MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

2006/07

COST OF GAS APPLICATION

Before Board Panel:

Graham Lane - Board Chairman

Monica Girouard - Board Member

Alain Molgat - Board Member

HELD AT:

Public Utilities Board

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--- Upon commencing at 9:10 a.m.

THE CHAIRPERSON: Good morning, everyone. The last day of the public portion of our proceedings. I see our Toronto guests all fled. Okay, I think we begin today with Board counsel, Mr. Peters.

COMMENTS BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Chairman. Good morning Members of the Board, Ladies and Gentleman.

Last week, we completed the oral evidentiary portion of the Public Hearing in respect of the annual cost of gas issues for Centra Gas Manitoba Inc., a wholly owned subsidiary of Manitoba Hydro.

As counsel to the Board, I will take no position on the merits of any part of the application by Centra or on any of the positions advanced by any party; rather, my role will be to summarize the matters that this Board may wish to consider in this proceeding.

And to that end, the Board may want to look at Tab 1 of the book of documents and particularly in the application Items A and C where Centra was seeking amongst other relief that I'll speak to, final approval of Order 116 of '06 which gave interim approval to supplemental gas, transportation to Centra and distribution to customer rates for all gas consumed on and after August the 1st of 2006.

It's indicated that based on a forecast cost of non-primary gas of $62 million and total gas costs of $482 million on Schedule 5.2.3(b) which is found at Tab 12 of the book of documents, that represents a 6 million -- $6.6 million decrease in non-primary gas costs that Centra reflected in the interim base rates that the Board approved in Order 116 of '06.

Centra's also seeking final approval of gas costs from April 1st, 2005 to March 31st of 2006 of $389.7 million and that includes of course primary gas as well as the supplemental gas transportation and the UFG distribution component found on Schedule 4.0.0 which is at Tab 7 of the book of documents.

Centra's also seeking final approval of the balances and disposition of the non-primary purchased gas variance accounts and other gas cost deferral account balances as at March 31st, 2006 with carrying costs added to July 31 of 2006 which total approximately $13.2 million as indicated on Schedule 4.1.0 which is also found in Tab 7 of the book of documents. And that's an amount that's owing to customers which was also approved as part of the rates the Board approved on an interim basis in Order 116 of '06.

In Tab 1 of the book of documents, still looking at the application, Items 'E' and 'F' Centra is seeking final approval of supplemental gas, transportation to Centra, distribution to customers, sales rates effective on November 1st, 2004 and also on August the 1st, 2005 which were approved on an interim basis in Board Orders 131 of '04, 132 of '04, 146 of '04 and also in 115 of '05.

Centra's also seeking approval on a final basis for the interim Orders the Board issued quarterly and those Orders were 115 of '05, 142 of '05, 148 of '05, 13 of '06, 17 of '06, 64 of '06 and 116 of '06, which granted interim approval of primary gas sales rates effective on the respective gas quarters.

Moving down the list to item 'H', Centra is seeking final approval of Interim Orders 132 of '05, 102 of '06 and 157 of '05 and 28 of '06, which granted interim approval of new and amended franchise agreements and related feasibility tests for the extension of service to customers in the rural municipalities of Rockwood, St. Anne and North Cypress.

And the final catchup that I see on -- in the application, at Item 'I', was final approval of interim orders that have been issued subsequent to the application being filed. And I believe the evidence is that there has been one (1) interim order, 144 of '06, in which the Board approved, on an interim basis, primary gas sales rates to November -- commencing November 1st of '06, and that would be the latest quarterly rate application.

In terms of rate impacts the Board will note that this application, if - and I'll stress "if" - approved as filed will not result in any impacts on consumer bills. The application only requests confirmation of August 1st, 2006 rates that were given the interim approval.

The impact at that time on a typical residential consumer as a result of those August 1st interim rates relative to May 1st rates was to decrease the annual natural gas bill by approximately 7 percent or ninety-six dollars ($96); that can be found in the book of documents, Tab 14, and the Schedules 7.1.0 and following. But remember, please, that the decrease in the gas bills commencing November 1st of '06 was due to a combination of rate reductions and PGVA refund riders that related to both primary gas and non-primary gas.

I want to turn to the Manitoba natural gas market review. And in Order 115 of '06 the Board dealt with the content of pre-filed evidence presented by Direct Energy Marketing Limited, the parent company of

Municipal Gas Limited.

The Board determined that the scope of that evidence, which addressed a possible new market structure in Manitoba, including consideration of what role Centra should play in the competitive landscape, would not be canvassed in this proceedings.

The Board indicated that

> "it will consider convening a special hearing process in 2007 which would allow for a thorough examination of the natural gas landscape in Manitoba, including issues that need to be explored, such as the appropriate type of competitive marketplace that should be implemented in Manitoba and the role of the regulated utility in that marketplace."

A related issue raised by both Energy Savings Manitoba Corporation and Centra at the outset of the Hearing was whether the regulated local distribution company should offer a fixed-price offering. The Board had advised that it would not, in this proceeding, be considering whether Centra should be permitted to offer a fixed-price product.

When questioned on this topic, I believe

Centra indicated that it is considering this issue but it is not in a position to bring forward any information and/or a recommendation until it has conducted some consumer research, which was planned for early 2007.

In its deliberations on this issue, the Board may want to consider the scope of issues to be canvassed at the special hearing. Parties to this proceeding, including the Intervenors and Centra, have been invited to and may have views in this regard that they want to share with the Board in their final submissions.

For the information of the parties, in Board Order 15 of '98, dated February 11th, 1998, the Board has previously reviewed the status of the Manitoba natural gas competitive market and considered, among other topics, the implications of a local distribution company offering fixed-price sales contracts. Matters then considered included the state of the competitive environment in Manitoba, cost implications of Centra's arrangements with brokers and Centra's role as a supplier of last resort.

Additional matters that the Board may wish to have reviewed in a forthcoming hearing may include again a review and assessment of the current Manitoba natural gas landscape which would include the issues of gas supply, storage, and transportation as well as the Western Transportation Service offering.

The Board may want to also consider future gas supply contracts, the potential changes to the Western Transportation Service and related matters. There may also be a need to consider the impact of Centra's relationship with brokers and the attendant costs including consumer bad debts. Also, Centra's role in hedging, as well as the potential for Centra offering a menu of competitive products to Manitoba consumers may be a topic.

And I offer these items merely as suggestions and I further suggest that other parties should provide their views respecting the process that should be used to establish the scope of the review and on how the review itself should be conducted.

Centra has also indicated in the evidence of this Hearing, Mr. Chairman and Board Members, that its contract with Nexen Marketing for the supply of primary gas which was put in place November of 2004 is due to expire October 31, 2007. Centra has engaged a consultant, Energy and Environmental Assessment -- I'm sorry, Energy and Environmental Analysis Incorporated to recommend the preferred structure for Centra's future gas supply contracts within the constraints imposed by Centra's existing assets.

Such an analysis would assess whether Centra should extend the existing Nexen contract or issue a request for proposals from multiple suppliers to supply Centra's annual supply requirements.

Centra has indicated that it will be in the position to apprise the Board of its decision in this matter by February of '07 and that if proposals are to be issued, Centra would provide the request for proposal to the Board prior to issuing it. Should a contract with Nexen be extended, Centra has indicated that it would expect to seek Board approval of the gas cost consequences flowing from such a contract extension.

The Board also heard an update on Centra's gas supply, storage, and transportation portfolio which over the years has become known as the blank page analysis and which has previously been reviewed and the options of Centra obtaining salt cavern storage.

Now, Mr. Chairman and Board Members, having reviewed Order 15 of '98 and the issues that may be included in another market review, the timing of the market review or what I call the generic proceeding in 2007 will need to be considered. The Board has heard Centra's evidence as to the long-term gas supply contract and it appears some of the generic issues may impact on such a contact, and that raises the question of which comes first, the review or the new contract. Perhaps others have suggestions in their closing submissions for the Board to consider in this regard.

Turning to the portfolio mix and the dispatch rules the Board heard evidence that there have been no significant changes to Centra's non-primary gas supply, storage, and transportation arrangements or daily dispatch rules. Centra indicated that the Manitoba load has decreased primarily attributed to conservation efforts and a review of Centra's asset mix will be required, especially if that conservation trend continues.

As for cost allocation Centra also indicated there have not been any changes to the Board's approved cost allocation methodology since the 2005/'06 and 2006/'07 General Rate Application other than to update various determinants and allocation factors to reflect most recent estimates.

Turning to hedging, Centra's primary gas costs that they're asking this Board to approve on a final basis include the impacts of hedging. The Board will need to consider the policy and the results of the Derivatives Hedging Program and whether the hedging actions and results were prudent and reasonable including the occasions where Centra's Executive Committee exercised judgment based on a market view and hedged less than 100 percent of eligible volumes due to the market conditions.

The derivative hedging results are summarized for 2005/'06 on Schedule 4.2.0 found at Tab 8 of the book of documents and for the year 2006/'07 the -- the hedging results that have settled and been crystallized as well as those that are still forecast on a mark-to-market basis are found on Schedule 5.3.1. And that information was updated by way of an information request in PUB Centra-43. Both documents which are conveniently located in Tab 27 of the book of documents.

The Board also heard evidence on Centra's mechanistic hedging operating principles and procedures which is found at Tab 17 of the Book of Documents which includes the objective of the program being to reduce customer rate volatility based on consumer research from 1998 and 2004 which gauged consumer's risk tolerances for volatility.

The mechanistic program utilizes a fifty cent (50) out of the money cashless collar and the Board must also consider the evidence of a retrospective review of the hedging activities which analysed alternative hedging strategies in reducing volatility and the impact on consumer gas costs.

The Board also heard evidence from CAC/MSOS's witness, Mr. Ashmead Pringle. He addressed hedging matters and provided evidence on the future of heading in Manitoba. I understood Mr. Pringle to recommend that Centra should stop hedging on behalf of its consumers but failing the cessation of hedging, Centra should continue a mechanistic program without taking a market value.

Additionally, I believe Mr. Pringle recommended that rules be established and included in a revised policy that would allow for increased flexibility in the program including expansion of the range of the hedging collar.

As for prior Board directives, Centra also provided in Tab 8 of their application, the status updates on various studies and undertakings that had been ordered by the Board in previous orders.

The Board should note that Centra is not requesting any Board approvals in regards to these matters. Board will recall that those matters included the natural gas storage alternatives which Centra indicated it's not going to be exploring further at this time other than to consider the various recommendations when further examining changes to its portfolio of assets based on more current retail and wholesale market conditions.

Secondly, there was the WTS arrangements where it became clear in the Hearing that there were different views that appeared to be held between Centra and the broker community. The WTS arrangements will have an impact on Centra's future gas supply contracts and this issue may have to be revisited prior to Centra entering into a gas supply contract for supply after November 1st of 2007.

Thirdly, the derivatives hedging policy and procedures and retrospective review was provided which may be an issue again in the Manitoba Gas Landscape Review Hearing.

Fourthly, on the issue of broker costs, Centra indicated that that is a matter that it proposes to deal with at the next general rate application which application was to be filed early in 2007.

Fifthly, as for the future of the gas supply contracts, that information will be filed with the Board as it becomes available and the evidence indicates that that is expected in early 2007 as well.

On the sixth issue of basic monthly charges, Centra's proposing the status quo remains and that issue again would be one that if there were any changes would be forthcoming at a general rate application.

And finally, in terms of changes to customer classes, that's a matter that is also being reviewed and considered and any details and recommendations will be expected at the next GRA.

With that overview, Mr. Chairman and Board Members, I suggest you turn to the Intervenors for their closing submissions beginning with CAC/MSOS and their counsel Mr. Saxberg.

I'll indicate that yesterday afternoon, Direct Energy Marketing Limited provided written submissions as did Energy Savings Manitoba Corp. and when it comes time for their submissions, I would propose that the Board take them as read as they have been disseminated yesterday and then incorporated into the transcript.

After those are attended to, it would be appropriate to find out from Centra how much time is needed before they can provide their closing comments some time later today.

Thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you, Mr. Peters. Okay so we'll proceed then to CAC/MSOS.

Mr. Saxberg...?

MR. KRIS SAXBERG: Thank you, Mr. Chairman, good morning to you, good morning, Board Members, Ladies and Gentlemen.

Before I begin with my closing summation there is one (1) outstanding matter and that deals with an undertaking that I took while Mr. Pringle was presenting his evidence. And the undertaking was to advise which information request answers were prepared via information from Mr. Pringle and which were prepared using the information of CAC/MSOS.

In answer to that, CENTRA/CAC-5(b) to (d) and CENTRA-27 to 30 were responses prepared with the input of CAC/MSOS. The balance of answers were prepared based on information provided by Mr. Pringle.

FINAL SUBMISSIONS BY CAC/MSOS:

MR. KRIS SAXBERG: And so to begin, I want to assure everyone that I'm not here to provide gratuitous contrarianism, the intent is to be constructive. And my clients have carefully reviewed the evidence that was presented in this Hearing with an open mind towards formulating their final thoughts.

I'd like to begin by echoing some of the comments made by you, Mr. Chairman, in complimenting -- complimenting Centra for its work and cooperation during this proceeding. I appreciate the prodigious amount of work that goes into these applications and I also appreciate that it takes Panel Members away from their regular jobs and responsibilities.

Generally speaking, cost of gas hearings though don't pack the same punch as general rate applications. The costs that are under review are pass-through items. In this regard, Centra does not have a strictly -- a strict financial incentive to pinch every penny as it were and to maximize and optimize its assets and arrangements that it undertakes for the benefit of its customers, in other words, the transportation, storage arrangements and gas supply arrangements.

The fact that Centra doesn't have a profit component to the approximately $62.4 million of non-primary gas costs that the Company is seeking to confirm in a final order for the '06/'07 period does not mean that the Board should be any less vigilant in ensuring that these costs are reasonable and prudently incurred. Certainly they are costs that are beyond -- there are some costs that are beyond Centra's ability to control; for instance, the index price at which it purchases its gas for consumers and, I would suggest, the ultimate result of hedges which are placed in a mechanistic fashion.

However, the responsibility of this utility is to look after the consumers' interests in the best possible way that it can under existing circumstances and it's incumbent upon Centra to recognize which costs it can control and which costs it cannot control.

CAC/MSOS has identified several major issue areas that flow from the exhibits and testimony and indeed the application filed in this proceeding. I'll go through them. In general they relate -- I'm going to focus quite a bit of my time on the primary gas rate management hedging issue as that was the intention of these Intervenors -- it was the intention of these Intervenors that that would be the focus of our intervention in this proceeding.

Also, I'll touch on supplementary gas transportation rates and -- and overall American transportations -- transportation and storage arrangements, including de-contracting potentials for Louisiana Pipeline.

I'll also touch on the process, the ongoing and, it would seem, never ending story of the portfolio review and process to optimize Centra storage and transportation arrangements.

I'll also deal with capacity management, revenues, and then some miscellaneous matters, including forecasting, WTS basic monthly charge report, lump-sum rebates and future proceedings.

To hedging. In response to an information request posed by Board counsel, Centra states that it concurs with the Board that reaching a consensus understanding on Centra's hedging policy is a desirable outcome. I agree and consensus is one of the themes of my submission on hedging today.

Consensus has already been reached, I believe, on the followings canons of hedging.

Number 1. Lowest-cost gas is the index price.

Number 2. Hedging has reduced rate volatility.

Number 3. Over the long run the gains and losses of a strict mechanistic hedging program should pretty much equal out.

Number 4. Short-term year-over-year results can vary dramatically depending on the level of volatility reduction sought; case in point, last year and this year's forecast. Last year customers saved 47 million compared to the market price of gas. This year we've already paid more than 42 million and the forecast is that consumers could pay up to 77 million in additional gas costs this year. In the worst case scenario that number could ready 100 million. Yikes.

Number 5. Centra's internal costs are modest, somewhere between two hundred thousand (200,000), that's Centra's estimate, and four hundred thousand (400,000), that's the estimate of others.

Number 6. Dealer-embedded margins are also modest. And in particular as a result of the method in which Centra goes to the market, it's open outcry system, Centra says that the cost is likely 75 percent of a cent. Mr. Pringle thought it would more correctly be two (2) cents a gigajoule and that -- that the margin would vary depending on the amount of volatility and risk in the market.

Number 7. It's a fool's game to try to beat the market.

Number 8. The original purpose of the fifty (50) cent out of the money band was to act as disaster insurance.

Number 9. All parties seem to be in agreement that Centra cannot mitigate price volatility and at the same time minimize gas costs.

And 10. To date the mechanistic program has cost approximately $6 million in additional gas costs subject to change depending on where we wind up at the end of March '07. Mr. Pringle described the cost of the program in terms of the gains and losses to this point as about awash.

So what is to be done, though, about this potential catastrophic increase to gas costs in the forecast year? Our view is the Utility cannot act like an ostrich and stick its head in the ground and hide from the problem. It's not good enough that or acceptable to consumers to comfort them with the notion that in the long run they will equal out in terms of pluses and minuses.

The short run's important. Customer have short-term memories, as they should. The Board in these circumstances and in the circumstances of a potential $77 million loss due to hedging must be circumspect. We have to be careful to consider all of the consequences of the program as it's structured today and remind ourselves that Centra hedges not for itself but for the benefit of its customers who ultimately bear the burden of market volatility no matter what the Company does.

Essentially the question boils down to: What do the customers want; what level of protection against volatility at what price? Centra has an opinion, my clients have an opinion, brokers have an opinion and the Board will ultimately have to form its opinion. We all agree that there is some tolerance for volatility and the question is how much at what price.

That aspect -- for that aspect there is no consensus and there is also no consensus on who is best placed to answer the question and who's put forward the most persuasive information on that question in this proceeding. Centra wants to maintain the status quo with no changes to the program notwithstanding this potential for a huge hedging loss this year.

At page 408 of the transcript Mr. Peters asked the Utility why it attempts to mitigate rate volatility through hedging and the answer was, quote:

"Customers' energy bills represent a fair portion of their expenditure in Manitoba and that customer research that we've conducted indicates that customers would like for the Utility to endeavour to constrain what that rate is going to jump around by on a quarterly basis." End quote.

Centra also relies on its internal expertise and feedback that it receives from its customers through its call centres and through correspondence and voice mail received as high up as the President's office and indeed above that, the Minister's office. Centra also relies on its institutional knowledge and -- and intuition regarding these matters, all of which is appropriate.

Centra, however, intimates that CAC/MSOS has no foundation upon which to assert its position and that the Board shouldn't let the proverbial tail wag the dog.

The Consumers' Association of Canada and the Manitoba Society of Seniors have their view on what consumers want in terms of management of rate and bill volatility. And in an answer to an information request posed by Centra, CAC provided some information about their organizations and how they have arrived at their views.

