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MANITOBA PUBLIC UTILITIES BOARD

RE:

CENTRA GAS
2010 COST OF GAS APPLICATION
and 2011/2012 GENERAL RATE 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 14th, 2010

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1 --- Upon commencing at 9:09 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning
4 everyone. Ms. Murphy...?

5 MS. MARLA MURPHY: Good morning. We had
6 an undertaking we took under advisement yesterday morning
7 that I thought I'd start with. We were asked to consider
8 whether we could provide the historical information that
9 had been considered in the evaluation of the contract
10 proposals and Mr. Kostick is prepared to speak generally
11 to the types of information that were looked at.

12 We're not able to file an analysis of
13 that, obviously, because to do so would disclose the
14 formulas, the pricing formulas in the contracts, but, he
15 is prepared to speak to it this morning.

16 THE CHAIRPERSON: Very good. Thank you.

17 MR. NEIL KOSTICK: Good morning members
18 of the Board, ladies and gentlemen.

19 In response to the question posed
20 yesterday regarding the types of data that was considered
21 by Centra in analysing the different bids that were
22 received, as we have discussed in PUB-16-D futures
23 pricing was used to evaluate the different bids,
24 recognizing that the different bids contain different
25 pricing elements.

1 In addition to the futures pricing to
2 respond to that IR, Centra had also taken into account
3 historical pricing information in order to evaluate the
4 bids, recognizing that neither futures pricing nor
5 historical pricing are definitive. However, we did look
6 at both in order to get both views in a sense of where --
7 of how those bids might compare relatively speaking.

8 The specific data that we looked at was
9 the historical Express transport index relative to the
10 tolls on the Nova system or the intra-Alberta gas system.
11 So that allowed us to compare different bids that used
12 different pieces of information or different pricing
13 elements, I should say, within their bids.

14 THE CHAIRPERSON: Thank you.

15 MS. MARLA MURPHY: We have nothing
16 further. Thanks.

17 THE CHAIRPERSON: Mr. Peters...?

18

19 CENTRA COST OF GAS PANEL:

20

21 VINCE WARDEN, Resumed

22 HOWARD STEPHENS, Resumed

23 NEIL KOSTICK, Resumed

24 BRENT SANDERSON, Resumed

25 GREG BARNLUND, Resumed

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CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Yes. And just -- Mr. Kostick, at the book of documents that Board counsel has circulated, under tab 12, is that matrix on the gas supply where the six (6) counterparties were examined.

And I was specifically questioning you as to the total cost of supply and, essentially, how Parties B, C and D could all be ranked by Centra as a seven (7) out of ten (10), and party A was ten (10) out of ten (10), and how those three (3) that -- or seven (7) out of ten (10) could have been ranked the same when earlier on in that same tab in the book of documents on page 3 of 4 of the Information Request, PUB/CENTRA-16, the spread between B, C and D was over a million dollars.

And you're now telling the Board that in addition to the futures contract -- or the future's price, you also looked historically at some of the actual tolls charged in Alberta.

MR. NEIL KOSTICK: That's right, we looked at both historical and futures information with respect to indicators that are reflective of either the transport index or -- or that Empress -- AECO to Empress basis differential. Again, recognizing that neither of those sources of information are definitive.

1 I'll look at the document that your counsel will
2 circulate with the Board, but if I understood your last
3 qualification and -- and statement to the Board, you
4 compared the ConocoPhillips to the Nexen pricing
5 arrangements is what I understood you to be saying,
6 without mentioning Nexen.

7 MR. NEIL KOSTICK: That's correct. We
8 would -- yes.

9 MR. BOB PETERS: Thank you. And what
10 you're telling the Board is that the pricing is, if not -
11 - is it the total pricing is almost the same, or is it
12 just the pricing in the Alberta Transportation to --
13 between AECO and Empress is the same?

14 MR. NEIL KOSTICK: It's the total pricing
15 on a forecast basis.

16 MR. BOB PETERS: Well, okay. And then
17 the next question I have is -- is back at tab 12 of the
18 book of documents. If -- if that's the case, why would
19 Party A be less expensive for lower cost of gas than all
20 of the other parties that were surveyed on a futures
21 forecast basis?

22

23

(BRIEF PAUSE)

24

25 MR. NEIL KOSTICK: It depends on the

1 particular point in time that you're doing the analysis
2 and -- and what type of information is taken into
3 account.

4 MR. BOB PETERS: I have -- I have
5 Centra's latest document, and I suppose it should be
6 marked as -- is it Exhibit 11?

7 MS. MARLA MURPHY: I believe Exhibit 12.

8 MR. BOB PETERS: Oops. Exhibit 12, Mr.
9 Chairman.

10

11 --- EXHIBIT CENTRA-12: Forecast Adder compared to
12 AECO 7A

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: And maybe, Mr. Kostick,
16 you can just take one (1) minute and just explain to the
17 Board what you've done on this analysis.

18 MR. NEIL KOSTICK: Certainly. This
19 analysis looks at our applications in the previous couple
20 of applications, previous GRA, previous cost of gas under
21 the different Nexen contracts and it identifies -- maybe
22 I'll just go by column.

23 The first column under average primary
24 supply in dollars per gigajoule is our forecast cost of
25 gas that was filed in those previous hearings.

1 The next column is the actual AECO 7A
2 monthly index -- or sorry, that's the futures, not the
3 actual. That would be the future strip of the AECO 7A
4 monthly index.

5 The next column is the Adder, recognizing
6 that we're -- that this pricing is based on AECO. We are
7 picking up the gas at Empress. The Adder forecast under
8 the previous Nexen contracts and the Conoco contract --
9 the current Conoco contract are shown under the 'Adder'
10 column.

11 So you can see, over the course of time,
12 that that Adder month by month has typically been in a 12
13 to 15 or 16 cent range, and the average of those
14 monthlies at the bottom is indicated at 14 cents.

15 So what you can see is that, under the
16 different applications in the past, whether it was the
17 2008 cost of gas, the 2009 GRA, or this current Cost of
18 Gas proceeding as you go down the columns, the forecast
19 Adder relative to the AECO monthly index is virtually the
20 same under the -- under the different contracts that
21 we've had in place in those years.

22 MR. BOB PETERS: All right. Thank you
23 for that, sir.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Back in tab 5 of the
2 book of the documents -- excuse me -- there's a copy of
3 Schedule 5.1.4, and it showed the non-primary gas cost
4 increases that total about \$12 million more than in
5 current rates.

6 Do you recall that?

7 MR. BRENT SANDERSON: Could you restate
8 the reference, please?

9 MR. BOB PETERS: Yes. You -- you'll find
10 it in the book of documents from Board counsel under tab
11 5, and it's the last page in there. It's Schedule 5.1.4,
12 and it shows the non-primary gas cost components.

13 MR. BRENT SANDERSON: Yes.

14 MR. BOB PETERS: And we see there that
15 transportation has gone up \$7.6 million approximately.

16 MR. BRENT SANDERSON: Yes, I see that.

17 MR. BOB PETERS: And, of that \$7.6
18 million, is it correct that \$7.3 million is attributable
19 to the TransCanada Pipeline toll increases?

20 MR. BRENT SANDERSON: Not wanting to get
21 into a quibble about the precise details of that number,
22 the vast majority of that is Trans -- TCPL toll
23 increases, well over \$7 million.

24 MR. BOB PETERS: All right. I'll have to
25 recheck my reference of PUB/CENTRA-53 if it becomes

1 germane, but at least over \$7 million of that increase is
2 related to the TransCanada Pipeline toll increase.

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

5 MR. BOB PETERS: And in tab 15 of the
6 book of documents, we see that the TCPL tolls have gone
7 up from a dollar nineteen (\$1.19) per gigajoule to a
8 dollar sixty-four (\$1.64) a gigajoule in the span of one
9 year, correct?

10 MR. BRENT SANDERSON: Yes, just making
11 special note of that's the eastern zone toll equivalent,
12 but it's indicative, on a percentage basis, of the extent
13 to which tolls to the MDA have increased in the past
14 year, yes.

15 MR. BOB PETERS: What you're telling the
16 Board is that that toll is specific for eastern Canada,
17 and the Manitoba zone is -- is roughly maybe a third of
18 that in actual dollars but, percentage-wise, the increase
19 was the same.

20 MR. BRENT SANDERSON: Yes. The eastern
21 zone toll is the benchmark toll that's used to
22 communicate to the wider marketplace the general level of
23 tolls on the main line.

24 MR. BOB PETERS: But that dollar sixty-
25 four (\$1.64) for the eastern zone toll was proposed by

1 TCPL to actually be a dollar seventy-seven (\$1.77) at
2 some point last year, wasn't it?

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

5 MR. BOB PETERS: And perhaps it was Mr.
6 Stephens, or maybe it was someone else on the panel, who
7 complained about a 49 percent toll increase, and a Tolls
8 Task Force was in place.

9 MR. HOWARD STEPHENS: Yes. It was -- we
10 were certainly -- we found the increase to be
11 unacceptable, so, from that perspective, we did bring it
12 up at the Tolls Task Force. I mean, we weren't the only
13 party that had similar observations.

14 MR. BOB PETERS: While it was
15 unacceptable, you were also captive on the TransCanada
16 pipeline system.

17 MR. HOWARD STEPHENS: Yeah. We don't
18 have the opportunity to disconnect ourselves at any point
19 in time.

20 MR. BOB PETERS: So the Tolls Task Force,
21 Mr. Stephens - and I apologize for getting you on the
22 microphone so early - but there was a negotiated
23 settlement, and instead of a 49 percent increase, the
24 Tolls Task Force settled on a 38 percent increase for the
25 eastern zone, and that's the toll of a dollar sixty-four

1 (\$1.64).

2 MR. HOWARD STEPHENS: Yes, and there was
3 a caveat associated with that.

4 MR. BOB PETERS: All right. The caveat
5 is that for TransCanada Pipelines to agree to reduce the
6 toll from a dollar seventy-seven (\$1.77) down to a dollar
7 sixty-four (\$1.64), they had to make an adjustment of
8 about \$85 million.

9 And that adjustment of 85 million, they
10 weren't prepared to forgive it, but they were prepared to
11 amortize it over about thirty-three (33) years?

12 MR. HOWARD STEPHENS: That's correct.
13 That's not the caveat that I was really referring to,
14 though.

15 MR. BOB PETERS: Okay. Your turn. I
16 missed -- what is the caveat that --

17 MR. HOWARD STEPHENS: I have to be very
18 careful with respect to what I say with respect to these
19 matters, because as I -- we discussed yesterday, I'm
20 bound by a confidentiality. So, I sometimes just step
21 over the bounds, and given the very sensitive nature of
22 these issues, I'm going to be very careful in terms of
23 how I characterize this.

24 But we mean Centra and other parties were
25 -- indicated that given the significant nature of the

1 increase, we expected that they would develop a business
2 plan that was going to demonstrate to us how they were
3 going to, you know, reduce these ridiculously large
4 increases.

5 So from that perspective, we did get that
6 undertaking from them.

7 MR. BOB PETERS: All right. And I'll --
8 I'll come to that, I think. But let's deal with my point
9 first. To drop the toll 13 cents in the eastern
10 zone, that shed about \$85 million of costs from TCPL,
11 that TCPL still wants to recover, but not in one (1)
12 year?

13 MR. HOWARD STEPHENS: That's correct.

14 MR. BOB PETERS: And that's what they've
15 agreed to amortize at a rate of 3 percent over, I guess,
16 thirty-three (33) years?

17 MR. HOWARD STEPHENS: That's correct.

18 MR. BOB PETERS: So that \$85 million will
19 still be recovered from the shippers, but just not all at
20 -- all in one (1) year?

21 MR. HOWARD STEPHENS: Yeah, it's
22 deferring the pay -- repayment of that over a period of
23 years.

24 MR. BOB PETERS: All right. And while
25 that \$85 million is -- is being repaid over all these yea

1 -- over all those thirty-three (33) years to TransCanada
2 Pipelines, that 85 million is part of TransCanada
3 Pipelines' rate base, so it's earning the corporation's,
4 that's TransCanada Pipelines, overall rate of return?

5 MR. HOWARD STEPHENS: That's correct.

6 MR. BOB PETERS: And so they're getting a
7 return on that \$85 million, and that return is part of
8 the cost of service that is paid for by the tolls every
9 year?

10 MR. HOWARD STEPHENS: That's correct.

11 MR. BOB PETERS: And would it be correct
12 that Centra's savings in 2010, as a result of that
13 negotiation, is approximately \$2.6 million?

14 MR. HOWARD STEPHENS: That's correct.

15 MR. BOB PETERS: What happens in 2011,
16 Mr. Stephens? Does the -- is there still another \$2.6
17 million saved by the Corporation?

18 MR. HOWARD STEPHENS: Assuming the toll
19 stays the same. TransCanada has made the commitment to
20 come forward with a new business plan bef -- and bring it
21 -- take it before the shippers, the Tolls Task Force, and
22 ultimately file it with the NEB.

23 And I think the -- the -- depending upon
24 the outcome of that process, we'll see what the new toll
25 is going to be.

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Mr. Stephens, just an
4 approximate volume basis, what -- how big is Centra a
5 player in respect to the shipper's overall total volume?

6 MR. HOWARD STEPHENS: We're a pretty
7 small player. It doesn't mean that we're not quiet about
8 it though. I can't give you a percentage off the top of
9 my head, sir, but I can certainly undertake to provide --
10 provide that to you.

11 THE CHAIRPERSON: Just a rough number.

12 MR. HOWARD STEPHENS: I'll give it to you
13 after we get a chance to seek it out.

14

15 --- UNDERTAKING NO. 4: Centra to provide a rough
16 estimate as to how big a
17 percentage Centra is in
18 respect to the shipper's
19 overall volume.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: Mr. Stephens, and I -- I
23 acknowledge your confidentiality concerns, but does this
24 \$85 million manifest itself each and every year for the
25 next thirty-three (33) years, or is it -- or is it a one

1 (1) time cost that has been taken out of TransCanada
2 Pipelines' revenue requirement?

3 MR. HOWARD STEPHENS: I characterize it
4 as a display of good faith on TransCanada's part that
5 they are trying to deal with the toll impacts. And from
6 that perspective -- perspective they're prepared to, you
7 know, take that amount off of the bottom line and --
8 development of rates. It doesn't necessarily mean that
9 it's going to be another contribution towards reducing
10 rates next year. And, I mean, that is yet -- yet to be
11 resolved.

12 MR. BOB PETERS: Maybe I should -- I
13 haven't asked it quite properly and let me try it this
14 way.

15 If TransCanada Pipelines' costs next year
16 are exactly the same as they are this year, will the toll
17 not have to go up to a dollar seventy-seven (\$1.77)
18 again?

19 MR. VINCE WARDEN: Mr. Peters, it partly
20 depends on throughput on the TransCanada Pipeline and
21 that's been the big issue; that's why the toll has been
22 increasing is because of declining throughput.

23 We're informed by TransCanada that they
24 have a plan in place to increase throughput and that a
25 dollar sixty-four (\$1.64) toll will come down from where

1 it is if -- if their plan is approved by the -- first of
2 all, by the Tolls Task Force and then by the NEB. But if
3 their plan proceeds as planned, then the tolls should be
4 somewhere back in the range that they were in 2009, going
5 forward.

6 This -- this plan will be presented to the
7 Task Force by the end of September of this year.

8 MR. BOB PETERS: All right. And I just -
9 - I -- I suppose, and I appreciate that answer, I'm going
10 to -- I'm going to explore that just a little bit further
11 and -- but to my way of thinking, Mr. Stephens and Mr.
12 Warden, if TransCanada's Pipelines are exactly the sa --
13 costs are exactly the same next year and their throughput
14 is exactly the same, the toll would have to be a dollar
15 seventy-seven (\$1.77) per GJ in the Eastern Zone to be
16 fully compensatory.

17 MR. HOWARD STEPHENS: They are making a
18 proposal in terms of the business plan that they're
19 putting forward to shed some costs and deal with other --
20 some of the other cost elements in a different fashion,
21 so, that will have a -- have an impact on the tolls. Now
22 that doesn't necessarily mean that those are going to be
23 agreed to.

24 MR. BOB PETERS: What I -- what the Board
25 can take from your answers, gentlemen, is that next year

1 is very much an uncertainty as to whether the toll will
2 be the same, will go down or maybe even go up.

3 MR. HOWARD STEPHENS: We're at a bit of a
4 crossroads with respect to TCPL -- or TransCanada is
5 really at a crossroads in terms of how they deal with
6 this issue. I mean, there has been a significant amount
7 of discussion with respect to this issue and they do have
8 to attend to the fact that their tolls are relatively
9 high and have been climbing and throughput has been
10 reducing.

11 MR. VINCE WARDEN: Mr. Ste -- Mr. Peters,
12 your premise, though, is correct that if nothing changed
13 and TCPL was to recover all their costs, the toll would
14 have to go up to one seventy-seven (1.77) next year.

15 THE CHAIRPERSON: Just to -- to address a
16 thought that comes to mind. Is any of the decline in the
17 throughput due to diversion of natural gas up to the oil
18 -- oilsand production?

19 MR. HOWARD STEPHENS: Not really, sir.
20 No.

21 MR. VINCE WARDEN: It's more -- Mr.
22 Chairman, it's more a reflection of the economic
23 conditions and additional sources of supply in Eastern
24 Canada.

25 THE CHAIRPERSON: Eastern Canada getting

1 supplies from the south, you mean?

2 MR. VINCE WARDEN: That's correct. Yes.

3 THE CHAIRPERSON: And then reduced
4 industrial demand because of the recession?

5 MR. VINCE WARDEN: Correct.

6 THE CHAIRPERSON: Thank you.

7

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: In addition to those
11 factors you've just told the Chairman about as to why
12 throughput might be down on TransCanada Pipeline system,
13 there's reduced production in Alberta in light of, I
14 guess, the economy or the economic downturn; that was one
15 (1) of the causes?

16 MR. HOWARD STEPHENS: Well, that -- that
17 may have been one (1) of the causes. One (1) of the
18 biggest contributors to that was actually the comment
19 that the Chairman made with respect to new sources of
20 supply that are satisfying eastern markets.

21 MR. BOB PETERS: So there's less gas from
22 Western Canada going to Eastern Canada because Eastern
23 Canada -- Eastern Canada is being served through
24 alternative sources?

25 MR. HOWARD STEPHENS: Yeah, now that the

1 amount of shale development that has occurred over the
2 course of the last year, year and a half, which has
3 resulted in the overall reduction in costs of gas
4 altogether, I mean, has provided gas that's much closer
5 to some of those eastern markets wherein it doesn't make
6 economic sense to haul gas all the way from Alberta to
7 eastern markets.

8 THE CHAIRPERSON: Does TCPL own -- own
9 the pipelines that are delivering the gas to the eastern
10 markets from the south?

11 MR. HOWARD STEPHENS: No, some of the --
12 I mean, at the border TransCanada takes custody of it.
13 There has been an application made just recently, though,
14 to -- those were export points and we're now -- they've
15 made an application to the NEB to turn them into import
16 points because there's gas so that it's more re --
17 readily available from the northern states to satisfy the
18 eastern markets, Canadian eastern markets.

19 THE CHAIRPERSON: So the tolls from the
20 border on the TCPL Pipelines going to the east will
21 actually be falling then, presumably, because the
22 throughput would be going up, is that correct?

23 MR. HOWARD STEPHENS: For very short
24 distances, yes.

25 THE CHAIRPERSON: Thank you.

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Isn't it correct, Mr.
3 Stephens, that another reason the throughput on TCPL is
4 down is that there's other competitive pipelines that are
5 moving natural gas now from the various sources?

6 MR. HOWARD STEPHENS: Certainly there
7 have been a number of different pipelines that have been
8 constructed or in the process of being instructed to make
9 the new gas supplies available that have been -- that we
10 discussed earlier, and taken to market.

11 MR. BOB PETERS: And while I probably
12 won't have the benefit of asking this of Mr. Stauff this
13 year, his evidence suggests that TransCanada Pipeline
14 owns or has an ownership interest in two (2) of the three
15 (3) pipelines that are competing with TransCanada
16 Pipeline's main line.

17 MR. HOWARD STEPHENS: Yes, that's -- I
18 mean, you could look at it that way, certainly.

19 MR. BOB PETERS: Which -- which pipelines
20 would -- would think Mr. Stauff is referring to?

21 MR. HOWARD STEPHENS: Well, Millennium
22 would be one (1), and TransCanada is -- well, the ANR
23 Pipelines, which, I mean, are now referred to as TCPL,
24 US. I mean they're bringing gas. I mean, they hold
25 those assets as well, so I mean, they are per -- have --

1 in a perfect position to bring the gas up to Canada.

2 MR. BOB PETERS: While you and the
3 Chairman have talked about alternative sources of gas,
4 you -- you talked about shale gas, and this is natural
5 gas that's now being recovered from shale formations in
6 various parts of North America.

7 MR. HOWARD STEPHENS: Yes, and it's been
8 very prolific.

9 MR. BOB PETERS: Very prolific in an area
10 that I think is called the Marcellus shale region, which
11 is the northeastern United States.

12 MR. HOWARD STEPHENS: That is one (1) of
13 the most significant ones, but there are a number of
14 them, yes.

15 MR. BOB PETERS: And the other ones do
16 include northeastern British Columbia?

17 MR. HOWARD STEPHENS: That's correct.

18 MR. BOB PETERS: And then there's Texas,
19 Louisiana.

20 MR. HOWARD STEPHENS: Yes, and I mean,
21 they all vary in size and the amount of longevity that
22 they can provide, but, yes, there's -- I mean, it's an
23 entirely different marketplace.

24 MR. BOB PETERS: Is it -- is it
25 reasonable to look at it that the -- the problems that

1 TransCanada Pipeline is having with its throughput and
2 the reasons they're having that problem -- those problems
3 may have a beneficial effect on the commodity cost for
4 Manitobans?

5 MR. HOWARD STEPHENS: Oh, it's definitely
6 had a beneficial effect for the commodity cost for
7 Manitobans because we are a North American marketplace,
8 although I'd say a global marketplace, and these shale
9 finds have re -- been -- produced a significant amount of
10 additional gas for the marketplace.

11 That combined with the -- as the Chairman
12 pointed out, that we have some permanent demand
13 destruction, we're now at a circumstance where we have
14 surplus gas. And from that perspective, when you have
15 surplus gas, then the price is going to get -- go down.

16 MR. BOB PETERS: And that's part of the
17 benefit that Manitobans are receiving now, is that gas
18 prices are -- are at least at a ten (10) year low.

19 MR. HOWARD STEPHENS: Well, I -- I mean,
20 it's certainly far below what I ever thought it would be.

21 MR. BOB PETERS: Both you and Mr. Warden
22 referred to an expectation that TransCanada Pipeline --
23 this, I think, was your -- your caveat, is that
24 TransCanada is going to file a competitiveness plan on
25 future tolls.

1 the shippers and the Tolls Task Force and to have a plan
2 that can be presented to the NEB by the end of September.

3 MR. BOB PETERS: Thank you for that
4 clarification, Mr. Warden.

5 I take from that answer, Mr. Stephens,
6 you've seen the competitiveness plan from TCPL already.

7 MR. HOWARD STEPHENS: Yes, I have.

8 MR. BOB PETERS: And, because you're
9 under a confidentiality restriction, you're not able to
10 tell this Board whether it's good, bad, or indifferent.

11 MR. HOWARD STEPHENS: That's correct.

12 MR. VINCE WARDEN: Mr. Peters, just for
13 clarification, I'm not under the same confidentiality
14 agreement. I have had some discussions with TransCanada,
15 and they have no difficulty with me divulging that the
16 tolls will -- the plan is for the tolls to go down to the
17 range that I indicated in -- as they were in 2009.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: And so I take from your
22 answer, Mr. Warden, that it's TransCanada Pipeline's
23 expectation that their tolls could come down from the
24 dollar sixty-four (\$1.64) eastern zone toll down to the
25 dollar nineteen (\$1.19) level.

1 MR. VINCE WARDEN: In -- in that range,
2 Mr. Peters.

3 MR. BOB PETERS: Yes, and without being a
4 specific number, but to get back to -- to a range that
5 was more common a year ago.

6 MR. VINCE WARDEN: Yes.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: I was just trying to do
11 the reverse math on that, and it's always embarrassing
12 when I do that on the microphone, but if the TransCanada
13 Pipeline tolls have gone up in the neighbourhood of a --
14 of \$7 million in this year, would it be an expectation
15 that if TransCanada's competitiveness plan can be
16 enacted, there could be a reduction for Manitobans also
17 in the neighbourhood of the \$7 million mark?

18 MR. HOWARD STEPHENS: It will be in that
19 range, I mean, but it won't be specifically that amount.

20 MR. BOB PETERS: Thank you. Just one
21 point that was talked about between the Chairman and --

22 MR. HOWARD STEPHENS: I should just
23 qualify that, Mr. Peters. That's assuming that the plan
24 is approved.

25 MR. BOB PETERS: All right, and we -- we

1 should maybe just cover that off and not take it for
2 granted.

3 But -- but the competitiveness plan from
4 TCPL is now in discussion with shippers, as I understand
5 it, and the shippers have representations on the Tolls
6 Task Force, and the Tolls Task Force will be part of a
7 proceeding with TransCanada before the National Energy
8 Board to adjust the tolls for the 2011 year.

9 MR. HOWARD STEPHENS: I don't know
10 exactly how it's going to play out in terms of whether or
11 not there's going to be a hearing, whether or not the
12 shippers -- and I can't indicate as to whether or not the
13 shippers are going to agree. So, the whole thing is wide
14 open right now.

15 MR. BOB PETERS: But the -- but the
16 requirement will be that there'll have to be an actual
17 Energy Board approval of a -- of a revised tariff for
18 2011.

19 MR. HOWARD STEPHENS: That's correct.

20 MR. BOB PETERS: All right. And I just
21 wanted to cover up this -- or cover off, I should say --
22 this Marcellus Shale gas region, and their need to get
23 gas to market.

