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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 20th, 2010

Pages 565 to 668

APPEARANCES

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1 --- Upon commencing at 10:02 a.m.

2

3 THE CHAIRPERSON: Okay, welcome,
4 everyone, today to the closing arguments of our Cost of
5 Gas Hearing.

6 Mr. Peters, will you remind us of what the
7 order is going to be?

8 MR. BOB PETERS: Yes. Thank you and good
9 morning, Mr. Chairman, Board members, Dr. Evans and Ms.
10 Girouard, ladies and gentlemen. Today has been set for
11 closing submissions related to Centra Gas' Cost of Gas
12 Application for the 2009/'10 gas year, which also
13 includes part of Centra's 2010/'11 fiscal year.

14 Before getting to that, Mr. Chairman, a
15 few matters of housekeeping. One of the more significant
16 matters, if I may, is that Centra has filed on April 19th
17 response to Undertakings 5, 6, 7, and 8 and has
18 circulated them, and also suggested that they be marked
19 sequentially Centra Exhibit number 16, 17, 18, and 19
20 respectively.

21 These documents have been forwarded to the
22 parties of record, and I suggest they be also accepted as
23 exhibits in the cause of this Hearing.

24 THE CHAIRPERSON: Yes, we have them, and
25 that's fine.

1

2 --- EXHIBIT CENTRA-16: Response to Undertaking 5

3

4 --- EXHIBIT CENTRA-17: Response to Undertaking 6

5

6 --- EXHIBIT CENTRA-18: Response to Undertaking 7

7

8 --- EXHIBIT CENTRA-19: Response to Undertaking 8

9

10 MR. BOB PETERS: Thank you, sir. I can
11 indicate that I've also received communications from Ms.
12 Ruzycki indicating that Just Energy will not be filing
13 any closing submissions.

14 I believe her questions were answered last
15 week, not only through the questions that were raised at
16 this side of the room, but also those from Mr. Saxberg.
17 And the ones that weren't, Ms. Ruzycki tidied up some of
18 those with questions of her own. So, at this time, she
19 has no closing submissions for the -- for the Board in
20 this matter.

21 I do have brief closing comments before
22 the Board hears from Mr. Saxberg with CAC/MSOS' closing
23 submissions this morning. And the plan is, after hearing
24 from Mr. Saxberg, the Board would stand down until
25 approximately 1:00 p.m. today to hear from Ms. Murphy

1 with Centra's closing submissions.

2 As counsel to the Board, I take no
3 position on the merits, Mr. Chairman and Board members,
4 of any aspect of Centra's application. Rather, to assist
5 the Board, I propose to briefly walk through the various
6 requests Centra has included in its application with
7 reference to the Board counsel's book of documents.

8 The Board will have seen, in tab 1 of the
9 book of documents, the application filed by Centra. And
10 in the application, items (a), (b) and (c) -- that is,
11 1(a), 1(b) and 1(c) -- seek approval of supplemental gas,
12 transportation to Centra, distribution to customers, and
13 transportation rates effective May 1st of 2010.

14 There's also approval of the November 1,
15 2009 to October 31 forecast gas costs, estimated to be
16 \$300.6 million, and there's also approval being sought of
17 the balances and the disposition of the various Non-
18 Primary Gas Purchased Gas Variance Accounts, and those
19 total approximately \$2.8 million.

20 I should indicate that, in that forecast
21 of gas costs for the current gas year, there's also
22 included in that 300.6 million the sum of \$69.1 million
23 for non-primary gas costs.

24 Now in -- in tab 5 of the book of
25 documents that was reviewed last week with the witnesses,

1 the Board will see schedule 5.1.3(b). This is the
2 document that contains the forecast runoff using a
3 November 2nd, 2009 price strip, and it comes to the
4 \$300.6 million that is being sought by Centra.

5 What is of note in this document, Mr.
6 Chairman -- and you'll hear more, I'm sure, from my
7 colleague opposite -- that primary gas supplies recorded
8 on this schedule in col -- in rows 33 and 34, those
9 numbers are impacted by the new ConocoPhillips contract
10 that has been discussed.

11 Turning the page, also in tab 5, is
12 another schedule of 5.1.4, Mr. Chairman. Excuse me.
13 This shows the \$69.1 million of non-primary gas costs and
14 their composition. This is approximately \$12.1 million
15 more than currently embedded in those rates, and that
16 difference, somewhat loosely, but approximately 7.3
17 million, is related to TransCanada Pipeline toll
18 increases, and we've talked about how that came to be and
19 what the future may hold in that area. And we've also
20 seen approximately \$5 million of supplemental gas supply
21 being included in that forecast.

22 In tab 4 of the book of documents, we'll
23 see how the ratings go later, but there was a colour
24 graph of the primary -- sorry, the Non-Primary PGVA
25 Accrual and Dispositions to try to demonstrate

1 graphically to the Board what's been happening with the
2 rate riders that have been in place. And if we turn on
3 that to the stage 5 of the graph, those are the rate
4 riders that are to be disposed of by way of the \$2.8
5 million of a deferral account.

6 The bill impacts all related to the
7 matters that we've just talked about is found on tab 7 of
8 the book of documents, and for these non-gas costs, we
9 see that the base rate increases but the -- on a billed
10 basis, found on page 1 of 2 of Schedule 8.1.1, actually
11 shows that, for the typical residential customer -- and
12 that's the only customer I'll focus on in my comments --
13 the rate goes down by .2 percent, and that's roughly two
14 dollars (\$2) on an annualized basis, all related to the
15 requests for the non-primary gas cost approvals.

16 On a matter related historically in 1(d)
17 of the application at tab 1, Centra also wants the Board
18 to approve what has actually been the gas costs from
19 November 1 of 2008 to October 31 of 2009. That comes in
20 at 437 million. The details are found at tab 3 of the
21 book of documents, and that's on schedule 4.0.0.

22 The Board will recall that, the last time
23 Centra was before the Board at a GRA, there was a
24 forecast that was provided to the Board. The Board did
25 approve, on a forecast basis, certain rates. Those rates

1 are now known on an actual -- or, sorry, those costs are
2 now known on an actual basis, and the differences have
3 been captured in various deferral accounts.

4 In items 1(f) and 1(g) of the application,
5 there's approval sought for primary gas rates, and while
6 this Hearing came before the Board as a non-primary gas
7 hearing, there are some interim orders in place on August
8 1, November 1, and February 1 quarterly gas rates, and
9 there has also been a recent filing seeking Board
10 approval of the May 1st, 2010 rate for primary gas.

11 The impact of the May 1st, 2010 rate can
12 be seen at tab 9 of the book of documents, and it's on,
13 for those with the most updated, on a yellow sheet. It's
14 part of Centra's Exhibit 10 filed April 13th and it's
15 part of Schedule 1.2.0.

16 And it demonstrates that on primary gas,
17 and primary gas alone, there is a 7.1 percent annualized
18 reduction for the typical residential consumer,
19 translating to an annual seventy-three dollar (\$73)
20 reduction in costs.

21 There is also, on May the 1st of 2010, a
22 request to implement the second test year results from
23 the GRA that was before the Board ten (10) months ago,
24 and these deal with non-gas cost rates that will be
25 reflected in the distribution rate.

1 This is the imposition of the various
2 directives of the Board through Order 128/10. And some
3 of that information -- and it was just extracts filed in
4 tab 2 of the book of documents, to give the Board an
5 understanding of where the numbers were -- were coming.
6 And this was the -- the filing by Centra flowing from
7 Order 128/10.

8 Let me correct myself. It was Order
9 128/09. It was the second part of the GRA order.

10 At tab 8 of the book of documents, there
11 are the rate impacts shown on Schedule 10.1.1. On page 1
12 of 2 are the -- the billed rates, and the base rates are
13 also shown on the next page.

14 The Board will recall that as a result of
15 its GRA order, the typical residential consumer was going
16 to receive a one dollar (\$1) per month increase in the
17 basic monthly charge. That can be seen on the table in
18 Schedule 10.1.1, meaning one dollar (\$1) a month or
19 twelve dollars (\$12) on an annualized basis in terms of a
20 rate increase.

21 Mr. Chairman, in your opening comments you
22 had noted that all these matters were coming to -- to a
23 head with a request for May 1st rates for not only non-
24 primary gas, but for primary gas, and now also for the
25 non-gas costs flowing from the second test year of the

1 GRA.

2 The schedule that depicts what Centra has
3 requested, if approved as requested, is found in tab 10
4 of the book of documents, and it also is a portion of
5 Schedule 1.2.0. This, again, was part of Centra's
6 Exhibit 10 filed on April the 13th.

7 The net effect, and I say the net effect,
8 relates to a reduction in a typical residential
9 consumer's bill of 6.1 percent on an annualized basis,
10 translating through to sixty-three dollars (\$63) a year
11 reduction for the typical residential consumer.

12 Related to the final approval of the rates
13 flowing from the General Rate Application and those rates
14 that were shown in tab 8 of the book of documents,
15 specifically, Centra has filed Undertaking Number 8,
16 which stemmed from a discussion I had with Ms. Derksen
17 about the cost allocation and specifically dealing with
18 what number to be used as net income in the cost
19 allocation model and what the impacts are.

20 And on a preliminary basis, my
21 understanding from looking at the April 19th providing of
22 Undertaking Number 8, which is Centra Exhibit Number 19,
23 is that the -- the SGS and the LGS class rates have no
24 change.

25 There are some, I believe, slight changes

1 to the other classes, but one (1) of the factors is that
2 the revenue to cost ratio of all classes remains at unity
3 if done in one (1) way, that is putting the \$2.4 million
4 of net income through the cost allocation model rather
5 than the \$3 million being put through the cost allocation
6 model. So there's a matter the Board can look at in its
7 -- its review, as well.

8 In addition to the specifics that I've
9 mentioned, Mr. Chairman, you've heard from the Centra
10 witnesses on the Affordable Energy Program, which is now
11 the, in my words, the umbrella program related to lower
12 income energy efficiency programs, including the Furnace
13 Replacement Program, and there was some specific
14 discussion about the Furnace Replacement Program, where
15 it sits now, what the forecasts are going forward.

16 The Board also heard about the fixed rate
17 primary gas service offered by the company and the
18 various subscription rates for the various offerings.
19 The Board also heard the company's plans going forward
20 related to that service.

21 The hedging and hedging impacts were --
22 were reviewed, and there was discussion about the -- the
23 Board order -- I believe it was 170/09 -- where hedging
24 is to be phased out, and the Corporation's thoughts and
25 comments related to that. The Board also had the benefit

1 of hearing from a presenter, Mr. William Carroll -- or,
2 sorry, Mr. Bill Carroll, of William Carroll and
3 Associates -- provided some -- a presentation related to
4 that matter on behalf of various commercial clients.

5 Lastly, the US storage assets were
6 discussed, and while 2013 is the sunset date -- I think
7 it's March 31 of 2013 -- there was discussion as to
8 what's being planned by the Corporation, and it appears
9 there's going to be a review and a plan consultation
10 process sometime in either the first or more likely the
11 second quarter of the calendar year 2011.

12 Mr. Chairman, subject to any questions you
13 have of me, those would be my comments this morning, and
14 I suggest you turn to Mr. Saxberg for his closing
15 submissions on behalf of CAC/MSOS.

16 THE CHAIRPERSON: Thank you, Mr. Peters,
17 and thank you again for your normal thoroughness.

18 Mr. Saxberg?

19

20 FINAL SUBMISSIONS BY CAC/MSOS:

21 MR. KRIS SAXBERG: Thank you, Mr.
22 Chairman. Good morning to you, and good morning, Board
23 members, ladies and gentlemen.

24 I have brought with me a closing argument
25 brief that I'd like to circulate, as I will be going

1 through it during my presentation.

2 THE CHAIRPERSON: Very good.

3

4 (BRIEF PAUSE)

5

6 MR. KRIS SAXBERG: I -- I've done a count
7 in the room, and I see there's fourteen (14) people and I
8 have thirteen (13) copies, so I don't know who the
9 unlucky person is -- or maybe the lucky person -- who
10 won't have to follow this brief is, but I'll leave it up
11 to Mr. Singh to -- to make that discretionary call.

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: We'll deal with that,
16 Mr. Saxberg.

17 MR. KRIS SAXBERG: Okay. Thank you, Mr.
18 Chairman.

19 In many ways, I thought to myself last
20 night, this was a good news hearing. The price of
21 natural gas is down to levels that no one expected only a
22 few years ago. Gas prices haven't been this low in ten
23 (10) years.

24 Another interesting thing about this
25 Hearing is that, for the first time that I can remember,

1 all five (5) types of rates, primary gas, supplementary
2 gas, transportation, distribution, and the basic monthly
3 charge, are slated to be adjusted on May 1st, 2010.
4 Also, new rate riders, declared deferral accounts are
5 being implemented.

6 Notwithstanding this wholesale change in
7 rates, the average small general service customer is
8 going to enjoy a 6.1 percent decrease on an annual basis
9 from what they would have paid had the February 1, 2010
10 billed rates remained in effect for a year, and that's
11 very good news to consumers.