Firstly, the Board should be aware that these organizations have more that sixty-five hundred (6,500) active members and that the raison d'etre of the Consumers' Association of Canada is that the organization helped to bring consumers together to make sure that safe high quality goods and services are available at affordable prices.

The Manitoba Society of Seniors is a large organization that advocates on behalf of the interest of seniors in this Province. Both organizations have a myriad of points of contact with their members and the public at large. They are in touch on these issues with the public. CAC/MSOS uses all means available to keep abreast of issues and concerns that face its members.

The Consumers Association deals directly with members at its information centre and at speaking engagements. The last year the Speakers' Bureau alone spoke to more than a thousand (1,000) consumers in the Province. Last year approximately eleven thousand (11,000) consumers contacted or visited CAC information centre.

When finances permit, CAC and MSOS do conduct focus groups and other direct research. However, CAC/MSOS did not conduct any formal surveys or questionnaires specifically related to hedging and did not present any such evidence in this proceeding. Quite simply, the money is not there for that project.

These are voluntary organizations that operate on government grants, not membership fees. They're non-profit. And in fact we did consider very seriously doing market research for the purpose of this Hearing and presenting that evidence but the -- the cost associated with it, the risk associated with recovering those costs, and the fact that we'd want to do that research in conjunction with Centra and brokers made the idea unmanageable.

So what does CAC know about customer preferences? Well, the organizations have been involved and receiving information and on reviewing Centra's hedging program since its inception.

Through that period we've hired a number of formidable hedging experts including E. Kirzner, John Todd, Professor John Herbert and lately Ashmead Pringle who laterally is well educated, he's got an MBA from Harvard, but he's a futures broker and a principle of a commodity trading firm that's been dealing with hedging energy since that began.

And as if his qualifications weren't enough on paper, you heard from Mr. Pringle that he was sought out by Nexen to teach it about hedging and to teach it about accounting for hedging under the applicable accounting rules. He is the epitome of an expert witness. He was candid and objective. His views are clearly his own, he had nothing to advocate and no vested interest. And with respect, the same cannot be said of the Centra Panel who are of course and understandably so, homers defending the Company's -- the Company and its positions.

And that was evident in this proceeding wherein I think all witnessed there were some uncomfortableness among Panel Members having to defend the Company's decision to deviate from the mechanistic hedging strategy.

So between the consultants and knowledge of customer preferences and through dialogue with members in the public at large -- at large along with institutional knowledge from being involved in these Hearings since the dawn of hedging at Centra, these Intervenors say with all modesty that they do have something to offer in the legitimate view of customer preferences.

Now, regarding the -- the Western Opinion survey, which appears to be at -- the biggest strength of Centra's argument in terms of maintaining their hedging program, CAC/MSOS didn't participate in that process, and that was unfortunate.

My clients strongly disagree with Centra's assertion that the Western Opinion research is proof that a majority of its customers want hedge -- Centra to continue hedging this -- in the fashion that the program permits at present. In other words, that consumers have given the thumbs up to this particular hedging formula and strategy.

Ashmead Pringle put it best during his testimony when he said, at page 1,032, quote:

"There's a question posed to consumers

along the lines of Centra operates a hedging program to reduce bill volatility and it costs a little bit, would you like them to continue? And I think a majority, 60 percent, said yes, continue. Some said more, some said no. You know, I take that question with a little bit of a grain of salt because it sounds pretty good, you know, mitigate my bill volatility and it costs just a little bit. Sure, I'd like that. And maybe do a little bit more." End quote.

Well, it's trite to say but if customers were aware of the problem that this Board's going to have to wrestle with during its deliberations, that is the potential for a 20 to 25 percent addition to gas costs in the forecast year, those customers may not say, Yeah that sounds good, I'd like that and maybe a little more.

Let's call a spade a shovel here. The questions posed in the Western Opinion research study were leading questions which suggested an obvious answer. Mr. Hoaken's cross-examination was quite effective in making this point.

Another thing, yesterday's savings are old news to customers. Customers are going to be a lot less appreciative of hedging gains in years gone by when they -- than they are in terms of their concern about perspective hedging losses and increases in gas costs on a future basis.

And Mr. Pringle testified, at page 1,020:

"I think that may be a problem right now in the landscape for Centra, is that as the current losses come through the 77 million, or whatever it turns out to be, and folks want to make hay out of that fact that that's 20 percent above the market or whatever, it's not going to comfort the consumer so much to know, well, back here three (3) or four (4) years ago you didn't really know it but you were saving 20 percent." End quote.

So is new market research needed? Certainly it wouldn't hope -- wouldn't hurt and my clients would love to participate in that. But the point is the Board need not wait for additional market research before it takes action in this proceeding.

Directionally, the research is not going to tell us anything that we already don't know.

Consumers do not like price increases, they like stable prices. They do not like dramatic price shifts, although they do have tolerances.

However, the customer mix is a heterogenous one and therefore some will have greater tolerances than others. But furthermore we would add customers want price transparency, price -- information about their gas costs, and they want choice.

Centra has a plan to conduct consumer research relating to fixed-price offerings. The Company also plans to do some further research on hedging in 2008. We submit that these two (2) initiatives should be joined. They should be consolidated such that -- and this is important -- that the initial research includes an analysis of customer tolerances for bill volatility in light of the Company offering individualized hedging choices.

Broker and consumer groups should be invited to participate in that process and I note that Ms. Stewart had indicated that she will seek her consultants' advice on whether to join these two (2) projects.

I expect that the Board also hears from Centra customers about gas rate increases and -- and perhaps hedging. The Board also hears from broker clients.

The Board's mandate is to determine the public interest and after hearing and considering and balancing all of the various stakeholder viewpoints that cluster around this esoteric question of the public interest the Board has to come to a decision.

So who is it that has their fingers on the pulse of the consumer? Is it the Utility? Is it consumer advocacy groups? Brokers? Perhaps consensus is the best option.

What is CAC/MSOS's position? There's been some uncertainty in this regard. The Board's white paper described my clients as being opposed to hedging. In my view that overstates their position.

CAC believes that hedging in loco parentis which means for everybody in a paternalistic manner, would no longer be necessary if customers had sufficient and adequate individual choices about reducing their primary gas rate volatility, and I highlight the word, "if".

In the interim, however, Centra's hedging program should continue. Customers should not be left in the lurch, left completely unprotected and victim to potential market extremes, but the program must be modified. A potential loss of 77 million in one (1) year is unbearable. It should be modified to reflect the original purpose and function of the program. Go back to its roots; that is to provide a measure of disaster insurance there to supplement the other strong rate management tools.

Centra -- or CAC/MSOS's position is entirely consistent with the organizations guiding principles. The Consumers' Association of Canada and the Manitoba Society of Seniors believe that it is the right of all consumers to receive adequate and timely information about gas prices and to have adequate choices when it comes to reducing bill volatility through rate measures. Accurate market information and market choices are two (2) of the eight (8) guiding principles.

So my clients believe the hedging should continue but in the form advocated by Mr. Pringle, at least until the competitive market has developed to the point where consumers are fully protected from rate volatility through reasonably priced -- fixed-price term contracts of shorter duration than three (3) or five (5) years, or until the Utility has provided individualized rate stability programs which allow customers to choose whether to have their gas float with the market or to be fixed to some degree.

To be clear, my clients fully endorse and adopt the evidence of Ashmead Pringle presented in this proceeding, and I want to review some of that evidence in conjunction with a review of the evidence provided by the Centra Panel.

Firstly, on the question to hedge or not to hedge, Mr. Pringle is not against hedging. To the contrary, as he explained, he's a big fan of it and it's understandable because it's how he makes his living. His view is that hedging is -- is ultimately necessary to protect consumers who want protection from gas price volatility; the vagaries of the market, as it were.

The point of Ashmead's evidence is that the benefits of hedging can be provided to the ratepayer more effectively, more transparently, more efficiently by allowing ratepayers to be presented with individual choice, whether it be from brokers in a robust, competitive environment or Centra offering fixed price services or indeed a combination of both.

Mr. Pringle has his folksy charm and he put it this way.

> "I think there should be more ability for ratepayers to roll their own, so to speak, in terms of price protection."

So should the Board order Centra to phase out hedging? Mr. Pringle did not advocate hedging being phased out in loco parentis unless and until there was reasonable and adequate consumer choice available.

And to the extent that choice is not available, for example, no one (1) year or two (2) year fixed-price offerings he indicated that that's probably a good argument for allowing Centra or an unregulated affiliate to offer programs under the assumption that it would offer something less than the five (5) year fixed-price contracts.

Turning now to the Executive Committee's decision to take market views into accounts and deviate from the mechanistic hedging strategy. Centra witnesses testified that the individual hedge transactions which in this -- that were reviewed in this proceeding were all conducted in accordance with Centra's hedging policy, which in my view is correct but isn't saying much.

The policy on paper provides for an enormous measure of discretion, but the policy belies the intent of the Company as expressed in previous hearings. And the intent of the Company was always expressed as an undertaking to proceed in a particular fashion and -- and that they would do that unless the Board was advised otherwise.

Centra witnesses testified in the '05 General Rate Application that the Company intended to strictly follow mechanistic hedged. The Board's familiar with the tenants of mechanistic hedging. The hallmark is that the market directional view plays no role in the implementation and execution of hedge positions. Even if management is convinced that prices are likely to fall, hedges are still implemented, however hard that is to do. There is no market view discretion surrounding the timing or magnitude of hedges.

And at transcript page 520 I asked Ms. Stewart, quote:

> "And in previous hearings you've testified that Centra's implementation strategy was going to be the strong form mechanistic implementation approach."

Her answer was:

> "Yes, that's correct." End quote.

At the '05 GRA -- GRA Hearing Ms. Stewart testified about limited circumstances, extraordinary circumstances where Centra would deviate from the mechanistic hedging approach. She cited two (2) examples; one being a disaster involving the TCPL main line, that would mean counter-parties wouldn't be willing to enter into hedge transactions; the second was that customers migrated en masse to broker services.

Ms. Stewart was specifically asked whether the Company would take market views into account in exercising discretion if the new discretionary ability was approved by the Board. Ms. Stewart confirmed that Centra had no intention to do that and had not shifted its position to taking subjective price views. You can find those quotes in CAC/MSOS Exhibit 8.

At the same hearing Mr. Warden confirmed that under the new policy the Executive had obtained a large amount of discretion that was not there previously. The discretion included the ability to not hedge at all, switch to caps or swaps, alter the fifty (50) cent out of the money formula and unwind transactions.

Mr. Warden was asked if the Executive would make these decisions without input from the Gas Supply Committee and he answered, quote:

> "They would -- wouldn't do that, I can tell you. I am the liaison between the Gas Supply Committee and the Executive Committee, and they wouldn't take any action without a recommendation coming through myself which would be supported by a recommendation of the Gas Supply Committee."

That's page 516, at Tab 17 of CAC/MSOS

Exhibit 3.

Now, at this hearing Mr. Warden resiled from those comments and he said, at transcript page 562, quote:

"I'll say now that the word 'recommendation' there wasn't intended in the formal sense of a recommendation, it would be based on dialogue with the Gas Supply Risk Management Committee. It would be based on dialogue with Gas Supply front office and recommendations would be conveyed in that manner. But I believe in the context it was being stated here I was not referring to a formal recommendation." End quote.

And what I note is that Mr. Warden, in that passage, isn't saying that the intention wasn't to follow advice from those in the know about hedging within the organization. He was simply qualifying that what he had meant at the previous hearing was that it need not necessarily be in writing. And I'll come back to that when I discuss this Board's previous comments on a similar circumstances that happened back in 2000.

Now, as we heard, the Executive Committee did take market views on several occasions in the post-hurricane Katrina/Rita period beginning on October 4th, 2005. And at transcript page 529, I asked:

"The essence of the special circumstances was the Executive's belief that the prices were unsustainably high, is that fair?"

Mr. Warden answered:

"Yes. As I indicated earlier we looked at the market, at the price, and determined it was abnormally high and decided for that reason to defer hedging 50 percent of the volumes."

End quote.

The Executive Committee took the subjective market view into account on more than two (2) occasions and -- and I'll review briefly the chronology. And perhaps when the Board's deliberating it can have reference to Tab 15 of CAC Exhibit 13 which has the minutes of all of the relevant Executive Committee meetings.

At page 11, the minute indicates that the Committee agreed to defer placement of natural gas derivatives to October 18, 2005. That decision was based on a written recommendation made by the front office.

That's one incidence of a market view coming into account with regard to the change in timing of hedges.

The first -- it was intended that the Company was going to go to the market on October 4th and so that was deferred; that required consideration of a market view but at least it was based on the recommendation of those, as I say, in the know from the front office.

On October 18, 2005, the minutes disclose that the Executive made a final decision to hedge only 50 percent of eligible volumes for the months of August 2006 through October 2006. The Committee stated that it would provide further direction prior to the placement of derivatives on the remaining 50 percent of eligible volumes; that's the second exercise of a market view.

The next hedging session arrived in January and the Executive met on January 10th, 2005. It reviewed a report from the front office and that report said gas prices had retreated to somewhat, quote/unquote, "normal levels" in the nine dollar ($9) a gigajoule range. As a side, I hope that isn't normal levels.

And as such there appeared to be no special circumstances warranting departure from the mechanistic hedging approach. As a result the executive stayed the course and implemented the regular hedging.

The next meeting was April 4th. Again, the Board reviewed a written recommendation from front office which indicated that there once again, are no special circumstances. The report also noted that the natural gas prices had softened as a result of a warm winter. The Executive relying on that written advice from the front office, adopted the recommendation and ordered that the Company stay the course and follow its regular mechanistic approach.

But something changed between April 4th and April 25th and there's nothing on the record in this proceeding that'll tell us what. But the next time the Executive convened to discuss hedging on October 25th and without the benefit of any written recommendation or advice from the front office, the Executive ordered that derivatives be placed on the remaining 50 percent of eligible volumes for the months of August, September and October.

And this placement was recognized in the minutes by the Executive and described as flowing from a significant decline in the forward price of natural gas since the first tranche was placed. So this is a third example of a market view being taken; the decision to re-enter the market to hedge the balance of volumes.

But in a seemingly contradictory move at the same meeting, the Executive determined the derivative should only be placed on 50 percent of eligible volumes for the quarter that was being considered at that point, February, March and April 2007, again, a deviation from the normal hedging policy, and that the 50 percent would remain unhedged until further approved by the Committee. That's the fourth example of a market view being taken.

The Executive noted that it had previously approved 100 percent for these months. No reason was given for the dramatic change in course and all this Board has before it are the written reasons of the front office that, as I said, indicated that natural gas prices had softened and that there were no special circumstances.

And I'll just pause at this time to remind the Board that as always the onus in these proceedings is on Centra. It's not on the Intervenors to prove negatives or -- or to -- to prove the matter, it's up to the Intervenors to question Centra and the evidence that it brings to bear to fulfill its onus; here the onus being that the decisions made were proper decisions, reasonable decisions, and in accordance with their policy and/or the informal policy as expressed to this Board in previous hearings. Here all I'm saying, there is absolutely nothing on the record that explains this shift between April 4th and April 25th.

Ultimately, hedges were placed on that 50 percent of volumes for February, March, and April 2007 and that occurred on September 19th, 2006. And so that's the fifth example of a market view being taken.

No information has been put on the record in the form of any minute or otherwise with respect to why that date of September 19th, 2006, was selected to go back to the market as opposed to any other date in the -- in the period prior, and was it based on a recommendation from the front office and if -- if so what was the recommendation?

Now, for operational reasons a planned hedging date of July 24th was moved to July 27th. This time the change was not based on a price view taken by the Executive and appears to -- to be a very reasonable reaction to operational deficiencies on July 24th.

The point in all this is that the Executive, once it chose to go down this path of taking market views, found itself having to repeatedly make determinations about what the market's doing. Clearly the Executive Committee took market views into account on more than two (2) occasions as being asserted here, and I counted five (5).

As Ms. Stewart notes at page 527 of the

transcript:

"One must exercise discretion as it relates to re-entering the market following the decision to defer."

And she conceded that each day that passed that the Company choose -- chose not to reenter the market, a price view had to be taken by somebody within the organization; that's at transcript page 527 where she says, quote:

"The Corporation had the choice to go to the market on any day thereafter the decision was made to defer." End quote.

The Executive Committee minutes provide virtually no information about the reasons for why important decisions were made and Mr. Warden denied my proposition to him that -- that this was a conscious decision to minimize regulatory review.

And it may very well be that the usual practice for the Executive Committee minute takers is to be concise and in most circumstances that would be applauded, however, when a decision of this magnitude arises, it's incumbent upon the Utility to provide its reasons and rationale in a fulsome manner.

These Intervenors have complained about

this very matter in the past as has the Board and it appears as though these minutes have been somewhat sanitized. Perhaps the Company recalled how similar the more detailed minutes were used against it in the 2001 proceeding, which I'll get to later, wherein the Executive Committee was criticized by the Public Utilities Board regarding its exercise of -- of a discretion to not place hedges.

What I noticed in reviewing the documents was that there were no written recommendations from the front office that in any way contradicted decisions made by the Executive. No written recommendations also were made to deviate from mechanistic hedging and at transcript page 583 we found out why. Mr. Warden stated, quote:

> "The advice given by front office, by Gas Supply, was consistent; that is to follow the mechanistic hedging program. They're more comfortable with that."
> End quote.

The Executive Committee's decision in this case hearkens back to the last time that the Executive Committee exercised a discretion regarding hedging. That was back in 2000.

Board Order 91/'01, the Public Utility

Board had the following to say about the Executive's exercise of discretion on that occasion. And this is at page 28 of Board Order 91/'01, quote:

> "The Board heard evidence that suggests that the process used to evaluate transactions during this period was seriously flawed. The Executive Committee did not perform the correct analysis to approve the transactions during the year. The Executive Committee overruled a Gas Supply Committee recommendation to hedge October volumes. The Executive Committee's decision appears to have been primarily driven by the absolute cost of the cap. The decision to, quote/unquote, 'save' approximately five hundred thousand dollars ($500,000) related to the cost of the cap may have increased gas cost by over 4 million.
>
> The Board is of the view that an absolute dollar cost should not be used in isolation to determine whether or not a cap should be placed.

The Board is also concerned that the ultimate decision to place derivatives was made by the Executive Committee, which does not appear to have the depth of expertise to evaluate these transactions.

It is the Board's view that it would be more effective to have the Executive Committee approve policies and procedures which under the Gas Supply Committee should take action -- under which [rather] the Gas Supply Committee should take action. The Gas Supply Committee should then be evaluated based on their effectiveness -- effective execution of the approved policies and procedures in the prevailing circumstances.

The Board previously requested that such circumstances and strategies be incorporated in Centra's policies and procedures. To date, this directive has not materialized." End quote.

