 major inspection is performed, its
15 cost is recognized in the carrying
16 amount of the item or property,
17 plant, and equipment."

18 MS. DAYNA STEINFELD: I'm sorry. Can
19 you just say what page number?

20 MS. SANDY BAUERLEIN: Page 1.

21 MS. DAYNA STEINFELD: Of -- sorry --
22 which IR?

23 MS. SANDY BAUERLEIN: Oh, sorry.

24 CAC Centra 1-81, part A. 181 instead of 8. CAC, not
25 PUB.

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: So right in that
4 paragraph there -- so that's just an excerpt from the
5 accounting standard, which basically then -- our
6 interpretation in working with our external auditors
7 allows us to capitalize these types of expenses given
8 that they're viewed as a major inspection. So this is
9 where we get our accounting reference and guideline to
10 be able to capitalize those costs.

11 MS. DAYNA STEINFELD: And is another
12 reason that you're requesting to capitalize the cost
13 in order to harmonize Centra's accounting treatment
14 with Manitoba Hydro's?

15 MS. SANDY BAUERLEIN: Yes. We are
16 currently capitalizing these costs on the electric --
17 for the electric operations, and I'm assuming you're
18 going to go there, so I'll just wait a little bit.

19 We are not doing that right now on the
20 -- the gas side of the business. Accounting
21 standards, specifically, standard IFRS number 10,
22 requires that we have harmonization of our accounting
23 policies between our -- our different lines of
24 business.

25 So currently to do that, we have been

1 making an entry that impacts our consolidated books.
2 We have -- call it eliminations, and so we make an
3 adjusting entry there to actually capitalize the --
4 the meter exchange costs, so that on the consolidated
5 books of Manitoba Hydro, we are capitalizing the costs
6 completely, regardless of whether it's for the
7 electric line of business meter exchanges, meter
8 exchanges for electric versus gas.

9 MS. DAYNA STEINFELD: Am I right in
10 understanding, though, Ms. Bauerlein, that the
11 accounting standard requires consistency on the
12 consolidated statement?

13 MS. SANDY BAUERLEIN: Correct, which
14 is why we make that entry in what we call -- and if
15 you think of three (3) buckets. So we have our -- our
16 accounting for our electric, our accounting for our
17 gas, and then our accounting for our consolidated.
18 And in order to get our accounting for consolidated to
19 be harmonized, we make an adjustment in -- in a -- in
20 what we call our eliminations and other type segment,
21 so that it impacts only the consolidated books.

22 MS. DAYNA STEINFELD: And so when
23 we're looking at the change just for the Centra
24 segmented -- segmented statement, the accounting
25 principle that you point to to support capitalization

1 is IFRS-16?

2 MS. SANDY BAUERLEIN: So our
3 recommendation to capitalize these costs is based on
4 IS-16 (sic), which is saying that those costs can be
5 capitalized, and was accepted for the electric
6 operations.

7 MS. DAYNA STEINFELD: And in 2014/'15,
8 with the transition to IFRS, that's when there was a
9 decision made by the Corporation to adopt the Manitoba
10 Hydro method of capitalizing for the purposes of the
11 consolidated statement?

12

13 (BRIEF PAUSE)

14

15 MS. SANDY BAUERLEIN: Correct. We
16 recommended capitalization as part of moving to IFRS.
17 We sought Board panel approval to capitalize those
18 costs also for the gas line of business.

19 In April of 2016, the Board responded
20 that for rate-setting purposes, they wanted to review
21 the matter at the next general rate application, which
22 is now, which is why we're reviewing it today.

23 So from 2014/'15 through to today, we
24 have been expensing those costs on Centra's books,
25 because we like to align what we do for rate-setting

1 purposes and financial reporting purposes in our books
2 so that it's consistent. We have one (1) set of
3 books. We're not throwing around different numbers.
4 There's enough confusion, many times, with our numbers
5 as is, so we chose to continue to expense them so that
6 we would align our financial reporting with our rate
7 setting, based on the direction we received from the
8 Board in April of 2016.

9 And now that we are with the panel, you
10 know -- in front of the Board today, we are asking on
11 a go-forward basis to be consistent with electric, and
12 that they -- those costs would be capitalized now on a
13 go-forward basis, the same as our electric operations.

14 MS. DAYNA STEINFELD: So perhaps if we
15 could turn to page 69 of Board counsel book of
16 documents, PUB-25. And just scrolling.

17

18 (BRIEF PAUSE)

19

20 MS. DAYNA STEINFELD: Sorry. Page
21 67.

22

23 (BRIEF PAUSE)

24

25 MS. DAYNA STEINFELD: And if we can

1 just stop there, Ms. Bauerlein, Centra's -- sent a
2 letter to the Board asking that outside of any Board
3 adjudication or hearing process, the Board confirm
4 that Centra could begin capitalizing the expense in
5 2016/'17, or con -- sorry, can we scroll up a little
6 bit?

7 Sorry, back up towards the top of the
8 page -- beginning in 2015/'16, sorry.

9 MS. SANDY BAUERLEIN: All right, with
10 restatement of 2014/'15, because for IFRS, we had to
11 restate our prior year.

12 MS. DAYNA STEINFELD: And if we scroll
13 down to the excerpt of the Board's response, the Board
14 essentially indicates that that request should be
15 considered in a general rate application process and
16 not through approval by letter, as requested by
17 Centra?

18 MS. SANDY BAUERLEIN: Correct. So we
19 received the Board's letter, and because the Board had
20 requested that they defer that decision til the next
21 General Rate Application, we again aligned our
22 financial reporting -- financial statements with rate-
23 setting, and so continue to expense those costs, and
24 those costs are then being recovered in the rates
25 currently charged to customers.

1 MS. DAYNA STEINFELD: And if we go one
2 (1) page over to page 68, con -- this continues the
3 excerpt from the Board's letter. Here, there's an
4 occasion that the Board expected that the next General
5 Rate Application would be heard in 2017. Do you see
6 that there?

7 MS. SANDY BAUERLEIN: Yes.

8 MS. DAYNA STEINFELD: So if Centra had
9 come in for a General Rate Application earlier than it
10 did, would Centra have sought to capitalize these
11 costs beginning at -- at that earlier point in time,
12 whenever it was?

13 MS. SANDY BAUERLEIN: Yes, we probably
14 would have, yeah.

15 MS. DAYNA STEINFELD: And because as
16 you say, Centra had not come before the Board for a
17 General Rate Application, and continued to expense
18 those costs on Centra's statements, if we were to look
19 at the consolidated statement, we would see that
20 there's a consolidated net income impact of positive
21 \$15.3 million.

22 Do I have that right?

23 MS. SANDY BAUERLEIN: Yes. If you
24 look to -- if you just scroll a few pages in this
25 particular IR, keep scrolling, right there. You can

1 stop there.

2 So, in essence, this is what we've been
3 doing. We have been on that consolidated books.
4 We've been removing those costs from O&A, so -- which
5 is why you see it as that -- with brackets around it.
6 We've been charging that to property, plant, and
7 equipment on the consolidated books, and depreciating
8 those assets. So you can see under the column of net
9 income, there is a \$15.3 million impact on the
10 consolidated books.

11 I would like to note, though, that as a
12 Crown utility, we really recover our costs from the
13 electric and the gas. There's no investors. So this
14 15.3 million has not gone to a shareholder in some
15 form of a dividend. It is simply sitting there on the
16 consolidated books. And as you can see, it's been a -
17 - unwinding, because it -- originally, it have been 21
18 million, but you can -- each year, you're
19 depreciating.

20 And if you scroll down further, just a
21 little bit further, here, you'll see the continued
22 depreciation of that. So by 2027/'28, on the
23 consolidated books, it will be fully depreciated. So
24 it's naturally unwinding.

25 Those costs were expensed in Centra's

1 books. They'd been recovered in rates. This entry is
2 simply for, really, financial reporting purposes. And
3 it is not being -- there's no -- there's no -- I don't
4 really think of it as a profit adjustment, because it
5 didn't go anywhere. It just sits on the books.

6 That fifteen point three (15.3) is,
7 like I said, not a profit that has then turned into
8 some dividend or payment to a shareholder. It just
9 sits on the books and then naturally will unwind as
10 the -- as it's depreciated over the -- over the next
11 number of years.

12 MS. DAYNA STEINFELD: So you're
13 getting ahead of me a bit, Ms. Bauerlein. So I -- I
14 may get you to repeat some of that. But if we go back
15 and you say that, you know, it's not -- the fifteen
16 point three (15.3) is not going to a shareholder, that
17 Manitoba Hydro and Centra are Crowns, who gets the
18 benefit of the \$15.3 million in additional net income
19 that is currently showing on the consolidated
20 statement?

21

22 (BRIEF PAUSE)

23

24 MS. SANDY BAUERLEIN: I guess the
25 utility -- the total utility -- Manitoba Hydro consol

1 has higher retained earnings as a result of it, to the
2 tune of, I guess, \$15 million. But our overall
3 retained earnings are 3 billion.

4 So again, it's -- it's not really
5 material, so I don't -- I'm not sure I really see that
6 there is -- what was your question again, Dayna?

7 MS. DAYNA STEINFELD: Well, maybe I'll
8 -- I'll take a -- you answered my question, so I'll --
9 I'll take it to the next step, which is you've also
10 said that Centra paid -- that Centra ratepayers paid
11 that amount in rates over this period of time,
12 correct?

13 MS. SANDY BAUERLEIN: Yes, because
14 those costs have been expensed. So when -- they were
15 in revenue requirement, and so rates are set to
16 recover revenue requirement and meter exchange costs,
17 or meter set costs -- is that what you call them --
18 meter set costs are part of our O&A. So they've been
19 recovered every year, and as such, customers have
20 already paid for that -- that function, that service.

21 MS. DAYNA STEINFELD: But if we look
22 at the \$15.3 million in net income on the consolidated
23 statement, that doesn't show anywhere on Centra's
24 financials that have been filed with this Board?

25 MS. SANDY BAUERLEIN: Correct. It's

1 on the consolidated statements, not on Centra's
2 statements.

3 MS. DAYNA STEINFELD: And it also
4 wouldn't be on the statements that Manitoba Hydro
5 files with this Board for regulatory purposes, other
6 than on the consolidated statement?

7 MS. SANDY BAUERLEIN: Correct. It's
8 only on the consolidated statements. Manitoba Hydro
9 files electric statements, typically, for our electric
10 GRAs, and our gas statements for the natural gas
11 General Rate Applications, and at a high level,
12 sometimes gives our consolidated numbers.

13 MS. DAYNA STEINFELD: And when you
14 referenced the \$3 billion in retained earnings, that
15 was consolidation-wide?

16 MS. SANDY BAUERLEIN: Yes. That's
17 approximately 3 billion is our consolidated wide
18 retained earnings. So again, this fifteen point three
19 (15.3) is not material on the consolidated operations
20 of -- of Manitoba Hydro.

21 MS. DAYNA STEINFELD: Would you
22 consider it material on the Centra side of operations?

23 MS. SANDY BAUERLEIN: Fifteen million
24 on Centra would be material, but again, as we've
25 commented, ratepayers have already paid for this. So

1 where we just find that CAC's recommendation to
2 actually transfer this back to Centra's books just
3 adds a lot more complexity. You've -- you -- it's
4 been in revenue requirement. It's been in O&A. So
5 we've already recovered those costs.

6 By transferring them to -- by
7 transferring this balance over to Centra, we would
8 have to create what's called the regulatory asset, and
9 then we would have to depreciate that regulatory
10 asset. So from a theoretical perspective, customers
11 will have paid for it, and then will theoretically
12 sort of pay for it again through depreciation expense.

13 So again, it -- I -- I find it adds
14 more complexity to the process, and a lot more
15 confusion than we need to. Like, I -- I -- I'm not --
16 Centra right now is asking for no revenue change.
17 Customers are seeing -- residential customers will see
18 rate decreases of approximately, you know, 10 percent.

19 Yes, you could make this change, but it
20 will add, as Mr. Czarnecki always calls it, the
21 accounting voodoo. So we're -- we're -- we would make
22 things a lot more complex in trying to create this
23 regulatory asset, depreciate it, trying to explain how
24 we would adjust future rates accordingly, because
25 we've supposed -- you know, recovered those already

1 once through customers.

2 So again, yes, we can do this. Do we
3 want to go there, I guess, is the question. Do we
4 want to add more complexity on the books of Centra and
5 to try and discuss these types of things at hearings.
6 I -- I find a lot of our accounting's already fairly
7 complex, and trying to explain it sometimes is very
8 difficult, and I just feel that -- that's the case
9 here, that it would just add more complexity by doing
10 that entry.

11 Ratepayers have paid for it. And
12 again, if we then change it to a regulatory asset,
13 you're amortizing it over the next ten (10) years. So
14 those ratepayers are paying again. Do you give a rate
15 decrease to the customers of today to compensate for
16 that? And what about the ratepayers of the next ten
17 (10) years? Do you really need to get into that
18 discussion?

19 And we're thinking we're trying to keep
20 things fairly simple. We've expensed it, customers
21 have paid for it. On a go-forward basis we -- we
22 propose to capitalize those costs to have that
23 consistency so that we don't have to continue with
24 this adjustment on our consolidated books. I think
25 I'll stop there.

1 BOARD MEMBER WATSON: Just for
2 clarity, there's a gentleman this morning that
3 mentioned that part of his wage is allocated to a
4 separate company. I think it was Mr. ...

5 Does that other company get put back
6 into the consolidated financial statements of Manitoba
7 Hydro?

8 MS. SANDY BAUERLEIN: Yes. So Minell
9 is a small little pipeline company that is part of the
10 consolidated books of Manitoba Hydro.

11 BOARD MEMBER WATSON: And also there's
12 a --

13 MS. SANDY BAUERLEIN: It has no
14 employees. It's a little piece of pipe near the
15 Manitoba/Saskatchewan border, and so it's really the
16 costs associated with maintaining and -- and operating
17 that pipe.

18 BOARD MEMBER WATSON: And there's also
19 telecommunications, I think you run, and something --

20 MS. SANDY BAUERLEIN: We have a
21 subsidiary called Manitoba Hydro International, so
22 again they have their own financial statements which
23 would roll up to the consolidated, so --

24 BOARD MEMBER WATSON: Everything --
25 all the subsidiaries end up in the consolidated --

1 MS. SANDY BAUERLEIN: Correct,
2 correct.

3 BOARD MEMBER WATSON: Okay.

4 MS. SANDY BAUERLEIN: But this 15.3
5 isn't passed back to Manitoba Hydro International.
6 It's like you have Electric, you have Gas, you have
7 some of our smaller subsidiaries like Manitoba Hydro
8 International, Minell, and then you have the -- and
9 all of them rolled up to the consolidated entity.

10 BOARD MEMBER WATSON: Okay. And how
11 many subsidiaries are there in total?

12 MS. SANDY BAUERLEIN: There -- they're
13 very small. There's Manitoba Hydro International,
14 there is Manitoba Hydro Utility Services, which is the
15 meter reading, there is Teshmont, which is -- we own
16 40 percent shares in Teshmont Engineering, and there
17 is Minell, so there are four (4).

18 And Centra. Centra is considered a
19 subsidiary as well, yes. I don't think I'm missing
20 anything.

21 BOARD MEMBER WATSON: Okay, thank you.

22 MS. SANDY BAUERLEIN: Any the others
23 are very, very small.

24

25 CONTINUED BY MS. DAYNA STEINFELD:

1 MS. DAYNA STEINFELD: And, Ms.
2 Bauerlein, I promise I will take you to Mr. Rainkie's
3 recommendation, but I'm actually not quite ready to go
4 there, although you have answered some of my questions
5 about it.

6 But if we can take a step back, you've
7 said a few times now that ratepayers have paid it, and
8 by that you mean that Centra ratepayers in rates, over
9 the 2014/15 through 2018/19 period were paying these
10 costs as expenses in their rates, correct?

11 MS. SANDY BAUERLEIN: That is correct.

12 MS. DAYNA STEINFELD: And had Centra
13 come in sooner and sought the Board's approval and
14 been granted the Board's approval to capitalize those
15 expenses, those ratepayers of the past would not have
16 paid those costs as an expense, correct?

17 MS. SANDY BAUERLEIN: They would have
18 only paid the depreciation piece because that
19 depreciation would have been a revenue requirement and
20 potentially maybe rates adjusted, but we did not come
21 in --

22 MS. DAYNA STEINFELD: So right now the
23 depreciation expense as well would only be on the
24 consolidated statement?

25 MS. SANDY BAUERLEIN: Correct. So

1 it's naturally -- I call it naturally unwinding. So
2 this 15 million eventually goes down to zero because
3 you see in '19/20, for example, we will depreciate
4 2,125,000, same in '20/21, '21/22. So we'll continue
5 to depreciate on the consolidated books, which will --
6 isn't impacting any ratepayer because that's
7 independent of the Electric and -- and Gas operations.

8 MS. DAYNA STEINFELD: But all else
9 being equal, Centra's net income would have been
10 higher had these expenses been capitalized in an
11 earlier year.

12 MS. SANDY BAUERLEIN: That is correct.

13 MS. DAYNA STEINFELD: And Centra's
14 position is that while a change should be made going
15 forward from 2019/20 on, nothing should be done
16 retroactively for that '14/15 to '18/19 period.

17 MS. SANDY BAUERLEIN: Correct. Our
18 position is to try and keep things simple. Like I
19 said, I just feel there's just so much complexity with
20 all our regulatory deferrals as is, and so we're
21 suggesting that it be done on a go-forward basis
22 rather than trying to create a regulatory asset to
23 transfer this balance from the consolidated book back
24 to Centra.

25 MS. DAYNA STEINFELD: And in -- in

1 Centra's view is it fair to customers who paid rates
2 that were set on the basis of these costs being
3 expensed to not make a retroactive adjustment?

4 MS. SANDY BAUERLEIN: I think it's
5 fair because again, I mean, you would be no -- I sort
6 of see -- it is what it is, so ratepayers have now --
7 you know, they paid for this cost. It might actually
8 be different ratepayers now, and if you're going to
9 create a regulatory asset and depreciate it over a
10 ten-year time frame or -- or whatever the Board would
11 -- would deem appropriate, it's different, perhaps
12 different sets of ratepayers. So I believe what we've
13 done is -- is -- is fair. It's reasonable.

14 MS. DAYNA STEINFELD: And, Ms.
15 Bauerlein, I think what you're saying, if I can put
16 maybe a regulatory buzz phrase on it, is that there
17 might be an intergenerational equity issue if you
18 credit that benefit now.

19 MS. SANDY BAUERLEIN: Yes, to a degree
20 there might be. I mean, the customer of 2014/15 may
21 not be here today. They've already paid for it. They
22 wouldn't get the benefit of us transferring this back.
23 Again, it's a short period of time. This can be done.
24 I'm not saying it's not possible. I'm just trying to
25 keep things as sort of less complex, or accounting as

1 less complex as possible.

2 MS. DAYNA STEINFELD: And if the Board
3 approves the accounting change commencing in the test
4 year, are there any requirements under accounting
5 standards to have to restate the prior years to the
6 time of the transition to F -- IFRS?

7 MS. SANDY BAUERLEIN: No, there isn't,
8 so we would not do a restatement. This would be a go
9 forward.

10 MS. DAYNA STEINFELD: And you wouldn't
11 have to, under accounting standards, make any
12 adjustments for the retroactive period?

13 MS. SANDY BAUERLEIN: No, because
14 we're saying -- the Board would be saying on a go-
15 forward basis effective for '19/20 we're capitalizing
16 these costs, which is what our recommendation is.

17 MS. DAYNA STEINFELD: And you --
18 you've said a few times that it would be possible to
19 do what Mr. Rainkie is suggesting, which is to in some
20 way credit the 15.3 million to Centra ratepayers. If
21 we start with, I think, Mr. Rainkie's -- I think he
22 calls it his preferred option, which is to treat the
23 15.3 million as a regulatory asset. And then you say
24 that Centra agrees that that regulatory asset could be
25 created.

1 MS. SANDY BAUERLEIN: Yes. If the
2 Board were to direct us to, we would create a
3 regulatory asset because it would be at the direction
4 of the Board for ratesetting purposes. So under IFRS,
5 that's what regulatory assets and liabilities are for,
6 is to reflect the decisions of the Board for
7 ratesetting purposes in our financial statements so
8 that financial reporting and ratesetting are aligned.

9 MS. DAYNA STEINFELD: And what would
10 be the impact on Centra's -- Centra's financial
11 statement of creating that regulatory asset?

12 MS. SANDY BAUERLEIN: So it would be
13 an increase, a debit to a regulatory asset, and it
14 would increase the retained earnings of Centra, so
15 thereby increasing their equity, their level of
16 equity.

17 If I take you to, on that same
18 response, if we go to the next page, page 6 of that
19 response, this kind of -- no, right where you were.
20 Page 5, sorry. My apologies.

21 These are the different scenarios that
22 were requested of -- of Centra to identify the options
23 that could be done. And, for example, in Part D the
24 question was asked, where we set up -- the profit
25 adjustment is set up as a regulatory deferral and

1 amortized into rates over a five or ten-year period,
2 and to give an indication of what would be needed to
3 adjust rates to maintain a 30 percent equity ratio.

4 So in Part D you can see that in CGM18
5 that we filed, there already were indicative rate
6 increases, and if the Board's view is to still
7 maintain a 30, roughly 30 percent equity ratio, it
8 would result in no basically adjustment to the rates
9 we'd be asking. So again you're adding a lot of, I
10 think, confusion for -- you know, and we're trying to
11 show you in our scenario that it doesn't actually
12 result in a change to the rates. It lowers the equity
13 ratio slightly, but it still maintains around the 30
14 percent. I think it drops down to about 29 percent.

15 In Part E they said we'll do the same
16 thing, create a regulatory asset and work towards,
17 instead of a 30 percent equity, a \$3 million of net
18 income, and there is some impacts there in terms of
19 rate increases, but again this is sort of a
20 illustrative model, and so, you know, one (1) of the
21 questions that we -- we pose is whether or not in the
22 future the Board will be setting rates on, you know,
23 the 3 million of net income or the 30 percent equity.
24 So we get into all these kinds of discussions as well
25 in terms of should there be an impact on rates, not an

1 impact on rates, what about other factors.

2 So again it's -- it's all that
3 complexity. Like, when I try and work through each
4 one of these scenarios myself and compare the numbers,
5 tables, and trying to understand what was going on, so
6 if I'm finding it complex, I can only imagine what
7 others might find to be complex, which is why we're
8 just saying let's do this on a go-forward basis rather
9 than try and make this retroactive adjustment.

10 MS. DAYNA STEINFELD: I think you
11 glanced at me when you suggested others might find it
12 complex, and I won't confirm that on the record, but I
13 think another option, and I don't believe you touched
14 on it in your last response, is to treat the 15.3
15 million as an asset where it would be reflected in
16 property, plant, and equipment, and you would see
17 corresponding depreciation over time and that -- you
18 understand that's another option that Mr. Rainkie
19 identifies?

20 MS. SANDY BAUERLEIN: He did, but we
21 would not be -- under IFRS we would have to create a
22 regulatory asset. We simply could not just charge
23 property, plant, and equipment, because it would be
24 deemed as a ratesetting adjustment, so under IFRS we
25 have to reflect the decisions of the regulator in

1 regulatory assets. So while it's outlined as an
2 option, it's -- it's not the practical option that
3 would -- that would actually result.

