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MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
 2007/'08 TO 2008/'09
 GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane - Board Chairman
Len Evans - Board Member
Eric Jorgensen - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 13th, 2007
Vol VII
Pages 1272 to 1492

1 APPEARANCES

2 R.F. Peters)Board Counsel

3

4 Marla Murphy)Manitoba Hydro

5 Brent Czarnecki)

6

7 Paul Kerr (np))Coral Energy

8

9 Sandy Boyd (np))Communications, Energy

10

11)and Paper Workers

12)Local 681

13

14 Kris Saxberg)CAC/MSOS

15

16 Eric Hoaken (np))Direct Energy

17 Karen Melnychuk (np))Marketing Limited

18

19 Nola Ruzycki)Energy Savings

20 (Manitoba))Limited

21 Partnership

22

23 Dave Hill (np))Koch Fertilizer

24

25 Nick Gretner (np))J.R. Simplot

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APPEARANCES (CONT)

William Gange)TREE and Resource
Randall McQuaker (np))Conservation Manitoba
Peter Miller)

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1 --- Upon commencing at 9:06 a.m.

2

3 THE CHAIRPERSON: Okay, good morning,
4 everyone. Good morning, Mr. Czarnecki. And I see Ms.
5 Ruzycki is here now from Energy Savings, and I believe our
6 last Witness following this panel, Mr. Stauff is here, so
7 welcome, sir.

8 Okay, Mr. Peters, I think you're ready to
9 begin.

10 MR. BOB PETERS: I am and, Ms. Stewart has
11 -- has learned that her panel was starting without her
12 yesterday and she's hurried in today and we're -- we're --
13 we have her here today, so I suggest Mr. Singh swear her
14 in as a Witness and we'll proceed.

15

16 CENTRA'S COST OF GAS PANEL, Continued:

17 LORI STEWART, Sworn

18 HOWARD STEPHENS, Resumed

19 BRENT SANDERSON, Resumed

20 VINCE WARDEN, Resumed

21

22 THE CHAIRPERSON: Thank you, Mr. Peters.

23

24 CROSS-EXAMINATION BY MR. BOB PETERS:

25 MR. BOB PETERS: Good morning to the

1 panel. I want to start with a bit of an overview. And,
2 Ms. Stewart, while you weren't here yesterday, you can
3 perhaps tell the Board if Mr. Stephens got it right when
4 he suggested to the Board that the assets that Centra is
5 operating are the same assets as they had at the last cost
6 of gas hearing.

7 MS. LORI STEWART: Yes, that's correct.

8 MR. BOB PETERS: And when we say, Ms.
9 Stewart and Mr. Stephens, the same assets to supply the --
10 the gas, what, in general terms, are we talking about?

11 MS. LORI STEWART: Since the 2006/2007
12 non- primary gas costs hearing, the supply contract that
13 we've been operating with has not changed our supply
14 contract with Nexen, and we're also speaking about the
15 transportation and storage assets that we have in place.

16 MR. BOB PETERS: And as Mr. Stephens told
17 the Board yesterday, the -- while Nexen is still the
18 supplier of the primary gas, it's supplying in the test
19 years pursuant to a new two (2) year extension on the
20 contract.

21 MS. LORI STEWART: Yes, that's correct.

22 MR. BOB PETERS: Can you tell the Board
23 why the contract with Nexen was renewed?

24 MS. LORI STEWART: Certainly. Nexen has
25 been a proven performer for us. Their understanding of

1 our assets and the variability in our loads has been
2 demonstrated time and time again. We -- after consulting
3 with -- after discussions with the consultant that we
4 engaged, energy and environmental analysis, it became
5 clear that the contract that we've had in place from 2004
6 to 2007 represented good value and the suggestion was made
7 to us that it would be in our interest and in the interest
8 of consumers, of natural gas in Manitoba, to go back to
9 Nexen and to engage in some negotiations around
10 replicating, in essence, the contract that has been in
11 place for the -- for the current three (3) year period.

12 MR. BOB PETERS: Do you recall when in the
13 calendar year Centra firmed up its arrangement with Nexen?

14 MS. LORI STEWART: I'm sorry, Mr. Peters,
15 I missed that.

16 MR. BOB PETERS: The existing long term
17 arrangement with Nexen expires on the 31st of October of
18 2007, correct?

19 MS. LORI STEWART: Yes, that's correct.

20 MR. BOB PETERS: When did you conclude the
21 extension agreement -- the two year extension agreement
22 with Nexen starting November 1st of 2007?

23 MS. LORI STEWART: Centra's Board of
24 Directors approved the terms and conditions of the
25 contract that will commence on November 1st, 2007 on March

1 the 23rd of this year, 2007.

2 MR. BOB PETERS: In the event that Centra
3 felt that it did not have a good value coming back in the
4 extension agreement with Nexen, was there a sufficient
5 time for the Corporation to go to proposal?

6 MS. LORI STEWART: Yes, there was.

7 MR. BOB PETERS: And the decision was made
8 that there would be no benefit for consumers to go to
9 request for proposal for the supply of gas?

10 MS. LORI STEWART: Well, as -- as we've
11 described in our evidence on the record, there is a
12 tradeoff. Certainly we would have attained a better price
13 discovery had we gone to the market with a request for
14 proposal.

15 However, we were, and are, quite confident
16 that the contract that we've completed with Nexen does,
17 and will, deliver good value for consumers. And the
18 process of going to RFP is -- is not a -- is not a minor
19 one (1), so those are the -- the gives and takes in that
20 arrangement.

21 MR. BOB PETERS: And if you did go to the
22 market for a proposal, that proposal would have been for a
23 maximum of two (2) years at the time?

24 MS. LORI STEWART: Yes, based on the most
25 recent Board order related to gas cost matters.

1 MR. BOB PETERS: In addition to the
2 primary gas contract with Nexen, Centra also has its
3 supplementary gas arrangements with its US sources, am I
4 correct?

5 MS. LORI STEWART: Yes, we have a capacity
6 to move gas from two (2) basins in the US.

7 MR. BOB PETERS: Oklahoma and Louisiana?

8 MS. LORI STEWART: That's correct.

9 MR. BOB PETERS: And in addition, in terms
10 of your assets, you told the Board that the assets remain
11 the same and you mentioned transportation assets, and that
12 is transportation primarily on the TransCanada Pipeline
13 system?

14 MS. LORI STEWART: Well Centra holds a
15 transport on three (3) pipelines: TransCanada Pipelines,
16 Great Lakes Gas Transmission and A&R.

17 MR. BOB PETERS: And the Great Lakes Gas
18 Transmission and the A&R are located in the United States?

19 MS. LORI STEWART: Yes, that's correct.

20 MR. BOB PETERS: And it's used to get gas
21 to and from storage?

22 MS. LORI STEWART: That's correct.

23 MR. BOB PETERS: And in addition to those
24 sources, Centra also has available delivered service from
25 third parties to deliver gas to Manitoba?

1 MS. LORI STEWART: Yes, that's correct.

2 MR. BOB PETERS: In terms of the overview,
3 Ms. Stewart, Centra buys its gas in Alberta and delivers
4 it to Manitoba for system supply customers, correct?

5 MS. LORI STEWART: That's correct.

6 MR. BOB PETERS: And in addition to that,
7 Centra also acquires the gas for direct purchase customers
8 from brokers in Alberta and transports it to Winnipeg?

9 MS. LORI STEWART: That's correct.

10 MR. BOB PETERS: And the brokers will
11 arrange for their own source of gas supply and charge
12 their customers according to the contract that they have
13 with them?

14 MS. LORI STEWART: That's correct.

15 MR. BOB PETERS: In terms of services
16 offered to brokers, the WTS arrangement is a -- an
17 arrangement for the physical transport of the gas,
18 correct?

19 MS. LORI STEWART: That's correct.

20 MR. BOB PETERS: And in addition there is
21 the ability to have Centra invoice and bill those
22 customers for the primary gas by way of an agency billing
23 and collection service?

24 MS. LORI STEWART: That's correct.

25 MR. BOB PETERS: Turning back to the new

1 contract with Nexen would it be correct to say that in the
2 -- in the rates that you are asking this Board to approve
3 in this application those rates include the price impacts
4 of the new arrangement with Nexen?

5

6 (BRIEF PAUSE)

7

8 MS. LORI STEWART: I'm advised that all of
9 the costs related to the contract are included in -- in
10 the test year with the exception of the half cent premium
11 on our baseload volumes related to the improved
12 flexibility embedded in this contract.

13 MR. BOB PETERS: Okay. Let's -- let's
14 talk to the Board about that, Ms. Stewart. The -- the new
15 arrangement you have with Nexen has I'll suggest a couple
16 of changes in it; one (1) of them is the change in the
17 enrollment for direct purchase customers.

18 Would you agree with that?

19 MS. LORI STEWART: Yes, that's correct.
20 The new contract provides for monthly enrollment related
21 to Western Transportation Service which is an improvement
22 in flexibility over the former quarterly enrollment
23 provisions.

24 MR. BOB PETERS: Why did you negotiate
25 with Nexen to include a monthly enrollment

1 opportunity rather than the quarterly?

2 MS. LORI STEWART: Based on feedback from
3 the brokers in terms of their service requests related to
4 our contracting.

5 MR. BOB PETERS: What you're saying in
6 that answer, Ms. Stewart, is that the brokers and their
7 representatives have let Centra know that they would like
8 more flexibility; that once they sign up customers, they'd
9 like to be able to migrate them to direct purchase gas
10 quicker than had been happening in -- in past?

11 MS. LORI STEWART: Yes, that's correct and
12 -- and Mr. Stephens is just reminding me that we met
13 discreetly I believe in -- on August 16th of 2006 with
14 stakeholders prior to our contract review process to
15 obtain feedback, not just from the brokers but with --
16 from other interested stakeholders.

17 MR. BOB PETERS: All right. Mr. Stephens
18 has his own microphone but we'll -- we'll see if we can
19 keep him quiet for much longer.

20 We'll -- Ms. Stewart, this change in the
21 enrollment capability from quarterly down to monthly, did
22 not come free, did it?

23 MS. LORI STEWART: No, as optionality or
24 flexibility is often characterized by a -- a price premium
25 and that's the case here as well.

1 MR. BOB PETERS: So there was a -- a price
2 tag attached for the ability to enrol customers in direct
3 purchase on a monthly basis and that was the half a cent a
4 gigajoule that you referenced in your evidence?

5 MS. LORI STEWART: Yes, that's correct.
6 And maybe just a -- a minor clarification; the
7 negotiations with Nexen were not related to WTS, they were
8 related to the frequency at which we could alter our base
9 volumes which --

10 MR. BOB PETERS: But the reason -- but the
11 reason you would alter your base volumes was to
12 accommodate brokers and their requests?

13 MS. LORI STEWART: Yes, certainly.

14 MR. BOB PETERS: And Nexen would know
15 that?

16 MS. LORI STEWART: Yes, they're aware.

17 MR. BOB PETERS: So even though you were
18 negotiating on behalf of system supply customers, what you
19 were doing is negotiating to provide those customers with
20 some optionality or flexibility to leave system supply and
21 go to direct purchase more frequently than quarterly?

22 MS. LORI STEWART: Yes, that's correct.

23 MR. BOB PETERS: Now, this five (0.05)
24 cents a gigajoule, you'd call that a premium?

25 MS. LORI STEWART: It's actually a half a

1 cent --

2 MR. BOB PETERS: Oh.

3 MS. LORI STEWART: -- per GJ, not five
4 (0.05) cents.

5 MR. BOB PETERS: It depends where -- I
6 can't see the decimal point here, Ms. Stewart. Thank you
7 for that correction.

8 This -- and I may have misspoke earlier
9 but, yes, a half a cent a gigajoule is a premium you would
10 consider for that optionality and flexibility?

11 MS. LORI STEWART: Yes, that's correct.

12 MR. BOB PETERS: On an annual basis that
13 would equate to approximately a hundred and sixty thousand
14 dollars (\$160,000)?

15 MS. LORI STEWART: Approximately. It's --
16 it's clearly driven by the actual volumes. However,
17 that's a good approximately.

18 MR. BOB PETERS: And am I correct, Ms.
19 Stewart -- and we may need to go back to Mr. Stephens for
20 this -- but at the last cost of gas hearing there was some
21 discussion about the same optionality but the price tag
22 was considerably higher?

23 MS. LORI STEWART: Yes, I believe there
24 was a discussion at -- at the prior hearing related to a
25 report that Centra filed on Western Transportation Service

1 that outlined three (3) options and I believe the option
2 that most closely mirrored this one was alternative 2.
3 And I believe that price tag was in the range of about six
4 hundred and fifty thousand dollars (\$650,000) or a two (2)
5 cent per GJ premium was the estimate that we received at
6 that time.

7 MR. BOB PETERS: Can you explain to the
8 Board how that two (2) cent a GJ premium was reduced down
9 to half of one (1) cent?

10 MS. LORI STEWART: Well, there is some
11 skill at this table in terms of negotiating.

12 MR. BOB PETERS: I'm not suggesting the
13 contrary, Ms. Stewart, but was there -- was -- did the
14 Corporation have to give up some requests in other areas
15 to -- to achieve that level of premium for monthly
16 enrollments?

17 MS. LORI STEWART: No.

18 MR. BOB PETERS: And one (1) of the issues
19 that you have before this Board is that, that half a cent
20 a gigajoule premium for the gas that will be burned on and
21 after November 1st of 2007 up until your fiscal year-end
22 will be approximately eighty-seven thousand dollars
23 (\$87,000)?

24 MS. LORI STEWART: Yes, that's a good
25 approximation.

1 MR. BOB PETERS: And you're not asking for
2 that eighty-seven thousand dollars (\$87,000) to be put
3 into rates as a result of this Hearing; have I understood
4 that correctly?

5 MS. LORI STEWART: Yes, that's correct.

6 MR. BOB PETERS: What you're --

7 THE CHAIRPERSON: Mr. Peters, if I could
8 interrupt you --

9 MR. BOB PETERS: Yes.

10 THE CHAIRPERSON: -- just one (1) second
11 before we get too far past something Ms. Stewart has said.
12 You indicated that you didn't have to give anything up to
13 get the premium reduced from two (0.02) cents to half a
14 cent. Is that partially as a result of Nexen's experience
15 with you, or the fact that they've noticed a consistency
16 of practise and things of that nature?

17 MR. HOWARD STEPHENS: Yes, Mr. Chairman, I
18 think it's a simple -- the simple fact of the matter is
19 Nexen wanted our business and we were very frank with them
20 in terms of what we needed; that we needed additional
21 flexibility associated with the contract but we didn't
22 expect to pay a -- a huge premium associated with it.
23 That we were -- it was a mutually beneficial contract at
24 that point in time.

25 We were very satisfied with the service

1 that we got so from that perspective if they were
2 interested in continuing to do business with us, we were
3 certainly prepared to do so, too, but not -- we weren't
4 prepared to give our -- give my right arm to do it. So
5 it's as simple as that.

6 THE CHAIRPERSON: But if you weren't
7 concerned with the enrollment system the way it was, could
8 you have improved the contract in any other way?

9 MR. HOWARD STEPHENS: No. It was just --
10 the premium of the half cent over the baseload would just
11 have just not been an issue at that point.

12 THE CHAIRPERSON: Okay. Thank you. Mr.
13 Peters...?

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Thank you. And back to
17 this half a cent gigajoule at -- for the -- for the first
18 test year of your application we've agreed that -- that
19 amounts to approximately eighty-seven thousand dollars
20 (\$87,000) which you now want to hold in a deferral account
21 for subsequent determination as to how to dispose of it?

22 MS. LORI STEWART: Yes, that's correct.

23 MR. BOB PETERS: And in terms of how to
24 dispose of that eighty-seven thousand dollars (\$87,000),
25 would I be correct in that is an issue that you'll be

1 asking this Board to resolve as a result of the natural
2 gas landscape hearing that's scheduled?

3 MS. LORI STEWART: That's correct.

4 MR. BOB PETERS: And without getting too
5 far ahead of ourselves, Ms. Stewart, I suppose the options
6 at -- that will have to be considered would be whether
7 that the premium or the half a cent a gigajoule amount is
8 paid for by, I guess firstly, only system supply
9 customers, or secondly, only by brokers and their
10 customers, or thirdly, by all customers?

11 MR. HOWARD STEPHENS: Yeah, those are the
12 three (3) choices that we'll have, yes.

13 MR. BOB PETERS: All right. There's no
14 other option that -- that you can alert the Board to at
15 this time?

16 MR. HOWARD STEPHENS: I can think about
17 it, but I don't think we'll all come up with anything
18 different.

19 MR. BOB PETERS: All right. Thank you,
20 Mr. Stephens. Ms. Stewart, the Board also will note that
21 there's a second change in the extension of the agreement
22 with Nexen Gas and that has to do with the pricing
23 mechanism in getting the gas from AECO Hub over to
24 Empress.

25 MS. LORI STEWART: Yes, that's correct.

1 MR. BOB PETERS: And not to embarrass
2 myself too much on the geography, Ms. Stewart, but the
3 AECO Hub is somewhere near Suffield, Alberta west of
4 Medicine Hat and Empress is on the Saskatchewan, Alberta
5 border, northeast of Suffield; would you accept that as
6 being close?

7 MS. LORI STEWART: Yes.

8 MR. BOB PETERS: And in terms of getting
9 the gas from AECO over to Empress, can you explain to the
10 -- to the Board why that mechanic enters into this pricing
11 formula?

12 MS. LORI STEWART: The pricing mechanism
13 uses the AECO -- the AECO-C Hub as the index, and it is
14 the recognized index and -- for both the monthly -- either
15 the monthly pricing for our base load volumes or the daily
16 pricing for our swing volumes.

17 And from there, the gas needs to be
18 transported on the Nova system, which is an inter-Alberta
19 system, to the point at which -- to the point at which we
20 -- we pick it up at Empress and then move it from there.

21 MR. BOB PETERS: Under the old
22 arrangement, if I can call it that, Ms. Stewart, there was
23 a blended formula where 70 percent of the Nova toll was
24 added to 30 percent of the AECO to Empress basis
25 differential and that amount was added to the gas that was

1 purchased by Centra?

2 MS. LORI STEWART: That's correct.

3 MR. BOB PETERS: And under the new
4 arrangement, Centra has agreed to charge -- or to accept
5 the charge of 100 percent of that Nova toll of getting the
6 gas from AECO to Empress.

7 MS. LORI STEWART: That's correct.

8 MR. BOB PETERS: Can you explain to the
9 Board why that change was instituted?

10 MS. LORI STEWART: This change in the
11 contract -- and this is related to transportation charges
12 for our base load volumes -- the formula did not change
13 for our swing volumes. However, it was initiated by
14 Nexen, I -- I think as a shipper that needs to move the
15 gas from point A to point B.

16 The fair market value for that transport is
17 -- is the toll, and as a result, it -- there was a request
18 from Nexen that we move from the seventy/thirty (70/30)
19 split to 100 percent firm tolls, and ultimately, as part
20 of the complete negotiation package, Centra agreed to that
21 term.

22 MR. HOWARD STEPHENS: Mr. Peters, maybe I
23 can just help you with a bit of history as to the
24 origination of the mix. And that just stems back from --
25 back to the time that we a hold -- holding our contract

1 with TCGS, or TCE, or whatever variation of the -- the
2 company they were. And at that time, basis differentials
3 -- Mr. Stauft can rel -- relate to that -- at that time,
4 the basis differential was very volatile and at times was
5 much above the toll.

6 So when we -- they built the -- we built
7 the formula, they wanted to extract what potential benefit
8 there could be in terms of having us pay something more
9 than the toll because the basis differential was, at
10 times, above the toll. So we agreed to that formula at
11 the time.

12 The fact of the matter is, now that the
13 TransCanada Pipeline -- now that TCPL has so much excess
14 capacity and as does the Nova System between Equal and
15 Empress, that the actual real value of the capacity, the
16 basis differential is somewhat less and the toll is what
17 the -- the seller is exposed to, so they expect to be
18 reimbursed for that dollar -- for those dollars.

19 MR. BOB PETERS: But you would agree with
20 me that by changing the pricing mechanism to get the gas
21 from AECO Hub over to Empress, there's a potential cost
22 impact to Manitoba consumers by that change in the
23 contract?

24 MS. LORI STEWART: Yes, that's correct.

25 MR. BOB PETERS: And, I suppose, Ms.

1 Stewart, you're not able to, with precision, quantify
2 looking forward what that will be because you don't know
3 what the various basis differential will equate to and you
4 can't calculate what the impact is in advance.

5 MS. LORI STEWART: That's correct. We
6 have, at this point, nothing more than a forecast of what
7 the basis differential might be.

8 MR. BOB PETERS: And in terms of the cost
9 to the consumers, the calculation can be done using
10 hindsight, I suppose, and that's what you've done to
11 conclude that this change in the pricing mechanism could
12 possible add two hundred and five thousand dollars
13 (\$205,000) more to gas costs on one hand, and it may even
14 alternatively lead to a decrease of as much as thirty-five
15 thousand (35,000).

16 MS. LORI STEWART: That's correct.

17 MR. BOB PETERS: That suggests to me that
18 on balance it's going to end up costing consumers more to
19 go to this pricing mechanism than it would have been to
20 keep it at the old mechanism.

21 MS. LORI STEWART: It may cost consumers
22 marginally more for -- for this arrangement, yes.

23 MR. BOB PETERS: That's the probability,
24 would you accept that?

25 MS. LORI STEWART: No.

1 MR. BOB PETERS: If the swing is costing
2 two hundred and five (205) on one side and only the
3 possible benefit of thirty-five thousand (35,000) on the
4 other, doesn't it seem more likely that it's going to end
5 up costing consumers rather than benefiting them?

6 MR. BRENT SANDERSON: Mr. Peters, if I
7 might just add a few cents in here. That range of
8 possible outcomes is just looking at a snapshot in time
9 since we've been contracting in the -- in the way that we
10 have been in recent years. It should be true that over --
11 over long periods of time there should be no systematic
12 difference between the toll being charged for that pipe by
13 Nova and the market value of that transportation, which is
14 the basis differential or the value that the market
15 attributes to that capacity on any given day.

16 And as Mr. Stephens described, over time
17 that's cycled through; the basis differential has traded
18 at a premium over the toll. It's even traded at a
19 negative value for a period of time.

20 There was a time -- a point in time where
21 in the open market a holder of that capacity had to pay
22 someone else to take that capacity off their hands. But
23 over time there should be no systematic difference,
24 because if the market value of that transportation doesn't
25 reflect the toll, Nova will take action to resolve that

1 discrepancy. For example, during a year or so where the
2 basis differential of the market value of that transport
3 traded negative, that -- that's not a -- a situation that
4 can be allowed to continue and Nova took action by taking
5 compression out of the Nova system to reduce the amount of
6 available capacity, which had the effect of bringing the
7 market value of that transport back up to something
8 reflective of the toll.

9 So if you're looking at a two (2) year
10 window in time, there may be the possibility that the --
11 that this may have a positive or negative impact, in terms
12 of costs on our customers, but looking over a long period
13 of time there should be no systematic difference over time
14 between the value of the toll -- or the toll and the
15 market value of that transport.

16 MR. BOB PETERS: All right. Thank you for
17 that clarification, Mr. Sanderson. One (1) other point
18 that I want to make clear to the Board is in the
19 arrangement with Nexen under the new contract, there's a
20 provision that is found in the summary that you've
21 provided in Tab 6 of the materials, and it's also
22 Attachment 6, but I think for the benefit of the record,
23 I'll just read this sentence in and then I'll ask you some
24 questions on it.

25 It provides as follows:

1 "Centra shall not resell gas supplies
2 provided by Nexen either at Empress or
3 at any other delivery point, except in
4 the event that Centra is left with
5 excess supply after exhausting its
6 system gas requirements and making a
7 reasonable efforts to manage any excess
8 supply through nomination cycles or by
9 utilizing parking services made
10 available to it by the pipeline."

11 Sounds -- sound familiar?

12 MS. LORI STEWART: Yes, it does.

13 MR. BOB PETERS: Let's just break that
14 down for the Board's benefit.

15 If Centra buys gas from Nexen, this seems
16 to suggest that Centra is not at liberty to resell that
17 gas unless an exception kicks in; is that your
18 interpretation or the interpretation the Company is
19 operating under?

20 MS. LORI STEWART: Yes, that's correct.

21 MR. BOB PETERS: And the reason it becomes
22 important is Mr. Stauff has made some -- some suggestions
23 in his evidence, and one (1) of the issues there is
24 whether or not Centra can resell Nexen gas after it has
25 been injected into storage.

1 What is the Corporation's position on its
2 ability to do that?

3 MS. LORI STEWART: Yes, Mr. Peters, we're
4 -- we are on the record already as it relates to this
5 matter but just to reiterate, it is Centra's opinion that
6 that clause would not prevent us from reselling out of
7 storage. There are other implications, however, related
8 to our preference for an exchange transaction related to
9 our storage capacity as opposed to a buy/sell arrangement
10 as Mr. Stauff has -- has proposed as -- as one (1)
11 alternative in his evidence.

12 MR. BOB PETERS: Well, we might leave that
13 for Mr. Saxberg but is it -- it's -- it's then the
14 position that once the gas is in storage Centra can sell
15 it even if it's not part of an exchange arrangement?

16 MS. LORI STEWART: That is our opinion,
17 yes.

18 MR. BOB PETERS: And in the event that you
19 sell it out of storage and have an exchange arrangement,
20 that exchange arrangement does not have to be with Nexen?

21 MS. LORI STEWART: That's correct.

22 MR. BOB PETERS: Does Centra have to give
23 Nexen an opportunity to purchase the gas out of storage
24 before Centra tries to find some other party with whom to
25 contract?

1 MR. HOWARD STEPHENS: Perhaps I can speed
2 this up for you, Mr. Peters.

3 In our prior contract -- and that's -- this
4 is again going back to the long-term contract -- we -- we
5 bought the gas on a monthly index and then if we moved
6 into -- after the price was set, just prior to the month,
7 if the daily price were to go down, we now had a -- I mean
8 -- or go up, I'm sorry, I haven't done it for a long time.
9 If the price were to go up we now had an opportunity to
10 take and ramp up all of our purchases right to the limit,
11 under the contract, and turn it back -- turn around and
12 sell it back into the marketplace.

13 So what was happening to the supplier is
14 they're essentially having to go onto the day market, buy
15 the gas into the market if the -- or supply the gas into
16 the market and then sell it to us at a price that was less
17 than what they were -- they were having to pay for it and
18 losing money on it.

19 So through the many iterations in terms of
20 changes in -- using contracts where we had the TCE
21 contract being assigned to the Morant (phonetic) contract
22 -- presented them being assigned ultimately to Nexen, that
23 the middle step where we move to Morant, they didn't
24 understand that when we went through the assignment
25 process. And it was only by good fortune, the fact that

1 actually they decided to fold up their shop because we
2 were going to have a disagreement with respect to the
3 provisions of the contract because those provisions did
4 not prohibit us from selling into the secondary market and
5 we were getting lined up and ready to go to court with
6 respect to it.

7 But we did -- I mean when we did do the
8 assignment to Nexen, I mean I made a specific effort to
9 make sure that they understood what the circumstances with
10 respect to the contract were and so that we would not have
11 any misunderstanding when the time came to put ink to
12 paper and start operating underneath the contract.

13 MR. BOB PETERS: Thank you for that
14 background and clarification.

15 So that -- the -- the question that I think
16 I asked just before that answer, Mr. Stephens, was whether
17 or not Nexen had the right of first refusal on the storage
18 gas and you're telling the Board, no, it doesn't?

19 MR. HOWARD STEPHENS: Yeah, the clause is
20 in there for an entirely different reason and it has no
21 bearing on our ability to sell gas and of storage.

22 MR. BOB PETERS: All right. Thank you for
23 that, sir. In these negotiations with Nexen, I take it
24 that's done by your group, Mr. Stephens and Ms. Stewart?

25 MS. LORI STEWART: Yes, that's correct.

1 MR. BOB PETERS: It probably takes a few
2 trips back and forth, as well as numerous emails.

3 MS. LORI STEWART: Well it took one (1)
4 trip to Calgary and several phone calls.

5 MR. BOB PETERS: And in terms of the
6 external advice you received, did you receive advise from
7 anyone other than EEA, related to this matter?

8 MS. LORI STEWART: No, we -- we did not.

9 MR. BOB PETERS: Did you consult with EEA
10 after their report and during the negotiation process?

11

12 (BRIEF PAUSE)

13

14 MS. LORI STEWART: Prior to EEA issuing it
15 -- its final report, yes, we -- we did have a conference
16 call with them to review the potential terms of -- of the
17 new contract with Nexen.

18 MR. BOB PETERS: And I take it for that,
19 you were charged a fee.

20 MS. LORI STEWART: That -- that was --
21 that conference call or consultation with them was part in
22 parcel of their engagement with us.

23 MR. BOB PETERS: All right, and on a
24 global basis, Mr. Stewart and Mr. Stephens, are able to
25 quantify for the Board the -- the cost of the

1 renegotiation for the two (2) year extension?

2

3

(BRIEF PAUSE)

4

5

MR. HOWARD STEPHENS: I don't make very
6 much money, so it would be on the order of about fifty
7 (50) to a hundred thousand dollars (\$100,000).

