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MANITOBA PUBLIC UTILITIES BOARD

Re:                                   CENTRA GAS  
                                  COST OF GAS APPLICATION

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

HELD AT:  
                  Public Utilities Board  
                  400, 330 Portage Avenue  
                  Winnipeg, Manitoba  
                  September 9th, 2004  
                  Volume II  
                  Pages 220 to 470

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APPEARANCES

R.F. Peters )Board Counsel  
Marla Murphy )Centra  
Kris Saxberg )Canadian Association of  
Consumers, Manitoba Society  
of Seniors (CAC/MSOS)  
Bill Carroll )MacDon Industries Ltd.  
David Brown )Municipal Gas/Direct  
Karen Melnychuk )Energy  
Carol Wilkinson )Court Reporter

	TABLE OF CONTENTS	
		Page No.
1		
2		
3		
4	List of Exhibits	223
5	List of Undertakings	224
6	TREE/RCM Brief to PUB	225
7	Letter from The Vergatas	244
8		
9	CENTRA PANEL, Resumed	
10	Continued Cross-Examination by Mr. Bob Peters	249
11	Cross-Examination by Mr. David Brown	375
12	Cross-Examination by Mr. Kris Saxberg	440
13		
14	Certificate of Transcript	470
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	PUB-6	Heating comparison between	
4		different fuel sources for an	
5		average single family home	292
6	PUB 7	Advertisement in Winnipeg	
7		newspaper	358
8	DIRECT ENERGY-3:	Brief of documents	376
9	DIRECT ENERGY-4:	Agenda of meeting March 3, 2004	385
10	CAC-3	Book of documents	441
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

LIST OF UNDERTAKINGS			
1	2 Undertaking No.	3 Description	4 Page No.
3	3	Update Schedule 6.1.2 for the Board	
4		to provide actual information as	
5		opposed to forecast information for	
6		not only system but WTS and the other	
7		classes of customers as well	311
8	4	Vince Warden to provide overall and	
9		incremental costs incurred in respect	
10		of putting together and publishing	
11		the website	437
12	5	Ms. Lori Stewart to file research	
13		information that speaks to a long term	
14		embedded cost of approximately three	
15		quarters of a percent.	453
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 April 22 2004  
2 Public Utilities Board of Manitoba  
3 409 - 330 Portage Avenue  
4 Winnipeg MB R3C 0C4  
5 Attention: Mr. G. O. Barron, Executive Director

6

7 Dear Mr. Barron:

8 Re: Centra Gas 2004/2005 Gas Application

9           Centra Gas is applying to the Public Utilities  
10 Board (PUB) for overall decreases to its Supplemental Gas,  
11 Transportation (to Centra) and Distribution (to customers)  
12 for 2004/05 being effective on August 1, 2004. Centra says  
13 in a letter from M. Murphy that Centra is decreasing non-  
14 Primary Gas costs for 2004/05 of approximately \$5.2 million.  
15 Centra is also requesting approval to refund customers the  
16 estimated balance of various non-Primary GAS PGVA and gas  
17 costs deferral of approximately \$14.5 million through rate  
18 riders.

19           Why should we pay for gas this is shipped from  
20 Alberta, storage of gas in the United States and then shipped  
21 back to us. Isn't this double billing us? Why should  
22 customers be required to pay for any unaccounted for gas. By  
23 the way, what is this Unaccounted for Gas anyway? Why are we  
24 charged for this? Could someone explain this in plain  
25 English.

1                   This Basic Monthly Charge is wrong. Centra  
2 should have enough personnel to read meters every month, as  
3 well as, the billing process without putting this charge on  
4 our individual bills. Hydro bills do not charge us for same,  
5 why does Centra?

6                   "Is portfolio related to Unaccounted for Gas."  
7 If customers are paying through the Basic Monthly Charge for  
8 record keeping, billing and meter reading, why isn't  
9 Unaccounted for Gas be put under this charge. In their  
10 application Centra keeps on saying rates go into effect on  
11 August 1, 2004. What are these supposedly new lower rates?

12                   Where is this money coming from and where is  
13 it going? Are the ordinary customers getting a refund or  
14 actually seeing a decrease in their non-Primary gas costs?

15                   Basic Monthly Charge - too many different  
16 things being charged here. Centra should tell consumers  
17 exactly what this charge is for in plain English. There are  
18 far too many outstanding deferral accounts being owed to  
19 Centra for the consumers to be paying for record keeping.  
20 Centra doesn't have a very good record system to my way of  
21 seeing things.

22                   A portion of operating costs such as meter  
23 reading and billing are also recovered in the Basic Monthly  
24 Charge" Same comment as above.

25                   If there are any differences to be refunded or

1 collected from customers, when does this Happen? I have  
2 never heard of anyone getting anything back from either  
3 Manitoba Hydro or Centra Gas.

4                   Again why is this Unaccounted For Gas charged  
5 to customers? Why isn't this included in the costs for  
6 Centra not the consumer?

7                   Why again is Unaccounted For Gas included for  
8 the consumer to pay through the distribution part of our  
9 bills? Why can't Centra get a better handle on this  
10 Unaccounted For Gas, if they (Centra) have such a great  
11 record keeping system. Why should the consumers be  
12 responsible for something they (the consumers) have no  
13 control over. It's to my way of thinking Centra's  
14 responsibility for this Unaccounted For Gas, not the  
15 consumers.

16                   Where and when does the consumer see any of  
17 this money on our gas bills? There is far too many swept  
18 under the table with some of these Corporations. When you  
19 ask any of them a question, you never get a straight answer  
20 from any of them. It's a great tactic to my way of thinking.  
21 It's about time someone told the truth for a change and not  
22 be around the bush, so to speak. There are far too many  
23 people in top positions who are sitting getting paid a huge  
24 salary and not doing the work, instead having someone lower  
25 on the staffing pole do the work for them. I know this for a

1 fact, as I used to work for the government and know how some  
2 of the things are done.

3 "Annual Bill impact resulting from this cost  
4 decreases of approximately 3.4 percent or \$43 per year.  
5 "Also because proposed implementation date is coincident with  
6 Primary Gas quarterly rate change." To me this is trying to  
7 say that Centra is giving the customer a reduction in the way  
8 of a 3.4 percent reduction and then in the say sentence  
9 increasing the Primary Gas quarterly rate change in the same  
10 time frame. We, the consumers, will not see any reduction  
11 whatsoever on our gas bills after these changes go into  
12 effect, one way or the other. It looks good in one way (in  
13 Centra's eyes) that they (Centra) say they are decreasing  
14 Supplemental Gas, Transportation and Distribution rates, but  
15 on the other hand they (Centra) are raising the Primary Gas  
16 rate in the same time frame. To my way of thinking we will  
17 be paying more and more for our gas if someone doesn't start  
18 to put a stop to Centra's every whim they want to put onto  
19 the consumers for our gas. Its about time they started to  
20 tighten their belts as well. A person who is a fixed income  
21 (a pensioner, for example) cannot keep on seeing gas bills,  
22 as well as others, going through the roof. Its about time  
23 people started complaining more, not just talking about same,  
24 doing something constructive about it. I know many people  
25 who just say things are getting bad, but at the same time are

1 doing nothing about it. At least some people are taking  
2 things seriously and not taking the back burner so to speak.

3           There is too much of Canadian gas being stored  
4 in Michigan, Oklahoma, Louisiana and Kansas. We as consumers  
5 have to pay on our gas bills for the transportation to these  
6 storage facilities, paying for the storage of same there and  
7 also transporting the gas back here to us in the Manitoba  
8 market. To my way of thinking, this is double paying costs  
9 for transportation on the little guy.

10           "Centra is only responsible for transporting  
11 the Primary Gas ... to consumer." Why are they (Centra) only  
12 responsible for this part of the transaction? Why not  
13 maintaining a better system altogether. Isn't there a  
14 facility here in Canada where gas could be stored at a  
15 reduction to consumers? I thought Centra was suppose to be  
16 seeking a better way of serving their customers here in  
17 Manitoba, not interests in the US

18           "Primary Gas for storage refill to be moved  
19 from Emerson, Manitoba to Crystall Falls, Michigan" Why does  
20 Primary Gas have to be moved from Emerson, MB to Crystal  
21 Falls, Michigan if the gas is already here? Doesn't make too  
22 much sense, money wise. Someone is getting rich on the backs  
23 of us poor folk. Centra should be made accountable for some  
24 of their actions to us, the consumers.

25           "This storage is used to improve Centra's

1 transportation load factor on ... and reduce the unutilized  
2 demand charges associated with the use of transportation  
3 capacity at a low system load factor." If this storage is to  
4 improve transportation, where is the savings for us  
5 consumers?

6 "Various supply, storage and transportation  
7 assets that Centra holds in order to minimize the costs  
8 related to these assets while ensuring Centra's ability to  
9 meet its customers requirements." I don't see where Centra  
10 has minimized costs to meet our requirements.

11 Report from International Gas Consulting Inc.

12 This report reveals several recommendations  
13 which, I think, Centra should be looking at with great  
14 interest. Their (IGC) report includes the development of  
15 salt cavern storage in Saskatchewan. This is a way that the  
16 gas, which is a Canadian commodity, can be stored here in  
17 Canada, instead of transporting same to the US and then  
18 transporting same back here again. This is a much better  
19 solution for everyone, customers included. We would pay less  
20 for transportation and distribution on our bills. Centra  
21 agrees that there is no urgency to pursue salt cavern storage  
22 at this time." Yes, because they (Centra) would be out of  
23 money for the transportation costs and distribution costs  
24 from the consumers for the gas transported to the US and then  
25 transported back here.

1                   There is far too much money being spent by  
2 Centra for different kinds of research and reports that  
3 shouldn't have to be done by others. For example,  
4 International Gas Consulting Inc. from Houston, Texas dated  
5 August 21, 2003. How much did this report cost Centra? I am  
6 imagine it was quite a lot.

7                   Centra acquired storage facilities in Michigan  
8 in 1993. How could they (Centra) acquire same as they  
9 (Centra) didn't own the gas Company in 1999? Something  
10 doesn't fit here. Who is getting a kick-back from storing  
11 gas in the US?

12                   Two different places in the proposal or  
13 application it refers to two different totals for the amount  
14 of customers 1) 343,000 customers and 2) 250,000 customers;  
15 which is correct or is someone trying to juggle something  
16 under the table. Centra should have a better accounting or  
17 record keeping system I think.

18                   "Utilizing the salt cavern storage would  
19 create a savings of \$2.4 million per year." Where and when  
20 would this \$2.4 million come across as savings for customers?  
21 This is a lot of money which could be used for storage here  
22 in Canada, whether you have to build same or use a depleted  
23 reservoir.

24 IGC believes that development of salt cavern storage would  
25 have considerable and increasing value to Centra." If this

1 Company from Houston, Texas can see this, why can't Centra  
2 and its staffers see this. It is as plain as the nose on  
3 your face. I guess they can't see it.

4 "More significantly salt cavern storage would  
5 allow Centra to reduce its firm capacity in TCPL, increase  
6 load factor ... and improve security of supply. In addition,  
7 salt cavern storage would increase the ability of Centra to  
8 purchase gas when prices are low and reduce their purchases  
9 when prices are high." This makes a lot of sense, why  
10 haven't the people at Centra looked into this before. They  
11 have to wait and get this information from a Company in  
12 Houston, Texas to tell them this.

13 "Revenues that could offset some portion of  
14 capital investment required for storage development." This  
15 also makes a lot of sense if you look at the broader picture  
16 for everyone who is interested in lower bills of any kind.

17 There are numerous shaving facilities listed;  
18 one from Ontario, four in Iowa, three in Minnesota and three  
19 in Wisconsin." Why some many facilities in the States and  
20 only one in Canada?

21 "IGC recommends that Centra increase its ANR  
22 storage capacity and add new salt cavern storage capacity."  
23 How come Centra doesn't seem to see things that would help  
24 the ordinary person to save some money on our bills.

25 IGC recommends Centra proceed with

1 negotiations with TransGas to develop salt cavern gas storage  
2 facility ... and should negotiations prove unsuccessful, IGC  
3 recommends that Centra proceed to develop their own project  
4 in Manitoba." I think this Company from Houston has a very  
5 good knowledge of things and Centra should take them up on  
6 some if not all of their recommendations in order to help us,  
7 the customers, to save some money any way possible to reduce  
8 our gas bills.

9 "Centra has the objective of ensuring security  
10 of gas supply, minimizing price volatility, and providing gas  
11 at the lowest cost." I thought Centra was supposed to be  
12 looking into ways they (Centra) could reduce costs for their  
13 customers. This is not happening, our gas bills are going  
14 through the roof and no telling where they are going to stop.  
15 It's about time someone or some other government agency  
16 looked into Centra's operations.

17 "Saskatchewan reserves are priced similarly to  
18 Alberta reserves and would cost less to deliver to Manitoba."  
19 Why can't the gas come from Saskatchewan if it will cost less  
20 to deliver here than sending it to be stored in the US and  
21 then backhauled here to Manitoba market.

22 "TransGas has proposed to develop a new  
23 facility at or near the site of their existing Moosomin  
24 facility for the exclusive use of Centra." Why, isn't this  
25 possibility looked at a little more closely by Centra in

1 order to bring down costs for us consumers. This would help  
2 out with transportation costs as well as the distribution  
3 costs for us. Why can't Centra see this as well. I guess  
4 they are blind when it comes to their consumers.

5 "Use of salt cavern storage would provide cost  
6 savings of \$2.6 million to \$7.7 million per year through  
7 avoided transportation and third party storage costs." This  
8 would be a big relief to the gas consumers if this could be  
9 implemented as soon as possible. The costs associated with  
10 the transportation and distribution are getting far out of  
11 range and should be brought back into a more productive  
12 stream of costs for consumers.

13 "Salt cavern storage provides the increased  
14 deliverability need to serve annual requirement" This would  
15 be a much needed relief for us consumers, by not having to  
16 pay so much for the transportation and distribution costs  
17 which we are paying for now.

18 "Manitoba Hydro has been working to integrate  
19 the operations of two components, identify synergies,  
20 implement programs to increase efficiency, reduce energy  
21 costs to its customers, and stabilize their customers fuel  
22 costs." This has not been done, our bills keep going up, UP,  
23 and UP when is it going to stop, when everyone has to sell  
24 their long worked for homes and live in something that they  
25 don't want, just because they cannot afford to pay for these

1 outrageous gas bills as well as hydro bills.

2 "Manitoba Hydro has transferred the  
3 responsibility for gas demand forecasting from Centra to  
4 Manitoba Hydro market forecasting department" Why? Does  
5 Manitoba Hydro now run the show for everything, why don't  
6 they (MB Hydro) take everything from the people. It seems  
7 that is what they (MH Hydro) are trying to do and swept  
8 everything they can under the carpet, so to speak.

9 Why all of a sudden are Hydro so concerned  
10 about available manpower and more powerful analytical tools?  
11 My way of thinking its just a cover-up of trying to cover-up  
12 something they (Hydro) are trying to pull over people's eyes  
13 and not see exactly what they are trying to do.

14 "TransGas developed cavern storage in 1973"  
15 Why is this cavern not being used as a storage facility?  
16 Such a project would be the lowest cost and lowest risk  
17 option for high deliverability natural gas storage services  
18 available to Centra:. Why isn't this option being taken into  
19 consideration by Centra? Maybe doesn't come under their  
20 umbrella of fine tuning. Substantial savings would result  
21 from the use of the facility. By using a storage facility  
22 that is located relatively close to MB Hydro's market area,  
23 costs associated with the current storage and/or  
24 transportation could be reduced." I thought Centra was  
25 suppose to be looking after ways to cut costs for their

1 customers. They (Centra) keeps on saying they are trying to  
2 reduce costs, but I don't see it that way at all. This would  
3 be a much better solution for all concerned and save us money  
4 for transportation and storage costs from the States. We pay  
5 for the gas going from Alberta to the storage facilities in  
6 four different locations in the US and then transported back  
7 here again, double transportation costs to my way of  
8 thinking.

9 "Proposed Centra owned salt storage in MB  
10 would be a high deliverability facility capable to multiple  
11 cycles per year." This would make sense to have the gas  
12 stored here; less expensive for the transportation part of  
13 things.

14 "East cost supply model was a combination of  
15 Centra-owned salt storage." Why if others can see the  
16 advantages of salt cavern storage why can't Centra see this  
17 as well. They (Centra) are putting a blind eye to what they  
18 (Centra) haven't really wanted to see, if it saves money for  
19 customers in the long run.

20 "Three main future scenarios were  
21 investigated: ... 2) the Salt Storage scenario, where Centra  
22 owns salt storage in Manitoba and that storage helps satisfy  
23 daily demand and 3) where TransGas provides storage rather  
24 than being developed by Centra." These points about salt  
25 cavern storage here in Canada are a much better thing to

1 develop than storing gas in the US.

2 "Salt cavern storage provides the increased  
3 deliverability needed to cover both annual requirements and  
4 peak loads in winter." I still say that salt cavern storage  
5 is the way to go and have our gas (Canadian) stored here in  
6 Canada at less cost to us the consumer.

7 "That conclusion leads to the recommendation  
8 for development of salt cavern storage." Is Centra not  
9 looking at any of these recommendations from IGC? They are  
10 solid and good recommendations if Centra looks a lot harder  
11 at these suggestions or recommendations.

12 There have been numerous times in this  
13 application where large amounts of money are either being  
14 owed to Centra, or owed to customers. Where and when does  
15 this money either owed to Centra or to customers get  
16 rectified? I would really like to know this.

17 Also, I would like to make a comment about the  
18 new rates for Primary Gas which goes into effect on May 1,  
19 2004. On one hand Centra is giving us costumers back  
20 \$43/year and with the other hand they (Centra) is taking back  
21 \$36/year. Why don't they just leave things the way they re  
22 and forget telling us (customers) that we are getting  
23 something back and then raise the price for Primary Gas with  
24 the other hand. Doesn't make a lot of sense to my way of  
25 thinking.

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Yours truly,  
M. Vergata  
Marlene and Frank Vergata  
553 Rosedale Avenue  
Winnipeg MG R3L 1M6

1 TREE/RCM Centra Gas Brief September 1, 2004

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10 Introduction

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TREE/RCM Brief to the PUB  
Regarding the Centra Gas Rate Application

Respectfully submitted by Peter Millar  
September 1, 2004

Time to Respect Earth's Ecosystems (TREE) and Resource Conservation Manitoba (RCM) are committed to the advancement of a more sustainable society in which our planet's natural endowments of living and non-living systems and resources are valued, respected and conserved. Recognizing that this natural legal is finite and subject to degradation and depletion, we promote eco-efficiency - improving the ratio of social benefits to environmental harms and resource depletion - as an essential pillar of a sustainable society. Conservation is a social imperative.

The purpose of this intervention is to bring over to the gate rate hearing our concerns and positions expressed in the recently concluded electrical rate hearing. This dual

1 intervention is necessitated by the fact that current  
2 regulatory practice does not yet reflect an integrated  
3 approach to energy policy or the fact that Manitoba Hydro is  
4 an integrated energy service Company. Thus we wish to have  
5 confirmed within the gate rate hearing the policies we  
6 recommended in the electrical rate hearing.

7

8 In particular, we want the PUB to:

9

10 Direct Manitoba Hydro to initiate natural gas efficiency  
11 programs, and authorize Manitoba Hydro to file a uniform  
12 system benefit charge on natural gas throughout to pay the  
13 costs of the program

14

15 TREE/RCM concerns and positions

16

17 As we made clear in the electrical rate hearing:

18

19 TREE and RCM are troubled by Canada's standing 27th highest  
20 of 29 ODBC countries in per capita energy consumption and  
21 28th worst out of 29 in energy efficiency.

22

23 We believe this poor showing is not simply owing to physical  
24 climate and geography but is attributable in part to perverse  
25 economic incentives, inadequate conservation investments and

1 regulations, and policy failures - with resultant dismal DSM  
2 achievements, particularly in the residential sector.

3

4 Manitoba Hydro and the PUB are both subject to the  
5 Sustainable Development Act, which prescribes among other  
6 things:

7

8           Efficient Use of Resources, which means  
9           (a) encouraging and facilitating development  
10           and application of systems for proper resource  
11           pricing, demand management and resource  
12           allocation together with incentives to  
13           encourage efficient use of resources; and

14

15           (b) employing full-cost accounting to provide  
16           better information for decision makers.

17

18           And  
19           Stewardship, which expresses the notion of  
20           planning for the long run and promoting  
21           intergenerational equity and prescribes that:

21

22           The economy, the environment, human health and  
23           society well-being should be managed for the  
24           equal benefit of present and future  
25           generations.

1                   Manitobans are caretakers of the economy,  
2                   the environments, human health and social  
3                   well-being for the benefit of present and  
4                   future generations  
5                   Today's decisions are to be balanced with  
6                   tomorrow's effects

7

8 TREE/RCM Recommendations

9

10 TREE and RCM made a number of proposals as to how Manitoba  
11 Hydro could be more responsive to and compliant with the  
12 conservation, efficiency , and stewardship mandates. One in  
13 particular applied to Centra Gas operations. As discussed in  
14 our final argument for the electrical rate hearing, TREE and  
15 RCM recommended the following:

16

17 Natural Gas Efficiency Program

18 MH has a large number of very excellent electrical energy  
19 efficiency programs in place or in various phases of  
20 preparation, as discussed in the rebuttal evidence. However,  
21 the Utility has fewer programs for natural gas consumers, and  
22 is particularly lacking in incentive payments.

23

24 The impact of natural gas conservation in Manitoba is  
25 essentially identical to the impact of electricity

1 conservation. The current electricity conservation programs  
2 reduce expenditures by Manitobans on electricity, and free up  
3 electricity to be exported from Manitoba. The result is that  
4 money flows INTO Manitoba from outside. The effect of  
5 natural gas conservation would be to reduce expenditures BY  
6 Manitobans on energy imported from Alberta. Less money would  
7 flow OUT of Manitoba. The net effect is the same - more  
8 money is spent within Manitoba meeting the energy or other  
9 needs of Manitobans, and the Manitoba economy is stronger  
10 from the export revenues of reduction in import expenses.

11

12 TREE and RCM have proposed a 2 percent system benefit charge  
13 be applied to all throughput of natural gas across the MH  
14 system, with the proceeds of about \$10 million per year  
15 applied to energy efficiency programs for natural gas.

16

17 Under the current situation, customers actually have an  
18 incentive to switch from natural gas heat to electric heat in  
19 order to be able to take advantage of MH electric heat  
20 conservation programs. Exhibit TREE-5C shows comparative  
21 heating costs, and shows clearly that a customer with an  
22 older gas furnace is paying a higher heating bill than if  
23 they used electricity. Putting in baseboard heat is pretty  
24 cheap. If MH customers would save money by switching to  
25 electric heat, however, this is only due to the declining

1 block rate design. But, if the can also access conservation  
2 financing by switching to electric heat, the incentive to do  
3 so is significant.

4

5 Having natural gas conservation programs available to gas  
6 heat users would eliminate this incentive to switch, help  
7 protect MH electricity export revenues, reduce the amount to  
8 Alberta for gas purchases, and help make businesses more  
9 cost-competitive and homes more comfortable and economical.

10

11 MH did not rebut this proposal. No other party took  
12 exception to it.

13

14 Hence the Board should

15

16 a)Direct MH to initiate natural gas efficiency  
17 programs, and authorize MH to fil a uniform  
18 system benefit charge on natural gas  
19 throughput to pay the costs of the program.

20

21 PUB Order 101/04 and TREE/RCM's response

22

23 PUB Order 101/04, dated July 28, 2004, is the first part of a  
24 two-stage judgment issuing from the 2004 electrical rate  
25 hearing. In that Order, the PUB supports an integrated

1 approach to DSM for all customers, whether they heat by gas  
2 or electricity, as follows:

3

4 Currently, the Corporation differentiates its DSM efforts  
5 between natural gas and electricity customers. However, with  
6 the convergence of natural gas and electricity space heating  
7 costs for grid customers, there is an increased risk that new  
8 construction customers will choose electricity.

9

10 If such a preference develops for electric space heat,  
11 increased domestic electrical load will reduce export  
12 potential.

13

14 These and other factors, including those of a public policy  
15 nature, suggest that MH's future DSM plan should take an  
16 integrated approach, and consider both electricity and  
17 natural gas. The cost to MH of extending DSM to natural gas  
18 may be offset by reduced future domestic electricity load,  
19 providing an increased export potential.

20

21 TREE and RCM applaud the PUB's support for an integrated  
22 approach to DSM. However we are concerned that the offset  
23 proposed by the PUB in the underlined sentence above will be  
24 insufficient to cover an adequately-funded DSM program,  
25 because possibly only a portion of gas customers would be

1 prevented from switching to electric heat by the gas  
2 conservation program. If the offset should prove  
3 insufficient, one of two consequences may follow:

4

5 (1) Both gas and electric DSM programs may be  
6 scaled back to a level that can be cost  
7 justified by the limited prevention of  
8 switching. Such a downward equalization would  
9 prevent the realization of the full economic  
10 DSM potential for electric heating customers  
11 and limit the realization of the social  
12 benefits of conservation, or

13

14 (2) If equalization is achieved by scaling gas  
15 conservation programs up to the higher levels  
16 of electrical conservation programs, the  
17 greater DSM investment for gas heat customers  
18 may be subsidized by electricity export  
19 dividends in excess of the extra dividends  
20 earned from the prevention of fuel switching

21

22 Neither of these alternatives is optimal, although the second  
23 is preferable to the first. The first, scaled down  
24 alternative is undesirable because it restricts to  
25 realization of potential cost-effective savings for customers

1 and for Manitoba Hydro and loses the social benefits of  
2 conservation. For that reason Manitoba Hydro has recently  
3 implement another policy, namely

4

5 (3) More aggressive DSM programs for electric heat  
6 customers than for gas customers, because of  
7 the different value to the Corporation of  
8 conservation measure for the two types of  
9 customers (PUB 2004 electricity GRA  
10 transcript, 1214-18).

11

12 But that is the policy that the PUB rightly rejects, not only  
13 to prevent fuel-switching but also for "other factors,  
14 including those of a public policy nature". These other  
15 factors include such social benefits as provide all Manitoba  
16 customers with equal opportunities to improve their house and  
17 reduce their energy bills, restricting greenhouse gas  
18 emission from wasted fuel consumption, reducing the loss to  
19 the economy of money spent on wasted energy, reducing the  
20 loss to the Manitoba economy to implement conservation  
21 measures in retrofits and new construction.

22

23 Having established that the equivalent aggressive DSM  
24 programs for both gas and electric heat customers are  
25 desirable, the next question is how to pay for the gas

1 programs. Whilst a case can be made that some potential  
2 export dividends are secured by gas conservation programs  
3 that prevent fuel switching, there may be many other  
4 customers who implement conservation measures without thought  
5 of fuel switching. Thus we believe it preferable that gas  
6 rates should cover the cost of DSM measures that makes gas  
7 heating more efficient rather than having electric rate  
8 cross-subsidize gas DSM programs. Hence TREE and RCM  
9 continue to believe that the best way to pay for the social  
10 benefits stemming from natural gas conservation is our  
11 original proposal:

12

13 (4) Direct MH to initiate natural gas efficiency  
14 programs that parallel the current and planned  
15 electricity efficiency programs, and authorize  
16 MH to file a uniform system benefit charge on  
17 natural gas throughout to pay the costs of the  
18 program.

19

20 As our evidence in the previous hearing indicates, system  
21 benefit charges are increasingly widespread as a source of  
22 funding for conservation programs. We believe that it is  
23 particularly opportune to implement such a charge right now  
24 at the time of a proposed decline in gas rates.

25

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

2

3 THE CHAIRPERSON: Okay. Good morning  
4 everyone. Welcome back. Mr. Peters, are you ready to go all  
5 refreshed?

6 MR. BOB PETERS: I am, and just by way of a,  
7 I'll call it a housekeeping matter, but I would introduce and  
8 welcome to the Hearing, David Brown, who is here on behalf of  
9 Municipal Gas and Direct Energy. Ms. Melnychuk advised us  
10 yesterday of his attendance, and I apologize to Mr. Brown, I  
11 didn't put him on our outline of procedures, but had I known  
12 you were coming, I would have -- I would have included you.  
13 So, welcome here, again, Mr. Brown.

14 THE CHAIRPERSON: As long as you weren't  
15 going to bake a cake.

16 MR. BOB PETERS: Well, I'm going to try to  
17 bake a cake this morning with Mr. Stephens.

18

19 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

20 MR. BOB PETERS: Mr. Chairman and Board  
21 Members, at the end of the Hearing yesterday, Mr. Stephens  
22 and I were discussing what I have called the Blank Page  
23 Analysis, and I think we all understand it's the portfolio  
24 review that was done.

25 And, Mr. Stephens, one (1) of your comments to

1 the Board was that, when I was asking you what value Centra  
2 has derived from the expenditures to get this report, I  
3 recall your telling the Board that there were many aspects of  
4 it that confirmed and validated Centra's views, and, in fact,  
5 you felt you agreed with most of the report.

6 Now, have I overstated your answers from  
7 yesterday?

8 MR. HOWARD STEPHENS: No, I think that's a  
9 pretty fair assessment.

10 MR. BOB PETERS: And when you told the Board  
11 that you agreed with much of the report, implicit in that  
12 answer, sir, is that there were parts of the report with  
13 which you did not agree; would that also be fair?

14 MR. HOWARD STEPHENS: I guess there's some  
15 question in my mind in terms of how future -- events will  
16 unfold and how the environment will change in the future.  
17 And then from that perspective, the conclusions that they  
18 draw could potentially be less than accurate, but that's a  
19 function of trying to forecast what the market's going to do  
20 over the long period of time.

21 And to bolster, and while I've got the mike,  
22 to bolster my answer with respect to with what value did IGC  
23 bring to the equation, I was thinking about this on the way  
24 home, the one (1) component that has been certainly a  
25 contentious -- and I believe that we -- our ANR storage



1 prepared to endorse the entire portfolio change, and there is  
2 no immediate requirement for us to make any changes. We can  
3 satisfy our customer's requirements quite nicely for the next  
4 several years, given the Trans Canada -- excess capacity in  
5 Trans Canada.

6 But we do have to put plans into place to  
7 transition ourselves from the existing portfolio to the --  
8 new optimized portfolio.

9 MR. BOB PETERS: Are you accepting the IGC  
10 recommendation as the optimized portfolio?

11 MR. HOWARD STEPHENS: Generally yes, I have  
12 some concern with respect to the amount of deliverability  
13 they're looking for out of ANR storage or the combination of  
14 different assets that they're talking about because it  
15 provides for a component of deliverability that's really in  
16 excess of our peak day as identified.

17 And I would want to have a hard look at that  
18 before I would commit to it.

19 MR. BOB PETERS: In terms of the urgency that  
20 you mentioned a few minutes ago, your suggestion is to the  
21 Board that it's not urgent to adopt the IGC recommendation as  
22 it presently stands because there is surplus capacity  
23 available on Trans Canada Pipeline that's available to Centra  
24 if it needs it.

25 MR. HOWARD STEPHENS: I guess the message I'm

1 trying to get across is that where we -- there is no risk of  
2 us not being able to serve our firm and demand and certainly  
3 the -- interruptible customers as well -- in a large number  
4 of cases. So from that perspective we have the luxury of  
5 some time to make do in a methodical evaluation of what IGC  
6 is recommending and then come to our own conclusions and then  
7 to start implementation, recognizing though that  
8 implementation will take a number of years.

9                   It's not something you can just do overnight  
10 and change your contracts around and IGC is really -- I mean  
11 their end conclusion is that we will modify the portfolio but  
12 the new portfolio won't be in place until 2010, at the  
13 earliest. So it's a -- it's a gradual evolution to the new  
14 portfolio.

15                   MR. BOB PETERS: Are you prepared to tell  
16 this Board how long you believe there's going to be surplus  
17 capacity available to Centra on TCPL?

18                   MR. HOWARD STEPHENS: No, I can't forecast  
19 any better than Trans Canada can.

20                   MR. BOB PETERS: Have they given you any  
21 indication as to what they forecast availability will be?

22                   MR. HOWARD STEPHENS: They don't -- they  
23 don't forecast it.

24                   MR. BOB PETERS: In the --

25                   MR. HOWARD STEPHENS: Mr. Peters, it's more

1 -- I guess there's two (2) components to this. In summary,  
2 IGC's findings from my perspective, having read the report  
3 several times, the conclusions they come to are, one (1) that  
4 we can serve the market in a very cost effective way and not  
5 have any component of our load at risk.

6                   And that's the economic component of it but  
7 there's also a philosophical change that they're asking us to  
8 make. And it's a much more conservative approach to serving  
9 the market and that's by having pre-contracted assets in  
10 place.

11                   And that's -- that's the message that they  
12 come through loud and clear, and I mean, and they allude the  
13 fact that this is not simply an economic decision, this is a  
14 decision in terms of how you're going to serve the market the  
15 best. And the environment to a certain extent -- dictates  
16 how you're going to do that.

17                   MR. BOB PETERS: Just before I -- I get to  
18 that last answer, Mr. Stephens, we were talking about the  
19 transition plan and I understood from reading also several  
20 times, the IGC report that the Salt Cavern storage  
21 development appears to be on a -- on a nine (9) or ten (10)  
22 year time frame to develop. Is that your understanding?

23                   MR. HOWARD STEPHENS: That was the -- that  
24 was one transition plan that IGC recommended. There is, I  
25 mean, it could be implemented and the Salt Cavern storage

1 could be developed more quickly depending upon the urgency  
2 associated with it. So it could as short as three (3) to  
3 four (4) years if you wanted it to be.

4 MR. BOB PETERS: And the development of that  
5 Cavern -- Salt Cavern storage would be with Trans Gas in  
6 Saskatchewan?

7 MR. HOWARD STEPHENS: That's the preferred  
8 alternative, yes.

9 MR. BOB PETERS: So it would depend on how  
10 willing they were to develop that for you?

11 MR. HOWARD STEPHENS: Yes. And they're  
12 pretty willing.

13 MR. BOB PETERS: In terms of the conclusions  
14 that you -- you've also spoken about it is -- is it correct  
15 to say that the IGC conclusions is that the new portfolio may  
16 result in lower average cost of gas but increased exposure to  
17 demand costs?

18 MR. HOWARD STEPHENS: Yes, they point that  
19 out quite clearly that we will have -- our fixed costs will  
20 be higher in the order of \$20 million a year I believe.

21 MR. BOB PETERS: All right, so for the Board  
22 to -- to get a better picture of this, at Tab 6 of the Book  
23 of Documents that I provided you with yesterday, there was a  
24 Schedule 5.0.0. And the Panel has told the Board that the  
25 fixed costs shown at the top of the page from lines, I think,

1 1 through to 15, those are the costs that you're going to pay  
2 whether or not molecules flow down the pipelines?

3 MR. HOWARD STEPHENS: That's correct.

4 MR. BOB PETERS: And what IGC is telling you  
5 is that if you adopt this, what you call philosophically more  
6 conservative approach, there could be another \$20 million of  
7 fixed costs that would be added to what you already show on  
8 this chart?

9 MR. HOWARD STEPHENS: Yes, but those fixed  
10 costs would be offset to some extent by the reduced supply  
11 costs as a result of taking the gas at somewhat better load  
12 factor.

13 MR. BOB PETERS: What do you forecast as the  
14 net impact as a result of their recommendation.

15 MR. HOWARD STEPHENS: We -- that's -- I made  
16 reference to that yesterday. We are doing our own internal  
17 analysis and the conclusions from that have not been drawn so  
18 I can't really respond in any sort of meaningful fashion  
19 right now.

20 MR. BOB PETERS: An answer like that, Mr.  
21 Stephens, I take it you've -- you've got an idea what they  
22 might be but you -- it's premature for you to share them  
23 publicly, is what I'm understanding.