12 I'd like to be able to report that it was
13 Centra's good work that led to the six point one (6.1)
14 bill decrease, but it's better explained as Centra's
15 customers' good fortune. The market price of natural gas
16 is not something that Centra can control, but that is
17 what ultimately is driving this 6.1 percent decrease,
18 notwithstanding that all rates are being adjusted at
19 once.

20 Now Centra can't affect the market price
21 of gas, but Centra can, in large measure, control the
22 amount that its customers pay to get gas to Centra's
23 distribution system to satisfy Manitoba's highly variable
24 daily load.

25 A large part of that cost, and a part that

1 Centra has some ability to control, is the cost that
2 Centra pays to its main supplier of natural gas for
3 certain services rendered.

4 The major issue in this Hearing was
5 testing whether Centra had arranged its affairs, such as
6 to get the gas it purchases to its distribution system at
7 the lowest cost possible, having regard to reliability of
8 service.

9 Centra purchased most of its customers'
10 gas requirements under a large long-term sole supplier
11 contract. Approximately 95 percent of the gas that the
12 average residential customer uses arises as a result of
13 this single contract.

14 It goes without saying, but I'll say it
15 nonetheless, that the terms of this major contract are,
16 therefore, very important to consumers. There are many
17 different ways in which Centra could purchase gas for its
18 customers; however, it chooses to purchase all of its gas
19 from one (1) supplier.

20 Compared to other gas utilities in Canada,
21 Centra's purchasing model is unusual. Centra's own
22 consultant calls Centra's gas purchasing strategy
23 relatively uncommon.

24 In this proceeding, CAC/MSOS sought to
25 test whether the new gas supply arrangement was

1 appropriate. However, this task was made virtually
2 mission impossible when Centra refused to produce the
3 contractual terms of the new gas supply contract.

4 Centra also refused to produce information
5 that would allow these Intervenor to determine the
6 precise premium above the Alberta monthly index price
7 that Centra is paying for the gas it distributes to its
8 customers.

9 The non-disclosure of the new gas supply
10 contract was the most important issue for CAC/MSOS in
11 this Hearing. I will spend most of my time on the mic
12 this morning arguing that Centra should have disclosed
13 the new gas supply contract.

14 I will then detail my clients' concerns
15 about Centra's unusual gas purchasing methodology, which
16 conthern -- concerns, parenthetically, had to be based on
17 assumptions and inferences, supposition, since we did not
18 have access to the contract.

19 Other issues that I will briefly discuss
20 include the GRA compliance filing and interest on common
21 assets and inventory, Centra's Fixed Rate Program, the
22 Furnace Replacement Program, adjustments to the '09/'10
23 gas year forecast, and the exchange rate in particular,
24 and the portfolio review process. And I'll have some
25 brief -- brief other comments on matters introduced by

1 Mr. Peters earlier.

2 So, to begin with, the non-disclosure of
3 the ConocoPhillips gas supply contract. The big news in
4 Centra's world this past year was that Centra had entered
5 into a new long-term gas supply contract with
6 marketer/producer ConocoPhillips.

7 Centra is forecasting gas costs of 300.6
8 million, inclusive of 69.1 million in non-primary gas
9 costs for the current gas year. Centra states that
10 implicit in the Board's approval of that forecast is the
11 approval of the gas cost consequences of Centra's new
12 long-term supply contract with Conoco.

13 Centra also is seeking to finalize interim
14 ex parte Order 04/10, which dealt with primary gas rates
15 for the first quarter of the current gas year, November 1
16 to the end of January.

17 Centra states that implicit in the
18 finalization of that order would be the approval of the
19 gas cost consequences of the new gas supply arrangement.
20 Centra acknowledges that when it enters into a long-term
21 gas supply contract on behalf of customers it has an
22 obligation to ensure that it's made prudent decisions
23 with respect to the terms of that contract.

24 And if you turn to tab 2 of the -- my
25 closing argument brief, you'll see that I've -- I've

1 taken out some sections from the Public Utility Board Act
2 that the Board is familiar with, the first being that
3 Section 123, of course, indicates that the burden of
4 proof at any hearing before the Board is on the
5 applicant. Centra acknowledged that during cross-
6 examination.

7 But in this Hearing, unlike all other
8 hearings dealing with new gas supply contracts, Centra
9 seeks to meet that burden of proof without making its new
10 gas supply contract available to the public, more
11 importantly, without making it even a matter for
12 examination at the Hearing, because, as I'll discuss
13 later, Centra had the option of allowing the contract to
14 be vetted in this proceeding, while getting an order from
15 the Board to ensure that the contract was not disclosed
16 to the public at large, which is a common remedy in -- in
17 the common law world when commercial contracts, sensitive
18 commercial contracts are at the centre of litigation.

19 The questions about the new gas supply
20 contract were put to the Centra panel during the -- this
21 proceeding. However, Board counsel and I, in effect, had
22 one (1) arm tied behind our backs during the examinations
23 by virtue of not having seen the contract and its terms.
24 In my view, this amounted to more than just a simple
25 disadvantage. It puts the question -- it puts into

1 question the very fairness of the Hearing.

2 In its deliberations the Board will have
3 to consider whether the gas cost consequences of this new
4 contract were properly tested, in short, whether Centra
5 was able to satisfy its burden without producing the
6 contract itself.

7 What does approving the gas cost
8 consequences of the new contract mean? The Board heard
9 Centra indicate that that's the Board's function in this
10 proceeding.

11 Why doesn't Centra accept that the Board
12 must essentially approve the key terms of the new gas
13 supply arrangements? Approving the gas -- the gas cost
14 consequences is the same thing as approving the pricing
15 formula within the contract. From one (1) flows out of
16 the other. Surely the pricing formula is one (1) of the
17 essential terms of the contract.

18 The other major term of the contract --
19 contract, would relate to the liability of service and to
20 the creditworthiness. Well, Section 126 of the Public
21 Utilities Board Act, which I've also included at Tab 2,
22 indicates that the Board in making any order under this
23 part, which is the part of the Act dealing with natural
24 gas, the Board may consider the following factors:
25 whether the rates charged are excessive or unjust, et

1 cetera. That's item (a). Price consequences would fit
2 into that category. But item (b) is security of gas
3 supply.

4 Whenever the Board is issuing an order on
5 rates, it has to consider that fundamental issue. And so
6 when you consider that the Board is required, in order to
7 fulfill its mandate, to consider the price consequences
8 of this contract, and to consider the security and
9 liability aspects of this contract, you -- you really
10 have to question whether the Board can do that if the
11 contract wasn't the centrepiece of the Hearing, such that
12 the parties were able to review it and question the Board
13 -- or the Centra panel directly on the contract.

14 With respect to the security of supply,
15 these Intervenors are aware of ConocoPhillips and its
16 significant stature, and creditworthiness, and record in
17 terms of reliability. And so we don't have any major
18 concerns on that score.

19 However, the contract itself is -- is
20 important to review in order to determine whether its
21 terms adequately ensure reliability of service and, more
22 importantly, to compare the obligations that the supplier
23 has in the contract to the premiums that it is receiving
24 for providing that service. And that's something we
25 weren't able to do, by virtue of not seeing the contract.

1 Now not withstanding that the Board is, as
2 I say, tasked with reviewing the price consequences and
3 the security of gas flowing from the new contract, Centra
4 states -- takes the position that the contract should be
5 kept in confidence and also not publically available.

6 And there are three (3) arguments that
7 Centra put forward. The first is that Conoco indicated a
8 preference to keep the contract confidential in an email
9 that was read into the record during cross-examination,
10 and I've reproduced that at tab 3. And here, Mr. Kostick
11 is reading from the email at line 23, quote:

12 "Disclosure of the contract to third
13 parties would result in those parties
14 having direct knowledge of information
15 that is intrinsically commercial and
16 competitive in nature. Competitors to
17 ConocoPhillips and parties with whom
18 ConocoPhillips might have commercial
19 arrangements would have access to
20 contract information that could
21 reasonably be expected to result in
22 commercial prejudice to
23 ConocoPhillips."

24 End quote.

25 Sounds like one of those typical

1 disclaimers that a lawyer writes. Doesn't -- doesn't
2 strike me as containing any substantive information as to
3 how the disclosure of this formula, which is obviously in
4 the public interest, is going to negatively affect this
5 behemoth marketer/production company.

6 The second argument that Centra raises is
7 that its, i.e., Centra's, future gas supply negotiations
8 might be negatively impacted. So three (3) years down
9 the road, when Centra is re-contracting, the disclosure
10 of this information at this Hearing, Centra asserts,
11 might have a negative effect.

12 And at Tab 4, I've included Mr. Stephens'
13 testimony indicating his perception of what the -- the
14 negative effect would be, and that's at -- beginning at
15 line 12, quote:

16 "And from that perspective, if we are
17 getting a discount of two (2) cents, or
18 it's a premium of plus two (2) cents, I
19 mean, the incumbents have an
20 opportunity to look at what was
21 acceptable to us in prior periods, and,
22 I mean, it will restrict their --
23 potentially restrict their bids in that
24 context. So, from that perspective,
25 we're not doing our customers any

1 favours by bringing that information or
2 making it public."

3 And then it goes on. End quote.

4 As the Board knows, the disclosure of the
5 pricing details on all previous contracts were made
6 public, tested in this proceeding, and I never heard
7 Centra complain once that that -- in this proceeding,
8 that that somehow impacted on its ability to negotiate a
9 contract with ConocoPhillips this time around.

10 Moreover, one would think that, if the
11 competitors or the bidders are aware of what you already
12 have, they're going to try to beat it, not provide
13 something that's less advantageous. So, in that regard,
14 I don't see how there could be any commercial harm, from
15 a broad public perspective, to releasing the information.

16 And, finally, number three (3), the third
17 argument that Centra relies on is section 14 from the
18 North American Energy Standards Board base contract,
19 which I've included at tab 5. And that section, as Mr.
20 Peters was able to point out through his cross-
21 examination, clearly indicates the parties are
22 contemplating regulatory proceedings where the Board may
23 order a review of the contract.

24 And near the end of the paragraph 14(10),
25 the contract reads, quote:

1 "Each party shall notify the other of
2 any proceeding of which it is aware
3 which may result in disclosure of the
4 terms of any transaction."

5 It goes on and then continues:

6 "...and use reasonable efforts to
7 prevent or limit the disclosure."

8 There's no strict confidentiality
9 obligation flowing from this provision. Also, it's
10 important to note that this provision was applicable to
11 past contracts and didn't serve as a barrier to having
12 them made public.

13 It's clear that Centra has satisfied this
14 clause. It's made reasonable efforts to prevent or limit
15 the disclosure; there's no question about that. So it's
16 in compliance with the -- with the clause.

17 At Tab 6, I have included some further
18 sections out of the Public Utilities Board Act which
19 relate to the Board's authority and jurisdiction relating
20 to the production of documents.

21 The first point to note is Section 15(3):

22 "All sittings of the Board or a member
23 for hearing applications and taking
24 evidence shall be open to the public."

25 The use of the word "shall" is important.

1 That is a mandatory pronouncement of the legislature. A
2 Public Utility Board proceeding shall always be open to
3 the public.

4 This requirement mirrors an important
5 principle in our common law civil system, being the open
6 court principle. The open court principle provides that
7 court proceedings shall be public and should only be
8 curtailed where there is present the need to protect
9 social values of superordinate importance. The open
10 court principle is tied to the constitutional right of
11 freedom of expression.

12 Section 24(4) of the Public Utilities
13 Board Act provides that with respect to the production
14 and inspection of documents and all other necessary
15 matters for the Board to exercise its powers, the Public
16 Utility Board has all the powers, rights, and privileges
17 as vested in the Court of Queen's Bench or a judge
18 thereof. That is a significant amount of jurisdiction to
19 allow the Board to order the disclosure of the Conoco
20 contract.

21 And I've included other sections that
22 speak to the same point, but I think it's rather
23 notorious and that the Board's aware that it certainly
24 has the jurisdiction to order the disclosure of the
25 contract.

1 So then the question becomes, well, what
2 test should the Board apply to determine if this is a
3 situation where confidentiality should prevail or where
4 the open court process, open hearing process, should
5 allow for the full disclosure of this contract.

6 And the Board has in its own rules of
7 practice set out provisions for determining
8 confidentiality, and that's included at Tab 7. And here,
9 the rules of practice and procedure of this Board
10 indicate that where the Board is of the opinion that
11 disclosure of the information could reasonably be
12 expected to result in undue financial loss, and it goes,
13 and/or to -- number 2, to harm significantly the person's
14 competitive position, or -- and it goes on to list other
15 situations where the Board can maintain the
16 confidentiality of a document.

17 CAC/MSOS submits that the Board should
18 decide this matter though in accordance with the common
19 law test relating to confidentiality orders, also
20 referred to as ceiling orders, pronounced by the Supreme
21 Court of Canada in the leading case on this subject,
22 which is the Sierra Club of Canada case, and that I've
23 include at Tab 8.

24 I've included the -- the head note, which
25 is -- I commend to the Board to read at a minimum the

1 head note of this case as it sets all of the -- the
2 considerations that the Supreme Court has considered in
3 determining identical -- identical issues.

