MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

2006/07

COST OF GAS APPLICATION

Before Board Panel:

Graham Lane - Board Chairman

Monica Girouard - Board Member

Alan Molgat - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

November 29th, 2006

Volume III

Pages 571 to 851

APPEARANCES

R.F. Peters	)Board Counsel
Marla Murphy	)Centra Gas
Brent Czornecki	)
Eric Hoaken	)Direct Energy Marketing
Andrea Gibbs	)Limited/Municipal Gas
Nola Ruzycki	)Energy Saving (Manitoba)
	)Corp.
Kris Saxberg	)CAC/MSOS

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LIST OF UNDERTAKINGS

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

THE CHAIRPERSON: Good morning again everyone. Hopefully everyone is ready for a good start.

Mr. Saxberg, we're back to you.

Vince Warden, Resumed
Howard Stephens, Resumed
Lori Stewart, Resumed
Brent Sanderson, Resumed
Kelly Derksen, Resumed

CONTINUED CROSS-EXAMINATION BY MR. KRIS SAXBERG:

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

I'm going to pick up by following up on a -- on a few questions from yesterday. Firstly, we were talking about the front office.

Ms. Stewart, can you confirm that there are six (6) members of the front office?

(BRIEF PAUSE)

MS. LORI STEWART: I can confirm that there have been six (6) authorized individuals out of the

Gas Supply division who are authorized to transact for derivatives.

MR. KRIS SAXBERG: And do they cumulatively constitute what you call the front office?

MS. LORI STEWART: I think generally speaking the Gas Supply division would represent front office. However, specific individuals within the division are authorized to participate in the derivatives hedging program.

MR. KRIS SAXBERG: Going way back, four (4) or five (5) years ago, maybe before that, Ms. Stephens, at one point you were asked, Who's in the front office, in a hearing and you said, I'm the front office.

That was because you were the only person who was authorized to trade at that point?

MR. HOWARD STEPHENS: I'll take your word for it, Mr. Saxberg. It was a while ago and my memory is not that great, but at one point I was front office, middle office and back office, so.

MR. KRIS SAXBERG: And in the Risk Advisory Independent Report on Centra's hedging program, which I've passed out -- although I don't think the Board has a copy of it, this is an excerpt from PUB/CENTRA-45.

THE CHAIRPERSON: We have it now, Mr. Saxberg.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: And on the third page --

MS. MARLA MURPHY: Can you just give us a minute, Mr. Saxberg, please.

(BRIEF PAUSE)

MS. MARLA MURPHY: Sorry. Thanks.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Firstly, just to identify the document, this is an excerpt of a report that was prepared by Risk Advisory. And Risk Advisory was retained by Centra a few years back to do an independent assessment of the qualifications of Centra's staff involved in carrying out its derivative hedging program, is that correct?

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

MR. KRIS SAXBERG: I'm sorry. And on the third page, which is page 14 of the report, there's a discussion about front office.

Do you see that, Ms. Stewart?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And there there's an

identification of five (5) front office personnel.

Do you see that?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And so is it safe to say then that the front office constitutes those who are authorized to participate in trading or qualified to participate in trading?

MS. LORI STEWART: This staff assessment was specific to the derivatives hedging program, not our physical operations, which is why I'm describing the Gas Supply division generally as our front office.

However, yes, in 2002 five (5) individuals were authorized at that time to transact for derivatives.

MR. KRIS SAXBERG: And you're part of the front office, correct?

MS. LORI STEWART: Well, I'm responsible for the derivates hedging program -- or was responsible up until November 1st, yes.

MR. KRIS SAXBERG: And Ms. Sanderson as the hedging analyst is also part of the front office?

MS. LORI STEWART: Yes, he is.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Now, there was no

written recommendation by the front office to hedge 50 percent of volumes on October 18th or on October 25th; we established that yesterday, correct?

MS. LORI STEWART: I believe what we established was that there were recommendations filed two (2) or three (3) weeks earlier which constituted the background material for the purposes of the Executive Committee's decision-making process.

MR. KRIS SAXBERG: But no specific recommendation by the front office in writing to the Executive to only hedge 50 percent of volumes, correct?

MS. LORI STEWART: There are no recommendations that hatched to the meeting dates that you just discussed.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Verbal advice or discussions involving the front office occurred in or around the time period these major decisions were being made by the Executive, is that fair?

MS. LORI STEWART: Certainly.

MR. KRIS SAXBERG: And, Mr. Sanderson, as the top hedging analyst you must have had some input with respect to the matter, correct?

MR. BRENT SANDERSON: I'm typically part of these discussions, any discussions that we have as it relates to hedging.

MR. KRIS SAXBERG: Do you have a specific recollection of the discussions on this occasion?

MR. BRENT SANDERSON: We have so many discussions on an ongoing basis, Mr. Saxberg, I'm unable to specifically recollect the -- the exact nature of discussions we may or may not have had on an exact date going back in time, so no.

MR. KRIS SAXBERG: Are you saying that you don't recall your assessment or input as to what the company should do regarding this matter?

MS. MARLA MURPHY: I hope, Mr. Chairman, we're not going down the same road we travelled yesterday, where we tried to have personal opinions of the Panel put on the record. If that's the intention, again, I would object. And if it's not, perhaps Mr. Saxberg could rephrase his question.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Well, I don't think I said anything about a personal opinion. I'm asking Mr. Sanderson, as the top hedging analyst, whether he had an assessment of what the Company should do in light of the market and hurricane -- the hurricanes, and all of the discussion that we've had over the last couple of days?

MS. LORI STEWART: Mr. Saxberg, all our front office personnel were involved in discussions with Mr. Warden prior to him taking forward recommendations to the Executive Committee.

However, at that time I think it's safe to say that there were varied opinions and -- however, we reached a consensus in terms of going forward and that's the end of it.

MR. KRIS SAXBERG: Okay. Well, I don't think that you've yet put on the record what that consensus was.

Can you tell me what it is -- what it was then of the front office?

MR. VINCE WARDEN: Mr. Saxberg, maybe I'll jump in here. I -- and just to follow up on an undertaking I took at the close of proceedings yesterday.

I did, in fact, go back to the office and check to make sure there were no other formal recommendations that were presented to Executive Committee other than what is on the record of these proceedings and I did, in fact, confirm that.

But, with respect to whether or not, there was consensus, as I indicated yesterday, the Executive

Committee's role is to receive recommendations on a wide variety of subjects and their -- their role in managing Manitoba Hydro/Centra Gas is to make decisions.

So those recommendations, whatever they may be, are certainly taken into consideration. A decision is made, but it doesn't always agree with the recommendations that are put forward.

MR. KRIS SAXBERG: And that's as it should be, the Executive have the final say, correct?

MR. VINCE WARDEN: Consistent with the direction of the Board of Manitoba Hydro, yes.

MR. KRIS SAXBERG: Right, I mean, if every recommendation was followed, then there would be no role for the Executive. The Executive is there to make a decision.

MR. VINCE WARDEN: Sure.

MR. KRIS SAXBERG: And to make the tough calls, correct?

MR. VINCE WARDEN: That's fair.

MR. KRIS SAXBERG: And all I want to know, it's a very simple question, I want to know, Ms. Stewart, as the person responsible for the hedging program, what advice were you giving to the Executive?

MR. VINCE WARDEN: I think I'll answer that. The advice given by front office by gas supply was consistent, that is, to follow the mechanistic hedging program. They're more comfortable with that. There's -- over the long term, I certainly agree with that, I support that.

There are -- as provided though in the -- in the policy, the derivatives hedging policy, there are occasions where exceptions are permitted and the -- the Gas Supply Division, Risk Management Committee, the front office all support that and, ultimately, they support the decisions that are made by the Executive Committee.

So there's no -- if they're trying to imply Mr. Saxberg that there's some kind of a rift between Gas Supply, front office and Executive Committee, that is certainly not the case by any means.

MR. KRIS SAXBERG: Thank you for that. And for what it's worth, I would have been shocked, based on the testimony that I've heard over the last several years, if front office had recommended anything else other than that.

But, that editorial aside, on October 18th, that was the date that the Executive exercised its special discretion to hedge only 50 percent and we discussed that yesterday. And without imputing anything here and perhaps it's simply a matter of coincidence, but on the recordings of the October 18th hedging session were not made in contradiction to the policies requiring that, are you aware of that?

MS. LORI STEWART: Yes, I'm aware that the transaction session on October the 18th inadvertently was not recorded.

MR. KRIS SAXBERG: And I think the reason offered was that someone had accidentally unplugged the equipment and that hadn't been noted at the time of the session, for what it's worth, correct?

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

MR. KRIS SAXBERG: But, the confusion that I have, is that yesterday I thought you had said that what happened was that on October the 4th, 50 percent of hedges -- 50 percent of volumes were hedged?

(BRIEF PAUSE)

MS. LORI STEWART: No. We can walk through the timeline again. Originally front office had scheduled to go to the market on October the 4th and October the 18th. We set those dates back in July.

On October the 4th our Executive Committee met and their determination was to defer hedging for a -- a period of time; I don't believe it was explicit in the Executive Committee decision to defer hedging. So the

October 4 session was deferred. We did not go to market on October the 4th.

The morning of October 18th the Executive Committee met again and their determination was that 50 percent of eligible volumes for those forward months should be hedged. A few hours later front office took those volumes to market and hedged them on October 18th.

MR. KRIS SAXBERG: Okay. Thank you for that, that's -- that clears things up and some of the earlier evidence, I guess, is now better understood.

Mr. Warden, do you have a specific recollection that it was your view that it was unnecessary to have a written recommendation on October 18th?

MR. VINCE WARDEN: I don't have a specific recollection as to whether it was necessary to have a written recommendation on that date.

MR. KRIS SAXBERG: And your recollection is based on the written evidence -- the written documentation as it exists today and I think yesterday you said, you know, based on the fact that there isn't a written recommendation, you may have been of the view that it wasn't necessary.

But the question is this: Your recollection here about these events is going to come from the written documentation, correct?

MR. VINCE WARDEN: Well, the written documentation is what it is and I think it supports the positions we took.

MR. KRIS SAXBERG: What I'm saying is you don't have an independent recollection without the aid of the documents, correct?

MR. VINCE WARDEN: If you could be more specific as to what it is I don't have a recollection of?

MR. KRIS SAXBERG: Of the necessity to -- or to have a written information from front office about their advice?

MR. VINCE WARDEN: Well, recommendations are taken to Executive Committee, written and unwritten all the time. It's normal course for written recommendations to be taken to Executive Committee but it's not the absolute rule.

MR. KRIS SAXBERG: I'll put -- I'll put the question to your directly and I think it's been put to you before.

Is there a conscious decision being made by Manitoba Hydro or Centra to minimize the documentary information with respect to these types of discretionary decisions regarding hedging because of what's happened in proceedings like this in the past?

MR. VINCE WARDEN: Not at all.

MR. KRIS SAXBERG: Would you agree with me that the documents recording what happened at the gas supply level and at the executive level could be more fulsome, could be a bit more detailed and that that would be helpful to this process?

MR. VINCE WARDEN: Well, I think the minutes are quite fulsome. The minutes speak to the decisions that were made at those meetings and I think that's sufficient for these proceedings.

MR. KRIS SAXBERG: If we turn to the minutes from the executive at Tab 15 -- page 15...

(BRIEF PAUSE)

MR. KRIS SAXBERG: Sorry I -- it's page 14.

This is the -- the document that describes and records the decision of the Executive to stray from the mechanistic approach and to hedge only 50 percent of volumes, correct?

MR. VINCE WARDEN: It is, yes.

MR. KRIS SAXBERG: And there's -- there's no other document, no other written recording of the discussion at that meeting in the record, correct?

MR. VINCE WARDEN: This -- this is the minute that represented the decision that was made at that meeting.

MR. KRIS SAXBERG: And you'll agree that this document doesn't explain why the decision is made, does it?

MR. VINCE WARDEN: Well, I think it -- it does, in fact, review to PUB Order 135/05, which there was an extensive discussion on this issue. And with that as background, I think that's quite good information to -- to support this decision.

MR. KRIS SAXBERG: Wouldn't it be helpful to proceedings like this if there was a -- more of a narrative explaining why the Executive reached the decision that it reached; I'm not saying with respect to every -- every decision but a very important decision like the one that we're -- we're talking of today?

MR. VINCE WARDEN: Mr. Saxberg, Executive Committee meets on many, many issues. We meet twice every week, every Tuesday morning, at 7:30 in the morning. We get together and we -- we're usually there for a couple of hours reviewing recommendations that are brought forward.

The consultant that's reviewing design of our new head office tells us that we have a culture of clutter at Manitoba Hydro, that we have too much paper, too much documentation. We have -- I don't know whether you ever visited Manitoba Hydro's offices or not but there's paper reports upon paper reports.

So to say that we need more, no, I wouldn't agree with that.

MR. KRIS SAXBERG: Would you agree that -- that with respect to the hedging program, that the decision that was being made was a very important one?

MR. VINCE WARDEN: Well, relative to the other decisions that are made at Executive Committee, it's of equal importance as some, not as important as others, more important than some. But it's -- I'm not diminishing the importance of it, by any means, but I do think that the minutes that you have before you accurately record the decisions that were made.

MR. KRIS SAXBERG: Okay. And page 22 then and 23 are the minutes of the other instance of the exercise of discretion. And these minutes as well, from my perspective anyway, are -- are spartan but you're going to disagree with me on that.

MR. VINCE WARDEN: Well, I -- I am going to repeat what I just said. I think the minutes accurately reflect what was decided at that meeting.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Now, if we could turn back to Mr. Simard's report about qualifications of various staff at Manitoba Hydro to make decisions about hedging.

THE CHAIRPERSON: Are you talking about the Risk Advisory extract?

MR. KRIS SAXBERG: That's right.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: At page -- the first page of the extract, which is page 12 of the report, there's a discussion about the Executive Committee, and in the second-last paragraph, or the second paragraph under Risk Advisory Assessment, Mr. Simard writes:

> "While Risk Advisory did not interview all members of the Executive Committee, there is a concern about the group's ability to make strategy decisions based on market views that would be associated with a judgmental approach."

Do you see that?

MR. VINCE WARDEN: Yes.

MR. KRIS SAXBERG: And in the two (2)

instances that we've been discussing the Executive, as I think you've already agreed, was making strategy decisions based on market views, correct?

MR. VINCE WARDEN: And that's -- yes.

(BRIEF PAUSE)

MR. KRIS SAXBERG: And if we flip to the very last page of this excerpt under Conclusions, Mr. Simard, in the second bullet, says:

"In most areas Centra Gas Manitoba and Manitoba Hydro do not possess the requisite skills to implement and monitor a judgmental risk management program that permits discretion in the establishment of hedge positions based on market price views."

That was the upshot of Mr. Simard's report, correct?

MR. VINCE WARDEN: Yes. And that's why we have, largely, a mechanistic hedging program in place at -- at Centra Gas.

MR. KRIS SAXBERG: Now, it's -- is it Centra's position that the Executive has acquired skills to take a market view in the time that has passed since

Mr. Simard rendered his report?

MR. VINCE WARDEN: Mr. Saxberg, we take market views on very rare and exceptional circumstances. We've already reviewed those circumstances under which those exceptions were made.

MR. KRIS SAXBERG: Internal risk quantification systems can be expensive according to some -- the answers that were provided by the Company during the IR process. And at PUB-48(d) Centra says that a risk quantification system for a judgmental approach taking market views would cost about five hundred thousand dollars ($500,000).

Do you accept that, subject to check?

MS. LORI STEWART: Yes, I'm familiar with the IR.

MR. KRIS SAXBERG: How many instances of taking a market view in a year would, in your view, trigger the need for a risk quantification system to be put in place?

MS. LORI STEWART: If Centra's objective was to reduce customers' gas costs by virtue of its hedging program and if it was systematically looking to outperform the market, in that situation my recommendation would be that we needed to vamp up our internal risk quantification systems, however, that's not the case.

MR. KRIS SAXBERG: I'm going to move on to discuss the -- the cost of the hedging program.

And, Ms. Stewart, yesterday you said that the -- the Board has to approve the gas cost consequences of hedging activities.

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

MR. KRIS SAXBERG: And the Board does that looking at a snapshot of a one (1) year period; it's the '05/'06 fiscal year, correct?

MS. LORI STEWART: Yes, that's the -- the way this process works.

MR. KRIS SAXBERG: And the fortunate result for that year is that consumers have paid $47 million less than market price for their gas.

MS. LORI STEWART: Yes. Customers' gas costs were reduced by $47 1/2 million in the' 05/'06 timeframe.

MR. KRIS SAXBERG: That's the good news, but it's always a good news/bad news scenario it seems, and the bad news is forecasting the balance of the '06/'07 year Centra has put evidence on the record that customers may pay $77 million more than the market price of gas, correct?

MS. LORI STEWART: Yes, recognizing that

that number is a forecast.

MR. KRIS SAXBERG: And that would mean that customers would be paying 23 percent more for their gas than the market price, if the forecast comes to fruition?

MS. LORI STEWART: Subject to check, yes.

MR. KRIS SAXBERG: If it turns out that customers do wind up paying 23 percent more for their gas in '06/'07, will that information be shared with survey respondents the next time you do market research about hedging?

MS. LORI STEWART: We haven't developed the information that will be shared with consumers. I think what would be pertinent is over -- since the inception of the program what the -- either reduction or addition to customer's gas costs has been.

As we know, since the inception in early -- I guess it was late 2001, December 2001, customer's gas costs have been reduced by a total of $77.4 million and that's to the end of fiscal 2005/'06.

Certainly, whatever the final outcome is, relative to '06/'07, I would net that and include it in a cumulative total of what the program has delivered in terms of reductions or additions to customer's gas costs.

But, most importantly, what I would be

attempting to convey to consumers is the extent of the volatility reduction or that insurance benefit against dramatic price increases.

MR. KRIS SAXBERG: When you net out today, according to your analysis, I think that the number is around $6 million in -- in addition costs?

MS. LORI STEWART: Yes, based on the forecast prepared as at -- as at that time.

MR. KRIS SAXBERG: And we'll get into this maybe a bit later on, but you'll agree that's -- that's more than the estimate of four hundred thousand dollars ($400,000) per year, but in fairness, less than the estimate of 1 to 2 percent overall gas costs to the--

MS. LORI STEWART: Mr. Saxberg, the estimate of less than one-tenth (1/10th) of a percent per year is based on a long term view of a program and we have characterized previously the long term as somewhere between fifteen (15) and twenty (20) years.

MR. VINCE WARDEN: That -- I might just add, Mr. Saxberg, that just by the variable nature of gas prices as we know how variable they can be, that $6 million cost or addition to customer's gas bills has evaporated in the -- if you look at it currently, that -- that number is -- on a cumulative basis on the positive side, or to the benefit of gas ratepayers.

So I wouldn't put too much emphasis on the $6 million addition to the customer's gas bills.

MR. BRENT SANDERSON: I'd just like to point out that the 6 million you're referring to, subject to check, is a reduction to gas costs, not a -- not a net addition to gas costs.

If you can take me to a reference where you're deriving that figure?

MR. KRIS SAXBERG: It's PUB-43 and I do have that in my book.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Sorry, Mr. Peters selected book of documents, at Tab 21.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Column number 3.

MR. BRENT SANDERSON: I stand corrected, we have some more up-to-date figures in front of us that we're referring to and are more current than what is shown in that schedule. And actually the numbers, as they tend to do from day to day flip back and forth and the most recent numbers are showing a net reduction to customer's gas costs approaching $7 million over the period from April 2002 through to the end of the forecast period.