24 MR. HOWARD STEPHENS: Yeah, I don't want to  
25 have to come back and eat my words in a year.

1                   MR. BOB PETERS:    Can you tell the Board the  
2 process that -- and the time line that your internal  
3 discussion is going through?

4                   MR. HOWARD STEPHENS:   Well, as I -- I  
5 indicated yesterday, as well as Mr. Warden in his opening  
6 comments, it's our intention to have the analysis done by the  
7 first quarter of 2005. We will take it to the Executive and  
8 Board of Directors and make a decision as to whether we're  
9 going to proceed and develop a plan there -- from there as to  
10 what our next steps will be.

11                  MR. BOB PETERS:    The last document I want to  
12 refer you to in relation to the blank page analysis is found  
13 at Tab 9 of the book of documents that I had circulated  
14 yesterday and this is a chart that was reproduced from page  
15 140 of the -- of the IGC report, and you're familiar with  
16 that, Mr. Stephens?

17                  MR. HOWARD STEPHENS:    Yes.

18                  MR. BOB PETERS:    And do you understand this  
19 to be the preferred recommendation made by the consultants?

20                  MR. HOWARD STEPHENS:    Yes.

21                  MR. BOB PETERS:    And what this chart will  
22 show is how they suggest that the volume that is undelivered,  
23 shown on the third line from the bottom, is made firm or more  
24 certain or reduce the risk, if I may, of deliverability on  
25 that volume?

1                   MR. HOWARD STEPHENS:    That's correct.  I  
2 mean, the number of summer under-served days and the winter  
3 under-served days -- the last two (2) line items in the table  
4 -- are reduced from nine (9) and nineteen (19) to zero (0)  
5 and zero (0), respectively.

6                   MR. BOB PETERS:    And when we say,  
7 "under-served days," how do you presently meet those days,  
8 Mr. Stephens.

9                   MR. HOWARD STEPHENS:    That's the discussion  
10 that we had yesterday in terms of that pink part of the bar  
11 graph where I go and buy delivered service.

12                   MR. BOB PETERS:    And that's also the part of  
13 the discussion from yesterday where Mr. Warden and you have  
14 assured the Board that there is no risk of supply; the only  
15 risk is at what price it would be available to Manitobans, if  
16 and when needed.

17                   MR. HOWARD STEPHENS:    For the immediate  
18 future, yes.  Over -- over a period of time, the supply issue  
19 may become a different matter.  And we talked about that but  
20 -- in terms of the LNG coming from the east coast, et cetera.

21                   MR. BOB PETERS:    Mr. Stephens, you were also  
22 the individual at Centra that was primarily responsible for  
23 the new gas supply contracts.  Is that correct?

24                   MR. HOWARD STEPHENS:    Well, if you like them,  
25 I'll agree, yes.

1 MR. BOB PETERS: And if we don't, it was Mr.  
2 Warden again?

3 MR. HOWARD STEPHENS: Absolutely. I -- the  
4 answer is the affirmative, sir.

5 MR. BOB PETERS: All right. The arrangements  
6 that were discussed yesterday is that you have extended the  
7 supply contract with Nexen for your primary gas and that was  
8 -- I'm sorry, you haven't extended it, you have -- you have  
9 sent out for proposals and have selected Nexen as the  
10 supplier?

11 MR. HOWARD STEPHENS: That's correct.

12 MR. BOB PETERS: And do you see that as an  
13 extension of your existing agreement or do you see it as a  
14 brand new agreement?

15 MR. HOWARD STEPHENS: No, it's a brand new  
16 agreement.

17 MR. BOB PETERS: On transportation on TCPL  
18 there was an arrangement contract that was going to expire  
19 December 31 of '04, for firm service and that has also been  
20 dealt with by you?

21 MR. HOWARD STEPHENS: Yes, we renewed our  
22 TransCanada FS to the MDA contract as well as our TransCanada  
23 FS to the SSEA contract.

24 MR. BOB PETERS: All right.

25 MR. HOWARD STEPHENS: And as well, we renewed

1 our TransCanada STS contract.

2 MR. BOB PETERS: All right. We're using some  
3 acronyms here, but let's just break that down for the Board's  
4 benefit, or perhaps mine, more importantly.

5 At this time the Firm Service Agreement that  
6 you had with TransCanada was to expire on December 31st and  
7 that one has been renewed?

8 MR. HOWARD STEPHENS: That's correct.

9 MR. BOB PETERS: And you also have on a firm  
10 basis with TransCanada, another arrangement that allows you  
11 to -- you use it for your storage arrangement?

12 MR. HOWARD STEPHENS: That's right. The --  
13 that's the Storage Transportation Service that allows us to  
14 move gas back and forth from Emerson to the Manitoba Load  
15 Centre.

16 MR. BOB PETERS: And that wasn't going to  
17 expire, though, until March 31st of '05, if I recall?

18 MR. HOWARD STEPHENS: That's correct.

19 MR. BOB PETERS: And you have already  
20 renegotiated that and renewed that?

21 MR. HOWARD STEPHENS: Well, I wouldn't  
22 categorize it as renegotiated, it's renew it.

23 MR. BOB PETERS: All right.

24 MR. HOWARD STEPHENS: They have a standard  
25 form contract you either sign it or you don't.

1 MR. BOB PETERS: All right. And so that  
2 Agreement is in place until March 31st, and then it's been  
3 renewed?

4 MR. HOWARD STEPHENS: That's correct.

5 MR. BOB PETERS: And what is the period of  
6 renewal for that contract?

7 MR. HOWARD STEPHENS: One (1) year, until  
8 2006.

9 MR. BOB PETERS: Until March 31 of 2006?

10 MR. HOWARD STEPHENS: That's correct.

11 MR. BOB PETERS: And what about the contract  
12 that was expiring December 31 of '04? Is it just a one (1)  
13 year renewal?

14 MR. HOWARD STEPHENS: No, well that's the  
15 minimum term that you can renew and still retain your right  
16 of first refusal to the capacity. I wanted to bring those  
17 contracts into alignment with the gas years, so we renewed  
18 them for twenty-two (22) months, which will provide -- which  
19 allows -- or makes them effective until October 31st, 2006.

20 MR. BOB PETERS: The purpose of your filing  
21 those documents, and Ms. Murphy may have a say in this, but  
22 they're filed certainly for the information of the Board and  
23 the Parties, but they also impact, do they not, on '04/'05  
24 gas costs?

25 MR. HOWARD STEPHENS: Well, certainly there

1 are costs associated with them, so from that perspective they  
2 are gas costs that will be passed on to consumers.

3 MR. BOB PETERS: And you're asking of this  
4 Board, then, to approve the gas cost consequences that flow  
5 from those Agreements that you've entered into?

6 MR. HOWARD STEPHENS: That's correct.

7 MR. BOB PETERS: Does the Primary Gas Supply  
8 Contract with Nexen have any impact on unaccounted-for gas?

9 MR. HOWARD STEPHENS: No. Mr. Sanderson  
10 corrects me that the cost associated with the unaccounted-for  
11 would be attributable -- in direct relationship to the Nexen  
12 supply, so there is that inter-relationship.

13 MR. BOB PETERS: It would be priced according  
14 to the pricing matrix in the contract?

15 MR. HOWARD STEPHENS: That's correct.

16 MR. BOB PETERS: When you sent out your  
17 proposals, Mr. Stephens, and I'm looking at the materials  
18 that you filed, were there any deal breakers that caused you  
19 to reject some of the nine (9) responses that you receive, to  
20 your twenty (20) RFPs sent out?

21 MR. HOWARD STEPHENS: First and foremost we  
22 asked all of the counterparts that we invited to respond with  
23 proposals that they propose a mechanism to sell all of our  
24 system supply to us, or provide all of our system supply.

25 Secondly, we were looking for a flexibility,

1 and, thirdly, we were looking for the methodology, and I mean  
2 it's really an extension of the flexibility issue, to deal  
3 with our quarterly adjustments to accommodate the WTS service  
4 that we have.

5 MR. BOB PETERS: But was Nexen the only party  
6 who were prepared to accommodate on a quarterly basis, your  
7 WTS volumes?

8 MR. HOWARD STEPHENS: That's correct.

9 MR. BOB PETERS: You were also, I think you  
10 told us yesterday, when I was asking in a different line,  
11 that you didn't really enter into negotiations with these  
12 parties, you tried to keep the process as pure as possible;  
13 do you recall saying that, words to that effect?

14 MR. HOWARD STEPHENS: I do.

15 MR. BOB PETERS: And by that, you were  
16 telling the Board that you did not want to enter into side  
17 negotiations; once you put the proposal out you wanted  
18 everybody's response?

19 MR. HOWARD STEPHENS: That's correct.

20 MR. BOB PETERS: And you will recall that  
21 there were a number of concerns with your contracts that have  
22 been raised by the aggregators, marketers and brokers of  
23 Manitoba?

24 MR. HOWARD STEPHENS: Clarify that for me...

25 MR. BOB PETERS: Well you, in the 2003

1 Hearing that was held, there was some information provided by  
2 Intervenors that there were aspects of your supply contract  
3 that could be -- could be construed as impediments to the --  
4 to the broker community?

5 MR. HOWARD STEPHENS: I guess you're going to  
6 have to give me some more detail on terms of which aspects  
7 were impediments to the direct purchase community, because I  
8 know we went to great lengths to make sure that we esta --  
9 maintained the status quo if it didn't before -- or if we  
10 didn't then try to improve upon the situation.

11 MR. BOB PETERS: All right. Well, let me ask  
12 it this way then, Mr. Stephens, because I just -- I'll come  
13 at it from a general way and you may be asked later from a  
14 more specific way. You were aware that some Intervenors were  
15 asking to be consulted prior -- to be consulted by Centra  
16 prior to Centra making firm commitments for future gas supply  
17 contracts?

18 MR. HOWARD STEPHENS: Which we did do.

19 MR. BOB PETERS: All right. What you did do  
20 is you did consult with -- with ABM's in Manitoba?

21 MR. HOWARD STEPHENS: With the -- an  
22 invitation was extended to all the brokers that operate  
23 within Manitoba and we were prepared to discuss with them  
24 what we envision doing in terms of process and identify any  
25 concerns that they may have had.

1                   MR. BOB PETERS:    And as a result of the  
2 concerns that were identified, were -- were those addressed  
3 in your RFP? Did you include them in the request for  
4 proposal?

5                   MR. HOWARD STEPHENS:   I don't believe that  
6 there were any concerns expressed that we hadn't already  
7 anticipated, so from that perspective they were included in  
8 the RFP.

9                   MR. BOB PETERS:    I -- I'm sorry, I don't  
10 understand that answer. Were there specific requests made by  
11 brokers that you did incorporate into the RFP?

12                   MR. HOWARD STEPHENS:   Any concerns that the  
13 brokers had we would have already have incorporated into the  
14 RFP. So from that perspective we accommodated their  
15 requirements because we had already anticipated them.

16                   The primary one being the flexibility issue in  
17 terms of allowing for displacements, system supply to  
18 accommodate direct purchases on a quarterly basis or a  
19 monthly basis or what have you.

20                   MR. BOB PETERS:    And -- and maybe I should  
21 have had you explain that a little bit more in depth when it  
22 first came up, Mr. Stephens. But what you're telling the  
23 Board is that you have a process in place with the brokers in  
24 Manitoba that they will tell you on a quarterly basis whether  
25 they have new gas requirements for their customers which

1 would decrease the amount of system supply that Centra would  
2 need to provide and you need that flexibility with the people  
3 from whom you buy your system supply gas?

4 MR. HOWARD STEPHENS: Yes, it would decrease  
5 or increase. The results of either transi -- customer moving  
6 away from system or coming back to system gas so that we can  
7 assure that they have supply available to them.

8 MR. BOB PETERS: Are you in a position to  
9 advise the Board as to whether there's any positions advanced  
10 by the brokers that you did not incorporate into your request  
11 for proposal or into your contract with Nexen?

12 MR. HOWARD STEPHENS: Not that I can recall,  
13 sir.

14 MR. BOB PETERS: One of the provisions of the  
15 Nexen agreement is that you can -- or Centra cannot buy gas  
16 in excess of the Manitoba load and then resell that through  
17 capacity management transactions, is that correct?

18 MR. HOWARD STEPHENS: That's correct.

19 MR. BOB PETERS: Let the Board understand  
20 that, that presently how would it come to be that you would  
21 have gas in excess of the Manitoba load that you would need  
22 to -- to sell?

23 MR. HOWARD STEPHENS: Under our old contracts  
24 and not -- not the one that we're just seeing the tail end of  
25 right now, but in prior years, we have the opportunity to

1 take the component of the gas supply or -- yeah, the  
2 component of the gas supply contract which we refer to as the  
3 ODV volumes which is essentially the equivalent to the base  
4 load, which was priced on the monthly index.

5           So the price is set at the end of the month  
6 prior to the actual deliveries. To the extent that the day  
7 market following that would climb, and during the summer  
8 months I had significant excess capacity in terms of supply.  
9 I could take that supply on a day to day basis and sell it  
10 into the secondary market and make a significant profit.

11           And -- and in some years it generated a  
12 significant amount of revenue. It -- it's with a curve --  
13 more in the situation -- it would only occur in a situation  
14 where the monthly price that's been set would be lower than  
15 what the day price fell out -- or that was occurring later on  
16 in the summer.

17           So, the concern that the supplier had and in  
18 fact, not only Nexen -- Nexen had a concern with respect to  
19 it, but when we did the assignment to Nexen we were very  
20 clear in terms of this is a right that we have under the  
21 contract.

22           We don't want any question about it and we  
23 don't want any friction about it because I had experienced  
24 some difficulty with Mirant where we were engaged in that  
25 sort of transaction and they took exception and had we not

1 assigned the contract we likely would have been down another  
2 road with them.

3                   So from that perspective, Nexen still had some  
4 exposure with respect to that issue and that's why they  
5 wanted it limited to sales to serve the market but not for us  
6 to take on supply that would be sold into the secondary  
7 market because that exposes them essentially to selling us  
8 gas at the contract price, then having to go out and acquire  
9 gas if they haven't got supply -- production -- they'd have  
10 to go out and buy gas at the market price and turn around and  
11 selling us at the contract price. Any money that we're  
12 making is coming straight out of their pockets.

13                   MR. BOB PETERS:    What impact that has, Mr.  
14 Stephens, on your bottom line is quantified at around a  
15 quarter of a million dollars?

16                   MR. HOWARD STEPHENS:   Well, they're easier by  
17 year and it depends on the characteristics of the market and  
18 as -- as I indicated, if it's an ascending market, then we  
19 will make -- there's the opportunity to make the money  
20 assuming we have the excess capacity.

21                   Assuming that the -- that the months that the  
22 price is ascending, but also the months that we have the  
23 excess capacity, there's the opportunity to generate  
24 revenues. If -- if it's a descending the market the  
25 opportunity disappears.

1                   MR. BOB PETERS:   Well how did you quantify a  
2 quarter of a million dollars as a -- a net reduction -- I'm  
3 sorry, a net increase in gas costs.

4                   MR. HOWARD STEPHENS:   We referred to it as a  
5 reduction -- the -- that amount is the amount that's embedded  
6 in the six (6) point odd million dollars of capacity  
7 management revenues we reported this year.

8                   MR. BOB PETERS:   Under your arrangement with  
9 Nexen can you sell the gas that would refill your storage?  
10 Can you sell that?

11                   MR. HOWARD STEPHENS:   That would refill my  
12 storage?

13                   MR. BOB PETERS:   Well, if you were purchasing  
14 gas and it flows past Winnipeg, it ends up in storage -- you  
15 can resell it out of storage?

16                   MR. HOWARD STEPHENS:   Yes, that would be a  
17 capacity management transaction, yes, and that would be  
18 considered a sale of inventory.

19                   MR. BOB PETERS:   Are there any other capacity  
20 management transactions that are affected by the contract  
21 with Nexen that you presently conduct that you cannot under  
22 the new contract?

23                   MR. HOWARD STEPHENS:   No.

24                   MR. BOB PETERS:   In the new Nexen agreement,  
25 it's based, is it, on a -- on a 100 percent load factor

1 arrangement?

2 MR. HOWARD STEPHENS: Very similar to what we  
3 have this year where we have a baseload component which is  
4 100 percent take or pay, so we're very conservative in terms  
5 of setting our MDQ or our maximum daily quantity for that  
6 volume.

7 MR. BOB PETERS: Was the old load forecast --  
8 or the existing load -- load factor not 85 percent?

9 MR. HOWARD STEPHENS: You're going way back  
10 in time, Mr. Peters.

11 MR. BOB PETERS: Don't date me then, Mr.  
12 Stephens, but -- so there's -- is there a premium on -- that  
13 you're paying on any of that baseload?

14 MR. HOWARD STEPHENS: No, it's priced at the  
15 AECO index plus the NOVA as-billed, so that's the as-billed  
16 cost that they experience to deliver the gas from AECO to --  
17 to Empress where we receive the gas.

18 MR. BOB PETERS: All right. And also under  
19 this Nexen contract there was a change in how you dealt with  
20 the -- the swing service, correct?

21 MR. HOWARD STEPHENS: That's correct.

22 MR. BOB PETERS: And if -- if I think swing  
23 service -- is that also what we used to call spot -- spot  
24 service -- spot gas?

25 MR. HOWARD STEPHENS: We used to buy the gas

1 on a day-to-day basis in the spot market. We'd go out to the  
2 market every day and get on the phones and/or go onto the  
3 electronic bulletin boards and buy whatever requirements we  
4 had over and above what our contract provided for.

5           In the restructuring that I did back in 2000  
6 we incorporated the provision for the swing of service at an  
7 index price so we had certainty and it was fixed. I mean, it  
8 was -- the component that I didn't like about going out day  
9 by day is that there are some days you've got to phone a hell  
10 of a lot of people to find the gas. This provided for a firm  
11 opportunity -- firm delivery of that supply at -- at a -- at  
12 an index price that was very attractive.

13           MR. BOB PETERS: When you say, "very  
14 attractive", Mr. Stephens, it also came with a premium on --  
15 on every gigajoule that flowed -- that was in excess of the -  
16 - the former premium.

17           MR. HOWARD STEPHENS: Well, the former  
18 premium, you wouldn't really know what it was unless you did  
19 a comparison between -- I mean, they really are not  
20 comparable -- but the monthly versus the daily index when we  
21 were buying spot gas. The premium that we paid for the swing  
22 supply was a half a cent over index.

23           MR. BOB PETERS: And now the -- the new  
24 premium is two and a half (2 1/2) cents a gigajoule on the  
25 first quantity that you purchase and then over and above that

1 it doubles?

2 MR. HOWARD STEPHENS: That's correct.

3 MR. BOB PETERS: And that's going to end up  
4 costing Manitobans about four hundred thousand dollars  
5 (\$400,000) a year more?

6 MR. HOWARD STEPHENS: Based upon a normal  
7 year or Mr. Sanderson's budget, yes.

8 MR. BOB PETERS: And in terms of the  
9 rationale as to why you expended that, was it simply because  
10 of the convenience factor of being able to line it up?

11 MR. HOWARD STEPHENS: Well there's a security  
12 of supply issue with respect to it and the second component  
13 of it is we do require the gas and I -- it's not the most  
14 efficient process for us to be chasing the gas down on a  
15 day-to-day basis.

16 MR. BOB PETERS: Was the old arrangement  
17 available? That is the -- when I call it the old arrangement  
18 I guess it's the current existing arrangement rather the new  
19 one? Was that available on -- on the swing gas?

20 MR. HOWARD STEPHENS: Well there is no  
21 difference between what -- other than the fact that the new  
22 swing gas has two (2) tiers associate with it. It's  
23 essentially the same arrangement only the premium has changed  
24 associated with it. And that just attests to the fact that  
25 we got a very good price on the swing service on the original

1 set of contracts.

2 MR. BOB PETERS: And you say that because  
3 this -- this one is -- higher, not because the other one was  
4 less?

5 MR. HOWARD STEPHENS: And all of the others  
6 that made any -- made a quote with respect to swing supply  
7 were higher. I knew when we negotiated that contract that  
8 the half cent we were paying over index were swing service  
9 was very low on it and I -- indeed IGC alludes to the same  
10 thing.

11 MR. BOB PETERS: When -- when you add up the  
12 pluses and minuses of your new arrangement, Mr. Stephens,  
13 would you agree with me that as a result of the new  
14 arrangements under I think -- under normal conditions I  
15 suppose there could be two hundred and sixty (260) or two  
16 hundred a fifty thousand dollars (\$250,000) of additional  
17 costs as a result of the new gas contract?

18 MR. HOWARD STEPHENS: Well if you don't take  
19 into consideration -- my math -- my math says six hundred and  
20 fifty thousand dollars (\$650,000). Two hundred and fifty  
21 (250) for lost opportunity associated with capacity  
22 management and four hundred thousand dollars (\$400,000)  
23 associated with the swing service increase in the premium  
24 over index.

25 MR. BOB PETERS: Is there any more or any

1 less security of supply with this new arrangement with Nexen  
2 than there was under the existing arrangement?

3 MR. HOWARD STEPHENS: It's the same.

4 MR. BOB PETERS: So the -- the real impacts  
5 then are -- are on pricing?

6 MR. HOWARD STEPHENS: That's correct.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Mr. Stephens, the  
11 arrangements that you have on the Great Lakes Gas  
12 Transmission System is an arrangement that you presently have  
13 through ANR, is that correct?

14 MR. HOWARD STEPHENS: I'm just going to get  
15 the date because I can't remember what date the effective  
16 date of those Great Lakes contracts came into affect. But it  
17 seems to me it was September 1st or the -- so they are in  
18 place today, sir. Back haul, I believe, is effective  
19 November 1st.

20 MR. BOB PETERS: What you're telling the  
21 Board is -- and you've told us that the Great Lakes Gas  
22 Transmission arrangement was separate and apart from the ANR  
23 price cap that you had?

24 MR. HOWARD STEPHENS: That's correct. They  
25 arranged the service, they signed the paperwork but it was on

1 our behalf and we paid the bills and to the extent that there  
2 were any increases or decreases, we either got the benefit or  
3 the contrary.

4 MR. BOB PETERS: And now the arrangement is  
5 directly between Centra and Great Lakes with no -- with ANR  
6 not being part of the -- of that arrangement, is that  
7 correct?

8 MR. HOWARD STEPHENS: That's correct. And I  
9 mean from an operational perspective, I mean, we -- we dealt  
10 with Great Lakes on a very much a one to one basis. I mean,  
11 ANR was not very -- very much involved with our day-to-day  
12 dealings with Great Lakes.

13 MR. BOB PETERS: What was different about the  
14 Great Lakes Gas Transmission arrangement though, Mr.  
15 Stephens, is it now has both a forward haul component and --  
16 and a back haul component; correct?

17 MR. HOWARD STEPHENS: We always had a forward  
18 haul and a back haul component. It's the character of the  
19 back haul that's changed.

20 MR. BOB PETERS: The back haul used to be on  
21 a declining cost of service methodology and it was related to  
22 an interruptible back haul arrangement?

23 MR. HOWARD STEPHENS: That's correct.

24 MR. BOB PETERS: And that's no longer the  
25 case, you've firmed that up or you've fixed the back haul; is

1 that correct?

2 MR. HOWARD STEPHENS: We made a firm back  
3 haul out of it and it's no longer under the declining cost of  
4 service basis, that's correct.

5 MR. BOB PETERS: And by making it a firm back  
6 haul, it also came at a cost of approximately two hundred  
7 thousand dollars (\$200,000) of additional gas costs to  
8 Manitobans?

9 MR. HOWARD STEPHENS: US dollars, yes.

10 MR. BOB PETERS: And in terms of firming it  
11 up or fixing it up, can you explain conceptually what benefit  
12 that provides Manitobans?

13 MR. HOWARD STEPHENS: The interruptible back  
14 haul, yes, the interruptible back haul was a month-to-month  
15 arrangement that could have been terminated at potentially  
16 any time. It was certainly not in Great Lakes' or ANR's  
17 interest to do so, but from that perspective, we had an  
18 element of risk and we were subject to rate changes at any  
19 particular point in time.

20 We've enjoyed a rate freeze from Great Lakes  
21 which terminates October 31st, 2005, and they will be either  
22 looking at their situation with respect to how much volume  
23 they have contracted on their system, and we could  
24 potentially have been exposed to a rate change at that time.

25 So -- and I guess the more important component

1 of this is that fact that during the course of the last  
2 winter, as a result of the significant decontracting of the  
3 Great Lakes System, and our back haul was at risk, there were  
4 actually a few days where Great Lakes had to turn its system  
5 around for a portion of the system, and -- and forward haul  
6 the gas that would have been ordinarily back hauled.

7           And, TransCanada being the majority shipper on  
8 the Great Lakes System, is under considerable pressure to  
9 decontract on Great Lakes System and make better use of their  
10 own facilities. And to the extent that that were to proceed,  
11 it could have put our back haul at risk and that -- from that  
12 perspective, not allow us to access our storage gas.

13           So, the -- it's -- then this is the much more  
14 important component of the -- or change that we made with  
15 respect to the Great Lakes arrangement, is to make it firm,  
16 so that we're guaranteed that that back haul will occur.

17           MR. BOB PETERS: How can you not have access  
18 to your storage gas once it's already in storage? You don't  
19 physically flow the molecules backwards, you've told the  
20 Board, so why do you worry whether it's interruptible or  
21 firm, in terms of an arrangement that you have with Great  
22 Lakes?

23           MR. HOWARD STEPHENS: Well, there has to be  
24 gas flowing down Great Lakes first of all for me to  
25 intercept, to make the back haul work. If you'll recall, we

1 talked about that yesterday. The back haul works through  
2 displacement. I intercept gas in the MDA that ordinarily  
3 would go down Great Lakes System to our storage withdrawal  
4 point.

5                   If that gas is no longer flowing because  
6 somebody's decontracted to the point where there is not  
7 sufficient gas moving Great Lakes' System to allow the back  
8 haul to -- to work, then I'm -- my gas is stranded in  
9 Michigan.

10                   I hope I was clear about that?

11                   MR. BOB PETERS: No, I've got your point.  
12 Can you tell the Board whether or not the direct contract now  
13 between Centra and Great Lakes Gas Transmission has any other  
14 additional cost impacts to Manitoba, other than what you've  
15 mentioned in terms of firming up or fixing the back haul  
16 component of it?

17                   MR. HOWARD STEPHENS: No, the -- the  
18 entire -- the changes have been identified in the Application  
19 in -- in their entirety.

20                   MR. BOB PETERS: Can you tell the Board  
21 whether the Great Lakes Gas Transmission Contract has any  
22 impact on the dispatch rules that the Board reviewed when we  
23 looked at the maps in the Book of Documents that I provided  
24 you with?

25                   MR. HOWARD STEPHENS: No, there is no change

1 there. Other than the fact that we now have do the  
2 nomination directly to the Great Lakes as opposed to doing it  
3 through ANR to Great Lakes.

4 MR. BOB PETERS: The one point I had to talk  
5 you about, Mr. Stephens, on the ANR contractual  
6 renegotiation, and that was, again, a renegotiation?

7 MR. HOWARD STEPHENS: I wouldn't characterize  
8 it so much as a renegotiation as housekeeping.

9 MR. BOB PETERS: It was a housekeeping  
10 negotiation, or a housekeeping discussion...?

11 MR. HOWARD STEPHENS: I won't split hairs  
12 with you, sir.

13 MR. BOB PETERS: All right. The term of the  
14 contract wasn't changed and the revenue cap wasn't changed;  
15 is that right?

16 MR. HOWARD STEPHENS: That's correct.

17 MR. BOB PETERS: It wasn't apparent, perhaps,  
18 on the materials you filed as to why you felt there was a  
19 necessity to do these housekeeping changes with ANR at this  
20 time?

21 MR. HOWARD STEPHENS: Well, ANR had actually  
22 approached us several years ago when El Paso took them over  
23 and they had a -- a desire to make -- have all their  
24 contracts in the same format -- very much, very similar to  
25 what we do with our customers in terms of reviewing the

1 contracts from time to time and make -- bringing them up to  
2 date to reflect current circumstances, etcetera.

3           So, to the extent that it was possible, they  
4 wanted to bring the contracts up to speed and reflect the  
5 current circumstance and leave some of the language that we  
6 had that dealt with the original signing of the documents and  
7 all the rest of that and put it -- put it to bed and have a  
8 fresh document. So, from that perspective, is how I  
9 characterize it as housekeeping.

10           MR. BOB PETERS: There's no suggestion that  
11 the contract itself was not in compliance with the FERC  
12 requirements in the United States?

13           MR. HOWARD STEPHENS: They did have to make  
14 application with respect to the one (1) FTS contract which  
15 provided for a discounted service rate that paid for the cost  
16 of construction of facilities at the inception of the storage  
17 arrangement.

18           MR. BOB PETERS: But you still were allowed  
19 to keep the revenue cap no matter how the tolling structure  
20 by FERC came through?

21           MR. HOWARD STEPHENS: That's correct.

22           MR. BOB PETERS: Has Centra made any  
23 representations to FERC in respect to their ANR arrangement?

24           MR. HOWARD STEPHENS: No, we've seen no need  
25 because we were in perfect alignment with what they were

1 proposing. They demonstrated to our satisfaction that there  
2 were -- were no economic disadvantages associated with their  
3 proposed revisions.

4 MR. BOB PETERS: Am I correct in that, as a  
5 result of the housekeeping arrangements on the ANR contract,  
6 it may be a situation where you used to have to pay \$13  
7 million US a year to them and now you could end up having to  
8 pay closer to \$14 million but still under the revenue cap?

9 MR. HOWARD STEPHENS: No, I would suggest  
10 that we will likely pay a very similar -- very similar amount  
11 every year. As I indicated yesterday, I believe that the  
12 rates that have been struck for the entire arrangement are  
13 heavily weighted towards the reservation charges, so from  
14 that perspective there isn't a large -- large movement as a  
15 result of increases or decreases to volume.

16 MR. BOB PETERS: Would the arrangements  
17 you've now changed with Great Lakes as well as ANR have any  
18 impact on the recommendations made in the blank page  
19 analysis?

20 MR. HOWARD STEPHENS: None that I can think  
21 of, no.

22 MR. BOB PETERS: Do they have any financial  
23 impact?

24 MR. HOWARD STEPHENS: Well, obviously the  
25 fact that there's a small increase in terms of the cost

1 associated with the Great Lakes component of it, the numbers  
2 in the model would change but I would suggest that the -- the  
3 change would be immaterial.

4 MR. BOB PETERS: And I appreciate we're --  
5 we're not necessarily getting right down to the -- to the  
6 bottom of that report, but I understood from your comments to  
7 me earlier this morning that you've prepared at least a  
8 preliminary analysis of the financial impacts of going  
9 through with the blank page analysis?

10 MR. HOWARD STEPHENS: We're in the process of  
11 doing so, yes.

12 MR. BOB PETERS: Has it been completed?

13 MR. HOWARD STEPHENS: No.

14 MR. BOB PETERS: And this is the analysis  
15 that's destined to go the first quarter of 2005?

16 MR. HOWARD STEPHENS: That's correct.

17 MR. BOB PETERS: Do you have a current  
18 view -- and if I promise I won't hold you to it, or make you  
19 eat your words, Mr. Stephens -- as to the magnitude of the  
20 net additional costs that will be associated with those  
21 recommendations as well as, as a result of your  
22 renegotiations of these contracts?

23 MR. HOWARD STEPHENS: I think I talked my way  
24 around this yesterday and I'm going to do the same. I think  
25 it's too early for me to really comment in a meaningful way.

1                   MR. BOB PETERS:    When would be a -- an  
2 opportunity for the Board to -- to find out in a meaningful  
3 way what -- what impact this may have on the -- on the  
4 portfolio and the cost to Manitobans?

5                   MR. HOWARD STEPHENS:   Once we've completed  
6 the report and vetted it, by management, I would assume that  
7 we would be in communication with the Board at that point in  
8 time.

9                   MR. BOB PETERS:    All right. I'll leave it at  
10 that for the moment, Mr. Stephens, and turn to you on  
11 forecasting future gas costs and perhaps Mr. Sanderson will  
12 assist on this matter, but before Mr. Sanderson gets warmed  
13 up, we heard from Ms. Stewart that Centra does not take a  
14 market view when they forecast future gas costs. Do you  
15 agree with that?

16                   MR. HOWARD STEPHENS:   Yeah, it seems to me  
17 that I was humming that tune quite a few years ago myself,  
18 yes.

19                   MR. BOB PETERS:    And so you simply allow the  
20 market to dictate by use of the strip as -- as impacted by  
21 the derivative hedging program the Corporation conducts?

22                   MR. HOWARD STEPHENS:   We view the strip to be  
23 the consolidated view of all of the market players that  
24 purchase -- are buying and selling the commodity within North  
25 American and that's the best indicator of the price.

1                   MR. BOB PETERS:    Mr. Stephens, perhaps only  
2 because of seniority, can you tell the Board what trends you  
3 have seen in the pricing of the commodity of natural gas in  
4 the past many years? Can you tell us where it's gone, where  
5 it's been?

6                   MR. HOWARD STEPHENS:   By seniority do you  
7 mean old age?

8                   MR. BOB PETERS:    Not at all. I just meant  
9 you're more experienced with what's happened in prior years  
10 in terms of prices of natural gas.

11                   MR. HOWARD STEPHENS:   It's readily apparent.  
12 I mean the price of natural gas has come up substantially. I  
13 think it's more than double what it was. I can remember in  
14 1995 when we were paying three dollars (\$3) a gigajoule for  
15 Alberta gas and that seemed exorbitant and that's a bargain  
16 today.

17                   MR. BOB PETERS:    And I know there's some  
18 informal -- or some charts in some of the materials that are  
19 about -- but gas use to be down, well we'll talk gigajoules  
20 then, was it ever down to a dollar (\$1) a gigajoule that you  
21 recall?

22                   MR. HOWARD STEPHENS:    There were days when  
23 Nova was packed up where you could buy gas for less than a  
24 dollar (\$1). It would been nice to have salt cavern storage  
25 in those days.

1 MR. BOB PETERS: And how long ago would that  
2 have been or what year would that have been, approximately?

3 MR. HOWARD STEPHENS: Well it's happened  
4 within the last five (5) but more -- more frequently about  
5 ten (10) years ago.

6 MR. BOB PETERS: And then from the one dollar  
7 (\$1) a gigajoule, two dollars (\$2) a gigajoule was -- was  
8 almost a benchmark for a couple of years, is that your  
9 recollection?

10 MR. HOWARD STEPHENS: That would be a fair  
11 assessment, yes.

12 MR. BOB PETERS: And that also would have  
13 been in the -- in the mid 90's?

14 MR. HOWARD STEPHENS: That's correct.

15 MR. BOB PETERS: And moving towards the --  
16 the later 90's the costs started to escalate?

17 MR. HOWARD STEPHENS: Once the Atlanta  
18 pipeline came on and they had -- there was a greater access  
19 for Alberta Gas into the US market then the price started to  
20 move up. And that's what we saw as a -- in the winter of  
21 2000/2001.

22 MR. BOB PETERS: And since -- since that  
23 happened, have there -- what else has happened to the cost of  
24 gas in your recollection?

25 MR. HOWARD STEPHENS: It's more much

1 volatile. The prices are considerably more volatile than it  
2 was in the past.

3 MR. BOB PETERS: And in terms of the actual  
4 cost per gigajoule, how long has it been at it's approximate  
5 trading level?

6 MR. HOWARD STEPHENS: Well actually it's just  
7 come off over the course in the last week or so but for the  
8 majority of this year, yeah, we're talking about six dollar  
9 (\$6) Empress gas.

10 MR. BOB PETERS: You told the Board that in  
11 -- it may have been about the mid 90's there was a  
12 significant development that allowed Alberta gas to get to  
13 different markets than it traditionally had gone to and that  
14 caused in your view the price to change.