8

MR. BOB PETERS: No, I think it was noted
9 that there was some skill at the table that perhaps
10 preempted a longer negotiation, Mr. Stephen. Maybe that's
11 another spin for it. And I'll thank you for that
12 estimate.

13

But the Board earlier, with your Revenue
14 Requirement Panel, and I know Ms. Derksen has been sitting
15 on almost every other panel up until now, the Revenue
16 Requirement Panel explained to the Board how the non-gas
17 cost component of the primary gas overhead was calculated.

18

And I'm wondering whether you would agree
19 that the costs to negotiate the two (2) year extension of
20 the Nexen contract are somewhere imbedded in the costs
21 that go into determining the overhead for primary gas.

22

MS. LORI STEWART: Yes, I -- I believe
23 that those costs would be imbedded in the primary gas
24 overhead.

25

MR. BOB PETERS: And you can't discreetly

1 identify them because the process used -- just let me give
2 you a second.

3

4 (BRIEF PAUSE)

5

6 MS. LORI STEWART: This is what happens
7 when you -- you ask rate related question of a gas -- a
8 gas supply panel. I -- I will -- I'll attempt to clarify
9 the record, Mr. Peters. There were very minor incremental
10 costs, travel costs, in essence, related to our -- our
11 trip to Calgary for the purpose of negotiating this Nexen
12 contract, other than those costs, which Mr. Derksen
13 advises, were not imbedded in the primary gas overhead
14 rate.

15 However, the salaries of those individuals
16 involved in the negotiation process, therefore, their
17 labour or effort, are, of course, included in the primary
18 gas overhead rate.

19

20 (BRIEF PAUSE)

21

22 MS. LORI STEWART: Our rates expert is
23 counselling us back there. And the crux of it is that the
24 dollars that we're talking about are, in this scheme of
25 things, immaterial. And, as a result, we're -- we're not

1 discretely identified as an item in the primary gas
2 overhead cost, but understanding that the salaries of the
3 individuals involved in that process are embedded in that
4 overhead rate.

5 MR. BOB PETERS: Sounds like the only
6 costs that maybe weren't somehow included would have been
7 the -- the incremental travel cost to and from Calgary.

8 MS. LORI STEWART: Yes, that's correct.

9 MR. BOB PETERS: Okay. Mr. Czarnecki may
10 want to alert his colleagues, Ms. Derksen, that if she
11 keeps that up she may be in the front row sooner than she
12 wants to be. But, having said that, let me -- let me then
13 move on.

14 Does the Corporation take the view that --
15 that the materials that have come from EEA have been for
16 the sole purpose of determining whether to extend the
17 Nexen agreement or to go to proposals starting November
18 1st, 2007?

19 MS. LORI STEWART: Yes. At their crux,
20 that was the purpose of the EEA report. However, I'm
21 sure, having reviewed the report, there's intelligence on
22 a number of matters related to a contracting process, you
23 know, in this situation, because we didn't go to tender,
24 that -- that intelligence or expertise is something that
25 we can avail ourselves of, but it wasn't used discretely

1 for that purpose.

2 MR. BOB PETERS: And as Mr. Stauff
3 suggested in his evidence, once we've gotten past the fact
4 that the Corporation chose to renew with Nexen rather than
5 go out for proposals starting November 1st of '07, the EEA
6 report has -- has now served its useful purpose and other
7 than having some background intelligence, is not a guiding
8 document any further for the Corporation.

9 MS. LORI STEWART: A think that's a fair
10 characterization, Mr. Peters.

11 MR. BOB PETERS: All right then, let's --
12 let's look to the future then, Ms. Stewart. And we now
13 know that until October 31st, 2009 you have an arrangement
14 with Nexen. And looking past that, what is the
15 Corporation's plans?

16

17 (BRIEF PAUSE)

18

19 MS. LORI STEWART: It's probably clear
20 that our -- our plans are not fully formed at this point,
21 which I don't think is -- is that surprising. However, we
22 do want to ensure that -- that the Board and other parties
23 are aware that the Nexen contract that commences November
24 1st, 2007 does have the option to renew, post-October 31,
25 2009 for up to a three (3) year term.

1 However, we have not concluded in -- Centra
2 has not concluded on its course of action related to
3 supply contracting and, certainly, that will be influenced
4 by our efforts related to our overall gas supply
5 transportation and storage review of assets.

6 MR. BOB PETERS: Does that mean, Ms.
7 Stewart, in short that you want to await the outcome of
8 the landscape hearing to determine what you need to look
9 forward to providing in future?

10 MS. LORI STEWART: Certainly that's --
11 that's one (1) piece of information that we're -- we're
12 interested in, amongst others.

13 MR. BOB PETERS: Well, you did say "review
14 your assets" and do I understand that you're undertaking a
15 further review of your -- your assets post-October 31st,
16 2009?

17 MS. LORI STEWART: Yes, to be clear, we
18 are preparing even today ultimately we have an action plan
19 that we're working to prepare for post-2013 which is when
20 our twenty (20) year package of transportation and storage
21 assets is set to expire.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: What is the timeline that

1 the Corporation is using, Ms. Stewart, to prepare for -- I
2 take it the horizon is not only November 1st, 2009 but
3 also November 1st, 2013?

4 MR. HOWARD STEPHENS: Mr. Peters,
5 obviously by 2013 we have to have a new arran -- set of
6 arrangements in place or have made a decision to retain
7 our existing assets. A function -- I mean a -- there are
8 a number of considerations in terms of going through that
9 process.

10 As Mr. Stauff -- and I think from now on
11 that we won't be referring to it as the "blank page
12 analysis"; let's put that in the garbage. I mean, we've
13 got a ground up analysis and I think that that's a much
14 more appropriate term. We will be looking at a comprehens
15 -- at our asset mix on a very comprehensive basis.

16 So for us to answer the question, with
17 respect to what, kind of, gas supply contracts will be, is
18 a bit premature because they're interrelated; very much
19 interrelated. So we are working now and gathering
20 information as necessary and we will make the appropriate
21 decisions in terms of which supply basins to buy from, et
22 cetera, and where -- whether we should maintain Michigan
23 storage or reduce the amount of capacity and acquire more
24 storage or any one of a number of variables which we've
25 talked about in the past.

1 And so I mean that -- that is a process
2 that is ongoing. If we can arrange for something that is
3 more cost effective than our current arrangement and we
4 could buy our way out of the ANR contract cost
5 effectively, we may put something in place sooner than
6 that. The likelihood of that is I can't -- I can't speak
7 to it right now, but I mean we're going to look at all
8 aspects of the process.

9 MR. BOB PETERS: Thank you, Mr. Stephens.
10 Before I leave the -- the Nexen contract issues, just back
11 to the overhead matters that -- that we -- that we worked
12 our way through, would it be correct that the gas overhead
13 costs that Centra explained in PUB/CENTRA-105 relate to
14 the Corporation's effort to arrange primary gas for only
15 system supply customers?

16

17 (BRIEF PAUSE)

18

19 MS. LORI STEWART: Yes, PUB-105 I'm
20 advised is -- is an attempt to approximate those costs.

21 MR. BOB PETERS: And those, Ms. Stewart,
22 are costs related to providing primary gas for only system
23 supply customers, not for brokers' customers?

24 MS. LORI STEWART: Yes, that's correct.

25 MR. BOB PETERS: So in terms of the

1 efforts expended by Centra to provide services to brokers,
2 there was no amount allocated or expended in your
3 negotiation with Nexen related to providing gas for direct
4 purchase customers?

5

6 (BRIEF PAUSE)

7

8 MS. LORI STEWART: Certainly the Nexen
9 contract is -- is not related to natural gas that will be
10 supplied to broker customers; brokers undertake to provide
11 their own natural gas for their customers. However,
12 certainly the negotiation around the frequency of our
13 ability to enroll customers was directly related to
14 requests from -- from our stakeholder group, the brokers,
15 to improve that area of our total service package.

16 MR. BOB PETERS: So and -- and earlier on
17 I -- I remember you answering one (1) of my questions,
18 perhaps a little different than I expected, but you wanted
19 to indicate that your negotiations were on behalf of
20 system supply customers and the building in of flexibility
21 was just the optionality that would be available to them
22 should they require it in the future to go to direct
23 purchase.

24 MS. LORI STEWART: I -- I think we are
25 dealing with a -- perhaps a subtle misunderstanding then,

1 Mr. Peters, because had we not received requests or had we
2 not listened to this -- the broker/stakeholder group, we
3 would not have undertaken to alter the flexibility
4 provisions embedded in the existing contract.

5 So there is a clear correlation between
6 stakeholder feedback. I'd like the ability to increase or
7 to enroll customers more frequently, and Centra going to
8 Nexen and inquiring as to what the cost of that
9 optionality would be.

10 MR. BOB PETERS: All right. And hence,
11 that's the reason that you want this Board, at some point
12 in the landscape proceeding, to adjudicate on who will be
13 responsible for some or all of those additional costs.

14 MS. LORI STEWART: Yes, that's correct.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Perhaps to conclude this,
19 and this may be speculation on your part, Ms. Stewart, but
20 -- and Ms. Ruzycki may not be sworn in as a Witness today,
21 so from your prospective, you would expect that the
22 brokers would have to incur similar cost items that Centra
23 incurs for the brokers to arrange its gas supply for its
24 direct purchase customers, would that be true?

25 MS. LORI STEWART: I'm really not sure

1 what you -- what your question is asking, Mr. Peters. I
2 think you need to be more specific.

3 MR. BOB PETERS: Well when -- when Centra
4 tells the Board that it incurs costs to find primary gas
5 and arrange primary gas for its system supply customers,
6 you would expect that the brokers have to incur their own
7 costs, independent of that, to provide the same functions
8 for their customers.

9 MS. LORI STEWART: Yes, I -- I can't -- I
10 can't speak to the process that brokers undertake. I mean
11 each of them is -- is positioned differently in the
12 marketplace and may be backed by physical assets or not.

13 MR. BOB PETERS: Ms. Stewart, in Order 175
14 of 06, which I believe was from the last cost of gas
15 hearing, there was a directive for Centra to undertake
16 some market research into customer understandings and
17 preferences for various matters related to gas supply.

18 Do you recall that directive?

19 MS. LORI STEWART: Yes I do.

20 MR. BOB PETERS: Can you update the Board
21 on the status of that report, which a timeline had been
22 provided in the materials, but I don't believe to date it
23 has been filed, has it?

24 MS. LORI STEWART: It has not been filed
25 to date. And I believe Mr. Stephens can provide an update

1 in terms of the status of that report.

2 MR. HOWARD STEPHENS: It is -- that report
3 is just in the final stages of being completed and I fully
4 anticipate that we will be filing it at some point --
5 point during the course of the remainder of the
6 proceedings.

7 MR. BOB PETERS: And that report, Mr.
8 Stephens, involved input from a third party, is that
9 correct?

10 MR. HOWARD STEPHENS: It's gen -- a
11 general survey of our customer base, so.

12 MR. BOB PETERS: Was the survey done by --
13 by Centra, or was it done by a third party, sorry, sir?

14 MR. HOWARD STEPHENS: It was done by a
15 third party.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Mr. Sanderson, in your --
20 in your evidence to Mr. Czarnecki, yesterday, one of your
21 requests of this Board was to approve the final gas costs
22 from the '06/'07 fiscal year; am I correct?

23 MR. BRENT SANDERSON: Correct.

24 MR. BOB PETERS: And if you have
25 available, I provided a book of documents through your

1 counsel earlier in the proceedings, and at Tab 4 of the
2 book of documents is a copy of Schedule 7.0.0. And that
3 details, sir, does it, the specific request you are making
4 of the Board for approval of final March 31, '07 gas
5 costs?

6 MR. BRENT SANDERSON: Correct. And those
7 costs would be itemized line by line in the column headed
8 "2006/'07 Actual," in the middle.

9 MR. BOB PETERS: These numbers, sir,
10 include the primary gas costs as well as the hedging
11 impacts, as well as all other gas costs?

12 MR. BRENT SANDERSON: That's correct.

13 MR. BOB PETERS: And is it correct that
14 when the Board last saw Centra's expectations for gas
15 costs for '06/'07, it was at the cost of gas hearing, last
16 fall?

17 MR. BRENT SANDERSON: No, there would have
18 been a subsequent filing with an estimate of gas costs for
19 that fiscal period that would have been contained in our
20 initial filing associated with this proceeding schedule in
21 front of us right now, was a pre-hearing update filed as
22 of May 15th.

23 MR. BOB PETERS: All right. Since the gas
24 -- the cost of gas hearing last fall, the Corporation
25 provided another forecast and now it's able to provide

1 actual numbers; would that be true?

2 MR. BRENT SANDERSON: Yes, sir.

3 MR. BOB PETERS: And the total gas costs
4 are found in the middle column, approximately line 58, at
5 \$419.2 million?

6 MR. BRENT SANDERSON: Yes, sir, that's
7 correct.

8 MR. BOB PETERS: In looking specifically
9 at that schedule, Mr. Sanderson, and we go to line 38, it
10 appears that the Western Canadian supply of primary gas
11 went down in cost by about \$97 million, is that correct?

12 MR. BRENT SANDERSON: That's correct.

13 MR. BOB PETERS: And, similarly, the
14 storage gas primary gas went down in cost of about \$27
15 million.

16 MR. BRENT SANDERSON: When looking at our
17 total costs for primary gas from storage, you need to
18 combine lines 39 and 40. The exchanges with
19 counterparties primary supply would have been
20 fundamentally the same as primary gas from storage, but
21 just arrived in Manitoba by virtue of a -- of a storage
22 exchange arrangement under capacity management
23 transaction.

24 So, our actual primary gas storage costs
25 were more on the order of 69 million, relative to the

1 approximately 60 million originally budgeted.

2 MR. BOB PETERS: On that point, Mr.
3 Sanderson, you're telling the Board that on line 40 you
4 had some exchange arrangements with counterparties to
5 provide, in essence, primary gas into storage or to take
6 it out of storage?

7 MR. BRENT SANDERSON: To take it out of
8 storage. There's two (2) ways we can get gas to the
9 Manitoba market. We can either move it to market via
10 backhaul arrangement, with is the typical way we acquire
11 the gas physically. And then there's other various
12 arrangements we can arrive at with counterparties where we
13 make in-kind exchanges in storage and then the
14 counterparty will typically drop the gas off in Manitoba.

15 It's fundamentally the same gas, the same
16 associated unit costs, but just a different arrangement
17 that makes it appear at our market for customers' use.

18 MR. BOB PETERS: Well, it appears that the
19 transaction may have cost Manitobans an addition \$9 or \$10
20 million dollars; is that what's happened?

21 MR. BRENT SANDERSON: No, not at all, Mr.
22 Peters. What this shows is -- is as a result of the
23 weather that actually occurred and the associated customer
24 demand during the '06/'07 fiscal period, we were able to
25 meet a significantly higher level of customers'

1 requirements using gas from storage as opposed to buying
2 it on the market on the day.

3 So you'll see that our direct-to-load costs
4 for primary gas supply are significantly lower, and we
5 just had the -- had the -- the circumstance by which
6 storage gas made up a correspondingly more significant
7 percentage of a customer's requirement during the period.

8 MR. BOB PETERS: Do I take from that
9 answer then, Mr. Sanderson, that as a result of your third
10 party exchanges those would have been entered into only if
11 there was a profit potential for Centra Gas?

12 MR. BRENT SANDERSON: Correct and those
13 incremental profits would -- would show up in the capacity
14 management results shown below on line 56.

15 I'd just like to say if in the absence of
16 these exchange transactions the costs that are reflected
17 in lines 39 and 40 would have been the same in either
18 case, only the entirety of it would have shown up on line
19 39 characterized as storage gas primary supply. The costs
20 would have been the same.

21 MR. BOB PETERS: Okay. Thank you for that
22 clarification.

23 On these costs of gas, Mr. Sanderson, did
24 the Corporation incur any costs for gas related to the
25 inability of a broker to supply their market share in

1 Manitoba?

2 MR. BRENT SANDERSON: No, sir.

3 MR. BOB PETERS: As I understand it there
4 is a step taken by Centra to try to assure itself that the
5 brokers have the supply arrangements that can -- that can
6 be used to meet their delivery obligations in Manitoba?

7

8 (BRIEF PAUSE)

9

10 MR. BRENT SANDERSON: The brokers are
11 required to represent in warranty to Centra that they have
12 adequate supply arrangements in place to serve their
13 customers' needs, within the confines of the Western
14 Transportation Service as designed.

15 MR. BOB PETERS: And that's a written
16 representation of warranty?

17 MR. BRENT SANDERSON: We're going to have
18 to undertake to verify whether we receive written
19 confirmation of those arrangements or whether it's -- we
20 rely on a -- on a warranty or a representation from the
21 broker. They are required to provide us with the names
22 and specific information of who their suppliers are so
23 that we're able to nominate their gas supply to their
24 customers. Whether they provide us with physical
25 representation of their supply agreements I would have to

1 undertake to confirm one way or the other whether they do
2 that or not.

3 MR. HOWARD STEPHENS: Mr. Peters, I'm
4 advised that it's part of a Board registration process.
5 They have to undertake to or certify that they have the
6 necessary capability to satisfy their requirements. We'll
7 print off and provide the information.

8 MR. BOB PETERS: Would it be correct, Mr.
9 Stephens, that Centra doesn't do any independent
10 assessment as to whether or not, in fact, that gas is
11 available as warrantied and --

12 MR. HOWARD STEPHENS: No, we don't.

13 MR. BOB PETERS: You don't do that?

14 MR. HOWARD STEPHENS: No.

15 MR. BOB PETERS: And, Mr. Stephens, is it
16 also correct, that in the event there was a -- a situation
17 arise where direct purchase customers were not able to be
18 supplied by their broker, Centra would have an obligation
19 to step in and backstop that arrangement?

20 MR. HOWARD STEPHENS: Certainly. Whether
21 we have an obligation or not we would certainly be -- be
22 there to serve that customer and nobody would -- going to
23 be -- would go cold on any particular day.

24 MR. BOB PETERS: Centra acknowledges
25 though that it has the -- the obligation to backstop if

1 necessary?

2 MR. HOWARD STEPHENS: I believe the
3 terminology -- and I'd have to go back and check myself,
4 but I mean we are the supplier of last resort and the
5 default supplier, and from that perspective, yes, we do
6 have an obligation, but it is I believe couched with the
7 terms that -- on a best-efforts basis.

8 MR. BOB PETERS: Has Centra in -- and if
9 Centra had to do that, are there additional costs that are
10 included in your application for Centra to be in a
11 position to -- to be the supplier of last resort?

12 MR. HOWARD STEPHENS: No, we don't have
13 any additional costs. We -- we haven't anticipated that
14 sort of circumstance occurring. We haven't had one (1)
15 occur to this point in time or not for a number of years
16 at least. So based on the fact that the application is
17 based upon a normal year we wouldn't include costs
18 associated with that. We would recover those costs in
19 some fashion after the fact.

20 MR. BOB PETERS: Well, if there were
21 additional incremental costs to serve direct purchase
22 customers because their -- their broker supply failed, or
23 was unavailable, would those extra costs be passed on to
24 the broker's customers?

25 MR. HOWARD STEPHENS: To the extent that -

1 - and -- and I'll paint you a picture. If we'll -- if a
2 broker supplier defaults in the middle of the month and we
3 have to go out into the day market and buy gas, it's much
4 more expensive than our system purchases than the
5 difference we would look to recover from those customers.

6 But as soon as we could, we would increase
7 our takes from Nexen and, in fact, that's likely what we
8 would do in that circumstance. And to the extent that the
9 prices are the same, I mean, there would be -- and we're
10 kept whole, and like -- and then there should be no
11 consequences associated with it.

12 MR. BRENT SANDERSON: And Mr. Peters, I
13 might add, an additional protection for Centra and its
14 customers; the credit management policies which we
15 maintain with brokers. Depending on the credit
16 circumstances of the individual broker and their -- and
17 their credit rating, we may require certain credit
18 assurances be posted by the brokers to cover off the
19 financial risk associated with any default to -- default
20 on their obligation to serve their customers.

21 And so the -- to the extent that there may
22 be costs associated and that can be directly attributed to
23 a broker's fail -- failure to serve, they may be recovered
24 or compensated for by circling back to those credit
25 facilities or credit assurances that Centra requires be in

1 place between Centra and the brokers, under the Western
2 Transportation Service.

3 MR. BOB PETERS: Has Centra ever made a
4 call on those financial guarantees, Mr. Sanderson?

5 MR. BRENT SANDERSON: Not to my knowledge.

6 MR. BOB PETERS: And that's since WTS has
7 been instituted?

8 MR. BRENT SANDERSON: Correct.

9 MR. BOB PETERS: And Mr. Stephens, in
10 terms of being the supplier of last resort, in your
11 memory, sir, has Centra had to -- had to step in for
12 brokers who were unable to supply the Manitoba market?

13 MR. HOWARD STEPHENS: Well it was just a
14 small amount. They -- I mean, I'm almost tempted to just
15 ignore it, but I mean, I am under oath, so there was one
16 (1) circumstance many years ago that we did cover off for
17 a broker for a period of time.

18 MR. BOB PETERS: Do you recall the year
19 and the specifics of the transaction, other than the name
20 of the broker?

21 MR. HOWARD STEPHENS: All I remember is,
22 he was going to the Barbados and I had to supply his
23 customers for three (3) or four (4) days.

24 MR. BOB PETERS: And approximately how
25 many years ago was that?

1 MR. HOWARD STEPHENS: Well that was going
2 back to 1995 or '6.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Mr. Stephens, we may talk
7 about this in a different forum, but if -- if brokers had
8 say 70/75 percent of the gas supply market in Manitoba,
9 would there be additional costs incurred by Centra to be
10 in a position to meet the potential demand as a supplier
11 of last resort?

12 MR. HOWARD STEPHENS: Well, certainly
13 that's something that we -- we are going to have to
14 discuss, is precisely how much insurance do we put in
15 place to assure that customers are served, if we retain
16 the role of default supplier.

17 And I don't have a clear answer for you
18 right now, but certainly if the 75 percent of the market
19 and it's a very cold day and we have a significant number
20 of these custom -- these brokers defaulting, then we are
21 going to have, obviously, some -- some difficulties
22 obtaining the gas.

23 Now it depends on the rat -- I mean the
24 reasons for the defaults, et etcera so.

25

1 (BRIEF PAUSE)

2

3 MR. HOWARD STEPHENS: And ultimately, and
4 I hate to say this, especially -- well, Mr. Stauff doesn't
5 work for TCPL anymore, the gas is flowing by Winnipeg and
6 in that event, for a short term certainly, we would just
7 take the gas off the system and sort out the costs
8 associated with it after the fact.

9 MR. BOB PETERS: You'd have an un --
10 unauthorised take and you'd pay the penalties.

11 MR. HOWARD STEPHENS: That's correct.

12 MR. BOB PETERS: Yeah. The penalties are
13 usually three (3) times the cost of gas?

14 MR. HOWARD STEPHENS: The penalties in
15 that sort of a circumstance can be considerably more than
16 that because it's a deliberate abuse of the system, so.
17 TransCanada doesn't -- they frown very much on that.

18 MR. BOB PETERS: One can imagine. Mr.
19 Sanderson, in terms of capacity management to which you
20 referred the Board on Tab 4 of the book of documents,
21 Schedule 700, it appears that the capacity management
22 results have come in, or perhaps Mr. Stephens, at \$7.9
23 million for the '06/'07 year?

24 MR. BRENT SANDERSON: That's correct.

25 MR. BOB PETERS: And that's a record

1 amount?

2 MR. BRENT SANDERSON: Pretty close. I
3 would say, yes, it's a record.

4 MR. BOB PETERS: What led to it being a
5 record amount this year as opposed to other years?

6 MR. BRENT SANDERSON: Well, largely it was
7 the result of the extraordinarily warm winter that
8 occurred during -- pardon me, let me back up. The warmer
9 than normal year that occurred during the '06/'07 fiscal
10 period which the net result of that is we have excess
11 transportation capacity, over and above that required to
12 serve our market, which creates opportunities to sell that
13 excess transportation in the secondary market. And that
14 was combined with attractive market conditions that
15 allowed us to earn an attractive return on those under-
16 utilized assets.

17 But, in a nutshell, we found ourselves with
18 excess capacity as a result of the warmer weather.

19 MR. BOB PETERS: Not only excess capacity,
20 but you found some willing participants in the market who
21 wanted that capacity.

22 MR. BRENT SANDERSON: That's essential to
23 conclude a transaction, yes.

24 MR. BOB PETERS: All right. Wouldn't one
25 assume that if it was warmer for Manitoba, other -- other

1 markets might also be having the same situation and they
2 wouldn't need the excess capacity?

3 MR. BRENT SANDERSON: I wouldn't
4 necessarily say that weather conditions in Manitoba would
5 tell you what the weather conditions are in other regions
6 across the country, no. Or in other markets with which we
7 might transact.

8 MR. BOB PETERS: In your forecast for the
9 gas cost year, you embedded a forecast of \$4.5 million on
10 account of capacity management, correct?

11 MR. BRENT SANDERSON: Yes, sir, that's
12 correct.

13 MR. BOB PETERS: And that forecast was
14 based on a -- on a five-year rolling average?

15 MR. BRENT SANDERSON: Yes.

16 MR. BOB PETERS: Included in the first test
17 year, you're proposing to the Board to include 5.1 million
18 as a forecast of capacity management revenues, is that
19 correct?

20 MR. BRENT SANDERSON: Yes, sir, it's
21 correct.

22 MR. BOB PETERS: Why wouldn't you -- was
23 that calculated simply by way of the five (5) year rolling
24 average?

25 MR. BRENT SANDERSON: Yes, sir.

1 MR. BOB PETERS: And then turning to some
2 evidence, I believe, that Mr. Stephens provided yesterday,
3 Centra could develop a forecast and a model related to the
4 capacity management, could it not?

5 MR. BRENT SANDERSON: We could, but I
6 think it's important to note that the single biggest
7 determinant of the capacity that we find ourselves
8 available with, to go out and seek capacity management
9 opportunities with in the secondary market, the single
10 biggest determinant of what that amount of capacity --
11 excess capacity is, is the weather and what that's doing
12 to our customers' requirements relative to what we had
13 originally forecast.

14 And weather is random. And so we would be
15 facing the difficulty of trying to forecast a random
16 variable. So that would be the difficulty in attempting
17 to set out and develop with what I suspect you're leaning
18 to, is a more precise methodology or a more technically-
19 involved methodology for forecasting capacity management
20 revenues.

21 MR. BOB PETERS: I appreciate that answer.
22 I was still thinking about the answer Mr. Stephens gave
23 yesterday which I interpreted, on review of the
24 transcript, to mean for the 1 percent of revenues that we
25 -- that the Corporation gets from capacity management, it

1 would be disproportionate to expend a lot of time, effort
2 and expense in developing a forecast.

3 Is that -- is that, in essence, what you
4 were saying, Mr. Stephens?

5 MR. HOWARD STEPHENS: You'll note, Mr.
6 Peters, that I hesitated in the middle of my evidence in-
7 chief because it was not exactly what I anticipate -- or
8 wanted to get across in terms of the message. If there
9 was a better way to do it, we would do it. But the extra
10 effort that we would have to put into performing the type
11 of analysis that has been discussed in some of the
12 evidence that's been -- that had been put forward before
13 the Board implies a degree of accuracy that doesn't exist.

14 We have to make so many guesses that if you
15 add guess after guess after guess all you get is one (1)
16 great big guess. And that's why we're -- where we're at
17 in terms of calculating the capacity management revenues.

18 If we could give a more accurate number, we
19 certainly would. But I'm not convinced that there is a
20 way that we can do that with any degree of accuracy.

21 MR. BOB PETERS: Thank you, Mr. Stephens.
22 In terms of some of the suggestions, and I won't -- I'll
23 just tread lightly here for fear of Mr. Saxberg wanting to
24 do a better job on it than I, but the suggestion from Mr.
25 Stauff is that there may be more opportunities for Centra

1 to sell its storage gas in Michigan to sources downstream,
2 and then worry about replacing that gas from Nexen as a
3 separate transaction.

4 Do you understand that to be a possibility?

5 MS. LORI STEWART: Certainly we understand
6 Mr. Stauff's suggestion.

7 MR. BOB PETERS: And does it have merit?

8 MS. LORI STEWART: Well, I think Mr.
9 Stauff is quite cautious in his evidence because he's
10 suggesting that Centra assess and evaluate and take into
11 account a number of considerations prior to making a
12 decision about entering into such a transaction which is
13 indeed exactly what Centra does.

14 So just because Centra has not entered into
15 a transaction exactly like what Mr. Stauff has described
16 doesn't of course mean that we haven't contemplated that
17 option and in certain cases dismissed it in terms of, you
18 know, a -- a - for a number of factors.

19 MR. BOB PETERS: Does that answer, Ms.
20 Stewart, suggest that if there's an opportunity to sell
21 storage gas at a higher cost than its replacement gas,
22 then Centra would be inclined to do that transaction?

23 MS. LORI STEWART: In certain
24 circumstances, yes, Mr. Peters. However, I think there
25 are some misunderstandings in terms of the extent of our

1 exchange activity. And, you know, I don't want to -- I
2 mean Mr. Stauff is familiarizing himself with our business
3 and I think that there is -- seems to be a misconception
4 about the extent of Centra's exchange activities which of
5 course are replicating a buy/sell arrangement that Mr.
6 Stauff references.