4 MS. DAYNA STEINFELD: And is one way
5 of dealing with the complexity problem that you've
6 identified to make no adjustments on an accounting
7 level but simply have this Board consider Centra's
8 capital structure \$15.3 million stronger in the course
9 of making its ratesetting decisions?

10 MS. SANDY BAUERLEIN: I always try to
11 have our financial -- what we see financially aligned
12 with ratesetting, so they can make those
13 considerations, but then when they're looking at, you
14 know, next year, next application we file, our
15 financial statements, and they're not saying that and
16 -- again, I -- I believe the position should be that
17 we should try and align our financial statements.

18 That was the intent of IFRS. That's
19 why they introduced what we call regulatory
20 accounting, so that it would be very transparent that
21 the decisions of the regulator are reflected in the
22 financial statements of the Company.

23 So our preference is to try and keep
24 those things aligned.

25 MS. DAYNA STEINFELD: And --

1 MS. SANDY BAUERLEIN: And I think it
2 again alleviates more or provides less complexity and
3 less confusion when, you know, the statements we
4 provide for financial reporting are aligned with those
5 for --for ratesetting purposes.

6 MS. DAYNA STEINFELD: And just to tie
7 off this area, if -- if the Board was to make a
8 decision that that \$15.3 million related to that prior
9 period should be accounted for on Centra's statement
10 in a way that would make retained earnings \$15.3
11 million higher for Centra, am I right in understanding
12 that that could mean, all else being equal, Centra
13 might need lower rate increases in future years?

14 MS. SANDY BAUERLEIN: It could if --
15 again if you look at the responses here, it worked out
16 if they were still trying to maintain only a \$3
17 million of net income.

18 We know we have, you know, assets that
19 are aging. We know in the future we're going to need
20 additional investment. Is that what we want to do,
21 have lower rate increases to achieve a \$3 million net
22 income or do we want to actually keep our equity ratio
23 at 30 percent? And if we want to keep our equity
24 ration at 30 percent, according to these scenarios,
25 there was no adjustment to rates, so rates weren't

1 being proposed to be lower.

2 So it gets into a more complex
3 discussion about what is it we're trying to -- which
4 is a discussion for another day, but again that to me
5 was my point about complexity. It takes a different
6 direction, a little bit of a different direction.

7 MS. DAYNA STEINFELD: And Centra
8 doesn't actually know if in future years its plan will
9 be to maintain a 30 percent equity.

10 MS. SANDY BAUERLEIN: No. And that
11 really is a PUB -- we've -- we've been kind of aligned
12 with that. The PUB has deemed it to be an appropriate
13 equity level, and so Centra's retained earnings have
14 reflected that 30 percent, approximately around that
15 30 percent for the next number of years.

16 But we know there's a lot of, you know,
17 we're engaged in a long-term strategic planning
18 exercise, a very complex long-term strategic planning
19 exercise currently and you know, we're trying to look
20 at -- at a vision of what the world may look like 20,
21 30 years from now and how we need to -- what
22 strategies and operating environment we need to have
23 in place to be successful 20 or 30 years from now for
24 the benefits of all Manitobans.

25 So what -- how that translates to what

1 our financials need to look like and what our equity
2 needs to look like and other factors is still -- there
3 will be much discussion on this, I'm sure, over the
4 next number of years with both the gas panel and the
5 electric panel, as this evolves.

6 MS. DAYNA STEINFELD: Ms. Bauerlein,
7 I'd like to thank you for your efforts to help me
8 understand accounting today. It's not easy and I -- I
9 thank you for that.

10 Those are my questions in this area,
11 Mr. Chair. I'm informed that Mr. Peters has about
12 fifteen (15) minutes, he says, to ask questions about
13 the furnace replacement program. So we could take a
14 break now or Mr. Peters could address that area and we
15 could take a break at that time.

16 THE CHAIRPERSON: I think we'll
17 continue. Mr. Peters...?

18 MR. BOB PETERS: Thank you, Mr. Chair.

19

20 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

21 MR. BOB PETERS: Ms. Bauerlein, no
22 break for you, I'm afraid, because I understand you
23 too are going to address the furnace replacement
24 program. Is that correct?

25 MS. SANDY BAUERLEIN: That is correct.

1 MR. BOB PETERS: And Ms. Carvell was
2 working overtime yesterday and she sent out a list of
3 approvals sought by the company. One of them was
4 approval of Centra seeking approval of this Board to
5 discontinue funding the furnace replacement program
6 effective November 1st, 2019. Correct?

7 MS. SANDY BAUERLEIN: That is correct.

8 MR. BOB PETERS: And in -- and maybe
9 we can just scroll down to letter D, you'll see that's
10 -- this came out of Centra's letter of application, if
11 memory serves. Is that correct, Ms. Bauerlein?

12 MS. SANDY BAUERLEIN: That is correct.

13 MR. BOB PETERS: If we could turn to
14 that very slim tab 4 of Board Counsel's book of
15 documents, PUB Exhibit 25, and go to page 215, we will
16 see a table there, Ms. Bauerlein, that I would like to
17 use and invite those with paper copies to mark it up.

18 But as I understand this table, Ms.
19 Bauerlein, under the 2019/20 column, Centra is sitting
20 at the beginning of the year with about 27.1 million
21 dollars worth of money that is in the furnace
22 replacement fund.

23 MS. SANDY BAUERLEIN: That is correct.

24 MR. BOB PETERS: And, Centra plans on
25 there being some money put into that fund, depending

1 on when the GRA is and the GRA order, but there was
2 going to be some -- some funding from the SGS class in
3 the current year?

4 MS. SANDY BAUERLEIN: Yes, that there
5 would be funding up until a Board order decision, if
6 the Board accepts us to discontinue funding that, so,
7 yes.

8 MR. BOB PETERS: And now Centra is
9 aware that the Boards timeline is probably more along
10 the lines of targeting a November 1, 2019 rate order.
11 Are you aware of that?

12 MS. SANDY BAUERLEIN: Yes.

13 MR. BOB PETERS: And so Centra's
14 request is then to still discontinue the funding and
15 make no more contributions from consumers to this fund
16 after November 1st of 2019?

17 MS. SANDY BAUERLEIN: That is correct.

18 MR. BOB PETERS: We see also on this
19 chart on the screen under the 2019/20 column, that
20 there is disbursements in brackets, \$2.395 million
21 dollars, which is telling the Board that Centra plans
22 to spend \$2.395 million dollars replacing inefficient
23 furnaces for low-income customers and replacing them
24 with high-efficiency furnaces, this test year.

25 MS. SANDY BAUERLEIN: That is correct.

1 So they were upgrading their standard
2 efficiency natural gas to a high efficiency furnace,
3 yes, in this year.

4 MR. BOB PETERS: And what's
5 interesting also on here is there is an interest row
6 indicating that Centra has been required to accrue
7 interest to these monies that have been paid by
8 consumers, correct?

9 MS. SANDY BAUERLEIN: Correct.

10 MR. BOB PETERS: We continue down, and
11 the ending balance estimates about \$26.1 million
12 dollars at year end, correct?

13 MS. SANDY BAUERLEIN: That is correct.

14 MR. BOB PETERS: Also shown in the
15 next column, 2020/21 forecast, there is a roll call
16 proposed disposition and we see \$17.3 million dollars
17 there, correct?

18 MS. SANDY BAUERLEIN: That is correct.

19 We are proposing to leave enough money
20 in the fund to adequately support future requirements
21 of the program up until basically you'll see the
22 program identified as -- that we would have basically
23 saturated the market, we've addressed the issue by
24 about '25/'26, with just a little bit more -- a few
25 just minor disbursements I think related to boilers in

1 '26/'27 and '27/'28.

2 But that the balance of the fund, the
3 17.3 million be disposed because we wouldn't need that
4 money, we would only need about approximately 13
5 million to be able to address our obligations.

6 MR. BOB PETERS: And it's correct, Ms.
7 Bauerlein, that only the small general service class,
8 which includes residential customers, puts the money
9 into this account every year?

10 MS. SANDY BAUERLEIN: That is correct.

11 MR. BOB PETERS: And that amount is
12 approximately \$3.8 million dollars in consumer rates
13 to fund this program?

14 MS. SANDY BAUERLEIN: That is correct.

15 And so by discontinuing funding it, we
16 are seeing the rate reduction for that customer class.

17 MR. BOB PETERS: You're saying to this
18 Board that if the Board approves Centra's request to
19 stop putting more money into the fund, then consumer
20 rates can go down by that \$3.8 million?

21 MS. SANDY BAUERLEIN: Correct.

22 MR. BOB PETERS: You've also said that
23 this fund appears to have fulfilled its purpose
24 because every inefficient furnace will be replaced in
25 approximately five (5) years from today with a higher

1 efficiency furnace, correct?

2 MS. SANDY BAUERLEIN: That is my
3 understanding. There are others that could speak more
4 fully to that comment, but the understanding is that -
5 - that in the analysis that's been done, we would have
6 addressed the issue.

7 MR. BOB PETERS: And Centra is not
8 proposing any new demand side management programs to
9 continue with that furnace replacement program
10 funding, is it?

11 MS. SANDY BAUERLEIN: No,
12 responsibilities for demand side management are being
13 transferred over to Efficiency Manitoba, effective
14 April 1st of 2020.

15 MR. BOB PETERS: And you're advised
16 and Centra has confidence that they'll have
17 approximately \$17.3 million dollars surplus that will
18 be left over from replacing the inefficient furnaces,
19 correct?

20 MS. SANDY BAUERLEIN: Correct.

21 MR. BOB PETERS: Now, does that
22 suggest when it's being contributed to at about 3.8
23 million a year, that Centra had it come in earlier
24 than this year, probably would have asked the Board to
25 stop the program earlier than today?

1 MS. SANDY BAUERLEIN: They may have,
2 yes. May have. I can't speak to that entirely but I
3 would assume that that would be the case.

4 MR. BOB PETERS: The same rationale
5 would apply, would it not, Ms. Bauerlein, that applies
6 today?

7 MS. SANDY BAUERLEIN: I would believe
8 so.

9 MR. BOB PETERS: All right.

10 And, in terms of what to do with the
11 surplus, Centra's initial position was not to refund
12 that \$17.3 million dollar expected balance until after
13 the province of Manitoba decides whether to use that
14 money for efforts undertaken by Efficiency Manitoba,
15 correct?

16 MS. SANDY BAUERLEIN: Well,
17 originally, in the original application, our original
18 intention was to seek stakeholder input on
19 alternatives for disposing of the excess funding
20 related to the furnace replacement program.

21 So that was our original position.
22 However, we subsequently found out on -- on June 10th
23 that the province released a consultation draft of
24 proposed regulations for the Efficiency Manitoba Hydro
25 Act, which would see the balance of -- that's in the

1 FRP account transferred to Efficiency Manitoba to be
2 used to offset the cost of any natural gas demand side
3 programs.

4 That regulations, the draft that we saw
5 in June, have now been finalized as of August 9th. So
6 we have official regulations from the province that
7 are telling us that that 17.3 million will be
8 transferred under the Efficiency Manitoba Act to
9 Efficiency Manitoba.

10 I do note though, that under the
11 Efficiency Manitoba Act, that the PUB has
12 responsibility to review Efficiency Manitoba's three-
13 year plan, and that you're able to make
14 recommendations to the Minister.

15 So through this legislative
16 responsibility, the PUB could make recommendations on
17 how that residual amount of the FRP could be used in
18 support of future or natural gas GSM initiatives.

19 So from Manitoba Hydro's perspective,
20 we have our instructions, we will transfer the money
21 but there is an opportunity in the PUB's review of the
22 Efficiency Manitoba's plan to provide some direction
23 in terms of how that 17.3 million is used.

24 MR. BOB PETERS: Thank you, Ms.
25 Bauerlein, you got away from me on that, so we're

1 going to come back to a couple of aspects.

2 But on page 216 of Board Counsel's book
3 of documents, the -- the portion you talked about at
4 the bottom of the page is in terms of what to do with
5 this 17 or \$17.3 million dollars of money, and your
6 stakeholder consultations.

7 Some of the possible alternatives that
8 are listed on the bottom of page 216 and onto 217 was
9 return it to the ratepayers, correct?

10 MS. SANDY BAUERLEIN: That is correct.

11 MR. BOB PETERS: Or on the top of the
12 next page, allocate it to support additional gas DSM
13 programs through Efficiency Manitoba, or perhaps
14 allocate it to fund bill affordability initiatives.

15 Those were three that were just thrown
16 out by Centra?

17 MS. SANDY BAUERLEIN: Yes, they were
18 just possible alternatives prior to us receiving the
19 regulations from the province.

20 MR. BOB PETERS: All right.

21 We'll come to the new regulation, but
22 before we do, on the bottom of page 217, just so this
23 Board knows in the chart that's shown, figure 2, that
24 for a typical residential customer, they're
25 highlighted in grey on that chart. Is that your

1 understanding, Ms. Bauerlein?

2 MS. SANDY BAUERLEIN: Yes.

3 MR. BOB PETERS: If this Board was to
4 refund the one -- the 17.3 million over a one-year
5 period, over 12 months of one year, it would equate to
6 approximately an 8 percent rate reduction.

7 Have I got that right?

8 MS. SANDY BAUERLEIN: That is correct.

9 MR. BOB PETERS: And then, likewise,
10 you show if it was over two (2) years it would be
11 about a 4 percent rate reduction, correct?

12 MS. SANDY BAUERLEIN: Correct.

13 MR. BOB PETERS: And then if you went
14 so far as five (5) years it would be more like 1.6
15 percent a year for those five years --

16 MS. SANDY BAUERLEIN: Correct.

17 MR. BOB PETERS: -- as a rate
18 reduction.

19 MS. SANDY BAUERLEIN: Correct.

20 MR. BOB PETERS: Before we leave this
21 chart, Ms. Bauerlein, can you confirm that if it was
22 going to be a one-time bill refund, it would be \$55 to
23 the typical residential customer?

24 MS. SANDY BAUERLEIN: Yes, that is
25 what that chart shows. Yes.

1 MR. BOB PETERS: All right. So let's
2 turn to a new exhibit, PUB Exhibit 26, and I've
3 provided Ms. McMillin with paper copies for the Board,
4 if she has those available.

5 I've also given paper copies to counsel
6 in the room and I believe we have it on the screen in
7 front of us. And if we could, please, turn to the
8 last page of this document, we'll see the
9 highlighting, or we won't see the highlighting. We
10 won't see the highlighting.

11 All right, thank you very much, Ms.
12 Villegas, that's perfect.

13 Mr. Chair and panel members, I'm just
14 on the last page of Efficiency Manitoba Regulation.

15 It is noted to be regulation that has
16 now been given a number, 119/2019 and as Ms. Bauerlein
17 indicated, it was registered by the province on August
18 9th, 2019.

19 Have I got that right, Ms. Bauerlein?

20 MS. SANDY BAUERLEIN: Yes.

21 MR. BOB PETERS: Now, let's just turn
22 to the last page where this regulation and I know Ms.
23 Czarnecki's hand is hovering over the microphone, I'm
24 not asking for legal interpretations, but I want to
25 come back to some of the things you've already said to

1 this panel about this regulation.

2 The FRP account, the furnace
3 replacement account, is the one that was shown on
4 Board Counsel's book of documents, page 215, with the
5 approximate test year balance of \$27.1 million
6 dollars, Ms. Bauerlein?

7 MS. SANDY BAUERLEIN: That is correct.

8 MR. BOB PETERS: It says now, if we go
9 down to 15(2) and we scroll so we can read more of
10 that:

11 "No further money is to be allocated
12 to the FRP account, but it's
13 qualified saying effective April
14 1st"

15 Do you see that?

16 MS. SANDY BAUERLEIN: Yes, I do.

17 MR. BOB PETERS: That's not Centra's
18 request of this Board, is it?

19 MS. SANDY BAUERLEIN: No, it is not.

20 MR. BOB PETERS: Centra is saying to
21 this Board, stop contributing money to the furnace
22 replacement program from consumers in the November
23 1st, 2019 rates, correct?

24 MS. SANDY BAUERLEIN: That is what was
25 -- yes, in our application.

1 MR. BOB PETERS: And that remains your
2 application?

3 MS. SANDY BAUERLEIN: Correct, we have
4 not amended that application.

5 MR. BOB PETERS: All right.

6 In 15.2(b) it talks about there being a
7 residual amount in the FRP account as of April 1st of
8 2020. Do you see that?

9 MS. SANDY BAUERLEIN: Yes, I do.

10 MR. BOB PETERS: And will you agree
11 with me that the residual amount in that account on
12 approximately April 1st of 2020, and Ms. Villegas, if
13 we can go back to page 215 of Board Counsel's book of
14 documents, and if we can look, please, to the column
15 that is headed 2020/21, we see there's an opening
16 balance of about \$26.1 million dollars under the --
17 under the 2020/21 column, where the cursor is.

18 Do you see that, Ms. Bauerlein?

19 MS. SANDY BAUERLEIN: Yes.

20 MR. BOB PETERS: And that's going to
21 be -- is that what Manitoba Hydro says is the residual
22 amount as of April 1st, 2020?

23 MS. SANDY BAUERLEIN: I'm not sure.
24 I'm not sure, it's a question that I don't know that I
25 can answer.

1 MR. BOB PETERS: What you're stuck on
2 is does this residual amount mean the 26.1 million or
3 does it maybe meant the 17.3 million --

4 MS. SANDY BAUERLEIN: Correct.

5 MR. BOB PETERS: -- you don't know the
6 answer to that?

7 MS. SANDY BAUERLEIN: Correct.

8 MR. BOB PETERS: Okay. If we go down
9 to 15(3) back on PUB Exhibit 26, this is a paragraph
10 you talked to the Board about in an answer about five
11 (5) minutes ago.

12 You were suggesting this Board has the
13 jurisdiction to determine how the residual amount is
14 to be allocated between Centra's customer classes.

15 Do you remember that discussion you had
16 with the Board just a few minutes ago? Looking blank,
17 you don't remember it.

18 You were suggesting that this Board
19 would have a say in what would happen to the residual
20 amount. Do you recall that?

21 MS. SANDY BAUERLEIN: Yes, under the
22 Efficiency Manitoba Act and their review of that
23 Efficiency Manitoba three-year plan it is my
24 understanding that they would be able to have a say.

25 MR. BOB PETERS: And that say would

1 amount to this Board making a recommendation to the
2 Minister, not this Board deciding which customer class
3 would get what specific programs?

4 MS. SANDY BAUERLEIN: Correct, that's
5 my understanding.

6 MR. BOB PETERS: Yes, your
7 understanding is that this Board provides the
8 recommendations, it doesn't have the final say as to
9 what happens with the Efficiency Manitoba programs?

10 MS. SANDY BAUERLEIN: That's my
11 understanding, yes.

12 MR. BOB PETERS: All right. You can
13 never be wrong about your own understandings, even if
14 they were wrong, but let's keep going here.

15 If the 15(4) provides that if this
16 furnace replacement program is to be continued under
17 and approved efficiency plan, Manitoba Hydro is out
18 and Efficiency Manitoba is in to do it.

19 Is that your understanding as well?

20 MS. SANDY BAUERLEIN: That's how I
21 would interpret it.

22 MR. BOB PETERS: That is how you would
23 interpret it?

24 MS. SANDY BAUERLEIN: Yes, as a non-
25 legal person and not involved in the writing of these

1 regulations.

2 MR. BOB PETERS: That's -- that's
3 passing the buck to your lawyers, so we'll -- I'm sure
4 we're going to hear from Mr. Czarnecki and Ms. Carvell
5 in closing submissions on this. But before we leave
6 it, when we go back to Board Counsel's book of
7 documents, page 215, and we look under that column
8 that's called "disbursements", sorry, the row that's
9 called "disbursements" and we follow it through, we
10 see, as you told us before, Ms. Bauerlein, that over
11 the next five years this furnace replacement program
12 is going to continue with a goal to replacing every
13 inefficient furnace for low-income customers with a
14 high-efficiency furnace, correct?

15 MS. SANDY BAUERLEIN: That was the
16 initial assumption, yes, that would be from Manitoba
17 Hydro's perspective what would happen, yes.

18 MR. BOB PETERS: That would be from
19 Centra Gas's perspective?

20 MS. SANDY BAUERLEIN: Centra Gas's,
21 yes, sorry.

22 MR. BOB PETERS: And so who was going
23 to do that furnace replacement work? Was it going to
24 be Centra Gas that was going to do it?

25 MS. SANDY BAUERLEIN: I don't know the

1 answer to that question.

2 MR. BOB PETERS: Well, when you gave
3 your answer to that question, who did you assume was
4 going to be doing that work? When you said that it
5 was going to be done over the next five (5) years.

6 MS. SANDY BAUERLEIN: I assume it
7 would be -- I'm assuming Centra Gas. I may need
8 further clarification from Ms. Morrison on this.

9 MR. BOB PETERS: All right. So, let's
10 go back to a question that I did pose to you before we
11 got to this regulation.

12 If this Board determines that the
13 residual amount as of April 1st, it could be zero if
14 the \$17.3 million dollars was refunded in one lump sum
15 to gas customers on the November 1st, 2019 rates,
16 correct?

17 MR. BRENT CZARNECKI: I'm -- I'm going
18 to jump in on that one (1) because I'm sure that
19 depends on the interpretation of the residual amount
20 as contained in the regulation.

21 And she's already said she's just
22 reading it as it's presented and we're not sure what
23 residual amount may or may not be, so.

24 MR. BOB PETERS: Thank you. That's --
25 I'll -- I'll accept that as being a fair

1 qualification. With those answers, Mr. Chair...

2

3

(BRIEF PAUSE)

4

5 CONTINUED BY MR. BOB PETERS:

6

MR. BOB PETERS: Ms. Bauerlein, the
7 test year that this Board is considering from Centra
8 is the 2019/'20 test year, correct?

9

MS. SANDY BAUERLEIN: That is correct.

10

MR. BOB PETERS: And if the Board
11 decides that this furnace replacement program which on
12 an annual basis would receive about \$3.8 million of
13 funding, if that program was to cease receiving funds
14 as of March 31 of 2019, would it be correct that any
15 moneys that have collected after March 31, meaning
16 starting April 1 the current test year, those moneys
17 that would be collected from the SGS customers, would
18 that end up going into the net income of the
19 Corporation?

20

MS. SANDY BAUERLEIN: I would assume
21 that they would still have gone to the deferral
22 account, so, therefore, not part of net income because
23 they're not part of revenue.

24

MR. BOB PETERS: Okay, let me -- let
25 me --

1 MS. SANDY BAUERLEIN: -- go back to
2 those amounts from customers, but they're not recorded
3 in revenue. They sit in a deferral. Again, that
4 would be my assumption, not -- as Mr. Czarnecki said,
5 I don't have a full appreciation for some of the
6 impacts of the regulations.

7 But if we were to continue to fund it
8 to March 31st of 2020, I would assume it would be
9 still treated the exact same way.

10 MR. BOB PETERS: And, Mr. Bauerlein,
11 either I misspoke, you misunderstood, or you changed
12 the question. I was assuming that the funding stopped
13 on March 31st of 2019 so that starting April 1st of
14 2019, the beginning of the test year that's before
15 this Board, this Board determines that no moneys are
16 to be put into the furnace replacement program such
17 that Centra's still collecting the money, but there's
18 no program in which to put it.

19 And my suggestion was then, does the
20 money that's collected end up flowing through to the
21 net income of the Utility?