4 And I -- I say, with respect, that the --
5 the test set out by the Supreme Court is more strict than
6 the confidentiality section in the Board's rules of
7 practice. And I would suggest that -- that the -- the
8 Board give careful consideration to the pronouncements of
9 the Supreme Court in light of -- of this arena of being
10 a, you know, governmental arena in terms of review of --
11 of rates in this contract.

12 The test that the Supreme Court of Canada
13 set out is found at page 27. It's about six (6) or seven
14 (7) pages in, and it's a two (2) part test, a two (2)
15 stage test. The first stage is for an order of
16 confidentiality to be issued, the first stage:

17 "a) Such an order is necessary in order
18 to prevent a serious risk to an
19 important interest, including a
20 commercial interest in the context of
21 litigation, because reasonably
22 alternative measures will not prevent
23 the risk."

24 And the second stage is:

25 "The salutary effects of the

1 confidentiality order, including the
2 effects on the right of civil litigants
3 to a fair trial outweigh its
4 deleterious effects, including the
5 effects on the right to free
6 expression,"

7 which in this context includes the public interest in
8 open and accessible proceedings.

9 There are three (3) important elements in
10 the first stage of the test, apparent on their face, I
11 would suggest. And they are, first, the risk in question
12 has to be real and substantial, well-grounded in the
13 evidence and poses a serious threat to commercial
14 interests in question.

15 And on that point, harken back to my
16 earlier comments in reviewing the three (3) pieces of
17 evidence and argument that Centra relies on here, and
18 suggest that none of those even comes close to rising up
19 to the level of real and substantial evidence of a
20 serious threat to a commercial interest.

21 The next aspect of that first stage is:
22 Well, what's a commercial interest? And here, the
23 commercial interest has to go beyond a private commercial
24 interest. It's not the commercial interest of a person,
25 or a business, such as ConocoPhillips.

1 In order to qualify as an important
2 commercial interest, the interest must be one (1) that
3 can be expressed in terms of public interest in
4 confidentiality, some general principle that has to be
5 applicable. And the Supreme Court explains that on page
6 27 at paragraph 55:

7 "In addition, the phrase 'important
8 commercial interest' is in need of some
9 clarification. In order to qualify as
10 an 'important commercial interest', the
11 interest in question cannot merely be
12 specific to the party requesting the
13 order. The interest must be one which
14 can be [examined] in terms of a public
15 interest in confidentiality. For
16 example, a private company could not
17 argue simply that the existence of a
18 particular contract should not be made
19 public because to do so would cause the
20 company to lose business, thus harming
21 its commercial interests."

22 End quote. That sounds familiar because
23 that's exactly what's being asserted here. A private
24 commercial interest is being asserted as being affected,
25 without there being any real or substantial evidence that

1 it's a serious risk.

2 The Court then goes on in Paragraph 55 to
3 explain the type of commercial interest that is to be
4 protected. Quote:

5 "However, if, as in this case, exposure
6 of information would cause a breach of
7 a confidentiality agreement, then the
8 commercial interest affected can be
9 characterized more broadly as the
10 general commercial interest of
11 preserving [confidentiality]
12 confidential information. Simply put,
13 if there is no general principle at
14 stake, there can be no important
15 commercial interest for the purposes of
16 this test."

17 And I submit that in this case there is no
18 general principle at stake here. There is no specific
19 confidentiality agreement that's been entered into in
20 advance, and that this Board is going -- is -- is being
21 forced to uphold the contractual effects of that type of
22 a -- a confidentiality agreement.

23 And if that isn't enough to convince the
24 Board, just on this first stage of the test, that this
25 isn't an appropriate case for confidentiality, it's the

1 third phase which I think dooms Centra. And the third
2 pha -- the third element of the first stage is the phrase
3 'reasonable alternative measures.' Are there reasonable
4 alternative measures that will prevent the risk?

5 And so a judge -- or, in this case, the
6 Board -- has to consider whether there are such
7 reasonable alternatives to restrict the order as much as
8 possible, while preserving the commercial interest in
9 question.

10 Here, are there reasonable alternatives?
11 Absolutely. And as -- as Mr. Peters pointed out, the
12 parties to this proceeding could have -- it could have
13 been required that the parties sign non-disclosure
14 agreements, but what typically happens, and what happened
15 in the Sierra case that the Supreme Court is looking at
16 here, is that the court ordered that the confidentiality
17 would relate to the public; it wouldn't relate to the
18 parties in the lawsuit -- or there it was a judicial
19 review. That the parties that were before the court
20 would all have access to this information in order to
21 adjudicate the matter, but that the public wouldn't be
22 permitted access to that information. That was the
23 reasonable alternative measure that the Supreme Court of
24 Canada determined was appropriate in this case.

25 And I would suggest that that's all that -

1 - that need happen here, is that the Board doesn't have
2 to release the details of the price formula when it
3 renders its decision. The parties are free to argue
4 within this proceeding, in view of the contract, and
5 there can be a ban in terms of that information being
6 available to the public, and that would be a reasonable
7 alternative measure.

8 That second stage of the -- of the test is
9 -- is where you balance between the beneficial aspects of
10 an order against the -- the deleterious, negative effects
11 of an order. And here, I would submit, that the benefits
12 of the order to allow the parties to view the contract
13 and then test the Centra panel are obvious, and obviously
14 in the public interest, so that the Board can ensure
15 itself that this major contract is an appropriate one.
16 And the -- so -- and that would be an order of
17 confidentiality that the public can't see the contract,
18 but the contract can be part of the Hearing.

19 The deleterious effects of such an order
20 would be that that does impair the open court principle,
21 but not to a degree that's significant enough to -- not
22 to a degree that -- that outweighs the salutary or
23 beneficial effects of allowing that type of order, such -
24 - so that the parties can address all of the issues
25 related to the contract in the Hearing.

1 Now, as I said, I -- I don't see that
2 Centra has produced any compelling evidence that there's
3 a real substantial risk that disclosure would pose a
4 threat to Conoco's commercial interests. In fact, when I
5 asked the Centra panel if it was aware how big of a
6 contract this was for Conoco in relation to its business,
7 the Centra witness was unable to say whether this
8 contract was much of a big deal to Conoco at all.

9 One would be surprised if -- even if there
10 was some negative effect in terms of -- of the
11 information flowing out of this contract, that it would
12 have such a minimalistic impact on -- on Conoco, given
13 the amount of transactions that it -- that it deals with,
14 and the diversity of those transactions compared to the
15 one that's at issue here. I mean, this is a very unique
16 supplier agreement that -- between Conoco and Centra.

17 And Centra admitted to the uniqueness of
18 the arrangement, and that there was only one (1) service
19 of this type, one (1) customer for this service of this
20 type, because of the unique circumstances of Manitoba
21 variable load. And so therefore, one really has to
22 question how this pricing formula would be applicable to
23 any other pricing formula for other services that Conoco
24 is providing.

25 Now, as a result of the non-disclosure of

1 the contract, these Intervenor's had to base their entire
2 interventions on assumptions and inferences. In fact,
3 our uneasiness with respect to the cost consequences
4 flowing from the contract can be attributed directly to
5 the fact that we don't know what the contract says, and
6 in particular, what the pricing structure is. Had the
7 contract been produced, it's possible we may not have had
8 concerns.

9 The non-production, however, led us to
10 question whether the pricing formula within the agreement
11 was sufficiently flexible in order to appropriately
12 capture all of the possible market dynamics that might
13 come Centra's way during the life of this three (3) year
14 contract.

15 I'm going to move on to -- to CAC's
16 assumed -- assumptions about the contract and its
17 concerns in regard to those assumptions. And that's in
18 reference to Mr. Stauf's evidence.

19 The major market dynamic that Mr. Stauf
20 was concerned -- may not have been adequately addressed
21 in the new sic -- supply contract, relates to the fact
22 that over the last year, the Empress/AECO market
23 differential, also referred to as the Transportation
24 Index, has behaved in an unexpected way.

25 We heard and discussed this unexpected

1 trend as an anomaly during the course of the proceedings;
2 or if it's an anomaly that's gone on for quite some time.
3 At Tab 9 I have some excerpts from the evidence of Mark
4 Stauff. And at page 5, starting at line 20, Mr. Stauff
5 says, quote:

6 "As I have explained, the general
7 expectation should be that Empress/AECO
8 price -- price differentials will
9 reasonably reflect the prevailing NGTL
10 delivery toll. And historically, that
11 has generally been true.
12 However, over time, the observed market
13 price differentials have steadily
14 decreased, and over the past year they
15 have decreased dramatically, to the
16 point where they have become a
17 negative. In other words, in recent
18 months AECO's prices have often
19 actually been higher than Empress
20 prices."

21 And on the next page, continuing, quote:

22 "The cause of this seemingly anomalous
23 market behaviour appears to be an
24 increase in the value of natural gas
25 liquid's extraction rights on the NGTL

1 system." End -- end quote.

2 And Mr. Stauft goes on the explain from
3 his perspective why it is that the anomaly of Empress
4 market prices being lower than AECO prices.

5 The Centra panel, when questioned about
6 this information, confirmed that the current market
7 situation is anomalous. And at page 361 of the
8 transcript, Mr. Stephens agreed that the anomaly was
9 because of the competitive bidding being done amongst
10 these extraction plants, as Mr. Stauft asserts in his
11 evidence on page 6.

12 So there's no issue between the parties
13 that there is something that's changed in the market and
14 it's significant. The market seems to have taken a hard
15 and unexpected turn with respect to the value of
16 transportation between the AECO point and the Empress
17 point. There's been a fundamental shift in the market.
18 And that is displayed at Tab 13 of my closing argument
19 brief.

20 This document indicates that what Mr.
21 Staught is saying, that the differential has gone from
22 being an amount somewhat equivalent to the NOVA toll,
23 fourteen (14) cents, to a point where it's a negative, so
24 that the difference in values between the NOVA toll and
25 the differential is in excess of twenty (20) cents.

1 And you see that, then, when you look,
2 commencing in January 2009. The differential -- this is
3 on page 2 at Tab 13. The differential for January 2009,
4 fourteen (14) cents. In February it goes down to nine
5 (9) cents; in March, eight (8); April, seven (7); May,
6 six (6), June it's at seven (7); July it's at four point
7 seven (4.7); in August it's one point five (1.5) cents;
8 and then it's in the negative.

9 And now I'll explain, from our
10 perspective, the relevance of this dramatic market
11 change.

12 The -- the AECO hub, as we were reminded
13 during the Hearing, is a physical point, a valve, in
14 fact, in mid-Alberta that is the most liquid pricing
15 point for the sale of natural gas in Canada. Centra's
16 purchasing gas for its consumers at that point based on
17 the monthly AECO index for base volumes and the daily
18 index for swing volumes.

19 But Centra doesn't pick up the gas at
20 AECO. It takes receipt of the gas molecules at Empress,
21 which is another market point, albeit less liquid in
22 comparison to AECO, at the Alberta-Saskatchewan border.
23 It is at the Empress point, of course, that Centra has
24 arranged for its transportation to its distribution
25 system.

1 As the consequences of these arrangements,
2 the pricing formula that Centra negotiates with its
3 suppliers has to include a cost associated with getting
4 the gas from AECO to Empress. That's not a -- a matter
5 of dispute.

6 The NOVA gas pipeline system transports
7 gas from AECO to Empress. Therefore, the NOVA demand
8 toll is one (1) means of pricing the value of
9 transportation from AECO to Empress.

10 Another method of valuing that
11 transportation, though, is to rely on the AECOS -- the
12 AECO-to-Empress price -- price differential as reported
13 in various pricing -- price reporting services; that is
14 the difference in the price of gas trading at these two
15 (2) points.

16 As Mr. Staufert indicated in his evidence,
17 all else being equal, one would expect the market price,
18 the market differential, should be the same as that NOVA
19 toll. And his evidence is that, in very general historic
20 terms, that was an observed pattern.

21 These Intervenor have long contended in
22 previous hearings that the price differential appears to
23 be lower than the NOVA demand toll in the long run. And
24 in prior proceedings, these Intervenor have voiced a
25 preference that more weight should be on measuring the --

1 the value of the transportation from AECO to Empress
2 using the differential rather than the NOVA toll.

3 Centra certainly acknowledged the
4 importance of reflecting the differential in the price
5 formula in previous contracts. Every single contract
6 from 2000 to the expiry of the most recent Nexen contract
7 included an express consideration of the AECO/Empress
8 differential. This was referred to as a blended formula
9 that weighted 70 percent of the formula based on the NOVA
10 toll and 30 percent of the formula based on the
11 differential.

12 During cross-examination, Mr. Stephens
13 conceded that the issue of basis differential versus toll
14 was always an issue in previous -- previous hearings, and
15 for Centra. And I've included that quote in the brief,
16 and that's at Tab 10.

17 Where at the first page, the very last
18 line, line 25, Mr. Stephens says:

19 "I will conceded the fact that the
20 issue of basis differential versus toll
21 was always an issue."