7 Centra has a -- a preference for a virtual
8 transportation arrangement and exchange arrangement such
9 that we don't actually take a physical presence in the
10 Michigan market; that has a number of complex tax
11 implications. And as a result we -- our preference is to
12 enter into an exchange transaction, that in essence
13 replicates the buy/sell transaction that Mr. Stauff has --
14 has discussed.

15 MR. BOB PETERS: Would it be correct to
16 say that the suggestions from Mr. Stauff are not ones that
17 hadn't previously been considered by Centra?

18 MS. LORI STEWART: Yes, that's correct.

19 MR. BOB PETERS: And the reason you may
20 not have entered into transactions of the kind described
21 by Mr. Stauff, is for reasons that were assessed
22 internally by the Corporation in coming to the conclusion
23 whether it would be profitable for the Corporation?

24 MS. LORI STEWART: Yes, I think that's
25 maybe the -- the fundamental concern that Centra has with

1 Mr. Stauff's evidence is it's -- it seems to be quite
2 focussed on what the profit or margin earned could be
3 related to transactions without an extensive discussion of
4 the corresponding increase in risks associated with the
5 opportunity to earn more revenues. So as always we're
6 back to the risk/reward trade-off.

7 And there are certainly a number of
8 material risks such as counterparty risk, so the credit
9 risk related to assigning assets to another counterparty.
10 Certainly there's execution risk -- increased execution
11 risk -- with the complexity of some of the transactions
12 that Mr. Stauff is proposing. And there's price risk, in
13 terms of the price view that would need to be taken to
14 make the decision to blow storage out assuming that the
15 current replacement cost will indeed translate into a
16 future similar replacement cost.

17 So there are a number of considerations
18 that need to be factored into a decision to undertake a
19 specific transaction. And certainly none of what Mr.
20 Stauff has put on the record is a new idea for Centra and
21 we will continue to assess those opportunities. We're not
22 suggesting that they're inappropriate descriptions of
23 transactions that we might enter into at -- at some point,
24 but we have evaluated them and to-date we have not -- not
25 undertaken them.

1 MR. BOB PETERS: The one (1) risk that I
2 need you to explain to the Board that you mentioned, Ms.
3 Stewart, is execution risk. What did you mean by that?

4 MS. LORI STEWART: Well the -- in essence,
5 the more complex a trading organization becomes, in terms
6 of the transactions that it undertakes and the number of
7 objectives that it's trying to meet, the more likelihood
8 of an error. At it -- at it's crux, that's what execution
9 risk -- risk is.

10 MR. BOB PETERS: On the issue of capacity
11 management in Board Order 175/06, there was a request for
12 a report on capacity management. And Mr. Stephens, I
13 think you spoke to that yesterday?

14 MR. HOWARD STEPHENS: On behalf of Ms.
15 Stewart, yes.

16 MR. BOB PETERS: All right. I'll see if
17 she gives the same answer then, Mr. Stephens. In short,
18 the Board was looking for a report on capacity management
19 and I -- I -- my notes from you, Mr. Stephens, and Ms.
20 Stewart, you can verify this, indicated that Centra has
21 requested more time and now expects to respond to that
22 request some time in the summer of '07.

23 MS. LORI STEWART: Yes, that's -- that's
24 correct. We intend to file our capacity management
25 business plan, I believe, by the end of August of 2007.

1 MR. BOB PETERS: Will that plan include a
2 discussion of some of the topics that you and I have just
3 discussed, and those included also, in Mr. Stauff's
4 evidence?

5 MS. LORI STEWART: Yes, I think that would
6 -- would serve all parties well.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Turning to the issue of
11 hedging -- and we'll see if Ms. Stewart can remain silent
12 on this one (1) -- Mr. Sanderson, the overall question
13 about whether Centra should or shouldn't hedge and those
14 issues, you understand those to be issues for this Board
15 at the Gas Landscape Hearing.

16 MR. BRENT SANDERSON: Based on
17 correspondence from the Board, yes, that's my
18 understanding.

19 MR. BOB PETERS: But there are also
20 impacts of hedging that impact the cost of gas that are
21 before the Board in this Hearing.

22 MR. BRENT SANDERSON: Yes.

23 MR. BOB PETERS: And at Tab 30 of the book
24 of documents that I've handed out, is a copy of Schedule
25 7.2.0, have you located that?

1 MR. BRENT SANDERSON: Yes I have.

2 MR. BOB PETERS: And is it the correct
3 interpretation if the Board was to look at -- at Tab 30 of
4 the book of documents, Schedule 7.2.0 and conclude that in
5 the '06/'07 fiscal year the costs of gas to Manitoba --
6 Manitoba consumers increased by approximately \$73.2
7 million as a result of the hedging activities?

8 MR. BRENT SANDERSON: Over and above what
9 customers would have paid in the complete absence of
10 hedging, yes.

11 MR. BOB PETERS: And while the net impact
12 is an additional \$73.2 million of costs, Mr. Sanderson,
13 Centra is almost at a break even level in terms of the net
14 impacts to gas customer, as to what hedging has added or
15 benefited in the last five (5) years.

16 MR. BRENT SANDERSON: As of the end of the
17 '06/'07 fiscal period, since the inception of the current
18 hedging program for primary gas, there's still a slight
19 finan -- positive financial benefit to customers. But
20 it's fair to say that it's pretty much a wash, which has
21 been our position since the inception of the program that,
22 other than smaller dealer margins, expected to add maybe
23 one tenth (1/10th) of 1 percent to customer's overall gas
24 costs over the long haul, notwithstanding, though, is
25 pretty much a wash over time and that's what's -- what's

1 come to the bear.

2 MR. BOB PETERS: And I -- I found the
3 answer in the landscape IRs, Mr. Sanderson, but it's the -
4 - the small slight surplus that you talk about, or benefit
5 to a reduction in gas costs, is the \$2.2 million since --
6 since the inception of the program.

7 MR. BRENT SANDERSON: That sounds correct.

8 MR. BOB PETERS: And that doesn't
9 recognize that as we go forward, there still are unsettled
10 positions out there.

11 MR. BRENT SANDERSON: That \$2 million in
12 change number would have considered settled financial
13 instruments at the point and time that it was prepared.

14 Yes, at any point and time there's still
15 forward looking instruments that have yet to settle and
16 they may settle to the good or to the negative for
17 customers once the market index prices are known for the
18 months in question on which those instruments have been
19 placed.

20 MR. BOB PETERS: In terms of hedging, the
21 Board will find that the Corporation is using the same
22 policy as reviewed last fall at the Cost of Gas Hearing?

23 MR. BRENT SANDERSON: The same policy,
24 yes, with the change in the operating principles and
25 procedures in response to the Board's Order 175/06 issued

1 in December of 2006.

2 MR. BOB PETERS: All right. And -- and
3 while we're on the policy, the policy's objective is still
4 to mitigate the volatility of price?

5 MR. BRENT SANDERSON: That's correct.

6 MR. BOB PETERS: And the Corporation still
7 hedges twelve (12) months out, after every gas quarter?

8 MR. BRENT SANDERSON: Just prior to the
9 commencement of any gas quarter, it's our expectation that
10 we would have hedges on for the coming twelve (12) month
11 period, subject to approval by Centra's Executive
12 Committee.

13 MR. BOB PETERS: And in that order you
14 referenced, Mr. Sanderson, Order 175/06, Centra was asked
15 to develop plans to conduct additional market research
16 into consumer preferences for hedging as well as other
17 matters, is that correct?

18 MR. BRENT SANDERSON: Yes, that's my
19 understanding.

20 MR. BOB PETERS: And that's the report
21 that Mr. Stephens spoke to before indicating that the
22 report is in the -- virtually finalized?

23 MR. BRENT SANDERSON: Questioners
24 regarding customers preference is relative to hedging on
25 their behalf, were -- made up part of the questions that

1 were asked in the course of that market research and so
2 there was a hard look taken at those issues as well as
3 others.

4 MR. BOB PETERS: And that's in the report
5 that Mr. Stephens referenced?

6 MR. BRENT SANDERSON: Yes.

7 MR. BOB PETERS: You mentioned to the
8 Board that while the policy stayed the same, the operating
9 principles changed slightly. Would that be fair?

10 MR. BRENT SANDERSON: Yes. In response to
11 the Board's directive to widen the band -- the upper
12 bandwidth on the collars that we place on customers'
13 behalf.

14 MR. BOB PETERS: And that reference is
15 that the bandwidth that you used to operate under was a
16 fifty (50) cent out of the money upper bandwidth?

17 MR. BRENT SANDERSON: Yes, sir.
18 Irrespective of the market price on the day we placed the
19 hedges, it was always a fixed band with fifty (0.50) cents
20 on the upside, and then the bandwidth on the downside,
21 relative to that upper bandwidth would be a function of
22 the market.

23 MR. BOB PETERS: And that fifty (0.50)
24 cents out of the money number was fixed, approximately
25 1996/'97?

1 MR. BRENT SANDERSON: It -- it had its
2 origination as a result of some market research that was
3 conducted by the Corporation in 1998 and was -- and the
4 findings of that market research we used as a guide to
5 determine the fifty (50) cent out of the money upper band
6 with -- has been employed since the inception of the
7 current primary gas hedging program, up until the changes
8 that we've just discussed that occurred in early 2007.

9 MR. BOB PETERS: And would you agree with
10 me that those changes in early 2007, specifically expand
11 the band width on the collar?

12 MR. BRENT SANDERSON: Yes, sir.

13 MR. BOB PETERS: And in terms of briefly
14 demonstrating that to the Board, at Tab 31 of the book of
15 documents, Mr. Sanderson and Board Members, there's an
16 extract from PUB/CENTRA-96 and -- you've located that,
17 sir?

18 MR. BRENT SANDERSON: Yes, I have.

19 MR. BOB PETERS: Just to work an example
20 through with me, for the benefit of the Board and to
21 hopefully leave it tidy on the record, if there was an --
22 an intention to enter into a -- hedging transactions today
23 and the gas was trading on the Alberta Energy Company at,
24 say eight dollars and ten (\$8.10) cent a gigajoule, you
25 would go down this chart found on page 2 of 3, of

1 PUB/CENTRA-96, to the greater than eight dollars (\$8) and
2 less than nine dollar (\$9) line item.

3 Have I got that right?

4 MR. BRENT SANDERSON: Yes. That's
5 correct. And just to put a fine point on the specifics,
6 it would be greater than eight dollars (\$8), up to nine
7 dollars (\$9) even. I know that's a very minor point but
8 we're very -- we have to be very specific about the
9 parameters.

10 But, yes, your fundamental understanding is
11 correct.

12 MR. BOB PETERS: All right. You're just
13 telling me that -- that has to be one (1) cent greater
14 than eight dollars (\$8) for this line item to apply.

15 MR. BRENT SANDERSON: It could be as much
16 as a quarter (1/4) of a cent; that's the preciseness of
17 the way the market prices gas.

18 MR. BOB PETERS: All right. Thank you for
19 that. And so if -- if we are on that line item of greater
20 than eight dollars (\$8) to nine dollars (\$9), the average
21 range would be considered eight dollars and fifty (\$8.50)
22 cents by the Corporation?

23 MR. BRENT SANDERSON: Yes. If you just
24 average eight (8) plus nine (9) it just works out to
25 simple arithmetic average of eight fifty (8.50) which is

1 the mid range of that eight (\$8) to nine dollar (\$9)
2 range.

3 MR. BOB PETERS: And then you would add a
4 15 percent amount on top of that midrange and that 15
5 percent would be the one dollar twenty-seven and a half
6 (\$1.27 1/2) cents?

7 MR. BRENT SANDERSON: I don't know if the
8 language I would use would be add a 15 percent on top of
9 it. I think we just multiply eight dollars and fifty
10 (\$8.50) cents by 15 percent or point one five (.15) which
11 would derive our dollar twenty-seven and a half (\$1.27
12 1/2) in the next column, that we would use as our upper
13 bandwidth on that instrument.

14 MR. BOB PETERS: So then you'd pick up the
15 phones would you and phone counterparties and ask for
16 their bid on a cap that would be -- when gas was trading
17 at eight ten (810) plus the one dollar and twenty-seven
18 and a half (\$1.27 1/2) cents?

19 MR. BRENT SANDERSON: Maybe just to be a
20 little more clear on -- on when we would have the dealers
21 on the phone. We would already have them on the phone at
22 that point and part of our interaction with them would
23 have been their communication of the current market price,
24 which would have allowed us to determine that at that
25 point it is in fact eight dollars and ten (\$8.10) cents.

1 They would be awaiting for us to reiterate to them what's
2 the upper strike on the instrument we're transacting would
3 like to be, based on our own internal methodologies.

4 So we would add the dollar twenty-seven and
5 a half (\$1.27 1/2) to the eight fifty (850) and in turn
6 tell all of our counterparties simultaneously that the
7 upper strike price on our cashless collar we would like to
8 transact, would be nine dollars thirty-seven and a half
9 (\$9.37 1/2) cents, and then be looking to them to tell us
10 or show us what the best value at that point in time would
11 be in terms of how much participation and subsequent price
12 declines customers would enjoy, and pick the most
13 attractive price or the lowest floor price, if you will.

14 MR. BOB PETERS: Mr. Sanderson, we were
15 using numbers fairly quickly there but I -- I want to
16 just, I believe, correct you on one (1) of them.

17 When you're talking to the counterparties
18 on the phone and they've told you that the -- the price on
19 the market was eight dollars and ten (\$8.10) cents it
20 would be to that eight dollars and ten (\$8.10) cents that
21 you would add the 15 percent upper bandwidth of another
22 dollar twenty-seven and a half (\$1.27 1/2) to get to the
23 nine dollars point three seven five (\$9.375) that you
24 referenced?

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

1 MR. BOB PETERS: All right. And not only
2 would you then ask them for their bid with the cap at nine
3 dollars and thirty-seven and a half ($\$9.37 \frac{1}{2}$) cents but
4 you'd also ask them what floor price they would give you
5 to make the transaction cashless?

6 MR. BRENT SANDERSON: Well, really the
7 only bid or quote we're looking for from the dealers would
8 be their floor price. Everything up to that point is a
9 determination that Centra would make and communicate back
10 to the dealers.

11 The nine thirty-seven and a half ($937 \frac{1}{2}$)
12 is not a quote in the -- in the true sense; it's a
13 parameter that we're defining on an options structure
14 we're looking for them to create for us. And so the --
15 the key quote or the only -- the only market price we're
16 looking for from the dealers at that point, is what
17 they're willing to offer as corresponding floor to a
18 collar structure with the upper strike set at nine thirty-
19 seven and a half ($937 \frac{1}{2}$) by us.

20 MR. BOB PETERS: And then you would select
21 the -- the counterparty that offers the widest band?

22 MR. BRENT SANDERSON: Absolutely.

23 MR. BOB PETERS: And what if there were
24 two (2) offering the same width; does that happen?

25 MR. BRENT SANDERSON: Generally speaking

1 we -- we also -- Ms. Stewart talked about execution risk
2 earlier. Every time you add a different level of
3 complexity or -- or element of discretion into a program
4 you add an additional level of risk, so we're also looking
5 at credit issues simultaneously while we're, you know,
6 entertaining quotes for these items.

7 So we do consider credit but if we just set
8 that aside, as long as we have no credit issues
9 constraining the amount of business we can do with any one
10 (1) counterparty, in the interest of fairness we would
11 split the business fifty/fifty (50/50) between the two (2)
12 lowest bidding counterparties. If it were three (3)
13 counterparties with simultaneous low quotes we would split
14 it a third, a third, a third.

15 And that's the understanding with our
16 counterparties going in, that in the interest of fairness
17 we will spread the business out amongst equally low
18 bidding counterparties. It doesn't happen very frequently
19 though.

20 MR. BOB PETERS: Do you provide this chart
21 that you have on page 2 of 3 of PUB/CENTRA-196 to the
22 counterparties?

23 MR. BRENT SANDERSON: No, we do not. Our
24 internal parameters that we use to -- we've talked about
25 it with them in a general sense. And, you know, when we

1 undertook to change our transaction methodology and the
2 method by which we determine the upper bandwidth, of
3 course it was incumbent upon us to call our counterparties
4 and communicate to them that there was a change in the way
5 that we define the parameters of our instruments in
6 response to our regulators' directives.

7 And so we went over it with them in a very
8 general way but when we're actually in the nitty gritty of
9 the transaction process, they're really quite indifferent
10 as to these individual parameters at that level of detail.
11 They give us a market price and then they just wait for us
12 to give them a number back as to the upper strike and then
13 they'll just price it accordingly.

14 So it's -- it's not really a major issue of
15 concern for them.

16 MR. BOB PETERS: There's no financial
17 benefit to Centra to provide that information to the
18 brokers or to the counterparties?

19 MR. BRENT SANDERSON: There's no financial
20 benefits. There's no benefit or risk one way or the
21 other, I would say, and so it just -- if the broker -- if
22 our dealers were to communicate to us that they were
23 having problems executing without being able to anticipate
24 what the bandwidth on our collar would be a little bit in
25 -- in advance in order to give us timely quotes, we might

1 consider that.

2 But the business that they transact with
3 Centra, conceptually is quite simple compared to some of
4 the potential transactions they could do in the
5 marketplace. So there's been no concerns raised and so we
6 just leave it at that. They understand our general
7 process, and that's sufficient for them.

8 MR. BOB PETERS: No counterparties have
9 withdrawn from the bid process as a result of your change
10 in methodology?

11 MR. BRENT SANDERSON: No, I'm -- I happily
12 say that the first time we employed this methodology, they
13 took it very well in stride and there was no complications
14 at all.

15 MR. BOB PETERS: Thank you. Mr. Chairman,
16 I'm estimating, and I'm loath to do that when the
17 microphone's on, but I have approximately twenty (20)
18 minutes of questions left and perhaps at the break I could
19 go through there and see if I could even narrow that down
20 further. And this might be an opportunity --

21 THE CHAIRPERSON: Sounds like a good plan,
22 Mr. Peters.

23 MR. BOB PETERS: Okay. Thank you.

24 MR. BRENT CZARNECKI: Mr. Chairman, just
25 before we break, we are prepared to provide the answer to

1 Undertaking number 27. And this was the one that Mr.
2 Warden provided to you with the update of, including the
3 corporate allocation to the previous Undertaking number 8.

4 THE CHAIRPERSON: Yes, Mr. Czarnecki.
5 Very good. Thank you.

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: Do you recall the
10 exhibit number?

11 MR. BRENT CZARNECKI: I don't, but I'll
12 find out.

13 THE CHAIRPERSON: It's number 16, I'm
14 told. So subject to check, it'll be number 16 and we'll
15 now have the break. Thank you.

16

17 --- EXHIBIT NO. CENTRA-16: Response to Undertaking 27

18

19 --- Upon recessing at 10:40 a.m.

20 --- Upon resuming at 11:03 a.m.

21

22 THE CHAIRPERSON: Okay. Welcome back
23 again.

24 Mr. Peters...?

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Thank you, Mr. Chairman.
3 I would like to ask the Board to turn to Tab 5 of the book
4 of documents and with Mr. Sanderson's assistance we're
5 going to talk about a couple of matters on Schedule 7.1.0,
6 dated May 15th, 2007.

7 Mr. Sanderson, this schedule contains the
8 Corporation's calculation of the various deferral accounts
9 that are at play?

10 MR. BRENT SANDERSON: Correct, for which
11 we're looking for disposition in new rate riders
12 commencing August 1, 2007.

13 MR. BOB PETERS: And you're politely
14 telling me that it relates to the non-primary deferral
15 accounts then?

16 MR. BRENT SANDERSON: Correct. Primary
17 gas is shown as an item of information on line 17 but does
18 not make up the balance for which we're looking for
19 disposition, come August 1.

20 MR. BOB PETERS: And I believe the prior
21 panels have explained to the Board that the -- the balance
22 that they're looking to put into rate riders is found on --
23 - the net is on line 15 approximately \$8.972 million?

24 MR. BRENT SANDERSON: Yes, sir.

25 MR. BOB PETERS: And that's going to

1 replace rate riders that are coming off on July 31st that
2 are -- that were refunding \$13.2 million?

3 MR. BRENT SANDERSON: Subject to check on
4 the 13.2 million, yes, you're correct.

5 MR. BOB PETERS: All right. And, Mr.
6 Sanderson, on line item number 8 there's a heating value
7 margin deferral account which I think in previous years we
8 haven't even bothered talking about but this year it
9 appears abnormally large, does it not?

10 MR. BRENT SANDERSON: I seem to remember
11 talking about it a number of times over the years but --
12 and that's fine.

13 I don't know if I would characterize it as
14 abnormally large, no.

15 MR. BOB PETERS: Would you agree that this
16 deferral account is to take into account that Centra
17 purchases its energy from Nexen in -- by way of energy
18 content but it receives its revenue from customers based
19 on volumetric charge?

20 MR. BRENT SANDERSON: Yes, that's correct,
21 and at you're indulgence I might just clar -- add a little
22 clarity to what gives rise to the amounts in this account.

23 As Mr. Peters characterized we purchase
24 energy on an energy-equivalent basis in gigajoules but the
25 nature of our metering system at the end-use customers is

1 the customers' takes of gas are calculated on the volume
2 or the space that gas occupies and that's the way they're
3 billed.

4 So we have to strike a budget which gives
5 rise to the rates that customers are billed on the basis
6 of an assumed baseline heating content in the gas. If the
7 heating content is less than what he had budgeted or what
8 was used to build the baseline budget customers will be
9 not -- will not be deriving the degree of heating from
10 that gas that was assumed in the budget that gave rise to
11 the rates, and if we don't have some mechanism to
12 compensate for that they'll end up having to buy more gas
13 from us that would otherwise be required to provide the
14 given level of heating that they require.

15 So what we do is every month we look at the
16 actual average heat content of the gas, relative to what
17 we had assumed in the budget, and on a class-by-class
18 basis we calculate how much -- if the gas is lighter in
19 terms of heating content how much more gas customers took
20 as a result of that lighter heating content than we would
21 have expected in the budget.

22 And we set aside the margin associated with
23 that excess in a deferral account to subsequently refund
24 to the customers in each rate class and we would bring
25 that forward at a proceeding like this to ensure that

1 they're kept whole financially as a result of variations
2 in heating content, relative to what we would assume in
3 the budget.

4 And it works both ways. If the heating
5 content were to be richer than what we'd assumed in our
6 budget then customers would be buying less gas than they
7 otherwise would -- that would have been assumed in the
8 rates, and the heating value would be an amount recovering
9 -- recoverable from the customers. But in recent years it
10 has tended to be an amount that has been subsequently
11 refunded to the customers to make them whole financially.

12 MR. BOB PETERS: Mr. Sanderson, thank you
13 for that detailed explanation. Could you tell the Board
14 who measures the heat content of gas? Where is that done?

15 MR. BRENT SANDERSON: It's measured at all
16 of our take-offs -- TCP -- from the TCPL system and it's
17 measured by TCPL and verified by our staff.

18 MR. BOB PETERS: And in the situation that
19 gives rise to the application before the Board the -- the
20 natural gas was -- was leaner or the energy content was
21 lower than what was expected?

22 MR. BRENT SANDERSON: Yes.

23 MR. BOB PETERS: And as a result of the
24 energy content being lower, consumers needed to use higher
25 volumes to get the same heat energy equivalent?

1 MR. BRENT SANDERSON: That's correct.

2 MR. BOB PETERS: And because the rates
3 were set based on a certain assumed heat content, it had
4 to be trued-up to what actually happened?

5 MR. BRENT SANDERSON: That's correct.

6 MR. BOB PETERS: And of this \$1.2 million
7 of over-collection by the Corporation, that will then be
8 refunded to every customer class in some proportion,
9 correct?

10 MR. BRENT SANDERSON: Yes, correct,
11 subject to approval of this Board.

12 MR. BOB PETERS: All right. And one (1)
13 of the customers receiving a significant portion of that
14 was the special customer, correct?

15 MR. BRENT SANDERSON: Yes, that's my
16 understanding.

17 MR. BOB PETERS: All right. And I think
18 the Board had an undertaking that's expecting to reconcile
19 the refund to that customer -- to reconcile that to the
20 base rate increases and impacts in this application, so I
21 -- I'll leave it at that.

22 In turning to the forecast gas costs, found
23 at Tab 33 of the Book of Document, Mr. Sanderson, this is
24 your estimate to the Board, or your forecast to the Board,
25 of what the gas costs will be for the test year 2007/'08.

1 MR. BRENT SANDERSON: That's correct,
2 based on market pricing as of May -- April 20th, 2007.

3 MR. BOB PETERS: And the total number
4 at the bottom, on which you want the rates -- well, the --
5 the total amount -- amount on the bottom was the four
6 hundred (400) -- \$408.9 million.

7 MR. BRENT SANDERSON: Yes, that's the
8 total forecast, having regard for the fact that we're
9 looking at non-primary gas rates in this application
10 before the Board. The primary gas component of that four
11 hundred and eight point nine (408.8) would be handled as a
12 matter, of course, through the quarterly primary gas rate
13 application process.

14 MR. BOB PETERS: And you're telling the
15 Board that line items 33 and 34 will change depending on
16 the quarterly calculations of the primary cost of gas?

17 MR. BRENT SANDERSON: Those items will
18 change as -- over time, as will any other element of the
19 forecast likely that's commodity based. But the rates
20 associated with lines 33 and 34 and the hedging impacts
21 associated with those on 30 -- 49, I guess, my way of
22 interpreting -- or characterising it, would be the rates
23 that we need to set to recover those costs will be set
24 through the quarterly rate setting process.

25 MR. BOB PETERS: Do these forecast gas

1 costs include only five (5) months of the impact of the
2 new Nexen agreement?

3 MR. BRENT SANDERSON: Yes, for the
4 November 1st, 2007 through March 31st, 2008 period that
5 half a cent add runner base load volumes would be
6 reflected in the primary supply, direct to systems supply
7 load on line 33, so it would be reflected in those
8 amounts.

9 And just to reiterate, referring back to
10 Ms. Stewart's testimony, we are not applying to recover
11 those costs, at this point, in any of our rates that are
12 before the Board today, and that that's the subject of
13 discussion for the Competitive Landscape Hearing, as to
14 how those costs will be recovered.

15 MR. BOB PETERS: Mr. Sanderson, on line 44
16 of schedule 8.1.3(B) found at Tab 33 of the book of
17 documents, there's an express indication of the base load
18 volume price increment charges and -- and that is the half
19 of one (1) cent a gigajoule additional cost of the Nexen
20 agreement to have the flexibility for monthly nominations
21 of direct purchase customers --

22 MR. BRENT SANDERSON: My previous
23 statement -- I stand corrected, Mr. Peters, thank you for
24 pointing that out to me. So line 33 is primary gas direct
25 load costs, exclusive of that half a cent of gigajoule

1 adder on the base load volumes, which you correctly point
2 out is car -- shown as a separate line item on line 44 and
3 that's the November though March forecast cost that we're
4 talking about.

5 MR. BOB PETERS: All right. And just
6 again for confirmation, even though it's shown on these
7 forecast cost of gas schedules, it's not included in the
8 rates that the Corporation will be seeking to recover, at
9 least at this point in time?

10 MR. BRENT SANDERSON: That's correct.

11 MR. BOB PETERS: Mr. Sanderson, down on
12 line 49, the hedging impacts of system supply is shown,
13 and would I be correct in interpreting that the mark to
14 market impact of hedging to date, of settled and unsettled
15 transactions now shows \$4.4 million of additional gas
16 costs?

17 MR. BRENT SANDERSON: As of the date this
18 forecast was prepared on April 20th, correct.

19 MR. BOB PETERS: And is it correct that
20 only \$1.3 million of that 4.4 million has already settled
21 as an absolute addition to gas cost?

22 MR. BRENT SANDERSON: Maybe just give me
23 one moment, I need to find my reference.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Would you accept that,
2 subject to check, of Schedule 821, at a later time, Mr.
3 Sanderson?

4 MR. BRENT SANDERSON: Yes, subject to
5 check, that sounds reasonable that we would have had
6 settled results at the time of the preparation of this
7 forecast for April 2007 only. And that sounds like a
8 reasonable number.

9 MR. BOB PETERS: In the capacity
10 management credit of \$5.1 million, does that embed already
11 the seven point nine (7.9) record year that you've
12 achieved?

13 MR. BRENT SANDERSON: No, that forecast
14 would have been prepared during the summer and fall of
15 2007 during our integrated financial forecast budgeting
16 cycle, so we would have used the completed fiscal years
17 that we would have completed to that point and time.

18 So the next five (5) year rolling average
19 forecast that we would prepare for a subsequent proceeding
20 would include that record amount of \$7.9 million.

21 MR. BOB PETERS: All of these gas costs
22 that we're talking about then, Mr. Sanderson, would be
23 subject to Board approval when finalized?

24 MR. BRENT SANDERSON: Yes, sir.

25 MR. BOB PETERS: And in the book of

1 documents at Tab 3, just to bounce you back to Schedule
2 814, this schedule, Mr. Sanderson, depicts the non-primary
3 gas cost adjustments that are being requested as a result
4 of your application to the Board?