24 It's my understanding that TransCanada
25 Pipeline is looking to ship gas from the northeast United

1 States into Ontario.

2 MR. HOWARD STEPHENS: That is what I
3 referenced in terms of turning export points into import
4 points, yes.

5 MR. BOB PETERS: And -- and that involves
6 physically reversing the flow of at least one (1) of
7 their lines?

8 MR. HOWARD STEPHENS: That's correct.

9 MR. BOB PETERS: Wouldn't that then
10 result, Mr. Stephens, in even lower throughput on the
11 main line that would put pressures -- upward pressures on
12 tolls to increase further?

13 MR. HOWARD STEPHENS: Certainly, on the
14 face of it it would appear to do that, yes.

15 MR. BOB PETERS: And the option, then,
16 that Centra is now relying on is the competitiveness plan
17 from TCPL, the Tolls Task Force, and hopefully reduced
18 tolls from NEB for 2011.

19 MR. HOWARD STEPHENS: Trans --
20 TransCanada's challenge is to make the toll -- reduce the
21 toll sufficiently to attract additional shippers to move
22 gas from Alberta on the main line to the Eastern market
23 in a fashion that's competitive with gas that's located
24 more closely -- I mean, the new production areas. So
25 it's a -- it's a tall order for them.

1 THE CHAIRPERSON: Mr. Stephens, with
2 respect to the National Energy Board, did they change
3 their cost of capital formula recently?

4 MR. HOWARD STEPHENS: Actually, yes, but
5 I didn't remem -- specifically remember the details of
6 it, but, yes, there was a small -- a change.

7 THE CHAIRPERSON: The -- did not the
8 changes increase in a sense, the return on equity for
9 TCPL?

10 MR. HOWARD STEPHENS: Yes, recognizing
11 the incremental risk that they are exposed to, at least
12 as they argued.

13 THE CHAIRPERSON: Thank you.

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: I want to turn to a new
17 topic, and that is the -- Centra's plans for replacement
18 of the US storage and transportation assets, Mr.
19 Chairman, and ask the panel if it's -- is it coincidence
20 that the new ConocoPhillips contract expires
21 approximately five (5) months before the ANR and Great
22 Lakes gas transmission arrangements expire?

23 MR. NEIL KOSTICK: The term of the Conoco
24 contract was considered in relation to our -- the expiry
25 of our US contracts on -- for transportation and storage.

1 MR. BOB PETERS: It wasn't a coincidence
2 then, but you wanted to have the unfettered ability, come
3 2013, to -- to perhaps manage and meet the load in a
4 different way than you currently do?

5 MR. NEIL KOSTICK: We want our -- we want
6 our options to be open.

7 MR. BOB PETERS: And this way, with the -
8 - the US arrangements expire March 31 of 2013?

9 MR. NEIL KOSTICK: Correct.

10 MR. BOB PETERS: And your options then
11 will be wide open, so to speak. They won't -- you won't
12 be fettered by a long-term gas contract, and you won't
13 have any residual terms on your US commitments?

14 MR. NEIL KOSTICK: We have no
15 arrangements in place beyond March 31, 2013, so you're
16 correct.

17 MR. BOB PETERS: Is Centra doing what
18 amounts to another blank page analysis to determine how
19 to move forward?

20 MR. HOWARD STEPHENS: Being the author of
21 that term, which -- for which I will forever regret, yes,
22 we are doing, I mean, a comprehensive review of our
23 alternatives.

24 MR. BOB PETERS: Are you using a
25 consultant to -- to work with?

1 MR. HOWARD STEPHENS: Yes, we are.

2 MR. BOB PETERS: Is it ICF?

3

4 (BRIEF PAUSE)

5

6 MR. NEIL KOSTICK: It is ICF.

7 MR. BOB PETERS: And if memory serves,
8 you've used ICF for -- for many years on the gas side in
9 terms of helping you review your portfolio and your
10 options for meeting the Manitoba load?

11 MR. NEIL KOSTICK: We've used them in two
12 (2) previous engagements.

13 MR. BOB PETERS: Going back to what year?

14 MR. NEIL KOSTICK: Subject to check, I
15 believe it would be around 2006.

16 MR. BOB PETERS: As I understand the plan
17 is that Centra is presently -- and I think in your
18 opening evidence through Ms. Murphy, Mr. Kostick, you
19 indicated that you hope to have a plan in place in 2011
20 as to what -- what you want to do in terms of how to meet
21 the load after March 31 of 2013?

22 MR. NEIL KOSTICK: Yes.

23 MR. BOB PETERS: And that plan is to be
24 ready in the first quarter of 2011?

25 MR. NEIL KOSTICK: It will depend on the

1 analysis that takes place through 2010, and into 2011.
2 It really depends on what type of alternatives present
3 themselves as being cost effective and viable as far as
4 how long it might, ultimately, take to come up with a
5 definitive plan.

6 MR. BOB PETERS: I read in your materials
7 that you also then want to have a technical conference
8 after you've got your plan together?

9 MR. NEIL KOSTICK: We do plan to have a -
10 - a stakeholder technical conference as part of the
11 process.

12 MR. BOB PETERS: And that would be to
13 share with the stakeholders your -- your plan and the --
14 the results of the work of your consultant?

15 MR. NEIL KOSTICK: Yes.

16 MR. BOB PETERS: What's the purpose of
17 the technical conference, or the stakeholder conference,
18 if that's what you're calling it?

19 MR. NEIL KOSTICK: Perhaps to clarify,
20 and I believe what has been put on the record through
21 IRs, is that we plan to do analysis, have a stakeholder
22 consultation, and ultimately come up with a -- with a
23 plan. Not necessarily have a plan ahead of the technical
24 conference.

25 We intend to include stakeholder input in

1 the development of our plan.

2

3

(BRIEF PAUSE)

4

5

MR. BOB PETERS: Is it the report then
6 that -- maybe I misused the words, you're -- you're
7 planning on preparing a report with the benefit of the
8 assistance of the consultant you've engaged; that be more
9 accurate than a plan?

10

MR. NEIL KOSTICK: We believe that ult --
11 ultimately there will be a final report from the
12 consultant.

13

MR. BOB PETERS: And that report will,
14 amongst other things, identify and assess the possible
15 transportation and storage options?

16

MR. NEIL KOSTICK: Yes.

17

MR. BOB PETERS: Will that include
18 construction of storage options by third parties?

19

MR. NEIL KOSTICK: We will be looking at
20 all viable alternatives which could include new
21 construction.

22

MR. BOB PETERS: But you won't know if
23 they're viable until you at least put them down in the
24 report and then start investigating them?

25

MR. NEIL KOSTICK: It will be part of the

1 analysis that we're engaged in through -- throughout this
2 year and into 2011.

3 MR. BOB PETERS: Well, one (1) of the
4 comments that we took from Mr. Stephens yesterday was
5 that one (1) of the handcuffs that Manitoba seems to feel
6 it has is that it doesn't have storage.

7 So is construction of storage by Centra
8 something that you will be looking at?

9

10 (BRIEF PAUSE)

11

12 MR. NEIL KOSTICK: We'll be looking at
13 all the alternatives, including the development and cost
14 of local storage and weigh that against the other options
15 that we have.

16 MR. BOB PETERS: The consultant has
17 already been engaged by you?

18 MR. NEIL KOSTICK: That agreement is in
19 the process of being finalized.

20 MR. BOB PETERS: And while the agreement
21 is being finalized, the consultant's probably -- has
22 already started doing its work? Would you -- would you
23 go that far?

24 MR. NEIL KOSTICK: I believe that's fair
25 to say.

1 MR. BOB PETERS: And the -- the various
2 options that come out of this report are then going to
3 have to be assessed to determine how you can acquire the
4 gas commodity?

5 MR. NEIL KOSTICK: Yes, it needs to be
6 recognized that while we are looking at new storage and
7 transportation options, or I shouldn't say necessarily
8 new ones, it may follow that a portfolio very similar to
9 what we have now is the most viable, but we're not
10 prejudging any of those options.

11 We will be looking at transportation and
12 storage alternatives and, of course, that will impact gas
13 commodity acquisition as it will impact where we can buy
14 gas from.

15 MR. BOB PETERS: And you also have to be
16 sure that you analyse in your report those scenarios or
17 those options that you have and their impacts on gas
18 marketing in Manitoba that could affect Centra or its
19 customers?

20 MR. NEIL KOSTICK: That will have to be
21 considered, yes.

22 MR. BOB PETERS: Including customers who
23 use direct purchase options now in Manitoba?

24 MR. NEIL KOSTICK: Yes.

25 MR. BOB PETERS: Including customers who

1 use Centra's fixed rate primary gas service?

2 MR. NEIL KOSTICK: Yes.

3 MR. BOB PETERS: And then I suppose the
4 final step is to optimize the scenario that best fits the
5 Manitoba fact situation and results in, presumably, the
6 lowest cost with the most reliable service?

7 MR. NEIL KOSTICK: Yes.

8 MR. BOB PETERS: Do I take it that the
9 discussion with stakeholders or the technical conference
10 would be expected to be held before the end of the second
11 quarter of 2011?

12 MR. NEIL KOSTICK: I believe that's fair.

13 MR. BOB PETERS: And now that I say that
14 I'm not sure the second quarter means the same to you.
15 Is that by the end of June or is that -- or are you
16 looking at it as a corporate quarter?

17 MR. NEIL KOSTICK: I was assuming you
18 meant by the end of June of 2011.

19 MR. BOB PETERS: Okay. In terms of
20 stakeholders, do you identify the Public Utilities Board
21 as a stakeholder?

22 MR. NEIL KOSTICK: Yes.

23 MR. BOB PETERS: Do you identify not only
24 -- well, the Interveners that are approved in this
25 application as stakeholders?

1 MR. NEIL KOSTICK: Yes. And if we think
2 of this with respect to the stakeholder consultation
3 meeting that was held in November 2008, regarding gas by
4 contracting, the Board, the Interveners present today,
5 various other market participants were invited to attend
6 that consultation meeting. We expect to have
7 representation of that nature for this process as well.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Let's close my
12 questioning before the top of the hour, panel, on
13 hedging.

14 And yesterday we talked about tab 16 of
15 the book of documents and for those who have it properly
16 filed, you'll have a lovely pink sheet of paper with the
17 most recent update of Centra's hedging results, and we
18 talked about them yesterday.

19 Mr. Sanderson, the mark to market from the
20 latest strip run by Centra shows gas costs going up in
21 the current gas year by \$36.2 million.

22 MR. BRENT SANDERSON: You and I tend to
23 get into semantics in terms of how we'd describe this,
24 but I would describe that as our gas costs would not --
25 would have otherwise decreased by \$36 million had these

1 hedges not in pla -- been not -- been in place, so, I
2 wouldn't describe it as a gas cost increase.

3

4 Our gas costs are going down, and
5 notwithstanding the hedges we have in place.

6 MR. BOB PETERS: Boy, now -- now I do
7 have a con -- confu... There's no dispute as primary gas
8 --

9 MR. BRENT SANDERSON: With respect to
10 primary gas, just to make that distinct.

11 MR. BOB PETERS: Well, let's see if we
12 can agree on -- on the fundamentals that I understand is
13 that the primary gas costs are increasing as a result of
14 the hedges put in place.

15 MR. BRENT SANDERSON: No, I would not
16 describe it that way. Our primary gas costs are
17 declining, just not declining as much as they otherwise
18 would have had these hedges not been in place.

19 MR. BOB PETERS: Okay. Then -- then
20 maybe we are saying the same thing.

21 THE CHAIRPERSON: I think we'd all agree
22 it's semantics.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Okay. Well, that'll

1 save us time, Mr. Chairman. Had you not placed the
2 hedges, it would have decreased by at least \$36.2 million
3 more.

4 MR. BRENT SANDERSON: On a forecast basis
5 --

6 MR. BOB PETERS: Yes.

7 MR. BRENT SANDERSON: -- at this point.

8 MR. BOB PETERS: And -- and I appreciate
9 that goes out until -- until January of 2011. In the --
10 in the tab 16 of the book of documents we also have the
11 response PUB/Centra-23.

12 And I want to turn to the attachment, Mr.
13 Chairman and Board members. It's at tab 16 of the book
14 of documents, and it's an attachment dated February 19th.
15 It's a single page that has ten (10) lines on it, which
16 is a chart of the impact of hedging on gas costs since
17 2002/'03.

18 Do you have that, Mr. Sanderson?

19 MR. BRENT SANDERSON: Yes, I do.

20 MR. BOB PETERS: And just while I look at
21 it, is that -- that number that shows up on line 8 for
22 the fiscal period of 2009/'10 indicating that gas costs
23 are -- would be \$63 million -- \$63.7 million lower if
24 there were no hedging activities? That number can be
25 revised upward, can it, sir, by adding -- do you have a

1 number of which will -- will be more accurate?

2 MR. BRENT SANDERSON: Yes, looking at the
3 date on this attachment, there would have still been some
4 instruments that had not settled -- cover the '09/'10
5 fiscal period at that point, so we do have a more up-to-
6 date number if you want me to get that.

7 And just -- I'd just like to point out
8 that -- that these periods re -- refer to Centra's fiscal
9 period running from April through March, so the '09/'10
10 period indicated in -- in this schedule refers to the
11 April 2009 through March 2010 period.

12 MR. BOB PETERS: Fair comment. What
13 you're telling the Board is that that fiscal period --
14 I'm sorry.

15 MR. BRENT SANDERSON: I have the revised
16 figure from line 8. We do have several results for that
17 period now, and it's a revised figure of \$84.2 million
18 versus the 63.7.

19 MR. BOB PETERS: That will be -- that'll
20 be a final figure, will it not, Mr. Sanderson? There's
21 no more adjustments to that?

22 MR. BRENT SANDERSON: No, no further
23 adjustments.

24 MR. BOB PETERS: And there's no further
25 adjustments because it closed on March 31 of 2010?

1 MR. BRENT SANDERSON: We would have known
2 those results with finality by March 1st, actually.

3 MR. BOB PETERS: Yeah. I want to turn to
4 the far right-hand column, the volatility reduction, and
5 I'm -- I'm a bit mindful, I think, about Mr. Carroll's
6 presentation yesterday, where -- where, to some extent,
7 he talked about volatility reduction. Did you hear that?

8 MR. BRENT SANDERSON: Yes, I followed his
9 -- his speech -- or his reading of the letter into the
10 record with great interest, yes.

11 MR. BOB PETERS: All right. When I look
12 at the actual volatility reduction and I think back to --
13 maybe I have refresh my memory as to what Ms. Stewart
14 taught us, but the -- the volatility reductions for the
15 years -- for the fiscal period starting in 2006 and
16 coming through to 2009/'10, that volatility reduction was
17 -- was downward volatility reduction.

18 Would you agree with that?

19 MR. BRENT SANDERSON: It indicates -- all
20 of the figures indicated in this table in terms of
21 volatil -- tility reduction depict the percentage
22 reduction, or downward volatility, in our primary gas
23 rates by virtue of our -- of our hedging activities.

24 MR. BOB PETERS: What you're saying to
25 the Board -- and -- and I'm not sure that the line 8

1 item, the 40 -- 40 percent actual volatility reduction is
2 accurate any more, but what you're trying to suggest is
3 that, but for your hedging, the rates would have been 40
4 percent more volatile?

5 MR. BRENT SANDERSON: Roughly speaking,
6 yes.

7 MR. BOB PETERS: And this was more
8 volatile, but in a downward primary gas market?

9 MR. BRENT SANDERSON: Volatility
10 reduction is a double-edged sword. It's just variability
11 of the rate, one (1) with the hedging impacts versus what
12 they would have been without the hedging impacts, and
13 volatility goes two (2) ways.

14 MR. BOB PETERS: No, your point is taken,
15 and we see that at the top part of the -- the far right-
16 hand column called Actual Volatility Reduction, where
17 there was 30 to 50 percent volatility reduction in what
18 was probably back then - and Mr. Stephens will remem --
19 remember better than most of us - that it was a rising
20 market.

21 MR. BRENT SANDERSON: Generally speaking,
22 there were periods where our hedges -- in that earlier
23 four (4) year period, there were months where our hedges
24 served to increase our costs or add to our costs, similar
25 to more -- more recent history. And in the most recent

1 four (4) year period, there were periods where our hedges
2 served to reduce our costs for periods of time as well.

3 But, on the whole, the first four (4) year
4 period depicted was a generally rising market, while the
5 second four (4) year period was generally a declining --
6 generally a declining market. But within that period,
7 there were some fairly dramatic spikes in prices, most
8 notably the summer of 2008.

9 MR. BOB PETERS: No, that's a fair
10 comment, and does Centra have any understanding from its
11 customer base whether, in a -- what turns out to be a
12 falling market, customers are as adverse to volatility as
13 they are in a rising market?

14 MR. BRENT SANDERSON: I don't have
15 evidence in that regard, but I think it's safe to say
16 that if someone was given the choice, they would choose
17 protection from rising prices and choose to fully
18 participate in downward movements in price, but I'm
19 afraid that's just not possible to give them.

20 MR. BOB PETERS: Not with certainty.

21 MR. BRENT SANDERSON: No. It's just not
22 possible, in my opinion.

23 MR. BOB PETERS: The last document at tab
24 16 is -- is a chart prepared, not by Centra, but put into
25 the book of documents by the Board's advisors, and it's -

1 - it's simply a chart to depict the percent of eligible
2 volumes hedged by gas quarter in response to Board Order
3 170 of '09 that Mr. Warden referenced in his direct
4 comments through Ms. Murphy.

5 MR. BRENT SANDERSON: I would just want
6 to point out, before we proceed, that there are
7 instruments depicted and there are periods of time that -
8 - in which hedges were placed for those periods in
9 advance of the issuance of Board Order 170/09, so not all
10 of the hedged volumes depicted in this would have been
11 post 170/09.

12 MR. BOB PETERS: Okay. I have your
13 point, but this graph depicts, I suppose, the Board's
14 direction in 170 of '09, indicating that, starting for
15 the -- for the gas quarter of May and to July of 2010,
16 you know, up to 75 percent can be hedged, and that then,
17 by February to April of 2011, it'll go down to 50
18 percent, and then down to 25 percent for the -- the next
19 quarter, and then, by August to October of 2011, no
20 hedging in place.

21 MR. BRENT SANDERSON: That's the plan
22 we're working off of at this point, yes.

23 MR. BOB PETERS: All right. And when you
24 say it's the plan you're working off of it, we heard Mr.
25 Warden say that, while Centra wasn't appealing or

1 applying to review and vary the Board's Order, Centra is
2 considering some rate volatility control mechanism on a
3 go-forward basis.

4 Do I have that right?

5 MR. BRENT SANDERSON: At this point, all
6 I can say is we're looking at a number of alternatives in
7 terms of responding to customers' rate or energy bill
8 volatility mitigation needs. So there's a number of
9 options on the table, and we're considering a numbering
10 of -- a number of mechanisms not just limited to rate
11 volatility management.

12 MR. BOB PETERS: Does that include
13 offering a fixed price -- maybe this is the next panel,
14 but a fixed rate for primary gas to larger volume
15 customers?

16 MR. BRENT SANDERSON: We don't know yet.
17 It's premature to -- to be getting into it in that depth.
18 We're considering a number of alternatives. All options
19 will be considered.

20 MR. BOB PETERS: And when will you have
21 had the opportunity to consider all options?

22

23 (BRIEF PAUSE)

24

25 MR. BRENT SANDERSON: I'd just like to

1 point out that we have been considering them for a period
2 of time already and we are expecting that we'll reach a
3 conclusion on what's most appropriate within the next six
4 (6) months.

5 MR. BOB PETERS: Can you indicate to the
6 Board while you're here as to whether that will include
7 an application to the Board, or rolled into a General
8 Rate Application, or some other Cost of Gas Application?

9 MR. BRENT SANDERSON: It would depend on
10 the nature of the products or services that we're looking
11 at extending to customers. There may be some
12 alternatives that -- that we would be able to roll out to
13 customers under our existing approvals.

14 There may be others that might require a -
15 - a new regulatory approval, and in the event that we
16 choose to pursue those, we would be applying to the Board
17 for approval to extend those to customers.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: I appreciate that you're
22 looking at all the options, Mr. Sanderson. Is there a
23 stakeholder consultation planned in that process that
24 you're hoping to complete in the next six (6) months, or
25 is it simply internal?

1 MR. BRENT SANDERSON: You'd have to talk
2 to Mr. Kuczek about specifics in terms of any additional
3 or more formal stakeholder consultations, but I can
4 assure you that we have major and key account groups of
5 the Utility that are talking especially with our
6 commercial and industrial customers on an ongoing basis,
7 and that's just a part of our everyday business.

8 And they have been talking to those
9 customers to assess their needs and will continue to do
10 so, and it will inform our decisions as to what we extend
11 to those customers.

12 MR. BOB PETERS: Thank you. And with
13 that answer, Mr. Chairman, I'd like to thank Mr.
14 Stephens, Mr. Kostick, and Mr. Sanderson for their
15 answers, recognizing that Mr. Warden and Mr. Barnlund
16 will be with us for the duration and we'll -- we'll see
17 them on the second panel.

18 Those are my questions of these -- this
19 panel.

20 THE CHAIRPERSON: Thank you, Mr. Peters.
21 Before we go to Ms. Ruzycki, just a couple of follow-up
22 question, if I may.

23 Number one, the eastern LDCs, is there any
24 cross shareholdings with TCPL that you're aware of? In
25 other words, do any of those eastern LDCs have any

1 ownership stake in TCPL?

2 MR. HOWARD STEPHENS: To my knowledge,
3 no. And, in fact, Enbridge is very much a competitor
4 with TransCanada in a number of circumstances.

5 THE CHAIRPERSON: Thank you. The other
6 question was, we heard from Mr. Carroll the other day and
7 he raised some points.

8 I presume that some of these larger firms,
9 as Mr. Sanderson has pointed out, are -- have raised some
10 of these points with Centra directly. In other words,
11 basically, concern with the risk that they may engage in
12 some contract with -- to supply some merchandise or
13 products, et cetera, et cetera, and be at risk during
14 that period of time of manufacturing, of having natural
15 gas prices rise.

16 Is that fair?

17 MR. BRENT SANDERSON: Mr. Kuczek can go
18 into a little more detail about just the -- the substance
19 of those conversations, but I am aware that the issue of
20 hedging, and rate, and bill stability are an ongoing
21 subject of conversation with those customers.

22 I do hear from our major and key accounts
23 people, so, the fact that that's been discussed recently
24 is -- should be taken as nothing new. That's the top of
25 my concern for those customers, and they have discussed

1 it for a number of years, to my knowledge, with their
2 representatives in the Utility.

3 THE CHAIRPERSON: That would be a factor,
4 like currency, a number of different things that could
5 affect the profitability of a contract they might enter
6 into.

7 MR. BRENT SANDERSON: I think it's just
8 safe to say, just with an understanding of various
9 industries and their cost exposure to the extent that
10 energy, specifically natural gas, is a sig -- significant
11 input cost for a particular industry or company, that
12 they would be concerned about how that would affect their
13 competitiveness and their ability to main -- maintain
14 their fiscal health. But it would differ depending on
15 the nature of the industry or the institution.

16 THE CHAIRPERSON: Like the size of the
17 natural gas input cost relative to other costs for
18 example?

19 MR. BRENT SANDERSON: Yes. For example,
20 a -- a service industry with a low spacing requirement
21 and high raw material input costs that aren't energy
22 related would probably be less concern than, say, an
23 institution whose energy costs are dri -- driven by
24 spacing requirements that are fuelled by natural gas.

25 Or a manufacturing industry with a high

1 heat requirement input in their processing that would be
2 fuelled by natural gas would understandably be much more
3 concerned about their natural gas costs, or their energy
4 cost in general as a percentage of their overall cost
5 structure.

6 THE CHAIRPERSON: Right now is it -- is
7 it fair to think that a firm in that position right now,
8 with the change, and assuming that Centra had got down to
9 zero (0) right now in hedging, would have an opportunity
10 to contract through a broker, or to engage in natural gas
11 futures themselves directly?

12 Are there steps not open to a large firm?

13 MR. BRENT SANDERSON: Contracting with a
14 marketer is always an option; that's a viable option in
15 Manitoba. Just having been involved in the use of
16 derivatives for risk management, fairly extensively
17 ourselves, I would say for any company that's involved in
18 an industry that's not in the energy business, that's a
19 pretty tall order to expect companies to establish their
20 own hedging programs.

21 It's not their line of business and there
22 is a significant number of costs and complications to
23 engaging in hedging and the use of derivatives,
24 especially if it's not your primary line of business.

25 So I would -- I would not characterize

1 that as a readily viable alternative for a manufacturer
2 or a -- an institution that's not in the energy business.

3 THE CHAIRPERSON: Given Centra has no
4 profit or loss to make in the cost of gas side, currently
5 does Centra provide advice to these large firms coming
6 with questions of that nature?

7 MR. BRENT SANDERSON: I think that would
8 be better posed to Mr. Kuczek in terms of the extent of
9 the advice that we can provide. We have to be -- just --
10 we have to be mindful that we have to be careful, giving
11 that we don't want to engage in what might be construed
12 as anti-competitive practices in terms of advising
13 customers, given our relative position in the competitive
14 market.

15 But Mr. Kuczek will be able to give you
16 more depth on that.

17 THE CHAIRPERSON: Okay. I'll leave that
18 with Mr. Peters. We know that in the -- in the past, for
19 example, Manitoba Hydro has been reluctant to give
20 advice, for example, whether you should go with, you
21 know, electric space heating or natural gas heating, for
22 a variety of different reasons, but we'll leave that.

23 Okay. Well, before the break, why don't
24 we move to Ms. Ruzycki.

25 MS. NOLA RUZYCKI: Actually, I think Mr.

1 Saxberg is going to go first, because I think that he'll
2 probably ask most of the questions that I've ask -- want
3 to ask, and Mr. Peters has -- has already asked a number
4 of them, so.

5 THE CHAIRPERSON: Okay. Mr. Saxberg, why
6 don't you carry on for about twenty (20) or so minutes,
7 and then we'll have a break.