22 He goes on at line 4, quote:

23 "And so we had a mixture. It was a
24 function of how much we can negotiate.
25 Ideally, I would want the gas supply

1 that we purchase to be an even split
2 between the two (2). But that was a
3 function of the negotiation process,
4 and I couldn't get any further than
5 seventy/thirty (70/30)." End quote.

6 Here Mr. Stephens is acknowledging that
7 Centra attempted to move the weighting in favour of the
8 differential in order to acknowledge that often, and we
9 would argue more often than not, the differential is
10 lower than the NOVA demand toll. That's historically.

11 CAC/MSOS's major concern about the new gas
12 supply contract is that it may not include an appropriate
13 consideration of the differential. If the current
14 contract does not include any weighting for the
15 differential, or a low amount of weighting, lower than
16 past contracts, then this contract would represent a much
17 higher cost to consumers in the current market than the
18 previous Nexen contracts that included the seventy/thirty
19 (70/30) blended formula between the NOVA toll and the
20 differential.

21 Now I know in 2007, I believe it was on
22 the base volumes, the blended formula was replaced with a
23 hundred percent NOVA toll, but on the swing volumes it
24 was still a seventy/thirty (70/30) split. So that's why
25 we say in every previous contract, and in particular, if

1 we go back to the contract this Board approved in 2004,
2 it included that seventy/thirty (70/30) blended split.
3 Because of the enormity in the swing of the differential
4 to becoming a negative, that -- the impact of that market
5 dynamic would significantly have reduced consumer's costs
6 for gas.

7 Now, at page 350 of the transcript Mr.
8 Stephens acknowledged that the AECO index plus the basis
9 differential is considerably cheaper these days than the
10 AECO index plus the NOVA toll.

11 Now, as I said, I think in my opening
12 comments, I -- at this point in my argument I'm at a very
13 awkward point, because my -- I'm fully alive to the fact
14 that the Board has the contract before it on a
15 confidential basis, and that the Board can review the
16 contract and determine if our assumption is correct, and
17 if there is any weighting of the differential within the
18 price formula. And if there is a strong weighting then -
19 - then CAC's concerns are -- are attenuated. If there
20 isn't, then Mr. Stauff's concerns should be taken very
21 seriously.

22 At page 9 of his evidence, which I had
23 included at Tab 9, Mr. Stauff writes, beginning at line
24 6, and this is really the essence of our concern, quote:

25 "The second major adjustment to pure

1 AECO index..."

2 Sorry. I'm at page 9, which is three (3)
3 pages into the tab, and at line 6. Quote:

4 "Centra's strategy of employing a
5 contractual intermediary, a --
6 negotiated contractual structures
7 intended to mimic short-term market
8 prices carries with it a risk that the
9 contractual proxy for the short-term
10 market prices that is selected, will
11 turn out not to be an accurate or
12 appropriate one. The type of potential
13 disconnect between Centra's contractual
14 Empress prices and actual Empress
15 market prices that I described in
16 connection with the AECO -- sorry,
17 Empress/AECO differential issue would
18 be an example of such a risk
19 manifesting itself. If there is a
20 problem of that kind in the
21 ConocoPhillips contract, Centra's
22 customers would likely be better off if
23 Centra had elected to purchase its
24 supply directly in the market."

25 And it goes on. End quote.

1 the difference in position between Mr. Stauft and Centra
2 was likely one of opinion, not fact. It turns out that
3 there is a factual dispute at play in this Hearing.
4 Centra contends that the historical differential between
5 AECO and Empress prices indicated a tight relationship
6 between the differential and the NOVA toll. In other
7 words, Centra's historic research indicated to it that
8 giving up the differential or weighting it less than
9 previously would not amount to a significant concession
10 to its supplier.

11 If Centra's historic information was these
12 two methods of valuing transportation between AECO and
13 Empress are -- are close to the same, then, if the
14 supplier is saying, We want to rely on 100 percent NOVA
15 demand toll, it may be -- not be that big of a concession
16 to allow for that.

17 These intervenors were not aware that
18 Centra had conducted such a historical analysis. There
19 was no mention of that in any of the Information Request
20 information or in the application. That evidence was led
21 on April 14th at the Hearing.

22 CAC/MSOS concedes that Centra would have
23 acted prudently if it conducted an appropriate historical
24 analysis of the transportation index and factored that
25 into its review of the RFP proposals. If it was only

1 after the contract was executed that the historic
2 research was shown to be no longer accurate, then Centra
3 cannot be faulted for its actions.

4 And included in tab 11 of my brief, I've
5 included Mr. Kostick's comments in this regard, which --
6 in which he says, the bottom line is, Centra made its
7 decision, quote:

8 "...based on the information that we
9 had available to us at the time, and
10 that is the test of prudence." End
11 quote.

12 And I agree with that. If Centra had --
13 and it appears that it has -- done its due diligence in
14 terms of the pricing mechanism based on historical
15 research and future price information, as well, and
16 future price forecasts, that gives these Intervenor
17 comfort that the Utility was acting appropriately.

18 However, Mr. Stauft's concern about the --
19 the rigid formula and the -- the system wherein Centra is
20 purchasing all of its gas from one (1) supplier on a
21 long-term contract remains a valid concern. His
22 observations that entering into this kind of contract can
23 lead to the very risk that has here manifested itself,
24 being the loss of opportunity for customers of Centra to
25 enjoy the market dynamic which has seen the differential

1 become a negative.

2 The fact that Centra has now locked itself
3 into this particular formula means that consumers could
4 pay far more than they would have paid if Centra had
5 arranged for the purchase of its gas in the same way as
6 other LDCs purchased their gas.

7 And I know that Centra, throughout the
8 proceeding, indicated that because of its unique
9 circumstance it has to purchase its gas in this way;
10 however, I would have the Board note that at Tab 12 of my
11 brief I've included an excerpt from the ICF Report in
12 which -- in the very last paragraph ICF says, quote:

13 "The natural gas exchange offers
14 several intra-Alberta services that
15 could provide similar daily flexibility
16 to Centra, including daily purchases on
17 the day ahead market, and the daily
18 market..."

19 And it goes on. End quote.

20 There's no question that Centra could meet
21 its needs by purchasing gas, shorter term contracts, or
22 from multiple parties, and also meet its intraday
23 requirements. And in the long run the most optimal way
24 to meet those difficult intraday requirements may be with
25 storage and that's something that we look forward to

1 Centra analyzing in its portfolio review.

2 And we do acknowledge that Centra has
3 voiced a strong preference to rely on the single supplier
4 model as a method of improving reliability of service and
5 to reduce price risk. Centra's evidence was replete with
6 justifications that this allows for a, quote, "virtual
7 storage," end quote, by providing for intraday
8 nominations to balance Centra's difficult load.

9 A second problem though of the -- a second
10 example of the problems inherent in Centra's gas purchase
11 methodology relates to comments that ICF made in its
12 report about the cost of this swing service that Centra
13 purchases from its supplier.

14 Centra conceded the obvious during the
15 Hearing when it acknowledged that it pays the supplier a
16 premium to provide the swing service, this flexibility
17 for intraday nominations, this virtual storage. We don't
18 know what that premium is without seeing the contract.

19 But one (1) thing that it -- was of
20 interest to these Intervenor was: at page 85 of the ICF
21 Report, Centra's consultants note -- and this is in the
22 last paragraph on the page, second sentence -- quote:

23 "In an unconstrained market, swing
24 service should be widely available at
25 relatively modest premiums. In a

1 constrained market, swing service will
2 be expensive." End quote.

3 ICF goes on in the next page to list some
4 factors which are likely to impact on the availability
5 and cost of this service. One (1) of the factors is the
6 growth in shale gas production in northeastern British
7 Columbia; and there are other factors, including
8 completion of pipelines.

9 The point here is that the cost of the
10 swing service, the premium associated with it, is
11 something that is going to change as the market changes.
12 But Centra cannot enjoy any of the benefits of the market
13 changing; for instance, the market moving into an
14 unconstrained market, which appears to be the case these
15 days, in order to secure swing service at a lower cost
16 than is embedded into this three (3) year contract. So
17 it's just another example of the type of risks that
18 manifest themselves by virtue of the particular unique
19 unusual way that Centra arranges for the purchase of its
20 natural gas.

21 And I know I've been prattling on for --
22 for some time, but I am fairly close to the end of my
23 presentation, ten/fifteen (10/15) more minutes, if I can
24 continue on.

25 The RFP process. Centra relies heavily on

1 the RFP process to demonstrate that the gas cost
2 consequences arising out of the new contract must be
3 appropriate. However, these Intervenor's have concerns
4 because there were essentially only four (4) bidders,
5 notwithstanding that Centra sent the RFP out to more than
6 fifty (50) potential suppliers. The fact that there were
7 only four (4) bidders, combined with the very unique
8 service that Centra is asking for, raises a very serious
9 question as to whether the service that Centra has
10 purchased is provided at a truly competitive price, with
11 only four (4) other bids, and given, as I say, the
12 uniqueness of this service. Questions also arise in
13 terms of the profit opportunities for Centra's supplier.

14 There is a Centra exhibit that was
15 provided late in the proceeding, which I've included at
16 Tab 15. It's Centra Exhibit 12. That document was also
17 put forward by Centra to assuage concerns with respect to
18 whether or not the contract with Conoco is appropriate.

19 That exhibit does not provide these
20 Intervenor's with any significant level of comfort in
21 connection with the premium Centra may be paying above
22 the AECO index, and that's because it relies on forecast
23 information. And Centra's forecast cost of gas has
24 always been widely at odds with its actual cost of gas;
25 therefore, this exhibit really provides no helpful

1 evidence to the Board.

2 What would be helpful, would be if Centra
3 were to provide the information requested by Mr. Staufst
4 in his written evidence, in order for it to be able to
5 perform a retrospective review of the actual premiums
6 above the AECO index that consumers are paying for the
7 gas consumed in Manitoba. Period.

8 What Mr. Staufst's request -- requested
9 information would disclose is how much consumers could
10 have benefited had the differential been more reflective
11 of an equal split, as Mr. Stephens indicated he aspired
12 to. And that will at least give us some measure as to
13 whether or not the contract premiums paid to the supplier
14 are appropriate.

15 And as Mr. Staufst indicates in his
16 evidence, if it's a matter of five (5) to ten (10) cents,
17 he may not be that fussed about it, but if it's twenty-
18 five (25) cents, that's a serious matter that the Board
19 is going to need to -- to consider.

20 Centra argues that to provide the
21 information Mr. Staufst seeks would be to disclose the
22 confidential pricing formula. Maybe so. However, as
23 argued earlier, the confidentiality concerns of Centra
24 and Conoco do not come close to outweighing the important
25 public interest in determining whether the premiums paid

1 by Centra customers to Conoco are appropriate, in view of
2 today's unusual market conditions.

3 Therefore, CAC/MSOS urges the Board to:

4 Number 1. Order Centra to disclose the
5 Conoco contract to these Intervenors on whatever terms
6 the Board considers appropriate, or alternatively, to
7 simply order that the Conoco contract be made public.

8 Secondly, order Centra to provide all of
9 the information sought by Mr. Stauft in his evidence, and
10 to keep track of that information, in order to allow for
11 a retrospective review of gas cost consequences of the
12 Conoco contract at a future proceeding.

13 3. Withhold approval of the gas cost
14 consequences of this contract at this time, until the
15 retrospective review is conducted in a future proceeding.
16 And that also includes withholding making the primary gas
17 interim ex parte orders final, as that would lead to a --
18 an implicit approval of the ConocoPhillips contract.

19 And, Number 4. Order that Centra further
20 investigates other gas supply contracting methodologies
21 to avoid the constraints and -- and risks identified by
22 Mr. Stauft in his evidence.

23 Now, moving on to those other five (5)
24 areas that I wanted to talk very briefly about.

25 The first: Centra's compliance filing. I

1 had asked Mr. Warden to confirm on the record that
2 interest on common assets and interest on inventory, as
3 financed by Manitoba Hydro long-term and short-term debt,
4 at whatever rates are available to Manitoba Hydro in the
5 market. The Board's familiar with -- with that -- with
6 that issue.

7 Mr. Warden confirmed there's no special
8 arrangement between the electric side of the business and
9 the gas side of the business with respect to interest
10 charged on common assets. And I pointed out to Mr.
11 Warden that the overall reduction in interest on long-
12 term and short-term debt combined in each year is
13 approximately 20 percent, so why wasn't it that the
14 interest on common assets and inventory was reduced by 20
15 percent when Centra filed its compliance filing in
16 February of 2010?

17 And he indicated that he would undertake
18 to determine what adjustment, if any, there should be
19 made, and that information was provided in the form of
20 Undertaking Number 5, which has been marked as CENTRA
21 Exhibit 16.

22 And that's found at Tab 16 of my brief.
23 Oh, no isn't, sorry. Tab 17 of my brief.

24 And in this undertaking, Centra is
25 acknowledging that adjusting the calculation by applying

1 the interest rates directed by the PUB for Centra revenue
2 requirements calculations would result in the following
3 changes to interest charges made to Centra. And you see
4 that, in the '09/'10 year, the total finance expense
5 would be reduced by a hundred and sixty-eight thousand
6 (168,000), and in the next test year, a hundred and
7 fifty-two thousand (152,000), for a combined three
8 hundred and ten thousand dollar (\$310,000) adjustment to
9 finance expense. And I would urge the Board then to
10 require Centra to -- to implement that.