So I apologize for that. We're looking at documents prepared as of different dates.

MR. KRIS SAXBERG: Getting back to just the '06/'07 forecast, Mr. Warden, does the Company have a view as to whether or not, $77 million in additional gas costs is too much to pay for the benefits in reduced volatility that are being provided by the program?

MR. VINCE WARDEN: We're, of course, very concerned about that number. But, in consideration of that number and as a matter of fact, discussions with the Board of Manitoba Hydro, we believe that the program we have in place today at Manitoba Hydro, the mechanistic approach -- approach is the best way to go for the consumers of Manitoba.

MR. KRIS SAXBERG: Now, Mr. Sanderson, you said yesterday that there was a correlation between the instrument that provides the greatest reduction in volatility and a potential for the biggest reduction or addition to gas costs, remember that?

MR. BRENT SANDERSON: Yes, and that was specifically with reference to a fixed price swap. And that relationship just derives from the fact that the more price certainty you have in a volatile market the more potential for your net cost of gas purchases once hedging packs are included to be something different from the prevailing market price, being either plus or minus, that's where that relationship derives from.

MR. KRIS SAXBERG: And following that relationship through, would a wider bandwidth then have less impact on gas costs, either positive or negative, over the long run, than a tighter one

MR. BRENT SANDERSON: Yes, with the coincident effect that it would be less effective in providing more stability in customer's rates.

MR. KRIS SAXBERG: And with respect to caps, they're -- they're a bit peculiar in this regard because you could have a situation of high volatility in prices, but if it's all below the cap, the cap would show a reduction in volatility of zero, correct?

MR. BRENT SANDERSON: With any instrument other than a fixed price swap, there is the potential for prices to fluctuate either below the strike of the collar and including the upfront prem -- or pardon me, the strike of a cap -- of a cap once the upfront premium is included, or for the price to float within the boundaries of a collar and provide no reduction in volatility, in the event that either of those instruments aren't triggered by the market price.

And I just want to add for clarification, as well, in the instance of a cap or a call option, there's an issue regarding what you're setting out to protect customers from and how effective that instrument will be.

And if you concluded that customers are desirous of protection fifty (50) cents above the future's market price one (1) of the peculiarities, if you want it, as you referred to it is, is that to -- in the attempt to allow or give customers the benefit of theoretically full participation in any subsequent decline in prices, the offsetting opportunity cost is that in the attempt to set your cap price at fifty (50) cents above the future's market price, in today's market you may pay a dollar fifty ($1.50) to two dollars ($2.00) upfront for that protection which, effectively, means that now customers in return -- in the attempt to try and fully participate in downward movements in price, the upside protection that they would derive from the cap may only kick in two dollars ($2.00) or two dollars and fifty cents ($2.50) above the market price once you consider the effects of the upfront premium required to transact that cap.

MR. KRIS SAXBERG: Thank you for that.

The estimate of four hundred thousand dollars ($400,000) over the long run -- four hundred thousand (400,000) per year, over the long run, applies to caps, collars or swaps?

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

MR. BRENT SANDERSON: And I think we'd just like to clarify that we are -- our evidence was we don't expect it to be more than that and actually the quantitative portion of our evidence would indicate a lesser expected cost than the four hundred thousand (400,000) even. That's -- it's a conservative boundary above which we don't expect to see a net long run cost, the four hundred thousand (400,000), relative to a typical annual purchase gas cost budget in the neighbourhood of $400 million per year and it does fluctuate from year to year.

THE CHAIRPERSON: Just to ensure that we're following this. When you're talking about the four hundred thousand (400,000) you're not talking about the differences between the price paid and the price paid taking into account hedging, you're talking about operating costs associated with the approach, are you not?

MR. BRENT SANDERSON: No, sir, we're not. What we're saying is, is that regardless of the strategy pursued, be it a call option strategy, a collar or a fixed price swap strategy, what the net long run addition or reduction to gas costs that one could expect over a reasonably long period of time, the net of all these pluses and minuses being at the $77 million reduction to gas costs that were achieved in the end of '05/'06 or the potentially 70 million plus addition that Mr. Saxberg referred to. Over the long term the net of all of those pluses and minuses, in all likelihood, will net out to what amounts to the embedded dealer margin cost we've paid for those instruments.

So that's the transaction cost of purchasing those instruments. And those would be expected over the long run not to exceed three quarters (3/4's) of a penny per Gigajoule hedged, which would, in -- on the basis of our analysis, be in the neighbourhood of three hundred thousand dollars ($300,000) annually or less over the long run.

So that was -- is what one should expect to see manifest itself as the net of all these long-run pluses and minuses. The short-term gains and losses, if you will, for want of a better term, should net out to that average of around three hundred thousand (300,000) or less over the long run. And we've used the four hundred thousand (400,000) just as -- for sake of illustration, to round it up to one tenth (1/10th) of 1 percent of a typical year's gas cost budget.

THE CHAIRPERSON: Okay. Well, we do understand it then. So then the operating costs of the practices that are undertaken are not included.

MR. BRENT SANDERSON: Absolutely, sir. Any internal costs associated with managing the program and oversight and so forth would be in addition to that.

THE CHAIRPERSON: So the personnel that are involved in making the calls and yourselves, et cetera, are all separate and apart from this.

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

THE CHAIRPERSON: Thank you. Okay.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman, that's helpful.

And if we could turn then to Tab 3 of CAC selected documents, second page in, following up on the Chairman's questions.

(BRIEF PAUSE)

MR. KRIS SAXBERG: I'm using this document just by way of illustration at this point, but administrative costs are what you were just talking about with -- with the Chairman, correct?

MS. LORI STEWART: Administrative costs would represent our internal operating costs of -- of running the hedging program.

MR. KRIS SAXBERG: And Mr. Simard, in an earlier report that I know you're familiar with and the Board is probably familiar with, has said these costs include the personnel that are seconded to the risk management activity and training of these individuals, correct?

MS. LORI STEWART: Yes, as well as the legal fees associated with the ISDA documentation.

MR. KRIS SAXBERG: Right. And that would be -- that would be a number that would -- would finds its way into a consultant's fee allocation somewhere because it's an external service that's being provided, correct?

MS. LORI STEWART: Currently we're -- we don't get charged by the Province of Manitoba any costs related to ISDA documentation.

MR. KRIS SAXBERG: Well, that's a -- that's a good deal for the Company then I guess.

MS. LORI STEWART: Yes, it is.

MR. KRIS SAXBERG: And there is --

there's an estimate from Mr. Simard that these costs could approach four hundred thousand (400,000) per year, which is the bottom of the paragraph, the first bullet.

MS. LORI STEWART: I see the reference.

MR. KRIS SAXBERG: But your estimate is at CAC-2(b) and it's two hundred thousand dollars ($200,000) a year, correct?

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

MR. KRIS SAXBERG: So to the three hundred thousand/four hundred thousand (300,000/400,000) estimate for imbedded dealer margins you'd add the two hundred thousand (200,000) per year.

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: Now, with respect to those dealer embedded costs though, yesterday, Mr. Sanderson, you acknowledged that the accuracy of that estimate and potential variances is not known.

MR. BRENT SANDERSON: I believe what I said was, if it errs one way or the other it errs on the side of conservatism and that all likelihood our costs -- our long-run embedded dealer margin costs would -- would likely be less than the estimate we've provided.

MR. KRIS SAXBERG: But you were giving your example of the -- about the Brick and not ever being able to know how much profit is involved in -- for the

Brick company in -- with respect to the sale of a sofa.

MR. BRENT SANDERSON: For a specific purchase of a discreet item -- for the retail furniture industry, seeing as we're -- we're sticking with the Brick in this example, it is possible, if one wants to do the work, to be able to determine on average, if the Brick, a publicly-traded company, what their profit margins on sales are over their operations and on particular types of product lines, if one chooses to do the work.

And with the options dealer market it is possible, if one chooses to do the research and spend the time to come down on a pretty reasonable determination of what is typical of a margin embedded in the cost of a derivative instrument by participants in that market and we've done that.

MR. KRIS SAXBERG: Hedging, as you've said is a -- is a form of insurance?

MR. BRENT SANDERSON: Absolutely.

MR. KRIS SAXBERG: And it's insurance in that risk is being transferred away from the -- from the insurance buyer, here Centra, correct?

MR. BRENT SANDERSON: As -- as it pertains to our circumstances that's -- that's an accurate characterisation?

MR. KRIS SAXBERG: But the risk, of course, doesn't go away, it doesn't evaporate, someone has to assume it, correct?

MR. BRENT SANDERSON: Either someone would choose to take on that risk on the other side of a transaction in order to try and profit from a view that's divergent from that of the consensus view of the market or there may be someone on the other side of the market whose -- whose desire to shed risk is the opposite side of the coin, if you will, from the risk we're trying to shed.

For example, there may be a natural gas producer that is trying to achieve some more certainty as to the cost that they -- or the revenue that they will earn from their production or to set a floor under the price of the production they plan to sell into the market, which is the exact opposite from what we're attempting to do.

And we're trying to gain more certainty as to our purchase price so we can -- options dealers and intermediary can facilitate the transfer of that risk between the two (2) counterparties with no one of -- no one (1) party to those transactions taking on any additional risk relative to what they would have in the absence of that transaction.

MR. KRIS SAXBERG: But, generally speaking, when someone acquires risk they want to be compensated for it, correct?

MR. BRENT SANDERSON: That's a general market rule, yes.

MR. KRIS SAXBERG: And in situations where the risk is increased, they're going to want to be compensated to a higher degree, correct?

MR. BRENT SANDERSON: That's what you'll hear characterized in the investment markets as a risk reward trade off. For your personal investment portfolio if you are setting out to try and achieve a higher return, the trade off for that is that you have to take on greater risk that you won't achieve any return, if you will, or maybe even suffer a negative return, so, yes.

MR. KRIS SAXBERG: So when the market is, as you said yesterday, uncertain, or when the market is very volatile, more volatile than usual, there's a greater risk so there's probably going to be a greater dealer margin in that circumstance, would you agree?

(BRIEF PAUSE)

MR. BRENT SANDERSON: I guess there's two (2) sides to the answer to that question. Greater expectations for volatility in the market would manifest themselves in a number of different ways when one sets out to transact for a derivative instrument.

As it relates to a collar, if you will, the typical type of instrument that we would transact -- all other things being equal, if the market's consensus view is there is a higher degree of uncertainty looking out as to what the ultimate market price of the commodity will be in some future period which you're setting out to hedge, what you will see is, all other things being equal, is a narrower band on the lower bound of that collar relative to a constant upper strike.

If we say fifty (50) cents out of the money you will -- you will enjoy lesser participation in any downward movements. If you're looking at a -- at a call option or a cap, for example, the expectations for greater volatility would manifest themselves in the form of a higher upfront premium required by the dealer.

And -- but the fact is that all other things being equal, no matter what the expectations for volatility, any derivative instrument at the time that you place it it's priced in such a way that statistically over time the dealer expects that the pay off on that instrument will be zero, both to the dealer and/or to the buyer of that instrument.

Now, as it relates to embedded dealer margins or that small sliver of commission that we pay a dealer, that we can't know with certainty on each and every individual transaction, to the extent that it's a riskier market, all of the things being equal again, if the dealer ascertains that they're exposed to a greater risk than they otherwise would in taking on that position and in the intervening time period over which they hold that until such time as they can lay off their own risk on that, all other things being equal, yes, that would tend to push the premium -- the embedded premium higher than it might otherwise be.

But I will say that it is such an efficient market for options that those commissions tend not to gyrate around wildly on any given day or any given time period. And the circumstances which the dealer comes to market with on any given day are so different amongst the different dealers and we have no idea of knowing who's in the best position to take advantage of their expertise in the marketplace to offer us the most attractive price, which is the reason why we transact on our auction -- using our open outcry auction system.

So we just let the prices show us who's in the most opportune position to prov -- to provide our customers with the most attractive pricing or the greatest participation in a subsequent downward movement in price. And so, all things being equal on a given day, it may be a riskier market which directionally would tend to drive up a dealer's premium. But we have no way of knowing if, at the time we come to market, there is one of our counterparties who just happened to have done a large transaction, will say with a producer, and our transaction works as a perfect offset to one of the transactions they have done.

And it may very well be that on the whole it's a riskier market on that day, but we may find ourselves in the advantageous position that if we were to able -- able to determine with certainty that we maybe paid no dealer commission on that given day because there is a transaction the dealer had already entered into for which they earned a significant premium and our transaction just merely works as an offset to that.

And it's my understanding that there -- it is not unusual in certain circumstances for us to enter into a transaction for which a dealer has charged us no embedded margin premium based on the particular circumstances which they find themselves in on a given day.

MR. KRIS SAXBERG: Thank you for that. It's a lot to digest, but I think you said it may be possible that that's the case, it may -- there may be other circumstances where it isn't the case.

MR. BRENT SANDERSON: Yes. Which is why we take a long-term view with our program.

MR. KRIS SAXBERG: Great. And I'm going to turn to that long-term analysis in a second, but I have a question about the bandwidths at Tab 12 of my selected documents.

Late at night, probably, I did math, came up with my calculation of the -- of the size of the band on these -- on some of these transactions. I -- I hope I'm correct on all of them. But what I notice here is a fairly high consistency in terms of the bandwidth in this -- in this year, of seventy-seven (77) to eighty (80) cents.

MS. LORI STEWART: And, yes, that translates into downside participation. And the range in this particular schedule is between eighteen (18) cents and twenty-eight and a half (28 1/2) cents of downside participation relative to the fifty (50) cent out of the money band that we -- that we transact with.

(BRIEF PAUSE)

MS. LORI STEWART: One (1) correction.

Actually the range is between eighteen (18) cents and twenty-nine and a half (29 1/2) cents.

MR. KRIS SAXBERG: That's what I was -- I don't see the eighteen (18) cent one, but there are -- when I have eighty (80) written beside it, that to me suggests thirty (30) cents, but I -- I understand that the -- that may not exactly be the case because of where the -- at the money quote is.

Or is it as simple as that; where I say eighty (80) it's thirty (30) cents?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: Okay. So I see a lot of thirties (30's) there.

My question was, if you flip to the next page, this is an older -- this is the year 2003/'04. And the bandwidth, there was -- there was quite a lot less downward participation, I'm just wondering why.

MS. LORI STEWART: The manner in which we transacted during this timeframe was slightly different than how we now transact. And -- and what we did previously, I guess I have to go back to our process, and what we do is we set the at-the-money or the swap price first for a particular month.

However, during this timeframe we actually set the swap for all three (3) months and then went back to the dealers and said, Now, give me your most competitive quote on the lower band of the cashless collar. And in this particular timeframe it's -- where we've got more variation in our bandwidths, for either one (1) of two (2) reasons, either we were in a more volatile market or the fact that we -- there was some lag between when the swap was set and when the competitive price quote was delivered.

We've since adjusted it -- our operating procedures to simply set the swap for February, go and get the quote for February; set the swap for March, go and get the quote for March, so that there isn't any lag. Where a market shift of twenty (20) cents, thirty (30) cents in a five (5) minute timeframe which is entirely likely, that we're minimizing that and seeing a closer correlation between what the market price was and then the competitiveness of the quotes that we're receiving.

MR. KRIS SAXBERG: Thank you for that. So, the operating procedure has been improved and, as a result, we're getting more consistent bandwidths and we're getting, it appears to be, a greater participation in downward price movements, applying the same program?

MR. BRENT SANDERSON: No, not necessarily. What Ms. Stewart was describing is the fact that due to that few minutes of time lag between the setting of the market price and then the receipt of a quote on the lower strike for an instrument for a given month, the potential for the market to move creates, all other things being equal, can create the perception that we have -- or the appearance that we have less participation, but that is not necessarily the case.

So it -- if the market moves up in a minute or two (2) after you've established the market price, before you're able to go and have the dealers quote on the lower strike of an instrument, if the market's moved up a dime what you set out a moment ago to create, a fifty (50) cent out-of-the-money call option, for practical purposes underlying that, if the market has moved in a very, very short period of time it may now be a forty (40) cent out-of-the-money call option or cashless collar and so you're going to see a requisite narrowing of the band on the floor.

But we've always set out to execute our transactions in the most timely manner possible and this -- what was going on here this became evident that this could be a problem because this was a period of very, very volatile prices. So there's a combination of things going here -- on here which are next to impossible to parse out separately.

We have the potential for the price to

have moved in a short period of time after we set the market price and it became evident that it was a problem because it was a period of very, very volatile market prices which, in and of itself, would mean that we would typically enjoy less participation on the downside of a collar relative to a fifty (50) cent out-of-the-money upper strike price.

But I will assure you that any of the instruments that were placed here, at the time those instruments were placed, regardless of the circumstances, it was just as likely -- equally likely that the upper strike on that collar would be breached in the future and/or the down -- the lower strike on that collar would be breached by the market price.

So those same rules still apply, regardless of the circumstances. The expected pay off in any of these instruments was zero and there was no disadvantage suffered by customers as a result.

MR. KRIS SAXBERG: If the swap price changed between the first, second and third months then I think what you were saying was that you're not really setting a fifty (50) cent out of the money cap because the fifty (50) cents is with reference to a market price that is no longer accurate?

MS. LORI STEWART: In any of our

transactions there's a slight timelag between when the swap price is set and when we're actually able to receive our price quotes and in our current situation that may be somewhere between forty-five (45) seconds and a minute and a half. And within that time, Mr. Saxberg, virtually without fail, the market will have moved.

So what we're doing is, at any given point in time, the actual out-of-the-money band that we're hedging may be forty-nine (49) cents, maybe fifty-one (51) cents, maybe fifty-two (52) cents.

However, we haven't -- we haven't been able to figure out a way to close that gap any less than what it is today, that forty-five (45) seconds. And I think it's quite clear that what we're -- what we're doing notionally and that we can accept that the fifty (50) cent out of the money band is what we're hedging.

MR. KRIS SAXBERG: And so you've improved the operating procedure because now you're worrying about the forty/forty-five (40/45) seconds, before it could have been a period up to three (3) to five (5) minutes because you were doing three (3) transactions?

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

MR. KRIS SAXBERG: Thank you. I want to talk about short run/long run costs now. And your analysis that in a perfect world, over the long run, the pluses and minuses will equal out?

MR. BRENT SANDERSON: Nobody said anything about a perfect world, Mr. Saxberg. Even in the imperfect world we live in, that's the expectation, as well.

MR. KRIS SAXBERG: Okay. And that's what I want to explore with you. But, if you look at Mr. Peter's selected documents, Tab 21.

(BRIEF PAUSE)

MR. KRIS SAXBERG: This is a period of six (6) years, do I have that right?

MR. BRENT SANDERSON: It's five and a half (5 1/2) including the forecast period. But we go to July -- well five (5) years and a bit, if we include the entire forecast period that's for unsettled instruments that we have included in the analysis.

MR. KRIS SAXBERG: And as you indicated before, caps, swaps, collars, they're all going to eventually find their way to zero, just putting aside dealer margins, correct?

MR. BRENT SANDERSON: If consistently applied, if you are not flip flopping repeatedly between strategies and the use of instruments and so forth, consistent execution, that would be the expectation, yes, is that they would converge and you would be indifferent over time with respect to the net long run additions or reductions to gas costs, yes.

MR. KRIS SAXBERG: And the trite point that I'm making, referring you to this document is that we've got three (3) different numbers here over the five and a half (5 1/2) years, but your suggestion is, if everything was being consistently applied, if we came back to this document or re-did this document in another fifteen (15) years, they should all be around zero, or the four hundred thousand (400,000) times twenty (20)?