8

9 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

10 MR. KRIS SAXBERG: Thank you very much,
11 Mr. Chairman. Good morning to everybody. Good morning,
12 panel. I have circulated a booklet labelled 'Cross-
13 examination Documents.' So you might want to have that
14 in front of you.

15

16 (BRIEF PAUSE)

17

18 MR. KRIS SAXBERG: Because I'm so
19 organized, I'm going to begin at tab 1 of that document.
20 And this will probably be a line of questions for you,
21 Mr. Warden. It relates to the compliance filing and to
22 the adjustments that were made to interest charges.

23 So if we look at tab 1, the very first
24 document in tab 1, it's schedule 4.12.0 that was filed
25 January 20th, 2009, relating to finance expense.

1 MR. VINCE WARDEN: Yes, Mr. Saxberg, I --
2 I have it here.

3 MR. KRIS SAXBERG: And if you look under
4 the 2010/'11 column, which is column number 5, you will
5 see that Centra was forecasting approximately \$16 million
6 of interest on long-term debt. Do you see that?

7 MR. VINCE WARDEN: I do.

8 MR. KRIS SAXBERG: And then if you flip
9 to the next page, there was a revision to this schedule
10 on May 29th, 2009. And the forecast was reduced to \$15.3
11 million.

12 Do you see that?

13 MR. VINCE WARDEN: I do.

14 MR. KRIS SAXBERG: And then if we flip to
15 the next page we have the compliance filing of February
16 19th, same schedule 4.12. It's the third page in tab 1.
17 And we see that the interest is now forecast to be 14.4
18 million.

19 Do you see that?

20 MR. VINCE WARDEN: Yes, as -- as noted at
21 the top of each of those schedules the forecasts were all
22 prepared on different dates. And we've been in a very
23 much of a declining interest rate market, so not
24 surprised at those -- at those different forecasts.

25 MR. KRIS SAXBERG: Okay. And now if we

1 start back at the first schedule and we now change our
2 focus from interest on long-term debt to the Provincial
3 guarantee fee.

4 MR. VINCE WARDEN: Okay.

5 MR. KRIS SAXBERG: And we see that in
6 column 5 for the 2010/'11 test year the Provincial
7 guarantee fee on long-term debts estimated to be 2.977
8 million?

9 MR. VINCE WARDEN: Yes.

10 MR. KRIS SAXBERG: And if you flip to the
11 next two (2) schedules where the revisions were made,
12 that number never changed?

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

14 MR. KRIS SAXBERG: And -- and that's what
15 we should expect because it doesn't matter what the
16 estimate of the -- of the interest on the debt is, the
17 Provincial Guarantee Rate is always going to be flat?
18 The same amount.

19 MR. VINCE WARDEN: Well, the -- the debt
20 guarantee fee is based on a formula applied to the long-
21 term debt outstanding at the end of the previous year.
22 So yes, that -- that will be relatively unchanged by the
23 current year financing.

24 MR. KRIS SAXBERG: Right. I mean, it's a
25 -- it's an -- it's an identical amount or percentage add-

1 on to whatever the interest forecast is?

2 MR. VINCE WARDEN: Well, as I mentioned,
3 it's calculated based on the -- the amount of debt
4 outstanding as at the pre -- the previous year. So the
5 forecast of new debt would in -- influence that, to some
6 degree, but really it's the quantum of the debt not the
7 interest rate that's paid on that debt.

8 MR. KRIS SAXBERG: Right. Okay. And
9 that -- that's a very good point. What you're saying is
10 that in these three (3) schedules then with respect to
11 the Provincial guarantee, the estimate of the amount of
12 long-term debt didn't change.

13 So that's why we have the same guarantee
14 estimate?

15 MR. VINCE WARDEN: Yes.

16 MR. KRIS SAXBERG: And if we then look at
17 interest on short-term debt and go back to the first
18 schedule, for the 2010/'11 test year, column 5, the
19 estimate started out at approximately 5 million and then
20 the next revision in May of 2009 after, I believe, the
21 GRA proceeding had begun to unfold in terms of pre-filed
22 evidence, there was a revision to 1.7 million.

23 Do you see that?

24 MR. VINCE WARDEN: Yes.

25 MR. KRIS SAXBERG: And then finally after

1 the Board issued its Order the amount of -- that was
2 imbedded in rates for interest on short-term debt was
3 approximately nine hundred thousand (900,000)?

4 MR. VINCE WARDEN: Yes.

5 MR. KRIS SAXBERG: And when it comes to
6 the Provincial guarantee fee on the short-term debt,
7 again, if we follow the numbers through, we find that
8 they aren't static as was the case with the guarantee fee
9 on long-term debt, and can you confirm that that's
10 because there is different estimates of the amount of
11 short-term debt?

12 MR. VINCE WARDEN: Yes, that would be the
13 reason.

14 MR. KRIS SAXBERG: And based on the
15 numbers, it doesn't look like it was much of a
16 difference; is that fair? In terms of the amount of
17 short-term debt.

18 MR. VINCE WARDEN: They're -- they're
19 relatively close from year to year, yes.

20 MR. KRIS SAXBERG: One of the Board's
21 directives was to consider ensuring that there's enough
22 short-term debt for Centra to accommodate its -- its
23 unique needs.

24 Is that directive reflected in the -- the
25 compliance filing?

1 MR. VINCE WARDEN: That there is
2 sufficient short-term debt for Centra? Yes, there --
3 there always is sufficient short-term debt for Centra.

4 MR. KRIS SAXBERG: And now, line 16 of --
5 we'll go back to the very first schedule again, is
6 interest on common assets, and the original estimate,
7 January 20, 2009 was \$2.855 million?

8 MR. VINCE WARDEN: For 2010/'11, yes.

9 MR. KRIS SAXBERG: Yes. And then --
10 yeah. And then the next revision of the estimates
11 forecast on May 29th, 2009, that's the next schedule,
12 that amount is virtually the same.

13 MR. VINCE WARDEN: Two eight three nine
14 (2839), yes.

15 MR. KRIS SAXBERG: And then you follow it
16 through and -- to the compliance filing, and it's the
17 same again.

18 MR. VINCE WARDEN: Yes, it is.

19 MR. KRIS SAXBERG: And does Centra agree
20 that interest on common assets is financed by Manitoba
21 Hydro long-term and short-term debt, at whatever rates
22 are available to it in the market?

23 MR. VINCE WARDEN: Yes.

24 MR. KRIS SAXBERG: And there's no special
25 arrangement between the electric side of the business and

1 the gas side of the business with respect to interest
2 charged on common assets?

3 MR. VINCE WARDEN: No.

4 MR. KRIS SAXBERG: And does the same
5 apply with respect to interest on inventory?

6 MR. VINCE WARDEN: Yes, the same logic
7 would apply.

8 MR. KRIS SAXBERG: So, with that in mind,
9 and with -- well, would you agree with me that as a
10 result of the Board's Order after the last GRA, the
11 finance expense assumptions, when you lump long term and
12 short term together, led to a reduction of approximately
13 20 percent?

14 MR. VINCE WARDEN: Are you referring --
15 oh, both the total of long- and short-term debt?

16 MR. KRIS SAXBERG: Yes.

17 MR. VINCE WARDEN: The interest thereon?
18 Yes, that would seem reasonable.

19 MR. KRIS SAXBERG: And just for -- I get
20 that number from a document that -- that I included at
21 tab 2.

22 MS. MARLA MURPHY: Just to be clear, that
23 isn't a Centra document?

24

25 CONTINUED BY MR. KRIS SAXBERG:

1 MR. KRIS SAXBERG: No. This is a
2 document that -- that CAC's consultant prepared, and --
3 and it's simply putting the percentages beside the
4 various items that were -- that were changed between the
5 original January 20th filing and the compliance filing of
6 February 2010.

7 Have you had a chance to review this?

8 MR. VINCE WARDEN: I haven't checked the
9 arithmetic, Mr. Saxberg, but, based on what I see here, I
10 -- I can accept the numbers as being reasonable.

11 MR. KRIS SAXBERG: And if we look at the
12 very bottom of the page, row 29, there's a -- for the
13 '09/'10 year, there's a figure in bold of 20.6 percent,
14 and that is the combined long-term and short-term
15 reduction in the forecast for interest costs of 20.6
16 percent.

17 MR. GREG BARNLUND: Mr. Saxberg, I might
18 add for Mr. Warden here right now, we took a quick look
19 at these numbers yesterday, and I believe we concurred on
20 your arithmetic in line 28, but we had a little
21 difficulty with line 29. So I'm not exactly sure of the
22 basis of your presentation in line 29.

23 MR. KRIS SAXBERG: If you -- if you just
24 take line 6 and line 12 and -- and the reductions
25 therefrom in isolation, the reduction is 20.6 percent.

1 And that is -- line 6 is the interest for long-term debt,
2 line 12 is the interest for short-term debt. Those were
3 both reduced. You put them together by a factor of 20.6
4 percent.

5 MR. GREG BARNLUND: Our arithmetic came
6 up to four zero six one (4061), and not four zero two two
7 (4022), so that would affect your percentage slightly.

8 MR. KRIS SAXBERG: Okay. Well, in -- in
9 an order of magnitude, we're looking at about a 20
10 percent reduction in fi -- finance expense as a result of
11 the Board Order, is that fair?

12 MR. VINCE WARDEN: Well, the order of
13 magnitude is approximately right. I -- I can agree with
14 that. It's not finance expense, though. To be clear,
15 this is just a forecast, and finance expense will be what
16 finance expense will be, and we're hopeful that those
17 rates prevail into those -- into the test years, but it
18 is a forecast.

19 We can -- we can lower the forecast more
20 and come up with a bigger number, but it is a forecast.

21 MR. KRIS SAXBERG: Yeah, it's a forecast,
22 but it's what's in rates and it's what you'll be entitled
23 to collect for this --

24 MR. VINCE WARDEN: Well, the -- there --
25 you know, there's -- in any forecast there are variances

1 and this could very well be a variance that -- but
2 nevertheless, that's what we've -- we've complied with
3 the -- the Board Order, of course, and used those updated
4 forecast numbers in -- in our Application.

5 MR. KRIS SAXBERG: And so then this is
6 all just coming to the question dealing with line 16 and
7 line 18 of the compliance schedule, so which -- that's
8 the third schedule, and interest on common assets.

9 And the question then becomes: Well, if
10 the interest rates at which Centra borrows, the forecast
11 was determined by this Board to be 20 percent too rich
12 and it was reduced, why wasn't that reduction reflected
13 in the interest on common assets which didn't change in
14 the compliance filing?

15 MR. VINCE WARDEN: The interest on -- or
16 the common assets are just that. They are assets
17 occurred -- or procured by Manitoba Hydro for the benefit
18 of both Centra, Centra Gas, and -- and Manitoba Hydro,
19 so, there is an allocation process that it goes through.

20 For purposes of determining the interest
21 on the common assets, that would have been at -- at
22 corporate rates, so, not necessarily adjusted in
23 accordance with this order, but there -- there may be
24 some small impact on that, but it would not be material.

25 And looking at the total assets that --

1 that are procured by Manitoba Hydro, this would be a
2 relatively insignificant amount.

3 MR. KRIS SAXBERG: Well, shouldn't it be
4 20 percent, in or -- in or around that magnitude?

5 MR. VINCE WARDEN: Given the 20 percent -
6 - I -- I'm not sure. I'd have to double-check and see
7 whether that would flow through. It would depend on the
8 proportion of assets occurred, so -- or procured for the
9 respective utility. So, I'd have to follow the
10 allocation process through to see whether or not the 20
11 percent would, in fact, flow through.

12 MR. KRIS SAXBERG: But there definitely
13 should be a reduction there, based on the Board saying
14 that the proper forecast for interest on long-term debt,
15 short-term debt, which, of course, is the debt that
16 finances interest on common assets, a blend of those two
17 (2), if the Board said that that should be 20 percent
18 lower, then there should be some impact. You're just
19 saying you don't know the exact amount.

20 MR. VINCE WARDEN: There -- there could
21 be some impact. Remember, this is on assets though and
22 assets are capitalized and amortized over the life of --
23 of the -- of the respective assets, so the bottom line
24 impact would be very insignificant.

25 MR. KRIS SAXBERG: But, sorry, wouldn't

1 that -- in terms of capitalized assets, wouldn't that be
2 reflected in -- in line 20 for interest capitalized?

3 MR. VINCE WARDEN: Yes, and that's an
4 offset. So whatever it comes out of -- whatever is
5 applied on line 16 would have to be adjusted out of line
6 20 as well, so the net effect would, in all likelihood,
7 be zero (0).

8

9 (BRIEF PAUSE)

10

11 MR. KRIS SAXBERG: Was it an oversight,
12 when you did your compliance, to not include the
13 reduction in forecast interest in terms of calculating
14 interest on common assets?

15 MR. VINCE WARDEN: Well, as I mentioned,
16 Mr. Saxberg, the -- the bottom line impact is likely
17 zero, so we -- I wouldn't say it's an oversight
18 necessarily. I didn't compile that personally, but we
19 can -- if -- if you'd like, we can take it as an
20 undertaking, go back and run that through our model and
21 see whether there's any bottom line inca -- impact, but
22 my expectation is that it would not -- there would not be
23 an impact.

24 MR. KRIS SAXBERG: Well, I'll take the
25 undertaking then. If you could determine what the

1 appropriate reduction should be and -- and explain the
2 basis for it.

3 MR. VINCE WARDEN: Well, if there is a
4 reduction. You -- you say "appropriate reduction" but
5 we'll -- we'll look at whether or not there is, in fact,
6 an impact and return that information to you. Yes.

7

8 --- UNDERTAKING NO. 5: For Centra to advise whether
9 or not there is an impact.

10

11 CONTINUED BY MR. KRIS SAXBERG:

12 MR. KRIS SAXBERG: And the same would
13 apply to interest on inventory, although obviously we'll
14 dealing with a much smaller amount?

15 MR. VINCE WARDEN: Well, yes, right. A
16 much smaller amount -- as a matter of fact, with our new
17 accounting rules that disappears anyway but,
18 nevertheless, that's another topic for discussion.

19 MR. KRIS SAXBERG: And just before the
20 break then, I just want to put some information on the
21 record in a spot where I'll be able to find it, relating
22 to amortization on DSM expenses.

23 And would you agree that back at the 2007
24 GRA proceeding, the Board approved fifteen (15) years as
25 the appropriate amortization period for DSM?

1 MR. VINCE WARDEN: Fifteen (15) years was
2 the amortization period. In effect, I believe, though,
3 the Board at that time encouraged us to look at a shorter
4 amortization period, which -- which we did do and
5 subsequent to that proceeding we did reduce the
6 amortization period to five (5) years to be more
7 consistent with what was happening in other -- other
8 jurisdictions in Canada.

9 MR. KRIS SAXBERG: Right. And as, I
10 think, the Board notes in its Order of 2 -- relating to
11 the 2009 GRA, Centra unilaterally moved to an
12 amortization of five (5) years after -- for 2007/'08 and
13 '08/'09 without advising of the rate implications of such
14 change?

15 MR. VINCE WARDEN: Well, as I mentioned,
16 the Board did encourage us to look at a shorter
17 amortization period. So, I wouldn't say unilaterally is
18 -- that is not -- not the word I would use. We did it
19 following the direction of the Board.

20 MR. KRIS SAXBERG: And would you agree,
21 though, that there's -- there's never been formal Board
22 approval of a five (5) year amortization?

23 MR. VINCE WARDEN: No. No, the Board
24 looked at that in the subsequent proceeding and in its --
25 in a directive did direct that Centra increase the

1 amortization period from five (5) to ten (10) on a
2 prospective basis.

3 MR. KRIS SAXBERG: That's right. The
4 amortization period was changed from five (5) years to
5 ten (10) years on a -- a prospective basis and Centra
6 didn't adjust then for amortization charged for '07/'08
7 and '08/'09, is that right?

8 MR. VINCE WARDEN: No, because we were
9 following the Board directive and did it prospectively.

10 MR. KRIS SAXBERG: And the amount then --
11 is it correct to say that 3.3 million in amortization
12 expenses accounted for in the '07/'08 and '08/'09 fiscal
13 years is because of five (5) year amortization versus ten
14 (10) years?

15 MR. VINCE WARDEN: Yes, the total
16 additional amortization in those two (2) years because of
17 the five (5) year amortization versus the ten (10)
18 amounts to 3.3 million.

19 MR. KRIS SAXBERG: And if the
20 amortization of ten (10) years started 2007/2008, you'd
21 agree then re -- retained earnings would be \$3.3 million
22 higher?

23 MR. VINCE WARDEN: Yes.

24 MR. KRIS SAXBERG: Okay. Those are the
25 questions I have before the break.

1 THE CHAIRPERSON: Very good. Thanks.
2 We'll take the break now. We'll see you back in fifteen
3 (15) minutes.

4
5 --- Upon recessing at 10:30 a.m.
6 --- Upon resuming at 10:56 a.m.

7
8 THE CHAIRPERSON: Okay, welcome back, Mr.
9 Saxberg, any time you are ready, sir.

10 MR. KRIS SAXBERG: Thank you, Mr.
11 Chairman.

12
13 CONTINUED BY MR. KRIS SAXBERG:

14 MR. KRIS SAXBERG: I'm going to turn now
15 to the ConocoPhillips gas supply contract. And this -- I
16 can see it in front of you there.

17 Would you agree that implicit in the
18 approval of Centra's forecast gas costs is approval of
19 the gas consequences of Centra's new long-term gas supply
20 contract?

21 MR. GREG BARNLUND: I would say yes.

22 MR. KRIS SAXBERG: And Board Order 4 of
23 '10 is an interim ex parte order dealing with primary gas
24 rates, correct?

25 MR. GREG BARNLUND: That's correct.

1 MR. KRIS SAXBERG: And the primary gas
2 rates related to that Board Order flow from the -- the
3 Conoco contract?

4 MR. GREG BARNLUND: To the extent that
5 there is some storage gas involved in that, that would
6 have been priced at the former contract arrangement as we
7 discussed yesterday. But, yes, the Conoco agreement
8 would have an influence on the pricing of that, that
9 particular application.

10 MR. KRIS SAXBERG: And Centra wants that
11 interim Order to be made final in this proceeding,
12 correct?

13 MR. GREG BARNLUND: Yes, we do.

14 MR. KRIS SAXBERG: Is it implicit in
15 making the interim Order final that the Board would be
16 giving its blessing to the cost consequences of the new
17 gas supply contract?

18 MR. GREG BARNLUND: I believe we would --
19 we would agree with that, yes.

20 MR. KRIS SAXBERG: Do you agree that the
21 market price of natural gas is something that Centra
22 can't control?

23 MR. GREG BARNLUND: Yes, that's agreed.

24 MR. KRIS SAXBERG: But Centra can,
25 however, control the amount that its customers will pay

1 above the market price?

2

3

(BRIEF PAUSE)

4

5

6

MR. HOWARD STEPHENS: Run the question by me again.

7

8

9

MR. KRIS SAXBERG: Would you agree that Centra can control the amount that customers will pay above the market price?

10

11

12

13

MR. HOWARD STEPHENS: I will accept your answer in a slightly modified version of it insofar as we have some control over what customers will pay relative to index.

14

15

16

17

MR. KRIS SAXBERG: And you agree that when Centra enters into a long-term gas supply contract on behalf of its customers, it has an obligation to make prudent decisions with respect to that contract?

18

19

MR. HOWARD STEPHENS: I think that goes without saying, sir. Yes.

20

21

MR. KRIS SAXBERG: And you accept that Centra has the onus to establish that prudence?

22

23

24

25

MR. HOWARD STEPHENS: Certainly.

MR. KRIS SAXBERG: And I just want to get this straight for the record. What is the difference in Centra's view between the Board approving the contract's

1 terms or the contract itself, and approving the cost
2 consequences of the contract?

3 MR. HOWARD STEPHENS: Well, the Board
4 typically, as I understand it, does not approve contracts
5 that the company enters into because in doing so then
6 would be -- I mean, and Ms. Murphy can help me with
7 respect to this, but then would now be a party to that
8 contract. And to the extent there were any kind of
9 litigation associated with it would be obligated to
10 participate, and I don't think they really want to put
11 themselves in that position.

12 What's important is that we -- they
13 understand the formula and how the price that we are
14 going to pay for that gas is derived and that they're
15 satisfied that the derivation of that price is
16 representative of the market.

17 MR. KRIS SAXBERG: Is -- does the
18 assertion that the Board's just approving the cost
19 consequences of the contract limit what the Board is
20 approving in the sense that, for instance, the Board is
21 only dealing with the price that flows from the contract
22 rather than whether the relia -- the supplier is
23 reliable?

24 MR. HOWARD STEPHENS: No, I'd suggest
25 that the Board is looking at the contract in its entirety

1 and it goes to the demonstration of prudence in terms of
2 our contracting practices and the satisfying of
3 requirements of Manitoba consumers.

4 MR. KRIS SAXBERG: Right. So even though
5 you're saying that the Board is only approving the cost
6 consequences of the contract, you do want the Board to
7 look at whether or not this -- this supplier is a
8 reliable supplier such that the decision to contract with
9 the supplier was a prudent one?

10

11 (BRIEF PAUSE)

12

13 MR. HOWARD STEPHENS: No, I think that's
14 a judgment call that we have to make, and that we will
15 portray our decision-making process in terms of that, the
16 value we associate with that, and then the Board can take
17 that as information in its deliberations.

18 MR. KRIS SAXBERG: But, for sure, the
19 Board should be looking at the prudence of the price that
20 customers are paying as a result of this long-term
21 contract.

22

23 (BRIEF PAUSE)

24

25 MR. HOWARD STEPHENS: They should -- I

1 would -- I would suggest that the Board is -- would be
2 looking at the contract and the cost consequences
3 associated with that, having regard for the other
4 considerations.

5 MR. KRIS SAXBERG: Okay. And then in
6 terms of the matrix and its mix, price is only 30 percent
7 of the determination as to whether or not this is an
8 appropriate contract for -- for consumers.

9 That was Centra's take, correct?
10

11 (BRIEF PAUSE)
12

13 MR. HOWARD STEPHENS: Sorry, Mr. Saxberg,
14 can you run that by me again?

15 MR. KRIS SAXBERG: The -- the weighting
16 in the matrix that Centra used to determine the gas
17 supply contract vendor weights price at 30 percent,
18 correct?

19 MR. HOWARD STEPHENS: Actually --
20 actually, the number is 20 percent, and the weighting
21 associated with some of the other categories, I mean,
22 they are what they are. You can -- they're in front of
23 you.

24 Ultimately, we are making the call with
25 respect to the appropriate average rates and how to

1 weight them. And I would expect that the Board may have
2 comments with respect to how we've weighted them.

3 If we have come in with something that is
4 completely ridiculous in terms of, you know, not
5 providing for reliability of supplier, or something, that
6 there would be comments, I mean, along that line, but I
7 mean, the most significant component from a rate-making
8 perspective is the price.

9 MR. KRIS SAXBERG: Provided that the
10 pricing of the contract is determined by the Board to be
11 prudent, and, thus, the gas cost consequence is
12 acceptable, Centra will recover through its rates the
13 entire cost of the contract.

14 MR. HOWARD STEPHENS: That is the
15 intention, yes.

16 MR. KRIS SAXBERG: Nothing more; nothing
17 less.

18 MR. HOWARD STEPHENS: That's correct.

19 MR. KRIS SAXBERG: Does Centra have a
20 financial incentive to ensure that it negotiates the best
21 price for -- for its customers?

22 MR. HOWARD STEPHENS: How -- based upon
23 the fact that we don't make any money on the gas either
24 way, no, I guess there is not on a -- on a purely
25 financial basis, a financial incentive for us to do that,

1 but I think we have a broader responsibility and mandate,
2 I mean, to ensure that we're providing our customers with
3 good value.

4 And certainly from my perspective, that is
5 -- that means that they are getting gas at a fair market
6 value and they're not paying too too much for the gas
7 that they're receiving in the interview for how much they
8 have.

9 MR. KRIS SAXBERG: How do you propose
10 that -- or how would you say that customers can be
11 satisfied that Centra has, indeed, negotiated a good
12 price for them if the customers are not permitted to
13 compare the Centra price to the -- that's being paid at
14 Empress, when Centra takes receipt of the gas, to the
15 Alberta market prices at Empress?

16 MR. HOWARD STEPHENS: That comparison can
17 be made. Would take a fair amount of sophistication on
18 the part of our consumers to do that, and I think that
19 the circumstance that we put forward -- I mean, we've
20 indicated what the relative cost of the gas is going to
21 be as compared to our existing circumstance -- I mean, or
22 the prior circumstance under the Nexen agreement.

23 So, from that perspective, and to the
24 extent that the numbers are very comparable, customers
25 can take some, I mean, comfort from the fact that it has

1 gone through due process in terms of being vetted through
2 this venue, and either being approved or not approved.

3 MR. GREG BARNLUND: And I just might want
4 to add, Mr. Saxberg, that we need to bear in mind that,
5 to the extent that it was possible, we engaged in a -- in
6 a -- a very fulsome RFP process that was designed to
7 solicit the best proposals that we could possibly obtain
8 for the particular service requirements that we need to
9 meet, and that that process was undertaken with
10 stakeholder consultation, and that the culmination of the
11 process has arrived at the selection of ConocoPhillips as
12 being the contract that is most particularly suited to --
13 to meet the needs of the customers in Manitoba.

14 So I think that there's a significant
15 amount of comfort and confidence that can be placed on
16 the steps that were taken and the process to arrive at
17 this point.

18 MR. NEIL KOSTICK: And I would also note,
19 with respect to your reference to Empress, is that
20 Empress is not the liquid trading point in the Alberta
21 market, AECO is. And, to my knowledge, we have compared
22 our prices in the past to AECO when we provide forecasts
23 based on the AECO hub.

24 In order to move gas to Empress, a number
25 of things have to happen, and we have requirements of our

1 service in lieu of the fact that we lack local storage.
2 That means that we need to have flexibility built into
3 our contract that is actually very attractive and is
4 difficult to obtain in the marketplace.