11 In terms of the fixed-rate program, in
12 previous orders, this Board directed Centra to increase
13 its fixed-price offerings to Centra customers. The
14 intention was to ensure that customers had sufficient
15 options and choices available to them to lock in their
16 gas rates, if they so chose, prior to the hedging program
17 being wound down.

18 At this Hearing, we learned Centra's
19 fixed-rate program is moving in the opposite direction.
20 With only ten (10) customers signing up to Centra's last
21 offering, Centra has decided that it will not offer
22 further fixed rates -- rate options until, quote,
23 "circumstances are appropriate," end quote.

24 These Intervenor support that decision.
25 The last offering saw Centra spend nineteen thousand

1 dollars (\$19,000) in advertising to secure ten (10)
2 customers. We all heard the evidence that the -- the
3 mark-to-market of the -- for the fixed-price swaps are,
4 at this point, according to Mr. Warden, at a total cost
5 to Centra's net income of approximately \$1 million.

6 The reason why Centra customers do not
7 appear to be interested in this program, I submit, is
8 obvious; and I -- I won't belabour it, because I'm sure
9 it's obvious to everyone. If you turn to Tab 18 of my
10 brief, you'll see the ads that Centra placed prominently
11 in the Winnipeg Free Press and other papers. And you'll
12 see that the quarterly rate service is prominently
13 displayed and compared with the other three (3) fixed
14 rate options. And it's obvious to anyone who's
15 interested in saving some money that this is a -- that
16 the best deal is the quarterly rate.

17 It's significant that when marketers
18 advertise their product -- and they have advertised.
19 We've all heard their advertisements on the radio, seen
20 them in newspapers, and some of us have experienced them
21 at the door. There is no advisement as to the Centra
22 quarterly rate service and that cost to compare to their
23 products.

24 So even though the program is -- Centra's
25 program appears to be a significant -- appears to be

1 failing at this point, there is a massive tangible
2 benefit to the program, in that customers who see the
3 Centra advertisements and become more aware of this fixed
4 rate product become knowledgeable with respect to the
5 product and pricing and options available to them with
6 respect to the different services. When they are
7 knowledgeable, it appears, from Centra's experience, that
8 they don't find the product attractive. And from this --
9 these Intervenor's perspective that's not surprising.

10 A second reason for the low interest in
11 the program relates to the gas prices and their ten (10)
12 year low, and the perception that they're declining. In
13 a market where the perception is that gas prices are
14 rising and will continue to rise, it is at that point
15 that, we would submit, that Centra should offer further
16 fixed rate options. It is that situation which should
17 define, quote "circumstances are appropriate," end quote.

18 How Centra determines when people have
19 that perception is a -- is a question that's difficult to
20 answer but it's something that Centra is going to have to
21 figure out, because it would appear that this business is
22 mostly about timing. And you will note in watching
23 brokers doing their business that they seem to flood the
24 market at periods where it does appear that the price is
25 going up, and people at that point have a -- have a

1 concern about locking in.

2 With respect to the Furnace Replacement
3 Program, we simply want to request of the Board that it
4 order Centra to make available to CAC/MSOS the 2009
5 residential survey that will -- is expected to be filed
6 within a month, I believe.

7 In terms of the longer term plan that Mr.
8 Kuczek discussed, we're also significantly interested in
9 -- in learning about that plan sooner rather than later,
10 so we would ask the same with regard to that information.

11 The -- the information on the record in
12 this proceeding was that there are twenty-two thousand
13 (22,000) LICO 125 low efficiency furnaces; fifteen
14 thousand (15,000) if you're measuring at the hundred
15 percent of LICO. And to date, there have been eight
16 hundred (800) energy efficient furnaces install --
17 installed and thirteen (13) energy efficient boilers.
18 That's not good news; however, the expectation that there
19 will be eleven hundred (1,100) installations this year
20 was -- was good news and it certainly moves the ball
21 forward.

22 With respect to forecast revisions, non-
23 primary gas costs have increased rather substantially by
24 \$12 million, 7 million of which relates to TCPL tolls
25 increasing astronomically this year, and hopefully that's

1 something that is turned around, in the way that Mr.
2 Warden described in -- in his evidence, to -- to bring
3 the tolls back to -- to levels from last year.

4 But \$2 million of that increase in the
5 non-primary gas costs relates to the exchange rate
6 forecast, which is now stale-dated and -- and at the
7 point in which this Board will be determining the
8 appropriate forecast for -- for this gas year.

9 In previous orders, and I've included an
10 extra -- extract from this order at Tab 19, it's Order
11 99/07, the Board ordered Centra to update its cost of gas
12 forecast to reflect the more recent exchange rate
13 estimate. In that case, the order of magnitude was 1.8
14 million, would be the reduction in -- in the forecast
15 costs. Coincidentally, in this proceeding, in
16 PUB/CENTRA-18, that indicated that if the gas cost
17 forecast of the exchange rate was changed to reflect the
18 actual exchange rate to date, and the parity going
19 forward, that would result in a \$1.84 million reduction
20 to the forecast. And so, following past precedent, we
21 recommend that the Board make that same adjustment here.

22 With respect to the portfolio review, we
23 simply want to put on the record that when the discussion
24 paper is circulated, we expect early in 2011, that
25 intervenors and stakeholders, other stakeholders, be

1 given the opportunity to retain and compensate a
2 consultant who can provide CAC/MSOS with an opinion about
3 the discussion paper, such that MT -- CAC/MSOS can
4 contribute to the technical conference in a meaningful
5 way and assist Centra in providing its contribution to
6 the process at that time. So to do so, we would ask the
7 Board to contemplate a procedure wherein CAC/MSOS could,
8 on the basis of a budget, hire a gas supply consultant to
9 assist in that process. And I'd submit that in the long
10 run the costs that would be saved from -- from an
11 adversarial approach to dealing with this important issue
12 would be significant.

13 And just in terms of other comments, we do
14 think that the Board should comment on the systematic
15 underestimate of volumes, which was reflected in the
16 Information Request PUB/CENTRA-26, and which it was dealt
17 with by Mr. Peters in his examination, to ensure that the
18 -- the new methodology, even as updated, does not contain
19 the same bias.

20 And with respect to the cost allocation
21 issue, the Undertaking 8, Exhibit 19, which shows that
22 there were no material impacts or changes to the small
23 general service class and, however, allows for the
24 revenue to cost to be at unity is -- is a change that
25 should be affected in order to avoid consequences the

1 next time -- the next time that rates are struck that are
2 negative to that rate class.

3 And those are my comments.

4 THE CHAIRPERSON: Thank you for your
5 thoughtful remarks, Mr. Saxberg, and to CAC/MSOS for
6 intervening in the process. We'll adjourn now to -- Ms.
7 Murphy, how much time do you require?

8 MS. MARLA MURPHY: If we can come back at
9 1:30, that would work well for us. I'm -- I'm mindful
10 that the Board has time constraints at the end of the
11 day, but I don't anticipate being more than an hour.

12 THE CHAIRPERSON: Very good, 1:30 it is.
13 Thank you very much.

14

15 --- Upon recessing at 1:34 a.m.

16 --- Upon resuming at 1:32 p.m.

17

18 THE CHAIRPERSON: Welcome, Ms. Southall.

19 MS. ANITA SOUTHALL: Thank you very much,
20 Mr. Chairman. I'm just replacing Mr. Peters this
21 afternoon.

22 THE CHAIRPERSON: And you're here just in
23 time for Centra's closing argument.

24 Ms. Murphy...?

25

1 FINAL SUBMISSIONS BY CENTRA GAS:

2 MS. MARLA MURPHY: I guess I could say
3 she came for the best part. My friends have abandoned
4 me, so I'm on my own here, but the back row's still
5 behind me, I'm sure.

6 So, Mr. Chairman and members of the Board,
7 I want to begin by summarizing Centra's application. We
8 filed the 2010/'11 Cost of Gas Application on December
9 18th of 2009. In its application, Centra is seeking the
10 following approvals:

11 Number 1. Approval of supplemental gas,
12 transportation to Centra, and distribution to customer
13 sales and transportation rates, effective May 1st, 2010.

14 Number 2. Final approval of actual gas
15 costs from November 1st, 2008, to October 31st, 2009, in
16 the amount of \$437 million.

17 Number 3. Approval of November 1st, 2009
18 to October 31st, 2010 forecast gas costs, estimated as at
19 November 2nd, 2009 to be approximately \$300.6 million,
20 including non-primary gas costs of approximately \$69.1
21 million.

22 Number 4. Final approval of the balances
23 and disposition of the various non-primary gas purchase
24 gas variance accounts, or PGVA, and the gas cost deferral
25 accounts as at October 31st, 2009, with carrying costs to

1 April 30th, 2010, which reflect the recovery of
2 approximately \$2.8 million.

3 Number 5. Final approval of supplemental
4 gas, transportation to Centra, and distribution to
5 customer sales rates, effective August 1st, 2009, which
6 were approved on an interim basis in Order 116 of '09.

7 Number 6. Final approval of primary gas
8 sales rates effective August 1st, 2009, which were
9 approved on an interim basis in that same Order 116/09.

10 And final approval of Orders 147/09 and 4
11 of 10, related to the interim ex parte approval of
12 primary gas sales rates, effective November 1st, 2009 and
13 February 1st, 2010, respectively.

14 And, finally, final approval of interim
15 Order 170 of '09, which related to changes in the
16 derivatives hedging program for primary gas.

17 Centra proposes that the rates stemming
18 from these requested approvals be implemented in May 1st,
19 2010, together with a change in the primary gas sales
20 rates, as filed with the PUB on April 9th of 2010.

21 The impact of the rate changes proposed in
22 this application, the implementation of changes arising
23 from Order 128/09, and the changes to primary gas
24 effective May 1st, 2010, as requested in that quarterly
25 primary gas rate filing, can be seen on Schedule 1.2.0,

1 significant impact on load
2 requirements."

3 These requirements drive a significant
4 swing requirement. The swing requirement refers to
5 Centra's gas commodity and transportation volume
6 requirements that are unknown day to day, and therefore
7 must be acquired or disposed of daily, including
8 intraday, or during the day of the gas flow.

9 Mr. Kostick referred to the findings of
10 the ICF Report, a copy of which you'll find at Tab 13 of
11 Mr. Saxberg's book of documents. At page 83 ICF noted,
12 and I quote:

13 "The combination of high weather
14 volatility and a high concentration of
15 Manitoba load in the weather sensitive
16 residential and commercial sectors
17 results in a much larger day-to-day
18 swings in gas load than almost any
19 other LDC in North America. The high
20 day-to-day swings in demand also lead
21 to significant forecasting volatility
22 in daily requirements.

23 As a result, the Centra supply
24 portfolio needs to be structured to
25 provide cost-effective natural case

1 natural gas service over a wide variety
2 of natural gas demand levels, as well
3 as providing flexibility to meet wide
4 variations in daily natural gas
5 demand." Closed quote.

6 Weather related demand and the absence of
7 local storage in Manitoba make it necessary for Centra to
8 be able to make daily weather driven volume adjustments
9 or nominations through its supply acquisition
10 arrangements. This was also noted by ICF at page 84 of
11 their report.

12 Mr. Kostick referenced ICF's findings in
13 this regard at pages 306 and 307 of the transcript, which
14 evidence, I should note, was actually erroneously
15 attributed to Mr. Saxberg.

16 The ability to swing must be firm, not on
17 a best efforts or interruptible basis. It must be
18 available intraday, that is during the day of gas flow,
19 including use of the late afternoon or ID2 nomination
20 window, even when the AECO hub is also a -- relatively
21 illiquid, and it must be available at that late afternoon
22 nomination window on weekends and holiday afternoons when
23 the market is closed.

24 It should be noted that managing swing
25 requirements applies to both the commodity and the

1 transportation required to move the gas to Centra's
2 receipt point at Empress. Further, Centra's requirements
3 are such that it must be able to acquire -- both acquire
4 and dispose of gas commodity and transportation on that
5 intraday basis.

6 Centra notes that in the absence of its
7 contractual swing arrangements, Centra and its customers
8 would be exposed to the supply risk of being short
9 commodity and/or transportation due to illiquid or closed
10 markets. In addition, Centra and its customers would be
11 exposed to price risk associated with transacting when
12 the market is illiquid, assuming that supply and
13 transportation are available.

14 As I noted, this price risk applies to
15 both acquiring and disposing of, or being long and short
16 on commodity and transportation, as Centra may need to
17 adjust its volumes, either up or down, due to weather
18 volatility.

19 As Mr. Kostick testified on page 305 at
20 lines 16 to 22 of the transcript, these risks are
21 typically managed by LDCs through local storage. Gas and
22 storage has been paid for, therefore, no price risk, is
23 readily available, and is connected to the LDC system,
24 such that no transportation is necessary.

