MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

                        GENERAL RATE APPLICATION

                            2013/14

Before Board Panel:

            Regis Gosselin   - Board Chairman

            Marilyn Kapitany   - Board Member

            Larry Soldier   - Board Member

HELD AT:

            Public Utilities Board

            400, 330 Portage Avenue

            Winnipeg, Manitoba

            June 14th, 2013

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 1                          APPEARANCES

 2  Bob Peters                        )Board Counsel

 3  Sven Hombach            (np)      )

 4

 5  Marla Boyd                        )Centra Gas Manitoba

 6  Brent Czarnecki                   )Inc.

 7

 8  Brian Meronek, Q.C.               )CAC (Manitoba) Inc.

 9  D. Tomas Masi                     )

10

11  Nola Ruzycki            (np)      )Just Energy

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13  Paul Kerr               (np)      )Shell Energy

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15  Kim Johnston            (np)      )CEPU

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1 --- Upon commencing at 10:31 a.m.

2

3   THE CHAIRPERSON: Good morning. I

4 believe that everybody is in position so I will turn

5 the mic over to Mr. Peters.

6   Mr. Peters, please.

7

8 CENTRA PANEL 2, RESUMED:

9   LLOYD KUCZEK, Resumed

10   LOIS MORRISON, Resumed

11   BRENT SANDERSON, Resumed

12   LORI STEWART, Resumed

13

14 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

15   MR. BOB PETERS: Yes, thank you. And

16 good morning, Mr. Chairman, Board members, witness

17 panel, Centra personnel assisting, and ladies and

18 gentlemen.

19   Judging by the amount of coffee the

20 panel is drinking this morning it looks like the party

21 for Mr. Wiens last night was quite a success. So

22 we'll see if we can take advantage of the drowsiness

23 and see if we can get some answers here that will

24 cause some pause.

25   Let me start off by -- Mr. Kuczek,

 1   yourself and Ms. Morrison and I were talking about the

 2   furnace replacement program yesterday, you recall

 3   that?

 4   MR. LLOYD KUCZEK: Yes.

 5   MR. BOB PETERS: And at Tab 22 of the

 6   Board counsel book of documents which has been marked

 7   as PUB Exhibit 10, and specifically on pages -- on

 8   page 85, you told the Board, and Ms. Morrison told the

 9   Board, that Centra's target is sixteen thousand

10   (16,000), approximately, standard efficiency furnaces

11   in the low income energy efficiency program, correct?

12   MR. LLOYD KUCZEK: Well, I hesitate to

13   say that because we're -- we really would like to see

14   all standard furnaces out of the market.

15   MR. BOB PETERS: All right. But let

16   me just make sure I understand your answer. Based on

17   Centra's target market there's sixteen thousand and

18   thirty-four (16,034) owners in the LICO market that

19   have a standard efficiency furnace that Centra is

20   targeting to replace under the furnace replacement

21   program?

22   MR. LLOYD KUCZEK: Yeah, it's -- I

23   guess to be more accurate, we are targeting all

24   eighteen (18) thous -- or -- yeah, eighteen thousand

25   (18,000). There are some that are in the rental

1 market that we've been successful to replace and are

2 in the pro -- process of replacing. So it's just a

3 question of how do we pursue that market and include

4 all eighteen thousand (18,000).

5   MR. BOB PETERS: And I think Board

6 member Kapitany had a question of Ms. Morrison

7 yesterday on that very point, the struggle that Centra

8 is indicating to the Board is that landlords are

9 responsible for the capital, sometimes the tenants pay

10 the bills, and it may be difficult to convince the

11 landlord to partake in the program.

12   MR. LLOYD KUCZEK: Yeah. You know,

13 there's -- there's that struggle and then there's the

14 struggle with how to include the private landlords.

15 So with MHA who rents out homes to the lower income

16 market, we have not included them as being eligible

17 because the furnaces, as we talked about yesterday,

18 are virtually at the end of their life and they're

19 going to be replaced anyway. So we would see that as

20 a transfer of money from the ratepayers to a

21 government agency responsible for that replacement of

22 furnaces, so we -- we didn't think that was

23 appropriate use of the -- the funds.

24   On -- with a -- another organization

25 called KINU (phonetic), we've actually worked out an

282

1 arrangement with them where they actually are eligible

2 for some dollars. And we did -- we undertook some

3 rational decision-making which made sense from our

4 perspective that allows them to participate, and

5 they're currently being replaced right now. And

6 there's about a hundred and sixty (160), I think, that

7 hopefully will be replaced this summer. And this a

8 non-profit organization that provides housing for

9 aboriginal Manitobans, low income Manitobans.

10   MR. BOB PETERS: So Manitoba Housing

11 Authority is on its own from Centra's perspective.

12 That's the appropriate policy decision?

13   MR. LLOYD KUCZEK: That's what we

14 decided, yes.

15   MR. BOB PETERS: And private

16 landlords, that's the void that Ms. Morrison spoke to

17 Board member Kapitany about yesterday?

18   MR. LLOYD KUCZEK: Yes. And -- and

19 our position is actually that they're eligible, it's

20 just a question of coming out with an arrangement such

21 that the low income customers would realize a -- a

22 significant portion of the benefits associated with

23 the furnace replacement.

24   So the struggle is we're using

25 ratepayer money to fund this, and so if you just look

283

1 at the cost of replacing these furnaces it's about --

2 I think it's -- well, it works out to about thirty-

3 three hundred dollars ($3,300), thirty-four hundred

4 dollars ($3,400). So the ratepayers are funding that.

5   And so if you look at who -- who is

6 benefiting when you're with a low income individual

7 that owns their own home, that individual is realizing

8 the benefits through two (2) channels. One (1) is

9 lower energy bills and the other is the lowered

10 capital cost to replace the furnace, which they would

11 have to do anyways within a short period of time. So

12 the savings to them is the capital -- avoided capital

13 cost and the reduction in energy costs after five (5)

14 years.

15   If we allow landlords to participate,

16 the challenge now becomes the landlord is going to

17 likely realize the capital reduction of twenty-two

18 hundred dollars ($2,200) or some amount in that range.

19 And the low income person, if we can get the landlord

20 to agree not to raise the rent, the low income tenant

21 would realize the benefits.

22   Now, of course, you don't know what's

23 going to happen into the future, so what we're

24 thinking is, that if we could get the landlord to make

25 an -- to agree to rent to low income customers for a

1 number of years, you can actually capture that -- that

2 benefit for the low income customers.

3   So there's some challenges in terms of

4 what's reasonable in terms of using the ratepayer

5 money in this particular situation. And it's -- it's

6 challenging from other perspectives as well because

7 landlords actually have two (2) other options. One

8 (1) is to simply replace the furnace on -- on their --

9 on their own and -- and apply for a rent increase, and

10 so they're allowed to raise rent by -- we worked it

11 out to -- I think it was based on forty-five hundred

12 dollars ($4,500). They could raise rents by sixty

13 dollars ($60) approximately a month, so that's a very

14 attractive option for them as opposed to pursuing the

15 -- the LIEEP program.

16   And the other option they actually have

17 to partici -- participate in the PAYS program, which

18 they might find attractive because, in that case, they

19 don't have to put up any capital. And -- and the low

20 income customer is no worse off, as well, because they

21 -- they could -- they can agree to take on the -- the

22 bill payment, the financing charge, and their total

23 bills would be roughly the same, including the lower

24 energy bills plus the financing cost.

25   So there's three (3) options for the

1 landlord if we allowed them into the LIEEP program.

2 And we're not sure which option they would take.

3   MR. BOB PETERS: But at this point in

4 time, the private landlord is still not fully involved

5 in the LIEEP program?

6   MR. LLOYD KUCZEK: No. We're actually

7 -- at this stage, we're -- what we're doing is we're

8 looking for a few landlords, and we have a few lined

9 up, to have them come in and discuss the options and

10 see if they would consider a particular design option

11 as being attractive through participating through the

12 LIEEP program.

13   MR. BOB PETERS: I wasn't going to

14 come to this, but let's just talk about the PAYS

15 program, P-A-Y-S program that you mentioned. That's

16 the Pay As You Save Program?

17   MR. LLOYD KUCZEK: Correct.

18   MR. BOB PETERS: And the program, the

19 particulars of which you'll know better than I, but

20 the essence of it is there will be financing costs

21 roughly equal to the lower energy costs that will be

22 realized by the owner?

23   MR. LLOYD KUCZEK: Yeah, you --

24 through the PAYS program you could finance any energy

25 efficient opportunity up to the amount of the bill

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 1 reduction for that first year.

 2   THE CHAIRPERSON: You said first year?

 3 You said first year?

 4   MR. LLOYD KUCZEK: Yeah, because as

 5 you move into the future, rate -- rates are going to

 6 go up, or we don't know what the energy price is going

 7 to be in the future. And I think that's the way the

 8 legislation was written.

 9

10 CONTINUED BY MR. BOB PETERS:

11   MR. BOB PETERS: But the fina --

12 what's the term of the financing on the PAYS program?

13   MR. LLOYD KUCZEK: That depends on the

14 measure being implemented, so for a furnace, it's

15 twenty (20) years; for insulation, twenty-five (25)

16 years.

17   MR. BOB PETERS: So you're not

18 suggesting to the chairman that the program ends after

19 one (1) year?

20   MR. LLOYD KUCZEK: No.

21   MR. BOB PETERS: It's just that Centra

22 can't assure the owner that the amount they pay in

23 financing will -- will be equivalent to what they

24 would save on their energy bill?

25   MR. LLOYD KUCZEK: What -- what

 1 legisla -- what they did in legislation -- government

 2 is, is they were attempting to protect the customer so

 3 that they're -- they're not financing -- or their

 4 total bills aren't higher. So what they put in

 5 legislation is that you calculate what the anticipated

 6 bill reduction would be that first year and the amount

 7 that can be financed is up to that amount.

 8   And it's based on the rates for that

 9 year, so you don't know what the rates are going to be

10 in the future on the electric side. We're -- we know

11 that we're expecting it to go up on the natural gas

12 side. It's up and down, but overall, slightly up in

13 the future, right.

14   MR. BOB PETERS: But the financing

15 rate is locked in for the term of the energy

16 efficiency improvement?

17   MR. LLOYD KUCZEK: The financing rate

18 is locked in it for the first five (5) years, and then

19 after that it's adjusted.

20   MR. BOB PETERS: All right. Back to

21 page 85 if I could with you both. We covered

22 yesterday on the chart on page 85 at Tab 22 of Board

23 counsel's book of documents that the standard

24 efficiency furnace target market was the sixteen

25 thousand dollars ($16,000) that -- that we've

 1 mentioned?

 2   MR. LLOYD KUCZEK: Sixteen thousand

 3 (16,000) customers.

 4   MR. BOB PETERS: I'm sorry, yes,

 5 sixteen thousand (16,000) customers. And then if we

 6 go to page 84 we see on page 84 that Centra, in term

 7 of cumulative furnace installations in the chart by

 8 2018/'19, Centra forecasts at the end of the furnace

 9 replacement program that Centra will have changed out

10 eight thousand and eighty-eight (8,088) furnaces,

11 correct?

12   MR. LLOYD KUCZEK: That's our

13 projections.

14   MR. BOB PETERS: All right. And

15 yesterday I was -- I thought I had an agreement that

16 Centra is therefore mathematically looking to achieve

17 about half or 50 percent of the target of sixteen

18 thousand (16,000) furnaces?

19   While you would like to get them all,

20 you realistically think you're going to get closer to

21 eight thousand (8,000)?

22   MR. LLOYD KUCZEK: It -- it's a crude

23 estimate. And based on that crude estimate we think

24 that's the number of customers that are going to

25 participate through our program. And for other

 1 reasons other -- those other customers will likely

 2 replace their furnaces and not participate through the

 3 program.

 4   MR. BOB PETERS: And on page 83 of the

 5 book of documents we see in the chart under the row

 6 called, "Cumulative Furnace Installations," under the

 7 2012/'13 projected year that Centra has, in essence,

 8 done twenty-five hundred and fifty-five (2,555)

 9 furnaces already?

10   MR. LLOYD KUCZEK: Correct.

11   MR. BOB PETERS: So of the eight

12 thousand (8,000) in target, of the twenty-five hundred

13 and fifty-five (2,555) that have been done, there's

14 about fifty-five hundred (5,500) left still to do

15 under the program.

16   Would that be correct?

17   MR. LLOYD KUCZEK: Yes.

18   MR. BOB PETERS: And we see also on

19 page 83, just up at the ending balance row, also under

20 the 2012/'13 year, that Centra is sitting with fifteen

21 million nine -- well, fifteen million eight hundred

22 and fifty-three thousand dollars ($15,853,000) in the

23 furnace replacement program as of the end of fiscal

24 2013?

25   MS. LOIS MORRISON: That is correct.

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 1   MR. BOB PETERS: And presently, can

 2 you tell the Board, Ms. Morrison, how much is included

 3 in consumer rates on account of the furnace

 4 replacement program?

 5

 6   (BRIEF PAUSE)

 7

 8   MR. GREG BARNLUND: Mr. Peters, rates

 9 fund the program to the tune of $3.8 million per year.

10   MR. BOB PETERS: All right. Thank

11 you, Mr. Barnlund. Ms. Morrison, you don't have any

12 finer point than that, do you? And so as I

13 understand, Ms. Morrison, the furnace replacement

14 program -- and I'm still looking at the -- the chart

15 on page 83, I note that funding from the SGS class

16 line, which is the third or fourth row -- third row

17 from the top of the chart, the three (3) thou --

18 sorry, the three million eight hundred thousand

19 dollars ($3,800,000) a year that Mr. Barnlund

20 mentioned, Centra plans to charge that in the rates

21 that are part of this general rate application,

22 correct?

23   MR. GREG BARNLUND: Yes, that's

24 correct.

25   MR. BOB PETERS: And likewise, it's

 1 forecast to be included in the rates for the fiscal

 2 fifteen (15) year of Centra?

 3   MR. GREG BARNLUND: Yes.

 4   MR. BOB PETERS: But thereafter,

 5 Centra doesn't -- doesn't forecast any continuation of

 6 the funding at that point in time?

 7   MR. GREG BARNLUND: That's correct.

 8   MR. BOB PETERS: And so if we have a

 9 balance today, Mr. Barnlund, Ms. Morrison, of about

10 fifteen million nine hundred thousand (15,900,000),

11 and we add two (2) more years of funding and rates,

12 that would be another $7.6 million on top of the 15.9

13 million, would it not?

14   MR. GREG BARNLUND: Yes, it would.

15   MR. BOB PETERS: And in addition to

16 that, Mr. Barnlund, the Corporation has been accruing

17 interest as we see on the chart on page 83. And

18 cumulatively the interest that will be in that account

19 at the end of -- at the end of the program is in the

20 neighbourhood of $3.9 million?

21

22   (BRIEF PAUSE)

23

24   MR. BOB PETERS: And I -- I -- Mr.

25 Barnlund, I don't have that number to -- to reference

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1 on the chart with you, but subject to my math the --

2 that was just a -- the cumulative total of the

3 interest line that was going forward.

4   MR. GREG BARNLUND: I'd accept that,

5 yeah.

6   MR. BOB PETERS: So if -- if you're

7 still with me, Mr. Barnlund, Ms. Morrison, and Mr.

8 Kuczek, we have $15.9 million already in the fund. We

9 have 7.6 million still to be added to the fund

10 according to Centra's forecasts, and on top of that

11 there will be another 3.9 million, which again rounds,

12 in my math, to $27.4 million by the end of 2018/'19.

13   Do you accept that number for our

14 discussion?

15   MR. GREG BARNLUND: Subject to -- to

16 confirmation, but yes, I think we can accept that.

17   MR. BOB PETERS: All right. So what

18 I'm suggesting is that, if Centra continues to extract

19 in consumer rates the $3.8 million a year, there'll be

20 $27.4 million by the end of '18/'19 in which to

21 implement and work on the furnace replacement program.

22 Ms. Morrison, that's -- that's what you see in your --

23 in your budget line item from Mr. Kuczek and Mr.

24 Barnlund?

25   MR. GREG BARNLUND: I might note, Mr.

1 Peters, that I think that you're actually including

2 3.8 million of revenues beyond the '14/'15 year. And

3 our forecast does not include that. You took it out

4 to '18/'19, I believe, to the conclusion of the

5 program. And for IFF planning purposes, we're not

6 attributing the $3.8 million to the furnace

7 replacement program in the years '15/'16 and beyond.

8   MR. BOB PETERS: I think -- I think

9 I'm agreeing with you, Mr. Barnlund, which not only

10 worries me, but I wonder where I went off the rails

11 with you, sir. What I was suggesting is that in the

12 current case before the PUB, plus the next fiscal year

13 of 2015, rates will include $3.8 million on account of

14 the furnace replacement program?

15   MR. GREG BARNLUND: That's right.

16   MR. BOB PETERS: So for just two (2)

17 years. And if I misspoke I do apologize, but for the

18 -- the current year plus one (1) more year is what's

19 in IFF purposes for -- for Centra?

20   MR. GREG BARNLUND: I'd agree, yes.

21   MR. BOB PETERS: Okay. Thank you for

22 that clarification, sir.

23   MR. LLOYD KUCZEK: And then the total

24 is twenty-three point five (23.5) as opposed to

25 twenty-seven point four (27.4), roughly, right?

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 1   MR. BOB PETERS: If the interest was

 2 added, Mr. Kuczek, of 3.9 million, does that bring it

 3 closer to my number of twenty-seven point four (27.4)?

 4   MR. LLOYD KUCZEK: Yeah, I didn't add

 5 the interest, so.

 6   MR. BOB PETERS: Okay. So I think

 7 we're all on the same page in terms of the numbers,

 8 Mr. Kuczek?

 9   MR. LLOYD KUCZEK: I'm still

10 struggling.

11   MR. BOB PETERS: All right. I'll

12 leave you struggle. I'm going to go to page 85 with

13 the Board and -- and Ms. Morrison. And we see -- we

14 see that after the program would be over in -- and I

15 want to draw you to the first sentence, or the first

16 line on page 85 of -- of Board counsel's book of

17 documents:

18   "Centra is forecasting that the FRP

19   fund balance is estimated to be

20                         $14.8 million at the end of

21   2018/'19, based on Centra's forecast

22   activity."

23   Have I got that correct, Ms. Morrison?

24   MS. LOIS MORRISON: That is correct.

25   MR. BOB PETERS: And so from the $27.4

295

1 million total, there'll be $14.8 million left over, if

2 I may, in 2018/'19. And that means Centra's going to

3 spend another $12.6 million on the program between the

4 test year and the sunset of the program.

5   MS. LOIS MORRISON: Based on our

6 current projections, yes.

7   MR. BOB PETERS: And, Ms. Morrison,

8 that $12.6 million left to spent by Centra is to

9 replace the approximate five thousand five hundred and

10 thirty-three (5,533) furnaces that Centra sees as left

11 that it will replace as part of the -- the program?

12   MS. LOIS MORRISON: That is correct.

13   MR. BOB PETERS: When I do the math on

14 that, Ms. Morrison, the fifty-five hundred and thirty-

15 three (5,533) furnaces and $12.6 million, my number

16 comes out to about two thousand two hundred and

17 eighty-three dollars ($2,283) per -- per furnace. So

18 twenty-three hundred dollars ($2,300) per furnace. Is

19 that -- is that consistent with your calculations?

20

21   (BRIEF PAUSE)

22

23   MS. LOIS MORRISON: Mr. Peters, when

24 we were updating our 2013 to '16 Power Smart plan, we

25 updated our -- we made revisions to our projections

296

1 based on what we were anticipating in the marketplace.

2 However, in our work to update we did not update the

3 disbursements planned, and you will notice that in the

4 disbursements line on page 83 that we held our

5 disbursements constant although we did change our

6 projections for the uptake of the furnaces and the

7 boilers.

8 So the error is on our part and we will

9 undertake to file a revision to this table for you to

10 show that the actual disbursements will be larger than

11 what is projected here.

12 MR. BOB PETERS: Ms. Morrison, I know

13 what disbursements are on a legal bill and my client

14 does, too. What are they in respect of --

15 MS. LOIS MORRISON: Oh.

16 MR. BOB PETERS: -- the furnace

17 replacement program?

18 MS. LOIS MORRISON: Disbursements

19 being what we're paying out to replace the furnaces

20 and to run the program. So it's the cost of the

21 program running. So we didn't adjust to reflect the

22 changes in the projections for the number of furnaces.

23 So essentially the -- the disbursements or the -- the

24 costs of the program should have varied based on the

25 number of furnaces going forward and we didn't make

1 that adjustment in the planning.

2   MR. LLOYD KUCZEK: Yeah, I mentioned

3 earlier that the cost per furnace is about thirty-

4 three (33), thirty-four hundred dollars ($3,400).

5   MR. BOB PETERS: All right. Ms.

6 Morrison, I'm going to accept your undertaking, but

7 I'm going to ask if I can stretch it a little bit.

8 And, on page 83, which is in response to PUB/Centra

9 2nd Round question 172-C, whether you could extend

10 that table to include out to 2018/'19 for numbers?

11   MS. LOIS MORRISON: Yes, we can.

12   MR. BOB PETERS: It would be

13 appreciated and thank you for that.

14

15 --- UNDERTAKING NO. 3:   Centra to file a revision

16   of disbursements planned

17   table in 2013-'16 Power

18   Smart plan, to show that

19   the actual disbursements

20   will be larger than what

21   is projected

22

23 CONTINUED BY MR. BOB PETERS:

24   MR. BOB PETERS: So, Ms. Morrison, in

25 light of that clarification and Mr. Kuczek's

1 suggestion that the furnaces will be more in the range

2 of thirty-three hundred dollars ($3300), which is

3 currently the -- the amount expended, there will still

4 be even under those totals pretty close to $9 1/2

5 million left over by 20 -- by 2018/'19 fiscal year?

6   MS. LOIS MORRISON: That is correct.

7   MR. BOB PETERS: So you've $9.4

8 million left over out of this fund that won't be spent

9 on replacing furnaces if the program goes according to

10 your forecast?

11   MS. LOIS MORRISON: That's correct.

12   MR. BOB PETERS: And so one (1) of the

13 options could be to stop the funding of the $3.8

14 million a year currently in the furnace replacement

15 program, could it not?

16   MR. LLOYD KUCZEK: Yes.

17   MR. BOB PETERS: Is that something

18 that Centra would support?

19   MR. LLOYD KUCZEK: We -- we don't have

20 a concern about stopping it earlier.

21   MR. BOB PETERS: And that's because

22 there's going to be more than enough money left over

23 according to Centra's forecast of the program?

24   MR. LLOYD KUCZEK: Yes.

25   MR. BOB PETERS: And if the furnace

299

1 replacement program funding was discontinued we'll

2 probably hear from your rates panel that they'd like

3 to leave that $3.8 million in the -- in the rates, but

4 that would offset up to two-thirds (2/3) of the

5 revenue deficiency that the next panel is going to

6 speak about?

7   MR. LLOYD KUCZEK: I'll let them lobby

8 for what they want to use it for. I'd prefer to use

9 it for energy efficiency.

10   MR. BOB PETERS: But you don't have a

11 plan for using it for energy efficiency at this time?

12   MR. LLOYD KUCZEK: Not written down.

13

14   (BRIEF PAUSE)

15

16   MR. BOB PETERS: And not written down,

17 Mr. Kuczek, it's not written down in the updated

18 fifteen (15) year plan that we spoke about late

19 yesterday?

20   MR. LLOYD KUCZEK: That's correct.

21   MR. BOB PETERS: So it's still in its

22 incubator stage?

23   MR. LLOYD KUCZEK: In Lloyd's head.

24   MR. BOB PETERS: And when it becomes

25 something that's tested and -- and plotted out

300

 1 further, the Board can expect to see that by way of a

 2 subsequent application or an update to the Power Smart

 3 plan?