5 MR. KRIS SAXBERG: Thank you for that.
6 Prior to entering into this three (3) year contract with
7 Conoco, would you agree there were numerous options
8 available to Centra in terms of its gas supply
9 arrangements?

10

11 (BRIEF PAUSE)

12

13 MR. NEIL KOSTICK: Centra acknowledges
14 that there are options and different ways to acquire gas.

15 MR. KRIS SAXBERG: Right. It -- it could
16 have purchased from multiple suppliers was -- is one
17 option.

18 MR. NEIL KOSTICK: That is a possibility.
19 I would note that we have to take into account what
20 service that we're seeking, however. It's simplistic to
21 boil it down to simply acquiring gas at an illiquid
22 point. We have to take into account the nature of the
23 service that is being provided.

24 MR. KRIS SAXBERG: And you could have
25 purchased month-to-month rather than entering into a

1 three (3) year contract?

2 MR. NEIL KOSTICK: There are different
3 options with associated risks with all those options.

4 MR. KRIS SAXBERG: And you could have had
5 one contract for base load volumes, or done base load
6 volumes on your own, and another contract for swing gas;
7 that was an option?

8 MR. NEIL KOSTICK: Given the challenging
9 nature of our swing requirements, I would suggest that it
10 would be rather difficult to acquire that type of supply
11 with the flexibility that we need without marrying it to
12 a base load requirement that is generally easier to
13 serve.

14 As a point of comparison, Centra knows
15 from experience in attempting to set up peaking deals, it
16 is almost impossible in some market circumstances to
17 enter into a peaking deal for intraday deliveries.
18 Marketers are generally only interested in providing
19 peaking arrangements if you identify those requirements
20 the day ahead.

21 I know that our Conoco contract has full
22 intraday swing flexibility. It's an optionality that
23 generally has a high price and may not even be available,
24 yet we have it at a very reasonable price, in our view,
25 relative to the major AECO index, and it's in fact at a

1 price that is completely in line with our previous
2 contracts.

3 MR. KRIS SAXBERG: What specific work did
4 Centra do to research what other LDCs are doing in terms
5 of their gas supply arrangements?

6 MR. NEIL KOSTICK: We have a general
7 knowledge through our experience of what other LDCs do.
8 We also have the ICF report, which you have included
9 excerpts of in your book of documents, that indicates the
10 practices of other LDCs. That ICF report indicates that
11 Centra has two (2) very distinct features which
12 differentiate itself from other LDCs, the first being,
13 the extreme weather volatility and variability that we
14 have in the Manitoba market. I think that's understood
15 by all.

16 The second aspect of that is the absence
17 of local storage in our market to help us track those
18 daily swings in our load requirements. I would note that
19 in the other jurisdictions that have similar weather, if
20 we look in say Saskatchewan or Alberta, those markets
21 have a significant amount of local storage in those
22 jurisdictions.

23 So with respect to our weather
24 requirements, and our infrastructure within the province,
25 we are unique, likely in North America.

1 MR. KRIS SAXBERG: So what you're saying
2 is in terms of what other LDCs are doing, all of the --
3 the analysis there is incorporated into the ICF report?

4 MR. HOWARD STEPHENS: ICF has given us an
5 indication and looked at our requirements, and has
6 identified that our load is likely -- well, is
7 significant insofar as it -- as it is the most vol --
8 well, it is the most volatile load in North America. And
9 the next runner-up is Saskatchewan.

10 So we have completely different
11 requirements than some of our counterparts down east
12 where they do sit on storage. And Union Gas would be a
13 perfect example. Consumers has the beni -- that benefit.

14 Mr. Kostick alluded to the fact that
15 Saskatchewan has a significant amount of storage as well.
16 So in order to deal with those wide swings, and that
17 tremendous weather volatility, we have to contract
18 somewhat differently.

19 MR. KRIS SAXBERG: And with respect to
20 the ICF report that you referred to, in which you
21 included in your book of documents, perhaps I could just
22 read a quote from the ICF report.

23 "With respect to the acquisition of
24 swing services, Centra is relatively
25 unique in terms of geographic

1 constraints and opportunities. The
2 lack of storage capacity in Manitoba,
3 combined with the existence of only one
4 (1) pipeline into and out of the
5 service terra -- territory limits the
6 options available to Centra, and forces
7 Centra to rely on pipeline services,
8 and supply contracts to meet swings in
9 daily load."

10 In addition to that quote, I would also
11 reference from the ICF report, ICF's opinion is that our
12 current approach is, and I quote:

13 "Likely to be more efficient and in
14 some ways more reliable than the
15 traditional LDC supply planning model."

16 MR. KRIS SAXBERG: Did Centra do any
17 specific research, or make any specific inquiries of
18 other LDCs to assess the price formulas, or prices paid
19 by those LDCs?

20 MR. NEIL KOSTICK: In the process of
21 evaluating the bids under this RFP process, we did
22 contact a number of Canadian LDCs to ask them if they
23 could share the pricing of their contracts with us. They
24 indicated that those contracts are not filed, and are not
25 publically available, but we did make that inquiry.

1 (BRIEF PAUSE)

2

3 MR. KRIS SAXBERG: And so I just want to
4 get this on the -- on the record very clearly. Your
5 point, when you say, Well we don't really have to look
6 that closely at other LDCs, is --

7 MR. NEIL KOSTICK: I don't believe that I
8 said that.

9 MR. KRIS SAXBERG: In your previous
10 answer with respect to whether -- when I asked you if you
11 did specific research on what other LDCs were doing, your
12 answer, I believe, was that we're unique. We're very
13 distinct. And so, therefore, there isn't a real -- it's
14 not that helpful to learn everything --

15 MR. NEIL KOSTICK: No, that -- that's not
16 the answer. The answer is ICF did the research. ICF
17 provided the opinion that we are unique in the market
18 based on their research. That's why we hired them.

19 MR. KRIS SAXBERG: Okay. But -- well
20 let's just get this though, Centra is unique. Centra is
21 distinctive. It's a one (1) off is what you're saying,
22 correct?

23 MR. NEIL KOSTICK: Yes.

24 MR. KRIS SAXBERG: So the service that it
25 needs, the service that it's going out to buy, here a

1 swing, is a one (1) off service? There's only one (1)
2 customer?

3 MR. NEIL KOSTICK: There are different
4 ways of addressing swing requirements. We do it through
5 our contracting approach. Other LDCs do it through the
6 use of local storage. So there are different ways of
7 doing it. We have our way of doing it.

8 MR. KRIS SAXBERG: There's no one else
9 out there though, buying the exact same type of service
10 because no one else needs it because Centra's unique,
11 correct?

12 MR. NEIL KOSTICK: We don't know. I
13 don't believe that that would be available on the
14 marketplace generally to call around and ask for the
15 sharing of contracts that other LDCs are contracted
16 under.

17 MR. KRIS SAXBERG: Now, I -- I just want
18 to go very briefly through the history of some of the
19 previous contracts that Centra has entered into and some
20 background.

21 The Alberta Energy Company or AECO point
22 of transfer in Alberta is a -- is a very liquid hub at
23 which transactions with respect to the sale of natural
24 gas take place, correct?

25 MR. NEIL KOSTICK: AECO is considered

1 liquid.

2 MR. KRIS SAXBERG: I mean, it's one (1)
3 of the biggest in -- in North America?

4 MR. NEIL KOSTICK: Certainly.

5 MR. KRIS SAXBERG: And it's really just a
6 notional point, correct?

7 MR. BRENT SANDERSON: No, it's not. It's
8 a physical valve on the Alberta Energy Company on a -- on
9 a storage field. There is a physical point at which that
10 gas trades.

11 MR. KRIS SAXBERG: And I understand that
12 the volume traded at that valve is in the range of forty
13 (40) to fifty (50) million gigajoules per day; is that
14 your understanding?

15 MR. NEIL KOSTICK: That would really
16 depend on which market indicators you're looking at.
17 Given that it is a very liquid point, there are
18 difference indices that could be looked at. There are
19 monthly indices; there are same day indexes; there are
20 next day indexes. So I actually cannot confirm your
21 number.

22 MR. KRIS SAXBERG: Yeah, I'm not looking
23 for a confirmation number, I'm just looking at order of
24 magnitude and I'm going to compare that to what Centra is
25 doing on a daily basis is buying about a one hundred and

1 fifty-five (155) gigajoules -- one hundred and fifty-five
2 thousand (155,000) gigajoules a day in that market?

3 MR. NEIL KOSTICK: That is roughly
4 correct.

5 MR. KRIS SAXBERG: And, now, the other
6 point at which gas is traded -- or another point in which
7 gas is traded in Alberta is Empress, correct?

8 MR. NEIL KOSTICK: Some transactions
9 occur there.

10 MR. KRIS SAXBERG: And it's on the --
11 Empress is located at the Alberta bor -- border with
12 Saskatchewan?

13 MR. NEIL KOSTICK: Correct.

14 MR. KRIS SAXBERG: And the level of
15 trading at Empress isn't -- doesn't compare with the
16 level of trading at AECO, however, there is a significant
17 amount of trading going on there; would you agree?

18 MR. NEIL KOSTICK: You'd have to define
19 "significant." But you'd also have to look at the nature
20 of the trading that takes place; does it have all the
21 different optionality and flexibility that there is at
22 the AECO hub; the different ways you can buy gas: Same
23 day, in -- next day.

24 There's a variety of different ways to
25 look at liquidity and it's not a simple matter of boiling

1 it down to one (1) number with respect to total
2 gigajoules traded.

3 MR. KRIS SAXBERG: But you won't deny
4 that the trading that occurs at Empress for the
5 particular products that are being traded -- purchased,
6 does result in a competitive price?

7 MR. NEIL KOSTICK: It depends on what
8 products you're talking about. I'm not sure what you're
9 referring to.

10 MR. KRIS SAXBERG: At tab 3 of the book
11 of documents that I've provided there's a NGX day ahead
12 index.

13 MS. MARLA MURPHY: Mr. Saxberg, it would
14 be helpful if you could indicate the origin of that
15 document.

16 MR. KRIS SAXBERG: Yes. It's attached to
17 one (1) of the answers provided by Mr. Stauff to a PUB-
18 IR.

19 MS. MARLA MURPHY: Thank you.

20 MR. KRIS SAXBERG: And it's also referred
21 to in his direct evidence as a footnote.

22

23 CONTINUED BY MR. KRIS SAXBERG:

24 MR. KRIS SAXBERG: Are you familiar with
25 this -- this index?

1 MR. NEIL KOSTICK: Yes.

2 MR. KRIS SAXBERG: And -- and it is
3 indicating, for the first page and a half, daily trades
4 and the number of trades is listed as a -- in a column.
5 Do you see that?

6 MR. NEIL KOSTICK: Yes.

7 MR. KRIS SAXBERG: And the prices that
8 flow from these trades, they're competitive prices,
9 correct?

10 MR. NEIL KOSTICK: For the nature of
11 what's being traded, it's reasonable to say that it's
12 competitive.

13 MR. KRIS SAXBERG: And this index is
14 also, you'd agree, it's showing the differential between
15 AECO and Empress on the far right column under weighted
16 average, correct?

17 MR. NEIL KOSTICK: That's correct, but I
18 would also like to point out with respect to the
19 statement regarding competitive -- pardon me,
20 competitive. Competitive does not necessarily mean
21 liquid at different points of the day.

22 I would note that this index does not
23 trade intraday. And I would also note that this index
24 does not trade for discreet days, on the weekend or
25 holidays. It does not trade individual for Saturday, or

1 Sunday, or Monday, which limits its use for those parties
2 that need more flexibility.

3 MR. HOWARD STEPHENS: And, Mr. Saxberg,
4 I'll add to that. We are -- we are familiar with this
5 because we used to trade on this system to satisfy our
6 day-to-day requirements. And I don't know why I'm
7 getting feedback. You know, maybe somebody's telling me
8 -- trying to tell me something.

9 We moved to the AECO index simply because,
10 I mean, it was much more liquid and much more indicative
11 of the fair market value of the gas given the sheer
12 number of trades that occur there. So -- I mean, and
13 that was part and parcel of our restructuring the
14 agreement going back some ten (10) years ago, when we
15 introduced the notion of swing gas, firm swing gas, and
16 we extricated ourselves from the potentially risky
17 venture of going out on a day-to-day basis and trying to
18 buy gas at the Empress -- on the Empress index because
19 there would be days where there were no bids up on the
20 screen.

21 And the fact that you have to buy your gas
22 on the weekends gives you no opportunity to make
23 adjustments over the course of that weekend. And in that
24 circumstance, we could potentially run into a
25 circumstances where we have either too much or too little

1 gas and very little opportunity to adjust for it.

2 MR. KRIS SAXBERG: The Canadian Gas Price
3 Reporter also reports on the AECO to Empress price
4 differential, correct?

5 MR. NEIL KOSTICK: Yes.

6 MR. KRIS SAXBERG: And that's -- what
7 that's telling you is the difference -- or the -- the
8 cost of, you could say, transportation between the AECO
9 valve and the -- and the Empress point, correct?

10 MR. NEIL KOSTICK: It's reflective of the
11 basis differential.

12 MR. KRIS SAXBERG: And Centra subscribes
13 to the Canadian Gas Price Reporter, of course, has that
14 information available to it, right?

15 MR. NEIL KOSTICK: Yes, we do.

16 MR. KRIS SAXBERG: And, as a matter of
17 fact, in the past you were using that index from that
18 Reporter to determine the price of the gas you paid,
19 correct?

20 MR. NEIL KOSTICK: It was part of a
21 pricing mechanism, and that is one (1) aspect. The other
22 aspect is, if you actually tried to use it directly in
23 the market, you have to consider what type of flexibility
24 you would have in using the Empress transport day ahead
25 index, as you've identified in your -- in your book of

1 documents here.

2 MR. KRIS SAXBERG: Centra does not take
3 ownership of the gas at the AECO point. It takes receipt
4 and ownership of -- of those molecules at Empress,
5 correct?

6 MR. NEIL KOSTICK: Correct.

7 MR. KRIS SAXBERG: And so the cost to get
8 the gas from AECO to Empress has to be calculated, and
9 that is one (1) portion of the formula that -- that has
10 to be determined when you negotiate a new gas supply
11 contract.

12 MR. NEIL KOSTICK: It's one (1) of the
13 variables and it needs to reflect the -- the movement of
14 the gas from AECO to Empress, as well as the various
15 risks that a supplier is taking on in providing variable
16 daily requirements and significant swing optionality.

17 MR. KRIS SAXBERG: Because -- and we'll
18 just stick with base loads just -- just for a moment.
19 Centra is purchasing those loads, or has in the past,
20 base volumes, based on the AECO index price, monthly
21 price; correct, to begin with?

22 MR. NEIL KOSTICK: Correct.

23 MR. KRIS SAXBERG: And that -- so if it
24 was picking up the gas at the AECO point, that would be
25 the end of it in terms of what it's paying for the

1 commodity cost, correct?

2 MR. NEIL KOSTICK: If that were the
3 nature of the supply contract, then that's correct. What
4 Centra would then have to do is incur the risk associated
5 with moving that gas from AECO to Empress.

6 MR. KRIS SAXBERG: Right. And so would
7 you agree then that if we're looking at the cost of
8 getting the gas from AECO to Empress as part of any
9 formula, that that's -- that's the transportation cost
10 that you're looking at, right?

11 MR. NEIL KOSTICK: The pricing embedded
12 in a supply contract such as ours, certainly contemplates
13 transportation from AECO to Empress, and also
14 contemplates the risks that the supplier is incurring in
15 supplying our swing optionality, and the various -- the
16 variable daily requirements that we have.

17 So we need to understand that it's for
18 transportation, and it's for the swing optionality that
19 we require, given our unique circumstances. It can't be
20 boiled down to simply one (1) item.

21 MR. KRIS SAXBERG: Well that's what I was
22 trying to parse. I was trying to split it apart.
23 There's going to be a component that is simply taking
24 into account the fact you have to move the gas from AECO
25 to Empress, and I'm calling that the transportation

1 component. That's one (1) component.

2 And I -- I think you've agreed that's one
3 (1) component of the formula, correct?

4 MR. NEIL KOSTICK: That wouldn't
5 necessarily be discretely broken out in a formula, but
6 it's an element that has to be considered within overall
7 pricing for the supply of the nature that we require.

8 MR. KRIS SAXBERG: Well -- but we know
9 that it was discretely broken out in the Nexen formula,
10 and it was discretely broken out in the -- in the
11 contract bef -- before that and -- so --

12 MR. NEIL KOSTICK: I don't agree with
13 that, no --

14 MR. KRIS SAXBERG: So you -- the other
15 component is a component that you're mentioning and, that
16 is, some payment, some premium compensation for the
17 service being provided by the gas supplier, and that's,
18 I'm suggesting to you, a different component of the
19 formula from the transportation component.

20 And -- and you're not agreeing with that?

21 MR. NEIL KOSTICK: What I'm saying is
22 that there are -- there is more than one (1) element that
23 factors into the overall pricing of the supply contract.
24 And one may think that it's discretely broken out, but it
25 may not be and tho -- those assumptions may not be

1 accurate.

2 MR. KRIS SAXBERG: Well, should the
3 supplier be getting a premium on transferring or
4 transporting the gas from AECO to Empress?

5

6 (BRIEF PAUSE)

7

8 MR. NEIL KOSTICK: At the end of the day
9 we have to RFP our requirements for the specific service
10 that we require, and the RFP process drives out the bids
11 for that specific service.

12

13 (BRIEF PAUSE)

14

15 MR. KRIS SAXBERG: So are you suggesting
16 then that when you were determining whether the overall
17 price being proposed by the vendors was fair, you're
18 taking into consideration that the vendor may be making
19 some profit or premium on the transportation of the gas
20 to Empress, and some profit, or premium, or compensation
21 with respect to the service they're providing you,
22 namely, the swing service?

23

24 MR. NEIL KOSTICK: We had no element in -
25 - in our scoring matrix to determine potential profits
that the counter-party might be making. We would hope

1 that the deal is profitable for them at some level, in
2 order to ensure they're ongoing ability to provide those
3 requirements.

4 MR. KRIS SAXBERG: Wouldn't it have been
5 optimal for Centra to just -- to break those two (2)
6 elements apart and say, Let's figure out what a fair
7 transportation fee is to get the gas from AECO to
8 Empress. Let's determine what that fair transfer is,
9 because we know we could do it ourselves, and -- and
10 let's pay no more, and no less than that fair amount for
11 the transportation, and then let's discretely determine
12 what we should pay for the other service being provided?

13 MR. HOWARD STEPHENS: Mr. Saxberg, I
14 don't think that that really is a relevant consideration,
15 because you could break it down into its core components,
16 and there may be a hundred (100) of them, or there may be
17 one (1). There may be two (2), there may be three (3).

18 What we looked at was the relative cost as
19 delivered to Empress, where we pick up the gas, as
20 compared to historic -- our historic costs and -- I mean,
21 and -- and that was the measuring stick.

22 As to how the formula is structured, quite
23 frankly, it doesn't really make a lot of difference, as
24 long as we have confidence that the assumptions that
25 we're making with respect to the specific components of

1 bulk of its gas requirements under a
2 large, long-term, sole supplier
3 contract is unusual in Canada and
4 probably all of North America."

5 Is that a statement you agree with?

6 MR. NEIL KOSTICK: That looks like a very
7 similar statement to the ICF report, so, we wouldn't
8 quibble with that assessment by Mr. Stauff.

9 MR. KRIS SAXBERG: Right, and that's
10 where I was going to take you next, at tab 13, and the
11 very first page of tab 13. It's an excerpt from the ICF
12 report, and what ICF says is -- in the second paragraph
13 under the subheading 6.3.1, the first sentence reads,
14 quote:

15 "This approach is relatively uncommon,
16 but it is not unique. Most utilities
17 retain the responsibility for meeting
18 daily swing requirements more fully
19 within the utility than has been
20 Centra's recent practice."

21 Do you agree with that statement?

22 MR. HOWARD STEPHENS: To this point in
23 time, we've been able to attract or buy a swing service,
24 which is essentially a storage service which provides us
25 with some of the same attributes as having a local

1 storage at such a low premium relative to the index that
2 we couldn't develop local storage, or any other means to
3 help us balance our load or build a business case,
4 because the costs to provide -- you know, to obtain the
5 swing service is just that much more attractive.

6 MR. KRIS SAXBERG: And I understand --

7 MR. NEIL KOSTICK: And I could also refer
8 back to the quote that I read from the ICF report earlier
9 in which ICF identifies our uniqueness, not only with
10 respect to the weather, but obviously the lack of a local
11 storage, and that necessitates our need to -- to rely on
12 the swing services through contractual arrangements in
13 order to meet our requirements.

14 MR. KRIS SAXBERG: If you turn to page
15 75, which is the next page at tab 13, and at the very top
16 paragraph, ICF says, quote:

17 "When Centra is ceding some control to
18 Nexen in the existing contract, and
19 would cede some control in the
20 replacement contract, exposing Centra
21 to a certain level of risk associated
22 with the financial viability of the gas
23 marketer, ICF believes that this could
24 be an appropriate tradeoff for the cost
25 savings that should be available to a

1 marketer operating in both upstream and
2 downstream markets. Such a tradeoff is
3 appropriate as long as a part of those
4 cost savings are passed along to Centra
5 customers." End quote.

6 Have you quantified the level of cost
7 savings that are being passed on to Centra's customers?

8 MR. NEIL KOSTICK: Well, we would have to
9 compare our current contract to the alternatives in the
10 market for a comparable service. The -- a comparable
11 service would be having local storage within Manitoba
12 that is connected to our system. We are in the process,
13 under our portfolio review, of looking at local storage
14 and identifying what that cost would be for development
15 and operation. So that would be one means that we could
16 compare our current approach.

17 Another approach would be to actually hold
18 physical storage at Empress in order to pull gas directly
19 at Empress to our receipt point. However, storage does
20 not exist at Empress, so the cost of developing storage
21 at Empress could also be identified as an option within
22 our portfolio review process. But in order to get the
23 comparable level of service that we have through our
24 contract with ConocoPhillips, those would be the types of
25 services that we would have to look at.

1 MR. KRIS SAXBERG: You have agreed on the
2 record that Conoco is making some money off of the
3 service that it's providing, and -- and I'm not -- and
4 that's fair, correct?

5

6 (BRIEF PAUSE)

7

8 MR. NEIL KOSTICK: As stated before, it
9 is our hope that the contract is of benefit to the
10 supplier as well, but we can't make any statements
11 whatsoever about whether or not they're making any money
12 on the deal.

13 MR. KRIS SAXBERG: And I'm just
14 referencing this comment made in the ICF report where it
15 says there's a tradeoff; tradeoff between some
16 opportunity and money that the marketer's going to make
17 and the savings that the customers in Manitoba are going
18 to enjoy.

19 And all I want to know is, has there been
20 any kind of quantitative analysis or research done to
21 determine if there is -- if the tradeoff is a fair one?

22 MR. NEIL KOSTICK: That's the purpose of
23 our portfolio review that we're currently engaged in. We
24 will look at all options, including other viable options
25 to serve our swing requirements.

1 Right now, our current approach, our
2 current supply contracting approach, which provides a
3 very unique swing optionality is, to our knowledge, the
4 most effective in the market.

5 MR. KRIS SAXBERG: If the -- as ICF says,
6 the tradeoff is only appropriate as long as some of those
7 cost savings that are being picked up by the marketer are
8 passed on to Centra customers.

9 Can you put on the record whe -- Centra's
10 view as to whether or not those cost savings are being
11 passed on to Centra's customers?

12 MR. NEIL KOSTICK: Can you repeat the
13 question, Mr. Saxberg?

14 MR. KRIS SAXBERG: Yeah, but not
15 verbatim. The -- the ICF report seems to be saying that
16 there is some value in the assets that are being
17 transferred to the marketer, and the marketer can seize
18 upon that value and make some money, but that's only fair
19 if some of the money the marketer makes goes to Centra's
20 customers and they enjoy some of that value.

21 Is that happening?

22 MR. HOWARD STEPHENS: Mr. Saxberg, I
23 think it's something -- all that's saying, and I'll just
24 use very plain language, there's a mutual benefit
25 associated with this. They aren't in the business of

1 providing charity.

2 I mean, and they are certainly in business
3 of try -- of trying to make a profit. I mean, I
4 certainly will not hold that against them. What this
5 indica -- I mean -- and so to the extent that there is a
6 mutual benefit, we are getting a benefit insofar as we
7 look at the pricing of this contract relative to the
8 other tenders that we had received, or bids that we
9 received, and this provides us with good value amongst
10 the other attributes that we -- we're looking for and
11 have received.

12 MR. NEIL KOSTICK: And we also know that,
13 regardless of how our supplier is meeting our
14 requirements at Empress, they are bearing a price risk
15 that we don't have to bear. And if they are contracting
16 for firm transportation on the NOVA system, we know that
17 they are bearing the risk of unutilized demand charges.

18 With respect to the fact that we don't
19 bear those risks and we don't bear the unutilized demand
20 charges for our daily requirements, our highly variable
21 daily requirements within the Alberta market, I believe
22 that we are definitely getting benefits passed on to us
23 through this -- through this arrangement. There's no
24 doubt in my mind.

25 MR. VINCE WARDEN: And if -- Mr. Saxberg,

1 if you read the next paragraph to the one you quoted in
2 the ICF report on page 75, ICF is, in fact, stating there
3 that we should go through the competitive bid process, as
4 we're now doing, which would provide the mechanism needed
5 to assure that customers are capturing a portion of the
6 efficiencies that arise from economies of scope.

7 So we're -- we're following the process
8 that was recommended by -- by ICF, and by so doing, we're
9 ensuring that the customers are benefiting from the
10 process we followed.

