MANITOBA PUBLIC UTILITIES BOARD

RE:

CENTRA GAS

2010/11 COST OF GAS APPLICATION

Before Board Panel:

Graham Lane - Board Chairman

Monica Girouard - Board Member

Len Evans - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

April 13th, 2010

Pages 1 to 223

APPEARANCES

Bob Peters	)Board Counsel
Marla Murphy	)Centra Gas Manitoba
Kris Saxberg	)CAC/MSOS
Kola Ruzycki	) Just Energy (Manitoba) L.P.

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LIST OF UNDERTAKINGS

--- Upon commencing at 9:04 a.m.

THE CHAIRPERSON: Okay, good morning, everyone. Welcome to the Board's Hearing in respect of Centra Gas Manitoba Inc.'s Cost of Gas Application for the 2009/'10 gas year, and, also, Centra's 2010/'11 fiscal year.

I am Graham Lane, the Chairman of the Public Utilities Board, and I'm pleased to be joined on this panel by Dr. Len Evans and Monica Girouard. Also assisting the Board is Mr. Hollis Singh, associate Board secretary.

Centra filed its application last year on December the 18th. We can see that Centra is seeking approval of new supplementary gas transportation to Centra and distribution to customers rates effective May 1, 2010.

Collectively, these new rates seek to collect an additional 5 1/2 million from Centra's customers. From the filing, Centra's non-primary cost of gas is forecast to increase by 12.1 million for the '09/'10 gas year compared to the cost imbedded in rates.

Simultaneously, Centra proposes to reduce the magnitude of rate riders that are currently in place by an aggregate amount of 6.6 million. If granted, the net effect of these two (2) changes on non-primary gas costs would be an increase of the 5.5 million that I previously mentioned.

Centra's also seeking approval of actual gas costs incurred during the November 1, 2008 to October 31, 2009 gas year, that in the amount of 437 million. Centra's also seeking final approval of interim orders of the Board related to both primary gas and non-primary gas rates. These orders relate to non-primary gas rates approved as of August the 1st, 2009 and primary gas rates approved as of August the 1st, 2009, November the 1st, 2010, and most recently, February 1st, 2010.

The Board notes that there is also an interim Order 179 issued on December 2009 related to Centra's derivative hedging program that should be considered in this proceeding.

While the Board is aware that there already exists a process for adjusting primary gas rates every three (3) months, on the quarter of the gas year, the next gas quarter falls on May the 1st, 2010, which is the same date Centra requested adjustments in non-primary gas rates.

To further compound rate issues, May 1st, 2010 is also the date scheduled for adjustment of non-gas rates that flow from the Board's GRA Orders 116/09 and

1/28/09. The Board would appreciate at some point an overall review of all the rate impacts targeted for May 1, 2010.

Finally, Centra has responded to a number of directives issued by the Board in previous issue -- previous Orders. The Board is interested in Centra's responses and updates to these various matters and expects that information will -- that that information will also be discussed during this Hearing.

So with that, I will now turn to Mr. Peters for his introductions and opening remarks. Mr. Peters, good morning.

MR. BOB PETERS: Yes. Thank you. Good morning, Mr. Chairman and good morning to Board members, Dr. Evans, Ms. Girouard.

For the record, my name is Bob Peters and I am counsel to the Board in this proceeding. The Board is also assisted this morning by its engineering and accounting advisors, Brady Ryall, a professional engineer, of Energy Consultants International to my right, and Roger Cathcart, chartered accountant, of Cathcart Advisors to my left.

As mentioned by the Chairman, Centra is seeking approval of new rates for supplemental gas, transportation to Centra and distribution to customers beginning May the 1st of 2010.

Centra is also seeking approval of actual gas costs incurred up to October 31, 2009, as well as the disposition of balances accrued to various purchase gas variance accounts.

I expect, Mr. Chairman, to cover the additional items you mentioned in your opening comments, including Centra's plans for derivative hedging and various prior Board directives including the Affordable Energy Program and Lower Income Efficiency Programs.

I will have questions and documents to review with Centra's witnesses related to the various rate adjustments sought for May the 1st of this year. Those rate adjustments are threefold for non-primary gas rates, for primary gas rates and also for non-gas cost rates as you've mentioned, Mr. Chairman.

Mr. Chairman and Board members, three (3) days have been scheduled for the oral evidence from the witnesses this week. We're not certain that we're going to need all those days but with that in mind, I'll turn to the procedures recommended for the oral hearing today and tomorrow and, if necessary, Thursday.

In terms of procedures we'll have -- excuse me, I forgot to provide a copy to counsel opposite, but I am suggesting that following my opening comments you turn to Mr. Saxberg representing the Consumer's Association of Canada (Manitoba) Inc., the Manitoba Society of Seniors, who we'll be referring to by the acronym of "CAC/MSOS" throughout. And after Mr. Saxberg then to Ms. Ruzycki to hear from Just Energy (Manitoba) Limited Partnership. And following her opening comments turn to Centra's counsel, Ms. Murphy, for any opening comments, introductions and proceeding with the direct evidence.

I will indicate that the procedures are located at the front of the black binders that I've handed out to parties in the room today, they're on blue paper.

And one (1) item that I didn't mention is that the Board is anticipating and I believe we'll hear from Mr. William Carroll presenting at approximately 1:15 today, and he has some information he would like to provide to the Board at that time and we'll welcome him then.

In terms of panels, the -- my understanding is Centra will put in its case through two (2) witness panels. The first witness panel seated before will be examined directly by Centra's counsel and then cross-examined by myself and the Intervenors.

And then there's a second panel that we've called the "Cost of Service/Customer Service" witness panel, it contains two (2) of the same individuals on the first panel; that is, Mr. Warden and Mr. Barnlund, they'll be joined by Mr. Kuczek and Ms. Derksen, and we will hear from them as well.

In terms of exhibits that are related to these proceedings, the Board's secretary has handed out an exhibit list and I would just indicate that -- I'll take the liberty of putting them on the record for all the parties.

The PUB Exhibit 1 would be the Notice of Hearing dated December 21.

--- EXHIBIT PUB-1: Notice of Hearing

MR. BOB PETERS: PUB Exhibit 2 would be the transcript from the Pre-Hearing Conference which this Board held on January the 15th.

--- EXHIBIT PUB-2: Pre-Hearing Conference.

MR. BOB PETERS: Exhibit PUB-3 would be the Procedural Order of 13/10, dated January 28th.

--- EXHIBIT PUB-3: Procedural Order of 13/10, dated January 28th.

MR. BOB PETERS: And then Exhibits 4-1 all the way through to 4-66 would be the Public Utilities Board's first and second round Information Requests and Centra's responses, noting that the second round IRs started at PUB Exhibit 4-48.

--- EXHIBIT PUB-4-1 through to 4-66:

Public Utilities Board's first and second round Information Requests and Centra's responses

MR. BOB PETERS: In addition to those exhibits, PUB Exhibit CAC -- PUB-CAC/MSOS 5-1 through 5-6 would be the Information Requests and CAC/MSOS's responses to Information Requests posed.

--- EXHIBIT NO. PUB/CAC/MSOS-5-1 through 5-6:

Information Requests and CAC/MSOS's responses to Information Requests posed.

MR. BOB PETERS: I will propose immediately, Mr. Chairman, that we also mark the book of documents, which is more accurately a binder of documents, as PUB Exhibit 6 this morning. This book of documents contains Information Responses. It contains some information from Centra related to its application, as well as its February 19th filing.

There are two (2) documents that, I believe, and believe only two (2) documents, that were not either filed or prepared by Centra included in that book of documents and we'll come to those, and I'm trusting we can work through them, but if there's any objection, certainly my friend, Ms. Murphy, will have an opportunity to -- to indicate.

--- EXHIBIT PUB-6: Exhibit binder of documents containing Information Responses and information from Centra related to its application, as well as its February 19th filing.

MR. BOB PETERS: In addition, on the exhibits, Centra Exhibit 1 would be their application dated December 18th, that was filed at the pre-hearing conference, as was Centra Exhibit 2, which was a draft timetable.

Centra Exhibit 3 was the affidavit of

publication and service.

Centra Exhibit 4 would be an advance metering infrastructure report filed February 2nd.

Centra Exhibit 5 would be an affordable energy program marketing program.

And Centra Exhibit 6 would be the furnace replacement program, filing of December 23rd and updates on February 19th.

--- EXHIBIT CENTRA-4: Advance metering infrastructure report filed February 2nd

--- EXHIBIT CENTRA-5: Affordable energy program marketing program.

--- EXHIBIT CENTRA-6: The furnace replacement program, filing of December 23rd and updates on February 19th.

MR. BOB PETERS: Turning to Centra Exhibit CAC/MSOS number 7, that's Centra/CAC/MSOS number 7, is the Information Request posed of CAC/MSOS, and it dealt with the curriculum vitae of Mark Stauft.

--- EXHIBIT CENTRA/CAC/MSOS-7: Information Request posed of CAC/MSOS, and it dealt with the curriculum vitae of Mark Stauft

MR. BOB PETERS: Then Centra Exhibit 8 would be the rebuttal evidence that was filed by the Utility.

--- EXHIBIT CENTRA-8: Rebuttal evidence filed by the Utility.

MR. BOB PETERS: And then Centra Exhibits 9-1 through 9-7 would be the witness qualifications of those appearing on the first and second witness panels.

--- EXHIBIT CENTRA-9-1 TO 9-7: Witness qualifications

MR. BOB PETERS: Turning to the exhibits on behalf of CAC/MSOS, I propose that we mark as Exhibits 1-1 through to 1-21, the first round Information Requests and Centra's responses, and Exhibits 2-22 following through to 2-35 would be the second round Information Requests.

--- EXHIBIT CAC/MSOS-1-1 through to 1-21:

First Round Information Requests.

--- EXHIBIT CAC/MSOS-2-22 TO 2-35:
Second Round Information Requests.

MR. BOB PETERS: And CAC Exhibit number 3 would be the evidence of Mr. Mark Stauft dated, March 18th of 2010.

--- EXHIBIT CAC/MSOS-3: Evidence of Mark Stauft dated March 18th, 2010.

MR. BOB PETERS: Turning to, excuse me, Just Energy (Manitoba) L.P.'s exhibits, I propose that Exhibit JEMLP/Centra 1-1 through 1-4 would be the exhibits related to Just Energy's first round Information Requests and Centra's responses to those Information Requests.

--- EXHIBIT JEMLP/CENTRA-1-1 TO 1-4: Just Energy's first round Information Requests and Centra's responses to those Information Requests.

MR. BOB PETERS: There will be additional exhibits that we will provide this morning and perhaps even through opening comments by other parties, so we'll keep that list at hand, Mr. Chairman.

Subject to any questions that you may have for me at this time, those conclude my opening comments. I will again suggest that the Board turn to Mr. Saxberg, counsel to CAC/MSOS, for his opening comments before turning to Ms. Ruzycki for her opening comments. Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Peters. Mr. Saxberg...?

OPENING COMMENTS BY CAC/MSOS:

MR. KRIS SAXBERG: Thank you. Good morning, Mr. Chairman and members of the Board, ladies and gentlemen. It's nice to see everybody again. My name's Kris Saxberg and I'm the lawyer for the Consumers' Association of Canada (Manitoba) branch and the Manitoba Society of Seniors.

These organizations represent, notionally, at least, the residential consumers of natural gas in Manitoba. As in previous applications, CAC/MSOS will be here throughout the Hearing and will participate in all aspects of the process, including cross-examination, presentation of evidence, and closing submissions.

With me in the room today is my client, Gloria DeSorcy, at the back of the room, who is the Executive Director of the Consumer's Association of Canada (Manitoba) Inc. And sending her regrets is Kim Wheiss, who is the Executive Director of the Manitoba Society of Seniors.

CAC/MSOS has presented evidence in this proceeding in the form of a report prepared by Mark Stauft, who is familiar to this Board. The report is fairly narrow in its focus. It deals primarily with the new gas supply contract that Centra has entered into with ConocoPhillips.

It's my clients' practice to instruct its consultants to provide an independent written report with respect to their views of Centra's application and the issues that arise and it's on that basis that my client's intervene.

In this case, Mr. Stauft produced a report, and it's been filed as an exhibit in the cause, as Mr. Peters just mentioned. Centra has since advised that it's not interested in challenging Mr. Stauft's evidence through a cross-examination. For that reason, CAC-MSOS has decided not to call Mr. Stauft to provide oral testimony at the hearing.

CAC-MSOS will be relying on Mr. Stauft's evidence though, and the fact that Centra chose not to challenge that evidence through cross-examination, and will be relying on -- on that in support of recommendations that we expect to be making in closing submissions.

For its part, for the record, Centra has stated that its decision not to cross-examine is not to be taken as a sign of the company's concurrence with Mr. Stauft's position, and that's acknowledged.

From my vantage point, I would submit that the facts in issue will be made apparent during cross-examination of the Centra panel, and at the end of the day it may be that the debate turns on policy and opinion rather than findings of fact.

The primary focus of my clients' intervention, thus, is to ensure that the new gas supply arrangements are prudent and appropriate, and that the methodology for securing reliable gas at Alberta market prices is the most optimal methodology at this point in time, and going forward.

The problem with assessing the appropriateness of the new gas supply arrangements, however, is that Centra has refused to make the contract, or the details of the contract available to these Intervenors. Centra has, we understand, filed a copy of the contract with the Board in confidence.

And so that means, I suppose, that everyone in this room, save and except for those on this side of the hearing room that I'm sitti -- seated at, have seen the contract and its pricing mechanisms. And I just want to note that -- for the record, that that puts CAC/MSOS at a serious disadvantage in terms of the effectiveness of -- of its intervention, and -- and may result in some awkward moments through the course of the proceeding.

CAC/MSOS has not made a motion to compel production of the contract, at least not yet. And we intend to test the Centra panel -- panel as to the reasons for the non-disclosure, and then afterwards, consider our position.

We presume that the Board hasn't decided the issue, and that the matter is, therefore, very much alive in this proceeding. Procedurally we're of the view that Centra should have made a motion with evidence in support to seal this file, or to make this process -- this proceeding go in-camera with respect to the review of the contract, rather than -- than doing what it's done here, which is just simply make a unilateral decision on its own without first consulting with stakeholders about the impact of -- of this -- of this very important decision to withhold the production of the details of the contract.

This Board is imbued with all of the powers of the Court of Queen's Bench with respect to matters, including the production of documents that are necessary for the Board to have in order to fulfill its purpose and mandate under the Public Utilities Board Act.

A confidentiality agreement, if there is such an agreement in place here, and -- and I haven't seen any information on the record that says that there is, does not supercede the jurisdiction of the Board.

So the Board is free at any point in the Hearing that it feels appropriate, or after perhaps one of the Intervenors makes a motion, to consider the matter and to rule on it. And so we'll have to see how that issue plays itself out during the course of the Hearing.

Those are my introductory remarks, subject to any questions that you may have, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Saxberg.

Ms. Ruzycki for Just Energy.

OPENING COMMENTS BY JUST ENERGY:

MS. NOLA RUZYCKI: Good morning, Mr. Chair, Board members, others. I am here representing Just Energy (Manitoba) L.P., and I will be in attendance today -- most of today and most of tomorrow. I don't anticipate to have a large number of questions. They'll mainly be focused on the new ConocoPhillips' contract and the fixed-price offering. And that's all I have.

THE CHAIRPERSON: Thank you.

Now, Ms. Murphy, your turn for opening comments and introductions before we ask the Centra witness panel be sworn. After the witness panel is sworn, we can proceed with Centra's direct evidence.

OPENING COMMENTS BY CENTRA GAS MANITOBA:

MS. MARLA MURPHY: Thank you, Mr. Chairman. Good morning, Mr. Chairman and members of the Board, Board advisors, ladies and gentlemen.

For the record, my name is Marla Murphy, and I appear on behalf of Centra Gas Manitoba this morning. With me is Mr. Vince Warden, who's the senior vice president, finance and administration, and chief financial officer for Centra; Mr. Howard Stephens, who's the division manager of gas supply; Mr. Neil Kostick, manager, gas supply, transportation and storage; Mr. Brent Sanderson, manager, gas market analysis and administration; and Mr. Greg Barnlund, who's the manager of regulatory services.

We're also assisted by the able people

behind us: Lori Stewart, Terrill Sigurdson, Terri Bercier, and Cory Radic (phonetic). Thank you -- sorry, Cory Rach, I'm sorry.

Just by way of a housekeeping matter, I should note that I believe there's one more exhibit to be marked on the Centra exhibit list this morning.

We circulated electronically a letter of April 13th which included six (6) different items to be updated: PUB/Centra 34(b); PUB/Centra 45(b) with a revised attachment; PUB/Centra 63, revised; PUB/Centra 67 and 68; and the rate schedules and bill impacts for May 1st. We have copies that have been circulated this morning, and additional copies available for anyone who doesn't have it in the room.

I'd suggest that that be marked as Centra Exhibit Number 10, if that's acceptable.

THE CHAIRPERSON: That's fine, and we have it.

--- EXHIBIT NO. CENTRA-10: Updated items: PUB/Centra 34(b); PUB/Centra 45(b) with a revised attachment; PUB/Centra 63, revised; PUB/Centra 67 and 68; and the rate schedules and bill impacts for May 1st.

MS. MARLA MURPHY: I don't intend to make any formal comments this morning, so if the panel could be sworn, we could begin with direct.

THE CHAIRPERSON: Thank you.

Mr. Singh, please.

CENTRA COST OF GAS PANEL:

VINCE WARDEN, Sworn
HOWARD STEPHENS, Sworn
NEIL KOSTICK, Sworn
BRENT SANDERSON, Sworn
GREG BARNLUND, Sworn

THE CHAIRPERSON: Thank you, Mr. Singh.

MS. MARLA MURPHY: I should just indicate also, Mr. Chairman, that the witness CVs were filed this morning and they're Exhibits 1 -- Centra 9-1 through 9-5 for this particular panel.

I'll begin with Mr. Warden.

EXAMINATION-IN-CHIEF BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Mr. Warden, are you familiar with the application and the evidence filed on behalf of Centra Gas and marked as Centra Exhibit 1 in this proceeding?

MR. VINCE WARDEN: Yes, I am.

MS. MARLA MURPHY: And was that evidence prepared under your direction and control?

MR. VINCE WARDEN: Yes, it was.

MS. MARLA MURPHY: Is the evidence filed as Centra Exhibit 1 true, to the best of your information and belief?

MR. VINCE WARDEN: Yes.

MS. MARLA MURPHY: And do you adopt that evidence on behalf of Centra Gas?

MR. VINCE WARDEN: Yes.

MS. MARLA MURPHY: Mr. Warden, could you please outline your areas of responsibility with respect to this panel?

MR. VINCE WARDEN: Yes. I will be discussing policy issues with respect to gas supply matters.

MS. MARLA MURPHY: And could you please outline for the Board what Centra's seeking with this application?

MR. VINCE WARDEN: Yes, Centra's application is described more fully at tab 2 of its application. However, in summary, Centra is seeking the following:

Number 1. Approval of supplemental gas transportation to Centra and distribution to customers, sales and transportation rates effective May the 1st, 2010.

Number 2. Approval of November the 1st, 2009 to October 31st, 2010, forecast gas costs estimated as of November the 2nd, 2009, to be approximately $300.6 million, including non-primary gas costs of 69.1 million.

Number 3. Final approval of the balances and dispositions of non-primary gas PGVA and gas cost deferral account balances accumulated to October 31st, 2009, with carrying costs to April the 30th, 2010, of approximately 2.8 million.

And the final approval -- Number 4. Final approval of gas costs from November the 1st, 2008, to October 31st, 2009, of 437.0 million.

Centra is also seeking final approval of various interim Orders issued by the PUB, including Order 170/09 relating to Centra's hedging of primary gas purchases.

And, Mr. Chairman, as you requested in our opening remarks, we will put together a summary of the customer rate impacts of all the rates -- all the changes to be implemented effective April -- I'm sorry, May the 1st, 2010.

MS. MARLA MURPHY: Mr. Warden, do you have any comments on PUB Order 170/09, which directed Centra to phase out hedging by August of 2011?

MR. VINCE WARDEN: Yes, I do. This has been a very difficult issue, obviously, we are all very concerned about the significant increase to gas costs that have occurred during a downward trend in gas prices. However, Centra does need some method of addressing extreme volatility in natural gas prices.

I can assure you that if we were faced with a 20 percent rate increase in February of a cold winter in the absence of hedging, we would need some other method to smooth the rate impact. Hedging has been very effective in constraining volatility in gas prices.

While Centra has chosen not to apply to review and vary Order 170/09, we do question whether the total elimination of hedging is the best course of action.

We will be reviewing this matter over the next several months and we expect to apply to the Board for some alternative rate-smoothing methodology at the appropriate time.

As a matter of interest to the Board, I did conduct a quick survey of my counterparts in other Utilities in Canada, and I have found that - and I'll just go across Canada very quickly - the Utilities that I've talked to.

In BC, hedging is in place for 60 to 75 percent of the volumes.

In Alberta there is no hedging; 0 percent in Alberta.

In Saskatchewan, 75 percent of volumes.

In Quebec up to 75 percent of volumes.

In Ontario, the hedging program was discontinued by the OEB in the summer of 2007, due to similar circumstances that we've seen here, and that was due to losses that were occurring in a declining price environment.

MS. MARLA MURPHY: Mr. Warden, could you please provide the Board with a brief update on recent TCPL matters and the impact of those proceedings on Centra.

MR. VINCE WARDEN: Yes, in response to a substantial drop in throughput on the TransCanada main line, TransCanada implemented a significant increase to its transportation tolls.

While TransCanada justified the need to recover its fixed costs over declining volumes, the toll increase resulted in a very negative reaction from local -- local distribution companies, including Centra Gas

Manitoba.

TransCanada responded to its customers' demands by discussing various concepts at the Tolls Task Force of which Centra is an active member. While these matters are still under discussion, Centra is encouraged by the willingness of TransCanada to recognize and address this serious issue. Essentially, TransCanada is attempting to improve the competitiveness of the main line by lowering tolls and increasing throughput.

TransCanada is proposing to discuss a new business model with its stakeholders throughout the summer and present a comprehensive package by the end of September 2010.

MS. MARLA MURPHY: Mr. Warden, are there any other matters that you'd like to update the Board on?

MR. VINCE WARDEN: Yes, I thought it might be helpful to provide the Board with a brief update on the financial position of Centra at this time. You may recall that Centra ended the fiscal year March 2009 with a net income of $9 million, which was $6 million higher than the $3 million forecast for that year.

The higher than forecast net income was largely due to the colder than normal weather experienced from December of 2008 to March of 2009. This fiscal year, 2009/'10, we seen a complete reversal of the financial -- the positive financial results of 2008/'09.

In fact, warmer-than-normal weather, combined with the impacts of the economic downturn will likely result in a net loss for Centra for the 2009/'10 fiscal year. While results are still very preliminary, we won't be publishing our results for another couple of months, the forecasted net income will not be achieved and a net loss will likely be incurred.

On a much more positive note, I am pleased to inform you that Centra was recently recognized by the Canadian Gas Association for having the best annual safety record among natural gas utilities in Canada. This is the second time in three (3) years that Centra has been -- has received this award, and it recognizes the high priority that Centra and its employees place on safe-work practices.

Thank you. That concludes my opening comments.

MS. MARLA MURPHY: Thank you, Mr. Warden.

Mr. Barnlund, we'll go to the far end and ask you to outline your responsibilities with respect to this Hearing.

MR. GREG BARNLUND: Good morning, Mr. Chairman, members of the Public Utilities Board, ladies and gentlemen. I will be appearing on both witness panels for this application and will testify to the approvals being sought by the Corporation in this application, matters arising from Centra's 2009/'10 and 2010/'11 General Rate Application, the confirmation of interim orders, and the regulatory treatment of the new gas supply contract.

MS. MARLA MURPHY: Mr. Barnlund, can you just review for the record the approvals that were received by Centra since it last appeared before this Board in the spring of 2009?

MR. GREG BARNLUND: Certainly. Centra appeared before this Board ten (10) months ago, in June 2009, in a public hearing for its 2009/'10 and 2010/'11 General Rate Application.