15 MR. HOWARD STEPHENS: Yes. Before the  
16 Alliance Pipeline was built, the basin was really, what's the  
17 word I'm looking for, the gas was locked into the basin.  
18 There wasn't enough deliverability to get the gas out to the  
19 marketplace. So gas from Alberta was discounted from what  
20 would be the ordinary course of events dictated by the  
21 marketplace and was not very well correlated with the NIMAX  
22 (phonetic).

23 When the Alliance Pipeline came on that  
24 brought a significant -- significant amount of new  
25 deliverability into the Chicago market which made the market

1 much more a North American market and you saw a corresponding  
2 increase in terms of the price of gas coming out of Alberta  
3 at that point in time.

4 MR. BOB PETERS: Recognizing that that  
5 Alliance Pipeline had a significant affect in getting gas to  
6 a market and allowed the western sedimentary basin prices to  
7 start reflecting a continental market, is what I hear you  
8 saying?

9 MR. HOWARD STEPHENS: That's correct.

10 MR. BOB PETERS: Have there been any other  
11 significant developments of similar magnitude that have  
12 occurred since the Alliance Pipeline has come into service  
13 that have also caused pressures on gas prices to -- to go up  
14 or to stay up?

15 MR. HOWARD STEPHENS: Well, Alliance wasn't  
16 the only pipeline that came on, there was also Northern  
17 Border, and as well there's a Millennium Pipeline that takes  
18 gas from Chicago into Ontario, but the other most significant  
19 thing would be the generation of electricity using natural  
20 gas.

21 There have been a number of new projects that  
22 were either on the drawing board or in the process of  
23 construction that put significant demand on the natural gas  
24 reserves that we have.

25 MR. BOB PETERS: The media reports that

1 there's a supply of natural gas now available, you know, off  
2 the east coast from Sable Island and areas; is there any  
3 impact of that gas supply on the gas supply that Manitobans  
4 pay through Centra?

5 MR. HOWARD STEPHENS: Well, to the extent  
6 that that Sable Island would materialize the way they had  
7 first anticipated, it would have helped reduce -- tried to  
8 reduce the price, because obviously more inventory on the  
9 global scene will, I mean, provide, I mean it's supply and  
10 demand, more supply. You know, it will certainly meet the  
11 demand and the price should theoretically come down.

12 Sable hasn't performed as well as they have  
13 expected, so from that perspective, it's really become a non-  
14 issue.

15 MR. BOB PETERS: And not to dwell on it, but  
16 yesterday you said if these LNG plants do materialize in  
17 Canada, that you feel that will also provide downward  
18 pressure on the price?

19 MR. HOWARD STEPHENS: Well, certainly LNG is  
20 economic now, and there are plans, not only in Canada, but  
21 there are a significant number of plans for LNG terminals  
22 within -- off -- in the States, to bring gas from, I'll call  
23 them, third world countries, but -- you may cut my tongue out  
24 later.

25 MR. BOB PETERS: Well, yesterday, I told you

1 I wanted to get an opinion or a market view from you, Mr.  
2 Stephens, and I want -- do you have any confidence or any  
3 views to pass on to the Board as to whether we're ever going  
4 to ever see a four dollar (\$4) a gigajoule gas again, or  
5 three dollar (\$3) gigajoule gas again? What are the industry  
6 pundits saying, what are the periodicals telling you, what  
7 are the conferences suggesting?

8 MR. HOWARD STEPHENS: I can only give you my  
9 opinion and it's simply my opinion.

10 MR. BOB PETERS: I appreciate it's -- but  
11 it's based on your knowledge of the industry, is it not, sir?

12 MR. HOWARD STEPHENS: Yes. Generally  
13 speaking, yes.

14 MR. BOB PETERS: All right, then that's what  
15 I'd like to hear.

16 MR. HOWARD STEPHENS: We won't see three  
17 dollar (\$3) or four dollar (\$4) gas again. Those days are  
18 gone. It is a continental market place. The western  
19 Canadian sedimentary basin is in decline, the new gas that  
20 needs to come on board has a certain threshold in terms of  
21 price before it's going to be economically available.

22 So, from that perspective, I would suggest  
23 that if -- if anything, prices will climb further.

24 MR. BOB PETERS: When the prices climb or  
25 spike, it's usually in response to the demand and the

1 deliverability, so I don't want to talk about the spiking,  
2 but that really is a result of weather or pipeline  
3 restrictions or some other events; is that correct?

4 MR. HOWARD STEPHENS: Yes, short term -- the  
5 short term volatility that's a result of pipeline disruptions  
6 and that sort of thing which is the normal course of events,  
7 yes.

8 MR. BOB PETERS: But I'm not talking about  
9 those short term events, the long term, is it your view, from  
10 your knowledge of the industry, that six (\$6), seven (\$7)  
11 eight dollar (\$8) gas is likely where we're to be for the  
12 next few years?

13 MR. HOWARD STEPHENS: Yes. I mean, the other  
14 alternatives that we look at, in terms of it's either  
15 Northern Gas that's going to come on board, there's LNG  
16 that's going to come on board that's going to help the supply  
17 situation, there's Methane Hydrates in Alberta that there's a  
18 significant opportunity for generation or creation of new  
19 supply there.

20 There are a variety of different alternatives.  
21 All of them, though, require a higher price tag associated  
22 with them to make them economic in terms of development.

23  
24  
25

(BRIEF PAUSE)

1                   MR. BOB PETERS:    Mr. Stephens, this might be  
2 just an appropriate time to conclude this area, but also to  
3 do so by looking at Tab 13 of the Book of Documents, and if I  
4 had asked Centra to take off of the corporate website the  
5 typical home and water heating costs, these are the documents  
6 that you would have come up with; would you agree with me?

7                   MR. HOWARD STEPHENS:    Yes, I think I can say  
8 yes to that.

9                   MR. BOB PETERS:    Well, the reason I asked it  
10 that way, Mr. Stephens, is these are not part of your filing  
11 but I think because I've included them I wouldn't mind them  
12 being marked as an exhibit and perhaps with Ms. Murphy's  
13 agreement we could -- we could mark this as the next PUB  
14 exhibit.

15                   THE CHAIRPERSON:    Do you have any problem  
16 with that, Ms. Murphy?

17                   MS. MARLA MURPHY:    No, sir, it's fine.

18                   THE CHAIRPERSON:    Okay. Six (6)?

19                   MR. BOB PETERS:    Yes, PUB 6 is what I'm  
20 hearing loudly.

21

22 --- EXHIBIT NO. PUB-6: Heating comparison between different  
23 fuel sources for an average single family  
24 home  
25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Stephens -- I'm sorry --  
3 in terms of what's now been marked as PUB Exhibit 6, this  
4 provides a heating comparison between different fuel sources  
5 for a -- a typical or average single family residence.  
6 Correct?

7 MR. HOWARD STEPHENS: That's what it says,  
8 sir.

9 MR. BOB PETERS: And your knowledge is  
10 probably limited to what you're quickly reading as I'm asking  
11 you these questions?

12 MR. HOWARD STEPHENS: I'm sort of winging it  
13 here, yeah.

14 MR. BOB PETERS: All right. Well, let's --  
15 let's -- what I'm -- what I'm really wondering is if -- if  
16 you look at the natural gas heated home or heated water, for  
17 how -- how much more economical or where will the price  
18 points be relative to electricity as we go forward.

19 And we see that natural gas is priced there at  
20 thirty-seven point eight (\$37.8) cents a cubic metre. Are  
21 you suggesting from your knowledge of -- of the energy  
22 markets that natural gas will continue to surpass electricity  
23 and...?

24 MR. HOWARD STEPHENS: I think that you're  
25 making -- you're asking me to draw a number of conclusions

1 that are -- would be wholly inappropriate for me to draw in  
2 terms of what future electricity prices are going to do  
3 relative to natural gas, et cetera, and relative to fuel, et  
4 cetera, so from that perspective I can't provide you a  
5 meaningful answer with respect to that.

6 MR. BOB PETERS: Well, you're -- you're  
7 sidestepping me again and I'm -- you may get away with it but  
8 let's just focus in on the natural gas, Mr. Stephens.

9 What we see there is a typical or a -- an  
10 average single family residence that uses a mid-efficiency  
11 furnace, paying about a thousand and six dollars (\$1006) a  
12 year in terms of gas -- a gas bill.

13 Is that going to, in your view, hold  
14 relatively constant or is that going to creep up and get  
15 closer to fifteen hundred dollars (\$1,500) a year?

16 MR. HOWARD STEPHENS: Well, as to the fifteen  
17 hundred dollars (\$1,500) a year, I don't know I can agree  
18 with that because -- just for the reasons that I just  
19 finished outlining but certainly based upon my earlier  
20 comments that I think the cost of gas is going to go up,  
21 directionally, that bar is going to up.

22 MR. BOB PETERS: And you don't want to put  
23 any numbers on it at this time?

24 MR. HOWARD STEPHENS: No.

25 MR. BOB PETERS: Mr. Sanderson, you are

1 responsible for forecasting the cost of gas for 2004/2005, am  
2 I correct?

3 MR. BRENT SANDERSON: That's correct.

4 MR. BOB PETERS: And when you forecast the  
5 costs of gas from April 1 of '04 to October 31 of '04, those  
6 forecast costs were based on the -- what I'll call the old or  
7 maybe they're the existing contracts with your arrangement  
8 with Nexen, ANR, and Great Lakes?

9 MR. BRENT SANDERSON: They're forecasted  
10 based on the contracts that we know will be in place during  
11 that period so if you're referring to the April 1st, '04 to  
12 October 31st, '04 period, yes, they're based on the existing  
13 contracts and those will be the contracts that our gas will  
14 be priced at during that period.

15 MR. BOB PETERS: And then, help the Board  
16 out, Mr. Sanderson, that in the period of November 1st of '04  
17 to March 31st of '05, which is the other portion of the  
18 forecast test year, are those based on the new contracts that  
19 Mr. Stephens has negotiated or renewed?

20 MR. BRENT SANDERSON: In the update filed in  
21 August the costs reflect those new contract pricing terms.  
22 The original application reflected the continuation of the  
23 existing contracts because we didn't have enough information  
24 to go by to determine what new contract pricing might look  
25 like but the current numbers before the Board do reflect the

1 new contract terms for that period.

2 MR. BOB PETERS: And I think Mr. Stephens  
3 corrected my math and estimated that as a result of his  
4 negotiations with Nexen, there may be as much as a six  
5 hundred and fifty thousand dollar (\$650,000) increase in gas  
6 costs. Is that what you have embedded in the forecast or  
7 pro-rated that?

8 MR. BRENT SANDERSON: That number excluding  
9 the two hundred and fifty thousand dollar (\$250,000) decrease  
10 in potential capacity management revenue opportunities that  
11 Mr. Stephens described, our forecast of capacity management  
12 impacts would be unchanged by that.

13 We have used the most recent five (5) year  
14 average of actual capacity management results to forecast  
15 those results for the '04/'05 period.

16 MR. BOB PETERS: But you have then included  
17 the four hundred thousand dollar (\$400,000) additional  
18 premiums as a result of the swing service that Mr. Stephens  
19 and I talked of?

20 MR. BRENT SANDERSON: Correct, as well as the  
21 increase in the Great Lake -- Great Lakes back haul demand  
22 charges. I might add that the four hundred thousand dollars  
23 (\$400,000) that Mr. Stephens described additional costs as a  
24 result of the higher premium on the swing gas, that's an  
25 annualized amount, whereas in the forecast we're only talking

1 about the November '04 through Octo -- through March '05  
2 period so the amount in the '04/'05 forecast would be  
3 somewhat less than the four hundred thousand (400,000)  
4 amount.

5 MR. BOB PETERS: You pro-rated it based on  
6 the volumes that would be affected during the months in the  
7 forecast?

8 MR. BRENT SANDERSON: That's correct.

9 MR. BOB PETERS: I appreciate that, Mr.  
10 Sanderson. Mr. Sanderson, if I can draw your attention to  
11 Tab 10 of the Book of Documents that I circulated yesterday.  
12 Tab 10 contains a copy of Centra's Schedule 6.2.3 and what  
13 this Schedule is showing the Board is this is your best  
14 forecast of gas costs for the test year under consideration  
15 and it comes out at 420 million -- \$420.5 million?

16 MR. BRENT SANDERSON: That's correct.

17 MR. BOB PETERS: And that includes primary  
18 supplemental gas, transportation and UFG?

19 MR. BRENT SANDERSON: That's correct.

20 MR. BOB PETERS: And just so that we are  
21 clear, and I was corrected by the Panel I think yesterday,  
22 when I say 'forecast', this is based on the July 2nd, 2004  
23 price strip that you ran, as that price strip is impacted by  
24 the derivative program that the Corporation runs?

25 MR. BRENT SANDERSON: Correct.

1 MR. BOB PETERS: And of this \$420 million,  
2 Mr. Sanderson, if we turn to the next page Schedule 6.2.4,  
3 you are before Board in this filing looking for approval of  
4 the \$83.4 million for non-primary gas shown on line 8?

5 MR. BRENT SANDERSON: That's correct.

6 MR. BOB PETERS: And this Schedule 6.2.4 also  
7 found in Tab 10, Mr. Sanderson, is demonstrating to the Board  
8 that your existing rates are recovering from ratepayers \$86.6  
9 million for non-primary gas costs?

10 MR. BRENT SANDERSON: That's correct.

11 MR. BOB PETERS: And the surplus of \$3.2  
12 million is the amount by which rates you are requesting be  
13 reduced as a result of this -- of this Application?

14 MR. BRENT SANDERSON: The base rates, yes.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Ms. Stewart and Mr.  
19 Sanderson, flipping back in Tab 10 to Schedule 6.2.3, we see,  
20 I believe, on approximately line -- on line 48 that in your  
21 forecast you are telling the Board that as a result of the  
22 derivative hedging transactions that you presently have in  
23 place, that the cost of gas to Manitoba consumers calculated  
24 on the July 2nd strip will be \$19.4 million lower than the  
25 contracts themselves?

1 MS. LORI STEWART: Based on the July 2nd  
2 strip, that's correct.

3 MR. BOB PETERS: And Ms. Stewart, if we flip,  
4 still under Tab 10, to Schedule 6.3.1 which I believe is the  
5 last document in that tab, 6.3.1 is the transactions that you  
6 have placed under the derivative hedging program and it shows  
7 on line 47 that right now, well, based on July 2nd strip, the  
8 consumers in Manitoba could expect their gas cost to be \$19.9  
9 million lower as a result of the derivative hedging program?

10 MS. LORI STEWART: That's what the  
11 information shows, however, we all know that that value  
12 changes on a daily basis.

13 MR. BOB PETERS: And, Ms. Stewart, what you -  
14 - would you agree with me that the Board should -- should not  
15 take any comfort in that because the next time they see a  
16 strip run, that \$19 million of gas cost reduction could just  
17 as easily be a \$20 million gas cost increase?

18 MS. LORI STEWART: Conceptually, yes. The --  
19 the value moves around and the extent to which it moves  
20 around on a daily basis, it's not likely to move by \$40  
21 million, however, I -- I'm just wanting, for the record, to  
22 be clear that those values are related to the July 2nd strip  
23 and, of course, they're something different today.

24 MR. BOB PETERS: And you've told the Board  
25 that one (1) of your objectives when you do try to reduce the

1 volatility is that if that -- if that amount was zero, that  
2 may still accomplish your goal in terms of reducing  
3 volatility, but there may be no benefit financially to  
4 consumers other than that?

5 MS. LORI STEWART: That's correct.

6 MR. BOB PETERS: And you agree with me, Ms.  
7 Stewart, that these hedging results do not impact the  
8 forecast of \$83.4 million of the non-primary gas costs?

9 MS. LORI STEWART: That's correct.

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(BRIEF PAUSE)

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MR. BOB PETERS: All right. Mr. Sanderson,  
the Schedule 6.2.3 in Tab 10 of the Book of Documents  
contains a number of the specific items where you expect  
you're going to have to spend money on gas costs for the test  
year. Correct?

MR. BRENT SANDERSON: That's correct.

MR. BOB PETERS: And to the extent that the  
forecast is -- is impacted by such things as the foreign  
exchange rate changing, what will happen to those  
differences?

MR. BRENT SANDERSON: Those expenditures that  
are denominated in US dollars will be somewhat different than  
the numbers in this forecast, should the actual exchange

1 rates come in different than that embedded in the forecast.

2 MR. BOB PETERS: And the different in dollar  
3 amount will end up in one (1) of the purchased gas variance  
4 accounts, Mr. Sanderson?

5 MR. BRENT SANDERSON: Absolutely.

6 MR. BOB PETERS: And then that will be  
7 brought back before the Board at a later date to reconcile  
8 and either refund or recover?

9 MR. BRENT SANDERSON: That's correct.

10 MR. BOB PETERS: When the Board looks at  
11 Schedule 6.2.3, Mr. Sanderson, you have based this forecast  
12 calculation on normal weather?

13 MR. BRENT SANDERSON: That's correct,  
14 determined on the basis of our most recent actual ten (10)  
15 year average of effective heating degree days.

16 MR. BOB PETERS: And so to the extent that  
17 actual weather conditions impact the costs of your getting  
18 gas to Manitoba, those costs will also be different than  
19 those shown here and the differences will again accumulate in  
20 a purchased gas variance account?

21 MR. BRENT SANDERSON: That's correct.

22 MR. BOB PETERS: Recognizing that if, by way  
23 of example, weather is colder than normal and you have to  
24 purchase more supply of gas, there will be additional  
25 revenues come from consumers because their consumption will

1 also be higher?

2 MR. BRENT SANDERSON: Yes, assuming that  
3 costs match those in the forecast, it would likely be a --  
4 almost a -- equal offset. We would have additional purchase  
5 gas costs that we'd be incurring but we'd also be recovering  
6 additional monies in rates.

7 MR. BOB PETERS: Mr. Sanderson, back to the  
8 forecasting of 2004/05 volumes, would I be correct in  
9 assuming that you try to forecast these volumes by customer  
10 class?

11 MR. BRENT SANDERSON: That would be correct.

12 MR. BOB PETERS: And at Tab 11 of the book of  
13 documents, which I believe you have a copy of, there is  
14 Schedule 6.1.2 -- sorry, 6.1.1 -- which provides the Board  
15 with Centra's forecast of the number of customers that they  
16 will have in the various customer classes for the test year  
17 of 2004/05?

18 MR. BRENT SANDERSON: That's correct.

19 MR. BOB PETERS: If I turn the page under Tab  
20 10, I see that the gas here that's passed the 2003/04  
21 Schedule 6.1.2 gives the actual number of customers that the  
22 Corporation had in that fiscal year.

23 MR. BRENT SANDERSON: No, that is the  
24 2003/2004 test year figures that were brought before the  
25 Board last year in our Application, so that's last year's

1 forecast.

2 MR. BOB PETERS: Do you have the actual  
3 numbers, Mr. Sanderson? Or do you even calculate those?

4 MR. BRENT SANDERSON: We have those. I can  
5 find my reference if you'd like...?

6 MR. BOB PETERS: If you could, we'll check at  
7 the break, I -- we may have that as well, but I'll just  
8 check to make sure that if we don't, we'll -- we'll ask for  
9 it.

10 MR. BRENT SANDERSON: I believe those numbers  
11 were provided in one (1) of the responses to the  
12 interrogatories in the IR process.

13 MR. BOB PETERS: Once you have the customer  
14 numbers forecast, Mr. Sanderson, you also need to determine  
15 the volumes for each customer; would I be correct?

16 MR. BRENT SANDERSON: That's correct.

17 MR. BOB PETERS: And, to that extent, you use  
18 a historical regression analysis to calculate the volumes for  
19 some of your customer classes?

20 MR. BRENT SANDERSON: That's correct, for the  
21 SGS residential and commercial and large general service  
22 classes.

23 MR. BOB PETERS: And that methodology hasn't  
24 changed from what you've done last year?

25 MR. BRENT SANDERSON: No, we've undertaken

1 that methodology for a number of years.

2 MR. BOB PETERS: And once you have the  
3 average use equations, you can revise those based on your  
4 efficiency assumptions?

5 MR. BRENT SANDERSON: That's correct.

6 MR. BOB PETERS: And when we talk about  
7 efficiency, one (1) of the efficiencies that you use is that  
8 you believe consumers are upgrading their furnaces from the  
9 conventional to at least the mid-efficiency or perhaps even  
10 the high-efficiency gas furnaces?

11 MR. BRENT SANDERSON: That's correct.  
12 Standard efficiency furnaces are no longer an option for our  
13 residential customers, those appliances of that efficiency  
14 are no longer available in the marketplace.

15 MR. BOB PETERS: So consumers who are forced  
16 to, or require a new furnace, have to go to at least a mid-  
17 efficiency or a high-efficiency?

18 MR. BRENT SANDERSON: That would be correct.

19 MR. BOB PETERS: And also, you upgrade,  
20 sorry, you revise your average use equations to take into  
21 account your forecasts of increase and insulations values of  
22 the homes?

23 MR. BRENT SANDERSON: The -- yes, that's --  
24 that would be one (1) of the underlying causes of increases  
25 in energy efficiency. The regression analysis does not look

1 at all those individual causes in isolation.

2           The regression analysis yields a year over  
3 year trending in the historical data of efficiency or  
4 improvements or reductions in average use per customer. And  
5 then our market forecast people, based on their professional  
6 judgment and knowledge of what they see going on in the  
7 underlying market, they project an additional conservation  
8 increment for the forecast period over and above that which  
9 is yielded by the regression analysis.

10           MR. BOB PETERS: In a general trending way,  
11 Mr. Sanderson, the efficiency that you have included in your  
12 forecast, has been a 1 percent reduction per year for the SGS  
13 residential class; would that be correct?

14           MR. BRENT SANDERSON: That's the conservation  
15 factor for the 2004/2005 forecast. I wouldn't say that  
16 that's consistently been our conservation adjustment in every  
17 year past, but that is what we've included in the 04/05 --  
18 forecast.

19           MR. BOB PETERS: In fact, in previous years  
20 you've had a higher -- higher amount included?

21           MR. BRENT SANDERSON: We've had higher and  
22 lesser amounts. In last year's forecast we actually had a  
23 lesser amount than 1 percent.

24           MR. BOB PETERS: And for the LGS and the SGS  
25 commercial, your -- your conservation reduction is in the

1 neighbourhood of .2 percent?

2 MR. BRENT SANDERSON: That's correct.

3 MR. BOB PETERS: All right. In Tab 12 of the  
4 Book of Documents that you have, oh, and by the way, just for  
5 the record, Mr. Sanderson, the actual customer accounts, for  
6 your benefit and the Board's, is located at PUB/CENTRA-24,  
7 and so I won't need you to -- to source that for us, but  
8 thank you for offering.

9 When we look to Document Number 12 in the Book  
10 of Documents that's been provided, we get to the actualized  
11 volume -- the normalized volumes on an actual basis, for your  
12 customer classes, and that was the essence of the -- the  
13 interrogatory; is that correct, Mr. Sanderson?

14 MR. BRENT SANDERSON: That's correct.

15 MR. BOB PETERS: And when we -- when we look  
16 at this, you can confirm to the Board that you have  
17 normalized it, which means you've taken out the impacts of  
18 weather by basing it on your normal -- normal year data?

19 MR. BRENT SANDERSON: That's correct.

20 MR. BOB PETERS: generally speaking, the  
21 trend is to decrease the average use for the SGS and the LGS  
22 customers over a five (5) year period?

23 MR. BRENT SANDERSON: That's what the data is  
24 showing, yes.

25 MR. BOB PETERS: Well, when we look to --

1 when we look to the last document in Tab 12, which is the  
2 average use per customer, would I be correct in suggesting  
3 that the average use per residential customer is no longer  
4 decreasing as it had been shown in answer to PUB Centra 24?

5 MR. BRENT SANDERSON: No, I wouldn't agree.  
6 If you'll look at the 2003/2004 test year figures which would  
7 have been our forecast brought before the Board last year,  
8 SGS residential average use forecast was three thousand and  
9 three (3,003) cubic metres. And then if you'll follow over  
10 moving to the right and look at the 2004/2005 test years, the  
11 normalized average use per customer is two thousand nine  
12 hundred and sixty-seven (2,967) cubic metres so yes, that is  
13 a decrease.

14 MR. BOB PETERS: I was looking on the answer  
15 to the information request in the chart PUB/Centra 24(b),  
16 looking under page 2 of two (2), which is found in Tab 12,  
17 Mr. Sanderson, and I -- I was taking the SGS residential  
18 normalized average use to be two thousand nine hundred and  
19 thirteen (2,913). Am -- am I looking at the wrong number?

20 MR. BRENT SANDERSON: That is -- that was the  
21 actual calculation, though what is your comparative reference  
22 now? Where are you referring to that?

23 MR. BOB PETERS: Well, I'm -- I'm suggesting  
24 that if -- if I used twenty nine hundred and thirteen (2,913)  
25 cubic metres of average use per residential customer, the

1 trend seems to be reversing itself and there will be an  
2 increase that's being forecast in Schedule 6.1.3?

3 MR. BRENT SANDERSON: Actually, the two  
4 thousand nine hundred and thirteen (2,913) cubic metre figure  
5 wasn't available when the 04/05 forecast was prepared. That  
6 figure has only recently become available. So that data  
7 wasn't available for use in the regression analysis.

8 And I might point out that there's a  
9 significant amount of noise, if you will, in these  
10 calculations because our billing system data in any given  
11 month includes 50 percent of readings at best that are  
12 estimated; that these numbers will move around somewhat year  
13 to year.

14 The key is to look at the general trend over  
15 time, so you will see upward revisions and downward revisions  
16 in the actual normalized annual use on a year-to-year basis,  
17 but the key is to look at the movement over time and what we  
18 do is, based on what that historical has shown us, we project  
19 that to the future period.

20 MR. BOB PETERS: Okay, I'll -- I'll accept  
21 that as an explanation at this time, Mr. Sanderson.

22 THE CHAIRPERSON: Mr. Peters, if there's a  
23 point in which we could have a brief pause it would be  
24 helpful.

25 MR. BOB PETERS: This would be appropriate

1 time.

2 THE CHAIRPERSON: We'll be back in ten (10) --  
3 fifteen (15) minutes.

4

5 --- Upon recessing at 10:23 a.m.

6 --- Upon resuming at 10:41 a.m.

7

8 THE CHAIRPERSON: Mr. Peters, do you want to  
9 recommence?

10 MR. BOB PETERS: Yes, thank you. Mr.  
11 Sanderson, before the break I -- I was generous and turned  
12 down your offer to help me. I shouldn't have done that. In  
13 Tab 11 of the Book of Documents that you've been provided, I  
14 refer you to Schedule 6.1.2 which is the last document in Tab  
15 11.

16 And I understood from your answer that this  
17 was a forecast, this was not an actual number of customers  
18 for the 2003/'04 test year. Is that what it depicts?

19 MR. BRENT SANDERSON: That's correct.

20 MR. BOB PETERS: And when you say 'average  
21 customers', what do you mean 'average' as opposed -- as  
22 opposed to forecast?

23 MR. BRENT SANDERSON: Well when depicting the  
24 number of customers on the system, you have a number of  
25 choices as to how you're going to depict that. The number of

1 absolute customers we have during the course of the year ebbs  
2 and flows, we have customers coming on the system and at a  
3 different points in time.

4                   We have customers either leaving the system or  
5 locked off for non-payments. So the number of active  
6 customers which is the way we measure our customers goes  
7 through a cycle.

8                   And so that was the method that was chosen to  
9 depict our -- our forecast of number of customers, the  
10 average -- averaging of the twelve (12) month absolute  
11 numbers for each class over the course of the forecast year.

12                   MR. BOB PETERS: Can you update Schedule  
13 6.1.2 for the Board to provide actual information as opposed  
14 to forecast information?

15                   MR. BRENT SANDERSON: I can. Would you  
16 prefer it on an average basis similar to the Schedule in  
17 question?

18                   MR. BOB PETERS: Well I'm not sure what  
19 options I have. Do you have it by year end?

20                   MR. BRENT SANDERSON: We do. We will be able  
21 to provide it on that basis as well.

22                   MR. BOB PETERS: Maybe based on average and  
23 year end if that would be possible on actual basis.

24                   And that would be actual for not only system  
25 but WTS and the other classes of customers as well?

1 MR. BRENT SANDERSON: We can do that, yes.

2 MR. BOB PETERS: All right, I appreciate  
3 that, Mr. Sanderson.

4

5 --- UNDERTAKING NO. 3: Update Schedule 6.1.2 for the Board  
6 to provide actual information as opposed to  
7 forecast information for not only system  
8 but WTS and the other classes of customers  
9 as well

10

11 MR. BOB PETERS: Mr. Warden you've been  
12 patient with us this morning. I wonder if you could tell the  
13 Board having heard the discussion I had with Mr. Sanderson  
14 about forecasting volumes, whether Centra Gas has a demand  
15 side management program?

16 MR. VINCE WARDEN: Yes, we do have a demand  
17 side management program. Not as fully developed as it is in  
18 the electricity side because it's obviously not as mature.  
19 However, it is in -- in the developmental stages. We do  
20 believe there are -- there's significant potential for a  
21 demand side management.

22 And our customer service people are in the  
23 process of putting together a program which will be taken to  
24 the Board at Manitoba Hydro in October of this year.

25 It provides for incentives to gas customers

1 primarily in the areas of conversion of inefficient gas  
2 furnaces. We think that's where the most immediate potential  
3 is and there is some discussions going on at this point in  
4 time with the federal and provincial governments with respect  
5 to cost sharing of such a program.

6 MR. BOB PETERS: Thank you for that, Mr.  
7 Warden. Would, and you're familiar with the Corporation's  
8 demand side management program on the electricity side  
9 because you of course wear -- wear another hat that being the  
10 CFO and Vice President on the electrical side as well,  
11 correct?

12 MR. VINCE WARDEN: Correct.

13 MR. BOB PETERS: And in terms of the goals of  
14 the demand side management program, would it be to conserve  
15 consumption of natural gas? Would that be the goal?

16 MR. VINCE WARDEN: Well, energy efficiency is  
17 -- is the goal of both the electricity and gas programs. So  
18 conservation the -- to the extent that we do not waste  
19 resources is -- is the ultimate goal of both -- both  
20 programs, yes.

21 MR. BOB PETERS: Is there any aspect, well  
22 let me just discuss some of the matters you've already raised  
23 with the Board.

24 In terms of being energy efficient or  
25 conservation of -- of resources, the resources here are ones

1 that will come from Alberta or from perhaps the US storage  
2 gas arrange -- or supplemental gas arrangements?

3 MR. VINCE WARDEN: That's correct, yes.

4 MR. BOB PETERS: And is there -- is there  
5 anyway there can be a financial benefit to Centra Gas through  
6 a demand side management program or is it really one of those  
7 societal benefits and environmental benefits that would  
8 result but nothing financial to the Corporation?

9 MR. VINCE WARDEN: Yeah, we really have to  
10 look beyond the bottom line of Centra Gas or Manitoba Hydro.  
11 We, on the electricity side we conserve energy and we've made  
12 a point of this, that we -- the -- one of the objectives of  
13 conserving energy is so we can sell that energy on the export  
14 market. Thereby keeping rates in Manitoba -- electricity  
15 rates in Manitoba low.

16 But if the ultimate objective is to keep  
17 electricity rates low, we can really accomplish the same  
18 thing on the gas side keeping rates as low as possible by  
19 conserving that energy.

20 So even though it might not show up on the  
21 bottom line, if you look beyond the bottom line that really  
22 the objective is the same, to keep rates as low as possible  
23 for energy consumers in the Province of Manitoba.

24 MR. BOB PETERS: And when you say keep rates  
25 low, does that mean keep the monthly bill as low as possible

1 for the gas consumer whatever the rate may necessarily be on  
2 the market?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: So from a gas perspective  
5 other than the derivative hedging that you do to minimize the  
6 volatility of the rates themselves, the focus would be on  
7 allowing consumers to keep their house by using less natural  
8 gas and heat it to the same comfort standard through some  
9 efficiency measures?

10 MR. VINCE WARDEN: That would be the  
11 objective of our demand side management program, yes.

12 MR. BOB PETERS: Has the Corporation, Mr.  
13 Warden, thought about promoting fuel switching from  
14 electricity to natural gas which would perhaps free up  
15 electrical energy to export as you had mentioned just  
16 previously?

17 MR. VINCE WARDEN: No, we have talked about -  
18 - it's -- probably a -- a study that needs to be done at some  
19 point and perhaps now is the -- that time as to whether the  
20 ultimate -- there is an ultimate benefit to the consumer in  
21 Manitoba with such a fuel switching program.

22 We do, though -- before we would embark on --  
23 on such a program -- we would have to look at the long term  
24 and it was an interesting exchange you had with Mr. Stephens.

25 We really do have to take a -- a long term

1 view as to what the supply and price of natural gas is and  
2 likewise with electricity. So we have to take -- look at the  
3 next decade and -- and try and predict what those prices,  
4 what the supply equation is going to look like and determine  
5 which is to the best overall advantage of Manitoba consumers  
6 and it certainly -- it enters into our decision with respect  
7 to storage.

8                   We have to know what's going to happen with  
9 such events as LNG and others that are going to have a  
10 dramatic impact on the supply scene in -- not -- of course,  
11 not only in Manitoba, but in North America.

12                   MR. BOB PETERS: When I look at Tab 13 of the  
13 book of documents, Mr. Warden -- I showed that to Mr.  
14 Stephens -- in terms of the home heating cost comparisons, is  
15 it -- is it the case that more new homes are being  
16 constructed using electricity for space heat now than there  
17 have been in the last three (3) or four (4) or five (5)  
18 years, to your knowledge?

19                   MR. VINCE WARDEN: Not so much for space  
20 heat. Certainly for -- for water heating. We're seeing the  
21 new homes being built with electric water heaters.

22                   It's really, though, to the contractor's  
23 advantage to build -- to -- not to have to build a chimney in  
24 -- whereas the -- previously, with the lesser efficiency  
25 furnaces a chimney was necessary but when that's not required

1 for furnace for the heating purposes, then the -- it's much  
2 more -- it's cheaper for the contractor to build homes with  
3 electric water heating than it is with gas. So we're seeing  
4 a lot of that in the new developments.

5 MR. BOB PETERS: Okay. I may be getting out  
6 of my depth and yours on this, Mr. Warden, but do I  
7 understand from that answer that if you build a new home and  
8 you use a mid efficiency or a high efficiency furnace, you  
9 don't need a chimney?

10 MR. VINCE WARDEN: With a high efficiency  
11 furnace, that's right.

12 MR. BOB PETERS: Only a high efficiency  
13 furnace?

14 MR. VINCE WARDEN: That's correct.

15 MR. BOB PETERS: Okay. So I take from your  
16 past answer then that if there's new construction using gas  
17 for space heat that they go to a high efficiency furnace and  
18 electrical water heat?

19 MR. VINCE WARDEN: That's what we're seeing,  
20 yes.

21 MR. BOB PETERS: All right. And you're  
22 telling me that you do not need -- because there's no chimney  
23 with a high efficiency furnace, then it's impractical to put  
24 one (1) in just for the hot water tank.

25 MR. VINCE WARDEN: Yes, a hot water tank

1 would have to be direct vented and there's a cost to that  
2 that's not cost effective compared to an electric water  
3 heater at the current rates.

4 MR. BOB PETERS: When you -- when you  
5 indicated to the Board that you have a DSM program, at least  
6 started for the -- for the gas Utility, Mr. Warden, do you  
7 know approximately how much you spend annually on such a  
8 program?

9 MR. VINCE WARDEN: We -- we spend  
10 approximately -- currently we're spending approximately \$1  
11 million per year on the gas side of the business. We expect  
12 to step that up considerably in -- in -- over the next  
13 several years.

14 MR. BOB PETERS: And that million dollars,  
15 that would -- is that charged through in consumer rates?

16 MR. VINCE WARDEN: Yes, the costs would be  
17 charged in consumer rates. That would come through the  
18 distribution side of the cost structure.