 4   MR. LLOYD KUCZEK: I would leave that

 5 up to the Board to decide. But, I mean -- and -- and

 6 I won't leave you wondering what I'm thinking about,

 7 but, you know, clearly there's a lot of homes that

 8 need to be upgraded in terms of insulation yet, so.

 9 And the -- provided there is available funds through

10 the affordable energy fund that's great, but there's a

11 num -- a number of homes that are being insulated and

12 upgraded that are natural-gas heated, so.

13   MR. BOB PETERS: Ms. Morrison, I

14 understood that through the LIEEP program Centra

15 conducted pre-audits or evaluations of the homes?

16   MS. LOIS MORRISON: When a customer is

17 deemed eligible or applies to the program we send out

18 an energy advisor to do a pre-inspection as to what

19 opportunities are available.

20   MR. BOB PETERS: And I think in one

21 (1) of the -- one (1) of the reports that was provided

22 to the Board, up until at least December 31 of 2012,

23 would you accept that Centra had done four thousand

24 five hundred and thirty-one (4,531) of those pre-

25 audits or evaluations?

 1   MS. LOIS MORRISON: Subject to check,

 2 yes.

 3   MR. BOB PETERS: And as a result of

 4 those pre-audits, is there a direct correlation to

 5 support the number of furnaces that are considered

 6 standard efficiency through your 2009 residential

 7 survey?

 8

 9   (BRIEF PAUSE)

10

11   MR. LLOYD KUCZEK: I don't think you

12 could use the information from those audits to

13 substantiate the -- the numbers of available standard

14 furnaces in the marketplace. As I mentioned

15 yesterday, what we're looking at doing is updating

16 that -- our -- our residential survey. And I think

17 that'll provide us with a more accurate estimate of

18 the number of standard efficient furnaces in the

19 marketplace, including those in low income homes.

20

21   (BRIEF PAUSE)

22

23   MR. LLOYD KUCZEK: Just to add a

24 little more information, our plans are to undertake

25 that updated residen -- residential survey this fall

1 and -- and hopefully have the information next year.

2

3   (BRIEF PAUSE)

4

5   THE CHAIRPERSON: I wonder if we

6 shouldn't take a few minutes just to give a chance to

7 the witnesses to relax a little bit.

8

9 --- Upon recessing at 10:59 a.m.

10 --- Upon resuming at 11:06 a.m.

11

12   THE CHAIRPERSON: Mr. Peters...?

13

14 CONTINUED BY MR. BOB PETERS:

15   MR. BOB PETERS: Yes. Thank you, sir.

16 I'd like to continue and, Ms. Morrison, unfortunately,

17 it's with you, but -- and I meant that only because of

18 your -- your coughing. But in terms of home heating

19 cost comparisons at Tab 24 in Board counsel's book of

20 documents you had mentioned to the panel yesterday

21 that with the drop in natural gas costs there may be

22 instances where the savings per month to someone who

23 partakes in the furnace replacement program is

24 actually less than nineteen dollars ($19) a month?

25   MS. LOIS MORRISON: That is correct.

303

 1   MR. BOB PETERS: Would that be --

 2   would that be for the typical home that Centra has

 3   identified as the average single family residence?

 4   MS. LOIS MORRISON: But the typical

 5   home I think -- what we'd have to do is take a more

 6   in-depth look. The -- the comment I made was more in

 7   general, depending on the size of the home and such.

 8   So right now, based on the typical home, it's about

 9   eighteen dollars ($18) a month in savings.

10   MR. BOB PETERS: All right. And on

11   page 92 and 93 of Board counsel's book of documents

12   are some coloured bar charts that we'll -- we'll talk

13   about. Are you suggesting then that it's the average

14   single family residence that gave rise to these

15   charts, the -- the typical savings would be eighteen

16   dollars ($18) a month?

17

18   (BRIEF PAUSE)

19

20   MS. LOIS MORRISON: Sorry, depending

21   on which chart you're looking at, the -- if you're

22   looking at the -- the chart where the rates are

23   effective February 1st --

24   MR. BOB PETERS: Which is on page 92

25   of the book of documents.

 1   MS. LOIS MORRISON: Which is on 92,

 2 then the -- the difference is about eighteen dollars

 3 ($18) a month.

 4   MR. BOB PETERS: And, Mr. Chairman,

 5 and Board members, the -- the page on 93 wasn't part

 6 of Centra's GRA filing, but it did come off of

 7 Centra's website. And, Ms. Morrison, the difference

 8 between the typical space and water heating costs

 9 shown on page 92 compared to what's on 93 is that

10 those on page 93 were updated for the May 1st increase

11 in respect of electricity rates as well as primary gas

12 issues?

13   MS. LOIS MORRISON: That is correct.

14   MR. BOB PETERS: And so if we just

15 take a minute then on page 93 and we go to the top of

16 the page. The top of the page is the space heating,

17 the furnace costs, correct?

18   MS. LOIS MORRISON: That is correct.

19   MR. BOB PETERS: And the bottom half

20 deals with water heaters?

21   MS. LOIS MORRISON: Yes.

22   MR. BOB PETERS: And in terms of the

23 space heating costs we can see under the electricity

24 column that for this typical single family residence

25 as of -- with rates in effect as of May 1 a -- an

1   annual bill would be about twelve hundred dollars

2   ($1,200), one thousand one hundred and ninety-three

3   dollars ($1,193)?

4   MS. LOIS MORRISON: That is correct.

5   MR. BOB PETERS: Contrast that, Ms.

6   Morrison, to the high efficiency furnace at 92 percent

7   efficiency shown under the natural gas column, and

8   that would be the blue bar on the left side of the

9   natural gas column, correct?

10   MS. LOIS MORRISON: That is correct.

11   MR. BOB PETERS: And so there you're

12 indicating that the annual heating costs are

13 approximately 50 percent of the electricity costs?

14   MS. LOIS MORRISON: Yes.

15   MR. BOB PETERS: And we see also on

16 the bottom in terms of water heating costs the

17 percentage savings is -- is even -- even greater by

18 using natural gas compared to electricity for -- for

19 water heating?

20   MS. LOIS MORRISON: That is correct.

21   MR. BOB PETERS: So two hundred and

22 fifty-nine dollars ($259) for electric high efficiency

23 water heater, compared to the eighty-one dollars ($81)

24 for the gas efficiency, correct?

25   MS. LOIS MORRISON: Most people don't

1 have the high efficiency condensing natural gas water

2 tank that you're referring to. That's what you would

3 probably -- mo -- most people would have in their

4 homes would be the -- either the energy star water

5 heater at a hundred and nine dollars ($109) or the

6 conventional water heater at a hundred and twenty-four

7 (124).

8   MR. BOB PETERS: In either case, it's

9 less than half -- half of the electricity?

10   MS. LOIS MORRISON: Yes.

11   MR. BOB PETERS: So just assist the

12 Board in understanding the condensing water heater is

13 a natural gas water heater that is -- it's a new

14 technology?

15   MR. LLOYD KUCZEK: It uses the same

16 technology as high efficient furnaces.

17   MR. BOB PETERS: And it has a side

18 vent and no need for a chimney?

19   MS. LOIS MORRISON: Yes. This is the

20 power vent version of the natural gas water tank.

21   MR. BOB PETERS: If we flip to page 9

22 -- 94 and 95, these were filed by Centra and these

23 numbers, Ms. Morrison, if I recall, reflect the

24 increase in the gas costs as contained in this

25 application, are included on this home heating cost

1 comparison.

2   Have I got that right?

3   MS. LOIS MORRISON: They reflect the

4 changes that we were proposing for the non-gas

5 components of the rate.

6   MR. BOB PETERS: Okay. Carefully

7 worded, but thank you. So you're trying to depict

8 here to the Board this is what it would look like if

9 Centra's application was approved as filed?

10   MS. LOIS MORRISON: That is correct.

11   MR. BOB PETERS: Except I think the

12 electricity -- the high efficiency elect -- sorry, the

13 high efficient natural gas may not have been updated

14 for May 1?

15   MS. LOIS MORRISON: That is correct.

16 When we prepared the response to this interrogatory it

17 was prior to that --

18   MR. BOB PETERS: All right.

19   MS. LOIS MORRISON: -- new rate for

20 the primary gas.

21   MR. BOB PETERS: So instead of five

22 hundred and ninety dollars ($590) shown for the

23 natural gas high efficiency furnace, that would be

24 increased by somewhere between thirty (30) and thirty

25 five dollars ($35) per year?

 1   (BRIEF PAUSE)

 2

 3   MS. LOIS MORRISON: Yes, its about

 4 thirty-four dollars ($34).

 5   MR. BOB PETERS: All right. So we can

 6 notionally make that correction, add thirty-four

 7 dollars ($34) on to the natural gas high efficiency

 8 furnace to have a -- a more accurate comparison. But

 9 it's still at approximately 50 percent of the

10 electricity?

11   MS. LOIS MORRISON: Yes.

12   MR. BOB PETERS: Ms. Morrison, does

13 Centra ever sit back and say, How much more would gas

14 have to go up before it was equal to the electricity?

15 Where's the crossover point for the home -- the

16 individual homeowner?

17   MS. LOIS MORRISON: We did undertake

18 in the fuel switching study the point at which

19 electricity -- sorry -- what natural gas prices would

20 have to be to be comparable to using electric heat.

21   MR. BOB PETERS: Do you recall, as a

22 percentage of current rates, how much that would have

23 to go up?

24   MR. LLOYD KUCZEK: It was high

25 thirties, low forties. I don't recall the exact

1 number, but it's significant increase in primary gas

2 rates relative to, you know, the -- the eleven dollars

3 ($11) that we're at today, or -- eleven (11) cents per

4 cubic metre that we're at today.

5   MS. LOIS MORRISON: We can -- what we

6 had looked at, and this is the electric rates for

7 those current in 2011, when we -- or, 2012, when we

8 prepared the study. But we would have to see primary

9 natural gas rate go up to the eleven (11) to fourteen

10 dollar ($14) per gigajoule, or forty-two (42) cent to

11 fifty-two (52) cents a cubic metre to be close to the

12 equivalent of heating with electric heat.

13   MR. BOB PETERS: Thank you, Ms.

14 Morrison. Just to make sure, and I appreciate we're -

15 - now we're using a little bit of dated numbers, but

16 they go back to when the fuel switching report was

17 prepared, correct?

18   MS. LOIS MORRISON: That is correct.

19   MR. BOB PETERS: And in terms of cost,

20 I just want to catch Mr. Kuczek's comment. Natural

21 gas would have to go from eleven (11) cents a cubic

22 metre to fifty-two (52) cents a cubic metre to -- to

23 provide a -- kind of a break-even point as between gas

24 and electric space heat?

25

310

1   (BRIEF PAUSE)

2

3   MS. LOIS MORRISON: Yes, the primary

4 gas rate would have to go to 42 percent for it to be

5 break even with electric -- for electric space

6 heating.

7   MR. BOB PETERS: I'm just not sure I'm

8 understanding your answer. Primary gas would have to

9 go from its current rate of -- of -- I think Mr.

10 Kuczek said about eleven (11) cents. It would have to

11 go up to fifty-two (52) cents?

12   MR. LLOYD KUCZEK: I think we had two

13 (2) numbers in the fuel switching report. One (1)

14 number was based on whether or not you included the --

15 the basic charge for natural gas, and the other

16 excluded it. So, it -- it's one (1) or the other

17 number, but it's a substantial increase in -- in

18 primary gas cost.

19   MR. BOB PETERS: All -- all right. So

20 if I wrote down a percentage number after that I was

21 in error. It would -- and if I heard that it was

22 meant to be -- it would have to go to forty-two (42)

23 cents or fifty-two (52) cents a cubic metre to be

24 comparable?

25   MS. LOIS MORRISON: Yes.

311

 1   MR. LLOYD KUCZEK: It depends on how

 2 you analyzed it, but, yes.

 3   MR. BOB PETERS: All right.

 4

 5   (BRIEF PAUSE)

 6

 7   THE CHAIRPERSON: I -- I wonder if I

 8 could ask you a question here in -- Mr. Peters, in

 9 respect of the chart that we're seeing?   The

10 announcement yesterday about geothermal investments

11 with First Nations, the cost for heating a home using

12 geothermal on a First Nations would be -- can we --

13 can we -- can I assume that it would be in the nature

14 of approximately four hundred dollars ($400)?   Is that

15 -- is that a -- based on -- I'm looking at page 94 in

16 the book of documents.

17

18   (BRIEF PAUSE)

19

20   MR. LLOYD KUCZEK: Four (4) to five

21 hundred dollars ($500) depends on the size of the

22 home, depends on how well it's insulated but...

23   THE CHAIRPERSON: And that would

24 compare to what in terms of a typical household on a

25 First Nations now paying for heating?

 1   MR. LLOYD KUCZEK: You can use a

 2 factor for, just crudely, three (3) times that.

 3 Twelve hundred dollars ($1200).

 4   THE CHAIRPERSON: And the investment

 5 per household with the geothermal would be what,

 6 approximately?

 7   MR. LLOYD KUCZEK: Yeah. So the --

 8 the investments vary significantly and -- and with

 9 this particular project it's -- it's similar to the

10 Waverley West thing in terms of trying to drive the

11 costs down. So they're installing a hundred and they

12 got bulk purchasing price advantages through that and

13 so the cost -- trying to recall the cost that --

14 fifteen thousand (15,000), just under that, is roughly

15 the cost per home.

16

17 CONTINUED BY MR. BOB PETERS:

18   MR. BOB PETERS: There -- in -- in

19 response to the Chairman's question, Mr. Kuczek, is

20 the geothermal only available to those homes on First

21 Nations that use electricity currently as a heat

22 source or is the geothermal program also available to

23 those homeowners who use fuel oil?

24

25   (BRIEF PAUSE)

 1   MR. LLOYD KUCZEK: We -- we generally

 2 allow customers to participate in our Power Smart

 3 programs if they're using fuel oil. The -- the

 4 program that we launched yesterday is a community

 5 initiative, it's not a -- on an individual basis. So

 6 if you were to get geothermal system installed and got

 7 a quote in the marketplace you're going to be well

 8 over twenty thousand dollars ($20,000). So the

 9 economics are substantially different when you do it

10 on an individual basis. So this approach is taking a

11 utility community model and getting the cost down --

12 driving the cost down so that it's economic to do.

13   MR. BOB PETERS: You paused when I

14 asked if fuel oil could be the -- the change out of

15 fuel to go to the geothermal. Is there a policy

16 reason why that would extend -- may not extend to fuel

17 oil or would it also extend to propane and other heat

18 sources?

19   MR. LLOYD KUCZEK: Well, generally

20 speaking what we've done is use the affordable energy

21 fund to support those customers to participate in any

22 other programs -- any other Power Smart programs that

23 are el -- or that customers are eligible for that have

24 natural gas or use natural gas or electricity. So we

25 just launched the program yesterday and really hadn't

 1 thought through too much about how we're going to deal

 2 with the fuel oil customers and propane customers, but

 3 -- so that's why I hesitated.

 4   MR. BOB PETERS: Does geothermal

 5 require supplemental or supplementary heat?

 6   MR. LLOYD KUCZEK: It generally does

 7 but it doesn't have to, it depends on how you design

 8 it. You can actually design it so that it doesn't

 9 have to have backup heat. But most systems aren't

10 designed that way because it's not economic to do it

11 that way. You have to have a longer loop and a bigger

12 system. So usually what you do is you design it so

13 that it'll kick in at a -- well, my system --

14 actually, the first system I put in kicked in about

15 minus 25 degrees and then the backup came on. And

16 it's basically just an electric heater -- electric

17 furnace at that point. And the current system I got

18 kicks in at about minus 18 degrees, so.

19   MR. BOB PETERS: And for these

20 community programs that were announced yesterday, is

21 it anticipated that supplemental electric heat will be

22 needed?

23   MR. LLOYD KUCZEK: Yes.

24   MR. BOB PETERS: And --

25   MR. LLOYD KUCZEK: I should be careful

 1 there. I think that this -- it's going to depend on

 2 the home. Some homes are -- may not, so.

 3   MR. BOB PETERS: How many homes in

 4 Waverley West are geothermal besides yours?

 5   MR. LLOYD KUCZEK: I'm not in Waverley

 6 West, but, you know, I don't know the number offhand.

 7 I do know at the end the government designated at

 8 least one (1) side of a street to geothermal, so there

 9 might have been forty (40) lots, in that range sort of

10 thing.

11   MR. BOB PETERS: But you're not sure

12 what the uptake has been?

13   MR. LLOYD KUCZEK: Oh, you know, that

14 -- that whole initiative that we're -- it was in the

15 paper, I mean we all read about it, but -- and I

16 worked on it for three (3) years of my life, but at

17 the end of the day it was not an economic thing to do.

18 And, you know, with natural gas prices the way they

19 are today, putting geothermal in when you have access

20 to natural gas does not make economic sense. There's

21 no economics to it.

22   MR. BOB PETERS: So you're changing

23 your system?

24   MR. LLOYD KUCZEK: No.

25   MR. BOB PETERS: No, I'm just kidding,

 1 Mr. Kuczek.

 2   MR. LLOYD KUCZEK: I --

 3   MR. BOB PETERS: You don't have to

 4 answer that.

 5   MR. LLOYD KUCZEK: No. Well, I just

 6 changed my system, but I did keep geothermal, but I

 7 got a good price, so.

 8   MR. BOB PETERS: Mr. Kuczek, this

 9 might be -- this is a fair bit off topic, so we'll see

10 if Mr. Czarnecki gives me a bit of rope here, but can

11 this geothermal technology be implemented in diesel

12 communities?

13   MR. LLOYD KUCZEK: In diesel community

14 -- communities it doesn't make sense. To run

15 geothermal you need electricity to start with. So --

16 so one (1) option is just to use the fuel oil -- use

17 the fuel oil to heat the home directly. The other

18 option is use geothermal. And to -- and to run

19 geothermal you need electricity. So what you do is

20 you burn fuel oil inefficiently to create that

21 electricity.

22   So at about a 30 percent efficiency you

23 create the electricity. And then when -- you lose all

24 that efficiency lost -- or the efficiency gain you

25 gain through geothermal you lose on the -- the

1 creation of generation, so it works out to no

2 efficiency gain. So you might as well burn it

3 directly and heat the home that way.

4   MR. BOB PETERS: So for the four (4)

5 communities in Manitoba that are connected to the grid

6 and use diesel generation as their source, this

7 geothermal program doesn't appear to be an economic

8 solution?

9   MR. LLOYD KUCZEK: No.

10   MR. BOB PETERS: All right, thank you.

11 And I thank Mr. Czarnecki for letting me go out-of-

12 bounds on that one. Would it be correct to suggest

13 that in the City of Winnipeg, people building new

14 homes and if they have access to -- to natural gas,

15 the uptake is virtually 98 percent, as shown on page

16 97 of Tab 25 of the book of documents?

17   MS. LOIS MORRISON: That is correct.

18   MR. BOB PETERS: And so the market

19 penetration rate by Centra in the home heating market

20 for single detached homes in Winnipeg is -- is

21 virtually a hundred percent?

22   MS. LOIS MORRISON: That is correct.

23 Developers have the standard within their building to

24 install natural gas.

25   MR. BOB PETERS: And if I flip the

 1 page though to 98 I see an entirely different picture,

 2 do I not, Ms. Morrison, where a single detached home

 3 outside of the City of Winnipeg, where there is a

 4 choice between gas and electricity, gas is really less

 5 than 50 percent of the -- the fuel of choice?

 6   MS. LOIS MORRISON: That is correct.

 7   MR. BOB PETERS: How does Centra

 8 explain that?

 9   MS. LOIS MORRISON: In the south gas

10 available area the developers are making the choice to

11 install or not install the heating sys -- sorry, the

12 builders are making the choice to install or not

13 install the heating systems.

14   So in many cases, the builders are

15 choosing to go with the lower capital cost outlay

16 option. What we're looking at here is another case

17 again of a split incentive. The operating costs are

18 not as much of a concern for the builders, and so

19 they'll be looking for the least cost approach for

20 building a home. And if there's not an outstanding

21 demand or an expectation for a natural gas furnace to

22 be installed, the customer isn't asking for it, the

23 builder won't deliver that.

24   So as we testified to before the

25 electric -- during the electric panel, Manitoba Hydro

 1 recognizes that this is a concern as -- and has

 2 undertaken a number of steps to help better educate

 3 customers to make a choice that best suits them, and

 4 recognizing that they may still choose electricity but

 5 that they are making an informed choice based on the

 6 economics and the environmental impacts.

 7   And we are also working with builders

 8 to better educate them and to better align their fuel

 9 choices.

10   MR. BOB PETERS: But on that answer,

11 Mr. Morrison, why do the builders in Winnipeg provide

12 homeowners with the gas option, whereas outside the

13 perimeter highway it appears to be the builders are

14 only providing the electric option?

15   MS. LOIS MORRISON: There is a

16 difference in their -- their model. So -- so home

17 builders in Winnipeg traditionally have always

18 installed natural gas. Their -- their processes and

19 their -- their housing designs are structured in such

20 a way to install natural gas furnaces, so it's not --

21 it's not a change to how they do business.

22   And they can do much -- they do much

23 larger construction projects, so they're able to get

24 prices down on their furnaces. And so there's no real

25 price differential for them. They'll usually have a

 1 gas fitter on staff, or as part of their work crew.

 2   So there's a number of pieces in place

 3 for them just because of the -- due to the nature of

 4 them being larger. You will notice that there are, in

 5 the Winnipeg area, still projected to be a small

 6 percentage of houses that are built without natural

 7 gas in them for space heating.

 8   And what you'll find is those will be

 9 the smaller builders, the one-offs, the startups, who

10 may not have a gas fitter on staff. They'll hire an

11 electrician. You have to hire an electrician anyway

12 for the house to be constructed. And so they'll just

13 have the electrician put in an electric furnace.

14   So those are some of the dynamics that

15 you see within the Winnipeg market that are not as

16 evident in the south gas available area. You're

17 dealing with smaller developers, smaller builders.

18 They may not have a gas fitter on staff. Their

19 processes for building may require an adjustment to

20 how they schedule work and how -- when they bring in

21 their subtrades to bring in the gas fitter.

22   So -- so when we -- when we've met with

23 and discussed the concept of -- of natural gas as a

24 space heating source with some of the developers and

25 builders in the south gas available area, those are

321

1 things that they brought up, was issues related to

2 upfront capital costs, sequencing and timing of their

3 -- their operations and how it would affect them.

4   So these are some of the things that we

5 recognize we have to work with the builders in terms

6 to try to help encourage them to make a better choice

7 for their customers.

8   MR. BOB PETERS: Does Centra show the

9 homeowner pages 94 and 95 of the book of documents, or

10 the equivalent to that and say, Here, make up your own

11 choice?

12   MS. LOIS MORRISON: We have been much

13 more engaged in the market to make sure that

14 homeowners have this information. We recognize though

15 that when a homeowner is building a new home we are

16 competing in their decision-making process as to what

17 they're making dec -- when they're building a home

18 we're trying to get them to focus on the heating

19 system whereas they're trying to pick out their

20 granite countertops.

21   So when -- when -- we're trying to get

22 the messaging out to them at the appropriate time when

23 they're making these decisions at the home building

24 point, but we're also making sure that this

25 information is out in -- in that area to help them

 1 when they go to make the decision to buy a home or to,

 2 say, purchase a new heating system that they're making

 3 the heating system choice that best suits their

 4 economic situation.