Flowing from that application, the Board issued order 116 of 09 on July 27th, 2009 which approved both primary gas and non-primary gas rates on an interim basis effective August 1, 2009. Centra is now seeking final approval and confirmation of those matters in this application.

On September 16th, 2009 this Board issued a second order in respect to that General Rate Application. In order 128/09, the Board directed certain adjustments to Centra's revenue requirement, including adjustments to finance expense, inclusion of $3.8 million in each test year for continuation of funding for the furnace replacement program and adjustments to the amortization of DSM investments.

The Board further directed certain changes to the level of basic monthly charge and the implementation of non-gas rates on May 1, 2010, which Ms. Derkson will testify to when the second panel is called later in this Hearing.

Centra filed revised revenue requirement, rate base, and cost of service schedules reflective of the directed changes on February 19th, 2010, and those schedules underpin Centra's current application insofar as non-gas cost recoveries are concerned.

MS. MARLA MURPHY: Mr. Barnlund, are there other interim Orders that Centra would like confirmed at this time?

MR. GREG BARNLUND: Yes. On October 29th, 2009 the PUB issued Order 147 of 09, and on January 13th, 2010 the PUB issued Order 4 of 10, both of which approved on an interim basis primary gas rates for November 1, 2009 and February 1, 2010 respectively.

Centra is seeking those Orders and the rates from those Orders to be confirmed as final in this proceeding.

MS. MARLA MURPHY: Mr. Warden made

mention this morning of order 170/09. Can you provide some additional information regarding the application that gave rise to that Order?

MR. GREG BARNLUND: Yes. On October 9th, 2009 Centra sought approval of a revised derivatives hedging policy and derivatives hedging operation principles and procedures from this Board.

Through a written process, the Board sought comments from interested parties, and also sought Centra's reply to those comments. Those documents were filed in this proceeding in response to information request PUB Centra 22-A.

The PUB weighed the evidence provided in those submissions and issued interim Order 170 of 09 on December 21st, 2009. That Order was issued on an interim basis to be confirmed, varied, or otherwise dealt with through this public Hearing process.

Centra has filed no new evidence in this proceeding seeking any variance to that Order.

MS. MARLA MURPHY: Mr. Barnlund, can you please speak briefly to the regulatory approvals that Centra seeks in regards to the new gas commodity supply contract?

MR. GREG BARNLUND: Certainly. As discussed at the 2009 Hearing for the General Rate application, Centra had entered into an RFP process to obtain competitive proposals for the provision of its primary gas supply requirements.

This process concluded in 2009 with Centra entering into an agreement with ConocoPhillips Canada Marketing and Trading ULC. In this proceeding, Mr. Kostick will provide testimony on those matters.

On October 16th, 2009, Centra filed information on the public record as to the selection matrix and the redacted results of the evaluation of the competing primary gas supply proposals.

Under separate confidential filing, Centra provided the PUB with details of the contract that was negotiated entered in -- and entered into between the two (2) parties. Centra has requested this contract -- contractual detail be treated on a confidential basis.

The justification for Centra's request for confidentiality has been given in response to Information Requests PUB/Centra 64-B, and in the responses to CAC-MSOS/Centra 1-A and 2-A.

Centra is not seeking PUB approval of the contract itself, rather, it seeks approval of the gas cost consequences that arise from these arrangements. This approach is consistent with past regulatory practice in this jurisdiction.

MS. MARLA MURPHY: Thank you, Mr. Barnlund.

Mr. Kostick, could you please outline your areas of responsibility with respect to this application?

MR. NEIL KOSTICK: Yes. Good morning, Mr. Chairman, members of the Board, ladies and gentlemen. In my testimony, I will be providing evidence with respect to Centra's gas supply contract, the RFP process, storage and transportation operations, and the Capacity Management Program and its results.

MS. MARLA MURPHY: Mr. Kostick, can you please describe the recent developments with respect to Centra's gas supply st -- transportation and storage arrangements?

MR. NEIL KOSTICK: Yes. Through a comprehensive RFP process that concluded in 2009, Centra entered into a new three (3) year supply contract for primary gas, which took effect November 1st, 2009.

The new contract provides for reliable firm supply, with embedded optionality to adjust required volumes on a day-to-day and intra-day basis in order to respond to weather-driven load variability.

Centra's new supplier is ConocoPhillips Canada Marketing and Trading. This contract replaced the two (2) year contract with another supplier, that expired on October 31st, 2009. Centra is currently engaged in a review of transportation and storage alternatives, including their impact on go -- gas commodity acquisition, in advance of the expiry of its US transportation and storage contracts in 2013. This process, which will include stakeholder consultation is expected to extend into 2011.

MS. MARLA MURPHY: Mr. Kostick, can you please summarize the Request For Proposal process that Centra undertook in connection with the new gas supply contract?

MR. NEIL KOSTICK: Certainly. Centra issued an RFP to fifty (50) counter-parties, and this RFP was developed with the assistance of ICF International. Six (6) proposals were received and evaluating -- and evaluated according to the matrix included as the attachment to PUB- 16-A.

The matrix was designed to evaluate the potential suppliers and their proposals over a range of criteria in order to identify the best combination of supplier and proposal attributes available on the market for the specific service that Centra requires.

MS. MARLA MURPHY: Mr. Kostick, could you please detail the amounts included in this application arising from Centra's Capacity Management Program?

MR. NEIL KOSTICK: For the 2008/'09 gas year, actual capacity management revenues, excluding carrying costs, totalled $5.2 million as shown on schedule 4.3.1. The particulars of the types of transactions, and the revenues generated from each are also detailed on this schedule.

For the 2009/'10 gas year, incorporated in this application, Centra has forecast capacity management revenues at $6.96 million, excluding carrying costs, based on the five (5) year rolling average of Centra's actual capacity management results. These forecast amounts have been included on schedule 5.1.3(a), line 50.

MS. MARLA MURPHY: Thank you, Mr. Kostick.

Mr. Sanderson, would you please outline your areas of responsibility with respect to this panel?

MR. BRENT SANDERSON: Good morning, Mr. Chairman, members of the Public Utilities Board, ladies and gentlemen. In my testimony I will be providing evidence related to Centra Gas costs for -- Centra's gas costs for the period of November 1st, 2008, through October 31st, 2009, as well as the related PGVA and other gas cost deferral balances, and derivatives hedging results for the period from November 1st, 2008 to October 31st, 2009.

I will also be providing evidence with respect to Centra's gas cost forecast for the 2009/'10 gas year.

MS. MARLA MURPHY: With respect to the request for final approval of gas costs for the period November 1st, 2008 to October 31st, 2009, could you please provide the Board with the actual gas costs for which Centra is seeking approval?

MR. BRENT SANDERSON: Yes. Centra's request for final approval of gas costs for the period November 1st, 2008 through October 31st, 2009 is detailed in schedule 4.0.0, which identifies that final gas cost for that period were in the amount of $437 million.

MS. MARLA MURPHY: Mr. Sanderson, would you please outline the PGVA and other gas cost deferral balances for which Centra's seeking approval?

MR. BRENT SANDERSON: Centra's requesting final approval of all non-primary gas PGVA and gas cost deferral balances for the period of November 1st, 2008 to October 31st, 2009 in the amount of $10.4 million.

With amortization of prior period gas cost deferrals and carrying costs to April 31st, 2009, the total amount owing to Centra is approximately $2.8 million.

MS. MARLA MURPHY: Finally, Mr.

Sanderson, would you please outline the 2008/'09 gas year costs for which Centra's seeking approval?

MR. BRENT SANDERSON: Centra's forecast gas costs for the 2009/'10 gas year included a forward price strip as of November 2nd, 2009. The resulting gas cost forecast for the 2009/'10 gas year is $300.6 million, detailed in schedule 5.1.3(a).

This includes a forecast addition to gas costs of $19.8 million as a result of Centra's derivative hedging activities for the 2009/'10 gas year on a forecast basis. Of the 300 and point -- $300.6 million gas cost forecast for '09/'10, approximately $69.1 million is non-primary gas costs.

This amount represents an increase of approximately $12.1 million compared to the non-primary gas costs imbedded in existing base rates, as shown on schedule 5.1.4.

MS. MARLA MURPHY: Thank you, Mr. Sanderson.

Mr. Chairman, that concludes our direct evidence this morning, and the panel is available for cross-examination.

THE CHAIRPERSON: Thank you, Ms. Murphy. Mr. Peters...?

MR. BOB PETERS: Yes, thank you.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Good morning, panel. Mr. Warden, as the vice-president on this panel and just so we don't have a fight amongst vice-presidents on the next panel, I'll turn to you to direct any questions if -- they're open to all, but if you have someone you want to answer, you of course will let the Board know.

The Board is interested in the best corporate evidence of Centra Gas Manitoba Inc. Is that acceptable, sir?

MR. VINCE WARDEN: Just to be clear, we -- we never have a fight amongst vice-presidents.

MR. BOB PETERS: We'll wait to see and we'll congratulate Mr. Kuczek later.

Let's start with the last time you were before the Board, and it was mentioned in the direct evidence that there was a GRA filing ten (10) months ago, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And at that Hearing there was approval of non-primary gas rates, as well as primary gas rates, and non-gas cost rates as well.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And in the -- at the

time you were last before the Board the annual gas costs for the '07/'08 year, and that would have been the fiscal year of the company, were approved at approximately $400 million.

MR. VINCE WARDEN: I'll accept that, Mr. Peters, subject to check, but I think that's right.

MR. BOB PETERS: All right. And then there was also the 2008 stub period cost of gas that was approved for the period of April 1 to October 31 of 2008.

Do you recall that as well?

MR. VINCE WARDEN: Yes, I recall that.

MR. BOB PETERS: And you'll take it, subject to check, that that was approximately $123.7 million.

MR. VINCE WARDEN: I'll accept that, yes.

MR. BOB PETERS: And at that same time, when you were before the Board ten (10) months ago, you gave a forecast as to what the 2008/2009 gas year gas cost would be, and that would have been at $395 million, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And one (1) of the differences is that you migrated from your fiscal year to a gas year, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And the gas year commences on November 1st and ends on October 31, which doesn't line up with your fiscal year anymore.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: Can you tell the Board in general terms, having done that, has there been any benefit to consumers from migrating to the gas year as opposed to the fiscal year?

MR. BRENT SANDERSON: As we gave in evidence at the last General Rate Application hearing, the expectation was based on an historical analysis that moving to the management of the gas cost deferral accounts to the gas year period versus the corporate fiscal year period, would have historically reduced the magnitude of year-over-year residuals of the non-primary gas PGVA accounts by approximately 80 percent historically, relative to what the corporation brought forward for disposition each year since the unbundling of rates and PGVA accounts.

And the effect since we've moved to the gas year is that that anticipated benefit has been realized and the balance that we're bringing forward for disposition in this proceeding is much smaller than what would have historically been the norm.

MR. BOB PETERS: Is it as a result of the aggressive rate rider that -- that's still in place today, Mr. Sanderson, that's bringing down that PGVA balance for non-primary gas or is it the change in the gas year?

MR. BRENT SANDERSON: It's directly as a result of moving to managing the Purchase Gas Variance Accounts over the industry year period over which we balance our company's purchases and sales on behalf of customers. Previously, a lot of the year-over-year variation in these cum -- cumulative PGVA account balances were as a result of the mismatch between the annual period over which we balance purchases and sales and over which we were managing those accounts. So it's a direct result of the move to the gas year period.

MR. BOB PETERS: All right. And also, as was noted by the panel, the Board issued a second GRA Order 128 of '09; that contained various recommendations, as well as directives on the revenue requirement issues that you spoke about; correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And the application that you put before the Board, that Mr. Warden reviewed, when you're asking this Board for new rates on May 1st, for supplemental gas, transportation to Centra and distribution to customers, those we'll collectively the "non-primary gas costs."

Would that be fair?

MR. GREG BARNLUND: I'm sorry, Mr. Peters, could you repeat that?

MR. BOB PETERS: That was my easiest question. The -- what you're asking for in terms of May 1 approvals related to the new rates for supplemental gas, transportation to Centra and distribution to customers, those baskets we're all going to lump in as the non-primary gas costs, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And just so we're clear, the supplemental gas represents the gas not procured necessarily from the Western Canadian Sedimentary Basin but it provides gas to meet the load throughout the colder portion of our season?

MR. GREG BARNLUND: I believe you could characterize it as that, yes.

MR. BOB PETERS: And then the transportation to Centra represents the transportation tolls and charges that the Utility has to pay, and those transportation tolls are either by way of contract or by a federal regulator?

MR. GREG BARNLUND: That’s correct.

MR. BOB PETERS: And then the distribution to customers' portion of the non-primary gas costs, that's just a small portion related to unaccounted-for gas and I believe also the Minell pipeline charges?

MR. GREG BARNLUND: Yes, that’s correct.

MR. BOB PETERS: Mr. Warden mentioned that the November 1, 2009 to October 31 of 2010 forecast gas costs are forecast at $300.6 million, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And of that $300 million there was approximately $69 million that was related to non-primary gas costs?

MR. GREG BARNLUND: That’s correct.

MR. BOB PETERS: All right. We'll come to a review of that in a few minutes.

What that's telling the Board is that based on Centra's forecast, there would be $231 million of primary gas cost needed in the current gas year?

MR. GREG BARNLUND: Based on the forecast of November 2nd, yes.

MR. BOB PETERS: Just while I have that thought, is there an advantage to Centra, to consumers, if Centra comes before the Board with a more current forecast than the November 2nd, 2009 forecast that is before them now?

MR. GREG BARNLUND: With respect to the primary gas portion of our annual forecast gas costs that you referred to, the quarterly rate adjustment mechanism, that's implicit in that mechanism. And I think, as you well know, there's a more up-to-date forecast before the Board right now, and for consideration with respect to May 1st rates for our primary gas costs.

With respect to the -- what you characterized as the non-primary gas costs, we've looked at the numbers at this point, and with the more -- the most up-to-date figures that we have, the forecast residual as at October 31st, at this point in time, is still expected to be less than 1 percent of our annual purchase gas cost forecast.

So given the -- the extent of work that would be required to fully update the application for a more current strip for the non-primary gas costs, I -- in my opinion, I don't believe that the effort will be warranted at this point.

MR. BOB PETERS: Just so the Board's aware of, when you say "effort," can you put that into person hours, or person days, or weeks?

MR. BRENT SANDERSON: You're really putting me on the spot here, Mr. Peters. It -- it feeds through every element of the application. Rates would have to be re-designed and re-struck. The analytical group would have to re-cast all of the forecasts and so forth. And it would be significant. I really wouldn't be in a position to be able to give you an hour figure, but it would be significant.

Also, keeping in mind that we still have a significant portion of the gas year ahead of us, and any variance that we might pick up, however small in -- that might affect the rates at this point could be offset by future changes over the remainder of the gas year if conditions aren't normal.

MR. BOB PETERS: And I suppose the other point is that what you -- what you get wrong with the forecast from November 2nd, 2009 on non-primary gas costs, is going to end up in a deferral account?

MR. BRENT SANDERSON: That's correct, and we will apply carrying costs to whatever that balance is either owing to the customer, or to Centra, and it will be brought forward at a future dispos -- a future hearing for full disposition.

MR. BOB PETERS: The comment -- the second last comment you made, Mr. Sanderson, about there's a lot of the gas year left, but not a lot of volumes left?

MR. BRENT SANDERSON: We have actual

figures up to the end of February at this point. So there is -- the weather can turn. I think if we all think back to last year, we could -- we could get some unexpected cold for a significant period of time over the remaining few months. But on the whole, in the summer months, there is much less volume in the winter, but there is still the opportunity for a significant turn in the weather, which may result in increased loads.

MR. BOB PETERS: All right. Included in the application that Mr. Warden spoke about, and that we just talked about was final approval and disposition of non-primary gas, purchased gas variance accounts, as well as the gas cost deferral accounts that have accumulated to October 31 of '09?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And from October 31 of '09, those accounts are collecting or accruing carrying costs at Centra's short-term borrowing rate?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And the forecast to April 30th of this year is that the net amount of those deferral accounts, those PGVAs, is $2.8 million?

MR. GREG BARNLUND: On a forecast basis, yes.

MR. BOB PETERS: And it can only be that, because you just told us you only have accurate until the end of March?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: Also being sought from the Board, in item D of the application, and that would be found at tab 1 of the book of documents, is the approval of the actual gas costs from November 1, '08 to October 31, '08 of $437 million, correct?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And that $437 million represents primary gas, as well as non-primary gas costs, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And just so the Board has a comparator, that $437 million of last gas year's costs would be comparable to item B in your application at tab 1 of the book of documents and, that is, about $300 million being forecast for the current gas year?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: When you were last before the Board, your forecast to the Board was that the gas costs from November 1, '08, to October 31, '09 were going to be $395.9 million?

MR. GREG BARNLUND: Yes, I believe that's correct.

MR. BOB PETERS: And they've come in at $437 million?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: Included in the application, an item number -- item -- or lettered "E" on the application at tab 1 of the book of documents - that's 1(e) - is the final approval of the supplemental transportation and distribution sales rates effective August 1st, '09 which were approved on an interim basis in Order 116/09.

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And the differences between what was forecast and what has been actual will be in the PGVAs that we're going to talk about?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: All right. Finally, the final approval of primary gas rates since August 1st, that includes the August 1st primary gas rate in Order 116 of '09, the November primary gas rate in Order 147 of '09, and the February 1st primary gas rates in Order 4 of '10.

Have I got them all?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: All right. And we'll come to -- to it as well. The Chairman, in his opening comments, mentioned Order 170 of '09. Mr. Warden also commented on that in his direct evidence. I took from those answers to -- that Mr. Warden provided, Centra has Order 170 of '09, but they're not asking to review or vary it in any way in this proceeding.

MR. GREG BARNLUND: That's correct, sir.

MR. BOB PETERS: And we'll talk about what may come down the road a little bit later.

If we turn to the last time you were before the Board, all three (3) of your -- all three (3) rate structures, that is, for primary gas, for non-primary gas costs and for non-gas costs all changed, or were sought to change, as a result of a GRA last year.

MR. GREG BARNLUND: It's correct that we had applied for changes on all three (3), yes.

MR. BOB PETERS: And, in fact, on May the 1st of this year, if Centra's applications are approved as filed, all three (3) of those will again change in -- in a few weeks from today.

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: Let's talk about the non-primary gas costs and rates, just from a high level. Those non-primary gas costs and rates also related to the supplemental gas, transportation and distribution to customers at the GRA, and those were last changed in

Order 116 of '09.

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: In terms of non-gas costs, this is often thought about, at least in my mind, as the distribution cost, but not counting the UFG and the Minell portion.

MR. GREG BARNLUND: That's fair, yes.

MR. BOB PETERS: And last time you were before the Board, you were not seeking a change to the non-gas costs on August the 1st of 2009, but rather Centra wanted to increase the distribution rates by 1 percent on February 1st of 2010 to cover the first year's -- or the first test year's revenue requirement.

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: The second test year - that would have been 2010/2011 - Centra sought a May 1 of 2010 increase for those non-gas costs, and you're still seeking that with the filing that was made on February 19th.

MR. GREG BARNLUND: Yes, we are.

MR. BOB PETERS: Just while we're at it, Mr. Chairman, the February 19th filing by Centra has not been included in its entirety in the book of documents that I've put before the Board but, I think for the completeness of the record, I would ask the Board to mark as Exhibit Number 11 Centra's February 19th filing, and that filing was in response in Board Order 128 of '09.

Is that correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: All right. Mr. Chairman, if we could make note of that, we'll have the entire -- the entire February 19th filing as an exhibit, although, as I mentioned, I will have only extracts of it in the book of documents before you.

THE CHAIRPERSON: That's fine.

--- EXHIBIT NO. CENTRA-11: Centra's February 19th filing in response in Board Order 128/09

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Now in terms of the non-gas costs, I guess we've -- we've agreed that we can consider that the deprec -- or the distribution rates, but it would compi -- it would comprise such elements as the operating, maintenance, and administration costs, depreciation, amortization, as well as finance costs.

That's the type of costs we were talking about at the GRA?

MR. GREG BARNLUND: Yes, Sir, those are those costs.

MR. BOB PETERS: And there was no rate increase awarded for August 1st, the first test year for those na -- non-gas costs, is that correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And there was no rate increase at any time for those first test year non-gas costs, is that correct?

MR. GREG BARNLUND: That's correct. We had not sought a rate. That form of rate change for August 1, we had applied for that rate change to be effective February 1, but that was not ultimately approved.

MR. BOB PETERS: All right. And then if we turn to the book of documents to tab 2, Mr. Chairman and Board members, I think if we turn to schedule 310, it's located in the middle although closer to the back of the filing at tab 2, you can confirm, Mr. Barnland that tab 2 is now extracts of Exhibit 11 that we just referenced.

MR. GREG BARNLUND: Yes, sir, it is.

MR. BOB PETERS: And you've located schedule 1 -- sorry, schedule 3.1.0?

MR. GREG BARNLUND: Yes, I have that.

MR. BOB PETERS: And if we look at the first test year in column 3 we can see there were some changes, and these are the impacts of the changes as a result of the Board order, sir, is that right?

MR. GREG BARNLUND: That's correct. Those changes are reflective of the changes to revenue requirement that were directed in 128/'09.

MR. BOB PETERS: And what the Board will see as it goes down the net change column, number 3, is that depreciation and amortization changed by about $3.5 million, and that reduction in amortization expense was from moving from a five (5) year amortization period on DSM costs to ten (10) years, is that correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And the parent company, or the affiliate company, Manitoba Hydro, on the electric side uses a ten (10) year amortization window as well?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: There's also finance expense adjustment. There was a new forecast for finance expense, and it was $1.1 million lower than what came in at the GRA, is that correct?

MR. GREG BARNLUND: I think there is also some further direction in terms of the short-term interest rate to be used in the calculation of the finance expense, and the net of -- net effect of those -- of those impacts is reflected in column 3 there at line

17.

MR. BOB PETERS: All right, I was trying to be polite. There were interest rate adjustments in terms of what was asked of the company to use in its forecasts.

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: All right. And then we see there's a $3.8 million addition to the revenue requirements, and that relates to the furnace replacement program being re-instated or continued on in recovery of rates, correct?

MR. GREG BARNLUND: That's correct. The Board directed that we sustain the funding for the furnace replacement program at $3.8 million for each of the test years and to continue on doing so.

MR. BOB PETERS: And that $3.8 million, Mr. Barnlund, is from the SGS class only.

MR. GREG BARNLUND: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: Before I leave the first test year, and looking at that depreciation and amortization reduction of $3.5 million, you agreed with me that that came about as a result of the reduction in -

- sorry, by -- by moving from a five (5) year amortization period to a ten (10) period for demand side management, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And for the years 2007/'08 and 2008/'09 Centra used a five (5) year amortization period?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: Now, the balance for those two (2) years should now be amortized over eight (8) and nine (9) years respectively to fully amortize the balances over a total of ten (10) years; wouldn't that be correct?

MR. GREG BARNLUND: Well, I believe that there's a response in PUB/Centra-68 that is addressing the amortization of the DSM expense, the adjustments that were made. The question was asked, and we've filed that response this morning in the -- in the materials that we've submitted here this morning, I should say.

MR. BOB PETERS: All right. And, Mr. Chairman, duly noted, as -- as part of Centra Exhibit 10 there was a response to PUB/Centra-68-A and -B filed, and Mr. Barnlund is drawing our attention to the -- the B portion of it.

Can you confirm, Mr. Barnlund, that the

rates were not adjusted to reflect the change in amortization?

MR. GREG BARNLUND: Could you be a little more specific? We changed amortization twice here, so.

MR. BOB PETERS: You -- you didn't change from the five (5) year amortization period.

MR. GREG BARNLUND: Let's try that again.

MR. VINCE WARDEN: Mr. Peters, perhaps I can respond to that. We -- we did change from the five (5) to the ten (10) year amortization period, as directed. We did that on a perspective basis and did not adjust the years 2007/'08 and '08/'09.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, when you -- when you give us that answer, what you're telling the Board is that even though you weren't applying for rate changes, you kept the five (5) year amortization in place for the 2007/'08 DSM expenditures for two (2) years, and then for the 2008/'09 DSM expenditures you used the five (5) year amortization for one (1) year?