19 MR. BOB PETERS: And those are the costs that  
20 are generally reviewed, then, through a General Rate  
21 Application of the Corporation?

22 MR. VINCE WARDEN: That's correct.

23 MR. BOB PETERS: And if I heard your opening  
24 comments correctly, you are suggesting to this Board that  
25 they may gather again late fall -- in the fall or late --

1 early winter of '04/'05?

2 MR. VINCE WARDEN: Yes, if everything goes  
3 according to plan we would be submitting a rate application  
4 in November time frame and possibly -- subject to the Board  
5 concurrence, of course -- a spring type of a review.

6 MR. BOB PETERS: Would that -- would that  
7 prospective General Rate Application, Mr. Warden, include the  
8 Corporation's plans and proposals with respect to demand-side  
9 management that you had mentioned that you are investigating  
10 and putting together a plan on?

11 MR. VINCE WARDEN: It would, yes.

12 MR. BOB PETERS: When you indicate that  
13 you're spending currently a million dollars, approximately,  
14 on gas demand side management, are you targeting that in  
15 respect of the certain demographics of housing stock or  
16 customer class, or have you much breakdown on that at this  
17 time, Mr. Warden?

18 MR. VINCE WARDEN: I think it's pretty much  
19 across the board, so there's no one targeted area. I don't  
20 have a lot of breakdown on that at this time, though. I  
21 don't think there's a specific target for those dollars.

22 MR. BOB PETERS: Can you indicate the type of  
23 programs to which that money would be targeted presently?

24 MR. VINCE WARDEN: Mainly towards  
25 information, providing information to -- to customers, and

1 providing some home energy assessments, and providing advice  
2 as to how they can improve the efficiency of within their  
3 residences.

4 MR. BOB PETERS: And you did say that your  
5 program on the gas side hasn't matured to this extent on the  
6 electric side, but in that answer, are you providing any  
7 financial assistance, if I may use that word, to home owners  
8 who want to retrofit their homes or upgrade their energy  
9 efficiency standards?

10 MR. VINCE WARDEN: Well, gas consumers could  
11 take advantage of the power-smart loan programs, so they're,  
12 to the extent that that's being offered on the electricity  
13 side, there -- it is also available to gas consumers.

14 MR. BOB PETERS: All right. And as I  
15 understand that then, Mr. Warden, on the electricity side of  
16 the Corporation, under the power-smart banner, you can  
17 purchase new windows or doors or upgrade insulation and, in  
18 some fashion, the costs of that are financed through Manitoba  
19 Hydro?

20 MR. VINCE WARDEN: Yes, at a reasonably low  
21 interest rate.

22 MR. BOB PETERS: And, that, I mentioned  
23 doors, windows and I think, insulation, as three (3) areas of  
24 efficiencies, if a person wanted to purchase a high-  
25 efficiency furnace, is there financing available through the

1 Corporation on account of the gas appliance, or do you know?

2 MR. VINCE WARDEN: There wouldn't be at this  
3 time, but that is part of the program that's being advanced.

4 I, you know, actually I may have to check that  
5 last answer. I understand that we may in fact be able to  
6 finance those, but I'll confirm that for you, Mr. Peters.

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: If it is, the dollars are  
11 very minimal, I think, at this point in time.

12 MR. BOB PETERS: Yes, I appreciate that.  
13 Thank you, Mr. Warden.

14 Mr. Stephens, maybe to give you some time on  
15 the mike; does your Nexen Agreement that you've recently gone  
16 into, permit the Company to a decontract, should there be  
17 energy efficiency numbers generated from your system supply?

18 MR. HOWARD STEPHENS: Yes, on a quarterly  
19 basis we'll provide them a forecast of what we anticipate  
20 requiring under the base-load volumes as well as the swing-  
21 load volumes, and that would incorporate any changes related  
22 to not only direct purchase displacements or additions, but  
23 as well, load growth or loss.

24 MR. BOB PETERS: Thank you for that.

25 Mr. Warden, I recall, in a form not dissimilar

1 to this and not too long ago, the Manitoba Hydro electric  
2 side of the Corporation was before the Board and was  
3 explaining that, on the electrical side, they had the  
4 PowerSmart as the DSM banner that you -- is the banner under  
5 which you operate your DSM program?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And if I understood  
8 correctly, you had a power-smart plan in effect from 2001,  
9 and you have recently engaged a consultant to find out how  
10 much identifiable DSM there is available in Manitoba?

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

12 MR. BOB PETERS: And based on the  
13 Consultant's report, Manitoba Hydro on the electric side was  
14 going to put together a power-smart 2004 plan, also in the  
15 fall of 2004?

16 MR. VINCE WARDEN: I believe that time frame  
17 is right, Mr. Peters, yes.

18 MR. BOB PETERS: And I wanted to find out  
19 from you, Mr. Warden, and maybe confirm my recollection that  
20 that identifiable DSM report did not focus in any way, shape,  
21 or form on the gas side of the Utility but it dealt with the  
22 -- the electric side of the Utility?

23 MR. VINCE WARDEN: That was the focus, yes.

24 MR. BOB PETERS: Has there been an  
25 identifiable DSM report planned or thought of on the gas side

1 or is that still too far down the road?

2 MR. VINCE WARDEN: Well, no, I think I  
3 mentioned earlier that's the report that is in the process of  
4 being prepared. Consultations are going on with both levels  
5 of government and a report is expected, recommendations  
6 expected to go the Board of Manitoba Hydro in October.

7 MR. BOB PETERS: All right. I -- I take it  
8 then that that program that you're talking about going to the  
9 two (2) sources of government would be to share some of the  
10 costs that are seen in the program?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And would -- is there the  
13 similar government support available on the electric side of  
14 the Utility or is it only being sought on the gas side of the  
15 Utility?

16 MR. VINCE WARDEN: It's on the -- only  
17 available on the gas side of electricity -- or of the  
18 business at this time.

19 MR. BOB PETERS: Can you explain to the Board  
20 why -- why that's -- what's your understanding as to why  
21 that's the case?

22 MR. VINCE WARDEN: I think the -- our  
23 motivation for demand side management on the electricity side  
24 of the business is somewhat different in terms of the savings  
25 that we can generate and sell those savings elsewhere. So

1 it's a very self supporting, self sustaining program.

2           And there are no -- I think as we -- we  
3 certainly had discussions with the Federal Government and  
4 will be looking for some assistance going forward. But to  
5 this point there has been no contributions from the Federal  
6 Government.

7           MR. BOB PETERS:    What you're referring to in  
8 that answer, Mr. Warden, is that on the electric side when  
9 you save domestic consumption of energy, it frees it up to  
10 the exported?

11           MR. VINCE WARDEN:    Yes.

12           MR. BOB PETERS:    And the export profits --  
13 once the export revenues cover their cost then it's available  
14 for distribution to the various customer classes?

15           MR. VINCE WARDEN:    Right.

16           MR. BOB PETERS:    The -- you told me that your  
17 program presently involves the dissemination of information  
18 and making available assessments perhaps of homes and finding  
19 out where energy conservation can be best implemented on a  
20 particular basis.

21                   Does that apply to all customer classes or is  
22 that focussed on one (1) or two (2) customer classes or do  
23 you have that information available?

24           MR. VINCE WARDEN:    Well, it's actually  
25 referred to as the Home Comfort Loan and Information Program,

1 so that we would be targeted towards the residential class.

2 MR. BOB PETERS: Is there any special targets  
3 to -- and not to the demographic of housing stock but maybe  
4 to the demographics of your customers, that is seniors,  
5 perhaps those on low or fixed incomes? Is there any programs  
6 that are specifically targeted on the gas side to those -- to  
7 that customer base?

8 MR. VINCE WARDEN: I'm not aware of any  
9 program that's targeted specifically towards the classes of  
10 customers you referred to, Mr. Peters, no.

11 MR. BOB PETERS: All right. And do you  
12 envision extending the DSM program past the Home Comfort  
13 program going onto other customer classes like the LGS, the  
14 main line or the high volume firm or perhaps even the special  
15 contract customers?

16 MR. VINCE WARDEN: Well, I think it would  
17 extend to the LGS customers. I can certainly perceive that.  
18 The first phase though, as I mentioned, will be largely  
19 targeted towards the residential class and mainly at the  
20 furnace market.

21 MR. BOB PETERS: Is Centra aware of the DSM  
22 programs that are offered by other gas utilities in Canada?

23 MR. VINCE WARDEN: I think we're at similar  
24 stages in program development. We have regular contact with  
25 other utilities in Canada and most utilities are attempting

1 to obtain funding from government to assist them with their  
2 -- with their DSM programs.

3 So I would say that our -- our positioning is  
4 very similar to other utilities in Canada at this time.

5

6

(BRIEF PAUSE)

7

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

9 Mr. Rainkie, it seems like a long time since  
10 we've spoken, but yesterday we talked about interim orders  
11 and I want to go past that and just revisit a couple of  
12 issues on the feasibility test that I want to make sure the  
13 Board is clear on.

14 You've asked to remove, and you've explained  
15 yesterday, removing the income tax component of the  
16 feasibility test, and that's one aspect of the feasibility  
17 test that you want adjusted; is that correct?

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

20 MR. BOB PETERS: And in re-reading the  
21 materials last evening, there was a second request, also, on  
22 the feasibility test, that I want to get clarification on, is  
23 that you also want to adjust the discount rate that you use  
24 in the feasibility test; is that correct?

25 MR. DARREN RAINKIE: That's correct.

1 MR. BOB PETERS: And is the adjustment, first  
2 of all, the discount rate you use, Mr. Rainkie, what is that,  
3 what discount rate do you use, or how is it determined?

4 MR. DARREN RAINKIE: Because the test is a --  
5 it's a revenue test or a rate impact measure test, we don't  
6 use an after-tax cost of capital, we use a pre-tax cost of  
7 capital, so we take our overall rate of return, which is  
8 about 8.10 percent, and we gross that up for income taxes,  
9 and I think the rate's around 11.25 percent that we use.

10 And if we're going to pull income taxes  
11 totally out of the test, we're going to do that so that the  
12 discount rate will now become our overall rate of return, and  
13 as well, we'll remove things like capital cost allowance;  
14 like anything to do with income tax will come out of the test  
15 when we're -- when we're making this change.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Is the overall rate of  
20 return grossed up by any other factors than what you've  
21 mentioned, Mr. Rainkie?

22 MR. DARREN RAINKIE: No, just for income  
23 taxes.

24 MR. BOB PETERS: The feasibility test, Mr.  
25 Rainkie, was developed, was it in the early to mid-90s?

1                   MR. DARREN RAINKIE: I think it was late 1994  
2 when we advanced it to the Board for approval.

3                   MR. BOB PETERS: And at that time you  
4 proposed a feasibility test that would be based on  
5 determining the future revenue and cost streams, to determine  
6 at what point in time the customer additions and expansions  
7 would no longer be subsidized by existing customers?

8                   MR. DARREN RAINKIE: Right. There's --  
9 there's two (2) parts to the test as it works right now. We  
10 forecast the present value of the revenues, incremental  
11 revenues, we forecast the present value of the incremental  
12 costs, and if their -- if their present value of the revenues  
13 aren't enough to cover the present value of the cost, then we  
14 collect a contribution.

15                   There is also another constraint or measure,  
16 if you like, in the feasibility test, is that the revenue to  
17 cost ratio of the expansion is supposed to be one (1) by the  
18 end of the fifth year.

19                   So, there's those two (2) constraints; the net  
20 present value has to be greater than or equal to zero (0),  
21 and if not, we have to develop a contribution and the -- the  
22 revenue to cost ratio has to be at least one (1) by year five  
23 (5), so that the expansion is self-supporting by the end of  
24 year five (5).

25                   MR. BOB PETERS: And in the rural expansions

1 that you've done, Mr. Rainkie, there has generally been a  
2 requirement that you would provide a true-up and revisit the  
3 feasibility test once you had actual data to put into the  
4 feasibility test?

5 MR. DARREN RAINKIE: Yeah, that -- that came  
6 into being with the infrastructure program that funded, I  
7 think it was, we called it Phase I of the southwest expansion  
8 in 1995/96/97, and there is a requirement, depending on which  
9 contract it might be after three (3) years or five (5) years,  
10 but there's a stipulated period of time in which we would do  
11 a recalculation.

12 I prefer to call it recalculation -- it's  
13 either called a recalculation or a true-up, it's...

14 MR. BOB PETERS: And what is the purpose of  
15 doing the recalculation, Mr. Rainkie?

16 MR. DARREN RAINKIE: Well, at the time that  
17 we collect the funding from the funding partners, and that  
18 can be all three (3) levels of Government, the Federal  
19 Government, the Provincial Government, and the Municipality -  
20 - of course, we haven't done the project yet, and, so it's --  
21 it's a thirty (30) year test that makes a number of  
22 assumptions with respect to construction costs, volumes, et  
23 cetera.

24 So, there's, I think there's a general feeling  
25 that once we know -- by the time we do the true-up, we know

1 the construction costs and we have a pretty good idea about  
2 what the customer attachments are.

3           Of course we expect that we'll have customer  
4 attachments past year five (5). But you know, you're  
5 probably going to get the majority of the customer  
6 attachments in the first three (3) -- few years. So I think  
7 it's to give funding partners generally the comfort that the  
8 -- what they contributed was appropriate.

9           MR. BOB PETERS: From that answer, Mr.  
10 Rainkie, when you do the recalculation or the true up with  
11 known costs or actual costs, it may result that the consumer  
12 has -- there's been a contribution in excess of what was  
13 actually needed. Is that what you're suggesting could  
14 happen?

15           MR. DARREN RAINKIE: That's right and usually  
16 under the contracts we would refund that differential if  
17 indeed the contribution was too high.

18           MR. BOB PETERS: And what if the contribution  
19 is too low?

20           MR. DARREN RAINKIE: I think -- I think most  
21 of the feasibility as far as the true up provisions are one  
22 way. If it was too low we don't get extra money, if it was  
23 too high we'd give it back.

24           MR. BOB PETERS: Do you recall why it was  
25 one-sided like that?

1                   MR. DARREN RAINKIE: Not specifically, Mr.  
2 Peters. It was -- I think it's part of the negotiations to  
3 do the project. I think the governments were adamant that it  
4 was one-sided.

5                   MR. BOB PETERS: Mr. Rainkie, do you -- do  
6 you know when the true ups are going to be done for what you  
7 -- what called the Phase I infrastructure program?

8                   MR. DARREN RAINKIE: My understanding is that  
9 it's in progress and that it should be done within the next  
10 few months.

11                   MR. BOB PETERS: And when we -- you also did  
12 a feasibility test when you extended service -- extended gas  
13 service through to Manitoba Hydro's generation facility in  
14 Selkirk, correct?

15                   MR. DARREN RAINKIE: That's correct.

16                   MR. BOB PETERS: And in that particular  
17 situation, was income tax used in the feasibility test?

18                   MR. DARREN RAINKIE: Yes, it was.

19                   MR. BOB PETERS: And so when the true up  
20 provision is -- was there a true up provision with respect to  
21 that construction?

22

23                   MR. DARREN RAINKIE: Yes, there were two (2)  
24 true up provisions. I think one that is already passed and  
25 one sometime in the future. I think it's maybe five (5)

1 years.

2 MR. BOB PETERS: And will that result in  
3 Centra having to cut a cheque to Manitoba Hydro or however  
4 you do it on your books?

5 MR. DARREN RAINKIE: Yeah, I think if we  
6 remove income taxes that -- that will occur just like for any  
7 other customer. We're trying to interact with the -- with  
8 the other side of the business as we would with any other  
9 customers. So we're using the same -- same principles on  
10 either side of the equation.

11 MR. BOB PETERS: Same principle applies then  
12 to the Brandon expansion, Mr. Rainkie?

13 MR. DARREN RAINKIE: That's right.

14 MR. BOB PETERS: Mr. Rainkie, you were saying  
15 that in your negotiations with government they may have been  
16 somewhat one-sided in the terms of -- in terms of whether or  
17 not you could receive additional contribution.

18 But for expansions that you make that are  
19 withing franchise areas, that is extending mains, those  
20 contribution requirements generally come from the actual  
21 customer or customers plural, do they not?

22 MR. DARREN RAINKIE: That's correct.

23 MR. BOB PETERS: Do you make those one-sided  
24 as well or are those -- do those go both ways?

25 MR. DARREN RAINKIE: Subject to check, I -- I

1 shouldn't have used the word 'one-sided'. It sounds very  
2 negative but I mean the Company is managing this in making  
3 the projections so I'm not sure where we would have a  
4 two-sided -- you know, that if we're going to go back to a  
5 customer and -- and get the money I guess if we've -- if we  
6 haven't made our projections carefully enough, I guess, the  
7 customer will probably look at that as our business.

8 I -- subject to check I think they are only  
9 one-sided. I'll check that and clarify the record if I'm  
10 wrong.

11 MR. BOB PETERS: Thank you, Mr. Rainkie. Mr.  
12 Rainkie and Mr. Warden, I think it was in Mr. Warden's  
13 opening comments and his direct examination through Ms.  
14 Murphy, that not only did he indicate to this Board they may  
15 -- that the Corporation was planning to file a General Rate  
16 Application this fall, but that there was consideration given  
17 to filing it not only on the basis of a rate base rate of  
18 return methodology but also on a cost of service methodology.

19 Mr. Warden, I think that was you who said  
20 that. Did I paraphrase you correctly?

21 MR. VINCE WARDEN: You did.

22 MR. BOB PETERS: And in that regard, and when  
23 we're talking about the regulation generally of the Utility,  
24 is there any issue within the Corporation that -- whether  
25 Centra should or should not be regulated by the Public

1 Utilities Board, Mr. Warden?

2 MR. VINCE WARDEN: No, not at all.

3 MR. BOB PETERS: And so Centra's agreeing  
4 that this Board should continue to regulate the Centra's  
5 rates?

6 MR. VINCE WARDEN: Absolutely.

7 MR. BOB PETERS: And would it be correct,  
8 also, to suggest that when Centra is regulated, the objective  
9 of the Corporation is to have its costs fully recovered from  
10 the rates that this Board approves?

11 MR. VINCE WARDEN: That's correct.

12 MR. BOB PETERS: Can you indicate whether or  
13 not it is Centra's view, that in addition to recovering your  
14 costs, you should also recover a return or a surplus over and  
15 above your costs?

16 MR. VINCE WARDEN: Well, that's part of the  
17 cost, I think, cost of running any business is to have  
18 sufficient level of equity-retained earnings to be  
19 financially stable. So, that's part of the costs of -- that  
20 we would put forward for review by this Board.

21 MR. BOB PETERS: What I understand from that  
22 answer, Mr. Warden, is that, in addition to the specific  
23 costs for which you may have an invoice to support, you would  
24 also still want to recover, over and above that, a return on  
25 the investment in the Corporation?

1                   MR. VINCE WARDEN:   Well, I wouldn't call it a  
2 return on investment, it's -- as we do on the electricity  
3 side of the business, we do have to have sufficient retained  
4 earnings to cover off contingencies or unforeseen events, and  
5 this last year's been a great example of that.

6                   So, we would want to have a prudent level of  
7 retained earnings in Centra Gas as we do in Manitoba Hydro.

8                   MR. BOB PETERS:   Has there been any corporate  
9 position developed on what that level should be for the gas  
10 Utility, Mr. Warden?

11                   MR. BOB PETERS:   Well, it's very modest at  
12 this point in time. We haven't developed specific financial  
13 targets for Centra Gas, but it would be reasonable that over  
14 the long term, that those financial targets should mirror the  
15 financial targets of -- of the Corporation, which would be  
16 the 75/25 debt equity ratio would be the primary target,  
17 followed by some kind of an interest recovery target as well.

18                   MR. BOB PETERS:   Mr. Warden, in your thinking  
19 of the regulation of the gas side of the business, do you  
20 agree that this Board should continue to review the capital  
21 expenditures that are incurred, that end up resulting such  
22 things as depreciation expense and financing expense?

23                   MR. VINCE WARDEN:   Well, we believe, and I  
24 think we've stated before, that the regulation of Manitoba  
25 Hydro, the electricity side of the business, has been very

1 efficient and to the benefit of consumers in Manitoba, so a  
2 form of regulation similar to what we have on the electricity  
3 side of the business is what we would be striving for.

4                   It's a very general answer but it's probably  
5 as far as we should probably go with this.

6                   MR. BOB PETERS:    Okay.  Well, thank you.  
7 Maybe I'll just switch Panel Members then, Mr. Warden, but  
8 maybe, Mr. Rainkie, if it's fair for you to answer this, and  
9 Mr. Warden may have a different view, but could you explain  
10 to the Board generally, the differences that you see between  
11 rate-base-rate-of-return regulation and cost of service  
12 regulation?

13                   MR. DARREN RAINKIE:    Maybe I'll start, unless  
14 Mr. Warden wants to go through it.  I can explain the  
15 technical side of it and, --

16                   MR. BOB PETERS:    That's all I'm asking for at  
17 this time.

18                   MR. DARREN RAINKIE:    -- of course, policy  
19 tends to override technical consideration, so if I'm going  
20 afield, I'm sure Mr. Warden will put me back in my cage.

21                   Rate-based rate of return is a very finance-  
22 driven methodology.  It starts from the proposition that you  
23 add up your costs and that is what the revenue requirement is  
24 that you're allowed to get.

25                   So, you take your cost of gas, you take your

1 operating costs, you take your amortization, you take your  
2 depreciation, your municipal taxes, and your other income,  
3 and to that you add, what's referred to as return-on-rate  
4 base, and this kind of a fancy regulatory lingo for the sum  
5 of your financing costs that you're allowed to recover, and  
6 the return that you're allowed to earn.

7           So a return on rate base has two parts to it:  
8 return on debt and return on equity. Return on debt is the  
9 amount that you're allowed to recover in rates to cover off  
10 your financing costs. Return on equity is the amount that  
11 you're allowed to recover in rates for a reasonable return  
12 for the risks that you take in the Corporation.

13           So it's a very private oriented view of the  
14 world. Private businesses -- and I'm not going to make any  
15 value judgements or -- or in the business of earning income  
16 based on the risks that they -- that they take and that's how  
17 their investors decide where they allocate their capital. It  
18 has to be the way it works or else the system isn't going to  
19 function.

20           But the way that that's calculated in rate  
21 base return is -- is by looking at a -- at the total  
22 investment and assets and working capital the Company has  
23 which is called rate base, and times-ing that by the overall  
24 rate of return, which is just another fancy term for the  
25 weighted average cost to capital of whatever the Board's

1 willing to allow for recovery of your debt costs and -- and  
2 your equity cost.

3           So -- so you add up all of that, you add up  
4 all of the costs and -- and under cost of service and rate  
5 base rate return, cost of gas, operating costs, depreciation,  
6 amortization, municipal and other taxes, income taxes, and  
7 other income should be the same. There shouldn't be any  
8 difference between those two (2).

9           I mean we're going to forecast our level of  
10 operating costs and the -- the regulatory methodology doesn't  
11 change what we think we need to -- to have to run the -- to  
12 run the business. The difference is going to be in how you  
13 calculate financing costs and what -- or if you want to call  
14 it net income, contribution of reserves that is allowed.

15           But on our base rate return you do that  
16 calculation and whatever comes out is what you -- what you  
17 use. And rate base rate of return is a very one (1) year  
18 slice of history. Sorry, one (1) year slice of -- of time.  
19 You look at, you know, if we're going to look at an '05/'06  
20 test year we would just forecast '05/'06 and it -- whatever  
21 that revenue requirement throws up, that's the amount.

22           You don't get to look back and say, well what  
23 did we do -- how did we do last year or for the last couple  
24 of years since we've had our rate application. Nor do you  
25 get to look forward four (4), five (5) or ten (10) years like

1 we do on the cost of service side and say, where's the  
2 Company going financially.

3           You take a look at the test year and that's  
4 it. If the costs are going down for a short term basis, you  
5 might if you just blindly apply the methodology you might  
6 reduce the rates only to know that later on the costs are  
7 going back up.

8           But on -- on cost of service, it's a little  
9 bit more flexible. The financing costs would be calculated  
10 in a cost of service model out of the budget -- out of the  
11 budget model which would look at your cash flows in and your  
12 cash flows out. And the level of contribution to reserves  
13 that you would want under that methodology is, as Mr. Warden  
14 alluded to, you would do the same thing I think as we've done  
15 on the electric side.

16           We would look at some reasonable financial  
17 targets in terms of debt to equity and -- and interest  
18 coverage. And we would judgmentally determine what amount we  
19 would like to put into rates to -- to generate something  
20 extra at the end of the day that would get us -- move us  
21 towards those financial targets over time.

22           So for a publicly owned Crown Corporation or a  
23 Corporation that's owned by a Crown, it doesn't have an  
24 external equity investor that can put in money. I think that  
25 methodology, the cost of service methodology makes more --

1 more sense. You can -- it's more flexible and looking back  
2 and saying what happened the last couple of years? It's more  
3 flexible in looking forward and say, you know, what -- what  
4 do we see, versus rate base rate of return which is a one (1)  
5 year -- one (1) year slice.

6           It also dovetails much better with the  
7 internal management processes and the Board of Director  
8 processes which of course are keyed on the Manitoba Hydro Act  
9 that says that -- that the Board of Manitoba Hydro is suppose  
10 to look at all of its costs plus, you know, determine a  
11 reasonable amount of retained earnings for a rate  
12 stabilization fund. I'm probably not quoting the legislation  
13 exactly here but I think you get the general gist of what I'm  
14 saying.

15           So, here we have a Corporation, a \$10 billion  
16 Corporation that's using cost of service and we have a \$300  
17 million Corporation that's using rate base rate of return.  
18 We got the little -- the little Corporation that has to use a  
19 different methodology and I guess rather than asking the  
20 question why -- why should we move off the rate base rate of  
21 return, I think we should the question why shouldn't we move  
22 the gas side onto the cost of service?

23           It dovetails nicely with the -- the mandate of  
24 the Board of Manitoba Hydro, I think, and with the internal -  
25 - with the internal processes and -- and the way that

1 management looks at the -- the rates that it needs to recover  
2 its costs.

3                   So you know, for all the discussion there's a  
4 lot of similarities and it gets more into how you -- how you  
5 calculate the differences. They'll get more into how you  
6 calculate financing costs and a contribution to reserves and  
7 -- and really how you look at it.

8                   If you want to use a very specific methodology  
9 or use more of a -- a ten (10) year forecast like Manitoba  
10 Hydro has used in the past.

11                   We're not really looking -- we're not looking  
12 for some in the change, we're not looking for something  
13 that's really not been used in this jurisdiction. There's  
14 lots of experience with cost of service. We're not asking  
15 for something that's, you know, esoteric.

16                   There's lots of experience, as Mr. Warden has  
17 indicated, and it's worked well.

18                   But, hopefully that gives a -- you won't be  
19 asking anymore open-ended questions after that. Hopefully  
20 that explains some of the similarities and differences in the  
21 approach.

22                   MR. BOB PETERS:    I think we've got your  
23 position, and I --

24                   MR. VINCE WARDEN:    I might just add a -- just  
25 a very brief comment to what Mr. Rainkie has said, and I

1 certainly agree that, really, we're just talking about an  
2 arithmetical exercise as to how we derive that bottom line,  
3 as to what we're going to ask the ratepayers for.

4                   The key to the cost of service approach,  
5 though, is the flexibility that Mr. Rainkie mentioned, since  
6 Manitoba Hydro acquired Centra Gas in 1999, we've only had  
7 one (1) rate increase. And we purposely didn't apply for a  
8 rate increase because of the impact that the high gas costs  
9 were having on ratepayers, during that interim period of time  
10 between 1999 and -- the date of acquisition, and 2003, when  
11 we finally had a rate increase.

12                   The amount of that rate increase, by the way,  
13 was only 0.4 percent, so since the date of acquisition of  
14 Centra Gas, the only rate increase that consumers have been  
15 subjected to related to the operational cost of the Utility,  
16 are 0.4 percent.

17                   There's no doubt, on a rate-based rate of  
18 return basis, the consumers of Manitoba would have paid a  
19 much higher cost to run the Utility. So, we certainly  
20 believe that ratepayers have benefited from the acquisition  
21 to that extent.

22                   So, flexibility is key, and we, you know, can  
23 time the -- the amount and the timing of -- and the magnitude  
24 of the rate increases.

25                   MR. BOB PETERS: All right, I'll come back to

1 you, Mr. Warden, and I'm not sure I'll come back to Mr.  
2 Rainkie, but, well, maybe I will.

3           Mr. Rainkie, still on a technical basis, and  
4 keeping it at a technical level, not a policy level, if I can  
5 keep you there, under a rate of return regime, the capital  
6 expenditures are usually reviewed and approved by the  
7 regulator as they are going to end up in a rate base, to the  
8 extent they're not depreciated?

9           MR. DARREN RAINKIE: That's correct.

10           MR. BOB PETERS: And under a cost of service  
11 model, could the cost of service model not also accommodate a  
12 review of the capital expenditures that are being made by the  
13 Corporation, on a theoretical basis?

14           MR. DARREN RAINKIE: I think it does, if you  
15 were at the electric GRA, that just finished up a month or  
16 two (2) ago, and there is a general review of the capital  
17 expenditure forecast, simply because though -- like you  
18 mentioned, the depreciation interest and capital taxes form  
19 part of the revenue requirement.

20           The difference is that the Board doesn't go  
21 through and specifically approve each and every project or  
22 say which ones they won't -- they won't approve for rate-  
23 making purposes. Usually what happens is, Manitoba Hydro  
24 asks for a certain percentage increase and the Board  
25 formulates an overall opinion and says, you know, we might

1 give you less or more.

2 MR. BOB PETERS: And that is without specific  
3 review of the particular capital items that drive the -- the  
4 financing costs or the depreciation expense.

5 MR. DARREN RAINKIE: Well, I think there's a  
6 general review, but I don't think the Board goes and says,  
7 okay, and I know that on a cost of service basis the Board  
8 doesn't say, well, Capital Project 'A', approved,  
9 disapproved; Capital Project 'B', approved, disapproved.

10 But, I assume, under cost of service  
11 methodology, when the Board, you know, forms an overall  
12 opinion as to the -- as to the rates they are, you know, they  
13 are considering information that's before them, and we have  
14 provided both operating costs and capital costs forecast, but  
15 there isn't that specific view and approval.

16 MR. BOB PETERS: Sure, but on a theoretical  
17 basis, as you say, it can be that particular capital  
18 expenditures under a cost of service model may not be  
19 approved or permitted to be recovered through the rates that  
20 ultimately flow, is how you're characterizing it?

21 MR. DARREN RAINKIE: That's right. I mean,  
22 it's a matter of very specific review in terms of rate base  
23 rate of return, and approval or disapproval of each item.

24 MR. BOB PETERS: I know the Chair invited  
25 some comments in Closing Arguments on this, but I still want

1 to get you position, and I'm going to pick on your answer,  
2 Mr. Rainkie, that if Centra was to file an application before  
3 this Board, on the gas side, on a cost of service model,  
4 would it be asking for more or less revenue from consumers,  
5 than if it filed the same rate application on a rate base  
6 rate of return model?

7 MR. VINCE WARDEN: We'd have to, you know --  
8 I'm going to answer that. I think we'd have to go through  
9 the calculations to compare. As Mr. Rainkie indicated  
10 earlier though, the rate base rate of return model we look at  
11 it on a specific year basis and I think we would have to  
12 consider the rate increases that would have had -- have been  
13 foregone since 1999 on that rate base rate of return model as  
14 well and compare that to what we're asking for on the cost of  
15 service model.

16 MR. BOB PETERS: I'm not -- I'm not  
17 suggesting to compare it, Mr. Warden, but in terms of if an  
18 application is filed this fall, would the Board be seeing --  
19 would the method of -- under which you filed, would that  
20 affect the bottom line number of revenue requirement that  
21 you'd be seeking from consumers. And I'm -- I'm not sure if  
22 you can tell us that?

23 MR. VINCE WARDEN: Well -- and that's  
24 certainly what we'll present to this Board so the Board will  
25 be fully aware and we would, in fact, compare. We would say

1 here's what it works out to on a rate base rate of return  
2 methodology and here's what it is under cost of service so  
3 the Board can make a determination as to amount of rate  
4 increase awarded on that basis.

5 MR. BOB PETERS: So, maybe I take from your  
6 answer that -- that presently and maybe I'll say subject to  
7 what the -- the Board says in the upcoming order on this  
8 Hearing or otherwise, your intention is to file using both  
9 methodologies to demonstrate to the Board the impacts of the  
10 two (2) different methodologies?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: All right. Perhaps I'm not  
13 clear on the -- on the last couple of answers, Mr. Warden,  
14 but is the filing going to be on a prospective basis as to  
15 what the Company sees? Or will it be looking back to -- to  
16 see what would have been the case if there was a different  
17 owner of the shares of the gas Utility?

18 MR. VINCE WARDEN: Well, it would definitely  
19 be on a prospective basis. We would be looking at the  
20 '05/'06 test year and beyond if it's more than a one year  
21 rate application.

22 I think I might have suggested that we would  
23 supplementary informa -- information file some perspective on  
24 what rates might have been under -- under the other model  
25 though. But it would be prospective though, in answer to

1 your question.

2 MR. BOB PETERS: Mr. Warden or Mr. Rainkie,  
3 in the past five (5) years that Centra has been owned by  
4 Manitoba Hydro, has there been anything related to the form  
5 of regulation that has caused the Utility not to recover its  
6 costs?

7 MR. VINCE WARDEN: Well, we went through a  
8 proceeding before this Board that requested a somewhat higher  
9 rate increase -- rate increase than what we were ultimately  
10 awarded. And that was part of the reason that we incurred a  
11 loss on operations last year.

12 MR. BOB PETERS: Just help me -- help me  
13 understand that, Mr. Warden. Last year you said your -- your  
14 distribution rate increase was in the magnitude of 0.4  
15 percent?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And was there a specific  
18 disallowance of costs that you're referencing in that matter?

19 MR. VINCE WARDEN: I don't think I would  
20 characterize it as a disallowance. There were some matters  
21 with respect to how costs were being allocated between the  
22 electricity and gas ratepayers and the methodology that was  
23 used -- used by Manitoba Hydro wasn't totally agreed with by  
24 this Board and a different number was awarded than what we  
25 had requested.

1 I don't consider that to be a disallowance  
2 necessarily but it did work out to a different rate increase  
3 than we had requested.

4 MR. BOB PETERS: All right and that matter is  
5 reflected in the order that the Board issued last year?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: Mr. Warden, although I  
8 wasn't involved, at the time Manitoba Hydro acquired the gas  
9 Utility was there not the expectation that the return on  
10 equity component that was embedded in consumers' rates would  
11 be utilized by the Corporation to essentially pay for the  
12 purchase price on the gas Utility?

13 MR. VINCE WARDEN: Well, there was a lot of  
14 things -- different things that went into the equation. The  
15 fact that we were no longer sub -- subject to income taxes  
16 was part of the -- one of the contributors towards the  
17 purchase price being -- being covered, so, all the elements  
18 together were enough to -- to cover off the purchase price  
19 and then some.

20 MR. BOB PETERS: All right. Mr. Rainkie,  
21 when you were giving me your differences between the rate  
22 base -- the rate of return and the cost of service model, it  
23 came to mind, looking across the Hearing Room, that in  
24 Ontario there's a process ongoing, I believe it's called a  
25 Natural Gas Forum; are you familiar with that or aware of

1 that?

2 MR. DARREN RAINKIE: I've been trying to keep  
3 myself up on what's happening on the OEB website, so I've  
4 read what's publicly available, except for the huge report  
5 which just came out, of a hundred and nineteen (119) pages a  
6 couple days ago, but -- I wouldn't call myself an expert, but  
7 I'm generally aware of it.

8 MR. BOB PETERS: Rather than require me to  
9 swear in Mr. Brown to testify later today on that issue,  
10 perhaps you can tell the Board what your understanding is of  
11 the process that they're undergoing in Ontario, and whether  
12 it has any application to Manitoba?