22

23 (BRIEF PAUSE)

24

25 MS. SANDY BAUERLEIN: Again, I'm --

1 I'm not sure. I'm just not sure. I'm -- I'm not --
2 yes, I mean, theoretically, that would happen. But
3 whether or not under these regulations, if there's
4 some different interpretations, if we -- if the -- the
5 money that we collected for this fiscal year would be
6 allowed to go to Centra's income, I'm not -- I don't
7 want to -- I don't know. I'm sorry.

8 MR. BOB PETERS: And -- and, Ms.
9 Bauerlein, I don't want you to consider the regulation
10 in giving me the answer. I just want the accounting.

11 MS. SANDY BAUERLEIN: From an
12 accounting perspective, yes, it would increase
13 revenues because it would no longer be going to a
14 deferral account.

15 MR. BOB PETERS: And so, when I
16 started asking you questions today about what was
17 being sought in terms of approvals from Ms. Carvell's
18 email of last night, Centra's asking for approval
19 effective November 1 of 2019.

20 But if this Board, for whatever reason,
21 decides that the funding should be discontinued as of
22 March 31 of 2019, then you're telling the Board,
23 whatever moneys have collected would flow to the net
24 income of the Company?

25 MS. SANDY BAUERLEIN: Yes, I believe

1 so, ignoring the regulation issue.

2 MR. BOB PETERS: And you've made that
3 caveat and your lawyers taught you well. So, with
4 that question and answer, Mr. Chair, I have no further
5 questions before the afternoon recess.

6 And I will start asking questions on
7 capital matters with both Mr. Steele and Mr. Starodub
8 after the break. Thank you.

9 MR. MICHAEL WATSON: Two (2)
10 questions. I believe Mr. Peters asked you the
11 question about, if you had come in earlier for a
12 hearing since the last one, would you have asked for a
13 reduction of the funding.

14 And you said you weren't too sure. Any
15 time in the last six (6) years you thought about
16 reducing? Because the statistics show that what you
17 were funding to what you were actually paying out is a
18 difference of about \$1.6 million per year.

19 MS. SANDY BAUERLEIN: Yes, we -- I
20 guess because I'm not responsible for this program, so
21 I -- I'm sort of -- I don't want to give definitive
22 answers in case I -- I'm not correct.

23 But it is my understanding in checking
24 with Mr. Czarnecki that we actually asked for it to be
25 discontinued in 2013/'14. And the PUB did not agree

1 with that recommendation at that time.

2 So, in all likelihood, we would have --
3 if we'd come back sooner, between '13/'14 and now, we
4 would have also asked for a discontinuance of the
5 funding.

6 MR. MICHAEL WATSON: Okay. And for
7 clarity, the spreadsheet goes out to 2028. And we all
8 understand Efficiency Manitoba's being created. So,
9 for example, five (5) years from now, if someone wants
10 to replace their furnace, they contact Manitoba Hydro.

11 Why isn't the entire program being
12 transferred to Efficiency Manitoba. Why in the next
13 six (6) are you still been as -- the furnace repair --
14 or furnace replacement program?

15 MS. SANDY BAUERLEIN: I'm not sure
16 that -- this was just an assumption, I think, for
17 forecasting purposes.

18 MR. MICHAEL WATSON: Okay.

19 MS. SANDY BAUERLEIN: I don't know. I
20 would need to validate with the person responsible
21 whether they really felt that that was the case or if
22 tho -- that transfer responsibility would actually
23 have gone to Efficiency Manitoba. I -- I'm not sure.

24 It was not my area of responsibility
25 and I'm not that comfor -- familiar with the -- the

1 details of how this program was intended to be
2 managed.

3 We could find out for you what the
4 assumptions were.

5 MR. MICHAEL WATSON: Okay. Thank you.

6 MS. SANDY BAUERLEIN: It was just
7 really a forecast assumption. I -- I don't even know
8 that all the details maybe were even worked out in
9 terms of how things are going to transpire between
10 Manitoba -- or Centra Gas, Manitoba Hydro, and
11 Efficiency Manitoba.

12 MR. MICHAEL WATSON: Mr. Peters wants
13 to --

14 MR. BOB PETERS: I understood Board
15 member Wa -- Watson was asking that Centra would take
16 that as an undertaking, to come back and provide some
17 -- some detail to your second last response, Ms.
18 Bauerlein?

19 MS. SANDY BAUERLEIN: Yes, we can
20 confirm with Ms. Morrison --

21 MR. BOB PETERS: And you can even put
22 on the record what the exact -- what you're going to
23 seek to confirm, please.

24 MS. SANDY BAUERLEIN: Yeah. We're
25 going to seek to confirm who was assumed responsible

1 for the replacement of furnaces in the out years,
2 right, beyond 2019/'20. Is that correct, Mr. Watson?

3 MR. MICHAEL WATSON: Correct.

4 MS. SANDY BAUERLEIN: Okay.

5

6 --- UNDERTAKING NO. 3: Centra to seek to confirm
7 who was assumed
8 responsible for the
9 replacement of furnaces in
10 the out years, right,
11 beyond 2019/'20.

12

13 THE CHAIRPERSON: Very good. At this
14 time, we'll take a break for fifteen (15) minutes.

15

16 --- Upon recessing at 2:42 p.m.

17 --- Upon commencing at 3:00 p.m.

18

19 THE CHAIRPERSON: Mr. Peters...?

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: Yes. Thank you, Mr.
23 Chair. I want to turn to the areas in which the Board
24 has requested there be additional evidence provided
25 through oral cross-examinations on capital

1 expenditures.

2 And, Mr. Bauerlein, I can't get away
3 from you on this, so you're going to still have to
4 help us just for a few minutes.

5 You can confirm that Centra has not
6 sought Board approval for any capital expenditures
7 since the last General Rate Application in 2013?

8 MS. SANDY BAUERLEIN: That is correct.

9 MR. BOB PETERS: And Centra has not
10 specifically requested Board approvals for the revenue
11 required amounts, such as finance expense and
12 depression related to new capital expenditures since
13 2013?

14 MS. SANDY BAUERLEIN: Correct. The --
15 those -- the revenue requirement is now in front of
16 the Board in this Hearing, yes, so not since '13/'14.

17 MR. BOB PETERS: And -- and the reason
18 it hasn't been asked sin -- prior to today is because
19 Centra hasn't come before the Board with a rate case
20 or any application since 2013?

21 MS. SANDY BAUERLEIN: Correct. We
22 haven't come forward with a rate application since
23 2013/'14. That is correct.

24 MR. BOB PETERS: All right. I'm going
25 to ask --

1 MS. SANDY BAUERLEIN: There are
2 ongoing meetings between the PUB and some of the
3 operation, you know, staff with Centra to provide
4 general updates.

5 MR. BOB PETERS: If I could ask for
6 Appendix, I think it was -- 3.6 is one (1) that Ms.
7 Steinfeld and Ms. Bauerlein referred to earlier. And
8 I think Appendix 3.6 was the -- do I have it right,
9 Ms. Bauerlein, that it is the Board -- Manitoba Hydro
10 electric board responsible for Centra Gas Manitoba
11 Inc.'s approval of an operating statement for the
12 2019/'20 test year?

13 Sorry, your microphone.

14 MS. SANDY BAUERLEIN: That is correct.

15 MR. BOB PETERS: All right. And so,
16 when Centra makes an application to the Board, as it
17 did in 2013 as well as what it's doing today, Centra
18 is including in its revenue requirement components
19 related to capital expenditures.

20 Do you agree with that?

21 MS. SANDY BAUERLEIN: Yes. It
22 includes the finance interest costs once an asset is
23 placed in service in revenue requirement and the
24 depression of that asset.

25 MR. BOB PETERS: So --

1 MS. SANDY BAUERLEIN: Once again, the
2 asset is placed in service.

3 MR. BOB PETERS: Let me interrupt.
4 I'm just apologizing. If we can scroll so we can see
5 lower down. Right there, in terms of the expenses,
6 please.

7 What you're telling the Board is that,
8 when Mr. Steele and Mr. Starodub finish up a capital
9 project, they come knocking on your office the day
10 that it's in service and say you've now got to change
11 the accounting treatment for the costs related to this
12 project?

13 MS. SANDY BAUERLEIN: Correct. It now
14 is no longer considered construction work in progress
15 but an asset in property, plant and equipment which is
16 then depreciated over the life of the asset.

17 MR. BOB PETERS: So keeping with an
18 example you gave the Board earlier, Ms. Bauerlein,
19 let's just suppose that the asset is a hundred dollars
20 in -- in -- I know it likely wouldn't be a capital
21 asset at that price, but -- but let's just suppose
22 it's a hundred dollar capital asset that has been put
23 into service.

24 And then we -- they -- you come to
25 these expenses that you see that make up the revenue

1 requirement of the Company, and there would be some
2 component that would need to be allocated for this on
3 account of depreciation and amortization, as you've
4 said, correct?

5 MS. SANDY BAUERLEIN: Correct.

6 MR. BOB PETERS: And over -- if this
7 asset of a hundred dollars has a ten (10) year life,
8 you would add ten dollars (\$10) a year for the next
9 ten (10) years under the depreciation and amortization
10 line?

11 MS. SANDY BAUERLEIN: That is correct.

12 MR. BOB PETERS: And in addition to
13 the depreciation, Centra is paying for this asset
14 partly financed on its debt, partly financed on its
15 equity, so there would be a finance expense component
16 for this asset, as well?

17 MS. SANDY BAUERLEIN: That is correct.

18 MR. BOB PETERS: And then, not to
19 belabour it, but even though it's a shiny, new asset,
20 there may be some operating and administrative
21 expenses that need to be expended to keep this asset
22 working properly.

23 And that would show up on the operating
24 and administrative line?

25 MS. SANDY BAUERLEIN: Correct.

1 MR. BOB PETERS: And then lastly but
2 not least, somebody wants taxes. Every time somebody
3 makes a capital investment, Manitoba Hy -- Hydro and
4 Centra Gas have to account for it by way of capital
5 tax, and that's paid to the Province, or they may have
6 to pay to municipality grants in lieu of taxes.

7 And that would show up on the capital
8 and other taxes line?

9 MS. SANDY BAUERLEIN: Correct. So,
10 capital taxes is based on the amount and le --
11 basically, the level of debt that we have. And then
12 we might have also property taxes, as well, that we
13 pay, and grants in lieu of taxes, yes.

14 MR. BOB PETERS: Now, what makes these
15 expenses that are before you on the screen from
16 Appendix 3.6 so large in terms of the -- the million
17 dollars is that, not just that new hundred dollar
18 asset that has just been turned into service or turned
19 over to be into commercial service, but Mr. Steele and
20 Mr. Starodub have already done millions and millions
21 of other projects -- sorry, millions and millions of
22 dollars worth of other projects that have already been
23 in service and you are, on these same expense line
24 items, tracking the operating and administration, the
25 finance, depreciation, and taxes for them, as well,

1 correct?

2 MS. SANDY BAUERLEIN: Correct. You'll
3 see on the next page, if you actually went to the next
4 page, that in-service net of accumulated depreciation,
5 the approved budget is 579 million of assets that we
6 would be continuing to depreciation and would have
7 associated finance expense, et cetera.

8 MR. BOB PETERS: All right. And I
9 thank -- I thank you for that and putting to the order
10 of magnitude in which we're talking.

11 There's a point that hasn't been made,
12 Mr. Bauerlein, is that Centra is using what we call a
13 future test year when it comes to seek rate increases
14 from this Board, correct?

15

16 (BRIEF PAUSE)

17

18 MS. SANDY BAUERLEIN: It's a test
19 year. I have difficulty with the word 'future' as it
20 is August of 2019, so we are almost halfway done this
21 fiscal year.

22 MR. BOB PETERS: Okay.

23 MS. SANDY BAUERLEIN: Typically, the
24 timing is -- is different.

25 MR. BOB PETERS: All right. I have

1 your -- your point. But my point is, when you filed
2 this application on November 30th of 2018, the test
3 year was in the future?

4 MS. SANDY BAUERLEIN: That is correct.

5 MR. BOB PETERS: And I'm not sure --
6 I'm not sure if you're aware that using a future test
7 year was a request made by Centra of this Board many
8 years ago.

9 Are you aware of that?

10 MS. SANDY BAUERLEIN: No, I'm not
11 aware of that.

12 MR. BOB PETERS: Well, I never thought
13 I'd say this, at least not on the public record so
14 soon after his retirement, but where is Mr. Barnlund
15 when you need him?

16 So, you're not aware that in prior
17 cases years ago, Centra wasn't using a forecasted
18 future period of time to estimate its costs and set
19 rates, but Centra was in -- in fact using sensibly a
20 rearview mirror to look historically to the year that
21 it just finished as to what its rates would be for the
22 following year.

23 You're not aware of that?

24 MS. SANDY BAUERLEIN: I was not aware
25 of that.

1 MR. BOB PETERS: Well, then you, too,
2 learned something today, Mr. Bauerlein, if I'm --

3 MS. SANDY BAUERLEIN: Always
4 continually learning.

5 MR. BOB PETERS: Thank you. So, some
6 of these 2019/'20 test year projects that are in the
7 capital expenditure forecast, Mr. Steele, have already
8 been started in 2019 and before today, correct?

9 MR. CHUCK STEELE: Ye -- yes, that's
10 correct.

11 MR. BOB PETERS: And so, it follows
12 then that there was no express PUB approval for those
13 test year projects or for the revenue requirement
14 components of those projects prior to shovels being
15 put in the ground?

16 MR. CHUCK STEELE: Not -- not for the
17 projects.

18 MR. BOB PETERS: Okay. Are you
19 distinguishing projects from programs?

20 MR. CHUCK STEELE: Or sorry, not for
21 the projects or programs. I can't really speak to the
22 revenue requirement because --

23 MR. BOB PETERS: Okay.

24 MR. CHUCK STEELE: -- I believe that
25 those projects and programs would have been included

1 in the revenue requirement --

2 MR. BOB PETERS: All right. And --

3 MR. CHUCK STEELE: -- or any

4 associated costs.

5 MR. BOB PETERS: Yes. So, let's just

6 ask that question, clear it up with Ms. Bauerlein.

7 Mr. Bauerlein, if a capital project was forecast to be

8 in service in the test year, you've included it in

9 Appendix 3.6?

10 And we can go back to the previous page

11 where we list all of the expenses.

12 MS. SANDY BAUERLEIN: That is correct.

13 MR. BOB PETERS: All right. And, Ms.

14 Bauerlein, my next question isn't meant to elicit any

15 legal conclusions, although you did adequately on the

16 -- on the regulation.

17 But from a practical point of view,

18 from an accounting perspective, would the Board be

19 correct in understanding that, if a capital project

20 was not approved by this Board, then Centra would not

21 seek to recover any of those associated costs,

22 including the financing expense and depression in the

23 rates that are being charged to the ratepayers?

24

25 (BRIEF PAUSE)

1 MS. SANDY BAUERLEIN: I guess where
2 I'm having a little bit of difficulty with the
3 question is that, under legislation, Centra is -- is
4 regulated under a rate base rate of return, but past
5 precedent or bench -- you know, for sort of past
6 precedent of PUB orders looks to it from a cost of
7 service model.

8 So, under rate base rate of return
9 model, typically, that would be for an investor-only
10 utility typically where rate base is used. So, when a
11 project is disallowed out of rate base, it's up to the
12 investor then to -- to cover the costs of that
13 project, that -- that capital asset, because you're
14 taking it out of rate base.

15 Under a cost of service model, we're
16 supposed to be recovering the cost to serve the
17 customer. So, I -- I'm just not sure where this sort
18 of fits in from that -- that regulatory perspective.

19 I do know that the Board uses the rate
20 base rate of return as a sort of benchmark guideline.
21 But it's my understanding, and I'm no expert on this,
22 is that they tend to look under a cost of service
23 model which simply then wouldn't be looking at
24 specific disallowance of -- of projects but would be
25 looking at the reasonableness of the res -- revenue

1 requirement.

2 MR. BOB PETERS: All right. So, let's
3 -- let's leave the regulatory side. And I just want
4 to go with the accounting side, Mr. Bauerlein, if I
5 can ask you to do that, that if that hundred dollar
6 capital project that Mr. Steele and Mr. Starodub
7 turned over to you -- turned over to the Company was
8 one (1) that this Board said, hold on a second here,
9 that's -- that's not a prudent expenditure and we
10 don't want ratepayers to pay for that, we're not going
11 to include that in the cost of service, then from an
12 accounting perspective, any of those costs that you've
13 already included in the forecast operating statement
14 would have to be removed.

15 Would you agree with that?

16

17 (BRIEF PAUSE)

18

19 MS. SANDY BAUERLEIN: For financial
20 reporting purposes, if we -- if -- if Centra said, no,
21 we are doing this project, we believe this is in the
22 best interest of our customers, we would have then the
23 item placed in service. We would do the work. We
24 would incur the cost.

25 We would reflect those at those costs

1 in our financial statements. They would be
2 depreciated. You would have the financing costs
3 associated with that.

4 As I mentioned earlier, under IFRS, we
5 have the choice about implementing things for rate
6 setting purposes versus financial reporting purposes,
7 but the standard really only contemplated timing
8 difference of when you would recognize those costs.

9 So, for example, for financial
10 reporting purposes, we might incur a hundred dollars
11 worth of costs today in O&A. And the PUB decides that
12 that cost is not to be reflected as -- in just one (1)
13 year, they want it spread out over five (5) years.

14 So, we would create a regulatory asset.
15 And we would take those costs, basically, out of O&A
16 and depreciate that asset over five (5) years. If, in
17 this case, you're telling me there's -- I'm going to
18 call it a disallowance, you're not allowing those
19 costs to be recovered, I don't have a mechanism from
20 an accounting perspective to deal that.

21 So, you would actually have two (2)
22 sets of books. You would have a rate setting set of
23 books that would have no asset in its books and,
24 therefore, no depreciation and no interests and no O&A
25 associated with it. And then you'd have the financial

1 reporting books.

2 I -- it was my understanding from
3 hearing a number -- a few years ago on the electric
4 side that the intention or the -- the Public Utilities
5 Board was respectful of having one (1) set of books so
6 that they wanted the decisions of the regulator to be
7 reflected in the financial statements to avoid this
8 complexity of, well, this is what -- when I produce my
9 annual report, or I give you quarterly statements, why
10 they don't look different than what -- for rate-
11 setting purposes.

12 So if I'm -- I'm trying to answer this
13 from an accounting perspective, I really don't know --
14 I wouldn't be able to do it in the financial
15 statements. I would have to create a separate set of
16 books to actually remove that asset, because you're
17 not asking that it be reflected over a different time
18 period. You're actually asking that it not be
19 recovered at all.

20 MR. BOB PETERS: And would that
21 disallowance, as the word that you used, would that
22 show up on the audited financial statements and not
23 the -- not the financial statements for rate-setting
24 purposes, Ms. Bauerlein?

25 MS. SANDY BAUERLEIN: No. It would

1 appear on the statements for rate setting. Because
2 for rate setting, the Board is saying, Don't allow
3 that asset. But for financial reporting, Centra
4 decided they needed to build -- not for financial
5 reporting, but to meet -- Centra's management said, We
6 need to do that. We need to construct this asset. We
7 need to put this pipe in the ground.

8 So we would have that asset. It would
9 physically exist, so we have to record it. We have to
10 depreciate that asset. So on the financial
11 statements, you would have that asset on the audited
12 financial statements.

13 On the rate-setting books, you would
14 not have that asset, because the Board would say,
15 Well, it doesn't exist. I don't want it included and
16 recovered from rate -- in rates.

17 So then you've got that disconnect
18 between what your audited financial statements say,
19 and what your rate-setting books say. And at the end
20 of the day, the more you continue to disallow things,
21 you'll have -- your revenues would not be recovering
22 your actual costs, because we've decided to build that
23 asset. We've incurred those costs, so we have the
24 financing costs, and we have the depreciation.

25 If the rates are set, assuming that

1 asset didn't exist, then you -- in rate -- in -- in
2 reality, we would start eventually, over time, to
3 start seeing net losses, because you -- your revenue
4 you receive from your customers doesn't recover the
5 costs that you've actually incurred.

6 And it's management's view that the --
7 and -- and I know Mr. Steele and Mr. Starodub will
8 talk about the fact that the investments they've
9 chosen to proceed with, they believe are the right
10 investments to maintain safe, reliable service. And -
11 - and as, you know, engineers and experts in this,
12 that -- that they believe those are the right
13 expenditures to make to mitigate any risk to
14 customers.

15 So again, we would incur those
16 expenditures. We would not have the revenue, so we
17 would, on financial statements, be showing more net
18 losses, and we would have a separate set of books for
19 rate-setting purposes.

20 MR. BOB PETERS: So, Ms. Bauerlein,
21 thank you for that. I want to give you a hypothetical
22 example, and I'll make it admittedly a ridiculous
23 hypothetical example, and I want to know if the answer
24 you just gave the Board would still apply.

25 Are you up for that?

1 All right. Let's suppose,
2 hypothetically, that the Corporation decided that the
3 Company's president, or the most senior person on the
4 gas side, needed a gold-plated Cadillac to drive
5 around in. And the gold plating on that car cost lots
6 of money. The car is capitalized, and it's now a
7 capital asset of the company.

8 You're with me so far?

9 MS. SANDY BAUERLEIN: Yes.

10 MR. BOB PETERS: And let's just
11 suppose somebody in the Corporation thought that was a
12 great idea, but it comes to this Board, and they don't
13 have the same understanding. They say, No, if your
14 president -- if your senior people want gold-plated
15 Cadillacs, it's not going to be paid for by the
16 ratepayers of the gas utility.

17 You still with me?

18 MS. SANDY BAUERLEIN: Yes, I'm still
19 with you.

20 MR. BOB PETERS: And in my
21 hypothetical example, then when Centra comes before
22 this Board to set its rates, it's not going to include
23 under its operating, finance, depreciation, and taxes,
24 any costs that are accumulated related to that gold-
25 plated Cadillac.

1 Am I correct on that?

2 MS. SANDY BAUERLEIN: Yes, which to me
3 would be the rate-setting books, the books that --

4 MR. BOB PETERS: All right.

5 MS. SANDY BAUERLEIN: -- for rate-
6 setting purposes, don't have those costs in there.

7 MR. BOB PETERS: And then if you
8 wanted to go to the Corporation's audited financial
9 statements that are used in building up, I suppose,
10 the consolidated statements, the costs associated with
11 that gold-plated Cadillac would exist in those books?

12 MS. SANDY BAUERLEIN: Correct.

13 MR. BOB PETERS: Okay. I think we're
14 on the same page in -- in understanding it, but on the
15 rate-setting books, if the expenses are not allowed,
16 it could mean that it reduces Centra's net income, and
17 ultimately, its retained earnings in -- in a given
18 test year.

19 Would you agree with that?

20 MS. SANDY BAUERLEIN: In the financial
21 reporting books, yeah, the audited books, because your
22 -- your revenues aren't recovering your costs. So in
23 your example, you've got costs associated with that
24 gold-plated Cadillac that I would not be recovering.
25 So there is a more likelihood you would have net

1 losses over time. I mean, you have to consider the
2 magnitude of what's being disallowed.

3 MR. BOB PETERS: Ms. Bauerlein, why
4 wouldn't you take that disallowance and just move it
5 from Centra Gas's audited statements, and move it over
6 to the consolidated statements?