MR. VINCE WARDEN: The five (5) year amortization was applied for the 2007/'08 and '08/'09 fiscal year. So, there are two (2) fiscal years to which the five (5) year amortization applied, so the ten (10) year amortiza -- ten (10) year amortization commenced in the fiscal year 2009/'10.

MR. BOB PETERS: So the accelerated amortization resulted in a cumulative revenue shortfall of approximately $4.4 million?

(BRIEF PAUSE)

MR. VINCE WARDEN: The $4.4 million is the amount referenced in response to part B of -- of PUB/Centra- 68.

MR. BOB PETERS: Well, can you -- can you confirm now, Mr. Warden, that the unamortized balances for 2008/'09 reflect the use of the higher amortization rate for the -- for the one (1) year?

MR. VINCE WARDEN: Yes, the -- the balance as -- as at March 31st of 2009 was amortized perspectively over a ten (10) year period.

MR. BOB PETERS: Do you agree that if the amortization took into account that Centra accelerated the amortization in 2008/'09, the result would be approximately four hundred and ninety thousand dollars ($490,000) less of amortization expense in each of those years?

MR. VINCE WARDEN: No. No. Had we amortized at the longer period of ten (10) years for '07/'08 and '08/'09, the amortization would have been less in the amount of -- a total of $3.3 million for those two (2) years.

(BRIEF PAUSE)

MR. BOB PETERS: In any event, I'll come back to that I think, Mr. Warden, but the -- the net result on non-gas cost items was that there were no rate increases were approved, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And the net result was that the forecast net income would be reduced by about $900,000, which was then going to bring it down from 2.9 million to closer to $2 million on a weather-normal basis?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Mr. Warden, if I recall, Mr. Derksen from last year telling the Board that for the months of April and May it was colder than normal and the result was that there was $2 million more of net income than on a weather-normal basis, he was accurate as of April and May of last year?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And you told the Board then in your opening comments that that trend of colder than normal didn't hold for the balance of the year?

MR. VINCE WARDEN: That’s correct. This past winter has been very -- much warmer than normal.

MR. BOB PETERS: And so that while after the Board Order there would have been an expectation of net income of approximately $1.979 million, your evidence today, without giving numbers, is that there will be a negative number in front of net income, whatever that amount is?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: In terms of the order of magnitude, are you at liberty to provide an indication of the order of magnitude of the net loss for the -- for the last fiscal year?

MR. VINCE WARDEN: No. I might just mention that since this schedule was prepared, we had an updated financial forecast in the fall of 2009, so we were forecasting a net income of $4 million for Centra for the fiscal year '09/'10. So the net loss is -- to incur a net loss is quite a significant variance from the forecast.

However, no, I -- I can't -- at this point it's too preliminary to say just the order of magnitude of that -- of that loss.

MR. BOB PETERS: So just to be clear, the -- the net income will be a loss for the fiscal year? It's not just a loss relative to the $4 million that was forecast in your latest IFF, but it will be a negative number in absolute terms?

MR. VINCE WARDEN: Yes, it will.

MR. BOB PETERS: And on a weather-normalized basis, are you able to indicate what that result would be?

MR. VINCE WARDEN: Well, that -- that would have been -- the weather normalized would have been the $4 million that we had in the financial forecast in November of 2009. So that would have been the weather-normalized number.

MR. BOB PETERS: And on a weather-normalized number for -- for the year-end, though, is that a positive number?

MR. VINCE WARDEN: Well, that's -- that would have been the $4 million that was in our financial forecast. That would have been weather normalized. However, as it turns out with the warmer-than-normal weather, that will be -- now turn into a -- a negative number.

MR. BOB PETERS: It's a negative number on an actual basis but not on a weather-normal basis?

MR. VINCE WARDEN: That's true. Yes.

MR. BOB PETERS: All right. So, on a weather-normal basis, while you say 4 million was your last forecast, you're not prepared to indicate whether on a weather-normal bas -- sorry, on a weather-normal basis whether that 4 million survives at March 31 of 2010?

MR. VINCE WARDEN: No, because there are a number of other factors that come into that $4 million. So, no, I wouldn't be prepared to -- to say that is the precise weather-normalized number for -- for '09/'10.

MR. BOB PETERS: All right. And I appreciate we're dancing around it a little bit, Mr. Warden, but is that $4 million that was forecast on a weather-normal basis, that contains some actuals as well as some forecast; wouldn't that be correct?

MR. VINCE WARDEN: Yes, that -- that's true. If it -- it would have obtain -- contained actuals up until approximately August the 1st of -- of last year.

MR. BOB PETERS: Okay. In turning to non-gas costs for the second test year, that's the 2010/'11 fiscal year of the Corporation. Rates are sought effective May 1st of 2010, the panel has told me, correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And if we look at tab 2 of the book of documents, and back to your February 19th filing at -- which was extracts from Exhibit 11, contained in the book of documents, Centra was seeking a 1 percent increase in those distribution rates effective May 1st of 2010, correct?

MR. GREG BARNLUND: Originally, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Just help me out. Originally, and as you sit here today, you're still seeking that -- that 1 percent increase?

MR. GREG BARNLUND: Well, we're seeking to implement the increases that were approved with the adjustments to net -- or to revenue requirement that are identified in Board Order 128 of '09.

MR. BOB PETERS: All right. The -- the increase was to provide $5.9 million of additional revenue to the Corporation?

MR. GREG BARNLUND: Subject to check, yes.

MR. BOB PETERS: And we're looking here at column number 4 on schedule 310, Mr. Barnlund?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And included in that 5.9 or $6 million of additional revenue was a net income of approximately $3 million?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And in term of the Board's Order, we see in column number 6, the net change, that the finance expense was reduced by $1.8 million to reflect different interest rates, and that was really the lower short-term debt and long-term debt -- debt rates?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And the revenue requirement was, again, increased by 3.8 million to restore the furnace replacement program as receiving dedicated funding from the SGS class?

MR. GREG BARNLUND: Yes, that's true.

MR. BOB PETERS: There was a $4.9 million reduction, again, in amortization expense, and that related also to the DSM programs, going from five (5) years to ten (10) years?

MR. GREG BARNLUND: Yes, that's correct.

MR. BOB PETERS: And it's the same issue I was clumsy with in terms of talking to Mr. Warden, in terms of how the -- how the Utility calculated the unamortized balance of the DSM expenditures?

MR. GREG BARNLUND: Yes, it is the same. Yep.

MR. BOB PETERS: All right. And also we see in column number 6 in schedule 310, there was a $5 million reduction of an accounting provision for what I believe was IFRS and other risks facing Centra, correct?

MR. GREG BARNLUND: Yes, that's true.

MR. BOB PETERS: All right. So the net effect, as we see from that, is probably best seen -- if we turn to the last document in tab 2 of the book of documents, we have schedule 4.0.0. The result of what we went through in terms of the adjustments to revenue requirement is that Centra is now seeking non-gas rates for May 1st of 2010 to recover an additional $3.4 million of revenues.

Would that be accurate?

MR. GREG BARNLUND: Yes, subject to check.

MR. BOB PETERS: Well -- and the Board's going to have trouble checking that because at line 31 -- I'm sorry, at line 29, the non-gas cost of service in the far right-hand column is $147 million?

MR. GREG BARNLUND: That's right.

MR. BOB PETERS: And that number is 3.4 million higher than the non-gas cost of service that would result at existing rates. Can you confirm that?

MR. GREG BARNLUND: I'll take that subject to check, yeah.

MR. BOB PETERS: All right. So that's where the $3.4 million is going to come from?

MR. GREG BARNLUND: That's -- that's the genesis of it. That's fair.

MR. BOB PETERS: All right. Now to recover that $3.4 million of non-gas cost revenues for the second test year, the basic monthly charge is to increase for both the SGS class and the LGS class, correct?

MR. GREG BARNLUND: That's correct, but I guess I might recommend that we might want to discuss that with Ms. Derksen in the second panel as well too.

MR. BOB PETERS: All right. I'll make a note that we can speak to her about that, but in terms of -- I'll just keep pushing, and you'll push back when it's appropriate and --

MR. GREG BARNLUND: That's fair.

MR. BOB PETERS: My -- my point in raising that is that the SGS basic monthly charge increase and the LGS basic monthly charge increases, those were -- those were determined to the nearest dollar level, correct?

MR. GREG BARNLUND: They appear to be. They were not part of Centra's application. Centra had not applied for changes to the level of basic monthly charge, but those were directed by the PUB in 128/09.

MR. BOB PETERS: I wanted to talk about -- about how much revenue was raised as a result of the increase in the basic monthly charges to the SGS and LGS class; is that something I should wait to speak with Ms. Derksen about?

MR. GREG BARNLUND: I'd prefer so, yes.

MR. BOB PETERS: All right. I'll make a note and I'll come back to that. Would Ms. Derksen also be the person I should forewarn that I want to speak to her about the -- the method of allocation of the net income?

MR. GREG BARNLUND: Yes. I think all matters of cost allocation and rate design would be best discussed with Ms. Derksen.

MR. BOB PETERS: Not a problem. We'll maybe just cover off one (1) more area before the morning recess, if I could, Mr. Chairman, and that's just so the Board is aware, at Tab 3 of the book of documents, it contains Centra's request for final approval of actual gas costs for the last full gas year. That was November 1, 2008 to October 31, 2009.

Is that correct?

MR. BRENT SANDERSON: That's correct, Mr. Peters.

MR. BOB PETERS: And that's $437 million, Mr. Sanderson?

MR. BRENT SANDERSON: Yes, as shown at line 69 of Schedule 4.0.0.

MR. BOB PETERS: And when the Board last heard from you, Mr. Sanderson, you were telling them that it was going to be $396 million, and that's what -- what was approved in Order 116 of '09, correct?

MR. BRENT SANDERSON: That's correct.

MR. BOB PETERS: I'm not asking you to take it personally, but that was based on a forecast that you last had before the Board.

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: When we look at this schedule, Mr. Sanderson, and we see where the deviations from the last forecast, or what was approved by the Board, in the -- in what amounts -- the second column, the 2008/09 gas year approved, that's what the Board approved in -- in its -- in its Order 116, correct?

MR. BRENT SANDERSON: I guess, to be technical, Order 116, if I recollect correctly -- just -- just give me one sec.

Yes, sir.

MR. BOB PETERS: And now we see, in the second from the right-hand column, the actual costs that the company incurred, and we see that for the -- for the fixed costs, which are from lines 1 down to 17, there was a $1.9 million I will say adjustment to what was forecast last time to what the actuals ended up being.

MR. BRENT SANDERSON: I would characterize it as the actuals came in at $1.9 million higher than was in -- originally forecast.

MR. BOB PETERS: Well, Mr. Sanderson, would running the strip as we talked about -- and you wouldn't tell me how many -- how many weekends you'd have to work to do that -- as late as possible and just before you testified before the Board, would that remove some of that inaccuracy?

MR. BRENT SANDERSON: Not with respect to fixed costs. Those are not driven by market price movements in natural gas, generally speaking; they're more driven by unforecastable events such as adjustments in TransCanada Pipeline tolls and so forth.

MR. BOB PETERS: And that's what I wanted to turn to is -- is, if these are fixed costs, not dependent on volume, not dependent on market prices, how is it that they fluctuate that widely over a period of the ten (10) months you've been away?

MR. BRENT SANDERSON: Well, looking at the variances in -- in the schedule in question, the -- the variances that you see there, having a second look at, those are mostly the US components of our portfolio, our US pipeline and storage assets, and so that would be driven by fluctuations in US exchange rates.

MR. BOB PETERS: What exchange rate is embedded in your forecast?

MR. BRENT SANDERSON: You'll just have to give me one (1) moment.

(BRIEF PAUSE)

MR. BRENT SANDERSON: You just have to bear with me. We're dealing with a number of different forecasts and actual exchange rates, so I'm just going to have my resource on the back table pull that number up for me.

(BRIEF PAUSE)

MR. BRENT SANDERSON: Just to refresh my -- make sure I heard the question clearly, what was your question regarding the period that you're interested in, in terms of exchange rates, and whether it was actual or forecast?

MR. BOB PETERS: All right, let's -- let's approach it this way then, Mr. Sanderson. In Schedule 4.0.0 found at Tab 3 of the Board's counsels' book of documents you have the gas year fixed costs approved by the Board from order 116 of '09, and then you have the actuals, and your explanation, as I understood it, to the Board, was that some of that can be explained as a result of exchange rate fluctuations.

MR. BRENT SANDERSON: I would say virtually all of it. And I think -- and there -- it's safe to say the direction of that variance would imply, on the face of it, that our actual incurred Canada/US exchange rates were higher than was originally forecast and imbedded in rates.

THE CHAIRPERSON: Is that because of the plunge in the Canadian dollar that followed the, if you want to call it, economic crisis?

MR. BRENT SANDERSON: I'm sorry, I -- I couldn't hear the question; could you repeat it, please?

THE CHAIRPERSON: Following the failure, Lehman Brothers, et cetera, et cetera, et cetera, the Canadian dollar fell from practically par all the way down to seventy-six (76) cents; so this is what you're talking about, correct?

MR. BRENT SANDERSON: As to the -- the cause, that's, I guess, a subjective determination, but, yes, the Canadian dollar did fall significantly in value late in 2009 and in the earlier part of this year, and has since come back significantly.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Sanderson, I located the -- the number I was looking at at -- I found it at Tab 4, page 5 of 17 of your application. It's in your application, Tab 4, page 5 of 17.

You were forecasting a US exchange rate of one point zero two (1.02), and the actual appeared to come in through the winter period at closer to a dollar twenty-five ($1.25).

(BRIEF PAUSE)

MR. BRENT SANDERSON: Yes, that's correct, Mr. Peters.

THE CHAIRPERSON: Mr. Sanderson, just to help you, I think you just misspoke accidentally, inadvertently, when you were talking about the plunge in the Canadian dollar, that happened late 2008, not 2009.

(BRIEF PAUSE)

MR. BRENT SANDERSON: I'll have to go back and -- and refresh my memory as to the specific timing. I probably -- if -- if we want to talk in detail about when these moves happened, I think it'd be better if I just took it as an undertaking to go back and just clarify all of this.

THE CHAIRPERSON: Do you want to take the break now, Mr. Peters, give them a chance to --

MR. BOB PETERS: Yes, that would be fine, Sir.

THE CHAIRPERSON: Okay, we'll have our midmorning break now.

--- Upon recessing at 10:30 a.m.

--- Upon resuming at 10:57 a.m.

THE CHAIRPERSON: Okay, welcome back, everyone.

MS. MARLA MURPHY: Mr. Chairman, just before Mr. Peters resumes, I might note that we circulated over the break Schedule 1.2.0, which should have been included as part of the April 13th letter in

Centra's Exhibit 10. So it's -- the very last page can be attached to the package. Thank you.

THE CHAIRPERSON: Thank you. Have we solved the issue of when the Canadian dollar plummeted?

MR. BRENT SANDERSON: Yes, Sir. I guess time flies a lot faster than we think it does, and, yes, you are correct, sir, in that it was approximately October 2009 as the financial crisis was wrapping up that we saw a significant move up in the value of the US dollar, and that was sustained until around April 2009, when it started coming off fairly significantly.

And yes, a -- a lot of market commentators at the time characterized that as being a result of a flight to safety. As world financial markets were melting down, there was significant buying pressure as governments and investors around the world moved their money into US dollar denominating currencies. So, yes. So you're correct as to the timing.

THE CHAIRPERSON: So you meant again, October 2008?

MR. BRENT SANDERSON: This is becoming an ongoing problem. Yes, October 2008 through to April 2009. I'm sorry.

THE CHAIRPERSON: A minor obsession with the year, I guess. Okay, Mr. Peters.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you. I was just making a note to make sure Mr. Sanderson didn't procure my foreign exchange for me.

Mr. Sanderson, we were talking foreign exchange before the morning recess, and I noted that at Tab 4, page 5 of 17 of Centra's application, as well as PUB/CENTRA-13, I have some specifics, and the Board has the specifics of the exchange levels that were imbedded in the forecast, together what was actually incurred by Centra.

Let me come at it this way, Mr. Sanderson, would it be correct to say that because Centra underestimated the fixed costs, it means that the foreign exchange rate was again, underestimated; you had the Canadian dollar too high?

MR. BRENT SANDERSON: I guess I would reverse the cause and effect. Because we had underestimated the -- our US exchange costs, therefore, our fixed costs were underestimated rather than the other way around.

MR. BOB PETERS: All right. We've got your point. Can you tell the Board going forward for the -- for the forecast year, what is Centra doing on foreign exchange rate? I know we'll come to that a little bit later, but can you remind us.

MR. BRENT SANDERSON: What are we doing? Can you be more specific?

MR. BOB PETERS: What assumptions are you making for foreign exchange in the forecast.

MR. BRENT SANDERSON: I just -- can you just give me a moment?

(BRIEF PAUSE)

MR. BRENT SANDERSON: For the portion of the '09/'10 gas year forecast from November 2009 through March 31st, 2010, we're assuming a dollar eleven ($1.11) Canada/US exchange rate. And for the period of April 2010 through October 31st, 2010, we're assuming a dollar seven ($1.07) Canada/US exchange rate. So a dollar seven ($1.07) Canadian to -- to the US dollar.

(BRIEF PAUSE)

MR. BOB PETERS: That was found on Tab 5, pages -- page 7 of 10, was it, Mr. Sanderson?

MR. BRENT SANDERSON: Yes, that's correct, Mr. Peters.

MR. BOB PETERS: All right. Let's -- let's get back to Schedule 4.0.0 found at Tab 3 of Board counsel's book of documents. We turn on this schedule to the variable transportation costs, and perhaps the one we could focus on would be the storage gas, line 31, transportation and delivery cost, forecasting 4 million, only incurring approximately $1.7 million of actual costs.

Can you explain what happened to result in that variance.

MR. BRENT SANDERSON: You'll see a counterbalancing variance of approximately $3.8 million on line 38, under exchanges with counterparties. We do a number of capacity management deals that in terms of their effect on our supply, show up in our costs very much like a withdrawal from storage.

So we had higher than forecast storage withdrawals last year, due to the colder than normal weather. So while our direct withdrawals from storage, and the transportation costs associated with those were $2.5 million less, if you go to line 38, there's a more than offsetting increase in storage withdrawals, charges associated with exchanges with counterparties, which in terms of their nature are the same as a withdrawal from our storage inventory, it's just by the nature by which they come into our books, and that's $3.8 million.

MR. BOB PETERS: And is it possible that had there been storage gas you wouldn't have had to incur a significant amount with the counterparties, because the two (2) -- the two (2) don't directly offset each other?

MR. BRENT SANDERSON: No, the net of the two (2) is a positive variance or a higher than forecast storage transportation cost, and that's by virtue of the fact that our storage requirements were higher than forecast last winter due to the colder than normal weather.

MR. BOB PETERS: Do I take from that answer, Mr. Sanderson, that if the weather was normal those two (2) would have netted out to the same number?

MR. BRENT SANDERSON: Or something close to it, yes.

MR. BOB PETERS: All right. In turning to the lines 47, 48 and 49, this deals with your primary gas acquisitions, correct?

MR. BRENT SANDERSON: That deals with the commodity supply cost, irrespective of whether it's primary gas or supplemental gas.

MR. BOB PETERS: Well, on these three (3) lines it's the primary gas molecules that we're talking about: 47, 48 and 49.

MR. BRENT SANDERSON: I'm sorry, yes, just the three (3) lines of that group of supply costs. Yes, you're correct.

MR. BOB PETERS: And it appears that in terms of exchanges this is where you had nothing forecast but you ended up incurring $59 million of costs on primary gas exchanges?

MR. BRENT SANDERSON: Yes, it's very similar in nature to what we're describing when we're talking about the variable transportation costs. It's just when we move below into lines 47, 48 and 49, now we're talking about the cost of the commodity itself rather than the variable transportation cost to move it from storage to the market.

MR. BOB PETERS: Do I take from that answer that the molecules associated with the prior transportation costs are shown on forty-eight (48), that is, the counterparties that you had exchanges with, the molecules themselves that are shown on line forty-nine (49)?

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: Okay. And in terms of those exchanges it appears that there's $16 million more than forecast that had to come from storage?

MR. BRENT SANDERSON: Yes, roughly.

MR. BOB PETERS: In turning to line 53, the supplemental supply, zero was forecast to come from storage and there was actually $6.7 million of actual expenses related to supplemental supply.

Can you explain how that variance came about?

MR. BRENT SANDERSON: Colder than normal weather and higher load requirements.

MR. BOB PETERS: It was that you weren't planning on having any supplemental gas?

MR. BRENT SANDERSON: Going into the winter, given the configuration of our portfolio of storage and transportation assets for the gas year in question, had weather conditions been normal we did not expect to require any supplemental supplies from storage.

MR. BOB PETERS: So would it be correct that if zero was being budgeted for normal weather the $6.7 million that's found on line 53 represents the actual weather?

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: And in terms of exchanges with counter-parties for supplemental service on line 54, again, forecasting zero, the actual was 19 million; why that variance?

MR. BRENT SANDERSON: Colder than normal weather.

MR. BOB PETERS: Weather only or was there any increased load -- any increased demand?

MR. BRENT SANDERSON: Well, if we want to really dig down to the mini -- minutia, there's different things going on in the market at -- at every one of our customer's premises, but for all intents and purposes you could say that we have a space-heating market by and large. And so any variances, actual versus forecast, is going to be predominantly the result of weather.

MR. BOB PETERS: Going down to line 58, to the hedging impact, the -- it appears that there was 10 million -- sorry, $10 million more added to gas costs as a result of hedging than what was forecast when you were at the GRA.

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: In turning to line 67 and the capacity management, you put under forecast $6.8 million, and that's a credit that is automatically -- or at least built into rates at the beginning of the rate-setting process, correct?

MR. BRENT SANDERSON: Yes. It's embedded

in our forecast transportation costs prospectively.

MR. BOB PETERS: Even though you haven't received a penny, you embed $6.8 million in expectation that you will recover $6.8 million of capacity release revenues.

MR. BRENT SANDERSON: That is correct.

MR. BOB PETERS: And, in fact, you only recovered $5.2 million in capacity revenues, leaving the company short $1.6 million, approximately.

MR. BRENT SANDERSON: That's correct.

MR. BOB PETERS: And because that 1.6 million has already been included in the rates as a -- as a credit to consumers, you've now got to claim it back.

MR. BRENT SANDERSON: Yes, bundled up with all the rest of the residuals from the other PGVAs and deferrals that we bring forward for disposition, yes.

MR. BOB PETERS: When you were giving your direct evidence through Ms. Murphy, you referenced -- or at least the panel referenced -- there was a five (5) year rolling average that was used to calculate the capacity management credit to consumers, correct?

MR. BRENT SANDERSON: Yes, that's the methodology that -- that's been employed since the inception of the perspective refunding of this element of our costs.

MR. BOB PETERS: And it comes about because there had always been some monies to be refunded to consumers, and rather than wait for the end of the year, you refund it during the year in which it would be recognized or earned.

MR. BRENT SANDERSON: That's been the policy that's been followed for the past number of years.

MR. BOB PETERS: Is it time to re-think that formula, from Centra's perspective?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: It was going to be my objective today not to answer a question, but I guess I'm on the hook.

Quite frankly, this has been a subject of much discussion over the course of the years as to our capacity management revenues and how you go about forecasting them. And my position has always been, because I cannot -- we cannot pre-determine what the winter will bring and what the market circumstances will be during the course of the forthcoming period, it's very, very difficult for us to provide a reasonable estimate with respect to this. So this is, I'd say, an agreed-to formula that we use between just -- I mean, as a result of the discussions that we've had over the number -- over a number of years to provide a forecasted number.

But, I mean, I -- there is very little in terms of credibility, from my perspective, in terms of providing that number. It just gives us an opportunity to put a number in there. Personally, I mean -- and I think some consideration should be given to the fact that, especially given the current circumstances and the huge changes in the marketplace, and, you know, certainly once we get further down the road with our portfolio review and potentially start changing the asset mix that we have, we may want to revisit this, and we may not want to incorporate any dollars into that.

And then, to the extent that we can generate revenues, associate that which will offset costs for consumers, then, to that extent, they will get a bonus at the end of the year, as opposed to having a circumstance here where we have to collect dollars back from them that we've given them credit for in advance.