13 MR. DARREN RAINKIE: Well, I think the, from  
14 my understanding of it, the issues that they're reviewing in  
15 Ontario right now are not dissimilar to the process that  
16 occurred in Manitoba in 1996, the last generic Hearing, if  
17 you -- if you like, here in Manitoba, on the issue of  
18 competition.

19 I think they've broken the issues down into  
20 three (3) main parts: the role of the monopoly deliver in  
21 providing the gas merchant function or gas services, the  
22 regulation or deregulation of storage and transportation, and  
23 I think the third element is regulation, and I think it has a  
24 bend towards performance-based regulation, if I understand  
25 it.

1                   So, I think those are the three (3) topic  
2 areas that -- that they're generally looking at. They have,  
3 in terms of process, I think they've embarked on more of a  
4 collaborative consultive process than an adversarial hearing  
5 process. I think they held a series of workshops, or -- and  
6 looked for submissions in terms of defining the issues  
7 that -- that the interested parties were willing to -- were  
8 wanting to look at.

9                   And, I think they're -- they've hired a  
10 consultant to do a paper on each one of those three topics,  
11 which covers off, kind of, what's happened in Ontario in the  
12 last few years, what's happening in other jurisdictions, and  
13 I think they're at the phase where they're going through a  
14 series of technical conferences where parties are going to --  
15 the interested parties to this Proceeding are going to start  
16 adding in their views and what's happening.

17                   I don't -- as I read the material, I don't see  
18 that they're going to have an actual Public Hearing process.  
19 My understanding from what's on the website, is that the OEB  
20 is going to take all that information away and then go and  
21 write its own policy papers suggesting change, or -- or -- or  
22 policy direction.

23                   And I'm not sure if from there, the next stage  
24 would be for the Utilities or other Parties to develop  
25 specific applications that would implement those policies,

1 and any structural changes or rate changes that flow from  
2 them.

3                   So, it's a -- it's a bit of a different way of  
4 looking at it, it's more collaborative and less, you know,  
5 position-taking, I guess, at this point, although I don't  
6 know if it's going to break down into that or not, but  
7 it's -- it's definitely looking at what we would call generic  
8 issues in terms of competition in Ontario and -- and the  
9 future, as I understand it.

10                   MR. BOB PETERS: All right. And when you  
11 mentioned performance-based regulation, that's another word  
12 for different types of regulation, other than rate base rate  
13 of return or cost of service regulation; would you agree with  
14 that?

15                   MR. DARREN RAINKIE: That's correct. It's --  
16 you can call it incentive regulation, there's various terms  
17 that are used for it.

18                   MR. BOB PETERS: And in terms of -- there's  
19 more than various terms, there's various methodologies that  
20 could be looked at as well?

21                   MR. DARREN RAINKIE: That's correct.

22                   MR. BOB PETERS: When you talk about they're  
23 looking at the issues of competition and the like in Ontario,  
24 in Manitoba, Centra has the monopoly on gas distribution in  
25 the Province except for North Cypress Co-op; have I got that

1 right?

2 MR. DARREN RAINKIE: I think you're missing  
3 the Swan Valley Co-op.

4 MR. BOB PETERS: Yes, so, Swan Valley, Swan  
5 River, as well as North Cypress?

6 MR. DARREN RAINKIE: I'm not quite sure that  
7 the status of North Cypress is, but it's pretty much a one  
8 (1) customer Co-op, so I'll leave it at that.

9 MR. BOB PETERS: For which there is a  
10 separate rate category in your rate structure?

11 MR. DARREN RAINKIE: There is, but nobody's  
12 using it at this point.

13 MR. BOB PETERS: That perhaps answers more  
14 than your last answer.

15 In terms of primary gas supply in Manitoba,  
16 presently that's in the competitive market; is that correct?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BOB PETERS: And what that means, Mr.  
19 Rainkie, is that any customer in Manitoba can choose to  
20 acquire their primary gas either through Centra or through a  
21 -- a broker?

22 MR. DARREN RAINKIE: That's correct and  
23 larger customers can be their own broker.

24 MR. VINCE WARDEN: I don't know, though, that  
25 we've ever called that the competitive market. Centra is

1 restricted to one (1) service offering so, that being the  
2 case, until such time as you have suppliers being able to  
3 offer equivalent products, it's not true competition.

4 MR. BOB PETERS: Let me just explore that a  
5 little bit then, Mr. Warden. Mr. Rainkie had indicated that  
6 there was a generic proceeding in Manitoba in the mid '90s  
7 and one (1) of the issues that was looked at back then was  
8 whether or not Centra should have one (1) regulated offering  
9 or whether there should be a menu of offerings. Is that  
10 correct?

11 MR. VINCE WARDEN: Correct.

12 MR. BOB PETERS: And, I think Mr. Stephens  
13 and maybe Mr. Rainkie were -- were close at hand during those  
14 years on the gas side, but at that point in time it was  
15 determined that the Utility would -- would have one (1)  
16 offering and it would -- it would be a regulated price  
17 through this Board.

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And since -- and since then,  
20 has Centra ever applied to this Board to offer anything more  
21 than the one (1) regulated offering?

22 MR. VINCE WARDEN: No, we haven't.

23 MR. BOB PETERS: And presently, from your  
24 answer, Mr. Warden, your understanding is that the -- the  
25 brokers who are interested in the Manitoba market don't face

1 a restriction on the menu of services that they can offer to  
2 Manitoba consumers?

3 MR. VINCE WARDEN: Correct.

4 MR. BOB PETERS: And by that they could offer  
5 a one (1) year fixed price or a floating price or a five (5)  
6 year fixed price or any number of options?

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: They could offer variable  
9 prices, I suppose, too in some fashion.

10 MR. VINCE WARDEN: Sure.

11 MR. BOB PETERS: And they can also bundle  
12 their services with other offerings if their business is --  
13 is compatible with those other -- other types of offerings?

14 MR. VINCE WARDEN: Yes, they can.

15 MR. BOB PETERS: But they still have to --  
16 even if consumers use broker supplied gas for their primary  
17 gas, their supplemental gas still has to come through the  
18 Utility?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And that also includes the  
21 storage arrangement. They have to be responsible for part of  
22 the cost of the storage arrangement, even if primary gas  
23 flows into storage?

24 MR. HOWARD STEPHENS: With one (1) exception.  
25 The transportation service customers don't rely upon our

1 assets or our stores so they make their own upstream  
2 arrangements.

3 MR. BOB PETERS: And transportation service -  
4 - I'm glad you mentioned that, Mr. Stephens -- is that  
5 available to the SGS class?

6 MR. HOWARD STEPHENS: Not at the current  
7 time.

8 MR. BOB PETERS: And that answer implies that  
9 you're looking at perhaps it should be or might be down the  
10 road?

11 MR. HOWARD STEPHENS: I wouldn't read  
12 anything into it at all, sir.

13 MR. BOB PETERS: All right. Do the brokers -  
14 - is it your understanding the brokers would like  
15 transportation to be a service available to them so they  
16 could -- so they wouldn't need other services from you?

17 MR. HOWARD STEPHENS: The only reason it  
18 comes to my mind is in terms of the whole discussion we've  
19 had in terms of development of storage, is we need some  
20 indication as to what the competitive landscape would be,  
21 because before we'd spend the \$50 million developing storage  
22 we're going to make damn sure it's not going to be stranded  
23 assets at some point in time.

24 MR. BOB PETERS: And, Mr. Stephens, in the  
25 arrangement that you presently have that permits brokers to

1 provide primary gas to customers, is Centra the supplier of  
2 last resort or the backstopper of that arrangement should  
3 there be difficulties encountered by the broker?

4 MR. HOWARD STEPHENS: We are.

5 MR. BOB PETERS: Can you refresh my memory  
6 and perhaps tell the Board, since direct purchase has been  
7 available in Manitoba has the Company needed to provide  
8 backstopping service?

9 MR. HOWARD STEPHENS: Only once, for a very,  
10 very short period of time.

11 MR. BOB PETERS: How long ago and what kind  
12 of volumes were we talking?

13 MR. HOWARD STEPHENS: I can't recall the  
14 volumes, it wasn't significant, it was going -- going back  
15 in excess of ten (10) -- nine (9) years.

16 MR. BOB PETERS: Are the circumstances of  
17 that fresh enough in your mind that you can share them with  
18 the Board or do you know why Centra had a -- was called in to  
19 backstop? Was it a -- what type of failure to deliver  
20 occurred?

21 MR. HOWARD STEPHENS: I can't give you enough  
22 detail to do it justice. It was a circumstance where I had a  
23 broker at the last minute call me and tell me that the supply  
24 wasn't going to materialize. Could he -- I bail him out and  
25 we did our best to bail him out.

1 MR. BOB PETERS: Do you recall if any  
2 additional costs were incurred as a result of bailing out the  
3 broker?

4 MR. HOWARD STEPHENS: Yes and they were  
5 passed through to the broker.

6 MR. BOB PETERS: And they were paid?

7 MR. HOWARD STEPHENS: Yeah.

8 MR. BOB PETERS: All right. When we talk  
9 about Centra having the -- the one regulated price, that's  
10 essentially what brings us before the Board is that you have  
11 a pass through arrangement where if the Board determines that  
12 your costs are prudent and they approve them, then you're  
13 entitled to pass those through to your consumers?

14 MR. DARREN RAINKIE: That's correct.

15 MR. BOB PETERS: And you do that, Mr.  
16 Rainkie, on the -- on the commodity side without seeking any  
17 margin or profit or surplus over and above what you pay for  
18 costs?

19 MR. DARREN RAINKIE: That's right, it's a  
20 direct pass through of the costs.

21 MR. BOB PETERS: And is it Centra's  
22 understanding that for a broker, when they set their price  
23 they would embed in their price any of their own costs that  
24 they choose to -- to add to the commodity cost for -- whether  
25 they wanted a markup, whether they wanted to cover operating

1 costs or administrative costs, or matters of that nature?

2 MR. DARREN RAINKIE: I don't know that we  
3 specifically know but I mean, I guess it -- they're running a  
4 private business one would assume that's what they're doing.

5 MR. BOB PETERS: You say you have one  
6 regulated price offering and that's in essence the -- the  
7 three (3) month fixed price set by this Board on the primary  
8 gas every quarter, would that be correct?

9 MR. DARREN RAINKIE: That's correct.

10 MR. BOB PETERS: Since when did we start  
11 calling that the 'balanced rate program' or 'balanced rate  
12 plan'?

13 MR. VINCE WARDEN: A few days ago.

14 MR. BOB PETERS: There's a reason it's the  
15 last tab in my Book of Documents as a late addition and just  
16 for the record, Mr. Chairman, Tab 18 of the Book of Documents  
17 was not supplied to me by the Company, it was -- it was  
18 extracted from the Winnipeg newspaper on Saturday, August  
19 28th and the handwriting on it looks similar to -- I can  
20 identify it.

21 But having said that for purposes of the  
22 record, I may as well mark it as PUB Exhibit Number 7 if Ms.  
23 Murphy agrees. That's -- that's simply an advertisement that  
24 has recently appeared in Winnipeg newspapers related to your  
25 balanced rate plan.

1 MR. VINCE WARDEN: That's right.

2 MR. BOB PETERS: If I could then, Mr.  
3 Chairman, we'll accept that then as PUB Exhibit Number 7.

4  
5 --- EXHIBIT NO. PUB 7: Advertisement in Winnipeg newspaper.

6  
7 MR. BOB PETERS: Mr. Warden, there is --  
8 there's more material than this related to the plan that's on  
9 your website and I -- I'm not going to go there because I  
10 think My Friend opposite will -- will be there later this  
11 afternoon. But this is recent information that's been put  
12 out by the Utility related to your current regulated price  
13 offering on primary gas?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: Can you indicate to the  
16 Board why Manitoba Hydro has -- has seen fit to embark on  
17 such an advert -- advertising campaign?

18 MR. VINCE WARDEN: Well, Centra Gas believes  
19 it to be our responsibility to provide customers with  
20 information about their choices. So we periodically do -- go  
21 to the market with -- with information such as you see before  
22 you in Exhibit Number 7.

23 Our timing on this wasn't the best but  
24 nevertheless -- but nevertheless the whole objective is to  
25 provide information to customers, factual information to

1 customers.

2 MS. LORI STEWART: And more specifically, Mr.  
3 Peters, the market research that was conducted by the  
4 Corporation with regard to customer preferences and related  
5 to primary gas price volatility did indicate that only 19  
6 percent of -- of consumers surveyed were aware of the  
7 activities that Manitoba Hydro was undertaking to mitigate  
8 price volatility, which spoke quite loudly and clearly to us  
9 in terms of needing to ensure that customers understood they  
10 have a choice, that customers understand the consequence of  
11 their choice and that customers understand what Manitoba  
12 Hydro is doing with regard to mitigation of price volatility.

13 MR. BOB PETERS: I'm not sure I esta -- or I  
14 learned from your answer, Ms. Stewart, whether there was  
15 cause and effect relationship there. Was it because  
16 consumers didn't know what Manitoba Hydro was doing is --  
17 that this ad campaign or this program was developed; or was  
18 it just coincidental to that?

19 MS. LORI STEWART: No it was not  
20 coincidental.

21 MR. BOB PETERS: So it was because, when you  
22 did your focus group studies and consumers weren't aware of  
23 what Manitoba Hydro was doing on the gas side that the  
24 Corporation determined it should put out some information?

25 MS. LORI STEWART: Yes, that's correct.

1                   MR. BOB PETERS:    When we talk about the one  
2 (1) regulated service offering of the Corporation, is there a  
3 desire, Mr. Warden, for the Utility to offer more than the  
4 one (1) regulated price under the balanced rate plan?

5                   MR. VINCE WARDEN:   We -- our position has  
6 been that we would like to have that capability; we're  
7 prevented from doing that today. We'd like to have the  
8 flexibility to be able to offer more than one (1) offering to  
9 customers. Whether we would use it or not, I think we would  
10 have to determine, in cooperation with the brokers, as to  
11 whether or not that was in the best interests of -- of  
12 consumers.

13                   Right now, I think it's important for  
14 consumers to have choice and -- and they do, so that being  
15 the case, as long as consumers are making an informed choice  
16 -- and it gets back to Ms. Stewart's point that she was  
17 making that our survey indicated, they probably didn't have  
18 the information they were needing -- they should have in  
19 order to make that informed choice and hence the -- the  
20 campaign.

21                   MR. BOB PETERS:    Just out of that answer, Mr.  
22 Warden, Ms. Stewart, the consumers being informed and the  
23 survey that you did of them to determine whether they were,  
24 is that the materials that you filed in response to  
25 interrogatories in this process or is there additional

1 materials?

2 MS. LORI STEWART: No, that information is --  
3 is on the public record as part of an information request.

4 MR. BOB PETERS: All right. I -- I don't have  
5 it at hand but I recall it being a PUB information request in  
6 the first round.

7 MR. DARREN RAINKIE: I think it's PUB 9A, Mr.  
8 Peters.

9 MR. BOB PETERS: Thank you. And Mr. Warden,  
10 you said -- I want to understand your answer -- you said that  
11 you are restricted on -- to offering one (1) type of service  
12 at this point in time. Have I got that right?

13 MR. VINCE WARDEN: We are, yes.

14 MR. BOB PETERS: And yet you say you've never  
15 -- since you've acquired the Corporation -- since Manitoba  
16 Hydro has acquired the Corporation -- you've never asked this  
17 Board to offer more than the one (1) rate offering, have you?

18 MR. VINCE WARDEN: We have not, no.

19 MR. BOB PETERS: Have you ever asked this  
20 Board for permission to have the flexibility that should you  
21 desire, you could offer additional rate options?

22 MR. VINCE WARDEN: We have not done that  
23 formally, no.

24 MR. BOB PETERS: Let me just understand --  
25 let me pick, for example -- and I'll need -- let me just take

1 an example, I might need Mr. Stephens' help on this and maybe  
2 Ms. Stewart, but if Centra wanted to offer a five (5) year  
3 fixed rate at thirty-five cents (\$0.35) a cubic metre for  
4 gas, could you provide that to a residential customer today?

5 MS. MARLA MURPHY: Maybe you can help us out.

6 MR. BOB PETERS: Sure.

7 MS. MARLA MURPHY: I'm not sure how your --  
8 what you mean by, "could you provide it?"

9 MR. BOB PETERS: Let's -- let's assume that  
10 Centra wants to -- Centra has the ability to provide -- or  
11 the permission of the Board, if you will -- to provide a  
12 fixed five (5) year rate on its gas. Can Mr. Stephens or  
13 Ms. Stewart get that five (5) year fixed rate today?

14 MR. VINCE WARDEN: The contract that we have  
15 with Nexen -- the one (1) that we just recently signed --  
16 does provide that flexibility that we could fix a price.  
17 Now, that's a -- that's a three (3) year contract so if we  
18 want to go for five (5) years we would have to make some  
19 arrangement for that final two (2) years but subject to Mr.  
20 Stephens' comments, I think that could be done.

21 MR. HOWARD STEPHENS: I have nothing to add.  
22 Mr. Warden's characterized it correctly.

23 MR. BOB PETERS: And that three (3) year  
24 possibility, Mr. Stephens, how would the price be determined?

25 MR. HOWARD STEPHENS: Based upon the current

1 market circumstance at the time that the offering was made.

2           And there are a number of technical aspects  
3 associated with this because we would presumably do -- I  
4 mean, I'm making some assumptions when I make these comments  
5 that we would -- there would be a straight pass through in  
6 terms of the costs so we would affix the price and there  
7 would have to be some sort of limit in terms of the number of  
8 customers that could avail themselves of the offering.

9           So, it would be a lottery sort of a situation  
10 which, as I recall, Tarrison (phonetic) has just, I mean,  
11 gone through that process right now, where they made a  
12 service offering of a fixed price up to twenty thousand  
13 (20,000) customers, and then if you haven't applied by such  
14 and such a date, then you're -- you get the benefit of that  
15 program. We would have to look at similar sorts of  
16 mechanisms.

17           MR. BOB PETERS:     Which Utility was that?

18           MR. HOWARD STEPHENS:   Tarrison, in BC.

19           MR. BOB PETERS:     Can you -- Ms. Stewart, can  
20 you fix the price of gas on the derivative market now for a  
21 period of five (5) years?

22           MS. LORI STEWART:    Yes, we -- we could do  
23 that, however, we would be incurring some risks, so we can  
24 purchase financial transactions out five (5) years, however,  
25 the volume would have to be prescribed at the time that the

1 transaction was purchased, and of course, the Utility would  
2 then be subject to the risk associated with weather variation  
3 and -- and therefore, volume variation, from the hedges  
4 entered into.

5 MR. BOB PETERS: Mr. Warden, from a policy  
6 basis, if Ms. Stewart was to fix a five (5) year supply of  
7 gas for a group of customers, and there were attendant risks  
8 to her doing that, and those attendant risks drew cost  
9 consequences, would it be the Corporation's position that  
10 those cost consequences should be paid for by all consumers  
11 or just by those consumers who opt for that five (5) year  
12 fixed arrangement?

13 MR. VINCE WARDEN: Well, we really are  
14 talking the hypothetical now, but if we were to design a  
15 program for -- a fixed-price program for a group of  
16 customers, it would -- those customers that chose to take  
17 advantage of that or -- or -- or to buy into that program,  
18 they would, in my view, would bear the costs of that -- of  
19 that program.

20 So, the costs, if they were incurred, would  
21 have to be -- there would have to be a mechanism to recycle  
22 those costs back to that -- that group of customers, and that  
23 would mean there would have to be some kind of a risk premium  
24 built in to the -- in to the price offering, so...

25 I don't know, though, why we'd want to do it



1 basis, if the service offering was available in the  
2 marketplace, would the Gas Utility see a need to provide a  
3 second service offering of similar type, say another three  
4 (3) year or five (5) year offering, to what might otherwise  
5 be available in the marketplace?

6 MR. VINCE WARDEN: No. It's the position of  
7 the Utility at this point in time, that as long as that  
8 choice is available to customers, there's no real motivation  
9 for us to pursue that market. Again, I get back to the  
10 point, though, I think it's important for customers to make  
11 informed choices about what their options are, and that's our  
12 job, I think, as Utility, to make sure that those -- that  
13 information is out there.

14 MR. BOB PETERS: So, if the service offering,  
15 and let's now pick a three (3) year fixed-price contract, was  
16 available on the marketplace, through a broker at price "x",  
17 Centra doesn't see a need to have a duplicate three (3) year  
18 service offering at price "y"?

19 MR. VINCE WARDEN: That's our position at  
20 this time, yes.

21

22

(BRIEF PAUSE)

23

24 MR. BOB PETERS: While we're just concluding  
25 on topics of maybe general application and we've touched on

1 the primary gas being now set on 100 percent of the  
2 difference between actual and forecast, is there any internal  
3 consideration by the Utility to seeking a change of that at  
4 this time to -- to something less than 100 percent difference  
5 flowing through in rates?

6 MR. VINCE WARDEN: No, there's not.

7 MR. BOB PETERS: This may be a matter that  
8 Ms. Murphy would -- would address in her closing comments,  
9 but can the Corporation indicate whether some of these issues  
10 that we talked about in terms of Centra's role and the  
11 competitive landscape and those issues, where those are best  
12 dealt with and how those are best dealt with by the Board?

13 MS. MARLA MURPHY: Certainly I've been  
14 invited to and do intend to address that in -- in closing  
15 comments.

16 MR. BOB PETERS: All right. But does -- does  
17 Centra see a generic hearing as being the -- the appropriate  
18 vehicle for the Board to consider those policy type issues?  
19 Or would it be better addressed in -- in some other forum or  
20 does the Corporation even have a position on that?

21 MR. VINCE WARDEN: I think that's really, you  
22 know, the decision of this Board as to whether or not it  
23 wants to handle that through a generic type hearing or not.  
24 So yeah, I -- I don't think the Corporation has a specific  
25 position on that at this time.

1                   MR. BOB PETERS:    One question I didn't ask  
2 and maybe get asked later by Mr. Brown, but the costs of your  
3 advertisement and the program for the balance rate  
4 initiative, which side of the Utility is picking up those  
5 costs? Is that on the electric side or is it on the gas  
6 side?

7                   MR. VINCE WARDEN:    It's on the gas side.

8                   MR. BOB PETERS:    And is that coming out of  
9 your currently approved distribution rates?

10                  MR. VINCE WARDEN:    That's where the cost  
11 would reside, yes.

12                  MR. BOB PETERS:    And in terms of which  
13 customer classes are paying for this, you're saying this is  
14 already being covered by the rates that the Board has  
15 approved from last year so there's no incremental cost being  
16 incurred as a result of these advertisements?

17                  MR. VINCE WARDEN:    They're charged to the  
18 expense of the current year and you know, to the extent that  
19 we incur similar costs in the future, they will be included  
20 in a rate application.

21                  MR. BOB PETERS:    I recognize your answer that  
22 this matter is relatively new, Mr. Warden, but are you aware  
23 of what the -- what the cost of the program for advertising  
24 and informing consumers about the balanced rate initiative  
25 are going to be?

1                   MR. VINCE WARDEN:    Yes.  I do have those  
2 costs.  Just give me one second.  Placement of the ads in the  
3 Winnipeg Free Press and other weekly newspapers is a total  
4 cost of thirty-six thousand five hundred dollars (\$36,500).

5                   MR. BOB PETERS:    That's for the entire  
6 program?

7                   MR. VINCE WARDEN:    For the entire advertising  
8 program in the media, yes.

9                   MR. BOB PETERS:    In addition to that there  
10 would have been some internal costs including that and  
11 getting information on your website and the like?

12                  MR. VINCE WARDEN:    That's correct.  Those  
13 wouldn't be substantial and would not be incremental in any  
14 event.

15                  MR. BOB PETERS:    Mr. Chairman, I would like  
16 to thank the Panel and recognizing the lunch hour's upon us,  
17 I would suggest this would be appropriate time to adjourn and  
18 will check over my notes over the lunch period that you --  
19 that you indicate.  But I do envision being able to turn the  
20 microphone over to My Friend opposite after the lunch break.

21                  And I would like to thank the Panel for their  
22 responses to the questions.  Thank you.

23                  THE CHAIRPERSON:   Mr. Peters, do you think it  
24 would be -- given that we have Mr. Brown here, whether it  
25 would be better if we came back earlier than 2:00?

1 MR. BOB PETERS: I'm in favour of that.  
2 Recognizing Mr. Brown operates in a different time zone  
3 perhaps it might help him as well that if -- if it suits the  
4 Board perhaps we could shorten the lunch hour just to ensure  
5 that Mr. Brown's matters are attended this afternoon with  
6 this Panel.

7 MR. DAVID BROWN: That would helpful. I was  
8 just sent in an e-mail about the 7:45 flight tonight, there  
9 is one at 5:30 so if the lunch is shortened that would be  
10 much appreciated.

11 THE CHAIRPERSON: 1:30?

12 MR. BOB PETERS: Certainly.

13

14 --- Upon recessing at 12:05 p.m.

15 --- Upon resuming at 1:33 p.m.

16

17 THE CHAIRPERSON: Mr. Peters.

18 MR. BOB PETERS: Yes, thank you, Mr.

19 Chairman.

20 Before lunch, I indicated I had to go over my  
21 notes to determine if I had any follow-up or clean-up  
22 questions, and I just have one area I'd like to go on and  
23 address with the Panel before I stand down.

24

25 CONTINUED BY MR. BOB PETERS:

1                   MR. BOB PETERS:    And, Mr. Warden, perhaps I  
2 can start with you.  Before the lunch break, we were talking  
3 about some hypothetical situations in terms of what Centra  
4 may or may not want to offer in terms of menu of prices; do  
5 you generally recall that?

6                   MR. VINCE WARDEN:    Yes, I do, Mr. Peters.

7                   MR. BOB PETERS:    And, I think one of the  
8 hypotheticals that I had put to you, was along the lines, and  
9 I'll maybe change the facts just a little bit, but lets  
10 assume there was a broker in the community that was offering  
11 a fixed price contract, say five (5) years, and say at  
12 thirty-five (35) cents a cubic metre.

13                   I had asked you whether or not Centra would be  
14 interested in being able to offer a fixed five (5) year  
15 price, and if at that time, they could offer it at a lower  
16 price, whether that would be of interest to the Utility, and  
17 I gathered from your answer that that wasn't something that  
18 the Utility was at this time looking to do; did I cover that  
19 correctly?

20                   MR. VINCE WARDEN:    Yes, I think I probably  
21 answered that in two ways.  I did say we weren't looking to  
22 do that at this time, although we would like to have the  
23 capability of doing that.  And, in your example of the broker  
24 offering a five (5) year contract at thirty-five (35) cents,  
25 probably, you know, given today's prices, I think we would

1 consider that to be somewhat reasonable.

2           So, the only reason I think that Centra, at  
3 this time, would want to get in the marketplace, if there  
4 were some gouging, so to speak, going on in the marketplace,  
5 such that we felt customers were -- were paying prices that  
6 were inappropriate, and I don't want to necessarily paint  
7 this as being this as being the -- the watchdog, because  
8 we're not that, but nevertheless, I think the whole reason  
9 for our being as a Crown Corporation is to provide for the  
10 best possible energy package to consumers, at the lowest  
11 possible cost, and we do that, I think, quite well on the  
12 electricity side.

13           As a monopoly, we're in a quasi-monopoly  
14 competitive position on the gas side of the business. So we  
15 struggle a little bit about exactly how -- as to how we fit  
16 in there and, I think it gets down to the fundamental  
17 question as to whether or not competition is -- is good, and  
18 a decision was made some years ago that competition is good  
19 in the gas business.

20           And therefore, it becomes a question as to  
21 where a monopoly provider fits into that, and where we are  
22 today I think, is probably reasonable, given that there are  
23 other service providers out there that provide reasonable  
24 prices to -- to customers for fixed year terms.

25           Having said all that, I'm not sure that we

1 have a robust competitive market in -- in Manitoba. The  
2 brokers have about approximately, as we reviewed earlier,  
3 around thirty-five (35), thirty-six thousand (36,000)  
4 customers out of the two hundred and fifty-five thousand  
5 (255,000).

6 So, has competition succeeded, despite all the  
7 costs that have been incurred setting up, first buy/sell and  
8 then WTS, I would have to say there's probably a big question  
9 mark around that as to whether it's been worthwhile.

10 But, we are where we are and at this point in  
11 time, in direct answer to your question, Centra does not  
12 propose to offer fixed-price contracts.

13 MR. BOB PETERS: All right. Did I take from  
14 that answer that Centra accepts part of its mission and  
15 mandate is to provide safe and reliable service to its  
16 customers at the lowest cost?

17 MR. VINCE WARDEN: Safe and reliable,  
18 absolutely, lowest cost, we strive for, yes.

19 MR. BOB PETERS: And in the hypothetical  
20 example I gave, if you could come in at a lower cost for your  
21 primary gas than a broker, would you not see that as part of  
22 your mission or mandate to do that?

23 MR. VINCE WARDEN: Well, it becomes a  
24 question then, as to how we would do that, how would we  
25 deliver that? And would it be appropriate for, again, a

1 monopoly to be providing that exact identical product as the  
2 broker provides; is that fair -- is that fair competition?

3                   And, I think the determination was made a  
4 number of years ago that it wouldn't be fair, and that's why  
5 we are where we are today.

6                   MR. BOB PETERS:    And you said, though, that  
7 you may take a different view on my hypothetical, if Centra  
8 felt that there may be gouging or excessive prices charged by  
9 the ABM community compared to what perhaps Centra could  
10 provide for a similar product?

11                   MR. VINCE WARDEN:    Yes, I think so, and I  
12 want to emphasize we certainly haven't seen that today.

13                   MR. BOB PETERS:    Do you -- do you have any  
14 definition of what you would consider to be gouging or  
15 excessive costs or charges by the ABM community that -- that  
16 might motivate Centra to -- to take a different position on  
17 offering a product similar to what may be out there already?

18                   MR. VINCE WARDEN:    No.

19                   MR. BOB PETERS:    So I take -- from our --  
20 from discussion both before and after lunch then, Mr. Warden,  
21 that you haven't seen price gouging out there so that if --  
22 if there is a market being provided a choice of -- in my  
23 hypothetical -- a five (5) year contract at a fixed price,  
24 you would respect that and not -- and not want to offer a  
25 product that would be in competition to that?

1                   MR. VINCE WARDEN: I think the important --  
2 the important point that we want to make today is that  
3 customers should be able to make informed choices and as Ms.  
4 Stewart indicated earlier, the survey indicated that there  
5 may be some -- not enough information in the marketplace and  
6 hence the -- the campaign that was launched recently.

7                   MR. BOB PETERS: All right, with that then,  
8 Mr. Chairman, I'll again thank the panel of witness and have  
9 no further questions and I'll turn it back to the Chair.

10                   THE CHAIRPERSON: Thank you, Mr. Peters. Ms.  
11 Melnychuk.

12                   MS. KAREN MELNYCHUK: Actually, since I have  
13 counsel here today, I'll let Mr. Brown --

14                   THE CHAIRPERSON: Very good. Mr. Brown...?

15                   MR. DAVID BROWN: Thank you very much, Mr.  
16 Chair, and may I express my appreciation for the Board  
17 accommodating my schedule. In preparation for the cross-  
18 examination of the Centra panel, I prepared a brief of  
19 documents; I've provided the Board Secretary with copies and  
20 I think members of the panels should have it. I've also  
21 provided My Friends with copies of it.

22                   What I would propose is, unless there's any  
23 objection, that the brief be marked as a municipal gas  
24 exhibit and then during the course of my examination I'll  
25 simply refer to the various tabs in the brief.

1 THE CHAIRPERSON: Ms. Murphy?

2 MS. MARLA MURPHY: We have no objection.

3 THE CHAIRPERSON: Very good. Do we have an  
4 exhibit number?

5 MR. BOB PETERS: It would be Exhibit Number 3  
6 according to my records, Mr. Chairman, and that's because  
7 yesterday I believe we gave one (1) of the specific documents  
8 that may actually be in there an exhibit number but I still  
9 think we can give this whole booklet Exhibit 3 and then Mr.  
10 Brown can refer the Board to the tabs in his Exhibit 3.

11

12

13 --- EXHIBIT NO. DIRECT ENERGY-3: Brief of documents

14

15 THE CHAIRPERSON: Very good. Mr. Brown,  
16 you're under way.

17 MR. DAVID BROWN: Great. Thank you very  
18 much, Mr. Chair.

19

20 CROSS-EXAMINATION BY MR. DAVID BROWN:

21 MR. DAVID BROWN: Panel, I have two (2) areas  
22 of questioning. The first area of questioning will be on the  
23 Nexen contract; the second area of questioning will be on the  
24 balanced rate initiative. I'll deal with the Nexen contract  
25 first, so I think, Mr. Stephens, my questions initially will

1 be directed towards you.

2 If I could ask you in Exhibit 3 to take a look  
3 at Tab 1 and it's a bit of a trip down memory lane but what  
4 I've reproduced at Tab 1 of Exhibit 3 are extracts from the  
5 Board's Order 15/98 which was the generic hearing. If you  
6 could turn with me to page 67 of that decision which is the  
7 section on the Board findings. Do you have that, sir?

8 MR. HOWARD STEPHENS: Bear with me just for a  
9 sec. Is that -- mine doesn't have the tabs associated with  
10 it -- does that start off:

11 "The Board has previously stated..."

12 Just to make sure I'm on the right page:

13 "The Board has previously stated it's view  
14 that the changes required..."

15 That's where the page starts?

16 MR. DAVID BROWN: Correct and -- and this was  
17 part of the Board's decision, talking about what was needed  
18 to bring about a fully competitive market and you'll see in  
19 the middle of that paragraph the Board referred to some other  
20 impediments to a competitive unregulated merchant function.

21 And they said:

22 "Other impediments to a competitive  
23 unregulated merchant function include  
24 Centra's long term storage, transportation,  
25 and supply contracts. The industry must

1 take a leadership role in the process of  
2 addressing these issues. The removal of  
3 these impediments will likely occur in the  
4 long term as the natural gas industry  
5 evolves."

6 So certainly it was on the radar screen back  
7 in 1998 that one of the set of impediments to a fully  
8 competitive market would be certain operational features with  
9 respect to gas supply and transportation. And Centra was  
10 aware of that, correct?

11 MR. HOWARD STEPHENS: That's correct.

12 MR. DAVID BROWN: Then we came to last year  
13 in the 2003 General Rate Application which was heard in the  
14 early part of last summer and the Board's decision came out  
15 in July and you'll recall from that proceeding that Municipal  
16 Gas raised some operational concerns about Centra's gas  
17 supply and transportation arrangements with respect to  
18 facilitating direct purchase. Do you have that recollection?

19 MR. HOWARD STEPHENS: I can't remember the  
20 specifics of it but I certainly remember that there was some  
21 concern expressed, yes.

22 MR. DAVID BROWN: Well if you could turn with  
23 me to Tab 2 of Exhibit 3, there is an extract from the  
24 Board's Order 118/03 and in particular if you go to page 40  
25 of the Board's Decision, Section 8.5 dealt with the gas

1 supply management and portfolio issues.

2 And if you can move over to page 41 in Section  
3 8.53, you'll see the heading 'Intervenor Positions'.

4 MR. HOWARD STEPHENS: I have it.

5 MR. DAVID BROWN: And the Board summarized  
6 Municipal's position there. It said:

7 "With respect to gas supply delivery terms  
8 and conditions, Municipal stated that  
9 currently customers except for the SGC  
10 customers are entitled to transportation  
11 service offering and all customer classes  
12 are eligible for WTS.

13 Municipal stated that the WTS offering  
14 contains several operational limitations.  
15 Centra establishes the maximum daily  
16 quantity, controls daily nominations,  
17 frequency of enrollment of WTS customers  
18 and the reduction of daily nominations of  
19 direct purchase gas."