MR. BRENT SANDERSON: Well, we've always said the fifteen (15) to twenty (20) year time horizon is a reasonable -- reasonably long time horizon over which to see these market rules play themselves out. And I would put to you that given the reasonably short period of time we're looking at here, that these costs are converging already.

I would -- I would consider, if you look at line 20 under our actual strategy that we've employed a net .34 percent addition to gas costs, column 6, the alternative of a fifty (.50) cent out-of-the-money call option strategy, 2.09 percent, and a fixed price swap strategy in column 8 of a negative, or a reduction to gas costs of .09 percent; I'd say they're conversion very --- pretty closely in quite short order, in fact.

MR. KRIS SAXBERG: But, you're -- you're a statistician, that's the low percentage is just a function of the total gas costs being such a large number?

MR. BRENT SANDERSON: It's always been our assertion, Mr. Saxberg, is that the cost that we've described and we've always stated them as a percentage of customer's gas costs, so there's no jiggery-pokery going on here, if you will; that's the method against which to measure it and that's what we're doing here.

MR. KRIS SAXBERG: You had a better term for it yesterday, not jigery-pokery, but it was something else about stata -- I can't remember what it was.

MS. LORI STEWART: The term was, data snooping.

MR. KRIS SAXBERG: Data snooping, that's what it was. Now, the one (1) thing that you said though and you do say, over and over again, you have to be consistent in your application of the strategy over that twenty (20) years, there's no debate about that, correct?

MR. BRENT SANDERSON: Maybe I can provide a bit of additional clarification. What I mean to say is, if one were to set out to take on risk, to speculatively trade commodity contracts or to speculatively trade options with an eye to earning a net long run profit through those activities, none of these rules, as far as the expectation of a minimal long run cost which would amount to the embedded dealer margin, you could not expect a result like that by virtue of the fact that you are assuming risk. And there is a commensurate cost associated with that risk.

And so over time if one looks at the empirical data there is no reason to expect that anyone, over time, can achieve a long run net profit through speculatively trading an opinion that's contrary to the consensus opinion of the market.

So when I say "consistent" I should be clear that what I mean is a consistent strategy of risk reduction or risk -- risk shedding as opposed to one of actively going out and taking on risk in the pursuit of a profit, which is the antithesis of the our program.

MR. KRIS SAXBERG: At PUB-54(b) Centra says:

> "A disciplined exercise of mechanistic hedge strategy is the best way to keep costs as low as possible?

Correct?

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

MR. KRIS SAXBERG: Now, the hedging program's been around since the mid '90s so we -- we haven't quite got to the -- to the long run yet, in terms of Centra's overall hedging over time --

MS. LORI STEWART: Actually, this program's inception date was December of 2001 and there -- it won't be useful to mix and match former iterations of the program which were not particularly well -- well formed or well clarified.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Well, if you turn to Tab 6, there is a -- an old Centra policy on hedging that flows from Board Order 135/'02, do you see that?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: This is within the period that you've said we should be considering, which is when the mechanistic approach began to be implemented, correct?

MS. LORI STEWART: Yes, the inception of the current form of the program was December 2001.

MR. KRIS SAXBERG: And this is post December 2001 and here the program is:

"Will have in place 50 percent hedge
volumes."

Do you see that?

MS. LORI STEWART: It says, "at a minimum".

MR. KRIS SAXBERG: That's right. And then the next tab is a further iteration on the policy, another change in the policy within this time period that you're talking of, and here it says:

"Will have hedges in place for 90
percent of eligible."

You see that?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And so that's a change, correct?

MS. LORI STEWART: Change in the policy. There was -- has been no change in how practically the hedging program is executed since December 2001.

MR. KRIS SAXBERG: And then there was a further change at the last GRA and it -- reflective in the current policy which says hedging up to 100 percent volumes, correct?

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

MR. KRIS SAXBERG: And it used to be the case in the prior policies that the Company preferred caps over collars, correct?

(BRIEF PAUSE)

MR. KRIS SAXBERG: Sorry, I'm not trying to divide an conquer, I'm just noting that there was a period in time when Centra, as an organization, preferred caps to collars?

MR. HOWARD STEPHENS: In the period after 1998 we examined a variety of different hedging strategies and one of them was a capping strategy.

MR. KRIS SAXBERG: And I've got a quote, I put it in -- in the materials but I don't need to take everyone to it, if it's not necessary, but, Mr. Stephens, you, at one point, indicated that your preference was to go with a cap because you predefined the risk and the collar has -- you've had some negative experiences with collars in the past.

MR. HOWARD STEPHENS: I knew that my words were going to come back to haunt me. Yes.

MR. KRIS SAXBERG: And so, also back in 2001, Mr. Warden, you were on -- on the record as describing how the Executive made discretionary decisions on hedging.

Do you recall that?

MR. VINCE WARDEN: No, I don't.

MR. KRIS SAXBERG: You need the written documentation to help you out again, and so I'll take you there, at Tab 8.

(BRIEF PAUSE)

MR. KRIS SAXBERG: And at page 252, Mr. Peters is asking a very good question, which he usually does, and your answer is...

(BRIEF PAUSE)

MR. KRIS SAXBERG: And your answer is:

"Well, we look at the cost of placing the -- if there is a recommendation to place a derivative we look at -- weigh the cost against the value received."

You see that?

MR. VINCE WARDEN: Yes. A very good answer to Mr. Peters' very good question.

MR. KRIS SAXBERG: And so -- so back in 2001 the -- that's how the Executive was making its discretionary decision, using a cost value analysis, correct?

MR. VINCE WARDEN: Well, I think that is perhaps a bit of an oversimplification. You know, I'll -- I will accept the statement for what it says there, but you know, it's often dangerous to go back to a specific excerpt from a -- from a proceeding without looking at the context in which that was stated, but I'll accept the statement that I made there.

MR. KRIS SAXBERG: And I'm not -- I'm not taking you there to suggest that that's how the Executive is making its decision today, but since we're there, can you confirm on the record as to whether the Executive is making its decisions with respect to hedging based on a cost benefit analysis?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, the words are that we look at the costs -- we look at the costs as we deem them to be at the time against what we perceive the value to be, and so there is some kind of a -- you could call it a cost benefit type analysis that would have taken place, yes.

MR. KRIS SAXBERG: And that's -- that process -- that thought process is still occurring then at the Executive level for hedging decisions?

MR. VINCE WARDEN: No. I think we've already gone through what the process is that we're -- we're following currently.

MR. KRIS SAXBERG: Okay. So there has been a change there.

And the point that I'm making is, maybe it's an obvious one, but the Corporation as an entity itself is going to be staffed by various people with various views throughout any given period of time, correct?

MR. VINCE WARDEN: I think that's pretty obvious, that views tend to change. We, at Manitoba Hydro, believe in continuous improvement.

MR. KRIS SAXBERG: And to that extent, if we look at the history of the hedging program from its inception to today, it's gone through a -- a lot of changes, some big changes.

MR. VINCE WARDEN: It's gone through what I would refer to as continuous improvement. Yes, it has evolved over time, I will certainly agree with that.

MR. KRIS SAXBERG: And with that then how realistic is it to say that the program is going to remain unchanged from its current form for the next twenty (20) years, in light of what we've seen in the past? I mean...

MR. VINCE WARDEN: Well, who's to know. It's, you know, we -- we could change in the future if -- if circumstances are such that change is a warranted, as we -- we've done in the past.

MR. KRIS SAXBERG: That's right. You're not going to tie your hands because in the future there may be a necessity to change the program in a dramatic fashion because you have no idea what the market is going to do, correct?

MR. VINCE WARDEN: We have no idea what the market is going to do for sure, absolutely, and we -- we set our policies best on -- based on the best information we have available to us today and that's what we've done here.

MR. KRIS SAXBERG: So is it prudent then or -- I don't want to use such a highly charged word, but is it reasonable then for the Board to be considering this long-term cost of the program in assessing whether or not, it's effective, when, I mean, it's doubtful whether the long term will be a consistent long term such that the costs, in economic theory could get down to zero?

Shouldn't the Board rather be looking at the short-term, including the year over year at --

MS. LORI STEWART: Mr. Saxberg, over the

five (5) year duration of the current form of the hedging program the reduction to gas costs over the first, approximately four (4) years has been $77.4 million. The forecast that you were looking at, prepared in early October suggested a reduction to customer's gas costs, such that even over a five (5) year window, in essence the net of the short term pluses and minuses, of the program are almost exactly zero.

MR. KRIS SAXBERG: And are you suggesting then that it will continue that way over the next few years?

MS. LORI STEWART: No, we're quite consistent as being on the record that the shorter the period of time that one assesses a hedging program, an investment portfolio, the more misleading the information will be.

If one is looking at one's investment portfolio and making decisions on a quarterly or annual basis, market rules, market theory, will suggest that that is an inappropriate timeframe and that one is likely to make some significant errors in terms of divesting oneself of investments or securing investments, crystalizing gains and losses on that short term view.

So it's -- it's not just for this hedging program, it's in general, when one is participating in the market, it is useful and prudent to evaluate programs, portfolios, over the long term.

MR. VINCE WARDEN: And we have to remember too, Mr. Saxberg, the estimate of one-tenth (1/10th) of 1 percent is not our number; that's a number that we've relied on an expert opinion of. And I think as was pointed out by Mr. Sanderson, the numbers appear to be converging towards that long run cost.

(BRIEF PAUSE)

MR. KRIS SAXBERG: I think this might be an appropriate time to take a break.

THE CHAIRPERSON: Very good, Mr. Saxberg.

--- Upon recessing at 10:25 a.m.
--- Upon resuming at 10:44 a.m.

THE CHAIRPERSON: Okay, Mr. Saxberg.

MS. MARLA MURPHY: Mr. Chairman, if I might interrupt just before we begin.

We circulated during the break a response to an undertaking. It's Undertaking Number 5 which was taken yesterday morning by Mr. Sanderson.

And this was, I believe, at the request of the Chair yes, to incorporate the primary gas rate, what it would have been without the effect of hedging on that chart. So you'll see the chart that used to have one (1) line now has two (2); the red being the primary gas rate and the blue being the rate which was shown on the second page of the response to PUB/CENTRA-42(b)

And that's the effect of what the primary gas rate would have been absent hedging.

THE CHAIRPERSON: My grandson would love this. We'll ruminate on this. Thank you very much.

MS. MARLA MURPHY: We would get an extra copy for him.

THE CHAIRPERSON: Do we have an exhibit number for this?

MS. MARLA MURPHY: I was about to ask you that, please. I believe it would be Centra number 5 -- 6, I'm sorry.

THE CHAIRPERSON: Number 6 I'm told.

MS. MARLA MURPHY: Thank you.

--- EXHIBIT NO. CENTRA-6: Response to Undertaking 5.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. I will defer any questions on this to -- let the Board ask them and -- but I may have some followup afterwards.

Ms. Stewart, there is absolutely no objective in Centra's hedging to try to achieve costs lower than the market; correct?

MS. LORI STEWART: As Mr. Warden has noted, the utility is always concerned about something that -- that could negatively impact customers. However, the objective of the hedging program is to mitigate natural gas rate volatility and I think it's just best left at that.

MR. KRIS SAXBERG: Could you turn to Tab 5 of my selected documents. This is a prior policy of the Company related to rate management; right?

MS. LORI STEWART: Yes, that what it appears to be.

MR. KRIS SAXBERG: And the first statement is:

"The Corporation will acquire natural gas for customers at the lowest possible cost having regard for rate volatility."

You see that?

MS. LORI STEWART: Yes, I do.

MR. KRIS SAXBERG: And I interpret that

to mean that the company is going to do everything that it can to get gas at the lowest possible cost, i.e., at the market rate, and to the extent that it's above that it will be because it's having regard for rate volatility.

Is that correct?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Saxberg, I think the fact that that statement is open to interpretation is probably one (1) of the reasons that we have updated that statement to make it more clear than it is. So it may be interpreted to be conflicting statements there, but the primary objective of -- of the derivatives hedging policy is to mitigate rate volatility.

MR. KRIS SAXBERG: I guess I was just using it to illustrate the point that the Company's view was back then, and I believe is today, that when you hedge ultimately you're going to add to the market price of gas.

MR. VINCE WARDEN: Over the long term, as we -- as we've discussed, yes.

MR. KRIS SAXBERG: And sometimes in the short term, if you were just taking a look at one (1) year, for instance 06/07, in -- it would be adding.

MR. VINCE WARDEN: Well, as we -- as we've seen over the last several months, that's the case, yes.

MR. KRIS SAXBERG: And so the -- the point is that if the focus was only on lowest possible cost gas there wouldn't be a hedging program.

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

MR. KRIS SAXBERG: Now, I want to turn to -- to measuring the impact of the program on a reduction in volatility. And if we could turn to Tab 23, page 2 of 3, please.

The percentage of primary gas that's hedged in each year varies but it's between sixty (60) and 65 percent.

Is that fair?

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

MR. KRIS SAXBERG: And then when you go the step further and you say, Well what percentage of the bill then that the customer pays each month is subject to hedging coverage?

There the range is from 40 to 50 percent approximately, is that fair?

MS. LORI STEWART: Within each year, yes, that's correct.

MR. KRIS SAXBERG: So in any given month, is it too simplistic to say that between over -- just over 50 percent of the average customer's bill is not protected in any way by hedging?

(BRIEF PAUSE)

MS. LORI STEWART: I think that's a reasonably fair statement, yes.

MR. KRIS SAXBERG: At CAC-4, we had asked for an update of a particular IR from the last hearing. We had asked for an update of CAC-90(d) and I've included that in the materials, at Tab 20. If you could turn to that?

This document shows the month to month effect of hedging for a typical residential consumer, correct? Regarding the '04/'05 year --

MR. BRENT SANDERSON: For the 2004/2005 year for a typical residential customer, it shows what their monthly bill would have been at the actual rates that we had billed those customers and then what the monthly bill would have been, had we billed rates excluding the effect of our hedging or if we had not executed out hedging program.

MR. KRIS SAXBERG: Thank you. And I look

at the ups and downs, month to month and as a percentage of the total amount being paid, they're fairly small amounts would you agree with that?

MR. BRENT SANDERSON: Well, given that the Manitoba market is the most weather sensitive or variable natural gas market on the continent, the largest factor that drives the amount of the monthly bill the customer pays is weather and how consumption changes in response to that weather, given that we're almost predominately space heating load.

MR. KRIS SAXBERG: Thank you for that. And that's what you said at the last GRA when you said,

"In terms of reducing the volatility of a customer's monthly bill, hedging will have probably what appears to be an insignificant effect."

Correct?

MR. BRENT SANDERSON: I would agree, but I wouldn't want to leave the mistaken impression that customers don't place a value on stable rates, whether or not, it has an effect on their monthly bill and customer's have told us clearly that they do place a value on stable rates, regardless of what effect it has on their monthly bills.

MR. KRIS SAXBERG: And if we're looking

at this document we see quite an amount of variability in the amount that's paid each month and as you say, that's because of the weather.

And that just leads me to question, if you were to look at June or July, let's say, which is a month in which the customer is only going to pay approximately thirty dollars ($30) and you compare that to January, where the customer is going to pay over two hundred dollars ($200); that's quite a change is it not, because of the weather?

I mean, it's quite a fairly substantial change?

MR. BRENT SANDERSON: For the reasons I described, yes.

MR. KRIS SAXBERG: And 50 percent of customers choose to receive that type of change, that variability, by not adopting the equal payment plan, correct?

MR. BRENT SANDERSON: They've demonstrated by the choices they've elected, yes.

MR. KRIS SAXBERG: And then in terms of -- when we talk about protecting against rate shock because of a dramatic upturn in the price of the commodity for any particular period, wouldn't this sensitivity to -- to changes, or lack of sensitivity to changes, I mean, where's the -- where's the rate shock that comes from a five (5) or 10 percent increase in -- in any quarter when the reality is that these people are -- are paying thirty dollars ($30) in the summer and two hundred dollars ($200) in the winter?

If they're not shocked by that, why are they going to be shocked by -- by something so much smaller?

MR. BRENT SANDERSON: Not being able to be inside the heads of the majority of our customers, I'm not able to say. But I'll restate the fact that our customers have told us -- the majority of our customers have told us that they have a limited tolerance for variation in the rates, irrespective of what effect it will have on the monthly bill that they pay.

MR. VINCE WARDEN: Mr. Saxberg, we of course talk to our customers every day and we get calls from our customers every day, and they can accept that weather in Manitoba is variable and -- and they know when they have a high bill in the winter time that it's because of the weather.

What they don't like, and they've told us this many times, not only through the customer surveys but through calls to Mr. Brennan's office, calls to the Minister's office, they don't like their rates going up and down. So they don't like us telling -- like Centra Gas telling them one quarter the -- the rates are going down by 2 percent and the next quarter going up by 10 percent.

So the variability of rates is what aggravates customers, more than the seasonal variation in their bills, which they can understand.

MS. LORI STEWART: And the seasonal variations can be compounded by rate fluctuations. For example, last fall, for the periods of November, December and January, which are high-consumption months in Manitoba, consumers would have had the compounding effect of a -- a potentially 33 percent rate increase for a typical residential customer on three (3) of the highest months of consumption in the absence of the hedging program.

So that's a -- I think a very powerful illustration of a situation where I -- I'm struggling to understand the position that customers wouldn't have valued the effects of the hedging program when it so powerfully constrained rate volatility.

MR. KRIS SAXBERG: Well, let's -- let's explore that then. If you could turn up Mr. Peters' book of documents.

(BRIEF PAUSE)

MR. KRIS SAXBERG: And at Tab 18.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Is it fair to say that over the period April '02 to August '06, there was only one (1) major potential for rate shock, and that is the November '05 adjustment?

MR. BRENT SANDERSON: No. I wouldn't agree with that at all. I would say the potential for rate shock always existed during the course of that entire period in -- if what you mean in terms of what dramatic market events occurred, clearly the largest of those was the one which took place in the wake of the two (2) once in a hundred (100) year hurricanes that we've been discussing.

There was another significant market event which occurred in March of 2003. And if you look back at that time period you can see a fairly significant bump. And it was a fairly short-term event and not nearly as large in order of magnitude as last fall's. But there was a period where in the absence of hedging we would have been looking for a period of time at some fairly sizeable rate impacts without the protection of the hedging program.

So customers enjoyed a significant degree of peace of mind during the course of those events, however short-lived. And over the course of that period customers did enjoy rates that, in my opinion, were significantly less volatile than they otherwise would have been.

And what this chart does is the protection enjoyed last fall is to such a degree and so visually powerful, the result is it tends to make all of the benefit they enjoyed in periods previous to that pale by comparison.

But I wouldn't say -- agree with your statement at all.

MR. KRIS SAXBERG: I don't see much difference between the lines until you get to November of '05?

MR. BRENT SANDERSON: Well, as we've filed in our evidence and in a number of IR responses, the facts of the matter are is that in fiscal 2002/2003 and the following fiscal period customers' rates were 30 percent less volatile than they otherwise would have been in the absence of the hedging program and in the subsequent two fiscal periods, 53 percent less volatile.

Now, I will -- I will give it -- I will concede to you that whether we call that significant or not is in the eye of the beholder, that's a subjective determination or a characterization that we've attached to those figures.

But in my opinion, they are significant and they provided customers with a lot of value and the peace of mind that they enjoyed in the event that other dramatic market events would have occurred would have been substantial.

THE CHAIRPERSON: Mr. Sanderson, in your comments are you disregarding the -- putting aside the RSM on November 1st, 2005, with the exercise of the Board's discretion?