MR. BOB PETERS: Well, isn't one of the problems we have, Mr. Stephens -- and it is good to hear from you this morning -- that -- that, if you took away this capacity management credit, which was $6.8 million as forecast, that would be tantamount to a rate increase of $6.8 million to consumers?

MR. BRENT SANDERSON: This perspective inclusion of capacity management revenues and rates is a double-edged sword. The first year that this method of dealing with this was introduced, the customers received a benefit by virtue of the fact whatever was included in rates prospectively was a bonus in that year and that the rates were lower by that amount relative to what they otherwise would have been had it not been included prospectively.

But the difficulty you get into is if you want to remove that now, you're exactly correct, if we were to pull this out of our forecast at this point now, customers would be facing the prospect of rates being a number of million dollars higher by virtue of removal of the prospective refunding of this than it otherwise would have been.

MR. BOB PETERS: Mr. Stephens, you mentioned to the Board in your answer that there have been huge changes in the marketplace that give Centra cause to reconsider, or at least to start discussing what, if any, capacity management credit should be imbedded in prospective rates.

Is this along the lines that we read Mr. Stauft's evidence, where he was talking about changes in the marketplace and making it more challenging for Centra to recover the capacity management revenues?

MR. HOWARD STEPHENS: Certainly. The fact -- I mean, the assets that we hold, I mean, the assets that we hold, I mean, and, well, the circumstances out of the marketplace, and given the fact that there is a significantly larger amount of gas down east provides fewer opportunities for us to generate revenues. We as -- and they also indicated in the application, in order to deal with the increasing TransCanada tolls, we have done further de-contracting, which Mr. -- what's his name -- Kostick will speak to.

And from that perspective, when we de-contract on TransCanada's pipelines we have less access capacity in that circumstance, so the potential for us to generate revenues on that if there is a market for it -- there are, you know, several ifs in this equation -- I mean, it has -- it will have the tendency to reduce that.

And I mean, you know, I think the eve -- the evidence that I've led over the course of the years is, if we have the ideal portfolio for Centra Manitoba, we would have no capacity management revenues because they are revenues that we are generating based upon having assets in place that are actually, at times during the course of the year, in excess of our requirements.

So when they are in excess of our requirements and given the wide weather variations that we can experience, we are, I mean, bound to have those circumstances. We will generate the revenues, but there is no guarantee that they're necessarily going to be very profitable, and, I mean, so it becomes a very difficult issue in terms of trying to provide a forecast, and that's why we settled on this formula as a five (5) year rolling average, which is an accommodation, I guess.

MR. BOB PETERS: Well, do you track -- or just before I get there, Mr. Stephens, I -- I thought Mr. Stauft also mentioned that there was competitive pressures because of other pipelines or other transmission capabilities, such as the -- was it the Rocky Mountain Express or --

MR. HOWARD STEPHENS: I mean, and that's what I alluded to in terms of there are new supply basins, I mean, and the development of shale gas and the introduction of shale gas into the marketplace, we have a number of different supply basins that are effectively, I mean, making the transportation of gas from Alberta to eastern markets, which was -- been a significant component of our capacity management business much less attractive.

And, so, from that perspective, I mean, we have less opportunity then to generate revenues.

MR. BOB PETERS: Do you still track, Mr. Stephens, your unrecovered fixed costs, whether for use by Centra customers or through capacity release sales?

MR. HOWARD STEPHENS: We provide an overall utilization factor with respect to our pipeline capacity -- TransCanada Pipeline capacity. It's in one of the schedules, but I don't know off the top of my head which one.

MR. BOB PETERS: Okay. I take from all of those answers that while Centra is looking at it and considering it, this is not considered to be the time to actually make the -- the final position on what to do with this capacity management revenue. That may be a matter that is better addressed when Mr. Kostick and you look at what's going to happen to replace your assets that -- that -- the arrangements which expire in 2013.

MR. HOWARD STEPHENS: It has always been a concern of mine that we would credit customers with a do -- a number of dollars, and then have the potential of having to pull them back. We've -- I mean, and for the most part, we've been able to exceed our targets or the avera -- I mean, based upon the formula that we use to calculate that. We've run into that circumstances here.

I don't really like that, but, I mean, I think the approp -- well, I don't think we want to make a change on a willy-nilly basis. I think we'd want to do this on a more informed basis, you know, once we have a better sense in terms of what we're going to hold in terms of assets and the potential for revenues to be generated.

MR. BOB PETERS: All right. Thank you, Mr. Stephens.

I want to turn to the next document in the book of documents, Tab 4. And just to lead into it, perhaps, Mr. Sanderson, you've told the Board that when they approved a forecast of 2008/'09 gas costs in Order 116 of '09, Centra had every expectation that whatever the Board forecast wouldn't be the exactly correct number but you'd have to wait and see what the actual numbers were.

MR. BRENT SANDERSON: That's been the case as long as I've been in this business.

MR. BOB PETERS: And I think --

MR. HOWARD STEPHENS: I'll add to that, sir. I -- I would be -- I would likely have a heart attack or a stroke if the numbers actually matched up.

MR. BOB PETERS: well, we wouldn't want that, Mr. Stephens.

So to prevent you from having that concern the Board has approved purchase gas variance accounts or deferral accounts where you track the difference between forecast and actual?

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: And in the book of documents, Tab 4, you will see a coloured graph. I can indicate that replacement pages were provided to Centra this morning, I'm not sure if they made it through to everybody, but the photocopying -- the colour photocopying maybe didn't do them justice. And I'm actually looking, Ms. Murphy, at Tab 4, the -- just the coloured chart.

MR. BRENT SANDERSON: I have that updated version now, Mr. Peters.

MR. BOB PETERS: All right. And you'll see at the top of the chart there's numbers 1, 2, 3, 4 and 5 representing five (5) different stages.

MR. BRENT SANDERSON: Yes, I do.

MR. BOB PETERS: Let's start with Stage 1 and this should appear as a blue line on the graph. This is the non-primary gas purchase gas variance accounts in totality; do you accept that?

MR. BRENT SANDERSON: It would depend on the stage depicted. I've checked some of the figures and

I do have one (1) concern regarding Period 2.

MR. BOB PETERS: All right. Well, what -- what's attempted to be done is to use some of the data points that were available in the filing. And it would be misleading to suggest the data points lined up on a straight line but from the data points used, can you accept that in Stage 1 the PGVAs related to non-primary gas costs for supplemental gas, transportation, the UFG and Minell portion of distribution, and the heat value accounts, as well as any prior period accounts are accumulating in Stage 1?

MR. BRENT SANDERSON: Yes, I would agree with that.

MR. BOB PETERS: And they accumulated until October 31 of 2008 when the PGVA was closed?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And then turning to Stage 2 from November 1st of '08 to July 31, of '09, we recognize that the Board Orders 116 of '09 came in to effect on August 1st, correct?

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: All right. So Stage 2 the time line is just from November 1st of '08 until July 31st of '09, to just before when the Board's order issued, there was a new PGVA for non-primary gas costs established and that's for the '08/'09 year that's the red line near the bottom of the page, correct?

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: And the prior period, that is, prior to November 1 of 2008, that is the blue line that we've talked about, and it doesn't quite plateau but it stops its growth because it was closed off as you told the Board, October 31, and then there have been some carrying costs which have caused a slight growth in that account.

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And if you added the red to the blue you'd get the green line; would you accept that?

MR. BRENT SANDERSON: I've gone back and I'm not sure where the $2.3 million figure referenced with respect to those accumulating PGVAs for that -- the '08/'09 gas year come from. My figures, if I go back and check them, show that as of July 31st those balances would have been $5.3 million, as at July 31st, as opposed to the 2.3 million. That's the only number that I take issue with in this schedule.

MR. BOB PETERS: Well, we'll check that but I was looking at that as the compilation of -- of -- and we'll come to Schedule 4.1.0, Mr. Sanderson, and maybe we have a -- an error that's in the drawing, but we'll come to that.

In any event, the Order 116 of '09 started to collect the -- the deferral account represented by the blue line, and the blue line only?

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: And then in Stage 3, we go from August 1st, which is the day of the Board's order, until October 31 of 2009, that's a three (3) month period, post-order 116 of '09, correct?

MR. BRENT SANDERSON: I would agree.

MR. BOB PETERS: And it -- it starts with the Board order, and it ends with the end of the gas year on October 31 of 2009?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And in -- in Stage 3, there is a new rider that the Board approved for prior period PGVAs, and that is shown, because the blue line is coming down, that -- that's being refunded, or recovered, and paid to Centra?

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: And because the PGVA is closed on October 31 of 2009 -- well, we can turn to Stage 4, where the '08/'09 PGVA closes, and its plateau just represents maybe some slight accumulation of carrying costs. That Stage 4, Mr. Sanderson, is from November 1, '09 to April 30th of 2010, and on April -- on May the 1st of 2010 you're asking this Board to put a rate rider into effect, correct?

MR. BRENT SANDERSON: Yes, we are.

MR. BOB PETERS: And in the meantime, from November 1 to April 30th, in Stage 4, the rate rider that the Board approved in order 116 of '09 keeps collecting money that's owed to Centra, and you see the blue line dropping?

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: And you don't see the red line dropping, because there hasn't been a deferral account -- sorry, there hasn't been a rate rider to recover that deferral account yet approved by the Board?

MR. BRENT SANDERSON: I agree.

MR. BOB PETERS: Now when we get to Stage 5, from May the 1st of 2010 to what I've suggested would be April 30th of 2011, that's where Centra is seeking new non-gas rate riders effective May the 1st, to recover the balance of the '08/'09 PGVA represented by the red line, as well as the prior period deferral accounts, which is represented by the blue line?

MR. BRENT SANDERSON: I'm not sure that I agree with what you just said. We're talking about April

30th, 2011 now?

MR. BOB PETERS: We're -- no, we're -- we're -- let's talk May 1st of 2010. If Centra is successful in its application to the Board, the Board -- you would have the Board approve a rate rider effective May the 1st that's going to recover the balance of the '08/'09 deferral accounts, and those are represented by the red line.

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: And you're proposing to the Board that it would take one (1) year to recover that balance; that's how you've designed the rate rider?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And then when we look at that blue line that's still starting in pag -- in Stage 4, the blue line isn't very high on the chart, but there is some residual balance, and you want that money also recovered over the next twelve (12) months, starting May the 1st?

MR. BRENT SANDERSON: That's correct.

MR. BOB PETERS: Now what's not on this chart, Mr. Sanderson, is that there is a new PGVA balance accruing for non-primary gas costs that started November 1st of 2009, and it's going to run its course until October 31 of 2010?

MR. BRENT SANDERSON: That -- October -- yes, correct.

MR. BOB PETERS: And that's not shown on the graph yet, and you haven't filed evidence related to that yet?

MR. BRENT SANDERSON: No. And as I stated earlier, the -- our latest forecast for -- implied that if we have normal conditions for the remainder of the year, the residual of those accounts at October 31st should be relatively immaterial.

MR. BOB PETERS: Well let's be careful, we don't want Mr. Stephens to have a stroke here.

We don't mind them being immaterial, but they won't be zero?

MR. BRENT SANDERSON: To paraphrase what I said earlier, they haven't been as long as I've been in this business.

MR. BOB PETERS: All right. And so what -- what we've tried to show through a graph -- and you've -- you've been generous in helping us through it, that there's stages, and in the right-hand side there's some -- some speaking points. I might have to go back and check on that. I took that $2.3 million from your schedule 4.1.0, Mr. Sanderson, also found at tab 4 of the book of the documents. It's the -- it's the other page in tab 4, and I -- I did some rough math.

Centra didn't add them up, but I added up your supplemental gas on lines 5, transportation on line 6, distribution on 7, and heating value on 8; came up with my $2.3 million.

MR. BRENT SANDERSON: Okay. I see why there'd be the difference. Those balances on schedule 4.1.0 of tab 4 of your book of documents, that rough math that you added up there, those balances are depicted as on October 31st of 2000...at October 31st of 2009, whereas on your chart with the lines, the description of period two (2) implies that that was the net balance at August 31st of 2009.

So it's just a difference in the timing at which you picked. So I -- I agree with the number you've shown, with the caveat that that was the balance at October 31st as opposed to August 31st.

MR. BOB PETERS: All right. I thank you for that clarification. Where it intersects that -- that vertical line may not be the exact data point, but it is the correct data points used starting at stage 4.

MR. BRENT SANDERSON: Yes. Correct.

MR. BOB PETERS: Okay. Well, we can live with that, I think.

If we turn to schedule 4.1.0 a bit further

-- and it's the second document found in tab 4 of Board counsel's book of documents -- where starting period here is November 1 of 2009, for our line 1 deferral accounts, the October 31, 2009 and earlier balances of $8.085 million.

MR. BRENT SANDERSON: Correct. That -- at October 31st, 2009, that would have been the remainder in the primary -- prior period PGVAs that we're currently disposing of by way of that rate rider approved for last August 1st, 2009.

MR. BOB PETERS: And that would have been mimicked by the blue line on the –- the graph, also found in tab 4.

MR. BRENT SANDERSON: Yes, correct.

MR. BOB PETERS: And that's mostly due to supplemental gas, from what you've told us, in terms of how the year was colder than normal?

MR. BRENT SANDERSON: This goes back to the year before. We've just been discussing our -- the -- we're talking about the -- the winter and so forth. This would have been for the '07/'08 fiscal year, plus stub period to October 31st, 2008, so, the period just prior to that winter that we were discussing earlier this morning.

MR. BOB PETERS: All right. And turning

to the 2008 and 2009 gas year, which started November 1st of 2008 and closed on Halloween 2009, that's where I came up with my $2.3 million - the red line on the graph. And that -- you agree with those calculations?

MR. BRENT SANDERSON: Yes, we agree with those now, yes.

MR. BOB PETERS: And when we add the red line to the green line -- or to the blue line, we get the green line at $10.415 million as a -- as a -- as a peak on -- on the green line showing what the actual would be on line 10 of schedule 4.1.0.

MR. BRENT SANDERSON: I would agree.

MR. BOB PETERS: And on stage 4 of the graph, the rider the Board approved in Order 116 of '09, it collects about $7.6 million up until April 30th of this year, correct?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And you show that on line 12 of schedule 4.1.0, that those deferral accounts have been -- are being recovered rather aggressively through a rate rider that was approved the last time Centra was before the Board.

MR. BRENT SANDERSON: I would agree, Mr. Peters.

MR. BOB PETERS: And, although

aggressively recovering it, not totally, there's a balance of about $2.8 million, which was in stage 5 - represented by the green line on the graph in tab 4 of the book of documents - and that's still owing to Centra. And that is what Centra wants a rate rider to be put in place for starting May the 1st of 2010.

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: And just so there's no confusion, it is clear that the rate rider is to remain in place and it's calculated to be in place for twelve (12) months, unless there's further application by Centra or Order of the Board.

MR. BRENT SANDERSON: Yes, that's what we've applied for.

MR. BOB PETERS: I'm not sure if we need Ms. Derksen for this, but in stage 5, to recover that $2.8 million, starting on May the 1st, and the new rate rider you proposed, Centra would have allocated that $2.8 million among each of the rate classes using their cost allocation model.

MR. BRENT SANDERSON: Yes, that would be correct.

MR. BOB PETERS: And can you go so far as to say that you would take each class' allocated amount and you would divide that amount by the volumes forecast for that class to calculate the rate rider?

MR. BRENT SANDERSON: As we dig down into the technicalities of our rate design methodologies, I think this is where I'll hand it off to the next panel and Ms. Derksen, just so I don't say anything out of turn that I'd live to regret.

MR. BOB PETERS: All right. I wasn't going to go much further, but I'll make a note to -- to come back with Ms. Derksen on that.

You did tell the Board that a new purchase gas variance account was accruing for non-primary gas costs from November 1st of '09 through to today and will -- will continue on to October 31 of 2010.

You've acknowledged it's not shown in the application, it's not shown in the graphs, and the best evidence you've given the Board is that it's going to have a rather nominal balance. That's my word, maybe not yours.

MR. BRENT SANDERSON: I would agree with the characterization and that's our expectation at this point with the best information below -- available to us today.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Sanderson, you haven't put a number on the record, so let me start. Let me just see if you agree with this.

If the amount of the non-primary gas PGVA for the current gas year that we're in turns out to be less than $2.8 million, that will mean the rate rider you're asking for starting May the 1st would have to be decreased the next time you came in to adjust for non-primary gas rates.

MR. BRENT SANDERSON: Yes, Sir.

MR. BOB PETERS: All right. Now the hard question. Is it tracking to come in more or less than $2.8 million as a residual balance?

MR. BRENT SANDERSON: At this point, given the uncertainties ahead of us between now and next April 30th, keeping in mind that the amount we'll bring forward for disposition next year will not only include the residuals from the current gas year, but any residual that might be remaining from this $2.8 million that we are going to be disposing of over the coming twelve (12) months if the rates we've requested are approved, I'm -- I'm not comfortable of giving you that kind of assurance at this point. There's just too many things that can happen.

MR. BOB PETERS: I'm not sure you

misspoke or if I didn't understand your reference. The -- the PGVA for non-primary gas costs for the current gas year that we're in right now, that will close on October 31 of 2010, correct?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And then it'll depend on when you come in with your next cost of gas filing, and if it is again for a May 1 adjustment, there would only be carrying costs to that balance.

MR. BRENT SANDERSON: And then, netted in with that balance, would be any residual from the $2.8 million of prior period deferrals that we are bringing forward at this proceeding for disposal of. So, we are intending to dispose of that amount over the coming twelve (12) months, which cuts into next winter, and you can understand the -- the weather uncertainty and the potential swings in weather.

And so there's more to what we would be bringing forward at a future proceeding than just any minor residual from the current year's PGVA, so I'm just -- I just want to go to great lengths to just characterize that if I give you a number today just on those '09/'10 PGVAs and isolations, they're -- in isolation, there's more that feeds into it in terms of what will be brought forward at a future proceeding. But

I'm safe -- I'm comfortable in saying that the balances would not be expected to be material given the move to the gas year management of the PGVAs.

That has dealt with the lion's share of what contributes to making these balances potentially large and -- and -- and more of an issue, if you will.

MR. BOB PETERS: It may be, Mr. Sanderson, that this $2.8 million that we see on schedule 4.1.0 or the green line on the graph starting on stage 5, that $2.8 million may be recovered in total and you may over-recover that amount, correct?

MR. BRENT SANDERSON: Or just as easily under-recover it to some degree.

MR. BOB PETERS: And that's because the recovery is premised on there being normal weather?

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: Mr. Sanderson, if there's money owing to Centra, this $2.8 million plus whatever nominal balances accruing in the current year, why not leave the existing aggressive rate rider on that this Board approved in Order 116 of last year and just continue with that rider?

MR. BRENT SANDERSON: Then my expectations would be that we would be significantly over-recovering the amounts that we expect to need to recover from customers. The current rate rider is recovering $9 million -- in excess of $9 million over an annualized period, whereas the best numbers available to us tell us that we need $2.8 million. So there would be no case, I think, that we could make to leave such an aggressive rate recovery rider in place when we don't expect that our requirements are that great.

MR. BOB PETERS: Can the Board take from your answers that Centra's plan is to wait until the PGVA for the current gas year closes on October 31 of 2010 and then a new Cost of Gas Application will be forthcoming from Centra to apply for new rates and rate riders?

MR. GREG BARNLUND: Mr. Peters, I think that there are a number of factors that are taken into consideration in terms of the -- whether or not we'd be applying for a cost-of-gas adjustment in that time period. And I think that, as we move forward through this year, there will be a number of factors we'll be assessing and we'll come to some determination in the fall of this year as to what -- what our next steps would be in that regard.

MR. BOB PETERS: I'm trying to read through your -- through your spoken word on that, Mr. Barnlund, but are you suggesting then that there may be a

GRA in the horizon?

MR. GREG BARNLUND: There's been no definitive decision made on that yet, but reflecting back on Mr. Warden's comments in terms of financial results, those things will be taken into consideration as we do our financial forecasting for this year and at some point in time in the fall we'll have a -- a position as to whether we're going to seek further changes to non-gas costs at that time.

MR. BOB PETERS: All right. Leaving aside the non-gas costs but in terms of gas costs itself and the primary gas takes care of itself, if I can use those words, on a quarterly basis, it has been Centra's practice to come in at least on an annual basis to deal with the non-primary gas costs?

MR. GREG BARNLUND: Generally speaking and, as I said, we'll have to reflect on the magnitude of -- of the recoveries that -- that would have to be implemented as a -- you know, as a result of the results that we see here at the close of this gas year.

MR. BOB PETERS: All right. I think I'm not going to get anything better than that from you, sir, and I’ll -- I'll leave it at that.

I want to turn to the next topic which is, in your application, you're seeking approval of November

1, 2009 to October 31, 2010 forecast gas costs.

And at tab 5 of the book of documents we find your forecast; is that correct?

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: And we talked earlier that this forecast that you've put before the Board in schedule 5.1.3(b) found at tab 5 of Board counsel's book of documents, which has been marked as Exhibit PUB-6, that forecast was premised on a November 2nd, 2009, strip that the Corporation ran; that is, those were the forecast gas costs for the various months that applied to this forecast?

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: And would it be -- would it be factually correct, Mr. Sanderson, to say that's a rather mechanistic exercise?

MR. BRENT SANDERSON: For some time our primary gas applications and forecasts have been -- I would fairly characterize those as mechanistic. And I think since we've moved to the management of our PGVA -- non-primary PGVA deferrals to the gas year period, I think it's fair to say that we've moved to a much more mechanistic process with respect to our non-primary gas costs as well.

MR. BOB PETERS: And using the word "mechanistic," indicating that there's not a whole lot of room for judgment or subjective input into that forecast.

MR. BRENT SANDERSON: Neither is there any need. As long as your information is current, the process is self-correcting and served us very well, I think.

MR. BOB PETERS: The self-correcting part are the PGVAs the Board has approved.

MR. BRENT SANDERSON: And the biggest element of that being the potential for large year-over-year residuals has been reduced substantially, so that would have been the only outstanding concern with following a mechanistic process, and that's been dealt with to our satisfaction coming out of the last GRA.

MR. BOB PETERS: On schedule 5.1.3(b), found at tab 5 of the book of documents, we see a total of $300.6 million as the current gas year's forecast, correct?

MR. BRENT SANDERSON: Yes, clarifying again that that was as of the strip taken November 2nd, 2009.

MR. BOB PETERS: And as one of the witnesses mentioned in their direct evidence, that includes non-primary gas costs of $69.1 million.

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: You won't find the $69.1 million discretely broken out on schedule 5.1.3, but you'd have to turn to the next page, to schedule 5.1.4, to get those numbers, correct?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And you're asking the Board to approve the rate schedules that are based on this forecast.

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: Looking at the forecast, at lines 33 and 34, there's reference to primary gas, either direct to load or to storage.

Those primary gas molecules have their price impacted by the new supply contract with ConocoPhillips, would that be correct?

MR. BRENT SANDERSON: Yes, and the cost impacts of that contract are reflected in these numbers in terms of the underlying pricing mechanism.

MR. BOB PETERS: Just make sure the Board understands what your reference was, Mr. Sanderson. Lines 33 and 34, those numbers that -- that are shown on those lines are as a result of Centra using the pricing formula in the ConocoPhillips' agreement.

MR. BRENT SANDERSON: That was the point

that I was -- just wanted to make sure that was clear. Yes, I agree. That was just a different way of saying what I had -- my intended meaning.

MR. BOB PETERS: Lines 35, 36, 37 and 38, those would be the non-primary gas molecules or commodity, also known as supplemental gas.

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: Let's talk about something we just alluded to briefly earlier and, that is, a few years ago, Centra was forecasting zero (0) volumes of supplemental gas to meet a normal weather winter in Manitoba, and the plan back then was to meet the load only with primary gas and only go to market for supplemental gas if needed.

Is that correct?

MR. BRENT SANDERSON: Given the configuration of our storage and transportation assets at that time, correct.

MR. BOB PETERS: Well, let's follow that further. Maybe you can explain to the Board why you are now re-introducing a supplemental gas forecast.

MR. BRENT SANDERSON: Mr. Kostick will be able to cover this in a bit more depth when you cross-examine him, I'm sure, later on, but the fact is -- is that, as loads in Manitoba -- weather normalized loads have declined over the past number of years due to increased conservation and more efficient use of natural gas, we review our portfolio of assets going into every winter and make adjustments, as necessary, in order to use our portfolio of assets as optimally as possible.