20 Do you see that?

21 MR. HOWARD STEPHENS: Yes and in doing so  
22 we're treating the direct purchase supplier in exactly the  
23 same fashion as we're treating our system supplier.

24 MR. DAVID BROWN: But my point is that last  
25 summer during the 2003 GRA, Municipal raised some specific

1 operational issues. And then if one goes on in this Section  
2 8.53, Municipal was advocating to the Board that given that  
3 Centra had embarked upon a blank page analysis and given that  
4 Centra's gas supply contract would soon be expiring and some  
5 of its transportation arrangements would be expiring, now was  
6 a good time for Centra to take into account some of those  
7 concerns in deciding what the future arrangements could be.  
8 You recall that thrust of Municipal Gas' position, don't you?

9 MR. HOWARD STEPHENS: I'll take it as a  
10 given, whether I recall it or not is not another matter.

11 MR. DAVID BROWN: Well for the assistance of  
12 the Board over the lunch hour, we went through the  
13 transcripts from the 2003 general rate hearing, and those  
14 concerns were voiced in the cross-examination of you at pages  
15 1530, 1543, and 1547 of the transcript and as well they were  
16 addressed by Municipal Gas in its final argument at pages  
17 2278 to 2279, and 2281 of the transcript.

18 So we can go back there and refresh our  
19 memories if needs be.

20 MR. HOWARD STEPHENS: I -- I've already  
21 agreed to take it as given.

22 MR. DAVID BROWN: Okay. Now the Board -- you  
23 -- you understood at that time that one of the things that  
24 Municipal Gas was asking Centra to look at was to revisit the  
25 frequency with which displacements could take place under

1 Centra's primary gas contract. That -- that is to say to  
2 revisit the frequency with which customers could move from  
3 System Gas Supply to WTS Service, correct?

4 MR. HOWARD STEPHENS: I -- I believe that's  
5 true, yes.

6 MR. DAVID BROWN: And at that point of time  
7 Centra's terms and conditions provided for quarterly  
8 migrations or displacement, correct?

9 MR. HOWARD STEPHENS: Originally they were  
10 quarterly with the thirty (30) day notice requirement, yes.

11 MR. DAVID BROWN: The Nexen contract has  
12 certain displacement that -- sorry, the then existing Nexen  
13 contract had certain contractual displacements contained in  
14 it and they only permitted quarterly migrations from system  
15 gas supply to direct purchase, correct?

16 MR. HOWARD STEPHENS: That's correct.

17 MR. DAVID BROWN: Municipal Gas was asking  
18 Centra to look at migration of -- at greater frequency in  
19 particular to consider monthly migrations, correct?

20 MR. HOWARD STEPHENS: As I recall, yes.

21 MR. DAVID BROWN: And as a result of the 2003  
22 GRA decision the Board made certain findings and those can be  
23 found in Section 8.5.4 at Tab 2 and if you could turn with me  
24 to page 43 of the Board's decision, you'll see in the first  
25 full paragraph:

1 "The Board held -- the Board has considered  
2 the position put forward by Municipal Gas  
3 in respect of terms and conditions related  
4 to WTS, issues of open access to the system  
5 in the future and the matter of the blank  
6 page analysis. The Board urges Centra to  
7 involve all stakeholders in the upcoming  
8 review of all aspects of Centra's gas  
9 supply including commodity, storage and  
10 transportation arrangements. The Board  
11 encourages the development of a competitive  
12 gas supply market in Manitoba and all  
13 parties should consider this factor in  
14 their deliberations."

15 So you'd agree with me that the Board's clear  
16 message there was to urge Centra to consult with stakeholders  
17 in its ongoing review of its general portfolio, but also in  
18 considering the putting in place of new gas supply and  
19 transportation arrangements. Correct?

20 MR. HOWARD STEPHENS: I want to take you to  
21 the next paragraph where you stopped which -- where the Board  
22 also provides an indication -- and this is I guess somewhat  
23 subject to interpretation, but I'll give my spin on it:

24 "The Board also recognizes that Centra must  
25 first and foremost satisfy itself that all

1 Manitoba consumers have access to an  
2 appropriate and efficient overall gas  
3 supply portfolio. As the supplier of last  
4 resort, Centra must have the flexibility in  
5 its various arrangements to ensure a  
6 competitive market while fulfilling its  
7 obligations."

8 And I would submit to you, sir, that the  
9 contract that we've signed with Nexen meets that balance or  
10 that test.

11 MR. DAVID BROWN: Well, I -- I want to deal  
12 with the process, first of all, because you're quite fair in  
13 pointing out what the Board has stated but the Board urged  
14 Centra, did it not, to consult with stakeholders including  
15 brokers, ascertain from stakeholders what their concerns were  
16 and then, of course, Centra would have to take those and  
17 other considerations into account in making a final decision.  
18 That -- that's the process the Board envisaged, wasn't it?

19 MR. HOWARD STEPHENS: As part of that  
20 process, and just prior to us doing the evaluation of our new  
21 primary gas supply contracts, we did arrange for a broker --  
22 a meeting with the brokers -- brokers and marketers to  
23 discuss what we envisioned was the potential outcome of our  
24 contract -- I'm not going to call them negotiations, but the  
25 renewal of the supply contracts were going to be.

1 Direct/Municipal were invited and were in fact in attendance.  
2 We -- and we did identify a number of issues  
3 that we wanted to discuss and -- and from that perspective,  
4 get some feedback. I can provide you a copy with the agenda  
5 but we did talk fairly extensively with respect to the new  
6 supply contracts and I was looking for feedback, I mean, and  
7 I was very blunt about it in terms of if there's something of  
8 concern to you, that I would like to hear about it now.

9 MR. DAVID BROWN: This morning you testified  
10 in response in to some questions by my Friend, Mr. Peters,  
11 that Centra had extended an invitation to all brokers to talk  
12 about the new gas supply arrangements and as a result of  
13 hearing that, Ms. Melnychuk dug into her files and came up  
14 with an agenda of a meeting sponsored by Centra and the  
15 agenda that I have looked at is a meeting dated March 3,  
16 2004. Is that the same agenda you're looking at?

17 MR. HOWARD STEPHENS: That's the one.

18 MS. MARLA MURPHY: I might indicate that I  
19 have copies of that agenda available if you'd like to have it  
20 marked in this proceeding.

21 MR. DAVID BROWN: I would certainly encourage  
22 that to be entered as an exhibit.

23 MR. HOWARD STEPHENS: I think that's a good  
24 idea. Do we have a number, Mr. Peters?

25 MR. BOB PETERS: I don't think Centra and

1 Direct Municipal will fight over the number so I would  
2 suggest we'll just call it Direct Number 4.

3

4 --- EXHIBIT NO. DIRECT ENERGY-4: Agenda of meeting March 3,  
5 2004

6

7 MR. DAVID BROWN: Very good. Thank you, sir.

8

9 CONTINUED BY Mr. DAVID BROWN:

10 MR. DAVID BROWN: Before we get to that  
11 agenda, Mr. Stephens, Centra, in response to PUB/CENTRA  
12 Interrogatory 1(a), produced the Request for Proposal for  
13 Primary Gas Supply Requirements, and perhaps you could turn  
14 to that. It's at PUB/CENTRA-1(a).

15

16 (BRIEF PAUSE)

17

18 MR. HOWARD STEPHENS: What specifically am I  
19 looking for, Mr. Brown?

20

21 MR. DAVID BROWN: The first page, the front  
22 page, would be a good place to start.

22

MR. HOWARD STEPHENS: That's the RFP?

23

MR. DAVID BROWN: That is correct.

24

MR. HOWARD STEPHENS: I have it.

25

MR. DAVID BROWN: The front page bears a date

1 of January 2004, does it not?

2 MR. HOWARD STEPHENS: It does.

3 MR. DAVID BROWN: If you go to the page  
4 numbered 1, which has in the top right-hand corner,  
5 Invitation to Propose 1, do I read it correctly that you sent  
6 RFP out in January and potential suppliers were to respond  
7 with their proposals by January the 30th, 2004?

8 Now, I wasn't here yesterday, but based on  
9 some dialogue between yourself and Mr. Peters this morning, I  
10 understand that Centra approached this RFP on the basis that  
11 you sent it out, you got the responses back in, you weren't  
12 going to have one-to-one negotiations, you'd simply evaluate  
13 the responses that you got in, decide what you thought was  
14 best under the circumstances, and then deal with that  
15 proponent; correct?

16 MR. HOWARD STEPHENS: Yes, I described it as  
17 trying to keep it as pure a process as possible.

18 MR. DAVID BROWN: So, by the time the  
19 responses to proposal -- or the proposals came in on January  
20 the 30th, 2004, the solicitation process was over and all  
21 that was left was the evaluation process; correct?

22 MR. HOWARD STEPHENS: Well, there was some  
23 back and forth with some of the counterparts to provide  
24 clarification and that sort of thing, but for the most part,  
25 you have characterized it correctly.

1 MR. DAVID BROWN: And in the RFP, if you go  
2 to page number 9 of the RFP, I think this will be General  
3 Requirements-9, or sorry, if you go to General Requirements-  
4 8, Sanction 4, Scope of the Work, do you see that?

5 MR. HOWARD STEPHENS: I have it; just let me  
6 read it. This is number 4, Scope of the Work?

7 MR. DAVID BROWN: Correct.

8 MR. HOWARD STEPHENS: Yes, I've read it.

9 MR. DAVID BROWN: And what you did in the  
10 Scope of the Work is to say to the proponents, your proposal  
11 will address the following issues, and then you've labelled  
12 them "A" through to "D"; correct.

13 MR. HOWARD STEPHENS: That's correct.

14 MR. DAVID BROWN: "C" deals with  
15 displacement, does it not?

16 MR. HOWARD STEPHENS: It does, yes.

17 MR. DAVID BROWN: And the scope of work that  
18 you're asking the companies to respond to, envisaged the  
19 status quo, that is to continue with quarterly displacement  
20 or migration to WTS; correct?

21 MR. HOWARD STEPHENS: Yes.

22 MR. DAVID BROWN: And I'm going to suggest to  
23 you that between the final argument in the 2003 GRA, which  
24 was probably in June or July of 2003, through to the  
25 publication of the RFP in January of 2004 by Centra, Centra

1 did not engage in any stakeholder discussions or  
2 consultations with brokers in respect to the terms or scope  
3 of work of the RFP. That's an accurate statement; is it not?

4 MR. HOWARD STEPHENS: No, the first meeting  
5 that we would have had would have been the one that we just  
6 discussed the agenda for.

7 MR. DAVID BROWN: Right, but that's March 3,  
8 2004, is it not, sir?

9 MR. HOWARD STEPHENS: I'm agreeing with you,  
10 Mr. Brown.

11 MR. DAVID BROWN: And so by the time March 3,  
12 2004 rolls around: a) you have determined the scope of work,  
13 and b) you have sent out the RFP, c) the window for bid  
14 responses has closed, and d) you're just in evaluation mode  
15 by that time; aren't you?

16 MR. HOWARD STEPHENS: Yes. And I guess it's  
17 after a consideration of the request for a monthly OD  
18 adjustments that upon reflection amongst the team that we had  
19 involved to evaluate the different proposals, we looked at  
20 the potential for providing monthly OD adjustments, and the  
21 administration associated with that.

22 And we made a change, going back, don't quote  
23 me in terms of the number of years, but when we made the  
24 overall change to the System Supply Contracts, we used to  
25 have a thirty (30) day proviso in terms of providing notice.

1 We reduced that to fifteen (15).

2           We -- I mean we have tried to work with the  
3 broker community in terms of managing this, but to move to a  
4 monthly adjustment would require that the broker get the  
5 information to us in an extremely timely fashion so that I  
6 can turn that information around or Ms. Stewart's group can  
7 turn that information around so that we can calculate new  
8 MDQ's which could be put into place for the next month.

9           And quite frankly, that would be an  
10 administrative burden that I really don't think is  
11 appropriate.

12           MR. DAVID BROWN: Well, certainly as to  
13 whether or not gas suppliers out there were willing to bid on  
14 a monthly migration to WTS term of the contract, we don't  
15 know whether or not they would be willing because Centra did  
16 not include that in the scope of work in its RFP, did it?

17           MR. HOWARD STEPHENS: Well, actually -- well  
18 your statement is correct but we don't know that they would  
19 have been prepared to provide us with the monthly component  
20 simply because the number of them did not even respond to  
21 this component of the scope of work.

22           They weren't prepared to provide the quarterly  
23 adjustments. So to take it to the next step and provide  
24 monthly adjustments is taking a leap of logic.

25           MR. DAVID BROWN: But unless you test the

1 market you don't know what the market is going to say,  
2 correct?

3 MR. HOWARD STEPHENS: That's true.

4 MR. DAVID BROWN: And in this case, you  
5 didn't test the market to see whether or not any suppliers  
6 out there would be willing to offer gas supply on  
7 displacement terms of a frequency of better than quarterly?

8 MR. HOWARD STEPHENS: I think though -- and I  
9 think I should maybe back this up a bit. When we developed  
10 the scope of work, it was general -- these are general things  
11 that we were looking for in terms of the arrangements that we  
12 have in place today.

13 The way we constructed this RFP was not to  
14 specifically delineate what it was that we wanted in terms of  
15 a supply contract. We were looking for creative solutions to  
16 serving a market that requires a great deal of flexibility at  
17 the lowest possible costs.

18 So we provided to that kind of general  
19 direction, we provided also the information with respect to  
20 what our existing contractual terms indicated. But then we  
21 sent it away and asked for creative solutions. And the most  
22 creative solution we got back was from Nexen.

23 MR. DAVID BROWN: But that creative solution  
24 was within the parameter of Section 4(c) of your RFP which  
25 was quarterly displacement, correct?

1 MR. HOWARD STEPHENS: That's correct.

2 MR. DAVID BROWN: Now if you could go back  
3 with me to Tab 2 of Exhibit 3, Section 8.5.3, page 41.

4 MR. HOWARD STEPHENS: Sorry, give me that  
5 again, sir.

6 MR. DAVID BROWN: Of Tab 2 of Exhibit 3, the  
7 little cross-examination brief, then at page 41 of Tab 2,  
8 Section 8.5.3. The Section that I took you to before, that  
9 operational limitations, the -- the first operational  
10 limitation that Municipal Gas raised was that Centra  
11 establishes the maximum daily quantity. That limitation is  
12 related to the terms and conditions of the Nexen contra -- of  
13 your primary gas supply contract, correct?

14 MR. HOWARD STEPHENS: That's correct. We  
15 determined what portion of our primary gas supply contract is  
16 there to serve the group of customers that the broker supply  
17 for.

18 MR. DAVID BROWN: Then the second limitation,  
19 Centra controls daily nominations. That too is related to  
20 the terms and conditions of your primary supply contract,  
21 correct?

22 MR. HOWARD STEPHENS: Yes. And there again  
23 it's to ensure that what we're nominating from our system  
24 supplier is being done on a pro rata basis with the  
25 non-system suppliers in order to provide a level playing

1 field.

2 MR. DAVID BROWN: And then the third one, the  
3 frequency of enrollment we've talked about, but that too is  
4 related to the terms and conditions of your primary supply  
5 contract, correct?

6 MR. HOWARD STEPHENS: That's correct.

7 MR. DAVID BROWN: And then the final one, the  
8 reduction of daily nominations of direct purchase gas, is  
9 that necessarily related to the terms and conditions of your  
10 primary gas supply contract? Or is that something that can  
11 be handled independently of it?

12 MR. HOWARD STEPHENS: No, and in fact this  
13 was a situation where we were bringing the supplies provided  
14 by the broker community into alignment with what we were  
15 doing with our primary system supplier. Until at that point  
16 in time the primary system supplier was taking the swings and  
17 we were leaving the broker nominations whole and not asking  
18 the brokers to change their quantity delivered during the  
19 course of the day as we did the system supplier, simply  
20 because it was administratively very cumbersome.

21 We took an extra step, I mean, and tried to  
22 ensure that we had a level playing field by applying the same  
23 rule to all.

24 MR. DAVID BROWN: Now, the -- the four (4)  
25 elements -- the four (4) operational limitations that I've

1 just taken you to in Section 8.5.3 -- am I correct that you  
2 did not ask any of the proponents in response to the RFP to  
3 come back and give any creative solutions for any of those  
4 four (4) operational limitations.

5 MR. HOWARD STEPHENS: Well, no, I would  
6 suggest that -- at the meeting that we were discussing, I  
7 mean I was encouraging people to provide commentary and at  
8 that point in time if it would have been something that would  
9 have been a major fly in the ointment, I would have certainly  
10 addressed it.

11 MR. DAVID BROWN: I'm not talking about the  
12 meeting that you had with brokers, sir, I'm talking about the  
13 RFP that you sent out to gas suppliers. I'm -- I'm correct  
14 that the scope of work that Centra set out in your RFP in  
15 January of 2004, did not ask any potential gas suppliers to  
16 provide creative solutions to any of those four (4)  
17 operational limitations identified by Municipal Gas.

18 MR. HOWARD STEPHENS: Not specifically, no,  
19 but in a more general sense, yes.

20 MR. DAVID BROWN: In what general sense?  
21 Show me where in the RFP there's any semblance of a general  
22 sense to potential gas suppliers that they should come up  
23 with creative solutions to these four (4) operational  
24 limitations that Municipal Gas has raised.

25 MR. HOWARD STEPHENS: It's not so much with

1 respect to those four (4) specific points but it's the  
2 discussion that I had with you earlier in terms of asking the  
3 suppliers to come up with creative solutions in terms of  
4 serving the marketplace.

5 MR. DAVID BROWN: Now, you've referred  
6 several times to the meeting March 3, 2004 that we see at  
7 Exhibit Number 4, and am I correct that the agenda item  
8 dealing with new gas supply contracts is the fifteen (15)  
9 minute item starting at 1:00?

10 MR. HOWARD STEPHENS: Yes, it's identified as  
11 being a fifteen (15) minute discussion but it should also be  
12 taken in the context that we had a fairly lengthy and ongoing  
13 dialogue that started with respect to the summer nomination  
14 issue that we just discussed.

15 I discussed the portfolio review process that  
16 we were going through and the findings that we had to that  
17 point in time and as well, the new supply contracts.

18 And I mean, to be particularly blunt, at that  
19 time I was concerned that the new supply contracts given the  
20 flexibility required to deal with displacements due to direct  
21 purchase may have a premium associated with them.

22 The early indications that I had received from  
23 suppliers -- word was going to be that it is effectively a  
24 call and a put option and that there was going to be a  
25 considerable cost associated with that and I wanted to engage

1 the brokers in the discussion in terms of just exactly who's  
2 going to pay for this potentially significant premium over  
3 index for this flexibility.

4 As it turned out, there was no premium  
5 associated with it so it didn't become an -- an issue. I  
6 mean, the initial indications I got proved to be false.

7 MR. DAVID BROWN: Now, as I understand the  
8 process in this proceeding there were some information  
9 requests that -- a first round of information requests --  
10 that were sent out in the late spring or early summer.  
11 Correct?

12 MR. HOWARD STEPHENS: Are you talking about  
13 this process?

14 MR. DAVID BROWN: Yeah, this -- this -- this  
15 process.

16 MR. HOWARD STEPHENS: Yes.

17 MR. DAVID BROWN: And a number of those -- or  
18 several of those information requests, as I read them, ask  
19 Centra to reveal what was going on in the gas supply contract  
20 negotiations and as I read -- read Centra's answers to that  
21 first round, Centra said, Can't say anything, in confidential  
22 discussions. Too early to disclose details. That was  
23 Centra's response. Correct?

24 MR. HOWARD STEPHENS: That's right.

25 MR. DAVID BROWN: And, indeed, it was only a

1 few weeks ago that Centra updated its evidence with the -- by  
2 disclosing the Nexen contract but you didn't disclose the  
3 details of those negotiations until you signed on the dotted  
4 line. Correct?

5 MR. HOWARD STEPHENS: Bear with me for just a  
6 second. Run the question by me again, sir.

7 MR. DAVID BROWN: You didn't disclose the  
8 details of the contract discussions you were having with  
9 Nexen until you had a deal signed with them on the dotted  
10 line, correct?

11 MR. HOWARD STEPHENS: Yes. Until we had  
12 closed off discussions with all the counterparts that we had  
13 discussions with and until such time as we came to terms with  
14 Nexen, yes.

15 MR. DAVID BROWN: And I'm going to suggest to  
16 you, sir, that the -- the approach that you took -- that  
17 Centra took in response to the IR's in this process was  
18 essentially the same approach that Centra took on that March  
19 3rd, 2004 meeting, which was to the affect you told the  
20 brokers that you were in negotiations but you couldn't get  
21 into the details because that was all confidential and in due  
22 course they would know the terms of the new contract; that  
23 was the sum and substance of the discussion on March the 3rd  
24 wasn't it?

25 MR. HOWARD STEPHENS: Well, Mr. Brown, I'm

1 sorry but my memory is not that clear in terms of what  
2 specifically was said and what was not said. We deliberately  
3 set up the meeting to get feedback from the broker community  
4 with respect to the issues on the agenda.

5           And by no means would I have tried to curb  
6 discussion et cetera, I would take feedback and that sort of  
7 thing but certainly we tried in every circumstance to try and  
8 accommodate the broker community and provide a level playing  
9 field within the Manitoba marketplace. So that from that  
10 perspective I will not agree with what -- how you  
11 characterize this.

12           And I guess the other point that I would like  
13 to make is that Direct Energy was on the list of counterparts  
14 that we invited to provide a quotation with respect to  
15 providing all of Centra's requirements. If they had a -- an  
16 overwhelming desire to -- for monthly OD adjustments, they  
17 were perfectly within their right.

18           I mean, they had the opportunity to provide us  
19 with a quotation that would have included that. And that  
20 certainly would have weighed very heavily in the rating of --  
21 when we went through the matrix in terms of the flexibility  
22 component that we -- that I talked about yesterday.

23           MR. DAVID BROWN:   How many entities did you  
24 send this RFP out to?

25           MR. HOWARD STEPHENS:   Twenty (20).

1 MR. DAVID BROWN: Nine (9) responded?

2 MR. HOWARD STEPHENS: That's right.

3 MR. DAVID BROWN: I take it from what you're  
4 saying, Direct Energy didn't respond?

5 MR. HOWARD STEPHENS: That's correct.

6 MR. DAVID BROWN: Can I take you to --

7 MR. HOWARD STEPHENS: And I want to point  
8 out, I made that point quite clearly last year at this -- the  
9 same proceeding that they had an opportunity to -- to capture  
10 the entire market so I was quite surprised when Direct didn't  
11 respond this go-round.

12 MR. DAVID BROWN: So from your perspective  
13 then if the broker also happens to be a supplier or happens  
14 to be a supplier of large volume gas, then it's incumbent  
15 upon the broker to bid to you for gas, it's not incumbent  
16 upon the Utility to try to seek to improve the distribution  
17 terms for direct purchase within its franchise area. Is that  
18 the policy of Centra?

19 MR. HOWARD STEPHENS: No, what I as a  
20 customer expect is that the suppliers will provide me with  
21 the most attractive service offering that they can at the  
22 most -- I mean, based upon the criterion that we lay out. So  
23 from that perspective, I would expect that as a -- as a  
24 willing customer, service providers are going to put their  
25 best position forward.

1                   And if they have specific things that they see  
2 that will be beneficial to the consumer or the marketplace,  
3 they're going identify those.

4                   MR. DAVID BROWN:    But in the scope of work  
5 what you were asking for was quarterly?

6                   MR. HOWARD STEPHENS:   But that doesn't stop  
7 them from providing me with something more frequent.

8                   MR. DAVID BROWN:    Let's go to the contract  
9 that you actually entered into which is the Nexen contract.  
10 If you could go with me in your pre-filed evidence to Tab 3,  
11 Attachment 6(a).

12  
13   (BRIEF PAUSE)

14  
15                   MR. HOWARD STEPHENS:    I have it, sir.

16                   MR. DAVID BROWN:    Am I correct that it's  
17 Section 1 of the contract, the volume section in particular -  
18 - the base volume section -- that really contains the  
19 migration to WTS provision?

20                   MR. HOWARD STEPHENS:    To this point that's  
21 been our practice, yes.

22                   MR. DAVID BROWN:    And when we look at Section  
23 1, you have to notify the supplier -- what is it -- thirty-  
24 two (32) days prior to the first day of a new quarter what  
25 your estimated base volume is going to be and then finalize

1 that fifteen (15) days before the beginning of the quarter.  
2 Correct?

3 MR. HOWARD STEPHENS: Yes, and the -- the  
4 notification on the fifteen (15) days is only attributable to  
5 changes that are associated with direct purchase.

6 MR. DAVID BROWN: And it's through that  
7 mechanism that if, over the course of a quarter, you have  
8 received from a broker, applications to migrate system  
9 customers to WTS, that you then factor that into the  
10 information you provide to the gas supplier about either  
11 estimated base volumes or final base volumes for the next  
12 quarter. Correct?

13 MR. HOWARD STEPHENS: That's correct.

14 MR. DAVID BROWN: Then the supplier, by the  
15 terms of the contract, must reduce the final base volume and  
16 Centra is then only obligated to take 100 percent of that  
17 final base volume. Correct?

18 MR. HOWARD STEPHENS: Reduce or increase, but  
19 yes, agreed.

20 MR. DAVID BROWN: Now if, with this Nexen  
21 contract in place over the next three (3) years, Centra was  
22 to move to a monthly migration process am I correct that  
23 under the Nexen contract, physically Centra could move to a  
24 monthly displacement process?

25 MR. HOWARD STEPHENS: I guess I'll have to

1 ask you to define, "physically", for me.

2 MR. DAVID BROWN: That if during a quarter, a  
3 broker asked you to accept the migration of a certain number  
4 of system customers to direct purchase customers, effective  
5 on the first month -- of the first day of each month in that  
6 quarter, as a matter of physical gas supply, Centra could  
7 accommodate that request, could it not?

8 MR. HOWARD STEPHENS: Anything can be done,  
9 Mr. Brown. It's a matter of the administrative burden  
10 associated with it.

11 MR. DAVID BROWN: Well not only the  
12 administrative burden but also the financial consequences of  
13 it; correct?

14 MR. HOWARD STEPHENS: Certainly.

15 MR. DAVID BROWN: So, if you were to move to  
16 a monthly migration system while this Nexen contract is in  
17 place, physically you could accommodate it, but it might well  
18 be that each month when a migration occurs, you may be left  
19 with an obligation to take more gas than you have system  
20 custom -- customer demand for. Correct?

21 MR. HOWARD STEPHENS: I would say then that I  
22 don't have the contractual -- I mean -- ability to  
23 accommodate that. Your definition of the physical  
24 wherewithal -- I mean, I understand now -- better -- your  
25 question. Yes, physically we could change the nominations

1 but if I'm going to bear some cost associated with that as a  
2 result of its contravening the supply contract that I have,  
3 then I'd suggest to you that the answer is no.

4 MR. DAVID BROWN: Well, it wouldn't  
5 necessarily contravene the supply contract, would it?  
6 Because if you turn with me to the next page of the contract,  
7 you'll see at the top there's base volume obligation?

8 MR. HOWARD STEPHENS: Yes, sir.

9 MR. DAVID BROWN: And Centra has a firm  
10 obligation to take 100 percent of the base volume; correct?

11 MR. HOWARD STEPHENS: That's correct.

12 MR. DAVID BROWN: So, if some of that volume  
13 had migrated to direct purchase over the course of a month,  
14 you'd have to buy that gas and you'd have to pay Nexen for  
15 that gas but you might be left with certain volumes of gas  
16 for which you no longer have system customers; correct?

17 MR. HOWARD STEPHENS: What -- what it means  
18 is that I'm generally over-contracted.

19 MR. DAVID BROWN: And depending on where the  
20 market price is, you may be left with gas which you could  
21 only then get rid of at less than the contract price or you  
22 may be left with gas that you can get rid of at a price  
23 that's more favourable than the contract price; correct?

24 MR. HOWARD STEPHENS: Likely an equal  
25 probability of both occurring, yes. Generally, we cannot re-

1 sell into the secondary market. If we had day-to-day  
2 imbalances Nexen will work with us in terms of trying to re-  
3 market that gas.

4 MR. DAVID BROWN: Well, perhaps could --  
5 could -- just for informational purposes -- could you or your  
6 Counsel identify the term of the contract which prohibits you  
7 from re-selling gas during the quarter?

8 MS. MARLA MURPHY: If you flip the page over,  
9 Mr. Brown, it's -- it's number 2.

10 MR. DAVID BROWN: Sorry.

11 MR. HOWARD STEPHENS: The contract provides  
12 for us to buy gas for the market only and not to sell into  
13 the secondary market unless it's a circumstance where we're  
14 very long on gas on a particular day. Nexen will work their  
15 -- work their -- or make their best efforts to assist us in  
16 unloading extra gas.

17 MR. DAVID BROWN: So then in -- in light of  
18 that contractual provision although as you said, physically  
19 anything is possible in terms of gas operations as a  
20 practical contractual matter, for the next three (3) years  
21 under the Nexen contract the only kind of displacement  
22 mechanism that would be contractually permissible is the  
23 quarterly one.

24 MR. HOWARD STEPHENS: That's correct.

25 MR. DAVID BROWN: Could I then turn to --

1                   MR. HOWARD STEPHENS:    The other alternative  
2 that I would have is to reduce the amount of OD -- or base  
3 load supply I should say and take more swing supply but now I  
4 attract more volatility in terms of the pricing of the supply  
5 as what besides it's on a daily index relative to a monthly  
6 index.

7                   And yeah, the premium associated with it, I  
8 mean, we've -- we've got a premium on the swing supply  
9 relative to the base load supply.

10                  MR. DAVID BROWN:    So from the broker's  
11 perspective then, the next opportunity they have to encourage  
12 Centra to try and include a more frequent displacement  
13 mechanism in its gas supply contract will only arise when  
14 this Nexen contract is coming to an end?

15                  MS. LORI STEWART:    Mr. Brown, in terms of  
16 administration of direct purchase services, it feels as  
17 though we're walking around the issue and we haven't yet put  
18 our finger on -- on the real issue; and that is the costs  
19 related to the administrative burden that Mr. Stephens has  
20 referenced, and whether or not it would be appropriate in  
21 terms of the Utility's obligation to all of its customers for  
22 it to incur additional administrative costs related to the  
23 delivery of direct purchase services, the benefit for which  
24 flows to a very small number of -- of customers.

25                  So at some point the Utility needs to make a



1 base fee?

2 MR. HOWARD STEPHENS: No.

3 MR. DAVID BROWN: So a possible way of  
4 proceeding is to move from a nominal fee to a cost base fee  
5 for direct purchase processing, correct?

6 MR. HOWARD STEPHENS: Well, I wouldn't  
7 characterize it as such. I mean, I think the ABC fee has  
8 likely been established in the most appropriate fashion. But  
9 the road you want to go down, from my perspective, would be  
10 there is no fee associated with WTS contracts and perhaps we  
11 should be applying fees associated with that. That  
12 disappeared when the buy/sell arrangement disappeared.

13 Maybe we should be reinstating that. And it  
14 would be significantly more than twenty-five (25) cents.

15 MR. DAVID BROWN: Well have you conducted any  
16 analysis of the, what do you call them, marginal costs -- are  
17 they -- not the marginal, the allocated cost for the WTS  
18 administration?

19 MS. LORI STEWART: We do have some  
20 information related to costs. I mean in -- within my  
21 department we employ five (5) full time staff related to the  
22 administration of direct purchase services. So very quickly,  
23 I -- I mean I can give you a ballpark in terms of what --  
24 what that equates to and the number is, you know, not small.

25 MR. DAVID BROWN: And those costs would

1 attract -- there would incremental costs if one was to move  
2 from quarterly displacement to monthly displacement.  
3 Correct?

4 MS. LORI STEWART: Certainly. We would have  
5 to staff up.

6 MR. HOWARD STEPHENS: Well, it would be a  
7 never ending process. We would no sooner make the adjustment  
8 to the MVQ and -- and we would get another batch and we would  
9 have to start to process that in order to get it in time --  
10 get it to the supplier in time -- to reduce or increase the  
11 MVQ accordingly and that's going to require resources.

12 MR. DAVID BROWN: And as I understand your  
13 evidence, internally within Centra, you've taken the view  
14 that that's not something worth pursuing?

15 MR. HOWARD STEPHENS: That's --

16 MR. DAVID BROWN: That's something that you,  
17 as a Utility, have taken a view of.

18 MR. HOWARD STEPHENS: Certainly. I mean, the  
19 only concern that I've heard and -- and quite frankly, I  
20 mean, I was taken aback a bit on the first day of the hearing  
21 when Ms. Melnychuk made her opening comments that this was an  
22 issue because I have not heard this issue from other brokers,  
23 so from that perspective, I did -- this was not a significant  
24 issue from my perspective.

25 MR. DAVID BROWN: Could I turn then, to the

1 newspaper ads, and I'm not sure who the appropriate person is  
2 to question on the newspaper ads. Perhaps, Mr. Warden, since  
3 some questions were directed towards to you this morning by  
4 my friend, Mr. Peters, I could start off with you.

5           You mentioned several times during the course  
6 of your evidence that as a result of the generic Board order  
7 back in 1998, Centra is only permitted to provide one (1)  
8 regulated gas supply service -- primary gas supply service --  
9 to its customers. Correct?

10           MR. VINCE WARDEN: Correct.

11           MR. DAVID BROWN: In effect, in the current  
12 market, Centra acts as a default supplier, does it not?

13           MS. LORI STEWART: I -- I believe we're  
14 talking about the same thing but in the terms and conditions  
15 of service it may have a slightly different label to it but,  
16 yes, we --we're the supplier responsible for backstopping.

17           MR. DAVID BROWN: Right -- I mean -- by  
18 default supply, I mean, to the extent that a consumer does  
19 not want to purchase its gas from a broker, you are there as  
20 the default supplier. The consumer will purchase its gas  
21 from you.

22           MR. VINCE WARDEN: Based on that definition,  
23 we'll agree with you, yes.

24           MR. DAVID BROWN: And that is the regulated  
25 role that the Public Utilities Board, through past decisions,

1 has thought appropriate for Centra to play. Correct?

2 MR. VINCE WARDEN: Yes.

3 MR. DAVID BROWN: And, as a result of being  
4 the default supplier, am I correct that it's Centra's  
5 perspective that when it comes to public relations or public  
6 communications about primary gas, Centra's role really should  
7 be that of an educator?

8 MR. VINCE WARDEN: I wouldn't call us an  
9 educator necessarily, but providing information to customers,  
10 yes.

11 MR. DAVID BROWN: Well, I -- I noted your  
12 response, Mr. Warden, to one (1) of the questions that my  
13 friend, Mr. Peters, put to you. You said, "It was important  
14 for customers to make informed choice. Our job as a Utility  
15 is to make sure that the information is out there," and I  
16 sort of read that and I'm asking you to agree with me that  
17 Centra's perspective is that it's really out there as an  
18 independent even-handed educator.

19 MR. VINCE WARDEN: And I just said I was  
20 totally -- not totally comfortable with the term, 'educator',  
21 but I'll stay by the -- the previous description that I  
22 provided as providing information to the marketplace.

23 MR. DAVID BROWN: In terms of how your role  
24 as default supplier influences the sorts of public relations  
25 campaigns that you -- that you embark upon, is it fair to say

1 that Centra views the focus of its public relations campaigns  
2 as one of customer education rather than trying to persuade  
3 consumers to choose one (1) option over the other?

4 MR. VINCE WARDEN: Customer information, yes.

5 MR. DAVID BROWN: And indeed, you'll recall  
6 and I'm -- Mr. Warden, I'm not sure whether you will recall  
7 but I think some people at the other end of the table will  
8 recall that during the WTS hearing there was a lot of  
9 discussion about consumer or customer education within that  
10 proceeding and the Board, in its decision, put great emphasis  
11 on the need for generic customer education, did it not?