5 MR. BRENT SANDERSON: Yes.

6 MR. BOB PETERS: Can you explain the
7 supplemental gas request that is being made?

8

9 (BRIEF PAUSE)

10

11 MR. BRENT SANDERSON: The supplemental gas
12 costs that we have depicted in the schedule forecast for
13 2007/2008, reflect a small amount of delivered service
14 supply that we expect to require over just a few days in a
15 normal year to serve the firm load requirement.

16 MR. BOB PETERS: Other than that delivered
17 service, there's an expectation that no additional
18 supplemental gas will be required?

19 MR. BRENT SANDERSON: In a normal weather
20 year. And I would expect that we would go to great pains,
21 even in a normal year, to meet the firm customers'
22 requirement with -- entirely with primary gas, if at all
23 possible.

24 MR. BOB PETERS: And the dist -- I'm
25 sorry, the transportation increase cost, that's reflective

1 of the change in the toll structure that Mr. Stephens
2 talked about yesterday?

3 MR. BRENT SANDERSON: Yes. That's the
4 lion's share of it, yes.

5 MR. BOB PETERS: And then on the
6 distribution line, line number 4, the two hundred and five
7 thousand dollars (\$205,000) surplus that's being collected
8 by existing base rates, that reflects the unaccounted for
9 gas portion of the distribution rate?

10 MR. BRENT SANDERSON: Yes, sir.

11 MR. BOB PETERS: And in this instance,
12 you're suggesting to the Board that the unaccounted for
13 gas rate will decrease marginally?

14 MR. BRENT SANDERSON: Yes, as a result of
15 the slight overall average in -- decrease in the average
16 unit cost of our supply, relative to the costs that are
17 embedded in the currently approved rates, so resulting in
18 the ability for us to lower the rate a little bit between
19 forecasts.

20 It's a function of the average unit cost of
21 the gas we buy and then how we flow those costs to the
22 distribution account, on account of accounted for gas.

23 MR. BOB PETERS: Mr. Sanderson, from that
24 last answer, have you netted out the volumetric decrease
25 that you assume you will flow of primary gas, as well as

1 the cost reduction in that gas in this calculation of
2 unaccounted for gas?

3 MR. BRENT SANDERSON: The amount shown in
4 column 2 identifies recoverable with existing base rates
5 would be the currently approved base rates applied to the
6 new lower forecast volumes. So it does incorporate the
7 lower forecast volumes.

8 MR. BOB PETERS: And it still recovers
9 more than what you forecast you're going to need for
10 unaccounted for gas?

11 MR. BRENT SANDERSON: Yes, sir.

12 MR. BOB PETERS: Thank you. I think the
13 last matter I want to talk to you about is, is one (1) of
14 the terms and conditions of service, and I probably should
15 leave these for Ms. Ruzycki to do properly, but let me
16 just address one (1) that I had some questions on
17 immediately and that's the gas loan valuation methodology.

18 Centra is requesting a change with respect
19 to its gas loan valuation, is that correct?

20 MR. BRENT SANDERSON: Yes, with respect to
21 the unit value that's applied to the outstanding volume
22 and balance to determine the financial imbalance, yes.

23 MR. BOB PETERS: That last part of your
24 answer tells the Board that, at some point in time you
25 have to balance out with the brokers as to whether you

1 have loaned them gas or I suppose vice versa, if they've
2 loaned you gas?

3 MR. BRENT SANDERSON: Well, typically at
4 any point during the year, part of the Western
5 Transportation Service involves Centra loaning brokers gas
6 from our underground storage facility in order to allow
7 them to supply gas at a much more attractive load factor
8 than their customers are taking gas.

9 The market load factor in Manitoba is
10 approximately 30 percent, but we run the system at a more
11 advantageous 80 percent load factor, and so they're
12 treated equally vis a vis the rest of the system.

13 So in order to allow them to enjoy those
14 benefits, we loan them gas out of our storage inventory,
15 typically during the winter months, and then they in
16 return pay that gas back to us over the summer months when
17 their customer's loads drop off after the heating season.

18 So at any point in time during the year,
19 we're typically have an outstanding in balance between the
20 brokers and Centra and we deal -- and we true those up and
21 deal with those at the end of the year. But at any point
22 in the year, there will be an outstanding imbalance.

23 MR. BOB PETERS: Do you charge any
24 incremental cost to the brokers as a result of that
25 service?

1 MR. BRENT SANDERSON: It's just a security
2 that's withheld from the brokers during the time that the
3 loan is outstanding, but there's not incremental char --
4 cost -- no incremental charges applied to the brokers for
5 that -- for that service.

6 MR. BOB PETERS: I didn't understand your
7 answer, Mr. Sanderson, about it's the withholding of
8 security.

9 MR. BRENT SANDERSON: Well, maybe if I'll
10 used an example for you. Customers who are brokers who
11 use the agent billing and collection service, Centra bills
12 their customers on their behalf and remits those funds to
13 the brokers.

14 And if we just use a simple notional
15 example; if Centra had collection \$2 million primary gas
16 charges on behalf of brokers and those monies were owing
17 to the brokers, we would deduct from those remittances an
18 amount of security reflecting the value of the outstanding
19 gas that's been loaned to that broker under the WTS
20 service. So the net would be remitted to them.

21 MR. BOB PETERS: And only the -- the cost
22 of the gas would be deducted with no incremental cost to
23 that?

24 MR. BRENT SANDERSON: Well, right now -- I
25 guess this is where we get into the reason for why we're

1 requesting these changes -- right now, the value that's
2 attributed to that outstanding gas loaned is based on the
3 rates that the broker is charging to their customers
4 rather than the actual underlying value of the commodity
5 that's associated without -- that outstanding loan.

6 And then that effect is, is that since the
7 inception of the WTS service, the rates the brokers have
8 charged to their customers have typ -- typically been
9 higher than the value of the underlying gas being loaned.
10 And so we're proposing that the methodology be changed to
11 apply the actual unit value of the underlying gas involved
12 in the loan, which will result in smaller withholdings
13 from brokers.

14 With -- added benefits of the current
15 methodology is very, very complex and involved when given
16 the need to use brokers rate which vary across contracts
17 and change periodically. The -- the internal
18 administration will be much more simplified too, if we
19 move to just applying our average unit cost of primary gas
20 that's being loaned.

21 So there's double -- there's benefits for
22 Centra in terms of streamlining our internal
23 administrative operations, and a financial benefit to
24 brokers in terms of the amount that's being withheld from
25 them, typically, during the course of the year.

1 MR. BOB PETERS: So the change is to value
2 the -- the gas loaned at the av -- that's Centra's average
3 price in storage.

4 MR. BRENT SANDERSON: Which in -- in
5 effect is the actual physical gas that is being loaned to
6 the broker so it's the most objective benchmark to use,
7 choosing amongst an array of available options, in
8 determining the value of that loan. It -- it's the most
9 closely related to the actual physical gas that's being
10 exchanged.

11 MR. BOB PETERS: Can brokers opt not to
12 take advantage of your loan mechanism from storage and
13 supply gas at, I guess, varying load factors instead?

14 MR. BRENT SANDERSON: No. Brokers are
15 required under the WTS Service to supply their customers
16 on a pro rata basis, similar to the way the rest of the
17 Manitoba market is supplied by Centra.

18 MR. BOB PETERS: Can you explain to the
19 Board how the settlement is actually effected once you
20 know what the year end amount owing from the brokers is by
21 way of the gas loan valuation? Do brokers settle that up
22 with molecules or is it by cash?

23 MR. BRENT SANDERSON: It's a cash
24 settlement process. Should they elect to settle up, they
25 do have the option and we're not proposing to change that.

1 If there is an imbalance at year end they're given the
2 option of rolling that over into the subsequent gas year,
3 if they elect to do so, at no charge.

4 MR. BOB PETERS: You indicated in a
5 previous answer that there was a financial benefit to the
6 brokers from your proposal, and can you just explain that
7 to me again?

8 MR. BRENT SANDERSON: Well the typical way
9 that a gas year will unfold is that -- the gas year begins
10 at the outset of the heating season in November. And the
11 fact that brokers are allowed to supply gas in 80 percent
12 load factor means that in most Novembers and through to
13 the end of the winter, at the end of March, brokers will
14 be -- will only be required to supply an amount of gas
15 which is typically less than their customers require
16 during the heart of the heating season.

17 So we loan them gas to make up that
18 difference. And then the typical course of events would
19 be in the summer months when customer's consumption drops
20 off once we're out of the heating season, the brokers'
21 smoother delivery requirements would mean that they're
22 supplying an amount of gas in excess of the customer's day
23 to day requirements. So we would consider that difference
24 to be a repayment of the outstanding storage loan from the
25 winter.

1 So on average, if you look at a typical
2 year, the overall outstanding position of the gas loan
3 mechanism is a financial amount owing to Centra or being
4 withheld by Centra from brokers.

5 MR. BOB PETERS: All right, thank you.
6 With that answer, Mr. Chairman, I would like to thank Mr.
7 Sanderson, Ms. Stewart, Mr. Stephens and Mr. Warden for
8 their answers to my questions, and those do conclude the
9 questions I have of this panel.

10 THE CHAIRPERSON: Thank you as well, Mr.
11 Peters. Okay, we'll move on then to Mr. Saxberg.

12 Mr. Saxberg...?

13

14 CROSS-EXAMINATION BY MR. KRIS SAXBERG:

15 MR. KRIS SAXBERG: Thank you, Mr.
16 Chairman. Good morning, Panel.

17 I -- I want to start with the exchange rate
18 assumption that's embedded in the '07/'08 forecast.

19 Am I correct that at present it remains at
20 a dollar sixteen (\$1.16)?

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

22 MR. KRIS SAXBERG: And I'm sure we all
23 know about or all have heard about the strengthening of
24 the Canadian dollar, some forecasting that it could even
25 approach par sooner than later.

1 MR. KRIS SAXBERG: And would the main or
2 one (1) of the -- one (1) of the big reasons, if not the
3 reason, be because of the exchange rate that was imbedded
4 versus the actual result?

5 MR. BRENT SANDERSON: It would a fairly
6 significant factor in those amounts, yes.

7 MR. KRIS SAXBERG: So we are looking here
8 then at -- well, what was -- do you know off the top of
9 your head, the difference between the amount that was
10 imbedded in -- in rates -- I think it was one two one
11 (121) and -- and what actually occurred?

12 MR. BRENT SANDERSON: I would have to
13 undertake to go investigate that and provide you with the
14 variance.

15 MR. KRIS SAXBERG: If you could do that,
16 and then provide us with the -- the dollars then that are
17 -- are being refunded to customers as a result of that
18 favourable swing in the exchange rate, that would save me
19 time.

20 MR. BRENT SANDERSON: Maybe if I might
21 just be generous in -- in offering to maybe calculate the
22 dollar impact per -- per percentage point change in the
23 Canadian/US exchange rate on the gas cost forecast, and
24 that'll give us some context to assess the materiality of
25 changes in Canadian/US exchange rates?

1 MR. KRIS SAXBERG: Sure, thank you for
2 that.

3
4 --- UNDERTAKING NO. 28: Centra to calculate the
5 difference between the amount
6 that was imbedded in rates and
7 what actually occurred and to
8 calculate the dollar impact
9 per percentage point change in
10 the Canadian/US exchange rate
11 on the gas cost forecast

12
13 CONTINUED BY MR. KRIS SAXBERG:

14 MR. KRIS SAXBERG: I'm going to turn to
15 capacity management, and just for the edification of the
16 Board -- the new Board members, I -- I'm just going to
17 walk through some of the basics as quickly as I can.

18 Firstly, there is a -- a market for gas and
19 a market price for gas in Alberta. Many different market
20 prices, I realize. But there's a market in Alberta that
21 produces a particular price for spot or for going forward,
22 is that correct?

23 MS. LORI STEWART: Yes, there's a market
24 hub in Al -- in Alberta at which natural gas is priced.

25 MR. KRIS SAXBERG: It produces a -- a

1 particular price, and then there is a similar hub in
2 Michigan that produces a particular price, and on the same
3 day, for the same type of gas, those prices will likely be
4 different.

5 MS. LORI STEWART: Certainly there are
6 market centres for natural gas in Michigan.

7 MR. KRIS SAXBERG: On any given day, if
8 you wanted to buy gas in Alberta and you asked for a
9 quote, you'd get one (1) price, and if you wanted to buy
10 it in Michigan, you'd get another price, correct?

11 MS. LORI STEWART: Yes, if you define the
12 same market centre in Michigan and then on -- wanted a
13 price for gas, you could obtain more.

14 MR. KRIS SAXBERG: And Centra has
15 approximately 15.5 petajoules of storage capacity in
16 Michigan, correct?

17 MS. LORI STEWART: That's correct.

18 MR. KRIS SAXBERG: Now, you've -- you're
19 familiar with Mr. Stauff's evidence and I think the very
20 simple gist of it is, that where the market price is a lot
21 higher in Michigan, as compared to the market price in
22 Alberta, he's suggesting that perhaps the smartest way of
23 dealing with storage gas would be to effectively market
24 that gas in Michigan -- sell it, take that profit -- and
25 then replace it with the cheaper Alberta gas to serve

1 Centra's needs here.

2 Do you understand that to be his assertion?

3 MS. LORI STEWART: Yes, one (1) of his
4 assertions.

5 MR. KRIS SAXBERG: And I take it that
6 Centra doesn't disagree that that's -- that that's
7 theoretically possible.

8 MS. LORI STEWART: No, we do not.

9 MR. KRIS SAXBERG: And in fact, what
10 Centra does is somewhat similar to that description, with
11 respect to exchanges?

12 MS. LORI STEWART: Yeah, that's correct.

13 MR. KRIS SAXBERG: And -- and what happens
14 in an exchange is that Centra perhaps needs, on a cold
15 winter, day 50,000 gigajoules of gas out of storage,
16 there's someone in Michigan or around that area that wants
17 fifty thousand dollars (\$50,000) -- 50,000 gigajoules of
18 gas delivered somewhere, so Centra arranges for the
19 delivery of that gas and the other party, the
20 counterparty, arranges for the delivery of 50,000
21 gigajoules of gas at the Centra City Gate; is that fair;
22 that's the exchange?

23 MS. LORI STEWART: That's -- that's a good
24 sort of high level description. I think it is important
25 to note, however, that Centra has specific delivery points

1 at which it can deliver gas in Michigan and those are not
2 market centres. We're delivering gas when were
3 undertaking an exchange, either at Deward (phonetic) or
4 Farwell, (phonetic) neither of which represent a market
5 centre.

6 MR. KRIS SAXBERG: But there are occasions
7 where that exchange is Centra providing gas out of storage
8 to someone in Michigan and then that party returning the
9 favour by providing gas at the City Gate in Winnipeg,
10 correct?

11 MS. LORI STEWART: Yes, that's correct.
12 Both Deward and Farwell are in Michigan --

13 MR. KRIS SAXBERG: Oh, okay.

14 MS. LORI STEWART: Yeah.

15 MR. KRIS SAXBERG: And if the gas is
16 priced higher in Michigan than the -- the Alberta gas,
17 then the counterparty is going to pay Centra some amount
18 of money for that exchange, correct?

19 MS. LORI STEWART: Well, the basis
20 differential isn't necessarily the driver for the margin.
21 However, it is accurate to say that Centra would generally
22 undertakes -- exchange transaction when it has a
23 counterparty on the other side of the transaction that is
24 willing to pay Centra some margin for -- for that
25 transaction.

1 MR. KRIS SAXBERG: So -- well, let me just
2 back that up. If -- if there is a large basis
3 differential and the basis differ -- differential being
4 the difference between the two (2) prices in those two (2)
5 markets, correct?

6 MS. LORI STEWART: Yes.

7 MR. KRIS SAXBERG: If there is a large
8 basis differential, that will inform the interaction
9 between the parties as to what the appropriate payment
10 from the counterparty is to Centra for the exchange,
11 correct?

12 It'll be a factor?

13 MS. LORI STEWART: It's a factor. It's
14 one (1) indication. However, there are a number of other
15 factors that enter into the actual value of that
16 transaction.

17 MR. KRIS SAXBERG: Well, that counterparty
18 may also be taking on some risk, I take it that's what
19 you're saying, and so that may reduce the margin. It may
20 also be the case that Centra needs to transport the gas
21 out of storage to some other point, that may reduce the
22 margin; is that fair?

23 MS. LORI STEWART: Yeah, certainly the --
24 the risk that the counterparty is -- is taking on is -- is
25 a consideration as well as the transport costs. As well

1 as consideration such as, generally our exchange
2 transactions are interruptible or recallable, such that
3 Centra can assure itself of delivery from the counterparty
4 to the Manitoba delivery area and in the event that gas
5 doesn't show up in Manitoba we can interrupt or recall the
6 transaction that's taking place on the other end of the
7 deal.

8 And so reliability is another -- another
9 factor. It's -- it's a fairly -- it's a fairly intricate
10 mix.

11 MR. KRIS SAXBERG: And Centra was
12 successful to the tune of approximately \$1.3 million in
13 profiting from exchanges in the '06/'07 gas year?

14 MS. LORI STEWART: Yes, that's correct.

15 MR. KRIS SAXBERG: And how many individual
16 transactions would -- did it take to get to that \$1.3
17 million profit number, do you know offhand?

18 MS. LORI STEWART: I -- I don't know
19 offhand; however, it would've been many transactions.

20 MR. KRIS SAXBERG: Just in terms of order
21 of magnitude; by many, are we talking about more than ten
22 (10)?

23 MS. LORI STEWART: Yes.

24 MR. KRIS SAXBERG: I could do this all
25 day. Is it less than a hundred?

1 MS. LORI STEWART: I -- don't have those -
2 - the details in terms of how many actual discreet
3 transactions added up to the \$1.2 million, Mr. Saxberg.

4 MR. KRIS SAXBERG: Would -- would you do
5 only -- would you do more than one exchange a day?

6 MS. LORI STEWART: Yes.

7 MR. KRIS SAXBERG: Would you undertake to
8 provide a ballpark number so that we have an idea of -- of
9 what information is available in terms of these
10 transactions?

11 MS. LORI STEWART: Perhaps -- I'm not
12 trying to duck the undertaking, but I think I can provide
13 you with the order of magnitude that you're looking for.

14 On any day during the winter during which
15 we are back hauling gas from Michigan, so, the first
16 criteria is it needs to be cold enough in Manitoba that we
17 have the requirement for natural gas out of storage.

18 So, you know, the winter season is
19 represented by -- by five (5) months approximately a
20 hundred and fifty (150) days. However, of those a hundred
21 and fifty (150) days are cold enough that we're back
22 hauling gas or would be back hauling gas out of storage,
23 then, a number of those days we will be in a situation
24 where there is a willing counterpart for the transaction
25 and, in fact, on many of those days there will be more

1 than one counterpart with whom we're transacting.

2 So when, you know, you said greater than
3 ten (10), yes, it's like greater than a hundred (100) and
4 probably less than five hundred (500).

5 I -- I'm hoping that that gives you a -- a
6 sense. I'm not sure that the exact number of transactions
7 would provide much value to this proceeding.

8 MR. KRIS SAXBERG: Okay. When you say
9 that the two (2) criteria to be able to make some money
10 off of an exchange -- or two (2) of the criteria are that
11 it's got to be cold enough that you need storage gas. Is
12 that correct?

13 MS. LORI STEWART: That's correct.

14 MR. KRIS SAXBERG: I mean, I -- I actually
15 have put both of those two (2) together. It's got to be
16 cold and you've got to -- you were saying need back haul -
17 - you need storage gas to meet the needs of your
18 customers.

19 MS. LORI STEWART: Yeah, I think that's
20 actually just one of the criteria but --

21 MR. KRIS SAXBERG: Okay, that's one. The
22 other is there has to be a basis differential and -- is
23 that correct? In favour of Alberta prices being lower.

24 MS. LORI STEWART: Intuitively that's
25 correct. However, just because there's a basis

1 differential does not mean that there's a market for that
2 transaction. And in fact, there could be occasions where
3 the basis diff -- regardless of even a negative basis
4 differential, there might be a willing counterparty for an
5 exchange transaction.

6 So, you know, depending on pipeline
7 constraints and a number of physical considerations, it's
8 not as simple as stating that if the price of gas in
9 Michigan is greater than the price in Alberta, there will
10 be a market for this type of transaction.

11 MR. KRIS SAXBERG: Okay. So the basis
12 differential is a factor, not always, correct?

13 MS. LORI STEWART: That's -- that's
14 correct.

15 MR. KRIS SAXBERG: The other factor is --
16 and this would always be the case, you need a willing
17 counterparty and that's what you are referencing.

18 MS. LORI STEWART: Yes, the market needs
19 to be there.

20 MR. KRIS SAXBERG: And the market that
21 you're looking for is someone who's prepared to do an
22 exchange, correct?

23 MS. LORI STEWART: That's correct.

24 MR. KRIS SAXBERG: As opposed to -- would
25 it not be a broader market if you were looking for someone

1 just to sell the gas to?

2 MS. LORI STEWART: Given -- given the
3 replication of the buy/sell arrangement that is put into
4 effect by an exchange, I'm -- I'm not sure that the market
5 would be any greater if we were entering into a buy/sell
6 arrangement.

7 MR. KRIS SAXBERG: And so -- one of the
8 things that Mr. Stauff is saying is that it appears that
9 Centra is undertaking exchanges, and that's a good thing,
10 he seems to be saying or suggesting that -- that Centra
11 could do more of it.

12 And I think what you're saying is that --
13 that -- that Centra looks for that opportunity on every
14 day of the winter period?

15 MS. LORI STEWART: Yes, that's correct.

16 MR. KRIS SAXBERG: Now there's -- there's
17 more than one (1) way to skin a cat, as they say, and so
18 other than a -- than another way to accomplish what
19 exchange is accomplished would be what you've described as
20 a buy/sell arrangement, correct?

21 MS. LORI STEWART: Yes, I'm actually now
22 paraphrasing Mr. Stauff's characterization of the tr --
23 the alternative transaction, yes.

24 MR. KRIS SAXBERG: And has Centra done any
25 buy/sell arrangements in the way that Mr. Stauff has

1 described?

2

3

(BRIEF PAUSE)

4

5

MS. LORI STEWART: Mr. Stephens advises that, yes, we have his -- historically, however, quite in -- infrequently.

8

MR. KRIS SAXBERG: And with the buy/sell methodology, Centra's taking on risk that -- that was your evidence? It's got more work to do?

11

MS. LORI STEWART: Yeah, I think that's -- that simple description is -- is accurate. I -- in addition, there are -- there are some tax implications, as I noted previously.

15

MR. KRIS SAXBERG: And I made the mistake of -- of putting two (2) thoughts into that question, so the -- the first, I think what you're agreeing with was that there's some additional risk that's taken on by Centra?

20

MS. LORI STEWART: Generally. Without seeing the -- the parameters of the specific transaction, a buy/sell arrangement certainly could be structured in a manner that would shed risk for Centra, so I just -- I just want to be clear that any specific transaction can include a variety and a range of risk parameters within

25

1 it. Just because it's a buy/sell doesn't necessarily mean
2 that it's risky.

3 MR. KRIS SAXBERG: Okay. Is it also the
4 case then that if you undertake a buy/sell that there's,
5 in very simple terms, there's more work to do at Centra?

6 MS. LORI STEWART: I don't think that's
7 the -- the primary consideration here as it relates to our
8 preference for an exchange transaction, Mr. Saxberg.

9 MR. KRIS SAXBERG: If you were -- instead
10 of doing exchanges -- well, let me just back up.

11 In an exchange, is it the counterparty that
12 makes the arrangements to have the delivered service as
13 opposed to Centra that has to make that arrangement?

14 MS. LORI STEWART: The delivered service
15 to -- the MDA?

16 MR. KRIS SAXBERG: Yes.

17 MS. LORI STEWART: Yes.

18 MR. KRIS SAXBERG: So that means that if
19 you're doing it by way of buy/sell, that Centra has to
20 arrange that delivered service?

21 MS. LORI STEWART: Yes, but we make these
22 arrangements and several of them eve -- every single day,
23 so the -- maybe I'm leading the head here, but if you're
24 intimating that, you know, we would -- wouldn't want to
25 undertake the work of one (1) additional transaction, we

1 do several deals a day and multiple schedules a day, so,
2 that's not the factor.

3 MR. KRIS SAXBERG: Is it fair that the
4 only limit to the amount of deals you could do in a day is
5 the amount of gas you're required to take out of storage?

6 MS. LORI STEWART: Practically that's how
7 we affect our business, yes. The amount of gas that we
8 would be pulling out of storage represents an exchange
9 opportunity.

10 MR. KRIS SAXBERG: Are -- you're allowed
11 to take out a -- there's a maximum amount that you can
12 take out of storage on any day, correct? Is it?

13 MS. LORI STEWART: That's correct.

14 MR. KRIS SAXBERG: And I don't have the
15 number on the tip of my tongue, but is it...?

16 MS. LORI STEWART: Two hundred and eight
17 thousand (208,000) --

18 MR. KRIS SAXBERG: Two hundred and eight
19 (208). So that if there was an opportunity that seemed to
20 -- too good to pass by notwithstanding that you didn't
21 have the physical need for the storage gas in Winnipeg,
22 you could take advantage of it, just as a -- as a
23 possibility?

24 MS. LORI STEWART: Yes, we could,
25 recognizing that we put the natural gas into storage for

1 the purpose of serving our market, not for the purpose of
2 optimizing profit opportunities. So we're I -- I think
3 quickly -- I hope we're going to focus the discussion on
4 one of mandate and which transactions fit within a mandate
5 and a risk/reward profile.

6 MR. KRIS SAXBERG: You're saying that the
7 risk profile of -- of Hydro doesn't -- isn't conducive to
8 trying to maximize the -- the value embedded in storage
9 gas that Mr. Stauff has identified?

10 MS. LORI STEWART: Well, no, that's not --
11 not quite correct, Mr. Saxberg. Our job is to optimize a
12 portfolio of not just supply but supply, transportation,
13 and storage assets.

14 And so if one thinks of our portfolio as a
15 three (3) legged stool, I might be able to grow profits in
16 the area of supply, however, if I incur offsetting and --
17 offsetting and greater than incremental transport or
18 storage-related costs, I haven't actually optimized my
19 portfolio.

20 So any one (1) of -- one (1) -- one (1) of
21 the concerns with the transactions presented and I can
22 understand why it's difficult to outline all of the
23 offsetting impacts but it is necessary to do just that, to
24 not just tally up what the supply benefit might be, but,
25 to include the offsetting increase in risk and there --

1 there are various types of risk, to value that risk and
2 also to include in the total evaluation of the transaction
3 what are the related transport and storage implications,
4 not just cost.

5 MR. KRIS SAXBERG: And your traders in --
6 in your department take all those factors into account
7 when they decide to move ahead with an exchange, correct?

8 MS. LORI STEWART: In -- in terms of
9 characterizing our risk/reward profile, our traders
10 undertake transactions that will ensure a benefit to the
11 consumers of Manitoba. So they don't step into that murky
12 world of speculating on the hopes that the transaction may
13 benefit consumers in Manitoba. Their operating mandate
14 is: Don't transact unless we're certain that the benefit
15 is there.

16 MR. KRIS SAXBERG: A more conservative
17 trading strategy than -- than would be found at -- within
18 a marketer, for instance?

19 MS. LORI STEWART: I think trading
20 strategy, an optimization strategy, appropriate for a
21 utility and appropriate for the mandate within which we
22 operate.

23 MR. KRIS SAXBERG: Just to simplify
24 things, do you agree that there's a larger margin within
25 the buy/sell contact -- context than within the exchange

1 arrangement or at least the potential for a larger margin?

2 MS. LORI STEWART: No, I -- I can't agree
3 to that because the buy/sell arrangement can be structured
4 to push the risk to either counterparty. So you really
5 need to look at the specifics of the transaction to
6 understand which counterparty is holding which bag of risk
7 on the deal.

8 MR. KRIS SAXBERG: Now, would you agree
9 that Centra could outsource this function to a marketer,
10 the function of optimizing storage gas potential?

11 MS. LORI STEWART: Yes, theoretically our
12 capacity management and overall portfolio optimization
13 activities could be outsourced. I don't believe that's in
14 the benefit of consumers in Manitoba but...

15 MR. KRIS SAXBERG: And has Centra
16 undertaken any discussions with respect to outsourcing for
17 storage gas as opposed to outsourcing with respect to
18 unutilized capacity on TransCanada, transportation
19 capacity?

20 MS. LORI STEWART: Well, I believe and Mr.
21 Stephens can correct me if I'm wrong but the historical
22 discussion and the process that Centra undertook to obtain
23 proposals related to just this matter was more broad than
24 simply assessing whether or not they could, for example,
25 sell our unutilized TransCanada transport. So, I believe

1 that the previous look at this in which Centra actually
2 undertook to obtain proposals from counter parties did
3 include management of the storage asset and -- and might,
4 in that situation, include the sale of storage gas.

5 MR. KRIS SAXBERG: And -- and that's --
6 that's your belief and if the Company's information is
7 different, you could advise, but if it isn't, then I'll
8 accept that you're correct.

9 MR. HOWARD STEPHENS: Well, I'll just add
10 to that, Mr. Saxberg. We've entertained not only the very
11 large undertaking in terms of looking at outsourcing the
12 entire gas management function, but we've also had ongoing
13 discussions, as recently as this year, where we've
14 contemplated assigning our storage away and letting
15 somebody else manage it.