We have 15.5 million gigajoules of storage capacity in Michigan and as loads -- loads shrink over time, we -- and TCPL tolls on the main line have gone up, we've taken action to shed some of that capacity. And as our deliverability directly out of the Western Canadian Sedimentary Basin goes down, we're able to make up for that difference by relying more heavily on our storage assets, or the gas that we've inventoried in storage over the course of the summer, some of that being supplemental gas.

So it's indicative of -- we're taking action to more fully utilize the assets that we have in place, so there -- therein the reason for seeing a normal year requirement for supplemental gas from storage show up in our normal year forecast.

MR. BOB PETERS: I take it the big driver in why you're going to supplemental gas, then, is Centra's de-contracting of supply with TransCanada Pipeline?

MR. NEIL KOSTICK: Yes. In order to

optimize our portfolio we do look at the relative costs of securiting -- of securing supply from different areas, also taking into account our fixed contracts that we have in place; so our US assets are long-term contracts.

TransCanada, we contract on an annual basis, and if TransCanada tolls are rising and highly volatile, as they have been in recent years, there are benefits to reducing the amount of contract capacity on TransCanada and using other sources of supply in order to reduce the fixed demand charge component that we are charged from TransCanada.

MR. BOB PETERS: Am I correct, Mr. Kostick, that that becomes a balancing of the 'which one is cheaper'? At least forecast to be cheaper?

MR. NEIL KOSTICK: We do look at that in terms of the commodity prices. We also have to look at the fixed transportation costs as well, in terms of the TransCanada contract levels from Empress to the MDA or Empress to the SSDA, which are our delivery areas.

We have to take into account the fixed-demand charges that we would be on the hook for, essentially, for the entire year, and we assess, is there another way that we can shape our capacity and our firm supply arrangements such that we don't have to hold as much pipeline capacity throughout the year.

And that's what we've done in the last couple of years. And that has included bringing into our portfolio -- portfolio the use of seasonal delivered service, in which we can contract on an as-needed basis for seasonal delivered service, which is categorized as supplemental supply, and we can, essentially, contract that as needed through the winter.

And, depending on the weather that transpires through the winter, we can either chose to extend it or shut it off as we go forward.

So there's a combination of factors that are considered in the optimization of the portfolio with respect to commodity costs and also what fixed transportation costs we may be able to shed.

MR. BOB PETERS: I appreciate we're looking here at tab 5 of the book of documents and schedule 5.1.3(b) forecast, Mr. Kostick, but I just want to -- to look in the rearview mirror for a few minutes.

Did you analyse Centra's performance in the last year or two to see whether or not it would have been more cost-effective to have more or less firm service on TCPL rather than get your supplemental gas in the method you did or the -- the method Centra did.

MR. NEIL KOSTICK: We are always reviewing those sorts of considerations and the reduction in TransCanada capacity, we believe, would outweigh the alternatives.

By reducing TransCanada capacity, we shed fixed demand charges and we are able to shape our supply accordingly with other sources.

MR. BOB PETERS: Well, does that answer -- let's -- let's be specific. As a result of how it was handled, let's say for the -- for the last gas year, not the current gas year, what could you have done differently to make it even less expensive in gas costs?

MR. NEIL KOSTICK: I'm sorry, I didn't catch the entire question. Would you be able to repeat it?

MR. BOB PETERS: Again, I appreciate we're looking backwards to the previous gas year.

What could Centra have done differently, had it -- had it known then what it knows now, to minimize or reduce the gas costs even more than it did?

(BRIEF PAUSE)

MR. NEIL KOSTICK: When we contract and make decisions surrounding our portfolio for any given season, we have to take into account the nature of the physical assets that we have in place, the benefits that those assets give us, for example, when it comes to use of TransCanada, that gives us our ability to swing or adjust nominations on a day-to-day basis and still have the opportunity to recover fixed demand charges through the use of diversions or other capacity release techniques. So there are a variety of considerations that are taken into account.

As far as a specific action that could be taken to reduce costs from I believe you're referencing the 2008/'09 gas year, I don't have a specific recommendation. There are many different factors that are at play and many different moving parts, so to speak, which make such a definitive hindsight analysis difficult.

MR. BOB PETERS: Did you do a hindsight analysis comparing '07/'08 gas costs when you had no supplemental gas in your forecast, and you were going to meet that through primary gas or delivered service?

MR. NEIL KOSTICK: What we had with respect to 2007/'08 versus the portfolio changes that we made in 2008/'09, we did report in the last Hearing that our portfolio changes resulted in, I believe, approximately $5.7 million in savings relative to the former portfolio.

Now that included a number of different

actions, so that is, essentially, what we knew with respect to 2008 versus 2008/'09.

MR. BOB PETERS: Getting back to schedule 5.1.3(b), found at tab 5 of the book of documents, Mr. Kostick, does Centra wait for the cold weather to contract for delivered service, or is that delivered service in place at the start of the gas year?

(BRIEF PAUSE)

MR. NEIL KOSTICK: Are you referring specifically to seasonal delivered service?

MR. BOB PETERS: No, no, I was -- I was referring to all of your delivered service that you -- that you include in your forecast. And if we go down to line 38, as an example, you'll see delivered service.

MR. NEIL KOSTICK: I believe line 38, and Mr. Sanderson can correct me if I'm wrong about this, that is a forecast of supply that we may be short for the firm market in the month of April. Under the circumstance of colder than normal weather, that is not.

MR. BRENT SANDERSON: In -- in the application in tab 5 we -- we explain what that two hundred and twenty-seven thousand (227,000) is, and that's characterized as uncontracted delivered service, a small amount of which is recovered to balance off the firm customers in the shoulder months when storage is not available.

And, because it's such a marginal source of supply, basically, that level of requirement in a normal year forecast you can characterize as noise and so, therefore, that's why that is left until -- that's what would -- you would buy on the day, if you will, just to cover off your -- your peak, and that -- but that is under normal weather conditions that on contract delivered service should be expected to be required.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Kostick, I may have cut you off on -- when you were asking me about whether a seasonal delivered service -- let's -- let's turn to that, and that's on line 37 of schedule 5.1.3(b).

There's some $6 million of supply costs indicated there. That would have been, would it, sir, for the December, January, February, maybe a bit of March time period?

MR. NEIL KOSTICK: That seasonal delivered service was contracted for for the months of November, December, and January.

MR. BOB PETERS: And -- and when was the contract entered into?

MR. NEIL KOSTICK: That would have been in October.

MR. BOB PETERS: Is it correct that your seasonal delivered service then is -- is entered -- or is contracted at or prior to the start of the gas year?

MR. NEIL KOSTICK: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Sanderson, I just want to tidy up a point that you left on the record. If you turn to Tab 6 of the book of documents, and get your way past the -- the coloured page at the beginning, there's a response to PUB/CENTRA-4C.

In terms of uncontracted capacity relative to firm peak day, I take from your answer that the only uncontracted capacity was that line 38, delivered service, where the supply costs were around two hundred and twenty-seven thousand dollars ($227,000)?

MR. BRENT SANDERSON: PUB/CENTRA-4C -- just one (1)...

(BRIEF PAUSE)

MR. BRENT SANDERSON: Yes, your assertion is correct.

MR. BOB PETERS: Turning to Tab 6 still, this time let's stop at that coloured chart, we have the peak day requirements for firm customers verses the capacity and the delivered service.

Now, this is snapshot, would it be correct to say, of -- of the coldest day of the year, or the -- the day when the highest load is placed on the system?

MR. BRENT SANDERSON: I think we need to distinguish here between what's being depicted here in -- in this illustration, which is a design peak, the coldest day experience thus far with our current market make-up, whereas the other figures we were just discussing is a normal year.

So there is no provision in a normal year for -- there -- the normal year forecast doesn't depict circumstances under which we would experience a design peak. So I just wanted to make that distinction between the two (2), because they are markedly different.

MR. BOB PETERS: All right. And -- and I appreciate then -- I'm sure the Board has that clarification.

What you're looking here at your design peak could be if this was -- if -- if Centra and Manitoba incurred the coldest day on record, this is how you would meet that peak?

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: And the delivered service that is shown in, I guess it's purple, that delivered service would be part of the seasonal delivered service, or it even could be part of the previously uncontracted delivered service that the corporation has?

MR. NEIL KOSTICK: No, it is neither a seasonal delivered service, nor is it uncontracted.

MR. BOB PETERS: So it's the contracted?

MR. NEIL KOSTICK: Yes, we would have firm peaking deals in place to cover off that seventy-two thousand (72,000).

MR. HOWARD STEPHENS: Mr. Peters, I just want to point out -- at one (1) point in time we did liv -- leave that component, or some component of our firm requirement on a design day uncontracted, and we'd buy it on a just-in-time basis, if you will. We deliberately have changed that several years ago, where we go into the winter now with all of our firm requirements pre-contracted so that if we do, I mean, have that situation occur, that we don't have to scramble around and try and find gas at the last minute.

And especially given the changes in the

marketplace, and the reduced through-put on the TransCanada Pipelines, it's a -- it -- it's a nic -- it's really a risk management mea -- measure. I mean, I don't want to be in the situation where we have to chase around to try and find gas on a design day.

MR. BOB PETERS: Mr. Chairman, this might be an appropriate time for the -- for the lunch break, recognizing at 1:15, Mr. Barber (phonetic) has been invited to make his presentation.

THE CHAIRPERSON: You mean Mr. Carroll?

MR. BOB PETERS: I'm sorry, Mr. Carroll, yes. Thank you.

THE CHAIRPERSON: Very good. We'll be back at 1:15 for Mr. Carroll's presentation. Thank you.

--- Upon recessing at 12:02 p.m.

--- Upon resuming at 1:19 p.m.

THE CHAIRPERSON: Okay. Welcome back, everyone. We've agreed at this point in time to hear a presentation from -- by Mr. Carroll.

And, Mr. Carroll, you've presented before to the Board, and you understand that your presentation is not evidence, but the Board will be interested in your comments.

MR. WILLIAM CARROLL: I do understand that, sir.

THE CHAIRPERSON: So you can begin.

PRESENTATION BY MR. WILLIAM CARROLL:

MR. WILLIAM CARROLL: Okay. Thank you. Mr. Chairman, members of the Board, ladies and gentlemen, my name is Bill Carroll. I'm president of Carroll & Associates Ltd. I'm here representing the views of a number of large gas users. A brief has been prepared, and Mr. Singh has been provided hard copies of that document and I think he's passed them out. My plan is to read it into the record.

The cover letter is from Carroll & Associates Ltd. dated April 13th, 2010, addressed to Mr. Graham Lane, Chairman of the Public Utilities Board.

"Dear Mr. Lane,

Re. Fixed-Price and Fixed-Term Contract for Primary Gas:

The Public Utilities Board had -- has ordered the staged phase-out of the hedging program for the pricing of primary gas. A number of commercial, industrial and institutional users believe that they will be negatively

affected by further implementation of
this decision. Accordingly, a group of
large users has agreed upon a short
brief that broadly addresses their
concerns. A copy is attached for your
consideration."

Signed by yours truly.

And I'll read through the brief, the brief brief. It's dated April 13th, 2010:

"Fixed-Price and Fixed-Term Contract
for Primary Gas:
The Public Utilities Board has ordered
the staged phase-out of the hedging
program for the pricing of primary gas.
Centra Gas has put in place a fixed-
price and fixed-term option for
residential and small commercial users
on a first-come, first-served basis.
The Public Utilities Board Order number
170/09, dated December 12th, 2009, the
Board wrote, quote:
'Also, as noted in Order 128/09,
consumer desire for long-term price
certainty supports the continuation of
Centra's hedging program for the

quarterly gas system -- for the quarterly system gas offering until such time as customers are assured of the ability to enter into a fixed-price and term contract for primary gas with Centra. Other than from Centra, residential consumers seeking longer term rate protection through fixed-price and fixed-term contracts have only one private retail marketer remaining in the market, a situation that does not represent any significant degree of competition.' Close quote. The Board obviously sees the issues identified in this statement as important for residential consumers. Centra's large commercial, industrial and institutional users are also in need of price certainty. Further, rather than no competition faced by residential customers, large users are faced with many brokers vying for their primary gas supply business. As a result of the staged elimination of the hedging program set out in Board Order

170/09, this group of customers will soon be exposed to either living with price fluctuations or entering into a private sector supply relationship.

Price certainty:

For many large users utility costs represent a significant input cost into the goods and services produced. Price certainty is needed by this group of users as they establish the pricing for their products and services at budget time and must live with those estimates into the future. It is not feasible to go back and change their product service prices when operating in a competitive environment.

Similarly, institutional users are not able to find new revenues to make up for budget shortfalls. The reality is that large users must live with the utility costs they build into their pricing structures and being exposed to huge fluctuations in gas costs as the market has experienced over the past few years, is an unacceptable business practice.

At the end of the day the commo -- the cost of the commodity is the cost of the commodity and that can be factored into input cost models. What is needed is some degree of short-term certainty obtained either through hedging or some other price smoothing technique.

Centra's current hedging program and quarterly rate adjustments helps ensure that large rate fluctuations are attenuated and kept at manageable levels.

Gas brokers:

All commercial, industrial and institutional users who operate in Manitoba have been approached over the years by various brokers seeing to become their primary gas supplier. Many brokers have come and gone and many have assumed new identities via mergers and acquisitions. Most of the brokers are located outside the province and only one (1) of today's group of brokers has a meaningful local presence. This changing landscape does not provide comfort to many large gas users.

Additionally, the primary focus of this group of users is not on monitoring gas future prices and making guesses as to when to lock in supply contracts but rather in running their businesses.

Business does not wish to enter into a long-term contract only to find later that they have guessed wrong with respect to natural gas pricing levels.

The hedging program offered by Centra supplied price certainty that required no input on the part of the users. The comfort level in having their primary gas supplied in this manner is demonstrated by the fact that the majority of large users continue to have Centra supply their primary gas and do not use brokered supply.

It is recognized that brokers are regulated by the PUB and should they go out of business that Centra is obligated to continue the supply of primary gas. Large users also recognize that there is a premium to be paid for the hedging program currently run by Centra but that the program has value. There is a trust relationship that exists between Centra Gas and its commercial, industrial and institutional customers. There are major account advisors in place to answer questions and sort of out problems and the Utility can provide local customer service on short notice. It seems logical, therefore, that the creation of a fixed price, fixed term primary gas supply or some other rate smoothing technique by Centra Gas would be a welcome option for many large users.

Action requested:

The foregoing are the broad issues facing this group of consumers. Each industry or service supplier has its own particular needs and it is not possible to articulate these in a document such as this. The goal here

> is to point out to the Public Utilities Board that removing the hedging program without a Centra option for this user group in place is not sensible.

The Board stated in Board Order 179/09, quote:

> "Unless persuaded otherwise through an application to review and vary this order, the Board will direct the phase-out of hedging [I've added that] to occur in three stages commencing with this order." Close quote.

The intent of this document is to bring to the attention of the Board that a group of major consumers does not want to be faced with being exposed to uncontrolled price swings or private sector sourcing of their primary gas supply. It is recognized that there is a cost to the Hedging Program, but the protection it offers has value to many customers.

Centra does not profit from prime -- primary gas and we trust Centra's ability to create fixed-price, fixed-term, or other rate-smoothing options without building in a profit, as a private broker must. Therefore, before the elimination of the Hedging Program is implemented further, we would ask that the Public

Utilities Board direct Centra Gas to put in place a fixed-price fixed-term offering for commercial, industrial, and institutional users and/or to come forward with other viable rate-smoothing options that address the issues faced by this user group.

Respectfully submitted, MacDon Industries Limited, Standard Aero Limited, the Winnipeg Regional Health Authority, that looks after all of the -- the hospitals, and the Winnipeg Airports Authority. And I must say that there's a few other large users out there that were involved with this brief, but for various political, legal, and other reasons, couldn't put their name on it. And there's a few others that actually are supplied with by brokers who also agree largely with what's being said here but, for various reasons, couldn't put their name on it.

And that, Mr. Chairman, is my presentation. I'd be happy to answer any questions if I could.

THE CHAIRPERSON: I have - I have one (1) question, actually. I'm just wondering whether any large users in the current situation -- the Board's order did not prevent Centra from offering fixed-price/fixed-term contracts for users other than residential or small commercial, but leaving that aside, I'm wondering whether any of the users had considered if they were interested in hedging in a one (1) year outlook am -- natural gas futures.

MR. WILLIAM CARROLL: You mean on their own?

THE CHAIRPERSON: Yes, I'm just wondering.

MR. WILLIAM CARROLL: I would say I can't answer that question.

THE CHAIRPERSON: Do you have any questions?

Okay. Well, thank you, Mr. Carroll. We appreciate the -- the analysis and the commentary. Thank you.

Mr. Peters...?

CENTRA COST OF GAS PANEL, Resumed:

VINCE WARDEN, Resumed
HOWARD STEPHENS, Resumed
NEIL KOSTICK, Resumed
BRENT SANDERSON, Resumed
GREG BARNLUND, Resumed

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you. I'll have some questions to continue with the panel. I'd like to -- maybe, Mr. Chairman, I'll switch gears here.

And in light of the comments from Mr. Carroll, maybe just to assist the Board in further understanding his information, at Tab 14 of the book of documents, and Mr. Carroll, I didn't provide him with a copy of it, but I want to look at Centra's response to PUB Interrogatory 27-A -- and this is the number of customers by customer class -- and just find out if the panel is able to help put some numbers to the demographics that are talked about in Mr. Carroll's presentation.

Mr. Sanderson, do you have --

MR. BRENT SANDERSON: I just want -- you'd have to be more specific --

MR. BOB PETERS: I -- I --

MR. BRENT SANDERSON: -- in terms of what you mean by 'demographics'.

MR. BOB PETERS: All right, I will be. In terms of customer number, I'm looking at page 1 of 6 at Tab 14 of the Board counsel book of documents. Have you located that?

MR. BRENT SANDERSON: Yes, I have.

MR. BOB PETERS: And can you tell the

Board how many customers Centra has in the large general service category, and of those, how many are on direct purchase?

MR. BRENT SANDERSON: Would you just give me a minute to do the math, please?

(BRIEF PAUSE)

MR. BRENT SANDERSON: In total, as of the -- the most recent actual figures that we have, we have approximately seventy-eight hundred (7,800) customers in the LGS rate class, and of that total, approximately eight hundred and fifty (850) of those are on direct purchase.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Sanderson, I hate to do this live, but I'm looking at page 1 of 6 of PUB/CENTRA-27-A.

MR. BRENT SANDERSON: Yes?

MR. BOB PETERS: And which year are you taking me to? Are you taking me to 2008/'09?

MR. BRENT SANDERSON: Yes, I am.

MR. BOB PETERS: All right. And, in

terms of large general service customers, there are sixty-nine hundred and thirty-three (6,933) listed?

MR. BRENT SANDERSON: That would be just the system supply portion, or the portion of that class that purchase their primary gas from the Utility. If you'll just follow down in that column under the 'Western Transportation Service' heading, there's another line item at line 20, and that's large general service class as well, and those eight hundred and fifty-six (856) customers are those who choose to purchase their primary gas through a marketer under the Western T-Service.

MR. BOB PETERS: All right. And then, moving on, we can do the same analysis to high volume firm. There are sixty-five (65) system supplied customers and twenty-six (26) on direct purchase?

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: And then, for the mainline firm, one (1) system supply customer, two (2) that are buying direct?

MR. BRENT SANDERSON: Yes, sir.

MR. BOB PETERS: And, to finish it off, in terms of interruptible sales, thirty-three (33) customers served by Centra and eight (8) by, I suppose either -- they would be marketers or by the customer themselves, registered as a marketer.

MR. BRENT SANDERSON: Yes, and I -- I just want to point out, when we get into those larger classes like the mainline firm and interruptible, we also have a group of customers that's not shown here, and that being full transportation service customers.

Oh, pardon me. Sorry, I see that they are at the lower part of the schedule.

So if we get into those classes, you know, if you go to lines 25 through 31, you'll see that's -- there's a number of customers, approximately twelve (12), that choose to not only line up their own commodity supply requirements, but their upstream transportation as well.

MR. BOB PETERS: And all they take is transportation from City Gate from Centra?

MR. BRENT SANDERSON: To their facility, yes.

MR. BOB PETERS: All right. And if we -- we won't do the same analysis, but if we turn ahead to page 3 of 6, the Board will see the volumes by customer class shown. Again, system supply for the year 2008/'09, you can -- can compare what's being taken by the large general service customer class by way of system supply and you can compare that to what the large general service customers are doing by way of western transportation service direct purchase.

MR. BRENT SANDERSON: Yes, you can.

MR. BOB PETERS: All right. And your point about the volumes for the transportation service reflects at the bottom five (5) or six (6) lines on the chart, indicating that some high volume customers are arranging their own molecules and their own transportation, and just subscribing for Centra's transportation from City Gate to their facility.

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: All right.

All right. Thank you for that, Mr. Chairman. I just wanted to make sure the Board had a context with some specific numbers and access to numbers to -- to better understand some of the issues that Mr. Carroll was mentioning.

THE CHAIRPERSON: Thank you, Mr. Peters. That's helpful.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. I'd like to turn back to the book of documents, to Tab 5, and I'd like to go to Schedule 5.1.3(b), down to line 49. We see the hedging impact on system supply, and as of last November, Mr. Sanderson, it was shown as $19.8 million, correct?

MR. BRENT SANDERSON: For the '09/'10 gas year forecast period, yes.

MR. BOB PETERS: And that's the forecast that you're asking this Board approve for the purposes of setting rates for the up -- for the current gas year?

MR. BRENT SANDERSON: No. Actually, that relates solely to primary gas, so the Board has seen two (2) subsequent updates to this figure in the February 1 application for new primary gas rates, and the application that's currently before the Board for consideration for May 1st rates. So the -- those hedging impacts are not part of what we're looking for in terms of the new rates for non-primary gas for May 1.

MR. BOB PETERS: Okay. Fair comment. Included, though, in your $300 million total forecast for the year, there have been some revisions to the hedging impact, as you've mentioned.

MR. BRENT SANDERSON: Yes, and we recently filed an update to those numbers commensurate with our May 1 Primary Gas Rate Application, or around the same time.

MR. BOB PETERS: And if you'd turn to Tab 16 of the book of documents, most everybody except the witnesses will have -- have an update on PUB/CENTRA-49 --

attachment, it's on pink coloured paper, if that made its way to you.

This is the most recent update. Is it dated, April the 9th, Mr. Sanderson?

MR. BRENT SANDERSON: Yes, it is.

MR. BOB PETERS: And what you're showing the Board here is that, in the shaded area, for all of those derivative hedging transactions that have settled and come to be, there's about $21.7 million of additions to gas cost.

MR. BRENT SANDERSON: Yeah, that sounds reasonable, short of doing the math here on the stand, yeah, I would agree with that, subject to check.

MR. BOB PETERS: And --

THE CHAIRPERSON: Excuse me, Mr. Peters.

MR. BOB PETERS: Yes.

THE CHAIRPERSON: Mr. Singh, would you mind making a copy of that for Mr. Carroll? It might be helpful.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: While we're looking at PUB/CENTRA-40 -- 49, as we sit here now, your best forecast for the impact of the hedging results is going to be a total of $36.2 million of additions to gas cost.

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: And those -- for this -- that just means, if we do the math, there's $14.5 million, approximately, that has not yet settled because those gas months have not been delivered and finalized.

MR. BRENT SANDERSON: Yeah, again, sub -- taking your math as correct, subject to check, but, yes, I would agree.

MR. BOB PETERS: But your point was that those additions to gas costs as a result of the Hedging Program -- and we'll talk a little bit more about the Hedging Program hopefully soon -- those impacts will be incorporated and are incorporated into the May 1st, 2010 primary gas filing that is sitting with the Board presently.

MR. BRENT SANDERSON: Yes, that's correct.

MR. BOB PETERS: I guess before I leave schedule 5.1.3(b), just down to the five (5) year average capacity management revenues on line 50, 5-0, we see that -- and I guess it might have been Mr. Warden who, in his direct evidence, indicated that the five (5) year average indicates that $6.9 million will be credited to customers at the start of the year, and that's been used to reduce the gas costs.