 5   MR. BOB PETERS: And, Ms. Morrison,

 6 based on pages 94 and 95 at Tab 24 of Board counsel's

 7 book of documents, there's no debate that there are

 8 economic benefits to Manitoba Hydro and Centra Gas'

 9 customers to use gas for space heat as opposed to

10 electricity, and likewise for hot water?

11   MS. LOIS MORRISON: No, there's no

12 debate.

13   MR. BOB PETERS: All right. In terms

14 of the environmental benefits you mentioned briefly,

15 does this panel correctly understand that if

16 Manitobans use more natural gas, that will allow

17 Manitoba Hydro's electricity utility to export more

18 electricity, which will displace coal-generated

19 electricity, and therefore provide a global

20 environmental benefit?

21   MS. LOIS MORRISON: Where a customer

22 has access to natural gas as an option for space

23 heating we are -- we do recognize that there is a

24 benefit from a -- from a -- globally from an

25 environmental perspective at this point in time where

 1 the customer -- if they choose natural gas as opposed

 2 to electric heat, that then does free up electrons

 3 that can be available within our surplus supply pool

 4 that could be exported to the MISO territory that we

 5 trade to.

 6   I cannot say specifically what it's

 7 displacing, whether it's coal or a combination of

 8 coal, natural gas, et cetera. At this time we do see

 9 there to be an offset that is beneficial from the

10 environmental perspective -- for a global

11 environmental perspective.

12   MR. BOB PETERS: That benefit is to

13 export more electricity by using more natural gas in

14 Manitoba?

15   MS. LOIS MORRISON: That's correct.

16   MR. BOB PETERS: I didn't gather from

17 your previous answers, yours and Mr. Kuczek's to the

18 panel, does Centra currently have incentives to

19 encourage fuel switching, or at least a choice to go

20 natural gas at the -- at initial instance rather than

21 electricity?

22   MS. LOIS MORRISON: We do not

23 currently have incentives that encourage customers to

24 choose natural gas over electric heat. We do have

25 other tools in place that allow or aid customers in

 1 making that decision, such as they can use our

 2 residential Power Smart Pays program to finance the

 3 conversion, and we do provide quite a bit of

 4 information about the benefits of doing so.

 5   MR. LLOYD KUCZEK: I -- I can add to

 6 that. I -- I can say that the Corporation takes this

 7 very seriously. Our strategy is to aggressively try

 8 to educate customers so that the -- the demand is

 9 there on the builders and the developers to get them

10 to install natural gas space heating in the homes.

11 And we're also reviewing our service extension

12 policies to see if that's an appropriate tool to use.

13 But we don't think it's a good thing for customers to

14 have electric space heating put in their homes when

15 they have access to natural gas.

16   MR. BOB PETERS: Will the Corporation,

17 Mr. Kuczek, go so far as to put in disincentives to

18 use electric -- electric heat?

19   MR. LLOYD KUCZEK: I can only say

20 we'll consider it.

21   MR. BOB PETERS: And is it being

22 considered, or has it been? Can you tell the panel?

23   MR. LLOYD KUCZEK: Yes.

24   MR. BOB PETERS: And presently, they -

25 - there are none or there -- are there any?

 1   MR. LLOYD KUCZEK: There are none, but

 2 we are considering it.

 3   MR. BOB PETERS: Okay. I think that's

 4 as far as you want to go with me on that. And, Mr.

 5 Chairman, I just want to make sure with Mr. Czarnecki

 6 that I'm clear that my questions on cost allocation

 7 changes for demand-side management are best put to Ms.

 8 Derksen when she appears on the revenue requirement

 9 panel?

10   MR. BRENT CZARNECKI: That's correct,

11 Mr. Peters.

12   MR. BOB PETERS: Thank you, sir.

13 Likewise, Mr. Czarnecki, in terms of bill impacts,

14 that would be a matter again best reviewed with Ms.

15 Derksen?

16   MR. BRENT CZARNECKI: Correct again.

17   MR. BOB PETERS: All right. Then my

18 last issue, Mr. Chairman, with this panel is the fixed

19 rate primary gas service.

20   THE CHAIRPERSON: I would ask a -- a

21 question, if you don't mind, Mr. Peters, with respect

22 to demand-side management in particular. And it -- it

23 relates to what we've been talking about. And -- and

24 specifically, you know, at the last electricity rate

25 application this Board addressed the issue of the

 1 threshold evaluation tests that are used at the

 2 program level to determine whether or not a particular

 3 program would be worthwhile from Manitoba Hydro's

 4 perspective.

 5   And PUB suggested that those threshold

 6 tests be reviewed. Can you please advise the panel

 7 whether there has been any progress made with respect

 8 to addressing that particular element of the Board

 9 order?

10   MR. LLOYD KUCZEK: Maybe -- let me --

11 let me start with explaining how we come up with the

12 rationale on the natural gas side because it's -- it

13 is a little different than the electric side and less

14 complicated. So on the natural gas side, what -- what

15 we do is, there's no economic benefit from the utility

16 end to pursue energy conservation initiatives. So

17 what ends up happening is there is benefits for the

18 participating customers.

19   And so when we say that an opportunity

20 is economic that's, first of all, looking at it

21 irrespective of who is going to pay for it. But it's,

22 generally speaking, the benefits accrue to the

23 participating customer and -- and the avoided cost

24 would be the costs associated with buying the natural

25 gas and transporting it to Manitoba. So that's the

 1 avoided cost.

 2   So we -- we think it's the appropriate

 3 thing to do, is have some energy conservation programs

 4 promoting the efficient use of the energy -- natural

 5 gas in Manitoba. So in -- a number of years ago we --

 6 we launched the energy efficiency programs for natural

 7 gas. The challenge we had was trying to decide what

 8 was a -- and -- and we still have today with each

 9 program, is deciding what's an appropriate level of

10 investment on behalf of all ratepayers to achieve

11 this, because the benefits accrue to the -- the

12 participating customer.

13   So -- and -- and we also found that it

14 was important to be aggressive in the marketplace. So

15 what we did is we -- we set some crude benchmark

16 levels for pursuing those opportunities. And -- and

17 the marginal cost that I -- I talked about was they

18 avoided primary gas costs as well as transportation

19 and -- and we calculated the levelized cost of using

20 that energy that we can avoid. And on the residential

21 side, to give you an example, today that's thirty-four

22 (34) cents.

23   So the -- there's two (2) options. One

24 (1) would be -- that would be the value that the

25 participating customers are saving by not using that

 1 energy. So we should never spend more than that in

 2 theory, because otherwise you might as well just pay

 3 that -- the -- the bill reductions to -- or provide

 4 those to participating customers with the -- the

 5 dollars, so -- as opposed to implement the energy

 6 efficient measures, if you just think of it from an

 7 economic perspective.

 8   So, generally speaking, we were in the

 9 residential market thinking -- this is prior to the

10 cost of gas dropping, that we shouldn't spend much

11 more than half of that from -- from all -- using

12 ratepayer dollars for that, because the -- the

13 participating customers are realizing all the

14 benefits. And when we design programs that's the

15 upper limit, and the objective is is to try to get

16 customers to participate in those programs without

17 investing more than you need to. So, you know, that's

18 a judgment call.

19   So for -- give you an example, our home

20 insulation program costs us eleven point three (11.3)

21 cents levelized. The avoi -- voided costs or the

22 value to the participating customer is thirty-four

23 (34) cents. So that -- that gives you a benchmark.

24   Where we struggle with and I mentioned

25 this earlier was the furnace replacement program, if

1 you analyze that one it's over a hundred cents per

2 cubic metre. So it's a very expensive program, it's

3 not an economic program. So -- so the -- we struggle

4 with that in our own minds in terms of whether that's

5 appropriate use of ratepayer funds. But that program

6 was ordered actually by this Board.

7   And the lower income program actually

8 costs forty-one point eight (41.8) cents so it's not

9 economic either. We -- we see more value in that

10 program for -- for a different reason and that's

11 because we don't think those homes will ever be

12 insulated or likely will ever be insulated. Whereas

13 the furnace program, the furnaces are going to be

14 replaced anyway, so we're not as concerned there. But

15 we're -- we're still pursuing that program and -- and

16 promoting it because -- because of the order. And so

17 -- so that's the rationale underlying the natural gas

18 program.

19   So the RIM doesn't really come into

20 play. We calculated -- and I was listening to the

21 discussion at the hearings and there certainly is an

22 over-emphasis on our use of RIM that's not appro --

23 that's not valid.

24   We look at all these tests and at the

25 end of the day we look at them, as Mr. Dunsky

1 suggested, as guidelines, and you make a judgment call

2 in terms of how can you achieve those energy efficient

3 opportunities within the marketplace and being

4 fiscally responsible in terms of spending ratepayer

5 dollars.

6   On the electric side it's a little

7 different. The RIM does have more value on the

8 electric side but the economics there are different.

9 And then if you want me to get into that I can, but

10 it's -- it's more complicated.

11   THE CHAIRPERSON: I'm concerned about

12 introducing topics that some of the Board members have

13 not been exposed to.

14   Let me reflect on that some more

15 whether we should have a longer discussion on this and

16 we can -- I'll consult with Mr. Peters who can consult

17 with Mr. Czarnecki to address that. Thank you.

18

19   (BRIEF PAUSE)

20

21 CONTINUED BY MR. BOB PETERS:

22   MR. BOB PETERS: Can the panel briefly

23 explain to the Board the acronym "FRPGS"?

24   MS. LOIS MORRISON: "FRPGS" stands for

25 Fixed Rate Primary Gas Service.

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1   MR. BOB PETERS: And we'll probably

2 just call it the fixed rate service for our hearing,

3 unless you want to use the -- the acronyms. That

4 started back in 2009, Ms. Morrison?

5   MS. LOIS MORRISON: That is correct.

6   MR. BOB PETERS: And gas flowed under

7 the fixed rate program back in May of 2009, correct?

8   MS. LOIS MORRISON: That is correct.

9   MR. BOB PETERS: And under this

10 program, Centra Gas offers consumers an option that,

11 rather than purchase gas and have their primary gas

12 purchased from Centra subject to the quarterly price

13 changes, customers can pick a fixed-term price from

14 Centra Gas?

15   MS. LOIS MORRISON: Yes, they can

16 select a fixed price for a fixed term.

17   MR. BOB PETERS: And in addition to

18 Centra offering a fixed price for a fixed term, there

19 are natural gas retailers or brokers in the market

20 that likewise offer fixed-rate prices, correct?

21   MS. LOIS MORRISON: That is correct.

22   MR. BOB PETERS: And on page -- Tab 31

23 of the book of documents, if we can turn to that, on

24 page 117 we see a bit of a history of the fixed rate

25 program that Centra has offered, correct?

 1   MS. LOIS MORRISON: That is correct.

 2   MR. BOB PETERS: And just by way of an

 3 example, back in -- I guess we'll go to the top of the

 4 chart -- May and June of 2011, on the far right-hand

 5 column Centra's quarterly price was about fifteen and

 6 a half (15 1/2) cents a cubic metre, Ms. Morrison, for

 7 the July -- May 1st to July 31st portion of the year?

 8   MS. LOIS MORRISON: That is correct.

 9   MR. BOB PETERS: And if a customer

10 chose, they could purchase gas from a broker at

11 whatever the broker was charging or they could

12 purchase from Centra a three (3) year contract at

13 nineteen point seven five (19.75) cents a cubic metre?

14   MS. LOIS MORRISON: That is correct.

15   MR. BOB PETERS: And that nineteen

16 point five (19.5) cents a cubic metre was locked in

17 for three (3) years?

18   MS. LOIS MORRISON: Yes.

19   MR. BOB PETERS: And likewise, for

20 five (5) years Centra had a little bit higher price,

21 twenty point nine five (20.95) cents?

22   MS. LOIS MORRISON: Correct.

23   MR. BOB PETERS: And this program was

24 designed for customers who do not want volatility in

25 their primary gas rate?

1   MS. LOIS MORRISON: Yes.

2

3   (BRIEF PAUSE)

4

5   MR. BOB PETERS: If we look down to

6 the bottom of the page -- well, while we're at the top

7 of the page, the difference between the -- the Centra

8 fixed price options and the Centra quarterly rate that

9 this Board sets is somewhere in the range of maybe

10 four (4) to five (5) cents, or 25 percent more. Would

11 you agree with that?

12   MS. LOIS MORRISON: For that

13 particular offering, yes.

14   MR. BOB PETERS: If we go to the

15 bottom of your chart, Ms. Morrison, and we see -- just

16 a second, please. There's a -- perhaps a typo in the

17 chart at the bottom of the page, a typographical. The

18 -- the last offering shown in the chart is the

19 February 8th to March 11th, 2013, offering, not 2012?

20   MS. LOIS MORRISON: Yes. We

21 apologize.

22   MR. BOB PETERS: Well, no -- no

23 worries. I didn't see it until just now. And it --

24 it's for the gas that was to flow on May the 1st of

25 2013?

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1   MS. LOIS MORRISON: That is correct.

2   MR. BOB PETERS: And in that

3 particular instance, the current Centra quarterly rate

4 from February to April was about nine point six seven

5 (9.67) cents per cubic metre?

6   MS. LOIS MORRISON: That is correct.

7   MR. BOB PETERS: And yet the fixed

8 rate offering Centra was offering are set higher, more

9 like sixteen point nine (16.9) cents up to nineteen

10 (19) cents, correct?

11   MS. LOIS MORRISON: That is correct.

12   MR. BOB PETERS: So the difference

13 there is about a hundred percent more under the fixed

14 rate offering than the Centra quarterly offering,

15 correct?

16   MS. LOIS MORRISON: That is correct.

17   MR. BOB PETERS: And do you know what

18 your competitors are offering gas for at this point in

19 time relative to the offerings that you have in the

20 chart, at least the bottom -- the bottom quadrant?

21

22   (BRIEF PAUSE)

23

24   MS. LOIS MORRISON: It's usually quite

25 close to what we're offering. But we can get the

 1 exact details for you if you would like us to.

 2   MR. BOB PETERS: Well, I think it

 3 would assist the Board if they knew what comparable

 4 offerings were from -- from other gas retailers. And

 5 it looks like Mr. Sanderson is either taking an

 6 undertaking or has the answer.

 7   MR. BRENT SANDERSON: We're

 8 undertaking to get the equivalent offering prices from

 9 major retail competitors during the period that this

10 offering was in the marketpla -- marketplace.

11   But typically, in recent years, the

12 major marketers targeting the residential and small

13 commercial market would be offering prices a few

14 hundredths of a cent per cubic metre below Centra's

15 offering prices, would be the typical relationship.

16   MR. BOB PETERS: All right. And then,

17 Ms. Morrison, if you would undertake to provide the

18 Board with the comparable offerings by the -- the

19 major gas retailers, that would assist the Board.

20   MS. LOIS MORRISON: Yes, we can do so.

21   MR. BOB PETERS: Thank you, ma'am.

22   MR. GREG BARNLUND: Mr. Peters, if I

23 might add, the Public Utilities Board is good enough

24 to be posting those comparative rates on their

25 website, and if that makes sense, we would just access

 1 that information for this request.

 2   MR. BOB PETERS: This is where I say

 3 we'll take that as very reliable. Thank you, Mr.

 4 Barnlund. Does Centra have any other market

 5 reconnaissance but that -- but going to that website?

 6   MS. LOIS MORRISON: Those of us on the

 7 side offering the program do not.

 8

 9   (BRIEF PAUSE)

10

11   MR. BOB PETERS: Ms. Morrison, I'll

12 just put it on the record here and you can -- I'd ask

13 you to take this con -- subject to check, and then you

14 won't have an undertaking that for the comparable

15 offerings shown on the quadrant that is on page 117,

16 that your major residential small general service con

17 -- competitor, their rate isn't nineteen (19) cents a

18 cubic metre, it's eighteen point nine nine (18.99)

19 cents a cubic metre.

20   Would you accept that subject to check?

21   MS. LOIS MORRISON: Yes.

22   MR. BOB PETERS: All right. So then

23 we don't need that undertaking. But if we do hear

24 from you it's because you don't agree with my number

25 and I certainly will respect that.

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 1   Let's talk to the Board, if we can,

 2 about what the uptake has been relative to this --

 3 these offerings by turning to page -- Tab 32 of the

 4 book of documents. And there's a chart on page 120

 5 where the Board will see what the customer reaction

 6 has been to Centra's fixed rate offering, Ms.

 7 Morrison?

 8   MS. LOIS MORRISON: That is correct.

 9   MR. BOB PETERS: The number of

10 customers shown on the left-hand side of the graph

11 corresponds with the -- with the -- the bar chart,

12 correct?

13   MS. LOIS MORRISON: Yes.

14   MR. BOB PETERS: And the Board will

15 see that the number of customers that have enrolled --

16 and these are residential customers, or do you know

17 the -- not necessarily, correct?

18   MS. LOIS MORRISON: They are a

19 combination of residential, small commercial, and LGS.

20   MR. BOB PETERS: And so for the

21 edification of the Board, Centra makes available and

22 did make available a gas offering of a certain

23 quantity, and it was first-come first-served.

24   Would that be true?

25   MS. LOIS MORRISON: That is correct.

1   MR. BOB PETERS: And so the Board sees

2 that in the early days back in '09 that there were

3 customers in Mar -- in May of 2009 there was probably

4 around ninety-five (95) customers. It peaked out at

5 about a hundred and sixty (160) customers the next

6 flow offering that was made and the uptake has been on

7 the -- in the decline virtually since then?

8   MS. LOIS MORRISON: That is correct.

9   MR. BOB PETERS: And overlaid on this

10 graph for the Board, Ms. Morrison, is the quarterly

11 rate of Centra's published rate, and it also is shown

12 in the line graph with the -- the little squares that

13 are connected. That just depicts where Centra's

14 quarterly approved rate is from the Public Utilities

15 Board?

16   MS. LOIS MORRISON: That is correct.

17   MR. BOB PETERS: And when the rate was

18 higher, up as much as twenty-five (25) cents a cubic

19 metre, now it's down to less than ten (10) cents a

20 cubic metre, there appears to be a correlation with

21 the number of customers that are interested in -- in

22 the fixed rate program.

23   Is that something that Centra concurs

24 in?

25   MS. LOIS MORRISON: Yes, we concur.

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 1   MR. BOB PETERS: You concur with that

 2 conclusion?

 3   MS. LOIS MORRISON: Yes.

 4   MR. BOB PETERS: It might help the

 5 Board, Mr. Chairman, if we turned back to Tab 15 in

 6 the book of documents to page 54. And, Ms. Morrison,

 7 and witness panel, if you could also follow with us.

 8

 9   (BRIEF PAUSE)

10

11   MR. BOB PETERS: Ms. Morrison, on page

12 54, at Tab 15 of PUB Exhibit 10 is an Information

13 Request response from the Utility that provides some

14 customer numbers.

15   Do you have that?

16   MS. LOIS MORRISON: Yes, I do. Thank

17 you.

18   MR. BOB PETERS: And there is along

19 the left margin at line items -- line item 12, the

20 fixed price supply heading. And that is the customers

21 that have elected to purchase their gas by way of a

22 fixed-price contract.

23   Is that correct?

24   MS. LOIS MORRISON: Through Centra's

25 fixed-price contract, yes.

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 1   MR. BOB PETERS: And the reason you

 2 differentiated is that your competitor's customers

 3 would be shown elsewhere on the chart?

 4   MS. LOIS MORRISON: Yes, they would be

 5 shown under the western transportation service.

 6   MR. BOB PETERS: And they'd be shown

 7 under line 18, the western transportation service SGS

 8 residential customers, specifically as we talk about

 9 the residential customers at this time?

10   MS. LOIS MORRISON: Yes.

11   MR. BOB PETERS: And looking back to

12 line items -- line item 13, the SGS residential, here

13 the number of residential customers is shown, but this

14 represents the average number of customers in a year

15 that are on Centra's fixed-price program, correct?

16   MS. LOIS MORRISON: That currently

17 have active contracts, yes.

18   MR. BOB PETERS: And so what -- at any

19 point in time what you're saying in the 2013/'14

20 forecast is there are four hundred and eighty-six

21 (486) customers out of Centra's three hundred and

22 thirty-five thousand (335,000) customers that are

23 taking their gas from Centra on a fixed-price

24 contract.

25   MS. LOIS MORRISON: That is correct.

 1   MR. BOB PETERS: And some of those

 2 would be on a one (1) year term, some would be on a

 3 three (3) year term, and some would still be on a five

 4 (5) year term?

 5   MS. LOIS MORRISON: That is correct.

 6

 7   (BRIEF PAUSE)

 8

 9   MR. BOB PETERS: Does Centra find the

10 participation lower than what was expected by Centra?

11   MS. LOIS MORRISON: The participation

12 is in line with what we had anticipated based upon the

13 customer survey that was undertaken prior to launching

14 the initiative. In that sur -- in that survey, the

15 findings did show that as the price differential

16 between the quarterly rate and the fixed-rate offering

17 increased, participation decline -- would decline.

18   MR. LLOYD KUCZEK: There -- there was

19 two (2) things that came out of that market research.

20 One (1) was -- and I don't recall the specific

21 numbers, but customers were interested in -- expressed

22 an interest in fixed-price products. And there was a

23 -- a significant percentage of those, and I -- that's

24 the number that I don't recall.

25   But the component Ms. Morrison is

 1 mentioning is that when you drill down further and ask

 2 them questions about how much they're willing to pay,

 3 if the differential was too high they weren't willing

 4 to pay that. So as the differential increased, very

 5 few customers were interested. And so that's in --

 6 the participation in our program is in line with that

 7 research in general.

 8

 9   (BRIEF PAUSE)

10

11   MR. BOB PETERS: And back to page --

12 sorry, to page 117 at Tab 31, what you're saying, Mr.

13 Kuczek, is that as the -- as the price of the fixed

14 program gets further and further away from Centra's

15 quarterly rate, Centra expects the customer uptake to

16 be reduced and diminished?

17   MR. LLOYD KUCZEK: Correct.

18   MR. BOB PETERS: And the only

19 customers that -- that are perhaps taking the fixed-

20 rate offering at -- at current numbers would be those

21 who are what you would consider very risk adverse, and

22 they don't want to see any fluctuation. They don't

23 want any negative surprises in their gas bill?

24   MR. LLOYD KUCZEK: Yeah, we don't --

25 we really don't know why all those customers are --

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1 are doing that, but you -- there certainly is the --

2 some customers that are probably still feeling the --

3 the pain from the -- the per -- the decade of 2000

4 when the prices were volatile. And so they were

5 signing up.

6   I can give you an example. My dad

7 signed up for the fixed-price products when we first

8 launched them, paid twenty-seven (27) cents, suffered

9 for three (3) years, and he was still willing to sign

10 up after three (3) years. But he didn't after talking

11 to me.

12   MR. BOB PETERS: If we can turn with -

13 - to page -- Tab 33 in the book of documents, let's

14 just see if your father or someone similar in

15 demographics is recorded here, Mr. Kuczek. The

16 question that I want to ask is on -- in Tab 33, on

17 page 124. This is showing the Board, with the benefit

18 of hindsight, whether the fixed rate offerings by

19 Centra have been financially advantageous or

20 financially disadvantageous to the customer. Would

21 that be correct?

22   MR. GREG BARNLUND: Yes, Mr. Peters.

23   MR. BOB PETERS: So let's start then,

24 Mr. Barnlund, on May 1st of 2009, at the top of the

25 page. There was an offering of twenty-six point seven

344

1 (26.7) cents a cubic metre. This is for a one (1)

2 year contract. Is that correct?

3   MR. GREG BARNLUND: Yes.

4   MR. BOB PETERS: And in addition to

5 that -- and we won't identify Mr. Kuczek's father

6 specifically, but then there was the quarterly -- the

7 quarterly price at the time was twenty (20) -- twenty-

8 four point five (24.5) cents?