MR. BRENT SANDERSON: The effects of the -- Bill C-11, the winter heating cost control -- or the added rate smoothing that was introduced November 1st, is that what you're -- to which you're referring?

THE CHAIRPERSON: The quarterly rate change on November 1st, the Board deviated from the normal rate setting methodology before the Bill was introduced and addressed, if you like, the spike that occurred in that particular quarter.

MR. BRENT SANDERSON: The rates that we show as the actual rates billed to customers include the effects of that added rate smoothing or the setting aside of the normal quarterly rate setting process. But it's varied -- that added -- or that added rate smoothing that was introduced is very insignificant in relation to that which was a result of the hedging program.

And I would like to add, as well, that in the absence of our hedging program the options available to all involved to introduce an added measure of rate smoothing to benefit customers would have been severely restricted had we not had the benefits of our hedge program in place.

In fact, the most likely outcome looking back to the point at which we set our November 1 rates last year, if we had of set our rates at the levels that we did and in the absence of our hedging program, giving the Bill C-11 to freeze customers' rates during the course of the winter, we would have been facing a nearly $180 million build up of unrecovered costs in our primary gas PGVA by the end of April of 2006, that would have been the baseline or most likely outcome.

THE CHAIRPERSON: Interesting.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: The -- sorry, were you done? Thank you, sir.

What -- what you said, Mr. Sanderson, is that the line that we're looking at that represents actual residential primary gas billed rates included the impact of passing along only 50 percent of the forecast that was implemented by the Board on November 1st, correct?

MR. BRENT SANDERSON: Yes. Which is a very small amount of the -- a small portion of the reduction --

MR. KRIS SAXBERG: Right.

MR. BRENT SANDERSON: -- which our customers received.

MR. KRIS SAXBERG: But the pro forma primary gas rate that's shown here spiking up to four fifty (4.50) doesn't include the exercise of the Board's discretion, does it?

MR. BRENT SANDERSON: I have no way of knowing what discretion would have been exercised in the event that we wouldn't have had our hedging program in place and, as I said, I would submit to you that the options available to all involved to intervene in that circumstance, without the benefit of the added certainty engendered by our hedge program, would have been significantly limited.

Our hands would have been very much tied in terms of what we could have done to provide customers with an added measure of added protection in the short-term over the course of the winter.

MR. KRIS SAXBERG: Well, in terms of your hands being tied, on November 1st, 2005 or certainly November 1st, 2006, this year, you can't -- you wouldn't be able to go above the line that you have at three twenty-five (3.25) because of the -- the legislation prohibiting increases?

And not -- and I -- I do appreciate that it's not enacted, however, the Company isn't going to argue that it's not following it?

MS. MARLA MURPHY: Well, I -- I think that's not a correct statement. The act has not, in fact, been proclaimed and there is no legislative provision. The Lieutenant Governor in Council has the ability under that Act to specify the amount by which Centra may seek a rate increase, if any.

They haven't made any such declaration so we don't have any legislative impediment in November of 2006, as you're suggesting.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Well, maybe I'll ask Mr. Warden then. Is it -- is it the company's intention to follow the Act, notwithstanding that it hasn't been officially proclaimed?

MR. VINCE WARDEN: Unless otherwise directed by the Minister responsible for Manitoba Hydro and that Act, we would follow our normal methodology on November 1st or on February the 1st.

MR. KRIS SAXBERG: So if prices are going up, the Company is going to apply for a rate increase on February 1st?

MR. VINCE WARDEN: We will, unless otherwise directed.

MR. KRIS SAXBERG: If the Board's rates decision for November 1st, 2005, was factored into the pro forma line there, it would come down somewhat, you'd agree with that?

MR. BRENT SANDERSON: If what you're asking is, is there a way to recast this chart reflecting the effects of the added rate intervention last November, my suggestion would be the most appropriate means by which to do so would be to take our actual residential primary gas billed rates and reflect what they would have been in the absence of that additional intervention; that would the most appropriate means by which to measure it.

MR. KRIS SAXBERG: No, I'm suggesting that you redo the pro forma with that the assumption that the intervention occurred and that only 50 percent of the forecast cost of gas was included in rates.

MR. BRENT SANDERSON: Either -- regardless of how you reflect it in this chart, either the pro forma rates or the actual rates, the net effect is the same, is the gap between the actual November rates and the rates exclusive of hedging, that band would narrow.

If you're asking my opinion as to what I think is most appropriate, my professional opinion is, is the most appropriate means by which to do that is reflect our actual rates on the basis of what we would have filed for in the absence of the added rate smoothing; that would be the most appropriate means by which to do that.

MR. KRIS SAXBERG: And again, just to reiterate, we're only -- you're only showing primary, the primary gas rate in this chart, correct?

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

MR. KRIS SAXBERG: And so if you showed the entire bill, the other 55 percent, it would look somewhat different obviously?

MR. BRENT SANDERSON: I think we've been over that, the bill would vary with the weather.

MR. KRIS SAXBERG: Centra's position about the impact of hedging has evolved over the years, would you -- is that a fair statement?

MS. LORI STEWART: Sorry, Mr. Saxberg, Centra's view on what?

MR. KRIS SAXBERG: The impact of hedging and its noticeability by customers has evolved?

(BRIEF PAUSE)

MS. LORI STEWART: If you could rephrase that question?

MR. KRIS SAXBERG: Sure, why don't I take you to Tab 27, page 2 of that Tab, under the heading price management alternatives, fourth paragraph down reads:

"For the purpose of comparison of the effectiveness of certain price management transactions, Centra proposes that the impact such transactions have on sales rates is the most relevant indicator of acceptability. What the customer perceives to be gas costs is the amount on the bill he/she receives each month which incorporates the other costs Centra incurs in providing natural gas service. These other costs amounts --

amount to a larger component of the
bill than the commodity itself and will
serve to dilute the impact of
variations in supply costs."

Is that -- does that remain the Company's position?

MS. LORI STEWART: Yeah. I'm not sure our view if much different than what's cited here.

MR. HOWARD STEPHENS: Mr. Saxberg, the only difference would be that the relative relationship between our primary gas costs relative to the transportation costs and the other components on our bill is much different now.

MS. LORI STEWART: And to be clear, the primary gas portion of the bill is -- represents a higher percentage today than it did back in 1998.

MR. HOWARD STEPHENS: Generally speaking, we were trying to make this something that was very visible to the consumer in terms of what they looked at when they looked at the gas bill.

Certainly, I don't think very many of our consumers, then or now, look at the actual rate or really care what the rate is. What they care about is what their -- actual size of their bill is.

MR. KRIS SAXBERG: That's right.

And I guess that's the point that I'm indicating, that when we're measuring volatility and the impact of the hedging program, shouldn't we be looking at this -- the total bill rather than just one (1) component, that is the primary gas component?

MS. LORI STEWART: Mr. Saxberg, our rate volatility management plan, as outlined earlier in this proceeding, consists of far more than simply our derivatives hedging program.

There are a number of tools in that toolbox and they are -- they are all focussed on the primary gas component of the bill, which does represent about sixty-three (63) or -- 63 percent of the consumers -- of the consumers' total bill.

But the hedging program, we're not suggesting that it's the silver bullet that solves all of the problems here. We're suggesting it's one (1) piece of our overall rate volatility management plan, and the information that we have from our customers is that rate volatility at a certain level is unacceptable.

MR. KRIS SAXBERG: I just want to see if I can get you to agree that when we are measuring the effectiveness of the hedging program on the reduction of volatility we should be looking at its impact on the total bill rather than just the primary gas portion of the bill.

Do you agree with that?

(BRIEF PAUSE)

MS. LORI STEWART: To be clear, Mr. Saxberg, the -- the focus or the objective of the derivatives hedging program is to mitigate rate volatility. And we do a number of other things in the course of our day-to-day business that we are concerned in terms of trying to positively influence for customers what their -- what the end number on their bill is.

However, we all know that the most significant driver related to bill volatility is weather.

MR. KRIS SAXBERG: I'm at page -- or Tab 20, and it's the only indication that I've ever seen that will show the financial impact of hedging on a month-over-month basis relating to the total bill.

Are there any other documents that Centra has that do that type of analysis?

MR. BRENT SANDERSON: I think Ms. Stewart was clear in her answer. Again, we go back to the objective of the program, which is one of the many activities we undertake to deal with, the volatility rate or bill that customers are exposed to.

The objective of the hedging program is to mitigate rate volatility. And I think it would be entirely unreasonable to measure the performance of a program that is designed to mitigate rate volatility on the basis of bill volatility.

MR. KRIS SAXBERG: I don't understand the distinction you're making between rate volatility and bill volatility when -- when you consider that you did an analysis of the quarterly rate-setting mechanism and its reduction on volatility, and you did that for the whole bill.

MR. HOWARD STEPHENS: What we were looking at at the time was try to develop a performance measure with respect to how do you measure the effectiveness of the overall program that we had, using all of the tools that we had, to deal with rate volatility, which was the central focus in terms of using the hedging program, our quarterly rate-setting mechanism, the effects of storage et cetera, et cetera, et cetera.

Now, the other component of the bill is the fact that, at that point in time, cost of gas was a relatively small component of the overall bill. But the other components were basically out of our control at that point in time, unless a customer opted for the equal billing plan, which provided the optimum in terms of stability with respect to what they expected to pay each month.

But the components that we have in place right now, that we're discussing right now, are the ones dealing with the commodity cost, the primary gas rate. So if you're going to measure the success of the program with respect to those components, you look at it with relative to the primary gas rate, and you have to exclude those other components because we have no control over them right now.

MR. KRIS SAXBERG: And I -- I think I have a much better understanding of the distinction you're making between the rate set by this Board going up and down in any particular quarter, versus the dollar amount on the bill that's being paid; correct?

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

MR. KRIS SAXBERG: But if you normalized the bill to take out the effects of weather, you would be able to look at the impact of hedging on the total bill though; correct?

MR. HOWARD STEPHENS: And on the basis of what we had originally proposed, and this is going back to the time of the dinosaurs, that we would measure our effectiveness on a normalized basis relative to what we anticipated versus what we actually experienced. But that had certain flaws with respect to it and we didn't pursue it any further.

MR. KRIS SAXBERG: I'm just trying to put my consumer hat on for a moment and say, I'm told that there's a program out there that in -- that in '06/'07 may cost $77 million or may increase my gas cost by 23 percent and I want to know month to month to month what it's doing for me as a consumer.

MR. BRENT SANDERSON: Well, I'll take you back to what our customers told us over the course of our research, and there's a number of things of concern to them. One is the extent to which our primary gas rates vary. Majority of customers have said that's important to them and they have a limited tolerance for movement in their primary gas rate.

Now, if this customer or customers hear about this program and want to know, What has it done for me in that regard, to show them the effect on the monthly bill tells them absolutely nothing about the extent to which that program has satisfied their objectives with regards to their primary gas rate stability.

So by virtue of that fact, the only meaningful measure against which a customer can assess whether that program provided any value to them in terms of serving their needs as it regards more stable primary gas rates, the only way in which we can depict that for customers in a meaningful way is to state it in terms of the percentage reduction in the variability of their primary gas rate, which they have told us is a concern for them.

MR. KRIS SAXBERG: Let's talk about the equal payment plan then.

If a customer wants to eradicate volatility from their bill and it won't -- I'll acknowledge it won't be adjusting rate volatility but it will be adjusting bill volatility, they sign up to the equal payment plan, correct?

MS. LORI STEWART: Yes, I think that's -- that's a fair statement.

MR. KRIS SAXBERG: And signing up to the equal payment plan isn't going to reduce the amount that they will pay for gas at all, will it?

MS. LORI STEWART: That's correct.

MR. KRIS SAXBERG: But neither will hedging. Hedging is not going to affect the amount that that customer is going to pay for their gas at the end of the day, it's going to add to the cost?

MS. LORI STEWART: Your statement is correct that hedging will, over the long term, add a small amount to a consumer's bill and the value or the benefit derived from that is the insurance against dramatic price increases in the short-term.

MR. KRIS SAXBERG: And one of the negatives that we hear about the equal payment plan, as a -- to solve volatility, is that the equal payment plan, in the absence of the hedging program, may result in a dramatic true up, is that Centra's position?

MS. LORI STEWART: Certainly that's a potential outcome.

MR. KRIS SAXBERG: And there's a true up, usually, once a year, and I believe it's in August, is that right?

MS. KELLY DERKSEN: There are several true-ups that occur during the year. The final true-up occurs in August of any given year but we do updates to the budget plan periodically to assess the customer -- what the customer has been paying to date versus what the customer's been using.

So there are a number of points in time during the course of the year which we assess that information and to change the budget plan if the course that the customer is headed down would result in a significant amount to be owed or refunded at the end of the budget period in August.

MR. KRIS SAXBERG: And the primary driver of those adjustments is the weather?

MR. HOWARD STEPHENS: Mr. Saxberg, it's -- it's been puzzling to me for a number of years that customers have elected a fixed price option when we know that when they select the fixed price option they have sometimes, in some cases, an expectation that that's going to result in an even bill during the course of the year or is going to somehow stabilize their rates.

When, as we all recognize and discussed over the course of the last little bit, that weather has a much bigger impact on their ultimate bill each month than the pricing and all of the other various factors that we've talked about.

And from that perspective it would seem completely illogical to me, from that perspective, that they would be engaging in a fixed price contract and potentially having it cost them money and not really getting a significant benefit out of it. There is a question in my mind with respect to that.

So, I mean, when we first disposed the benefits of our rate management plan and the quarterly price setting methodology, the hedging program, and it was an integrated program, we were looking at trying to put a number of different tools together to try to mitigate the amount of bill volatility that customers are exposed to but we still have this great big chunk out here that's swinging around that we don't have any control over.

So, we are, again, continuously looking at different ways to manage the impacts of the price -- or bill changes for customers so that they can, for those customers that have no tolerance for and want to have a very high degree of confidence as to what their bills are going to be and can budget around it, that we will try to effect something that will -- or give effect to something that will deal with that issue.

We're looking at something but we're only in the very earliest stages of looking at something that will try to deal with that.

MR. KRIS SAXBERG: Thank you for that. Just so that I can understand in more depth how the equal payment plan works, is there -- is there a forecast that's done for each customer, or groups of customer, for deciding the amount of usage in a -- in a year coming up to which the equal payments are set?

MS. KELLY DERKSEN: Yes. I think to -- to some degree there is a forecast. That forecast is based on historical use for that individual customer.

MR. KRIS SAXBERG: And it would be

historical use over a -- a long period of time, not just the year before; right?

MR. BRENT SANDERSON: Our billing system has a mathematical algorithm embedded in it, by which a customer's most recent twelve (12) months of actual consumption are considered. And then that actual consumption is normalized for back-to-normal weather conditions because no period -- actual period ever exhibits normal weather, what we would term typical weather.

So they forecast their consumption based on historical actuals normalized to a normal weather standard, and that would be the consumption forecast used as the base by which to determine the monthly EPP amount for the forthcoming year at the rates in place at the time.

MR. KRIS SAXBERG: Do you also forecast in there rate changes?

MS. KELLY DERKSEN: No, sir.

MR. KRIS SAXBERG: Why wouldn't you forecast rate changes to the extent you know them, for instance, by looking at the forward price strip?

MR. BRENT SANDERSON: As you've heard us tell you many, many times, and all -- all in attendance, given that the natural gas markets can fluctuate as much as 20 percent on a given day, it's effectively impossible for us to forecast rates beyond the period for which we have approved rates in place.

The forecast would change daily. And if you were to go so far as to re-cast your forecast every five (5) minutes it would be a different rate in your forecast every day.

(BRIEF PAUSE)

MR. KRIS SAXBERG: In a --

MS. KELLY DERKSEN: Excuse me, sir. Sorry. I think I need to clarify one (1) statement that I made to you. And while we do not include the effects, for example, of a change in the primary gas rate for the reasons that Mr. Sanderson spoke to, we do include the effects of things that we feel we are in more control of, rate things that I mean.

For example, if we are going to be pursuing a General Rate Application we -- we at times will include an amount with the expectation that rates will change on account of those issues.

MR. KRIS SAXBERG: And the main reason that the forecast will -- will be inaccurate will relate to the actual usage, and that is a factor of the weather.

Because the weather in the year previous isn't likely to be duplicated in the current year.

MS. LORI STEWART: Weather is a factor but clearly also where the natural gas market is going is a factor as well.

MR. KRIS SAXBERG: So if there's an adjustment to the equal payment plan during -- midstream, say, it could take the form of -- of a large adjustment if the weather has been dramatically different from the previous year.

MS. KELLY DERKSEN: I think the answer to that is -- is yes. And I wanted also to respond to your previous question, in that -- is in addition to weather we have a number of -- there are a significant number of moves on our system.

In fact, last year we had approximately forty-three thousand (43,000) people moving from one home to another. And to the extent that an individual family's consumption habits are different than those of the -- of the new customer, that could have a fairly dramatic impact in -- in the equal payment plan.

And of course we can only set the equal payment plan based on the consumption pattern of -- of the prior customer. And so at the end of the day there could be a -- a fair true-up on account of that issue as well.

MR. KRIS SAXBERG: Could you explain for me once again why it is that the hedging program is going to benefit households on the equal payment plan?

MR. BRENT SANDERSON: I'll take you back to last fall, Mr. Saxberg.

The equal payment year begins or commences in the month of September. And if we would have not had the benefit of our hedging program in place November 1st, typical residential customers' annual bill would have increased by over 33 percent.

And that, I am almost certain, would have triggered a mass review of monthly EPP amounts for customers enrolled in the plan, because with a 33 percent increase in a customer's expected annual bill there would almost certainly have been a requirement to make what, and I -- this is an assumption, but what would, I'm almost certain, would turn out to be fairly material changes in their monthly EPP amount if that's what we had of been facing.

So it's clear that the hedging program does provide benefits to customers in terms of lessening the need for large adjustments mid-stream during the EPP program year.

(BRIEF PAUSE)

MR. KRIS SAXBERG: If the gas year turns out to be warmer than the -- than the previous year, in all likelihood EPP customers are going to get a credit?

MR. BRENT SANDERSON: Can you repeat the question, Mr. Saxberg, I'm sorry.

MR. KRIS SAXBERG: Well, people on the equal payment plan, are they reasonable to expect that if it's a warm year they'll get a credit in August?

MR. BRENT SANDERSON: I would make no representations one way or the other; it would depend on a combination of factors. Last winder, for example, we had, depending on the measure, one of the warmest winters in recorded history in Manitoba and sub -- and consistent with that consumption that dropped off fairly precipitously. Now that, in and of itself, would lead one to believe that customers would expect a large year end lump sum payment due from the Utility.

Without the hedging program though, and an increase of 33 percent in their -- in their annual bills, and taking ourselves back to that point in time, not knowing how the future would unfold, I would say, given those combinations of circumstances, I wouldn't be comfortable in making -- giving -- leading customers to believe that they could expect a large refund at the end of the year.

MR. KRIS SAXBERG: The Company is against making the equal payment plan a default, correct?

MS. KELLY DERKSEN: That's probably a fair statement, sir, yes.

MR. KRIS SAXBERG: And --

MR. VINCE WARDEN: That is a fair statement.

MR. KRIS SAXBERG: And Ms. Stewart had said that the Company is not about imposing negative options on its customers; I heard that correctly?

MS. KELLY DERKSEN: You did.

MR. KRIS SAXBERG: But the Company has got a hedging program in place because it sees volatility as something that's negative, does it not?

MR. BRENT SANDERSON: I think what our evidence has been is that customers see rate volatility as something that's negative.