MR. BRENT SANDERSON: Yes. Actually, transportation cost, just to be more specific.

MR. BOB PETERS: Your correction is that this $6.96 million goes to reduce the transportation component of the rates.

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: All right. And this $6.9 million number is the simple arithmetic five (5) year rolling average that's been used for the last few years.

MR. BRENT SANDERSON: Yes, it is.

MR. BOB PETERS: It -- it doesn't make any other adjustments, recognizing that last year you forecast 6.8 million, but you only recovered 5.2, it doesn't ask for a downward adjustment recognizing recent experience.

MR. BRENT SANDERSON: Well, it inherently incorporates recent experience in that -- with part of that five (5) year average is the actual real -- realized results from the pri -- prior years, so to the extent, we may quibble, I guess, with the influence it has on the five (5) year average, but it's explicitly considered in the calculation of that number.

MR. BOB PETERS: What that really tells

us is when the five (5) year average goes up from last time, the number that dropped off was smaller than the number that goes on.

MR. BRENT SANDERSON: That's correct in this case, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Moving from Schedule 5.1.3(b) to the next page in the book of documents, there's a copy of Schedule 5.1.4, and this gets the specific non-primary gas costs breakdown of the $69.1 million, correct?

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: And we look in the second column and we'll see the supplemental gas, the transportation, and the distribution components of non-primary gas spelled out in terms of a specific forecast for the '09/'10 gas year.

MR. BRENT SANDERSON: Yes.

MR. BOB PETERS: And in the Chairman's opening comments he indicated there was a $12 million increase from what is in current rates, and I guess that can be seen on line 10, under column 3. There's a $12 million increase from what is in -- in -- included in base rates currently.

MR. BRENT SANDERSON: No, not what's included...

(BRIEF PAUSE)

MR. BOB PETERS: Let me reword the --

MR. BRENT SANDERSON: Just -- I'm just -- I'm just discussing a -- a technical point with Mr. Barnlund. Yes, you're correct.

MR. BOB PETERS: Well, I was going to rephrase the question so we didn't have to get into that technicality.

But we've talked a little bit about supplemental gas. It's gone up 6.5 million over the forecast, and you've explained that generally to be the colder than normal weather, correct?

MR. BRENT SANDERSON: Nope. The numbers that you're seeing compared here are normal year forecast verses normal year forecast. So the increase you're seeing reflected would be any change in the market price that we expect to pay for supplemental gas verses any change in our expected requirement for supplemental gas under normal weather conditions.

So the lion's share of the increase is a result of our shedding capacity on TransCanada and expecting a heavier reliance on our supplemental source of supply from storage to make up the difference.

MR. BOB PETERS: All right. Thank you for that. In terms of transportation, there's a $7.6 million difference and a significant portion of that will be the increase in the TCPL tolls?

MR. BRENT SANDERSON: Yes, correct.

MR. BOB PETERS: And the distribution component that goes down about $2 million, that again is only for the unaccounted for gas and the Minell pipeline charges, and that's because the commodity cost is not as large as it otherwise was forecast to be?

MR. BRENT SANDERSON: Exactly.

MR. BOB PETERS: Is it accurate to say that Centra's delivered service supplies appear to have been more expensive than the alternative of purchasing primary gas and incurring the transportation costs?

MR. BRENT SANDERSON: Not necessarily. I'd need to go away if you -- I don't have those figures at hand to be able to make that type of determination right at the moment.

MR. BOB PETERS: Is that -- is that a -- an analysis that has been done, Mr. Kostick?

MR. NEIL KOSTICK: I believe you may be

referring to a portion of the CAC evidence, which indicated that the seasonal delivered service for 2008/'9, based on Mr. Stauft's analysis, wound up being more expensive than primary gas, assuming that we held additional transportation cap -- capacity on TransCanada in order to flow more primary gas to the market.

And that may be the case based on that analysis, bearing in mind that there would be those charges associated with holding additional TransCanada capacity in order to move that additional primary gas. And if we had our firm transportation levels where they were a number of years ago, we could have done that. But those firm transportation demand charges would be incurred over the course of the entire year.

So as an alternative to holding that much transportation capacity on TransCanada, we contract for seasonal delivered service, which, in hindsight, may wind up being more expensive than primary gas, but allow us to reduce our TransCanada contract levels, resulting in an overall lower cost approach to serving the market.

MR. BOB PETERS: I followed you up until your last sentence. How can it be a lower cost to serve when the seasonal delivered service is more expensive than if you had maintained your TransCanada service and -- and brought it in as primary gas?

MR. NEIL KOSTICK: That would be if -- that's just -- that's under the theoretical assumption that you would just hold that TransCanada firm transportation for those three (3) months. But I was trying to identify is that you would hold that TransCanada firm transportation for twelve (12) months.

So that twelve (12) of firm transportation demand charges on TransCanada is not taken into account in Mr. Stauft's evidence.

MR. BOB PETERS: All right. And you were prepared to concede that if you only had used three (3) months of those firm transportation charges, it may have been more advantageous financially to procure it as primary gas and incur transportation costs, rather than go through supplemental service?

MR. HOWARD STEPHENS: Mr. Peters, I think I need to explain something, with respect. We started down this road this morning in terms of retrospective review and that we analyse how we did during the prior winter, and if we make any changes in terms of how we contract it, et cetera. You have to recognize that this is very much -- very much like hedging in trying to prognosticate prices on a forward-going basis.

When we go into the winter we contract on the basis that we are going to have a design winter. The numbers you see here are all based upon normal years. When we actually go out to contract we contract for a design year so that we have a sufficient supply to satisfy the market in that circumstance.

Now, if I knew in advance, if I had that crystal ball -- well, I wouldn't be using it for that purpose, I'd be using it for other purposes -- but getting past that, I would know precisely what I'm going to need. And at the end -- I mean, in the end, as I'm entering the season, the winter season, if I know it is going to be warmer than normal I'm not going to fill storage, or if it's full I'm going to turn around and if there is a positive benefit associated with my selling that inventory and then re-buying it again the next summer at a lower cost, I'm going to go out and hedge that transaction and make money doing it.

But I don't have that benefit because I don't -- I mean, I have -- my first obligation is to serve the market. And we do it on the basis of the information that we have in hand at the time that we have to make the decisions. We have to make those decisions in the fall prior to the winter. And so for -- I mean, every time we go through this analysis and you -- I mean, we may come across circumstances where, yes, it indeed has cost us more money to do this this way.

But on the basis of the plan that we put forward to deal with load during the course of the winter months and the summer months, we use the best information available to us at that point in time and then we make -- develop our plans associated with that, and always with regard to providing reliable service, which is our first priority.

So, I mean, I guess I take exception and I get really concerned when we start talking about, you know, retrospective reviews and could we have done things better. Absolutely. I mean, if I know after the fact about how the winter was going to turn out I could change the whole thing around and I mean -- and we would have an entirely different outcome but, I mean, I don't have that luxury. I mean, so -- I mean, going down that road from my perspective is a -- is an exercise in futility.

MR. BOB PETERS: But you do have the luxury, Mr. Stephens, to look in that rearview mirror and check the decisions you made at the time you made them to see whether or not next time around you could or should or would do something different?

MR. HOWARD STEPHENS: Absolutely. I mean, and that's through years of experience. I mean, we learn certainly. I mean, I've been here enough years. I mean, I've learned a few lessons over the course of the years and I know the things that you should look at, things that are meaningful, that do give you an indication as to things that can, I mean, occur and, I mean, it requires some element of judgment.

Even in that circumstance, given the kind of changes that I've seen in the marketplace, there are no well established rules in this market.

I mean, we've seen huge changes over the course of the last ten (10) years. I mean, I remember when I was having a discussion with Mr. Ryall at lunchtime, I remember making a recommendation in 1999 that based upon the amount that the market can move we didn't need to hedge.

And I no sooner put that paper in front of the regulator and, I mean, the market changed significantly simply because the Alliance Pipeline came on and Foothills Pipe Line came on. Prices went through the roof because there was all sorts of concern with respect to the ability of the Western Canadian sedimentary basin to satisfy the requirements of the market.

And we had an entirely new pricing structure come to be. I mean, prices doubled over the course of a couple of months and we lived with the consequences of that for -- for over a decade now and we see now precisely the opposite occur. And we're seeing now -- so we're looking at our hedging program and say, well, is it still relevant? And so we're back -- you know, it's -- I mean, I'm just watching the clock go round and around and around.

I mean, so when you start talking to me about retrospective reviews, there are lessons to be learned but they have to be taken, you know, with a grain of salt in some circumstances because you cannot forecast the market. If you could you'd be able to beat the market, I'd be a rich man and I sure as hell wouldn't be sitting here.

THE CHAIRPERSON: Mr. Stephens, you've accumulated a lot of knowledge over the years; is that a fair statement?

MR. HOWARD STEPHENS: Well, I may have accumulated it; I think I've lost half of it, but...

THE CHAIRPERSON: How do you propose to pass it on to the next generation?

MR. HOWARD STEPHENS: Well, that -- I made the comment this morning, sir, that I -- my objective here today was not to answer any questions. I have a very competent staff that I'm very pleased to lead and from that perspective it's been my objective over the last several years to try and impart as much of my knowledge over to them.

And, quite frankly, I mean, we get them lots of training. And from that -- and, I mean, the biggest component of this is you have to have experience with the business.

So they have, I mean, the benefit of a mentorship from myself, and I'm not always right, contrary to what some people think, including me. That -- that, I mean, is basically the process.

There is no place you can go, I mean, and that is the one (1) difficulty that we have in the -- the gas industry, that you can go and get a degree in now natural gas marketing or acquisition, what have you. It's something you have to learn through experience, and I've had the benefit of -- well, I guess I -- this year is my thirtieth year at Centra Gas, so -- I haven't spent all my time with respect to gas supply but always been connected to it.

And, I mean, from -- you get the benefit of that experience, and you just learn through experience.

THE CHAIRPERSON: And you share that knowledge with those within your group so that they have that opportunity to be mentored, as well?

MR. HOWARD STEPHENS: Absolutely. We

have taken -- well, I mean, when Hydro acquired us, I mean, after we had, and I'll be candid, the somewhat unfortunate set of circumstances in Centra Gas today with our -- respect to our hedging program, and Hydro finally acquired us, I was really the -- I mean, between the -- there were two (2) of us left in gas supply, and I've taken a number of lessons from that -- I mean, that particular situation.

And, I mean, in -- and in that regard, I mean, I had to bring new people into gas supply because I couldn't do it all by myself. I did it for a little while, but it was a bit -- bit onerous.

And that's -- I mean, certainly, I mean, that's why we have grown the department, the division, so that we are in a position now to deal with the changes in the marketplace, I mean, and try and foresee changes as much as we can and be prepared to deal with them.

And we do a lot of work with respect to modelling certain outcomes in terms of our hedging program and all of the analysis that we've put before this Board in terms of demonstrating that, you know, these are the potential outcomes.

All of that is fine. I mean, all of that is for the qualitative still though because there are certain elements of judgment that you have to apply, and that's where the years of experience and the grey hair sometimes pays off.

THE CHAIRPERSON: Well, I'm pleased to hear that significant responsibility.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you. Mr. Stephens, I just wanted to go back, and -- and, Mr. Kostick, the point that we were talking about was the 2008/'09 -- 2008 and -- and '09, the delivered service supplies appearing to have been more expensive than perhaps an alternative.

I heard a couple of different reasons for that in -- if that was factually true. One (1) of them was you were only comparing three (3) months of firm transportation to what you might have had to buy in terms of having twelve (12) months under contract.

That was one (1) of the reasons? Have -- have I got that right?

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: And if you had twelve (12) months of firm transportation and only needed it for the three (3) months, you would have the opportunity to release that capacity and try to market it to at least recover your costs?

MR. NEIL KOSTICK: If there is a market for such capacity, that's correct.

MR. BOB PETERS: And we don't know if there was, or -- at this point in time, we don't know if there was, or you would know if there was based on what did happen that year?

MR. NEIL KOSTICK: If we're talking about the '08/'09 gas year, there was generally a market for selling that transportation, although rarely at the full cost that that transportation is incurred at.

MR. BOB PETERS: And Mr. Stephens' point is, you wouldn't have known that looking through the -- through the windshield. You'd only know that if you looked in the rearview mirror.

MR. NEIL KOSTICK: Yes.

MR. HOWARD STEPHENS: Once you run over the speed bump.

MR. BOB PETERS: I want to -- we -- we talked about on Schedule 5.1.4 the additional $12 million related to non-primary gas costs, and I think we agreed somewhat cagily, Mr. Sanderson, that that was an increase of 12 million from what is in current rates?

MR. BRENT SANDERSON: No longer any need to be cagey, just that's -- the long and short of it is, that's a correct statement.

MR. BOB PETERS: All right. And to recover the additional $12 million of non-primary gas costs, Ms. Derksen will run the supplemental gas, the transportation, and the distribution component of non-primary costs through the cost allocation model to calculate new rates for each class?

MR. BRENT SANDERSON: Yeah, and I can assure you that she's done that already.

MR. BOB PETERS: And can you assure the Board that the base rates -- and I say base rates that are being proposed for May 1 -- are to yield an additional $12 million?

MR. BRENT SANDERSON: Well, there's always a -- a little bit of rounding error in these rates and what they'll recover relative to forecast costs, yes. Generally speaking, yes, I would agree with that.

(BRIEF PAUSE)

MR. BOB PETERS: Let's now turn to Tab 12 of the book of documents -- we'll leave a few tabs to discuss with Ms. Derksen when she joins us tomorrow -- and turn to the ConocoPhillips contract.

Even though I'm not sworn, I should advise my friend Mr. Saxberg that the person on this side of the microphone hasn't seen the contract either, but let's talk about -- about it.

When we talked back in Tab 5 of the book of documents about the forecast costs, the supply costs for primary gas of about $231 million for the current gas year, that's coming as a result of the pricing under the ConocoPhillips agreement, correct?

(BRIEF PAUSE)

MR. BRENT SANDERSON: Mr. Kostick and I agree in general terms, with the exception of the fact that approximately 34 million of that would have been gas inventoried into storage the previous summer under the predecessor supply agreement before the ConocoPhillips' agreement.

So with the exception of that $34 million of gas expected to be withdrawn from storage under normal conditions, the remainder would be priced -- would bear the pricing effects of the ConocoPhillips' agreement.

MR. BOB PETERS: Does the gas in storage impact Schedule 5.1.3(b)?

MR. BRENT SANDERSON: Yes, it does.

MR. BOB PETERS: And so the primary cost

on line 34 of storage gas, that $34.3 million number is a blend of not only the forecast injection of the ConocoPhillips' gas, but also the residual of the Nexen gas?

MR. BRENT SANDERSON: No. The only storage gas withdrawals reflected in the -- in the '09/10 gas year forecast is gas that was inventoried into storage between April 2009 and October of 2009, and the ConocoPhillips' agreement did not come into effect until November 1st.

So it would be gas inventoried into storage during the 2009 summer, blended with any residual from the previous year, which it would have been -- bore the pricing effects of that predecessor agreement, as well, prior to the ConocoPhillips' agreement. So the storage gas -- storage supply of primary gas in this -- in this application bear none of the cost consequences of the ConocoPhillips' agreement.

They will in the summer of 2010 as we begin to refill store -- well, as we've just recently begun to refill storage, but that would show up in a subsequent forecast.

MR. BOB PETERS: In the current gas year we're in, the 2009/'10 gas year, which expires October 31 and had started on November 1, there was already some gas, primary gas, in storage?

MR. BRENT SANDERSON: Our primary gas to the extent that -- our primary gas storage inventory, to the extent that we could fill it, was full as of October 31st.

MR. BOB PETERS: And that was full and supplied only through the Nexen contract, correct?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And what you're doing in Schedule 5.1.3(b) is essentially indicating what the cost of that replacement gas is going to be?

MR. BRENT SANDERSON: No, sir. We're -- it's reflecting the cost of the withdrawals during the winter just completed to serve the load.

The cost to refill storage from April 1 of 2010 to October 31st, 2010, following the most recent winter, will bear the costs of the ConocoPhillips' agreement, but we will not begin withdrawing any of those supplies until November 1st of 2010, which is a future forecast, a future proceeding.

MR. BOB PETERS: Okay. Then I have your point. In the materials, as was pointed out in the direct evidence, Centra declined to file on the public record of this proceedings the -- the new contract; is that correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And can you just summarize for the Board again, what were the main reasons that you declined to provide a copy on the public record?

MR. GREG BARNLUND: There were several reasons for that decision. Primarily, when this contract was entered into there was a provision in the agreement that provided for confidentiality of the -- of the contract.

Secondly, the counterparty expressed an interest in maintaining the confidentiality. And in addition, it's viewed that -- that the further communication of these pricing terms may represent some risk in future RFPs or in future supply contract negotiations.

MR. BOB PETERS: Am I correct in those major reasons, Mr. Barnlund, that it was the counterparty, ConocoPhillips, who wanted confidentiality and the confidentiality provision included in the contract?

MR. NEIL KOSTICK: The confidentiality provision exists in the underlying base contract, which has been in effect for a number of years. It's, in fact, fairly standard to transact on the expectation of confidentiality.

Conoco did also express explicitly their desire to maintain the -- the specifics of the contract confidential.

MR. BOB PETERS: Just on that point, Mr. Kostick, Centra's request for a proposal included the North American Energy Standards Board base contract that you refer to, didn't it?

MR. NEIL KOSTICK: It included -- no, RFP was a standard copy of that -- of the NAESB contract, that's correct.

MR. BOB PETERS: And -- and that was filed at CAS/CSMO/CENTRA-1-B? A copy of that was provided?

MR. NEIL KOSTICK: I'll take that as correct.

MR. BOB PETERS: And in that contract, sir, there is a provision -- and make sure Ms. Murphy's hand is close to the buzzer here because I'm not asking you for any legal interpretation, but under that base contract is it your understanding that there is, what I'll call, a forced disclosure provision, where the provisions of the contract can be disclosed if a regulatory body orders it be disclosed?

MR. NEIL KOSTICK: That is my understanding.

MR. BOB PETERS: And that's always been the way that the North American Energy Standards Board contract has -- they've always had a provision for forced disclosure under compulsion by either a regulator or a court of competent jurisdiction?

MS. MARLA MURPHY: I don't know that Mr. Kostick is in a position to give that history and, frankly, neither am I. But certainly ...

MR. BOB PETERS: Look to the guy with the grey hair.

MR. HOWARD STEPHENS: I can -- I can confirm that.

MR. BOB PETERS: All right. Ms. Murphy's point is valid. It's -- however long it's been in the past it certainly was a provision in the request for proposal sent out this time, that the standard form with the forced disclosure provision as clause 14(10) was included if you're looking for reference.

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And just also I think to be correct that if a regulator orders disclosure of the contract before Centra complies Centra is obligated to notify the counterparty so that the counterparty can have the opportunity to seek a protective order from the Court of Queen's Bench should it so decide or to appeal the decision of the regulator. Is that also your understanding?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: Now, in terms of -- Mr. Stephens, you've -- in your CV or your witness qualifications you've indicated you also testified before the National Energy Board; that's correct?

MR. HOWARD STEPHENS: Yes, and a pleasure it was.

MR. BOB PETERS: And in many of those proceedings you've been involved in a number of proceedings where you didn't have to testify; isn't that also correct?

MR. HOWARD STEPHENS: No, we keep much abre -- very much abreast of what goes on at the NEB and TransCanada Pipelines.

MR. BOB PETERS: And by keeping abreast at what goes on at NEB, you also have yourself come to the situation where there's confidential information that Centra wants access to which may not be readily available, correct?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And in those cases, sir, does Centra sign a non-disclosure agreement, or an agreement to keep information confidential?

MR. HOWARD STEPHENS: Well, I mean, I guess the perfect example of that would be being a member of the Tolls Task Force, TransCanada's alternate dispute mechanism, if you will.

You have to sign a disclosure agreement saying that -- I mean, anything that is said within the context of those meetings is without prejudice and is confidential. I cannot spread the information that -- I mean, and regarding the dialogue that we have at those -- those meetings, even to this regulatory body.

MR. BOB PETERS: And without that non-disclosure agreement, you wouldn't have been given access to that confidential information?

MR. HOWARD STEPHENS: You wouldn't be allowed to sit on the committee.

MR. BOB PETERS: And if you weren't allowed to have access to the information or sit on the committee, you wouldn't be able to effectively represent Centra's interest at the committee level, or before the NEB?

MR. HOWARD STEPHENS: That's correct. That's why we -- we made our sales avail -- selves available to that committee, so that we can have some influence over the things that go on on the TransCanada system.

MR. BOB PETERS: You'd acknowledge that the Nexen contract was not afforded the same confidentiality as is being sought for the ConocoPhillips' agreement.

Would you agree with that, sir?

MR. HOWARD STEPHENS: Yes, and -- but I'm not going to give you just a plain old yes. You knew that was going to happen. We're talking about -- and I'm going to go back to the marketplace again. We are talking about a much more competitive environment.

The Nexen agreement, as I recall, and this is where I'll refer to the Chairman's comment in terms of teaching people what I remember of -- well, some of what I remember is -- is gone, but I believe that that was structured also as -- whether or not it was on the NAESB contract, or the GISB contract, which is the Gas Industry Standards Board contract, which was the preda -- predecessor for the NAESB, also had similar language in it.

So from that perspective, I mean, Nexen would have been within their right to say to us, No, we don't want you to put this in the public forum, that it's confidential, and that from that perspective it -- I mean, we're not -- we don't want you to put it in there unless we're absolutely forced to.

MR. BOB PETERS: So from that answer, do I take it that the counterparty was the one who dictated the change in -- in how that contract was publically disclosed?

MR. HOWARD STEPHENS: Can you --

MR. BOB PETERS: Okay. Let me re -- repeat the question, Mr. Stephens. Am I correct in understanding your last answer that Nexen was prepared to allow its contract to be publically disclosed, whereas ConocoPhillips has made a request for confidentiality?

MR. HOWARD STEPHENS: And that's correct, and I think it has -- and it's a complex answer, but it's -- it's how we arrived at dealing with Nexen, and the fact that it was the result of, first of all, an assignment from the original WGML contracts, and then the Mirant contracts, and ultimately to Nexen, that through that process we had to demonstrate to the regulator that, you know, we had sufficient, you know, coverage to satisfy our market requirements.

So I don't think anybody was hanging up at that particular point in time with respect to confidentiality issues at that time.

MR. BOB PETERS: Is there a provision available, to your understanding -- and again, Ms. Murphy will have the final veto on any legal questions, I appreciate -- but is it Centra's understanding that if Centra wanted somebody to see the ConocoPhillips' agreement, Centra could ask that a non-disclosure agreement be signed?

MR. HOWARD STEPHENS: I think we could prevail upon them in terms of doing that. I don't know that there's necessarily any benefit associated with that though, Mr. Peters.

MR. BOB PETERS: All right. Let me just personalize this, and I'll --

MR. HOWARD STEPHENS: Should I take my jacket off, or...

MR. BOB PETERS: No, no. I just wanted to say the personalization is -- I heard in the opening comments from my friend opposite, Mr. Saxberg, that he, like me, hasn't necessarily seen the terms and conditions of the contract.

Would there be anything preventing Centra from requesting of Mr. Saxberg, his client, or his consultants to enter into a non-disclosure agreement so that they would have access to it, not -- not from a legal perspective, but from a mechanical process with ConocoPhillips?

(BRIEF PAUSE)

MS. MARLA MURPHY: Okay, I've persuaded Mr. Stephens that it's my turn. The -- the con -- the NAESB Agreement itself does not contemplate the entrance into a confidentiality agreement, so we would be left in the position where we would have to go back to the supplier to be able to discuss with them whether or not that was acceptable, and they would ultimately consent, would certainly be my take on that -- the provisions there.

It -- it does require that we use reasonable efforts to keep things confidential and doesn't contemplate disclosing with an agreement to a third party.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Appreciate Ms. Murphy's response. And, Mr. Stephens, the -- the sum of that response is that there's nothing in the contract itself that permits Centra the opportunity to use non-disclosure agreements to share the contract.

That would be something that, if I use your words correctly, you would have to prevail upon the counterparty to be able to do that?