9   MR. GREG BARNLUND: Yes.

10   MR. BOB PETERS: And if a customer

11 stayed on for the full year under the fixed-price

12 offering, they would have paid six hundred and thirty-

13 three dollars and eight-five cents ($633.85) on their

14 annual gas bill for their primary gas, correct?

15   MR. GREG BARNLUND: That's correct.

16   MR. BOB PETERS: But had they remained

17 quarterly customers of Centra and suffered the

18 fluctuations, they would have paid five hundred and

19 thirty-one dollars ($531) on an annual basis?

20   MR. GREG BARNLUND: Yes.

21   MR. BOB PETERS: So the customer would

22 have been better off by a hundred and two dollars

23 ($102) if they would have stayed with Centra's

24 quarterly pricing?

25   MR. GREG BARNLUND: That's the

 1 difference between the quarterly pricing for that

 2 period of time and the fixed rate, yes.

 3   MR. BOB PETERS: And these -- on this

 4 page -- on 124, Mr. Barnlund, this represents various

 5 one (1) year contracts that the Utility has put out

 6 for offer, correct?

 7   MR. GREG BARNLUND: Yes, sir.

 8   MR. BOB PETERS: And would it be

 9 correct that in every instance of the one (1) year

10 contracts it has always been more expensive under the

11 fixed-rate program than under the quarterly program?

12   MR. GREG BARNLUND: Yes, and that

13 corresponds to the general and continual decline in

14 wholesale gas prices through the period of time that

15 these contracts were offered.

16   MR. BOB PETERS: Mr. Barnlund, on page

17 125 also at Tab 33, there's three (3) year contracts

18 depicted and Centra's currently -- may still have some

19 three (3) year contracts that have not yet fully

20 expired, correct?

21   MR. GREG BARNLUND: Yes. I believe

22 these are just reporting the contracts that have

23 completed.

24   MR. BOB PETERS: Yes. And if we look

25 again at the May 1st, 2009, at the top of the page,

 1 the first offering. If we look at the three (3) year

 2 offering and compare it to what the customer would

 3 have paid if they were on quarterly supply, the

 4 customer ended up paying a thousand and fifty-eight

 5 dollars and ninety-five cents ($1,058.95) more under

 6 fixed-rate offerings?

 7   MR. GREG BARNLUND: Yes, that's

 8 correct.

 9   MR. BOB PETERS: And the same question

10 I posed before is that in every instance under the

11 three (3) year contracts that have settled, the

12 customers have been financially disadvantaged by going

13 to the fixed-rate primary gas service?

14   MR. GREG BARNLUND: Yes, it was more

15 expensive for them to take service under fixed-rate

16 primary gas service.

17   MR. BOB PETERS: And having said

18 "financially disadvantaged" in my question, Mr.

19 Barnlund, I don't want to overlook the fact that in

20 the -- the witness panel's direct evidence, and I'm

21 not sure it was yours, but one (1) of the factors that

22 Centra cited in wanting to continue to offer this

23 program was customer choice?

24   MR. GREG BARNLUND: Yes, that's

25 correct. I mean -- there are other motivations why

1 people will be choosing us, I think you had alluded to

2 those in terms of risk preference, risk aversion, and

3 so some customers may still be interested in this type

4 of offering.

5   MR. LLOYD KUCZEK: Let -- let me add

6 to that too. I -- I think the other driver for it --

7 and this was -- the Board at the time when we -- we

8 did the review in the marketplace we had a hearing

9 involved with that, but I think the other driver was

10 to provide more competition and price transparency or

11 comparisons for our customers.

12

13   (BRIEF PAUSE)

14

15

16   MR. BOB PETERS: I take from your

17 answer, Mr. Kuczek, that what you're suggesting is

18 that one (1) of the other attributes of the fixed-rate

19 program from Centra's perspective is that it serves as

20 a benchmark that customers compare to -- to private

21 gas retailers?

22   MR. LLOYD KUCZEK: Yes.

23   MR. BOB PETERS: Mr. Chairman, in

24 light of the hour this might be an appropriate time to

25 take the -- the noon recess. I can indicate that I

1 certainly expect to finish within the hour after lunch

2 and turn the microphone over to Mr. Meronek for the

3 afternoon or the portion that he requires.

4   THE CHAIRPERSON: Before you -- we

5 recess, I wonder if you could turn your -- turn to

6 page 120 under Tab 32, specifically looking at the

7 chart that -- that graphs the new customers contracts

8 by enrollment period.

9   If you were to overlay a graph that

10 describes the new customers' contracts by natural gas

11 brokers, licenced natural gas brokers in Manitoba,

12 what would that graph look like?

13   MS. LOIS MORRISON: You -- if you

14 actually turn to Tab 15 of the filing you can see

15 under the western transportation service line the

16 number of customers. If you look at line 18, as Mr.

17 Peters had previously referred to, if you track over

18 time there you can see that there has been a decline

19 in the number of customers participating in the

20 western transportation service, and that would be the

21 private marketers offering the -- a similar fixed-rate

22 service. So their new customer sign-ups would

23 probably reflect very similar to what we are seeing.

24   THE CHAIRPERSON: And is that true in

25 other jurisdictions as well?

 1   MR. LLOYD KUCZEK: That's my

 2 understanding. The market for these products is

 3 dropping dramatically throughout North America.

 4   THE CHAIRPERSON: I think no further

 5 questions from the panel so we would -- we'll recess

 6 immediately and be back in this room at one o'clock.

 7 Thank you very much.

 8

 9 --- Upon recessing at 12:03 p.m.

10 --- Upon resuming at 1:01 p.m.

11

12   THE CHAIRPERSON: Good afternoon.

13 Back to you, Mr. Peters.

14   MR. BOB PETERS: Thank you. And good

15 afternoon.

16

17 CONTINUED BY MR. BOB PETERS:

18   MR. BOB PETERS: This morning, Ms.

19 Morrison, just before the lunch recess, the chairman

20 had a question of you that I just wanted to go back

21 and discuss in terms of customer numbers on the fixed-

22 rate primary gas service offering. And I'm going to

23 start on page 120, Tab 32, of the book of documents.

24   And are you on that page yet, Ms.

25 Morrison?

 1   MS. LOIS MORRISON: Yes.

 2   MR. BOB PETERS: Thank you. What the

 3 Board will note in the bottom right-hand corner of the

 4 chart and graph combined, is that on February 1 of

 5 2013 there were fewer than twenty (20) customers that

 6 had signed up for Centra's fixed-rate offering,

 7 correct?

 8   MS. LOIS MORRISON: That is correct.

 9   MR. BOB PETERS: And, in fact, if we

10 go to page 121 and look at the chart that was filed as

11 Appendix 13.3, and we look to the very bottom quadrant

12 on page 121, this represents the enrollment period and

13 the customer applications, as well as those who have -

14 - were activated as of February 1, 2013, Ms. Morrison?

15   MS. LOIS MORRISON: That is correct.

16   MR. BOB PETERS: And so on the bottom

17 of the page in that bottom quadrant, the third

18 quadrant from the left, it was contracts for

19 activation. It looks to me that for three (3) years

20 one (1) customer was activated for a five (5) year

21 contract. It was -- three (3) customers were

22 activated, for a grand total of four (4) customers?

23   MS. LOIS MORRISON: That is correct.

24   MR. BOB PETERS: And so that bar chart

25 on the previous page of 120 that was less than twenty

351

1 (20), it's -- it was actually four (4) people? Four

2 (4) customers?

3   MS. LOIS MORRISON: That is correct.

4   MR. BOB PETERS: And in terms of

5 customers, we can see also from the third quadrant to

6 the -- from the left on the bottom chart that the

7 customer composition of these four (4) who were flowed

8 gas on February 1st were all residential customers?

9   MS. LOIS MORRISON: That is correct.

10   MR. BOB PETERS: And the Chairman

11 asked you a question about, okay, if -- if that was

12 your experience -- that was February of 2013. I don't

13 think the materials have the May 1st customer numbers,

14 so can you just give us an estimate, or your best

15 information, as to how many customers?

16   And if we -- if we turn back to page

17 117, Mr. Chairman and Board members, we'll see on page

18 117, at Tab 32, the bottom of the chart shows that

19 there was a sign-up period between February 8th and

20 March 11th, 2013, not 2012 as we've corrected, and

21 customers were invited to sign up for gas at those

22 prices.

23   Correct, Ms. Morrison?

24   MS. LOIS MORRISON: That is correct.

25   MR. BOB PETERS: And do you have

352

1 customer numbers for the Board in terms of the actual

2 numbers of customers to whom Centra flowed gas on May

3 the 1st as fixed rate primary gas new customers?

4   MS. LOIS MORRISON: Yes, we do.

5   MR. BOB PETERS: And how many?

6   MS. LOIS MORRISON: We had a total of

7 seven (7) enroll (sic). All seven (7) were

8 residential. Six (6) signed up for a one (1) year

9 contract and one (1) signed up for a five (5) year

10 contract.

11   MR. BOB PETERS: And the Chairman

12 asked you as well if that's Centra's experience, what

13 is happening to the rest of the Manitoba retail

14 market? Specifically, I think this question was

15 directed toward the residential customers. And you

16 drew his attention back to Tab 15, and particularly

17 page 54 of book of documents counsel's book of

18 documents, correct?

19   MS. LOIS MORRISON: That is correct.

20   MR. BOB PETERS: Now, when you do

21 that, Ms. Morrison, and we go over to the 2013/'14

22 year, there's a number of Western Transportation SGS

23 residential customers shown as ten thousand seven

24 hundred and fifty-two (10,752), correct?

25   MS. LOIS MORRISON: That is correct.

 1   MR. BOB PETERS: But the Board has no

 2 way of knowing from this data how many of those

 3 customers are new as opposed to how many of those may

 4 have been -- may still be on the tail-end of a three

 5 (3) year contract, or the tail-end of a five (5) year

 6 contract, or the tail-end of a four (4) year contract?

 7   MS. LOIS MORRISON: That is correct.

 8   MR. BOB PETERS: Now, not by

 9 individual retailer, but does -- Centra able to

10 aggregate the private retailers, and provide the Board

11 with an estimate as to how many new customers they're

12 signing up for flow-dates such as the -- the ones

13 you've shown here either in February of 2013, or May

14 of 2013?

15   MR. BRENT SANDERSON: Mr. Peters,

16 given that I'm the manager in charge of the direct

17 purchase group at the Utility, I think there would be

18 some concerns regarding the protection of commercially

19 sensitive information that we're privy to by virtue of

20 our role as an intermediary between marketers and end-

21 use customers. And I think the Utility would be

22 concerned about even aggregating data at the level

23 that you've described, at that level of specificity,

24 given that we have a standard of conduct which we're

25 bound to adhere to in the protection of that marketer

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1 information.

2

3   (BRIEF PAUSE)

4

5   MR. BRENT SANDERSON: If -- I might as

6 well as the fact that, especially with respect to the

7 residential market, there are so few market

8 participants in -- active in the Manitoba market right

9 now for fixed-rate products, there could be the

10 ability to infer market share with that data, given

11 that it's easily -- well, easily uncovered as to who

12 is active in that market in Manitoba, and the number

13 of players is small.

14   MR. BOB PETERS: I'll leave it at that

15 and thank you, Mr. Sanderson. And if the -- if the

16 Board requires further information then we'll -- we'll

17 make a request, I suppose, for filing information

18 through confidence through your counsel, but not at

19 this time, sir.

20   Suffice it to say, and let me conclude

21 then, what -- the trend that was seen on page 54 that

22 Ms. Morrison brought to the Chair's attention before

23 the lunch recess, at Tab 15 of the book of documents,

24 tends to be the same trend Centra has seen with its

25 customer penetration rates for the fixed rate product.

 1   MS. LOIS MORRISON: I -- I was simply

 2 using it as a proxy, given that I am not privy to the

 3 information that was discussed earlier, that -- to

 4 demonstrate that the other marketers operating in

 5 Manitoba are likely seeing similar trends, given that

 6 their overall penetration, or their -- their overall

 7 customer counts in the market is diminishing.

 8   MR. BOB PETERS: Let's turn to the

 9 dollars and cents of this, because we've heard from

10 Mr. Kuczek that Centra, for the reasons stated, wants

11 to continue with the fixed-rate primary gas service,

12 correct?

13   MR. LLOYD KUCZEK: I'm not sure it's

14 Centra's position that we want to. We're -- Centra is

15 complying with the order to continue to offer these

16 fixed price products, but we haven't assessed whether

17 we should continue to do it in the future, based on

18 our own opinions.

19   MR. BOB PETERS: If Centra determines

20 internally that it, for whatever reasons, it does not

21 want to continue in this area, would the Board expect

22 Centra to come to the Board to seek approval for that

23 decision?

24   MR. LLOYD KUCZEK: I -- I think we

25 were taking the position that the -- if the Board

 1 thought that it was inappropriate for us to continue

 2 to do this, they would -- they would order us to do

 3 something different.

 4   MR. BOB PETERS: All right. So the

 5 Board has one (1) option to tell you not to do it, and

 6 Centra has an option that if Centra doesn't want to do

 7 it they'll -- they'll make that request to the Board?

 8   MR. LLOYD KUCZEK: That -- that is an

 9 option for us, yes.

10   MR. BOB PETERS: All right. Let's

11 turn to the dollars and cents of this matter and turn

12 to page 129, which is found in -- under Tab 34 of PUB

13 Exhibit 10. And to the panel, in looking at the --

14 the information on page 129 of Board counsel's book of

15 documents, can the Board conclude that up until the

16 end of fiscal 2012, the Corporation lost $2.2 million

17 in respect of its fixed-rate primary gas service

18 offerings?

19   MR. GREG BARNLUND: That's correct.

20   MR. BOB PETERS: And, Mr. Barnlund, we

21 see broken down year-by-year in this column that in

22 one (1) year, I suppose it was 2010, lost almost a

23 million dollars. In other years, the start-up year,

24 it lost closer to a hundred and forty-three thousand

25 (143,000) and so on?

 1   MR. GREG BARNLUND: Yes, sir.

 2   MR. BOB PETERS: What I don't see on

 3   this chart, Mr. Barnlund, is the 2013 number. Is that

 4   a number you're in -- in a position to share with the

 5   Board?

 6   MR. GREG BARNLUND: I don't have that

 7   number available at this point in time. We would be -

 8   - typically, we'd be providing that information to the

 9   Board in our annual report. Usually that would be

10   filed sometime later in the summer, I think. So I

11   don't have that information with me right now.

12   MR. BOB PETERS: The Board would

13   expect, whatever number it was, it would have brackets

14   around it?

15   MR. GREG BARNLUND: I'm not aware of

16   what the situation is right now. I'm sorry.

17   MR. BOB PETERS: All right.

18

19   (BRIEF PAUSE)

20

21   MR. BOB PETERS: What we do know from

22   the information, Mr. Barnlund, on page 129 -- and

23   there's a line item just above the $2.2 million total

24   that talks mark-to-market of unsettled hedges.

25   You're familiar with that line?

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1   MR. GREG BARNLUND: I see that, yes.

2   MR. BOB PETERS: And what you're

3 showing the Board is that since the inception of

4 Centra's fixed-rate primary gas offerings, in some

5 years Centra has been hedging the gas volumes,

6 correct?

7   MR. GREG BARNLUND: Yes, from the

8 outset of the program until a point in time in 2011, I

9 believe, we were replacing financial derivatives

10 associated with these offerings.

11   MR. BOB PETERS: And after

12 approximately August of 2011, no further hedging was

13 done on the volumes that Centra was selling in respect

14 of its fixed-rate offering?

15   MR. GREG BARNLUND: Yes, sir.

16   MR. BOB PETERS: And one (1) of the

17 reasons was the counterparties weren't prepared to

18 provide derivative instruments to the Utility because

19 the volumes were too small.

20   MR. GREG BARNLUND: That's our

21 understanding, yes.

22   MR. BOB PETERS: And Centra did hedge

23 some three (3) year and some five (5) year products,

24 and those still remain extant and they're out --

25 they're out there in the marketplace that are -- those

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1 -- those transactions are still valid. But the way

2 they're tracking right now it looks like they're

3 running at a loss of eight hundred and ninety-seven

4 thousand dollars ($879,000) based on the market to

5 date.

6   Would that be a fair interpretation of

7 the mark-to-market of unsettled hedges?

8   MR. GREG BARNLUND: Well, that would

9 have been the mark-to-market reported as of the end of

10 the fiscal year in 2012.

11   MR. BOB PETERS: You --

12   MR. GREG BARNLUND: Now I think

13 there's --

14   MR. BOB PETERS: I'm sorry. You can't

15 update us on anything more though, or can you?

16   MR. GREG BARNLUND: I believe there's

17 a -- an IR, that may be at page 131. I'm -- that

18 should be at page 131 of your book of documents, sir.

19   MR. BOB PETERS: And you're drawing

20 the Board's attention to a compilation of settled

21 results to -- to the last fiscal year end as well, as

22 the mark-to-market unsettled results as of last year

23 end, correct?

24   MR. GREG BARNLUND: These are settled

25 to March 31st of 2013, so that would be to the most

360

 1 recent year end, sir.

 2   MR. BOB PETERS: And as a result of

 3 this information, the total mark-to-market projection

 4 is now a three hundred and thirty-six thousand eighty-

 5 nine dollar ($336,089) loss or cost to Centra?

 6   MR. GREG BARNLUND: Yes, sir.

 7

 8   (BRIEF PAUSE)

 9

10   THE CHAIRPERSON: This may be an

11 obscure point, but I -- I do want to ask about

12 unsubscribed hedge impacts, bullet 3 -- footnote 3,

13 rather, which mentions that they -- you know, it

14 describes what that's all about. Perhaps, somebody

15 could explain to me what -- you wouldn't have costs

16 related to unhedged market price exposures ov -- over-

17 subscribed primary gas volumes.

18   I mean, you would have -- correct me if

19 I'm wrong. You would have taken a hedge out for

20 expected subscriptions that you thought customers

21 would undertake, right? You took a hedge position.

22 The subscriptions never showed up, so you had a hedge

23 position out there that had no counterparty; it

24 basically had no physical subscriber for. So you were

25 paying -- end up paying for that cost.

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1   Is that correct? Is that -- have I got

2 that correct?

3   MR. BRENT SANDERSON: With respect to

4 under -- under-subscribed hedges that's an accurate

5 description. Those would have --

6   THE CHAIRPERSON: Okay.

7   MR. BRENT SANDERSON: -- hedges would

8 have been placed on the expectation there would have

9 been subscribers to underpin those volumes, and then

10 the sum of the subscribers that were forecast for the

11 hedges that were placed on their behalf did not

12 materialize.

13   THE CHAIRPERSON: Okay. Now, the --

14 the opposite side of that would be over-subscribed

15 primary gas volumes that have been subscribed but not

16 hedged. In other words, you were exposed, you didn't

17 have a hedge position.

18   Would that -- would you have had a lot

19 of that?

20   MS. LOIS MORRISON: There were very

21 few volumes that were over-subscribed.

22   THE CHAIRPERSON: Okay. Okay.

23

24 CONTINUED EXAMINATION BY MR. BOB PETERS:

25   MR. BOB PETERS: Ms. -- I'm sorry, go

1 ahead.

2   THE CHAIRPERSON: Again, just to

3 clarify. The last line, "the mark-to-market of

4 unsettled hedges," those would have been for sus --

5 subscribed to contracts, wouldn't they?

6   MR. BRENT SANDERSON: As depicted in

7 these financial statements, that would have been the

8 cumulative total of both subscribed and unsubscribed

9 forward hedges.

10

11 CONTINUED EXAMINATION BY MR. BOB PETERS:

12   MR. BOB PETERS: Ms. Morrison, in your

13 answer to the Chairman that in some cases there may

14 have been volumes that were over-subscribed on which

15 there was no hedge put in place, that did occur on

16 occasion?

17   MS. LOIS MORRISON: Only marginally,

18 and we -- we try to keep it within plus or minus 1 --

19 1 percent. We were trying to stay very close to what

20 we had. Just sometimes the customer is coming in, it

21 was close enough that we allowed it.

22   MR. BOB PETERS: Would it -- would it

23 have been influenced by the weather being colder than

24 what was anticipated?

25   MS. LOIS MORRISON: No, it was based

1 upon weather normalized volumes.

2   MR. LLOYD KUCZEK: Back - back when we

3 first launched these problems and when we placed the

4 hedges, that -- we put limits on how many customers

5 could subscribe, and so we actually turned some

6 customers down on a few occasions. So the extent that

7 there was an over-subscription, it was only to that

8 extent that we allowed it and it was a marginal amount

9 that was insignificant, so -- and -- and we didn't

10 allow the customers beyond that point to actually

11 subscribe.

12   MR. BOB PETERS: So in -- in trying to

13 understand why these losses have been to the level

14 they have been, the chairman hit on the first point.

15 And that was the hedges that occurred on volumes that

16 were unsubscribed has -- have ended up costing Centra

17 some money?

18   MR. BRENT SANDERSON: Yes, that's

19 correct, to the extent that gas prices continued to

20 fall significantly after the placement of those

21 hedges, resulting in a payable amount to the counter-

22 parties on those hedges. Had the converse occurred,

23 we would have been looking at an unsubscribed hedge

24 gain on those instruments.

25   MR. BOB PETERS: But as it was, there

1 were no customers for those volumes. But Centra had

2 already placed the hedge, so Centra had to write the

3 cheque on the day that those hedges matured or

4 crystalized to -- to the counter-party?

5   MR. BRENT SANDERSON: Yes, over the

6 term of the hedge there's monthly settlements on the

7 swap (phonetic) instruments that we place on behalf of

8 these offerings. And so there's a monthly settlement

9 amount based on the market index price versus the swap

10 price embedded in the hedge.

11   MR. BOB PETERS: Mr. Sanderson, did

12 Centra try to unwind those hedges early?

13   MR. BRENT SANDERSON: No, we did not.

14 At the -- at the -- after the conclusion of the

15 marketing period, when it became clear that there was

16 a certain amount of excess hedges, the issue that we

17 faced was we were already paying an onerous embedded

18 dealer margin for the initial placement of those

19 instruments, in some cases, thirty (30) times what you

20 would consider an economic embedded dealer margin

21 because of the small volumes that were involved.

22   And so to unwind those hedges, number

23 1, we would have been in a vulnerable position as an

24 unwinder given that the dealer community knew that we

25 were hedging -- holding hedges that we didn't need.

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 1 And to unwind them would probably result in us paying

 2 again an even more onerous dealer margin to unwind

 3 those instruments. And it couldn't have been foreseen

 4 at the time, the future direction of prices after the

 5 conclusion of those marketing periods.

 6   And so that would have been, in a way,

 7 speculative to have unwound them. And if prices

 8 hadn't have fallen, we would have been left incurring

 9 a loss just by virtue of the compounded dealer margins

10 that we would have been paying on the initial

11 placement and the unwinding of those hedges.

12   So the decision was made for the

13 initial periods, at least, not to unwind those hedges.

14 But after a number of periods of under-subscription of

15 the hedges we began to look at alternatives to the

16 placement of hedges in support of these offerings even

17 prior to the dealer community refusing to participate

18 in our hedge transaction sessions.

19   MR. BOB PETERS: And that's led to

20 Centra self-hedging it, if I can use that terminology?

21   MR. BRENT SANDERSON: Self-insurance.

22 Self-hedging, if you will. Yes, that's -- either --

23 either of those terms are workable.

24   MR. BOB PETERS: It's Centra's

25 chequebook either way?

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 1   MR. BRENT SANDERSON: It's our

 2 objective to charge a premium at the outset to the

 3 customers electing these products that are

 4 commensurate with the risks that we are assuming on

 5 their behalf and that, over time, will compensate

 6 Centra for the risk that it is assuming on behalf of

 7 customers.