I mean, it's -- it's deja vu all over again. The Board suggests -- suggested that, at that time, that the Executive didn't -- wasn't the right place for these types of decisions to be made. The right place was at the Gas Supply Management Committee level and/or, as -- as it's being described here, the front office.

The Board should be setting the broader policies and goals and approving them, but it shouldn't be dealing with the individual hedging decisions. And way back -- here, in June of 2001, when the Board is writing this, they're noting that -- that they had -- the Board had previously requested this approach and yet the directive had not materialized.

Based on its concerns arising from this 2000/2001 experience the Public Utility Board's -- Board, in a later proceeding, ordered that Centra undertake an independent assessment of skills and qualifications of its staff and the Executive relating to hedging. And Tim Simard, from the firm of Risk Advisory, was hired. He prepared an independent assessment that Centra endorsed and put forward in a subsequent proceeding.

The assessment is at PUB/CENTRA-45, and it states, quote:

> "While Risk Advisory did not interview all members of the Executive Committee there was a concern about the group's ability to make strategy decisions

based on market views that would be
associated with a judgmental approach."

Notwithstanding this and notwithstanding the fact that Mr. Warden conceded that there hadn't been any material changes with respect to the Executive's knowledge of hedging matters, the Executive has done what the Company acknowledges it doesn't have the skill set to do, exercise a market view in making important hedging decisions.

And just as an aside, it doesn't matter if it's a positive or negative outcome. I mean, we have to take a principled approach here. It doesn't matter. Because at the end of the day, as Mr. Pringle opined, you're going to lose to the market. The market has a way of cutting you off at the knees, and no one can beat the market on a consistent level.

Mr. Pringle was not favourable to the Executive Committee's decision to take market view and his evidence was that it was inappropriate even if permitted by the policy. And that's at transcript page 1048.

The front office at Centra and in particular those responsible for the hedging program should be applauded for the advice that they gave to the executive to stay the course and to maintain the mechanistic strategy notwithstanding what they saw in the futures market with respect to the high price of gas.

Mr. Pringle testified that he did not consider market views to be one of those special circumstances upon which discretion should be exercised to deviate from mechanistic hedging. That of course was also Ms. Stewart's testimony in prior proceedings.

Special circumstances should be defined in the hedging policy and they should be defined to explicitly exclude taking a market view. CAC/MSOS recommends that the Board should mandate that Centra revise its policy to explicitly exclude market views.

And as Mr. Pringle noted during his testimony, the risk borne by ratepayers goes up when market views come into play. Mr. Pringle testified that allowing the market view into the equation is sort of a Pandora's box and he -- he rhetorically asked how does one know when to open the box and can you open it without opening it all the way.

Now -- and as I said, Mr. Pringle did concede that the -- the executive and this Board in indicating their sense, intuition, and apprehension about the high price of gas in October of 2005, turned out to be right.

But the point is that was fortuitous and I think all parties are in agreement on that point. In order to address situations though that the Board was concerned about in its decision, situations where you're mechanistically hedging out when prices are -- are very high, there's something that can be done without taking a market view. Something that can be done to eliminate the potential for what Mr. Pringle calls marching off a cliff which is what he says has happened in light of record high gas prices and then a slow decline in those prices.

The mechanistic rules can be put in place that deal with certain eventualities. Mr. Pringle indicated that the rules can have some flexibility, not flexibility in terms of whether you follow them. Flexibility in terms of the rules adapting to different circumstances.

For instance, the rules could incorporate some other information besides just the twelve (12) month forward strip. A mechanistic program he noted does not mean that you have to have a single rule. You have to stick with your rules

But you can have rules that address the different circumstances and you can also change those rules periodically. The point is to follow the rules and not have an ad hoc discretion based on intuition alone

Mr. Pringle recommended widening the

collar in certain circumstances as the price of gas rises, that's an example. Or hedging lower percentages in summer months, that's another example. Or, hedging a lower percentage if prices were for example, at a record high.

How does one define special circumstances that would permit a deviation? These Intervenors agree with Ms. Stewart's -- the examples Ms. Stewart gave and would add to that any operational concerns such as those that necessitate -- necessitated a change from July 24th to 27th, and Centra should be tasked with putting together a definition of special circumstances in their policy and following those rules.

So what do we do about the big question here on hedging? What should Centra do about this potential for large hedging losses projected to be $77 million in the current year? And in a worst case scenario $100 million.

CAC/MSOS recommends that the Board require Centra to adopt Mr. Pringle's recommendation to expand the cashless collar bandwidth.

On this point Mr. Stephens' evidence about the origins of the fifty (50) cent out of the money band is crucial.

At transcript page 687 I asked, quote:

"Again, that fifty (50) cent margin flows indirectly from the Viewpoint research that was done in 1998, correct?"

Mr. Stephens responds:

"No, Mr. Saxberg, it did not flow from that market research; that was a number that I picked based upon our experience at that -- at the point in time that we were developing our first new price management program.

Now, what we were trying to determine was what would be the most, with some probability of occurrence but unlikely occurrence, price swing that you could see over the course of a year but it was very much a discretionary call on my part."

And then we went from that number and went through the process Mr. Sanderson referred to earlier. And then I skipped to line 12:

"The point being from my perspective then, and even more so now, that there was altogether too much attention being paid to price management because, quite frankly, it didn't have a significant impact on the price of gas. Now, it doesn't -- I'm not -- I don't mean to say that in terms of diminishing the value of our hedging program now because it certainly provides a valuable end result." End quote.

Times have changed and customers are used to paying more for primary gas. By -- by the by, Mr. Stephens went on to agree with my characterization of that 50 percent out of the money range as being akin to disaster insurance and that's at page 688 and 689 of the transcript.

The point is that the original intention of the program was to provide for this disaster insurance to supplement other rate management tools. The current bandwidth is -- would be flexible if the price of gas was only moving between two dollars ($2) and three dollars ($3) a gigajoule.

And, you know, where the price is moving between two dollars ($2) and three dollars ($3) a gigajoule and the bandwidth is eighty (80) cents, that's pretty much covering the entire range of the market, you know? It's eighty (cents) within two dollars ($2) and three dollars ($3) versus what we have today which is a -

- a three (3) to sixteen (16) or seventeen dollars ($17) a gigajoule.

I mean, if we were to have a bandwidth that was similar in terms of what Mr. Stephens was designing we'd be looking at something like four dollars ($4) and, you know, and eighteen dollars ($18), which isn't something we're suggesting, but just makes the point that what we were dealing with before was a different concept for hedging.

The -- the fifty (50) cent out of the money band when it's applied today is very aggressive and it's going to cause a much greater degree of volatility reduction; that's conceded, but what it's also going to cause is a potential for much larger year-over-year adjustments.

And those adjustments -- and this is an important point -- can lead to serious competitive disadvantages for Centra vis-a-vis broker supplies.

And Mr. Pringle I thought in a -- in a very interesting comment said -- he said:

> "If I was a broker today, regarding the $77 million potential hedging losses, I'd be leading with that story."

Mr. Pringle noted that the current bandwidth often results in fixed price gas and as a result, and per the retrospective study, that's going to result in the largest impact on gas costs. With wider bandwidths customers would have had smaller gains and smaller losses and, yes, at the expense of slightly less reduction in their volatility.

But look at the last two (2) years -- $47 million in savings one (1) year; a potential for $77 million in costs the next year; that itself is a volatility in a different sense. And as Mr. Pringle noted you're trading one (1) type of volatility in for another.

Another positive associated with increasing the bandwidth is that it may result in the Executive being a little less fearful of placing hedges when the price is high because at the end of the day that's why they didn't place all of their hedges.

Ms. Stewart testified that there was a psychological factor relating to the cost of premiums for call options which led her to favour collars over caps, and her logic was, It's a lot easier to follow the mechanistic formula when you don't have any upfront premium costs.

And that's -- that makes sense. It also makes sense that with respect to this narrow bandwidth it -- it's a lot tougher to put those hedges in place when the price of gas is extremely high.

Now, it should be noted that Mr. Sanderson's evidence at transcript page 599 confirms that a wider bandwidth would have a lower impact on gas costs, either positive or negative.

Now, my clients are seeking to have the program modified eventually such that customers receive accurate market information and more customer choice in terms of their options to reduce volatility. Right now their options are fairly limited, five (5) year fixed term contract or a price provided by Centra which is really an unknown quantity. You really don't know what price you're getting under the current regime. You don't know what the hedges are or what their effects will be unless you follow these proceedings.

If Centra were to offer individualized hedging and a default market index, then consumers would know. If they're on the default market index they're paying the market rate and they may have some tolerance, like consumers that have to go to the gas pump daily and face drastically different prices, because they accept that at least they're paying the market.

And it's also important to note that a consumer could elect the hedging insurance if it was offered as such in one (1) year and then elect not to have it in another year - that choice is not available today. Today consumers are forced to accept the hedging insurance provided by Centra in each and every year. And, as you've heard, our view is that that insurance is the deluxe insurance, which is too expensive as opposed to the original disaster -- cheaper form disaster insurance.

I just want to touch on a couple of issues that have always come up and that Mr. Pringle testified about briefly. What volumes should Centra hedge?

Because of the exceptionally warm winter last year there were a few occasions where volumes Centra hedged actually exceeded the physical amount of gas that was purchased, and that's of course always problematic.

The Centra witness panel indicated that the -- this demonstrated the difficulty in forecasting ten (10) to twelve (12) months out, particularly with brokers and, you know, in any given period a forecast can be made and then there's a -- a rush to broker service. And that's -- that's something that I -- I think that the Board should be very mindful of in the future in -- in terms of directing the measure of volumes to be hedged.

Although the discrepancies were -- were fairly modest, I think that it's incumbent upon Centra to -- to do whatever it can to ensure that -- that this doesn't happen again in the future. And in that regard Mr. Sanderson assured that -- that this past experience would be incorporated into subsequent forecasts.

But then again, you never will know how many people are going to switch to broker gas ten (10) months down the road. So I think that there's some fail-safe or some further consideration or safety a margin that has to be built in to the determination of volumes hedged.

And I appreciate that Mr. Pringle's evidence is somewhat offside on -- in this regard, in that Mr. Pringle, as a hedger, has the view that if you're going to hedge risk, you want to make sure that you hedge your best guess of what the risk is. And all he was saying was when you're hedging warmest years, warmest years only happen occasionally whereas normal years happen more often.

So he was just making that rather, you know, basic observation from his experience that you should be hedging what you expect to happen. So we endorse that. Hedge what you expect to happen.

But what we've learned is that we -- we should be a bit more careful on how many people we expect to go to broker services so that we don't leave ourselves in a situation where we're paying in the fu -- paying in the derivative's market for gas that we didn't receive or consume

Caps or collars, Mr. Pringle has been consistent that a collar -- that a cap, sorry, is always the number one choice if you can tolerate the costs. It gets rid of all of the upside volatility after a point, the cap, and then you get to keep all the good downside volatility, and no one is concerned about downside volatility.

A collar is an attractive compromise though and it reduces downside volatility but it's the compromises because it -- it gets rid of the upfront premium associated with caps.

But if you were to stay true to this economic theory that the -- the costs of a cashless collar strategy versus a cap strategy are going to be the same in the long run, then why wouldn't you go with caps if it's going to be the exact same, if you really believe in that economic theory.

And it's interesting that -- the Centra wants to tell its customers, don't worry about this year's potential $77 million addition to costs, because in the long run it's all going to equal out.

Or by the way, we made some savings in the last four (4) years prior to that and so, therefore, everything's fine. But at the same time, the Company doesn't want to put up the premiums for caps and pay for them in advance based on this long run theory of -- of equalization.

It's really about who's going to pay the freight and so I mention those distinctions not to say that the collar strategy isn't an appropriate one, because Mr. Pringle endorsed that.

But just to reiterate that in the best world if you can tolerate the costs and you truly believe in this economic theory, it would be going with caps because what we're doing is trying to stop gas prices from going up. No one wants to stop them from going down.

Regarding this imbedded dealer margin, there's really not much of a distinction between Mr. Pringle's position and the Company's position. But Mr. Pringle did note that volatility in the market is going to increase that the dealer imbedded cost whether you're calling it a premium or -- or however you're parsing it, where there's greater risk parties want to be compensated.

Now Mr. Pringle's advocated making the default -- the equal payment plan and it's a good suggestion and if you consider that if you're already looking out for the consumer's needs and acting in loco parentis in terms of hedging for them, spending millions and millions of dollars on that, why aren't you doing that same parental type of -- why aren't you following through with respect to the -- requiring people to start at least with the equal payment plan and then make their choice to move somewhere else.

And we've gone far enough with paying all this money for hedging. So it doesn't seem so draconian to make the equal payment plan a -- a default or a starting position to which you then have choice to move.

THE CHAIRPERSON: I think we'll take a short break now.

MR. KRIS SAXBERG: Sure, thank you, Mr. Chairman.

THE CHAIRPERSON: Thank you. Let's say quarter to 11:00.

--- Upon recessing at 10:32 a.m.
--- Upon resuming at 10:51 a.m.

THE CHAIRPERSON: Okay, Mr. Saxberg, I believe you could continue now.

CONTINUED BY CAC/MSOS:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. I'm mere minutes away from concluding on hedging. I just want to touch on Centra Exhibit 6 which the Board should be familiar with. It arose as a result of an undertaking given to Mr. Peters and attracted some attention during the proceeding.

And I just make the point that I -- I know the Board's aware of, which is that the exhibit should be modified, at least notionally, when considering it in terms of the Board's intervention on November 25th as far as how that intervention would affect the pro forma line and bring together the pro forma without hedging line -- bring it closer to the actual billed rates line.

And further, the jagged peaks in the exhibit reflect the twelve (12) month forward price strip on a day-by-day basis for that period. A more proper analysis would be to show the actual prices that Centra would have paid for the physical commodity in the absence of hedging in my view, since that's the -- that's the analysis that we're trying to make.

Now, with respect to measuring volatility these Intervenors are -- are on the record as saying we should be looking at total bill volatility and we don't have a concern with Centra normalizing that analysis to take out the effects of weather so that consumers could see on a month-over-month basis the effect of hedging on their total bill.

And again, just to be on the record, the performance measure that is being used now which is this percentage reduction in volatility is something that provides extremely limited information in terms of the effectiveness of the program and doesn't provide this Board with the ability to effectively consider the -- whether the program's been a success in the overall sense.

And do note that in the past and in -- in the Board Order that I referenced earlier the Board was judging Centra's achievement of its goals, vis-a-vis hedging, against a benchmark of sixty dollars ($60) a year in changes to gas -- to -- to monthly -- yearly bills. And that's a measure that -- that Centra has backed away from but what I -- that I would suggest is -- is far better than the -- the current percentage reduction and volatility approach.

And -- and just before leaving hedging to mention Mr. Pringle's remarks about the Winter Heating Cost Control Act and that it -- it is something for the Board to contemplate when it considers the level of protection in the global sense that's afforded to consumers for price breaks.

I mean, the Government has signalled an intention to intervene where appropriate and I think you can count on -- on that if a -- a circumstance arose which warranted that type of intervention. And then, of course, the Board is in touch with -- with the Province and also has its own abilities to -- to dampen dramatic price breaks as was the case in November 2005 when it did exactly that.

And I note that from looking at Centra Exhibit 6 that that one (1) period, really, over the entire six (6) year period was the -- was the only period where you had a major problem and disaster insurance -- a wider bandwidth would have dealt with it effectively.

So onto other matters. Firstly, the supplemental gas rate and transportation rates. Centra is seeking to recover an estimated $9.5 million of supplemental gas costs, which is a modest decrease from the existing base rates which are collecting 9.9 million. Transportation costs are also down thanks to reduced TCPL totals and less variable charges flowing from reduced use of storage and other trans -- in transportation. Transportation rates are down then from rates recovering 52.9 million to 45.9 million.

Now, historically, supplemental gas related to purchases of gas in the United States.

However, they now include delivered service which is categorized as supplemental notwithstanding that it's gas from Alberta.

In this application Centra is forecasting that it will no longer require supplementary gas from Louisiana. We have rarely needed Louisiana gas to fill storage. A minor amount of supplementary gas from Oklahoma is being forecast and another very minor amount via delivered services from Alberta.

Most of the supplementary gas, the vast majority of it that's being sought to be recovered in this proceeding, relates to cost of supplies that Centra will be withdrawing from storage to serve the load this winter; in other words, gas -- supplementary gas in storage.

These -- Centra does not forecast requiring supplemental supplies to fill storage. In the forecast year Centra started the refill season with more than half of its storage full; 8 petajoules at the beginning of the refill season for the year -- forecast year.

Now, Mr. Sanderson testified that Centra no longer forecasts a need for supplemental supplies to refill storage in a normal weather condition. And this new development puts into question the need for some of the ANR transportation arrangements. In particular, these Intervenors are concerned about the Louisiana Pipeline which is going to cost consumers $846 million American this year, notwithstanding that we're not going to use that pipe.

The $846 million figure, approximately a million Canadian, and that's a very rough estimate --

THE CHAIRPERSON: You mean eight hundred and forty-six thousand (846,000), correct?

CONTINUED BY CAC/MSOS:

MR. KRIS SAXBERG: Sorry? Yes. I don't know where I'm getting that million but it must have been late at night when I was writing this portion of the argument. Sorry about that. It would be a lot more interesting hearing I guess if it was. Okay.

Without these capacity release revenues that are being applied against those costs, Centra would be paying an annual charge of 1.45 million for that piece of pipe. And I had asked Mr. Stephens if he could foresee ever requiring the use of the pipeline between now and the expiry of the contract in 2013 and he indicated -- I think he was using his language carefully -- that it was potentially useable, it would only occur in a design year.

But with the current load which has shrunken considerably as a result of conservation and also the availability of gas from Alberta and excess capacity on TransCanada pipelines, there are other perhaps more economic ways of refilling summer storage, and it's not as though if we did have a design year we wouldn't be able to get by without this Louisiana pipe.

Furthermore, Centra -- or CAC/CENTRA-59 indicates that supplemental storage has never been emptied since 2001. And I only go back that far because that's how far back the information request went. In fact, over the past six (6) years supplementary gas inventory has never been zero and has averaged -- and this is a calculation from CAC/CENTRA-59, 3.2 petajoules for the last six (6) years at an average cost of about $18 million. Well, that's gas that's in the supplementary inventory at the beginning of the refill season. And that's significant and speaks to the requirement of -- or need for this Louisiana pipe.

Mr. Stephens was asked whether he'd explored the opportunity to de-contract this commitment. In other words to -- to get out of the arrangement, Mr. Stephens indicated, of course, ANR would want something for that. However, even assuming that the capacity release transaction, which was in effect, was continued for the next six (6) years which would be most fortuitous, Centra customers would still windup paying about $6 million for a piece of pipe that sits unused and isn't needed; now -- sorry, six hundred -- $6 million, yes, $6 million for a pipeline that over the course of the next six (6) years as a rough estimate.