MR. KRIS SAXBERG: So isn't the real negative option then where you are imposing -- you are having volatility in its -- in its most pure form be the default, that is the bills that go up and down with the weather?

THE CHAIRPERSON: I may be wrong,

Mr. Saxberg, but to some degree I know it must be difficult, but we seem to be, sort of, circling around. And in the back of your mind if you wouldn't mind, keep in mind the difference between the cross-examination of the Panel and preparing yourself properly for your closing statements.

I'm not giving you any direction, but I just sense a bit of circling.

MR. KRIS SAXBERG: Thank you for that, Mr. Chairman.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Sorry, I'll move on. You're right, it's -- it's probably argument.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Let me -- let me just ask you this quickly, the -- with respect to the other tools in the toolbox to reduce volatility, we've -- we've got storage and that's -- that's been agreed, I think by all parties, that there's some effects there -- effect that storage has on reducing volatility because it becomes a fixed component of the gas supply mix, correct?

MS. LORI STEWART: The benefit of storage is that gas flows into storage at seven (7) discrete monthly prices. However, it's pulled out of storage as an average of those seven (7) prices thus contributing to -- to the mitigation of rate volatility.

MR. KRIS SAXBERG: Thanks. That's far more precise than the way I put it but I think we're in agreement.

The quarterly rate setting adjustment is another smoothing technique and we're all in agreement with that, correct?

MS. LORI STEWART: Yes, the fact that it's -- the quarterly rates are adjusted on a twelve (12) month prospective basis.

MR. KRIS SAXBERG: Can we add to that the Board's discretion to adjust the formula when it perceives that it's appropriate as an additional way that rates are smoothed?

MS. LORI STEWART: Previously, I've talked about Centra's tools and certainly the Board has its own tools and will utilize its discretion in terms of when to employ them.

MR. KRIS SAXBERG: So I could add that to the column then as an additional measure.

MS. LORI STEWART: Not -- it's not one (1) of Centra's tools.

MR. KRIS SAXBERG: I'm just looking at it from the consumer's perspective, from the customer's perspective?

MS. LORI STEWART: Sure, from that perspective.

MR. KRIS SAXBERG: And also from the customer's perspective, we have a piece of legislation that may or may not be enacted and may or may not be utilized, but if it is utilized it would constitute another measure to assist in rate vol -- reducing rate volatility, correct?

MS. LORI STEWART: There were a lot of if's in that statement, however, if all of those if's come to be, yes.

MR. KRIS SAXBERG: I want to turn now, just to have on the record some of -- of the facts about the customer research that you've done.

Would you agree that the sixty dollar ($60) tolerance level comes from the '98 Viewpoints research?

MS. LORI STEWART: Yes, I would.

MR. KRIS SAXBERG: And that that tolerance level or any dollar tolerance level was not put to the survey respondents who participated in the Western Opinion survey, correct?

MS. LORI STEWART: It wasn't put to them, however, our program was described to them. It's one (1) of the parameters contained in our current program and then consumers were asked to provide us with some indication of whether that program was meeting their needs.

MR. KRIS SAXBERG: But, you specifically determined not to ask those being surveyed in dollar terms, What's your tolerance level; as was done with the Viewpoints research?

(BRIEF PAUSE)

MS. LORI STEWART: There are two (2) major differences in the 1998 research and the 1994 research. In 1998, focus groups exclusively were employed in order to determine customer preferences.

And it's clear that one (1) of the pitfalls of focus groups is that one would go forward and make decisions on behalf of approximately two hundred thousand (200,000) customers based on the opinions of ten (10) or twelve (12) individuals in a focus group.

So, it's one (1) of the challenges because this is a relatively complex topic and one can engage in a focus group and provide much more description and background and clarification in a focus group, such that there's some -- some increased assurance that the consumer's are getting it, the topic that I'm -- that we're attempting to survey.

However, the weakness of that approach is that again it's not a statistically valid sample. In 1994 we did both -- sorry in 2004, we did both. We conducted focus groups for the purpose of helping us to define the type of language and how much detail could be encapsulated in a ten (10) minute telephone survey.

So we used the focus groups to guide our activities, to guide the language that we used, to guide the extent of detail that was utilized in the telephone survey, recognizing that we've got a ten (10) minute window here, not an hour, you know, sort of sit down, casual informal meeting; we have a ten (10) minute window that we want consumers to understand the concept and then provide an opinion, in terms of their preference or their needs.

So there were those differences in the survey which I think it's important that those are noted. And just one (1) moment.

(BRIEF PAUSE)

MS. LORI STEWART: The second difference in the two (2) surveys, in 1998, the dollar value came out and was examined and discussed in terms of that tolerance level.

And when we contracted with Western Opinion Research, because certainly no one at this panel is an expert in that area, when we contracted with Western Opinion Research, it was on their advice that we not include a specific dollar value in the survey, rather to get a directional indication from consumers in terms of whether the current program was meeting their needs, whether they would like more protection for a slightly higher cost, or less protection at a slightly lower cost, or at market rates, in which case it would be no protection.

So, yes, we did rely on the expertise of the folks we were working with at Western Opinion Research in terms of, how to go about surveying that statistically valid sample on the phone.

And that -- their recommendation was that moving into a specific dollar value was not something that could be achieved in a ten (10) minute phone conversation; that what we should seek to achieve out of that -- out of that telephone survey, was a directional indication of whether consumers were looking for more protection, less protection or they were okay with the status quo.

MR. KRIS SAXBERG: Thank you for that clarification.

But, when you did the Western Opinion Research as you've mentioned, you started off with the focus group, used that to then form the survey, correct?

MS. LORI STEWART: Used that to guide the extent of detail that would be used in a telephone survey and the type of language that could be used in a telephone survey, so that we weren't mystifying people on the phone with language that might be not commonly understood.

MR. KRIS SAXBERG: Could you turn to Tab 26 of the selected documents and page 6, at which you'll find the key findings of the Western Opinion Research focus portion of the study, focus group portion of the study.

And no less than the very first bullet, summarizing the conclusions --

MS. LORI STEWART: What page are you on?

MR. KRIS SAXBERG: Sorry, page 6 a the top right. The very first bullet under key findings and implications of the focus group discussions conducted by Western Opinion was quote:

"The actual price fluctuations, that is
the ups and downs, did not appear to be
of top of mind concern among
participants. Most concerns related to
the general perception that the service
is becoming more expensive."

Do you see that?

MS. LORI STEWART: Yes I do.

MR. KRIS SAXBERG: I'm going to put it to you that -- well first of all, hedging affects the ups and downs, it doesn't affect the general up in the market or down in the market, whatever is the general trends of the market over time, correct?

MS. LORI STEWART: The hedging program will not protect consumers against a long term price trend.

MR. KRIS SAXBERG: And I'm going to put to you that this information from the focus group wasn't incorporated into the survey questions, was it?

MS. LORI STEWART: No, it wasn't.

MR. KRIS SAXBERG: Notwithstanding that it was the first key finding and implication of the focus. Because if we go back to page 4, which is the script for the survey to determine whether or not customers want hedging, the script says -- I distill three (3) elements from the -- from the script and they are that hedging is not speculative, that it's insurance against short term price spikes caused by unforeseen events and that the cost is 1 to 2 percent of your overall cost over the long term.

Do I have it that that's the communication that was -- that's the information that was communicated to survey respondents before they were asked, do you give it the thumbs up or thumbs down, correct?

MS. LORI STEWART: I would just add the opening statement, which is that Centra Gas or Manitoba Hydro operates its hedging program for the purpose of mitigating rate volatility.

MR. KRIS SAXBERG: Okay. That's --

MR. BRENT SANDERSON: I would just like to point out as well and take this opportunity, Mr. Saxberg, on page 6 you noted the comment in the first bullet. I would just like to put that in context. That was customers' initial reaction when the subject of hedging was broached to them.

If you turn over to page 7, the second bullet from the top. After spending a bit of time with customers and showing them some of the facts regarding our program, both good and bad, Western Opinion's research was that when presented to them, most respondents liked the idea of having a program that helped smooth out price fluctuations. Many were impressed by seeing a chart showing the past historical effects of the hedging program.

MR. KRIS SAXBERG: And were the historical effects that they were shown the gas cost consequences or were they that percentage calculation about volatility being reduced by 50 percent?

MS. LORI STEWART: It was -- the chart that is most commonly used is the chart that represents what the market is doing, so, the dramatic spikes and the volatility in the market relative to the step changes that we see with our quarterly rate-setting mechanism, as well as the other tools that we use in our rate volatility management program.

It was that illustration that I think most powerfully affected consumers and affected consumers in terms of their -- their gut response, Mr. Saxberg, was, Gees, am I ever glad we've got this in place.

MR. KRIS SAXBERG: And that -- that chart then wasn't exclusively indicating the effect of hedging. It was showing the entire rate management program, including the quarterly rate-setting mechanism and storage, et cetera, et cetera?

MS. LORI STEWART: All of the tools in

our rate volatility management program, yes.

MR. KRIS SAXBERG: But they were being asked only about hedging in terms of whether or not Manitoba Hydro should continue with its program.

MR. BRENT SANDERSON: Western Opinion Research was very forthcoming with the focus group participants in the areas of pointing out that in some circumstances a program like ours has resulted in them paying more than market price and other times less than market price, and went over the relationship, the risk/reward tradeoff, if you will, of -- in the event of unexpected market events drive prices higher, you -- you are protected from those events.

In the event that prices subsequently go down after the placement of hedges, you may, in all likelihood, pay more than market price for a time. So, that was all vetted with customers.

MR. KRIS SAXBERG: You're talking about the focus group sessions?

MR. BRENT SANDERSON: Yes, I am.

MR. KRIS SAXBERG: And how -- where is that recorded in the focus group report that says that any of that information was conveyed?

MS. LORI STEWART: Well, that's one of the challenges of a focus group setting is that one doesn't follow a script, Mr. Saxberg. One engages with the participants in the focus group and responds to questions that they may -- may have.

And each of the focus groups actually, you know, rolls out quite differently. The questions or the areas of focus within the individual focus groups - we actually conducted a couple of them - were different.

MR. KRIS SAXBERG: I meant there was a report prepared by Western Opinion about what happened during the focus group session. And in that report Western Opinion didn't say anything about the type of information that Mr. Sanderson has just stated being conveyed to anybody at anytime.

MS. LORI STEWART: Mr. Saxberg, Western Opinion Research doesn't provide a transcript of the focus group session. It provides general findings from the session. It doesn't note line by line what each of the individual participants had to say or what their concerns were.

MR. KRIS SAXBERG: I just wanted you to confirm that there isn't information like that in the report.

MS. LORI STEWART: There is no formal transcript of the focus groups, which is not typical.

MR. KRIS SAXBERG: But with respect to

the survey, there is a transcript and that's the one we looked at and it has the four (4) component pieces of information; correct?

MS. LORI STEWART: Yes. In conducting a survey one must ensure that the survey is conducted consistently because its purpose is to demonstrate that the script that was followed is identical for each consumer, so that we can assure ourselves that the response -- when the responses come back, that we're comparing apples to apples.

MR. KRIS SAXBERG: And could you flip to the third page in this same tab, which is Tab 26, and confirm that only 19 percent of those surveyed were aware of any actions being taken by Manitoba Hydro to reduce volatility, correct?

MS. LORI STEWART: Do you have the correct reference, what page number are you referring to?

MR. KRIS SAXBERG: Page 13 of the report, sorry, it's the fourth page into my Tab 26.

(BRIEF PAUSE)

MS. LORI STEWART: I have no dispute with page 13 of Western Opinion Research study.

MR. KRIS SAXBERG: Sorry, I -- that

doesn't surprise me, but I was just getting you to confirm that 19 percent of those surveyed -- only 19 percent of those surveyed reported that they were aware of measures in place to smooth fluctuating prices, correct?

MS. LORI STEWART: Yes, we don't generally advertise our -- or advertise the fact that we have underground storage or that we operate a derivatives hedging program or speak to, you know, the fact that we operate deferral accounts.

I think only people who are --

MR. KRIS SAXBERG: Didn't used to, you mean.

MS. LORI STEWART: -- relatively close to those topics are aware of them.

MR. KRIS SAXBERG: Okay. Out of that 19 percent only 7 percent were aware of hedging, that's what this chart also says. Seven percent of the 19 percent, correct?

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

MR. KRIS SAXBERG: And I'm no mathematical genius, but I did some calculations on my own, and so if there was a hundred (100) people that were surveyed, nineteen (19) of them would have said, hey I'm aware of Manitoba Hydro doing something to smooth prices and of those nineteen (19) one of them would have mentioned hedging?

It's 1.3 to be precise, but --

MS. LORI STEWART: Your arithmetic appears to be correct.

MR. KRIS SAXBERG: And so I'm just making the point then that, at this point in time, no one was aware of hedging activities; things may be very different today because Centra's done quite a bit to inform the public about hedging since that time, correct?

(BRIEF PAUSE)

MS. LORI STEWART: Yes, that's a fair statement. We've increased our efforts to help our consumers improve their understanding of measures that are being taken by the utility in this regard.

THE CHAIRPERSON: Ms. Stewart, this is not the main plank in Centra's argument for the hedging program as it now exists, is it, the focus group?

MS. LORI STEWART: Not the focus group specifically. Certainly, the statistically valid sample of our consumers that were surveyed, it was approximately two thousand (2,000) consumers that were surveyed and their validation of our current hedging program and their parameters contained within, we believe to be very, very strong support for the current program.

THE CHAIRPERSON: Thank you. That's what we were wondering about is the numbers, if you like.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Right, the numbers that we're looking at right now and we're discussing from this Western Opinion report which were indicative of support for the hedging program to the effect of 53 percent were fine with maintaining it.

MS. LORI STEWART: Fifty-three percent expressed satisfaction with the status quo and an additional 13 percent suggested that they might view an increase in hedge protection as valuable or beneficial.

MR. KRIS SAXBERG: And that's the main reason why Centra is maintaining its hedging program is based on that evidence from this Western Opinion research survey?

MS. LORI STEWART: Mr. Saxberg, everyone on this Panel has been in the gas business for quite some years and we -- we've worked in the business, we have expertise and knowledge. We have some intuitive thoughts about how to best serve our consumers, that's -- that's top of mind for each of us.

And the customer research, if you like, bolsters the management judgment around the value delivered by the derivatives hedging program. I don't think we have any, you know, fondness for the hedging program that's disproportionate to the value that we believe it's delivering for our consumers.

The hedging program, just like the -- our instrument of choice, represents the middle position on the spectrum between a fixed price swap strategy and a call option strategy. We've migrated to the cashless collar option.

Our default position in terms of a hedged portfolio with two-thirds of volumes being hedged, a third of the volumes swinging with the market, represents that middle position on the spectrum versus a purely indexed contract with no hedges in place or a fixed price option that consumers can avail themselves of in the marketplace.

So here's our spectrum and what our program does is it doesn't attract itself to either one of these positions, purely indexed or fixed price, it moves the vast majority of consumers to the middle or balanced position.

MR. KRIS SAXBERG: And that's the Corporation's viewpoint as to the meaning -- or the results of the retrospective hedging analysis, that the collars represent the middle ground, that's the view and you've expressed it well on a few occasions.

And what I want to ask you though is, when you put caps at one end of the spectrum, you're doing that because caps do not represent any reduction in downward volatility?

MS. LORI STEWART: No. Caps generally will deliver less volatility of reduction than will cashless collars. And cashless collars will generally deliver less volatility reduction than a fixed price swap strategy.

MR. KRIS SAXBERG: Can I pursue that? A fixed price strategy is a -- it's a bit of a no-brainer that it's going to be the most dramatic at reducing volatility because it's one price. It's going to stay at that price, correct?

MS. LORI STEWART: Yes.

MR. KRIS SAXBERG: The next one is a collar. The collar is going to allow the price only to move up and down within a particular band and we've seen around eighty (80) cents, the way that Centra's being things, correct?

MS. LORI STEWART: Yes.

MR. KRIS SAXBERG: Now, with a cap it's a whole different story and I think I said peculiar previously, but the bottom line is a cap is a completely different instrument because it has -- it's not there to restrain downward volatility, it's only going to restrain upward volatility.

So, it's always going to show up as having less of an impact on reducing volatility because if the -- if the fortuitous event occurs where the price never reaches the cap then, in that case, there's no volatility reduction?

MR. BRENT SANDERSON: Mr. Saxberg, maybe your understanding of how a call option works -- I think we've discussed this in a quite lengthy manner. It's less effective in reducing customers' rate volatility. You can't make the statement that it doesn't reduce downward volatility.

I think it's important for everyone to understand that when we talk about if we employed a call option strategy, fifty (50) cents out of the money, we'll say, an equivalent upside level of protection equivalent to what we pursue now based on our customer research with our collar strategy.

At the outset of any year in today's market you're going to be looking, typically, at 40 to $50 million of previously committed premiums to purchase those call options before the year has even begun.

So, that is the cost to you or the opportunity cost that you are giving up in the attempt to, as you put it, fully participate in any subsequent downward movement in price. But in order to truly participate in a subsequent downward movement in price, prices must fall 40 to $50 million before customers are truly, for practical purposes, achieving any downward participation.

So the extent that you have to previously commit upfront that capital is in and of itself a factor that would mitigate downward movements in price from a customer's perspective.

MR. KRIS SAXBERG: Except that over the long run you keep telling us that that -- that 40 to 50 million is going to be zero or it's going to be four hundred thousand (400,000) a year.

So if you remain consistent with that as being the cost, then the suggestion that I'm putting to you is that if customers aren't weary of downward volatility, then isn't a cap not at one end of the extreme but isn't it more of a middle ground than a collar?

MR. BRENT SANDERSON: Mr. Saxberg, you're obviously very concerned about any short-run additions or reductions to gas cost that result from volatility reduction delivered by a hedging program and -- and on balance much more concerned about any short-term additions to gas cost.

But pursuing a cashless collar strategy -- or a cap strategy, pardon me, in a -- as opposed to a cashless collar strategy, from the perspective of the customer over the long term, they are indifferent with respect to the cost. Because, as we've said, the cost of any strategy consistently executed will converge and be the same over time.

But market theory would tell you that that desire to try and leave open that participation or the perception of the participation in downward movements in price has a cost, a coincident cost. And the cost to the customer is that the effectiveness of that strategy will not be as great as a cashless collar strategy or a fixed price swap strategy.

Our customers have told us that they are desirous of more stable natural gas rates. When we look at the respective costs over the long run, one is indifferent. So, I don't think it would be reasonable to try and serve customers' stated needs for more stable rates with an instrument that we know, at the outset, is going to be less effective than other alternatives available to us in achieving that objective.

MR. KRIS SAXBERG: Okay. I'm going to move on.

THE CHAIRPERSON: Mr. Saxberg, I think we'll take the lunch break now, just before. You said you were going to move on, right?

MR. KRIS SAXBERG: Well, I was -- I think I could finish hedging in five (5) to ten (10) minutes, which would be a good -- and so I can move on to the next topic for after lunch.

THE CHAIRPERSON: Okay. We'll take your estimate at face value. Okay.

MR. KRIS SAXBERG: The --

THE CHAIRPERSON: But, Mr. Saxberg --

MR. KRIS SAXBERG: -- it's premised on short answers though, I forgot -- one (1) sentence or one (1) word answers, yes or no.

THE CHAIRPERSON: I think, on second thought, rather than put you under pressure or them under pressure to answer, we'll just take our break now.

MR. KRIS SAXBERG: Okay. Thank you.

THE CHAIRPERSON: Okay. We'll come back at one o'clock, and that will compromise.