7

8 (BRIEF PAUSE)

9

10 MS. SANDY BAUERLEIN: I'm not sure I
11 can do that under financial reporting standards.

12 MR. BOB PETERS: Well, you're doing it
13 with --

14 MS. SANDY BAUERLEIN: That's --

15 MR. BOB PETERS: -- the \$15 million --

16 MS. SANDY BAUERLEIN: But that's a
17 harmonization of accounting policies. This isn't an
18 accounting policy issue. This is a disallowance,
19 which is a regulatory matter.

20 MR. BOB PETERS: All right. I have
21 your point. If -- if the rate-setting books, as
22 you've called them, have a reduced retained earnings
23 amount because of disallowances, at some point in
24 time, Centra's going to come back before the Board and
25 say, Look, our retained earnings are low. Our capital

1 structure isn't at 'X' percent equity anymore, so we
2 need a rate increase to get us back to that capital
3 structure.

4 That's what practically would happen,
5 Ms. Bauerlein?

6 MS. SANDY BAUERLEIN: Yes, but we'd be
7 showing that in the financial reporting statements.
8 Your rate-setting statements might still show an
9 appropriate level of equity. So again, you've got
10 this -- I'm going to be showing you two (2) sets of
11 financial statements, and I want you to understand,
12 this is the one that we actually operate in, and this
13 is the one that we use for rate-setting purposes.

14 So there would be, again, in my
15 opinion, complexity and potential confusion, you know,
16 when we're referring to numbers, and data, and why
17 this is needed. So I -- I -- which is I think some of
18 the rationale as to why the PUB in the past has
19 accepted -- and I'm just going to say 'accepted', not
20 'approved' -- the notion that we have a single set of
21 books that tries to reflect the decisions of the
22 regulator, which typically have been timing
23 differences is when you recognize that expense.

24 MR. BOB PETERS: Ms. Bauerlein, you'd
25 agree that if there's going to be a single set of

1 books, you would like Manitoba Hydro's board to be on
2 the same level and understanding as the Public
3 Utilities Board?

4 MS. SANDY BAUERLEIN: Yes. So the
5 decisions of the regulator are transparent in the
6 books. I mean, that's what regulatory assets and --
7 and I know it's still confusing. We've got these line
8 for net movement, et cetera, but what it does is it
9 tries to reflect in your financial statements the
10 decisions of your regulator, so that the -- the
11 Manitoba Hydro board, Centra board, the -- the Public
12 Utilities Board all understand, here is what things
13 look like for financial reporting purposes, and here
14 is what things look like for regulatory rate-setting
15 purposes.

16 So if we just look at, for example, if
17 you look at this page here, you can see that if you
18 look at the approved budget, if you go down to the
19 line that says net income before net movement in
20 regulatory deferrals, \$2 million. So what that's
21 telling you is under financial reporting standards,
22 our net income would be \$2 million.

23 However, as a result of decisions of
24 the regulator, we are increasing that in -- income,
25 because we are deferring costs to future periods to be

1 recovered by \$1 million. So our net income is \$3
2 million.

3 So it makes it very transparent that
4 the decision of the regulator, absent reg -- regulated
5 accounting, we would have net income of two (2). As a
6 result of rate-regulated accounting, which is --
7 allows for those differences, we show net income of
8 three (3). So it allows everyone to see what sort of
9 the decisions of each of the different parties are,
10 and they're reflected in a single set of financial
11 statements.

12 MR. BOB PETERS: And Ms. Bauerlein,
13 the net movement in regulatory deferral line item that
14 you just drew the panel's attention to deals with the
15 timing differences that you previously mentioned,
16 correct?

17 MS. SANDY BAUERLEIN: Correct.

18 MR. BOB PETERS: It doesn't deal with
19 any disallowances that were in my hypothetical
20 example, correct?

21 MS. SANDY BAUERLEIN: No, it -- it
22 doesn't assume disallowances.

23 MR. BOB PETERS: Okay. And we've --

24 MS. SANDY BAUERLEIN: It -- it --

25 MR. BOB PETERS: -- got your point. I

1 want to move on, if I could, Mr. Steele, to page 140
2 of Board counsel's book of documents, Exhibit 25. And
3 on 140, there's a line item that's called net total
4 costs.

5 Are you with me, sir?

6 MR. CHUCK STEELE: Yes, I am.

7 MR. BOB PETERS: And if at any time
8 you're not, you please -- you and Mr. Starodub please
9 let me know, and we'll make sure we're all on the same
10 page.

11 The purpose of this is just to show
12 this Board that over the next five (5) years, for
13 planning purposes, it appears the capital expenditures
14 are going to be somewhere between the 35 and \$40
15 million a year range, correct?

16 MR. CHUCK STEELE: Yes, that's
17 correct.

18 MR. BOB PETERS: Would it also be
19 correct, Mr. Steele, that for 2021, the -- that's the
20 next test year, right? Next -- not the summer season
21 we're in now, but next summer's construction season?

22 MR. CHUCK STEELE: Yes.

23 MR. BOB PETERS: Centra doesn't have
24 firmed-up plans for what's going to be expended
25 definitely for that period at this point in time?

1 MR. CHUCK STEELE: Not -- not entirely
2 firmed up, no.

3 MR. BOB PETERS: And they won't be
4 firmed up until the capital expenditure forecast
5 number 19 is -- is approved?

6 MR. CHUCK STEELE: Yes, that's
7 correct.

8 MR. BOB PETERS: Can you tell this
9 Board what's the planning cycle that would yield the
10 next capital expenditure forecast? What are the
11 months or the -- the timing to get us there?

12 MR. CHUCK STEELE: If -- if it's all
13 right, I'll have Mr. Starodub for the response.

14 MR. BOB PETERS: Yeah. Mr. Starodub,
15 please interrupt me at any time, and if your colleague
16 makes a mistake, correct him. If he doesn't give you
17 a complete answer, give the Board the complete answer,
18 because that's what we're looking for, please.

19 MR. TIM STARODUB: Okay. Well, thank
20 you, Mr. Peters. Yeah. So -- so our typical cycle --

21 MR. BOB PETERS: And -- and sir, I'm
22 going to ask you to get a lot closer to your
23 microphone, because --

24 MR. TIM STARODUB: It's not working
25 too well?

1 MR. BOB PETERS: No. The mic's
2 working fine.

3 MR. TIM STARODUB: Thank you. All
4 right. So, yes. Our -- our typical planning cycle on
5 -- on gas, our -- a lot of our -- our projects
6 implemented a much quicker pace than a -- a lot of the
7 larger projects you see with Manitoba Hydro. So
8 typically, in a two (2) to three (3) year period.

9 And typically, there are projects that
10 we're doing in -- in the out years, that even 2021,
11 are things that have not yet been identified. Some of
12 the drivers are -- are third parties. You know, some
13 of the -- we will have capacity during projects that
14 res -- are resultant from a large customer coming
15 towards us. Somebody had mentioned Roquette, the pea
16 plant in Portage earlier. We'd had a project driven
17 by them. Or it could be evolving in information
18 that's been identified as a system hazard pipeline
19 integrity project, or information that says that, you
20 know, we have a problem, and that we need to work to
21 address that issue.

22 MR. BOB PETERS: So as we sit here
23 today, when do you envision that CEF capital
24 expenditure forecast 19 will be completed, put to your
25 board of directors, and approved? And there may be

1 two (2) different dates on that.

2 MS. SANDY BAUERLEIN: I'll answer that
3 one. Our capital expenditure forecast will be -- and
4 I don't know what number it will be, so I'm not going
5 to say nineteen (19) -- will be taken to our board
6 along with our budget in the February of 2020
7 timeframe, which will have the capital forecast for
8 the upcoming fiscal year, as well as a projection for
9 the future years.

10 MR. BOB PETERS: Ms. Bauerlein, is
11 that a different process and planning cycle than the
12 Corporation used to -- previously used?

13 MS. SANDY BAUERLEIN: Yes. That
14 planning cycle keeps evolving. We have a requirement
15 under the -- I had mentioned earlier, the Crown
16 Corporations Governance and Accountability Act to
17 provide a budget -- an annual budget to the minister
18 prior to the start of the fiscal year. So we have
19 shifted our planning cycles to align with that.

20 So, the -- that we'll have, as of the,
21 you know, year 1, which would be 2021, is the basis
22 for your -- your out years, as well, so that cycle has
23 shifted.

24 MR. BOB PETERS: Maybe this isn't a
25 point that has been made yet, Ms. Bauerlein, but the

1 Manitoba Hydro Electric Board of Directors has
2 responsibilities for both the electric side and the
3 gas side of the business.

4 Is that correct?

5 MS. SANDY BAUERLEIN: It's the same
6 individuals, but I think they do recognize, and Mr.
7 Czarnecki can add that they're -- they're -- they'll
8 have separate minutes for the Centra Board versus the
9 Manitoba Hydro Electric Board.

10 MR. BOB PETERS: Yeah. And you -- you
11 addressed my question. It's the same people, correct?
12 Yeah.

13 MS. SANDY BAUERLEIN: It is the same
14 people.

15 MR. BOB PETERS: Now, when we look,
16 Mr. Steele and Mr. Starodub, at page 141 of Board
17 counsel's book of documents, we see on the bottom of
18 the page a variance amount.

19 Do you see that?

20 MR. TIM STARODUB: Yes, we do.

21 MR. BOB PETERS: And when Centra looks
22 in its rearview mirror after the capital construction
23 season is over, the utility can determine how much it
24 actually spent, not how much it was forecasting, but
25 how much it actually spent on its programs and its

1 projects, correct?

2 MR. TIM STARODUB: Yes.

3 MR. BOB PETERS: And what you're
4 telling the Board in this Information Request is that,
5 with the benefit of looking in that rearview mirror,
6 Centra hasn't been bang on its construction budget
7 since the years that are shown, from 2012 through to -
8 - to now?

9 MR. TIM STARODUB: That's correct.

10 MR. BOB PETERS: And can you explain
11 to the Board why Centra's capital exte -- expenditure
12 forecast has proven not to be reliable?

13 MR. CHUCK STEELE: I -- I would not
14 chara -- I would not characterize it as unreliable.
15 But I will say -- and I know the following pages of
16 the specific explanations for the variances, but --
17 but generally, it's due to project execution.

18 There -- there may be unanticipated
19 challenges with projects regarding geotechnical --
20 geotechnical conditions or licencing approvals, things
21 that weren't necessarily anticipated when the project
22 scope was fully defined that cause deferrals or
23 potentially advancements to the project execution.

24 MR. BOB PETERS: So, there's cost
25 overruns that are related to not being aware of all of

1 the circumstances at the time the project was costed
2 in the first place?

3 MR. CHUCK STEELE: Possibly, yes.

4 MR. TIM STARODUB: And not
5 necessarily. It's some of -- one (1) of the cost --
6 one (1) of the issues with timing is we've got a
7 number of exter -- external approvals that we need to
8 get in place.

9 We deal with the -- in Manitoba, we
10 deal with the typically limited contracting resources
11 available, and they -- the come into play. We've had
12 years where we've been optimistic on the work that we
13 think that we can get.

14 And then, as we get contractors who are
15 very eager to take all the work but sometimes not able
16 to do -- unfortunately, eagerly execute it all as --
17 as well as they wish.

18 MR. BOB PETERS: But, Mr. Starodub,
19 the -- the pluses aren't balancing out the minuses on
20 this one (1), are they, like, the timing difference
21 that you're talking about?

22 MS. SANDY BAUERLEIN: As if those
23 timing differences would go on into perpetuity. So,
24 you would have -- if you're actually looking at actual
25 individual projects, they may be bang on budget.

1 This is a cash flow. This is the --
2 the year that the cash flow is expected to be
3 expended, and the timing on that can vary. So, it's
4 not saying that the project doesn't come in on budget.
5 This is -- because projects cross fiscal years all the
6 time.

7 This is just saying that the cash flow,
8 the timing of the cash flow, didn't materialize the
9 way we had originally projected.

10 MR. TIM STARODUB: Yes. And if we
11 look at the -- thank you, Ms. Bauerlein. In 2015/'16,
12 the Winnipeg northwest phase 2 project actually came
13 in at approximately \$7 million under budget, so it
14 certainly is a positive thing.

15 MR. BOB PETERS: Does Centra do a
16 true-up afterwards to true up the forecast versus the
17 actuals?

18 MS. SANDY BAUERLEIN: No, we do not.

19 MR. BOB PETERS: I'd like to turn to
20 page 144, if I could. And we're looking here out of a
21 document that I understood to be the capital
22 expenditure eight -- forecast for '18.

23 I'm sorry, CEF18, that is the most
24 current capital expenditure forecast for the utility.
25 Is that correct, Mr. Steele?

1 MR. CHUCK STEELE: Yes.

2 MR. BOB PETERS: And for the text year
3 that we're in, it's -- 2020 is the heading. Is that
4 also correct?

5 MR. CHUCK STEELE: Yes, it is.

6 MR. BOB PETERS: And you're showing
7 the Board here that the test year plan is to spend
8 \$40.1 million on capital projects?

9 MR. CHUCK STEELE: That is correct.

10 MR. BOB PETERS: Can you tell the
11 Board as you sit here today if the capital
12 expenditures are tracking -- the actuals are tracking
13 to forecast?

14 MR. TIM STARODUB: I'll take over for
15 Mr. Steele on that one. And the actual -- actuals are
16 not tracking to forecast.

17 MR. BOB PETERS: Okay. Are you -- are
18 you imbalanced favourably or infavourably?

19 MR. TIM STARODUB: You know, I'm not
20 sure if favourably to me is someone who likes to build
21 stuff would be wanting to build more. We've had some
22 issues with some projects, so they will be deferred
23 timing wise of some of them -- or, you know, we would
24 consider to be outside of our control.

25 One (1) of the projects that's been

1 identified, Waverley West is -- it's in an area that's
2 going to be impacted by Manitoba infrastructures, new
3 St. Norbert's Bypass.

4 We had been working with Manitoba
5 infrastructure for a pipeline alignment. Last October
6 we met with them. They gave us these nice minutes of
7 the meeting with senior Manitoba infrastructure
8 personnel and consultant personnel saying that, yes,
9 that's a really nice place to put your pipe.

10 When we sent them design drawings in
11 this February for approval so we could get started on
12 the project this year, they said that, Oh, we forgot
13 to tell you we're putting a road there, we have
14 another lovely place for you to put your pipe, but we
15 have to expropriate the property from the City of
16 Winnipeg, and that's not happening this year.

17 So, this is a project that's not
18 happening this year.

19 MR. BOB PETERS: So, I hear you saying
20 that -- that Centra's not going to spend \$40.1
21 million, it's going to spend something less than that
22 in this test year?

23 MR. TIM STARODUB: It will certainly
24 spend something less than that.

25 MR. BOB PETERS: And as disappointed

1 as you are, you're going to hopefully make that up in
2 some future year. You're going to move that project
3 out into another year?

4 MR. TIM STARODUB: The project will be
5 -- it will not be cancelled. It will be deferred.
6 And it will be acted on as quickly as we can.

7 MR. BOB PETERS: All right. Ms.
8 Bauerlein, there was discussion about the -- the
9 northwest fi -- I'm sorry. There was some indication
10 that the northwest project had come in under budget.

11 Did I hear that correctly?

12 MR. TIM STARODUB: Yes, you did hear
13 that correctly.

14 MR. BOB PETERS: And, Ms. Bauerlein,
15 how do you -- how do you know that if there's no true-
16 up or reconciliation done?

17 MS. SANDY BAUERLEIN: I guess maybe
18 don't -- I guess I don't maybe understand what you
19 mean by, "True-up," or, "Reconciliation." We report
20 actuals in budget. We know project total, like,
21 annual cash flow against annual budget, total project
22 expenditures against -- so, we know for a fact that
23 the project came in.

24 We put it in service. We would cash
25 flow the actual depreciation knowing the value of that

1 asset based on what went in service. So, I -- I guess
2 I -- when I was thinking true-up, I was thinking that
3 you somehow adjust your actuals.

4 I didn't -- I guess maybe I didn't -- I
5 should have clarified, what did you mean by the word
6 'true-up'.

7 MR. BOB PETERS: All right. I've got
8 your point now. On page 145 of Board counsel's book
9 of documents we see a pie chart, Mr. Steele and Mr.
10 Starodub.

11 That pie chart is labeled for the
12 2018/'19 fiscal year, correct?

13 MR. CHUCK STEELE: Yes.

14 MR. BOB PETERS: Would you agree that
15 it's approximately correct for the 2019/'20 test year?

16 MR. CHUCK STEELE: Yes, I would agree
17 with that.

18 MR. BOB PETERS: And in terms of what
19 Centra is spending, you're telling the Board in this
20 pie chart that capacity and growth, or the green
21 segment, is about 44 percent of a budget, correct?

22 MR. CHUCK STEELE: Yes.

23 MR. BOB PETERS: And that's primarily
24 related to an obligation to attach new customers?

25 MR. CHUCK STEELE: Primarily, yes.

1 MR. BOB PETERS: And then, on the
2 sustainment side, the -- the pink side of the pie
3 chart, that's to take care of Centra's existing
4 customers, is it?

5 MR. CHUCK STEELE: Essentially, yes.

6 MR. BOB PETERS: And in taking care of
7 Centra's existing customers, where 56 percent of the
8 budget is forecast to be spent, as much as 19 percent
9 of the total budget is spent on mandated compliance,
10 according to this chart, correct?

11 MR. CHUCK STEELE: Yes.

12 MR. BOB PETERS: And mandated
13 compliance is related to safety?

14 MR. TIM STARODUB: Safety would be
15 part of it. Mandated compliance would -- would deal
16 with pipeline integrity issues, such as insufficient
17 cover. But the mandated compliance would also include
18 things like the meter exchange.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: And on the renewals
23 underneath that, where 19 percent is also spent on
24 renewals, that's sustentially -- essentially replacing
25 old parts with new parts?

1 MR. TIM STARODUB: Yes. It's things
2 like our stations programs.

3 MR. BOB PETERS: And then, when we
4 see, "System efficiency," that's 18 percent of the
5 budget is spent to make the system work even better
6 than it currently does?

7 MR. TIM STARODUB: Yes.

8 MR. BOB PETERS: Would Centra agree
9 that the renewal 19 percent number and the efficiency
10 19 percent number are areas where asset management
11 science can inform the utility as to which capital
12 projects are required and when?

13 MR. TIM STARODUB: We would believe
14 that that would be -- asset management would -- would
15 certainly assist us in those areas.

16 MR. BOB PETERS: Would you also agree
17 that, from the efficiency 19 percent and from the
18 renewal 19 percent -- I'm sorry -- yeah, those two (2)
19 items would be what you could consider somewhat
20 discretionary?

21 MR. CHUCK STEELE: I would suggest
22 that none of this expenditure is discretionary. It --
23 it's necessary to ensure the safe and reliable
24 operation of our system.

25 MR. BOB PETERS: And, in past years,

1 you'd give me the same answer for all the other
2 previous years, correct?

3 MR. CHUCK STEELE: Most likely, yes.

4 MR. BOB PETERS: And in those years,
5 you didn't do all the projects you said you were going
6 to do that are -- you're now saying are not
7 discretionary but you didn't do them?

8 MR. CHUCK STEELE: Due -- due to
9 execution challenges, we had to take on additional
10 risk that we wished we didn't have to, but we absorbed
11 that risk as a matter of course due to circumstances
12 that were largely beyond our control.

13 MR. TIM STARODUB: And just for -- for
14 clarification, it -- it's not that we didn't do the
15 projects. We didn't execute them in the original year
16 that they were planned.

17 MR. BOB PETERS: Somebody else decided
18 they were discretionary other than Centra?

19 MR. TIM STARODUB: Sometimes we have
20 those darn third parties get involved.

21 MR. BOB PETERS: Yeah. And I hear
22 what you're saying but, Mr. Steele, back to you. If a
23 project is put into some future time period, that
24 means that Centra had the discretion to move it
25 forward or back?

1 MR. CHUCK STEELE: It means we took on
2 additional risk that we -- we weren't planning on
3 taking on initially.

4 MR. BOB PETERS: So, let's just
5 understand that. Every project in the test year has
6 exactly the same risk as every other project in the
7 test year?

8 MR. CHUCK STEELE: Not necessarily, no
9 -- or, no, they don't.

10 MR. BOB PETERS: And so, your evidence
11 to this Board is that, in terms of your capital
12 budget, if the President walked in and said you've got
13 to cut some money from your capital budget, your first
14 answer is, there's no discretion to do that.

15 And if pressed, you'd tell the
16 President, well, if we do that, we're assuming greater
17 risk. Have I got that summarized correctly?

18 MR. CHUCK STEELE: Yes.

19 MR. BOB PETERS: All right. On page
20 145...

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: We see that in the
25 sustainment category, as we've broken it down, we --

1 we see that broken down further if we turn ahead to
2 page 151 of Board counsel's book of documents -- I'm
3 sorry, page 149 of Board counsel's book of documents.

4 We see in the chart at the bottom that
5 under, "Programs," and under, "Projects," there's
6 sustainment under both of those, correct?

7 MR. CHUCK STEELE: Yes. Yes.

8 MR. BOB PETERS: And -- and I read
9 earlier -- or I thought I read earlier, but maybe just
10 make sure the panel is understanding, you have two (2)
11 headings. One (1) is called, "Programs." One (1) is
12 called, "Projects."

13 Those are both capital expenditures,
14 correct?

15 MR. TIM STARODUB: Yes.

16 MR. BOB PETERS: Programs in the
17 material seems to suggest they're ongoing year after
18 year and they may have a little bit longer horizon,
19 whereas a project is seen as being more confined to a
20 time line that's shorter than a program?

21 MR. TIM STARODUB: Partially. I guess
22 with programs, too, is that we're trying to group
23 similar projects or similar program items, and so
24 they're -- they tend to be smaller -- smaller dollars.

25 And the definition that Centra uses as

1 a project is something that has a capital cost of \$1
2 million or more.

3 MR. BOB PETERS: That's the project
4 definition?

5 MR. TIM STARODUB: That's the project
6 definition.

7 MR. BOB PETERS: And we see if we move
8 to page 151 and look at the chart in the top
9 right-hand corner that Centra was forecasting in its
10 CEF16 about \$154 million on sustainment projects. But
11 in the newest capital expenditure forecast, that
12 amount is increased to \$183 million. Have I got that
13 right?

14 MR. TIM STARODUB: That's correct,
15 yes.

16 MR. BOB PETERS: And so can you
17 explain to this Board why Centra's expenditures in
18 sustainment has increased about \$29 million going
19 between one capital expenditure forecast to the next?

20 MR. TIM STARODUB: I guess one of the
21 things is that Centra is -- is doing more work to get
22 better information on the condition of our system.
23 And it's one of those things that when you start
24 looking for things, you start finding things that you
25 have to spend money to fix.

1 And, you know, part of it's recognizing
2 that, you know, to try and maintain a safe and
3 reliable system, we are dealing with assets that are
4 in excess -- some assets that are in excess of 60
5 years old.

6 Some of them, we don't know the
7 condition of what the asset is. And so, you know, it
8 is one of the things that's been identified as part of
9 our asset management work is it's a gap in the
10 information.

11 So as we try to fill that gap in
12 information, we are finding issues that we want to try
13 and resolve in a proactive manner.

14 MR. BOB PETERS: Centra's
15 acknowledging that they have a gap in their
16 information on their asset management, is it?