Now, at page 763 of the transcript Mr. Stephens indicated that de-contracting is a possibility and one that he would consider once he's satisfied that he doesn't need that piece and that I believe that was an issue that was being looked at by the consultants in terms of re -- reformulating Centra's American transportation assets.

CAC recommends that the Board consider this matter and direct Centra to consider taking all steps to reduce this -- this cost for a pipeline that isn't -- isn't necessary or needed in the next six (6) years.

Now, regarding the portfolio review as I characterized it before, the never-ending story of the portfolio review, I reviewed the history of this process with Mr. Stephens during my cross-examination. Now, the point of a blank page analysis is to ensure that Centra has the most efficient and cost effective storage transportation arrangements. And the Board heard evidence that the last two (2) portfolio reviews conducted by Centra recommended salt cavern storage as a means of optimising assets.

Mr. Stephens was equivocal though about whether or not Canadian storage arrangements of some nature, putting aside the IGC proposal to build storage, was in the cards for Centra. And my only observation here is that storage re-configuration has been a consideration now for a decade with the same factors coming into play repeatedly and that is an acknowledgement of the potential benefits of that arrangement.

The corollary, of course, is that the current storage and transportations are somewhat less than optimal. In fact, if you -- Mr. Stephen's evidence was that the current storage arrangement was in the first instance second to Saskatchewan storage alternatives.

He testified at transcript page 328, quote:

> "Actually -- I mean, the arrangement that we currently have were the second choice of an assessment that we did back in 1989 and the initial recommendation of the consultant at that time was that we acquire Trans Gas

storage at that time but Trans Gas could not at that point develop enough storage for us to meet the deadline that was driving the whole arrangement." End Quote.

Centra indicated that it is going to review its options again this year and/or early in the next year and table something with some concrete terms about storage.

A note though, it seems that whenever Centra gets close to formulating a transition plan or a portfolio review is completed that dealing with this important subject, that it winds up getting moth-balled because of a change, unforeseen changes, in -- in assumptions flowing from the market taking a dramatic turn in terms of supply and demand.

But the point that Mr. Stephens made on this was that because of developments in the marketplace it's very hard, as he said, quote:

"To put a stake in the ground and say this is an appropriate portfolio to serve the marketplace."

And -- end quote -- earlier he had is -- was on the record as indicating that a portfolio review is necessary because he isn't convinced that the existing set of assets is the, quote/unquote, "perfect set of assets", end quote.

And I would certainly agree with that. And I mention all of this background because these Intervenors are somewhat sceptical about matters in terms of transitioning the current portfolio to a new portfolio in light of the enormous delay that's occurred over the years in putting together a transition plan.

Just with respect to IGC, the -- the Company was hired in 2001, a draft wasn't completed until May of 2003, and it took until August 2005 before Hydro formulated its position about the report. And when it did formulate its position it was essentially that the market had changed and assumptions were out of date, and there was -- there was nothing to -- to follow in the report, and that a new report needs to be done.

So the -- that IGC report came at a cost. It was, you know, approximately half a million dollars and, from where I sit, provided very little value to Centra or its customers.

And so there's a -- there's a cynicism that we have on this side of the table and I think that it's incumbent upon the Board to -- to press Centra and ride roughshod, as they say, on -- on the Company to ensure that a transition plan is formulated in the near term, because we are quickly approaching the 2013 period, where we will have the ability to put in place a new set of assets.

Dealing with capacity management, my clients are pleased that Centra was able to generate something close to a capacity management revenue record in the amount of 5.9 million. However, my clients remain concerned about whether Centra is doing all that it can to squeeze every penny out of this program.

Mr. Stephens conceded that when the value of Michigan gas is higher than the cost to have a similar amount of gas delivered to the Manitoba market there's an opportunity for Centra to generate capacity management revenues. The key to generating these revenues is that base -- basis differential between the markets.

And during cross-examination I put to Mr. Stephens an analysis of the basis differential between Michigan and Manitoba based on a May 1st, 2006 forward price strip. So that at that date -- and that's the same price strip upon which the application is based -- that at least from that date here's an indication of what we think is going to happen in the next year in terms of the differential.

In other words, if -- if that forward price strip says, By the way it looks like there's going to be a sizeable differential during the course of the year, then that might trigger the Company to sharpen their pencils or, you know, to -- to appreciate that there's -- there are more opportunities, perhaps, in the -- in the upcoming year.

The analysis that was provided indicated that the differential was approximately two dollars ($2) a gigajoule. And this -- this suggests an enormous parent value associated with the gas in storage in Michigan.

And I -- I know that I -- it may appear that have rose-coloured glasses on and -- and that I'm simplifying things perhaps too much, I do acknowledge that -- that there is a lot of uncertainty in terms of how much of that value you're going to be able to -- to dig into and that it's -- it does have a lot to do with -- with weather and -- and market opportunities, however -- and also the fact that we're only dealing with a forecast here and not the actual day-to-day business differential.

But directionally the analysis indicates that there's a potential for enormous cost savings if storage gas is maximized to produce revenues. And Mr. Stephens conceded that, you know, this type of analysis is something that Centra does when it looks to determine whether it's going to be doing exchanges over the course of the winter, so it's not completely without its merit.

But here's the point. The basis differential analysis using this forward strips provides some indicia of the potential value of storage gas but yet Centra was only able to generate 1.1 million in exchange revenue based on this sizeable asset.

If -- just, you know, using the most dramatic example, if the 15 petajoules of gas in Michigan is worth two dollars ($2) more than gas delivered in Manitoba from Alberta then it's -- you know, it's a mathematical exercise to times that amount of volume versus the two dollars ($2). And we're talking about a range of between $20 and $25 million which isn't to say that that's the expectation that -- that Centra should achieve all of that but it is indicating that there's a sizeable amount of opportunity there.

And also, another somewhat related issue, is the fact that Centra has been able to a large degree to conduct exchanges not -- not with regard to excess capacity for profit, but exchanges to eliminate the necessity of backhaul which Centra has characterized as virtual transportation and that there have been a significant -- there was a significant amount of that last year to the tune of $27 million which suggests the possibility of simply divesting storage gas and replacing it with gas from Alberta.

Now, aside from raising the question as to whether Centra's leaving money on the table as it were, CAC/MSOS questions whether Centra's forecasting of capacity management revenues is appropriate. Centra doesn't forecast it, they just take an average of -- of past years' history.

But there is information out there in terms of what could happen with respect to this program. I mean firstly, this -- you can use the futures price strip to indicate whether there are going to be best -- basis differentials that are going to be capable of -- of being exploited. And also as we sit here today, we're six (6) -- seven (7) months into this year, I mean, we know what's happened and -- and that was the case also prior to the application being filed that led to the August 1 changes, at least to some degree.

But more than that, capacity management transactions have been entered into on a recurring basis and so you do have a starting point as well in terms of realizing or -- or determining forecasts for future years to the extent that there is an ongoing relationship with a counterparty and so there's information that could tune up the forecast.

But having said that, I do recognize that capacity management revenues are -- are subject to a deferral treatment and so the actual -- but what I'm suggesting is that actual forecasting could lead to the development of appropriate benchmarks at least from which this Board could more effectively determine whether Centra's doing all it can in this area.

Now, regarding that virtual transportation CAC/MSOS presumes that these arrangements are helping us by reducing some volumetric charges associated with back hauling on the Great Lakes, although I suspect that's not a significant amount. But two (2) years ago Centra came to the Board with the cost consequences of its new gas supply arrangements and one (1) of those was an increment of two hundred thousand dollars ($200,000) US associated with moving from interruptible backhaul to a firm arrangement.

In light of the information about the -- the level of virtual transportation, one has to question the -- the reasonableness of that firm transportation arrangement and whether we ought not to go back to the prior arrangement which was cheaper to the tune of two hundred thousand (200,000) US a year.

Now, CAC/MSOS does not doubt Mr. Stephen's veracity when he says that his staff worked diligently to trade these Centra assets for profit when such opportunities arise. However, it's difficult for these Intervenors to review and assess these transactions based on the limited information provided in these proceedings.

In a broad sense, in order to analyse the reasonableness of what Centra is doing, these Intervenors need to know more detail about the individual transactions and the market conditions that existed at the time of these transactions, i.e., the basis differential.

With respect to these two (2) matters, CAC/MSOS recommends that the Board require Centra in future proceedings to provide further detail, including general descriptions of the -- of each transaction and not clustering them into broad categories; to provide the date of the transactions; dates when transactions actually take place; volumes exchanged; delivery points for exchange volumes; fees paid to or by Centra for each of these transactions.

Descriptions of any special provisions related to these transactions, the nature of the obligation, i.e., firm, interruptible, rates of recall, et cetera and any schedule or nomination provisions. Surely, this information is information that Centra has to keep in the regular course of its business.

Regarding market conditions, Centra must have access to all the published indicies in the physical markets which then provide -- and/or forward or future prices for various market times which would assist in assessing these various transactions.

CAC/MSOS doesn't want to micro manage this program in any way. However, after years of attempting to see inside this black box, it has become apparent that some protocol must be established whereby Centra can provide more information in relation to these very, very significant transactions and we were talking about $6 million a year here.

As an alternative, the Board consider ordering an independent assessment of the program to determine if there are possibilities for improvement that could be made to maximize what appear to us to be substantially untapped resources.

And as I said, looking at this issue from a very high level, one wonders why when the basis differential is appropriate, Centra doesn't simply sell its storage gas and replace it with gas delivered from Alberta at a lower price.

Now, it's not as though that gas isn't available in Alberta or that there are no, you know, that there is a shortage of transportation on TCPL.

I appreciate that the Nexen contract may provide for some restrictions and, in that regard, it may be a matter for Centra's consultants to consider in terms of renewing their gas supply arrangements.

On the positive side, we're happy that Centra's capacity management results related to TransCanada Pipelines is -- it appears, from the evidence, to be about as good as you can get with only one hundred thousand dollars ($100,000) of unused capacity in the prior year. So kudos for that.

Just turning to miscellaneous matters, there -- there was an issue raised which I think that the Board needs to take note of regarding interruptible customers, the fact that they hadn't been curtailed last year and I don't remember the level of curtailment in prior years but I know that it hasn't been significant.

And with respect to Centra's advice in this proceeding about its load shrinking significantly, I think that it is a matter that deserves to be put on the front burner in terms of considering whether that rate is appropriate.

Regarding the refund of the $13.2 million owed to customers, I want to put on the record our continued position that the refunds would more appropriately be delivered by way of lump sum payment.

Now, I know that's probably -- it's moot in this proceeding because we're -- we're simply finalizing an interim order and that the refund is already in effect by virtue of a rate rider.

However, the Board should consider directing Centra to offer refunds in this manner for several reasons. One being that the lump-sum refund reduces the inequities associated with rate riders. I mean, the most obvious inequity is that newcomers coming on to the system and taking gas are going to benefit from this $13.2 million rebate, notwithstanding that they didn't contribute to the overpayment in the first place.

Second inequity is that the refund is based on the current year usage, whereas the overpayment arose from prior years' usage. And other negative aspects of using a rate rider include that customers have to wait for a year to get the full measure of their refund.

Now, Centra has acknowledged that it has considered the concept and, in fact, with the special customer it -- it has delivered a lump-sum refund, albeit for different reasons. But in terms of -- of the effectiveness of providing a lump-sum refund, one has to -- to wonder why Centra doesn't issue refunds in that way when it would clearly improve the price transparency of the market rate. It gets rid of the problem of rates going up as soon as the rider is taken off, which sometimes can be a significant problem.

It can't be that administratively difficult. It just can't be. And the Board is familiar with lump-sum rebates. The MPI rate stabilization reserve is refunded in a lump sum payment. It certainly wouldn't hurt Manitoba Hydro from a PR perspective to do this.

Centra's response is to say, Well, what's good for the goose is good for the gander, How would customers like it if we made them pay for an under-collection in a -- in a lump sum payment. But there need not be any symmetry between refunds to customers and under-collections owing to Centra.

The company's financial circumstances and its abilities to absorb a delay in payment are vastly different than individual customers. So, it wouldn't be a double standard to refund overpayments by way of lump sum and to collect overpayments through rate riders.

Regarding the WTS, CAC/MSOS is in agreement with Centra's position regarding brokers and/or broker customers having to pay for incremental costs associated with greater optionality.

My clients note that the $3.3 million

increase in costs associated with Alternative 1, which would be to allow for transition to broker supply each month, that those costs, if borne exclusively by those switching to broker gas, would clearly not be worth the benefit of this increased optionality. And customers transitioning, if advised of this, would certainly rather wait the extra two (2) months than bear these incremental costs.

And, at the same time, it's certainly not fair for system customers who choose to stay on system gas to have to pay for broker customers to get a more speedy transition, particularly, when it is those switching to broker supplies that are causing these costs.

With respect to the forecast, we really don't have any major concerns and -- and agree that updating the forecast on the current strip would be immaterial since all of the supplementary gas that we're recovering is storage gas. We're not talking about purchasing gas to refill storage with the $9.5 million that -- that's being embedded in rates. So, I agree that updating that strip wouldn't do anything.

There is a problem with the exchange rate that's in the forecast. It's at one point two three (1.23) when, in fact, Hydro's latest information is one point one nine (1.19) and perhaps better, Mr. Warden said at transcript page 294. Last year, the exchange rate settled out at one point one nine (1.19).

Now, turning then to issues for the retail competition hearing, which I think is -- has been described differently by the Board but I'm sure we're on the same page here. The matter is a priority for these Intervenors, so, the sooner the better. We're not unsympathetic, though, to Manitoba Hydro/Centra's regulatory burden and Centra has a -- a GRA in the works already.

The problem is that it does seem apparent that the generic hearing should proceed finalization of gas supply arrangements. Whether there's a -- an opportunity to marry the generic hearing with the GRA is something that I'll -- I'll leave to Centra to -- to determine but, in any event, I think, from our point of view, the -- the position is that -- that the new gas supply contract will likely be able to provide Centra with an ability to give individual hedging choices.

And we heard that Nexen - perhaps on the advice or maybe not but perhaps with some understanding of information that Mr. Pringle's passed on to them - is able to provide a service related to fixed prices for Centra.

So I think it is worthy to have the generic hearing proceed as expeditiously as possible in order to have it done before the contract is finalized.

Now, in terms of the issues, I would indicate that the issues to be canvassed should be as follows:

- Experience and practice in other jurisdictions;
- overview and assessment of the retail market as it exists in Manitoba today;
- requirements to develop a fair and effective competitive retail gas market in Manitoba;
- the role of the Board in the retail gas market; what can the Board do to encourage competition and customer choice in the retail gas market;
- the role of Centra in the retail gas market, and underneath that hedged -- Centra's hedging program and its continuation, fixed price service offerings, options for Centra to deliver fixed price or rate stabilization services on an individual basis, utility-regulated services versus unregulated services, unbundling of the retail and distribution function, code of conduct for Centra affiliates offering unregulated services;
- and finally, a review of broker

practices and complaints regarding broker offerings and sales techniques in this jurisdiction and in others.

And finally, regarding the basic monthly charge report, CAC/MSOS is pleased with Centra's conclusion that the ten dollar ($10) charge remain in effect and that it's appropriate for policy reasons notwithstanding that it recovers only a percentage of actual fixed customer-related costs.

We are pleased that Centra does not intend to pursue this issue and that for all intents and purposes it appears to have been put to bed. This, from a conservation standpoint, is a very positive development since increasing fixed charges would surely act as a disincentive to customers to reduce charges.

And regarding conservation initiatives, CAC/MSOS would like to commend formerly Centra for its various Power Smart programs and other initiatives which appear to have resulted in significant amounts of conservation which of course has a myriad of spinoff benefits for all Manitobans and for that we're grateful.

And those are my closing comments subject to any questions.

THE CHAIRPERSON: Thank you, Mr. Saxberg. I guess now what we should do is formerly put into the record the written reports.

Mr. Peters...?

MR. BOB PETERS: Yes, Thank you, Mr. Chairman. I believe that all parties and certainly the Board have received yesterday afternoon the written closing submissions on behalf of Direct Energy Marketing Limited/ Municipal Gas and also the written submission from Direct -- I'm sorry, from Energy Savings Manitoba Corp.

And the parties have had an opportunity to review them. I believe the Board has as well and rather than read them verbatim into the transcript, I think the proper process would be to take them as having been read and ask Digi-Tran, our transcription service, to incorporate them into the final transcript of closing submissions.

THE CHAIRPERSON: Very good then.

WRITTEN SUBMISSIONS OF
DIRECT ENERGY MARKETING LIMITED/
MUNICIPAL GAS

Introduction and Background

1. On September 13, 2006, Centra Gas Manitoba Inc. ("Centra") filed an application with the Public Utilities Board (the "Board") seeking to finalize the

rate decisions of the Board as contained in Interim Order No. 116/06, and seeking approval for a variety of related matters.

2. In September of 2006, Direct Energy Marketing Limited, the parent company of Municipal Gas ("Direct Energy"), applied for intervener status in the within proceeding. In its intervener request form, Direct Energy stated that it was "interested in ensuring that Centra's hedging program and gas contracting proposals do not hinder or adversely impact the competitive market in Manitoba".

3. By way of Order No. 136/06, the Board granted intervener status to, among others, Direct Energy. In so doing, the Board noted: "Direct Energy has expressed particular interest with respect to Centra's actions with respect to hedging and gas supply activity".

4. On November 17, 2006, the Board issued Order No. 155/06, ruling on a motion by Centra to strike or remove pre-filed evidence submitted by Direct Energy. In its Order, the Board concluded that it was

> "... not within the scope of the current proceeding to consider the implementation of a new market structure, in which Centra's role in

the natural gas market is under review".

However, the Board also noted:

"... The major issues raised by [Direct Energy] would be more appropriately addressed in the context of a public hearing process where any and all interested parties and the industry stakeholders would have full and adequate notice of a proceeding, which would consider specifically defined issues";

"... The Board will consider instituting a special hearing process in 2007 which will allow for a thorough examination of the natural gas landscape in Manitoba. [Direct Energy] has assisted the Board in the consideration of some of the issues that need to be explored as to the appropriate type of competitive marketplace that should be implemented in Manitoba and the role of the regulated utility in that marketplace";

and

"The Board will subsequently issue directives as to a new proceeding to specifically consider the type of competitive natural gas marketplace that is appropriate and in the public interest for Manitoba, including the role of the regulated utility in that marketplace."

5. At the outset of the hearing of Centra's application, the Board Chair stated as follows (at p. 5, lines 7-17):

'Direct Energy has assisted the Board in consideration of some of the issues that need to be explored in determining the appropriate type of competitive marketplace that should be sought in the public interest in Manitoba, including the role of the regulated utility in that marketplace.