25 ICF notes in its report at page 86:

1 "The ability to provide swing service
2 is traditionally one (1) of the key
3 drivers for the development of natural
4 gas storage, and utilities fortunate
5 enough to have local storage resources
6 have an array of swing service options
7 not available to other companies."

8 Centra does not own any storage capacity
9 and no storage capacity currently exists with the Centra
10 service territory, so as an alternative Centra mitigates
11 these risks supply contracting approach. They emulate
12 storage connected to its Empress receipt point as a cost-
13 effective alternative to the development of local
14 storage. Through the RFP process Centra cost effectively
15 attained this service with the best combination of
16 supplier and proposal attributes available in the market.

17 Centra issued a comprehensive RS -- RFP
18 which established its requirements for supply, including
19 significant swing optionality. The RFP also invited
20 respondents to offer any alternatives to the proposed
21 requirements in order to ensure that any relevant
22 proposals were available for review by Centra.

23 In order to mitigate the price and supply
24 risks that I've described, Centra contract -- Centra's
25 contract attempts to emulate storage connected to the

1 Empress receipt point. Specifically, Centra considered
2 the following traits as desirable:

3 A contract with a larger marketer or
4 producer willing to use its assets to bear the supply and
5 price risks of serving Centra's daily requirements at
6 Empress; such a supplier being better able to move gas
7 within Alberta as a result of having large scale
8 operations and assets in Alberta and multiple customers
9 or markets for which to pool those assets.

10 To contract for firm swing service,
11 including unfettered use of intraday late afternoon
12 nominations. Mr. Kostick testified at pages 304 and 305,
13 lines 8 through line 2, that Centra recognizes that this
14 unfettered swing optionality requirement alone is
15 difficult to serve and is generally not attractive to
16 suppliers. As such, Centra combined that swing
17 requirement with a substantial base load requirement in
18 order to attract interest in the overall package of firm
19 service requirements that Centra has.

20 Finally, Centra considered it desirable to
21 contract at a published major AECO indices for price
22 transparency. As Mr. Kostick noted at page 328 and 329
23 of the transcript, in the 2007/'08 and '08/'09 General
24 Rate Application, Mr. Staufst acknowledged the benefits of
25 -- of Centra's supply contracting approach with respect

1 to the use of the published indices and the price
2 transparency and predictability that results from that
3 approach.

4 Centra notes that the response rate to its
5 RFP, being six (6) out of fifty (50) is in itself that
6 Centra's requirements are challenging, and constitute
7 more than a simple provision of supply at a point.
8 Through the RFP process Centra cost effectively obtained
9 the service it requires with the best combination of
10 supplier and proposal attributes available from the
11 competitive market.

12 ConocoPhillips was the only respondent to
13 the RFP to score in the top two (2) of each of the
14 evaluation matrix categories. They are recognized as a
15 substantial player in the Alberta market, with
16 significant capabilities of moving gas to Empress.
17 ConocoPhillips expressed no reservations and indicated
18 its full willingness to supply Centra's requirements,
19 including intraday swing volumes.

20 As Mr. Kostick observed, this matter was
21 discussed with Conoco during negotiations, and they've
22 indicated they could accommodate Centra's requirements,
23 including weekends, holidays, and times when the market
24 is closed. Thus far they have demonstrated this in
25 practice as well.

1 You'll find Mr. Kostick's discussion of
2 those matters at Page 330 of the transcript, lines 1 to
3 17.

4 As you've seen from the evaluation matrix
5 and Centra's testimony, Centra's first and foremost
6 priority is to ensure a safe and reliable supply of
7 natural gas for its customers. This requires that Centra
8 contract with a highly qualified counterparty that is
9 willing and able to serve Centra's supply requirements,
10 including those ID and ID2 swing requirement, and being
11 of such a substance as to provide assurance as to these
12 capabilities.

13 Centra submits that the chosen supplier
14 demonstrates those necessary qualifications. Centra has
15 also noted in its evidence that its supply must be cost
16 effective. The cost advantages of the current supply
17 contract have been reviewed during the course of the
18 Hearing. Perhaps one (1) of the greatest benefits of the
19 contracting approse (sic) is that Centra does not have to
20 pay for any transportation on the NOVA Gas transmission
21 line, and only pays for the transportation that it uses.

22 Centra is not charged by its supplier a
23 fixed demand charge that is typical for firm
24 transportation service, yet it still receives firm
25 service to Empress from its supplier, making for cost

1 effective service. The supplier bears the risk of being
2 long or short transportation, and is better positioned to
3 do so than a modest sized LDC like Centra.

4 And you'll find that discussion at pages
5 217, line 22 through 218, line 10 of the transcript, and
6 pages 333 and 334.

7 Centra is also able to emulate local
8 storage through the swing service provided under the
9 contract, and in doing so does not incur the fixed
10 charges associated with storage, nor is it required to
11 keep storage filled, as it would be if it actually held
12 storage. Centra also noted in its rebuttal evidence that
13 Centra's swing service can be compared to a dai -- daily
14 physical call or a daily peaking service that can be used
15 at the latest nomination window of the day, while being
16 priced at the daily index. That daily index, of course,
17 may be far removed from the pricing at ID2, if such
18 supply were to be available at all.

19 The peaking services are normally less
20 flexible than Centra's swing service, and generally are
21 only available on a day ahead basis. Such service also
22 normally carry a fixed daily demand charge, whether it's
23 called on by the customer or not. In contrast, Centra
24 only pays for its swing service when it uses it, with no
25 fixed demand charge associated with that component.

1 Although Mr. Staft has suggested that
2 Centra could arrange its own supply and transportation on
3 a short-term basis, Centra cannot effectively -- cost
4 effectively replicate the intra-Alberta capabilities of a
5 large Alberta marketer or producer such as
6 ConocoPhillips. Centra would have to be able to not only
7 acquire commodity and transportation at Empress when
8 short, or when the market may be illiquid, or even
9 closed, but to dispose of that commodity or
10 transportation when they're long. As I noted earlier,
11 these scenarios create supply and price risks for Centra.

12 In order to arrange transportation to
13 Empress, Centra would either need to hold firm
14 transportation on the NOVA Gas transmission system for
15 its maximum potential requirements, whether needed on a
16 particular day or not, resulting in unutilized demand
17 charges, or it would have to rely on interruptible
18 transportation, which by the very nature of the service
19 may not be available, and would not provide firm
20 transportation capabilities. In either case, Centra
21 would still face the additional supply and price risks
22 that we've identified earlier, and which the current
23 contracting approach avoids.

24 Mr. Staft also suggests that if Centra
25 were to hold transportation on the NOVA transport system,

1 that we would benefit by collecting the revenues
2 associated from extraction rates. This view is erroneous
3 in several respects.

4 Firstly, it ignores the fact that if
5 Centra were to hold such transportation, it would pay for
6 such transportation, whether it needed it or not, thus
7 increasing the unutilized demand charges.

8 Secondly, we would only be in a position
9 to collect the extraction revenues when it was actually
10 utilizing the transportation, which is dependent upon the
11 variable weather conditions.

12 Thirdly, Mr. Stauft has not considered
13 that the existing contract, made in a competitive RFP
14 setting, can be assumed to have already taken into
15 account the value of those extraction rates and the
16 prices offered by the various bidders, including
17 ConocoPhillips.

18 CAC/MSOS has suggested that it may not be
19 appropriate for Centra to have entered into a three (3)
20 year contract in its -- a three (3) year term in its
21 supply contract. Centra wishes to note, however, that
22 the evidence in fact supports its decision. In
23 particular, Mr. Kostick referenced the ICF report at page
24 339 of his evidence, which recommended an intermediate
25 contract term of two (2) to four (4) years. Mr. Kostick

1 also noted that the three (3) year period chosen
2 dovetails with Centra's portfolio review and that -- the
3 expiry of its US storage contracts in 2013. Centra's
4 evidence also reflected that this period avoids the costs
5 of undertaking an RFP process on an annual basis.

6 Centra has noted that given the challenges
7 in serving Centra's requirements, including intraday
8 swing, Centra has a high degree of interest in the
9 capabilities and qualifications of its counterparty. And
10 if a highly qualified counterparty is available under
11 terms reflective of the nature of the service being
12 provided, Centra believes it is well advised to contract
13 for an intermediate term of three (3) years rather than a
14 short term of one (1) year in the interests of security
15 of supply. Centra was also of the view that
16 counterparties may offer a more competitive bid for a
17 longer term contract than might otherwise be offered for
18 a shorter term contract.

19 Centra has also noted that given the
20 unprecedented uncertainty in the market today, that
21 Centra cannot become complacent and simply assume that
22 there will be qualified counterparties interested in
23 bidding on our supply requirements, including intraday
24 swing service, every time it takes an RFP to market, or
25 assume that the party that -- that they contract with for

1 one (1) year will be interested in an extension or a
2 modification of that contract to extend to a second or a
3 third year.

4 By way of conclusion on this topic, we
5 note that Centra's supply contracting approach is
6 preferable to purchasing directly in the daily spot
7 market in a number of ways.

8 First, Centra has intraday swing
9 optionality that allows it to emulate local storage and
10 to manage the significant weather-driven variability of
11 the Manitoba load.

12 Second, Centra has secured firm
13 transportation to Empress provided by Conoco, without
14 fixed demand charges which would otherwise be payable.

15 Third, Centra has reduced the supply risk
16 which would otherwise be associated with having to secure
17 commodity and transportation when markets are illiquid or
18 closed, or contract for firm transportation directly on
19 NOVA and incur unutilized demand charges.

20 Fourth, Centra has reduced the price risk
21 associated with transacting to acquire or dispose of
22 commodity and/or transportation when markets are
23 illiquid.

24 And, fifth, Centra is able to retain the
25 price transparency of a predictable, formulaic and

1 observable relationship to major AECO indices, which is
2 of benefit to the PUB, Intervenor, and to customers.

3 I would also reference the ICF report at
4 page 74, wherein they stated, and I quote:

5 "In ICF's opinion, Centra's approach,
6 which was utilized in the existing
7 Nexen contract and is contemplated in
8 the current RFP, is likely to be more
9 efficient, and in some ways more
10 reliable, than the traditional LDC
11 supply planning model for Centra."
12 Closed quote.

13 As outlined by Mr. Barnlund in his -- his
14 direct evidence, Centra is not seeking PUB approval of
15 the gas costs -- gas supply contract, but rather approval
16 of the gas cost consequences arising from the contract,
17 which is consistent with past practice in these matters
18 in this jurisdiction.

19 Consistent with past practice, Centra will
20 continue to provide information to the PUB in connection
21 with its quarterly primary gas applications, and will
22 incorporate the impli -- implications of the contract in
23 its forecasts, and we will of course report on the actual
24 costs incurred.

25 I note that the last time that the PUB

1 considered the matter of approving costs arising from a
 2 new gas supply contract was in 2004. In Order 131 of
 3 '04, the Public Utilities Board considered the RFP
 4 process undertaken by Centra and the bids received. The
 5 Board suggested that Centra ought to have filed the RFP
 6 with the Board prior to issuing same.

7 The Board reviewed the Nexen contract, and
 8 also reviewed all of the other eight (8) responses to
 9 Centra's RFP, which were filed in confidence with the
 10 Board. The Board concurred with Centra's ranking of
 11 Nexen in the evaluation, acknowledged the new
 12 arrangements would add approximately four hundred
 13 thousand dollars (\$400,000) in direct costs, with a
 14 further potential to decrease capacity management
 15 revenues by an estimated two (2) -- two hundred (200) --
 16 sorry, two hundred thousand dollars (\$200,000) per year,
 17 and approved the gas cost consequences arising out of the
 18 Nexen contract.

19 I've included, at Tab 2 of our book of
 20 documents, an excerpt from that order, pages 38 through
 21 40, which outline the Board's findings in that -- in that
 22 respect.

23 Centra expects that the current process
 24 has met with the PUB's expectations, in that a
 25 stakeholder meeting was conducted prior to the issuing of

1 the RFP which allowed stakeholders the opportunity to
2 raise issues and concerns for inclusion in the RFP.
3 Centra also provided the draft RFP to the Public
4 Utilities Board prior to its issuance.

5 Centra has filed the contract with the
6 Board in confidence, in accordance with the terms of the
7 NAESB Agreement, and has responded to questions raised by
8 the Board's advisors, also, in confidence. Centra has
9 responded to Information Requests posed in this
10 Application and has publically filed the evaluation
11 matrix with the names removed. The weighting of the
12 various evaluation criteria have been considered and were
13 endorsed by the witness for CAC/MSOS in response to the
14 Information Request of the PUB, which is found at
15 PUB/CAC/MSOS-1E.

16 ConocoPhillips was the only party to score
17 in the top two (2) of every category in the matrix and
18 represented the best combination of supplier and proposal
19 attributes for the specific services that Centra
20 requires, ensuring good value for ratepayers. Centra,
21 therefore, respectfully requests that the PUB approve the
22 gas cost consequences arising out of the ConocoPhillips
23 contract.