17 MR. TIM STARODUB: Yes.

18 MR. BOB PETERS: And Centra is taking
19 steps to fill in that gap as best it can, as quickly
20 as it can.

21 MR. TIM STARODUB: I'm not sure if
22 "quickly" is the right word. But yes, we are
23 certainly working to address that information gap.

24 MR. BOB PETERS: Do you think it can
25 be done quicker than it is?

1 MR. TIM STARODUB: It's all about time
2 and resources. If I had an infinite amount of time
3 and infinite amount of money, yes, we could do it
4 quicker.

5 MR. BOB PETERS: When you identified
6 approximately \$29 million more in the sustainment
7 expenditures, some of that came about as Centra being
8 made aware that there were risks out there you didn't
9 even know you had. Is that fair?

10 MR. TIM STARODUB: I'm not sure.

11 MR. BOB PETERS: Well, you told us you
12 were getting more information on your system, and
13 that's through asset management.

14 MR. TIM STARODUB: Right.

15 MR. BOB PETERS: And that more
16 information led you to believe there were risks out
17 there that you wanted to now head off, and you put
18 them into the capital expenditure forecast by way of
19 remediation.

20 MR. TIM STARODUB: Okay. I would buy
21 that. Thank you.

22 MR. BOB PETERS: And Centra still
23 doesn't have a full asset condition assessment program
24 that will cover off all of the assets of the
25 corporation, does it?

1 MR. TIM STARODUB: Not at this point.
2 We are working to put something in place. One of the
3 challenge with -- with Centra's assets is that
4 primarily everything is buried.

5 So it's -- you know, it's -- we don't
6 have problems with ice storms and a bunch of other
7 issues, but it is a difficult asset to try and
8 determine what the condition is.

9 MR. BOB PETERS: What's the timeline
10 that Centra envisions for having this asset condition
11 assessment capability being complete?

12 MR. TIM STARODUB: You know, the being
13 complete piece is probably a forever. There are
14 certainly things that we are putting in place. You
15 know, one of the key ones for us is a major risk asset
16 that's very important to us is are the larger sized
17 transmission pipelines.

18 So we have a program that's probably --
19 well, it started in 2015 and -- on inline inspection.
20 So that will continue. It will probably be a program
21 converted -- it started as a project. It will be
22 converted to a program because it will be an ongoing
23 piece.

24 MR. BOB PETERS: Does Centra
25 acknowledge that proper asset condition assessment

1 data will have an important role in determining which
2 assets need replacement and when?

3 MR. TIM STARODUB: Absolutely. And
4 that's -- I think that's the -- to me, that's the Holy
5 Grail from an asset management system on the -- on the
6 Centra side. We --

7 MR. BOB PETERS: You also couldn't
8 tell me how many years out till you have your hands on
9 that Holy Grail.

10 MR. TIM STARODUB: That's correct.

11 MR. BOB PETERS: And at this point in
12 time, you can't even hazard a timeline.

13

14 (BRIEF PAUSE)

15

16 MR. TIM STARODUB: Hello. So what we
17 are working on as part of the -- as our larger
18 corporate entity to put in place an asset management
19 plan that -- in the next two (2) to three (3) years.
20 And the ongoing information that we gain from -- from
21 some of the work, such as inline inspection, will be
22 input into this -- into this plan.

23 MR. BOB PETERS: Is it Centra's view
24 that asset condition assessment data will provide
25 Centra with the ability to prioritize which capital

1 expenditures provide the best value for the ratepayer?

2 MR. TIM STARODUB: We believe so. It
3 may take us a while to get there, but that's -- that
4 is certainly a goal.

5 MR. BOB PETERS: When we look on
6 page 152 of the book of documents, we see on the far
7 left-hand columns critical asset groupings, and Centra
8 has divided its sustainment assets, I think, into
9 three (3) critical asset groupings that are shown in
10 that column. Would I have that correct?

11 MR. TIM STARODUB: That's correct,
12 yes.

13 MR. BOB PETERS: So one of them is
14 called "Stations and Control Points," one is called
15 "Pipelines," and the third is called "Services."
16 Correct?

17 MR. TIM STARODUB: Yes.

18 MR. BOB PETERS: And against those
19 groupings, Centra provides what characteristics that
20 Centra would look for to determine whether it's
21 acceptable, whether it's fair or poor, or whether it's
22 in critical need of help.

23 MR. TIM STARODUB: That's correct,
24 yes.

25 MR. BOB PETERS: On page 153, Centra

1 has prepared what it calls the soccer fields to
2 display the asset health of the assets that came out
3 of, I believe, the capital expenditure forecast CEF16.
4 Correct?

5 MR. TIM STARODUB: Yes. It's part of
6 the asset condition assessment report that was done in
7 2016.

8 MR. BOB PETERS: And when we look at
9 the top soccer field or the top part of the page, that
10 has the current asset health on it, at least as of
11 2016. Correct?

12 MR. TIM STARODUB: That represented
13 information we had in 2016. Correct.

14 MR. BOB PETERS: And it's not
15 significantly different than that today, is it?

16 MR. TIM STARODUB: We've probably
17 changed our minds on a few things. Certainly, with
18 information that we're gaining from -- from some of
19 the inline inspection that we've done in the last few
20 years, we're getting a better understanding of
21 corrosion and how corrosion occurs in our system.

22 And corrosion is one of the major
23 degradation mechanisms for -- for our buried steel
24 pipe. So basically, all the high pressure and
25 transmission pressure pipe and a lot of our medium

1 pressure pipe fall under this.

2 And so with the information that we've
3 gained from the inline inspection and some other
4 pipeline integrity activities, we've engaged the
5 corrosion expert to try and help us get a better idea
6 of how corrosion is occurring in our system and to
7 give us a -- help us get a better determination of the
8 use system life.

9 MR. BOB PETERS: And I believe I read
10 in your materials -- you'll tell me if I'm making this
11 up -- but you sent this device into the pipelines to
12 inspect for internal corrosion, and you've been
13 surprised on some occasions that there isn't more
14 corrosion 'cause these pipes are old, and you would
15 have thought there should have been more.

16 MR. TIM STARODUB: Yes. And actually,
17 we sent it in, and it's actually the corrosion we get
18 is on the outside. Natural gas is nice and dry. It's
19 that outside stuff with the clay and mud and
20 everything else that -- varying moisture levels in the
21 soil.

22 And so yes, we've been -- the first
23 pipeline we did pipeline -- inline inspection in 2015.
24 Our two anomalies of concern were external corrosion
25 that needed to be repaired, and basically, we -- we

1 cut those sections out before we returned the pipeline
2 to service.

3 MR. BOB PETERS: And in other
4 occasions, that internal inspection has yielded
5 favourable impressions and --

6 MR. TIM STARODUB: Yes.

7 MR. BOB PETERS: -- less concern about
8 the longevity of the pipe.

9 MR. TIM STARODUB: Yeah. So it
10 certainly helps us to feel more confident that the
11 existing asset is still suitable for a continued,
12 safe, reliable service.

13 MR. BOB PETERS: When we look at
14 page 153 and we look at that soccer field on the top
15 half of the page --

16 MR. TIM STARODUB: Yeah.

17 MR. BOB PETERS: -- would you agree
18 that the asset health appears acceptable for the most
19 part?

20 MR. TIM STARODUB: Yes.

21 MR. BOB PETERS: And the part that's
22 showing a little bit of sign of yellow or the
23 fair/poor category relates to services. Correct?

24 MR. TIM STARODUB: That is correct,
25 yes.

1 MR. BOB PETERS: And just briefly
2 explain to the Board what are the services?

3 MR. TIM STARODUB: Okay. So we have a
4 pipeline medium pressure main runs down the street in
5 front of your house. The service is a connection to
6 the main with a Service-T, typically a small diameter
7 pipe.

8 If you're in an old section of Winnipeg
9 with the steel system, it'll be a 3/4 inch steel pipe.
10 If you're in a newer section of town with plastic
11 piping, it'll be a half inch polyethylene service
12 line.

13 It comes from below grade to above
14 grade with a riser. There is an isolation valve.
15 There is a pressure regulator. And there are the
16 metres that we were talking about earlier with the
17 metre system.

18 And so the typical system -- the mains
19 run 60 PSI, and the pressure regulator reduces that to
20 7 inches water column, which is about a quarter of a
21 PSI which is then piped to the appliances in your
22 house.

23 MR. BOB PETERS: And so it's these
24 services that once you get off of the main
25 distribution system but into the infrastructure that

1 takes it to the homes --

2 MR. TIM STARODUB: Yeah.

3 MR. BOB PETERS: -- that's where it's
4 showing up here as being of some concern.

5 MR. TIM STARODUB: That's correct.

6 MR. BOB PETERS: And that's because of
7 the age of the pipes?

8 MR. TIM STARODUB: It's because of the
9 age, and it's also -- we haven't really done a lot of
10 upgrades or even inspection of those -- of those
11 services.

12 And so as part of the 2016 asset
13 condition assessment report, we had identified that
14 that was an information gap. And so we've actually
15 started a inspection program. We're looking at
16 approximately 250,000 services just to get overall
17 condition, see if there's anything that needs to be
18 resolved.

19 It's like anything that -- a service
20 that's been part of a house for twenty-five (25)
21 years. Some homeowners have built a deck around the
22 service and done other things that would make it
23 difficult for us to respond in a timely manner.

24 MR. BOB PETERS: All right. When we
25 look on the bottom of page 153 and see that the

1 figure 2 -- it's showing the next 20-year forecast for
2 asset health. Correct?

3 MR. TIM STARODUB: That is correct.

4 MR. BOB PETERS: Would you agree or
5 does Centra agree that the 20-year forecast was also
6 based on the CEF16 spending?

7 MR. TIM STARODUB: I would think so,
8 yes.

9 MR. BOB PETERS: And again, the asset
10 health appears to be acceptable, for the most part?

11 MR. TIM STARODUB: It's certainly
12 areas moving to concern.

13 MR. BOB PETERS: That is areas moving
14 towards the fair and the poor, as those yellow line
15 increase?

16 MR. TIM STARODUB: That's correct,
17 yes.

18 MR. BOB PETERS: And does Centra have
19 any more current update than this for this -- for
20 these soccer fields?

21 MR. TIM STARODUB: We haven't -- we
22 haven't done one since -- since that time.

23 MR. BOB PETERS: Is the difference
24 between the top soccer field and the bottom soccer
25 field the explanation for why Centra is spending

1 \$29 million more on its sustainment budget?

2

3 (BRIEF PAUSE)

4

5 MR. TIM STARODUB: I'm sorry,
6 Mr. Steele managed to confuse me. Can I bother you to
7 ask the question again?

8 MR. BOB PETERS: Looking on page 153
9 at -- we see the current asset health in the top
10 soccer field, as it's called, and a 20-year forecast
11 on the bottom. Correct?

12 MR. TIM STARODUB: That's correct,
13 yes.

14 MR. BOB PETERS: You told me earlier
15 that Centra has increased its sustainment budgets by
16 \$29 million. Do you remember that --

17 MR. TIM STARODUB: That's -- yes.

18 MR. BOB PETERS: And is that
19 \$29 million directly tied to the soccer field on the
20 bottom?

21 MR. TIM STARODUB: It is certainly
22 part -- yes.

23 MR. BOB PETERS: Part or all?

24 MR. TIM STARODUB: It is all.

25 MR. BOB PETERS: All? All right. I

1 want to turn to page 156 --

2 MR. TIM STARODUB: Well, I should just
3 qualify that. That's all for known -- known
4 information. So it's -- again, as we look further, we
5 may find further issues. We may -- we may need
6 different -- differing amounts of money.

7 MR. BOB PETERS: You're telling the
8 Board --

9 MR. CHUCK STEELE: And that
10 \$29 million was over ten years, too, I believe.

11 MR. BOB PETERS: It was a ten-year
12 forecast. The years didn't exactly line up, just to
13 be fair to the witnesses, but they were each a
14 ten-year forecast. Correct?

15 MR. CHUCK STEELE: Yeah.

16 MR. BOB PETERS: Okay. I wanted to
17 turn to the Red River crossing at Letellier, Manitoba
18 on page 156 of Board counsel's book of documents.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: We saw earlier -- and
23 if you need a reference, I think it was back on page
24 147 of Board counsel's book of documents -- this
25 Letellier Red River Crossing project is coming -- is

1 budgeted at \$1.6 million.

2 Will you accept that?

3 MR. TIM STARODUB: Yes.

4 MR. BOB PETERS: All right. And this
5 project, as I understand it from the materials, is
6 undertaken to replace not one (1), but two (2) 4 inch
7 transmission pipelines that cross the Red River, where
8 the riverbank is considered to be unstable?

9 MR. TIM STARODUB: That's correct.

10 MR. BOB PETERS: And one (1) of those
11 two (2) pipelines had a -- developed a crack back in
12 2015, if I read the materials right, correct?

13 MR. TIM STARODUB: Yes, April 2015.

14 MR. BOB PETERS: And the second
15 pipeline has had no problems?

16 MR. TIM STARODUB: Not to date, yes.

17 MR. BOB PETERS: And those pipes have
18 been there for decades?

19 MR. TIM STARODUB: Just kind of some
20 his -- history, first, there was a 6 inch transmission
21 pipeline installed in 1962. It was abandoned in 1999,
22 so the pipeline that had the crack and the leak was
23 installed in 1999, and the second pipeline was
24 installed in 1989, and it was added for capac -- to
25 provide additional capacity on the system.

1 MR. BOB PETERS: So the newer pipeline
2 developed the problem, the older pipeline's still
3 fine?

4 MR. TIM STARODUB: Yes.

5 MR. BOB PETERS: On page 176 of Board
6 counsel's book of documents, in response to one (1) of
7 the Consumers' Association of Canada's questions and
8 information responses, Centra provided the one hundred
9 most at risk pipeline segments on the system, correct?

10 MR. TIM STARODUB: That is correct.

11 MR. BOB PETERS: And assuming I knew
12 how to read what's on that chart, am I correct that
13 the Red River Crossing at Letellier is not one (1) of
14 the hundred most at risk pipeline segments in
15 Manitoba?

16 MR. TIM STARODUB: Just give me one
17 (1) second, please.

18

19 (BRIEF PAUSE)

20

21 MR. TIM STARODUB: Sorry. I'm just
22 trying to confirm. We dubbed the -- the two (2)
23 pipeline risk assessment reports done, the 2014
24 version and the 20 -- 2017 version, and I'm just
25 trying to confirm that this was from the 2014 version,

1 so. And it's -- it is? Okay. So, yes.

2 MR. BOB PETERS: Okay. That still
3 didn't answer my question, which was to --

4 MR. TIM STARODUB: But this -- it
5 helps to frame the -- frame the answer is that in
6 2014, when that risk assessment was done, we -- we
7 hadn't yet experienced the leak that happened in 2015,
8 and at that time, it wasn't on the top one hundred
9 (100), based on further information which includes the
10 leak that happened in 2015, it would -- it would move
11 its way up.

12 MR. BOB PETERS: But the leak was
13 fixed, was it not?

14 MR. TIM STARODUB: The leak was fixed.

15 MR. BOB PETERS: Fixed entirely?

16 MR. TIM STARODUB: It was a crack at a
17 -- a elbow, and that elbow was repaired.

18 MR. BOB PETERS: So at that point in
19 time, the pipeline is, again, not at risk? It's been
20 fixed?

21 MR. TIM STARODUB: Well, it's not
22 leaking. I think the issue is not that it's not --
23 it's not that there's a leak. It -- the issue is that
24 we are in a geotechnical area that our geotechnical
25 engineers have indicated to be at risk.

1 Within about half of kilometre or so
2 north of the pipe -- the two (2) pipeline crossings,
3 Manitoba Infrastructure replaced the bridge in 2009
4 due to the existing bridge that had been installed
5 sometime in the late '50s to early '60s having
6 experienced so many issues and repairs that they found
7 it more economic to -- to abandon that bridge and
8 build a new one.

9 MR. BOB PETERS: When Manitoba
10 Infrastructure builds bridges, they reinforce the
11 banks, do they?

12 MR. TIM STARODUB: They did in this
13 situation. There's actually a geotechnical report
14 indicating the two (2) new geotechnical methods that
15 they used to -- to help stabilize the banks in that
16 area.

17 MR. BOB PETERS: When we turn to page
18 179 of Board counsel's book of documents, we see again
19 in response to the Consumers' Association, there was
20 some material provided about -- excuse me -- some of
21 the riskier pipelines. And the one that was
22 identified was the -- as the -- as the most risk, or I
23 think it's number 1 on your chart on page 176 of Board
24 counsel's book of documents, it's -- it's the
25 transmission pipe Red River Crossing near Selkirk,

1 correct?

2 MR. TIM STARODUB: That is correct,
3 yes.

4 MR. BOB PETERS: Has that pipeline
5 been replaced?

6 MR. TIM STARODUB: No. It hasn't been
7 replaced. What we had done is at just -- one (1) of
8 the things that we had mentioned in our -- our IRs and
9 in our submission is that the 2014 and 2017 risk --
10 pipeline risk reports didn't drive any capital
11 projects, but in I -- our IRs, we mentioned that it
12 reaffirmed that some of the work that we were doing
13 was fair and appropriate.

14 So this kind of timing lies -- the 2014
15 risk report was issued in November of 2014, and the
16 insufficient cover issue was identified in 2013. So
17 basically, insufficient cover on the waterway. We had
18 a 12 inch transmission pipeline, which is a major
19 piece of our infrastructure, was sitting on the bottom
20 of the river near Selkirk. Some of it was still
21 covered, and some of it was physically exposed.

22 So we implemented a project -- once we
23 had that information, we implemented a project to use
24 a technique to add fuel over the top of the pipeline.
25 So using dra -- divers, we added approximately a metre

1 to a metre and a half of granular material with a
2 concrete blanket, if -- if you want. It's basically a
3 -- a cable blanket of large concrete blocks which were
4 placed over the granular to provide protection.

5 MR. BOB PETERS: So what you're
6 telling the Board is that the Red River Crossing near
7 Selkirk was --

8 MR. TIM STARODUB: Has been
9 remediated.

10 MR. BOB PETERS: -- was -- sorry?

11 MR. TIM STARODUB: Has been
12 remediated.

13 MR. BOB PETERS: Yes. It was number 1
14 on the list, and it wasn't replaced, but it's been
15 remediate -- remediated in some fashion, yes?

16 MR. TIM STARODUB: Yeah. So -- and
17 actually it had been remedi -- the process had started
18 before the risk report was issued.

19 MR. BOB PETERS: All right. Turning
20 to the 2017 risk assessment on page 181 of Board
21 counsel's book of documents --

22 MR. TIM STARODUB: Okay.

23 MR. BOB PETERS: -- is this the most
24 current risk assessment?

25 MR. TIM STARODUB: It is, yes. It was

1 -- for the 2017 year, it was January 2018.

2 MR. BOB PETERS: And is it also
3 correct that and this assessment in the highlighted
4 portion in the middle of the page is indicating that
5 the vast majority of the pipelines were determined to
6 be of not significant risk, correct?

7 MR. TIM STARODUB: That is correct,
8 yes.

9 MR. BOB PETERS: And that exists
10 today?

11 MR. TIM STARODUB: That exists today,
12 yes.

13 MR. BOB PETERS: There's no more
14 current information than that?

15 MR. TIM STARODUB: Not at this point,
16 no.

17 MR. BOB PETERS: And then it says a
18 small percentage, 4.2 percent of the pipelines near
19 Dauphin, Brandon, Winnipeg, and Selkirk were evaluated
20 as having less significant risk, correct?

21 MR. TIM STARODUB: That is correct,
22 yes.

23 MR. BOB PETERS: And does that take
24 into account the remediation done at Selkirk on the
25 line you just mentioned?

1 MR. TIM STARODUB: Yeah. With the --
2 the remediation complete, that portion of the line
3 wouldn't have -- wouldn't have entered into that 4.2
4 percent.

5 MR. BOB PETERS: Is it correct that
6 this 2017 risk assessment also found that the risk of
7 the Red River Crossing at Letellier was not
8 significant?

9 MR. TIM STARODUB: I would have to go
10 back into the details of the report to -- to check
11 that specifically. It does not highlight it as a
12 specific area of concern.

13 MR. BOB PETERS: You -- you
14 acknowledged it doesn't highlight it as a specific
15 area of concern --

16 MR. TIM STARODUB: That's right.

17 MR. BOB PETERS: -- correct?

18 MR. TIM STARODUB: Yes.

19 MR. BOB PETERS: So what -- why were
20 you going to go back and check the detailed record?

21 MR. TIM STARODUB: At this point, I'm
22 curious where it -- where it comes out, but -- yes.

23 MR. BOB PETERS: All right. You're
24 saying where on the list of top hundred does it come
25 out?

1 MR. TIM STARODUB: Overall, it'll have
2 a -- a ranking, and I -- I do not know where it --
3 what that ranking is at this time.

4 MR. BOB PETERS: All right. So if
5 your counsel is in agreement, I'm going to ask you to
6 undertake to spend the time, review that detailed
7 report and tell the Board where the Red River Crossing
8 at Latellier comes out in this 2017 pipeline
9 assessment. Would you be prepared to do that?

10 MR. TIM STARODUB: Sure.

11 MR. BOB PETERS: And then provide your
12 counsel with whatever document you think will best
13 demonstrate that to the Public Utilities Board.
14 That's acceptable?

15 MR. TIM STARODUB: Absolutely.

16

17 --- UNDERTAKING NO. 4: Centra to review that
18 detailed report and tell
19 the Board where the Red
20 River Crossing at
21 Latellier comes out in
22 this 2017 pipeline
23 assessment

24

25 MR. BOB PETERS: All right. Back to

1 page 150 --

2 THE COURT REPORTER: Was that an
3 undertaking?

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: It -- what -- yes, it
7 was an undertaking, and it was an undertaking for
8 Centra to check the 2017 pipeline risk assessment
9 specifically to find out the details of where the Red
10 River Crossing at Letellier pipeline was ranked and
11 any other information that they can provide through
12 that report.

13 Is that acceptable?

14 MR. TIM STARODUB: Sure.

15 MR. BOB PETERS: Thank you. I'm back
16 on page 156 of the book of documents, and want to look
17 just above this interesting looking machine, there's
18 apparently some risk analysis had been done. Are you
19 with me on that, Mr. Starodub?

20 MR. TIM STARODUB: Yes. Yeah.

21 MR. BOB PETERS: Yeah. Was the
22 justification for the Red River Crossing at Letellier
23 based on the risk assessment methodology as shown here
24 on page 156 of Board counsel's book of documents in
25 Exhibit 25?

1 MR. TIM STARODUB: Yes. Well, it's --
2 the risk analysis that's -- that's done, and I think
3 we described it in one of the IRs, is to assist in
4 communicating to executive and others our overall
5 ranking of that -- of that project.

6 MR. BOB PETERS: Okay. That wasn't my
7 question, although it might be an interesting that --
8 it -- this risk assessment -- this risk assessment
9 that I see on page 156, Mr. Starodub, was that used by
10 Centra to justify spending \$1.4 million on the Red
11 River Crossing at Letellier?

12 MR. TIM STARODUB: That -- that is our
13 ranking of that -- of the risk. So yes, it would be
14 part of the justification.

15 MR. BOB PETERS: Okay, may -- well,
16 let's -- we'll come to that, then. It would be
17 correct that this project, the Red River Crossing at
18 Letellier, wasn't based on some new corporate value
19 framework methodology, but it was based on this risk
20 assessment methodology. Have I got that right?