 8   MR. BOB PETERS: So the long-term goal

 9 is to break even?

10   MR. BRENT SANDERSON: If we had

11 perfect foresight and were able to drive a premium

12 that would make us even, dollar for dollar, no gain,

13 no loss, that would be the premium we would employ at

14 the outset. On certain markets being what they are,

15 that's not possible.

16   MR. BOB PETERS: Mr. Sanderson, in

17 addition to the unsubscribed hedging impacts, the

18 program operating expense has also contributed to the

19 -- to the negative results financially for the fixed-

20 rate program?

21   MR. GREG BARNLUND: Indeed, there are

22 operating expenses to administering the fixed-rate

23 program, and those are reflected in these financial

24 statements.

25   MR. BOB PETERS: And again, what I see

1 on -- on page 129, Mr. Barnlund, is that the

2 cumulative total as of the end of March 31, 2012, is

3 that the program operating expenses were still in a

4 deficit position of seven hundred and forty-eight

5 thousand dollars ($748,000)?

6   MR. GREG BARNLUND: Well, those are

7 the expenses certainly for the period -- that period

8 of time. I also note too that with each subsequent

9 year of the program, that the operating expense tended

10 to track downward over time.

11   MR. BOB PETERS: Does that reflect a

12 reduction in the staff EFT (phonetic) numbers in

13 respect of this program?

14   MR. GREG BARNLUND: Well, I'm not so

15 sure in terms of the EFT numbers, but it reflects a

16 general -- I guess, some increased deficiencies that

17 we've been able to obtain in terms of how we've

18 learned more and how we operate the program and -- and

19 some -- obviously some cost restraint measures in

20 terms of minimization of advertising expense and those

21 types of things.

22   MR. LLOYD KUCZEK: Yeah, we -- we

23 intentionally cut back on our marketing costs when the

24 price differential was so substantial, given that

25 there was very few customers interested. And that --

1 that kept us in the market, but -- in terms of

2 offering these prices and providing customers with a

3 benchmark price, and we tried to minimize our cost

4 while doing so.

5   MR. BOB PETERS: So how many staff or

6 EFT positions are -- are dedicated to this program,

7 Mr. Kuczek?

8   MR. LLOYD KUCZEK: There's nobody

9 working full-time on this. It's just a -- a part-time

10 job for a few individuals.

11   MR. BOB PETERS: And initially,

12 correct me if I'm wrong, Mr. Barnlund, but the theory

13 was these program costs were going to be recovered

14 over the volumes charged to the customers who

15 subscribed?

16   MR. GREG BARNLUND: That's our

17 intention.

18   MR. BOB PETERS: And that was the

19 intention since the inception, correct?

20   MR. GREG BARNLUND: That's correct.

21   MR. BOB PETERS: And what's happened

22 here to 4 is that there weren't as many volumes

23 subscribed and therefore the program costs have still

24 accumulated and haven't been fully -- fully amortized

25 or paid for?

 1   MR. GREG BARNLUND: Well, I wouldn't

 2 say that. The program costs that are occurring every

 3 year, or operating expenses we occur -- that we incur,

 4 unfortunately, as you noted the -- the customer uptake

 5 and the amount of volume consumption has been lower

 6 than what we would have expected. And so we have

 7 lower revenues.

 8   The only unrecovered costs we have are

 9 really the initial startup costs that were to be

10 amortized over a five (5) year period. All the other

11 costs are, as any other operating expenses of the

12 Corporation, we -- we experience those every year and

13 we have revenues that we would be looking to offset

14 those expenses. But in the case of this program the

15 revenues were insufficient.

16   MR. LLOYD KUCZEK: Yeah, and to be

17 clear so that the Board understands, the -- the cost

18 that we determined for charging these -- charging for

19 these fixed price products involve two (2) components.

20 One (1) was that risk premium and the other was

21 program costs, so. We -- we knew we were going to

22 incur those costs as Mr. Barnlund suggested. They

23 were -- they would be recovered if you had the volumes

24 in place that were forecasted.

25   MR. BOB PETERS: All right. And we'll

1 come to some specifics of that in the next few

2 minutes, but just to bring this to the Board's greater

3 attention, in terms of Centra's application at Tab 40

4 in the second volume of the book of documents, on page

5 146, one (1) of the express requests for which you're

6 asking approval of this Board is to approve the change

7 to the rate-setting formula for the fixed-rate primary

8 gas service to self-insure the volumetric and market

9 price risk for each subsequent offering, correct?

10   MR. GREG BARNLUND: Yes, sir.

11   MR. BOB PETERS: So let's now turn to

12 that then, Mr. Barnlund. Does this new methodology

13 incorporate a more accurate forecast of Centra's gas

14 costs at Empress?

15   MR. GREG BARNLUND: Are you -- are you

16 talking about the self-insurance approval we're

17 seeking?

18   MR. BOB PETERS: Yes, specifically the

19 -- I just wanted to make sure the Board was aware of

20 the request and the application which does include the

21 self-insurance.

22   MR. GREG BARNLUND: Okay. I'm not

23 sure which -- sorry, you had a tab? Your reference,

24 sir, that I was just kind of wrestling with?

25   MR. BOB PETERS: I had drawn the

 1 Board's attention back to Tab 40, 4-0, in the second

 2 volume, but that was your application, Mr. Barnlund,

 3 which -- which I'm sure you're very familiar.

 4   MR. GREG BARNLUND: Yes, sorry.

 5   MR. BOB PETERS: Just to indicate that

 6 now we're going to talk about the specific approvals

 7 that Centra is seeking to change the rate-setting

 8 formula for this fixed-rate offering so that it can

 9 self-insure the volumetric as well as the market price

10 risk for each subsequent offering that is made?

11   MR. GREG BARNLUND: Yes.

12   MR. BOB PETERS: Okay. And in terms

13 of the new methodology, do you want to describe

14 generally the methodology then?

15   MR. BRENT SANDERSON: With respect to

16 the underlying forecast of the weighted average cost

17 of gas associated with these offerings there -- the

18 proposed methodology involved some refinement relative

19 to the original methodology, because of the original

20 products involving a swap executed at the AECO

21 delivery hub.

22   For the sake of simplicity the

23 underlying weighted average cost of gas was assumed to

24 have been the swap price with the volumetric risk

25 premium added, because that was the price metric or

 1 benchmark -- or basis of the rate.

 2   Given that we are proposing to do away

 3 with the use of hedge instruments we propose to add

 4 the additional refinement of engaging in a detailed

 5 forecast of the weighted average cost of gas

 6 underlying each of the one (1) through five (5) year

 7 product offering in the process of calculating the

 8 requisite rates for each of those product offerings;

 9 which involves not only taking the futures' price for

10 the requisite terms at the AECO delivery hub, but also

11 incorporating, to the best of our knowledge, at any

12 given point in time, the pricing formulas embedded in

13 our supply contracts from Western Canada, the

14 calculation of compressor fuel in the TransCanada

15 mainline from the Empress receipt point to the MDA,

16 which is a component of our default primary gas rate,

17 and the forecast effects of storage on our weighted

18 average cost of gas in each of the forward periods.

19   And that resulting weighted average

20 cost of gas for each term of offering is the rate --

21 the cost base to which we propose to apply the self-

22 insurance risk premium in arriving at the base rate to

23 which the program cost rate as it exists from time to

24 time will be added in arriving at the billed rates to

25 be offered to customers.

 1   MR. BOB PETERS: Thank you, Mr.

 2 Barnlund, for the detail. The -- I'm sorry, Mr.

 3 Sanderson.

 4   The -- what you've told the Board is

 5 you've taken the way you used to determine what the

 6 rate was going to be, based on your hedging products,

 7 and now you've refined it to become more accurate to

 8 include things like the AECO to Empress transportation

 9 at or as well as the TCPL fuel charges and the -- the

10 related components?

11   MR. BRENT SANDERSON: As well as the

12 representative proportions of our purchases under a

13 base-load and swing component of our supply contract

14 as well.

15   MR. BOB PETERS: And you say you did

16 all of that then; you've added a risk premium on top

17 of that, correct?

18   MR. BRENT SANDERSON: That's correct.

19   MR. BOB PETERS: The old risk premium

20 was in the range of 5 percent and the new risk premium

21 that you're asking the Board to approve is in the

22 range of 8 percent, correct?

23   MR. BRENT SANDERSON: That's what

24 we've recommended, yes.

25   MR. BOB PETERS: And in Centra

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1 determining that the 8 percent -- the 8 percent

2 premium was the one to go with, was Centra using

3 market prices and actual weather from the past eleven

4 (11) years?

5   MR. BRENT SANDERSON: Yes. Our market

6 simulation studies involved going back through each

7 offering period throughout that eleven (11) year

8 period, and structuring offerings based only on the

9 information that would have been available to us at

10 any of the given points in time, and the -- letting

11 the financial results of each subsequent offering in

12 each market trial to calculate and unfold on the basis

13 of actual market price conditions, actual weather,

14 actual consumption.

15   So incorporated all of the actual

16 conditions, both volumetric and market price-wise that

17 existed over that period.

18   MR. BOB PETERS: Mr. Sanderson, maybe

19 to -- to put a point on it, way back in Tab 7 on page

20 14 of the book of documents was a chart that showed

21 the Alberta monthly reference price as well as

22 Centra's primary-gas billed rate.

23   Do you --

24   MR. BRENT SANDERSON: Yes.

25   MR. BOB PETERS: -- recall that on

 1 page 14 of Board counsel's book of documents?

 2   My question precisely then to you, sir,

 3 is: Were you using the red line information or the

 4 blue line information when you were doing your -- your

 5 analysis and your modelling to determine whether an 8

 6 percent risk premium was the right number?

 7   MR. BRENT SANDERSON: We were using

 8 the red line, the Monthly Alberta Firm Market Index

 9 price at AECO sev -- well, actually I should be -- I

10 should add this additional measure of clarification.

11 The financial results -- this is the foundation --

12 that was the foundation of the financial results, but

13 the financial results in our market trials under each

14 simulation were Centra's actual incurred weighted

15 average cost of gas. So, again, incorporating all of

16 our contract pricing terms and mechanisms and purchase

17 profiles that occurred throughout that entire period.

18   MR. BOB PETERS: But what you're

19 telling the Board now then is that you included

20 hedging in -- in your modelling to determine what the

21 -- those -- those prices were?

22

23   (BRIEF PAUSE)

24

25   MR. BRENT SANDERSON: Just had to

 1 think about that for a second. No, we stripped out

 2 the effect of our primary gas hedging program in

 3 support of our default quarterly primary gas rate from

 4 that weighted average cost of gas figures, to ensure

 5 that that didn't contaminate our analysis, so that we

 6 fully reflected the market volatility to which these

 7 products would have been exposed in the absence of any

 8 hedging activities.

 9   MR. BOB PETERS: Okay. Thank you for

10 that clarification.

11   Now, on page 137, which is at Tab 37 of

12 Board counsel's book of documents marked as PUB

13 Exhibit 10, Centra has provided some graphs which show

14 the hypothetical outcomes from those historical

15 modellings, Mr. Sanderson?

16   MR. BRENT SANDERSON: Yes, the range

17 of the distribution of outcomes amongst the -- across

18 the various trials we ran for the full market

19 simulation of this scenario.

20   MR. BOB PETERS: Can you explain

21 briefly the -- the three (3) coloured lines?

22   MR. BRENT SANDERSON: The black line

23 in the middle was the mean, or average result, of all

24 of the simula -- all of the trials comprising the

25 simulation. And the upper-bound is the best case, if

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1 you will. And the red line at the bottom is the worst

2 case of the entire time series.

3   MR. BOB PETERS: So if the Board

4 follows this result on page 137 of the book of

5 documents, and we'll -- we'll stay with the black

6 line, as you say that's the mean, the result of using

7 that would be less than a $2 million loss in the early

8 years of the program?

9   MR. BRENT SANDERSON: Yes, the worst

10 case loss exper -- experience would have been reached

11 in late 2005, early 2006.

12   MR. BOB PETERS: And this modelling

13 that's done, and the outputs which are shown on page

14 137, it reflects a falling market for natural gas?

15   MR. BRENT SANDERSON: I'm sorry, could

16 you repeat the question?

17   MR. BOB PETERS: Well, the -- the

18 modelling that was done, and the information that you

19 used and we saw previously in terms of what the

20 Alberta monthly price was, there's generally been a

21 declining market since -- since you started doing the

22 analysis?

23   MR. BRENT SANDERSON: Well, I -- I

24 wouldn't --

25   MR. BOB PETERS: Well, since 2008?

 1   MR. BRENT SANDERSON: Since -- since 2

 2 -- since 2 -- prices began to fall, generally, in

 3 2005, followed by -- there was a dramatic market event

 4 in 2008 that was part of the general commodity price

 5 bubble, if you will, that occurred globally in most

 6 energy and materials commodities. But the decline in

 7 price really accelerated after the summer of 2008.

 8   But of the period that we modelled, the

 9 May, 2000 through late 2005, early 2006 period, prices

10 were highly volatile and almost exclusively in an

11 upward direction over that period.

12   MR. BOB PETERS: Well, is the new

13 methodology robust enough to protect Centra's

14 ratepayers from adverse price movents -- movements

15 now, such as increases in prices?

16   MR. BRENT SANDERSON: Well, what I

17 would say is, is given the level of pricing today,

18 prices have further to rise than they do to fall. We

19 would -- I would say ge -- in general terms we're in a

20 market today more akin to the one (1) in May, 2000, or

21 the period at which we started this modelling.

22   And while I don't believe that there's

23 any methodology or economic premium that we could

24 employ that would entirely insulate Centra from the

25 risk of loss, we feel that the way that this

 1 methodology and an 8 percent premium performed during

 2 that five (5) year period, from 2000 to 2005, of that

 3 pronounced, sustained upward price volatility,

 4 demonstrates that it is quite robust in terms of -- or

 5 would have been quite robust in protecting the Utility

 6 from massive adverse exposure, if you will, to losses

 7 under a program like this.

 8   And that we believe that the 8 percent

 9 premium combined with the other supplemental measures

10 that we've identified in our application to act as

11 riverbanks, if you will, around the program to -- to

12 help to limit the runaway growth in losses. We feel

13 that we've struck a balance between reasonable level

14 of protection for the Utility against the short-term

15 risk of loss, while still making the products

16 available to customers at reasonable prices. And

17 those two (2) considerations have to be balanced.

18   MR. BOB PETERS: All right. But still

19 looking on the chart on page 137 at Tab 37, in -- in

20 the graphing of the risk margin distribution from '06

21 to '10, in the case of a rising market, Mr. Sanderson,

22 in that environment would the market -- would the

23 margin gains instead be margin losses?

24   MR. BRENT SANDERSON: I guess that was

25 the point I was trying to make in my earlier

1 statement, is that the period from May 2000 through

2 late 2005/2006 looks largely like a mirror image of

3 what occurred from 2005 through to the end of the

4 period that we studied. So it shows the -- this --

5 this distribution demonstrates the fact that it

6 provides a significant level of protection from, in a

7 rising market price environment, that is greater than

8 the participation that we would enjoy in a sustained

9 falling market price environment, which would be our

10 major concern.

11   MR. BOB PETERS: I'm interpreting your

12 answer, I'm not sure if the Board is likewise, Mr.

13 Sanderson, but if we look at page 137 in the chart we

14 see a point in time in '06 where it starts to -- the -

15 - it starts to rise, your -- your graph?

16   MR. BRENT SANDERSON: It does,

17 representing mar -- representing theoretical margin

18 gains we would have enjoyed on the program.

19   MR. BOB PETERS: And you're telling

20 the Board that we may consi -- or you may consider

21 yourself at the same point as you were in 2000 at this

22 point in time, so there's -- it's possible that the --

23 you'd see a repeat of the first half of the graph on

24 the second half of the graph if the -- if the prices

25 started to go up?

 1   MR. BRENT SANDERSON: I'm sorry. If

 2 you could just bear with me and repeat that statement.

 3   MR. BOB PETERS: Well, I was just

 4 trying to, and not -- obviously not very well, but in

 5 terms of looking forward as to what -- what could

 6 happen in terms of the market simulations you've done

 7 is that instead of an upward trend in terms of the

 8 margins, it would -- may be flatter if the -- if the

 9 mar -- if the market turned against the consumers and

10 started increasing?

11   MR. BRENT SANDERSON: We would

12 conclude from the results of our studies that if we

13 were to experience a repeat of the five (5) years that

14 we experienced in the 2000 through 2005 period we

15 would see results starting from a point of zero, more

16 akin to what you see in the first or left-hand side of

17 that chart, than a downward sloping series of negative

18 results of the magnitude you see of the positive

19 results in the right-hand side of the chart.

20   So I think we agree.

21   MR. BOB PETERS: I've got your point.

22 Thank you. So -- so now what has to be determined,

23 and maybe only the market will determine it, Mr.

24 Sanderson, is whether or not the rates that are set

25 with this 8 percent risk premium are going to be

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 1 competitive enough to attract customers, correct?

 2   MR. BRENT SANDERSON: And I guess

 3 that'll have to be left to customers to decide.

 4   MR. BOB PETERS: And -- and what are

 5 going to -- what -- what are -- well, now the rate is

 6 going to include a ri -- an increased risk premium,

 7 correct?

 8   MR. BRENT SANDERSON: Correct.

 9   MR. BOB PETERS: There'll be new

10 transportation costs that will be added?

11   MR. BRENT SANDERSON: Well, I -- I

12 wouldn't exactly characterize them as increased

13 transportation costs in all cases, given the fact that

14 the AECO to Empress market basis differential is

15 currently trading negative, in the particular market

16 circumstance relative to our prior methodology of just

17 using our embedded swap price there would be a lower

18 embedded weighted average cost of gas. So

19 incorporating the pricing differentials from AECO to

20 the Alberta-Saskatchewan border actually brings the

21 underlying cost down relative to the AECO index today.

22   MR. BOB PETERS: Isn't that -- is it an

23 anomaly?

24   MR. BRENT SANDERSON: At one time, we

25 wouldn't have expected to see a sustained relationship

 1 like that, but that has been a market circumstance

 2 that's prevailed for some time now and has to do with

 3 the value of liquids that are embedded in the natural

 4 gas stream from production in Alberta.

 5   And shippers are effectively paid to

 6 move gas from AECO to the Alberta-Saskatchewan border

 7 because of the high value of those liquids, which are

 8 stripped off from the industry straddle plants at the

 9 Alberta-Saskatchewan border before that gas leaves on

10 the transportat -- pipeline transportation system for

11 points east and south.

12   MR. BOB PETERS: Okay. And then, in

13 addition to the transportation costs, which you've now

14 indicated may end up actually lowering the WACoG,

15 there's -- new program costs are now higher that'll be

16 added to this -- to the offerings?

17   MR. BRENT SANDERSON: I wouldn't say

18 new program costs. There will be a program cost rate

19 applied over and above the self-insurance risk premium

20 as that rate is approved by this Board from time to

21 time. So we would only be looking to apply the

22 program cost rate based on the results of our cost

23 allocation study.

24   And I do believe that the rate that is

25 being proposed in this application is slightly higher

1 than the one that is currently being applied to these

2 products, but that is not a function of the proposal

3 regarding the self-insurance mechanism as such.

4   MR. BOB PETERS: Mr. Sanderson, back

5 on page 129, at Tab 34, I have a final area of

6 questions on this topic. You made a point previously

7 in one (1) of your answers to indicate that the

8 program operating expense was trending downwards. And

9 in fiscal -- as of March 31, 2012, we see the program

10 operating expense of a hundred and nine thousand

11 dollars ($109,000) for that year.

12   Have I got that right?

13   MR. BRENT SANDERSON: That's correct.

14   MR. BOB PETERS: And, Mr. Barnlund,

15 let's just suppose this program is approved by the

16 Board and with the changes you're now suggesting, can

17 the Board conclude that if no customers subscribe for

18 any more volumes under the program, the maximum annual

19 loss will be tied to the approximate hundred and nine

20 thousand dollars ($109,000) of program operating

21 expense in the year?

22   MR. GREG BARNLUND: No, I mean,

23 there's still some outstanding derivatives that would

24 have to be dealt with in terms of -- in those terms.

25 But the program costs themselves and the program cost

1 rate, I think probably there's more information that

2 Ms. Derksen would speak to because that is dealt with

3 in the cost allocation model and the rate design

4 process.

5   MR. LLOYD KUCZEK: But, Mr. Peters,

6 your point is valid and those costs will be

7 incremental and it'll be dependent on how aggressive

8 we are in terms of marketing the products. So aside

9 from the existing hedges in place and what might

10 happen there, the hundred thousand dollar range is not

11 necessarily a cap but it's what would be expected if

12 we're not expecting a significant uptake in the -- the

13 market.

14   MR. BOB PETERS: Thank you, Mr.

15 Kuczek. And I -- I think it's a good point Mr.

16 Barnlund made, and that is I was ignoring the

17 unsettled hedges which, of course, are -- are coming

18 due. But if we -- there is no more hedging going on

19 so these are -- these are legacy hedges, if that's a

20 word to describe them. And so the ongoing expense

21 will simply be the operating costs, is what -- is what

22 I was trying to get at.

23   MR. LLOYD KUCZEK: correct.

24   MR. BOB PETERS: All right.

25   MR. GREG BARNLUND: Maybe one (1)

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1 correction or addition to that is that there would be

2 still an additional year's worth of amortization

3 expensed to the startup costs.

4   MR. BOB PETERS: Thank -- Thank you.

5   MS. MARILYN KAPITANY: Could I just

6 ask one (1) question of clarification?

7   In the forecast on page 54 where you

8 said the forecast number of customers for this

9 program, so the 486 in the SGS residential, the

10 thirty-five (35) in commercial, and the ninety-six

11 (96) in the large general service, were those

12 forecasts done using the assumption that the 8 percent

13 risk premium would be approved?

14   MS. LOIS MORRISON: No, those

15 forecasts are based on our 2012 volume forecast. Our

16 forecast is being updated and will be -- it's actually

17 being updated right now for the volume forecast for

18 2013 and it will show a substantial decline in our

19 forecast for participation under the fixed-rate

20 offering, reflecting the current pricing we're seeing

21 in the market today.

22   MS. MARILYN KAPITANY: Because I think

23 it would be interesting to see the table on page 129

24 with the forecast primary gas revenue that you would

25 see in there, based on the -- the forecast customers

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1 that -- that you think will have uptake if the 8

2 percent was to be approved.

3

4   (BRIEF PAUSE)

5

6   MS. MARILYN KAPITANY: What I'm really

7 wondering is what is the projected bottom line for --

8 for this program if the 8 percent was to be approved?

9 Maybe -- I think that's probably what I should have

10 asked.

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

12 make clear that the self-insurance proposal is in no

13 way considered by Centra to be a foolproof means of

14 protecting the Corporation from the risk of loss under

15 this program.

16   We feel that it strikes a sound balance

17 between the -- the risk that the Corporation is taking

18 on on behalf of customers, but there is still the risk

19 of loss associated with this if market prices go --

20 continually rise after the making of subsequent

21 offerings under this program. There is a risk of loss

22 and there's no way to avoid that engaging in the sale

23 of these products.

24   We did extensive work in the

25 development of the original program proposal and --

1 and literally we -- we left no stone unturned. And it

2 is just not possible to structure some theoretical

3 type of derivative instrument that completely

4 insulates the Corporation from the risk of loss under

5 these activities. It is just not possible.

6   So we feel it strikes a balance between

7 all of the competing considerations, but this program

8 may incur losses. We think that over time, with a

9 long-term presence in this market and its continuation

10 throughout up and down market cycles, it will be

11 fairly robust and self -- self-supporting. But in

12 interim periods there may be losses.