--- Upon recessing at 12:02 p.m.

--- Upon resuming at 1:06 p.m.

THE CHAIRPERSON: Okay. Welcome back everyone.

Mr. Saxberg, now without any time pressures, you can continue.

CONTINUED BY MR. KRIS SAXBERG:

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

I want to talk about the fifty (50) cent band for a moment. Again, that fifty (50) cent margin flows indirectly from the viewpoint research that was done in 1998, correct?

(BRIEF PAUSE)

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

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

And then we went from that number and went through the process that Mr. Sanderson referred to earlier in terms of -- then extrapolated that over -- over the course of a year, what would that impact be relative to -- in terms of annual class, relative to the other components of the bill that you mentioned this morning, to see just exactly how much of an impact it would have on our customers' bill over the course of a year.

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

MR. KRIS SAXBERG: Thank you for that. And did I hear you correctly when you said you were looking for an extreme result when you -- when you were talking about a fifty (50) cent adjustment, because -- is that correct?

MR. HOWARD STEPHENS: Well, that was in the context of a two dollars and fifty cents ($2.50) or three dollars ($3) -- three dollars ($3) per Gigajoule market. I mean, and to see the price move fifty (50) cents would be tantamount to seeing the market move on AECO by five dollars ($5) now.

MR. KRIS SAXBERG: Somewhat like disaster insurance.

MR. HOWARD STEPHENS: That's right. Well, I just wanted to get a sense for -- okay, if we're trying to protect our customers from price volatility, what's a reasonable expectation, but not so low as to be having us into the market all of the time, to have a hedging program as opposed to the dynamic hedging program that we had just finished walking away from.

MR. KRIS SAXBERG: So if -- if you were still at the helm, as it were, and you were looking at disaster insurance in this new age where prices can go anywhere between three (3) and sixteen dollars ($16) a gigajoule, it's fair to say you'd be looking at something different that fifty (50) cents?

MR. HOWARD STEPHENS: Well, first of all I still am -- I am at the helm.

MR. KRIS SAXBERG: Sorry about that.

MR. HOWARD STEPHENS: But, I think our

market research speaks volumes and that is the -- certainly the central focus with respect to the development of our hedging program.

We used -- we initiated the use of price -- I mean it -- with it's -- with difficulties, with -- market research at that point in time because we were -- I mean I just stood back after what I'll call a very unpleasant experience in 1998 and tried to decide, okay, what are we really trying to achieve with our program?

And it certainly -- I mean we got down -- I mean the -- inappropriate path at that point in time, so it was having a fresh look at the thing.

MR. KRIS SAXBERG: Would you agree though, that the bandwidth now, wouldn't fairly be characterized as disaster insurance, it's a bit more likely to be trigged than was the case when prices only ranged between two ($2.00) dollars and three dollars ($3.00) a gigajoule?

MR. HOWARD STEPHENS: Well, yeah, but a number of things have changed since that time. We were looking to get a much less volatile market, a much more immature market; now we're talking about a market with -- that has undergone at least two (2) major reconstructions of itself.

So making a -- I mean, a comparison in

terms of percentages relative to the current market price, would not be a valid indicator from my perspective, or would certainly need some significant research to be able to be support -- supportive.

MR. KRIS SAXBERG: Just briefly, regarding the potential for a fixed price offering, I heard you to say, Mr. Warden, that you were -- that there was another initiative underway and a committee had been struck and it was in its infancy?

MR. VINCE WARDEN: I don't think I said it was in its infancy. We've done some internal research and should be prepared to bring something forward early in the new year.

MR. KRIS SAXBERG: Okay. Well, then that's -- how does that square with, I thought I'd heard that you were going to wait for the market -- some market research to be done before making a decision about -- about fixed prices?

MR. VINCE WARDEN: Yes, well that market research I think I indicated would be in January/February 2007 and immediately thereafter we would be --

THE CHAIRPERSON: Mr. Saxberg, in fairness to all parties, we're going to put some tight constraints around this topic.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Yeah. It's not -- the issue -- the confusion that I have is that I thought the market research was going to happen in 2008?

MR. VINCE WARDEN: I think we're talking about two (2) different market researches. So the market research I was referring to will be in 2007.

MR. KRIS SAXBERG: Okay. That's -- that clears it up for me, thank you very much.

Mr. Sanderson, PUB-43, the analysis that you've done following up on the retrospective study, I'm just going to throw this out to you, does it reveal that with -- that if you used caps throughout the period, that the short term additions and reductions to costs overall -- over the whole period, are somewhat less than the short term additions, reductions to costs, using collars or swaps?

MR. BRENT SANDERSON: Would you like to take me to a reference, please?

MR. KRIS SAXBERG: It's PUB-43 which is also in my book. The only problem is the photocopying is horrendous on it, so the numbers are a bit difficult to read.

So if you have your version of PUB-43, it would probably be more helpful to you.

(BRIEF PAUSE)

MR. BOB PETERS: I might hasten to add Mr. Saxberg, it's at Tab 21 of the Book of Documents, or at least part of it are; of the Book of Documents that were prepared on behalf of the Board. So if that -- that helps parties find it.

MR. KRIS SAXBERG: I think they should probably look at the one that -- I found it now in my book, at Tab 18 cause it's...

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: If you start at page 1 of 18, my concern is with respect to that column that says "Percentage addition or reduction to gas costs".

And so when I -- I look at the collar approach and I go through it and I just -- I make a mental note of the -- of the height of those -- of those numbers, whether they're negative or positive, and I see a 53 percent and a 61 percent on the page 5 of 18 for instance, and other high numbers throughout, and then I look at -- at the next analysis, which is the cap analysis, is that correct, that follows?

MR. BRENT SANDERSON: Mr. Saxberg, you're jumping from schedule to schedule and -- and your photocopies are absolutely illegible. So maybe you could --

MR. KRIS SAXBERG: That's my fault.

MR. BRENT SANDERSON: -- slow down a bit and maybe -- and give me --

MR. KRIS SAXBERG: Sure.

MR. BRENT SANDERSON: -- a specific reference, and we'll go through it one step at a time, and I can respond to each of your questions in turn.

MR. KRIS SAXBERG: Sure. If you could turn to page 5 of 16. And under the column "Percentage addition/reduction" note the size of the -- of the percentage is in some cases above 50 percent, but they're fairly large numbers.

Do you agree with that?

MR. BRENT SANDERSON: What I can tell you, Mr. Saxberg, is to the extent that any one strategy, be it a cashless collar or a fixed price swap strategy or a call option strategy, the extent to which any of those strategies is more effective in reducing customer -- in reducing the volatility of customers' rates, you will see a higher percentage plus or minus in any one period relative to a strategy which is less effective in reducing the volatility of customers' rates.

For the volatility of customers' rates to have been reduced, they must pay some price other than the market price, either be it more than the market price or less than the market price.

So without going through each individual number I can tell you that the percentage additions or reductions to customers' gas cost will be the highest under the retrospective scenario that we -- that we illustrate for a fixed price swap strategy.

On average, the numbers, plus or minus, will be a smaller percentage if we look at a -- a cashless collar strategy. And then in all likelihood they will be the smallest in the case of a call option strategy or a cap strategy because the fixed price swap strategy is the most effective in reducing volatility, the call option strategy the next most effective, and then -- pardon me, the cashless collar strategy next most effective and the call option strategy the least effective.

So it's just purely a function of the effectiveness of a given strategy in reducing volatility.

MR. KRIS SAXBERG: Thank you. That saves us a lot of time.

At the end of the day the cap strategy over a longer period of time is going to impact gas cost consequences less than the collar strategy?

MR. BRENT SANDERSON: In coincidence with -- coincident with that will be the least effective of the three (3) in achieving the objective that underlies our program, and that's reducing the volatility of customers' rates.

MR. KRIS SAXBERG: Right. But the -- okay. We already had that debate, so I won't get into that.

Now, to move on then. At Tab 18, I have a -- a question. It's the same tab. And my concern here is with regard to the volumes that are hedged in comparison to the volumes of gas that was actually received.

And I've noted a few occasions where the hedge -- the amount of the -- the volumes hedged exceeds the actual primary gas purchased.

MR. BRENT SANDERSON: As Ms. Stewart described yesterday, when we are in the position of having to determine the volumes that we would purchase in a warmest-weather-year scenario ten (10), eleven (11) and twelve (12) months into the future, and every quarter when we hedge we're faced with making that determination, we make our best efforts to forecast the minimum amount of gas we would require in a warmest-year scenario, the warmest year thus far experienced at that time, given the particular makeup of the market at that point in time, meaning how much of the market we serve relative to brokers and so forth, so we make our best efforts to ensure to the highest degree possible that we will have an underlying physical need to purchase the gas on which we've placed hedges.

And we've been very clear from the outset that there is no -- we do not press -- profess to be able to determine with absolute certainty that there may not be circumstances that result in -- in a minority of periods, where do to circumstances not yet experienced at that point, that we may find ourselves with a purchase requirement slightly less than that which we have hedged.

And I think last winter would be a perfect example of that. We had never experienced a winter as warm as last year in any of our historical records, so we could not have incorporated that into our determination of what our base load purchases would be in a warmest year yet experienced.

Going forward now, we have the benefit of having that new record standard or benchmark against which to measure. And in subsequent forecasts of eligible volumes or base load volumes for future hedging periods, we'll explicitly take into account that new standard that was set last winter.

So there always is the chance that there could be greater migration to direct purchase than we could have anticipated or some new weather circumstance that was not resident in our records at the time we were forced to make our estimate of base load purchases.

And I might add that we are extremely conservative in this regard. Many utilities and many experts feel it's perfectly reasonable to place your hedges on your expected normal year purchases, which would mean it would be very typical to be under-hedged or over-hedged relative to your actual takes. Some experts would say that your best expectation is what you would purchase in a normal year circumstance as opposed to a warmest year.

So we're far more conservative than many in that regard. But there always is the potential that we will have some excess of volumes hedged relative to underlying purchase requirement.

MR. KRIS SAXBERG: And just so that everyone can see it, on -- on page 4 of 18, that is the schedule that the Board's approving in this proceeding. In other words, it's the April '05 to March '06 year.

And the very first line there indicates that the volumes hedged were 4.2 million gigajoules, the actual primary gas purchased, 4.11, meaning that to the extent of 90,000 gigajoules you had what Ms. Stewart referred to the other day as a dirty hedge?

MS. LORI STEWART: Yes, that's correct. And --

MR. KRIS SAXBERG: And I understand what you said about the reasons for that. You're forecasting. You didn't know it was going to be that warm at the time you were -- that the forecast was being made for what would constitute the very minimum volumes.

MS. LORI STEWART: Or there was a greater migration to Western Transportation Service than what was embedded in our forecast.

MR. KRIS SAXBERG: In light of that happening, have you made adjustments now so that you're not going to be in this position in the future?

MR. BRENT SANDERSON: As we've said, to the extent that new circumstances reveal themselves and we're able to incorporate it into subsequent forecasts of base load purchases on which we place hedges, we would consider that. But the fact is, is that weather -- new weather events or unexpected or unanticipated migrations -- large migrations of customers to direct purchase is entirely outside of our ability to determine with certainty.

So we are not able to make a definitive

statement that we will never find ourselves with a -- a volume slightly in excess -- our hedge volume slightly in excess of our underlying purchase requirement. But it's always the case we make our best efforts to -- to ensure that that -- that we don't knowingly go into a situation where that would be the likely outcome.

(BRIEF PAUSE)

MR. KRIS SAXBERG: Thank you for that. And with that I'll -- I'll move on to a -- another topic, and that is gas supply related subject matter. So I will be directing most of my questions to you, Mr. Stephens.

MR. HOWARD STEPHENS: Should I take my jacket off now or later?

MR. KRIS SAXBERG: I just want to start off understanding with respect to the supplementary gas costs that are before the Board here, a portion of that has been identified as commodity related and it's $9.5 million?

The best way to see that is Tab 2 of Mr. Peters book of selected documents.

MR. HOWARD STEPHENS: I have it.

MR. KRIS SAXBERG: Where it says, supplemental gas, it's got a figure of $9.5 million. Is that pure commodity or are there some transportation costs within that number?

MR. HOWARD STEPHENS: That would be pure commodity.

MR. KRIS SAXBERG: And then I look through the schedules and I know we're not buying any gas on a forecast basis from Louisiana, correct?

MR. HOWARD STEPHENS: Well, not so far as I know right now, anyways.

MR. KRIS SAXBERG: And with regard to Oklahoma, it's a very, very small number as well, correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: So is this delivered services from Canada?

MR. HOWARD STEPHENS: No, it's gas we require in a normal year to fill storage.

I'll stand corrected, it's gas -- we would have put in as supplemental and then withdraw afterward.

MR. KRIS SAXBERG: That you would have put in?

MR. HOWARD STEPHENS: Yes, in a prior period.

MR. KRIS SAXBERG: Right now, there is -- starting off this year, there is about 8 million gigajoules of gas already in storage, correct?

MR. HOWARD STEPHENS: Then we have -- that's about the correct number in terms of our inventory at the end of the withdrawal season.

MR. KRIS SAXBERG: And about half of that was supplementary gas, in the supplementary gas account, correct?

MR. BRENT SANDERSON: If I might just clarify what we're speaking about here.

These costs do no represent the costs of supplemental supplies required to fill storage. It's a forecast of the cost of supplies we would expect to withdraw from storage to serve the load in a winter period, that are characterized as supplemental supply that are currently in storage.

MR. KRIS SAXBERG: But there's less than 9 million in storage right now, is the difference between the 8 million that's there and the 9.5 million what you expect to get from Oklahoma in delivered services?

MR. BRENT SANDERSON: What Mr. Saxberg is referring to is our end of winter storage inventory balance at the end of last winter.

And that was comprised of both primary gas supply and supplemental storage supplies. We strive, given our pipeline capacity constraints to fill approximately two-thirds (2/3's) of our 15.5 million gigajoules of storage capacity with Alberta supplies during the course of the summer, that's the maximum we expect to be able to transport from Western Canada to inject into storage.

And then about one-third (1/3) of our storage capacity, we would be comprised of US supplies. Now, we ended last winter with our -- almost our full one-third (1/3) supplemental component of storage at almost that level.

We used very little supplemental supplies from storage last winter. So there was a minimal requirement to purchase supplemental supplies this summer period to refill our storage inventory.

But, as of the end of October we were at our target levels of approximately two-thirds (2/3's) primary gas and one-third (1/3) supplemental gas in storage. And then these costs represent the forecasted costs and supplies that we would expect to flow from storage to the Manitoba load to serve that demand in the winter period.

And some of those costs embedded in that may have been injected into storage in prior years a bit in the current summer. So it can get a little confusing following the time lines.

But these are costs we expect to withdraw from storage to serve the load in a typical winter at the time this forecast was prepared.

MR. KRIS SAXBERG: So these storage gas supplies weren't paid for or weren't paid in rates when they were injected into storage?

MR. HOWARD STEPHENS: That's correct, sir.

MR. KRIS SAXBERG: Now, just speaking very broadly about gas supply matters, you'll agree, Mr. Stephens, that gas costs are a pass through item for Centra?

MR. HOWARD STEPHENS: To this point, yes, sir.

MR. KRIS SAXBERG: And -- and by that it means if you pay a dollar for the commodity, then you're going to collect a dollar from your customers at the end of the day, correct?

MR. HOWARD STEPHENS: That's a very simplistic way to look at it but, yes.

MR. KRIS SAXBERG: That's the way I like to look at things. And with respect to transportation costs, it's the same thing, if it costs 45 million for your transportation arrangements you're going to get every dollar back from the customers, correct?

MR. HOWARD STEPHENS: We pass the costs through and try to recover them all, yes.

MR. KRIS SAXBERG: And there's absolutely no markup and no profit received by Centra in doing that?

MR. HOWARD STEPHENS: Despite my telling my neighbours that, yes, that's the -- they don't believe me though.

MR. KRIS SAXBERG: I won't ask where you live. So there's really no financial incentive for Centra with respect to maximizing efficiencies in terms of gas supply arrangements?

MR. HOWARD STEPHENS: No, I will not agree with your premise there, Mr. Saxberg, I mean, we are a Crown Corporation. The ratepayers pay my salary and pay the salaries of people that work within gas supply. We go to every extent or length necessary to ensure that we get the lowest possible cost supplied into storage and into the market. So I patently disagree with your statement, or your question.

MR. KRIS SAXBERG: I did carefully word it though because I'm not, in any way, suggesting that you're not working diligently or hard enough or even successfully in terms of ensuring that you're buying the cheapest gas for consumers.

All I was saying was, the rather trite

point, that from a financial perspective for the Company there's no incentive?

MR. HOWARD STEPHENS: No, I think that -- I still disagree with you, sir. We're here to make sure that we're serving out customers to the best extent that we can. We have an investment in plant. We want to make sure that our customers are satisfied with the service that we're getting or putting as much gas through the pipes as we can and make it most cost effective. So I don't accept your premise whatsoever.

MR. KRIS SAXBERG: Now, in terms of security of supply, you have put on the record that there is a surplus capacity on TransCanada pipelines and I think everybody in the room was in agreement on that point?

MR. HOWARD STEPHENS: Yes, there is, right now, on the western leg of the system.

MR. KRIS SAXBERG: And -- and that's notwithstanding what you had mentioned as the keystone conversion?

MR. HOWARD STEPHENS: No, the keystone conversion is they're taking one (1) tube out of seven (7) I believe it is, in that location and they're converting it to oil and the remaining tubes will continue to transport natural gas.

MR. KRIS SAXBERG: So there's still, you said, 1.2 PCF to 2.25 excess capacity per day?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And I think you've testified previously that there is no risk that the Manitoba gas user will be without gas. The only risk was really a price risk in terms of leaving certain parts of your supply uncontracted?

MR. HOWARD STEPHENS: Unless TransCanada makes further moves to decontract or eliminate some of their facilities which they have not indicated that they have any intention of doing to this point.

MR. KRIS SAXBERG: And so with respect to this uncontracted portion of peak day requirements, because your load is shrinking, it's declined and it's -- there's no concern that Centra has with respect to that portion because of this excess capacity, correct?

MR. HOWARD STEPHENS: Well, no, it's not quite as simple as that, Mr. Saxberg. I mean, certainly I don't have any concerns because we have put the appropriate arrangements in place to ensure that we can satisfy our peak day and our peak seasonal requirements. The capacity certainly is very helpful in that respect but there's two components to the -- serving the load and it's the buying of the gas and it's the acquisition of the transportation.

The commodity is a much tighter -- it's -- well, let me reword this, purchasing the commodity is a much tighter market right now. So making yourself -- making it available to us on a peak day or on a peak day scenario where an extensive cold front, for example, were to be covering the Manitoba jurisdiction as well as Saskatchewan or the eastern provinces, could make acquiring the commodity more difficult.

And that's why we have put other transactions into place to ensure that we can access commodity at a reasonable price and make sure that we have the capacity to get it -- the gas to the market.

MR. KRIS SAXBERG: And I will be asking you about those arrangements in detail in a bit, so you may have actually answered my question.

There's approximately 30,000 gigajoules a day uncontracted, something like that?

MR. HOWARD STEPHENS: No, I don't think the numbers is quite that high now, moving into the new forecast it's more in the order of 20,000 and that's not including the interruptible customers.

MR. KRIS SAXBERG: And because of the excess capacity on TransCanada pipelines would it matter if that was eighty thousand (80,000) or a hundred thousand (100,000)?