11 MR. KRIS SAXBERG: Thank you.

12 MR. NEIL KOSTICK: And if I could also --
13 Mr. Saxberg, if I could hearken back a couple of hearings
14 ago to something that Mr. Stauff had put on the record
15 the last time he had any significant comments on our
16 supply contracting approach and I'll quote:

17 "The advantages of the full
18 requirements approach are that is --
19 are that it provides more
20 predictability and transparency in
21 pricing. Tying prices ... [pardon me].
22 By tying prices to published indices,
23 the arrangement enables Centra, the
24 Board and customers to observe directly
25 the relationship between the prices

1 paid by Centra and market prices in
2 Alberta."

3 That is from Mr. Stauft in the 2007/'08,
4 2008/'09 General Rate Application.

5 MR. KRIS SAXBERG: At page 83 of the
6 report -- it's the - the numbers are marked at the bottom
7 of the page in the middle, ICF says in the very last
8 paragraph:

9 "ICF expects that the costs and
10 availability of the swing service will
11 be one (1) of the key issues in the
12 contract negotiations with any
13 potential supplier."

14 And I take it that's -- that was the case
15 in these negotiations; is that fair?

16 MR. NEIL KOSTICK: Given the challenging
17 nature of our swing requirements that they are intraday,
18 and that we call them intraday too, and we can adjust
19 them up or down, that was definitely a factor in the
20 proposals brought forward by the bidders and, in fact, as
21 we discussed yesterday, the number of bidders that
22 responded to the RFP.

23 MR. KRIS SAXBERG: So swing was a key
24 issue in the negotiations?

25 MR. NEIL KOSTICK: And especially from a

1 reliability perspective. ConocoPhillips provided the
2 strongest assurance, in our view, of their ability to
3 meet those swing requirements.

4 A number of the other parties had either
5 displayed or at least had given the indication to Centra
6 of either not a full willingness or full ability to
7 provide those swing requirements.

8 Conoco had no reservations whatsoever. We
9 specifically discuss with them in negotiations their
10 ability to meet intradays' to swing requirements. They
11 indicated that they could do it without hesitation. They
12 could do it on weekends. They could do it when the
13 market is closed. They could do it on holidays.

14 That generally presents a problem for most
15 market participants but Conoco demonstrated and -- and
16 has demonstrated, in practice as well, a flawless
17 execution of our requirements. So it was a very big
18 consideration through all of our process with respect to
19 this RFP.

20 MR. KRIS SAXBERG: And if you turn then
21 to page 85, what ICF is saying is -- in the final
22 paragraph on that page as well, is that:

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."

3 Do you see that?

4 MR. NEIL KOSTICK: I do.

5 MR. KRIS SAXBERG: And you agree with
6 that?

7

8 (BRIEF PAUSE)

9

10 MR. NEIL KOSTICK: Pardon me. I'm just
11 re-reading the paragraph so I can ensure I have a full
12 context.

13

14 (BRIEF PAUSE)

15

16 MR. NEIL KOSTICK: I would generally
17 agree with ICF's text there.

18 MR. KRIS SAXBERG: By -- sorry. By
19 "unconstrained market," what's being referred to is
20 unconstrained in the sense that there's no constraint on
21 the supply of gas or availability of gas; is that what
22 you take that to mean?

23 MR. NEIL KOSTICK: I -- I don't know that
24 it's necessarily appropriate for me to attempt to
25 interpret the intent behind this particular passage.

1 happen, and I thought I heard you talking about them
2 earlier today with the Chairman and -- and Mr. Peters, if
3 these type of market changes occur, Centra doesn't have
4 any flexibility under the new contract to adjust to those
5 new market determinants and -- and get a better price for
6 the swing gas service, does it?

7 MR. NEIL KOSTICK: Our contract is set
8 for three (3) years and it provides for security of
9 supply. And I should note, as we've already discussed,
10 part of that is the ability to move gas under this
11 contract from AECO to Empress without fixed demand
12 charges.

13 There are a lot of changes currently being
14 contemplated in the Alberta market. It is possible that
15 going forward, depending on various possible changes,
16 that that type of service will not be available; that
17 marketers will no longer be willing to bear those fixed
18 demand charges within Alberta, that Centra does not face.

19 By having a three (3) year contract, we
20 have locked in that benefit for three (3) years. I think
21 as we discussed yesterday, we could have a day where we -
22 - we could have potential requirements on any given day
23 for swing of, let's say, eighty thousand (80,000)
24 gigajoules.

25 We might use zero (0) gigajoules of that,

1 or we might use eighty thousand (80,000) gigajoules of
2 that. The supplier that we have contracted with is
3 responsible for ensuring they can meet that full range of
4 requirements, including if we nominate it intraday or
5 late in the day.

6 And if we don't call on any of it, they
7 have to do something with that capacity that they have.
8 If Centra were in that situation, we would be incurring
9 fixed demand charges on eighty thousand (80,000)
10 gigajoules if we didn't call on any of it. So we would
11 be incurring those incremental costs that we currently
12 don't face.

13 Under this current contract, we have
14 locked in that benefit for three (3) years. So there's
15 that benefit in addition to locking in what we feel is
16 the best supplier in the market by far, as per the
17 responses to the RFPs.

18 We cannot get complacent and simply assume
19 that on a year-to-year basis that the players are going
20 to step up every year and want to bid on these
21 requirements. They are challenging requirements. The
22 fact that we have locked in a topnotch supplier, and we
23 have the associated benefits that reduce our price risk
24 and supply risk, we feel that is a -- a great benefit to
25 our security of supply, that we have locked this in for

1 three (3) years.

2 In addition, there are the practical
3 reasons, of course, that issuing this type of contract
4 every year is costly, both in terms of time and resources
5 and -- and money. There is that cost year-to-year.

6 And, quite frankly, the term of the
7 contract dovetails very nicely with our portfolio review
8 and the expiration of our contracts in 2013. It is,
9 quite frankly, the perfect time for in -- under which to
10 be reviewing our overall portfolio requirements and
11 evaluating all potential options going forward.

12 MR. KRIS SAXBERG: When you went to the
13 market to buy swing service and lock it in for three (3)
14 years, you were in a constrained market?

15 MR. NEIL KOSTICK: What's your definition
16 of a "constrained market"?

17 MR. KRIS SAXBERG: Well, I'm just
18 following ICF's logic, here; they say when it's a
19 constrained market, the services will be less available
20 and more expensive. And you've testified, here, in the
21 last day and a half that -- that -- that -- that there
22 weren't -- there wasn't a lineup of -- of vendors
23 prepared to offer this service, which seems to me to
24 support that it was a constrained market.

25 Do you have a view as to whether it was a

1 constrained or an unconstrained market?

2 MR. NEIL KOSTICK: As we've already
3 identified, for the nature of the service that we
4 require, there aren't that many players in the market
5 that are fully capable and fully willing of supplying
6 those requirements.

7 MR. KRIS SAXBERG: Maybe I'll just make
8 it simpler. What I think ICF is saying here is that the
9 market changes, and then it lists some factors. And when
10 the market changes, the price of this service changes.

11 And all I'm asking you to acknowledge is
12 that the fact that you've locked in for three (3) years
13 means that you won't be able -- Centra won't have the
14 flexibility to adjust to the market if the market moves
15 in a way where this service becomes less expensive.

16 MR. HOWARD STEPHENS: I mean, the -- the
17 knife cuts both ways, Mr. Saxberg. I mean, and I won't
18 agree with your assessment that we're in a constrained
19 market. It is true, and I'm -- I've led evidence, I
20 think, likely for the last twenty (20) years, that there
21 are only a few counterparts that have the wherewithal to
22 provide the nature of the flexible service that we
23 provide at very competitive prices. And, I mean, in each
24 circumstance, we have had the benefit of those count --
25 counterparts in bringing forward competitive bids that

1 satisfy our requirements and at a reasonable cost.

2 So, from that perspective, I mean, it is
3 very much, as Mr. Kostick pointed out, I mean, what your
4 definition of a "constrained market" is; the constraints
5 that they're talking about in the ICF report are pipeline
6 constraints and gas supply constraints and, quite
7 frankly, I don't agree that those exist right now.

8 MR. KRIS SAXBERG: And I guess that was
9 my point, is that when you negotiated, the -- the
10 constraints, or lack thereof, may have been different
11 than they are now; things are changing in terms of
12 pipeline capacity, availability, and in terms of gas
13 supply.

14 And -- and what I'm saying is, when you
15 lock into a three (3) year contract, you're not --
16 Centra's not going to be able to avail itself of those
17 market changes.

18 MR. HOWARD STEPHENS: But those market
19 changes could be completely to the contrary, sir. I
20 mean, I think you're giving it a short shift in terms of
21 not considering the fact that the knife cuts both ways.

22 MR. KRIS SAXBERG: I know. I guess what
23 your -- but your expert here, your ICF expert -- and this
24 was the basis upon which you were contracting, was based
25 on these recommendations -- is saying that, when there's

1 an unconstrained market, the price of swing gas, that
2 service, will go down.

3 That's their opinion to you, is it not?

4 MR. HOWARD STEPHENS: Yes, and I don't
5 dispute that.

6 MR. KRIS SAXBERG: And I'm -- and you
7 seem to be saying that the market is moving in an -- to
8 an unconstrained place with respect to the supply,
9 availability of -- of gas in Alberta, and the -- and the
10 availability of space on the pipelines.

11 MR. HOWARD STEPHENS: Mr. Saxberg, you're
12 mischaracterizing the -- my -- my evidence. I have not
13 said that -- that there are constraints in Alberta. I
14 have said that the market has shifted, that the supply
15 sources are coming -- I mean, that are -- people are
16 relying upon are changing. But, I mean, in terms of
17 pipeline constraints, we certainly haven't got any of
18 those. TransCanada is sitting half empty, and there's
19 still more than sufficient gas in Alberta to satisfy our
20 requirements.

21 So, I mean, the constraints that they
22 allude to here do not exist right now.

23 MR. NEIL KOSTICK: And I would also note
24 --

25 MR. KRIS SAXBERG: And the NGT --

1 MR. NEIL KOSTICK: I would also note, Mr.
2 Saxberg, given your reliance on the ICF report, the ICF
3 report does recommend an intermediate contract term of
4 two (2) to four (4) years. We chose three (3) years for
5 the reasons identified, and it does dovetail with our
6 current portfolio review and the expiration of our US
7 storage and transportation contracts.

8 MR. KRIS SAXBERG: At page 84 of the
9 report, ICF -- the very last paragraph, ICF writes,
10 quote:

11 "The natural gas exchange offers
12 several intra-Alberta services that
13 could provide similar daily flexibility
14 to Centra, including daily purchases on
15 the day-ahead market and the daily
16 market, as well as a balancing service
17 called the 'yesterday price.'" End
18 quote.

19 Would you agree that what ICF is saying is
20 that Centra could do this swing service itself internally
21 as an alternative?

22 MR. NEIL KOSTICK: There are always
23 alternatives. I believe we've discussed our need for
24 intra-day purchases, and we would have a price risk and
25 supply risk with respect to that, if we did that on our

1 own, that we currently don't have.

2 And with respect to the specific reference
3 to the "yesterday price," that is a mechanism only
4 available in the Alberta market. It is not considered
5 liquid and prices for that balancing service can deviate
6 significantly from same day or next day gas prices within
7 the Alberta market. They could be at a huge disconnect,
8 and reliance on that service introduces a significant
9 price risk to Centra.

10 MR. KRIS SAXBERG: Okay. Thank you for
11 that. This may be a -- a good time to take the lunch
12 break.

13 THE CHAIRPERSON: Very good, Mr. Saxberg.
14 We'll see you back, then, at 1:15.

15
16 --- Upon recessing at 11:56 a.m.

17 --- Upon resuming at 1:18 p.m.

18

19 THE CHAIRPERSON: Okay. Welcome back,
20 everyone.

21 Mr. Saxberg --

22 MS. MARLA MURPHY: Mr. Chairman --

23 THE CHAIRPERSON: -- if you want to
24 resume your cross-examination?

25 MS. MARLA MURPHY: -- sorry to interrupt.

1 Fan going behind me, I can't hear you, but I'm sorry to
2 interrupt, but I did leave a couple of things with Mr.
3 Singh that perhaps I could put on the record before we
4 resume.

5 The first one is a response to PUB/CENTRA-
6 26, which was revised. Mr. Kuczek will be speaking to it
7 tomorrow, but I thought we could put it on the record
8 today. I believe it should be Exhibit Centra Number 13,
9 if that's acceptable.

10 THE CHAIRPERSON: Thank you.

11

12 --- EXHIBIT CENTRA-13: Response to PUB/CENTRA-26,
13 revised

14

15 MS. MARLA MURPHY: Secondly, there's a
16 response to the undertaking which was provided to Mr.
17 Peters yesterday regarding the information on the scoring
18 of the credit ratings on the supply contract matrix. I'd
19 suggest that be Centra Exhibit Number 14.

20 THE CHAIRPERSON: Thank you.

21

22 --- EXHIBIT PUB/CENTRA-14: Response to undertaking
23 regarding the information on
24 the scoring of the credit
25 ratings on the supply

1 contract matrix

2

3 MS. MARLA MURPHY: And one final matter,
4 Mr. Stephens this morning gave you an undertaking, Mr.
5 Chairman, to provide a rough percentage of Centra's share
6 of the TCPL volumes, and he's in a position to speak to
7 that.

8 THE CHAIRPERSON: Please.

9 MR. HOWARD STEPHENS: I can advise that
10 Centra represents 7.6 percent of the firm transportation
11 contracts on the main line with Alberta or Saskatchewan
12 receipt points, in other words, the long-haul shippers,
13 so -- and that's as of April the 1st, 2010.

14 THE CHAIRPERSON: That's quite
15 significant. Thank you.

16 Mr. Saxberg...?

17

18 CONTINUED BY MR. KRIS SAXBERG:

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

21 On October 31st, 2000, Centra signed a
22 series of three (3) annual gas supply contracts with
23 TransCanada Energy. Do I have that right?

24 MR. HOWARD STEPHENS: You're going to
25 have to give that to me again because I have a fan in the

1 background here.

2 MR. KRIS SAXBERG: I'm just going back
3 into -- back in time to October 31st, 2000, and it was at
4 that point that Centra signed a series of three (3)
5 annual gas supply contracts with TransCanada Energy.

6 MR. HOWARD STEPHENS: It's a long time,
7 Mr. Saxberg. I'll take it at face value, subject to
8 check.

9 MR. KRIS SAXBERG: And that contract was
10 later assigned to Mirant, is that right?

11 MR. HOWARD STEPHENS: That's correct.

12 MR. KRIS SAXBERG: And then Mirant
13 assigned it to Nexen Marketing.

14 MR. HOWARD STEPHENS: That's correct.

15 MR. KRIS SAXBERG: And Nexen Marketing is
16 an affiliate of a producing company -- a production
17 company, Nexen Inc., correct?

18 MR. HOWARD STEPHENS: That's correct.

19 MR. KRIS SAXBERG: And the contract --
20 contracts going back to October 31st, 2000, provided for
21 a blended formula to determine the AECO to Empress
22 transportation cost, correct?

23 MR. HOWARD STEPHENS: That's correct.

24 MR. KRIS SAXBERG: And the blended
25 formula was that it would be 70 percent of AECO plus the

1 NOVA Demand Toll, and 30 percent AECO index plus the AECO
2 to Empress basis differential?

3 MR. HOWARD STEPHENS: I'm just trying to
4 reconstruct the -- I mean, the details of that contract
5 in my mind. The 70/30 split was definitely there. I
6 can't remember whether or not we had a swing component
7 distinct -- distinctly identified relative to the base
8 load, and whether those numbers applied to the base load.
9 I would have to take that subject to check.

10 MR. KRIS SAXBERG: Okay. Perhaps you can
11 do that and if -- if we've got it wrong you can correct
12 the record.

13 And you probably recall this but, in 2001,
14 there was a cost of gas hearing wherein CAC/MSOS was
15 critical of the 70/30 split and -- and had an expert, Gia
16 deJulio, who testified about that criticism?

17 MR. HOWARD STEPHENS: What are you asking
18 me? To acknowledge the fact that she levied some
19 criticism or --

20 MR. KRIS SAXBERG: No, I -- what I'm
21 asking you to acknowledge is there was a proceeding in
22 2001 and the 70/30 blended formula was one (1) of the
23 main issues at the hearing and -- and CAC was criticizing
24 the 70/30 split, wanting the thirty (30) to be higher.
25 Do you recall that?

1 MS. MARLA MURPHY: I'm a little puzzled,
2 Mr. Chairman, by the relevance of a position CAC took ten
3 (10) years ago at a hearing. And certainly, I wouldn't
4 want anyone in this room to commit today that that was a
5 main issue at a hearing ten (10) years ago based on their
6 recollection.

7 So I'm not sure the relevance of where
8 we're going with this but I certainly object to the --
9 the framing of the question.

10

11 CONTINUED BY MR. KRIS SAXBERG:

12 MR. KRIS SAXBERG: And you may recall
13 that hearing -- I recall it better than you because I
14 just read the transcript of it -- but you'll remember it
15 was that the hearing was one (1) -- one (1) of the nights
16 -- one (1) of the hearing days we sat at night. I don't
17 know if that brings back any -- brings back a memory.

18 MR. HOWARD STEPHENS: Sorry, Mr. Saxberg,
19 I mean, I've been here talking about gas, I mean, at so
20 many hearings. I mean, they all just sort of blur
21 together.

22 MR. KRIS SAXBERG: I thought this one
23 might have stuck out just because it had some unique
24 elements to it.

25 MR. HOWARD STEPHENS: I will -- I will

1 concede the fact that the issue of basis differential
2 versus toll was always an issue.

3 MR. KRIS SAXBERG: Right.

4 MR. HOWARD STEPHENS: And so we had a
5 mixture. And it was a function of how much we can
6 negotiate. Ideally, I would want the gas supply that we
7 purchase to be an even split between the two (2). But
8 that was a function of the negotiation process and I
9 couldn't get any further than 70/30.

10 MR. KRIS SAXBERG: Right. That's very
11 fair and that's really all I was looking for. Now --

12 MR. HOWARD STEPHENS: Before I finish
13 that response, that does not necessarily mean that what
14 we did at that point in time ten (10) years ago, applies
15 to what we're doing now; we're talking about an entirely
16 different marketplace. So from that perspective there
17 are some conclusions you can draw from that from my
18 response. But there are -- I wouldn't take it to the nth
19 degree.

20 MR. KRIS SAXBERG: At Tab 7 of my
21 materials, I inserted three (3) pages of transcript from
22 the 2001 Cost of Gas Hearing I was referencing. And this
23 was -- this is evidence of Gia deJulio. And on the
24 second page within this tab, she's making an assertion --
25 and remember this is 2001 -- she's saying, for the last

1 six (6) years the differential has, for the most part,
2 been lower than the NOVA Demand Toll.

3 And I know that this is taking you back
4 nine (9) years but is that a statement you agree with?

5 MR. MARLA MURPHY: Mr. Chairman, I have
6 to object to the -- the -- well, not only the relevance
7 of the issue but the fact that this is appearing in a
8 book of documents is not an appropriate way to introduce
9 something that was stated on a record ten (10) years ago,
10 not in context.

11 The purpose of these book of documents is
12 to provide a convenient form of -- of reference for
13 people. It's -- it's supposed to be derived from the
14 material that's already on the record or is otherwise
15 properly introduced on the record. And there is no basis
16 for Mr. Saxberg to introduce the evidence of an expert
17 that CAC called ten (10) years ago in this context.

18 THE CHAIRPERSON: Where are you going
19 with this, Mr. Saxberg?

20 MR. KRIS SAXBERG: I'm -- this is all
21 about the -- the question of whether or not the
22 differential has always been lower than the NOVA Demand
23 Toll. And I'm asking -- this is simply being provided --
24 not -- I'm not putting this in for the truth of its
25 contents or as evidence, not that, in any event, we

1 couldn't refer to past transcripts that are available,
2 you know, that -- of -- of these proceedings, and
3 reference them in argument.

4 But putting that aside, I'm not
5 referencing it for the truth of its contents or the --
6 anything like that. I'm simply using it as an aide to
7 ask Mr. Stephens if he's also -- if he's in agreement
8 that the differential was lower than the NOVA Toll back
9 in 2001, and had been for some time at that point.

10 MS. MARLA MURPHY: I'd suggest to you
11 that's directly going to the truth of the statement, and
12 -- and certainly as hearsay on that basis. However, at -
13 - in any case, I don't think it's relevant. You can ask
14 Mr. Stephens about the basis differential without every
15 referring to the testimony of Ms. deJulio.

16

17 CONTINUED BY MR. KRIS SAXBERG:

18 MR. KRIS SAXBERG: Well, then we'll --
19 we'll be exactly where we just were. I'll -- I'll just
20 ask him the -- the same question, which is: In 2001,
21 would you agree that the basis differential had been
22 lower than the NOVA Toll for approximately six (6) years?

23 MR. HOWARD STEPHENS: No, I can't agree
24 with that because my memory is not that sharp, I'm sorry.
25 What I will give you is the fact that the basis

1 differential relative to the toll tended to move around
2 each other quite a bit. And certainly, in each of the
3 net -- gas -- cost of gas proceedings that we had as
4 follow-up to that, we would look at, you know, the -- the
5 basis differential relative to the toll.

6 And from that perspective, my sense of it
7 was -- I mean, and I took great comfort from the fact
8 that the two (2) were very closely aligned for the most
9 part. There were times when there were divergences, as
10 there normally are, but for the most part, one tracked
11 the other fairly well.

12 MR. KRIS SAXBERG: And that's not my
13 information at all. I understand and -- and we'll go to
14 some documents to take a look at this more carefully, but
15 for instance, in 2001, my understanding is that Centra
16 acknowledged, and you acknowledged on the record, that
17 the -- the differential was lower than the NOVA Toll such
18 that if you were to buy AECO plus -- at the index, plus
19 the differential, that would be substantially less than
20 AECO plus the NOVA Toll.

21 MR. HOWARD STEPHENS: I guess, Mr.
22 Saxberg, I'm not -- I'm not prepared to argue with you
23 with respect to the evidence I gave at that particular
24 point in time, because I can't remember what the numbers
25 were, first of all. And quite frankly, it's not relevant

1 today. That information is all dated as hell.

2 MR. KRIS SAXBERG: And I'll agree with
3 you that -- that it is dated, and -- and we'll get to
4 that. But let's talk about today then, okay. That was
5 just a snapshot of 2001 when this same issue arose in
6 front of this Board. Now let's look at today, and I'll
7 ask you the exact same question.

8 If you go to the market without the Conoco
9 contract, and you have the AECO index plus the basis
10 differential, the cost of that gas is going to be
11 substantially cheaper than the AECO index plus the NOVA
12 Toll?

13 MR. HOWARD STEPHENS: Perhaps today.

14 MR. KRIS SAXBERG: Today it's going to be
15 -- today it's going to be cheaper. You're agreeing with
16 that?

17 MR. HOWARD STEPHENS: I said perhaps
18 today. I don't know that it is, but I do know that the
19 basis differential moves around relative to the toll. So
20 you could -- it could be less.

21 MR. NEIL KOSTICK: And I think you would
22 also have to take into account, when are you buying that
23 gas. Are you buying that gas on Sunday afternoon at 4:30
24 p.m.? It's all relative.

25

1 (BRIEF PAUSE)

2

3 MR. KRIS SAXBERG: Well, I mean, you're
4 aware of where the differential is at this point in time.
5 The -- the market price at Empress versus the -- the AECO
6 point, correct?

7 MR. NEIL KOSTICK: We are. And that
8 basis differential is derived from next-day tradings.
9 For specific type of trade -- and it is actually quite
10 limited in the type of trading that occurs, that derives
11 that basis differential.

12 MR. KRIS SAXBERG: But you -- you would --
13 - setting aside the index that you're referring to, just
14 the differential that's reported in the Canadian Gas
15 Price Reporter, you'll agree that that differential is at
16 a point right now where it's pretty much as low as it's
17 ever been?

18 MR. NEIL KOSTICK: We'll agree it's at a
19 low point.

20 MR. KRIS SAXBERG: Right. And so if the
21 formula was not AECO index plus the NOVA Toll, but the
22 formula was the AECO index plus the differential, the
23 price that comes out of -- out of that formula would be a
24 lot lower, correct?

25 MR. HOWARD STEPHENS: I guess I go right

1 back to first principles again, sir, and that is the
2 schedule that we filed this morning. And if you want to
3 dissect each individual component with respect to how
4 we're going to price the gas, then, I mean, it's -- it's
5 going to be a very fruitless exercise.

6 What -- I mean, what is important here,
7 and I think that we are losing sight of, is the fact that
8 the cost of gas that flows out of the contract that we
9 are seeking the gas cost consequences for is very much in
10 alignment with prior costs.

11 So, from that perspective, it in --
12 indicates to me that if the fair mar -- far -- market
13 value for the gas as purchased at Empress, and that from
14 that perspective, our customers are getting -- I mean,
15 receiving appropriate treatment in terms of the gas that
16 we're supplying.

17 MR. KRIS SAXBERG: Now, in 2004, Centra
18 renewed its gas supply contract with Nexen. Do you
19 recall that?

20 MR. HOWARD STEPHENS: I'm sorry, Mr.
21 Saxberg, you'll have to give that to me again.

22 MR. KRIS SAXBERG: In 2004, Centra
23 renewed its gas supply contract with Nexen?

24 MR. HOWARD STEPHENS: Yes.

25 MR. KRIS SAXBERG: And that was the

1 subject of a hearing that we had September of 2004. Do
2 you recall that?

3 MR. HOWARD STEPHENS: I can't say that I
4 re -- recall the specific hearing, but I'll take your
5 word for the fact that we had one.

6 MR. KRIS SAXBERG: And that contract
7 included a firm baseload supply component with no price
8 markup over index. Would you agree with that?

9 MR. HOWARD STEPHENS: And I don't -- I
10 don't remember the specifics of it, sir, but, I mean, it
11 would have been -- you'd have to look at that agreement
12 in its entirety, the entire package with respect to the
13 terms associated with the baseload component versus the
14 swing. So I am not prepared to comment as to what the
15 premium, or if there was a discount, or what the pricing
16 mechanism was for that.