Should any party want to provide the Board with a listing of issues that should be considered in a subsequent proceeding, please feel free to do so in your closing submissions. The Board will consider the process to be utilized to permit such a market review."

6. In this context, the written submissions of Direct Energy will address two specific issues: (1) the orders that should be made by the Board in the within proceeding, based on the evidence it has heard; and (2) the scoping or framing of issues for the subsequent hearing to be convened by the Board to review the competitive market for natural gas in Manitoba (the "Market Review Hearing").

Orders/Directives to be Made by the Board

7. The orders or directives that Direct Energy submit should be made by the Board in the within proceeding fall into two categories:

(i) Centra's hedging program; and

(ii) The need to preserve the status quo until the Market Review Hearing.

8. The specific orders/directives that Direct Energy requests of the Board in the within proceeding are set out below in bold, with the justification or rationale therefor set out under each proposed order or directive:

(a) "That Centra be, effective immediately, released by the Board from any requirement or expectation that it continue to hedge its purchases of primary gas and that the need for hedging and any alternatives to hedging be considered by the Board as part of the Market Review Hearing."

9. The evidence of Centra suggested that it engages in hedging of its primary gas purchases because its customers expect and want it to do so. However, because of the admitted difficulties in fairly and accurately ascertaining the desires of consumers, and because of the limitations inherent in the market research Centra has conducted to date, the proposition that customers support Centra's hedging activities is open to significant debate.

Accordingly, purported consumer support for, or approval of, Centra's hedging program should not be used either by Centra or the Board as a justification for continuing Centra's hedging program, particularly in circumstances where the program is now yielding significant losses for consumers.

10. Mr. Ashmead Pringle, in his evidence, suggested that

"... Centra should be released from any obligation to hedge on behalf of its consumers".

While there is presently no specific order compelling or obliging Centra to hedge its primary gas purchases, it is fair to say that the Board has, at least implicitly, conveyed its expectation that Centra will continue hedging (and, in fact, its expectation that Centra will or may continue doing so in a more active or aggressive fashion).

The Board's August 2006 paper entitled "Observations and Suggestions: Centra - Gas Hedging Practices" expressly references a Board directive to Centra that it consider enhancing its hedging program and explore alternative approaches. Therefore, while Mr. Pringle makes reference to the necessity of the Board "releasing" Centra from its obligation to hedge, and while there is not technically any formal or explicit requirement from the Board that Centra continue to hedge, it is certainly accurate to say that the Board has, as recently as August of 2006, reaffirmed its expectation that Centra will continue hedging its primary gas purchases.

11. The Board's commitment to convene the Market Review Hearing in 2007 suggests that it is concerned about ensuring the competitive marketplace for natural gas in Manitoba is effective, fair, and

responsive to the needs of consumers.

Direct Energy submits that, given these concerns, the Board should also be interested in, and concerned about, the extent to which Centra's hedging program distorts price signals being passed on to consumers. This impact of hedging was confirmed in the evidence of Mr. Pringle, as follows:

"MR. ERIC HOAKEN: Now, in the same way that this intervention by legislation would cause a price distortion, I take it you'll agree with me that hedging causes a price distortion; correct?

MR. ASHMEAD PRINGLE: Yes. Versus market price, correct.

MR. ERIC HOAKEN: And the -- the distortion is that it interrupts or distorts the price signals that go to the consumers as a result of what they're being asked to pay for their current consumption of natural gas; correct?

MR. ASHMEAD PRINGLE: It can, yes.

MR. ERIC HOAKEN: And I take it you would agree with me that price signals are an important function of an efficiently and effectively functioning market.

MR. ASHMEAD PRINGLE: Yes, I think in one (1) of the IR's I said, you know, an economist would certainly say, Yes that's right, prices in a free market should be transparent. "

(p. 976, line 11 to p. 977, line 12 of transcript)

12. The importance of this kind of "transparency" has previously been expressly recognized by the Board. In Order No. 15/98, the Board stated as follows (at p. 68):

"The Board supports the statement of Dr. Mathewson that 'the first principle of economics is in order to make a rationale decision you need to know the prices'. Under the current gas pricing system, the real price of natural gas is not readily available in a timely fashion.

The Board is of the view that price transparency is required for a fully competitive market to develop, and notes that all interested parties also express this view."

13. The evidence before the Board in the current proceeding establishes that Centra's hedging losses for the 06/07 year are most likely going to be very significant, particularly when expressed as a percentage of its primary gas purchase. Centra's realized losses for the year thus far amount to $42.3 million (Evidence in chief of Lori Stewart, p. 146, lines 11-12 of transcript), and Centra has determined its

> "... worst case likely addition to customers' gas costs over the current fiscal period would be a total of $98.1 million."

(Cross-examination evidence of Brent Sanderson, p. 903, lines 9-11 of transcript). As was stated by Mr. Pringle in his report (CAC/MSOS, Exhibit 2) at p. 11,

> "To recover these losses, Centra will need to charge above-market rates for a time ...".

Centra's need to pass these losses on to consumers by charging above-market rates will prevent ratepayers from fully participating in declines in the market price and will distort the price signals that would otherwise be passed on.

14. The evidence establishes that Centra has

other measures in place which are effective in reducing both bill and rate volatility. Direct Energy submits that while these measures should be left in place, the Board should expressly state that it has no requirement or expectation that Centra continue to engage in the hedging of its primary gas purchases and that Centra is at liberty to discontinue its hedging program.

15. Following the discontinuation of Centra's hedging program, those ratepayers looking to further reduce or eliminate rate volatility can avail themselves of other options in the marketplace. As stated by Mr. Pringle in his evidence, the extent to which Centra should be entitled to participate in such market offerings is "a matter of policy", and Direct Energy submits that this issue should be the subject of discussion at the Market Review Hearing. Mr. Pringle commented, when under cross-examination concerning the two conclusions expressed on page 12 of his report, in the following way:

> "MS. MARLA MURPHY: I'd like to understand whether those two (2) recommendations are co-dependent. That is do you view that you can't do one without the other or -- or is it possible you could -- you'd have to

implement them together or that you could implement them separately?

MR. ASHMEAD PRINGLE: Oh no, they could be separate as Mr. Hoaken has, I think, underlined in his questioning that if -- Centra could certainly be released from an obligation to hedge on behalf of its customers, and if it were restricted to offering only market price gas, then it would not, in the second bullet point, it would not be allowed to be offering related price protection programs in competition with brokers.

It would strictly be selling gas at -- at a market price. It would compete in a sense and it would be offering gas but it -- it's offering would be restricted to just market price gas. It couldn't compete for price protection programs. I think that was Mr. Hoaken's point. No, but they're not mutually exclusive. It's a policy issue I think.

You know, how the consumer gets more

direct access to -- to individual choice on price risk management is really a policy issue. But -- but I do think that that's the way that -- that it should happen. That the consumer should have that choice and therefore that Centra would not be hedging en masse.

If it did any hedging it would simply be for the risk it acquires if it were allowed to compete for fixed-price or other price alternative offerings."

(p. 1016, line 2 to p. 1017, line 7 of transcript)

16. The evidence before the Board clearly establishes that Centra is currently employing other effective measures which reduce rate and bill volatility and which do not expose ratepayers to any additional cost or any significantly distorted price signals.

For example, the Equal Payment Plan ("EPP") is a measure which significantly moderates the bill volatility with which customers are confronted. It is also competitive-neutral in the sense that it is equally available to system gas and direct purchase customers. The EPP and other volatility mitigation tools at Centra's disposal have, as Centra has itself acknowledged, been used effectively to assist in reducing the rate and bill volatility confronting consumers. Accordingly, Direct Energy submits that Centra's hedging program, to the extent that it was ever a reasonable or necessary initiative, is no longer required to provide consumers with volatility protection.

> (b) "That Centra defer the commissioning and conducting of market research addressing a fixed price offering until the Board issues its order and directives following the conduct of the Market Review Hearing in 2007"

17. In the course of giving his evidence-in-chief, Mr. Warden of Centra indicated (p. 138, lines 16-25) that Centra intends to conduct customer research to determine whether its customers want it to enter "a fixed-price retail primary gas market". He indicated that Centra intends to conduct that customer research in early 2007.

18. In cross-examination, Mr. Warden clarified his evidence as follows:

> "MR. VINCE WARDEN: Mr. Hoaken, I didn't really indicate that we would be taking a survey to the marketplace on

fixed-price offerings, specifically. I indicated, I think, that we had done a considerable amount of internal research on that subject and that we would -- before we go -- come to a conclusion as to what direction we would go we would take some -- we would take a survey of our -- of our customers to determine what their preferences are. But whether or not that survey will be structured around a fixed-price offering I -- I did not say that.

MR. ERIC HOAKEN: Okay. Thank you for that clarification.

And you're aware now, Mr. Warden, of the intention of this Board to hold a generic hearing some time in 2007 to look at the state of the competitive market?

MR. VINCE WARDEN: Yes, we've been informed of that.

MR. ERIC HOAKEN: And -- and you would expect that that process will provide an opportunity for many perspectives on the issue of competition to come out and be aired?

MR. VINCE WARDEN: I would expect so, yes.

MR. ERIC HOAKEN: And do you think there might be some value to waiting until that process occurs and those perspectives have been aired and the Board has issued any orders that it may feel are appropriate to embark on this process of research?

MR. VINCE WARDEN: Well, I think, as a matter of fact, the Chairman indicated earlier there would be some direction coming to Centra for -- arising from this Hearing, so I think we'll await that direction and make a determination at that time."

(p. 893, line 4 to p. 894, line 13 of transcript)

19. On this basis, Direct Energy submits that the Board should direct Centra to defer contracting for, or conducting, any market research of the nature described by Mr. Warden until the Board has issued its orders and directives, if any, arising from the Market Review Hearing. It is submitted that if the desires of

consumers are to influence the decisions of either Centra or the Board, and if market research is to be used as the means by which the views and desires of consumers are ascertained, any such market research must be fair and balanced and must reflect the perspectives of all involved stakeholders.

Direct Energy, therefore, submits that only following a full review of competitive marketplace issues will the Board be in a position to make suitable orders and directives that will guide the conduct of such market research and will ensure that it fairly and appropriately canvasses issues relating to customer choice.

20. Direct Energy submits that, in order to make specific directions concerning the conduct of market research, the Board will require further evidence about survey design, appropriate survey methodology, and specific models for designing and conducting the research in a neutral and non-biased fashion.

The resources of Centra ratepayers will not be efficiently used if Centra, in the absence of specific guidance and direction from the Board based on input from interested stakeholders, proceeds with market research of its own. It is submitted that the Board should, in the context of the Market Review Hearing, examine specific models for conducting any market research that it deems necessary for the purpose of better understanding the competitive marketplace for natural gas in Manitoba and, more importantly, making specific orders and directives about the extent to which Centra can participate in that marketplace.

Direct Energy intends, in the context of the Market Review Hearing, to put forward evidence and proposals for the design and conduct of any such market research, and submits that it would accordingly be premature for Centra to be in a position to proceed with its own market research before the conclusion of the Market Review Hearing.

> (c) "An order directing Centra to refrain from entering any further contract with Nexen Marketing ("Nexen") for its primary gas supply and from issuing a Request for Proposal for its primary gas requirements until after the Board issues its order and directives following the conduct of the Market Review Hearing in 2007"

21. It was acknowledged by Mr. Stephens in his evidence on cross-examination that Centra's contractual arrangements, including those for primary gas, can have

implications for the competitive marketplace. Mr. Stephens testified as follows:

"MR. ERIC HOAKEN: And you are now aware, I take it, of the Board's intention -- this Board's intention to convene a hearing, as I understand it, sometime in 2007, to look at the state of the competitive marketplace for gas in this province.

MR. HOWARD STEPHENS: It's, from my perspective, almost a prerequisite to deal with these issues in that way, I mean, in that sort of a forum so that we can put the appropriate contracts into place.

MR. ERIC HOAKEN: Right. There is a relationship between some of the things that you are doing [responsibly], the contract for your gas, for example, and other things, there's a relationship between those steps and the broader view of the competitive marketplace and the structure of that marketplace.
Is that fair?

MR. HOWARD STEPHENS: That's very fair.

MR. ERIC HOAKEN: And it would be, I take it you agree with me, it would be a mistake to deal with things like the re-contracting for Centra's gas supply in isolation from those broader considerations about the market structure.

MR. HOWARD STEPHENS: I guess the -- it's the duration of the contract that we sign would have the major bearing with respect to it.

If the generic -- there's a generic hearing and there are findings that don't come out for a year or two (2), then -- or we have that time to transition, then we -- my signing a contract for one (1) or two (2) year is not going to have a bearing on that.

...

MR. ERIC HOAKEN: ...but similarly I take it you agree that Centra does not want to, in going forward with its re-contracting arrangements, in any way tie the hands of this Board or anticipate or presume to anticipate what orders are going to be made by this Board as a result of the generic hearing.

Is that fair?

MR. HOWARD STEPHENS: We will be very mindful in terms of trying to provide the sufficient flexibility to accommodate a reasonable change within the environment over a certain period of time. That's the best answer I can give you."

(p. 832, lines 11-23, p. 833, lines 1-8 and 19-25 to p. 834, line 5 of transcript)

22. In outlining the various scenarios for re-contracting for primary gas for the period following October 31, 2007 (the expiry date of the current contract between Centra and Nexen), Centra has committed, in the event it does not simply re-contract with Nexen, to bringing a Request For Proposal ("RFP") before the Board for approval.

However, it is less clear from the evidence that Centra intends, in the event that it re-contracts (or is proposing to re-contract) with Nexen, to seek prior approval from the Board. In cross-examination, Mr. Stephens stated as follows:

"MR. HOWARD STEPHENS: Our intention would be, to the extent that that's the process that we follow and that is -- I mean by that signing a new agreement with Nexen, it would be our intention to follow past practice, which would be to file a signed or an executed copy with the regulator and request approval in whatever venue for the gas cost consequences of such a document.

CONTINUED BY MS. NOLA RUZYCKI:

MS. NOLA RUZYCKI: At which point there would be no allowance for changes to the contract?

MR. HOWARD STEPHENS: Once the -- no, Nola, you know as well as I that once the contract is signed, the contract is signed."

(p. 906, lines 2-15 of transcript)

23. Direct Energy submits that the evidence of Mr. Stephens appears to leave open the possibility that a further contract with Nexen would be signed by Centra and then brought to the Board. It would, it is submitted, be unacceptable for the Board's ability to conduct a full and fair inquiry into the structure of the retail market

and the general competitive environment (as it appears to be proposing to do in the Market Review Hearing) to be in any way constrained by contractual arrangements entered into by Centra.

24. While Direct Energy accepts that Centra must ensure continued primary gas supply, the October 31, 2007 expiry of its current content with Nexen leaves sufficient time for the Board to conduct the Market Review Hearing and issue its order before any further contractual commitments are entered into by Centra.

25. Furthermore, if Centra is planning to issue an RFP for its primary gas requirements, the specific content of the RFP should be reviewed and approved by the Board in the Market Review Hearing. As acknowledged by Centra's Mr. Stephens, there is a relationship between Centra's contractual arrangements and the issues of competition and market structure.

26. In the alternative, Direct Energy submits that, in the event that it is not possible to conclude the Market Review Hearing in advance of April 30, 2007 (the deadline for the six-month notice period that Centra is obliged to give Nexen under the current contract), Centra should not be permitted to re-contract with Nexen for any period longer than six months, and the terms of any such interim contract with Nexen should be expressly

reviewed and approved by the Board before it is executed.

Direct Energy further submits that, in the event that Centra is planning to issue an RFP for its interim primary gas requirements during the six-month period (as an alternative to re-contracting with Nexen for the six-month interim period), it should be required to bring any such RFP before the Board for review and approval before it is issued.

(d) Issues for Market Review Hearing

27. Direct Energy strongly supports the Board's decision, as expressed in Order No. 155/06, to convene the Market Review Hearing. Direct Energy further submits that such a hearing must be convened as early in 2007 as is possible and reasonably practical so that its order and directives are promptly available to all parties.

This is particularly important given the initiatives Centra is proposing to embark upon, such as market research and re-contracting for primary gas. These steps, if taken without the guidance and direction the Board will be able to provide following the Market Review Hearing, have the potential to perpetuate the current undeveloped state of the retail marketplace for natural gas in Manitoba.

28. Given the importance of the issues to be

canvassed in the Market Review Hearing, and given the need of all parties and interveners to prepare appropriately by assembling relevant evidence, Direct Energy respectfully submits that the Market Review Hearing be scheduled by the Board for the weeks of February 26 and March 5, 2007. Such a schedule will permit time for the necessary pre-hearing steps to be taken but also reflects the urgent need for the examination of these important issues.

29. Direct Energy submits that the following issues should be examined and reviewed by the Board in the Market Review Hearing:

(i) What practices or activities currently engaged in by Centra adversely affect or impact the development of the competitive marketplace for natural gas in Manitoba, and what orders (if any) should be made by the Board to restrict or eliminate these practices or activities?

(ii) Should Centra be entitled to leverage the power of its incumbent monopoly status by expanding its regulated product offerings to replicate products already available to consumers from competitive suppliers in the Manitoba marketplace?

(iii) Why has the competitive market for natural gas in Manitoba not become more robust, and what orders can be made by the Board to stimulate the development of a healthier and more effective competitive market?

(iv) What choices are currently available in the marketplace for consumers seeking to protect themselves from bill and rate volatility, and what further measures are necessary, if any, to provide further options to consumers?

(v) Should perceptions about the preferences and desires of customers be the basis of decisions made either by Centra or by the Board and, if so, how can appropriate market research be designed and conducted to ensure that it captures, in a fair and balanced way, the true preferences and desires of consumers?

(vi) An examination of the overarching market rules under which a competitive retail market can be allowed to thrive.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

December 5, 2006

BENNETT JONES LLP
Counsel to Direct Energy Marketing
Limited/Municipal Gas

FINAL SUBMISSIONS OF ENERGY SAVINGS (MANITOBA) CORP.

Thank you, Mr. Chair, Members of the Board, Ladies and Gentlemen. In this final submission, Energy Savings (Manitoba) Corp. ("ESMC") proposes to address the following five (5) issues:

1) the gas supply contract and the terms and conditions associated with same, and the RFP with respect to new supply options;

2) The Economic and Environmental Analysis ("EEA") Report advising on options for replacing Centra Gas Manitoba Inc.'s existing supply portfolio;

3) Western Transportation Service ("WTS") and the concerns brought forward by the Broker community;

4) The internal review of the ICG Storage Report; and

5) The Derivatives Hedging Program utilized by Centra Gas Manitoba Inc. ("Centra")

Issues 1 through 4 are somewhat inter-related in that they turn on the future gas supply asset mix required to meet the projected peak-day requirement. This asset mix could comprise any combination of supply, transportation, storage, swaps, exchanges and secondary market purchases.