MR. HOWARD STEPHENS: Certainly, because going to buy the commodity in terms of eighty thousand (80,000) or a hundred thousand (100,000) in the course of a day, in the scenario that I painted earlier where everybody is chasing gas, I could pay quite a significant premium for it.

MR. KRIS SAXBERG: So you're saying there's -- there may be a supply shortage at critical moments when everyone is in the market for gas?

MR. HOWARD STEPHENS: Well, it's a natural outcome, I mean when -- if there's a significant cold front across the country, I mean, everybody's chasing after gas and when demand is up, price is up.

MR. KRIS SAXBERG: Now, I want to turn to the blank page analysis and the purpose of the portfolio review was to ensure that there are no lost opportunities for Centra to either reduce gas supply costs, transportation costs, storage costs or to increase capacity management revenues.

Is that a fair characterization?

MR. HOWARD STEPHENS: On the premise that this was post-2013, after our current arrangements with ANR are wrapped up.

MR. KRIS SAXBERG: Now, in 1995 the Board ordered Centra to do a portfolio review and the result of that was a report filed in I believe, December 1998, that flowed from an order of the Board, is that fair?

MR. HOWARD STEPHENS: That's fair.

MR. KRIS SAXBERG: And then that -- that portfolio review was internal, correct?

MR. HOWARD STEPHENS: Yeah, we did that utilizing internal resources.

MR. KRIS SAXBERG: And it also dealt with salt cavern storage, correct?

MR. HOWARD STEPHENS: It did.

MR. KRIS SAXBERG: And the Board reviewed it in a hearing and internally, I suppose, and determined that it was deficient in certain regards, is that fair?

MR. HOWARD STEPHENS: They didn't -- they felt that we didn't explore as many avenues as we potentially could have.

MR. KRIS SAXBERG: And one (1) of the concerns that they had related to assumptions that were made, correct?

MR. HOWARD STEPHENS: Well, when you're doing a portfolio review, you have to make a number of assumptions and there's opportunity to disagree as to what those assumptions should be, yes.

MR. KRIS SAXBERG: And can I take you to

Tab 30, in my book. Thanks.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I have it.

MR. KRIS SAXBERG: And the Board indicates, the very first sentence is:

"The Board had requested Centra conduct further analysis after the Board reviewed Centra's load factor report which was submitted in December 2001."

That -- that December 2001 date is wrong, that should be 1998.

MR. HOWARD STEPHENS: I'll take your word for it, that's going back quite a ways.

MR. KRIS SAXBERG: And you might note that the decision actually is June 6, 2001.

And in particular, the Board had concerns that commodity prices, pricing mechanism tolls and system load growth since '96 and '97, were outdated, correct?

MR. HOWARD STEPHENS: Correct.

MR. KRIS SAXBERG: So the Board goes on to order a portfolio review to be done, correct?

MR. HOWARD STEPHENS: Well, actually I think I offered to have it done and then the Board subsequently ordered it to be done so it depends on your chain of events, but ultimately we were going to do it, yes.

MR. KRIS SAXBERG: And the Board put a deadline on it of November 1st, 2001?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And the Board notes in -- in this that it's concerned about some delay and that there may be lost opportunities, do you see that in the second paragraph?

MR. HOWARD STEPHENS: Yes, but I -- really, I mean, at that time and certainly to this point, I don't think that there really were that many opportunities to be lost given the fact that we had a long term contract with ANR which is pivotal to our portfolio and in order to extract ourselves from that arrangement would likely cost us a significant amount of money.

MR. VINCE WARDEN: Mr. Saxberg, this was -- the delays that were being experienced were partly attributable to the acquisition by Manitoba Hydro at that time. So Manitoba Hydro arrived around -- in 1999 and this blank page analysis was delayed, partly while that process was underway.

MR. KRIS SAXBERG: And one of the things

that the Board wants to see in this blank page analysis is that it not be constrained at all, could you explain that?

MR. HOWARD STEPHENS: Well, it was basically saying, pretend you have no assets. You're starting afresh. This is the load you have to serve, how would you go about doing that?

MR. KRIS SAXBERG: And when we get to 2013 you'll be in that world, is that fair? I mean, when -- when we're out of all of our long-term contracts?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And time does fly, and so we're six (6), seven (7) years away from -- from that stage?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: Now, November 1st, 2001 came and passed and the report wasn't filed and I know that one of the reasons, as Mr. Warden explained, because of the Hydro acquisition, but there was another one that was cited by Centra relating to uncertainty regarding TransCanada Pipelines, correct?

MR. HOWARD STEPHENS: TransCanada Pipelines was in the midst of a very large hearing dealing with stakeholder concerns and how they were going to reconstruct themselves and -- given the fact that a large number of their long-term contracts were not recontracting.

So there was going to be a significant amount of excess capacity, some of which we discussed earlier and still exists and not to mention that we had just gone through another -- I mean, one of the major restructurings of the marketplace in terms of pricing and those -- those events certainly made it very difficult to come to the appropriate assumptions that you have to come to in terms of developing a portfolio review and we talked earlier about that.

MR. KRIS SAXBERG: And on August 19th, 2001 Centra was able to issue an RFP to hire a consultant to assist with the portfolio review, correct?

MR. HOWARD STEPHENS: I'll take your date for -- yes, I'll agree with it.

MS. MARLA MURPHY: Mr. Chairman, I presume that the history here is leading up to dealing with the report that's been filed in Tab 8 but we're a long way back and I'm not sure that there's a lot of benefit to going through this time line in -- in that kind of detail.

The Company did outline the time frames that led up to the filing of this in the -- in the material and perhaps that would expedite this a bit.

MR. KRIS SAXBERG: No, I -- there was a -- with respect, there was a specific request by CAC for -- in an IR to outline these time lines on the record and the response to the IR was that that wasn't going to be forthcoming so I'm -- I'm more than halfway there. There's -- there's a point to this and it will be revealed when I'm -- when I'm done.

So I don't think it'll take much more time and it does provide a history and context because presumably we are going to go through this again coming up -- since we're only six (6) years away from being in this world without any constraints.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: So, IGC was eventually selected as the consultant firm, correct?

MR. HOWARD STEPHENS: That International Gas Consulting, yes.

MR. KRIS SAXBERG: And at the next hearing the issue of what was taking so long was, once again, at the forefront and the Board concurred with Centra that TCPL uncertainty should be resolved before the -- the report was completed but then indicated that it was hopeful that the report could be completed by -- in time for the 2003/'04 gas year.

Does that sound familiar?

MR. HOWARD STEPHENS: I'll take your dates as given subject to check, Mr. Saxberg.

MR. KRIS SAXBERG: Now the 2003 GRA came and went and the report was not -- was not ready. However, a draft of the report was submitted to Centra on May 26th, 2003.

Do you take that date subject to check again as well?

MR. HOWARD STEPHENS: I will.

MR. KRIS SAXBERG: And the Board in its order relating to the 2003 GRA, which is included in the same tab that I have, and it's the last -- I didn't number these pages, unfortunately, but you'll see it's Decision 118/03.

MR. HOWARD STEPHENS: Where will I find this, sir?

MR. KRIS SAXBERG: Sorry. In this Tab 30.

MR. HOWARD STEPHENS: Tab 30.

(BRIEF PAUSE)

MR. KRIS SAXBERG: And page 43 of that Board Order 118/'03, the Board indicates that:

"It shares the frustration of Intervenors with respect to the delay in the preparation and filing of the long-awaited blank page analysis. And the Board orders that it be filed with every -- with Intervenors and the Board after it's reviewed by the Centra Board of Directors, anticipated to happen in August of 2003."

Is that accurate?

MR. HOWARD STEPHENS: That's what the document says, sir.

MR. KRIS SAXBERG: And one (1) year later the report was discussed for the first time at the 2004 Cost of Gas Hearing in September of 2004.

Do you recall that?

MR. HOWARD STEPHENS: I don't recall the proceeding but I will accept your date, sir.

MR. KRIS SAXBERG: And laterally -- I don't have a copy of the Board's decision for that 2004 because it's not on the website. It's the only decision that's not in the website for some reason, I don't know why, but it's -- something must have happened to it but -- so I couldn't get a copy, but I know that the -- the report was reviewed at that hearing because I was there and participated in it.

But would you agree that Centra's position at the time was there's limited benefit to reviewing the report in any detail until it adopts a position in terms of how it's going to deal with the report?

MR. HOWARD STEPHENS: Well, one of the finds of IGC was that there was no urgency for us to transition from the proposed portfolio that, I mean, such they were recommending, and -- and moving away from our existing portfolio, that our existing portfolio was working well and would continue to serve Manitoba consumers very well, until such time as the ANR contracts were terminated.

MR. KRIS SAXBERG: And for that reason it was Centra's position that there was not much benefit to reviewing the report in detail until Centra had adopted a position with respect to implementing recommendations in that report; correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And Centra advised at the time -- the reference is page 41 of the 2004 Cost of Gas Hearing -- that the internal review would be completed in the first quarter of 2005.

You can take that subject to check?

MR. HOWARD STEPHENS: I will.

MR. KRIS SAXBERG: June of 2005 came around and there was a GRA before this Board at that time and the internal report hadn't been completed yet.

Is that fair?

MR. HOWARD STEPHENS: I'll accept your date subject to check again, Mr. Saxberg.

MR. KRIS SAXBERG: And Centra's position remained that there was really no benefit to reviewing the report until Centra had adopted its position and that the report would be filed by -- I believe it was July 1st or -- 2005, or July 2005?

MR. HOWARD STEPHENS: Fair enough. Same comment.

MR. KRIS SAXBERG: And the report was filed and this Board has commented on it in its -- in its decision that came out of the GRA in -- in a general sense.

And the report is the one (1) that is now before us, in which Centra is indicating that it will not be proceeding with salt cavern storage because, in part, the assumptions used by IGC are out of date, is that fair?

MR. HOWARD STEPHENS: Certainly the pricing scenario that we're talking now and the winter/summer differentials that IGC was relying upon were -- are certainly much different than they are -- or were when they did their report.

I -- I am -- although we're not saying that we're not going to do Trans gas storage, it may be under a different scenario of model than what was being recommended by IGC. And we are going to review all of our options again this year, early next year and come down to something that's going to be a little bit more concrete in terms of how we transition from where we are to where we ultimately will be.

But given the nature, and in fact I alluded to this earlier on in the proceedings, given the nature of the significant changes that are carrying -- on within the marketplace, both outside our jurisdiction and within our own marketplace, it's very hard to put a stake in the ground and say, this is the appropriate portfolio to serve the marketplace.

So the arrangements that we put into place may be of a shorter duration -- short -- short -- well, just short term nature.

MR. KRIS SAXBERG: Something akin to storage if necessary but not necessarily salt cavern storage?

MR. HOWARD STEPHENS: Well, it could be salt cavern storage that we lease from somebody from a --

for a very short term, or five (5) years or something like that, but we wouldn't necessarily enter into such an arrangement where we are an equity holder and looking to have the storage facility constructed on our behalf.

MR. KRIS SAXBERG: And that would then eliminate the requirement to plan early, regarding the need to -- for the first -- for the five (5), six (6) years, whatever it takes to build storage, correct?

MR. HOWARD STEPHENS: That's correct. There's still some question as to whether we need the storage. We've been able to manage to this point in time.

If we see load continuing to shrink as we have, then we may not have a case at all for additional storage and, in fact, we may have too much storage as it stands.

MR. KRIS SAXBERG: Now, in terms of doing a -- another portfolio review that -- that's definitely in the cards, correct?

MR. HOWARD STEPHENS: There's no question about it.

MR. KRIS SAXBERG: And will it also involve hiring a consulting firm?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: There's a very good likelihood that we would hire a consultant, perhaps not to do as much of the work as we had IGC do; do a considerable portion of it within our own shop. We have good modelling software.

IGC's report gave us a good indication of the different alternatives available to us. It would be a matter of just identifying what rate or toll changes there would be associated with the alternatives and then the sophisticated modelling software that we have will help us make a -- make us -- make a sound decision as to the direction and the way we should go.

MR. KRIS SAXBERG: Now, the last portfolio process that I just went through the history of in synopsis form began in 1995 and ultimately concluded with Hydro forming a position in August of 2005 which is -- which is quite a -- quite a lengthy period of time --

MR. HOWARD STEPHENS: But those -- those were two (2) discrete processes, Mr. Saxberg. One (1) we were requested to do and actually it wasn't necessarily a portfolio review, they just wanted to have us look at the impacts of load factors on the system, that's the one that was dictated in 1995 and we complied in -- by 1998.

Then the second one, and I can't recall the date that I initiated or agreed that we would begin a portfolio -- or mean the more global review, but it certainly was not -- I mean, a time span of 2005 to -- or 1995 to 2005 that we took to come to the final analysis.

MR. KRIS SAXBERG: Well, if you're going to parse it that way then it would be 2001 was when the process was kicked off based on the order that we -- that we reviewed and that's 91/01.

MR. HOWARD STEPHENS: Agreed.

MR. KRIS SAXBERG: In any event that is a long period of time and so in terms of this new portfolio review and the fact that the assets that are under contract right now are going to be freed up, or your options are going to be freed up in six (6) or so years, when do you anticipate beginning the portfolio review?

MR. HOWARD STEPHENS: Late this year if not -- if not late this year, early next year.

MR. KRIS SAXBERG: Thank you --

MR. HOWARD STEPHENS: It depends on how many more hearings I have to come to.

MR. KRIS SAXBERG: Thank you for that. And with respect to the IGC recommendations, one of the recommendations they made was to increase storing -- storage with ANR; Centra hasn't done that, correct?

MR. HOWARD STEPHENS: No, we have not.

MR. KRIS SAXBERG: And --

MR. HOWARD STEPHENS: Mr. Saxberg, you have to keep in mind that their recommendations were very much out -- out in the future. They weren't meant to be adopted immediately by any stretch of the imagination. They were talking at least a five (5) year window.

MR. KRIS SAXBERG: Okay. So that remains on the table, as does additional storage, whether it be owned by Centra or -- or purchased -- or just used by Centra.

MR. HOWARD STEPHENS: Yeah. It's either a lease arrangement or a purchase arrangement. We would like to go with the lease arrangement, from our perspective.

MR. KRIS SAXBERG: One of the recommendations of the IGC report though was that Centra not commit any more than 25 to 40 percent of its supply to any one (1) company.

That recommendation wasn't followed the last time that Centra entered into a gas supply contract, correct?

MR. HOWARD STEPHENS: That's correct. The consultant was entitled to their opinion. I disagreed.

MR. KRIS SAXBERG: And I guess we'll wait and see what happens with respect to recontracting.

MR. HOWARD STEPHENS: That's right.

MR. KRIS SAXBERG: But --

MR. HOWARD STEPHENS: Actually, Mr. Saxberg, I will clarify. We did go out for -- with an RFP with the intention of aggregating the most appropriate set of supplies as we -- that would provide the most economic supply for Manitobans, with flexibility and security of supply and all the other attributes you -- you would put to it.

The RFP's that we received very much were weighed in the -- in favour of Nexen, and as a result of that we recontracted with them.

MR. KRIS SAXBERG: But the RFP itself was -- was asking for an exclusive provider?

MR. HOWARD STEPHENS: No, it was not. It was wide open. We were looking for -- we were looking for suppliers to provide us with creative solutions to our unique load profile and a way to serve this market.

MR. KRIS SAXBERG: Okay. In terms of the assumptions made in the IGC report, the big assumption is a four dollar ($4) summer/winter differential. And I believe there's an IR/CAC-40 that shows the history of the differential and that shows that four dollars ($4) is not a likely differential; is that fair?

MR. HOWARD STEPHENS: That's correct. A

summer/winter differential like that would, obviously, tend to favour storage because you can put very cheap gas in the ground if in the summer it's four dollars ($4) cheaper than it is in the winter.

MR. KRIS SAXBERG: And the exchange rate that was used was one point six one (1.61), and that's way off the mark now, thankfully.

MR. HOWARD STEPHENS: And so it's -- it's no longer relevant. They were using the numbers of the day.

MR. KRIS SAXBERG: I want to turn to capacity management now and exchanges.

Now, exchanges are described in your materials at Tab 3, Attachment 4. I've got it in my documents. No need to turn to it now.

But is it as simple as a trade of gas out of storage in Michigan for gas delivered in Winnipeg?

MR. HOWARD STEPHENS: Yeah. It's what I described the other day. We intercept gas that ordinarily would have been delivered downstream on Great Lake system. We intercept that gas, take in Winnipeg, and we replace it with gas out of storage at a point downstream that we can deliver to out of storage.

MR. KRIS SAXBERG: And the amount doesn't always have to be an exact exchange; you can correct the imbalance at a later date.

MR. HOWARD STEPHENS: And that's how -- that is how we satisfy some of our peak-day requirements.

MR. KRIS SAXBERG: Now, would you agree with me that there is a market price for gas in Michigan reported for prices at the Michigan City Gate?

MR. HOWARD STEPHENS: Well, them -- certainly there is an index for it, yes.

MR. KRIS SAXBERG: And that Michigan is a big market for gas, a large market?

MR. HOWARD STEPHENS: Yeah.

MR. KRIS SAXBERG: And there's also a market price for gas in Alberta, most commonly referred to, not at the AECO hub but at the NOVA inventory transfer point, the notional point.

MR. HOWARD STEPHENS: It's the same thing.

MR. KRIS SAXBERG: Same thing?

MR. HOWARD STEPHENS: Yeah.

MR. KRIS SAXBERG: And I'll refer to that as NIT, but that's a separate market price than the Michigan price?

MR. HOWARD STEPHENS: Yes, the two (2) will have a difference which is referred to as the basis differential?

MR. KRIS SAXBERG: And then there's another market price at the Henry Hub which is the reference for the NYMEX prices, correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And the prices at these various locations are all different and the difference is described as a basis differential?

MR. HOWARD STEPHENS: I think I just answered that, yes.

MR. KRIS SAXBERG: And it's a very important consideration for you whenever you're doing your capacity management functions, correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And would you agree that just in terms of the going from the average lowest price to the highest price, as in a general scenario, that the location at NIT in Alberta, is low; the Oklahoma location is slightly higher, usually; the Michigan higher still, in a general sense and NYMEX at the top?

MR. HOWARD STEPHENS: Just -- I --

MR. KRIS SAXBERG: In terms of lowest price to the highest price for gas?

MR. HOWARD STEPHENS: No, I can't agree with that Mr. Saxberg. Is that -- the dif -- basis differential changes very frequently and it's a function of what's occurring on the various different pipelines. And that is the fair market value for transportation between two (2) points and it can change from day to day by -- depending upon pipeline operation, restrictions and a whole variety of factors.

So yes, there's -- there are -- I mean, you can refer to basis differentials between those points, but you cannot necessarily put a ranking on them because it changes very frequently.

MR. KRIS SAXBERG: And I think you'd indicated that the differential moves around quite a bit between NYMEX and AECO and that those indexes don't necessarily always corelate with one another?

MR. HOWARD STEPHENS: After the construction of the Alliance pipeline which was really the precursor to the market shift we saw in terms of pricing in 2000/2001, they thought there was a going -- lot of consideration or a lot of players in the mark -- in the industry through that there was going to be a much better correlation between AECO and NYMEX and for a short -- brief wha -- time there was. But, that has tended to be -- has been eroded and is certainly not predictable and not no where near what it was in the past.

MR. KRIS SAXBERG: Thank you. The difference between the price at any given location is not simply a factor of the cost of transportation between those two (2) locations, there's more to it than that; correct?

MR. HOWARD STEPHENS: It's the notational cost of transportation between the two (2) locations?