13   THE CHAIRPERSON: If you don't mind,

14 I'll have a few questions to ask about the hedging

15 program. That program ceased -- you ceased using that

16 program when?

17   MR. BRENT SANDERSON: You're talking

18 with respect to the fixed rate primary gas service

19 exclusively? In August, 2011, we approached the

20 market to place instruments in support of a November

21 1, 2011th -- '11 offering that we were preparing to

22 offer to customers.

23   We had give -- been given significant

24 indication leading up to that by our derivatives

25 counter-parties that they were not in the business of

1 entertaining such small volumes in derivative

2 transactions and that the day was rapidly approaching

3 where they would just cease to respond to our phone

4 calls. And in August 11 -- 2011, when we sought to

5 engage counterparties to quote us on instruments, only

6 one (1) counterparty was even prepared to take part.

7   And with all of the concerns over price

8 discovery and the size of the margins that we might

9 have been forced to pay dealing with one (1) counter-

10 party, and the fact that our derivatives hedging

11 policy for the program requires us to have a minimum

12 of three (3) live transactable quotes in order to

13 engage in transactions, from that point on we were no

14 longer able to entertain the idea of placing

15 derivatives for this program.

16   And our counterparties informed us, by

17 and large, that they would need to see a transaction

18 volume for each offering that would be equivalent to

19 the annual consumption of about two thousand (2,000)

20 residential homes to even want to engage in these

21 transactions in the future.

22   THE CHAIRPERSON: In terms of losses,

23 I'm assuming if gas prices go up even modestly, then

24 the size of the mark-to-market loss for unsettled

25 hedges will decline.

 1   MR. BRENT SANDERSON: That is correct.

 2 The -- the functional effect of the unsubscribed

 3 hedges is -- has been that rather than insulating us

 4 from market price movements it, for all intents and

 5 purposes, leverages our exposure to those movements.

 6 So when gas prices go down we incur bigger and bigger

 7 losses on these unsubscribed hedges. If gas prices

 8 rise, that loss becomes smaller and smaller and could

 9 ultimately turn into a net gain over the remaining

10 life of these outstanding instruments.

11   THE CHAIRPERSON: So, make sure I

12 understand, so in anticipation of the contracts you

13 expected to sell to buyers, to residential customers

14 and others, you bought the futures positions?

15   MR. BRENT SANDERSON: I guess in

16 simple terms that's a good way to -- to conceptualize

17 it. But, no, we did not engage in futures market

18 transactions. What we purchased were average priced

19 fixed for floating swap instruments in the over the

20 counter market. So a custom-tailored swap instrument

21 structured to our needs by counterparties over the

22 phone. There is no standardized derivative instrument

23 on the market that we could have used to hedge these -

24 - these products.

25   THE CHAIRPERSON: But the effect of

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 1 that was to buy -- in effect, buy the futures. If

 2 there was a swap it was based on the futures price?

 3   MR. BRENT SANDERSON: Based on the

 4 futures, and -- and as I said, plus an implicit margin

 5 for the dealer structuring the instrument. And, as I

 6 said, there's means by which after the execution of a

 7 transaction we can reverse-engineer the futures price

 8 out of our swap price at the time of the transaction

 9 and get some fairly good intelligence on the margin

10 that the dealers were embedded -- embedding in these

11 products. And they were oftentimes quite significant.

12   THE CHAIRPERSON: So I -- my question

13 is, I'm intrigued as to why you would take a futures,

14 or the equivalent of a futures position, without

15 having sold the -- the physical contract to a

16 customer? You know, why did you anticipate the buying

17 of a -- or the entering into of a contract by a

18 residential customer, for example, and -- and buy the

19 futures, or take a -- a futures position? Why not do

20 it after the fact, in other words, wait for the

21 contract to be signed and then -- and then enter into

22 the futures positions?

23   MR. BRENT SANDERSON: Well, in the

24 market simulation studies that we had done with the

25 historical period available to us in developing the

1 original proposal, during those periods of often

2 astonishing market volatility there were periods

3 where, between the time we made the offering and then

4 had full discovery or transparency in terms of what

5 our exposure was in terms of sign-ups, there were

6 periods where the market had moved against us as much

7 as one (1), two dollars ($2).

8   So to hedge after the fact would have

9 meant oftentimes going out to the market and locking

10 in a -- a two dollar ($2) gigajoule loss or a three

11 dollar ($3) gigajoule loss on a product, so it wa --

12 didn't work from that perspective.

13   THE CHAIRPERSON: A residential

14 customer that entered into a contract with Centra and

15 decided to cancel the contract left you exposed with

16 the future's market, right?

17   MR. BRENT SANDERSON: No, sir. For

18 customers who entered into contract with us for which

19 we placed underlying hedges in support of that

20 offering, to terminate that contract early involves a

21 calculation of the market-to-mark (sic) position of

22 the hedge associated with their particular offering

23 that is unsettled at the time they wish to unwind that

24 contract. Then they have to pay out the mark-to-

25 market position of that portion of the hedge

1 instrument placed in support of their particular

2 offering.

3

4 CONTINUED BY MR. BOB PETERS:

5   MR. BOB PETERS: Mr. Sanderson, Board

6 member Kapitany, as well as the Chairman, had a

7 question related to the -- the losses in the current

8 program. And your -- your answer certainly, with

9 respect, had some qualifications in it that -- that

10 there can be -- there can be significant losses that

11 could result, ostensibly, if the market is more

12 volatile than your modelling presupposes, correct?

13   MR. BRENT SANDERSON: Volatility per

14 se is not necessarily bad. Sustained, continued,

15 unrelenting upward price volatility would be mu --

16 would be -- would be what would be of most concern to

17 us.

18   MR. BOB PETERS: Included in your

19 proposal before this Board you called them

20 "riverbanks". I think the evidence calls them

21 "triggers", or I do. The -- there are triggers that

22 are -- are thresholds at which point in time Centra

23 would come back before this Board to review the fixed

24 rate program.

25   Have I got that right?

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 1   MR. BRENT SANDERSON: Yes, not only

 2 would we -- well, I should back up. The first order

 3 of business would be to review the program, and if

 4 remedial action is required we would address that

 5 internally at the Corporation. And if it's deemed

 6 desirable to take some remedial action, we would then

 7 approach the Board to share those plans with the Board

 8 and hopefully seek their approval to do so.

 9   MR. BOB PETERS: All right. But what

10 would cause Centra to -- what would precipitate Centra

11 in doing those reviews if this program is approved and

12 -- by the Board, is that there are some threshold

13 points that Centra has built in to its internal

14 program to make sure that this program, I think you

15 said, doesn't run away on you?

16   MR. BRENT SANDERSON: That would be a

17 good way to describe it.

18   MR. BOB PETERS: And -- so let's go

19 through those threshold or those four (4) trigger

20 points that I've called them. And the first of which

21 is -- it's a based on annual sales in a particular gas

22 quarter.

23   MR. BRENT SANDERSON: Do you have a

24 reference that we could refer to, in terms of the

25 evidence?

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 1   (BRIEF PAUSE)

 2

 3   MR. BOB PETERS: Mr. Sanderson, I did

 4 not put that in my book of documents, but let me help

 5 you with it this way. As I understood your evidence,

 6 and you'll correct me if I'm wrong, is that if half of

 7 1 percent of annual sales migrate to the fixed-rate

 8 program in any one (1) gas quarter, that will cause

 9 Centra to snap to attention to review this program?

10   MR. BRENT SANDERSON: Yes, sir.

11   MR. BOB PETERS: And -- and why do you

12 -- why does Centra pick a half of 1 percent as a

13 trigger, a threshold?

14   MR. BRENT SANDERSON: In terms of

15 quarterly migration to the program, the results of a

16 program like this are very much driven -- or can tend

17 to be driven by the extent to which the customers

18 who've subscribed to the offerings cluster on any

19 given one (1) set of offerings.

20   If you end up with, for example, 80

21 percent of your total market-share on the one (1)

22 offering that ultimately turns out to lose money,

23 that's not something that we would want to encourage,

24 because that exacerbates our exposure to market events

25 following one (1) period in time.

 1   So it would be our desire to see, if --

 2 if at all possible, to spread our customers temporally

 3 throughout time so that they're more evenly

 4 distributed, so that we can enjoy the diversification

 5 benefits of all the various offsets throughout rising

 6 and falling market prices and offering prices set at

 7 different levels in different market conditions.

 8   MR. BOB PETERS: Well, it -- it says a

 9 half of 1 percent of annual sales would migrate to

10 this program. Compared to where you are now that's an

11 explosion. That's a -- that's a lot more customers

12 running up for this program, correct?

13   MR. BRENT SANDERSON: I think when we

14 introduced this program, I think we would have

15 originally thought that that's probably not something

16 outside the realm of possibility. But relative to

17 what we've experienced thus far, it's significantly

18 more than we've experienced in any one (1) gas

19 quarter. But we wanted to set that threshold at a lev

20 -- level sufficiently low, that if demand does

21 increase markedly in the future, that we're not caught

22 flatfooted, if you will, in that period of rapidly

23 rising customer demand without some limits on that

24 migration.

25   MR. BOB PETERS: Thank you. I think

1 your terminology's a bit softer than mine. The two

2 (2) and -- the second threshold that Centra is going

3 to embed in its program is that if 2 1/2 percent of

4 annual sales become enrolled in this fixed-rate

5 primary gas service that may have a cap of 5 percent,

6 that will also trigger a review?

7   MR. BRENT SANDERSON: We feel it would

8 be prudent to conduct an interim review of the program

9 and all other related exposures when we reach of a

10 level of par -- participation of that level. Even

11 though we envision accommodating customer demand up to

12 5 percent, we just feel it would represent sound

13 discipline to have a benchmark that would cause us to

14 do a comprehensive review of all aspects of the

15 program well before we're approaching that -- that

16 anticipated upper limit on participation.

17   MR. BOB PETERS: And then, in terms of

18 quantifying a threshold, if there's a million dollars

19 of -- of settled program losses, that will also

20 trigger the review by Centra?

21   MR. BRENT SANDERSON: Yes. And just

22 if I might add the clarification, that it's our

23 intention to calculate that million dollars only

24 including the offerings that were not placed with

25 hedges underlying them in support, to effectively

 1 isolate the self-insurance approach to these

 2 offerings.

 3   MR. BOB PETERS: All right. So if I

 4 turn back to page 129 of the book of documents -- I

 5 was looking at the fiscal years -- and I -- I wa -- I

 6 was -- I want you to explain to the Board, where does

 7 this million dollars start getting added up from?

 8 What's -- what's the start date?

 9   And I'm hearing you say that it'll be

10 presumably after August 11th -- after August 2011 flow

11 dates?

12   MR. BRENT SANDERSON: For all

13 offerings, including and after November 1st, 2011/'12.

14   MR. BOB PETERS: And if cumulatively

15 those offerings result in a million dollars of program

16 losses, that will again trigger a review?

17   MR. BRENT SANDERSON: Yes, sir.

18   MR. BOB PETERS: And then there was

19 also a trigger for a million dollars related to

20 unsettled program losses, correct?

21   MR. BRENT SANDERSON: Yes.

22   MR. BOB PETERS: How do -- how do they

23 differ from settled losses to unsettled losses?

24   MR. BRENT SANDERSON: Well, the first

25 threshold that you described, these settled, is a

399

1 backward-looking measure, so it's money in the bank,

2 or otherwise -- or the converse as money bad, if you

3 will. And the unsettled mark-to-market is the

4 forward-looking measure, looking at our -- our

5 unsettled or forward-looking exposure based on our

6 book of products and the volumes that have yet to flow

7 under those offerings and market prices at the time.

8   MR. BOB PETERS: In the event, Mr.

9 Sanderson, of large settled or unsettled losses, what

10 can Centra do about that?

11   MR. BRENT SANDERSON: It will depend

12 on the circumstances at the time. When considering

13 all of the relevant factors associated with it, it is

14 hard to conclusively say what we -- what we would do.

15 But given that the self-insurance concept implies that

16 over time you would hope to accumulate some degree of

17 risk capital to cover off future potential losses,

18 just as a -- as just an example, if you were looking

19 at a $1 million unsettled forward mark-to-market loss,

20 if you were fortunate enough to be sitting on a $2

21 million accumulated gain from past settled results,

22 that -- when those two (2) factors are combined, a $1

23 million forward unsettled mark-to-market loss may not

24 be as troublesome as it would be in another market

25 circumstance given that it's our goal to just cover

1 our costs over the long-term with these products.

2   Other action that we could take

3 depending on market circumstances, if I were to look

4 at the converse of the situation, if we were to be

5 reaching that $1 million backward-looking settled

6 threshold limit, yet our forward-looking exposure was

7 in a net gain position, if the volumes were sufficient

8 in terms of that upcoming business that would allow us

9 to place an economic hedge, it may be an option for us

10 to go out now and with -- knowing with certainty what

11 our future business is under the program and the

12 descriptions (phonetic) thereunder, we may be able to

13 approach the market and place an economic hedge and

14 lock in that game. And -- which may be function

15 conceptually like resetting the program to zero.

16   There may be other options available to

17 us but I can't -- I can't foresee all of the possible

18 combinations of market circumstances that we might

19 encounter at the time that we reach one (1) of those

20 thresholds, which is why we intend to conduct a

21 comprehensive review and weigh all factors.

22   MR. BOB PETERS: I just want the Board

23 to be clear on: If any of these triggers are met,

24 they can be met to -- one (1) of them or in

25 combination a number of them, correct, that would be

 1 cause the review?

 2   MR. BRENT SANDERSON: That's possible.

 3 It's always a possibility they could all converge

 4 simultaneously. We may never hit any of them. We may

 5 reach one (1) or another of them infrequently. It's

 6 hard to say.

 7   MR. BOB PETERS: And in that instance

 8 is the Board going to be notified that the Utility is

 9 having an internal review, or is it going to prompt

10 the Utility to come back before the Board to discuss

11 the future of that program?

12   MR. GREG BARNLUND: We would do some

13 initial, I guess, examination within the Corporation,

14 try and understand exactly what the situation is and

15 what our position was and then we would inform the

16 Public Utilities Board in due course.

17   MR. BOB PETERS: The last line of

18 questioning before I turn the microphone back to the

19 Chair and perhaps over to CAC --

20   THE CHAIRPERSON: Could I -- Mr.

21 Peters, before you move on to another topic, and I

22 assume you are -- are you moving on to -- or are you

23 staying with the fixed-price offering?

24   MR. BOB PETERS: I'm going to stay

25 with the fixed-price offering but a different issue.

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 1 Shall I continue?

 2   THE CHAIRPERSON: I have some

 3 questions --

 4   MR. BOB PETERS: Okay.

 5   THE CHAIRPERSON: -- I'd like to ask,

 6 please.

 7   The -- I suppose the question that --

 8 that I'm asking is in terms of, you know, having

 9 adequate protection for Centra in relation to the

10 contracts it enters into. I'm wondering -- you know,

11 I know the AECO futures prices don't go that far out,

12 and I -- you indicated, you know, five (5) year

13 contracts.

14   How do you establish the pricing in

15 respect of the longer term contracts? Are you using

16 the nearby prices as the basis for -- could you

17 explain that to me, please?

18   MR. BRENT SANDERSON: On the Natural

19 Gas Exchange, the AECO futures contract trades at

20 seventy-two (72) discrete months. So we have a

21 forward period that will allow us to incorporate a

22 discrete futures price monthly as far out as we intend

23 to offer these products.

24   THE CHAIRPERSON: And I suppose the

25 question is that -- you know, one (1) option that's

1 available to -- to Centra and this Board would be that

2 -- asking for more -- or thinking about more of a

3 protection to prevent losses on contracts entered in -

4 - into with -- with customers -- with residential

5 customers and so on.

6   MR. BRENT SANDERSON: I would not

7 purport that this is necessarily the optimal level to

8 set this -- this variable at, the self-insurance risk

9 premium. It, as I said, for Centra it balanced all

10 the competing considerations in an acceptable manner

11 to Centra. There -- there could be a differ -- there

12 could be a differing opinion as to what the right

13 level is for the Utility. We feel that it balances

14 these considerations to our satisfaction.

15   Directionally, I can tell you that the

16 higher the premium the more protection Centra enjoys

17 in offering these products. The lower the premium the

18 more risk we will be exposed to. So that -- that

19 directional relationship will hold.

20   THE CHAIRPERSON: Some -- some comment

21 made or at least some evidence provided that, you

22 know, the contracts price -- the contract price

23 offered by Centra are mirrored by independent brokers

24 that are going door-to-door. Fundamentally, there's

25 really no difference between your price offering verse

 1 -- versus competing price offerings.

 2   Did I get -- understand that correctly?

 3   MR. BRENT SANDERSON: I would want to

 4 be careful about implying that I have knowledge of why

 5 marketer -- independent marketers charge what they do.

 6 What I can say is -- observationally, is when Centra

 7 entered this market it was clear that there was a

 8 competitive response in that marketers' prices

 9 converged very close to Centra's benchmark price, and

10 typically are just slightly less than Centra's

11 offering prices. So that's something that we did

12 observe in the marketplace. I -- you know, it -- it

13 may just be a curious coincidence, I really can't tell

14 you what brokers' motivation or marketers' motivation

15 was in doing so.

16   THE CHAIRPERSON: Now, looking to

17 other jurisdictions where such price-offerings are

18 available, I'm wondering how does your -- how do hun -

19 - Centra's contracts -- contract prices compare to

20 those? In other words, looking at Saskatchewan or

21 Ontario, competing jurisdictions, or nearby

22 jurisdictions, fixed-price contract offerings by

23 entities in those markets, how do they compare --

24 compared to Centra's? I -- I realize there are

25 differences, but I'm just wondering how -- how close

405

 1 are we, or -- or can you look to those jurisdictions

 2 as the models for what people are offering?

 3   MR. BRENT SANDERSON: Are you

 4 referring to third-party marketers offerings or

 5 utility offerings?

 6   THE CHAIRPERSON: Utility offerings.

 7   MR. BRENT SANDERSON: It's very

 8 unusual for a utility to be engaged in this line of

 9 business, I can tell you that. I've had conversations

10 with a number of my colleagues across North America

11 and they are watching Manitoba intently as a model,

12 because typically it's outside the normal risk profile

13 of a regulated utility to engage in these product

14 offerings. So its -- to my knowledge, there is no

15 other regulated utilities, to my knowledge currently,

16 that are offering fixed-rate products to customers.

17   THE CHAIRPERSON: So let's go back to

18 the original question, in terms of how do your prices

19 compare to, say, the prices being offered to a -- a

20 customer in Saskatchewan by -- by a private entity on

21 the fixed-price offerings? And I'm just -- just

22 general terms.

23   MR. BRENT SANDERSON: I -- I would

24 have to take that as an undertaking. I don't have

25 that information at hand. If it helps, one (1) thing

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1 I can tell you is we've studied the market for these

2 products in Manitoba quite intensely over time. And

3 with the knowledge of the underlying market, we are

4 able to discern the margin that these products would

5 have embedded into their prices before Centra's entry

6 into this market.

7   And, again, not purporting to know the

8 reasons why, but the margins that were charged on

9 these products in Manitoba prior to Centra's entering

10 the market, as a premium over the futures price at

11 each point in time, were much higher than they have

12 been since Centra's entry into the market.

13   Again, it -- it -- the timing is

14 consistent with our entry into the market. But if

15 we're looking for competitive offering prices in other

16 jurisdictions, I would have to take that as an

17 undertaking to gather that data.

18

19   (BRIEF PAUSE)

20

21   MR. BRENT SANDERSON: And -- and I

22 might also add an additional level of qualification.

23 Their products will differ amongst markets. It's --

24 it may be very difficult to find a directly comparable

25 product due to transportation differences, distances

1 from basins to markets, how the given commodity

2 product is structured in the market, what -- what is

3 included in that product; is it just commodities, is

4 it commodity in upstream transportation?

5   You tend to get these differences in

6 the rate mechanisms amongst jurisdictions, so just

7 price may not tell the entire story. Another

8 jurisdiction may feature higher prices, but they may

9 include other features that aren't inherent in our

10 products.

11   So it requires a lot of examination to

12 make sure that it's an apples-to-apples comparison,

13 because just something as simple as our quarterly rate

14 offering is not an easy metric to compare across

15 jurisdictions, because there's differences in most

16 jurisdictions' rate offerings in terms of what they

17 comprise.

18   MR. BOB PETERS: Mr. Sanderson, I

19 think through your counsel and Mr. Czarnecki, the

20 Board will accept that undertaking and -- and with --

21 and I recognize you have made some qualifications to

22 explain it better, but you can also repeat those in

23 the undertaking, if you would, through your counsel.

24   MR. BRENT CZARNECKI: Certainly, we'll

25 endeavour our best.

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1   MR. BOB PETERS: Thank you for that.

2

3 --- UNDERTAKING NO. 4:   Centra to indicate, in

4   general terms, how its

5   prices compare to the

6   prices being offered to a

7   customer in Saskatchewan

8   by a private entity on the

9   fixed-price offerings

10

11 CONTINUED BY MR. BOB PETERS:

12   MR. BOB PETERS: The last issue that I

13 have for this panel, Mr. Chairman and Board members,

14 is to perhaps turn to the very last page of the book

15 of documents, which is a -- a good sign. And on the

16 very last page, 144, under Tab 39 of the book of the

17 documents, there's an extract from Board Order 156 of

18 '08 which was authored when, I believe, Mr. Mayer was

19 the Vice Chair of the Board, although he wasn't on

20 this panel. There's a paragraph, just second from the

21 bottom, and I'll read it. It says:

22   "Therefore, the Board requires

23   Centra to include its regulatory

24   costs, both the costs incurred to

25   date and anticipated future

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 1   regulatory costs, in its cost

 2   allocation model. This will yield a

 3   new PCR

 4   rate], which Centra must submit to

 5   the Board for approval."

 6   I read that fairly accurately, Mr.

 7 Kuczek?

 8   MR. LLOYD KUCZEK: Yes, you did.

 9   MR. BOB PETERS: And thank you, Mr.

10 Barnlund. Back on page 133 of the book of documents

11 under Tab 36, can you tell the Board, Mr. Barnlund, if

12 any regulatory costs are included in the program cost

13 rate that Centra is proposing for its fixed rate

14 primary gas service?

15   MR. GREG BARNLUND: It would be found

16 in two (2) places. One (1) would be in this -- I

17 think we could look to the schedule here on page 133.

18 When we look at our actual costs in the rate

19 department area, that would be regulatory costs that

20 are charged against those orders.

21   I'd have to check with Ms. Derksen in

22 terms of what's contained in the cost allocation model

23 for this year's budget. And that's maybe something we

24 could address next week

25   The other item is, of course, the

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 1 startup costs that are amortized into the program cost

 2 rate. And those represent the regulatory costs that

 3 were incurred upon startup of the program.

 4   I'd have to say though that, generally

 5 speaking, the regulatory costs associated with the

 6 ongoing administration of the program are minimal.

 7 The rate setting mechanism is quite efficient.

 8 There's very, very little labour or -- or employee

 9 time involved in the development of the various rates

10 for the price offerings and the submissions of those

11 to the PUB.

12   MR. BOB PETERS: Mr. Barnlund, I

13 gathered from your answer that under "rate

14 department," that's one (1) of the line items where

15 the regulatory cost would be captured in the normal

16 course?

17   MR. GREG BARNLUND: Yes, sir.

18   MR. BOB PETERS: And we -- we see that

19 for the '12/'13 budget it's budgeted at zero dollars?

20   MR. GREG BARNLUND: Yes, I see that.

21   MR. BOB PETERS: Recognizing it's a

22 budget, not actual, we also don't know what the

23 forecast or budget will be for the test year, do we?