Also, as requested by the Chairman of the Manitoba Public Utilities Board ("the Board"), in Centra's 2006/07 Cost of Gas Hearing, ESMC will provide a list of issues that should be explored at a subsequent proceeding to evaluate the appropriate competitive landscape in Manitoba.

I will now set forth the views and recommendations of ESMC with respect to this Cost of Gas Hearing.

The Gas Supply Contract and the RFP for Gas Supply beyond November 1, 2007

The PUB issued a directive to Centra in Order 131/04 stating that:

> "For future gas supply contracts and transportation negotiations, the Board agrees with the suggestions of Direct, particularly in respect of possible changes to WTS. A report on these matters should be filed with the Board in conjunction with the next Cost of Gas Application, and in any event, by no later than August 1, 2005."

> "As well, the Board will direct Centra to consult with all stakeholders prior to issuing a new RFP for gas supply, or before entering into an extension of the existing agreement with Nexen. To assist and provide an external

objective view, Centra should consider engaging the services of an outside consultant to assist in this matter. The Board will direct Centra to file the proposed RFP, as well as the results of the required consultation with stakeholders with the Board for approval prior to issuing an RFP."

ESMC believes that it is important for Centra to explore all options that are open to it with respect to contracting for the appropriate gas supply mix prior to committing to a new contract or an extension of the existing Nexen contract.

The brokers operating in Manitoba have expressed concerns regarding the current gas supply contract constraints and, more specifically, the terms related to flexibility in accommodating direct purchase customers. Brokers have long suggested that a "level playing field" does not exist when it comes to customer mobility. Currently, a customer wishing to move to broker supply can experience a lengthy wait of up to four (4) months before beginning to receive its commodity from its selected broker.

Yet, a system supply customer has no imposed wait time when initially requesting service or returning to system supply, other than if the return occurs during a black-out window. The months of January, April, July and October are black-out periods, during which no enrolments or drops can be processed.

ESMC submits that the supply contract beyond November 1, 2007 must address the current constraints and delays experience by the brokers with respect to enrolments and bringing direct purchase customers into line with system supply customers.

As the Board will be conducting a landscape review in 2007, Centra should not commit to a long-term arrangement that does not allow for future Board-directed changes after that review has been conducted and concluded. It is the view of ESMC that the maximum contract term of any supply contract should be for a period of no more than one (1) year. Thereby allowing sufficient time for a thorough review of all aspects of the Board's ruling.

Furthermore, ESMC believes that the most appropriate gas supply option cannot be determined without: first undertaking an RFP; secondly, asking interested parties, including Nexen, to participate by submitting a bid; and finally, analysing all credit-worthy proposals in order to determine the best option(s).

Economic and Environmental Analysis ("EEA") Report

Irrespective of the conclusion arising out of the EEA analyses undertaken to complete the report, ESMC strongly believes that a full review of all supply options should be undertaken.

In addition, to help ensure that Centra's position remains objective, ESMC submits that Centra should be ordered to file any new contract or Nexen extension with the Board prior to execution in order that it may be fully reviewed by the Board and interested intervenors who have signed confidentiality agreements.

ESMC is concerned with the consequences of a delay in filing the report and the effect this may have on the opportunity to perform a comprehensive review of the options and the impact(s) on market participants.

Furthermore, once the report has been filed, ESMC would ask that an ensuing stakeholder consultation meeting be held to discuss the report's conclusions and the reasoning behind those conclusions.

WTS - Maximum Daily Quantity ("MDQ") Setting, Nominating and Enrolment Frequency

The brokers have expressed concerns to Centra and the Board regarding the gas supply contract terms and how this relates to flexibility in accommodating direct purchase arrangements.

Centra filed a Report on Potential Changes to Western Transportation Service with the Board in July 2005. The report failed to establish any workable solutions to the issues raised by Direct. Furthermore, the requested changes to the WTS arrangements, for establishing the MDQ, controlling daily nominations and reducing daily nominations of direct purchase gas, were rejected because the changes, in Centra's view, were not deemed to be in the interest of Manitoba's natural gas consumers and because Centra considers the current mechanism to already fulfill the objective of providing a "level playing field" for all market participants, including Centra itself.

There is potential for wide swings in demand projections between the monthly and daily forecasting requirements prepared by the utility. It is ESMC's position that Centra has the responsibility of forecasting deliveries but it is ultimately ESMC and ESMC's Direct Purchase customers that bear the risk and cost associated with forecasting errors.

ESMC believes that reasonable forecasting tolerance parameters should be established for Centra to work within as they relate to the MDQ setting and nomination tendering processes for brokers. If the tolerance targets are not met, a commensurate penalty should be meted out.

Three options were provided in the WTS Report around the ability to shift the enrolment of WTS customers to a basis more frequent than quarterly.

Alternative 1 would allow brokers to enrol customers monthly but carries a price tag of $3.3M/yr. The premium requested in this case is $0.10/GJ on all base-load quantities, not just the quantities allocable to broker enrolments.

Using a simple calculation of the number of new customer enrolments opting for WTS in the one-year period from June 04 through June 05, PUB/Centra 5(a) Attachment 1, residential enrolments total 6807, commercial enrolments total 382 while other enrolments total 208 customers, all for a combined total of 7,397 customer enrolments for WTS. To allocate the cost of $3.3M to these 7,397 customers equates to a cost of $446.13 per customer. In addition, Centra require: I) one additional staff member to process the enrolments; and ii) system enhancements resulting in an additional cost of $100K. Including the administrative cost, the total cost per customer of this alternative is $459.65.

Alternative 2 would allow brokers to enrol customers bi-monthly, as enrolments can only be processed on the first day of a month and 32 days' notice is required. The premium requested for this option is $0.02/GJ on all base-load quantities. The cost for this proposal is $664,000/yr or $89.77 per customer. When the administrative cost per customer of $13.52 is added, the total is $103.29 per customer.

Alternative 3 allows enrolments 75 days in advance of flow; however, nominations are only processed on the first day of a month the result being that this option does not add any value.

ESMC is extremely disappointed with the proposals put forward by Nexen and Centra and with the fact that the report offered nothing in the way of relief from current nomination practices. The prices attached to alternative 1 and 2 are cost prohibitive and would have to remodelled significantly before they could even be viewed as a viable option. Furthermore, ESMC is of the belief that in order to "level the playing field" for all market participants that the costs of providing monthly mobility to the brokers should be socialized across all users in Manitoba.

Centra stated during this Cost of Gas Hearing that it has changed its practice of setting the MDQ annually to a process which, instead, adjusts the MDQ on a quarterly basis. Centra believes that this change will help minimize the resulting year-end imbalances. ESMC will continue to monitor this issue to see if the desired results will be achieved.

ICG Storage Review Update

As the current ANR contracts expire in 2013, Centra is on record as having said that it will be able to work from a blank slate for its entire supply portfolio at that time.

ESMC maintains that Centra should be undertaking a complete re-evaluation of salt cavern storage, transportation and supply options in the coming year given the long lead-time required for storage development. The storage report should include updated forecasts on development costs for both Saskatchewan and Manitoba salt cavern storage facilities, a complete description of the calculation methodology, seasonal price differentials, benefits and annual savings, sensitivity analyses, price change impacts and any storage ownership and lease options. Subsequent to its report, Centra should make publicly available all analyses, paperwork and assumptions with respect to the foregoing.

Risk Management - Derivatives Hedging Activities

ESMC opposes the continuation of the Derivatives Hedging Program, given that the program is designed to merely smooth the volatility impacts of market prices. ESMC believes that there is value in ensuring that consumers have the direct experience of the actual price of the commodity they consume and that flattened prices affect conservation initiatives.

ESMC submits that, in a competitive market, the default supplier should be a neutral provider of services, with pricing that accurately reflects current market pricing. In addition, the practices of the default supplier must not impede customer migration or mobility.

In the view of ESMC, the smoothing of price volatility sends inaccurate signals to consumers and blurs price transparency which is an important element in competitive markets.

ESMC believes that the utility Derivative Hedging Activities are incompatible with broker supply choices. Customers that are seeking greater price certainty should have the opportunity to avail themselves of competitive supply options provided by natural gas brokers.

ESMC submits that the following volatility reduction mechanisms currently in use by Centra severely cloud the true market price:

a) natural gas storage;
b) quarterly rate adjustments;
c) PGVA recovery over a 12-month period;
d) Equal Payment Plan;
e) Mechanistic hedging;
f) executive discretion to not hedge or delay hedging; and
g) the Winter Heating Control Act, when enacted

If the Board determines that Centra should continue its Derivatives Hedging Program, Energy Savings (Manitoba) Corp. ("ESMC") contends that utilities should only be involved in minimal risk management activities with respect to gas supply services. Derivative hedging activities must only be in engaged in for the purpose of ensuring that the utilities core business is reliable and that its role of default supplier can be achieved.

Competitive Market Review List for the 2007 Proceeding

Although not an exhaustive list, the following items comprise the issues that ESMC feels should be explored during the 2007 Manitoba Competitive

Environment Review proceeding:

a) the role of the utility as default supplier only;

b) Centra's ability to promote and/or market its product;

c) Broker access to the bill insert and bill for logo and message lines;

d) fairness of the WTS arrangements with respect to enrolments, nominations and balancing;

e) short and long-term gas supply contracts;

f) the amount of hedging if any that should be undertaken by Centra

g) load-balancing that is socialized across all market participants;

h) Centra's neutrality;

i) the development of Centra's portfolio options for 2013 and beyond; and

j) an examination of the prevailing market rules.

Conclusion

In conclusion, Energy Savings (Manitoba) Corp.'s principal concern is that the implications to the brokers stemming from the current WTS arrangements, including MDQ setting, nomination requirements and enrolment practices, should be addressed prior to the execution of any gas supply contract, be it a renewal or replacement contract.

ESMC believes that Centra should be forced to comply with accuracy targets, within reasonable tolerances, as they relate to the MDQ setting and nomination tendering processes. If the tolerance targets are not met, a commensurate penalty should be meted out.

ESMC respectfully submits that the Board must direct Centra through a Board Order to bring the proposed, unsigned contract(s) to the Board for its review, along with a process for intervenors to review the document and provide appropriate feedback through the signing of confidentiality agreements prior to executing the contract(s).

ESMC wishes to thank all participants in this proceeding and hereby concludes its submission.

Thank you.

Respectfully submitted,

Nola Ruzycki
Director, Regulatory Affairs
Energy Savings Group

THE CHAIRPERSON: Ms. Murphy, would you be prepared to provide Centra's closing remarks at one o'clock?

MS. MARLA MURPHY: Certainly. That would be fine. Thank you.

THE CHAIRPERSON: Okay. Then we'll adjourn until then. We'll see you all at 1:00. Thank you again.

--- Upon recessing at 11:32 a.m.
--- Upon resuming at 1:05 p.m.

THE CHAIRPERSON: Whenever you're ready, Ms. Murphy for Manitoba Hydro closing argument.

FINAL SUBMISSIONS BY CENTRA GAS:

MS. MARLA MURPHY: Thank you, Mr. Chairman, Members of the Board. I have the what's been described as the unenviable position of the after lunch spot so I hope I won't fascinate you overly much and you won't feel the need to rest your eyes while we carry through this.

But I just want to begin by reviewing the application. On June 16th of 2006, Centra applied to the Public Utilities Board pursuant to Sections 47.2 and

Section 125 of the Public Utilities Board Act for an interim approval of overall decreases to its supplemental gas, transportation and distribution rates to be effective on August 1st, 2006.

Centra requested approval of a reduction in non-primary gas base rates for the 2006/'07 fiscal year of approximately $6.6 million. Of the $482.2 million dollar gas cost forecast for the 2006/'07 year, approximately $62.4 million related to non-primary gas cost based on a forecasted forward price strip as of May 1st 2006.

Centra also requested approval to refund to customers the balances of various non-primary gas PGVA and gas cost deferral accounts as at March 31st, 2006 with carrying cost to July 31st of 2006 which totalled approximately $13.2 million to be refunded through rate riders over a twelve (12) month period commencing on August 1st of 2006.

The PUB granted interim approval to Centra's application through Order 116/06. As a result Centra implemented the overall reductions to customers and began refunding approximately $13.2 million to all customer classes in August of 2006.

In Order 116/06, the Public Utilities Board also directed Centra to file an application that would allow for a public hearing to confirm the interim order and to address a number of issues. On September 13th of 2006, Centra filed the supplementary evidence in support of its 2006/'07 interim non-primary gas cost application and responses to past PUB directives.

While Centra is not seeking a change in rates flowing from this application, it is seeking final approval of the supplemental transportation and distribution rates implemented in August 1st of 2006 as approved on an interim basis in Order 116/06. In conjunction with these rates, Centra is seeking final approval of the reduction to non-primary gas base rates of $6.6 million as is outlined in Tab 5 of the material, the April 1st, 2005 to March 31st, 2006, gas costs of $389.7 million as well as balances and dispositions of the various non-primary PGVA and gas cost deferral accounts as at March 31st, 2006; both are contained in Tab 4 of the material.

You've on the record as well, Centra is seeking final approval of Interim Orders 115/05, 142/05, 148/05, 13/06, 17/06, 64/06, 116/06 and 144/06 related to the approval of interim primary gas sales rates which are effective August 1st, 2005, November 1st, 2005, February 1st, 2006, April -- sorry, May 1st, 2006, August 1st, 2006 and November 1st of 2006, respectively.

Centra is also seeking final approval of supplemental transportation and distribution rates effective November 1st, 2004 and August 1st, 2005 which were approved on an interim basis in Orders 131/04, 132/04, 146/04 and 115/05 respectively.

You may recall that some of those interim orders were reviewed in the '04/'05 Cost of Gas Hearing but it appears that the granting of final approval was overlooked in the Cost of Gas Order and as such we're seeking to finalize those order at this time as well.

Finally, Centra is seeking approval of Orders 132/05, 102/06, 157/05 and 28/06 which granted interim approval of new or amended franchise agreements and related feasibility tests for the extension of gas service to customers in the rural municipalities of Rockwood, St. Ann, and North Cypress.

Issues which were of note in this application and which impact the proposed rates including gas supply -- sorry, include gas supply, capacity management transactions, and derivative hedging results. Before concluding I'll also address those issues which do not directly impact rates. For example, Centra's customer research study and the Board's invitation to comment on the upcoming hearing to address the natural gas marketplace in Manitoba.

There was some discussion during the course of the hearing regarding Centra's gas supply and transportation arrangements and in particular the process by which Centra would renew or re-contract for its primary gas supply currently supplied by Nexen Market -- Marketing under contractual arrangements which expire on October the 31st of 2007.

Centra understands that it will be necessary for Centra to seek approval of the gas cost consequences flowing from the new gas supply. In keeping with past practice Centra will not seek approval of the new contracts in and of themselves but rather the cost consequences and rate impacts which arise from them.

With respect to the process to be undertaken in the coming months, as Centra noted in its evidence preliminary discussions are underway with Nexen with respect to determining whether the option of renewing the contract for a further term as provided for in the agreement is a desirable one. If Centra determines that this is an appropriate arrangement in the interest of Manitoba consumers Centra will execute the agreement and provide the Board with a contract and supporting material in the context of the next GRA which is anticipated to be filed in January of 2007.

If, however, Centra and Nexen are unable to come to satisfactory terms regarding renewal of the contract Centra will prepare a Request for Proposal and will file it with the PUB for their review and comment prior to issuing the RFP.

Given the October 31st, 2007, expiration of the current arrangements, Centra anticipates that it will, if necessary, file a proposed RFP with the Board in February of 2007. This will allow adequate time for the completion of the PUB review and the issuing and conclusion of the RFP process in advance of the conclusion of the gas year.

There has been a suggestion by the brokers who presented final argument that Centra either ought to refrain from entering into a new contract or renewal of the existing contract until such time as broader -- the broader market hearing contemplated by the Board has been concluded. Energy Savings Manitoba Corp. suggested that Centra ought to be permitting further -- an additional review and comment by the broker community prior to entering into any renewal of the Nexen contract.

Centra's first priority is, of course, securing a reliable source of primary gas sufficient to serve the Manitoba market. This priority cannot be impeded by ongoing review and comment on Centra's supply contract by brokers. The Board addressed this issue in

Order 131/04 and stated, and I quote:

"The Board will direct Centra to consult with all stakeholders prior to issuing a new RFP for gas supply or before entering into an extension of the existing agreement with Nexen. To assist and provide an external objective view Centra should consider engaging the services of an outside consultant to assist in this matter. The Board will direct Centra to file the proposed RFP as well as the results of the required consultation with stakeholders with the Board for approval prior to issuing an RFP."

In compliance with that directive Centra held stakeholder discussions on August 16th of 2006 to obtain the views of brokers and other stakeholders with respect to Centra's supply contract and has gained an understanding of the stakeholder issues, at least insofar as they were prepared to share them with Centra at that meeting.

Centra submits that no further direction or amendment of that directive ought to be made by the Board at this late date. Centra is responsible to ensure an adequate gas supply for its customers; that responsibility cannot be undertaken lightly, nor can security of supply be jeopardized.

The suggestion was made that no contract should be entered without the opportunity for further stakeholder consultation or even the broader review of the marketplace contemplated by the Board. Centra strongly opposes this suggestion. Further consultation is simply not feasible and is perhaps foolhardy.

Centra has an obligation to ensure that its customers' gas supply needs are met. If Centra, in consultation with the advisors retained in this regard, determines that the alternative available from Nexen on renewal is an appropriate one, it is not in the public interest to delay conclusion of that transaction.

There is no requirement for the Board to approve Centra's gas supply contract, but rather they must approve the gas cost consequences arising from such contract.

Centra is and will continue to be mindful of the concerns raised by brokers, not only in the renewal of the contract but in its future negotiations.

However, Centra's mandate which is to acquire, manage and distribute supplies of natural gas to meet the Manitoba market requirement in a safe, cost-effective, reliable and environmentally-sensitive manner, cannot be jeopardized by those ongoing consultations, with the delay that comes with them. This delay may undermine Centra's ability to secure the best option for -- for the supply renewal, in accordance with its mandate.

There is also a practical consideration to be mindful of. Centra's contract expires in October of 2007 and while the Intervenors have advanced aggressive timelines and suggested that an order regarding the broader market structure can be issued prior to this time, this is simply not feasible.

I'm going to comment further on the process to be undertaken a little bit later, but I think it's worth noting at this point that reviews of this type in other jurisdictions have involved lengthy processes, in the order of eighteen (18) months to two (2) years. And indeed in Manitoba the last such process occurred in 1995/'96 with an order issuing in 1998.

In addition, if the outcome of this Hearing is a direction to undertake significant restructuring of the marketplace there will of course be a transition period to accomplish such direction. As such, the suggestion that Centra should in any way be limited in securing primary gas for the immediate future by way of a contract renewal because of this potential restructuring ought to be discounted immediately.