16 And as long as they deliver to our door as
17 much gas as we need on a day-to-day basis and they're
18 prepared to pay us some money associated with it, we're
19 certainly prepared to listen to that. But then for the
20 most part, when you look at those transactions, the
21 risk/reward equation, when you hand over 15 1/2 Bcf of gas
22 and the value associated with that, you've got to be
23 dealing with some very reputable counterparts.

24 And it's -- that one generally tends to tip
25 me over towards the risk side of the equation as opposed

1 to the reward component of it. It would have to be a hell
2 of a lot of money.

3 MR. KRIS SAXBERG: So will -- will those
4 discussions and that analysis be reflected in the business
5 plan that's being put forward?

6 MS. LORI STEWART: Yes, certainly. I -- I
7 think, you know, what -- what Mr. Stephens and I would
8 like to emphasize is that we -- I'm thinking of the
9 correct phrase to describe this, but we are solicited, so
10 to speak, by counterparts who have an interest in managing
11 our assets on a fairly regular basis and we don't turn
12 away those counterparts.

13 We're -- we're prepared to meet with them.
14 Fairly recently, within the last few months, we sat down
15 for several hours with -- with a party that was --
16 expressed an interest in managing our assets and I, you
17 know, quite interestingly, once they in -- once we engage
18 in some detailed frank discussions about how our portfolio
19 works and the variability in our loads, you know, my
20 experience is that the counterpart says, thanks very much,
21 and then disappears into the woodwork.

22 It's a very challenging load to meet and we
23 have significant expertise within the utility at -- at
24 managing this portfolio.

25 MR. HOWARD STEPHENS: I'd just like to add

1 something. And I -- this is something that I think I've
2 said several times during the course of the number of
3 proceedings that I've been at, our portfolio of storage
4 and transportation assets were specifically designed to
5 serve the load and they were developed to the -- a
6 combination was developed prior to there being a secondary
7 market.

8 So our various assets provide for delivery
9 points, at specific points to get the gas to the mat -- to
10 the market or back into storage. And anytime you deviate
11 away from those primary delivery points, we -- they no
12 longer enjoy the benefit of discounts associated with many
13 of the ANR arrangements and it takes them out of the
14 money.

15 So from that perspective, our portfolio is
16 not ideally suited to an optimization strategy because it
17 does have some provisions that restrict it. And it's all
18 that -- I mean, as a result of the environment that
19 existed at the time that we signed the contract.

20 Things have changed since then and we have
21 managed it as best we can and quite -- quite well, I mean,
22 given the restrictions placed upon us, so from that
23 perspective, given the considerations that we've been --
24 Ms. Stewart has talked about and those considerations, I
25 don't think that there's -- I don't take a great deal of

1 comfort that anybody's going to walk in here and do better
2 than we are.

3 MR. KRIS SAXBERG: Thank you for that.
4 Mr. Stauff's evidence includes some analysis of -- that's
5 generated based on numbers that were provided by Centra
6 through the IR process, is that correct?

7 MS. LORI STEWART: Are -- you're referring
8 to the appendices to his evidence?

9 MR. KRIS SAXBERG: To -- correct, appendix
10 2, 3, and 4.

11 MS. LORI STEWART: Yes, that's correct.

12 MR. KRIS SAXBERG: And, just for the
13 record, do -- do you have any problem with the -- with the
14 math in those calculations or the source information and
15 its reliability?

16 MS. LORI STEWART: Well, other than the
17 forecast -- of course, I don't have any concerns with the
18 actuals because they -- they are what they are and other
19 than pointing out that, of course, the forecasts are a
20 series of assumptions, so, the number of assumptions that
21 are embedded in that forecast to actually reach the end
22 number, so to speak, they're quite numerous and I think
23 it's interesting or it was interesting for me to look at
24 the difference between Appendix 2 and Appendix 3 which, of
25 course, was forecast '06/'07 results and then Appendix 3

1 is actuals.

2 There's a significant variation. So I
3 don't have a problem with the arithmetic in the
4 appendices, I do have a problem using Appendix 4 as the
5 basis for going forward because we just observed the
6 extreme variation from forecasts that occurred in terms of
7 actuals. So I think it's probably more meaningful to use
8 as your baseline Appendix 3.

9 MR. KRIS SAXBERG: And Appendix 3 then for
10 the -- for the Board's information reflects that in the
11 best case scenario that based on monthly prices that there
12 -- there appears to be a value in or around \$7 million in
13 storage gas.

14 There was that value during the year
15 '06/'07 if in the -- in the best case scenario it had been
16 able -- there had been counterparties and there had been
17 an exchange at the prices indicated in Appendix 3?

18 MS. LORI STEWART: Well, now you're asking
19 me to go a step further and the arithmetic, there's
20 nothing wrong with the arithmetic, however, we need to
21 understand what it is that would move us away from the
22 values that are represented in -- in Appendix 3.

23 And certainly the fact that Appendix 3 or -
24 - or the appendices to Mr. Stauff's evidence - and he
25 notes this in his evidence as well - the fact that

1 transactions of this nature take place in the daily
2 market, not in the monthly market. So that's one (1)
3 thing that steps us away from what the original value
4 identified might be.

5 The fact that Centra's delivery points are
6 not market centres. We're delivering gas to a point from
7 which a counterparty must pick it up and transport it to a
8 market centre. So we don't hold that transportation
9 asset. The counterparty must go out and obtain that
10 transport or move the gas in whatever way it chooses to an
11 actual market centre.

12 Then there's the discounting so to speak
13 factor that we choose to transact such that the deal is
14 interruptible or recallable because we want to assure
15 reliability of supply. That's our purpose is to make sure
16 that natural gas lands in Manitoba for Manitobans and as a
17 result if our transactions aren't firm, the value of them
18 decreases once again.

19 So you're taking a -- a starting point in
20 terms of a simple basis differential which from a forecast
21 perspective is based on numerous assumptions and I'm
22 starting to describe for you now the types of factors that
23 will erode that theoretical value in the real world and,
24 you know, I think that distinction between real world and
25 theoretical is one that Mr. Stauff was I -- I think quite

1 wise to note in his evidence because in the real world,
2 stuff happens, you know. What's happening physically in
3 the pipelines on the day can have a significant impact on
4 the value that can be extracted and the -- the market that
5 forms on that day.

6 MR. KRIS SAXBERG: And the -- the real
7 world opportunities, though, they could have been less
8 than the 7 million but they also could have been greater;
9 is that not fair, the real world opportunities on a day-
10 to-day basis in terms of extracting value?

11 MS. LORI STEWART: Well, given all the
12 factors that I just described, it's not likely that we're
13 going to -- like, those are all value -- factors that will
14 erode what is a simple basis differential number provided
15 and they're -- they're real.

16 You know, we can't let those -- we -- we
17 can't make those disappear. And in addition, the fact
18 that Centra undertakes when -- when it transacts with a
19 counter party to push the risk of the transaction to the
20 other counter party and thus to ensure that we can deliver
21 value associated with this transaction, a benefit to
22 consumers in Manitoba.

23 So, we don't want to be on the wrong side
24 of a transaction when we undertake a capacity management
25 deal. And I think that this also speaks to the -- the

1 difficulties that -- that Mr. Stephens alluded to in terms
2 of going through quite an exercise to create a forward-
3 looking forecast of capacity management revenues when, as
4 Mr. Sanderson described, the primary variable that we're
5 contending with is weather, which drives the extent that
6 we have unutilized capacity.

7 And, you know, we're -- we're just in a
8 situation where we don't see the -- the merit in building
9 that case of assumption at -- after assumption, to end up
10 at the end of the year with an outcome that is
11 significantly different. And I think we would be in this
12 forum explaining that variation.

13 MR. KRIS SAXBERG: The -- the first
14 qualification that you gave, though, was that the -- we
15 were dealing with a monthly index and what happens in the
16 real world is daily or -- or moment by moment and is that
17 correct?

18 MS. LORI STEWART: Yes, that's correct.

19 MR. KRIS SAXBERG: But the daily basis of
20 differential could just as easily be greater than is -- is
21 what -- than what is reflected in the monthly figures
22 provided by Mr. Stauff, correct? That was the only point
23 I was making.

24 MS. LORI STEWART: Potentially.

25 MR. KRIS SAXBERG: And that it's incru --

1 it would be incredibly difficult to go back in time over
2 that whole year and look at what opportunities were out
3 there from minute to minute in -- in terms of maximizing
4 the value imbedded in storage gas.

5 MS. LORI STEWART: Well, that, in fact, is
6 -- is the difficulty in this entire sort of stream of --
7 of dialogue because you have to be on the phone with the
8 counterparty at that moment, who is willing to undertake
9 the transaction, so we're in this Mexican standoff, where
10 I can't prove that I delivered value, but you can't prove
11 that -- that I didn't deliver value.

12 MR. KRIS SAXBERG: And -- and that's ok --
13 and I -- I -- I'm with you on that, but we would both
14 agree with one (1) thing, there's some value there. You
15 can't put your finger on it. I -- we're -- on this side
16 of the table, trying to put our finger on it and you're
17 saying that -- that that may not be that strong of an
18 indication of the value. But the bottom line is, there's
19 value there.

20 MS. LORI STEWART: There's value there and
21 I -- I -- I want to be clear that we believe we do
22 understand what the value is. We're in these markets
23 every single day. We have several counter parties with
24 whom we -- with whom we canvas to do this business every
25 single day.

1 perhaps this is a good time for a lunch break.

2 THE CHAIRPERSON: Thank you, Mr. Saxberg.
3 Do you have any further questions for the panel?

4 MR. KRIS SAXBERG: I -- I think I may have
5 ten (10) or fifteen (15) minutes more of questioning when
6 I get back.

7 THE CHAIRPERSON: Very good, I'll see you
8 back after lunch.

9 MR. BRENT SANDERSON: Excuse me, if I
10 might -- if it pleases the Board --

11 THE CHAIRPERSON: Oh, yes.

12 MR. BRENT SANDERSON: -- if I might just
13 take one (1) moment to respond to an inquiry the Board
14 made earlier in the Hearing regarding what the August 1
15 primary gas rate might look like today if nothing changes?
16 I have that information if you're ready to accommodate
17 just a moment of -- that information?

18 THE CHAIRPERSON: Always willing to hear
19 this.

20 MR. BRENT SANDERSON: Our -- my staff has
21 worked up a pro forma application for the August 1 primary
22 gas rate, based on market information as of the June 8th
23 market close; that will be last Friday.

24 And always subject to the -- to the
25 attendant cautions that these things change every day, if

1 MR. BRENT CZARNECKI: So just to clarify,
2 Undertaking number 14 would be CENTRA-17, and Undertaking
3 number 28 would be CENTRA-18.

4

5 --- EXHIBIT NO. CENTRA-17: Response to Undertaking 14

6

7 --- EXHIBIT NO. CENTRA-18: Response to Undertaking 28

8

9 THE CHAIRPERSON: Thank you, sir. Is
10 there anymore? Going, going, gone. Okay, we'll see you
11 after lunch.

12

13 --- Upon recessing at 12:10 p.m.

14 --- Upon resuming at 1:27 p.m.

15

16 THE CHAIRPERSON: Well, when we left, Mr.
17 Saxberg, you were lying across the railway tracks and the
18 train was coming? Do you want to start up again?

19 MR. KRIS SAXBERG: Yeah, that's how it
20 felt.

21

22 CONTINUED BY MR. KRIS SAXBERG:

23 MR. KRIS SAXBERG: I will start up on Tab
24 4 of Mr. Peters' documents, and this may be for you, Mr.
25 Sanderson.

1 If we look at -- under the third heading,
2 "Supply Costs" and line 3 "Exchanges with Counterparty's
3 Primary Supply" and we compare that to the line above it,
4 which is line 39 "Storage Gas Primary Supply," could I
5 take from -- from that information that half of the gas
6 that came out of storage got to Winnipeg by virtual
7 transportation?

8 MR. BRENT SANDERSON: Roughly.

9 MR. KRIS SAXBERG: And is it also the case
10 then, that the \$36.7 million of exchanges that led to that
11 virtual transportation ultimately resulted in the \$1.3
12 million of capacity management profits?

13 MR. BRENT SANDERSON: Yes, \$7.13 million
14 would have been the net margin that would have been earned
15 on those activities. The \$36 million is just our average
16 value of the primary gas inventory coming out of our
17 storage facility and it doesn't include any of those
18 impacts.

19 MR. KRIS SAXBERG: Okay. Thank you for
20 that. Do you have PUB-97 close at hand?

21 MR. BRENT SANDERSON: Do you have a
22 convenient reference? I can get out of the IR volumes.
23 Just one (1) second. What was the number of the response?

24 MR. KRIS SAXBERG: It's PUB-97.

25

1 (BRIEF PAUSE)

2

3 MR. BRENT SANDERSON: Okay. I'm with you.

4

5 MR. KRIS SAXBERG: And this second page is
6 a handy chart which shows the capacity management
7 forecasts versus the actual results, correct?

8 MR. BRENT SANDERSON: That's correct.

9 MR. KRIS SAXBERG: And it appears from the
10 years that are depicted in this table that the forecast
11 was off from the actual, fairly significantly in -- in
12 each year?

13 MR. BRENT SANDERSON: Yes, for the reasons
14 that we've covered I guess fairly extensively; as a result
15 of the weather being significantly different than forecast
16 and that in combination with the particular opportunities
17 that were available in the market on any given day during
18 that period.

19 MR. KRIS SAXBERG: Would you agree though
20 that the trend, in particular if you -- if -- if you were
21 to look at the five (5) years before this -- which
22 unfortunately not before us though -- but the trend over
23 the last five (5) years has been an increased amount of
24 capacity revenues generated from the program?

25 MR. BRENT SANDERSON: No, I wouldn't. If

1 you look, the actual results vary quite significantly from
2 year to year and it's anything but a -- a linear trend and
3 I wouldn't infer any greater meaning to these numbers in
4 terms of extrapolating to the future.

5 MR. KRIS SAXBERG: Just in terms of
6 forecasting capacity management, would you agree that
7 there are certain components of your capacity revenues
8 that you know that you're going to be able to achieve; for
9 instance, with respect to ANR southwest and southeast? I
10 mean, right now you already have arrangements in place
11 with respect to the release of that capacity, correct?

12 MR. BRENT SANDERSON: It depends on what
13 point in time you're talking. If we were talking back
14 when we are in our -- when we are in our budgeting cycle
15 for the fiscal forward-looking test year that we're
16 talking about, we wouldn't have any certainty regarding
17 any of the earnings from the capacity management program
18 at that time.

19 As we move forward through time, there will
20 be certain capacity management transactions that Ms.
21 Stewart's staff will undertake, that will lock in certain
22 degrees of certainty regarding certain of those revenues.
23 But usually we're either very close to the period that
24 we're talking or well with into it before we have any
25 certainty over any of the earnings associated with that

1 program.

2 Because, as I said, the opportunities or
3 the ca -- excess capacity that we have available to use to
4 earn back some of those fixed costs through capacity
5 management transactions are -- are functioned largely of
6 the weather. And weather, as we all know, is random and
7 so there's very little ability for us to predict with any
8 certainty before the fact to any of our capacity
9 management revenues.

10 MR. KRIS SAXBERG: But as we stand here
11 today, you do know the amount of capacity release revenues
12 that are going to be generated from the ANR southwest and
13 southeast pipes?

14 MR. BRENT SANDERSON: For this summer.
15 And I will point out again that we're into the summer
16 period already, at the point that we know with certainty
17 that portion of our capacity management revenues for this
18 year.

19 MR. KRIS SAXBERG: So if you took that
20 number and then set it aside and then applied your five
21 (5) year average to the release generated over the past
22 five (5) years for the TransCanada Pipeline number, could
23 you not do that and would that not improve the forecast?

24 MR. BRENT SANDERSON: In -- in my opinion,
25 no. I don't see what the point or the value in

1 artificially carving out a portion of realised revenues
2 and then suspending our -- and then artificially
3 regenerating another forecast, disregarding the earnings
4 that we have earned thus far, in order to -- and I've been
5 -- I can't think of a better term to -- to juice our
6 forecast, if you will.

7 MR. KRIS SAXBERG: Well, has -- has the
8 Company undertaken to recalculate the -- the forecast
9 using the -- the last five (5) years, including the
10 '06/'07 results; would you be prepared to do that?

11 MR. BRENT SANDERSON: We haven't to-date.
12 Our policy is, is that we're -- we're in the midst of our
13 annual budgeting cycle, preparing Manitoba Hydro and
14 Centra Gas's integrated financial forecast, which is
15 typically in the summer and the early fall period.

16 At that point, for the fiscal years, most
17 recently five (5) completed fiscal years at that point, is
18 the point at which we would make our determination of our
19 five (5) year rolling average forecast.

20 And it's our policy not to update that
21 until the subsequent budget cycle, which will be beginning
22 later this summer and into this early fall period; and for
23 many of the reasons that have all been -- already been
24 expressed by Ms. Stewart and Mr. Stephens, in that
25 essentially our capacity management revenues are random

1 and the five (5) year rolling average is a compromise, for
2 want of anything better.

3 MR. KRIS SAXBERG: But the last five (5)
4 years, you'll agree, you've underestimated the amount of
5 capacity revenue each and every year?

6 MR. BRENT SANDERSON: The results have
7 turned out to be better than what was forecast and that's
8 for a number of reasons which circum -- market
9 circumstances and weather, which could not be forecast
10 prior to the fact. So it's a function of a number of
11 circumstances, and fortunately, the results were better
12 than forecast.

13 MR. KRIS SAXBERG: So that's -- that's
14 yes, essentially?

15 MR. BRENT SANDERSON: I guess I just -- I
16 don't like the implication of -- yeah, I guess the choice
17 of wording it implies some deficiency in the forecasting
18 methodology, and like we've said, you know, the -- the
19 capacity that we have in excess of our market's
20 requirements is a function of weather.

21 And to the extent that the capacity
22 management revenues are higher than forecast, it's just
23 simply a function that the fact that weather was such that
24 we found ourselves in the position of having excess
25 transportation and storage assets over and above that

1 which is required to serve the market and these assets are
2 contracted, first and foremost, to serve that market.

3 So a high capa -- value of capacity
4 management net revenue is not in and of itself a good
5 thing necessarily.

6 MR. KRIS SAXBERG: Is the suggestion that
7 over the last five (5) years Centra has been bringing to
8 bear the exact same level of activity with respect to
9 these functions, the only variability being the weather
10 that's generating the -- the changes in actuals from year
11 to year?

12 MS. LORI STEWART: Well, the weather and -
13 - along with a number of other circumstances. But, yes,
14 you're correct that Centra has been bringing to bear the
15 same level of effort in -- in each of the past five (5)
16 years.

17 And just in terms of speeding the process
18 along, the next five (5) year rolling average of capacity
19 management revenues, our analyst just calculated it and it
20 would be \$5.7 million, which would incorporate our record
21 year of \$7.9 million in '06/'07.

22 MR. KRIS SAXBERG: And over those past
23 five (5) years, is it the same number of traders that have
24 been involved?

25 MS. LORI STEWART: Yes, that's correct.

1 MR. KRIS SAXBERG: And these are all -- I
2 don't want to be in too much detail here but, none of
3 these traders are on a commissioned compensation?

4 MS. LORI STEWART: No.

5 MR. KRIS SAXBERG: Just to -- to talk
6 briefly about hedging because I know it's going to be
7 dealt with in

8 -- in the next proceeding, but hedging in '06/'07 added
9 \$73 million to Centra's gas costs, correct?

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

11 MR. KRIS SAXBERG: And the estimate for
12 the -- the upcoming year is that it -- if everything holds
13 the same, it would add 4.5 million?

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

15 MR. KRIS SAXBERG: Now would you agree
16 with me -- earlier you had said that in the -- in the long
17 run or overall in the last five (5) years it's a wash, in
18 terms of the additions to gas costs from hedges versus the
19 reductions?

20 MR. BRENT SANDERSON: For all intents and
21 purposes, yes, it's netting out very close to zero.

22 MR. KRIS SAXBERG: But you would agree
23 with me that the \$73 million addition to costs last year
24 is a record amount that is unprecedented in terms of the
25 level of change, either positive or negative?

1 MR. BRENT SANDERSON: I think I'd dispense
2 with the -- with the dramatic adjectives. It's the
3 highest settled value of our portfolio since the inception
4 of the program.

5 The prior year was a significant sum that
6 served to reduce customers' gas costs, but it's the
7 highest settled value since the inception of the current
8 program. And it's clearly correlated with the dramatic
9 decline in natural gas prices subsequent to the dramatic
10 events of the fall of 2005 which were unprecedented in
11 their scope and magnitude.

12 So we had an extremely dramatic set of
13 market events, one (1) piled upon another, moving in
14 opposite directions and it's purely a function of that.

15 MR. KRIS SAXBERG: To put a percentage on
16 it, did the 73 million, is it fair to say, added
17 approximately 20 percent to the costs that would otherwise
18 have been incurred in the absence of hedging?

19 MR. BRENT SANDERSON: I'd just like to
20 reserve the right to verify that number, but for the sake
21 of the discussion and in the interest of time, I'll --
22 I'll take it, subject to check.

23 MR. KRIS SAXBERG: Okay. Thank you for
24 that. Now the bandwidth has been changed in accordance
25 with the Board's recommendation and I note that originally

1 the proposal that went to the Executive was that it be
2 changed to a 20 percent above the market price cap; is
3 that correct?

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

5 MR. KRIS SAXBERG: And there's a proposal
6 to that effect I think in the materials. What was it that
7 happened that resulted in the -- in the company selecting
8 15 percent at the end of the day?

9 MR. BRENT SANDERSON: Well the
10 recommendation from gas supply was put forward to the
11 Executive Committee. We were working with very short
12 timelines in order to implement the Board's recommendation
13 in time to execute our planned rounds of hedging
14 transactions in January of 2007.

15 The short notice meant that our
16 recommendation was walked in, for want of a better term,
17 to the Executive Committee meeting on -- and I want to
18 check my date, but I believe it was January 9th, and it
19 was not -- there was not sufficient time to get it on the
20 official agenda for the meeting. So the Executive
21 Committee elected to consider the matter and take it up
22 again at -- at a subsequent Executive Committee meeting.

23 In light of their need to deliberate, we
24 deferred the planned round of hedging transactions on
25 January 9th. And then there was a second originally

1 planned round of transactions and the Division Manager of
2 Gas Supply consulted with the CEO of Hydro regarding what
3 course of action to take in terms of responding to the
4 Board's directive and, consulting together, concluded the
5 20 percent up -- determination of the upper bandwidth
6 would result in an unacceptable level of rate volatility
7 for customers and elected to adopt 15 percent as a
8 compromise.

9 And we were directed by the CEO to proceed
10 with the implementation of our planned transactions using
11 the 15 percent bandwidth. The matter was subsequently
12 taken up by the Executive Committee at that subsequent
13 meeting that I described, and the 15 percent was reviewed
14 and endorsed by the Executive Committed. And we re-
15 scheduled our originally deferred round of transactions,
16 completed them consistent with the new operating
17 principles and procedures and have continued to transact
18 with that protocol since that time.

19 MR. KRIS SAXBERG: Was there a
20 quantitative study or a report prepared in support of the
21 15 percent?

22 MR. BRENT SANDERSON: Well, I think it's
23 important to remind you, Mr. Saxberg, that widening the
24 bandwidth was not something that we proposed. The
25 direction from the Board was to widen the bandwidth, and

1 the Board did not provide any more specific direction in
2 that regard as to what the appropriate bandwidth should
3 be.

4 Looking for some objective guidance, we
5 considered your client's position at the last hearing that
6 20 percent would be more appropriate.

7 And there's a limit to how many
8 quantitative studies you can do to estimate and recreate
9 history. We have the necessary expertise to determine
10 directionally what the impact of moving to 20 percent
11 would be, relative to 15 percent or 10 percent. And based
12 on the extensive expertise of the CEO and the Division
13 Manager of Gas Supply, I think they were more than
14 qualified to make the determination as to what a more --
15 what the most appropriate bandwidth would be.

16 And, in their professional judgment, 15
17 percent struck the best balance between all of the
18 competing objectives that we were trying to achieve.

19 MR. KRIS SAXBERG: Now, in the Board's
20 Order, they also directed Centra to consult with an expert
21 on hedging and to determine how to make provision for
22 outlined exceptions in the application of the policy.

23 Do you remember that?
24

25 (BRIEF PAUSE)

1 MR. BRENT SANDERSON: One of the factors
2 that was explicitly considered in the methodology that we
3 adopted in setting a wider bandwidth, was an explicit
4 recognition of the concern that both the Board and your
5 clients had regarding, for want of a better term, the
6 regret that customers are likely to feel in the event that
7 hedges are placed on their behalf and prices were to
8 subsequently fall dramatically. And, for a period of
9 time, they would enjoy full participation in that
10 subsequent price decline.

11 We -- we're very clear on the record, the
12 last time around in the -- in November and December of
13 2006, and I think our positions were endorsed by your
14 client, Mr. Pringle, that it would be inappropriate for us
15 to employ speculative market price views in making
16 subjective determinations as to when or when not to place
17 hedges, to change our strategy, widen bandwidths, narrow
18 the bandwidths.

19 So, the reason we chose a percentage
20 methodology to determine the upper bandwidth on our
21 collars, inherent with this change in process, was to
22 explicitly recognize these concerns. And we feel that we
23 are able, with this process, to preserve the mechanistic
24 implementation principles which we feel are so important
25 in carrying out this program of behalf of customers, yet

1 still having some means of having the parameters of the
2 instruments respond to market conditions.

3 And, so, this methodology explicitly
4 incorporates that concern, in that if -- should there be
5 some dramatic market event that causes prices to rise to
6 dramatically higher levels, and at any point in time will
7 be uncertain as to what the future holds, the bandwidths
8 on our callers will automatically widen and provide
9 customers with greater subsequent participation should
10 prices fall dramatically.

11 While at the same time, if we find we have
12 a, you know, an advantageous set of circumstances where
13 prices somehow miraculously return to the old -- good old
14 days of two (\$2) and three dollar (\$3) per gigajoule
15 prices, by some stroke of luck, the bandwidths
16 automatically narrow and become much more like a fixed
17 price swap, locking in that value for customers while
18 ensuring that we are not exercising fallible and
19 subjective market price views.

20 That widening and narrowing of the collar
21 bandwidth is inherently mechanistic and the mechanistic
22 nature of it is embedded in the policy but expound --
23 responds to the two-fold concern of the tightness of the
24 collars and what action would we take in extraordinary
25 pricing events?

1 My question was whether you'd consulted
2 with -- with outside expertise. I think you're saying no
3 and -- and I think what you're saying is, the reason is
4 because of the wider bandwidth it's less likely that
5 Centra would deviate from its mechanistic approach and
6 therefore you didn't need to consult with an expert to
7 setup scenarios whereby it would be appropriate to
8 deviate; is that fair?

9 MR. BRENT SANDERSON: The Corporation
10 feels it has the necessary expertise to design the
11 policies and procedures to respond to all that
12 stakeholders's concerns and to exercise judgment in
13 extraordinary market events, when and if they occur.

14 MR. KRIS SAXBERG: But I'm right that
15 because of the wider bandwidths you're suggesting that it
16 would be less likely that Centra would deviate from the
17 mechanistic hedging approach?

18 MR. BRENT SANDERSON: I can't make
19 determinations as to what professional judgment the
20 Executive Committee of Hydro will exercise in whatever
21 market circumstances so --

22 MR. VINCE WARDEN: Being a member of the
23 Executive Committee maybe I can respond to that.

24 It depends, Mr. Saxberg, on the -- on the
25 circumstances of the day. As you know we did deviate on a

1 couple of occasions and it was because of extreme
2 circumstances at that time that we did. And who knows
3 what the future holds. If -- if there are circumstances
4 in the future that deviation is considered necessary we --
5 we will do so. And that's why the policy was unchanged
6 from what it was before this Board on a previous cost of
7 gas hearing.

8 MR. KRIS SAXBERG: Okay. And -- and in
9 that regard, when the Executive makes that decision, there
10 are no specific criteria or tests that are to be applied;
11 it's judgment, correct?

12 MR. VINCE WARDEN: It is judgment, yes.

13 MR. KRIS SAXBERG: Okay. Thank you for
14 that.

15 With that I think I asked all the questions
16 that I need to ask and I'd like to thank the panel and
17 hand it back over to you, Mr. Chairman.

18 THE CHAIRPERSON: Thank you, Mr. Saxberg.
19 Ms. Ruzycki...?

20

21 CROSS-EXAMINATION BY MS. NOLA RUZYCKI:

22 MS. NOLA RUZYCKI: Good afternoon, Mr.
23 Chair, Board Members, panel members, and ladies and
24 gentlemen.

25 My questions today are going to focus

1 solely on the terms and conditions, and I don't have any
2 particular person in the panel that I'm going to ask them
3 of so whoever is the appropriate person can answer, that
4 would be great.

5 Maybe just for ease of going through the
6 document, I can start at page 1 and go through them in the
7 order that the issues arose.