24   MR. GREG BARNLUND: We don't. But

25 generally speaking, when we're budgeting overall for -

 1 - for budgeting purposes for the Corporation, these

 2 numbers are extremely small. And so, you know, I'm

 3 not sure in terms of what would be contained in the

 4 test year budget with respect to this.

 5   MR. BOB PETERS: Ms. Derksen would be

 6 the person to perhaps provide clarity to that?

 7   MR. GREG BARNLUND: We should explore

 8 that with her, yes.

 9   MR. BOB PETERS: All right. And was

10 there another line item that I missed, Mr. Barnlund,

11 on this table that demonstrated that Centra was

12 seeking the recovery of its regulatory costs in its

13 program cost rate?

14   MR. GREG BARNLUND: Well, I was

15 referring to the amortization of the startup costs.

16 And that -- again, we could see more -- probably more

17 -- more explicitly when we deal with that matter with

18 Ms. Derksen.

19   MR. BOB PETERS: Well, on page 135 we

20 can see it expressly then if -- if I have your point,

21 that in the middle of the page there's a chart talking

22 about amortization of startup costs. It only goes up

23 until fiscal '12, but it looks like they're being

24 amortized at approximately a hundred thousand dollars

25 a year?

412

1   MR. GREG BARNLUND: Yes, that's

2 correct.

3   MR. BOB PETERS: All right. Thank

4 you.

5

6   (BRIEF PAUSE)

7

8   MR. BOB PETERS: Mr. Chairman, members

9 of the Board, I think I'll leave any further questions

10 I have with respect to whether regulatory costs, and

11 to what extent, are included in the fixed rate primary

12 gas program.

13   So with that I'd like to thank Mr.

14 Czarnecki, and specifically to his witnesses, Mr.

15 Barnlund, Ms. Stewart, Mr. Sanderson, Ms. Morrison,

16 and Mr. Kuczek. Those are my questions. And I thank

17 them for their answers.

18   THE CHAIRPERSON: I believe that --

19 are we going to be having another set of witnesses or

20 are we --

21   MR. BOB PETERS: We'll -- I suggest

22 that maybe we could take a short recess. And then Mr.

23 Meronek will have questions of this panel, Mr.

24 Chairman, in a restricted area, recognizing that his

25 questions related to DSM will come on Monday. So he

 1 will have questions this afternoon with this panel

 2 related to a couple of other areas.

 3   So if we could take a ten (10) minute

 4 recess, we could then turn it over to Mr. Meronek.

 5   THE CHAIRPERSON: Let's take ten (10)

 6 minutes. And we'll resume proceedings at 2:30.

 7

 8 --- Upon recessing at 2:18 p.m.

 9 --- Upon resuming at 2:33 p.m.

10

11   MR. BOB PETERS: In discussing his

12 intentions -- or his intentions in terms of cross-

13 examination, it appeared that Ms. Morrison wouldn't be

14 a required witness this afternoon. And to that

15 extent, I indicated to Mr. Czarnecki that she could be

16 excused for this afternoon, although she will be back

17 front and centre on Monday when Mr. Meronek, on behalf

18 of CAC, deals with the DSM questions of his client.

19   THE CHAIRPERSON: Mr. Meronek...?

20

21 CROSS-EXAMINATION BY MR. BRIAN MERONEK:

22   MR. BRIAN MERONEK: Thank you, Mr.

23 Chairman, members of the Board. I'm going to restrict

24 my questions, except for a couple of short snappers,

25 to probably Mr. Sanderson and Ms. Stewart with respect

414

 1 to the TCPL matter.

 2   Although Mr. Peters in his usual

 3 erudite and thorough fashion canvassed the topic. My

 4 thrust is -- is to get as much advice from Centra as I

 5 can with respect to what -- what is going to happen in

 6 the future.

 7   And so I want to pose my questions with

 8 that in mind, bearing in mind that we're on the same

 9 side in this, primarily because whatever Centra does

10 vis-a-vis TCPL is to our benefit.

11   So with that, just with respect to the

12 short snappers, Mr. Sanderson, dealing with the last

13 topic on the fixed price supply, if you could turn to

14 Mr. Peters' book at Tab 15, page 54.

15

16   (BRIEF PAUSE)

17

18   MR. BRIAN MERONEK: As -- as a

19 consumer advocate lawyer, you know, it's very much in

20 my client's interest to have competition. But as I

21 look at this schedule, they're pretty dismal figures,

22 aren't they, with respect to this whole fixed-price

23 offering?

24   Or do you have a comment on that?

25   MR. BRENT SANDERSON: Customers are

 1 making their choice and to choose not to choose a

 2 particular product is the customer's choice and I

 3 won't take issue with the customer's choice.

 4   MR. BRIAN MERONEK: But -- but in

 5 terms of looking at the effectiveness of the program,

 6 and -- and I'm not -- I -- I'm -- the jury is still

 7 out on it, it's -- it's clear that from the halcyon

 8 days in the mid-2000s, really the statistics bear out

 9 a -- a real decline?

10   MR. BRENT SANDERSON: I'm not sure of

11 your intended meaning when you use the word 'halcyon'.

12

13   MR. BRIAN MERONEK: By comparison to

14 today.

15   MR. BRENT SANDERSON: I guess it

16 imparts a -- a judgment as to the desirability of a

17 large degree of customer participation on fixed-rate

18 products and I'm not prepared to agree or disagree

19 with you as to whether that's a good thing or a bad

20 thing in and of itself.

21   MR. LLOYD KUCZEK: Maybe I can add

22 some comments to that because to really understand

23 this and -- and whether it's successful or not, one

24 (1) has to go back to the hearing that we -- we had

25 where we discussed the landscape in the natural gas

416

1 market and the issue of having retail brokers there

2 and what was the rationale for the Board ordering us

3 to offer fixed-price products.

4   And so from that respect I think the

5 program was successful in terms of providing customers

6 with a -- an option from Centra Gas, another option.

7 Having said that, one (1) of the brokers did leave the

8 province, so the comp -- the level of competition went

9 down from that respect.

10   But there -- there was -- there was

11 some concern about how the market was operating back

12 at that time. And I think where we are today is

13 customers are probably better off, but part of that --

14 part of the issue back then and -- and it was the --

15 you know, when we did the customer survey -- I don't

16 recall the exact numbers, but I think it was around 50

17 percent of the customers didn't even know they were

18 signed up with a broker.

19   So there was an issue of education and

20 customers knowing what they were doing and the

21 marketing practices that were going on. So since that

22 time to where we are today I think the market has

23 improved.

24   And then there's the question of where

25 do we go in the future given the current situation, I

1 guess.

2   MR. BRIAN MERONEK: I wasn't trying to

3 fix you with a position, but I just thought you might

4 have some observations and comments. You just hear in

5 other markets whereby the business of marketers in

6 these offerings is going down and I just wanted to

7 know whether you had any observations as to whether

8 that seemed to be consistent in Manitoba, and it

9 appears to be?

10   MR. LLOYD KUCZEK: Yeah, I -- I think

11 it's consistent. I think what was happening in 2000 -

12 - 2010 or 2008, the -- the market for natural gas was

13 very volatile, so there was -- there was certainly

14 more interest, from the customer's perspective, to

15 lock in their -- the prices.

16   But there was also the overlaying

17 factor of the market practices that were taking place

18 at that time.

19   MR. BRIAN MERONEK: The other short

20 snapper is with respect to the ConocoPhillips

21 contract. And, Mr. Sanderson, you shared with the

22 Board earlier today that there was -- there were -- a

23 negative transportation cost from AECO to Empress?

24   MR. BRENT SANDERSON: Yes, the market

25 price at Empress is lower than the market price at

 1 AECO.

 2   MR. BRIAN MERONEK: And -- and without

 3 sharing any market confidential sensitive mater --

 4 confidential material, is that reflected in the

 5 ConocoPhillips contract?

 6   MR. BRENT SANDERSON: I don't believe

 7 I'm at liberty to reveal the specific pricing terms of

 8 our Conoco agreement.

 9   MR. BRIAN MERONEK: No, I'm not asking

10 for the specific terms but, directionally, is that --

11 I -- has that been captured? You know that it was a

12 concern that CAC had in the last contract. Has that

13 been dealt with in some way, shape, or form in the new

14 contract?

15

16   (BRIEF PAUSE)

17

18   MR. BRENT SANDERSON: If you'll just

19 give us a moment, please, Mr. Meronek.

20

21   (BRIEF PAUSE)

22

23   MR. BRENT SANDERSON: Our current

24 ConocoPhillips agreement does give us the benefit of

25 that negative transporta -- or basis differential.

419

 1   MR. BRIAN MERONEK: Great. I just

 2 didn't want to have to sign a confidentiality

 3 agreement. Just, okay, into the main topic --

 4   THE CHAIRPERSON: Would you mind --

 5 Mr. Mero -- Mr. Meronek, could I just dip in here

 6 because I would like to understand what you just

 7 described simply because I'm trying to understand.

 8   So you said with -- lower at Empress

 9 than at AECO, when logic would normally come to the

10 conclusion it should be higher, right. I mean -- and

11 what is going on? Like what -- from your perspective,

12 what's going on?

13   MR. BRENT SANDERSON: All things being

14 equal, you should assume that the further you move gas

15 away from a production basin the more expensive it

16 should get. But the fact is, is that intra-Alberta

17 gas that's coming off the production fields is not

18 transportation pipeline spec. It can't go -- that

19 gas, at the quality it's at with the relative level of

20 liquids it's at, cannot be moved on the TransCanada

21 Pipeline, that heat content.

22   There's certain tariff parameters on

23 that pipeline that require the heating content of the

24 gas to be within certain parameters. The heating

25 value of that gas is much higher because there's

1 ethane, butane, propane, isobutane in varying amounts

2 in that natural gas stream other than just the methane

3 or natural gas.

4   There are industrial facilities very

5 near to the Alberta-Saskatchewan border that strip

6 those heavier ends, or what are known as 'natural gas

7 liquids', off of the stream of gas coming from the

8 Alberta production basin to -- number 1, to get that

9 gas down to pipeline specs so that it can move out of

10 the province on the various transportation pipeline

11 systems.

12   And in addition, those liquids have

13 much higher market value than the natural gas itself

14 because they're used to make va -- high value

15 products, like plastics and polymers and so forth in

16 the chemicals and plastics industry. And so that's

17 why those are stripped off.

18   So given the fact that they're more

19 valuable than the natural gas itself, anyone who holds

20 gas or is moving gas between AECO and that

21 transportation pipeline system, they effectively get a

22 piece of the value of the liquids in that gas stream

23 in return for moving that gas through those straddle

24 plants.

25   So there's some value to be shared

 1 there between shippers and those industrial

 2 facilities. And that is why the market price is lower

 3 at Empress than it is at AECO, because whoever is

 4 shipping gas or buying and selling at market price,

 5 the buyers and sellers, in all of their transaction

 6 activity give rise to a portion of that value being

 7 given to the buyers at Empress.

 8   THE CHAIRPERSON: Thank you.

 9

10 CONTINUED BY MR. BRIAN MERONEK:

11   MR. BRIAN MERONEK: So, directionally,

12 that -- that's another positive component to this new

13 contract that didn't exist in the old contract?

14   MS. LORI STEWART: The other factor

15 that's giving --

16   MR. BRIAN MERONEK: Can I get an

17 answer to like the question? I -- I -- it's a

18 positive factor that -- for the -- for Centra and the

19 ratepayers for the new contract vis-a-vis the old

20 contract, by virtue of being able to take advantage of

21 -- of this value?

22   MS. LORI STEWART: Comparing the two

23 (2) contracts in isolation, yes. Yes. I -- I want to

24 go back to answer Mr. Gosselin's question with regard

25 to the value of liquids.

 1   The other factor that's at play is the

 2   declining throughput on the main line. So you have

 3   fixed stripping capacity at the Alberta-Saskatchewan

 4   border, yet the amount of gas flowing on the main line

 5   through those stripping plants is declining

 6   dramatically.

 7   Long-haul flows have declined on the --

 8   on the Canadian main line by 70 percent. So now

 9   you're stripping plant and the amount of gas coming

10   through is not always adequate to make use of your

11   industrial facility, so you're incented to share of

12   more your margins with shippers who are prepared to

13   move gas through that plant.

14   So it's multi-faceted. It's the oil

15   price differentials giving rise to increased liquids

16   value, at the same time, compounded by declining

17   throughput of gas. So the stripping plants are

18   competing for every molecule to move through their

19   facility versus their neighbour facility. If that

20   makes sense?

21   THE CHAIRPERSON: So to follow up on

22   Mr. Meronek's line of questioning, you know, the --

23   the contract is structured in such a way to capture

24   that increased premium going forward?

25   MS. LORI STEWART: That's correct.

423

1 And it -- it's positive for Centra in that we are

2 capturing that value. It's negative for Centra from

3 the perspective of the main line being -- having major

4 challenges ahead of it as a result of declining

5 throughput.

6

7 CONTINUED BY MR. BRIAN MERONEK:

8   MR. BRIAN MERONEK: That's a good

9 segue into -- excuse me, the TCPL decision of the

10 National Energy Board RH-003 of 2011. At -- at 30,000

11 feet, I take it from your evidence and certainly the

12 Information Request responses, that there were some

13 positives and there were some negatives to the recent

14 decision?

15   MS. LORI STEWART: Yes, that's

16 correct.

17   MR. BRIAN MERONEK: And on the -- the

18 positive side was the fact that the fixed

19 transportation tolls have decreased in the MDA by

20 about fourteen (14) cents?

21   MS. LORI STEWART: That's correct.

22   MR. BRIAN MERONEK: And the other

23 positive is that there's certainty in those tolls for

24 -- until 2017?

25   MS. LORI STEWART: In the event that

424

1 TransCanada's throughput forecast is realized. So

2 recognizing that there are -- are off-ramps defined in

3 the decision in the event that throughput does not

4 materialize as per forecast.

5   MR. BRIAN MERONEK: And to the extent

6 that there are positive cost consequences to Centra,

7 and therefore the ratepayers, that net cost impact is

8 uncertain at this point in time because there are

9 several components to the decision, correct?

10   MS. LORI STEWART: Yes. So the toll

11 is going down, yet Centra will likely need to hold

12 more annual firm transportation and the question is

13 the extent to which it's able to mitigate its

14 unutilized demand charges associated with that firm

15 annual capacity.

16   MR. BRIAN MERONEK: Right. And that's

17 one (1) of the reasons why Centra is hedging its bets

18 at this point in time in terms of whether to -- well,

19 they're not hedging -- you're not hedging your bets.

20 You don't want to make any changes to this application

21 because you just -- it's just uncertain?

22   MS. LORI STEWART: That's correct.

23   MR. BRIAN MERONEK: Now, on the

24 negative side, the pricing of interruptible service

25 and short-term firm transportation is not favourable

 1 to Centra.

 2   MS. LORI STEWART: TransCanada's

 3 discretion and the manner in which it intends, or we

 4 understand it intends, to use that discretion, will

 5 not be favourable for Centra.

 6   MR. BRIAN MERONEK: And, as a matter

 7 of fact, Centra argued that what TCPL was trying to do

 8 was discriminatory and also not just and reasonable in

 9 terms of rates?

10   MS. LORI STEWART: That's correct.

11   MR. BRIAN MERONEK: And what that'll

12 do, in combination with other things that we'll talk

13 about is -- and you've -- you've already admitted that

14 it -- it'll drive Centra back to securing more firm

15 transportation?

16   MS. LORI STEWART: That -- that's my

17 expectation at this point, yes.

18   MR. BRIAN MERONEK: Whereas previously

19 the -- the initiative of Centra was to reduce the firm

20 transportation and use other -- other weapons in your

21 arsenal to -- to secure supply?

22   MS. LORI STEWART: Yes, recognizing

23 that one (1) of the major drivers for us looking to

24 really carve back our firm capacity was, of course,

25 the absolute price for that capacity, which had

 1 increased materially.

 2   MR. BRIAN MERONEK: Right. And --

 3 and, as I understand it, really TCPL's got unfettered

 4 discretion now, full discretion to charge whatever it

 5 wants for interruptable transportation STFT, save and

 6 except for the fact that they -- they can't go below

 7 FT tolls for STFT?

 8   MS. LORI STEWART: That's correct.

 9   MR. BRIAN MERONEK: But there's just -

10 - there's no upward limit. I mean, in a -- in a

11 ludicrous situation, they could charge four hundred

12 dollars ($400) a GJ if they wanted to?

13   MS. LORI STEWART: That's correct.

14   MR. BRIAN MERONEK: And TCPL would

15 have incentive to charge a higher amount in order to

16 force shippers to get back into more FT service?

17   MS. LORI STEWART: That's correct.

18 The decision is fairly clear that the National Energy

19 Board views that shippers have access to another

20 option. And that option is firm transportation or the

21 recourse rate.

22   MR. BRIAN MERONEK: And one (1) of the

23 other problems is with respect to IT service, with

24 respect to Centra, is that because it can be -- it --

25 because it's priced a day or two (2) in advance, there

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 1 could be radical price changes in a short time period

 2 with respect to IT service, correct?

 3   MS. LORI STEWART: The IT bid floor

 4 will be set four (4) times for each gas day. So at

 5 each of the nomination windows the price may change on

 6 the IT bid floors.

 7   MR. BRIAN MERONEK: And -- and,

 8 hypothetically, radically change?

 9   MS. LORI STEWART: That could be the

10 case.

11   MR. BRIAN MERONEK: And with the STFT

12 service, does TCPL have the ability to withhold that

13 service for any particular period of time, a week, or

14 a month, or a season?

15   MS. LORI STEWART: I expect that will

16 be a discussion at the upcoming hearing. I believe

17 TransCanada -- it's TransCanada's belief that it can

18 and it intends to withhold STFT blocks on certain

19 paths. However, I believe that will be disputed, or

20 at -- at minimum, discussed.

21   MR. BRIAN MERONEK: And -- and I would

22 assume that Centra would oppose that kind of position

23 if it's advanced by TCPL? Philosophically, I mean.

24 I'm not trying to fix you to a position but it -- it

25 seems intuitive that withholding that service for

 1 periods of time wouldn't be to the benefit of a

 2 shipper.

 3   MS. LORI STEWART: I'll agree with you

 4 philosophically, yes.

 5   MR. BRIAN MERONEK: The -- the other

 6 thing is the -- one (1) of the other problems,

 7 negative sides that were discussed, was the

 8 elimination of FT-RAM service that Centra used

 9 extensively, correct?

10   MS. LORI STEWART: That's correct.

11   MR. BRIAN MERONEK: And I think the

12 evidence shows that in terms of the capacity

13 management recovery for unutilized demand capacity, in

14 2011/2012 that was about $5 million?

15   MS. LORI STEWART: 4.9 million, yes.

16   MR. BRIAN MERONEK: So again, that's a

17 severe handicap in Centra's flexibility plans?

18   MS. LORI STEWART: In our plans to

19 attempt to recover fixed costs, yes.

20   MR. BRIAN MERONEK: Now, on the

21 positive side, with respect to tolls, I just want to

22 get an order of magnitude. And none of these numbers

23 are absolute but I just want to get an idea as to the

24 -- what we're talking about and put some shape to

25 this.

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1   In terms of the fixed transportation

2 presently forecast, it's -- from Empress to MDA it's

3 approximately 91,000 GJs per day?

4   MS. LORI STEWART: Yes, 90,000 GJs per

5 day to the MDA, and 1,200 GJs a day to the SSDA.

6   MR. BRIAN MERONEK: Right. And on an

7 annual basis if you took the fourteen (14) cent

8 differential on an annual basis that would be roughly

9 $4 million? Subject to --

10   MS. LORI STEWART: Subject to --

11   MR. BRIAN MERONEK: -- arithmetic.

12   MS. LORI STEWART: -- check.

13   MR. BRIAN MERONEK: But as Mr.

14 Sanderson has pointed out, the Emerson MDA tolls have

15 gone up somewhat?

16   MS. LORI STEWART: To a small degree,

17 yes.

18   MR. BRIAN MERONEK: What about the

19 storage transportation tolls, are they affected?

20   MS. LORI STEWART: They are. The STS

21 toll is also increasing marginally.

22   MR. BRIAN MERONEK: So that would be a

23 -- that would have to be reduced from the 4 mil -- $4

24 million?

25   MS. LORI STEWART: That's correct.

430

1   MR. BRIAN MERONEK: Now the tolls are

2 in effect commencing July 1, 2013, correct?

3   MS. LORI STEWART: Yes.

4   MR. BRIAN MERONEK: Is there any back-

5 dating to that? In other words, is there going to be

6 a reflection of the full year or are the rates

7 effective as of that date?

8   MS. LORI STEWART: The rates are

9 effective as of that date.

10   MR. BRIAN MERONEK: The -- there were

11 interim rates in place for a couple of years, correct?

12   MS. LORI STEWART: That's correct.

13   MR. BRIAN MERONEK: So do those

14 interim rates become finalized at -- at the then-

15 existing toll?

16   MS. LORI STEWART: That's my

17 understanding, yes.

18   THE CHAIRPERSON: Ms. Stewart, could

19 you enlighten me about the Emerson MD or out -- in

20 other words, is it open to -- to Centra to use that as

21 an alternative source for gas? Say, for example, the

22 -- the IT, SF -- T tolls increased dramatically, is it

23 open to Centra to -- to pull gas from via the Emerson

24 route?

25   MS. LORI STEWART: In the event that

 1 we have firm capacity and you -- you may or may not

 2 recall that we currently hold 21,000 GJs per day of

 3 annual firm capacity from Emerson to the Manitoba

 4 delivery area. However, if we were going to use it as

 5 an alternative, and as you suggested, if there is high

 6 prices for IT or STFT services on any portion of the

 7 main line, including from Emerson to the MDA, then

 8 that would necessitate us putting additional firm

 9 capacity in place between Emerson and the MDA.

10   The other question is what -- at what

11 hub are you buying the actual commodity to move on

12 that transportation path. And it is an option today

13 to purchase gas at Emerson. However, we'll want to

14 keep an eye on liquidity at that point. And that will

15 be a function of all of these changes that are coming

16 into the marketplace effective July the 1st, as well

17 as observing how TransCanada will deploy its -- its

18 discretion in pricing. So there are a lot of things

19 to keep an eye on in the market and, in particular, at

20 the point of Emerson in the short-term, to help inform

21 our decision about what volatility of commodity

22 pricing might we see at that point.

23   THE CHAIRPERSON: Now, the toll south

24 of the border are already regulated by this -- at the

25 state level, aren't they -- on that line up to the --

 1 up to Emerson point is regulated by the US state,

 2 isn't it?

 3   MS. LORI STEWART: It's actually a

 4 federal entity. The Federal Energy Regulatory

 5 Commission, or the FERC, regulates pipeline tolls --

 6 or interstate pipeline tolls within the United States.

 7 So up until Emerson, yes, our -- our pipeline --

 8 pipeline tolls are -- are regulated by the FERC. And

 9 then, of course, once we get into our -- our

10 transition to the Canadian side of the border, then

11 the National Energy Board has jurisdiction.

12   THE CHAIRPERSON: And what's happening

13 to those tolls in relation to the TCPL mainline tolls?

14   MS. LORI STEWART: Our US

15 transportation tolls are fixed up until 2020. That

16 was -- we -- we negotiated discounted rates in that

17 suite of -- of US transportation and storage assets.

18 And those pipeline tolls are fixed as a result of the

19 discounts that we entered into.

20   I would comment, however, that,

21 generally speaking, there is upward pressure in

22 particular on tolls on the Great Lakes Gas

23 transmission pipeline. We won't -- won't be subject

24 to any toll increases on that pipeline as a result of

25 our contracts that take us to 2020. However, maximum

 1 tariff ratepayers on that pipe, there is more risk

 2 that tolls will increase on it at present than that

 3 they would decline.