The issues raised during the stakeholder discussion in August of 2006 related to the more frequent de-contracting to permit additional enrollment opportunities for broker customers and issues surrounding nomination of daily natural gas requirements.

I'll discuss the nomination issues in detail a little later but with respect to the more frequent de-contracting, Centra notes that it presented three (3) de-contracting options to brokers in the WTS report dated July of 2005. Two (2) of the three (3) de-contracting options provided have a cost associated with the option and as such, issues of the appropriate allocation of such costs will need to be resolved.

At this point, given that the broker community has not yet responded to those options, other than through cross -- cross-examination and argument in this Hearing, and in light of the fact that the existing contract is nearing its conclusion, Centra expects that it will attempt to address stakeholder interest in the context of its new gas supply arrangement, or the terms of renewal with the Nexen contract, assuming that those interests can be addressed without negatively impacting the interest of system gas customers and assuming that the broker community is prepared to put its stake in the ground, so to speak, and come forward with workable alternatives to address any increase costs that are associated with building in some of the additional flexibility and options that they've indicated are desirable.

The remaining operational issues relate to whether daily nominations can be controlled by brokers and the establishment of maximum daily quantities. These operational issues are best overseen by the Utility in order to ensure that sufficient supplies are contracted for and nominated each day to ensure that Centra's supply is balanced each day and could be considered services that Centra performs on behalf of the brokers at no cost.

While no evidence was presented during the Hearing, Energy Savings Manitoba Corp suggested in its final argument that there should be penalties imposed with respect to the setting of the MDQ and daily nominations. Centra suggests that its current practices treat brokers and Centra equally and as such, all parties share in the consequences of changes to the weather and other factors which affect daily demand.

In addition, Ms. Stewart testified, at page 916 of the transcript, that Centra has recently moved to adjusting MDQ's on a quarterly rather than an annual basis and further, that Centra extends to brokers the option to either cash out any year-end imbalances or roll those amounts forward into the next gas year.

Centra's conclusion in this respect remains as was outlined on page 20 of the WTS report, and I quote:

"Brokers should neither be given preferential operational advantage relative to the customers supplied directly by Centra, nor should the operational characteristics of the current system be jeopardized. The proposed changes are unworkable in the event of full displacement of system supply."

Mr. Chairman and Members of the Board, I would like to turn to a discussion of Centra's hedging policy, procedures and results. This is a topic that was of considerable interest during the course of the Hearing and, indeed, I think based on the Board's August 11th, 2006 letter, was an area of interest to the Board as well.

Centra has been undertaking some hedging of primary gas purchases on behalf of its customers since the mid-1990's. Since November of 2001 it has used the mechanistic policy that's in effect today. This mechanistic policy contemplates that discretion will not normally be employed surrounding the timing or the magnitude of the hedge or the instrument employed except in special circumstances.

This is to be distinguished from a judgmental hedging strategy which Centra has, at least since Manitoba Hydro has acquired it, declined to employ. This is the type of strategy that was referred to by Tim Simard, our risk advisory, when he testified before the Board in 2003.

As Ms. Stewart summarized his position, at page 518 of the current transcript, I quote:

> "I think it's safe to characterize Mr. Simard's testimony as not being supportive of a utility taking a position that it could outperform the market over the long term."

That it could not systematically outperform the market over the long term. Centra's mechanistic hedging policy has always contemplated an element of discretion which has been reserved to the Executive Committee.

The Executive Committee may if in it's opinion the circumstances so warrant, alter the out of money -- out of the money band, the type of instrument utilized, the magnitude of the volumes hedged or the timing of the hedge transaction. And I'd refer you in that regard to the information request PUB/CENTRA 53(e) which details those circumstances.

On two (2) occasions during the 2005/'06 and 2006/'07 gas years, the Executive Committee determined that it would exercise its discretion to defer hedging a portion of the volumes that would otherwise have been hedged at that time. Centra provided a fulsome description of these circumstances in Mr. Warden's evidence in-chief and in the company's responses to PUB/CENTRA-26 and 53.

The first instance in which the Executive Committee determined that it was appropriate to exercise its discretion occurred in October of 2005 in the wake of Hurricanes -- the damaged caused by Hurricanes Katrina and Rita. Centra was concerned that these events and the resulting damages to physical production, transmission and distribution infrastructure were causing extraordinarily high future market prices that might subsequently fall dramatically below the lower strike price of collars to be placed by Centra for the months of August, September and October 2006.

As a result the Executive Committee

determined that only 50 percent of eligible volumes should be hedged at that time with the remaining 50 percent of eligible volumes being hedged in May of 2006. Centra also deferred hedging 50 percent of eligible volumes for the months of February, March and April of 2007.

In April of 2006 when these hedges were to be placed, Centra remained concerned that the effects of Hurricanes Katrina and Rita impacting gas supply and infrastructure, and the unseasonably warm winter of 2005/'06 which had had an unprecedented -- unprecedented impact on demand may still have been impacting the market at that time.

As such the Executive Committee exercised its discretion to defer hedging 50 percent of the eligible volumes for the months of February through April 2007. These volumes were ultimately hedged in September of 2006.

In deviating from hedging 100 percent of eligible volumes, it's important to note that the executive committee was cognisant of and responsive to the comments of the Public Utilities Board in its Order 135/'05.

In his evidence in-chief, Mr. Warden discussed the comments of the PUB regarding alternatives to Centra's current mechanistic program. He said, and I quote:

> "We certainly considered very carefully the comment of -- comments of the PUB and others. In fact, we did deviate from the purely mechanistic approach to placing derivatives on two (2) occasions in October of 2005 and April of 2006.
>
> On both of those occasions hedges were placed on only 50 percent of eligible volumes for the applicable forward months.
>
> In so doing however, we were still working within the parameters of the approved derivatives hedging policy, a policy that was approved by both the Manitoba Board and the Public Utilities Board.
>
> The approved policy allows for the placement of hedges at less than 100 percent of eligible volumes with the specific approval of the Manitoba Hydro Executive Committee."

It has been suggested that rules for the exercise of discretion of the Executive Committee ought to be defined and included in the derivative hedging policy and procedures. However, Centra has noted in its response to information requests and in its evidence on -- on cross-examination, and specifically I refer you to pages 496 and 497 of the transcript, that given the diverse circumstances of the market in which it operates, such circumstances cannot be categorically defined.

While examples of potential circumstances which may give rise to an exercise of discretion have been provided, including catastrophic physical events such as hurricanes of the magnitude and effect of Katrina and Rita, the loss of one of the pipes on TCPL's mainline, or other events that may result in the contraction of liquidity in the natural gas market or mass migration of volumes to alternate suppliers other than Centra, an exhaustive list of possible circumstances cannot be defined because of the very nature of such events. They are often unique and generally unforeseeable.

The important and recurring message in this Hearing was communicated by the witness panel. This flexibility or discretion is used and will continue to be used cautiously and infrequently.

Centra has repeatedly recognized that it was fortunate that the outcome of its decision to defer hedging has been positive and will result in a lesser addition to customer's gas costs for settled transactions, or in the case of the as yet unsettled transactions will result in either a lesser addition to customers gas costs or a reduction to customers gas costs depending on the ultimate settle -- ultimate settlement value of those hedges.

Centra has not changed its view that the hedging program will function as it was designed, to moderate natural gas rate volatility through the execution of a mechanistic hedge implementation strategy. It is not realistic to expect that Centra or anyone else for that matter would be able to outperform the highly volatile and unpredictable natural gas market over the long run by taking subjective market views.

Centra does not deny that it took a market view in these circumstances but notes that such views will not be taken for the purpose of systematically reducing future gas costs and will only be used on an exceptional basis when circumstances warrant.

The objective of Centra's derivative hedging policy and operating procedures is to mitigate rate volatility on behalf of its customers. As you heard from the evidence the program has been successful in doing so since its inception in 2001. You may wish to refer to Centra Exhibit 6 which graphically represents the reduction in volatility that Centra's customers have enjoyed.

As Ms. Stewart testified on page 145, in fiscal year 2005/'06 the Derivatives Hedging Program delivered a 53 percent reduction in the volatility of primary gas rates. For the 2006/'07 year to January 31st of 2007, the program has delivered a 52 percent reduction in volatility and overall, since the inception of the program, customers have enjoyed an annual reduction in the volatility of primary gas rates of between 30 and 53 percent.

While Centra does not advocate mark-to-market results as the appropriate measure of the success of this program there has been some discussion of the results in that context in this Hearing. Although the market-to-market results are not Centra's measure of performance, customers' gas costs were reduced by $47.5 million in the fiscal year 2005/'06. Since the inception of the program a net reduction to customers' gas costs of $77.4 million was delivered to the end of the fiscal year 2005/'06.

With respect to the 2006/'07 fiscal year there has been a realized addition to customers' gas costs of $42.3 million to November 30th of 2006. However, as this gas year is not complete and some of the transactions for this year are not yet settled, the actual results for this fiscal year are as yet undetermined.

It is significant to note that both Centra and Mr. Pringle have noted that the total results of the program from its inception until 2000 -- in 2001 to the current date have essentially been what was described as "a wash" permitting customers to enjoy reduced volatility at virtually no cost, which contradicts Mr. Pringle's characterization of Centra's hedging results as marching off a cliff. The costs of the program have been estimated at less than one-tenth (1/10) of 1 percent of the total annual gas costs.

Mr. Warden responded to a suggestion that Centra abandon its hedging program, at pages 498 and 499 of the transcript. He said:

> "There is no -- at this time no appetite within the Corporation to change that policy. We think the policy serves us and the customers of Manitoba well."

This conclusion is also supported by the evidence of CAC/MSOS as witness.

Centra takes guidance as to the appropriateness of its hedging policy and the parameters of its mechanistic hedge implement -- implementation strategy from its customer research. Ms. Stewart outlined for the Board the research which has been undertaken by Centra in recent years at page 408 and 409 of the transcript.

In 1998 Centra contracted with Viewpoints Research to conduct market research on rate and bill volatility. In 2004 Centra contracted with Western Opinion Research specifically looking at the topic of primary gas rate volatility which was then related specifically to the Derivatives Hedging Program. That research led Centra to conclude that customers can tolerate some volatility in their natural gas rates but have a fairly limited tolerance.

The 2004 research undertaken provided customers with a description of the hedging program in layperson's language and customers were then asked to indicate whether or not they would be prepared to pay a little bit more money for more protection, whether the current program was meeting their needs, or whether their preference was to pay a little bit less money over the long haul but incur more significant rate volatility. The outcome of that research that a total of 66 percent of Centra's customer base indicated they would prefer either that we continue to hedge at the current levels or to increase the hedge protection in place.

Centra noted in its evidence that he most recent research had been conducted in 2004 and that it intended to conduct further research as to customers' preferences in 2008. The record should be clear that it's Centra's intention to involve CAC/MSOS in future market research initiatives because Centra concurs that CAC/MSOS has something to offer.

The general interests of CAC/MSOS as it relates to the hedging program are aligned with those of the Utility, however, Centra does not intend to invite brokers to -- to participate in its market research initiative just as Centra would not expect to be invited to participate in market research initiatives undertaken by the brokers.

Mr. Peters during the course of the Hearing posed the question as to why that research would not be done in 2007. And Ms. Stewart responded, at page 445 of the transcript, I quote:

"It's a matter of incurring costs that ultimately consumers will have to pay, and the question is whether the market is significantly different than what it was in 2004. Certainly, one (1) of the reasons we undertook research in 2004 was to address the fundamental shift that happened in the natural gas markets following the winter of 2000 and 2001. There was a fundamental shift in the natural gas market. The base price of the commodity has, it's safe to say, has doubled, and that's one (1) of the reasons that we did undertake customer research in 2004. Has the market changed materially since 2004? I would suggest not. We continue to see dramatic volatility in the marketplace. However, we're -- we're satisfied that undertaking and incurring that cost -- undertaking the research and incurring that cost in 2008 is a prudent time frame."

And that's from pages 445 at line 18 through to 446 at line 10.

There was also some discussion during the course of the Hearing as to the use of various instruments such as caps versus collars. Centra testified in support of its preference for collars. And in particular I'd refer you to page 681 of the transcript, wherein Ms. Stewart testified that, quote:

"The hedging program, just like our instrument of choice, represents the middle position on the spectrum between a fixed-price swap strategy and a call option strategy. We've migrated to the cashless collar option. Our default position in terms of a hedge portfolio with two-thirds (2/3) of the volume being hedged, a third (1/3) of the volume swinging with the market, represents that middle position on the spectrum versus a purely index contract, with no hedges in place, or a fixed-price option that customers can avail themselves of in the marketplace. So here's our spectrum and what our program does. It doesn't attract itself to either one of these position. It's purely index or fixed price. It moves the vast majority of consumers to the middle or balanced position."

This is a critical point given the position of CAC/MSOS that the default position for customers should be index gas. To the contrary, there is a clear argument that the default position for consumers, in the presence of greater choice in the Manitoba market place, should be a balanced or middle position in terms of the cost of gas relative to volatility reduction.

On one end of the gas cost spectrum is index gas and at the other end of the spectrum is the fixed price or long-term contract. The hedge portfolio resides between these two (2) extremes, providing the benefits of insurance against dramatic price increases at minimal incremental cost.

Mr. Chairman, I would like to turn for a moment to the evidence presented in this Hearing by Mr. Pringle. Interestingly, Mr. Pringle chose to include all of his previous evidence in this proceeding as well, and I think it's useful to review that evidence in order to put some framework and perspective around the new evidence presented in the current proceeding.

When Mr. Pringle first appeared before the Public Utilities Board six (6) years ago, in 2000, he testified at page 18 of his current evidence that even with the smoothing mechanism, which is the quarterly rate mechanism, and the budget plan, it was prudent to seek additional protection for consumers, which could be done by Centra dealing in the derivatives market on behalf of its customers.

The following year, 2001, he was critical of Centra because it had not placed hedges for its customers on a regular basis.

In 2002 he again criticized Centra for its lack of hedging activity on behalf of its customers and concluded that, I quote:

> "Centra would never be a willing hedger."

In a letter dated June 3rd of 2003 to Mr. Meronek, counsel for CAC/MSOS, Mr. Pringle stated the following, and I quote:

> "In my letter to you of about a year ago regarding a similar application I said that the current approach has not worked well for any stakeholder and is not likely to do so in the future. Fortunately for the ratepayers, Centra has proved me wrong. During the last year Centra has in fact hedged on a regular basis and to an excellent effect at this point. According to its current application it has hedged by costless collars the period from February 2003 to January 2004, at

prices that are now substantially in the money.

As of this writing, a rough estimate of the hedge results for just the October 2003 to January 2004 period is about Canadian $25 million. More importantly, Centra's customers are well protected from prices going even higher for much of the coming winter."

In his pre-filed evidence dated November 6th of 2006, Mr. Pringle concludes, at page 12, first that Centra's past hedging has been effective overall in reducing rate and bill volatility for the ratepayer and at basically zero cost after considering the time value of money.

Second, that reducing gas costs through hedging or beating the market is not a realistic goal for a utility and should not be expected of Centra, and third, that the existing mechanisms of storage, EPP, and the RSM and the WHCC, which is the Winter Heating Cost Control Act, are sufficient to protect consumers from volatile natural gas prices.

It is important to note, however, that in arriving at that third conclusion Mr. Pringle did not appear to take into account the fact that the Winter

Heating Cost Control Act only refers to the current gas year and has not been proclaimed in force -- in effect -- insofar as it relates to natural gas price controls.

Mr. Pringle recognized that hedging is required in the absence of that legislation. This conclusion is borne out in his earlier testimony and was confirmed during his direct evidence at page 956 of the transcript lines 17 through 21.

When you take into account Mr. Pringle's past position with respect to Centra's hedging activities on behalf of its customers and you consider the first point of his evidence dated November 6th of 2006, you're compelled or at least entitled to come away with the conclusion that any problems that existed with Centra's hedging activities in the past have been satisfactorily resolved and that all is well.

However, when you read the next paragraph you see Mr. Pringle's conclusion that Centra should be released from any obligation to hedge on behalf of its customers.

This surprising and contradictory conclusion has not been substantiated during these proceedings through any rational or convincing evidence. Moreover, during his appearance last Thursday Mr. Pringle amended or in some cases contradicted this conclusion.

To be charitable, Mr. Pringle could be excused for those inconsistent positions because he's not familiar with the natural gas market in Manitoba or with the offerings currently available to consumers in this market. However, it doesn't appear that he made even minimal efforts to inform himself of the status of this market or of the views of natural gas customers who purchase gas in this market.

At page 1042 line 25 of the transcript Mr. Peters posed the question:

"Are you aware of what specific broker offerings there are in Manitoba in terms of the terms that are offered by the brokers here?"

Mr. Pringle responded:

"I'm not."

It is also significant to note that Mr. Pringle's evidence does not have any empirical basis upon which to support the conclusion that Manitoba consumers no longer want Centra to provide them with a measure of rate volatility protection in the form of hedging. I refer you to pages 1011 line 23 through 1012 line 12 of the transcript in this regard.

In that exchange Mr. Pringle responded to my cross-examination regarding the information contained in the response to Information Request Centra CAC/MSOS-5. When asked if he had reviewed those responses he replied, Oh, I just took a quick glance. He admitted that he hadn't made any assessment of the accuracy, nor had he made any attempt to verify any of the information that's there and further confirmed that he hadn't personally undertaken any surveys or sent any questionnaires to Centra's customers respecting hedging.

CAC/MSOS suggests that they have something to add and while we don't dispute that on a philosophical level you cannot ignore the fact that the only quantitative evidence of customers' views on the record in this -- in this proceeding is based on the research that's been done by Centra.

Mr. Chairman, Mr. Pringle's admission is a very significant one in light of the nature of his recommendation and as I'll discuss in a moment it becomes even more critical to recognize this in light of his apparent lack of understanding of the options available to consumers in the Manitoba marketplace.

The inescapable conclusion is that Mr. Pringle made the recommendation to accommodate counsel for CAC/MSOS notwithstanding that it placed him in a tenuous position and in contradiction of the evidence that he had previously filed and presented before this

Board.

Mr. Pringle has suggested that it's possible to write rules for a mechanistic hedging policy that have flexibility. While he provides illustrations at pages 1054 and 1055 of the transcript it's obvious that he has given no serious consideration to the application of those revised rules to Centra's Derivative Hedging Program.

In fact he states at page 1055 of the transcript, in lines 2 to 4, that he's not presuming to say that he has as set of rules that are better. This is not at all helpful to say the least.

Mr. Saxberg suggested this morning that price views should be excluded from special circumstances. However, it's important to note that most if not all of the rules for flexibility that were suggested incorporate or require the taking of a market price view, for example when prices are high, you ought to do this. Mr. Saxberg also suggested this morning that the rules could include something other than the twelve (12) month forward price strip.