12 MR. DARREN RAINKIE: Perhaps I could take  
13 that one, Mr. Brown. I think I was in the back row; probably  
14 one (1) of the only panel members that was in the back row at  
15 the time.

16 Yes, there was a guide that was developed for  
17 the introduction of the WTS service. I don't think that that  
18 meant that anybody else was stopped from doing other  
19 education programs after that but there was something  
20 developed specifically for the introduction of WTS.

21 MR. DAVID BROWN: Correct, and that was a  
22 generic package and I understood Mr. Warden's answer, Centra  
23 still seems to regard its role as providing information to  
24 the customers to inform them about their choices, correct?

25 MR. DARREN RAINKIE: That's correct. I just

1 wanted to point out that guide was for the introduction of --  
2 of the service.

3 MR. DAVID BROWN: Now am I correct that  
4 Centra makes no money, it makes no profit on the primary gas  
5 that it sells?

6 MR. VINCE WARDEN: Correct.

7 MR. DAVID BROWN: Under the current rate base  
8 system, Centra makes its money or generates a -- a return on  
9 the delivery services that it provides to consumers, correct?

10 MR. VINCE WARDEN: That's correct.

11 MR. DAVID BROWN: So from a financial point  
12 of view under the current regulatory regime, I'm correct in  
13 saying that Centra is really financially indifferent as to  
14 whether a customer purchases its primary gas from Centra or  
15 whether the customer purchases its primary gas from a broker,  
16 correct?

17 MR. VINCE WARDEN: Financially indifferent?  
18 Yes, I agree with that.

19 MR. DAVID BROWN: The one area where you do  
20 have some interest is ensuring that customers make informed  
21 choices as I've heard your evidence this morning?

22 MR. VINCE WARDEN: Yes.

23 MR. DAVID BROWN: But faced with the  
24 information Centra's then financially indifferent as to which  
25 choice the consumer makes, correct?

1                   MR. VINCE WARDEN:   Financially indifferent,  
2   yes.

3                   MR. DAVID BROWN:   Centra is just looking for  
4   consumers to make an informed choice but they aren't  
5   concerned about the actual choice that the consumer makes,  
6   correct?

7                   MR. VINCE WARDEN:   Yes, I think we're sort of  
8   repeating ourselves, Mr. Brown, but yes we'll agree with  
9   that.

10                  MR. DAVID BROWN:   Now just a bit of history.  
11   If I could ask you to turn to Tab 5 of Exhibit 3, there's a  
12   letter there from Municipal Gas Direct Energy to the  
13   President of Manitoba Hydro going back to November of 2001.

14                  And you'll recall, Panel Members, will you  
15   not, that there was a piece of literature initially a website  
16   pop-up but then it turned out to be a bill stuffer that  
17   Centra put out entitled 'Should I Buy My Primary Gas From  
18   Centra Gas or a Natural Gas Marketer' and when that material  
19   went out, Municipal Gas filed a complaint with the Board that  
20   Centra's description of certain things were -- were no  
21   appropriate and accurate. Do you recall that?

22                  MS. MARLA MURPHY:   Excuse me. Mr. Chairman,  
23   we've gone a certain ways down the road here and it's clear  
24   Mr. Brown's line of questioning leads to the letter that was  
25   marked yesterday which Municipal had filed with the Board for

1 information. They have raised an issue with the current  
2 campaign.

3                   They've raised that with the President of  
4 Manitoba Hydro and have been -- requested and received a  
5 meeting with -- with the President and I don't think it's  
6 appropriate that we go through this process before that  
7 meeting happens. We should allow that -- that process to  
8 carry itself out before we canvas those issues in this forum.

9                   THE CHAIRPERSON: Can you give us sort of a  
10 concise statement of where you intend to take this?

11                   MR. DAVID BROWN: Well -- well this is just  
12 background to some further questions similar to questions My  
13 Friend, Mr. Peters asked this morning about the current ad  
14 campaign. So it's really just in the nature of background to  
15 the current campaign and I will then ask some questions on  
16 the current ads.

17                   THE CHAIRPERSON: Okay.

18

19 CONTINUED BY MR. DAVID BROWN:

20                   MR. DAVID BROWN: I mean, I'll be brief about  
21 it, Panel. The -- a complaint was made by Municipal Gas,  
22 there were then some meetings between Municipal Gas and  
23 Manitoba Hydro. And if you could flip with me to Tab 6, of  
24 Exhibit 3 there's a letter from the President of Manitoba  
25 Hydro and in the third paragraph he writes:

1 "We continue to believe there's a strong  
2 need to assist consumers to fully  
3 understand their choices and we will  
4 actively pursue this need in the future.  
5 You also indicated an intention to conduct  
6 a strong consumer education program. In  
7 this vein I confirm that we are prepared to  
8 collaborate on these education activities  
9 and agree with your suggestion to time an  
10 education piece to match your next  
11 promotional campaign."

12 So you would agree with me that the -- the  
13 tone here is similar to what you have discussed today that  
14 the role of Centra is to engage in consumer education and a  
15 provision of information?

16 MR. VINCE WARDEN: Yes.

17 MR. DAVID BROWN: And you'll see from the  
18 second paragraph in that letter that Mr. Brennan agreed that  
19 the particular publication in question would not be inserted  
20 in any further bills from that point forward. The  
21 publication was pulled, was it not?

22 MR. VINCE WARDEN: It was.

23 MR. DAVID BROWN: Which then leads me to the  
24 advertisements that have come out recently and there are two  
25 (2) that I'd like to ask you some questions about. The first

1 My Friend, Mr. Peter -- Peters has included at Tab 18 of his  
2 book of documents, and perhaps you could turn with me to  
3 that.

4 MR. VINCE WARDEN: Yes, we have it here, Mr.  
5 Brown.

6 MR. DAVID BROWN: And am I correct that this  
7 advertisement appeared both on August 28th and September 4th  
8 of this year?

9 MR. VINCE WARDEN: Yes.

10 MR. DAVID BROWN: I understand it's scheduled  
11 to appear one (1) more time?

12 MR. VINCE WARDEN: I think a total of four  
13 (4) times is the plan.

14 MR. DAVID BROWN: So over the course of the  
15 next two (2) weekends, we'll continue to see the Goldilocks  
16 and the Two (2) Bears, is that the plan?

17 MR. VINCE WARDEN: I'm not sure of the  
18 specific dates, but the plan is for four (4) inserts. We've  
19 seen it twice, we've two (2) more to come.

20 MR. DAVID BROWN: In which newspapers did  
21 this advertisement appear, apart from obviously the Winnipeg  
22 Free Press?

23 MR. VINCE WARDEN: It also appeared in the  
24 Winnipeg -- my understanding is the Winnipeg Sun and certain  
25 weekly newspapers as well.

1                   MR. DAVID BROWN:    And looking at Goldilocks  
2 and the Two (2) Bears, do I interpret the ad correctly, that  
3 the Bear over on the left, with all the dollar signs about  
4 it, represents a consumer who has entered into a fixed price,  
5 long term contract with a broker?

6                   MS. MARLA MURPHY:    Mr. Chairman, we're back  
7 to the same point that I raised before.  I -- I presume this  
8 is the reason that Mr. Brown has requested a meeting with Mr.  
9 Brennan, and again, we're -- we're not interested in  
10 canvassing this both in this forum, and in that forum as  
11 well.

12                  THE CHAIRPERSON:  I must say one (1) thing, I  
13 don't think the Board's too interested in pursuing to try to  
14 read in the motivation of the different characters shown in  
15 the ad.  But you indicate that you're -- you're reaching a  
16 point raising some questions about the substance of the  
17 advertisement?

18                  MR. DAVID BROWN:    Well, yes, and I -- I would  
19 respectfully submit, Mr. Chair, that the substance of the  
20 advertisement is based not only upon the sort of black and  
21 white words that one sees on it, but also the -- the  
22 impression or the -- the message that the graphics, or the  
23 pictures on the advertisement are trying to convey.

24                               And in terms of the -- the relevance of this  
25 -- this line of questioning, I have several responses.  One

1 (1), My Friend, Mr. Peters, has asked several questions  
2 already on the ads, without eliciting any objection.

3 Secondly --

4 THE CHAIRPERSON: We don't have any problem  
5 with you asking questions about the ad, I was just simply  
6 getting -- I wasn't too much into getting into trying to  
7 determine the motivation for the -- the portrayal of the  
8 various cartoon characters, that's all. I didn't know how  
9 long you intend to pursue that particular element of it.

10 MR. DAVID BROWN: Well, my -- the question  
11 that I would have of the Panel would be a suggestion to them  
12 that the message that has been conveyed by this ad is that a  
13 consumer has three (3) options, one (1) to enter into a long  
14 term fixed price contract with a broker, and then worry about  
15 dollar signs.

16 Secondly, to simply play with the market and  
17 then worry about the peaks and the valleys on the right, that  
18 we see on the graph. Or third, to sleep comfortably, by  
19 going with Centra and zen their way into peace of mind.

20 And I simply would like to ascertain from the  
21 Panel, whether that is their understanding of the message  
22 that Centra was trying to convey to consumers, by using  
23 ratepayer money?

24 MS. LORI STEWART: Mr. Brown, none of the  
25 folks on this Panel represent the creative minds of the

1 Utility and those with whom it contracts to create creative  
2 -- creative advertisements like this.

3                   So, this Panel doesn't have those strengths,  
4 and that's certainly not how I interpreted the ad. I think  
5 that your interpretation of it is rather defensive.

6

7 CONTINUED BY MR. DAVID BROWN:

8                   MR. DAVID BROWN: Well, Ms. Stewart, in your  
9 responses to Mr. Peters questions, this morning, as I  
10 understood them, you stated that the advertising program  
11 resulted from the results of the focus group survey, that  
12 Centra was surprised that only 19 percent of the respondents  
13 understood what Manitoba Hydro was doing, to mitigate price  
14 volatility.

15                   And I would suggest to you from those  
16 answers, the purpose of the campaign based on your evidence,  
17 was to inform consumers of what Manitoba Hydro was doing with  
18 respect to price volatility. That was the sum and substance  
19 of your evidence, was it not, this morning?

20                   MS. LORI STEWART: Not quite, Mr. Brown. I  
21 indicated to Mr. Peters that there were three (3) intentions  
22 related to the advertising or awareness campaign coming out  
23 of our market research. Number one (1) was to re-emphasize  
24 that consumers have choice related to primary gas, and their  
25 options.

1                   The second intention was to ensure that  
2 consumers understood the consequences of those choices. And  
3 the third intention was to clearly outline what Manitoba  
4 Hydro's -- undertakes, in terms of mitigation of price  
5 volatility.

6                   MR. DAVID BROWN: Do I interpret your answer  
7 then as being that when one looks at the three (3) -- the two  
8 (2) bears and the -- the young girl on the bed, none of those  
9 are supposed to represent what Centra is offering to the  
10 consumers.

11                   That it's simply a pleasant recollection of  
12 stories that we all heard as kids?

13                   MS. LORI STEWART: I'm not the creative  
14 source of the advertisement, Mr. Brown. And like I said,  
15 personally, that's not how I interpreted the ad at all, but I  
16 can't speak to how you're interpreting it.

17                   MR. DAVID BROWN: Could I take you please to  
18 Tab 4 in Exhibit 3?

19

20

(BRIEF PAUSE)

21

22                   MR. DAVID BROWN: And Ms. Stewart, these may  
23 be appropriate questions for you, but if there -- there are  
24 others on the Panel who wish to respond, that -- that's fine  
25 too.

1                   What you see at the first page of Exhibit 3 is  
2 the home page of Manitoba Hydro. And if you look up in the  
3 menu section on the left, there's the heading, "Customer  
4 Service and Rates", do you see that?

5                   MS. LORI STEWART: Yes, I do.

6                   MR. DAVID BROWN: And if one was to click on  
7 that, if you move to page 2, you'll see a menu comes down  
8 under "Customer Service and Rates", and the second item is  
9 "Purchasing Natural Gas", do you see that?

10                  MS. LORI STEWART: I do.

11                  MR. DAVID BROWN: And if you click on  
12 "Purchasing Natural Gas", go to the next page, page 3, you'll  
13 see what comes up, and it's a page that provides a natural  
14 gas overview, correct?

15                  MS. LORI STEWART: That's correct.

16                  MR. DAVID BROWN: But it then provides a link  
17 to something called the "Balanced Rate Initiative." You see  
18 that is the -- the third bullet point?

19                  MS. LORI STEWART: Yes, I do.

20                  MR. DAVID BROWN: And if you click on the  
21 "Balanced Rate Initiative", and turn to the next page, this  
22 is the information that comes up. And I -- I take it that  
23 Centra regards the information presented on this page, as  
24 information that is useful to consumers to understanding  
25 their options for purchasing primary gas, correct?

1 MS. LORI STEWART: Yes, that's correct.

2 MR. DAVID BROWN: Now, it's headed "Balanced  
3 Rate Initiative", and My Friend, Mr. Peters, asked you a few  
4 questions upon this. But I'm going to suggest to you, the  
5 word "initiative" is a bit of a misnomer, because all that is  
6 described here is the quarterly rate setting mechanism that  
7 this Board approved several years ago, and under which  
8 Manitoba -- or Centra Gas has been operating for several  
9 years.

10 That's -- that's all that's been described,  
11 correct?

12 MS. LORI STEWART: Well, no, I also see a  
13 description of our Derivatives Hedging Program on this page.

14 MR. DAVID BROWN: Right, and that Derivatives  
15 Hedging Program has been reviewed time and time, and some  
16 might say ad nauseam in various gas hearings before this  
17 Board, but that Derivative Program's been around for a number  
18 of years, has it not?

19 MS. LORI STEWART: What this page does is it  
20 outlines the various tools that Manitoba Hydro employs to  
21 mitigate price volatility, Mr. Brown --

22 MR. DAVID BROWN: Well --

23 MS. LORI STEWART: -- and that includes  
24 underground storage, that includes our Hedging Program, it  
25 includes the quarterly rate setting methodology. It also

1 includes the use of the PGVA and various deferral accounts.  
2 MR. DAVID BROWN: I heard one (1) of the  
3 witnesses this morning, when asked by Mr. Peters, when the  
4 name, Balanced Rate Initiative was first adopted by Centra.  
5 Somebody answered perhaps somewhat glibly, well, just a few  
6 days ago.

7 And my question to you is, where's the  
8 initiative in this, this is stuff that Centra's been doing  
9 for years, where's the initiative, what's new?

10 MS. LORI STEWART: What's new is bundling  
11 those tools and applying a name to them.

12 MR. DAVID BROWN: Now, when one goes to the  
13 Balanced Rate Initiative page, there's also a graph that --  
14 or chart that pops up, and that's the one (1) we see at the  
15 next page at Tab 4. And I take it, Ms. Stewart, that the  
16 intention here is to compare actual market prices against the  
17 Board approved quarterly primary gas prices that Centra  
18 charges its consumers?

19 MS. LORI STEWART: Yes, that's correct.

20 MR. DAVID BROWN: There's a dotted line at  
21 the right end of the graph, and do I read that correctly as  
22 plotting the twelve (12) month forward strip price, based on  
23 the most recent forward strip that Centra has projected?

24 MS. LORI STEWART: Yes, that's correct.

25 MR. DAVID BROWN: So, I take it from Centra

1 using that, that Centra considers it to be useful information  
2 for consumers to have, to know what the most current forward  
3 strip is indicating, regarding the direction of primary gas  
4 prices?

5 MS. LORI STEWART: That's correct.

6 MR. DAVID BROWN: Now if you could go back to  
7 that page where it said "Balanced Rate Initiative" and go  
8 right down to the bottom you'll there's a dot there that  
9 says, "Download our natural gas information handbook."

10 MS. LORI STEWART: I see that reference.

11 MR. DAVID BROWN: And if you can move over  
12 two (2) pages, there begins a series of pages that pop up  
13 when you go to that handbook and it starts, "It's Your  
14 Natural Gas, It's Your Choice." You see that?

15 MS. LORI STEWART: I do.

16 MR. DAVID BROWN: And if we go through to the  
17 fourth page in the handbook there's a page entitled, "How  
18 Much Protection Do You Need?" You see that one?

19 MS. LORI STEWART: I do.

20 MR. DAVID BROWN: And am I correct that the  
21 information that Centra is attempting to convey in this page  
22 is information regarding fixed price WTS services offered by  
23 brokers. If I -- if I'm incorrect and I misunderstood that,  
24 perhaps you could tell me what it -- what it is that Centra  
25 is trying to convey information about on this page?

1 MS. LORI STEWART: This information is  
2 attempting to convey the risk/reward trade-off or those  
3 consequences that I referenced earlier in terms of the  
4 choices that consumers can avail themselves of.

5 MR. DAVID BROWN: If one looks at the -- the  
6 text on this page it starts:

7 "Some companies sell primary gas at a set  
8 price that can be locked in for three (3)  
9 to five (5) years."

10 That's a reference to brokers, is it not?

11 MS. LORI STEWART: It -- it is.

12 MR. DAVID BROWN: You'd agree with me that  
13 there's nothing on this page that provides information as to  
14 the steps that Manitoba Hydro is undertaking with respect to  
15 mitigating price volatility?

16 MS. LORI STEWART: No. That comes on a  
17 following page.

18 MR. DAVID BROWN: So is this page somehow out  
19 of place? I thought the purpose of the advertising campaign  
20 was to inform consumers about the steps that Manitoba Hydro  
21 was taking to mitigate price volatility?

22 MS. LORI STEWART: You're being selective  
23 again, Mr. Brown. As I outlined the intent of the advertise  
24 -- advertising campaign was three (3) pronged. And one (1)  
25 of the intentions was to ensure that all consumers are

1 understanding the consequences of their purchase choice.

2 MR. DAVID BROWN: Now it's many years since I  
3 played peewee hockey but do I recognize accurately that --  
4 that the paraphernalia that the figure has on this page is  
5 hockey equipment?

6 MS. LORI STEWART: Not being a hockey player,  
7 I -- I really can't help you there.

8 MR. DAVID BROWN: Well, Mr. Stephens, how  
9 about you?

10 MR. HOWARD STEPHENS: Sorry, I'm in the same  
11 boat.

12 MR. DAVID BROWN: Well, we've got a helmet,  
13 shoulder pads, and I think even goalie pads. So it seems to  
14 be a mixed kind of protection and there -- there's dollar  
15 signs on each one of these protective pieces of equipment,  
16 correct?

17 MS. LORI STEWART: I see some dollar signs,  
18 yes.

19 MR. DAVID BROWN: The message that is being  
20 conveyed on this page is that if you go with a broker, you're  
21 paying too much. You're over protected, you're over padded,  
22 correct?

23 MS. LORI STEWART: I think the message being  
24 conveyed here is that it's important to understand that if  
25 you go with a fixed-price, fixed-term contract, you will be

1 incurring -- well, the theoretical higher cost. And not to  
2 make any negative value judgement about that, if that works  
3 for you as a consumer and you need that protection, then  
4 consumers will make that choice.

5 MR. DAVID BROWN: Well, in terms of not  
6 making any negative value or connotation, if you take a look  
7 at the expression on the face of the woman who is wearing all  
8 of this pricey equipment. And then flip over the page and  
9 look at the face of the woman who has now shed her equipment  
10 and is simply lightly attired with a Manitoba Hydro helmet  
11 with a big smile on her face.

12 Isn't that conveying a certain message or  
13 connotation about the merit of WTS programs offered by  
14 brokers?

15 MS. LORI STEWART: Well, both women are  
16 smiling, Mr. Brown.

17

18 (BRIEF PAUSE)

19

20 MR. DAVID BROWN: Mr. Warden, in answer to  
21 Mr. Peters' questions after the lunch break, you testified  
22 that you had not seen any price gouging amongst brokers to  
23 date, correct?

24 MR. VINCE WARDEN: That's what I said, yes.

25 MR. DAVID BROWN: I also noted that you said

1 brokers provide reasonable prices in the Manitoba market. I  
2 got that correctly, didn't I?

3 MR. VINCE WARDEN: Yes, and again, for those  
4 that don't mind paying an up-front premium for the security  
5 of a long-term contract, that's perfectly fine. And that's  
6 why I think I was agreeing that the prices that we see in the  
7 marketplace to date are within a band that could be  
8 considered reasonable.

9 MR. DAVID BROWN: Well if brokers aren't  
10 gouging and if, on your evidence, Mr. Warden, you say that  
11 brokers provide reasonable prices, why in heaven's name are  
12 you putting an ad on your website which suggests that anyone  
13 who goes with WTS is paying too much?

14 I mean, isn't that directly contrary to the  
15 evidence that you've put before the --

16 MR. VINCE WARDEN: I don't think we said that  
17 at all. You're reading something into this, Mr. Brown that  
18 -- that isn't there.

19 I -- I certainly -- I think you're probably  
20 the only one that would have compared the smiles on the  
21 faces, quite frankly. I -- I really do think you're --  
22 you're looking at something that was not intended with these  
23 ads.

24 MR. DAVID BROWN: Well I'm going to suggest  
25 directly to you, Mr. Warden, that when you take a look at the

1 figure donned with the hockey equipment and then you take a  
2 look at the next figure without the hockey equipment, there's  
3 only one (1) clear message and that message from Manitoba  
4 Hydro is that you were recommending to customers that (a)  
5 they not go with WTS and, (b) that if they are already WTS  
6 customers, they should get rid of their overpriced contract  
7 and go back to system supply.

8                   That is the clear message, is it not, that  
9 Manitoba Hydro was conveying in these messages?

10                   MR. VINCE WARDEN: No, I -- I wouldn't agree  
11 with that at all.

12                   MR. DAVID BROWN: If we can look at the happy  
13 face page, have you got that one?

14                   MR. VINCE WARDEN: Which one is that?

15                   MR. DAVID BROWN: That's with the woman  
16 smiling. She's got the Manitoba Hydro helmet. If you look  
17 at the text, it begins:

18                   "If you find the market price of natural  
19 gas too volatile and long term fixed rate  
20 contracts too expensive, Manitoba Hydro's  
21 primary gas rates may be right for you.

22                   Our balanced rate gives you a balance of  
23 market protection and lower costs."

24                   You see the reference to lower costs there, do  
25 you not?

1 MR. VINCE WARDEN: Well, when I read that,  
2 what comes out to me is that the -- Manitoba Hydro's primary  
3 gas rates may be just right for you, not -- not suggesting  
4 that they are, but they may be.

5 MR. DAVID BROWN: Why --

6 MR. VINCE WARDEN: Consider them.

7 MR. DAVID BROWN: Why don't you flip over to  
8 the next page, at Tab 4. It's the one with the chart on the  
9 top, but I want to take you down to the text in the bottom  
10 left hand corner.

11 "What else can you do for peace of mind and  
12 lower costs."

13 You see the reference to lower costs?

14 MR. VINCE WARDEN: I do see the reference to  
15 lower costs, yes.

16 MR. DAVID BROWN: If I could take you back to  
17 the Winnipeg Free Press advertisement which is found at Tab  
18 18 of Board Counsel's brief of documents. If you could turn  
19 that up, please. Do you have that?

20 MR. VINCE WARDEN: Yes, we have it here.

21 MR. DAVID BROWN: Look at the last paragraph  
22 in the text:

23 "Plus we make no profit on the sale of  
24 primary gas. You always get a balance of  
25 market protection and lower costs."

1 Another reference to lower costs, correct?

2 MR. VINCE WARDEN: Correct.

3 MR. DAVID BROWN: If a customer came to you  
4 today and said, I've just moved into Manitoba and I want to  
5 figure out from whom I buy my gas. I can buy my primary gas  
6 either from you, Manitoba Hydro at the balanced rate  
7 initiative or I can enter into a five (5) year contract with  
8 a broker at a fixed price.

9 Can you tell that customer today whether, over  
10 the term of those five (5) years, the customer will have  
11 lower costs by going with Manitoba Hydro or lower costs by  
12 going with the broker?

13 Can you tell that customer that information  
14 today?

15 MR. VINCE WARDEN: No.

16 MR. DAVID BROWN: Why can't you tell the  
17 customer that information today?

18 MR. VINCE WARDEN: Well, because, as you  
19 know, Manitoba Hydro changes its price quarterly and -- so we  
20 don't know what it's going to be five (5) years from now.

21 MS. LORI STEWART: What we do know is that,  
22 from a theoretical prospective, that fixing our price would  
23 be, over the long term, theoretically more expensive than  
24 hedging the price and hedging the volumes that -- that Centra  
25 does, Mr. Brown.

1                   MR. DAVID BROWN:    But you'd agree with me, as  
2 Mr. Warden did, Ms. Stewart, that when a fixed price -- fixed  
3 price offering for multi-year term is made, one cannot say  
4 today, one cannot guarantee today whether a consumer who  
5 elects that option will or will not incur lower gas costs  
6 than if that consumer went to system gas.

7                    You simply can't say that in advance.  You can  
8 only say it after the contract is over, correct?

9                   MS. LORI STEWART:    Yes, that's correct.  One  
10 would have to rely on a historical analysis of -- of those  
11 types of contracts and attempt to make one's decision on that  
12 basis.

13                   MR. DAVID BROWN:    And in terms of historical  
14 analysis, my client, and I think this information has been  
15 put in other Board proceedings, came out with a three (3)  
16 year offering in August of 2000, at eighteen point (18.)  
17 cents per cubic metre.

18                    That has now expired, but you'd have to  
19 compare that eighteen point six (18.6) cents against some of  
20 the prices that you see on that -- that graph, on the  
21 Manitoba Hydro one, in order to know whether that consumer  
22 incurred lower costs or higher costs by going on WTS;  
23 correct?

24                   MS. LORI STEWART:    That's correct, Mr. Brown,  
25 and we're also aware that numerous clients signed at twenty-

1 nine point nine (29.9) cents per m three as well; correct?

2 MR. DAVID BROWN: And we will have to wait  
3 until the end of the term of those contracts to see how those  
4 consumers faired against market prices; correct?

5 MS. LORI STEWART: I agree.

6 MR. DAVID BROWN: My point is, if one cannot  
7 tell a consumer today, whether their costs will be lower by  
8 going System or WTS, on what basis are the representations in  
9 the Manitoba website and in the Manitoba ad about lower  
10 costs, fair or accurate information being provided to  
11 consumers?

12 MS. LORI STEWART: This information is -- is  
13 talking about the alternatives available to consumers in the  
14 marketplace, and the benefits and the risks associated with  
15 those choices available to them.

16 We do talk about the price certainty related  
17 to a fixed-price/fixed-term contract. That would be a  
18 benefit. The associated cost or risk associated with that  
19 benefit is that theoretically, that choice that the consumer  
20 is making, comes with a premium, a price premium.

21 MR. DAVID BROWN: Ms. Stewart, you're aware  
22 of a Board Document called, The Direct Purchase Code of  
23 Conduct?

24 MS. LORI STEWART: Yes, I am.

25 MR. DAVID BROWN: It's the rules that govern

1 the basis upon which brokers can make representations to  
2 consumers in Manitoba about their service offerings?

3 MS. LORI STEWART: I'm well aware of it.

4 MR. DAVID BROWN: You are aware that there  
5 are provisions in that code regarding the fairness, accuracy,  
6 and timeliness of any representations made by the brokers  
7 about their service offerings?

8 MS. LORI STEWART: I am aware of that.

9 MR. DAVID BROWN: Would you agree with me  
10 that Centra -- that Centra Gas is technically not subject to  
11 that code because it's not a broker?

12 MS. MARLA MURPHY: Well, you're asking for a  
13 legal opinion, but, yes, we agree, that Centra is not obliged  
14 by the terms of that code.

15 MR. DAVID BROWN: Do you agree with me, as a  
16 matter of policy, that Centra should be held to the same  
17 standards of fairness, accuracy, and timeliness of its  
18 information, as the brokers are held to under the Code of  
19 Conduct?

20 MS. LORI STEWART: I certainly do.

21 MR. DAVID BROWN: Mr. Warden and Mr. Rainkie,  
22 this morning a number of questions were put to you about the  
23 prospect of Centra moving away from a rate base methodology  
24 of regulation to a cost of service methodology of regulation.

25 And the impression I form from that discussion

1 base, Mr. Rainkie, largely on questions that you provided,  
2 was that Centra now views it appropriate that it move from a  
3 private sector model of regulation to one more appropriate to  
4 a public sector entity; is that a fair impression?

5 MR. DARREN RAINKIE: Mr. Brown, I don't think  
6 it's any secret that that's been our past position, that was  
7 the position of Manitoba Hydro in the Hearing that resulted  
8 in Order 146/99.

9 MR. DAVID BROWN: And, indeed, I think, Mr.  
10 Warden, you gave evidence to the same effect this afternoon  
11 when you talked about the duty of Crown Corporations, and I'm  
12 going to suggest to you that, in light of that discussion and  
13 in light of Centra's desire to move to a cost of service  
14 methodology, doesn't that really point to a role of Centra as  
15 Utility, as an even-handed facilitator, and not as a  
16 competitor in the sale of primary gas?

17 MR. VINCE WARDEN: The final analysis -- in  
18 the final analysis, all we're attempting to do is what's in  
19 the best interests of the gas consumers in Manitoba, and I'm  
20 not sure we want to put labels on that.

21 MR. DAVID BROWN: A final set of questions  
22 to, Mr. Warden, I understand, as a result of a response you  
23 gave to My Friend, Mr. Peters, that the cost of the  
24 advertising campaign, the newspaper ads, is being collected  
25 from currently approved distribution rates?

1 MR. VINCE WARDEN: It's being charged against  
2 the current approved costs, yes.

3 MR. DAVID BROWN: But these are current  
4 approved distribution costs; correct?

5 MR. VINCE WARDEN: Correct.

6 MR. DAVID BROWN: That are recovered through  
7 distribution rates; correct?

8 MR. VINCE WARDEN: Yes.

9 MR. DAVID BROWN: Those distribution rates  
10 are charged both to system customers and to WTS customers,  
11 correct?

12 MR. VINCE WARDEN: They are.

13 MR. DAVID BROWN: So someone who is currently  
14 party to a contract with a broker, is paying some portion of  
15 the advertisements that you're running in the -- Winnipeg  
16 Free Press and the other papers, correct?

17 MR. VINCE WARDEN: Correct.

18 MR. DARREN RAINKIE: Mr. Brown, just as a  
19 system customer is paying the administration costs of WTS  
20 through their distribution rate.

21 MR. DAVID BROWN: And I take it the reason a  
22 system customer is paying the direct purchase administration  
23 costs through its rate is because, as a matter of policy, the  
24 Board has decided and Centra has agreed, that it's  
25 appropriate to facilitate competition in Manitoba, that that

1 occur?

2 MR. DARREN RAINKIE: As did Municipal or  
3 Direct or whatever we're calling you today, at that hearing  
4 in -- in -- and that resulted in R-1900 (phonetic).

5 Yes, all parties were in agreement. But  
6 everybody's paying for everybody. So if you're going down  
7 the line that somebody else should be paying for this ad.  
8 campaign, I don't think it's fair.

9 MR. DAVID BROWN: In terms of the website  
10 materials, the ones that I have reproduced in Tab 4 of  
11 Exhibit 3, they're -- they're fairly extensive materials and  
12 they're -- they're very -- they're done in a very  
13 sophisticated way.

14 What is the expense that Centra Gas has  
15 charged to accounts for setting up this website and this  
16 material on the website?

17 MR. VINCE WARDEN: We -- I don't have a  
18 number on the costs, but the accounts would be charged to the  
19 distribution rates.

20 MR. DAVID BROWN: Well, I think you were good  
21 enough, Mr. Warden, in your evidence this morning, to say  
22 that the ad campaign cost thirty-six thousand five hundred  
23 dollars (\$36,500). Could I ask for an undertaking from you  
24 to advise what the cost of -- of putting together and  
25 publishing the website information found at Tab 4 of Exhibit

1 3 has been?

2 MR. VINCE WARDEN: We can do that. For  
3 clarity, are we looking at incremental cost to the Utility or  
4 part of the ongoing operational costs of the Utility? I  
5 think the incremental cost of -- would be very low.

6 So, just -- would you like us to apply all our  
7 normal overheads to that cost number or -- or are you just  
8 looking at what we would have incurred for any external costs  
9 we might have incurred?

10 MR. DAVID BROWN: No, your -- your best  
11 estimate of the overall costs of preparing this package of  
12 materials that you posted on your website, whether they are  
13 internal or external. Doesn't have to be down to the penny,  
14 but just your best estimate of what you are going to be  
15 charging to distribution rates for that publication.

16 MR. VINCE WARDEN: Sure, we can do that.

17 MR. DAVID BROWN: Thank you very much.

18

19 --- UNDERTAKING NO. 4: Vince Warden to provide overall  
20 and incremental costs incurred in  
21 respect of putting together and  
22 publishing the website.

23

24 THE CHAIRPERSON: Mr. Warden, when you do  
25 that, if you would just put in brackets the incremental cost.

1 MR. VINCE WARDEN: We'll do that as well.

2 MR. DAVID BROWN: Thank you, Mr. Chair. That  
3 concludes my cross-examination.

4 THE CHAIRPERSON: Thank you, Mr. Brown.  
5 We'll go back to Mr. Peters.

6 MR. BOB PETERS: Thank you. In terms of the  
7 outline of procedures that we had developed, Mr. Chairman, it  
8 would now come back to Mr. Saxberg to begin his cross-  
9 examination of this panel and that may be the order of  
10 business after the afternoon coffee break and add our  
11 farewells to Mr. Brown.

12 THE CHAIRPERSON: Good suggestion. We'll  
13 break for ten (10) minutes.

14

15 --- Upon recessing at 3:03 p.m.

16 --- Upon resuming at 3:18 p.m.

17

18 THE CHAIRPERSON: Mr. Peters will soon  
19 return, Mr. Saxberg. Mr. Peters, I believe we'll now move  
20 onto Mr. Saxberg.

21 MR. BOB PETERS: And just before Mr. Saxberg,  
22 I believe Ms. Murphy and her Panel have been working over  
23 their lunch hours to provide answers to the relatively few  
24 undertakings that have been asked for and given so if she has  
25 that available, maybe we can tidy that up before we get into

1 Mr. Saxberg's questioning.

2 THE CHAIRPERSON: Very good, do you mind?

3 MS. MARLA MURPHY: Yes, sir, we're -- we're  
4 hoping to keep this in the single digits but right now we're  
5 on number 4.

6 Mr. Warden was asked this morning to confirm  
7 whether high efficiency gas furnaces could be purchased  
8 through the Power Smart Loan Program and he's prepared to  
9 speak to that now.

10 MR. BOB PETERS: Mr. Warden?

11 MR. VINCE WARDEN: Yes, Mr. Peters, when you  
12 asked that question earlier, I was uncertain as to whether or  
13 not we provided financing for high efficiency furnaces and  
14 I've, in fact, confirmed that we do through our Power Smart  
15 financing and we have, over the past year, provided \$6.9  
16 million in financing for high-efficiency furnace upgrades at  
17 the Power Smart loan rate of 6.5 percent.

18 Customers can also finance mid-efficient  
19 furnaces but they do not -- are not able to take advantage of  
20 the lower Power Smart rate of 6.5 percent. The rate for a  
21 mid -- mid-efficient furnace would be 11 percent.

22 THE CHAIRPERSON: Ms. Murphy, anything else?

23 MS. MARLA MURPHY: Nothing further, thank  
24 you.

25 THE CHAIRPERSON: Thank you. Mr. Saxberg...?

1 MR. KRIS SAXBERG: Thank you, Mr. Chairman.

2 THE CHAIRPERSON: You understand we'll be  
3 shutting down around 4:00, just so if you could find some,  
4 you know, fairly organized way to bring it to a halt for  
5 today?

6 MR. KRIS SAXBERG: I'll do my best. And that  
7 was the first question I was going to ask you.

8 The first order of business is that the  
9 Consumers Association of Canada and the Manitoba Society of  
10 Seniors, have put together a book of documents, which I'll be  
11 referring to during this cross-examination. And I have  
12 handed it out and I think I -- I made six (6) copies  
13 available to Centra. So hopefully that's everyone on the  
14 Panel.