17 MR. KRIS SAXBERG: Well, maybe you can
18 just take it, subject to check. All I'm saying is that
19 the -- that 2004 contract included a firm baseload supply
20 component with no price markup or index. Maybe you can
21 just take that, subject to check?

22 MR. HOWARD STEPHENS: I'll take that,
23 subject to check, yes.

24 MR. KRIS SAXBERG: And -- and then it
25 incorporated a two (2) tiered swing supply component that

1 had a two point five (2.5) cent premium for the first
2 zero to 80,000 gigajoules, and then a five (5) cent
3 premium for swing gas above the 80,000 gigajoules. Does
4 that sound familiar, and you can take it, subject to
5 check?

6 MR. HOWARD STEPHENS: No, that -- that
7 sounds familiar. I will take it, subject to check, but I
8 will agree with you.

9 MR. KRIS SAXBERG: Now, in 2007, Centra
10 renewed the contract one (1) -- yet again with Nexen,
11 this time, for a period of two (2) years, correct?

12 MR. HOWARD STEPHENS: Yes, I'll take it,
13 subject to check, but, okay.

14 MR. KRIS SAXBERG: And the big change
15 there, from the 2007 GRA at which it was reviewed, was
16 that with respect to baseload volumes, the transportation
17 charge went from a 70/30 blended formula to a hundred
18 percent NOVA Demand Toll. Do you recall that?

19 MR. HOWARD STEPHENS: I don't recall it
20 specifically but I will take it as the case, subject to
21 check.

22 MR. KRIS SAXBERG: And at that hearing,
23 the -- the cost impact of changing from the 70/30 formula
24 to a hundred percent NOVA Toll was an issue and Centra
25 put forward an estimate that the impact would be two

1 hundred and five thousand dollar (\$205,000) increase in -
2 - in gas costs. Do you recall that?

3 MR. HOWARD STEPHENS: At that particular
4 point in time.

5 MR. KRIS SAXBERG: And I'll be fair, too,
6 bef -- before anyone gets too upset, it was a range of
7 between something like thirty-five thousand (35,000) in
8 savings to two hundred and five thousand dollars
9 (\$205,000) in additional costs that was put forward.

10 MR. HOWARD STEPHENS: Mr. Saxberg, just
11 to be clear, I mean, and I am taking this on face value -
12 - I mean, on the ba -- I mean, I'm assuming that you're
13 interpreting this correctly. We did have an incremental
14 cost associated with our baseload in that year, but that
15 incremental cost was a premium that we paid so that we
16 could have the flexibility to change our MDQ on that
17 baseload component to satisfy the broker requirements.

18 Now you're not confusing that, I hope?

19 MR. KRIS SAXBERG: No, that was in
20 addition. My understanding is that was in addition to
21 moving to the 100 percent NOVA Demand Toll.

22 MR. HOWARD STEPHENS: I don't have the
23 documents in front of me, so I can't make a comment.

24 MR. KRIS SAXBERG: But you can check
25 that. And the point that I want to make is: With

1 respect to those baseload volumes, today, if they were on
2 a 30 -- 70/30 split, in other words, you take at least 30
3 percent of the transportation costs takes into account
4 the differential, there would be a fairly large saving
5 for Manitoba consumers.

6 MR. HOWARD STEPHENS: It's -- I guess I'd
7 have to go back to my prior statement. You have to look
8 at the arrangement in its entirety and the price that's
9 being driven out by the contracts, and we have provided
10 you with that indication. So, I mean, I've gone through
11 a competitive bidding process that's provided us with a
12 number of different bids. We've done as due diligence in
13 terms of testing the price results that will be caused by
14 those agreements. And, from that perspective, I mean,
15 we've picked what we feel is the most appropriate.

16 Now we're not in a position to dictate to
17 those bidders just exactly how they're going to structure
18 those deals, and that's why I say -- I mean, you know, we
19 can harangue back and forth as to whether the basis
20 differential is a more appropriate measure -- measure of
21 that -- the value of that transport or the toll. Really,
22 that's irrelevant.

23 The long and the short of it is, the price
24 that we're going to be paying, which was derived through
25 a competitive process, an RFP process, is going to be

1 very much in alignment with what we pre -- paid in a --
2 under a prior contract, and is in alignment with the
3 index.

4 So, from that perspective, I don't think
5 we have a lot to discuss here, Mr. Saxberg.

6 MR. KRIS SAXBERG: Well, maybe there's a
7 -- a lot you don't want to discuss, but that's a matter
8 of perspective, I guess.

9 MR. HOWARD STEPHENS: No, I -- I would
10 stand -- I mean, I'd like to make -- stand -- I'd like to
11 correct you on that. I am prepared to deal with anything
12 of substance if you want to deal with that. But if you
13 want to deal with trivia, and we get stuck down in the
14 minutiae of this, we're going to be here for several
15 days, and, quite frankly, I don't think it serves anybody
16 well.

17 MR. KRIS SAXBERG: Well, Mr. Stauff, in
18 his evidence, has indicated something that's -- I don't
19 think it's related to minutiae. He said there's two (2)
20 components to the price that you pay above AECO index,
21 and only two (2) components. One (1) of them is the
22 value of the transportation between AECO and Empress, the
23 other is the premium you're going to pay to the supplier
24 for doing what they do. So I don't think I'm going into
25 minutiae when I'm examining each of those two (2)

1 elements and trying to find out if Centra negotiated a
2 reasonable price.

3 MR. HOWARD STEPHENS: Okay, sir. I guess
4 -- I mean --

5 MR. KRIS SAXBERG: No, that's true. That
6 was an editorial, but I'll just -- I'll go on.

7 Has the differential -- I think you said
8 this earlier, but I -- I'd like to know upon what you
9 base the assertion. But my information is that the
10 differential has never been higher than the NOVA Demand
11 Toll, except in very -- except way back when, in market
12 conditions that are not applicable today, and/or in an
13 anomalous type situation, very -- once in a while.

14 Is your information that the NOVA Toll
15 rises above -- sorry, that the differential has risen
16 above the NOVA Demand Toll recently?

17 MR. HOWARD STEPHENS: Not -- not
18 recently, sir, but I would -- and I did say I have seen
19 the basis differential where it did exceed the toll. And
20 you just made my argument for me. I mean, what we're
21 talking about is the fact that one (1) moves around
22 relative to the other, and you can see positive and
23 negative effects relative to the toll. So I think, I
24 mean, I stand on the basis of what I've said, and you've
25 just substantiated my argument.

1 MR. KRIS SAXBERG: Could we look at tab
2 3, then, and -- and let's look at the only evidence that
3 I am aware of that's before this Board in terms of this
4 debate we're having. And you're familiar with this NGX
5 Day Ahead Index, correct?

6 MR. HOWARD STEPHENS: I am.

7 MR. KRIS SAXBERG: And it's dealing with
8 the differential and it goes all the way back to, you
9 look at the last page, to January 2002. So we've got
10 eight (8) years of information here.

11 And firstly, are you aware on the record
12 in this proceeding of whether there's any documentation
13 that Centra has put forward or -- or that's been put on
14 the record that shows the differential between the
15 AECO/Empress points?

16 MR. HOWARD STEPHENS: Not that I'm aware
17 of, sir.

18 MR. KRIS SAXBERG: So if this Board's
19 adjudicating on the facts, this is the only information
20 we have. And so let's just go through it and look at the
21 differential.

22 If we -- if we look at Fri -- Friday,
23 January 29th, 2010, the very top number, do you see that?
24 It's Tab 3.

25 MR. HOWARD STEPHENS: Give me that again,

1 sir.

2 MR. KRIS SAXBERG: We're looking at just
3 one (1) day here, Friday, January 29th, 2010, the very
4 top number. It's minus --

5 MR. HOWARD STEPHENS: I see it.

6 MR. KRIS SAXBERG: -- point zero seven
7 (-.07). That's not just a small differential, that's a
8 negative. And what that would mean is that if you were
9 to transport your gas from AECO to Empress, not only
10 would it not cost you a cent for transportation but
11 they'd give you money; isn't that right?

12 MR. HOWARD STEPHENS: No, they won't give
13 me money in that circumstance. You don't contract and
14 receive a credit for that contract when you go to get
15 invoiced because the basis differential is less than the
16 toll. You still pay the full toll if you're contracting
17 for that.

18 What happens is, if you happen to hold
19 that contract and you can turn around and sell that
20 capacity in the secondary market, you'll get more money
21 for it.

22 MR. KRIS SAXBERG: So your --

23 MR. HOWARD STEPHENS: But I am not going
24 to get paid for it otherwise.

25 MR. KRIS SAXBERG: No, that -- and that's

1 what I meant. I'm talking about in the secondary market.

2 MR. HOWARD STEPHENS: I mean, that
3 assumes there is a secondary market associated with that
4 that is going to be attractive.

5 MR. KRIS SAXBERG: And if you, for
6 instance, if you held transportation on the NGTL firm
7 transportation, and you were -- and -- and you were
8 moving gas from AECO to Empress, you'd be paying the NOVA
9 Toll, correct?

10 MR. HOWARD STEPHENS: If we chose to buy
11 our gas at AECO and then had -- I mean, assumed
12 responsibility for that transportation then, yes, we
13 would have to pay the appropriate toll on the TransCanada
14 Alberta system.

15 MR. KRIS SAXBERG: And that begs the
16 question then as to why in the secondary market you've
17 got this anomalous situation where there's -- there's no
18 differential and that -- and my understanding is that the
19 reason for this anomalous situation is because of some
20 competitive bidding being done amongst the extraction
21 plants for the right to run the natural gas through their
22 plants and extract other gases for resale.

23 MR. HOWARD STEPHENS: Yeah, there's no
24 doubt that that is going on. They are extracting heavy
25 ends and selling those valuable byproducts --

1 MR. KRIS SAXBERG: So --

2 MR. HOWARD STEPHENS: -- into the
3 marketplace.

4 MR. KRIS SAXBERG: So they would -- if
5 you were transporting the gas and paying the NOVA Demand
6 Toll, you would allow one (1) of these extraction plants
7 to extract propane and the other gases, bituthane
8 (phonetic), I believe, or butane, and -- and then they
9 pay you some money and the amount they would pay you
10 would be above the NOVA Toll, correct?

11 MR. HOWARD STEPHENS: That -- that's
12 assuming that I can sign a contract with somebody to buy
13 gas at AECO. I mean, it's not going to reflect the fact
14 that there are dollars to be made in terms of that
15 extraction and that they don't want some great big chunk
16 of it, like most of it.

17 MR. KRIS SAXBERG: But the marketing
18 companies have no problem on that score?

19 MR. HOWARD STEPHENS: Well, quite
20 frankly, sir, that is the issue at hand right now with
21 respect to this whole issue. I mean, it has not been
22 settled yet as to who gets that benefit and whether it be
23 the producer or the marketer. And, quite frankly, I
24 mean, Conoco in this circumstance stands to win on both
25 sides of the fence because they have a presence on both

1 sides of the marketplace.

2 So, yes, they have something that's
3 allowing them to provide us with more attractive pricing
4 in another component of the formula.

5 MR. KRIS SAXBERG: And --

6 MR. HOWARD STEPHENS: So, and the end
7 result is, notwithstanding the fact that they could have
8 some opportunity to make some money here, the contract
9 that we have with them that they were prepared to offer
10 with -- offer us reflects fair market value for the gas
11 that we purchased, and I -- like I -- and I can't say it
12 enough times.

13 I mean, and the other offers that we had
14 did compare favourably or as favourably as the Conoco
15 contract, so from -- quite frankly, I think, I mean,
16 we're going to go around this horn a thousand times and
17 we're not going to resolve this to your satisfaction.

18 MR. KRIS SAXBERG: The NOVA Demand Toll
19 is about sixteen (16) or seventeen (17) cents a
20 gigajoule?

21

22 (BRIEF PAUSE)

23

24 MR. HOWARD STEPHENS: Run that by me
25 again.

1 MR. KRIS SAXBERG: The NOVA Toll, I
2 understand, is somewhere around sixteen (16) or seventeen
3 (17) cents. Is that fair?

4 MR. HOWARD STEPHENS: I'll take -- I'll -
5 - I'll take that as a given.

6 MR. KRIS SAXBERG: And -- and then I look
7 at the differentials that -- on tab 3 that we were
8 looking at. And if you turn to the second page, it goes
9 from being daily to being monthly. So, for instance, on
10 the second page, December 2009, the differential is minus
11 eleven (11) -- minus twelve (12) cents almost, do you see
12 that?

13 MR. HOWARD STEPHENS: Yes, sir.

14 MR. KRIS SAXBERG: And then if you keep
15 going down, you get into where the differential is where
16 -- is more usually the case, in the positive. So, for
17 instance, in August of 2009 the differential was about
18 one and a half (1 1/2) cents. Do you see that?

19 MR. HOWARD STEPHENS: Okay.

20 MR. KRIS SAXBERG: And -- and just so the
21 -- the Board follows me, in the secondary market then,
22 the value of the transportation from AECO to Empress is
23 about one point five (1.5) cents rather than the NOVA
24 Toll of fifteen (15) or sixteen (16) cents. Do I have
25 that right?

1 MR. HOWARD STEPHENS: Yeah, and this --
2 and that would be very similar to the toll that we're
3 paying on TransCanada right now. From Empress to the MDA
4 is on the order of fifty (50) cents, and during the
5 secondary market it's worth substantially less.

6 MR. KRIS SAXBERG: Okay. And now if I go
7 through and look at all of the different differentials
8 for the -- for the months going back in time, I only see
9 -- the only time I see the differential get above the
10 NOVA Toll is December 2005, where it's sixteen (16)
11 cents, or the same as the NOVA Toll. Otherwise, it's
12 always lower.

13

14 (BRIEF PAUSE)

15

16 MR. NEIL KOSTICK: Mr. Saxberg, perhaps I
17 could put some context around this whole discussion.

18

19 (BRIEF PAUSE)

20

21 MR. HOWARD STEPHENS: Run your last
22 question by -- by me again.

23 MR. KRIS SAXBERG: We'll just try to make
24 it a little less detail intensive. Mr. Stauff is saying
25 that, for the most part, the differential is lower than

1 the NOVA Toll. Are -- are you disputing that?

2 MR. HOWARD STEPHENS: I have not disputed
3 that. What I've said is that the two (2) move around
4 relative to each other, and we've seen extraordinary
5 circumstances where the toll is higher -- or the basis
6 differential is higher than the toll, and vice versa.

7 And that's -- and I think -- and you
8 attributed the time -- the one (1) time that you have
9 indicated that where the basis differential was higher
10 than the toll, there was an extraordinary circumstance.

11 Well, I'd submit to you that exactly the
12 same thing exists today, only it's the opposite, in the
13 opposite direction.

14 MR. KRIS SAXBERG: Okay, fair -- fair --
15 a very fair comment.

16 MR. NEIL KOSTICK: And if I could -- if I
17 could make a note regarding the data that Mr. Stauff has
18 provided and that you've provided in Tab 3, what you are
19 indicating in the far right-hand column is the -- is a
20 reflection of that transport index, and you're making a
21 statement as far as where that transport index has been
22 relative to the NOVA Toll, but you have not given the
23 NOVA Toll in this information. And you seem to be making
24 an assumption that the NOVA Toll has always been at a
25 certain level.

1 The NOVA Toll has moved over time, as
2 well. So based on Tab 3 alone, we can't make any
3 statements as far as where the bas -- where the transport
4 index has been relative to the NOVA Toll, because the
5 NOVA Toll hasn't remained static either.

6 Another thing that I would like to
7 indicate in order to put some context around this whole
8 discussion, is the information that we were looking at at
9 the time that the contracting decision was made.

10 We made -- we looked at futures pricing,
11 and a futures pricing, which took into account the AECO
12 to Empress basis differential, was utilized when we
13 analysed the different proposals. The answer to that
14 analysis is shown in PUB-16D, which clearly indicated
15 that ConocoPhillips was the most attractive proposal out
16 of those received. That is using futures prices. It's
17 purely objective. The answer in 16D is, ConocoPhillips
18 was the most cost effective.

19 In addition to that, in scoring the
20 matrix, we not only considered futures pricing, we also
21 considered historical -- the historical transport index,
22 because we know that futures pricing certainly isn't
23 perfect.

24 What that indicated was a fairly tight
25 relationship between the transport index and the NOVA

1 Toll in the last three (3) or four (4) years in advance
2 of our contracting decision.

3 So what that all means -- and when I say
4 fairly tight, within a few pennies on average. What that
5 all means is that you need to look at -- or what we did
6 is we looked at the contract proposals that we received,
7 and that includes differing pricing elements, and you can
8 argue about whether this or that transportation component
9 was used.

10 The fact is, it doesn't matter. We
11 analysed it and it boils down to one (1) bid stood out
12 above the rest, using both futures pricing and historical
13 pricing, and we made the decision based on the
14 information that we had available to us at that time, and
15 that is the test of prudence.

16 MR. KRIS SAXBERG: Good, that helps me.
17 The -- the historical pricing that you were using, you
18 indicated you were looking specifically at the
19 transportation index, and -- and -- and the analysis that
20 I've been trying to take you through, you -- you were
21 looking at that, but what you found was that -- you say
22 that the price -- the differential wasn't that great,
23 within a couple of cents, correct?

24 MR. NEIL KOSTICK: It varies all the
25 time, but over the course of the period of time that we

1 looked at, on average there was not a huge difference
2 between the two (2). Certainly, on average, there is a
3 difference.

4 MR. KRIS SAXBERG: Certainly on average
5 there is a difference? Sorry, I didn't understand that.

6 MR. NEIL KOSTICK: In other words, it's
7 not unusual for there to be a difference between the
8 transport index and the NOVA Toll.

9 MR. KRIS SAXBERG: Right.

10 MR. NEIL KOSTICK: One (1) is an index,
11 one (1) is a toll that is set. It shouldn't surprise
12 anybody that there's going to be some variance between
13 the two (2).

14 MR. KRIS SAXBERG: And you're saying --
15 your point is that it wasn't that great of a difference,
16 maybe within a couple cents, and that's different than
17 what I've been asserting to you, which is that it's a --
18 that it's a big difference, correct?

19 MR. NEIL KOSTICK: Well, as explained,
20 your Tab 3 evidence regarding the transport index does
21 not show what the NOVA Toll was in effect at that time.
22 Our analysis looked at that. You haven't provided any
23 evidence with respect to how that transport index
24 compared to the NOVA Toll.

25 MR. KRIS SAXBERG: No, I'm not asking you

1 to solve the -- who -- who's got the facts right. I'm
2 just getting it clear on the record that your -- Centra's
3 view is that the -- the differential was fairly tight,
4 only two (2) cents.

5 MR. NEIL KOSTICK: I didn't specifically
6 say two (2) cents. I said it was a matter of pennies.

7 MR. KRIS SAXBERG: Okay. And that --

8 MR. NEIL KOSTICK: And that's an
9 objective calculation based on numbers. There's no
10 subjectivity related to that. And that was taken into
11 account in the evaluation of the competing bids --

12 MR. KRIS SAXBERG: Right.

13 MR. NEIL KOSTICK: -- along with futures
14 pricing as the response to PUB 16D demonstrates, at the
15 time that we made the contracting decision.

16 MR. KRIS SAXBERG: So that analysis was
17 important to Centra in determining whether or not the
18 price mechanism that was being proposed was fair. Is
19 that correct?

20 MR. NEIL KOSTICK: We analysed the
21 various pri -- pricing mechanisms that were submitted to
22 us. That is correct.

23 MR. KRIS SAXBERG: Well, that's -- that
24 wasn't an answer to the question.

25 MR. NEIL KOSTICK: Perhaps you could

1 repeat the question.

2 MR. KRIS SAXBERG: The point is that had
3 your historic analysis determined that the differential
4 was a lot wider than you're suggesting, then you might
5 have -- it would have affected your analysis of the bids,
6 and of the -- and the prices that were being put forward?

7 MR. NEIL KOSTICK: Different data would
8 affect our analysis.

9 MR. KRIS SAXBERG: Right.

10 MR. NEIL KOSTICK: I think that goes
11 without saying.

12 MR. KRIS SAXBERG: Right. And in other
13 words, if the differential is large, you would want to
14 incorporate more of the differential into the
15 transportation formula. That's all I'm getting at.

16 MR. NEIL KOSTICK: That depends on what
17 the other elements of the proposal included. There's
18 more than simply a mechanism to reflect transportation.
19 Once again, you have to look at all elements of the
20 proposal.

21 MR. HOWARD STEPHENS: And -- and, Mr.
22 Saxberg, you have to recognize that, in those
23 circumstances, as we've discussed, that, I mean, having
24 all of it set under the basis differential may, six (6)
25 months from now, be detrimental. I mean, it can swing

1 the other way.

2 So you -- I mean, quite frankly, I mean,
3 your argument, I mean, is taking the existing
4 circumstance, which may be, you know, an unusual
5 circumstance, may not be sustainable -- and I suggest it
6 isn't -- and is making a huge -- taking a huge premise in
7 terms of driving a price change attributable to the
8 contract.

9 MR. KRIS SAXBERG: The extraction issue
10 that we talked about earlier is a new market dynamic
11 that's happened -- started happening pretty much around
12 the time you signed this new contract.

13 Is that fair?

14 MR. HOWARD STEPHENS: No. Actually, this
15 issue has been around for some period of time, even while
16 we were still purchasing gas from Nexen, and they advised
17 us that there was an issue with respect to it and it's
18 not resolved yet.

19 MR. KRIS SAXBERG: But there's a new
20 market dynamic, and that is where the differential is not
21 -- is not close, as your historic analysis showed.
22 Rather, it's a negative. That's a new market dynamic,
23 isn't it?

24 MR. HOWARD STEPHENS: Yes, sir.

25 MR. KRIS SAXBERG: Right. And you said

1 it's an -- it's an anomaly, it's -- you don't think it's
2 got legs. It's not going to stand. It's not going to be
3 around for long. It'll correct itself. Is that your
4 view?

5 MR. HOWARD STEPHENS: My experience has
6 been that the market tends to correct these aberrations,
7 yes.

8 MR. KRIS SAXBERG: And my understanding
9 is, right now, it's been an aberration from somewhere
10 beginning in somewhere in March of 2009, and -- and
11 remains -- or, at least, started trending in that time
12 period but remains an aberration to this day where it is
13 a negative.

14 MR. NEIL KOSTICK: I would just like to
15 correct you as far as interpreting trends. That
16 transport index relative to the toll has trended up and
17 down all throughout the years, and so you can't identify
18 that a trend started at a particular time -- or you can't
19 make a conclusion that, because the market for a few
20 months is trending one (1) way or the other, that that's
21 going to be something sustainable.

22 And as far as the situation that exists in
23 the market today with respect to that transport index, we
24 have talked to many, many market participants who have no
25 interest in our -- our current contracting arrangement,

1 who have indicated that nobody in the market was aware of
2 this, and perhaps that this was going to come. And
3 perhaps the best indicator of that is that futures
4 pricing certainly didn't -- didn't indicate that, either.

5 MR. KRIS SAXBERG: So if we look at tab 3
6 and we start August 2009, I'm saying, from that point on,
7 on the information that we have in front of us when we're
8 looking at the differentials, from August 2009 on,
9 forward, you're either at one (1) point -- one and a half
10 (1 1/2) cent, and then from there on you're into
11 negatives. And that situation is still existing today.
12 Do you agree with that, that that's when this anomalous
13 new market development happened, according to this index?

14 MR. NEIL KOSTICK: Well, the anomalous
15 behaviour would have been September 2009 where the index
16 first went negative.

17 MR. KRIS SAXBERG: Okay. Well, let's --
18 let's call it September. Now, at that point in time,
19 you'd already signed your contract, correct?

20 MR. NEIL KOSTICK: Correct.

21 MR. KRIS SAXBERG: Would you agree with
22 me, your contract is locked in for three (3) years, and
23 if this anomaly doesn't happen to be an anomaly, maybe
24 this -- this anomaly stays or becomes a fixture, you
25 can't do anything about it because you've locked in on

1 the assumption that the differential is very small,
2 correct?

3

4 (BRIEF PAUSE)

5

6 MR. NEIL KOSTICK: Could you repeat the
7 question, Mr. Saxberg?

8 MR. KRIS SAXBERG: I'll -- I'll try it
9 just slightly differently. I think it's the same
10 question. If you knew then what you know now in terms of
11 the differential, would that have had an affect on -- on
12 the outcome of your matrix and -- and RFP process?

13

14 (BRIEF PAUSE)

15

16 MR. NEIL KOSTICK: It -- sorry.

17

18 (BRIEF PAUSE)

19

20 MR. BRENT SANDERSON: While Mr. Kostick
21 is considering his response, given that we've been
22 discussing the evidence that Mr. Saxberg has produced in
23 Tab 3, as Mr. Kostick stated, one (1) of our concerns is
24 the fact that it's a one (1) sided analysis and that it
25 only shows the value of the monthly AECO to Empress

1 transport index, but doesn't provide any comparative data
2 as in terms of how that compares to the NOVA Demand Toll
3 for each of those periods in question.

4 And we've just gone -- our support at the
5 back table has gone and had a look and made that
6 comparison. And just to clarify the record, Mr. Saxberg
7 characterizes situations where the transport index would
8 have traded above the prevailing NOVA Firm Demand Toll at
9 the time; as an extraordinary circumstance it would be
10 very, very rare.

11 For the months in which Mr. Saxberg has
12 provided evidence as to the level of the monthly
13 transport index, almost thirty (30) percent of those
14 months, the indicated index was -- transport index was a
15 higher value than the prevailing NOVA Firm Demand Toll in
16 each of those months.

17 And then to add a little bit further sense
18 of where these compare to one another, the -- Mr. Saxberg
19 has chosen to talk about within a couple of cents, and so
20 in terms of looking at that, of those months for which
21 Mr. Saxberg has provided evidence, and then look at how
22 many of those months traded within plus or minus two (2)
23 cents of the NOVA Demand Toll, 51 percent of the months
24 indicated traded within plus or minus two (2) cents of
25 the prevailing NOVA Firm Demand Toll.