8 So the first -- the first page is page 8 of
9 50.

10 MR. BRENT SANDERSON: You'll need to be
11 maybe a little clearer for us, in terms of do you have a
12 tab number? Is this from the application? Is --

13 MS. NOLA RUZYCKI: Oh, sorry, yes. It is
14 -- no, I don't have the tab number, sorry. It's Tab --
15 yeah, sorry, it's Tab 11. I do have the tab number. It's
16 Tab 11 and it's the -- I'm looking at the black line to --
17 "Proposed Schedule of Sales and Transportation Services
18 and Rates," page 1 through 50.

19 MR. BRENT SANDERSON: And are you
20 referring to the revised version that was filed as part of
21 the pre-hearing update or the original filing?

22 MS. NOLA RUZYCKI: It was filed April 4th,
23 2007, and it says, "Attachment 1 Revised."

24 MR. BRENT SANDERSON: Okay, I'm there.

25 MS. NOLA RUZYCKI: Okay. So the first

1 question I have is a fairly simple question. I'm just
2 wondering if this change to quantity is being made to
3 reflect the fact that Centra transacts in both volume and
4 quantity? And if that is the case, can you please confirm
5 that the applicable TCPL posted conversion factor will be
6 used for the conversions?

7 MR. BRENT SANDERSON: Yes, it's just to
8 reflect the fact that volume doesn't cover -- doesn't
9 adequately cover off the different ways that gas can be
10 transacted. The pipelines transact in units of energy.
11 We bill customers in units of volume and our conversions
12 will, in all those cases, from energy to volume, be at TC
13 bills posted heating values that are referred to, as we
14 take a measurement off at our various gauge stations, and
15 it's reported by TC bill and verified by -- again by our
16 staff.

17 MS. NOLA RUZYCKI: Thank you. Now moving
18 to page 19. And I have a question here at the -- the
19 first change shows if the guarantee is provided by way of
20 a deposit, the Company shall annually credit interest on
21 the deposit at the Company's average short-term borrowing
22 cost as updated from time to time.

23 And I want to confirm that that will be
24 determined based on the Canadian bankers acceptance, rate
25 plus the 1 percent provincial guarantee fee? And it --

1 sorry, it -- it -- that statement appears in a number of
2 different places within this, and I just want to confirm
3 that, if that is the case, that it will be applicable for
4 all cases.

5 MR. BRENT SANDERSON: If you just give me
6 a moment. I need to confer with an expert closer to those
7 matters.

8

9 (BRIEF PAUSE)

10

11 MR. BRENT SANDERSON: Yes. I can confirm
12 that, Ms. Ruzycki.

13 MS. NOLA RUZYCKI: Thank you, and it is
14 consistent throughout the document as well?

15 MR. BRENT SANDERSON: Yes, correct.

16 MS. NOLA RUZYCKI: Okay. Thank you. Now
17 page 35.

18

19 (BRIEF PAUSE)

20

21 MS. NOLA RUZYCKI: And for the credit
22 requirements that they're speaking about here, I -- I want
23 to just confirm that this is how it is currently being
24 done and this document is now just being changed to
25 reflect where it has, for example, in the event that the

1 broker does not maintain -- oh, sorry, I'm on page 34
2 here.

3 So, sorry, if I could move you back to page
4 34, number 4; B-4.

5 MR. BRENT SANDERSON: Yes, I'm with you.

6 MS. NOLA RUZYCKI: Okay, I just want to
7 confirm that this is the current process; that this has
8 just been added to represent what the current process is?

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

10 MS. NOLA RUZYCKI: Thank you. Sorry, on
11 page 35 there -- the number 2, change D-2; that, as well,
12 is a change to reflect the current process?

13 MR. BRENT SANDERSON: Yes. Just to ensure
14 that it is -- that the accepted practice that we've been
15 following is reflected in the terms and conditions.

16 MS. NOLA RUZYCKI: Okay. And then in D-3
17 and 4, that these changes are being made to accommodate
18 the movement from quarterly to monthly enrolls, and the
19 timeline that would be required with that change?

20 MR. BRENT SANDERSON: Yes, correct. And
21 they're reflective of the notification windows that are
22 imposed upon us by the renegotiated Nexen agreement. So,
23 yes, it's two-fold. It reflects the accommodation of
24 monthly enrollments and is respectful of our requirement
25 to notify Nexen marketing of our supply requirement and

1 the broker MDQs, in sufficient time to set those levels
2 monthly.

3 MS. NOLA RUZYCKI: Thank you. On page
4 36H, my understanding is that Centra would be using a
5 designated receipt point only during a time of
6 extraordinary circumstances. And I'm just wondering if
7 there's any time in the past where you would have invoked
8 this?

9

10 (BRIEF PAUSE)

11

12 MR. BRENT SANDERSON: I'd just like to say
13 at the outset, this is a clause that we hope we don't ever
14 have to enact. There was one (1) isolated incidence
15 during the days of the buy/sell service where we took gas
16 from a broker in Saskatchewan.

17 It's a -- it's a clause in the terms and
18 conditions that are -- it's basically just to ensure that
19 we have the ability to sta -- to respond to an
20 extraordinary market event that makes it impossible to
21 accept receipt of broker gas and Empress at the
22 Saskatchewan/Alberta border, and it would only be used in
23 extraordinary circumstances until such a time as the
24 transfer of gas could be reassumed at the -- at Empress.

25 MS. NOLA RUZYCKI: Thank you. Now my next

1 questions, I have a number of them and part of them are
2 probably just to clarify my understanding of the current
3 process and then to understand the changes that are
4 proposed. And the questions are around the gas loan
5 balancing, so page 37, my first question, I believe,
6 starts where your number 5, where it says:

7 "The Company will nominate the broker's
8 supplies in approp -- approximately the
9 same portion to the total gas
10 requirements of the broker, on behalf of
11 the broker's customers. As the
12 customers -- or as the Company's
13 nominations of primary gas in relation
14 to total requirements for the Company's
15 sales, including Western Transportation
16 Service customers."

17 And I'm just wondering if maybe I can
18 explain my understanding and you can confirm whether that
19 is correct or not. So my understanding is that, currently
20 Centra provides the maximum daily quantity for each
21 customer on a contract basis; that is each individual
22 customer's maximum daily quantity and that's rolled up
23 into a contract MDQ?

24 MR. BRENT SANDERSON: No, we currently
25 provide MDQs on a contract basis for all of the customers

1 in aggregation on a given contract, and then roll the
2 various contracts for each broker up and add the MDQs to
3 come to a total MDQ for the broker. That's the current
4 practice and we're proposing a change to that.

5 MS. NOLA RUZYCKI: And to get the
6 consumption for the individual customer, that would be
7 done through a historical usage request?

8 MR. BRENT SANDERSON: There is -- there is
9 a facility -- there's technology in use that goes through
10 a mathematical algorithm to generate load forecast. Part
11 of what's considered is historical usage patterns for each
12 customer, but that's going on behind the scenes in an on -
13 - in an automated way in our direct purchase facility, and
14 it's consistent with the way we do load forecasts for bill
15 estimating purposes in our Banner customer billing system.

16 MS. NOLA RUZYCKI: Okay. And your
17 proposal is that you would -- that you're proposing to
18 change the methodology to calculate the MDQ, no longer at
19 an individual contract level, but at an aggregate broker
20 level; so taking all those contracts and combining them
21 for one (1) number, for the brokers?

22 MR. BRENT SANDERSON: What lead to us
23 looking at this issue was, we've made a number of process
24 improvements in the past, in order to better balance
25 broker's deliveries over the course of a gas year with

1 their customer's consumption. As I said, there's been a
2 number of opportunities that we've had that we've
3 implemented that has gotten us to much tighter year end
4 balancing with less outstanding variances at the end of
5 the year.

6 From a technical perspective, the way that
7 MDQs had been calculated at the individual contract level,
8 at the inception of the WTS service, we've had a look at
9 the results that that methodology yields and we've found a
10 further opportunity to improve our balancing performance
11 in that.

12 And I -- I don't want to get too deep into
13 the math of this, but when you're forecasting a group of
14 customers, the -- the more you aggregate them, the better
15 accuracy you'll have in your forecast, because there is a
16 given amount of error in every forecast that you do and if
17 we take it to the furthest extreme that you forecasted
18 each customer level and add all those up, your -- the
19 error in each individual forecast tends to be additive.

20 The more you can aggregate customers into
21 larger groups, the more the errors tend to offset one
22 another and you get a better accurate forecast.

23 So what we've seen is, is by calculating
24 forecasts and maximum daily quantities at the level of the
25 individual contract, some brokers have dozens, over a

1 hundred (100) contracts, so all of the individual forecast
2 error at the contract levels tends to add on -- one on to
3 another as we aggregate them up to the level of the
4 broker.

5 And so we're proposing that we do these
6 calculations at the aggregate broker levels so that all of
7 this -- what is now additive forecast error, will tend to
8 more offset one another and give us a better, more
9 accurate forecast which should hopefully, all things being
10 equal, drive us to better balancing by the end of the
11 year.

12 MS. NOLA RUZYCKI: Thank you. Did you
13 consult with the brokers at all before implementing the --
14 or requesting the proposed amendments?

15 MR. BRENT SANDERSON: We would have
16 preferred to be able to discuss a lot of these proposed
17 changes that we filed with our application, in advance.
18 Unfortunately we were in the midst of negotiating the new
19 contract with Nexen Marketing or we're in negotiations.
20 We did not know at the time it would ultimately lead to an
21 extension of the agreement.

22 And being that that's competitive market-
23 sensitive information we were unfortunately unable to --
24 to share with the brokers that we would be able to
25 accommodate monthly enrollments and so forth, as they had

1 requested, until such time as the contract had been
2 approved by our Board of Directors. And we were able to
3 file the update to our application and, if you will,
4 disclose all of the information as to all of the changes
5 that we were able to accommodate in the terms and
6 conditions.

7 As soon as that information was able to be
8 made public we -- as you know we convened a conference
9 call with the broker community inviting them to a
10 conference call to discuss these changes. So we invited
11 every broker who operates in Manitoba. Only -- only three
12 (3) brokers elected to take part in the conference call,
13 so there really wasn't much interest in discussing the
14 changes when we did offer up the opportunity,
15 unfortunately.

16 So but, yes, I -- I wish we could have been
17 more forthcoming earlier on, but public notification
18 requirements and the need to notify the Board, prior to
19 making the results of the contract negotiations public,
20 unfortunately tied our hands, but that had to be. And so
21 as soon as we were able to disclose this information we
22 took measures to do so.

23 MS. NOLA RUZYCKI: Thank you. I'm just
24 wondering for -- I'm trying to determine how brokers would
25 deal with the new -- the new process with attrition, with

1 numbers for individual attrition customers, and I'm -- I'm
2 just trying to seek some information as to, is there a
3 standard residential consumption or MDQ that is used for
4 residential homes? Or how is that determined?

5 MR. BRENT SANDERSON: The way Centra
6 operates its system, the way it works in Manitoba is the
7 load will demand what it will on any given hour of the day
8 and we need to be -- we need to stand ready to meet that
9 demand. And we do not establish MDQs at a given rate
10 class level or individual customer level. We -- we serve
11 the market. The market has an MDQ. It's aggregated to --
12 to the level of the market at large and our requirement is
13 to be able to stand ready and serve that market. And so
14 to that extent the brokers are being treated equally, with
15 respect to the way Centra operates the system.

16 MS. NOLA RUZYCKI: When Centra does the
17 determination for the aggregate MDQ, do they not initially
18 start at the customer level and -- I'm just trying to
19 determine how you know what each individual customer
20 within a contract is -- MDQ is, in order to get to the
21 total MDQ for the aggregate?

22 MR. BRENT SANDERSON: If you could just
23 bear with me for a second?

24

25

(BRIEF PAUSE)

1 MR. BRENT SANDERSON: When we're
2 forecasting our MDQ or our needs, that we will have to
3 serve the market or our segment of the market that we're
4 serving, what we do is we forecast the load in aggregate,
5 all in, based on normal weather conditions which is the
6 average of the last ten (10) years of actual temperatures,
7 and we divide the forecasted annual consumption by three
8 hundred and sixty-five (365) days, and we operate our
9 system at approximately, as I said earlier, an 80 percent
10 load factor. It's a 35 percent actual load factor market,
11 in terms of the way the market takes gas. Our portfolio
12 of assets allows us to serve it at a higher load factor,
13 approximating 80 percent.

14 So we take that aggregate load forecast,
15 divide it by three hundred and sixty-five (365) and the
16 MDQ is 125 percent of that average daily consumption, and
17 the one point two five (1.25) is the reciprocal of 80
18 percent.

19 So we forecast our load and determine our
20 MDQs at the aggregate market level. We do not do it at
21 the individual customer level.

22 MR. NOLA RUZYCKI: Okay. I guess I may be
23 still just a bit confused. As you have a minimum
24 requirement for -- and this is in a different section; I
25 believe it's 310,000 cubic metres per year per customer or

1 per -- per, sorry, contract -- and I'm just trying to
2 determine through attrition -- attrition at a broker
3 level, would typically happen or inherently happen at a
4 customer level, not at a contract level. And I'm just
5 trying to determine for forecasting, et cetera; for
6 forecasting that brokers may do internally as to how would
7 we -- how would we determine usage per residential
8 household, et cetera?

9 Is there an average or a common usage? Or
10 will be -- and I guess part of the question is will we
11 still continue to get the consumption numbers for
12 individual customers?

13 MR. BRENT SANDERSON: Well, how I'd answer
14 your question:

15 If you're concerned as to the average
16 consumption of the customers you may be losing due to
17 attrition, you have that information at hand; that's part
18 of -- part of the information that we share with you.

19 If you have some pattern or some
20 expectation or forecast of customer attrition, I don't
21 know that a system average forecast of a typical customer
22 in one class or another, would be necessarily helpful to
23 you because your customers, in all likelihood, do not
24 reflect the system average. So, the most appropriate way
25 for you to forecast the volumes that you might lose on a

1 given contract due to customer attrition, would be to use
2 the customer consumption history that you have at hand for
3 your own customers.

4 MS. NOLA RUZYCKI: Okay. And so we will
5 still continue to receive the customer consumption for
6 each individual customer?

7 MR. BRENT SANDERSON: Yes, absolutely.

8 MS. NOLA RUZYCKI: Okay. Thank you.

9

10 (BRIEF PAUSE)

11

12 MS. NOLA RUZYCKI: Okay, I think that's
13 all the questions I have on that segment. The next
14 segment is the gas loan valuation. And Mr. Peters asked a
15 number of questions that I was going to ask this morning,
16 so I'll skip over those. And I just have some questions
17 on...

18

19 (BRIEF PAUSE)

20

21 MS. NOLA RUZYCKI: So it says at the top
22 of page 40 that the difference for the gas year by the --
23 possible I'll start it through -- C here. So "C" starts
24 on page 30. No, sorry.

25

1 (BRIEF PAUSE)

2

3 MS. NOLA RUZYCKI: It says the value of
4 the annual quantity difference will be calculated by
5 multiplying the annual quantity difference for the gas
6 year by the Company's average unit cost of primary gas in
7 storage inventory at the commencement of the gas year.

8 And I'm just wondering, do you use -- is it
9 a twelve (12) month rolling contract that has a different
10 value for each month? Or how is -- how is that
11 determined?

12 MR. BRENT SANDERSON: At the outset of
13 each gas year, our average unit cost of primary gas in our
14 storage inventory will be known with certainty, and it
15 will be the sum of the gas that we'd injected into our
16 storage inventory over the course of the summer, divided
17 by -- or, pardon me, the total cost of that gas stored in
18 storage inventory, divided by the volume -- volumetric
19 amount, or the quantity of gas in storage. It's a known
20 value, and that will be the value of our storage supply
21 for the coming twelve (12) months.

22 And then at the commencement of each
23 successive gas year, that's a number that we will know
24 based on the value of the gas that remained in storage at
25 the end of the previous winter, plus the value of the gas

1 that was injected into storage over the subsequent summer
2 period.

3

4

(BRIEF PAUSE)

5

6

7

8

9

MS. NOLA RUZYCKI: Thank you. Now on page
41, I'm looking at number 4, and I have some concern
around the comments here that -- actually, I think that
one's fine now, sorry.

10

11

It's page 42-K-9B, and this is a new clause
that's been added that says:

12

13

14

15

16

17

"Alternatively, if the broker is unable
to meet the requirements set out in sub-
paragraph 9A above, the broker must
provide credit support as reasonably
determined and requested by the Company,
from time to time."

18

19

20

21

And my concern here is that the language is
very vague. And I know in the accompanying document it
said that you're not looking to change the current
practices.

22

23

24

I'm just wondering, if -- if a number was
provided to a broker, as to credit support requirement and
there is a disagreement, how that would be resolved?

25

MR. BRENT SANDERSON: Well, fortunately,

1 we haven't encountered such a circumstance thus far.
2 We've been employing this method of managing credit risks
3 for quite some time with the full cooperation of the
4 broker communities and have been found to be acceptable to
5 the broker community.

6 First and foremost, we need to protect the
7 Utility and customers from the risk of a default by a
8 participating broker who may have outstanding loans of
9 storage gas for which they are unable or unwilling to make
10 payment, or default on their obligations to supply their
11 customers.

12 Credit markets are dynamic. I'm not a
13 treasury specialist, but I do have some sense of what an
14 issue credit is today; especially in the aftermath of the
15 failure of Enron and the potential for hedge funds to go
16 under, to the tune of \$6 billion within a week.

17 So it's something to look -- that's looked
18 at very closely and our treasury group is not able to put
19 clear -- clearly defined language as to what the different
20 treatment will be in -- in a myriad or of infinite
21 different circumstances. They use their judgment in each
22 case.

23 And I can tell you that my personal
24 experience has been, that in exercising that judgment of
25 how to treat circumstances for individual brokers who

1 don't meet those credit hurdles, that wherever some
2 discretion is exercised, in my experience, has always been
3 exercised to the benefit of the broker. So our treasure
4 people have been very fair.

5 But the -- the number of potential events
6 that can concur -- can occur in credit markets, do not
7 lend themselves to clearly codifying exhaustive lists of
8 what requirements will be, in an essentially infinite
9 number of different circumstances.

10 MS. NOLA RUZYCKI: Are you able to tell me
11 what factors actually go into the credit support
12 calculation? Like, I'm assuming there's a number of
13 different factors that go in and...

14 MR. BRENT SANDERSON: Well, we could -- we
15 could be here all day. What we do is we look at Centra
16 and customer's potential exposure for individual brokers.
17 We have some parameters that we apply and there's some
18 probabilistic analysis that goes into looking, you know,
19 based on history, some of the events that we've seen occur
20 in the marketplace. We take a look at how bad things
21 might get in a worse case circumstance.

22 And for brokers who don't meet these credit
23 hurdles that are identified in subsection "A" of Item 9,
24 as it stands right now, most of the brokers will have put
25 up security with Centra to cover off the risk to which

1 Centra and the rest of the customers are exposed.

2 And there's not often adjustments to that,
3 in my experience, but every quarter we look at this and
4 then we calculate the exposure, relative to the security
5 that's been posted by the broker and then credit -- or our
6 treasury group applies their professional judgment in the
7 circumstances, based on their knowledge of current credit
8 market conditions, and so forth, and makes their election
9 as to whether we might require additional security from a
10 broker or we might be willing to release some of the
11 posted security to brokers.

12 And I've only had oversight over Direct
13 Purchase for a little over six (6) months at this point,
14 but I can tell you that every time that there's been a
15 discrepancy between the exposure based on our calculations
16 and the posted security, while they've not been great,
17 it's always been to the benefit of the brokers, and
18 treasury has always exercised their discretion to not
19 require additional security to the broker and let them --
20 let them ride with what they have posted.

21 So it's -- they -- there's very fair
22 treatment here.

23 MS. NOLA RUZYCKI: That's good to hear.
24 Okay. And my final area is -- my understanding is that
25 the charge related to the quarterly change to monthly will

1 be discussed in the landscape review and I'm just
2 wondering -- so my only question on the actual contract
3 is: Will there be a session with the brokers to go over
4 the new timelines, et cetera, for nominations and stuff,
5 as we get closer to November 1st, and any additional
6 requirements that may change from our current process?

7 MR. BRENT SANDERSON: If that turns out to
8 be necessary these changes, I don't think will -- will
9 result in a reinventing of the brokers' world. They're --
10 I think I can characterize them safely as pretty minor,
11 and we intend to communicate with the brokers in the run-
12 up to November 1st and the new monthly enrollment scheme
13 and so forth.

14 And, you know, we have to be judicious with
15 our time. If there is apparent value in convening a
16 conference call to discuss these matters with the brokers,
17 we would have no problems with doing that being mindful of
18 the fact that in recent -- the recent past the time that
19 we've devoted to consulting with the brokers there hasn't
20 been very much interest in doing it, so.

21 MS. NOLA RUZYCKI: Thank you. That
22 concludes my questions and I'd like to thank the panel.

23 THE CHAIRPERSON: Thank you very much.
24 Mr. Czarnecki, do you have any question?

25 MR. BRENT CZARNECKI: No, we do not, Mr.

1 Chairman.

2 THE CHAIRPERSON: Okay. We'll speed right
3 along.

4 Mr. Saxberg, if you would like to introduce
5 your witness. We'll have Mr. Singh swear him in and then
6 you can begin your examination.

7 MR. BRENT CZARNECKI: Mr. Chairman and --
8 sorry, Mr. Saxberg, Mr. Sanderson would like to speak to
9 one (1) of his undertakings perhaps, before he's off the
10 stand?

11 THE CHAIRPERSON: It makes sense to me.
12 Mr. Sanderson...?

13 MR. BRENT SANDERSON: Mr. Saxberg this
14 morning inquired as to the exchange rate that was embedded
15 in the fiscal 2006/'07 forecast -- I can take you to Tab 4
16 of Mr. Peters' book of documents -- and was inquiring as
17 to the fixed cost variance associated with transportation,
18 on line 15.

19 Maybe I'll just give a moment for everybody
20 to find their reference.

21

22 (BRIEF PAUSE)

23

24 MR. BRENT SANDERSON: Looks like we're
25 ready. There was an amount of \$1.8 million negative, in

1 terms of fixed transportation costs, meaning that our
2 actual costs were \$1.8 million less than originally
3 forecast on an actual basis. Mr. Saxberg asked what was
4 the US/Canada -- Canadian exchange rate embedded in the
5 original forecast.

6 And that was originally struck at a dollar
7 twenty-three (\$1.23), Canada to the US. The actual
8 experience, over the course of '06/'07, was approximately
9 one thirteen and a half (113 1/2) on an actual basis. So
10 of that \$1.8 million negative variance, approximately 1.7
11 million was as a result of the lower or more attractive
12 Canada to US exchange rate.

13 And then he asked further for the test year
14 what was the forecast embedded in that forecast, relative
15 to where the market is trading right now for Canada/US
16 exchange.

17 At the time, we struck that forecast
18 originally last year during our integrated financial
19 forecasting cycle, we embedded a dollar sixteen (\$1.16) in
20 the Canada/US exchange rate in that forecast. And today
21 futures markets are trading approximately a dollar six
22 (\$1.06) for the coming fiscal year and then I had
23 volunteered to provide some context or sensitivity of our
24 forecast relative to changes in the US/Canada exchange
25 rate .

1 And for every hundred (100) basis point or
2 1 percentage point change in the Canada/US exchange rate,
3 our gas cost forecast has a sensitivity of plus or minus
4 approximately a hundred and seventy-six thousand dollars
5 (\$176,000).

6 So just to give some context of the
7 materiality of the amounts we're taking here, if the
8 current market for Canada/US exchange holds through the
9 end of the current fiscal year, relative to the dollar
10 sixteen (\$1.16) that we have embedded in the forecast,
11 that would generate an approximately hundred -- \$1.7
12 million amount owing or returnable to the customers in the
13 subsequent period, if that relationship were to hold.

14 And to give that some context that's less
15 than one-half (1/2) of 1 percent of our annual gas cost
16 forecast. And so as I said there's a significant amount
17 of effort involved in updating the exchange rate embedded
18 in our gas cost forecast. It requires a complete repeat
19 of the entire cost allocation and rate design process and
20 so forth; a redesign of rates, and it would be my opinion
21 that the magnitude of the amount wouldn't warrant a
22 recasting of the forecast and a complete repeat of the
23 effort required to do the cost allocation rate design
24 process.

25 THE CHAIRPERSON: Thank you, sir. Mr.

1 Sanderson, just to remind ourselves of our good fortune in
2 some ways with this respect. Harkening back I guess it
3 was about four (4) years ago, I think, the dollar, the
4 Canadian dollar, hit something like sixty-one (0.61) or
5 sixty-two (0.62) cents, if I recall.

6 Our situation with respect to the rates for
7 primary gas would be considerably different if we were
8 still there. Is that not the case?

9 MR. BRENT SANDERSON: I would agree and
10 maybe one thing that's -- one other sidebar that all
11 assembled might not be aware of is this improvement in the
12 Canada/US exchange rate has resulted in a significantly
13 widening of the market price of Alberta gas versus US gas
14 at the NYMEX Henry Hub, such that Canadians are enjoying a
15 significant discount in their gas prices relative to what
16 they would otherwise have been at the old Canada/US
17 exchange rate.

18 So, there's other ancillary benefits that
19 we don't see materialize directly as a US exchange item in
20 our gas cost forecast, but, if this continues to hold
21 there will be other financial benefits for Canadians in
22 terms of the gas costs as well.

23 THE CHAIRPERSON: Does Centra do any
24 hedging with respect to foreign exchange with respect to
25 gas? I have to ask, Mr. Stephens.

1 MR. BRENT SANDERSON: I think primary gas
2 is just about enough for all of us.

3 THE CHAIRPERSON: Very good.

4

5 (PANEL STANDS DOWN)

6

7 THE CHAIRPERSON: Okay, Mr. Saxberg.

8 MR. KRIS SAXBERG: Thank you, Mr. Chairman,
9 and it's nice that the Cost of Gas Panel ends on such a
10 happy note. Good news. And maybe Mr. Stauff will have
11 some good news for us. He's sitting to my right and he's
12 ready to be sworn in.

13 THE CHAIRPERSON: Mr. Singh...?

14

15 CAC/MSOS PANEL:

16 MARK STAUFF, Sworn

17

18 THE CHAIRPERSON: Okay, Mr. Saxberg, you
19 can begin with your witness.

20

21 (VOIR DIRE COMMENCED)

22

23 EXAMINATION-IN-CHIEF BY MR. KRIS SAXBERG:

24 MR. KRIS SAXBERG: Thank you, Mr. Chairman.
25 Good afternoon, Mr. Stauff, and welcome

1 back to Winnipeg. You are responsible for the production
2 of evidence in this proceeding in the form of CAC Exhibit
3 Number 5.

4 Is that correct?

5 MR. MARK STAUF: Yes.

6 MR. KRIS SAXBERG: And you were also asked
7 to respond to Information Requests of the Board and
8 Centra, and you did that?

9 MR. MARK STAUF: I did, yes.

10 MR. KRIS SAXBERG: Do you have any
11 corrections to make with respect to that evidence and
12 those IR responses?

13 MR. MARK STAUF: No, I don't.

14 MR. KRIS SAXBERG: And were you solely
15 responsible for the preparation of that information and do
16 you adopt it for the purposes of this hearing?

17 MR. MARK STAUF: Yes, I do.

18 MR. KRIS SAXBERG: Since you are new in the
19 sense of not having been to this Board in some time, would
20 you please review your qualifications and experience?

21 MR. MARK STAUF: Sure. I can do that.

22 Broadly speaking, I would say that my
23 evidence in this case and in many of the cases that I
24 participate in, in various parts of the country are
25 concerned with basically how gas commodity and gas

1 transportation markets work. Certainly that, I think, is
2 the focus here. And basically most of my professional
3 career has been spent around those markets, or dealing
4 with those markets in one way or another, various aspects
5 of them.

6 As Mr. Stephens, I think, noted earlier,
7 and as Mr. Peters is aware, I spent many years working for
8 TransCanada Gas Services, which is the marketing affiliate
9 of TransCanada and, basically, throughout my time there I
10 was sort of in title anyways. I was sort of the
11 regulatory person. I had various titles and things over
12 the years but, basically, I was in charge of directing
13 TransCanada Gas Services' activities in regulatory forms
14 all over North America.

15 Now, in each of those forums, again,
16 TransCanada Gas Services' objective was to market Alberta
17 Gas to various people. Canadian Utilities were a big
18 customer, Centra was a large customer, and we marketed a
19 lot of gas into the US and we had a lot of work to do when
20 the FERC restructured the US market under Order 636.

21 So I would say that I was always involved
22 in transportation and storage and gas market/gas supply
23 issues in whatever I was doing with TCGS. Although, you
24 know, when we worked in a team, my specific job was always
25 to look at, typically, the pipeline regulatory aspects of

1 it.

2 So, as I say, we had -- I did a lot of work
3 with the US pipelines including ANR and Great Lakes, which
4 are systems that Centra obviously does business with. I
5 participated in several ANR cases and a couple of Great
6 Lakes cases, as well as the other pipelines that transport
7 Canadian gas.

8 Another area, obviously, for TCGS was
9 Canadian markets, particularly Canadian LDC markets, where
10 we had, again as Mr. Stephens indicated, there was long-
11 term complicated agreements between TCGS and the various
12 utilities.