MR. HOWARD STEPHENS: That's correct, and I would be loathe to do that because I don't think that would in the interests of our customer, and I don't think that our holding that contract in confident -- as a confidential document inhibits the Board in any way from determining whether or not the gas cost consequences associated with it are prudent.

MR. BOB PETERS: Okay. Well let's just jump to that answer you've given the Board, Mr. Stephens.

What if, in the -- the Board's final determination, the gas cost consequences are not prudent in the ConocoPhillips' contract?

You've already entered into the contract. You've already procured gas under the contract. You've already made payments under the contract.

Is there a regulatory provision that if this regulator doesn't feel that the gas cost consequences are prudent, that you can get out of the deal with ConocoPhillips?

MR. HOWARD STEPHENS: No, we've signed the agreement in good faith. I guess, in that circumstance, I mean, I certainly don't want to be tested in terms of my thinking with respect to this, that we would go back to ConocoPhillips and explain the circumstance to them and see what kind of a result -- I mean, resolution we could come to.

I don't believe that's the circumstance.

I think it's -- it's incumbent upon us here today to demonstrate to you that the process that we used was sound, best practices, and then from -- I mean, and the output as a result of that process is going to provide with cus -- our customers with a gas supply that meets all of the objectives that are necessary for us to supply gas in a secure reliable fashion at a very cost competitive price.

MR. BOB PETERS: And I was only raising the hypothetical, you understand that, that if, for whatever reason, the Board determined that the gas costs weren't prudent and they didn't want to flow those through into gas rates, what I'm hearing you say is, short of ConocoPhillips providing an accommodation, it would hit Centra on the retained earnings?

MR. HOWARD STEPHENS: Yes, it's -- I mean, actually, we had some discussion along this line because prior to -- I'm taking us back in time again. Sorry for these little time travel trips.

Prior to being acquired by Hydro, and when we were under the old WGML contracts, we always brought those contracts in and we asked for approval of the cost consequences, and we always had a hearing prior to actually taking a delivery underneath those contracts.

And, I mean, there were additional

provisions within those contracts where WGML was representing a group of producers that were underpinning the contract, and they also had to agree to it.

So it was a very onerous process on our part to try and get approval for the contracts because, as a shareholder of a company, if those -- the costs allow -- I mean, were disallowed under those gas supply contracts, it could break the company very quickly. So we needed that assurance, otherwise, we'd be -- just weren't prepared to engage.

MR. BOB PETERS: Well, those consequences are still every bit as large, if not larger, Mr. Stephens, and they could, in your words, break the company if they were disallowed, couldn't they?

MR. HOWARD STEPHENS: Yes. And think it -- some -- I mean, at some point along the line, and I'm only speaking from a personal perspective, but we did get the Board's acknowledgement with respect to the -- in 2004, in the 2004 renegotiative -- renegotiation of the Nexen contract, and we have that language again in our application here.

I would anticipate that we would get, I mean, an acknowledgement from the Board that they find the terms of the contract that we have negotiated are appropriate and that you will approve, on the basis of the structure that we've put forward and the outcome, that you will approve those consequences, and we won't have a surprise at the end of the next -- I mean, or for next time we're in front of the Board and asking for the, you know, final close -- close-off with respect to our quarterly rate applications.

MR. BOB PETERS: Mr. Stephens, does it make the negotiation of the contract harder or impossible if it's subject to regulatory approval, if the cost consequences are subject to regulatory approval, like you had under the Western Gas Marketing Limited arrangements?

MR. HOWARD STEPHENS: Well, certainly that was a very, very onerous process, because we were looking for the approval of a number of different parties, all beyond our control. In this circumstance, to me, it's much more mechanical. I mean, it's a demonstration of the process that we've used to acquire the gas, and we've gotten good advice from a consultant with respect to the appropriate process, we've gotten comments with respect to the -- well, the -- the documentation and the RFP, et cetera.

So, I mean, I -- I take a great deal of comfort in the fact that we had -- you know, we cast the net very wide, I mean, on a very broad basis, to a number of different counterparts. We specifically identified our requirements. They came back and they addressed each one of those, I mean, requirements. We had a very rigorous testing process, and then, from that perspective, we made our decision in terms of which was the -- which contract best met the Manitoba consumers' needs, based upon a number of predetermined attributes.

MR. BOB PETERS: I just want to carry it further, and perhaps off script here, but understand that -- let's suppose that an Intervener has put in evidence that suggests that there's a way to determine whether the cost consequences are prudent.

And Centra, on the other hand, has said, Well, the RFP is evidence of a prudent process and resulting prudent costs. You could appreciate that there could be a disagreement amongst parties as to whether the costs are or are not prudent.

MR. HOWARD STEPHENS: Certainly. It depends on your perspective, and it -- it also determines -- or is very much dependent upon the attributes that you look for under the contract. And if there's a different weighting with respect to any one (1) of those attributes, if -- whatever counterpart you want to talk about, and if price is their first consideration, then -- and reliability is a second or a third consideration, certainly that's going to have a different outcome than if our first consideration is reliability and price is a secondary consideration.

So, I mean, you get into a whole host of, you know, different variables associated with it.

MR. BOB PETERS: All right. Then that just circles back, and I'll end on this thought: that if -- if your contract can be subject to a different perspective from different parties, perhaps disagreement amongst parties, wouldn't it then be prudent to try to deal with those different perspectives and concerns earlier rather than later when trying to get the cost consequences approved?

MR. HOWARD STEPHENS: Give me a minute. When you say earlier, I mean, far -- I mean, in advance of the contract coming into place, into -- into force?

MR. BOB PETERS: Well, I -- I suppose at the time you know what is on your term sheet that's about to be turned into a contract. That would be one opportunity to do it.

What happens now is, this contract was effective on November 1st, so we had November, December, January, February, March. We're already into the sixth month of the contract, and now you're asking the Board to approve the cost consequences belatedly -- not -- not in a negative connotation, but after the fact.

MR. HOWARD STEPHENS: Well, that's -- that's true. And I think -- I mean, I addressed this earlier. I mean, it's the -- regardless of whether or not -- and I will agree, it would be preferable if we had the Board's concurrence prior to taking gas under delivery -- delivery under the -- taking gas delivered under the contract. But I think it's -- the more critical component of it is that the Board sees the process that we used, and concurs that the process was sound. And if they find the process to be sound, the outcome will be sound.

MR. BOB PETERS: And you're making Ms. Murphy's arguments for her, and I appreciate that, Mr. Stephens. And -- and just -- can you indicate to the Board -- I haven't seen the contract, as I've told Mr. Saxberg -- when was it signed relative to November 1 implementation of gas flowing? Was it a month before, two (2) months before?

MR. HOWARD STEPHENS: Sometime midsummer, I'll put it that way.

MR. BOB PETERS: Now the way I wanted to close was, what if there was an opportunity after midsummer to approach the Board maybe with a filing and including Mr. Saxberg and Ms. Ruzycki, and say, if we can convince ConocoPhillips to allow us to share this by way of a non-disclosure agreement we'd like do that, and is that something that you thought of doing at the time or was that not even a contemplation?

MR. HOWARD STEPHENS: I guess, ultimately, I mean, there's two (2) considerations that come to mind. First of all, I mean, you can have them sign non-disclosure agreements, you know, until I'm buried in them. And really there is, I mean, no -- I have no way to claim damages if they breach those agreements.

Secondly, and I guess, I mean, this may sound a bit paternalistic, but ultimately, we are the ones that are responsible for serving the Manitoba market and from that perspective I may disagree with the parties that are coming to the table in terms of what's important in terms of serving this market, but I'm also the one that's going to answer for it.

So, I mean, from that perspective, yes, I like to get input from any stakeholders, I mean, as much as we can but there are some circumstances where stakeholders' interests are not necessarily in alignment with ours.

MR. NEIL KOSTICK: I would just like to add that Centra, as part of its RFP process, did have a stakeholder consultation meeting in November of 2008. It advanced to -- of our issuing RFP.

MR. BOB PETERS: All right. Good points.

Mr. Stephens, while Centra is the one responsible for serving the load, my question is, well, why would Centra want to carry all the risk of that when you're not making any money from the molecules that you're purchasing?

MR. HOWARD STEPHENS: Well, I think that's always been the case with respect to this, I mean, in terms of the acquisition of gas. I mean, that's a pass-through cost and we assume that the regulator agrees with the pricing formula or the contractual arrangements that we've put into place to satisfy our customers' requirements.

I mean, we have no motivation but to do the best that we can with respect to that. I'm a gas consumer, actually quite a considerable gas consumer; I don't want to pay anymore than I have to for it.

MR. BOB PETERS: Okay.

MR. HOWARD STEPHENS: But the other component of it that, I mean, I think is very important to recognize is that if we don't leave or have the confidentiality with respect to this -- and I alluded to this earlier in terms of the marketplace is different now. The terms of the contract are confidential simply from the perspective that they set the market, if you will, for sales into Manitoba. And if you broadcast them all over the countryside, the next time we go to the market people are going to know that if, you know, we're buying gas at index plus two (2) that index plus two (2) cuts the mustard and that's going to be the nature of the type of quotes that we will get the next time.

And I don't want to have that information out there as common knowledge because it ta -- puts us in an awkward position and we may not get, I mean, the same type of arrangement or offers as we -- I mean, as we have in this -- during this go around, simply because it's confidential and the counterparts are prepared to provide us with more aggressive pricing as long as it's not advertised all over the countryside.

MR. BOB PETERS: Mr. Stephens, you threw out a legal term about unable to recover damages. My only thought on that was, couldn't the contract contain a liquidated damages clause? And I appreciate there's a legal component to that so I'm not going to ask you to answer that.

But -- but your concern was, if somebody breaches a non-disclosure agreement what kind of money can you get from them because it's difficult to show what damages resulted. That --

MR. HOWARD STEPHENS: What --

MR. BOB PETERS: -- was your point.

MR. HOWARD STEPHENS: What recourse do I have?

MR. BOB PETERS: Well -- and I'm just suggesting --

MR. HOWARD STEPHENS: Yeah.

MR. BOB PETERS: -- that if there was a liquidated damages clause in the contract maybe that's something the lawyers would -- would look at, but...

MR. HOWARD STEPHENS: I think it would be -- it would be a very thorny issue to try and deal with, I mean, and demonstrate what damages are being -- you know, have been actually accrued. And, I mean, I don't want to get down that road.

MR. BOB PETERS: All right. What you do want to get down to is at the book of documents, Tab 6 -- sorry Tab 12 of the book of documents is PUB/CENTRA-16 and this is a document to which attached is a letter from Centra, dated October 16th, 2009, and that letter, amongst other things, contains a decision matrix, albeit in a redacted form.

Is that correct?

(BRIEF PAUSE)

MR. NEIL KOSTICK: I'm sorry, I missed half the question. I -- could you please repeat it?

MR. BOB PETERS: At Tab 16 -- I'm sorry, at Tab 12 of the book of documents is PUB/CENTRA-16, and it contains Centra's letter of October 16th, to the Board, in which there's a decision matrix at the last page that was used to evaluate the six (6) responses to the RFP sent out?

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: You sent out fifty (50) requests for proposals?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And only six (6) came back?

MR. NEIL KOSTICK: Correct.

MR. BOB PETERS: What does that tell Centra?

MR. NEIL KOSTICK: It tells us that our requirements are very challenging, and there are a limited number of players in the market that have the qualifications and willingness to serve those challenging requirements.

MR. BOB PETERS: Did you ask forty-four (44) people if that was -- if that was correct, or is that an assumption you're making?

MR. NEIL KOSTICK: We know from discussions with a number of our counterparties, that they did not feel that they were capable of serving Centra's requirements, and indicated to us in advance that they would not be bidding on our RFP requirements.

(BRIEF PAUSE)

MR. BOB PETERS: Of the forty-four (44) who didn't respond, how many did you talk to to get that understanding that they just felt Centra's requirements were beyond their capabilities?

MR. NEIL KOSTICK: We would have had discussions with several of those counterparties, mainly those that we have the closest relationships with to begin with, and that would inform our understanding of that situation.

MR. BOB PETERS: So probably a sample group of five (5) counterparties?

MR. NEIL KOSTICK: That would be roughly accurate.

MR. BOB PETERS: All right. And you didn't issue a follow-up exit survey or, you know, why-did-you-dump-me letter to -- to find out why not more people specifically had concerns, to see if that's something you could address in -- in your portfolio going forward?

MR. NEIL KOSTICK: We did not do that, but we also recognize that a number of the parties on that list are not particularly active in the Alberta market, and we would have known in advance that they would not be likely to be bidders.

However, we want -- we did want to cast the widest net possible to include all possibilities as far as counterparties of any substance in North America.

MR. BOB PETERS: And Centra had assistance in preparing the request for proposal.

Is that correct?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And it was through the assistance of a company know as ICF Consulting?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And I think that ICF report was reviewed at the 2009 GRA when you last testified, Mr. Kostick?

MR. NEIL KOSTICK: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: When we turn to the

decision matrix, which is the last page of Tab 12 of Board counsel's book of documents, it's page 3 of 3 of the attachment, this matrix was prepared with the names redacted, correct?

MR. NEIL KOSTICK: We filed it with the names redacted.

MR. BOB PETERS: As we sit here, we now know at least who one (1) of the parties are, that's a --

MR. NEIL KOSTICK: I believe so, yes.

MR. BOB PETERS: -- matter of public record?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: Are you going to tell me which one it is, so I don't have to be the one who puts it on the public record, if I'm not supposed to?

MR. HOWARD STEPHENS: Only if we can kill him after.

MS. MARLA MURPHY: Are you ready to sign that agreement yet?

MR. HOWARD STEPHENS: We'll have to shoot you right after.

MR. NEIL KOSTICK: Party A is ConocoPhillips.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: That said, there were seven (7) criteria selected against which all the parties were going to be evaluated, correct?

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: Who fixed the weighting of these seven (7) criteria?

MR. NEIL KOSTICK: Centra, with input from ICF.

MR. BOB PETERS: And the selection of the weighting, you would agree with me, is a subjective exercise?

MR. NEIL KOSTICK: Agreed.

MR. BOB PETERS: And Mr. Stephens told us about that, that somebody may have a different view?

MR. HOWARD STEPHENS: It is a somewhat qualitative process as opposed to a quantitative process. We try to make it as quantitative as possible.

MR. BOB PETERS: Well, the most important weighting you gave was to reli -- for reliable service, correct?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And then the second most important was minimize total gas costs?

MR. NEIL KOSTICK: That's right.

MR. BOB PETERS: And does that tell the

Board that reliability is more important than cost?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: By not by much; by 25 percent?

MR. HOWARD STEPHENS: Well, that depends on the day we would ask the question on. When it's thirty (30) below in the middle of January I'll ask you -- I'll come -- I'll phone you and ask you how important it is that you get your gas.

MR. BOB PETERS: Yeah, and, you know, I appreciate the lightheartedness of the answer, Mr. Stephens, but the reality is, if it's the dead of winter and it's the coldest day on record, my furnace is going to be working because you've arranged gas either through some contractual provision or you've drafted the main line; isn't that correct?

MR. HOWARD STEPHENS: Well, I think that that -- that may have been. And I anticipated that question. There is not nearly so much gas on the main line to be drafted. The fact that they're running only less than half full right now means that there is less gas going by here and the impact of us drafting their system could potentially have some pretty significant outcomes on the other end of the pipe.

And, I mean, secondly, it's completely

irresponsible on my part to ha -- to build that into my plan in terms of how I'm going to satisfy that requirement.

MR. BOB PETERS: And you haven't built that into your plan and -- have you?

MR. HOWARD STEPHENS: Absolutely not, sir.

MR. BOB PETERS: But if -- but if we talk about reliable service, Manitoba has always had reliable service under Centra's watch?

MR. HOWARD STEPHENS: And simply because, I mean, we recognize that as the first and foremost attribute that we're looking for.

MR. BOB PETERS: And --

MR. HOWARD STEPHENS: And where we sit in the middle of the bald prairie and the kind of temperature swings we can see.

MR. BOB PETERS: And Centra is prepared to incur fixed transportation costs just to have available the capability of bringing gas down the main line rather than having to either have delivered service or, as a last resort, drafted off the pipeline?

MR. HOWARD STEPHENS: Well, drafted off the pipeline from my perspective is not an alternative because that is a complete -- completely irresponsible approach to managing any kind of a business. That's basically stealing the gas from the system.

The other components of it in terms of whether I'm prepared to pay demand charges on the pipeline, or whatever the nature of the other arrangements are, as long as they're the most cost effective and they -- well, they meet the requirements that we've already discussed that are in the matrix, I mean, yes, I'm prepared to pay when it's necessary but I want to do it in the most cost effective way I can but meet those objectives.

MR. BOB PETERS: And I said drafting was the last resort, not part of the plan, not that anybody wanted to, but that option is -- it has to be the last resort available to Centra?

MR. HOWARD STEPHENS: Yes, but it's a limit -- a limited time option. And, I mean -- I mean, TransCanada has looked at this situation and put some very significant and onerous changes -- or made changes to their tariff that deal with continued taking of gas off the system without the authorization to do so.

MR. BOB PETERS: Okay, a couple of questions then. Mr. Warden might be able to better help with this. But does Centra have insurance in the event that Centra had to, as a last resort, draft off the main line which resulted in, let's just say, some manufacturer shutting down a car plant in -- in Ontario and there was consequential damages that would be pointed back towards Centra Gas Manitoba?

Is there insurance in place for such an occurrence?

MR. VINCE WARDEN: No, I'm -- Mr. Peters, I'm not aware of any such insurance that's available to us.

MR. BOB PETERS: All right. And if you do become aware you can let the Board know through your counsel; would that be fair?

(BRIEF PAUSE)

MR. BOB PETERS: My question is, are you -- Centra doesn't have that insurance or you're not aware whether Centra has that insurance?

MR. VINCE WARDEN: Centra doesn't have that insurance.

MR. BOB PETERS: All right. Then the next --

MR. HOWARD STEPHENS: I -- I -- I will add, though, Mr. Peters, that we do have a mutual aid agreement with other LDCs that, in such a circumstance, LDCs will come to the aid of others to the extent that it's possible so that we can, you know, acquire gas from other shippers on the pipeline.

And, ultimately, I mean, in -- in that dire strait -- and I hope I never -- don't have to face that in my lifetime -- I mean, we would be in contact with TransCanada and, I mean, lay out the situation for them, and the duration that we expect to have a difficulty, and in that circumstance we would try to come to some sort of accommodation.

MR. BOB PETERS: Of course. Can you tell the Board -- Mr. Stephens, can you tell the Board whether there has ever been an occurrence where Centra has had to draft off the pipeline as a last resort?

MR. HOWARD STEPHENS: No, we've never deliberately drafted off of the pipeline.

MR. BOB PETERS: How do you not deliberately draft?

MR. HOWARD STEPHENS: Well, sometimes, I mean, we talked about, I mean, how volatile our load can be in our circumstances. I mean, there are provisions within our contract for us to have imbalances between what we have nominated and what we actually take delivery of.

And to the extent that there are

imbalances, we pay costs associated with that, and those were all identified within our application. So from that perspective, I mean, yes, I -- we do draft, but it's recognized that it's going to occur, and we keep it to a minimum.

MR. BOB PETERS: In the matrix, that's page 3 of 3 of the attachment at Tab 12 of the book of documents, there was 40 percent waiting on reliable service and there was 30 percent waiting on minimizing the total cost, as I understood the matrix, is that right?

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: And you went with the lower cost option, not the higher reliability option.

MR. NEIL KOSTICK: We went with the option that represented the best combination of supplier and proposal attributes, as identified to the matrix.

MR. BOB PETERS: Okay. You're saying -- I appreciate you're giving your answer to that, but I see that Party B had the perfect score under reliability, whereas Party A didn't, but you still chose Party A in terms of providing it, and Party A had a better -- lower gas cost than did Party B. Wouldn't that be a fair interpretation?

MR. NEIL KOSTICK: That is correct as far as how it was scored, yes.

MR. BOB PETERS: And the other items of -- or criteria that are listed in terms of creditworthiness and counterparty quality, again, you had to ascribe some notional weighting to those, but when it all came down to it, it was the -- it was the reliability and the total cost that carried the day?

MR. NEIL KOSTICK: It's the combination of attributes, all the categories in total. And as we've noted in our rebuttal evidence, ConocoPhillips is the only party that scored in the top two (2) of every category in the matrix.

(BRIEF PAUSE)

MR. BOB PETERS: Just while we're on that, the ConocoPhillips that scored on this matrix was ConocoPhillips Canada Marketing and Trading ULC. That would be the corporate name.

MR. NEIL KOSTICK: That would be the legal entity that we are contracted with, correct.

MR. BOB PETERS: And to what extent is that legal entity -- first of all, it's an affiliation, an affiliated company to ConocoPhillips Inc., that's your understanding?

MR. NEIL KOSTICK: Yes, it is related to a parent company. Our understanding is that their operations are quite integrated within Canada.

MR. BOB PETERS: And -- and why wouldn't this agreement be with the parent company as opposed to an affiliate company?

MR. HOWARD STEPHENS: It's simply not the nature of their business, Mr. Peters. They have an arm that deals with the type of transactions that we're talking about, and that's the one that we're dealing with.

MR. BOB PETERS: And in terms of the arm you were dealing with, while it has the affiliation with the parent company, what protection did Centra Gas Manitoba Inc. take as against the corporate parent?

MR. NEIL KOSTICK: Centra received a parental guarantee from ConocoPhillips, the parent company of the marketing arm.

MR. BOB PETERS: And what is the guarantee for, guarantee of performance?

MR. NEIL KOSTICK: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: If we turn back in Tab

12 of the book of documents to the Information Request, PUB/CENTRA-16, and go to the Question (d). That would be the (d) portion of this IR. Centra puts a chart on the top of page 3 of 4 which compares the financial impacts of the various proposals that it received, is that correct?

MR. NEIL KOSTICK: We provided a forecast to respond to the information request.

MR. BOB PETERS: And, Mr. Kostick, does that forecast suggest that, if Party B was selected, the cost consequences of Party B supplying Centra gas for the '09/'10 gas year would have been eight hundred and forty-one thousand dollars ($841,000) more than what Party A will cost?

MR. NEIL KOSTICK: Correct.

MR. BOB PETERS: I'm not sure if anything turns on it, Mr. Kostick, but when I looked at that chart on the top of page 3 of 4, it didn't seem to correlate -- at least in my mind -- with how you rated the counterparties on the redacted matrix at the end of this information request. It appears that Party B was eight hundred and forty-one thousand dollars ($841,000) more expensive than Party B (sic) but it was still in the neighbourhood of seven hundred thousand dollars ($700,000) cheaper than Party C. Am I reading that right?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And then, when I go to your matrix and I look under Party C, Party C scored a seven (7) out of ten (10), as did Party B, in terms of their minimized commodity costs, and I don't see the two (2) as being equal. Why would you rank them equal?

MR. NEIL KOSTICK: Our matrix incorporated a variety of information in scoring the pricing, whereas the response to the PUB IR was a literal response to the request for a forecast.

MR. BOB PETERS: All right. I'm still disconnected on the two (2). If -- was it Centra who did the scoring, or was it ICF, or was it both of you?

MR. NEIL KOSTICK: We scored the -- we scored the matrix.

MR. BOB PETERS: Okay. Now -- and then let's go back to my second last question. If Party B is less expensive than Party C, why do they score the same on the matrix?

MR. NEIL KOSTICK: There were different pricing elements included in different -- in the different bids, and one way to compare them would be to use a form of futures pricing. There are other pieces of information that could be used in order to come up with the relative scoring between the bids.

It is not easy to make an apples-to-apples comparison, given the different elements contained within the different bids. As a result, there is a level of judgment involved, as well, and the results of Centra's evaluation of the different pricing proposals is reflected in the matrix.

MR. BOB PETERS: Can you give the Board an idea as to what these other pieces of information refer to? And I appreciate you may be keeping your cards close to the vest because you don't want to disclose the specifics, but -- but how is it that one can be twice as expensive as another, yet still score the same on the -- the cost value?

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Peters, I think we'll take the break right now to give them a chance to...

MR. BOB PETERS: Certainly, sir. Thank you.

--- Upon recessing at 2:48 p.m.
--- Upon resuming at 3:12 p.m.