Those comments present concern from Centra's perspective as I don't think it shows a true understanding of the -- the futures market prices and Ms. Stewart canvassed this on her evidence as well.

It's important to know that future market prices are objective, that they reflect the consensus opinion of the entire marketplace as to the value of gas today for delivery in future periods.

And as Ms. Stewart testified at page 504 of the transcript, imbedded in those prices is every piece of information available to the marketplace that's relevant to the price of natural gas, both public and private.

This is far more information than any one (1) market participant or a subset of participants could ever hope to possess themselves. And there is no evidence before the Board to suggest that we should consider anything other than the twelve (12) month forward future strip.

There are several errors and inconsistencies and deficiencies in Mr. Pringle's evidence that I think it's important be noted. For example, Mr. Pringle makes the assumption that Centra would prefer not to hedge which is directly contradicted by Mr. Warden who states at pages 498 and 499 of the transcript in response to Mr. Peters' question of whether the Corporation would be interested in abandoning the hedging program and I'll quote:

"Well, we have an approved derivative

hedging policy which was approved by the Manitoba Hydro Board, approved by this Board, if we wanted to change that it would be appropriate for us to take a recommendation for change first to the Manitoba Hydro Board and back to this Board.

There is no appetite at this time within the Corporation to change that policy. We think that the policy serves us and the customers of Manitoba well."

It's unfortunate that that view was not recognized by Mr. Pringle.

Also in direct contradiction of Centra's evidence, Mr. Pringle states in reply to Mr. Peters' question as to whether Centra is hedging at the behest of its customers at page 1033 of the transcript.

He says:

"I think they probably prefer not to do it just to have a simpler life. But, you know, maybe I'm wrong, maybe they would rather do the hedging."

Mr. Peters asked:

"Am I correct to suggest you certainly

haven't done any surveying of Manitoba gas consumers to find out what their preference is or needs or wants would be."

The answer was:

"That's correct."

And at page 1034 in line 12, Mr. Peters asks:

"Would it be fair to say that they, meaning CAC/MSOS, haven't told you of any evidence of any market surveys they've conducted."

The answer:

"That's correct."

The evidence as you know, Mr. Chairman indicates that there were no such surveys conducted by CAC/MSOS and is contained in their response to 5D(2) and that there have been no formal surveys or questionnaires commissioned by CAC/MSOS specifically related to hedging.

When asked if he agrees that when surveys are interpreted to mean that volatility control is warranted by consumers -- sorry, is wanted by consumers, that the utility should provide that service, Mr. Pringle did not express an opinion indicating that that was a policy issue. And that you'll find at pages 1035 lines

22 to 25 of the transcript.

When asked about hedging results for April of 2002 through September of 2006, Exhibit CENTRA-6, Mr. Pringle confirmed in response to a question posed by Mr. Peters at page 1037 of the transcript, that the hedging program has provided benefits to the customers

He states that during this period there were significant net savings to customers, some much better than others.

Mr. Chairman, it appears that Centra's derivatives hedging program has worked. Mr. Pringle's lack of knowledge of the offerings available in the Manitoba marketplace make his recommendations unreliable.

At page 1043 of the transcript commencing at line 22, Mr. Peters posed the question:

> "If in Manitoba there were only available long term, let's say three (3) or five (5) year contracts from brokers, would that in any way change the evidence you're giving to the Board?"

Mr. Pringle's initial reply is:

> "Perhaps."

At page 1046 of the transcript commencing at line 15, Mr. Peters asked Mr. Pringle:

"And if there weren't offerings of one (1) year, two (2) year or three (3) year but only five (5) year offerings, would that change your answer?"

Mr. Pringle indicated that it would because customers would not have sufficient choice. And when asked directly whether Centra should be ordered to cease hedging at page 1025, Mr. Pringle responded:

"Well, they [meaning the PUB] should do that if and only if they provide -- when they provide other mechanisms for the ratepayer."

And at page 1041 he said:

"But I'm not suggesting that the consumer in Manitoba will be exposed totally to this very volatile marketplace. I'm just saying that I think he's better served by having more direct access to risk management tools than via, in essence, a pool. A hedging pool run by Centra."

While Mr. Pringle advocated a mechanistic hedging program with rules that could change if recommended by a third party, he gave us no guidance as to the manner in which that would operate.

This recommendation is suspect when it's placed against a policy which is based on customer surveys and consultations.

Mr. Chairman, are we to rely on the results of a survey undertaken with our customers or the recommendations of Mr. Pringle who has demonstrated that he has very little knowledge of our marketplace?

I think the answer to that, and certainly from Centra's perspective is obvious and -- and we should be relying on our -- our customer research.

In June -- in the June 3rd, 2003 letter to CAC/MSOS, filed at page 44 of Mr. Pringle's pre-filed evidence, Mr. Pringle says that the mechanistic hedging program carries the risk of marching off -- off the cliff. He referred a number of times to that rather colourful analogy but failed to provide any support for its accuracy.

It certainly appears that Mr. Pringle is taking a market view in making this statement, something he has repeatedly cautioned that Centra should not do with respect to its derivatives hedging program. Over the long term this statement is simply not accurate.

The purpose of Centra's hedging program and the use of cashless collars is to take a middle ground between the peaks and the valleys of the market.

We have seen in the evidence that Centra's hedging program has reduced volatility in 2005/'06 by 53 percent and thus far in 2006/'07 has reduced volatility by 52 percent; that's a far cry from marching off a cliff.

For Mr. Pringle to suggest this is inconsistent with his repeated admonitions that it's impossible to predict the future and extremely risky to endeavour to beat the market. This short-term view if also cited as the reason that Mr. Pringle believes that CAC/MSOS doesn't want Centra to hedge gas volumes.

I refer you to page 1035 of the transcript wherein, in response to a question from Mr. Peters, Mr. Pringle says:

> "I believe, because they believe over the long haul that hedging will not produce any net gain or loss, that it will have some cost, transaction cost and perhaps administrative cost as well, and that in its current form it has resulted in some large accumulations which are problematic, I guess is the way to see it, and also that there are other mechanisms in place.
>
> The only accumulations which can be

referenced are those for the portion of the 2006/'07 fiscal year and as such are very short-term. Indeed, so short-term that the final outcome of Centra's hedging activities for this year are not yet known, and they can't be known until hedges in place for this gas year have all settled."

It appears quite clear that Mr. Pringle and CAC/MSOS are taking a market view in making the recommendation that Centra cease hedging or alter their current hedging practice.

Mr. Chairman, Members of the Board, it is Centra's view that the Board should be very cautious in exposing customers to market volatility. It is incomprehensible to Centra that Mr. Saxberg would appear to argue that consumers ought to be exposed to volatility in the market, especially considering that many of the customers whom he represents are often reported to be on fixed incomes. To suggest that these customers are prepared to weather the volatility of the natural gas marketplace defies logic.

Ms. Stewart testified that in the absence of the derivatives hedging program Centra's customers would have been facing a rate increase of 50 percent in

November of 2005, which would have increased the annual natural gas bill of the typical residential customer by 33 percent, absent any other intervention. And it's important not to lose sight of the testimony of Mr. Sanderson in that regard:

"In the absence of the hedging program the options available to Centra or to the Board with respect to deferring or varying the quarterly rate adjustment to lessen the impact of the price spike experienced at that time would have been much more limited."

At page 643 of the transcript Mr. Sanderson noted that the most likely outcome, back to the point at which we set our November 1st rates last year, if we'd set our rates at the levels that we did and in the absence of the hedging program, giving Bill C -- giving effect to Bill C-11 to freeze customers' rates, we would have been facing nearly $180 million build-up of unrecovered costs in the primary gas PGVA by the end of April 2006.

Mr. Pringle also confirmed during cross-examination that interventions such as that contemplated by the Winter Heating Cost Control Act or indeed intervention by the PUB, would not eliminate the impact of increased costs but would -- rather, would only defer collection of those amounts to some future point and in some cases increase customers' rate volatility, depending on the market circumstances in place at the time at which those amounts had to be recovered.

You'll find that discussion at page 1004 of the transcript, lines 4 through 11.

Direct Energy and Energy Savings Manitoba have taken the position that Centra ought to cease hedging on behalf of its customers. The thrust of their cross-exam -- their cross-examination undertaken by counsel for Direct as well as the closing comments, suggest that it's important for customers to have the appropriate market signal and that anything which mitigates or dampens the market signal is inherently bad. I believe the question the Board must ask itself is, bad for whom?

Centra has heard from its customers that it does not want to be completely exposed to the volatility of the natural gas marketplace. And I'm sure no on in the room needs a crystal ball to predict what would have happened if Centra's gas rates had increased the typical residential customer's annual bill by 33 percent last November.

Is this market signal good for the

customers? I submit it is not. Is it in their interest? Again, I submit not.

The advantage of having customers exposed to extreme market volatility is that it makes a fixed-price offering with whatever premium is embedded in that offering more attractive. I expect that the irony of brokers who offer only long-term fixed-price offerings arguing that customers needed unrestricted market signal is not lost on the Board.

The closing submissions filed on behalf of ESMC in particular, contain a significant amount of evidence which is not on the record in this proceeding and which was not tested in cross-examination. I would submit that the Board should exercise caution in assigning any weight to the matter filed which hasn't been tested in the appropriate manner including sworn evidence and cross-examination.

Before I leave the list of topics which impact rates, I'd like to discuss for a minute the issues raised with respect to capacity management transactions.

Centra's Capacity Management Program has been the subject of much discussion at this and at previous hearings. The purpose of the Capacity Management Program is to mitigate the fixed pipeline and storage costs that Centra must pay in years where surplus capacity is available. This program is secondary to the overarching objective of ensuring that Centra's firm customers' energy needs are met each and every day and that in no circumstance will a capacity management transaction undermine Centra's primary obligation to serve.

Concern has been expressed that there's no quantitative performance measure to ensure that Centra is not leaving money on the table so to speak. The lack of a benchmark as discussed in many prior proceedings is directly related to Centra's inability to forecast market conditions in advance.

Factors such as the availability of discretionary service on TCPL and other pipelines, the weather, the market conditions both locally and abroad, are all beyond Centra's control and impact its ability to generate capacity management revenues. When such opportunities arise Centra captures the value.

Mr. Stephens testified at page 750 of the transcript that there are too many variables associated with transactions including weather, basis differential, the presence of a willing counterparty able to -- and the presence of a willing counterparty to be able to predict with any degree of accuracy the expected capacity management revenue in any given year.

As such, Centra uses the five (5) year rolling average as the basis for its forecast of capacity management revenues, variations of which are kept in a deferral account and either refunded to or collected from customers.

CAC/MSOS has suggested that Centra should provide general descriptions of each and every transaction that Centra enters into under its Capacity Management Program. This recommendation to provide details of each transaction is not practical simply due to the fact that transactions occur each day every day, many of which are interrelated with prior transactions.

Having someone witness the transactions or providing a detailed list of the many transactions that are placed would be incomprehensible unless viewed in the context of -- the larger context of the program.

Mr. Stephens referred during the Hearing to the dump truck full of documents that this would entail. It's not practical and it won't serve any meaningful purpose to review this in this context because of the variability of the factors that relate to each transaction.

Turning to other issues that were of note during the Hearing, I'd like to address some of the material that was filed in Tab 8 of Centra's application and some of the issues raised during the course of the Hearing such as the making of -- enrollment of the equal payment plan mandatory and the upcoming hearing regarding the structure of the marketplace.

With respect to the storage analysis Mr. Saxberg appears to be under the impression that Centra is in a never-ending review of its portfolio and storage requirements. This is simply not the case.

The IGC report confirmed that Centra's configuration of assets has served Centra and its ratepayers well. The question raised by the ICG report is whether the acquisition of additional storage at this time would be beneficial. Centra's internal review determined that the acquisition of additional salt cavern storage in Saskatchewan had the potential to add significant cost to its portfolio of assets and a decision was made not to proceed with acquiring additional storage.

Centra has clearly communicated in the materials in previous proceedings and again in this proceeding its conclusions in that regard, and I'd refer you to Tab 8 Attachment 1 for that report.

A separate and distinct decision with regard to storage is the replacement or renewal of the ANR storage contract that expires in 2013. This is the review that's currently underway with EEA and was not the focus of the review by the previous consultant IGC.

With respect to Mr. Saxberg's assertion that Centra should consider reducing or revising its Louisiana capacity arrangements, Centra submits that the ANR component is part of an overall package of assets which have been tested for prudence on two (2) occasions. It is convenient for CAC/MSOS to suggest that this asset isn't necessary or required following one (1) of the warmest winters in recorded history and a circumstance when storage inventories across the industry are at near or record levels.

In circumstances where the Louisiana capacity is not required Centra will, where it's possible, sell the capacity as it did in the summer of 2006 to recoup those costs. However, to the extent that storage is substantially depleted following a colder than normal winter, this capacity will be required.

With respect to the equal payment plan, Centra continues to be of the view that mandatory enrolment in the equal payment plan is not appropriate. As was noted by Ms. Stewart, general consumer reaction to negative options has not been favourable.

Ms. Derksen also testified that the number of customers availing themselves of the equal payment plan has generally -- has generally been consistent and that, in addition to the annual bill stuffers, customers to move are asked if they want to be on the budget plan. And you'll find her discussion of that at page 442 of the transcript.

I have difficulty reconciling CAC/MSOS's position on hedging. The customers should roll their own, so to speak, and be expected to make choices regarding that complicated issue, but should be forced to be put on the equal payment plan when it appears clear that half the customers choose this option and the other half choose to pay as they go.

It seems to me that's a much simpler choice for customers to make is one that's visible to them and -- and very readily apparent as opposed to the much more complicated issues surrounding hedging. So I find there's a real disconnect or inconsistency in those two (2) positions.

The other issue I want to touch on is with respect to lump-sum refunds. And while Mr. Saxberg acknowledged it's not germane to this Hearing, and I think that's clear to everyone given that commencing on August 1st of 2006 we began to refund the customers, I think it's important just to have a general understanding of -- of the concern that Centra has for lump-sum refunds.

It's important to be clear on what that would entail. Currently when rebates are done, they are provided to customers through rate riders applied to volumes that are used by individual customers. If those rebates or refunds were to be applied on a lump-sum basis it would be necessary to retrospectively tabulate gas used by customers over the period of the credit accumulation, taking into account customer address changes, transfers to and from brokers, and to apply such a variation to the customer's bill. The cost of programming and administering such a change would be significant.

Additionally, because each customer would potentially have a different rebate, based on historical consumption, and would likely make comparisons with his or her neighbours, Centra's call centre could be deluged with calls from customers questioning our calculations.

And I think it's important to note, Mr. Saxberg made reference to the MPI rebate and I think it's important to draw a distinction. The rebate that Centra would be proposing in -- or be dealing with in this regard would be different from what MPI offers in terms of a rebate. There are not the same complexities in terms of volume calculations that would need to be addressed.

And, as I said, it's not germane to this Hearing and I think it's -- it's appropriate to review that at a point where it might be considered. But certainly Centra's view is that it's -- it's administratively too complex and it's going to create too many issues to be dealt with.

Mr. Chairman, with respect to the future hearing, you invited parties to comment on a list of issues to be canvassed at what's been called a special hearing or a -- a market hearing, which you're planning to convene in 2007 to consider the competitive landscape in Manitoba.

I'd like to first discuss the process by which Centra would suggest that such a hearing unfold. I think it's important to recognize at the outset that this type of hearing is different from the applications that are generally brought by Centra to the Board.

In particular, this isn't an application by which Centra would be seeking any rate or other relief and, as such, Centra would not be and ought not to be the applicant in such a process. Instead, all interested stakeholders should be canvassed for their views of the issues to be considered by the Board in such a process. And the Board should, after having an opportunity to review those suggestions, formulate an issues list and circulate it for comment by stakeholders.

Once the issues list has been settled, all parties should be asked to commit to a timetable that would include simultaneous filing of evidence and the opportunity for all parties to pose information requests of other stakeholders' evidence.

The issues being contemplated at this hearing are significant and have the potential for lasting impact in the Manitoba market. These are not issues which are going to be resolved in a quick hearing.

As I noted earlier, a similar process in Ontario required over a year and a half to complete. And the suggestion that such a hearing could be convened in February or March of this year is overly aggressive and completely unworkable from the utility's perspective.

With respect to Mr. Peters' enquiry as to whether such a hearing should preceded Centra's General Rate Application, Centra submits that the financial issues associated with a General Rate Application are of paramount importance and cannot be delayed by the amount of time that would be necessary for the Board to convene and determine the issues related to market structure and competition.

Centra suggests that a more realistic

timetable would contemplate pre-hearing processes, including the defining of issue and the submission and testing of pre-filed evidence by all parties during 2007 with a hearing to be convened late in 2007 or early in 2008, depending on the Board's timetable, the availability of expert witnesses, and the level of participation from all stakeholders.

With respect to the type of issues to be canvassed during the process, Centra would like the opportunity to fully consider this and to file at a later date a more comprehensive list.

However, some of the issues which come immediately to mind are the confirmation of the active role of the utility in the Manitoba marketplace, whether and how competition ought to be advanced in the Manitoba market, and as a subset of that area whether additional oversight of brokers marketing practice or activities are warranted.

In addition, consideration should be given to whether the utility should be permitted to offer more than one (1) service offering, whether a fixed price product directly in competition with the current offerings in the market can or should be made. And whether such offerings are more properly made by a regulated or an unregulated entity.

Mr. Chairman, in conclusion and in closing, I'd like to thank all participants to this process on behalf of Centra and particularly to thank the Board for its attention throughout and its consideration of these issues.

Centra submits that the evidence that's been presented in these proceedings clearly demonstrates that the rates as proposed and implemented in accordance with Order 116/06 are just, reasonable and prudent. We, therefore, respectfully request that the Interim Order 116/06 be approved as final and that the remainder of approvals requested by Centra be granted.

Subject to any questions that you might have, that concludes my comments. Thank you.

THE CHAIRPERSON: Thank you, Ms. Murphy. This brings to an end the public phase of this proceeding. It is clear that the parties to the proceeding have made a considerable effort and investment in assisting the Board in understanding the importance of the issues before us.

As well, those involved have acted in a co-operative fashion to restrain the scope of the Hearing to that that was agreed ahead of it.

This is as it should be given two hundred and fifty (250,000) customers, residential, commercial and institutional depend on Centra and the critically important product it delivers and holds safe.

The degree of involvement is relatively high but again, particularly understandable given that Centra operates on a cost of service basis. While many views and much information have been shared, consensus on some matters are clearly not evident.

We will carefully deliberate on the application and the matters related thereto and our decision will be forthcoming in due course.

We wish all of you a very good holiday season and good health. Thank you.

--- Upon adjourning at 2:04 p.m.

Certified Correct

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Wendy Warnock