15 And I'd like to have that marked as the next  
16 CAC exhibit, and I believe that's Exhibit Number 3.

17 THE CHAIRPERSON: Number 3.

18 MS. MARLA MURPHY: Mr. Chairman, if I might  
19 just indicate, I -- I don't have an objection to it being  
20 marked as an exhibit per se, but as I look through it, I  
21 struggle a bit with the relevance of -- of some of the items  
22 in there. So, I guess with the proviso that I'd like to  
23 reserve the right to object to some of those documents as  
24 they're put to the witnesses. I -- I don't have an objection  
25 to it being marked, per se.

1 THE CHAIRPERSON: That's fine, thank you.

2 MR. KRIS SAXBERG: And I should say on the  
3 record that there may be documents in there that I don't  
4 reference, and they're only -- that they are dependent upon  
5 what the answers are. So, in fact, they may not -- they may  
6 not come up, they may not be relevant.

7

8 --- EXHIBIT NO. CAC-3: Book of documents.

9

10 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

11 MR. KRIS SAXBERG: I am going to delve into  
12 the -- everyone's favourite topic of derivatives, and I don't  
13 think I'll be able to get through it in a half an hour, but I  
14 want to start with you, Ms. Stewart.

15 It's fair to say that your customers, your  
16 residential customers don't know anything about your Hedging  
17 Program?

18 MS. LORI STEWART: Based on the research we  
19 conducted, very -- very few of our customers, I would agree  
20 with you, were formerly aware of our Hedging Program, yes.

21 MR. KRIS SAXBERG: And for everyone's  
22 reference that's at Tab E, second page in.

23 19 percent had an idea that Manitoba Hydro or  
24 Centra was doing something to reduce volatility, but out of  
25 that 19 percent, only 7 percent of the 19 percent mentioned

1 hedging, is that right?

2 MS. LORI STEWART: Yes, that's correct.

3 MR. KRIS SAXBERG: Same number that -- that  
4 mentioned speculation?

5 MS. LORI STEWART: That's correct.

6 MR. KRIS SAXBERG: So I -- it's pretty safe  
7 to say that customers don't understand what's going on with  
8 the Hedging Program?

9 MS. LORI STEWART: Yes, I agreed with you,  
10 very few customers understand what's -- what has been  
11 happening in terms of our Hedging Program.

12 MR. KRIS SAXBERG: And what I want to do is  
13 make sure that I've got it straight, and I'm going to try to  
14 do it very quickly before I move on to other questions.

15 First of all, derivative instruments come at a  
16 price, there's a premium?

17 MS. LORI STEWART: Yes, that's correct.

18 MR. KRIS SAXBERG: And that's all of the  
19 derivative instruments in your Derivative Hedging Program,  
20 including costless collars, they've got a premium as well?  
21 And you don't use the word costless, you use the word  
22 cashless?

23 MS. LORI STEWART: I think you're providing  
24 the testimony here.

25 MR. KRIS SAXBERG: Well, you've got to agree

1 -- agree to those statements for it to be --

2 MS. LORI STEWART: Yes, I do.

3 MR. KRIS SAXBERG: -- testimony?

4 MS. LORI STEWART: Yes, I do, and it is --  
5 that's an important distinction from our perspective, and,  
6 Mr. Saxberg, cashless collars is -- is what we refer to the -  
7 - our instrument of choice as.

8 MR. KRIS SAXBERG: Okay. And it doesn't  
9 matter which instrument you use, that is a cap, a collar, or  
10 swap, it's going to ultimately be the same price?

11 MS. LORI STEWART: Well, ultimately the  
12 outcome could be one (1) of many things, however, the  
13 expected payout at the time of entering into the transaction,  
14 either a cap, a swap, or a cashless collar, the expected  
15 payout is zero.

16 MR. KRIS SAXBERG: That's the financial  
17 result, and so I wasn't being clear, what about the premium,  
18 is the premium the same?

19 MS. LORI STEWART: The dealer margin, if  
20 that's perhaps -- that may assist us in -- in clarifying what  
21 we're talking about here, or the profit margin is embedded in  
22 the price quote received for any of those three (3)  
23 instruments.

24 MR. KRIS SAXBERG: And I think that was your  
25 testimony is -- was that it doesn't matter in terms of

1 premium or costs, ultimate costs to Manitoba Hydro, because  
2 ultimately all three (3) instruments are going to have the  
3 same cost.

4 MS. LORI STEWART: I think what we're  
5 confusing is premium, which I associated with a cap, a pre-  
6 paid premium and the dealer margin which represents the  
7 margin that any dealer for any instrument will embed in their  
8 price quote.

9 And so, I -- I'm trying to help us here in  
10 terms of --

11 MR. KRIS SAXBERG: Maybe I'm -- sorry -- go  
12 ahead.

13 MS. LORI STEWART: I was just trying to  
14 assist in terms of straightening out the lingo.

15 MR. KRIS SAXBERG: And I -- I understood that  
16 there's a -- in a cashless collar, there's still premium  
17 there.

18 MS. LORI STEWART: No. A cashless collar is  
19 comprised of two (2) simultaneous transactions, the premiums  
20 for which net to zero, hence the term "cashless", so there is  
21 no premium embedded in that. There may be a settlement cost,  
22 depending on where costs settle relative to the price floor  
23 or ceiling.

24 However, there is no premium paid with a  
25 cashless collar. In fact, that's one (1) of the features of

1 the cashless collar that -- that is advantageous, from our  
2 perspective.

3 MR. KRIS SAXBERG: Well, they call it an  
4 opportunity cost, instead of a premium, but ultimately you're  
5 saying that those two (2) equal the same thing?

6 MS. LORI STEWART: I'm saying that we need to  
7 understand what we mean when we're talking about premium  
8 versus a dealer margin that's embedded in the transaction.

9 So there is a dealer margin. Let's call it,  
10 for the sake of clarifying the record, one (1) or 2 percent  
11 margin embedded in the price quote that we receive.

12 However there is no premium paid associated  
13 with -- an upfront premium paid associated with a cashless  
14 collar.

15 MR. KRIS SAXBERG: Well, there is on the  
16 ceiling. The first transaction that you do, there's a  
17 premium that you pay. And then later, you go out into the  
18 market and you buy -- and you do -- you do the same with the  
19 floor and there --

20 MS. LORI STEWART: No, no --

21 MR. KRIS SAXBERG: -- equal out?

22 MS. LORI STEWART: No.

23 MR. KRIS SAXBERG: No?

24 MS. LORI STEWART: No. But we -- we'll get  
25 there.

1 MR. KRIS SAXBERG: Okay.

2 MS. LORI STEWART: We simultaneously -- a  
3 cashless collar is an instrument that's comprised of the  
4 purchase of a cap and the sale of a put at the exact same  
5 moment in time.

6 And so the relative premiums associated with  
7 those individual instruments, in essence, net zero, hence no  
8 counter-party pays anything at the time of the transaction.

9 MR. KRIS SAXBERG: Okay, I understand that  
10 now, okay. So, then would it be fair to say that, putting --  
11 your view is that the financial consequences of a collar  
12 versus a cap will ultimately be the same, whether or not  
13 there's a -- gas costs are lower or higher, ultimately, over  
14 the long run, that'll be the same? That's your view, right?

15 MS. LORI STEWART: Yes, as long as the  
16 parameters of the instrument are -- are the same, then, yes,  
17 I agree with you.

18 MR. KRIS SAXBERG: Because I thought that I'd  
19 heard that over and over again that the long run -- in the  
20 long run the financial result will be zero.

21 MS. LORI STEWART: What we've talked about is  
22 over the long-term, there is a cost related to our hedging  
23 program. That -- we've said that consistently and, in fact,  
24 it's very important to us that we outline that over the long-  
25 term, any time someone lays off risk, that it will cost

1 money.

2                   There may be certain chunks of time in which  
3 there is a reduction in gas costs. There will be certain  
4 points in time where there will be an increase in gas costs.  
5 However, over the long term, over ten (10) or twenty (20)  
6 years, it is likely that we will see rise to the surface the  
7 long run costs of operating a hedging program. And that  
8 represents the dealer margin or profit margin associated with  
9 these transactions.

10                   MR. KRIS SAXBERG: Okay, I -- I didn't think  
11 I'd have to do this, because I'm taking all of this right out  
12 of Mr. Simard's comments. At Tab H, so -- so that we all  
13 understand what you're talking about we could go through  
14 that, maybe.

15                   It's Tab H and you could identify this  
16 document as advice that Centra received from its foremost  
17 expert on this topic, the -- the person that has received all  
18 of it -- most of its important advice from and -- and who  
19 testified before this Board last year, Mr. Tim Simard. Is  
20 that right?

21                   MS. LORI STEWART: I'm familiar with Mr.  
22 Simard. However, as you're aware, I was not involved in the  
23 hedging program back in 1998 and -- and not particularly  
24 familiar with this document.

25                   MR. KRIS SAXBERG: Can you, at least for the

1 purposes of the record, identify it? Or can someone on the  
2 panel identify it as Mr. Simard's document?

3 It was -- we discussed it at the last hearing.

4 MR. HOWARD STEPHENS: Just give me a minute  
5 and maybe I'll be able to shed some light on it.

6 MR. VINCE WARDEN: Why don't we accept that,  
7 subject to check, Mr. Saxberg, and then if you can make your  
8 point and then we'll either agree or disagree with it.

9 MR. KRIS SAXBERG: Thank you, Mr. Warden.

10

11

(BRIEF PAUSE)

12

13

THE CHAIRPERSON: Thank you, Mr. Saxberg.

14

15 CONTINUED BY MR. KRIS SAXBERG:

16

17

MR. KRIS SAXBERG: Mr. Simard, in this  
document, is attempting to answer the question of what  
concerns do ratepayers have with derivative hedging. He says  
in the first paragraph under -- under -- under (b) concerns  
with CGM involvement in hedging activity.

19

20

The third sentence that begins with "stated  
another way...", he says:

21

22

"Stated another way, all ratepayers would  
want protection against higher prices if  
the protection came at no cost. However,

23

24

25

1                   would these ratepayers still want this  
2                   protection if they had a clear  
3                   understanding of the potential costs  
4                   associated with the hedging activity."  
5                   So I just point that out to you by way of  
6 explaining what the nature of the conversation is in the  
7 document.

8                   MS. LORI STEWART:       And later on there's a  
9 reference to execution costs.

10                  MR. KRIS SAXBERG:       Right.

11                  MS. LORI STEWART:       And that's what I was  
12 referring to as a dealer margin.

13                  MR. KRIS SAXBERG:       And -- and that dealer  
14 margin is going to happen on costless -- cashless collars and  
15 with -- with caps and everything and that's what I was --

16                  MS. LORI STEWART:       Absolutely.

17                  MR. KRIS SAXBERG:       Okay. We're in agreement.

18                  MS. LORI STEWART:       Sorry we couldn't get  
19 there sooner.

20                  MR. KRIS SAXBERG:       And then -- and you've got  
21 administrative costs which, of course, apply to all those  
22 instruments as well?

23                  MS. LORI STEWART:       That's correct.

24                  MR. KRIS SAXBERG:       And you have then on the  
25 next page you've got "Explicit Insurance Costs"; that's what

1 you've been calling premiums and they're -- because they're  
2 relating to caps here; fair enough?

3 MS. LORI STEWART: Yes, although you're  
4 familiar that -- that we have not purchased caps for quite  
5 some time.

6 MR. KRIS SAXBERG: Yeah. And then it talks  
7 about opportunity costs and that's reflecting, I believe,  
8 discussion of -- of collars; is that fair?

9

10 (BRIEF PAUSE)

11

12 MS. LORI STEWART: Forgive me, Mr. Saxberg,  
13 but I -- I haven't had the opportunity to read this document  
14 and so I -- I -- Ie, for obvious reasons, I'm just being  
15 cautious about putting something on the record because you  
16 and I have already had difficulty with the lingo, so --

17 MR. KRIS SAXBERG: Okay. And that's fair.  
18 We'll just -- maybe you could take it subject to check?

19 MS. LORI STEWART: Certainly.

20 MR. KRIS SAXBERG: And ultimately then the  
21 upshot of all that is that Centra Gas doesn't know what the  
22 overall cost of its hedging program is going to be except in  
23 -- in the long run where you say ultimately it'll be close to  
24 zero except for administrative and except for transaction  
25 costs; is that fair?

1 MS. LORI STEWART: Yes, over the long run,  
2 I'm aware of what my hedging administration costs are and we  
3 also have an understanding of, in general, what that dealer  
4 margin or execution costs would represent over the long run.

5 THE CHAIRPERSON: Ms. Stewart, just to  
6 clarify, when you say "over the long-haul"; you're talking  
7 about when you're employing this mechanistic approach where  
8 you're not taking a position you're just doing it on a  
9 regular basis?

10 MS. LORI STEWART: Yes. The only way to --  
11 to make a long run comparison of hedging results is if one  
12 employs a methodology and employs it consistently.

13

14 CONTINUED BY MR. KRIS SAXBERG:

15 MR. KRIS SAXBERG: And if I could just follow  
16 up on that, I mean, if you weren't using the -- mechanistic  
17 approach, if you were using a market view approach, the end  
18 result wouldn't be close to zero; would it? I mean, if you  
19 were wrong about your market approach it could be disastrous.  
20 If you were right, it could be a windfall; correct?

21 MS. LORI STEWART: That's correct.

22 MR. KRIS SAXBERG: So when Mr. Peters asked  
23 you the other day about whether those results that we see,  
24 the good results over the last couple of years, had anything  
25 to do with switching to a mechanistic approach, you said

1 "absolutely not" and I'm putting to you maybe you might want  
2 to reconsider that?

3                   Maybe it does because under the old approach  
4 and I'm -- I'm not going to -- I'm saying old going way back  
5 to '98 there was some consideration of market view.

6                   MS. LORI STEWART: I guess what I was  
7 attempting to in my testimony to Mr. Peters, is make it very  
8 clear that as manager of the hedging program I cannot take  
9 credit for the positive results or the reduction in gas costs  
10 because they were realized as a function of the market and  
11 they could just as easily have moved the other way. So, I  
12 was being very I guess conservative in terms of making that  
13 point known.

14                   MR. KRIS SAXBERG: And -- and all I'm saying  
15 is that because you're using the mechanistic approach, in the  
16 long run you get to zero or around zero subject to all those  
17 qualifications we've been making. But if you speculate  
18 that's not necessarily the case that you're going to get to  
19 zero. You could be above it or below it, correct?

20                   MS. LORI STEWART: I'll agree with that.

21                   MR. KRIS SAXBERG: And that's why we agree on  
22 the mechanistic approach that it's a good approach.

23                   MS. LORI STEWART: I hope so, yes.

24                   MR. KRIS SAXBERG: Okay. Good. I'm not  
25 going to be maybe as critical as you think, who knows. But

1 now in this survey that we're going to get to in more detail,  
2 you told the -- or not you, western opinion told the  
3 participants that the cost of your program was about 1 to 2  
4 percent of overall gas billing in the long run?

5 MS. LORI STEWART: Yes, that's correct.  
6 Again, we employed a conservative approach and the -- the  
7 research that we have or the information that we have speaks  
8 to a long term embedded cost of approximately three quarters  
9 (3/4) of a percent.

10 However, to be -- to ensure that we were  
11 accurately and conservatively representing the impact of the  
12 hedging program within our market research, we wanted to  
13 ensure that consumers were well aware of the potential costs.  
14 And so we rounded that up to 1 to 2 percent.

15 MR. KRIS SAXBERG: Could you file that poten  
16 -- that information that you have?

17 MS. LORI STEWART: Certainly, I'll undertake  
18 to do that.

19  
20 --- UNDERTAKING NO. 5: Ms. Lori Stewart to file research  
21 information that speaks to a long  
22 term embedded cost of  
23 approximately three quarters of a  
24 percent.  
25

1                   MR. KRIS SAXBERG:    And is it calculated over  
2 twenty (20) years at which I believe you've defined as the  
3 long run?

4                   MR. BRENT SANDERSON:   What the study is  
5 looking at is the embedded transaction costs or friction  
6 costs for purch -- hedging instrument in the over the counter  
7 market.  Those markets are somewhat less efficient than  
8 exchange traded markets where the margins are almost nil  
9 because of large numbers of buyers and sellers.

10                   And what the study looked at was based on  
11 their research information, what a hedger with a close  
12 relationship with one hedging counter party meaning that they  
13 did not solicit competitive quotes but just quotes from a  
14 single hedging counter party over the long term that they're  
15 findings were as that over the long run the dealers generally  
16 embed a margin of approximately three quarters of a percent  
17 in the cost of the instruments.

18                   So, that would be just on the cost of the  
19 hedged volumes.  Now we're talking a one (1) to 2 percent  
20 addition to customers overall gas costs so the -- that  
21 percentage is even more conservative when viewed in that  
22 light.  And I would like to also add that when we undertake  
23 our hedging transactions.

24                   We have a staple of five (5) counter parties  
25 and we submit competitive quotes in real time from those

1 counter parties. The counter parties are aware that they're  
2 submitting bids competitively with as many as a half a dozen  
3 other counter parties. They're unaware of who they are or  
4 what those quotes are.

5           And so if you can -- as you might -- as you  
6 might see, we're going to be getting even more competitive  
7 prices or tighter margins than we would if we had a close  
8 relationship or we were captive to one counter party. And we  
9 meet with our counter parties from time to time to just  
10 discuss market theory and our business relationship.

11           And it's been conveyed to me by a number of  
12 our counter parties, that the way we transact for instruments  
13 is fairly unique in the regulated LDC community. And they've  
14 made anecdotal comments that it would be very difficult if  
15 not impossible for them to make money dealing financial  
16 derivatives if all of their counter parties required them to  
17 submit competitive quotes in a quasi open outcry system as we  
18 set up.

19           So, I can't provide with you with any written  
20 evidence to that affect but that has been -- I can say under  
21 oath that our counter parties, a number of them have told me  
22 that. And they've made comments that our program is one of  
23 the best that they've seen in the regulated LDC community.

24           MR. KRIS SAXBERG: Thank you for that. And  
25 you're going -- there is a document though you're going to

1 file about that three quarter (3/4) percent, correct?

2 MR. BRENT SANDERSON: Yes, we're prepared to  
3 file that.

4 MR. KRIS SAXBERG: And the three quarter  
5 (3/4) of a percent doesn't include your administrative costs?

6 MR. BRENT SANDERSON: No, it would not.

7 MR. KRIS SAXBERG: And it doesn't include the  
8 results of -- of whether the gas costs are lower or higher  
9 because ultimately you're saying it's zero. So, there no --  
10 no number in there, correct?

11 MR. BRENT SANDERSON: Statistically speaking,  
12 at the time that we undertake the transactions,  
13 notwithstanding the small imbedded margin, the expected  
14 outcome on any instrument that we place is zero at the time  
15 of transaction.

16 And long run, those results will rise to the  
17 surface, but at any given intervening month during the course  
18 of that five (5), ten (10), fifteen (15), twenty (20) year  
19 period the results will be somewhat other than zero, either  
20 positive or negative.

21 MR. KRIS SAXBERG: Exactly. So we're still  
22 on Tab -- Tab H. And if you go to the last page, which is  
23 thirteen (13) on the bottom, the second last paragraph Mr.  
24 Simard says:

25 "Over time the opportunity cost generate by

1 a hedging program should match the proceeds  
2 generated by the hedging program. Gains  
3 and losses should cancel out over the long  
4 run, however, in the short -- short run,  
5 there could be material opportunity costs"  
6 And so -- that's exactly what you just said.

7 Right?

8 MR. BRENT SANDERSON: I would -- not being  
9 inside the head of the person who prepared this document -- I  
10 don't want to speak for them but I would interpret that as  
11 meaning situations where hedging instruments result in  
12 customers paying a cost for their gas that is somewhat higher  
13 than the prevailing market price at the time of maturity of  
14 that instrument.

15 MR. KRIS SAXBERG: With respect to the one  
16 (1) or 2 percent, what does that mean to the average  
17 residential user? What's the -- what's the dollar figure  
18 that you could provide?

19 MR. BRENT SANDERSON: Subject to check, I  
20 have a general awareness of what our typical residential  
21 customer's annual bill is just by way of example and I think  
22 it's -- right now it's in the neighbourhood of thirteen  
23 hundred dollars (\$1,300) annually, give or take a few  
24 dollars. So one (1) or 2 percent would be anywhere from  
25 thirteen (13) to twenty-six dollars (\$26) annually on a bill

1 of thirteen hundred dollars (\$1,300), if you apply the one  
2 (1) or 2 percent.

3 MR. KRIS SAXBERG: All right, so it's --  
4 sorry -- thirteen (13) to --

5 MR. BRENT SANDERSON: Thirteen (13) to  
6 twenty-six dollars (\$26) out of an annual billing of thirteen  
7 hundred dollars (\$1,300). Keeping --

8 MR. KRIS SAXBERG: Thirteen (13) --

9 MR. BRENT SANDERSON: Keeping in mind that  
10 that's very conservative in our opinion. We -- the research  
11 indicates that it will be somewhat lower than that but we  
12 want to be conservative in our characterizations to  
13 customers.

14 MR. KRIS SAXBERG: At the most, thirteen (13)  
15 to twenty-six dollars (\$26) per year. Do I have that right?

16 MS. LORI STEWART: Once again, over the long  
17 run, so in any given year there, of course, could be a  
18 positive or negative outcome that is significantly different  
19 than that, however, over the long run, yes.

20 MR. KRIS SAXBERG: I just want to talk about  
21 the long run for a second. How do you know that residential  
22 consumers care about the long run? And -- and let me just  
23 put it to you this way, I -- I -- I represent seniors and I'd  
24 just like to know why, on behalf of my clients, why would  
25 seniors or why should they care about the twenty (20) year

1 long run?

2 MS. LORI STEWART: First of all, our  
3 definition of the long run is -- is between ten (10) and  
4 twenty (20) years and we've put that on the record in an IR.  
5 And certainly I think that -- I think that some of the  
6 biggest fiascos that the business and the energy world has  
7 experienced is as a result of a short-term focus. And so if  
8 I'm sitting here in -- in a management chair, I think that my  
9 obligation is to think long-term.

10 My obligation is -- is not to think simply  
11 about the next one (1) year window but to think about the  
12 five (5) year, the ten (10) year, the fifteen (15) year  
13 window, so I think that that's a -- a prudent way of thinking  
14 given my responsibilities.

15 MR. VINCE WARDEN: And remember, Mr. Saxberg,  
16 the objective of the hedging program is to mitigate rate  
17 volatility and that's what we're doing with the program is  
18 taking out the highs and the lows.

19 MR. KRIS SAXBERG: That's right and just to  
20 keep it in context so that you have an understanding of why  
21 I'm asking these questions, I'm -- I'm picking up on Mr.  
22 Simard's observation that ratepayers want to reduce  
23 volatility and we all agree with that but they might have a  
24 question about what it's costing them.

25 Do you agree with that?

1 MS. LORI STEWART: I agree with that.

2 MR. KRIS SAXBERG: And you're saying quite  
3 strongly is that, over the long run don't worry about it,  
4 it's not a big deal. And what I'm saying is, if -- how do  
5 you know that consumers don't -- aren't more interested in  
6 the short run results, in terms of deciding whether they want  
7 volatility reduced?

8 And let me ask you this, were -- was that put  
9 to them in the western opinion survey?

10 MS. LORI STEWART: First of all, in terms of  
11 the western opinion research, we were quite careful to use  
12 that phrase over the -- over the long run because we wanted  
13 to, I guess, best accurately representing the hedging  
14 program.

15 And what our objective is and the fact that we  
16 are thinking about the long term. So, we accurately conveyed  
17 the program that we're operating today and its objectives and  
18 its timeframe.

19 For me to propose something different -- well,  
20 I don't have a short term focus, and so I can't talk to  
21 consumers in a telephone survey, about a focus that I don't  
22 have.

23  
24 What I can do is describe the program that we  
25 operate.

1 MR. KRIS SAXBERG: But, the survey's goal is  
2 to determine the appetite of the customer for volatility  
3 reduction. And part of that is, how much they're going to  
4 have to pay for it, is it not?

5 MS. LORI STEWART: It is, within the rather  
6 challenging context of operating a hedging program for  
7 approximately two hundred and twenty (220) -- or  
8 approximately, let's say two hundred thousand (200,000)  
9 customers who all have individual risk tolerances, who all  
10 have individual timeframes, who all have individual  
11 objectives.

12 We have a very heterogenous consumer base for  
13 which we have one (1) hedging program. So, our challenge is  
14 -- and I hope you can appreciate the -- the challenge  
15 embedded in conducting market research and we certainly were  
16 not going to propose a number of alternatives that I don't  
17 have any information about, I don't have any results about.

18 I'm not sure how I could characterize what  
19 you're describing, Mr. Saxberg.

20 MR. KRIS SAXBERG: Okay, let me help you.  
21 Isn't it the case that Centra ultimately hasn't paid a cent  
22 for it's derivative hedging programs since August of 1999.  
23 When you add together all the pluses and minuses, gas costs  
24 have been a lot lower because you've had this program; isn't  
25 that the case?

1                   Just go to the last two (2) years. I mean \$4  
2 million this year or -- or '03/'04, \$15 million for '02/'03?

3                   MS. LORI STEWART: Yes, that's correct, Mr.  
4 Saxberg.

5                   MR. KRIS SAXBERG: Now, five (5) years, we  
6 could say is on the outer edges of the short run?

7                   MS. LORI STEWART: Sure.

8  
9                   (BRIEF PAUSE)

10  
11                   MR. KRIS SAXBERG: And all I'm wanting to ask  
12 you is, whether or not, during the focus groups set part or  
13 the survey part of the western opinion research study,  
14 customers, participants in that study were told, here's how  
15 gas prices were affected by hedging in the last five (5)  
16 years.

17                   Here's the ultimate result. Here's what's  
18 happened. You've paid a lot less in your gas costs. Were  
19 they told that specifically?

20                   MS. LORI STEWART: No, they certainly weren't  
21 because the risk with advising consumers of that actual  
22 performance is that it would very quickly be translated in  
23 their minds into something that they could expect, with a  
24 degree of certainty when, in fact, we know that the hedging  
25 program could have resulted in increased costs for consumers,

1 and in fact, it did, in explicit timeframes throughout the  
2 past five (5) years, result in increased costs for consumers.

3           So, the validity of my market research if I'm  
4 touting the fact that, oh, last year we reduced gas costs,  
5 but, the year before we added to them, I think I would have  
6 just confused them -- the consumers, Mr. Saxberg.

7           MR. KRIS SAXBERG: Okay. I think you've  
8 answered the question and -- and the answer was, no.

9           MS. LORI STEWART: Indeed.

10           MR. KRIS SAXBERG: Thank you. Here's another  
11 just, sort of, general observation that I have and I think  
12 Mr. Simard had it as well and it's just something that I  
13 can't get my head around just as a -- I'm trying to think  
14 with my regular consumer hat. Why would any residential  
15 customer care about reducing volatility that's going down?

16           I mean, does anyone care about their bill  
17 getting changed every second day if it's going down?

18           MS. LORI STEWART: Well, certainly consumers  
19 avail themselves of programs like the equal payment program  
20 because consumers have -- some consumers have an interest in  
21 providing for some predictability related to their expenses.

22           And so they, you know, go down a path.

23           MR. KRIS SAXBERG: Here's what Mr. Simard has  
24 to say on the second page at Tab H in the very last  
25 paragraph. He says:

1 "The desire on the part of ratepayers for  
2 hedging activity is often expressed as a  
3 desire to reduce the volatility in their  
4 gas price portfolio. This surely  
5 overstates the true desire of the  
6 ratepayer. It's difficult to accept that  
7 ratepayers would be uncomfortable with  
8 market volatility that led to downward  
9 adjustments in their cost of gas."

10 Do you agree or disagree with that statement?

11 MS. LORI STEWART: I'm still trying to find  
12 it. Sorry.

13 MR. KRIS SAXBERG: Oh, sorry. That's my  
14 fault for rushing you along. It's on the second page which  
15 is, yeah, page 12 on the bottom. And it's the last  
16 paragraph.

17  
18 (BRIEF PAUSE)

19  
20 MS. LORI STEWART: Well, if I put myself in  
21 my regular consumer shoes, I have to say that I wouldn't be  
22 too excited if my expenses or my bills were all going down.  
23 Is that what you're -- is that what you're trying to  
24 ascertain?

25 MR. KRIS SAXBERG: Yeah, I think -- I just

1 want to know if you agreed or disagreed with the statement  
2 that I read?

3 MS. LORI STEWART: I can't speak on behalf  
4 of all ratepayers. I haven't conducted research with regard  
5 to that issue and, I mean, this is --

6 MR. KRIS SAXBERG: What's your position on  
7 behalf of Centra?

8 MS. LORI STEWART: Mr. Saxberg, you're  
9 putting to me a document that I have not read before. It  
10 represents the opinion of Mr. Simard, I understand, and what  
11 you're asking me is to agree with that opinion or disagree;  
12 is that correct?

13 MR. KRIS SAXBERG: Yeah, I want to know --  
14 and it doesn't have to be you necessarily. I mean, you're  
15 all here as representatives of Centra, I want to know what  
16 Centra, the Company's position is? Whether it agrees or  
17 disagrees with that?

18 MR. VINCE WARDEN: Well, you know, it's only  
19 logical that if a customer receives their bill continuing to  
20 decrease they wouldn't object to that. But, on the other  
21 hand, you have to consider where it's decreasing from.

22 So if the rates were at a high level because  
23 of the instrument that we had purchased, if we had incurred  
24 significant cost to purchase caps and those were embedded in  
25 the rates and then the rates came down from that -- from that

1 higher level, then it's perhaps a bit of a different story.

2           So you have to look at the -- at the context  
3 under which those rates are coming down and compare them to  
4 what those rates would have been under Centra's program of  
5 purchasing cashless collars.

6           And what we've stated consistently is over the  
7 long term, whether we purchase caps or whether we purchase  
8 cashless collars, the cost to the ratepayer is going to be  
9 the same.

10           So in one instance the -- as quoted here, you  
11 could see the bills coming down but they may not be coming  
12 down any more over the term than they would have with the  
13 cashless collar instrument in place.

14           So I don't think you can just take one excerpt  
15 like this without some context around it.

16           MR. KRIS SAXBERG: Thank you for that. With  
17 caps, you'd agree you're only protecting against upward  
18 volatility?

19           MR. VINCE WARDEN: Right. At a cost.

20           MR. KRIS SAXBERG: "At a cost"; which you  
21 just said ultimately is going to be the same as using  
22 cashless collars.

23           It's just that -- and I understood your  
24 concern which you expressed here yesterday, which sounded  
25 legitimate, which is that there's scarce resources at

1 Manitoba Hydro, there's only so much money floating around to  
2 pay large amounts of premium over the short run and -- and  
3 that's the main reason why you're using collars rather than  
4 caps, correct?

5 MS. LORI STEWART: As well as the fact that  
6 we've spoken previously on the record about the fact that the  
7 band associated with a collar inherently limits volatility  
8 and I understand, where you're going with this --

9 MR. KRIS SAXBERG: Okay.

10 MS. LORI STEWART: So, you know it -- it's  
11 just -- it's a theoretical question, Mr. Saxberg. To what  
12 extent are consumers willing to accept volatility? I can't  
13 answer that question, because inherent in Mr. Simard's  
14 statement -- says that it would be difficult to accept that  
15 ratepayers would be uncomfortable with market volatility that  
16 ultimately led to downward adjustments.

17 Well, what degree of volatility and would they  
18 be comfortable with that type of up, down, up, down market  
19 movement? I'm not sure. I can't answer that question. I  
20 have no evidence to put to you in that regard.

21 MR. KRIS SAXBERG: And maybe -- just in a  
22 sort of yes/no, since we're almost out of time here, and  
23 that's because although that was the task of Western Opinion  
24 Research, which is to find out about customer preferences re.  
25 volatility, they weren't asked whether or not they had any

1 concern about downward volatility.

2

3

(BRIEF PAUSE)

4

5 MS. LORI STEWART: My recollection of the  
6 survey is that any reference to volatility was a neutral  
7 reference. That is not specifically -- no question was  
8 specifically related to upward versus downward volatility.

9 MR. KRIS SAXBERG: And can I ask you for --  
10 whether that research study determined whether or not  
11 customers are more concerned about bill volatility or price  
12 volatility?

13 Was that question asked? And do you -- maybe  
14 for the -- for the Board's edification, when I say "bill  
15 volatility" I mean at the -- every month, I get a bill and  
16 there's a number on it, and it's the number that I have to  
17 pay in full.

18 That's what I'm talking about. Bill  
19 volatility is about whether that number goes up or down and -  
20 - and whether that -- that amount of -- of up and down is  
21 reduced by hedging or not. That's bill volatility in my  
22 mind.

23 Is that -- I'm just -- so --

24 MS. LORI STEWART: Bill --

25 MR. KRIS SAXBERG: -- the same term --

1 MS. LORI STEWART: Total bill volatility  
2 versus primary gas price volatility. Is that what you're --  
3 the distinction that you're trying to outline?

4 MR. KRIS SAXBERG: Correct. And in -- in  
5 these Proceedings, I think that's how we've been referring to  
6 it. We -- we've been talking in past Hearings about bill  
7 volatility and price volatility.

8 MS. LORI STEWART: The purpose of the study  
9 was related to primary gas price volatility as -- because, of  
10 course, my interest in primary gas price volatility is  
11 related to the hedging program.

12 So, were consumers asked about bill  
13 volatility? No, they weren't. This was complex enough to  
14 attempt to work through with customers and focus groups and a  
15 phone survey.

16 If I was going to then introduce supplemental  
17 gas transportation as Centra, distribution to -- distribution  
18 to customers and the BMC, I mean, I would still be involved  
19 in that study and certainly the cost would be greater than  
20 forty-three thousand dollars (\$43,000).

21 MR. KRIS SAXBERG: Well, I'm going to have to  
22 disagree and say that -- that it -- that is exactly what you  
23 did do. You took one (1) very specific component of the five  
24 (5) charges on the bill and talked about volatility with  
25 respect to that specific component and I -- I just want you

1 to confirm that you didn't, as an alternative approach, say,  
2 let's look at just the bottom line number on your bill.

3 How much you pay every month, and talk about  
4 volatility of that number.

5 MS. LORI STEWART: You -- you -- I can  
6 confirm that, yes.

7

8 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: And isn't it the case that  
11 customers who'd want to know how much they're paying for the  
12 hedging program, and you just indicated that today that the  
13 ballpark is between thirteen (13) and twenty-six dollars  
14 (\$26) a year, give or take.

15 And wouldn't they also want to know what's  
16 happening to that bottom line number on their bill in order  
17 to determine whether or not they like the hedging program?

18 MS. LORI STEWART: And how do I have a  
19 discussion with customers about their total bill changes and  
20 not talk about things like the impact that weather has had on  
21 -- on their total bill volatility, the impact of rates  
22 related to our transportation providers, such as TCPL or ANR  
23 toll changes, GLGT.

24 Just walk down this path with me, Mr. Saxberg,  
25 and we are into a process that is quite complex from the

1 average consumer's perspective.

2           So, did I explicitly want this research study  
3 focussed on primary gas price volatility? You bet I did.

4           MR. KRIS SAXBERG: Okay, and we'll definitely  
5 go down that path tomorrow, in terms of the study itself, so,  
6 but for now, maybe we should get off the path and go home?

7           THE CHAIRPERSON: I think that's a good  
8 start, Mr. Saxberg, to get it going on the topic area that  
9 you want to pursue. Thank you very much, we will see you  
10 tomorrow.

11

12 --- Adjourned at 4:02 p.m.

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16 Certified Correct

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Carol Wilkinson

23 Court Reporter

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