21 MR. TIM STARODUB: And Mr. Steele did
22 provide me some assistance, is that this is the first
23 project that we used a corporate value framework on.
24 So it is -- at this time, we've -- we've got parallel
25 systems, but it would be the corporate value framework

1 that would be the leader, if you wish, on this one.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: I'm trying to process
6 that answer, Mr. Starodub, as to --

7

MR. TIM STARODUB: I apologize for the
8 confusion.

9

MR. BOB PETERS: Well, it may not be
10 you. I see this -- on page 156, a risk analysis was
11 done, but you're telling the Board that even though
12 you did it, the -- that wasn't what drove this project
13 to be done at Letellier?

14

MR. TIM STARODUB: That is correct.
15 It is --

16

MR. BOB PETERS: The -- the reason the
17 project at Letellier was done was because of a
18 corporate value framework methodology that the
19 Corporation was using?

20

MR. TIM STARODUB: That was the -- the
21 justification, yes.

22

MR. BOB PETERS: All right. Was there
23 judgment of a subject matter expert, whoever that
24 would have been, to say, this is one that's got to get
25 done regardless of what the risk assessment or the

1 corporate value framework says?

2 MR. TIM STARODUB: The information
3 from the subject matter expert would be input into the
4 development of the -- both the corporate value
5 framework and the risk assessment that was done here.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: As I'm understanding
10 your answer, then, Mr. Starodub, that the -- this
11 project -- what got the attention of the executive and
12 caused them to want to write a check for 1.4 million
13 was based on the corporate value framework
14 methodology, correct?

15 MR. TIM STARODUB: That is correct,
16 yes.

17 MR. BOB PETERS: And the corporate
18 value framework methodology is a new framework or new
19 methodology that the Corporation is undertaking?

20 MR. TIM STARODUB: It's new for
21 Centra. It's been in place and in use by Manitoba
22 Hydro for several years.

23 MR. BOB PETERS: How new is it for
24 Centra?

25 MR. TIM STARODUB: Well, one (1) of my

1 con -- points of confusion was I think the Letellier
2 project may have been the first -- first one that --
3 first one for a project for natural gas.

4 MR. BOB PETERS: All right. Then
5 let's skip ahead to page 165, if we could.

6 On page 165, Mr. Starodub, Mr. Steele,
7 we see a capital investment justification form,
8 correct?

9 MR. CHUCK STEELE: Yes, that's
10 correct.

11 MR. BOB PETERS: And it's got your
12 names on it, so you're familiar with it.

13 MR. CHUCK STEELE: Yes.

14 MR. BOB PETERS: And this was the
15 document that got management approval of the project,
16 correct?

17 MR. CHUCK STEELE: Yes, that's
18 correct.

19 MR. BOB PETERS: And we see on page
20 167 at the top under Recommendation that the
21 objectives, if I look to the last line there, was to
22 reduce safety, compliance, and environmental risks
23 associated with the existing location.

24 That's -- that's why this project was
25 undertaken?

1 MR. CHUCK STEELE: Yes.

2 MR. BOB PETERS: On the next page, on
3 168, it says that:

4 "If there was a event in the river
5 crossing portion of the pipeline
6 that was interrupted, the network
7 could still be operated to provide
8 natural gas service to communities
9 on both sides of the Red River."

10 Is that correct?

11 MR. TIM STARODUB: I need to provide
12 some clarification. It's -- I believe that -- if we
13 can go to the PUB's Book of Information, page 174.

14 MR. BOB PETERS: Are you looking at a
15 map?

16 MR. TIM STARODUB: I am looking at a
17 schematic.

18 MR. BOB PETERS: All right. Well, see
19 if we can peak the Panel's interest.

20 MR. TIM STARODUB: It's a very nice
21 schematic.

22 MR. BOB PETERS: Oh, you probably drew
23 it. Okay. Let me -- let me asking the questions and
24 you'll fill in the blanks for us.

25 MR. TIM STARODUB: Okay, thank you.

1 MR. BOB PETERS: We see a vertical
2 line in turquoise or light blue, I'm not even sure
3 what the new names are for these colours, on the far
4 right-hand side of the page that says "TCPL."

5 MR. TIM STARODUB: Yes.

6 MR. BOB PETERS: That's the
7 TransCanada Pipeline that runs from Winnipeg down to
8 Emerson?

9 MR. TIM STARODUB: Correct.

10 MR. BOB PETERS: And that's a source
11 of gas that Centra Gas can tap into that pipe with
12 permission at various locations and provide gas to the
13 Manitoba customers.

14 MR. TIM STARODUB: Yes.

15 MR. BOB PETERS: And that's not the
16 only place that Centra taps into the TransCanada
17 Pipeline. There's many others.

18 MR. TIM STARODUB: Twenty-six (26), I
19 believe, yes.

20 MR. BOB PETERS: So that's one source
21 of gas for communities on these pipes. And as we move
22 from the right-hand side of the page towards the left,
23 there are two (2) parallel blue lines closest to the
24 bottom of the drawings, and they go along until they
25 come to what's highlighted as the Red River.

1 Do you -- do you see that?

2 MR. TIM STARODUB: Yes.

3 MR. BOB PETERS: The Red River was
4 highlighted in yellow, just to -- to highlight it for
5 the Panel, but the project in which we're now talking
6 has to do with the crossing at that exact level.

7 MR. TIM STARODUB: That is correct.

8 MR. BOB PETERS: And I just read you a
9 portion of some Centra material which indicates that
10 if -- if there was a problem in the river, those
11 customers that are going to be on the east side of the
12 river can still be served from TransCanada Pipeline
13 and those customers on the west side of the river will
14 still be served by the remaining pipeline, but if you
15 followed it through all of these sheets of maps, maybe
16 goes as far north as Oakville or near the Trans-Canada
17 Highway.

18 MR. TIM STARODUB: That is the -- the
19 route.

20 MR. BOB PETERS: All right.

21 MR. TIM STARODUB: But if we go back
22 to the first part about communities on the east side
23 of the river, it depends on which pipeline fails.
24 There's -- the valving is shown on -- on the
25 schematic, and so if the -- if you look at Dominion

1 City, which is the second grey circle, or grey
2 rectangle rather, from -- from your right, it is
3 connected to the North pipeline. If the North
4 pipeline fails at the Red River, we will not be able
5 to supply gas to Dominion City and Emerson. We don't
6 -- do not have our method to valve things off in a
7 manner that would permit that line to be isolated.

8 MR. BOB PETERS: Not to be simplistic,
9 but if you pinch the pipe at the Red River, it
10 couldn't still continue to operate, or you put a stop
11 on it there that --

12 MR. TIM STARODUB: We -- that would be
13 our action, would be to try and put a stop on it, but
14 it would be -- if it was a major event at the Red
15 River, we would likely need to shut the -- shut the
16 line down until we were able to deal with it in a safe
17 manner.

18 MR. BOB PETERS: All right. So
19 there's a risk at Dominion City, whether it's the
20 north pipeline or the south pipeline that crosses the
21 river that goes out.

22 MR. TIM STARODUB: That is correct,
23 and it's -- Dominion City is the feed to Emerson, and
24 between the two (2) of them there's approximately
25 three hundred and ten (310) customers.

1 MR. BOB PETERS: All right. And then
2 you answered my next question.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Now what -- you've
7 drawn the Board's attention to, in the bottom right-
8 hand corner, is called the South Loop.

9 MR. TIM STARODUB: Yes.

10 MR. BOB PETERS: And that's -- that's
11 a map that has, I'm going to call it redundancy built
12 in for certain customers.

13 MR. TIM STARODUB: To a certain
14 extent, and it's -- but it is dependent upon the time
15 of year. It's -- Manitoba Hydro -- sorry, Centra is
16 trying to transition to a planning process where we
17 look at both capacity and resiliency and return of
18 service, if you wish. At the time of installation for
19 the second line, it was all about capacity, and to
20 such a point that our planners have indicated that --
21 you know, we were talking earlier about the customer
22 equipment problem program, and, you know, this
23 hypothetical minus 40 day.

24 From a planning perspective we use darn
25 cold, if you were to follow the South Loop, the -- if

1 we have an incident at the Red River that takes both
2 lines out of service, we will have 8,726 customers
3 that will not have gas.

4

5

(BRIEF PAUSE)

6

7 MR. BOB PETERS: Has it been Centra's
8 experience that on Manitoba's coldest days, riverbanks
9 are failing?

10

MR. TIM STARODUB: Not the coldest
11 days, but one (1) of the issues with riverbank
12 crossings is that if a pipe -- if we have problems
13 with a pipe and it's in a ditch and we can get access
14 to it and there might be something that we can -- we
15 can fix in a couple days.

16

2011, we had a the riverbank failure on
17 the Souris River south of Brandon at a place called
18 Bunclody Bridge. We had a six-inch transmission
19 pressure pipeline floating in the -- in the -- in the
20 Souris River during the flooding, and it took -- we
21 were able fortunately to put on a temporary line that
22 we ran across the bridge, adjacent bridge, but it took
23 two and a half (2 1/2) months to replace a new
24 permanent river crossing at that location.

25

So one (1) of our concerns is that,

1 yes, you're correct, it -- the coldest day of the
2 winter isn't when things fail, but it does take a
3 considerable amount of time to deal with a river
4 crossing failure and a new installation.

5 MR. BOB PETERS: But in the example
6 you gave, was there a temporary solution while you
7 were waiting for this permanent fix?

8 MR. TIM STARODUB: There was a
9 temporary solution.

10 MR. BOB PETERS: How long did it take
11 to get the temporary solution up and running?

12 MR. TIM STARODUB: We had a bridge
13 adjacent to the river crossing that the municipality
14 permitted us to run a pipeline literally on top of the
15 bridge. We had that in place in two (2) days, but ...

16

17 (BRIEF PAUSE)

18

19 MR. TIM STARODUB: But -- so that
20 temporary solution was able to keep the gas customers
21 of Boissevain, Killarney, and Deloraine served with
22 gas.

23 In this situation, we don't -- it
24 doesn't appear that we would have a temporary
25 solution.

1 MR. BOB PETERS: So let's just regroup
2 here and we'll stay with this map. Would it be
3 correct for the Board to understand that in order for
4 customers to be interrupted of the magnitude that
5 you're talking about, there would need to be a slope
6 failure that severs or severely damages not one (1)
7 but two (2) of the pipelines that cross the Red River
8 at Letellier, and there would also need to be another
9 unrelated failure somewhere on the transmission
10 pipeline in the South Loop?

11 MR. TIM STARODUB: No. The -- the
12 issue would be the failure of the pipelines at the --
13 at the river crossing only. And just -- just so that
14 everybody is aware, that these two (2) river crossings
15 are probably within ten (10) meters of each other. So
16 if something bad happens to one (1), there's a good
17 chance that something bad that will happen to both of
18 them.

19 MR. BOB PETERS: All right. And then
20 if -- if it did happen at that location, the South
21 Loop would be available to supply the customers that
22 are on the west side of the river, correct?

23 MR. TIM STARODUB: It will be
24 available but not capable at colder winter conditions.
25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Has Centra assessed
4 the likelihood of a scenario where the two (2) river
5 crossings are severed and there is another unrelated
6 failure somewhere else upstream on the South Loop?

7 MR. TIM STARODUB: No, it's not been
8 something that we -- we have considered.

9 MR. BOB PETERS: Back on page 159, if
10 we can just refresh the Board's memory, and I guess
11 we'll go back to page 156. You see that there is a
12 risk rating in the chart on page 156 in Board
13 counsel's Book of Documents, one (1) previous page, if
14 I may. And we see there under risk analysis chart in
15 the middle of the page that the risk rating is given
16 8A. Do you see that?

17 MR. TIM STARODUB: Yes.

18 MR. BOB PETERS: We turn over to page
19 159 and we look on the -- on the chart for 8A and we
20 see that up at the top in red, correct?

21 MR. TIM STARODUB: Correct.

22 MR. BOB PETERS: The middle. And that
23 suggestion is that for both pipelines to fail
24 simultaneously, Centra has determined that that is a
25 possible occurrence, probably one (1) in ten (10)

1 years?

2 MR. TIM STARODUB: Yes.

3 MR. BOB PETERS: Even though it's been
4 more than one (1) in ten (10) years since it -- since
5 the pipelines have been up and running, and you've
6 never had a situation where both have been out at the
7 same time.

8 MR. TIM STARODUB: That is correct.

9 MR. BOB PETERS: You'd agree with me
10 that the coincident failure of a third unrelated
11 pipeline would be much less than one (1) in ten (10)
12 years?

13 MR. TIM STARODUB: I'm not sure what
14 there -- where the third unrelated pipeline is.

15 MR. BOB PETERS: I'm going to say
16 somewhere else on the South Loop upstream of the Red
17 River or to the west of the Red River.

18 MR. TIM STARODUB: Okay. So, and this
19 pipeline is just in the right-of-way or ditch or --

20 MR. BOB PETERS: Anywhere.

21 MR. CHUCK STEELE: You know what, I
22 think what I heard Mr. Starodub say is that these two
23 (2) pipelines are in close proximity --

24 MR. BOB PETERS: M-hm.

25 MR. CHUCK STEELE: -- and the

1 likelihood of them both failing -- and they are in a
2 very unstable part of the riverbank, and the
3 likelihood of them both failing is definitely
4 possible, and during cold winter days when they would
5 both fail, it would have a high consequence.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: When we turn to page
10 156, so instead of using this corporate risk analysis
11 and the risk rating, we would move over to the
12 corporate value framework, correct?

13 MR. TIM STARODUB: Correct.

14 MR. BOB PETERS: And does the
15 corporate value framework produce a ranking or a
16 priority of projects to undertake such as that top
17 hundred list that we previously seen?

18 MR. TIM STARODUB: What the value of
19 the corporate value framework is, it gives you a
20 project score and you -- if you have a large enough
21 portfolio of projects with project scores, you're able
22 to use those as a means of comparison to determine
23 which is the priority project.

24 MR. BOB PETERS: So let's stop there,
25 Mr. Starodub, and let's turn to page 165 and show the

1 Board where this one (1) comes in, if we can. We see
2 on page 165 just in the middle of the page, right
3 there, we see a corporate value of 9,020. Have I got
4 that right?

5 MR. TIM STARODUB: That's correct,
6 yes.

7 MR. BOB PETERS: And then we see that
8 there's a framework score value of dollars per
9 thousand of 6.05, correct?

10 MR. TIM STARODUB: That is correct,
11 yes.

12 MR. BOB PETERS: So explain to the
13 Board briefly what those two (2) numbers tell Centra.

14 MR. TIM STARODUB: Well, any project
15 with a score above a zero is -- is something that has
16 value.

17 MR. BOB PETERS: When you say "has
18 value;" to whom?

19 MR. TIM STARODUB: In the customers in
20 the -- in the corporate value framework, evaluation
21 process, you can have a project that has costs which
22 become a negative number and may not have as much
23 perceived value to actually to make it into a positive
24 project that has a cost above zero.

25 MR. BOB PETERS: All right. So we've

1 got a corporate value score here of 9,020.

2 MR. TIM STARODUB: No.

3 MR. BOB PETERS: Do we have a list of
4 the top hundred to see where this one fits in?

5 MR. TIM STARODUB: Did I mention
6 earlier that this is the first project that has a
7 corporate value framework score for -- for gas?

8 MR. BOB PETERS: So it's number 1 on
9 the list automatically.

10 MR. TIM STARODUB: It's got pretty
11 much close to the top. Yes.

12 MR. BOB PETERS: All right. So it's
13 not compared to others when it's given this value.

14 MR. TIM STARODUB: It's not compared
15 to others at this point, yes.

16 MR. CHUCK STEELE: You know, I will
17 add that -- sorry -- I will add that yes, conceptually
18 in the long run, the corporate value framework is a
19 tool that will be utilized to prioritize our capital
20 expenditures.

21 But I should also point out that the
22 score is associated with this particular project are
23 high, and it would likely -- even in comparison with
24 other projects, it would be considered a high priority
25 project --

1 MR. BOB PETERS: But we don't know
2 that --

3 MR. CHUCK STEELE: -- in accordance
4 with the corporate --

5 MR. BOB PETERS: -- until we have
6 absolute comparisons.

7 MR. CHUCK STEELE: Today, we do not,
8 but we will have in a short period of time.

9 MR. BOB PETERS: All right.
10 Mr. Steele --

11 MR. MICHAEL WATSON: A question, Bob.

12 MR. BOB PETERS: Yes.

13 MR. MICHAEL WATSON: What is the
14 scale -- zero to what?

15 MR. CHUCK STEELE: You know, I don't
16 that there is a scale. I mean, the -- if you look at
17 that 1 -- page 169 --

18 MR. BOB PETERS: Okay. We'll go to
19 page -- and the pie chart next to it?

20 MR. CHUCK STEELE: -- for the pie
21 chart. Generally speaking, the -- if you look at how
22 the points are assigned from a corporate value
23 perspective, the negative points or the cost is that
24 red triangle.

25 And the -- certainly, the narrower or

1 the smaller that triangle is, the stronger
2 justification the project would have.

3 In this project -- you know, and this
4 is to consider it from a visual perspective. This
5 project, clearly the benefits far outweigh the costs.

6 MR. MICHAEL WATSON: Which is -- and
7 again, the cost is represented by the red.

8 MR. CHUCK STEELE: The corporate value
9 framework is an attempt to compare all of the
10 benefits -- all of the potential benefits associated
11 with our project against the costs.

12 MR. MICHAEL WATSON: Okay. Thank you.

13 MR. BOB PETERS: And, Mr. Steele,
14 you've given us the consequence of failure on the
15 coldest day as high, but the likelihood is based on
16 perhaps a spring and summer time when the river is
17 flowing. Correct?

18 MR. CHUCK STEELE: You know, I -- yes,
19 that would be correct. I'm not sure how -- yes,
20 that's correct.

21 MR. BOB PETERS: And I just want to
22 finish up on this area before I request a break,
23 Mr. Chair. But when we go back to the justification
24 for this project, has Centra considered relocating
25 only one of the 4-inch pipes that are crossing the

1 river?

2 MR. TIM STARODUB: Yes. And it's
3 actually -- as we get into detailed design, one of the
4 things that we will look at is the addition of valving
5 on the -- one or both of the existing lines and with
6 the third line or the proposed new line being provided
7 as more of a -- the true resiliency piece.

8 If we can use isolation valves if
9 something bad does happen, then at least we can close
10 the valves and -- and still maintain the customers
11 with reliable service.

12 MR. BOB PETERS: That's another way of
13 saying that if one of the two (2) pipelines was a
14 problem, you could just divert the gas through the
15 other pipeline. That isn't compromised.

16 MR. TIM STARODUB: Exactly. Exactly.

17 MR. BOB PETERS: Has Centra completed
18 construction of the Red River crossing project?

19 MR. TIM STARODUB: No.

20 MR. BOB PETERS: Have you commenced
21 it?

22 MR. TIM STARODUB: No.

23 MR. BOB PETERS: When is it slated to
24 commence.

25 MR. TIM STARODUB: This is something

1 that will be shifted. We've been having some -- some
2 approval issues.

3 MR. BOB PETERS: And the approval
4 problem is with whom?

5 MR. TIM STARODUB: Well, it's -- it's
6 a -- right now, we were trying to utilize a consultant
7 to proceed with this design. And so it's -- it's an
8 internal piece with Manitoba Hydro -- Manitoba
9 Hydro/Centra.

10 MR. BOB PETERS: So your -- you don't
11 have internal approval to proceed at this point in
12 time?

13 MR. TIM STARODUB: We have internal
14 approval with the approval of the -- of the CIJ. It's
15 just the consultant piece is the part that's dragging,
16 if you wish.

17 MR. BOB PETERS: When you say
18 consultant, are you referring to an external
19 contractor?

20 MR. TIM STARODUB: We're -- yes.

21 MR. BOB PETERS: So --

22 MR. CHUCK STEELE: What -- the
23 challenge is securing resources to perform the design
24 work. We -- our plan is to use an external consultant
25 to do the design work, and those are -- that's what's

1 created the -- the delay.

2 MR. BOB PETERS: And this is delayed
3 now into the next test year probably.

4 MR. TIM STARODUB: Into the next
5 capital year. I'm not sure if next year is another
6 test year. Sorry.

7 MR. BOB PETERS: Okay. I'm sorry. So
8 when you say next year, this project is going to be
9 deferred to 2020/'21.

10 MR. TIM STARODUB: Yes.

11 MR. BOB PETERS: And to do that, the
12 corporation is taking on more risk. Is that correct?

13 MR. TIM STARODUB: That is correct.

14 MR. BOB PETERS: And who in the
15 corporation said that taking on that risk is
16 acceptable?

17 MR. TIM STARODUB: I believe it's
18 between myself and Mr. Steele.

19 MR. BOB PETERS: And so you've told
20 the management of the executive of Centra that you
21 wanted to do this project, you can't do it this year
22 for various reasons. So Centra is prepared to put it
23 off for another year.

24 MR. CHUCK STEELE: Yes, that's
25 correct.

1 MR. BOB PETERS: Okay. Thank you.

2 I've got those points.

3 Mr. Chair, maybe a five-minute break if
4 that would suit the Panel.

5 THE CHAIRPERSON: Mr. Meronek, you
6 would appreciate that.

7 MR. BRIAN MERONEK: It might take me
8 five (5) minutes to get into the washroom.

9 THE CHAIRPERSON: We'll break for
10 five (5) minutes.

11

12 --- Upon recessing at 4:37 p.m.

13 --- Upon resuming at 4:47 p.m.

14

15 THE CHAIRPERSON: Welcome back. I
16 understand there's a little change in our -- our
17 schedule and that Mr. Peters is going to continue.
18 But just for the benefit of everybody, we will not be
19 going a minute past 5:45 today.

20 MR. BOB PETERS: Yes. Thank you. I --

21 THE CHAIRPERSON: Mr. Peters...?

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: I have the, I'll say,
25 somewhat tasset approvals of my friends opposite to

1 continue because it's an area that in common to both
2 the Intervenors and to the Board and I -- I'm
3 confident I can complete. And now you've told me, I
4 should be very confident I will be completed in the
5 next hour, and I will be.

6 I want to turn to the Steinbach upgrade
7 which is at page 154 of Board counsel's book of
8 documents.

9 MR. CHUCK STEELE: Actually, before we
10 do, is it all right if I address some of the last
11 comments regarding this Letellier project? I -- I
12 would just like to reiterate that, while Mr. Starodub
13 and I do accept full accountability for accepting the
14 deferral of this project by a year, we -- we do not
15 accept accountability for the outright length -- a
16 lengthy deferral or the outright cancellation.

17 This is a project we feel is very
18 important for the safe and secure delivery of our --
19 of our gas to our customers.

20 MR. BOB PETERS: All right. I've got
21 your point, Mr. Steele. And the point that I think we
22 made earlier was you can't put before this Board a
23 list of a top hundred and show that this Letellier
24 project is number 1 on the list, correct?

25 MR. CHUCK STEELE: But -- but we do

1 have a corporate value framework and a risk review
2 that we believe justifies this project. And in our
3 opinion, it is a justified project.

4 MR. BOB PETERS: I understand that.
5 And your corporate value framework is a number, but
6 it's more in the abstract because there aren't a whole
7 lot of projects that this -- this can be stacked up
8 against and compared in terms of values and numbers?