13 While I worked for TCGS I did not
14 participate, typically, in TransCanada Pipeline's rate
15 cases. Since we were an affiliated company, it was not
16 considered good form to complain about -- raise objections
17 to anything that might be in TransCanada Pipeline's
18 tariffs. I did not do that, although I would note that
19 since I left the TransCanada organization, I have been
20 involved in a number of cases on the Intervener side
21 basically for producer/marketer-type shippers on -- on
22 various TransCanada cases. And those are noted in my --
23 my CV that is attached to my evidence.

24 Another area that I spent a lot of time
25 with when I was with TCGS was Canadian or domestic utility

1 arrangements, generally. To some extent it was -- this
2 involved specific issues around the particular contracts
3 that we happened to have with the various utilities which
4 is all by the boards now. So nobody cares about that.

5 But, certainly, in the later years after
6 that whole system began to break down a little bit, I was
7 involved in Ontario and particularly with some, what they
8 called -- what the Ontario Energy Board called the ten
9 (10) year market review which was a sort of broad look.
10 In a sense it was analogous to the competitive landscape
11 folk -- proceeding that you folks have undertaken.

12 But that was a lot of time -- there wasn't
13 a lot of notations on my CV about that or actual
14 appearances as a matter of testimony, but it was a lot of
15 time and it was, again, concerned with unbundling issues
16 and dealing with the transportation and storage
17 infrastructure that the utilities had and that they --
18 that they operated.

19 Since leaving TransCanada I have -- I have,
20 as my CV indicates, consulted in various areas relevant to
21 these kinds of issues; probably the most interesting of
22 those was a case that happened last year at the Ontario
23 Energy Board about -- well, it concerned the potential for
24 deregulation of the Union and Enbridge storage facilities.
25 And I put forward quite extensive testimony on behalf of a

1 group of consumer interest Interveners, basically, that
2 analysed, again, from a sort of market perspective the
3 operation of the pipeline and storage and gas commodity
4 network in and around Ontario.

5 I think in terms of relevant experience, I
6 hope that gives you a general idea of what I've been doing
7 and what my qualifications are.

8 MR. KRIS SAXBERG: Thank you, Mr. Stauff
9 and by way of education, I understand that you're a lawyer
10 and I hope no one holds that against you. But you have
11 appeared and given expert testimony at numerous hearings
12 before utilities and energy boards.

13 Were you certified in those proceedings as
14 an expert?

15 MR. MARK STAUFF: Yes.

16 MR. KRIS SAXBERG: And with that, Mr.
17 Chairman, I would ask that Mr. Stauff be acknowledged as
18 an expert to provide testimony on the subject matter of
19 gas markets and gas transportation.

20 THE CHAIRPERSON: Mr. Czarnecki...?

21 MR. BRENT CZARNECKI: No objections.

22 THE CHAIRPERSON: Ms. Ruzycki...?

23 MS. NOLA RUZYCKI: No objections.

24 THE CHAIRPERSON: Yes, we certainly accept
25 him as a witness.

1 MR. KRIS SAXBERG: Thank you, Mr.
2 Chairman.

3

4 (VOIR DIRE CONCLUDED)

5

6 EXAMINATION-IN-CHIEF BY MR. KRIS SAXBERG:

7 MR. KRIS SAXBERG: Mr. Stauff, perhaps you
8 could begin by outlining the areas that MS -- CAC/MSOS
9 asked you to canvass in your evidence?

10 MR. MARK STAUFF: Certainly. The -- well,
11 I mean, the -- the -- CAC asked me generally to -- to
12 review the gas supply-related material that was filed by
13 Centra in this case and I should note that I -- Mr.
14 Saxberg but -- and I had various conversations in the last
15 case last November without ever going to the extent of --
16 of filing testimony but I certainly had, to some extent,
17 familiarized myself with Centra's system and the issues
18 that are likely to be of interest this time around.

19 Basically, as reflected in my written
20 testimony, I looked at three (3) areas: one (1) the
21 renewal of the Cent -- of the sorry, the Nexen contract,
22 the extension of the Nexen contract; second, was certain
23 sort of limited comments or observations that I had on the
24 EEA report that was filed as part of Centra's application;
25 and then finally, some somewhat more extensive and

1 apparently somewhat more controversial or interesting, put
2 it that way, observations in the area of capacity --
3 Centra's capacity management activities.

4 MR. KRIS SAXBERG: Perhaps you could begin
5 by giving us your opinion with respect to Centra's re-
6 contracting with Nexen?

7 MR. MARK STAUF: Well, as indicated in my
8 evidence I -- I don't have any issues with what Centra has
9 done in extending that Nexen contract.

10 As I said, the approach that Centra has
11 taken or has -- has historically taken through the Nexen
12 contract and various predecessors of sort of relying on a
13 single supplier for all of its requirements is a bit
14 unusual but that doesn't mean there's anything wrong with
15 it.

16 I mean, there's -- there's pros and cons
17 and little small gives and takes in these things and --
18 but overall, the way the contract is structured it -- the
19 prices that arise under it very closely reflect market
20 prices and what you would see under any other kind of
21 arrangement. So I don't have any basic problem with --
22 with it or with the terms on which it was renewed.

23 I did make a few observations just --
24 there's a few things that I think should be noted and I
25 think Centra is aware of this but just for purposes of --

1 since I spent the time looking at it -- anyways, just for
2 purposes of exposition I think it may be -- it was useful
3 to point a couple of things out.

4 One (1) is -- one (1) point that I make is
5 that while just extending the contract in the way that
6 they did through one-on-one negotiations with Nexen is
7 probably fine. At some point it would make sense, to me,
8 for Centra to go -- to subject that overall arrangement to
9 a market test in the sense of going to the market either
10 informally or -- or in a more formal way just to test.

11 To me, it looks fine. To the EEA folks, it
12 looks fine but there are certain elements of it that are -
13 - there's not a lot of transparency in these swing
14 premiums and things like that. It's a little difficult to
15 judge exactly what the right number is for that.

16 So, I would certainly discourage Centra
17 from renewing that contract for a further five (5) years
18 or ten (10) years or something without going to market
19 just to test whether what we all think is reasonable
20 really is because that -- the market is the true test of
21 these things.

22 I also note that the structure that they
23 have where you have a single supplier that meets all of
24 the requirements, those things necessarily have
25 prohibitions on resales and things that -- that Mr.

1 Stephens mentioned. And those are sort of logically
2 necessary parts of those kinds of arrangements from the
3 suppliers' point of view. But they, in certain
4 circumstances, can tie the Utility down a little bit.

5 So if going forward it looks like Centra
6 may be inclined to diversify its supply a little bit into
7 the US or potentially buy more supply as part of some
8 capacity management mechanism or just for their -- their
9 activities to become more variable and sort of responsive
10 from day to day and month to month to what's happening in
11 the market, a Nexen type arrangement might -- might not be
12 completely appropriate.

13 Again, it would be a function of what --
14 how Centra wants to organize its affairs going forward.
15 For now it's not a problem.

16 Of course, there is the issue of the point
17 five (0.05) cent premium related to base load supply and
18 that, as I said in my evidence, is going to be dealt with
19 in the competitive landscape proceeding and I think I've
20 actually addressed it in my evidence in that case, so I --
21 I don't need to talk about it here.

22 MR. KRIS SAXBERG: What are your comments
23 with respect to the EEA report?

24 MR. MARK STAUF: As I think the Centra
25 witnesses confirmed today, that report has basically

1 served its purpose in relation to the Nexen contract.

2 However, I thought it an interesting
3 document. It was -- it was quite ambitious, actually, and
4 -- and I thought in the way it was set up and the -- the
5 information that they set out in it, even if not all of it
6 was necessarily directly relevant to the exact question
7 they were asked, and in -- in general terms anyways, I
8 don't disagree with the way their analysis has worked out.

9 They -- the -- the one (1) point that I do
10 talk about in my evidence that -- that may be sort of
11 relevant on a going-forward basis for Centra, is that in
12 the report EEA develops the theory that sort of other
13 things being equal, there will be general tendency going
14 forward for Alberta gas to become more expensive relative
15 to US gas.

16 Now the implication of that, again going
17 forward, is that it may make sense, if that happens, for
18 Centra to be looking at buying more US supply, whether for
19 storage injection purposes or just generally.

20 Now in their report EEA said, well, that's
21 the general tendency, by the way, there are a bunch of
22 things about the TransCanada Pipeline tariff and its rate
23 structure that are probably keeping the basis wide or
24 Alberta gas relatively cheap, relative to US gas, in a
25 kind of artificial way.

1 And when I read the EEA report, what it
2 seemed to be suggesting was that, well, those little
3 anomalies in the TransCanada tariff will probably go away
4 and that, in the long run, you are likely to see the basis
5 narrow and Alberta gas become more expensive.

6 The only point I make in my evidence is
7 that while I don't dispute the logic -- EEA's logic about
8 how that mechanism arises, I think just as a practical
9 level given my experience over the last twenty (20) years
10 with the TransCanada system and the authorities that are
11 interested in it, I just don't -- I think that the
12 features they note as keeping the basis widened out are
13 essentially permanent features of the -- of the
14 TransCanada system.

15 It's -- I acknowledge that maybe it will
16 change, something could happen, but, I would not be --
17 people should not be the least bit surprised if the basis
18 in Alberta stays about the same. So I would not be
19 predicting, for example, that Centra should be busying
20 itself, looking to switch its -- its main supply base into
21 the US in anticipation of that becoming more attractive,
22 but that probably isn't going to happen.

23 Now, all of that was sort of a lead up to a
24 more general sort of forward-looking piece of advice that
25 I guess I had for Centra in the -- in my evidence, which

1 is just that going forward, as Centra is looking, re-
2 examining, or considering its gas contracting strategies
3 and its storage and transportation contracting strategies,
4 it should try to maintain flexibility, first of all, and a
5 willingness to be -- to change its approach or to adapt
6 its approach to market circumstances, you know, as they
7 change.

8 The integrated North American gas market
9 which the EEA folks have tried real hard to -- to model
10 mathematically is really complicated, you know, and EEA
11 has done a yeoman job of trying to -- to model it and even
12 though they've never actually -- they won't actually show
13 us the model because it's proprietary, but, lots of other
14 people do that but, again, my experience is that the
15 market is kind of like most other markets where you can
16 have a view about what's going to happen but the fact is
17 you don't really know. Any -- any number of things could
18 happen.

19 So in that kind of environment, my view is
20 that the best strategy is just to maintain flexibility and
21 maintain a willingness to adapt as things happen no matter
22 what happens and if Centra -- I would encourage Centra to
23 do that.

24 What that means, for example, is that they
25 shouldn't -- the optimal strategy in 2010 or 2014 or '15

1 may or may not involve storage. It may or may not involve
2 different kinds of TransCanada services, US supplies,
3 different optimization strategies, any number of things.

4 So that was really the only point, the --
5 the main point I had and I've given -- from what the
6 Centra witnesses said this morning, I don't think they
7 have a -- a problem with that but I think it's always
8 useful to -- to make sure that people don't get caught up
9 and I don't think these folks do but you would -- you'd
10 hate to see people become complacent about the structure
11 that they had.

12 MR. KRIS SAXBERG: And finally, Mr.
13 Stauff, you tackled the thorny subject of capacity
14 management. What do you have to say about that?

15 MR. MARK STAUFF: Right. Now, sort of one
16 (1) -- one (1) aspect of the capacity management, of
17 course, is Centra's revenues from dispositions of excess
18 transportation capacity and I don't really have anything
19 to say about that and I didn't say anything in my
20 testimony. It's -- it's hard to tell exactly what's going
21 on but, you know, to me the -- the results look -- look
22 reasonable to me.

23 The two (2) other areas where I guess
24 there's if not a disagreement at least a sort of
25 misunderstanding or difference in emphasis are, first of

1 all, the question of forecasting capacity management
2 revenues and, secondly, the potential for or the extent to
3 which Centra is able to extract capacity management
4 revenue out of the value that I think is -- or that I --
5 yeah, that I think is embedded in their storage
6 infrastructure and their storage gas.

7 Now, the -- the forecasting issue has been
8 discussed already. Obviously, Centra uses the five (5)
9 year rolling average approach and the point I make is
10 that, well, yeah, a five (5) year rolling average approach
11 probably makes the most sense if you're trying to forecast
12 the number of lightning strikes that happen in Winnipeg
13 over a year or something like that; something that's
14 totally random.

15 I, myself, don't see the -- I don't think
16 that Centra's capacity management activity is random in
17 quite that way. There are a lot of random elements, a lot
18 of random things that affect the results but that's why
19 you have a deferral account.

20 There certainly are causal mechanisms in --
21 at work underneath there and so the point I made was just
22 that if you can come up with a more forward-looking
23 analytical approach, even accepting that there's all kinds
24 of uncertainty in it and it may not -- well, there's going
25 to be variances, why wouldn't you do that as opposed to at

1 least recognize what the causal factors are that are in
2 play there.

3 Now, as I understood Mr. Stephens'
4 testimony, I don't think the objection to that was so much
5 theoretical as, boy, it seems like a lot of work or, you
6 know, there's not a lot of money at stake here and, so, we
7 don't think it makes sense to do the work to develop that
8 model.

9 And I take that point. I mean and I think
10 I acknowledged in my testimony, my written testimony even,
11 that there's not a lot of necessarily huge variances in
12 play here. On the other hand, the PUB staff asked me to
13 do an estimate in an IR, and I did one in about -- took me
14 about an hour working from complete scratch with no
15 information, just doing it on a spreadsheet.

16 And, you know, my view is that that little
17 analysis I did isn't very precise and it isn't, I'm sure,
18 up to the standards of Centra's forecasting department
19 but, nevertheless, as a theoretical matter, it probably
20 makes more sense than the lightening strike five (5) year
21 rolling average type approach to guessing what you're
22 going to have. And it didn't take a whole lot of time, as
23 I say.

24 So I don't think it's a huge issue, but
25 just as a matter of principle, I think that Centra

1 probably could do a -- could do a better job if -- without
2 it being a whole lot of work. I take the point, if you -
3 - if you were going to spend a lot of money and time on
4 it, it may not be worth it just as a practical level. But
5 I still think it would be worthwhile to do that.

6 The other area, of course, is the -- that
7 we've talked about a lot or the Centra witnesses have had
8 to talk about a lot, is the, what I call, sort of storage
9 optimization or supply optimization.

10 And the general point that I'm making here
11 -- first of all, Centra, of course, everybody knows, uses
12 storage quite extensively. And it's Michigan storage that
13 they use. They put gas into Michigan in the summer;
14 withdraw it, back haul it typically on the Great Lakes
15 System into the Centra franchise area during the winter
16 when they need it.

17 And the -- all of this discussion is based
18 on, really, the simple observation that when you look at
19 the way the markets have happened to work out or work out
20 nowadays, what usually happens or what you usually see is
21 that gas is a lot -- the price is higher in Michigan than
22 it is in Alberta. This is kind of the basis that the EEA
23 guys talked about.

24 In fact, it's -- it's higher than -- quite
25 a bit higher often than the cost of gas in Alberta plus

1 the cost of hauling the Alberta gas to Winnipeg, to
2 Manitoba.

3 So the simple observation is that if what's
4 happening is Centra wants a 100,000 GJs out of storage to
5 Winnipeg, the sensible thing -- and, well, say that if the
6 price in Michigan is ten dollars (\$10) and the cost of
7 getting Alberta gas to Winnipeg is eight dollars (\$8), the
8 sensible thing to do is sell the gas that's in storage in
9 Michigan for ten (10) bucks, take your ten (10) bucks, use
10 eight (8) of it to buy replacement gas in Alberta, haul it
11 down to Winnipeg and you've got two dollars (\$2) left
12 over. It's free money.

13 I mean, that's the kind of core observation
14 that's at the heart of all of this.

15 THE CHAIRPERSON: I'll take some of that.

16 MR. MARK STAUF: So, at a high level,
17 again looking at the sort of forward prices that are
18 available and even, to some extent, historical prices as
19 well, what it looks like is that there's a significant pot
20 of free money sitting out there that may be or can be
21 expected to be embedded in this storage gas just because
22 of how the North American grid happens to make the prices
23 fall out.

24 So the proposition, obviously, is if that's
25 the case, then Centra should be doing everything it can to

1 extract as much of that as -- as possible.

2 Now, I acknowledged in my testimony and the
3 Centra witnesses this morning explained as well that there
4 are all kinds of complications about this.

5 First of all, there's a bunch of
6 uncertainties about -- well, to back up a little bit. For
7 illustrative purposes only, in order to sort of give
8 myself, first of all, and -- and the Board, secondarily, a
9 feel for what kind of pot of money we're talking about
10 here, I did do the numerical analyses that are reflected
11 the appendices 2, 3 and 4 in my -- attached to my
12 evidence.

13 Again, appendix 2 is a sort of historical
14 document. It's actually based on a document that we --
15 aid to cross that we did for Mr. Saxberg last year, that
16 was sort of a forward-looking look -- forward-looking
17 estimate of the basis differential, the value that's
18 embedded in that storage for the 2006/2007 year and it was
19 -- without looking at -- up exactly, I think it was like
20 \$18 million, or something.

21 And then appendix 3, having had the benefit
22 of the real world happening in the meantime, looks back at
23 that same period, at actual monthly index prices, and as
24 Ms. Stewart said, it's a good illustration of how variable
25 these markets can really be because the number is much

1 less than that; the average differential is much less.

2 I think in my testimony I said that the
3 sort of total value on a 15 Bcf storage inventory was like
4 \$7 million. Just parenthetically, I should note that in
5 thinking about it again, it might -- there was one (1)
6 month in that five (5) month period where the prices were
7 reversed and it wouldn't have worked at all. So in
8 fairness, we probably should take that out. It was
9 probably more like, you know, \$5 million, or something,
10 was kind of the potential.

11 And then, again, doing the exercise on a
12 forward-looking basis for 2007/2008, you wind up with,
13 like, \$13 million, roughly. Anyways, as Ms. Stewart
14 indicated and as I think I said in my testimony, there's
15 all kinds of things that cause these -- will cause --
16 inevitably cause those forward-looking estimates to be
17 wrong; some higher -- some factors make it higher, some
18 make it lower.

19 The other set of issues that comes up is
20 sort of the mechanics that can be utilized or the
21 strategies that can be employed for trying to extract that
22 value out of the storage. The sort of simple example
23 which I use basically because to me it makes the most
24 intuitive sense for someone that isn't around this kind of
25 thing all the time is the selling gas at a storage and

1 buying gas in Alberta and replacing it with that, kind of
2 example.

3 That is sort of operationally a lot more
4 complicated and I can understand that Centra isn't real
5 keen on doing that if they can get an economically
6 equivalent transaction somewhere else because it's -- you
7 create -- it's just a lot more work, more room for error.
8 So, you know, but that's -- it's -- it's an option,
9 nevertheless.

10 The other approach that Centra has used is
11 the -- the exchanges, where you're just giving gas to a --
12 you identify a third party, give the storage gas to them
13 in Michigan, they go away and do something with it, but
14 they value it at whatever the Michigan price is, or
15 something like that, and then they give Centra gas an
16 equivalent quantity back at the Centra city gate.

17 And again, those -- that -- all that kind
18 of thing has been explained at some length. But the third
19 option that I identify and that I think was discussed a
20 little bit again this morning was, what I call capacity
21 management arrangements. And the fact is, that there are
22 people out there, in Calgary mostly, who make a living at
23 figuring out how to optimize the operation of exactly the
24 kinds assets that Centra has.

25 Companies -- Nexen is a -- is an obvious

1 example, BP and Coral are companies that I'm familiar with
2 that do that same kind of thing, so again, generally the
3 idea would be to -- for Centra to give their, in some
4 sense, give control of their storage assets to the manager
5 sort of on a temporary basis and then just nominate their
6 storage requirements to the manager and the manager would
7 make it show up at the Centra city gate.

8 And then they would figure out -- there
9 would be some kind of financial arrangement that would
10 compensate the manager for its efforts and hopefully to
11 the extent that benefits were created a sizeable share of
12 that would go to Centra.

13 So anyway, my evidence goes through and
14 explains all of these and -- and at the time I wrote it, I
15 didn't really know what kinds of activities Centra
16 undertakes to do that. I didn't know. What I knew was,
17 according to their filing, there was three hundred and
18 twenty-five thousand dollars (\$325,000) worth of exchange
19 revenue versus what looks like a whole lot more potential
20 value tied up in that storage for 2006/2007.

21 So the gist of my evidence was, boy,
22 shouldn't we encourage Centra to go after this? It wasn't
23 clear exactly what was happening or how hard they were
24 going after it or if they were at all but if they are,
25 great, if not they should be encouraged to do it.

1 Now, having listened to the discussion this
2 morning with the Centra witnesses, I'm -- I'm not sure
3 exactly where we are in this. I gathered from the
4 discussion that Ms. Stewart and Mr. Stephens don't have a
5 problem with the math or the logic or the sort of market
6 characterization that's set out in my evidence, sort of at
7 a principled level, and I appreciate what the witnesses
8 were telling us about -- had to say about the -- the
9 efforts that Centra does make.

10 And I gather from their testimony that the
11 -- the general idea is that, basically, Centra tries,
12 whenever it can, to use these exchange arrangements and to
13 extract a -- a fee out of somebody for it which I think is
14 -- is encouraging. As I say, that was news to me given
15 that I'd only had a chance to look at what they had
16 originally filed.

17 On the other hand, what it does also do is
18 leave me puzzled, to some extent. Again, if you look at
19 my Appendix 3 which is sort of a backwards-looking
20 evaluation of what you would guess that embedded storage
21 value was for 2006/2007 with the qualification that I made
22 earlier if you say that was sort of \$5 million Centra
23 extracted \$1.3 million out of that, so, 25 -- roughly 25
24 percent of it.

25 So there's -- that's a pretty significant

1 discount from what was -- appeared to be sitting there.

2 Now, Ms. Stewart talked about -- and I've
3 already talked today about all kinds of factors that
4 influence those results and, you know, that -- some of
5 which anyways can -- can probably degrade those results
6 but, again, listening to that it's not clear to me that
7 those factors explain all of the discount that we actually
8 see in the results that Centra has obtained.

9 I mean, one (1) of the factors that -- that
10 I pointed out and that Ms. -- Ms. Stewart pointed out is
11 that in the real world this is -- these activities are
12 done on a daily basis rather than a monthly basis that is
13 in my numbers but on an expected basis over time that
14 shouldn't make any difference. What it means is the
15 actuals will vary a lot up and down; it can be higher or
16 lower. But on an expected basis, there's no particular
17 reason, to my mind, to think that that will mean your --
18 you will systematically be able to get less out of the
19 transactions.

20 She mentioned as well extra transportation
21 costs and, yes, that's true. I acknowledge that in an IR
22 response but, again, the transportation costs from Farwell
23 and Deward to places where people might actually want gas
24 are a matter of a few cents. You know, you're -- you're
25 talking a nickel or ten (0.10) cents on the Michigan

1 system.

2 And as well, as I pointed out I think in an
3 IR response to the Board, my numbers also build in the
4 sort of extra transportation cost on the western side, on
5 the Alberta side, now, money that you probably don't
6 necessarily have to spend. So again, I don't see that as
7 leading to a sort of 75 percent discount of the value
8 that's there.

9 The interruptibility issue, I take that
10 point. I have to confess I'm not quite clear on what the
11 rationale is for that. So I'm at a bit of a loss, but
12 that may -- that may explain some of it.

13 On the other hand, there are other factors
14 too that can make it positive, right? My analysis looked
15 just at MichCon. What would actually happen if you had a,
16 you know, a sort of broad-ranged marketer doing this, they
17 wouldn't be just looking at MichCon City Gate and figuring
18 out how to get there, they would be looking at Dawn and
19 Niagra Falls and Chicago and all kinds of other places,
20 and kind of optimizing amongst all of those opportunities.
21 So, on average, that might turn out to be better.

22 So, anyway, I mean most of these are --
23 these factors; I acknowledge that they're all factors and
24 they all contribute to the sort of uncertainty about what
25 the result is going to be, but most of them are either

1 neutral or, you know, marginally negative. So, as I say,
2 I'm kind of puzzled about that.

3 If -- now, it may -- it may be that what's
4 happened, is that just the one point three (1.3) out of
5 five (5) is -- you know, maybe that was just a bit of bad
6 luck; maybe just all of these variability factors, that's
7 just the way it worked out. I can't tell.

8 I would say though that going forward, what
9 we at least can do -- as you can tell, I'm at a bit of a
10 loss as Ms. Stewart said, we're at a bit of a Mexican
11 stand-off here -- I'm at a bit of a loss as to say what we
12 can do because, as I say, I'm puzzled about this.

13 At least what we can do, I think, is look -
14 - continue to look at this, examine it, basically on a
15 backward looking basis and see how Centra makes out.
16 Because, again, if you look at my Appendix 4, the sort of
17 forecast number is -- for 2007/2008 is about \$13 million.
18 In real life that will turn out to be either higher or
19 lower than that.

20 But if it turns out to be 18 million --
21 then if Centra doesn't have a whole lot more, like a whole
22 bunch more than 1.3 million in these exchange revenues,
23 given that the imbedded market value on a monthly basis is
24 18 million bucks, somebody should, I think, ask why, and -
25 - and ask them very seriously to explain what's going on

1 with that. Again, we're sort of condemned almost to
2 looking at it on a backwards-looking basis which makes it
3 hard for everybody.

4 But another factor that, it occurred to me,
5 may be influencing this is -- Mr. Stephens, I think --
6 well, both Mr. Stephens and Ms. Stewart were indicating
7 that Centra's trading personnel, the people that actually
8 run this stuff and make these decisions on a day-to-day
9 basis, do have a sort of utility-esque conservative bias;
10 basically trying to avoid any situation in which they
11 could experience a loss or which they could experience a
12 loss for customers.

13 Now, in thinking about that, I'm not quite
14 sure what that means. I mean, obviously, it seems
15 churlish to not congratulate a utility for being
16 conservative in the way it handles its customers' money
17 and this kind of stuff. But, at the same time, you can, I
18 think, get carried away with that.

19 As I say, I don't have enough information
20 and I don't think this would be an appropriate forum to go
21 into it, but if what's going on there is that Centra's
22 people are giving up or leaving on the table \$10 million
23 of reasonably expectable benefits in order to avoid
24 absolutely a millions dollars worth of potential losses,
25 you know, that's a -- that's a conservative strategy all

1 right, but it may not be the most sensible strategy.
2 Certainly, that's not a strategy that a marketing company
3 or a capacity manager would -- would -- would look at.

4 Again, I offer that more as an explanation
5 of or possible explanation of -- of what's going on with
6 the numbers here.

7 The final thing, I guess, that I would
8 mention as a sort of possible explanation of -- I'm trying
9 to reconcile or understand where the differences are
10 between my -- my expectations and Centra's views on what
11 my expectations should be here.

12 The final thing I would say something
13 about, is that the potential for capacity management
14 arrangements to make sense, as opposed to Centra itself
15 just doing this through these sort of daily exchanges, I
16 understand Centra said -- told us that they have talked
17 about that and have had conversations -- unhappy --
18 unfruitful conversations with these capacity -- various
19 people that might want to do that -- and again, I'm in a
20 difficult position, I have no way of evaluating the
21 reasonableness of Centra's conclusions about what the
22 outcome of those; what are the sort of implications of
23 that was.

24 But again, I'm -- I'm a bit surprised by
25 it, frankly. I mean, because the capacity management

1 arrangements of various kinds -- just as parenthetically,
2 it's a bit of an unfortunate term; I -- I use that term
3 capacity management arrangement, as if it sort of conve -
4 - conveys a specific idea of what's involved, but it -- it
5 doesn't really. There's all kinds of different things
6 that can happen under that general umbrella.

7 But in any event, these arrangements are
8 pretty common. I -- I know that utilities in eastern
9 Canada do things kinds of things, specifically in relation
10 to storage. Specifically the kind of things that you
11 would probably want them -- or in -- be inviting them to
12 do for Centra.

13 Now again, there's mark -- there's
14 differences in the market between southern Ontario and
15 Quebec and Manitoba, but, you know, just generally, they -
16 - they do happen. And certainly in the northeastern
17 United States, I know that many of the utilities up there
18 do exactly that kind of thing, with the same
19 counterparties that -- the Centra would be talking to.

20 The other thing is, that I -- I know these
21 -- the companies that are involved in this, I -- I have
22 done work for them, not in this kind of area, but on
23 various matters, and they're -- they're all reputable,
24 reliable, credit worthy, competent outfits and who -- who
25 make a business of this kind of thing. So I was

1 disappointed, I guess, to hear that -- that Centra has
2 concluded that it would not be possible to come to some
3 kind of mutually beneficial arrangement with -- with some
4 of these folks.

5 One (1) aspect of that is, you know, I
6 mean, I appreciated the -- the comments that the Centra
7 witnesses gave us about the diligence and -- of the Centra
8 trading folks and the joy that they get from saving
9 customers a hundred thousand dollars (\$100,000) and stuff
10 like that. And that's all nice and I'm sure it's true,
11 but I mean I have been in these trading shops and I think
12 that just as a matter of brute, ruthless economics, an
13 objective observer will expect better results out of
14 somebody that's working to benefit themselves, than a
15 third party.

16 I just -- I -- I -- sorry, it sounds
17 caddish, but I just -- I -- I think that that's true. No
18 matter diligent these guys are, the fact is, the marketers
19 do this as a for profit enterprise, the actual employees
20 probably benefit personally from doing these things well.