24 Mr. Saxberg has suggested that the PUB
25 ought not to approve those gas cost consequences because,

1 in his client's view, Centra has not met the burden of
 2 demonstrating that the contract is prudent. Centra
 3 knows, firstly, that the PUB has had the full benefit of
 4 information which it -- it has historically received in
 5 considering such contracts. The difference, of course,
 6 is that this information hasn't been made publically
 7 available.

8 Mr. Saxberg suggested that Centra ought to
 9 have brought a motion to have the contract sealed and
 10 portion of the Hearing heard in camera. However, Centra
 11 notes that it has complied with the process as outlined
 12 in the Board's of pra -- practice and procedure and
 13 consistent with past practice for confidential filings.

14 Rule 13(3) provides that where disclosure
 15 of any document is refused due to a claim of
 16 confidentiality and a claim for public disclosure of such
 17 documents has been made, the Board shall hear such a
 18 claim on a motion under Rule 21 and may make such order
 19 as it finds to be in the public interest. No such motion
 20 has been made by CAC/MSOS.

21 Mr. Saxberg suggested this morning that
 22 the PUB ought to apply a different test, not based on the
 23 Board's rules, but upon a court decision in the Atomic
 24 Energy Canada and Sierra Club of Canada decision.

25 Now, I certainly haven't had an

1 opportunity to study that case in detail, but it stems
2 from an application for judicial review of the Federal
3 Government's decision to provide financial assistance to
4 Atomic Energy for construction of nuclear reactors in
5 China. Based on the head note of that case, disclosure
6 information was authorized by the Chinese authorities,
7 provided that a confidentiality order could be obtained.
8 The decision to be made in that case was whether or not
9 the court should issue a confidentiality order, and if
10 not, the doc -- documents would not be disclosed by
11 anyone -- to anyone by Atomic Energy.

12 The facts in this case, of course, are
13 very different, as is the process established by the
14 Board's rules. I noted with interest that the court does
15 rule, according, at least, to page 3 of the head note of
16 that case, that the objective of preserving a contractual
17 obligation of confidentiality is sufficiently important
18 to pass the first branch of the test established by the
19 court. It sets out the criteria which have to be met,
20 and which, I'd submit, are met here, that the information
21 be treated as confidential, that on the balance of
22 probabilities, commercial or proprietary interests could
23 reasonably be harmed by disclosure, and that the
24 information was accumulated with the reasonable
25 expectation of it being kept confidential.

1 The issue, I'd submit, for the Board in
2 this case, is one of process. Centra submits that
3 CAC/MSOS ought to have followed the process established
4 in the Board's rules and brought a motion prior to the
5 conclusion of the Hearing. Such a motion would have
6 permitted the forced disclosure provisions of the NAESB
7 contract to be triggered. Conoco could have had the
8 opportunity to present additional evidence, if it chose,
9 as to the need for confidentiality, and the Board could
10 then have made its determination. ConocoPhillips has not
11 been afforded that opportunity, and we submit that the
12 Board ought not to make the requested order of disclosure
13 that CAC requested today without that process.

14 Suppliers have a need to keep their
15 pricing information confidential. Mr. Kostick read into
16 the record of this proceeding, at page 404 of the
17 transcript, an e-mail received from ConocoPhillips. Mr.
18 Saxberg has reviewed it with you this morning and I don't
19 think I need to repeat it again.

20 Essentially, ConocoPhillips is concerned
21 that its commercially sensitive information, including
22 its business practice, strategies, information regarding
23 its assets, would be disclosed to its competitors and to
24 other parties to whom it may have commercial arrangements
25 to the detriment of its business. ConocoPhillips is also

1 concerned that other customers would learn of the terms
2 of its agreement with Centra, to the detriment of its
3 future negotiations with such customers.

4 Centra is also concerned with the impacts
5 of this information being disclosed. As we outlined in
6 the response to PUB/CENTRA-64, the practice of filing gas
7 supply contracts on the public record is rare, and Centra
8 is concerned that having information publically
9 available, as to the specifics of the arrangement which
10 Centra found acceptable, will limit the competitiveness --
11 competitiveness of future bids.

12 Centra is also concerned that suppliers
13 who do not wish to have their contract terms disclosed
14 may refrain from responding to Centra's RFPs in the
15 future, or may limit the nature and type of proposals
16 they submit.

17 Centra understands and acknowledges the
18 difficulty CAC/MSOS suggests. However, we suggest that
19 disclosure of the pricing formula is not required in
20 order to assess the reasonableness and prudence of the
21 supply contract. In large part, the difficulty here may
22 be the result of past practice. It's been the custom
23 that Intervenor have had the opportunity to review the
24 pricing formula, and a move to this more commercially
25 reasonable practice will take some time to adjust to.

1 In considering the public interest, the
2 PUB must weigh the potential consequences of the
3 disclosure of the commercially sensitive terms of the
4 contract against the benefits of such public disclosure.
5 Centra has filed Information Requests and provided oral
6 testimonies as to the increasingly competitive nature of
7 the gas supply market, and its concern that disclosure of
8 the contract terms may result in harm to comp -- to
9 Centra and its supplier.

10 Centra's view on the issue of
11 confidentiality is that this is almost a 'yes' or 'no'
12 proposition. Unlike the courts, where they're
13 determining a decision between parties who are adverse in
14 interest, the PUB also has a role in considering and
15 protecting the public interest. The Board, of course,
16 has seen the contract terms and is in a position to
17 assess the reasonableness.

18 Centra doesn't find favour with the
19 suggestion that the contract be made, what I'll describe
20 as in a little -- a little bit public. For CAC to
21 suggest that only it see the contents of the contract
22 creates a series of issues in our mind.

23 For example, CAC's advisors, who
24 presumably would want to be able to see the contract
25 along with CAC/MSOS, make a living testifying in other

1 jurisdictions, and advising various groups at various
2 time of -- of the -- the nature of their gas supply
3 arrangements. We're not in a position to be able to
4 satisfy ourselves or our suppliers that -- that that
5 information won't be used to their detriment.

6 Secondly, and I think perhaps more
7 importantly, from our perspective, also party to this
8 proceeding, are brokers, and I don't know that you can
9 say that one (1) party to the proceedings, CAC, ought to
10 be given a different level of disclosure than the other
11 parties to brokers. If we look at this as being a way
12 that's -- precedents are being set, it would certainly
13 create difficulties in the future if we had potential
14 respondents to RFPs registering as Intervenor in the
15 process simply to be able to obtain such information that
16 we're otherwise trying to keep protected.

17 In balancing the public interest at stake,
18 it's significant to remember that the Board is not being
19 asked to approve the contract, but rather the gas cost
20 consequences that flow therefrom. That information has,
21 and will continue to be made publically available, both
22 on a forecast basis, and ultimately as Centra's actual
23 costs.

24 As Mr. Kostick has noted, Centra has
25 traditionally -- traditionally provided the average cost

1 per unit of primary gas purchased and delivered to
2 Manitoba. That cost has been compared to the monthly
3 AECO index. In this respect, nothing has changed.

4 And you'll find his discussion of that at
5 pages 398, lines 8 through 14, and 399, lines 1 through
6 16.

7 CAC/MSOS has also suggested that if the
8 pricing formula is not made public, that some form of
9 retrospective review of gas costs will be necessary. Gas
10 costs have historically been considered both on a
11 forecast and an actual basis; Centra expects that this
12 practice will continue. Centra's quarterly primary gas
13 costs will continue to be set through the quarterly rate
14 setting process, and those interim orders will be
15 confirmed as final at the next available public hearing.

16 The only adaptation which has been made in
17 order to protect the pricing formula contained within the
18 gas supply contract is the aggregation of base load and
19 swing volumes and costs. This simple step allows the
20 competitive interests of the supplier to be maintained to
21 the benefit of Centra and its ratepayers. Centra expects
22 that in future rate applications, the aggregated average
23 cost of delivered primary gas supplied on a per unit
24 basis will be available, and can be compared to the AECO
25 monthly index, as has been the practice for many years.

1 CAC/MSOS has suggested a departure from
2 past practice, that instead have historically favoured
3 more liquid and representative AECO index, that the
4 relatively illiquid Empress point be used. To accomplish
5 this it is suggested that the day ahead transport index,
6 which is Mr. Staft's proxy for transportation for
7 Empress, be used. As noted in its evidence, Centra does
8 not agree that this is the appropriate index, for a
9 number of reasons.

10 Firstly, the day ahead transport index is
11 limited in the manner in which it can be traded. It is
12 traded day ahead, not intraday, as Centra requires. It
13 is not traded discretely for Saturday, Sunday, and
14 Monday, which Centra requires, due to day-to-day weather
15 driven load swings. As such, it is not reflective of the
16 manner in which Centra must contract for supply.

17 Secondly, this transportation is often
18 lightly traded and is significantly less liquid than the
19 AECO hub. Mr. Staft has acknowledged in his written
20 evidence that the AECO hub is the most reliable price
21 formation point for western Canadian gas, at page 4,
22 lines 12 through 14 of his evidence, and that Empress is
23 not nearly as large or liquid as AECO, and that direct
24 market indices for the Empress point are not commonly
25 available or relied upon.

1 arrangement enables Centra, the Board,
2 and customers, to observe directly the
3 relationship between the prices paid by
4 Centra and market prices in Alberta."

5 Closed quote.

6 Centra concurs with that comment.

7 Now, ironically, the supply alternative
8 suggested by CAC/MSOS in this proceeding, which is to
9 purchase daily direct spot purchases in Alberta, would
10 not be linked to any index and would therefore, in fact,
11 lose those transparency benefits. The Board and
12 Intervenors are aware of the use of monthly and daily
13 AECO indices. Exhibit 12 contains forecast information
14 incorporating baseload and swing formulas and forecast
15 volumes which allow for an easily observable relationship
16 to AECO.

17 We have provided for you at Tab 3 Exhibit
18 12, which demonstrates the -- the Adder, if you will,
19 that's shown.

20 Given the price transparency that exists
21 even without the formulas being know, it's fair to say
22 that Centra's approach will continue to provide for
23 predictable, transparent and a simple relationship to the
24 major AECO indices.

25 It's interesting to note as you look

1 through Exhibit 12, the time period there represents
2 three (3) different contracts, three (3) different
3 pricing mech -- mechanisms and produces a remarkably
4 consistent result in terms of the Adder that's produced.
5 That demonstrates that forecast costs are on par -- par
6 with prior contracts, the cost consequences of which were
7 approved by this Board. As we noted in the response to
8 PUB-16D, a copy of which is also attached at the same
9 tab, based on the May 1st, 2009 strip, the Conoco
10 contract performed favourably and resulted in lower gas
11 costs than other bids.

12 Centra submits that there's no need to
13 create a further retrospective review process. The
14 valuation of the actual costs incurred under the
15 ConocoPhillips contract, relative to index, can be
16 assessed in future regulatory proceedings much as they
17 have been in the past, with the aggregation of baseload
18 and swing volumes to protect the confidential nature of
19 the pricing formula.

20 Turning to the issue of the portfolio
21 review. Centra has commenced work on its portfolio
22 review in advance of the expiry of the US transportation
23 and storage contracts in 2013. Centra is anticipating
24 stakeholder consultations will take place in respect of
25 its portfolio review and has indicated it intends to

1 circulate a discussion paper in advance of those
2 stakeholder discussions and its openness to suggestions
3 from stakeholders as to means of improving the nature of
4 that consultation process; including, as Mr. Saxberg
5 suggested, permitting time for Intervenor to review the
6 discussion paper with their consultants prior to engaging
7 in discussions with Centra.

8 Issues surround the TCPL tolls are also be
9 considered in the context of this portfolio review. As
10 Mr. Warden testified, the Tolls Taskforce is presently
11 engaged in a process to attempt to address the
12 competitiveness of the mainline tolls. Centra continues
13 to participate in those discussions and to be mindful of
14 the impact of those tolls on Centra's ratepayers.

15 With respect to its load forecast, Centra
16 recognizes the importance of having an accurate load
17 forecast, and the Corporation has been refining its
18 forecasting models and forecasting methodologies to
19 provide a more accurate forecast since purchasing Centra
20 Gas in 1999. Centra also recognizes that the forecasting
21 models are only as good as the input data used in those
22 forecasting models.

23 Centra is satisfied with its existing
24 forecasting methodologies, however, the Corporation will
25 continue to monitor the accuracy of these models and

1 further refine the models and techniques when and as it
2 deems appropriate.

3 Over a longer period of time Centra
4 expects that its load forecast should both over and
5 underestimate the actual natural gas volumes, and during
6 a twenty (20) year period the amount of over and
7 underestimating should generally balance out.

8 Turning to the issue of hedging. As we
9 noted at the outset, Centra is seeking approval of final
10 gas costs in the amount of \$437 million for the 2008/'09
11 gas year. These amounts include settled hedging results
12 which added to gas costs in this period. Centra has
13 hedged in accordance with the derivative hedging policy
14 and procedures during this period.

15 As you know, in October of 2009, Centra
16 applied to the PUB for approval of amendments to its
17 derivatives hedging policy and procedure, seeking to
18 reduce the percentage of volumes hedged from 100 percent
19 to 75 percent. Following a written process in which the
20 PUB sought comments of interested stakeholders, the PUB
21 issued Order 170 of '09 on December 21st of 2009,
22 approving the requested amendment as a means of phasing
23 out the hedging.