1 And so if it pleases the Board, we're
2 prepared to take an undertaking and file that comparative
3 information for the consideration of the Board, if it so
4 desires.

5 THE CHAIRPERSON: Sounds reasonable.

6 MR. KRIS SAXBERG: Yes. Thank you. That
7 would be very helpful.

8

9 --- UNDERTAKING NO. 6: Centra to provide comparative
10 information between the
11 monthly AECO to Empress
12 transport index and the NOVA
13 Demand Toll for each of the
14 periods in question.

15

16 CONTINUED BY MR. KRIS SAXBERG:

17 MR. KRIS SAXBERG: Are you ready to
18 answer the question though?

19 MR. NEIL KOSTICK: Sure. I guess your
20 question was regarding what -- what we might do in
21 today's circumstance?

22 MR. KRIS SAXBERG: Right. The market's
23 turned; there's an anomaly. In my words, it's created a
24 sale on transportation between AECO and Empress. Would
25 you take that into account in negotiating a gas supply

1 contract for your customers?

2 MR. NEIL KOSTICK: What we would do is we
3 would follow a comprehensive RFP process, and we would
4 let the market speak as far as what they might have to
5 offer for the specific service that we require.

6 It's a leap of faith, actually, that just
7 because there is an unprecedented market anomaly, that
8 that is what parties are going to offer in order to win
9 Centra's RFP. What you would essentially be assuming is
10 that parties for all volumes that Centra requires,
11 including intraday to swing volumes, that those parties
12 would be willing to provide pricing based on that
13 transport index, given that it's gone where it's never
14 gone before.

15 That is a leap of faith that nobody in
16 this room can say that those parties would -- would offer
17 that, given how the market has changed. So if we could
18 re -- re-contract today and reissue the RFP today, we
19 would not necessarily be getting the benefit of that
20 transport index.

21 It's simply a pricing mechanism, and any
22 party could include whatever they want as a pricing
23 mechanism. I think what we need to look back on is the
24 Exhibit 12 that we filed early this morning, where it
25 actually reflects the Adder that we have paid

1 historically on a forecast basis relative to AECO.

2 And I believe -- I could be wrong here,
3 but I believe this reflects our last three (3) contracts;
4 the current contract, the previous Nexen contract and the
5 Nexen contract prior to that. Under each of those
6 contracts, each of which had different pricing elements,
7 the Adder relative to AECO is virtually the same.

8 What that suggests to me is that if we
9 went back to the market today with an RFP, the bids would
10 include any mechanism that those suppliers would want,
11 but would likely reflect a premium of roughly that
12 thirteen (13) or fourteen (14) cents, because that takes
13 into account moving gas from AECO to Empress and dealing
14 with all of our supply variability, which is significant
15 in terms of requirements for intraday optionality and the
16 mitigation of supply risk and pri -- price risk that we
17 get through this contracting approach that we would not
18 have if we did not follow this approach.

19 So really what we're talking about here is
20 luck related to timing. Because I believe, and it's fair
21 to say, that if you go back and re-contract today, people
22 aren't going to be offering you, for the nature of
23 service that we require, pricing that's far below AECO.
24 I don't really see that as realistic.

25 MR. KRIS SAXBERG: Is the differential

1 factored into the formula for pricing in the new gas
2 supply contract?

3 MR. NEIL KOSTICK: The contract has been
4 filed in confidence and we are protecting the
5 confidentiality on the basis of the NAESB contract that
6 we have with ConocoPhillips.

7 MR. KRIS SAXBERG: But --

8 MR. NEIL KOSTICK: And as a result I will
9 not disclose the pricing elements contained within the
10 contract. You can make your own assumptions, however.

11 MR. KRIS SAXBERG: Well, the --
12 explaining as to whether or not -- well, let me put it
13 this way. In the past, the differential was a component
14 of the formula for pricing gas, correct?

15 MR. NEIL KOSTICK: I think what you
16 should look at is, what is our forecast price relative to
17 the AECO monthly index.

18 As I said, there could be any number of
19 mechanisms involved in the pricing of a supply contract.
20 There could be mechanisms that we've never even heard of
21 that somebody could propose to use as a pricing
22 mechanism.

23 At the end of the day, what is our
24 forecast cost relative to the AECO monthly index?
25 Exhibit 12 indicates that we're paying on par with what

1 we have paid for in the past for price from AECO that
2 serves our requirements, our specific requirements, for
3 what we require as an LDC to provide a reliable service
4 under a wide variety of weather and load circumstances.

5 MR. KRIS SAXBERG: You're making eloquent
6 closing arguments but I'm asking questions, and they're
7 pretty specific, and -- so that I can get Centra's
8 position on the record. And all I had asked was your
9 confirmation that past contracts, like the Nexen
10 contract, included the differential as a component of the
11 formula. The differential and the fact that it -- it's
12 sometimes lower than the NOVA Toll was taken into account
13 for the benefit of your customers in the past. Can you
14 confirm that?

15 MR. NEIL KOSTICK: As Mr. Stephens had
16 alluded to earlier, that variability within those pricing
17 formulas is a double-edged sword; it can move on you in
18 either direction. And I will confirm, in response to
19 your question, that previous contracts, at least the last
20 couple that I'm aware, have incorporated some form of
21 that basis differential. But it is a double-edged sword;
22 it can move on you to your benefit or to your detriment.

23 MR. KRIS SAXBERG: And you are refusing
24 then to put on the record in this proceeding as to
25 whether or not the current contract also includes some

1 recognition of the differential in some way?

2 MS. MARLA MURPHY: Mr. Chairman, Mr.
3 Kostick has already responded to that; that he's bound by
4 the terms of the confidentiality requirements, that he's
5 not able to disclose the pricing formula. That would
6 include any component of the pricing formula.

7

8 CONTINUED BY MR. KRIS SAXBERG:

9 MR. KRIS SAXBERG: And, Mr. -- Mr.
10 Stephens, the other day you said that what you're doing
11 is pretty much the same in this contract as what you did
12 before. It would be a difference if the differential
13 wasn't factored in, would it not?

14 MS. MARLA MURPHY: We're getting right
15 down the same road that we're -- we're trying to avoid
16 being on here, that the -- the pricing terms of this
17 contract are confidential and we're -- we're determined
18 to keep them that way. And -- and whether you come at it
19 from the front or the back he's still not able to answer
20 the question.

21

22 CONTINUED BY MR. KRIS SAXBERG:

23 MR. KRIS SAXBERG: But, Mr. Chairman, I -
24 - I haven't been going after trying to get what the
25 pricing terms are. I mean to -- to ask whether there's a

1 component in there wouldn't, in any way, give away what
2 the pricing component is, especially when you consider
3 that in all past contracts this component was part of it.
4 So all we're saying is, you know, have you included that
5 same component in your new contract? That's not going to
6 give away any trade secrets.

7 MR. NEIL KOSTICK: I would indicate that
8 our supplier would have, likely, a different opinion in
9 that disclosure of their pricing elements would give
10 information to the market as to their commercial
11 strategies and would potentially prejudice their future
12 negotiations with other customers or with other parties
13 with whom they may have arrangements. So to -- I believe
14 it's all tied in with the confidentiality clause.

15 MR. KRIS SAXBERG: Well, considering that
16 we've heard in this proceeding that Centra is purchasing
17 a unique product, and that it's the only customer that
18 purchases that product, I don't know how this very
19 specific, unique contract with this very specific, unique
20 pricing formula would, in any way, if it was given away,
21 be a detriment to anyone.

22 But I don't want to get into -- to making
23 the arguments on this because even if the contract was
24 produced at this late point in the hearing, it wouldn't
25 do my clients any good, you know, for the purposes of

1 this Hearing.

2 And my position on this is I -- I'm
3 prepared to submit arguments on this in -- in closing
4 submissions because --

5 MR. GREG BARNLUND: Mr. Sax -- oh, sorry.

6 MR. KRIS SAXBERG: Sorry. Because -- and
7 this -- you know, this cross-examination isn't the
8 appropriate exchange of, you know, positions on that
9 point.

10 MR. GREG BARNLUND: I'm sorry for
11 interrupting, Mr. Saxberg, but I just wanted to indicate
12 that, you know, we've tried to be as responsible if
13 possible in terms of providing information that would
14 enable the Intervenors and the Board to, in the public
15 domain, make some determination of -- of this contract.

16 The schedule that we referred to, the
17 exhibit referred to today is one (1) of those things. We
18 also have filed Information Requests that show separately
19 the -- the AECO price for -- on an actual basis, for the
20 months of November, December, January, and February here
21 under this contract, and we also have provided some
22 information in terms of the contract prices at -- that
23 arise from the ConocoPhillips contract against those AECO
24 monthly prices.

25 So we've endeavoured to provide

1 information aggregated at a high enough level that it
2 enables the Intervenors and the Board to be able to look
3 at AECO market price and look at the landed contract
4 price that would be produced under this arrangement and
5 provide some form of indication in terms of the -- the
6 differential between the two (2).

7 MR. KRIS SAXBERG: I -- I'm prepared to
8 move on to another point. And -- and the point that
9 you're making, Mr. Barnlund, we'll look at the evidence
10 that you've provided, and -- and let's -- let's test it
11 and see if it is strong enough to meet Centra's burden to
12 establish prudence.

13 If you'd turn to Tab 11 of Mr. Peters'
14 book of documents, I'm going to be referring to that
15 chart on the third page of PUB-16. Sorry, I said the
16 wrong tab. Sorry, Tab 12.

17

18 (BRIEF PAUSE)

19

20 MR. KRIS SAXBERG: Now, I see six (6) --
21 six (6) line items in this chart, Party A, B, C, E, F(1)
22 and F(2), but you'd agree with me we should remove Party
23 E because they -- they didn't provide an estimate of what
24 it would cost to provide the services that Centra wanted?

25 MR. NEIL KOSTICK: I would ask you to

1 identify what you're referring to.

2 MR. KRIS SAXBERG: Party E indicated that
3 its proposed pricing was only valid under certain
4 assumptions that were not consistent with Centra's
5 operating requirements.

6 MR. NEIL KOSTICK: Yeah.

7 MR. GREG BARNLUND: Mr. Saxberg, are you
8 referring to page 3 of 4 of the Information Request
9 PUB/Centra-16 part D filed on February 19th?

10 MR. KRIS SAXBERG: Yes. Sorry, I --

11 MR. GREG BARNLUND: Thank you.

12 MR. KRIS SAXBERG: That's what I'm
13 looking at, is the chart on the top of page 3 of 4.

14 MR. NEIL KOSTICK: Okay, I'm with you.

15 MR. KRIS SAXBERG: Yeah, and all I'm
16 saying is what it says is, although we've listed Party E
17 there, that really shouldn't be part of the mix because
18 Party E gave us a quote for something that we didn't
19 need, essentially.

20 MR. NEIL KOSTICK: It wasn't consistent
21 with our requirements, so that's right. I -- I would
22 agree with you.

23 MR. KRIS SAXBERG: So you'd agree we
24 could take Party E out of the mix and that leaves, would
25 you agree, four (4) parties that have put in bids to

1 provide the service that Centra's asked be provided,
2 correct?

3 MR. NEIL KOSTICK: You're saying there
4 would be four (4) left over?

5 MR. KRIS SAXBERG: That's right.

6 MR. NEIL KOSTICK: Based on where --
7 where you're going with the elimination of Party E, yes,
8 four (4) would be left over.

9 MR. KRIS SAXBERG: Okay. And when I look
10 at the four (4), one (1) thing that I note is that there
11 is a -- a big gap between Party A and Party B, and
12 there's an equally large gap between Party B and Party C.
13 And does that gap say to you anything about the
14 difficulty in valuing the cost of the service?

15

16 (BRIEF PAUSE)

17

18 MR. NEIL KOSTICK: Mr. Saxberg, I can't
19 say that this necessarily tells me anything of that
20 nature. I would note that, if we're talking about five
21 (5) or six dollar (\$6) gas, the value of this contract is
22 in the neighbourhood of \$700 million over the three (3)
23 years, so a gap of eight hundred thousand (800,000) or
24 seven hundred thousand dollars (\$700,000) on a \$700
25 million contract, I don't think it tells me anything at

1 all.

2 MR. KRIS SAXBERG: I don't know why you -
3 - that's exaggerating. I mean, we're talking about \$234
4 million of primary gas that you've put before this Board.
5 That's -- that's the value of this in here. It's not
6 \$700 million.

7 MR. NEIL KOSTICK: Actually, I -- I agree
8 with you. This reflects one (1) year of pricing. I
9 would agree with you, sir, \$700 million divided by three
10 (3) is what we're talking about, in that neighbourhood --

11 MR. KRIS SAXBERG: And -- and these --

12 MR. NEIL KOSTICK: -- based on current
13 prices in -- well, let's just assume five (5) to six
14 dollar (\$6) gas.

15 MR. KRIS SAXBERG: And these are the
16 differences in prices. I guess all I'm throwing out to
17 you and, you know, I just want your input on it, is, if
18 you've got four (4) parties bidding and saying that they
19 will charge you X for, let's just say it's a widget, and
20 those four (4) prices are all over the place, wouldn't
21 that be indicia that there's really not a market price
22 for this service?

23 MR. NEIL KOSTICK: I -- I really disagree
24 with the premise that the pricing is all over the place.
25 In fact, this shows how tight the pricing is and the fact

1 that the responses we got were market responsive for the
2 service that we required. If I go with your number of
3 \$230 million or so in primary gas costs, this difference
4 is -- this is really tight between all the bids. I -- I
5 don't agree with you that this is all over the map; I
6 just don't agree with that.

7 MR. KRIS SAXBERG: Well, see, I can't
8 tell whether it's tight or not because --

9 MR. NEIL KOSTICK: But you should. It's
10 all relative to the -- the top bidder.

11 MR. KRIS SAXBERG: You would need to see
12 the contract, and if the only difference is the premiums,
13 for example, on the second tier of swing, then these
14 would be large differences, would they not, for providing
15 the services?

16 MR. NEIL KOSTICK: No, I don't agree.

17 MR. KRIS SAXBERG: I mean, the difference
18 between --

19 MR. NEIL KOSTICK: This pricing reflects
20 the entire contract pricing; it's not just on swing, it's
21 not just on base load. As we've said repeatedly, you
22 need to look at the entire package, and this is a very
23 small difference for annual gas ca -- gas costs in the
24 neighbourhood of a quarter -- quarter billion dollars.

25 MR. KRIS SAXBERG: But you do agree with

1 me that there's only one (1) customer here that's asking
2 for this particular type of service in the market?

3 MR. NEIL KOSTICK: Well, we're the only
4 LDC in Manitoba, so I would agree with you that, for the
5 specific service we require, nobody else has exactly the
6 same requirements that we do, so you're correct in that
7 respect.

8 MR. KRIS SAXBERG: And at -- at Tab 11 in
9 my material, I've put the list of the vendors that were
10 provided with the RFP. Can you just confirm on the
11 record that that's what I've included here?

12

13 (BRIEF PAUSE)

14

15 MR. NEIL KOSTICK: Sorry, I didn't have
16 your book of documents open. Could you repeat the
17 question?

18 MR. KRIS SAXBERG: I just want you to
19 confirm that -- that this list that we're looking at, at
20 Tab 11 of my book of documents, is the list of vendors
21 that received RFPs from Centra.

22 MR. NEIL KOSTICK: Correct.

23 MR. KRIS SAXBERG: And so we've
24 established that four (4) of them put forward bids that
25 you could consider, correct?

1 MR. NEIL KOSTICK: Yes.

2 MR. KRIS SAXBERG: And does that, in
3 itself, not indicate that the service that you're looking
4 for is unique?

5 MR. NEIL KOSTICK: It is unique to the
6 requirements of the Manitoba market. And going back to
7 what Mr. Stauff advised a couple of hearings ago, he saw
8 there to be advantages to our contracting approach with
9 respect to price transparency.

10

11 (BRIEF PAUSE)

12

13 MR. KRIS SAXBERG: Nexen's one of the
14 groups that was provided with an RFP. My understanding
15 is that -- that that company is -- that Nexen Inc. is in
16 the process of divesting itself of Nexen Marketing. Is
17 that your understanding?

18 MR. NEIL KOSTICK: We are aware of that
19 announcement.

20 MR. KRIS SAXBERG: So, in other words,
21 Nexen Inc., my understanding is, decided that it wants to
22 focus on the production business and no longer wants to
23 do its own marketing. Is that your understanding, as
24 well?

25 MR. NEIL KOSTICK: I can't make specific

1 statements about their intentions, but we are aware of
2 the announcements -- or announcements that they have made
3 publically.

4 MR. KRIS SAXBERG: Now in terms of -- of
5 Conoco providing this service to you, they're a very,
6 very big company, and they're a producer, as well,
7 correct? The parent company is a producer?

8 MR. NEIL KOSTICK: Yes.

9 MR. KRIS SAXBERG: And for the marketing
10 company that you've entered into the -- the contract
11 with, how big of a contract is this in terms of the
12 amount of revenues that it's going to produce for Conoco
13 versus day-to-day business for that company? Is this a
14 big deal for them?

15 MR. NEIL KOSTICK: I don't know whether
16 they consider it to be a big deal or not. I can't tell
17 you.

18 MR. KRIS SAXBERG: But would you agree
19 that, if it was a very valuable piece of contract for
20 them, that they -- that that would sort of sharpen their
21 pencils in terms of what they would be prepared to accept
22 to provide the service?

23 MR. NEIL KOSTICK: I can't really speak
24 to their motivations.

25

1 (BRIEF PAUSE)

2

3 MR. KRIS SAXBERG: Now if we turn then to
4 the -- the other evidence that you're referring to, to
5 show the reasonableness of the cost consequences of the
6 contract, that would be Centra Exhibit 12?

7 MR. NEIL KOSTICK: Yes.

8 MR. KRIS SAXBERG: And I just want to
9 make sure I understand it. Under the first column,
10 average primary supply, that's not the price that Centra
11 paid for its gas in any of those months, is it?

12 MR. NEIL KOSTICK: As we've identified,
13 that is a forecast.

14 MR. KRIS SAXBERG: Yeah, that's just a
15 forecast. And as Mr. Warden said earlier, forecasts can
16 be wrong and usually are, right?

17 MR. NEIL KOSTICK: Forecasts may be
18 wrong.

19 MR. KRIS SAXBERG: Why wouldn't -- why
20 couldn't we see a document along these lines that says
21 what Centra paid at -- at the AECO index, and then at
22 Empress? That's the Adder, correct? That's part of the
23 Adder, the difference between the AECO index and the --
24 and the Empress price. Do I have that right?

25 MR. NEIL KOSTICK: I'm sorry, what are

1 you asking for?

2 MR. KRIS SAXBERG: Well -- well, let me
3 just -- you've -- you've established that second column
4 is the forecast, not the actual price you paid each month
5 under the con -- under the three (3) contracts that are
6 referenced here, correct?

7 MR. NEIL KOSTICK: Correct.

8 MR. KRIS SAXBERG: And then if we go over
9 to the Adder column, what's included within the Adder
10 number? So if you look at April '07, the very top one
11 (1) says thirteen (13) cents. What -- what makes up that
12 thirteen (13) cents?

13 MR. NEIL KOSTICK: That would be the
14 forecast -- the difference between our forecast of our
15 primary gas supply price and the forecast of the AECO 7A
16 index. It's -- it's the seven dollars and fifteen cents
17 (\$7.15) less the seven dollars and two cents (\$7.02), so
18 our forecast primary gas cost versus the AECO monthly
19 index. The difference is the Adder.

20 MR. KRIS SAXBERG: Okay. And that helps
21 me. So -- and within that -- that Adder then would be
22 the transportation costs and -- and whatever premium is
23 paid to the supplier, correct?

24 MR. NEIL KOSTICK: It includes whatever
25 pricing mechanism is in effect for the contract for that

1 period of time.

2 MR. KRIS SAXBERG: And back in April '07,
3 I know what it was, and it included a -- a transportation
4 component and a premium component, generally speaking,
5 correct?

6 MR. NEIL KOSTICK: I don't have the
7 previous pricing parameters in front of me, but as we've
8 stated, we look at it as an all-in cost as far as what do
9 we have to pay relative to AECO. And it could be sliced
10 and diced any number of ways to determine what goes into
11 that.

12 MR. KRIS SAXBERG: Now CAC/MSOS has asked
13 for information that's similar to what you've presented
14 here, except what CAC's asked for is, in that first
15 column, average primary supply, the forecast, has asked
16 for the actual unit price that was paid by Centra.

17

18 (BRIEF PAUSE)

19

20 MR. NEIL KOSTICK: The information that
21 you've just requested, that was provided in IR response
22 CAC-28.

23 MR. KRIS SAXBERG: Yeah. On -- and
24 that's on an aggregate level and -- which includes then
25 the base and the swing volumes, correct?

1 MR. NEIL KOSTICK: Correct.

2 MR. KRIS SAXBERG: And so I did -- I
3 misspoke; I should be more detailed. What we later asked
4 for was just the unit price for the base volumes for each
5 month, and that's something that Centra isn't prepared to
6 provide?

7 MR. NEIL KOSTICK: That's correct.

8 MR. KRIS SAXBERG: And the reason why
9 CAC/MSOS needs the base versus the swing is because
10 they're both priced on -- on a -- on different -- on a
11 different basis. The -- the base element is priced on
12 the monthly AECO index, correct?

13

14 (BRIEF PAUSE)

15

16 MR. NEIL KOSTICK: Baseload volumes do
17 incorporate the monthly index.

18 MR. KRIS SAXBERG: And the -- the swing
19 are usually on the daily spot prices?

20 MR. NEIL KOSTICK: Right. And that's
21 identified in the RFP document that's been filed in this
22 proceeding, the nature of pricing that we requested.

23 MR. KRIS SAXBERG: Right. So that's why
24 an aggregate number that includes a monthly index and a
25 daily index doesn't help in terms of an analysis of -- of

1 determining what the true Adder is, would you agree with
2 that, because you're mixing two (2) price indexes?

3

4 (BRIEF PAUSE)

5

6 MR. NEIL KOSTICK: Providing the
7 disaggregated information would allow for the calculation
8 of the remaining unknown variables and, as such, the
9 pricing parameters could be specifically determined. We
10 have an obligation under our NAESB contract to take
11 efforts to not disclose information that would result in
12 disclosure of the pricing specifics of any deal.

13 MR. KRIS SAXBERG: And -- but if we set
14 aside the confidentiality agreement, if we just set it
15 aside, the information that we're asking for is what
16 you're trying to get after in this, on a forecast basis.
17 It's -- but it's the actuals, correct?

18 And this, I'm pointing at Centra Exhibit
19 12. That's what you're trying to accomplish.

20 MR. NEIL KOSTICK: We can give you
21 actuals. We provided the actuals in CAC-28 on an
22 aggregate basis --

23 MR. KRIS SAXBERG: No --

24 MR. NEIL KOSTICK: -- and that will allow
25 you to compare what we're paying per gigajoule relative

1 to any index that you desire.

2 MR. KRIS SAXBERG: No, but that's not a
3 fair comparison because you have to split the indexes,
4 the monthly index from the daily index. You'd have to
5 split them and do two (2) analysis of that sort and then
6 it would be fair.

7 MR. NEIL KOSTICK: But, as we've
8 indicated, you can't look at elements in isolation. We
9 evaluate this and look at this on an all-in cost,
10 baseload and swing, whatever pricing mechanisms are used.
11 What anybody should be concerned with is, what are we
12 paying at the end of the day per gigajoule in aggregate
13 relative to any index that anybody wants to compare to.
14 And you have the ability to do that.

15 MR. KRIS SAXBERG: But would -- would you
16 not agree that this Exhibit 12, though, is not -- is
17 going to be misleading information? If you're comparing
18 the aggregate average primary supply -- and even if you
19 put the actual in there -- you're comparing it to the
20 AECO, is that the monthly index?

21 MR. NEIL KOSTICK: That is the monthly
22 index.

23 MR. KRIS SAXBERG: But part of the
24 average primary supply is -- is daily index, gas.

25 MR. NEIL KOSTICK: You can compare our

1 actual cost to the daily index if you like; you have that
2 option. We have always provided our costs relative to --
3 or our aggregate costs, and there is even more of an
4 imperative to do it in that manner due to the requirement
5 for confidentiality of the pricing terms.

6 You can take our average cost per
7 gigajoule and compare it to any index you want. You can
8 compare it to the monthly index, the daily index, it --
9 it doesn't matter. We will provide you with the average
10 price per gigajoule.

11 And in past hearings that's what's been
12 requested, is what is our actual cost aggregated. And
13 then there's usually a request to provide AECO monthly
14 index pricing in order to compare the AECO monthly index
15 to our average primary gas costs. Nothing has changed
16 here.

17 MR. KRIS SAXBERG: The information that -
18 - that Mr. Stauff has asked for to do his analysis is
19 information that's easily obtainable and -- and that
20 Centra, in fact, keeps track of on a regular basis; is
21 that fair?

22 MR. NEIL KOSTICK: Could you specify
23 which information you're referring to?

24 MR. KRIS SAXBERG: Well, if you turn to -
25 - to Tab 3 -- sorry, Tab 4, page 10, this is where Mr.

1 Stauff's talking about the retrospective review. And
2 from line 7 to line 15 he's outlining the information he
3 would need for the analysis that he'd like to see done at
4 some later point in order to fully assess the gas cons --
5 cost consequences of the new contract.

6 And the question that I have for you is:
7 The information that he's asking for is information that
8 -- that Centra can track and easily and provide?

9 MR. NEIL KOSTICK: From my recollection
10 of what was re -- requested here, is that it actually
11 requests daily information. So, in other words, say of
12 three hundred and sixty-five (365) days worth of data
13 would actually be reasonably or fairly onerous to be
14 compiling that information for the purpose that Mr.
15 Stauff has indicated.

16 In addition, we would have concerns that
17 providing the more detailed information, as I've already
18 indicated, would allow for the reverse engineering of the
19 pricing parameters of the contract.