9 MR. CHUCK STEELE: Well, that's true
10 today. That will not always be the case.

11 MR. BOB PETERS: I -- I accept that.
12 And that won't always because the case because --

13 MR. CHUCK STEELE: But on -- on its
14 own, we still believe this project is a high priority,
15 fully justified project.

16 MR. BOB PETERS: We've got your point.
17 Thank you for that. Let's turn to Steinbach at page
18 154, please. This is a \$4.1 million upgrade. Is that
19 correct?

20 MR. TIM STARODUB: That's correct,
21 yes.

22 MR. BOB PETERS: And correct when I'm
23 wrong here. I'll tell -- tell you what I think this
24 project -- it's justified because Centra believes it
25 needs a new capacity into the Steinbach area to

1 address future load growth.

2 And there's also redundant fee built in
3 so that the con -- the community can be served from
4 two (2) difference sources of natural gas.

5 MR. TIM STARODUB: That is correct.

6 MR. BOB PETERS: Have I got that
7 right?

8 MR. TIM STARODUB: That is correct,
9 yes.

10 MR. BOB PETERS: Would it be correct
11 that load growth is the foremost objective of this
12 project?

13 MR. TIM STARODUB: That's the -- load
14 growth is certainly the driver for the project, yes.

15 MR. BOB PETERS: And in terms of load
16 growth, Centra has other options than the one (1) it
17 selected to serve -- to add capacity for load growth,
18 does it not?

19 MR. TIM STARODUB: That is correct.
20 We evaluated three (3) options.

21 MR. BOB PETERS: And I know they're in
22 the book of documents, and we better just flag them.
23 On page 185 -- sorry, starting on page 185 we have
24 another capital investment justification sheet,
25 correct?

1 MR. TIM STARODUB: As soon as I catch
2 up, yes, you're correct.

3 MR. BOB PETERS: This one (1) doesn't
4 have the fancy pie chart, does it?

5 MR. TIM STARODUB: Well, Letellier was
6 the new project and it was -- it was the first one, so
7 the older project did not have.

8 MR. BOB PETERS: All right. So, this
9 one (1) hasn't gone through the corporate val -- the
10 corporate value framework methodology?

11 MR. TIM STARODUB: It wasn't used --
12 didn't use the corporate value framework as a
13 justification for the project. That's correct.

14 MR. BOB PETERS: All right. And so,
15 we see that -- I believe we see on page 188 that, to
16 address this load growth, Centra had an option of
17 looping from the north.

18 Is that correct?

19 MR. TIM STARODUB: That's correct,
20 yes.

21 MR. BOB PETERS: And what I -- would
22 my math be correct, that the cost to -- to loop it
23 from the north would have been about \$1.6 million?

24 MR. TIM STARODUB: That's correct,
25 yes.

1 MR. BOB PETERS: Instead, Centra has a
2 \$4.1 million project. Is that what we've agreed upon?

3 MR. TIM STARODUB: That's what we've
4 agreed upon, yes.

5 MR. BOB PETERS: Okay.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: Is it correct from
10 page 188 of Board counsel's book of documents that
11 Steinbach's system will reach its capacity in 2023
12 based on a customer growth rate of 2 percent?

13 MR. TIM STARODUB: That's the planning
14 analysis that's been performed, yes.

15 MR. BOB PETERS: And -- and how long
16 does it take in terms of a construction program to do
17 this Centra project? Is it a one (1) year project?

18 MR. TIM STARODUB: With -- from design
19 approval -- from original approval to final project
20 completion, a project like this is probably two (2)
21 years.

22 MR. BOB PETERS: But it's one (1)
23 construction season to do the work?

24 MR. TIM STARODUB: Likely one (1)
25 construction season to do the work, yes.

1 MR. BOB PETERS: All right. So,
2 you're saying that the system is going to need new
3 capacity in 2023. Has the project been started this
4 year?

5 MR. TIM STARODUB: No.

6 MR. BOB PETERS: Is this another one
7 (1) of those it's been delayed?

8 MR. TIM STARODUB: Yes.

9 MR. BOB PETERS: Okay. So, Centra has
10 determined it can defer this project?

11 MR. TIM STARODUB: Until hopefully a
12 next year start, correct.

13 MR. BOB PETERS: And the reason for
14 the deferral is, again, yours and Mr. Steele's
15 recommendation. It can be deferred one (1) year but
16 not cancelled or deferred indefinitely.

17 Is that what Mr. Steele's going to tell
18 us?

19 MR. TIM STARODUB: I think what Mr.
20 Steele's going to tell you is that it wasn't our
21 recommendation that it be deferred, it was our
22 acceptance of the deferral.

23 MR. BOB PETERS: Okay. You might have
24 to give the Board a little bit more, Mr. Steele. Is
25 it -- is the deferral as a result of decisions made by

1 Centra's executive?

2 MR. CHUCK STEELE: You know, again,
3 I'll let Mr. Starodub speak to the reasons for the
4 deferral. But I -- but the executive accepted the
5 deferral and the additional risk that that would
6 entail, but it wasn't that the deferral was
7 recommended by the executive, you know, just maybe a
8 nuance to your question or...

9 MR. BOB PETERS: You've -- you've
10 actually confused me more, Mr. Steele. I'm not -- I
11 know not intentionally.

12 But do I take that you and Mr. Starodub
13 recommended it be deferred? Was there an option to
14 actually do it in this test year?

15 MR. TIM STARODUB: We had -- we ran
16 into some issues with initially property procurement.
17 So, in our pre-little planning report, we identified a
18 station of -- a location where we would like to put a
19 pressure regulation station to take the transmission
20 pressure and reduce it to the medium pressure that's
21 used within the system.

22 We had difficulty getting property, so
23 the property that became available is a kilometre
24 farther away than what we -- what we would have
25 preferred.

1 So, this -- this greater distance to
2 get to the property ended up with -- was going to end
3 up with additional pipe that we needed to run to the
4 station, and then bring the pipe back at -- at medium
5 pressure.

6 Then we found out that the property
7 that was going to be made available to us through the
8 city of Steinbach had significant planning issues
9 associated with it.

10 Basically, they were selling us -- I
11 won't say a piece of swamp, but a piece of land that
12 flooded. And their planning requirements were that,
13 if we were to put a building there, which was why we
14 were buying the property, is that we needed to build
15 the -- the land up between 1.5 and 1.8 metres, which
16 kind of -- you now have two (2) strikes against the
17 project where, you know, we do try to be responsible
18 and try and control costs.

19 Well, these are two (2) issues that are
20 going to drive costs upward. As part of our practices
21 in the last few years as part of our continuous
22 improvement, we do something called utility sweeps.

23 So, we're dealing with the city of
24 Steinbach and having very good communication with
25 them. And so, we are going on a road that runs

1 east/west.

2 They've identified to us that they have
3 -- they have plans for future development in the north
4 ditch. They're going to put deep utility, sewer and
5 water. So, they said, You cannot go there.

6 So, we do utility sweeps on the south
7 ditch, which is where the city of Steinbach told us
8 that we were approved to go. And we found that there
9 was communications infrastructure that basically went
10 from the property line to the edge of the road and we
11 were not going to have a place to -- to install.

12 So, the city of Steinbachs -- dealing
13 with the city of Steinbach, they suggested that they
14 were going to develop a shallow utilities corridor
15 along the edge of the property but that this would be
16 two (2) to three (3) years out, at least.

17 So, we now have two (2) strikes with
18 the third strike, so we need to, instead of going into
19 a project that was likely doomed to cost overages
20 which we do try to avoid as best we can, we decided
21 that it was worth taking the project back to the
22 proverbial drawing board and trying to -- to develop
23 further options.

24 MR. BOB PETERS: Do I take from that
25 answer, Mr. Starodub and Mr. Steele, that this is a

1 discretionary project in terms of doing it --

2 MR. CHUCK STEELE: I would not -- I --

3 MR. BOB PETERS: -- in 2008 -- '19/'20
4 test year?

5 MR. CHUCK STEELE: I would not
6 characterize it as discretionary. There -- there are
7 certainly execution challenges. So, what Mr. Starodub
8 is suggesting, that -- that there's still a
9 significant risk that we have to mitigate and we are
10 looking at other options on how we would mitigate that
11 risk.

12 MR. BOB PETERS: And that risk is
13 customer load growth, Mr. Steele?

14 MR. CHUCK STEELE: Customer load
15 growth and secure of supply to the city of Steinbach.

16 MR. BOB PETERS: Well, let's deal with
17 one (1) at a time. And the customer load growth was
18 forecast at a rate of 2 percent?

19 MR. CHUCK STEELE: Yes.

20 MR. BOB PETERS: And that meant that
21 the capacity would be reached in approximately 2023,
22 correct?

23 MR. CHUCK STEELE: Correct.

24 MR. BOB PETERS: So, load growth isn't
25 driving this to be done in the 2019/'20 test year, is

1 it?

2 MR. TIM STARODUB: I guess the comment
3 I'd have is that planning is not an exact science.
4 So, we believe that we will be out of capacity by the
5 2023 year that you quote.

6 But sometimes being just in time is --
7 is fine if you can line everything up and you have
8 known -- known development plans that are going to
9 indicate that that is your -- going to be your growth.

10 To avoid the situation where we're not
11 able to provide customer needs, we do like to try and
12 be out a little before the -- the year where we
13 believe that we're going to run out of capacity.

14 MR. BOB PETERS: So, it could wait two
15 (2) or three (3) years. Ideally, you wouldn't want to
16 push it quite to that far, but that would still give
17 you enough capacity to meet customer load growth as
18 it's forecast at this point in time?

19 MR. TIM STARODUB: That's correct.

20 MR. BOB PETERS: But load growth could
21 change between now and two (2) or three (3) years out;
22 correct?

23 MR. TIM STARODUB: Absolutely.

24 MR. BOB PETERS: And is that being
25 monitored or checked to see whether or not --

1 MR. TIM STARODUB: We haven't -- it's
2 probably at this point -- at this -- well, earlier
3 this year we thought we were building this year so it
4 wasn't something that we were monitoring specifically
5 but it's something we can do -- worth taking a
6 reading.

7 MR. BOB PETERS: So it's back on the
8 drawing board in that respect as well?

9 MR. TIM STARODUB: To a lesser degree,
10 yes.

11 MR. BOB PETERS: And so we've been
12 talking about the \$1.6 million option to just provide
13 more capacity. Is that option on the drawing board as
14 well or has it been shelved?

15 MR. TIM STARODUB: At this point, we
16 believe that there's value to our customers in the
17 Steinbach area to provide a system to gives them a
18 secondary supply of gas. So that is still our primary
19 selection.

20 MR. BOB PETERS: Your primary
21 selection is to do both a capacity upgrade and a
22 redundancy upgrade.

23 MR. TIM STARODUB: That is correct.
24 Well, to provide redundancy, yes.

25 MR. BOB PETERS: All right. Maybe I

1 said that wrong, so thank you for correcting me.

2 But let's turn to that redundant feed.

3 This amounts to Steinbach being served in two (2)

4 different directions off of a natural gas pipeline.

5 Right?

6 MR. TIM STARODUB: That is correct.

7 MR. BOB PETERS: And just helping

8 myself visualize geographically, it would serve off of

9 that TCPL pipeline that runs parallel to the

10 Trans-Canada Highway to Ontario?

11 MR. TIM STARODUB: That is the current

12 supply source, yes.

13 MR. BOB PETERS: And it comes down off

14 of that pipeline by the Ste. Annes (sic) or somewhere

15 in that area.

16 MR. TIM STARODUB: It is Ste. Annes

17 (sic). Exactly.

18 MR. BOB PETERS: Okay. And then the

19 other redundant feature that we could build in -- and

20 we're not going to put up that south loop map, but

21 it's the same Transcanada pipeline going from Winnipeg

22 to Emerson --

23 MR. TIM STARODUB: That's correct.

24 MR. BOB PETERS: -- that would be the

25 redundant supply.

1 MR. TIM STARODUB: Yes. Yes, you're
2 correct. It is the second supply that we're proposing
3 will come off the -- the TCPL pipelines that run
4 north-south to Emerson.

5 MR. BOB PETERS: All right. Does
6 providing a redundant feed to Steinbach represent a
7 higher level of service to any customer in Steinbach
8 such that that customer has had before?

9 MR. TIM STARODUB: It would be an
10 improvement as the service that we would be providing
11 to the customers in Steinbach. Yes.

12 MR. BOB PETERS: How would it be an
13 improvement?

14 MR. TIM STARODUB: One of the pieces
15 that Centra has been -- been trying to work on is
16 that -- and I think you may have mentioned
17 previously -- is that we're evolving on the -- on our
18 planning to move away from this capacity to
19 resiliency, the ability to keep gas supply to larger
20 customers.

21 As part of this piece, there is the
22 compressed natural gas project that we had done. So
23 we have the CNG facilities with the trailers that
24 permit us to provide gas in emergency situation if --
25 if something bad happens to the pipeline and we

1 lose -- lose a source of supply.

2 So that's applicable to smaller
3 communities. For a larger community -- and there's
4 only going to be a handful in the Centra system where
5 CNG is not something that has any -- any value. We're
6 trying to provide the same level of service by putting
7 in a fixed asset that we can use to provide that
8 security of supply.

9 MR. BOB PETERS: Mr. Starodub, Centra
10 has been served by the same one pipeline coming off
11 Transcanada near Ste. Annes (sic), Manitoba for -- is
12 it half a century? Longer?

13 MR. TIM STARODUB: Sorry. When you
14 say -- so Centra --

15 MR. BOB PETERS: Oh, sorry. That's my
16 mistake. I'll rephrase the question.

17 MR. TIM STARODUB: Yeah. Yeah.

18 MR. BOB PETERS: I thank you. In
19 terms of the community of Steinbach, which we've been
20 talking about --

21 MR. TIM STARODUB: Yes.

22 MR. BOB PETERS: -- has that community
23 been served by a single feed for 50 or 60 years?

24 MR. TIM STARODUB: That is correct.

25 MR. BOB PETERS: And most other small

1 communities, maybe other than Winnipeg -- maybe
2 Brandon -- have also been served by a single feed.
3 Would that also be true?

4 MR. TIM STARODUB: That is true.

5 MR. BOB PETERS: All right. So what
6 I'm hearing you say -- well, is there a high
7 probability of failure of the Steinbach transmission
8 line that currently exists?

9 MR. TIM STARODUB: Our greatest risk
10 for -- for pipelines is third-party damage. It's --
11 it's not a high probability, but it's certainly a risk
12 at all times.

13 And one of the things that I think I
14 should mention with the -- an outage for a natural gas
15 customer, a natural gas system is very different than
16 an outage on an electrical system.

17 So, you know, if a pole falls down, and
18 you put the pole back up, and they flip the switch,
19 and all the customers are back in place.

20 With natural gas, if -- you know, if we
21 lose the supply of gas to the community, it is a
22 intensive process to basically go to each customer,
23 make sure that their appliances are relit or operating
24 in a safe manner.

25 The issue with larger -- and I'm not

1 sure if "larger" is quite the right term, but the kind
2 of mid-size communities with, you know, Steinbach
3 and -- and Portage, which I think we may be talking
4 about very -- very shortly, is that with the number of
5 customers, it becomes at -- you know, at 5,400 --
6 4,500 for -- for Steinbach, it becomes to a level
7 where the - our ability to respond and relight those
8 customers is -- is challenged.

9 You know, certainly we're -- we had
10 Ken Korchak of the CSO group earlier and mentioning
11 that as part of his responsibility is it's his staff
12 responding to -- to outages and damages. And we are
13 stretching the capability of the available resources
14 at that 4 to 5,000 customer range.

15 MR. CHUCK STEELE: You know, if I can
16 add -- I believe you -- Mr. Peters, you spoke to the
17 city -- you said that Steinbach was not the city of
18 Winnipeg which does have multiple feeds that we're
19 aware of. You know, and in addition, for example, the
20 TCPL mainline is not just one pipe. It's multiple
21 pipes.

22 Redundancy and resiliency is certainly
23 part of supplying a safe and reliable supply of gas to
24 our customers. So the question that comes to, you
25 know, Mr. Starodub and his subject matter experts is

1 that what point in time does a growing community
2 actually require a secondary supply to ensure that
3 level of security or reliability?

4 And at this point, we figure the time
5 is now with respect to Steinbach or within two (2) to
6 three (3) years. The load growth is -- the load
7 growth exists. It's exceeded the capacity of the
8 single pipeline. Now is the time to look at how we
9 provide more secure to those -- security to those
10 customers.

11 MR. BOB PETERS: The probability of
12 failure, gentlemen, isn't driving this project.
13 Correct?

14 MR. CHUCK STEELE: The total risk is.
15 So while the probability might be low, the consequence
16 is certainly high.

17 MR. BOB PETERS: And that can be said
18 then of every community that doesn't have a redundant
19 supply.

20 MR. CHUCK STEELE: True. But as
21 Mr. Starodub spoke to, we do have other mechanisms to
22 add to the resiliency of supply, including our
23 compressed natural gas facility for some smaller
24 communities and -- yeah.

25 MR. BOB PETERS: The Steinbach feed

1 for the Ste. Annes (sic) from the north, that's not in
2 a geotechnically unstable area, is it?

3 MR. TIM STARODUB: No.

4 MR. BOB PETERS: And it doesn't cross
5 any major water courses that you're aware of?

6 MR. TIM STARODUB: There are two (2)
7 water crossings involved. I don't believe either of
8 them are major.

9 MR. BOB PETERS: The probability of
10 failure of that sole feed was not assessed as part of
11 the project justification, was it?

12 MR. TIM STARODUB: That is correct.
13 We do not specifically assess that.

14 MR. BOB PETERS: Instead, it was the
15 probability of reaching the capacity of the system by
16 approximately 2023 was determined to be almost
17 certain.

18 MR. TIM STARODUB: Yes. As we
19 mentioned, the driver for the project is the capacity.
20 And, you know, we -- as part of the provision of the
21 resiliency is that it's a lost opportunity to
22 provide -- to have the capacity funding and capital
23 requirements help to support the cost of the resilient
24 feed.

25 MR. BOB PETERS: You're telling the

1 Board I think in your last several answers that
2 there's been a shift in Centra's system planning such
3 that communities of a certain size must now have a
4 redundant supply that's either trucked in by
5 compressed natural gas or a redundant hard line
6 pipeline feed.

7 MR. CHUCK STEELE: I think in reality,
8 that has always been part of our planning, you know.
9 And I think the perfect example is the city of
10 Winnipeg. We do not -- we do not believe it's
11 appropriate to supply our city with one pipeline, for
12 example.

13 But we are looking closer at the
14 requirements to -- where we have to ensure resiliency
15 of supply and part of that is certainly driven by the
16 age of our infrastructure as well, which does increase
17 the risk of failure.

18 MR. BOB PETERS: When I say redundant
19 supply, is that the same in your mind as the
20 resiliency of supply?

21 MR. CHUCK STEELE: Yes.

22 MR. BOB PETERS: Okay. Just want to
23 make sure that we're on the same page. Can you
24 confirm to the Board whether there's any new natural
25 gas industry standards or requirements to have a

1 redundant supply feed to a community?

2 MR. TIM STARODUB: There is not a
3 requirement of a supply feed, but CSAZ662 in their
4 safety and loss management system does have a
5 requirement for emergency response and return to
6 service as part of their requirements.

7 MR. BOB PETERS: And that's been there
8 for a long time?

9 MR. TIM STARODUB: The safety and loss
10 management system is something that's -- that's newer.
11 It just -- it was in the 2015 addition of the CSAZ662.

12 MR. BOB PETERS: Is there any Canadian
13 gas association trend to having redundant supply
14 options for small communities in other provinces that
15 you're aware of?

16 MR. TIM STARODUB: Certainly, we've
17 done a little bit of work to see what -- what other
18 communities -- what other utilities are doing.
19 Certainly, ATCO Gas in Alberta is -- has made some
20 fairly significant investments for both the
21 communities of Edmonton and Calgary.

22 At this point, that's their primary
23 focus, and their initial thought is that they'll go to
24 smaller communities following. But at this time, I'm
25 not aware of any specifically.

1 MR. BOB PETERS: Has Centra drawn the
2 line and said that if your community outside of
3 Winnipeg can be served by these compressed natural gas
4 trucks, then we don't need to have a hard pipeline
5 redundant supply?

6 MR. CHUCK STEELE: You know, at the
7 end of the day, Manitoba Hydro is accountable for any
8 pipeline failures and the -- and the resulting
9 implications that might -- that might cause.

10 So we look at circumstances on a
11 case-by-case basis, and we look at what we believe is
12 the risk that needs to be mitigated and the best way
13 to mitigate that risk.

14 MR. BOB PETERS: There's no corporate
15 value framework at this point in time that has been
16 done to assess all of the communities to which you
17 provide service?

18 MR. TIM STARODUB: At this point, the
19 city of Winnipeg and Brandon have available resilient
20 supplies. Portage and Steinbach would be the first
21 communities where we are working to identify and
22 design specifically new -- new feeds to provide this.

23 MR. BOB PETERS: Are there any others
24 on the horizon you can inform the Board about?

25 MR. TIM STARODUB: It's all -- we have

1 a number that we're -- we will be reviewing as part of
2 planning reviews and preparation of planning reports.

3 There are some -- you know, the next
4 one on the list size-wise is the community of Dauphin.
5 The community of Dauphin is currently at the end of
6 170 kilometres of existing transmission pipe. So I
7 really do not think that we will be able to justify
8 providing a redundant feed for that community.

9 MR. BOB PETERS: Is it now something
10 that we -- this Board should understand is a new
11 corporate objective from the -- from the gas company
12 that redundant feeds or resilient supply is something
13 that the corporation should now be doing for larger
14 communities that can't be served by the compressed
15 natural gas?

16 MR. CHUCK STEELE: Again, I would
17 suggest that our objective has always been to mitigate
18 the risk associated with not being to supply a safe
19 and reliable supply of gas.

20 And we just believe this is an -- some
21 of these projects are an evolution of mitigating those
22 risks.

23 MR. BOB PETERS: But why now for
24 Steinbach, Mr. Steele?

25 MR. CHUCK STEELE: Specifically for

1 Steinbach because it's exceeded the capacity of the
2 existing pipeline.

3 MR. BOB PETERS: Or it will in 2023 --

4 MR. CHECK STEELE: Or it will -- it's
5 forecasted to -- in the near future.

6 MR. BOB PETERS: And so to piggyback
7 on top of that issue would be to bring in an alternate
8 feed.

9 MR. CHECK STEELE: Correct.

10 MR. TIM STARODUB: Yes.

11 MR. BOB PETERS: I want to turn just
12 briefly to the Portage la Prairie secure gas supply --
13 page 155 of Board Counsel's book of documents. This
14 provides some information in Centra's Appendix 4.3.

15 Can you briefly explain what this
16 project entails, Mr. Starodub?

17 MR. TIM STARODUB: Yes. Yes, I can.
18 So, basically, there's two (2) elements. At this
19 point, we have two (2) parallel pipelines that cannot
20 be operated individually.

21 And the second part is the installation
22 of a second river crossing with system valving to
23 permit the isolation of the new river crossing and the
24 existing river crossing.

25 MR. BOB PETERS: And that has about a

1 \$1.6 million price tag on it?