24 Centra has hedged in accordance with Order
25 170/09, hedging 75 percent of eligible volumes in January

1 of 2010 for volumes to be consumed between November 2010
2 and January 2011. Centra has testified that it intends
3 to comply with order 170 of '09, and will phase out
4 hedging by August 1st of 2011.

5 The Board heard from Mr. Bill Carroll, on
6 behalf of several large volume customers expressing
7 concern with respect to the phasing out of hedging of
8 primary gas purchases. Mr. Warden also testified that
9 although Centra has not applied to review or vary Order
10 170 of '09, we remain concerned that some smoothing
11 mechanism may be necessary in order to avoid exposing
12 customers to large increases in primary gas rates.

13 And you'll find that discussion at page
14 29, lines 4 through 22, of the transcript.

15 Based on the evidence before the Board,
16 Centra requests that the PUB confirm Order 170/09 as
17 final. It is Centra's intention that it will continue to
18 communicate with the Board as to Centra's plans with
19 respect to managing customers' bill volatility.

20 Turning to capacity management. Centra's
21 actual capacity management revenues for the 2008/'09 gas
22 year are shown on Schedule 4.3.1 and total \$5.2 million,
23 inclusive of carrying costs. And, for your ease of
24 reference, we've included that at Tab 4 of Centra's book
25 of documents.

1 For the 2009/'10 gas year, Centra has
2 forecast capacity management revenues of \$6.96 million,
3 excluding carrying costs, based on the five (5) year
4 rolling average of Centra's actual capacity management
5 results. These forecast amounts have been included on
6 Schedules 5.1.3(a) at line 50. There appears to be
7 little issue with capacity management revenues in this
8 application.

9 I conclude on this area with the matters
10 discussed by Mr. Stephens at pages 87 through 91 of the
11 transcript, that as Centra continues to refine its
12 portfolio, and particularly as it begins its portfolio
13 review process, it expects that the amounts available as
14 a result of these transactions will be reduced.

15 Before turning to cost allocation and rate
16 design, I'd like to address the discussion that took
17 place during the Hearing, regarding the matter of
18 recovery of non-gas costs and the impact of weather on
19 Centra's earnings.

20 Mr. Warden was asked if there should be a
21 non-gas cost deferral account, to which he replied, at
22 page 455 of the transcript, lines 19 and 20, and I quote,
23 "There is. It's retained earnings." Closed quote.

24 Now, although that response was received
25 in a somewhat lighthearted fashion, Mr. Warden went on to

1 explain, at page 456, that the net effect of retained
2 earnings, although not specifically referred to in that
3 fashion, is very similar.

4 Centra's managed on a cost-of-service
5 basis, and while there may be short-term volatility in
6 its earnings due the effects of actual weather conditions
7 on sales to customers, there is no need to devise or
8 implement a separate deferral account mechanism to
9 account for the impact of weather on corporate earnings.
10 Centra management carefully considers the level of
11 retained earnings to ensure that they are sufficient to
12 meet the risks that Centra may face.

13 A decision to seek a change in rates will
14 be made based upon the examination of the level of
15 retained earnings in light of the current and future
16 business circumstances that Centra foresees. As such,
17 these examinations always consider the impact of weather
18 to Centra's net income, and hence the impact on retained
19 earnings.

20 The creation and maintenance of a non-gas
21 deferral account would be a needless duplication of the
22 existing manner in which Centra is managed. It would add
23 an additional layer of administration and complexity, and
24 would not serve any meaningful purpose beyond what is
25 currently accomplished by way of the cost-of-service

1 approach.

2 Turning to cost allocation and rate design
3 matters. Centra's approach to functionalizing,
4 classifying and allocating costs in this Application is
5 consistent with that used in past filings. Centra
6 proposes to implement new -- new base and billed rates on
7 May 1st of 2010 to incorporate the non-gas cost approvals
8 flowing from Centra's last GRA, as directed in Order
9 128/09, and the non-primary gas cost approvals as
10 requested in this Application.

11 In addition, on April 9th, 2010, in
12 accordance with the PUB's approved rate setting
13 methodology, Centra filed its interim ex parte
14 application for new primary gas rates, to be effective on
15 May 1st, 2010.

16 With respect to non-gas costs, the Board
17 directed in Order 128 of '09 that the approved revenue
18 requirement be collected through a change in rates for
19 all customer classes with the rate change for the SGS and
20 LGS classes being limited to an increase in the basic
21 monthly charge of one dollar (\$1) per month and seven
22 dollars (\$7) per month for those classes respectively.
23 Those changes have been reflected in the schedules
24 prepared for this Application.

25 Centra allocated a \$147.7 million of non-

1 gas costs, inclusive of net income of \$3 million to all
2 customer classes. However, to comply with Order 128 of
3 '09, a discreet rate design step was incorporated for the
4 SGS and LGS customer classes. The rate design for those
5 two (2) customer classes is only reflective of the
6 directed change to the basic monthly charge for each of
7 those classes and the previous level of non-gas related
8 rates were sustained. This matter was discussed in cross
9 -- cross-examination and Centra provided additional
10 information in Undertaking number 8, which was filed on
11 April 19th of 2010 as Exhibit 19.

12

13 It's worth noting that the rates for the
14 SGS and LGS classes will still not be at unity, by virtue
15 of the rate design and the information that was provided
16 in that undertaking. That's -- that's because of the
17 rate design that was ordered by the Board in Order
18 128/09. So regardless of the level of net income that's
19 incorporated, we still will not have achieved unity.

20 The schedules filed on April 19th are
21 reflective an -- of an allocation of non-gas costs,
22 incorporating \$2.4 million of net income instead of the
23 \$3 million of net income used by Centra in its
24 application.

25 With regard to non-primary gas costs,

1 Centra has functionalised, classified, and allocated the
2 \$69.1 million of non-primary gas costs in accordance with
3 the cost allocation methodology used in past filings.
4 These non-primary gas costs are reflected in the new base
5 rates proposed for implementation on May 1st, 2010.

6 Centra also proposes to implement rate
7 riders to recover approximately \$2.8 million of gas cost
8 deferral balances. This reflects the net amounts of the
9 gas cost deferral balances as of October 31st, 2009, with
10 rate rider amortization to April 30th, 2010, inclusive of
11 carrying cost to that date.

12 These riders are found on Schedules 8.4.0
13 and 8.4.1, both of which are included at Tab 5 of the
14 book of documents.

15 The bill impact schedules filed in this
16 proceeding by Centra on April 13th, 2010 incorporate all
17 of the changes to rates that I've just described.
18 Schedule 1.2.0 reports the bill impacts arising from the
19 non-gas and non-primary gas cost changes, and also
20 reports the bill impacts for all proposed rate changes,
21 including primary gas rate impacts, to be effective May
22 1st, 2010.

23 For the typical residential customer, the
24 combined rate impacts for May 1st are proposed to be a
25 reduction of approximately 6.1 percent or \$63 per year.

1 Although Centra's not requesting any approvals in respect
2 of its lower income programs in this Application, nor are
3 the amounts included in rates being adjusted in respect
4 to these matters, we take a brief opportunity to update
5 the Board with respect to these programs.

6 The Corporation's Furnace Replacement and
7 the Lower Income Energy Efficiency Programs are two (2)
8 programs which are targeting energy efficient
9 opportunities within Manitoba's residential lower income
10 market segment. These programs have been ramping up in
11 the terms of participation and are expected to have
12 eleven hundred (1,100) lower income households
13 participate in the Furnace Replacement Program, and
14 nineteen hundred (1,900) lower income households
15 participate in the Lower Income Energy Efficiency Program
16 during 2010/'11.

17 With the cancellation of the ecoENERGY
18 Program, the Lower Income Energy Efficiency Program and
19 the Furnace Replacement Program have lost a significant
20 funding source, amounting to approximately twelve hundred
21 (\$1,200) and eight hundred dollars (\$800) per upgrade
22 respectively. The Corporation is currently in the
23 process of assessing options for addressing this loss in
24 funding. The Corporation also recently conducted a
25 residential survey which has provided updated information

1 on various market parameters.

2 Based on this information, the Corporation
3 currently estimates that there are approximately fifteen
4 thousand (15,000) LICO lower income households, or
5 twenty-two thousand (22,000) lower income LICO 125 homes
6 with standard efficient furnaces. Overall, it's
7 estimated there -- there are still seventy-five thousand
8 (75,000) standard furnaces in the market at large, which
9 is 31 percent of Centra's natural gas residential market.
10 With respect to insulation, it's estimated that fifteen
11 thousand (15,000) LICO or nineteen thousand (19,000) LICO
12 125 homes, require substantive insulation upgrades.

13 With the cancellation of the ecoENERGY
14 program, the availability -- the availability of updated
15 market information, and with Centra taking a more
16 aggressive marketing approach with its programs targeting
17 the lower income residential sector, it's an opportune
18 time for Centra to reassess its program designs to
19 capture the energy efficient opportunities in the lower
20 income market.

21 In assessing the program designs it's
22 important to balance a number of considerations. One (1)
23 of the more significant challenges is the -- balancing
24 the provision of sufficient incentives to encourage lower
25 income customers to participate in the programs against

1 the fairness of having all ratepayers pay for these
2 incentives while not being eligible for the same
3 programs. Centra is mindful that a large number of these
4 rate paying customers are also within the lower income
5 category; however, they aren't eligible for the program,
6 either because they live in apartments or they may have
7 already incorporated the measures into their households.

8 Centra is mindful that a significant
9 number of its non-lower income customers will also be
10 subsidizing lower income programs and that these customs
11 -- customers may also be experiencing higher energy
12 bills, as a substantive number still have standard
13 efficient furnaces in their own homes.

14 The issue of cross-subsidies was discussed
15 by the Board in Order 99/07 and Centra agrees with the
16 Public Utilities Board as to the appropriateness of a
17 modest degree of cross-subsidization for the reasons
18 provided in that order. Centra also recognizes that with
19 expenditures incurred to date and with the planned
20 budgets to the end of 2010/'11, expenditures targeting
21 the lower income market sector is growing to a dispo --
22 disproportionate amount relative to its overall energy
23 efficient budget.

24 In conclusion, Centra is committed to
25 capturing energy efficient opportunities in all market

1 sectors, including the lower income market.

2 The Corporation is confident that a
3 successful lower income energy efficiency and furnace
4 replacement program can be designed to address the lost
5 funding source from the Federal Government's ecoEnergy
6 Program and that participation under a modified program
7 design can be achieved with an adequate and aggressive
8 marketing effort to accompany the programs.

9 With respect to the fixed price service
10 for natural gas, Centra is committed to providing this
11 service offering to its customers, provided there is
12 sufficient demand for the products. Based on experience
13 to date, Centra does not expect that a very significant
14 number of customers will be interested in fixed price
15 service when the premium required to be paid for the
16 service relative to the variable product offered is too
17 large.

18 On a go-forward basis Centra will continue
19 to monitor the market conditions and will consider
20 offering fixed price offerings later this summer or this
21 fall. In addition, Centra will consider alternative
22 billing options which may also assist its customers to
23 better manage their energy bills and the volatility of
24 natural gas commodity prices.

25 In conclusion, Mr. Chairman, Members of

1 the Board, on behalf of Centra I wish to thank the Board,
2 its advisors, and the Intervenors for their attention
3 throughout this process. Centra submits that the
4 evidence has been thoroughly tested and that its
5 requested rate proposals are just and reasonable and that
6 the requested approvals ought to be granted.

7 On an administrative note, in order to
8 implement rates arising from this proceeding on May 1st,
9 2010, Centra respectfully requests that the Board issue
10 its order in respect of these matters at its earliest
11 opportunity so that rate schedules can be finalized
12 before the April 29th -- before April 29th, 2010, in
13 advance of our May 1st billing run.

14 Thank you, Mr. Chairman, and members of
15 the Board for your attention and your patience throughout
16 this process. Subject to any questions that you have,
17 that concludes Centra's remarks.

18 THE CHAIRPERSON: Thank you, Ms. Murphy.
19 On the question of the timeliness of the order, April
20 29th may be appear to be a bit aggressive. What's the
21 latest date that Centra could have final direction for
22 billing purposes?

23 MS. MARLA MURPHY: I believe from
24 recollection -- and Mr. Barnlund is scrambling for a
25 calendar -- that our first billing run commences on May

1 3rd, so we would need to have the rate schedules
2 finalized in advance of that date.

3 THE CHAIRPERSON: Thank you. And thank
4 you to all participants in the Hearing. It's been a good
5 hearing. There's been an exchange of a considerable
6 amount of evidence and information and positions taken,
7 which we appreciate. This brings to a close the public
8 phase of this Hearing and the Board will now deliberate
9 and come up with an order, hopefully to meet your time
10 requirements.

11 So with that we adjourn. Thanks again.

12

13 --- Upon adjourning at 2:21 p.m.

14

15 Certified correct,

16

17

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19

20 -----

21 Cheryl Lavigne, Ms.

22

23

24