20 I go back to, again, what has always been
21 requested and what we have always provided, is the AECO
22 monthly index compared to our all-in average unit price
23 of primary gas. That's what's been provided in the past
24 and we'll continue to provide that. Nothing has changed
25 here.

1 MR. KRIS SAXBERG: I guess I was just
2 wanting to get away from the argument component and just
3 find out whether or not it was possible, if the Board
4 happened to -- to agree with Mr. Stauff, whether it would
5 be possible for Centra, without much exertion, to be able
6 to keep track of the information that Mr. Stauff is
7 looking for.

8

9 (BRIEF PAUSE)

10

11 MR. HOWARD STEPHENS: You're basically
12 talking about whether or not we can accommodate the
13 information request that Mr. Stauff is looking for so he
14 can do a retrospective review on the contract. I think I
15 made comments with respect to the appropriateness of that
16 yesterday. Those comments still stand.

17 MR. KRIS SAXBERG: Yeah. No, and I have
18 your position. You -- you don't think that a
19 retrospective review is of much help, and you don't like
20 the idea. But my question is just simply to find out
21 whether it could be done, not whether or not, once it's
22 done, it has value.

23 MS. MARLA MURPHY: Mr. Kostick has
24 answered that. He just told you that that would be
25 onerous to do that on a daily basis.

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CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Well, didn't ask whether -- well, he's misunderstanding then, because I -- I don't want the retrospective review to be done on a daily basis. There's going to be information that's daily information that has to be maintained, it's as simple as that, the daily spot price.

(BRIEF PAUSE)

MR. NEIL KOSTICK: It is possible. I would also note that a number of the pieces of information that I believe Mr. Stauff is requesting are available to him, I believe.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Did -- just in terms of the -- sorry. There's two (2) reasons why Centra's resisting producing the information that we've asked for. One (1) is the reverse engineering of the -- of the formula, and we're certainly not disputing that that's what -- what would be the result.

But the second then is -- is Mr. Stephens'

1 comments that the retrospective review has limited
2 application, because markets change in the future. So I
3 understand that. But I want to ask some questions about
4 the non-disclosure of the -- of the gas supply contract
5 and the basis for it.

6 Did Centra discuss with Conoco the
7 possibility of the contract having to be reviewed
8 publicly?

9 MR. NEIL KOSTICK: We identified to them
10 that the contract would be vetted before our regulator,
11 and that may or may not include public disclosure of the
12 contract.

13 MR. KRIS SAXBERG: And, based on past
14 experience, you may have said to Conoco, Based on the way
15 we've been doing things in the past, it's quite probable
16 that the Board would want to see the contract. Did you
17 make -- did you advise them of that?

18 MR. NEIL KOSTICK: No, I did not advise
19 them of any probabilities.

20 MR. KRIS SAXBERG: And when I say you,
21 I'm -- I'm meaning Centra, not you personally.

22 MR. NEIL KOSTICK: Centra did not.

23 MR. KRIS SAXBERG: But when Conoco signed
24 the contract, they would have been aware that there was a
25 chance it's going to be reviewed in a public forum. You

1 made them aware of that?

2 MR. NEIL KOSTICK: They were aware. They
3 indicated they're -- they wanted to keep the pricing
4 confidential, but they're aware that it's subject to the
5 order of a Board, and that is contained within the NAESB
6 contract itself, which the parties are aware of.

7 MR. KRIS SAXBERG: The contract doesn't
8 have any provisions that says this contract terminates if
9 the Board requires that it be reviewed publicly?

10

11 (BRIEF PAUSE)

12

13 MR. NEIL KOSTICK: I'm not aware, and I'm
14 not a lawyer, as far as what potentially could happen and
15 what action Conoco might take if -- if there's a move to
16 disclose the contract publicly. However, we did read
17 into -- or we did provide in an IR response Conoco's
18 position. There was a question, and I will actually read
19 what Conoco had sent to us which was reflected in that
20 IR. I don't have the IR number at hand at the moment.
21 But what they specifically indicated to us is, and I
22 quote:

23

24

25

"Disclosure of the contract to third
parties would result in those parties
having direct knowledge of information

1 that is intrinsically commercial and
2 competitive in nature. Competitors to
3 ConocoPhillips, and parties with whom
4 ConocoPhillips might have commercial
5 arrangements, would have access to
6 contract information that could
7 reasonably be expected to result in
8 commercial prejudice to
9 ConocoPhillips." End quote.

10 MR. KRIS SAXBERG: But no one from Conoco
11 has indicated to Centra that they would try to get out of
12 the arrangement if the contract was publically disclosed?

13 MS. MARLA MURPHY: Mr. Saxberg, I -- I
14 think we've made it clear on the record that the
15 confidentiality provisions stem from the NAESB, a copy of
16 which is attached to the RFP. Mr. Peters directed us to
17 the particular paragraph yesterday, 14, 10, whatever is
18 was.

19 So that's -- that's the provisions that we
20 rely on and that Conoco relies on in terms of
21 confidentiality.

22 MR. KRIS SAXBERG: Okay, so that's the
23 only confidentiality provision that's applicable?

24 MS. MARLA MURPHY: That's the only
25 written term in the contract. Mr. Kostick has provided

1 you with information. It's in the IR CAC-1 and 2 and
2 PUB, going to test me, 64 or 68.

3 There are -- those are spelled out
4 already, so I think our position with respect to that is
5 quite clear on the record.

6

7 CONTINUED BY MR. KRIS SAXBERG:

8 MR. KRIS SAXBERG: And can you answer the
9 -- the question as to how the information on the -- on
10 the formula would be commercially sensitive for Conoco
11 when this is a one-off type arrangement?

12 I mean, where -- wherein you said Centra's
13 the only customer buying this particular product, why
14 would there be commercial sensitivity to the formula?

15 MR. NEIL KOSTICK: I can't speak for
16 Conoco. However, my understanding or interpretation is
17 that, given that the pricing formula is -- the pricing
18 formula may indicate commercial strategies of
19 ConocoPhillips or may indicate to other parties,
20 including other parties with whom it might have other
21 commercial arrangements, or potential customers, or
22 existing customers, by providing that pricing publically
23 it could cause them difficulty in terms of their
24 arrangements with other entities or with existing
25 customers or future customers.

1 That would be my general understanding,
2 but I can't speak specifically to -- to ConocoPhillips'
3 precise rationale.

4 MR. KRIS SAXBERG: Centra indicates that
5 it has its own concern that disclosure might impact
6 future negotiations, is that correct?

7 MR. HOWARD STEPHENS: Mr. Saxberg, I
8 think I addressed this yesterday in terms of if we -- the
9 terms of these arrangements are made publically
10 available, it sets, if you will, the market for Manitoba
11 business.

12 And from that perspective, if we are
13 getting a discount of two (2) cents or it's a premium of
14 plus two (2) cents, I mean, the incumbents have an
15 opportunity to look at what was acceptable to us in prior
16 periods, and, I mean, it will restrict their --
17 potentially restrict their bids in that context.

18 So from that perspective, we're not doing
19 our customers any favours by bringing that information or
20 making it public. Let -- we would prefer that the
21 suppliers that are going to come forward, provide the
22 service that we're asking for, take a fresh look at it, I
23 mean, and do -- I mean, start from the ground up and say,
24 okay, now how can we provide this service.

25 And I think I'd like to add to that.

1 You've made -- you've made much of the fact that we've
2 only got, you know, I mean, based upon some arithmetic,
3 four (4) counterparts that have provided what is a very
4 specialized service.

5 And what I'd like to point out is the fact
6 that, I mean, it is a very specialized service and our --
7 the arrangement that we had with Nexen was a mutually
8 beneficial arrangement where they had a mix of assets.
9 And I think I went through this in terms of justifying
10 the Nexen contract, so I'll use it all over again.

11 They have a -- a specific set of assets
12 that allows them some benefits, that we're not aware of,
13 that will provide them a benefit over and above the
14 dollars they make under this contract. And the same
15 thing will apply to the other, I mean, parties that made
16 bids that met our criteria, but there certainly is a
17 short list of those and ConocoPhillips happens to be one
18 (1) of them. And they have, I mean, a mix of assets,
19 obviously, from our -- their perspective that fits very
20 nicely in terms of trying to serve up our requirements at
21 a very competitive price.

22 Now what those things are, I don't know.
23 I don't know what's underpinning that. What I do know is
24 that, I mean, I require a firm transport on the Alberta
25 system and, I mean, and I want, I mean, an index, I mean,

1 as it's been laid out in the RFP. I mean, and those were
2 things that were very clearly defined, and we've gone
3 through the commercial process, I mean, and we've got
4 more than three (3) vendors, I mean, that have provided
5 us with a quotation. So from that perspective -- from an
6 acquisition perspective, I think we've more than met the
7 challenge of prudence.

8 MR. KRIS SAXBERG: You --

9 THE CHAIRPERSON: I think, Mr. Saxberg,
10 we'll take our break right now.

11 We certainly understand Mr. Saxberg's
12 interests and we equally understand Centra's position, as
13 well. We'll take the break now.

14

15 --- Upon Recessing at 2:48 p.m.

16 --- Upon Resuming at 3:08 p.m.

17

18 THE CHAIRPERSON: Centra has talked about
19 weather variability. I guess we're proving it once
20 again. I don't imagine there's a lot of gas being sold
21 in Manitoba today. I wouldn't think so.

22 On the matter that we've just been
23 discussing, just a couple of points: As Mr. Saxberg just
24 pointed out, he's one (1) of the few parties in this room
25 that isn't cognizant of the arrangement that was made

1 with the new supplier filed in confidence with this
2 Board.

3 We understand your -- the points that
4 you're making, Mr. Saxberg, and at the same time we
5 understand the perspective of Centra. And we're hoping
6 in your final argument you may have some suggestions for
7 approaches and solutions and things of that ilk.

8 So do you want to carry on with your
9 cross-examination now?

10 MR. KRIS SAXBERG: Yes, thank you, Mr.
11 Chairman. And I will be caucusing with my client and our
12 consultant and will try to present a range of options
13 that'll satisfy us and we'll deal with that in closing.

14 The next few areas that I have to question
15 on are non-contentious so hopefully I'll be done in the
16 next ten (10) minutes or so and then give Ms. Ruzycki an
17 opportunity to ask a few questions, because I understand
18 she has to leave by 3:35.

19

20 CONTINUED BY MR. KRIS SAXBERG:

21 MR. KRIS SAXBERG: So on delivered
22 service, if you'd just flip to Tab 14 of my book of
23 documents, there's an excerpt from PUB/CENTRA-3(a),
24 that's the attachment. And this is outlining the design
25 peak day requirements.

1 Do I have it right that the amount of
2 delivered service has increased considerably as an
3 element of Centra's design peak day requirements?

4 MR. NEIL KOSTICK: It has increased
5 relative to the -- the previous two (2) or three (3)
6 years.

7 MR. KRIS SAXBERG: And it's -- it's right
8 now at 15 percent of the peak day, which I understand was
9 some very cold day back in 1996, correct?

10 MR. NEIL KOSTICK: Yeah, that's right.
11 From 1996 is our -- the basis of our design peak day.

12 MR. KRIS SAXBERG: And I just wanted to
13 clarify, for the record, that that 14.9 percent of
14 delivered service is not uncontracted and -- and that it
15 is an arrangement that's made in advance of the -- the
16 winter as an exchange peaking day arrangement?

17 MR. NEIL KOSTICK: It is arranged in
18 advance; it is not uncontracted, but it can take various
19 forms as far as the type of arrangement.

20 MR. KRIS SAXBERG: Is this one of those
21 arrangements wherein a party, a counterparty, will
22 provide the delivered service to Manitoba when you need
23 it, if it's ever as cold as it was on that day, up to
24 72,000 gigajoules, and, in return, Centra, at some other
25 later point, will return the gas to that counterparty?

1 (BRIEF PAUSE)

2

3 MR. NEIL KOSTICK: We have been able to
4 execute that type of arrangement in -- in other years.
5 This particular winter, we do not have an arrangement as
6 you have described.

7 MR. KRIS SAXBERG: You mean to say this
8 past winter you didn't have that arrangement?

9 MR. NEIL KOSTICK: Right, the '09/'10
10 winter.

11 MR. KRIS SAXBERG: And so there's a
12 different form of -- of pre -- of contracting that's done
13 for the peaking service?

14 MR. NEIL KOSTICK: Yeah. This is based
15 on market conditions as far as what parties are willing
16 to provide, given existing basis differentials in the
17 market. As a result, we did not execute an exchange-
18 related peaking deal for this past winter, recently
19 concluded winter. It took the form of more of a
20 traditional style of peaking arrangement in which there's
21 simply a -- a prearrangement for a party to commit to
22 providing firm delivery under certain pricing terms.

23 MR. KRIS SAXBERG: And that can happen --
24 that cold day can happen on the weekend or on a holiday,
25 right?

1 MR. NEIL KOSTICK: Yes.

2 MR. KRIS SAXBERG: But in advance, you'd
3 negotiate an arrangement with a counterparty, or several
4 counterparties, so that you'd be able to phone them on
5 that day and say, We -- we need that peaking gas,
6 correct?

7 MR. NEIL KOSTICK: Well, it actually is
8 not that easy to arrange. Our intent was to put a
9 peaking arrangement in place that would provide for
10 intraday deliverability; in other words, we can call on
11 it on the day that we need it, but the market did not
12 support that type of arrangement.

13 Counterparties are concerned about their
14 ability to deliver on an intraday basis. As a result,
15 the peaking arrangements that we have put in place are
16 for next day. In other words, we have to make the call a
17 day in advance, and early in the morning, for that
18 matter. So we have to essentially predict that the day
19 ahead will be a -- a peak day or a very cold day.

20 So it just underscores the fact that
21 intraday deliverability is something not that easy to
22 come by in the market.

23 MR. KRIS SAXBERG: Okay. And why is it
24 that delivered service costs are forecast at Michigan
25 prices?

1 (BRIEF PAUSE)

2

3 MR. NEIL KOSTICK: That rationale was
4 provided in an IR, and I believe I'll have to look up the
5 IR to -- to provide that to you.

6 MR. KRIS SAXBERG: Thank you. I just
7 want to talk about your changes to the -- to the level of
8 your assets and supply. You'd agree that -- well, you've
9 -- you've reduced the amount of FT on TransCanada by
10 20,000 gigajoules a day, correct?

11 MR. NEIL KOSTICK: We made adjustments to
12 our portfolio at the start of the 2008/'09 gas year, and
13 that included reducing TransCanada contract levels by
14 40,000 gigajoules per day and contracting with a third
15 party for 20,000 gigajoules a day for eight (8) months of
16 the year, so that the effective deliverability for
17 primary gas in those eight (8) months would have been a
18 hundred and eighty thousand (180,000) per day.

19 MR. KRIS SAXBERG: Sorry. Together it's
20 a hundred and eighty-three thousand (183,000)?

21 MR. NEIL KOSTICK: Yes, including the
22 small portion of the 3,000 gigajoules per day for the
23 Saskatchewan delivery area.

24 MR. KRIS SAXBERG: And do you have higher
25 base load maximums in the new contract?

1 MR. NEIL KOSTICK: The new contract has
2 provision for higher maximum thresholds.

3 MR. KRIS SAXBERG: And does that mean
4 then that you will use less swing gas?

5 MR. NEIL KOSTICK: It's variable month-
6 to-month. It's all based on our load curves and how much
7 we feel we can baseload without having days where it's
8 warmer than usual, where we'd be long supply, where we'd
9 be faced with the prospect of selling gas potentially
10 that we have in excess at Empress. So it depends on the
11 time of the year, and it's based purely on our load
12 curves.

13 MR. KRIS SAXBERG: And there's a higher
14 reliance on storage and supplemental gas in this new
15 arrangement?

16 MR. NEIL KOSTICK: It depends on the
17 weather. Given that we have reduced TransCanada contract
18 levels, we do protect storage levels through seas -- use
19 of seasonal delivered service in the months of November,
20 December and January. We may, depending on the weather,
21 wind up pulling more out of storage than we would have if
22 we had kept the TransCanada levels at their previous
23 levels for, you know, the duration of the winter.

24 MR. KRIS SAXBERG: That's just, simply
25 stated, taking out some of the padding that you have with

1 respect to your storage.

2 Is that fair?

3

4 (BRIEF PAUSE)

5

6 MR. KRIS SAXBERG: Does it increase the
7 chances of using more storage under this new arrangement?

8

9 (BRIEF PAUSE)

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11 MR. NEIL KOSTICK: It increases the
12 likelihood of using a greater amount of storage, given
13 that the amount of storage that we use in any given year
14 is weather driven. But all else being equal, we would
15 expect to pull more from storage.

16 MR. KRIS SAXBERG: Thanks. I should have
17 said all else being equal. So these changes to the mix
18 of transportation and supply assets, in Centra's view,
19 have achieved a overall reduction in costs?

20 MR. NEIL KOSTICK: Yes.

21 MR. KRIS SAXBERG: And is there -- is
22 there any -- has there been a quantification of that or
23 any discreet analysis of how these changes have -- have
24 reduced costs?

25 MR. NEIL KOSTICK: The savings related to

1 reduced TransCanada levels are easily quantifiable simply
2 by looking at the reduction in the contract levels versus
3 the existing tolls at the time. As far as an explicit
4 number, what has been put on the record in -- in the last
5 hearing, which reflected move -- transitioning from the
6 '07/'08 portfolio to the '08/'09 portfolio, was a benefit
7 of several million dollars. I don't recall the exact
8 number offhand, but there was a benefit to reducing the
9 fixed charges.

10 MR. KRIS SAXBERG: I -- I just wanted to
11 know if there's a -- if Centra has a practice of when it
12 realigns its -- its mixture, and tweaks here and there as
13 to whether they, you know, do a comparison of -- of
14 whether the tweaking is -- is making things better, and
15 if so, by how much.

16 Is that something that's possible to do?

17 MR. NEIL KOSTICK: We look at our
18 portfolio on an ongoing basis, and evaluate whether, on a
19 forward basis, there are changes that can be made that
20 would result in a more cost effective overall portfolio.

21 MR. KRIS SAXBERG: Thanks. And just in
22 terms of the segueing then into the blank page analysis
23 that's just being begun, or the -- the review of -- the
24 portfolio review, we'll say, you're mentioning Centra was
25 talking about a stakeholder conference, and has -- has

1 there been any thought to allowing Intervenors to provide
2 written commentary from consultants on the proposal
3 that's going to be tabled before the stakeholder
4 conference?

5 MR. NEIL KOSTICK: We will not be
6 bringing -- or our intention at this point is not to
7 bring a proposal to the stakeholder conference. We
8 intend to have a good amount of analysis done to provide
9 a basis for discussion. But the intent is not to have a
10 plan to bring to the -- the technical conference.

11 MR. KRIS SAXBERG: Will there be a point
12 where the stakeholders could see in writing what Centra's
13 options are, and -- and -- and where their leanings may
14 be, so that the stakeholders would be able to provide
15 some input on a -- you know, on a knowledgeable basis?

16 MR. NEIL KOSTICK: That would be the
17 intent of the discussion paper that we would provide in
18 advance of the stakeholder technical conference.

19 MR. KRIS SAXBERG: Sorry, and that's -- I
20 guess that's -- I -- I was using the wrong terminology.
21 What -- what I was meaning to ask was, when the
22 discussion paper comes out, does Centra view it would be
23 beneficial to the process if stakeholders were allowed to
24 prepare a written response so that the issues could be
25 discussed and canvassed informally at a technical

1 conference?

2 MR. NEIL KOSTICK: We're open to that
3 sort of suggestion.

4 MR. KRIS SAXBERG: Thank you for that.
5 And just in terms of the exchange rate, PUB-18 indicates
6 that there would be a decrease of 1.84 million in ga --
7 in the gas cost forecast if the forecast was changed to
8 use actual exchange rate up until now, and then parity
9 going forward to October 31st, 2010.

10 Do you recall that information being
11 provided by Centra?

12

13 (BRIEF PAUSE)

14

15 MR. BRENT SANDERSON: Can you refer me to
16 the appropriate part of the response where I can find the
17 \$1.8 million figure?

18

19 (BRIEF PAUSE)

20

21 MR. BRENT SANDERSON: Yes, I see that.

22 MR. KRIS SAXBERG: Okay, thank you. And
23 would you agree that that approximate \$2 million all
24 relates to supplementary gas and the -- the transport and
25 storage assets in the United States, correct?

1 MR. BRENT SANDERSON: Generally speaking,
2 yes.

3 MR. KRIS SAXBERG: And so if you compare
4 the \$2 million change by adjusting the -- the exchange
5 rate to those assets, the \$2 million, you'd agree, is a
6 significant adjustment or alteration, has a material
7 impact in the forecast?

8 MR. BRENT SANDERSON: It's less than 1
9 percent of our purchase gas cost forecast, so I guess
10 that's a subjective determination. So in -- in my
11 interpretation, that's not a material -- there's a number
12 of variances that you're exposed to in your gas cost
13 forecast, and in light of our overall purchase gas cost
14 forecasts, in my opinion, that's not -- that's not that
15 material, given -- knowing -- with an understanding of
16 many of the other variances to which we're exposed.

17 MR. KRIS SAXBERG: Thank you for that.
18 Those are all my questions.

19 THE CHAIRPERSON: Thank you, Mr. Saxberg.
20 Ms. Ruzycki, we're just in time for Just
21 Energy.

22

23 CROSS-EXAMINATION BY MS. NOLA RUZYCKI:

24 MS. NOLA RUZYCKI: Just in time, that's
25 right. Well, I'll be very quick. I only have two (2)

1 questions.

2 Mr. Kostick, I think along the line that
3 Mr. Saxberg was just asking you, the blank plan or for
4 the stakeholder technical consultation, do you have any
5 idea around the time frame when that consultation will
6 occur?

7 MR. NEIL KOSTICK: It is -- it's not firm
8 yet as far as the date. However, we do expect that in
9 2011 -- in the earlier part of 2011 we -- we hope to have
10 a discussion paper.

11 I -- I preface all this on the
12 understanding that, depending on what our analysis shows
13 as we move through the months, that may dictate that
14 additional analysis is required, and that may affect the
15 schedule to a certain degree.

16 But our anticipation is that a discussion
17 paper would be available in the earlier part of 2011.
18 And then, depending on what type of, you know,
19 participation is contemplated upon delivery of that
20 discussion paper, the technical conference would be
21 scheduled to some -- at some date thereafter.

22 They had initially cont -- contemplated a
23 month after the discussion paper is -- is made available,
24 but it is subject to change depending on how things are
25 shaping up, essentially, as the months move on.

1 MS. NOLA RUZYCKI: Thank you. And my
2 final question is: I'm just wondering if Centra is
3 concerned at all with the fact that you've contracted
4 with just one (1) party for the supply agreement given
5 that their credit rating is not -- the -- it's -- it's in
6 the middle ranges?

7 MR. NEIL KOSTICK: We feel that the
8 credit rating is important as far as the overall health
9 of the -- of the company. I believe, and I don't have it
10 in front of me but that it was -- actually, I do have it
11 -- at least for the parent it was the -- the second
12 highest credit rating among the bidders and I think that
13 A-1 credit rating, I'm not a credit expert but is a -- is
14 a reasonably -- is a reasonably strong credit rating.

15 One (1) thing that I think is important to
16 note with respect to our credit risk is that we don't --
17 we don't -- we're not assigning any assets that we've
18 bought and paid for to that party.

19 So there is always the risk regardless of
20 the credit rating, that something could happen with that
21 entity; they could go bankrupt but we don't actually pay
22 that party for the gas it's delivering to us until
23 twenty-five (25) days after the month of delivery, so,
24 we're always in a very substantial net payable position
25 to that party.

1 So we do think the credit rating is an
2 important indicator but with respect to the one (1)
3 supplier that we've chosen, we do feel that given its --
4 the substance of this counterparty, their credit rating,
5 and their overall combination of assets and activity in
6 the market that they are as solid a party as we could
7 have hoped to contract for.

8 MS. NOLA RUZYCKI: Do you have net-off
9 rights on -- on that agreement where ...

10

11 (BRIEF PAUSE)

12

13 MS. MARLA MURPHY: Sorry, I didn't
14 understand what you asked.

15 MS. NOLA RUZYCKI: Okay. Just wondering
16 is -- if -- if they owed you money or you owed them
17 money, can you net the two (2) off in -- in that case?

18 MS. MARLA MURPHY: I'm not sure we're
19 able to answer that given the contractual confidentiality
20 provisions.

21 MS. NOLA RUZYCKI: That's fine then.
22 Thank you, those are my questions.

23 THE CHAIRPERSON: Thank you very much.

24 Ms. Murphy, do you have any re-direct for
25 this panel?

1 MS. MARLA MURPHY: No, we don't, Mr.
2 Chairman.

3 THE CHAIRPERSON: Thank you. Mr. Peters,
4 do you have any -- do you want to bring us up-to-date on
5 where we are?

6 MR. BOB PETERS: Well, I've failed
7 miserably in my time estimates, Mr. Chairman. I was
8 hoping today was the end of evidence and it looks like
9 we're going to have to go into the morning and our new
10 target is by noon tomorrow to finish with the -- the oral
11 evidence.

12 I would suggest that maybe we call it a
13 day today and enjoy the usual hot Manitoba weather that
14 we don't want too many Albertans to know about. But, we
15 would start tomorrow morning with the second panel that
16 Ms. Murphy would go on, go through their direct evidence,
17 I will cross-examine them and likewise Mr. Saxberg, and I
18 do think we'll be done before noon.

19 THE CHAIRPERSON: Very good. Well, thank
20 you to the panel members who are stepping down now. We
21 appreciate your evidence and your participation.

22 And we'll see the rest of you tomorrow
23 morning at nine o'clock.

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25 (CENTRA GAS COST OF GAS PANEL STANDS DOWN)

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2 --- Upon adjourning at 3:29 p.m.

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6 Certified correct,

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Cheryl Lavigne, Ms.

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