2 MR. TIM STARODUB: Yes.

3 MR. BOB PETERS: And is there a load
4 growth component embedded in that, Mr. Starodub?

5 MR. TIM STARODUB: No, not at all.

6 MR. BOB PETERS: So, it's not to
7 address customer growth, correct?

8 MR. TIM STARODUB: That is correct.

9 MR. BOB PETERS: And so, the
10 overriding objective would be to provide a redundant
11 supply or resilient supply to Portage La Prairie?

12 MR. TIM STARODUB: That's correct.
13 There's an additional driver that the river crossing
14 at that -- that location is the sixth river crossing
15 that's been installed. We are having geotechnical
16 consult -- engineers monitor that -- that existing
17 crossing. And they've indicated that they have
18 noticed that there is continuing movement.

19 And there's a suggestion -- it's not
20 quite a recommendation, but there's a suggestion from
21 them that, within the next five (5) years, that there
22 is a concern that movement of the -- the bank at the
23 existing crossing location may cause issues with that
24 crossing.

25 MR. BOB PETERS: Based on your

1 testimony about the Steinbach upgrade, this project
2 then has similar objectives to providing a redundancy
3 that the community has never experienced before?

4 MR. TIM STARODUB: That is correct.

5 MR. BOB PETERS: Just for the record,
6 I wanted to ask you that -- Metsco made a
7 recommendation I think on page 46 of its evidence that
8 the Board should review the grounds for an
9 approximately three (3) times cost estimate increase
10 due to inclusion of a new supply point justified
11 through improper calculation.

12 And Metsco went on to say the Board
13 could consider revising the estimate to reflect the
14 capacity only assumptions if reliability case is not
15 confirmed.

16 Can you explain what options Centra
17 considered for this Portage La Prairie project and the
18 corresponding costs?

19 MR. TIM STARODUB: Yeah. Just give me
20 one (1) second, please.

21

22 (BRIEF PAUSE)

23

24 MR. TIM STARODUB: So, we basically
25 looked at two (2) major options. There's -- Centra

1 has a second TransCanada Pipeline primary a little bit
2 further west of the cor -- the community of Portage La
3 Prairie. It was originally installed to supply the
4 Simplot facility that went in.

5 So, one (1) of the options was to add
6 pipe to that system to basically provide a true second
7 feed from a second primary location. It turned out
8 that that was going to be quite expensive. And if I
9 can just find the price. That -- that option was
10 going to be about \$4.5 million.

11 And the second option was the one (1)
12 that's selected and recommended was the addition of
13 valving to permit the isolation of the two (2)
14 existing transmission pipelines, and then insulation
15 of some additional pipe and a new river crossing with
16 some additional valving to permit the isolation of
17 both river crossings.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: And that second
22 option that you've put on the record, Mr. Starodub,
23 was -- was the \$1.6 million option?

24 MR. TIM STARODUB: Yes. That's the --
25 the option that's -- that's described and shown.

1 MR. BOB PETERS: That project at
2 Portage La Prairie is going to be developed in two (2)
3 stages if I read the materials correctly?

4 MR. TIM STARODUB: That's correct.

5 MR. BOB PETERS: And the first was to
6 build these isolating valves, correct?

7 MR. TIM STARODUB: That's correct.

8 MR. BOB PETERS: Has that work
9 started?

10 MR. TIM STARODUB: The design work is
11 complete. There is some property procurement issues
12 that are ongoing. There's -- a contractor has been
13 assigned.

14 MR. BOB PETERS: Will shovels be in
15 the ground in the 2019/'20 test year to do this
16 project?

17 MR. TIM STARODUB: To install the
18 valves, that was the plan.

19 MR. BOB PETERS: That is the plan?

20 MR. TIM STARODUB: That is the plan.

21 MR. BOB PETERS: And then the second
22 part of this project was going to be, in 2021, to
23 build this redundant river crossing supply?

24 MR. TIM STARODUB: That's correct.

25 MR. BOB PETERS: And so, that work has

1 not yet been done -- or not started --

2 MR. TIM STARODUB: That is correct.

3 MR. BOB PETERS: -- other than the
4 design work?

5 MR. TIM STARODUB: Other than design,
6 yes.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: How much of that \$1.6
11 million has been spent to date?

12 MR. TIM STARODUB: I don't know that
13 number.

14 MR. BOB PETERS: When -- you talked
15 about some of the projects that we've just gone over.
16 I believe back on page 144 of Board counsel's book of
17 documents we started talking about capital projects.

18 And on page 144 of Board counsel
19 Exhibit 25, there's a chart. And the chart was
20 providing this Board with an indication that the
21 capital costs for the test year were going to be
22 approximately \$40.1 million?

23 MR. TIM STARODUB: That's correct.

24 MR. BOB PETERS: Yeah. And that's
25 found on, yeah, page 144, I should say, of Board

1 counsel's book of documents. The panel will see it
2 coming up. There it is under the 2020 year, correct?

3 MR. TIM STARODUB: Yes.

4 MR. BOB PETERS: And so, of that \$40.1
5 million, from the evidence this afternoon, it sounds
6 to me, you can confirm, that the \$4.1 million
7 Steinbach project has been deferred from this test
8 year?

9 MR. TIM STARODUB: Correct.

10 MR. BOB PETERS: The \$1.6 million
11 Letellier project has been deferred from this pro --
12 from this test year?

13 MR. TIM STARODUB: Correct.

14 MR. BOB PETERS: The Waverley West
15 \$3.5 million project is also deferred?

16 MR. TIM STARODUB: That's correct.

17 MR. BOB PETERS: Are there any other
18 deferrals that you can remember and think of as you
19 sit here?

20 MR. TIM STARODUB: I really hope not.

21 MR. BOB PETERS: Well, of that \$40.1
22 million that's on the forecast in front of the panel,
23 how much of that is expected to be spent now in the
24 2019/'20 test year?

25 MR. TIM STARODUB: I would need to do

1 some more to confirm that. There have been some
2 materials that have been pre-ordered. There's
3 certainly been design work that has been done.
4 There's been work for the procurement of materials and
5 property.

6 So, if I was guessing, probably in the
7 1 to \$2 million range.

8 MR. BOB PETERS: I'm sorry, only 1 to
9 \$2 million has been deferred?

10 MR. TIM STARODUB: Sorry, I thought
11 you meant -- I thought had has spent.

12 MR. BOB PETERS: Ah. So, of those
13 projects which are about, I don't know, is it \$9
14 million --

15 MR. TIM STARODUB: Yeah.

16 MR. BOB PETERS: -- only 1 or 2
17 million has been spent?

18 MR. TIM STARODUB: In that range.

19 MR. BOB PETERS: My mathematician here
20 has corrected my math, which is a regular event.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: And so, I was going
25 to ask Ms. Bauerlein a question, but I don't think she

1 wants to talk to me anymore, so we'll -- we'll come
2 back to her.

3 I just want to end my questioning on --
4 on an area where -- would it be correct in your --
5 well, Ms. Bauerlein, since you're back --

6 MS. SANDY BAUERLEIN: My apologies.

7 MR. BOB PETERS: No, no. No, no.

8 MS. SANDY BAUERLEIN: I'm just trying
9 to get some information.

10 MR. BOB PETERS: I understand. I was
11 -- I'm under the -- under the gun here on the clock a
12 little bit. There was an indication from your panel
13 mates on the witness stand that there have been some
14 deferrals of capital projects.

15 Were you aware of those prior to today?

16 MS. SANDY BAUERLEIN: I'm aware that
17 we're underspent to our budget. I was just trying to
18 confirm by how much. When I said, "Underspent,"
19 underspent to the year-to-date budget, to the end of -
20 - I would have July numbers.

21 MR. BOB PETERS: And the Board hasn't
22 seen that, has -- have they?

23 MS. SANDY BAUERLEIN: No.

24 MR. BOB PETERS: So --

25 MS. SANDY BAUERLEIN: We have not

1 released our -- our quarterly results yet up to the
2 end of June.

3 MR. BOB PETERS: Okay. I'm going to
4 summarize it this way, Ms. Bauerlein, and Mr. Starodub
5 and Mr. Steele might disagree. But of the Waverley
6 West, Letellier, and Steinbach projects, I total those
7 up with my math to be about \$9.2 million in total.

8 Mr. Starodub's evidence is that, even
9 though those projects are deferred, there have been
10 some expenses already made related to those projects,
11 and I believe you said somewhere in the range of 1 to
12 \$2 million?

13 MR. TIM STARODUB: Yeah, that we would
14 need to confirm that, but --

15 MR. BOB PETERS: Okay. I'm not going
16 to hold you to an exact number. So, I'm seeing that
17 there could be \$7 million of underspend for the fiscal
18 year on capital expenditures.

19 Am I in the ballpark?

20 MR. TIM STARODUB: Su -- subject to
21 checking your math, that appears right. But don't
22 forget that that number would -- would come off of the
23 \$42.9 million identified two (2) lines above the 40.1.

24 MR. BOB PETERS: And you're saying
25 that --

1 MR. TIM STARODUB: Because some of
2 those project execution challenges that we weren't
3 able to achieve were accounted for in the target
4 variance.

5 MR. BOB PETERS: All right. I've got
6 your point. And so, Ms. Bauerlein, again, just
7 talking ballpark, if there's an underspend of \$8
8 million, let's say, on -- on the capital budget, Mr.
9 Steele is pointing out that it's an underspend on the
10 distribution system and corporate infrastructure
11 subtotal number, not taking into account the target
12 variance, correct?

13 MS. SANDY BAUERLEIN: That is what Mr.
14 Steele is saying, yes, that's correct.

15 MR. BOB PETERS: And agree from the
16 accounting perspective --

17 MS. SANDY BAUERLEIN: Yes.

18 MR. BOB PETERS: -- that that's how
19 you would record it. You wouldn't char -- you --
20 you'd be charging some of this additional cost to the
21 target variance, but --

22 MS. SANDY BAUERLEIN: We don't
23 actually charge anything. That's just a budget. But
24 you're -- it's -- it's accounting for the execution
25 risk.

1 So, they're saying, when you plan all
2 the detailed budgets for all the projects and
3 programs, they total \$42.9 million. But we know we're
4 going to have some execution risk, which is what the
5 \$2.8 million represents. So, our total budget is
6 40.1.

7 When you're looking at actuals now,
8 you're going to compare actual costs incurred to the
9 40.1. But the point he's trying to make is, if you're
10 looking at it in a project-by-project basis, the
11 projects don't have the execution risk in their
12 numbers. That -- that execution risk is in the
13 negative 2.8.

14 MR. BOB PETERS: I -- I have your
15 point. And the point, Ms. Bauerlein, that I wanted to
16 make with you was that, because of what's happening in
17 real life in the field on these projects being
18 deferred, there's going to be a lower need for -- for
19 borrowing.

20 Would that be true?

21 MS. SANDY BAUERLEIN: There would be
22 lower costs incurred, correct.

23 MR. BOB PETERS: And those lower --

24 MS. SANDY BAUERLEIN: However, there
25 could be execution risks that still happen between now

1 and -- and March on projects that are underway,
2 execution risk offsetting.

3 MR. BOB PETERS: Cost overruns?

4 MR. CHUCK STEELE: Yes, that -- that's
5 absolutely correct.

6 MR. BOB PETERS: All right. I've got
7 your point, Ms. Bauerlein. But the costs -- you will
8 expect that, if -- if these projects are deferred,
9 that there would be less costs charged through
10 depreciation, through finance expense, through taxes?

11 MS. SANDY BAUERLEIN: Correct. But
12 keep in mind those charges don't hit depreciation and
13 finance expense until the asset's places in service.

14 So, if the asset -- if the project
15 wasn't scheduled to be completed until March of 2020,
16 you wouldn't see an impact on the depreciation
17 forecast in the 1920 test year, it would be an impact
18 in the 2021 fiscal year.

19 So, its depends on the timing of the
20 plant in-service date as to how much it actually would
21 have impacted revenue requirement in the test year.

22 MR. BOB PETERS: I want to turn to the
23 last topic for today and with my time with the panel
24 on capital expenditures. And I'm going to ask this.
25 Not to step on anybody's territory for cost of service

1 or otherwise, but would this Panel be correct in
2 understanding that one (1) of the reasons why certain
3 customer classes are receiving larger bill impacts
4 than other customers is because of large transmission
5 system investments that have been made over the past
6 couple of years?

7 Would you be comfortable answering
8 that -- accepting that, maybe even subject to check if
9 you have to?

10 MS. SANDY BAUERLEIN: Generally
11 speaking, I understand that to be correct.

12 MR. BOB PETERS: All right. And
13 that's about as deep as I'm going to go,
14 Ms. Bauerlein.

15 Back on page 211 of Board Counsel's
16 book of documents -- we are need the end -- it's very
17 difficult to read both in paper and on the screen.
18 But this shows the capital projects undertaken since
19 2011/2012, Mr. Steele? Mr. Starodub?

20 MR. CHUCK STEELE: It is hard to read,
21 but yes, I'll trust that it does.

22 MR. BOB PETERS: All right. Well,
23 we're trying to show some central evidence where
24 you've had the plans and intangible additions by
25 investment category.

1 Would you also be able to tell the
2 Board that these capital assets, most of them would be
3 considered transmission related?

4 MR. CHUCK STEELE: I'm just trying to
5 read the very poor copy. But certainly, the majority
6 but not all of them.

7 MR. BOB PETERS: All right. And if
8 you want to turn up your own copies on your own --

9 MR. CHUCK STEELE: Yeah.

10 MR. BOB PETERS: -- from your own
11 application, that's fine. It's just in the
12 reproduction. I apologize for that.

13 So most of them would be related to
14 Centra's transmission pressure system? You'd be
15 comfortable saying, Mr. Starodub?

16 MR. TIM STARODUB: Yeah. I'm just
17 still sneaking through it. But yes, that would be
18 correct.

19 It does include things like the -- the
20 CNG facility and the compressed natural gas filling
21 station -- trailers.

22 MR. BOB PETERS: And the largest of
23 these projects in terms of costs appears to be the
24 Winnipeg northwest phase 2 project? Would that be
25 correct?

1 MR. TIM STARODUB: That is correct.

2 MR. BOB PETERS: And I know you
3 summarize it on page 212 of Board Counsel's book of
4 documents, and you provide the details with it. But
5 this project was to supply some -- I guess a second
6 supply. Would that be a redundant supply up to
7 customers in the Selkirk area? Is that one of the
8 purposes?

9 MR. TIM STARODUB: That's one of the
10 purposes, yes.

11 MR. BOB PETERS: And then it was also
12 supposed to provide some additional capacity and
13 operational flexibility. Correct?

14 MR. TIM STARODUB: That is correct.
15 It provided additional capacity for Stonewall, and it
16 provided us the ability to take pipelines on the east
17 side of the river out of service so we could perform
18 inline inspection.

19 MR. BOB PETERS: And the cost of that
20 project was about \$26.2 million?

21 MR. TIM STARODUB: I believe that was
22 the final cost, yes.

23 MR. BOB PETERS: And would you also
24 agree that Centra doesn't normally undertake projects
25 that are greater than \$10 million?

1 MR. TIM STARODUB: I would agree, yes.

2 MR. BOB PETERS: This is a big
3 project.

4 MR. TIM STARODUB: It is.

5 MR. BOB PETERS: It's one of the
6 biggest in your career.

7 MR. TIM STARODUB: No.

8 MR. BOB PETERS: Not with Centra?

9 MR. TIM STARODUB: Not with Centra.

10 MR. BOB PETERS: Okay. It doesn't
11 come along every year, but it happens.

12 MR. TIM STARODUB: Yes. And actually,
13 I should correct. It -- in a previous life, I worked
14 for an engineering consultant, and we did a project
15 for this company called Centra Gas in the mid '90s
16 which was the roll of gas expansion project which was
17 more pipe and more cost. And so it's just kind of
18 related.

19 MR. BOB PETERS: That's when west
20 coast was the shareholder.

21 MR. TIM STARODUB: That's correct,
22 yes.

23 MR. BOB PETERS: And that's when the
24 Government of Canada, the Government of Manitoba were
25 putting infrastructure money into --

1 MR. TIM STARODUB: It was --

2 MR. BOB PETERS: -- in to Centra's
3 projects.

4 MR. TIM STARODUB: That's correct,
5 yes.

6 MR. BOB PETERS: Are those days gone?

7 MR. TIM STARODUB: I -- there is a
8 community who's trying to investigate the options, but
9 I don't -- I can't tell you if those days are gone or
10 not.

11 MR. BOB PETERS: All right. So
12 staying with this northwest pipeline, I'm thinking
13 that's along the north side of the perimeter highway.

14 MR. TIM STARODUB: That is correct.

15 MR. BOB PETERS: And I think you had a
16 map in one of your -- one of your documents. But --

17 MR. TIM STARODUB: Yeah.

18 MR. BOB PETERS: -- it's on the north
19 side of the perimeter highway. And as you've said,
20 the benefit is that it provides some additional supply
21 to Stonewall and as well as additional supply to areas
22 north of Winnipeg.

23 MR. TIM STARODUB: That is correct.

24 MR. BOB PETERS: Was this project
25 considered a special project and given greater

1 scrutiny by Centra's executive committee?

2 MR. TIM STARODUB: Yes.

3 MR. BOB PETERS: What extra scrutiny
4 would you say it was given?

5 MR. CHUCK STEELE: When this project
6 was approved, there was a different member in the vice
7 president role. And I believe that there was a number
8 of documents prepared for that vice president to
9 present to executive committee concerning this
10 project.

11 MR. BOB PETERS: And that was because
12 of the magnitude of the project.

13 MR. CHUCK STEELE: Yes.

14 MR. BOB PETERS: Did this project get
15 special approval by Centra's Board of Directors?

16 MR. CHUCK STEELE: That I don't know.
17 Was there a do nothing option alternative to this
18 project?

19 MS. SANDY BAUERLEIN: It would have
20 approval of the Board of Directors as part of the CF
21 when it was presented. The Board would approve it.

22 MR. BOB PETERS: Yeah. My question,
23 Ms. Bauerlein, was whether it got specifically
24 approved as a separate project other than outside of
25 the CEF, but the witness wasn't aware.

1 MS. SANDY BAUERLEIN: It would not
2 meet the -- oh, I'm trying to remember. I'd have to
3 double-check because we have actually changed some of
4 our approval thresholds for what requires specific
5 approval of the Board.

6 And I don't recall at that time whether
7 or not this would have been a specific item that would
8 have gone to the Board.

9 MR. BOB PETERS: So you're going to
10 undertake to determine whether there was special
11 approval for this northwest transmission loop from the
12 Board of Directors and the criteria for such special
13 approval?

14 MS. SANDY BAUERLEIN: I can
15 understand -- I can undertake to do that.

16
17 --- UNDERTAKING NO. 5: Centra to determine whether
18 there was special approval for this
19 northwest transmission loop from the
20 Board of Directors and the criteria
21 for such special approval.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Thank you.
25 Mr. Starodub, was there a do nothing alternative for

1 this project?

2 MR. TIM STARODUB: Not directly. We
3 needed to address the issues with the Stonewall
4 system, and again, we were trying to, as possible,
5 combine as many -- get as many benefits out of a
6 single project as we could.

7 MR. BOB PETERS: That helping of the
8 Stonewall supply was a \$4 million solution, was it
9 not?

10 MR. TIM STARODUB: I believe that was
11 the number that we shown in the -- in the CPJ, yes.

12 MR. BOB PETERS: All right. And the
13 looping to the area north of the city up to Selkirk,
14 that was a \$17 million standalone solution, was it
15 not?

16 MR. TIM STARODUB: Give me one second,
17 and I'll catch up with you by finding the CPJ for the
18 project.

19 MR. BOB PETERS: We understand that
20 within the scope of doing this northwest expansion,
21 there were alternatives to the selective projects?

22 MR. TIM STARODUB: That's correct.

23 MR. BOB PETERS: And would you agree
24 that these other options were relatively the same but
25 had different size of pipe going to the same

1 locations?

2 MR. TIM STARODUB: That is correct.

3 There are variations on a theme.

4 MR. BOB PETERS: Did all of the
5 options meet the objectives of the company?

6 MR. TIM STARODUB: Give me one second,
7 please.

8 MR. BOB PETERS: I'm not sure I have
9 that, sir.

10

11 (BRIEF PAUSE)

12

13 MR. TIM STARODUB: So certainly,
14 the -- the different options that provided different
15 levels of value. And the overall criteria, we
16 selected the option that we thought had the best value
17 for Centra.

18 MR. BOB PETERS: Centra selected the
19 most expensive option, too, did it not?

20 MR. TIM STARODUB: Of the option
21 selected -- of the options developed, it was the most
22 expensive option.

23 MR. BOB PETERS: Why was the most
24 expensive option chosen over the less expensive
25 options?

1 (BRIEF PAUSE)

2

3 MR. TIM STARODUB: Certainly, it
4 provided a number of different points of value. One
5 of them was to mitigate the risks to the city of
6 Winnipeg. It does provide some capacity availability.
7 I think within the CIJ if -- I'm not sure how much
8 detail you want me to go through.

9 But we talk about reliability. We talk
10 about operational flexibility. We talk about system
11 loading and reduction of operating pressures. We
12 address identified transmission capacity issues. We
13 talk about the ability that provides on the
14 flexibility for maintenance which permitted us to take
15 the Ile-des-Chenes line out of operation for inline
16 inspection, which is something that we'd been trying
17 to get to for a number of years.

18 And it also helps us address issues
19 with changes in TCPL supply pressure.

20 Mr. BOB PETERS: I understood from a
21 previous answer, Mr. Starodub, that the other options
22 also address those same issues.

23 MR. TIM STARODUB: Is there a
24 particular -- I think we show -- okay. So we show
25 four -- four (4) different options, and certainly,

1 option 4 that was selected had the highest value of
2 redundant capacity to support the Winnipeg high
3 pressure system.

4 MR. BOB PETERS: And so that was the
5 straw that cast the vote in that favour?

6 MR. TIM STARODUB: Well, it was --
7 when we looked at the other ones and the difference in
8 costs between them, that was the deciding factor, yes.

9 THE CHAIRPERSON: Mr. Peters --

10 MR. BOB PETERS: Thank you.

11 THE CHAIRPERSON: -- the music is
12 playing. Five (5) minutes.

13 MR. BOB PETERS: And, Mr. Chair,
14 you'll be happy to know that I'd like to thank,
15 coincidentally, Ms. Bauerlein, Mr. Steele,
16 Mr. Starodub for their responses to my questions.

17 I will indicate that we've had some
18 informal discussions with counsel opposite. And while
19 I may go home, counsel for the other Intervenors will
20 be working late tonight because they have areas that
21 they had questions on that I'm lead to believe may
22 have already been covered by Ms. Steinfeld and myself.

23 And if that's the case, they will have
24 revised time estimates for us, but we will pick up
25 tomorrow morning with counsel for the Consumers

1 Association and this Panel, follow that by counsel for
2 the Industrial Gas Users, and Ms. Steinfeld will have
3 an update for the Board in the morning in terms of
4 where we're looking at in terms of timing.

5 But we do have the time. And again,
6 I'll also thank the Board for their indulgence. I
7 know it's been a long day. Appreciate that. Thank
8 you, Sir.

9 THE CHAIRPERSON: Thanks to all, and
10 we're adjourned till 9:00 tomorrow morning.

11

12 (PANEL RETIRES)

13

14 --- Upon adjourning at 5:41 p.m.

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17

18 Certified Correct,

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22 _____

23 Donna Whitehouse, Ms.

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