 4   THE CHAIRPERSON: I was wondering

 5 about the toll between Emerson and Winnipeg.

 6   MS. LORI STEWART: The toll between

 7 Emerson and the Manitoba delivery area is -- is --

 8 that's a part of the Canadian mainline system, and it

 9 is regulated by the NEB. And it -- you know, it is

10 subject to this NEB decision.

11

12 CONTINUED BY MR. BRIAN MERONEK:

13   MR. BRIAN MERONEK: That's the four

14 (4) -- four (4) -- four dollars and forty-two ($4.42)

15 cents to four dollars and eighty-four ($4.84) cents

16 that you talked about, Mr. Sanderson?

17   MS. LORI STEWART: You've almost got

18 it right.

19   MR. BRIAN MERONEK: I'll take that.

20   MS. LORI STEWART: So the current

21 Emerson to MDA toll is four dollars and forty-eight

22 ($4.48) cents per month, and it's increasing to --

23 effective July the 1st, 2013, to four dollars and

24 eighty-two ($4.82) cents per month.

25   MR. BRIAN MERONEK: All right. I was

 1 a bit dyslexic there, but that's okay.

 2   So, just to follow the chair's

 3 comments, there -- there isn't really much room for

 4 amelioration in terms of firm transportation coming

 5 from the States to offset the firm transportation

 6 issue coming from TCPL unless -- unless there was

 7 another source of supply?

 8   MS. LORI STEWART: It depends on one's

 9 risk appetite for purchasing gas at Emerson. And

10 that's a question mark right now.

11   MR. BRIAN MERONEK: And it's a

12 question mark now because you really don't know how

13 the market's going to be able to react as a result of

14 all of the implications of this decision?

15   MS. LORI STEWART: That's correct.

16   MR. BRIAN MERONEK: Just in terms of

17 the worst-case scenario, the peak day requirements of

18 -- of Centra are forecast at 466,400 GJs per day?

19   MS. LORI STEWART: That's correct.

20   MR. BRIAN MERONEK: And as we've

21 discussed, the -- the firm deliverability from Emerson

22 is about 236,000 GJs per day?

23   MS. LORI STEWART: That's correct.

24   MR. BRIAN MERONEK: So that would

25 leave a peak requirement leftover of, for the sake of

435

1 argument, 230,000 GJs per day?

2   MS. LORI STEWART: That's correct.

3   MR. BRIAN MERONEK: And with the firm

4 transportation from Empress to MDA of ninety-one

5 thousand two hundred (91,200), there's roughly an

6 uncovered balance of peak requirement of 140,000 GJs

7 per day?

8   MS. LORI STEWART: That's correct.

9   MR. BRIAN MERONEK: So if you were

10 forced back to firm transportation for that, you would

11 -- that would be at fifty-four (54) cents times three

12 hundred and sixty-five (365) days, or roughly $27

13 million, worst-case scenario?

14   MS. LORI STEWART: That's correct.

15   MR. BRIAN MERONEK: But you would be -

16 - then you wouldn't be using the short-term firm

17 transportation which you forecast at 88,000 GJs per

18 day, which I think in your filing is about 11 million

19 -- $11 1/2 million?

20   MS. LORI STEWART: It would be one (1)

21 or the other right --

22   MR. BRIAN MERONEK: So if you -- if

23 you had to go back to firm transportation entirely,

24 that cost would -- you would deduct $11.5 million from

25 that -- for the STFT service?

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 1   MS. LORI STEWART: I'm taking all of

 2 your arithmetic subject to check, but yes.

 3   MR. BRIAN MERONEK: You don't even

 4 have to do that. I'm just trying to get an order of

 5 magnitude.

 6   So roughly in an order of magnitude

 7 we'd be looking at probably a $16 million, roughly,

 8 hit to the consumer if you were forced back to firm

 9 transportation and didn't have any other options?

10   MS. LORI STEWART: Yes. I think for

11 the Board's sake it's -- it's important for -- for you

12 to understand what the other options are currently.

13 We've talked about how STFT may not be an economic

14 option for Centra going forward. However, the Emerson

15 to MDA path is an option.

16   And, as well, we currently avail

17 ourselves of peaking delivered services which are a

18 supplemental gas component to the tune of

19 approximately 50,000 GJs per day in the winter and up

20 to 100,000 GJs per day of peaking in our shoulder

21 months. It's a good bookend for Mr. Meronek to talk

22 about the worst case because we are sitting here today

23 not knowing how our peaking delivered services will be

24 -- will be priced.

25   I think that it's safe to say that they

437

 1 will be available. The question is at what price will

 2 they be available, and will they be significantly more

 3 expensive than what Centra has been able to secure

 4 them for historically? And this is one (1) of the

 5 topic areas that we're -- we're interested in in this

 6 time of flux in the market as a result of the NEB's

 7 decision.

 8   MR. BRIAN MERONEK: One (1) of the

 9 issues is -- that's been resolved are the tolls, but

10 as you advised the Board, through Mr. Peters'

11 questions, TCPL has taken another kick at the cat in

12 terms of some of the -- the tariff issues, correct?

13   MS. LORI STEWART: Yes, that's

14 correct.

15   MR. BRIAN MERONEK: And one (1) of the

16 issues that is going to be advanced before the NEB in

17 September is the elimination of out-of-path

18 diversions, which is (sic) successful, would take

19 another weapon in the arsenal of Centra, correct?

20   MS. LORI STEWART: That's correct.

21   MR. BRIAN MERONEK: And I take it that

22 Centra will be opposing that -- that application on

23 that -- for that particular item?

24   MS. LORI STEWART: That's correct.

25   MR. BRIAN MERONEK: The -- the other

438

 1 thing that you mentioned was the issue of the renewal

 2 provisions. And you articulated what they were, but I

 3 didn't get the -- and I may have missed it -- I didn't

 4 get the -- the position of Centra as to whether it

 5 would be opposing that particular aspect as well.

 6   MS. LORI STEWART: We haven't

 7 concluded our position on that matter, Mr. Meronek.

 8   MR. BRIAN MERONEK: Intuitively,

 9 wouldn't -- wouldn't you be opposed to it? Why would

10 you want to be locked into a ten (10) to fifteen (15)

11 year renewal? Just intuitively.

12   MS. LORI STEWART: We're aware of

13 situations on the mainline where the pipeline invested

14 in plant then to have its customer go away. And in

15 that situation the investment is left to be recovered

16 by those shippers who are continuing to ship on the

17 pipeline. So it's -- it's a question of balance,

18 right?

19   I think that if Centra had its

20 druthers, for certain I'd prefer to only have to

21 commit to one (1) year of capacity. However, on

22 balance, given all of the -- the various competing

23 objectives and the need for this pipeline to be

24 economically viable in the long term, it -- it means

25 that we need to look at that issue from -- from a

439

 1 higher level.

 2   MR. BRIAN MERONEK: But isn't that

 3 TCPL's problem to convince the NEB?

 4   MS. LORI STEWART: Perhaps.

 5   MR. BRIAN MERONEK: Now, you talk --

 6 you talked about another option, and that was a

 7 delivered service. And presently forecast in this

 8 application is 25,000 GJs per day of delivered service

 9 above forecast?

10

11   (BRIEF PAUSE)

12

13   MS. LORI STEWART: I think I'd have to

14 review your reference point, Mr. Meronek.

15   MR. BRIAN MERONEK: I was just looking

16 at Tab 10, page 9 of the application.

17

18   (BRIEF PAUSE)

19

20   MS. LORI STEWART: In the month -- in

21 the months that were -- in the months in which we may

22 experience a peak day, this past winter, the winter of

23 2012/'13, we did have 25,000 GJs per day of delivered

24 service come into the market. That, of course, is

25 distinct from the peaking delivered services that we

440

 1 also have in play.

 2   MR. BRIAN MERONEK: Okay. Thank you

 3 for that distinction. But, regardless, delivered

 4 services come from marketers, correct?

 5   MS. LORI STEWART: Marketers or

 6 marketers/producers.

 7   MR. BRIAN MERONEK: Right. Any

 8 thoughts on -- on the impact of these restrictions

 9 imposed by the National Energy Board on the ability of

10 marketers to -- or marketers/producers to provide

11 delivered services at a reasonable price?

12   MS. LORI STEWART: I think

13 directionally the NEB's decision has made the

14 provision of those services, in an economic way, less

15 likely.

16   MR. BRIAN MERONEK: So that would be

17 another concern?

18   MS. LORI STEWART: Of concern; perhaps

19 of less concern.

20

21   (BRIEF PAUSE)

22

23   MR. BRIAN MERONEK: Now, one (1) of

24 the other items in the review and variance application

25 which was not successful was the elimination of STS

441

 1 overrun service?

 2

 3   (BRIEF PAUSE)

 4

 5   MS. LORI STEWART: I think STS overrun

 6 service is actually one (1) of the proposed tariff

 7 amendments. So the elimination of STS overrun is one

 8 (1) of the things that TransCanada has brought forward

 9 since the NEB decision.

10   MR. BRIAN MERONEK: Oh, okay. So that

11 wasn't in the review and variance?

12   MS. LORI STEWART: I'm just struggling

13 with whether or not it was in the May 1st review and

14 vary application, or the May 9th tariff changes.

15   MR. BRIAN MERONEK: It -- it really

16 doesn't make any difference for the purposes of this

17 discussion, but maybe for the -- for my benefit and

18 the benefit of the Board, what is STS overrun service,

19 and is it something that Centra avails itself of?

20   MS. LORI STEWART: We don't currently

21 avail ourselves of it; however, given some of the

22 other proposed tariff changes -- for example, if

23 diversions were to be restricted to within path, then

24 the proposed elimination of STS overrun becomes of

25 greater concern to Centra.

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1   So in the event that there were other

2 mechanisms such as RAM or diversions available to us,

3 you know, STS overrun has not been used by the market,

4 but it's in combination with proposed restrictions to

5 those other alternatives or, in the case of RAM, the

6 elimination of it.

7   MR. BRIAN MERONEK: So under the

8 circumstances, again, that wouldn't be a good thing if

9 -- if TCPL was successful in -- in having that service

10 eliminated?

11   MS. LORI STEWART: That's -- that's

12 correct.

13   MR. BRIAN MERONEK: I don't want to

14 ask a legal question, but it just seems to me, and --

15 and it was argued by Centra, how can all of these

16 services either be denied or restricted and -- and be

17 deemed to be just and reasonable?

18   If -- if that's a legal question, fine.

19 But I mean, it -- it just -- does Centra have a -- an

20 opinion on this?

21   MR. BRENT CZARNECKI: We -- we do, but

22 I think as you've alluded to, Mr. Meronek, what is

23 ultimately deemed to be just and reasonable is the

24 decision of the NEB after it's heard the variety and

25 very diverse amount of opinions from producers,

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1   shippers, marketers, everyone under the sun who uses

2   the mainline, and also the Alberta system that

3   participated in the hearing.

4   So I'm leaving it to their wisdom as to

5   what they view as just and reasonable.

6   MR. BRIAN MERONEK: I appreciate that.

7   Is there any in -- intel on the ground which would

8   suggest that perhaps some party or parties would be

9   taking the NEB's decision to task by appealing?

10   MR. BRENT CZARNECKI: I -- I think

11 we'd only be speculating as to what's on the ground.

12   THE CHAIRPERSON: Although I recall

13 Ms. Stewart suggesting that Manitoba was unique in the

14 sense that we are captives of CPL.

15   Is anybody else in the same situation

16 as Manitoba?

17   MS. LORI STEWART: Yes, there are

18 shippers located on the Northern Ontario line part of

19 the main line systum -- system who are also captive.

20 So Centra's not unique in being captive to -- to the

21 main line.

22   Mr. -- Mr. Meronek mentioned that we

23 argued that pricing services based on a delivery point

24 that -- that in our opinion that was discriminatory

25 and not just and reasonable. However, the NEB did not

444

 1 agree with us.

 2   It heard our argument and rejected it.

 3

 4 CONTINUED BY MR. BRIAN MERONEK:

 5   MR. BRIAN MERONEK: And -- and

 6 obviously I think you've indicated on the record that

 7 Centra isn't going to be appealing this decision?

 8   MS. LORI STEWART: We are not. And

 9 the -- the grounds for appeal, of course, would be one

10 (1) thing to get into, but I -- I would prefer not to.

11   MR. BRIAN MERONEK: No, I -- I just --

12 I was going to stop at that question. But -- all

13 right, so we are where we are. The decision is -- the

14 ink is hardly dry on the decision.

15   But going forward with all of this

16 uncertainty, have you got anything to share with us in

17 terms of how you're going to approach this -- this

18 fiasco. Those are my -- that's my word. In light of

19 the fact that you have a new winter season shortly.

20   Can you share with us what your

21 contingency plans are, if any?

22   MS. LORI STEWART: Of course we have

23 contingency plans, Mr. Meronek. We are currently in

24 the process of -- of analyzing potential scenarios, of

25 performing analysis on potential outcomes as new and

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 1 confirmed data comes into our hands.

 2   For example, we were at a decision -- a

 3 decision tree point in terms of whether or not

 4 compliance tolls would be in effect or whether or not

 5 review and vary tolls would be in effect.

 6   We now can start layering in compliance

 7 tolls into our analysis, because the toll level has

 8 been set subject to, of course, any appeal by

 9 TransCanada.

10   I think that we will be putting

11 requests for proposals to the market to obtain

12 indicative pricing of services such as peaking

13 delivered services. That will, again, be another data

14 point that we can embed in our analysis in terms of

15 what are the most economic options for our ratepayers.

16   So at the highest level, our options

17 have settled down into, we believe, the question of

18 whether Empress to MDA is more economic than Emerson

19 to MDA. And that question is influenced, or is

20 informed by what we will see happening with Emerson

21 commodity pricing, both absolute level, as well as the

22 volatility of it.

23   And the third piece that I mentioned is

24 the availability of peaking delivered services. So,

25 you know, we're going to continue doing what we do,

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1 which is to plan to have the deliverability needs of

2 Manitobans met for effective November the 1st.

3   MR. BRIAN MERONEK: So it may not be

4 until the next cost of gas application, at the

5 earliest, where there is some shape or crystallization

6 of -- of some of the uncertainties at this point?

7   MS. LORI STEWART: Yes, that's

8 correct.

9

10   (BRIEF PAUSE)

11

12   MS. LORI STEWART: I would like to

13 add, for the Board's benefit, that one (1) of the more

14 significant positive outcomes associated with the

15 NEB's decision is the fact that it put TransCanada on

16 notice that it is at significant risk of non-recovery

17 of some costs if actual through put does not

18 materialize as forecast.

19   And that was something that Centra --

20 it was a key plank in Centra's final argument before

21 the National Energy Board, that we believe that --

22 that TransCanada's interests need to be more closely

23 aligned with its shippers interests.

24   We believe that TransCanada's interests

25 were strongly weighted to its shareholder and that

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 1 there needed to be a better alignment of shipper and

 2 TransCanada interest. And that's one (1) of the more

 3 positive outcomes as it relates -- as it relates to

 4 the order. It -- it was -- it was quite a step change

 5 from where we were prior to this decision.

 6   MR. BRIAN MERONEK: Is -- is that the

 7 component that dealt with an incentive mechanism?

 8   MS. LORI STEWART: Well, the incentive

 9 mechanis -- incentive mechanism is in the event that

10 through put materializes greater than what -- what is

11 expected. Then, for sure, TransCanada has some upside

12 there. But we're more concerned at this point about

13 what happens if through put is lower than what is

14 forecast.

15   The balance of risk, I believe, lies to

16 that scenario. And it was very reassuring for Centra,

17 and I'm sure many other shippers, to hear from the

18 NEB's perspective that it wouldn't simply be shippers

19 who were on the hook for recovery of costs going

20 forward.

21   MR. BRIAN MERONEK: But in that

22 negative scenario, obviously, there -- there would be

23 a sharing of the risk. But TC -- Centra would, as a

24 shipper, would have to sh -- shoulder some of that

25 risk?

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 1   MS. LORI STEWART: That's correct.

 2   MR. BRIAN MERONEK: All right. I

 3 think we've flogged that to death. Just a couple of

 4 questions dealing with the ConocoPhillips contract and

 5 the RFP that was sent out, and Mr. Peters talked about

 6 it yesterday. If you look to Mr. Peters's Tab 11,

 7 page 41.

 8

 9   (BRIEF PAUSE)

10

11   MR. BRIAN MERONEK: Have you got it

12 there?

13   MS. LORI STEWART: I do.

14   MR. BRIAN MERONEK: I was struck with

15 the -- with the discussion. And I appreciate this was

16 a -- a Board request, but I got the impression that

17 this theoretical commodity cost comparison was of

18 limited, if no value in terms of assessing whether it

19 was a good deal to sign up with Conoco?

20   MS. LORI STEWART: I felt it was

21 important to qualify this theoretical cost comparison,

22 yes.

23   MR. BRIAN MERONEK: But I take it, and

24 maybe I'm overextending what you meant to say, was

25 that you really can't rely upon the schedule very much

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1 in order to assess whether or not it was appropriate

2 to sign up with ConocoPhillips?

3   MS. LORI STEWART: The cost comparison

4 we're reviewing and discussing on page 41 has -- has

5 limitations.

6   MR. BRIAN MERONEK: And lastly, I was

7 also struck with the discussion that you had with Mr.

8 Peters ov -- with respect to page 34 dealing with the

9 weighting of var -- some of the descriptors and -- and

10 in terms of criteria.

11   Maybe it's just my uninformed

12 assessment, but it -- I got the impression that, as

13 long as you're happy with ConocoPhillips, they'll

14 always get a rating higher than the other parties even

15 though you have no market intelligence in terms of

16 reliability because you've never used them or you --

17 you haven't used them to any extent.

18   So how do you ever displace the

19 incumbent?

20   MS. LORI STEWART: Re -- reliability

21 is our number 1 -- our number 1 criteria. You see

22 that from the weighting assigned to it. And it is

23 important that we give credit where credit is due to a

24 party that has performed flawlessly in providing

25 Centra's supply requirements and has performed as it

450

1 relates to meeting our intra day swing requirements

2 given how critical swing supplies are to our

3 portfolio.

4   But clearly it -- it's possible for

5 another proponent to -- to beat out ConocoPhillips in

6 the other 60 percent of the criteria -- the criteria

7 that is assigned 60 percent weight, so it's -- it's

8 definitely possible. By virtue of a significantly

9 better price, another party could -- could beat out

10 ConocoPhillips in that regard.

11   MR. BRIAN MERONEK: But how do you

12 assess -- how do you ascribe a score to the other

13 parties in terms of reliable supply if there isn't any

14 market intelligence on that? How did you come up with

15 eight point five (8.5), for example?

16   MS. LORI STEWART: We don't have

17 demonstrated experience with any of those other

18 parties in terms of providing the magnitude of supply

19 we require at Empress or intra-day supplies. However,

20 if you move down to counterparty quality and, for

21 example, criteria 4.2, proven performance references

22 and existing -- existing contracts or customer service

23 and responsiveness, you see that we've rated other

24 counterparties higher than Conoco in those regards.

25   So we're -- we're not afraid to give

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1 credit where credit is due to other counterparties.

2 But our number 1 priority with a supply contract is

3 reliable supply and the provision of swing supplies.

4   Conoco has performed flawlessly.

5   MR. BRIAN MERONEK: I -- I understand

6 that. I'm just curios as to how you ascribe a score

7 to the other parties and -- and was it arbitrary or

8 were you throwing a dart at the board or -- or how did

9 you do it? Was there an analysis done?

10   MS. LORI STEWART: It is arbitrary.

11 I've acknowledged on the record that our -- our

12 weighting of this is subjective.

13   MR. BRIAN MERONEK: Thank you for your

14 help. Those are my questions.

15   THE CHAIRPERSON: I believe that we

16 have completed today -- the work for today. Mr.

17 Peters, please.

18   MR. BOB PETERS: Yes, thank you. I

19 think I saw Ms. Geraldo-Gomez actively providing some

20 information to Centra's counsel, Mr. Czarnecki. And I

21 think he has some materials to be distributed before

22 the end of the day, if the Board could accommodate

23 that.

24   MR. BRENT CZARNECKI: Yes, thanks, Mr.

25 Peters.

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1   Mr. Chairman, I have revised IRs PUB-1-

2 9(b); PUB-2-141(d); PUB-2-141(g), which are now ready,

3 and we'll provide copies in the back of the room for

4 all parties.

5   THE CHAIRPERSON: Thank you. I take

6 it none of these are -- have to be marked as exhibits,

7 they're just revisions? Okay.

8   Mr. Peters...?

9   MR. BOB PETERS: Yes, thank you. I

10 believe then that in terms of matters of business, we

11 -- we -- the Board could adjourn until Monday morning

12 at the time chosen by the Board, at which time CAC

13 will continue its cross-examination of the cost-of-gas

14 and DSM panel.

15   I'll suggest that Mr. Meronek and Mr.

16 Masi can speak to Mr. Czarnecki and figure out whether

17 certain witnesses can be excused from that portion of

18 the day, depending on the areas of question. And, of

19 course, Mr. Czarnecki may want certain witnesses in

20 attendance in any event.

21   But following -- and I'm not sure how

22 long Mr. Meronek will be, and I'm not looking for a

23 response, but I'm not sure if the revenue requirement

24 panel was -- was envisioned by Centra as coming on

25 later in the day or would it be stood over until

 1 Tuesday morning. And I'll leave that to Mr. Czarnecki

 2 to indicate.

 3   MR. CZARNECKI: Yes, thanks. I -- I

 4 think our intention would be that if Mr. Meronek is

 5 concluded by -- before the day is out on Monday, that

 6 we would like to get the revenue requirement sworn in

 7 and started.

 8   Ms. Stewart has, I think, one (1) more

 9 clarification to make, and I would ask that we indulge

10 her because she may be one of the witnesses I request

11 of Mr. Meronek to be stood down on Monday if he's

12 completed with the cost-of-gas matters.

13   MS. LORI STEWART: Thank you. In

14 response to the last question that you posed to me,

15 Mr. Meronek, I don't think my response was as conclu -

16 - as complete as it could have been. And I've just

17 reference my notes which also mention -- I think what

18 was top of mind for me was, of course, Conoco's

19 performance as it relates to reliability. But we did

20 also consider the extent of the counterparties' assets

21 or their market presence in the Alberta area. So for

22 example, whether or not they held storage in Alberta;

23 what their pipeline capacity was; the level of their

24 trading activity.

25   And additionally, Conoco is affiliated

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1 with the number 3 -- the third largest producer in the

2 Western Canadian sedimentary basin. None of the other

3 counterparties that we were evaluating as it relates

4 to reliability have significant production assets.

5 And we view that link with a producer in terms of

6 actually having hard assets behind the hub so to speak

7 as a benefit in terms of that specific criteria of

8 providing reliable supply.

9   The other counterparties that we were

10 evaluating for them are pure marketers, and the fifth

11 one has a very minor production presence in Alberta as

12 opposed to Conoco, which has significant production

13 presence.

14   So it's late in the day, those details

15 had slipped my mind relative to Conoco's performance,

16 but I do think it helps provide a better response to

17 the question you posed to me in terms of how did we

18 score those other counterparties relative to

19 ConocoPhillips.

20   MR. BRIAN MERONEK: It is late in the

21 day; I forgot what my question was.

22

23   (PANEL RETIRES)

24

25   THE CHAIRPERSON: There being no

455

 1 further business I will adjourn the session -- today's

 2 session, and we will see you again on Monday morning,

 3 those of you who must be here. I wish you all a good

 4 -- good weekend.

 5

 6

 7 --- Upon adjourning at 3:32 p.m.

 8

 9

10 Certified Correct,

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14 _____

15 Bob Keelaghan, Mr.

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