21 The other thing about the marketers, apart
22 from that, is that they have just a lot broader range of
23 assets that they can bring to bear on the problem than
24 Centra has, which is completely apart -- that has nothing
25 to do with the -- you know, the competence or diligence or

1 otherwise of anybody's employee. It's just as a matter of
2 brute fact.

3 They have market, they have customers and
4 suppliers and storage facilities and transportation
5 entitlements and stuff all over the grid, that Centra just
6 doesn't have and can't have and certainly wouldn't want.
7 So that gives them a leg up in terms of their
8 effectiveness at this. You always have to worry about
9 what you're paying them, obviously, versus what it would
10 cost you to do it yourself, but I would encourage Centra
11 to look hard at seeing if they could do something on that.

12 So at the end of the day -- I mean, it --
13 it's been an interesting day for me, listening to Centra's
14 folks -- as I say, I'm still puzzled about why the
15 numbers can't -- aren't more robust. And I think that,
16 first of all, we should be -- I'll be very interested in
17 the business plan that they file. And I think the Board
18 should look hard at that and -- and I hope that it is a,
19 sort of, extensive and candid discussion of the factors
20 that they were talking about this morning and a real
21 explanation of why they can or can't do certain things,
22 because I think that would -- would help to clear it up a
23 lot.

24 And I think also, in the long run, or on a
25 going-forward basis I think it would be helpful if -- I

1 think the Board and, presumably, my client will do this --
2 to just keep prodding Centra a little bit. If -- just
3 keep the pressure on a little bit. Continuous improvement
4 is a good thing and as Ms. Stewart said, it's hard for
5 anybody -- this area is just so complicated. You -- it
6 would be a nightmare to try to get into a -- a prudence
7 review or -- or anything sort of formal like that. It
8 would be a horrendous waste of everybody's time.

9 But just as a -- as a matter of policy and
10 encouragement and -- I would -- I would say that they
11 should be encouraged to try to do as well as they can and
12 continuously to get better at this because I -- as I say,
13 I still think that there is room out there for this. I
14 think there is a significant amount of value out there
15 somehow and I think everybody wants to be satisfied that
16 they are making the best effort they possibly can to -- to
17 get that. They may be already, but let's keep pressing
18 them.

19 I think that is a somewhat lengthy summary
20 of my -- of my testimony.

21 MR. KRIS SAXBERG: Thank you, Mr. Stauff,
22 that concludes our direct examination before we take a
23 break.

24 THE CHAIRPERSON: Thank you, Mr. Stauff.
25 Thank you, Mr. Saxberg. I think we'll have our break now.

1 So we'll come back at 3:30 and see where we are at that
2 point.

3

4 --- Upon recessing at 3:13 p.m.

5 --- Upon resuming at 3:35 p.m.

6

7 THE CHAIRPERSON: Ms. Ruzycki, do you have
8 anything for the Witness?

9 MS. NOLA RUZYCKI: No, I don't.

10 THE CHAIRPERSON: Very good. Thank you.

11 Ms. -- oh, sorry, Mr. Czarnecki?

12 MR. BRENT CZARNECKI: Thank you, Mr.

13 Chairman.

14

15 CROSS-EXAMINATION BY MR. BRENT CZARNECKI:

16 MR. BRENT CZARNECKI: Good afternoon, Mr.
17 Stauff.

18 Mr. Stauff, a general question off the
19 start. Do you, sir, personally have any experience on the
20 trading floor?

21 MR. MARK STAUFF: No. No, I've never
22 actually worked on a trading floor. As I said, I work
23 with traders and stuff but never as an actual trader.

24 MR. BRENT CZARNECKI: Sir, if you can turn
25 up page 29 of your evidence, please?

1 MR. MARK STAUF: I have that.

2 MR. BRENT CZARNECKI: And I'm looking
3 towards your answer and this is in response to your
4 illustration of Appendices 2, 3, and 4?

5 MR. MARK STAUF: Yes.

6 MR. BRENT CZARNECKI: And I'm looking at
7 line 7 particularly?

8 MR. MARK STAUF: Mm-hm.

9 MR. BRENT CZARNECKI: And you use terms
10 such as:

11 "radically different results demonstrate
12 the unpredictability of natural gas
13 markets and the uncertainties associated
14 with any analysis of this kind."

15 MR. MARK STAUF: Yes.

16 MR. BRENT CZARNECKI: Does that remain
17 your position today for forward-looking forecasts?

18 MR. MARK STAUF: Well, yes, I mean it's -
19 - it's simply a -- what it's showing is -- sorry, let me -
20 - let me back up here.

21 At the time the forward-looking forecast is
22 made based on forward-market prices, I would say that is
23 the best available; that's been my view, anyways. That if
24 you can actually get an actual market result where people
25 are betting their own money on what they think prices are

1 going to be, which is what a forward market does for you,
2 that's probably the best available.

3 Now, what this is saying, and I don't think
4 there's any dispute about this, that the gas and gas
5 transportation markets are sufficiently volatile, probably
6 more volatile than most others that you see in the general
7 economy, turns out the forward-looking numbers don't turn
8 out to be right.

9 I mean, it's a -- it's sort of a random
10 variation up and down. You don't know which way it's
11 going to go or to how much or to what extent. But, yeah,
12 it's just not that...

13 MR. BRENT CZARNECKI: Understood. And I
14 guess the best available then, to me, means that it is
15 radically different, unpredictable and full of
16 uncertainties. MR. MARK STAUFF: The forecast?

17 MR. BRENT CZARNECKI: Yes.

18 MR. MARK STAUFF: Well, there is
19 uncertainty around it, yes. I mean, I don't know that
20 "radically" really is the right adjective in there. That
21 adjective was used here to just -- to show that there's,
22 in fact, in this particular case, there was quite a
23 variance between what was forecast in December and what
24 actually happened.

25 It could have been much less. It could

1 have been bang on or it could have been something else,
2 but --

3 MR. BRENT CZARNECKI: And -- and, sir,
4 that would be an expected outcome, right?

5 MR. MARK STAUF: You have to be prepared
6 to expect that, yes. Yes.

7 MR. BRENT CZARNECKI: Now perhaps we can
8 turn up Appendix 2 and 3 and see how radically different
9 they were.

10 And now as I understand these appendixes
11 properly, the forecast was somewhere in the range -- the
12 basis differential that is -- was -- just give me a
13 moment. I don't have the appendix too in front of me.

14 It was a dollar -- it was forecasted to be
15 a dollar twenty-two and a half (\$1.22 1/2) cents.

16 MR. MARK STAUF: On the methodology that
17 was employed here, yes, that's right.

18 MR. BRENT CZARNECKI: And the actual
19 results came in at forty-eight (0.48) cents?

20 MR. MARK STAUF: Yeah. Yeah. Well,
21 actually, the actual over the five (5) months was -- was
22 actually only thirty-five point five (0.355). The forty-
23 eight (0.48), what happened was I said well, look, if you
24 were actually doing this in February, you wouldn't have
25 done it -- you wouldn't have done an exchange at all

1 because you would have lost money on it. Right? So you
2 take that month out. If you -- if you average it over the
3 other four (4) months where it's positive, it turns out to
4 be forty-eight (0.48) cents. That's right.

5 MR. BRENT CZARNECKI: So, just looking at
6 the basis differential is meaningless as an indicator of
7 forecasted capacity management revenues?

8 MR. MARK STAUF: No, I wouldn't say it's
9 meaningless at all. It's -- it's the best forecast that's
10 available at the time, you know, prior to the -- the --
11 the real world playing itself out. It -- it -- it has --
12 you have to expect that there are going to be variances
13 which is why there's deferral accounts in all of this.

14 And that's true of gas prices generally,
15 right? If you look at gas price forecasts, they turn out
16 to be forward -- based on forward-market numbers. They
17 turn out to be wrong, too, by substantial amounts.

18 MR. BRENT CZARNECKI: And I guess, getting
19 back to the radical and highly unpredictable, a drop from
20 a dollar twenty-two (\$1.22) to thirty-five (0.35) cents is
21 about a 200 percent difference, if my lawyerly math is
22 correct?

23 MR. MARK STAUF: I'll take your math on
24 faith. Sure, sure, yeah. That's the kind of thing that
25 can happen, as I say.

1 MR. BRENT CZARNECKI: And I understand
2 just from your testimony, the \$5 million that we were
3 speaking about for capacity management revenues, of which
4 I think roughly \$1.3 million was achieved by Centra, is
5 based on just the rough calculation using the thirty-five
6 point five cent (0.35.5) --

7 MR. MARK STAUF: Well, no, actually what
8 it -- what it -- it was close to that, but I'd originally
9 said, I think, in the written text, 7 million which I got
10 by multiplying forty-eight (48) by 15 million gigajoules.
11 And then I think I kind of corrected myself when I was
12 testifying before. I said, well, that probably wasn't
13 quite right because you -- you -- that assumes that you've
14 got the forty-eight (0.48) cents for the whole 15 million
15 gigajoules. It all just assumes, of course, which I --
16 it's just an assumption that, in fact, you'd be cycling
17 through the whole 15 million gigajoules.

18 But in any event, you -- if you have one
19 (1) month where you couldn't have done it at all, like in
20 February, you wouldn't have used -- even if you were
21 trying to mo -- even if you moved your whole 15 million
22 over those -- the winter, you wouldn't have moved all 15
23 million over and exchange, so...

24 MR. BRENT CZARNECKI: Right, and -- and so
25 the actuals, you moved it down, you adjusted from forty-

1 eight (0.48) cents to thirty-five (0.35) cents to reflect
2 the basis differential swing for the month of February,
3 that's where the thirty-five (0.35) cents is -- comes
4 from?

5 MR. MARK STAUF: Well, no, the thirty-
6 five (0.35) cent's is just the arithmetic average of the
7 numbers to the left of it, there. The forty-eight (0.48)
8 is just an adjustment to say, well, look if -- if you had
9 a month where -- where prices were lower in Michigan than
10 they were in Alberta, you wouldn't do this. You'd --
11 you'd do the conventional thing and no matter what other
12 considerations you had, you'd -- you'd just use your Great
13 Lakes backhaul and that would be the end of it.

14 MR. BRENT CZARNECKI: And the \$5 million
15 that we were talking about earlier is, assuming that we
16 cycle all of the storage available -- all of Centra's
17 available storage using the thirty-five (0.35) cent
18 number, is that what -- how you arrived at your 5 million?

19 MR. MARK STAUF: Well, essentially, yeah,
20 close to that. I mean, it was -- the 5 million that I
21 mentioned in -- was -- was just taking it approximately 20
22 percent off of the 7 million that I calculated as forty-
23 eight (0.48) times fifteen (15).

24 MR. BRENT CZARNECKI: Right.

25 MR. MARK STAUF: But I think

1 mathematically you're -- you're probably about right.

2 MR. BRENT CZARNECKI: And, sir, are you
3 aware that Centra has cycling costs with respect to its
4 ANR storage; that means if it doesn't physically move the
5 gas out, it -- it faces the possibility of incurring
6 penalty charges.

7 MR. MARK STAUF: Well, when I was saying
8 cycling -- yeah, I -- see, my assumption here is that and,
9 again, without having even -- without asking -- having
10 asked Centra what they did, the scenario I was working
11 with, artificial as it may have been, wouldn't have
12 involved that because I was saying, you put your whole 15
13 Bcf in and you take it all out.

14 Now, if what happens is Centra has 15 Bcf
15 in at the beginning of the winter and only takes ten (10)
16 out, so they've got five (5) leftover then, first of all,
17 if you were purely interested in the kind of transaction
18 I've been talking about here, then you -- you'd obviously
19 -- your potential is a lot less.

20 And if you have cycling penalties or not
21 cycling penalties from ANR, then that's another cost.
22 But, of course, that's a -- kind of -- whole different
23 layer of issue, right --

24 MR. BRENT CZARNECKI: Mm-hm.

25 MR. MARK STAUF: -- whether -- how

1 exactly Centra manages its storage inventory. I haven't
2 purported to address that here at all. That would be a --
3 I'm sure an interesting discussion, but not something I've
4 done here.

5 MR. BRENT CZARNECKI: But that's one (1)
6 of the other of many factors that we've -- that Centra's
7 identified that may come into play as just other than your
8 basic theoretical analysis that we've put forth --

9 MR. MARK STAUF: Sure.

10 MR. BRENT CZARNECKI: -- to derive the \$5
11 million?

12 MR. MARK STAUF: Sure, sure, I mean if --
13 if they were sort of systematically only using two-thirds
14 (2/3) of their storage volume, for example, then for -- to
15 -- for purposes of serving the Manitoba market, then
16 obviously, sure, you're -- now I mean I think that would
17 raise -- again I -- as I say, I haven't thought about
18 that, but if you are continuously having 5 Bcf of storage,
19 your gas just sitting in storage year after year
20 attracting cycling penalties, somebody might want to think
21 about if there's an alternative strategy to that,
22 particularly if that inventory does have a value attached
23 to it.

24 And I realize that gets to be complicated
25 because you have to look at replacement costs and

1 everything else, but there may be some way through all of
2 that where you can optimize your returns by doing
3 something different with your storage but that's, you
4 know, something Centra, I'm sure, looks at all the time.

5 MR. BRENT CZARNECKI: And -- and, sir, if
6 Centra were systematic -- systemically going to the market
7 with its 15 Bcf of storage, do you think that would have
8 any impact or narrowing of the basis differential?

9 MR. MARK STAUF: Well, it's -- it's not a
10 -- it's -- it's 15 Bcf spread over the whole winter,
11 right? It's sort of their withdrawal capacity and I'm
12 guessing -- I haven't done the arithmetic but I'm guessing
13 that Centra cannot withdraw -- it just doesn't have
14 enough inventory to take its whole two hundred and eight
15 thousand (208,000) out every day for a hundred and fifty
16 (150) days. The inventory just isn't that big.

17 So, yeah, and -- and I think this point was
18 raised or put to me in an -- in an Information Request
19 that, you know, is there a -- an effect of diverting the
20 gas in to the Michigan market? Well, there may be.

21 But I mean Centra has said that they do
22 these transactions for approximately half the -- the
23 volume anyway so and, yeah, there may be a -- there may be
24 an effect on that. It's -- it's really a question of
25 whether -- at -- at a sort of micro level any movement of

1 a large volume is going to move the price around a little
2 bit. That happens in Alberta, I mean, which is a very
3 large market. If you put two hundred thousand (200,000)
4 extra into the net market it's going to move the price a
5 little bit.

6 But, I mean, physic -- the -- the other
7 thing you should remember though is that physically this
8 stuff -- this gas that comes out of storage isn't actually
9 going to Manitoba anyway, right? The -- the -- no matter
10 how you structure these transactions, physically the same
11 thing happens.

12 What really happens to that gas, is it
13 comes out of storage, goes into the Great Lakes system and
14 then goes to Dawn basically. It goes to Dawn or Niagara
15 or Montreal or, you know, who knows where.

16 So while I'll acknowledge that there may be
17 an effect, I'd be reluctant to admit or sort of agree with
18 you that there's going to be a substantial, sort of -- a
19 substantial effect on market prices if -- if Centra was to
20 do more of this exchange activity.

21 MR. BRENT CZARNECKI: One (1) of the other
22 things we talked about and maybe tried to say is that in
23 order to conduct a capacity management -- management deal
24 you need two (2) parties and you need a willing
25 counterparty; is that your understanding?

1 MR. MARK STAUF: That's -- I think that
2 goes without saying, yes.

3 MR. BRENT CZARNECKI: That's a fair
4 question, I guess, to ask?

5 MR. MARK STAUF: It goes without saying,
6 yes.

7 MR. BRENT CZARNECKI: Did your -- did you
8 \$5 million that we were speaking about earlier contemplate
9 what the other counterparty may want to extract from the
10 deal?

11 MR. MARK STAUF: No, there is -- fair
12 enough. There is not a sort of trading margin for the
13 other side in that, that is -- that is true. And in an --
14 in an exchange-type of deal you would have to factor that
15 in.

16 If -- if what was happening was Centra had
17 geared itself up to actually do all of this physically
18 itself, then they wouldn't have to worry -- to worry about
19 that kind of cost, right? They would be, in effect,
20 incurring that cost themselves but that's -- that's fair
21 enough.

22 No, I mean these -- the numbers that these
23 people can extract are not just arbitrary either, right?
24 They're -- they're -- they compete with each other --

25 MR. BRENT CZARNECKI: Right.

1 MR. MARK STAUF: -- and so, you know --

2 MR. BRENT CZARNECKI: So -- so you'd -- I
3 mean competing with each other the -- the numbers are
4 going to be market driven, right?

5 MR. MARK STAUF: At some level, yeah.

6 MR. BRENT CZARNECKI: So, for example, if
7 Centra goes to conduct an exchange and let's assume for a
8 second that they have four (4) or five (5) counterparties,
9 you're not suggesting that Centra has any motive to go
10 with other than the lowest bid, are you? It's going to go
11 with the best market-driven price --

12 MR. MARK STAUF: Or the highest -- or the
13 highest bid in this case, yeah.

14 MR. BRENT CZARNECKI: -- to extract as
15 much money --

16 MR. MARK STAUF: Yeah.

17 MR. BRENT CZARNECKI: -- on the table as
18 it can for Manitoba ratepayers, correct?

19 MR. MARK STAUF: No, I have no reason to
20 think that -- that Centra would -- would not do the right
21 thing in that -- in that kind of case.

22 MR. BRENT CZARNECKI: So isn't it then, in
23 summary on that point, a better way of looking at things
24 is to what the market actually drives out as opposed to
25 forecasted and unpredictable basis differentials?

1 MR. MARK STAUF: Sorry, could you run
2 that by me again? I'm --

3 MR. BRENT CZARNECKI: It --

4 MR. MARK STAUF: -- not sure I got it.

5 MR. BRENT CZARNECKI: Isn't the -- a
6 better indicator of revenues and perhaps the sufficiency
7 of those rev -- revenues looking at what is actually
8 driven and obtained via the market forces, as opposed to
9 an analysis that you've put forth in terms of just a
10 straight theoretical analysis of the basis differentials?

11 MR. MARK STAUF: No. But the whole point
12 is that while there is uncertainty about what results the
13 market will actually drive out, they are -- if -- if what
14 we're talking about is, for example, those margins, I mean
15 those are -- those are competitively constrained to some
16 extent, right? That's true. I mean, maybe another --
17 maybe I'm misunderstanding your question.

18 This -- the Appendix 3 is a backward-
19 looking look, right? It's kind of going after the fact
20 and saying Oh, look, you know, I'm -- I'm sort of in a
21 position of saying Oh, look, looks like there was \$5
22 million there and you guys didn't get it. For forecasting
23 purposes, that's useless information, right? Looking
24 backwards to 2006/2007 doesn't do me a lot of good,
25 looking forward to 2007/2008.

1 indicative of what?

2 MR. BRENT CZARNECKI: Your Appendix 2 in
3 the forecast in Appendix -- well, Appendix 3 is the
4 actuals, but you're not suggesting that Appendix 2 is a
5 good example of what the market will ultimately bear on a
6 go-forward basis? Otherwise, I would suppose none of us
7 would be sitting here because we would all be extracting
8 money?

9 MR. MARK STAUF: Well, Centra is actually
10 kind of uniquely positioned here, in a way. I mean, sort
11 of -- Centra has entered into these storage contracts at a
12 time when the world was quite a bit different, in terms of
13 capacity utilization and everything. And right now, that
14 storage that Centra acquires at a cost-based rate as
15 opposed to a market-based rate -- which what you get if
16 you have to go to Alberta, if you try to buy it from Union
17 in Ontario or from MichCon in Michigan -- is kind of a
18 good deal. It's a valuable asset.

19 MR. BRENT CZARNECKI: And just --

20 MR. MARK STAUF: And I'd be reluctant --
21 they should think hard about giving that up, whether they
22 need it or not, because it's a -- it's a financially
23 valuable asset. So the money is -- the value is there.

24 MR. BRENT CZARNECKI: The other side, and
25 my last question in this area in terms of the market, is

1 that there's the other side of the equation, that being
2 that Centra may go out and there may be five (5) or six
3 (6) different counterparties that it's looking to engage
4 in some exchange -- exchanges. But, on the flip-side of
5 that though, those same five (5) or six (6) counterparties
6 may be dealing with two (2) or three (3) parties such as
7 Centra, and in this case, Great Lakes may be a competitor.

8 So the -- that will have an impact on what
9 the market will ultimately drive as well, will it not?

10 MR. MARK STAUF: Yes. Although I --
11 yeah, that's fair enough. I would characterize that as
12 just that's how things work all the time. It's not just
13 Centra sitting there in Michigan with gas, right? There's
14 all kinds of people with gas in Michigan. All kinds of
15 people want to buy it or want to buy it and take it to
16 Niagara Falls or wherever.

17 So it all just kind of -- it's a big
18 impenetrable pool is -- is kind of the problem.

19 MR. BRENT CZARNECKI: So it's somewhat of
20 an unfair characterization then when you look at the 1.3
21 million that was actually derived, versus the \$5 million
22 number that we've talked about and you talked about in
23 your pre-filed evidence.

24 Would you agree with that?

25 MR. MARK STAUF: Well, as I was saying, I

1 don't think it's unfair. I take the point that there are
2 factors that -- that might sort of tend to degrade that.
3 But I think what I was saying in my direct was, I'm still
4 puzzled about the extent of that. I mean, maybe there's a
5 perfectly good explanation that I just haven't seen.

6 But, I am puzzled about it that, yes,
7 there's factors that will tend to degrade it. I mean, the
8 margin point that you brought up is -- is one (1) that I
9 hadn't thought -- or I hadn't mentioned earlier, and that
10 -- I take that point.

11 But, there's things that can happen the
12 other way, too, so I don't know what I can tell you. I --
13 I don't think that it's unfair. If -- if what you're
14 trying to do, what you have to do is say, for illustrative
15 purposes here, here's what we can expect, I can't think of
16 any better way to do it.

17 I'm acknowledging, and I think have
18 acknowledged all the way through that, yeah, in real life
19 the result is going to be different from that, either
20 higher or -- or maybe systematically over if Centra's
21 correct about the -- the effect of these various factors
22 that they've -- they've mentioned.

23 But, you know, that's why you -- I sure as
24 heck wouldn't suggest that they give up a deferral account
25 for this because you know you're going to get these

1 variances.

2 MR. BRENT CZARNECKI: Right. In -- in
3 your testimony earlier, Mr. Stauff, I -- I believe I have
4 you quoted properly to suggest that it's -- Centra's
5 position was that it's not possible to come to a mutually
6 advantageous agreement with a outsourcing party for its
7 capacity management.

8 Do you remember that or do I have it right?

9 MR. MARK STAUFF: That was just earlier.
10 That was my rough approximation of what I thought I heard
11 Mr. Stephens and -- and Ms. Stewart say.

12 MR. BRENT CZARNECKI: Well, I thought I
13 heard them say that as recently as a few months back that
14 they actually were discussing these sorts of issues with a
15 consultant or a third party, I should say.

16 MR. MARK STAUFF: Yeah.

17 MR. BRENT CZARNECKI: And exploring these
18 possibilities on a, you know, on a go-forward basis; that
19 they hadn't closed the door to them.

20 MR. MARK STAUFF: No, and if I meant -- if
21 I suggested otherwise, I'm sorry, I was just -- that was
22 just a bad paraphrase on my part if -- if I was giving you
23 that impression.

24 MR. BRENT CZARNECKI: And -- and the other
25 thing from your oral testimony that you'd mentioned was

1 that traders are likely to be -- that traders often
2 operate maybe at a more sophisticated level when they're
3 offered incentives; is that correct?

4 MR. MARK STAUF: Sadly, yes, I -- I think
5 that that's on average probably true. There may be
6 exceptions. Maybe Centra's staff are an exception, but I
7 think on average, I would say that, yes.

8 MR. BRENT CZARNECKI: And would you agree
9 that such inducement is likely to induce someone into
10 taking more of a risk position into the market?

11 MR. MARK STAUF: It can, yes, and that is
12 a -- I mean, for example, one (1) of the -- I'm picking up
13 I think the point you're making. One (1) -- one (1)
14 approach somebody might suggest is, well, we can incent
15 Centra to get more money out of this by giving Centra
16 itself some kind of share in the -- in the profits on
17 this, right.

18 And I certainly didn't bring that up and I
19 wouldn't recommend that. I mean, you know, for -- for a
20 utility -- Centra may be a different case being a Crown
21 corporation, but I sure wouldn't want to give Union Gas or
22 ATCO Gas or somebody like that, that kind of scope, given
23 their control over the way their accounting systems work
24 and everything else.

25 Good idea in -- as a matter of economic

1 theory, but probably dangerous for ratepayers when you try
2 to apply it in practice.

3

4 (BRIEF PAUSE)

5

6 MR. BRENT CZARNECKI: Mr. Stauff, you're
7 not suggesting that because Centra employees aren't
8 provide -- aren't provided with incentives, that they're
9 not maximizing the capacity storage -- or capacity
10 management revenues, are you?

11 MR. MARK STAUFF: I'd hate to say that,
12 obviously. I mean, I guess I sort of have to accept the
13 representations from Centra that these people work real
14 hard and do the best they can and I will -- I will accept
15 that. I have no reason to disagree with that.

16 My point was simply that just, again, at a
17 high level when you give people financial incentives
18 things change. I noticed that myself within TransCanada
19 Gas Services. I mean, we were partly a sort of semi-
20 regulated company and partly a trading company and there
21 was different behaviours you could notice depending on how
22 -- what part of the company people worked in.

23 Probably the broader -- I'm sorry, did --
24 probably the -- the bigger issue if you're -- if you're
25 comparing Centra versus potential third-party manager

1 candidates, probably the difference is not the personnel
2 or anything like that.

3 Probably the difference, if there is one,
4 is -- is more the range of assets that they have available
5 to them -- somebody like BP or -- or Coral just has a lot
6 broader reach and that has nothing -- that's not any, you
7 know, saying a bad thing or -- or anything disrespectful
8 about the -- the -- Centra's personnel or management or
9 compensation structures or anything like that.

10 It's just a fact of the matter that the --
11 these other guys have -- have a broader range. It's just
12 economies of scale and scope in their operations.

13 Now, there can be arguments about how
14 extensive that is, I mean, I'm open to the suggestion that
15 maybe, yeah, even if in principle those exist, they're not
16 enough to make it worthwhile and that's possible.

17 MR. BRENT CZARNECKI: Thank you, Mr.
18 Stauff. Those are my questions, Mr. Chairman.

19 THE CHAIRPERSON: Thank you, sir.

20 Mr. Peters, do you have any questions for
21 this Witness?

22 MR. BOB PETERS: Well, Mr. Chairman, Mr.
23 Stauff who is counsel told the Board he wanted to speak on
24 three (3) topics. The first was the Nexen contract
25 extension and he told us there were no issues that he

1 wanted to raise of substance on that matter.

2 On the economic and environment analysis
3 report, his evidence will show that he said it's served
4 its purpose and it's largely moot.

5 And Mr. Czarnecki has stolen my questions
6 on capacity management, so, I have no further questions of
7 this witness and I do know that I will have an opportunity
8 to discuss with him aspects in the next go-round, so,
9 thanks for his evidence and his answers to his IRs on
10 behalf of the Board. Thank you.

11 THE CHAIRPERSON: Thank you, Mr. Peters.
12 Mr. Saxberg, do you have any re-direct?

13 MR. KRIS SAXBERG: No, I don't, sir.

14 THE CHAIRPERSON: Well, thank you very
15 much, Mr. Stauff.

16 MR. MARK STAUFF: Thank you, sir.

17 THE CHAIRPERSON: We appreciate your
18 testimony and look forward to your return.

19 MR. MARK STAUFF: Thank you very much,
20 sir.

21

22 (WITNESS STANDS DOWN)

23

24 THE CHAIRPERSON: So, everyone, I guess
25 that brings us to an end for today and, just quickly,

1 we'll ask Mr. Peters if he could bring us up to date in
2 process.

3 MR. BOB PETERS: In terms of process, Mr.
4 Chairman, with the conclusion of Mr. Stauff's evidence,
5 the evidentiary portion of the Hearing has concluded.
6 There are some undertakings that are remaining to be filed
7 and I know that's being worked on.

8 The Board will, again, sit Friday starting
9 at one o'clock in this hearing room to hear closing
10 arguments, firstly, from myself and then from the
11 Intervenors and I can indicate that I have tried to
12 communicate by e-mail to the Intervenors to alert them
13 that Friday at one o'clock is the planned time.

14 There has been an indication by some
15 Intervenors, including Ms. Ruzycki, that she would expect
16 her closing submission will come in written form probably
17 Thursday and it will be certainly in the Board office by
18 Friday morning and that will give opportunity for parties
19 to review it prior to the one o'clock commencement date.

20 So with that said, we will do have to -- we
21 still have to schedule the time for Centra's closing
22 submission but we are not in a position yet to do that and
23 we will do that as soon as we can figure out what our
24 schedule is going for the following week.

25 THE CHAIRPERSON: Very good. Thank you,

1 Mr. Peters.

2 Does anyone else have anything to add to
3 all this? If not, we stand adjourned. We will see at
4 least a good portion of you on Friday at one o'clock.
5 Thank you.

6

7 --- Upon adjourning at 4:05 p.m.

8

9

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11

12 Certified Correct,

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16 _____
Ashley Guillemin

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