THE CHAIRPERSON: Okay, welcome back. Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you. Before the afternoon recess, Mr. Chairman and Board members, I was just trying to understand the rankings that were provided with respect to the minimizing of commodity costs, and I had tried to review the information provided at Tab 12 of the book of documents, which indicated, at least to me, that Counterparty A was the lowest cost, Counterparty B was the next lowest by -- but still eight hundred thousand dollars ($800,000) more than Party A, and then Party C was a further seven hundred thousand dollars ($700,000) more than Party B, all of which led me to wonder why Party B and Party C would give this -- be given the same scoring.

And Mr. Kostick and I were just exploring that, so maybe you've got an answer for me, sir.

MR. NEIL KOSTICK: Yes, I -- I think it's worth clarifying that we are looking at essentially two (2) different pieces of information. The response to PUB-16-D, responding to the specific request for a forecast, and as a result, certain information was used to produce that forecast as requested.

The scoring matrix included information beyond futures pricing. It included recent historical pricing as well, in order to make comparisons between the different parties that had different pricing elements included in their bids. So there's essentially more information taken into account in the scoring of the matrix.

MR. BOB PETERS: Is that information you can provide to the Board by way of an undertaking, Mr. Kostick, or is that something for which confidentiality is claimed?

(BRIEF PAUSE)

MS. MARLA MURPHY: Mr. Peters, we'll have to take that under advisement. I -- I don't think we'll be able to do that, but we'll certainly take it away and discuss it and confirm back with you our position.

--- UNDERTAKING NO. 1:   For Centra to provide more information in the scoring of the matrix

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. Well, thank you for that. I want to turn to just one (1) other item on the matrix, Mr. Chairman, and witnesses, and that is under the credit financial substantiation must be investment grade. There was some desire to give 15 percent of the waiting to how creditworthy the counterparty was.

Would that be correct?

MR. NEIL KOSTICK: I apologize once again. I didn't quite catch all of your question.

MR. BOB PETERS: All right. In looking at the credit or financial worthiness of the counterparties, that was something worth 15 percent in the total category weightings.

MR. NEIL KOSTICK: The credit aspects of the counterparties represented 10 percent. It was ten (10) of the fifteen (15) points in that category.

MR. BOB PETERS: And that was the credit rating or worthiness that Centra was placing on the counterparty, correct?

MR. NEIL KOSTICK: That's right.

MR. BOB PETERS: The other was whatever the conditions were by the counterparty being placed on Centra --

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: -- and how onerous those may have been for Centra; that would have formed part of that 5 percent ranking.

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: But when we looked at the credit rating and worthiness of the counterparties, the first thing I'm struck with is how low everybody's ranking is. Why -- why is that in general the case?

MR. NEIL KOSTICK: I'm not an expert in credit ratings under the different credit rating agencies, however, they have a wide range of ratings for investment grade credit ratings. For someone to score a perfect ten (10), they would have to be at the top of that continuum, and these reflect essentially where these parties landed on that continuum.

MR. BOB PETERS: But by nobody scoring above -- well, I shouldn't say that. Party D went above five (5). But Party D was the most creditworthy of all of your counterparties.

MR. NEIL KOSTICK: That is correct.

MR. BOB PETERS: And when you look at Party A, to receive a ranking of five (5), and then Party B received a ranking of one (1), is the difference between the two (2) simply the creditworthiness by the credit rating agencies?

MR. NEIL KOSTICK: It's a reflection of

their credit ratings.

MR. BOB PETERS: It's the relative ranking as between the two (2) of them?

MR. NEIL KOSTICK: It's where they're placed on a continuum. So if there were ten (10) different levels of ratings, a score of one (1) would indicate being at the bottom of that continuum, a score of five (5) would indicate being in the middle of that continuum.

MR. BOB PETERS: What was the credit rating ascribed to -- to party A and party B?

MR. NEIL KOSTICK: I believe that was filed in an IR, and I don't know the number of it offhand, but we could certainly look it up.

MR. BOB PETERS: I'm looking at PUB/CENTRA-55-D, and I didn't put that in the book of documents, but what struck me as you're pulling that one up, Mr. Kostick, is you used Moody's, S&P's, and Dominion Bond Rating Services, three (3) credit rating agencies?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: And, interestingly enough, not all of the six (6) counterparties were rated by each of those three (3) credit rating agencies, were they?

MR. NEIL KOSTICK: That -- that is the

case.

MR. BOB PETERS: So in some cases, you had to compare what a Moody's A-1 was relative to a Standard & Poor's AA?

MR. NEIL KOSTICK: Yes. My understanding is, the different credit ratings used by the different rating agencies can be viewed equivalently by those involved in the credit industry. We do have a credit department that looks at that, and they would have provided this information at how they would all align on that continuum.

MR. BOB PETERS: So when I look at party B and their credit rating, it appears that -- which credit rating did you use for them, by the way? Did you use the Moody's, the Standard & Poor's, or the DBRS?

MR. NEIL KOSTICK: It would have been a blended result.

MR. BOB PETERS: And that blended result would have been around a triple-B minus or somewhere in that area?

MR. NEIL KOSTICK: The three ratings shown for party B were all very close, so they would be all in and around that triple-B minus.

MR. BOB PETERS: And then how does that compare with counterparty A that scored a five (5), which had only one (1) credit agency rating it as an A-1?

MR. NEIL KOSTICK: I -- I'm sorry. I'm not sure I understand your question.

MR. BOB PETERS: I'd like -- how do you relatively weight the A-1 compared to the triple-B?

MR. NEIL KOSTICK: Well, if, for example, as I described earlier, if there are ten (10) different levels of ratings, and, for example, if a triple-B minus were at the bottom of that rating, then you would get a -- a score of one (1). If the A-1 falls within the middle of that continuum -- in -- in other words, the middle of a continuum of ten (10) different ratings, then that would result in the five (5).

MR. BOB PETERS: Can you provide that continuum of ratings that you talk about, that -- that goes from zero to ten (10), I guess?

MR. NEIL KOSTICK: Yes, we can.

--- UNDERTAKING 2: For Centra to provide continuum of ratings that goes from zero to ten (10)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Okay. I'll -- and then all I need to do is come down to the counterparty's credit rating and that'll tell me where on the continuum it is, and that's how I should find out how one (1) party rated five (5) and one rated (1)?

MR. NEIL KOSTICK: That's correct.

MR. BOB PETERS: Okay. I'll look forward to receiving that when you have an opportunity, sir.

THE CHAIRPERSON: But you also indicated, did you not, that you got a parent company guarantee?

MR. NEIL KOSTICK: That's correct.

THE CHAIRPERSON: That would be supplementary to the credit rating?

MR. NEIL KOSTICK: That is correct, yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: But just following up the -- the Chairman's question, how much more creditworthy is the parental guarantee than if it wasn't guaranteed by the parent?

MR. NEIL KOSTICK: I guess what should be clarified is that, in the case of all but one of these parties, the credit ratings of the parent company was used, and that was the case with Conoco, as a result, we required the parental guarantee.

The -- as noted, these parties are generally subsidiary companies, and so whichever party we entered into a contract with, if it was with the subsidiary company we would have sought to secure a parental guarantee.

MR. BOB PETERS: All right. And are the credit ratings that are provided here on the scoring matrix for the counterparty who bid on the contract, or is it for the parent of the party that bid on the contract?

MR. NEIL KOSTICK: In the one (1) case where the bidding party had its own credit rating, we used that credit rating. And in the case of the other parties, where the bidders did not have their own credit rating, we used the credit rating of the parent.

MR. BOB PETERS: So party A is the credit rating of the parent company?

MR. NEIL KOSTICK: The A one is the parent credit rating. That's correct.

MR. BOB PETERS: And in party B, the triple B, or the BAA3, that's also of the parent company?

MR. NEIL KOSTICK: Yes.

MR. BOB PETERS: Okay. I will look for that matrix, and then I think the rest of my questions will follow out from that.

(BRIEF PAUSE)

MR. BOB PETERS: Can you indicate which of the -- which of the six (6) counterparties was standing on its own creditworthiness without a parental guarantee?

MR. NEIL KOSTICK: That would be party C, and it should be worth noting that we gave slightly greater weight to that credit rating given that it was directly with that counterparty, and a parental guarantee would not be required.

MR. BOB PETERS: Now let's just talk about this matrix in general, and Mr. Stephens, he commented on it in some of his comments this afternoon. But is it Centra's position that because they went through this matrix, if the Board considers this matrix to be reasonable, then the cost consequences flowing from the decisions made on this matrix should also be considered reasonable?

MR. HOWARD STEPHENS: Yes, Mr. Peters. I guess the short answer -- my short answer is, yes. Unless they see something in this that, in terms of criteria that we've used, that are completely out to lunch, I mean, I would think -- suggest that this is as scientific a method as you can use in terms of evaluating the different bids, and we've done due diligence with respect to that.

MR. BOB PETERS: All right. That doesn't suggest -- that doesn't suggest, Mr. Stephens, that there isn't a lower cost gas supplier out there for Manitoba, does it?

MR. HOWARD STEPHENS: And I think I addressed that earlier. I mean, in terms of the supplier that best fits our identified requirements, and our needs, as we deem them to be, the counterparty that we chose is the most appropriate counterparty, and is the lowest cost for those other essential attributes, as well.

So I guess the shorter answer would be, Mr. Peters, yes, there may be somebody else out there that's prepared to sell me gas at twenty-five (25) cents a GJ, but it may never materialize.

MR. BOB PETERS: And it's also possible that Centra could have arranged its own primary gas purchases for 2009/'10 on an internal basis in your department, Mr. Stephens, rather than outsourcing it to ConocoPhillips?

MR. HOWARD STEPHENS: No, sir. I don't know -- I don't know -- I don't follow your question.

MR. BOB PETERS: Well, isn't it possible that -- that Centra itself could have taken on the gas supply of the primary gas rather than using a -- a contractual vehicle with a counterparty, Centra could have done it day-to-day, management of its primary gas?

MR. HOWARD STEPHENS: We would still be, I mean, buying our gas through a third-party whether the term was a three (3) year term, or a three (3) hour term. We would -- we have no resources. We have absolutely no natural gas production. So to say that we could take it on is a fallacy.

MR. BOB PETERS: Centra couldn't have placed orders for natural gas on the national -- natural gas exchange or some other market?

MR. HOWARD STEPHENS: Well, if you're talking about buying gas on a day-to-day basis, you're still buying gas from a marketer. You have a contractual arrangement to buy gas potentially on a screen, a trading screen, but underpinning that is a marketer with gas production. We don't have any gas production.

MR. BOB PETERS: All right. Well, let -- let's get past that. No matter who you contract with, or however you get your gas, it's coming from a third party?

MR. HOWARD STEPHENS: That's right.

MR. BOB PETERS: And it can be that ConocoPhillips has its own production, or it could be that the party you chose will secure it from other providers of gas?

MR. HOWARD STEPHENS: That is, I mean, the difference between, I mean, pure -- pure producers. Some of the producers hire marketers to sell their gas; some of them do their own marketing. And, I mean, some of them you just have marketers that go out and aggregate the gas.

MR. BOB PETERS: And my -- my point, and maybe I took too big of a quantum leap here, Mr. Stephens, is that it would be possible, and subject to what you tell us, that Centra could place its own orders to purchase gas on either a monthly or a daily basis, and even intra-daily.

MR. HOWARD STEPHENS: Anything is possible, sir.

MR. BOB PETERS: But --

MR. HOWARD STEPHENS: We can go out and contract more gas but there would still be another party that we're buying the gas from. It's not like we would hold the assets our self.

MR. BOB PETERS: Of course. All right.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: Did you ask me a question subsequent to that?

MR. BOB PETERS: No, I was just wishing you would have stuck to your promise not to get to the microphone today, Mr. Stephens, but -- but recogni --

MR. HOWARD STEPHENS: I -- I'm on it now.

MR. BOB PETERS: Are you ever. But let's -- let's keep on that.

There's a suggestion by Mr. Stauft that some LDCs arrange and purchase their own gas rather than using a third-party contract to provide their gas, a third-party arrangement.

MR. HOWARD STEPHENS: Well, I think it's -- to me, that's just, I mean, an misunderstanding in terms of terminology. Everybody -- I mean, none -- none of the LDCs is -- I mean, as an LDC, our role is not to go out and buy production and decimate the investments associated with that.

Our role is to distribute gas per the terms of our franchises. So for us to go and buy -- I mean, that would be a completely separate arm of the company, or the Corporation, something we have contemplated in the past, but it's not our mandate now, and nor will it be in the near future, that I can see.

(BRIEF PAUSE)

MR. BOB PETERS: Centra arranges its own supplemental gas purchases, correct, by way of delivered service?

MR. HOWARD STEPHENS: That's correct.

MR. BOB PETERS: And that's a lot of work.

MR. HOWARD STEPHENS: No. Actually, I mean we have a list of counterparts that we contact and indicate how much gas we need to buy for whatever particular period of time it is, and we get quotes from them.

MR. BOB PETERS: All right. Let's just carry that into the primary gas side of the business. You could have a list of counterparties you could phone up and say, can you provide this, can you deliver this.

Centra may or may not have their firm transportation, but you could go to counterparties to that as well.

MR. HOWARD STEPHENS: And, certainly, at one point in time we did do that. We -- I mean, and -- I mean, and I want to make that very clear. Mr. Stauft talks about buying gas on a daily basis for a very long time.

We left, what we call the swing gas now, open to purchase each and every day in the open market.

And I became increasingly uncomfortable with doing that simply from the perspective that there was no guarantee that we could pick the gas up in those days.

So the amount of swing that we needed on those days was dictated. We would do our forecast. We would do calculation with respect to how much we assumed having to buy over and above. And we didn't call it base load gas at that time, but the term associated with it would apply equally. And we would go and buy gas and, I mean, and we would buy -- end up buying from two (2) or three (3) different counterparts.

This was all prior to Enron though and the huge credit issues that, I mean, developed out of that. And it was shortly after that that I renegotiated our WGML contract, and, I mean, we went through the -- you know, I still have the scars on my back associated with that -- I mean, that discussion, but we negotiated a firm -- or contractual arrangement for the swing gas where they had to deliver, I mean, precisely what we asked for each and every day and allowed for adjustments in it, which was, I mean -- and we bought the gas on a firm basis so that I was guaranteed that I could get the gas, and the price was very attractive.

MR. BOB PETERS: And you're telling the Board those circumstances and that marketing condition doesn't exist any longer.

MR. HOWARD STEPHENS: Well, not since the Enron situation. Nobody is as comfortable. I mean, and I also allude to the fact that there -- I mean, the Western Canadian's Sedimentary Basin is not as forthcoming, and the TransCanada Pipelines, it's much more difficult to move the gas cost effectively. So, I mean, all of that led me very quickly to the conclusion that we -- I mean, we would, you know, migrate our contracts into something that was a much more bundled package.

MR. BOB PETERS: Is it possible, Mr. Stephens, that Centra may purchase directly from the market from numerous sellers under short-term and daily purchase contracts when it comes time to figure out what to do with your storage assets and transportation assets in the United States; isn't that a possibility?

MR. HOWARD STEPHENS: If we come to a conclusion and there is a specific set of assets that is the ideal fit for Centra, but we can't have them in place in time for the termination of our existing agreements, we may go to some interim measure. Other than that, I don't see that, no.

MR. BOB PETERS: Why don't you see it as possible for a longer term solution rather than just a bridge solution?

MR. HOWARD STEPHENS: Simply from the perspective that if you're buying gas there's no benefit associated with buying things on a short-term basis. I mean, it's like anything else, the more I commit to buy, the more attractive it becomes to the seller; from that perspective they have the economies of scale and cashflow associated with that.

So, I mean, it is very much, I mean, why ConocoPhillips was interested in our contract; we are a good source of cashflow. So they -- they can count on those dollars rolling in. We're a good, you know, solid financial outfit. So from that perspective it's a mutually beneficial situation. Going out and contracting on a day-to-day basis, I mean, goes back to the heart of the reliability argument we discussed earlier. And, I mean, I'm just not comfortable with it and there is no benefit to be had by it.

MR. BOB PETERS: Well, when you say there's no benefit to be had you don't know that unless you cost it out, do you, Mr. Stephens?

MR. HOWARD STEPHENS: Say again?

MR. BOB PETERS: Well, you're saying -- when you say there's no benefit to doing that, to -- to -- for Centra to purchase directly from the market from numerous sellers, the benefit would have to be determined financially, wouldn't it?

MR. HOWARD STEPHENS: No, I think the -- well, the -- the acid test is going to the market every day. And then on some days -- I don't want to -- I mean -- I mean, hit the day that I can't find the supply. And I've been in that circumstance where we needed to buy supply, and this is when we were leaving a portion of our day uncovered, and it was our design day, and I had to scratch all over the place to find gas and I can tell you it's not a very comfortable feeling. So from my perspective that is not a prudent way to operate a gas utility.

MR. NEIL KOSTICK: It is my --

MR. VINCE WARDEN: Mr. Peters, maybe -- probably the same thing Neil was going to say -- or Mr. Kostick was going to say. But we have in -- in Manitoba we have tremendous swings in demands that can be -- is so dependent on -- on the weather. So if we were to go to the market every day to purchase our gas we would have to have some way to manage those swings.

And we don't have local storage that we can do that. Other -- other utilities, LDCs, that do that have access to local storage where they can manage those surpluses and deficits through that withdrawal and injection to storage. We don't have that luxury here in Manitoba. If we, in the -- in our reconfigured portfolio, that may evolve in the future if we decide to go with storage elsewhere, other than in Michigan where we can inject daily, then something like that would be manageable but it would just not be manageable under the current configuration that we have today of assets.

MR. BOB PETERS: Well, what you're trying to do then, Mr. Warden and Mr. Stephens, is you're trying to offload that responsibility, not in a negative way but in a contractual way, onto ConocoPhillips?

MR. VINCE WARDEN: Well, to somebody that can manage that, yes, and ConocoPhillips is -- is large enough that they can manage that within their port -- portfolio of assets.

MR. NEIL KOSTICK: Yeah, if I could also add a further note, the swing optionality that's imbedded within our contract with ConocoPhillips is very difficult to obtain in the market. The ability that we have in our ConocoPhillips contract is to make intraday adjustments, and it's not only to increase the amount of gas that we take but we can also reduce the volumes that we have already indicated to Conoco that we were going to take if we have changes in weather and changes in mode.

So we have the ability to nominate the gas volumes up or down and it's up to ConocoPhillips to figure out how to either get gas late in the day or get rid of it; to either get the gas or get rid of it, as well as the transportation to get it or get rid of it, and that can be at intraday day 2, which is the late afternoon nomination window during the day of gas flow.

And it should be noted that on weekends the market is actually closed. Saturday afternoon, Sunday afternoon, you will not be able to go into the market and buy gas; you need to rely on a marketer such as ConocoPhillips to provide that swing service, which we do not have because we do not have local storage. Most other LDCs that have access to local storage, they manage swings in that manner.

We replicate the benefits of storage by contracting in the manner that we do with a very large player in the Alberta market. The effect of our contract is that we have the -- essentially the ability to pull gas from storage as if we had storage located at Empress. So that is a phenomenal benefit, in my view, that replicates the value of storage.

Another element that needs to be clearly understood is that ConocoPhillips is, essentially, providing firm transportation service for us from AECO to Empress, and they provide that without charging us any fixed demand charges. Virtually anywhere that you go, if you want firm transportation, there are fixed demand charges for your maximum requirements on the day.

In any given month, we'll identify to Conoco what our maximum swing might be, and they have the obligation to supply up to that amount. We might take zero or we might take 100,000 gigajoules in swing on any given day. The remarkable part of it is, we pay no fixed demand charges for that transportation component, that they'll move gas for us from AECO to Empress.

The result of all this is that the Conoco supply contract mitigates supply risk, because if we are contracting on our own in the market and it's a Saturday afternoon or a holiday afternoon and we need additional gas, the market is actually closed and we may not be able to get it. We're -- the price risk is mitigated by the fact that we don't have to contract or attempt to buy gas in the late afternoon when markets are liquid and you are essentially at the mercy of the market as far as buying gas, or, if you're long gas, trying to dispose of it. And the same applies again for transportation, attempting to buy it or get rid of it.

MR. BOB PETERS: You'd agree with me, Mr. Kostick, that, for the benefit of -- of what you're telling us that ConocoPhillips provides, you pay a fee or a premium to them of some amount?

MR. NEIL KOSTICK: We pay a price relative to the AECO -- AECO -- major AECO indices --

MR. BOB PETERS: Well --

MR. NEIL KOSTICK: -- that is reflective in our view of the service that's being provided, which includes moving the gas to Empress.

MR. HOWARD STEPHENS: And, I might point out, it's no different than what we have done in the past.

MR. BOB PETERS: Which means the answer to my question was, yes, there's a premium or a fee for that somehow embedded in the contract in some way, shape or form, because ConocoPhillips isn't doing this for free?

MR. HOWARD STEPHENS: Yes, but they're doing it in a very cost effective way.

MR. BOB PETERS: All right. Well, in terms of the -- the AECO to Empress transportation, the -- the firm transportation provided by ConocoPhillips is -- is done, but ConocoPhillips would also, as I understand the evidence of Mr. Stauft, then be able to take advantage of the liquids extraction at -- at Empress, as well?

MR. NEIL KOSTICK: Whoever holds the

capacity on the intra-Alberta pipeline system and moves that gas to Empress does have the -- the right to the extraction, to the liquids extraction value. So if Centra held capacity and paid the tolls directly on Nova, we could collect extraction fees. However, that's only for any gigajoule of gas that actually flows.

If we hold the capacity ourselves, we may have a requirement to hold 180,000 gigajoules worth of capacity to Empress, but may only need half of that or even a quarter of that on a given day, dependent upon the weather. So the trade-off of being able to secure those liquids extraction fees is that you would be paying unutilized fixed demand charges on the Alberta system, because our load is -- is quite variable day to day.

MR. BOB PETERS: So that's a benefit you've turned over to ConocoPhillips in exchange for them giving you the firm transportation with no fixed demand charges?

MR. NEIL KOSTICK: The -- the puts and takes of all the -- all the pros and cons of the different elements where one can derive value, that's all brought out through the proposal that we received by ConocoPhillips, and the price that we forecast is reflective of that contract, and there are benefits to both parties.

MR. BOB PETERS: Mr. Stephens, does Centra continuously monitor itself against the default option of purchasing directly, in the relative -- in the -- in the relevant short-term markets, the gas it needs? Do you -- do you monitor yourself against that option compared to what you enter into in terms of your contracts with gas suppliers?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: We, I guess, I mean, in a larger sense, do that through the portfolio review that we're looking at doing. And that -- I mean, part and parcel of that is not just looking at the storage and transportation assets, but the impact on our cost of gas and how we can take the gas. And if we can take the gas at a hundred percent base load into storage and do that more cost effectively than we do it now, where we don't have the storage and we have to buy a swing service which may or may not bear some premium, then we will do that.

So, I mean, from that perspective, yes, I'm going to guess my answer is "yes" to you.

MR. BOB PETERS: Under the contract you signed with ConocoPhillips can you confirm to the Board that the customers served by direct purchasers -- by direct purchase through retain brokers are not disadvantaged from what they've compared to the Nexen Agreement?

MR. HOWARD STEPHENS: There's no change, sir.

MR. BOB PETERS: And in terms of the gas marketer activity, under the terms of the new contract with ConocoPhillips can Centra accept all direct purchase customers who may, for whatever reason, want to return to system supply back to system supply?

MR. HOWARD STEPHENS: I see no reason why not, yeah, and if -- even if it isn't under the context of the ConocoPhillips contract. I mean, we could always go to tender and buy more gas, so -- right.

MR. BOB PETERS: Mr. Chairman, I perhaps didn't get quite as far as I had hoped this afternoon, but this might be an opportune to take -- to break for the day. And I'd arrange with my friends opposite to commence at nine o'clock tomorrow morning and we'll -- I expect to complete -- probably complete the evidence tomorrow.

THE CHAIRPERSON: Very good. Thank you, Mr. Peters. Thank you, panel, and we'll see you all tomorrow.

--- Upon adjourning at 3:44 p.m.

Certified correct,

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Cheryl Lavigne, Ms.