MR. KRIS SAXBERG: But, there will be other factors that -- a myriad of other factors that will come to play to explain the difference in price between these different locations, in other words, to explain the basis differential at any given time?

MR. HOWARD STEPHENS: Demand and supply being two (2) of them, yes.

MR. KRIS SAXBERG: Exactly. Thank you. Now, in terms of the TCPL mainline having excess capacity, it's never going to be a problem for Centra to get some transportation -- if it's got some gas in Alberta, to get it to Manitoba? Trans --

MR. HOWARD STEPHENS: I never -- I never say never, sir.

MR. KRIS SAXBERG: In terms of the -- the IT service, you're not -- you don't have any concerns that one day you wouldn't be able to get that service, if you had gas and you needed to bring it to Manitoba?

MR. HOWARD STEPHENS: I guess it depends on the circumstance. If you're asking me, will I rely upon IT service to satisfy our firm load, without some sort of backstopping position, my answer is no.

MR. KRIS SAXBERG: But, it's out there for peak needs and -- and capacity management transactions and you don't have a problem -- you haven't encountered any problems?

MR. HOWARD STEPHENS: For capacity management transactions it's one thing, because the transactions were do are interruptible. If we need the gas, we can call it back.

For serving the load, the firm load in particular, we will not rely upon IT -- IT unless we have some way to back up that supply, because if TransCanada choses, for whatever reason, to curtail it, I do not want to be short the market.

MR. KRIS SAXBERG: And the cost is a regulated rate, and is it -- is it approximately thirty-three (33) cents Canadian per gigajoule?

MR. HOWARD STEPHENS: For which service?

MR. KRIS SAXBERG: For the IT service.

MR. HOWARD STEPHENS: Well, no. The IT service is a hundred and -- Nola can help me.

MS. NOLA RUZYCKI: 110 percent.

MR. HOWARD STEPHENS: 110 percent of the FT rate.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Okay.

MR. HOWARD STEPHENS: And it's negotiable from there.

MR. KRIS SAXBERG: Now, you agree that there is a demand for gas in -- in Michigan and that's often where you're dealing with a counterparty to do an exchange transaction?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And those counterparties would be most often marketers, is that fair?

MR. HOWARD STEPHENS: In some case it's market -- it's, I mean, a whole host of different characters they -- within in the marketplace. And the -- the actual demand may not be in Michigan, the demand may be further upstream on Great Lakes, where they want to take the gas to Dawn, which is another very liquid trading point.

So there are very -- a number of combinations and permutations in terms of where that actual -- that gas actually goes.

MR. KRIS SAXBERG: Now, in terms of exchanges, in general, if -- if Centra is giving gas to a party in Michigan out of storage and then the other party is returning the favour by providing that gas here in Manitoba, there's going to be a differential between the price value of those commodities if they're the exact same amount, correct?

MR. HOWARD STEPHENS: And that's how we extract revenues from that transaction okay -- by providing virtual transportation.

MR. KRIS SAXBERG: So -- exactly. And when you're providing virtual transportation, just theoretically, if you were able to do that to -- at an extraordinarily large measure so that you did it for all of your gas in storage, for instance, you wouldn't need your, for instance, firm transportation backhaul because -- if you could arrange all your -- your transactions by way of virtual transportation, correct?

MR. HOWARD STEPHENS: It's a very hypothetical and theoretical set of assumptions, and I'll agree with it on that basis.

MR. KRIS SAXBERG: And the simple -- the simple side of it is that if the gas is worth ten dollars ($10) in Michigan and it's worth eight dollars ($8) if you bring it to Winnipeg, then it's that two dollars ($2) which is the amount that represents the value of the exchange, correct?

MR. HOWARD STEPHENS: No. It's going to be something less than that because presumably is the basis differential is established by the cost of firm transportation, then -- and we're putting interruptible limitations on this, we're not going to get the full basis differential.

MR. KRIS SAXBERG: Now is --

MR. HOWARD STEPHENS: There has to be some profit margin left in it for the person that's taking it at the other end of the line.

MR. KRIS SAXBERG: Yeah, yeah. I should have said less some margin. But that's the area that we're talking about; we're looking at the differential and then we're looking at the -- the margin for the counterparty and that's where you're driving your exchange revenues.

And I believe this past year, the year that we're looking at, there were approximately $1.1 million worth of -- of exchange revenue, is that --

MR. HOWARD STEPHENS: It seems to me it was higher than that.

MR. KRIS SAXBERG: I have the information request in my -- my book, and it's Tab 34.

(BRIEF PAUSE)

MR. KRIS SAXBERG: The first page of the attachment, Exchange Net Benefit, I see 1.1 million.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: Mr. Saxberg, what's your question again?

MR. KRIS SAXBERG: Well, I -- I just wanted you to confirm on the record that the -- when we're talking about the differential reflecting the value, that the total value from exchanges in the '05/'06 gas year on this attachment indicate $1.1 million.

MR. HOWARD STEPHENS: Just bear with me for a minute.

MR. KRIS SAXBERG: Sure.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I will agree with you sir, it's 1. -- well, just about $1.1 million for exchanges after costs.

MR. KRIS SAXBERG: Now, there's a peaking exchange that you've referred to in this hearing and in proceedings prior to this hearing.

And I have taken the liberty of -- it's

also explained in the IGC report at -- an except of which is at Tab 31 of my material.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: Is that page 24?

MR. KRIS SAXBERG: Yeah, page 24.

MR. HOWARD STEPHENS: I have it.

MR. KRIS SAXBERG: It describes an exchange for peaking services whereby Centra is getting up to 50,000 gigajoules a day.

Now, this is -- the exchange described here is from several years back. But, if you go to the third page there's a transcript where you are simplifying, I think, a current arrangement that's recurring.

The same peaking arrangement and you say that the long and the short of it, this is at page 206, line 20:

> "The long and the short of it is we've agreed with a counter party to exchange a certain volume of gas over the course of the winter. That exchange has a value associated with it."

That's what we just talked about, correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG:

"And the counter party goes away to the marketplace based upon his mix of assets and determines what his cost is going to be to be applied to us with the peaking service that we're looking for. Then he divides that cost by the amount of volume and the basis differential for the exchange and we then come to an agreement as to how much gas we will exchange without charging them a fee."

Do you see that?

MR. HOWARD STEPHENS: I do.

MR. KRIS SAXBERG: Could you explain that?

MR. HOWARD STEPHENS: I thought I did a pretty good job there.

MR. KRIS SAXBERG: I don't understand the part about giving free gas away, can you -- is that the -- rather than dollars, you're -- can you explain that part?

MR. HOWARD STEPHENS: I will certainly help you with that. What we do in lieu of doing -- well, we still exchange the volumes. We will come to an arrangement with a counterpart.

And we'll say -- decide that over the course of the winter we're going to exchange between Winnipeg and some point down on Great Lakes, say Crystal Falls, a 1,000,000 gigajoules. Now, there's a fair market value for that transportation and we would assign that and say the basis differential is a dime. So I get a hundred thousand dollars ($100,000) is what I would ordinarily get for that transaction.

And instead of asking for the customer or the counterpart to give me the hundred thousand dollars ($100,000), I ask them to go away and we give them parameters in terms of what we need to satisfy our peak day requirement or some portion thereof.

He puts together the necessary arrangements that he -- that if -- based upon his mix of assets and comes back to me with a price in terms of providing me with a peaking service that I require.

And then on the basis of that we look at what the price of the two (2) relatively, and I'm either going to owe him money or he's going to owe me money.

But this is a way for us to provide -- to get -- obtain the peaking service at a very low cost. And we've done the same thing this winter, much smaller volumes, but as it worked out this winter we're actually receiving the benefit of it on the -- we're asking for coverage of thirty thousand (30,000), I believe, off the top of my head, for two (2) days.

I mean -- and what that means is that on demand, we can call on that gas from the counterpart, stop the exchange and he will -- he has a firm obligation then to deliver the 20,000 gigajoules to us.

And on top of that he's paying me money for the exchange over the course of the winter.

MR. KRIS SAXBERG: And --

MR. HOWARD STEPHENS: Are you clear, Mr. Peters -- or Mr. Saxberg?

MR. KRIS SAXBERG: Yeah, I am. I think I understand that.

MR. HOWARD STEPHENS: You called me, Mr. Stewart, yesterday.

MR. KRIS SAXBERG: Is -- is this exchange negotiated in dollar terms on a forecast basis, based on a forward strip and the differential associated therewith or is it reconciled based on what the actual basis differential turns out to be?

MR. HOWARD STEPHENS: We do a portion of the exchanges over the course of the winter. We generally try to lay in, to the extent that the basis differential is attractive, we'll do a portion of it prior to the winter season on the basis of a certain amount of volume we're comfortable that we will be able to move that gas, despite how warm the weather could be because the weather is a big determining factor as to how much gas we can do the exchange for. Essentially, how much gas are we going to pull out of storage.

And that's -- that's done early in the season because that basis differential, depending upon how the winter turns out, may be the best possible deal. But we diversify the portion of the capacity management and leave the remainder available, other than the peaking arrangements, available to day to day transactions where we capture day to day differentials. And then if it's a very cold winter you can see the differentials climb significantly.

But we, basically, diversify that component of our capacity management program so that we get the best value out of it, notwithstanding the circumstances we were faced with.

MR. KRIS SAXBERG: I've put forward in my materials a -- a document, Tab 33, have you had a chance to review that document dealing with basis differentials?

MR. HOWARD STEPHENS: Okay, I see them.

MR. KRIS SAXBERG: This information is

from -- it's a collection of information from the IR's and the first line is the NYMEX forward strip as at May 1, 2006, and that's right out of Centra's materials. You don't have any problem with that collection of numbers?

MS. MARLA MURPHY: To be clear, Mr. Stephens is looking at these numbers now and he's prepared to accept them, but I don't know that we can say he doesn't have any problem with them until he actually has an opportunity to go back and examine those.

MR. HOWARD STEPHENS: Well, you pulled them from the context, but, I mean, I'll accept them on face value, subject to check, Mr. Saxberg.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: And the May 1st forward strip is an important document because it's the one upon which the supplementary rates that were approved on an interim basis were struck, correct?

MR. HOWARD STEPHENS: Correct.

MR. KRIS SAXBERG: And so as at that date we have a price of the gas in Michigan of ten dollars and ninety cents ($10.90) whereas in -- sorry, and the basis -- sorry, that's the NYMEX price, I apologize. And the differential between that Henry Hub price and the Michigan price is point five three six (.536), that's the next line down which also comes from a CAC IR. And --

MR. HOWARD STEPHENS: Mr. Saxberg, I guess I get to ask you a question, are these based upon NYMEX futures prices?

MR. KRIS SAXBERG: If you -- within the same tab I have the source of the information which is the response to CAC-26 and an attachment provided by Centra. I just duplicated the numbers.

Actually I should say our consultant has put together the numbers to -- that will perhaps give you a bit more confidence in the --

MR. HOWARD STEPHENS: Say hello to Mr. Stock (phonetic) for me.

MR. KRIS SAXBERG: He sends his regards.

So with -- with this information on CENTRA-26(d) Attachment and 26(f) Attachment, the price of Michigan gas in Canadian dollars in gigajoules is extrapolated.

And that's the point of the first five (5) lines, it's just to find out what is the Canadian cost of gas in Michigan in gigajoules, in Canadian measurements, using that May 1 forward price strip that was used by Centra in this application. And -- and the number comes out to be twelve dollars and one cent ($12.01) -- ten cents ($12.10).

You see that?

MR. HOWARD STEPHENS: And that's the forward future's market, yes.

MR. KRIS SAXBERG: Forward -- forward future's market. And then what we've done on the next few lines is to look at what the same price was in Alberta at NIT, AECO NIT forward strip, same date, and the price is already of course going to be in gigajoules Canadian dollars, so we don't need to do any exchanges -- any changing there. And it's an actual figure of nine dollars and fifty-eight cents ($9.58).

There's a -- there's a large differential between those two (2) points based on those numbers, based on that forward strip, correct?

MR. HOWARD STEPHENS: All on the basis of future's prices on a financial index.

MR. KRIS SAXBERG: And then the next four (4) lines are simply our consultant's calculation of how much it would cost transportation-wise on -- on the IT service to get that Alberta gas to Winnipeg, and that then becomes the value of the gas, presumably using that future's date, at Winnipeg.

Do you see that?

MR. HOWARD STEPHENS: Yes. Presumably is the operative word.

MR. KRIS SAXBERG: Is this the kind of analysis that Centra has to do to determine if it's getting a good deal on its exchanges?

MR. HOWARD STEPHENS: The best test -- it is -- it is a factor and certainly something that we look at in terms of evaluating the -- the benefit associated with doing the exchanges over the course of the winter.

You also have to have a buyer and a seller in the physical market, and somebody to put -- somebody that has some place to put gas. I mean, and we deal with a number of counterparts when we go to do our exchanges and we extract the maximum value we can just by looking for different quotations with respect to the price that we can extract on a day-to-day basis.

MR. KRIS SAXBERG: And you -- you've been successful doing that. You've found quite a bit of buyers for your gas out of storage in Michigan, to the tune of -- that you're forecasting $27 million worth this year.

Do I have that right? Is that that number where it says --

MR. HOWARD STEPHENS: I'll take --

MR. KRIS SAXBERG: -- "Exchanges out of storage"?

MR. HOWARD STEPHENS: I'll take that

without checking it, yeah. I wish that was the number. No, it's not quite that high.

MR. KRIS SAXBERG: But the -- you reviewed it with Mr. Peters, there was a -- there's a line on the forecast that says "Exchanges" and it's 27 million. I can take you to it, it's at the very last page of my book of documents.

MR. BRENT SANDERSON: I can clarify what you're -- what you're speaking to, Mr. Saxberg.

Those numbers that we talked about, one (1) line being the cost of primary gas supplies withdrawn from storage and then the line below it, the larger number showing supplies as exchanges with counterparties primary supply, we describe that as the means by which those supplies landed in Manitoba for use by customers in the case of an exchange with a counterparty; is by virtue of a separate and distinct capacity management transaction that Mr. Stephens's group undertook to earn some incremental revenue.

But the cost of the volumes involved are identical on a unit basis to the line above it that's described as withdrawal -- primary gas withdrawals from storage. The cost of the physical supplies that are withdrawn from storage either by virtue of a typical backhaul arrangement, a normal methodology by which we would access our storage gas, or by virtue of them being involved in a storage exchange, the cost to the Manitoba consumer is not affected in any way by virtue of that capacity management transaction.

If, for example, the unit cost of those volumes described as a primary gas storage withdrawal, to pull a number out of the air if they're six dollars ($6) a gigajoule the cost of the primary gas supply as characterized as an exchange with a counterparty or a storage exchange are still six dollars ($6) per gigajoule; it's our average inventory cost.

And the cost of the commodity that a Manitoba consumer is totally unaffected by virtue of any arrangement that Mr. Stephens has made to market an excess supply of transportation capacity on a given day.

I just want to make that clear. Whatever basis differentials are or the market price of gas in different basins, our cost of storage supplies is what it is based on our fill costs, and that will not change whether that gas physically makes it to Manitoba under a traditional backhaul arrangement or by virtue of a storage exchange deal that Mr. Stephens has undertaken to earn back a bit of incremental transportation revenues.

MR. KRIS SAXBERG: Maybe just -- I'll try to approach it a different way.

In terms of the value of -- of the exchange we're talking about the differential and -- and there you've told me that the net value is $1.1 million in the last year.

And what I'm asking is, how much -- what was the value of the total gas that was exchanged to get the $1.1 million?

It would have -- would it be somewhere in the range of -- of eight (8) to ten (10) times the -- you'd have to deal -- exchange $10 million worth of gas to get the $1.1 million of exchange profits?

MR. HOWARD STEPHENS: Really, we're indifferent as to what the cost is because we're delivering a commodity. We're having -- having get -- taking receipt of a commodity at the city gate --

MR. KRIS SAXBERG: Yeah.

MR. HOWARD STEPHENS: -- in Manitoba and we're delivering it out of storage down in Michigan. And what the value of the comm -- the actual molecules that we're virtually moving is really irrelevant.

MR. KRIS SAXBERG: Yeah, I -- I appreciate that. The base differential is the important part but what -- what I'm just trying to get a handle on is how many of these transactions you're doing and -- and for what volume of -- of gas?

MR. HOWARD STEPHENS: Well, it's very much a function though of the weather I mean -- and I think I've been through this before. There are three (3) -- well, I would call it four (4) components now that impact our ability to exchange gas.

First of all is the weather because we have to be backhauling the gas on a particular day in order to do the exchange because we replace one (1) backhaul essentially with another. Instead of backhauling it with Great Lakes, we backhaul it with the third party.

We have to have cold enough weather to make the backhaul -- I mean, occur. I mean it -- until we have fully utilized our pipeline capacity we won't start pulling gas from storage to give effect to the exchange. So we have to have fairly cold weather where we're backhauling significant volumes.

And then the third item is a basis differential that's positive that allows us to earn a return on that.

Now, until those three (3) criteria are met, we can't make five (5) cents on it. And well, -- and the fourth component of it was now the ability to get gas to Manitoba, not necessarily is it capacity-driven on TransCanada but it's commodity as well and what the actual cost of that commodity is relative to the eastern markets.

MR. KRIS SAXBERG: And --

MR. HOWARD STEPHENS: So for me to give you a price in terms of what the value of that gas, that's -- that we're giving virtual transportation to, I haven't got the foggiest clue.

MR. KRIS SAXBERG: In terms of the analysis you do though to determine whether or not you're getting a good deal on your exchanges, you do look at the best basis differentials and would do a calculation in the nature of the type of calculation that I have before you in Tab 33?

MR. HOWARD STEPHENS: And that simply gives me an idea in terms of what the relative value of that transportation is but this is the futures market. The financial market, and I can't say this strongly enough, Mr. Saxberg, that there's a big difference between the price that occur in the physical market and the futures market or in an -- an index at any particular time.

MR. KRIS SAXBERG: And you -- you're quite right. It may only be one indicia but in terms of the evidence -- the information that it conveys, for instance this document shows that there's a two dollar

($2) -- close to a two dollar ($2) basis differential and therefore if -- that could -- if you were going to take the entire fifteen (15), just to use a dramatic example, 15.5 petajoules, that would mean that the value of the gas in Michigan is, you know, -- I don't -- the math is -- escapes me, or my abilities, but probably 20 -- $25 million of value that's in there in Michigan that if you can make some -- if there was enough demand for it on a particular day and you could get it out, you'd make a pile of money, is that fair?

MR. HOWARD STEPHENS: If -- I mean, given all the "ifs" you put into that statement, I'll agree with you. But, I mean, there's a lot of "ifs" in that statement.

MR. KRIS SAXBERG: How -- how does the Board here ensure with respect to the transactions that you -- that you undertake that they were for good value--

MR. HOWARD STEPHENS: Well --

MR. KRIS SAXBERG: -- without, you know, a description of the individual transactions?

MR. HOWARD STEPHENS: Well, I mean, I know that this has been a bone of contention since, I guess, I've been sitting in front of the Board and everybody wants a performance measure but there are so many variables associated with this I -- I have refused to give, I mean, a benchmark simply because I can't do it with any degree of accuracy and that's why we rely upon the five year rolling average. The basis differential is going to have a major impact on it, the weather is going to have a major impact on it and I can't forecast any of those.

So if I can't forecast any of those, why would I give a benchmark. It's just going to be something that I'm either -- I'm going to get beat up on or we're going to do much better than.

MR. KRIS SAXBERG: But, in terms of forecasting, there's absolutely no forecasting going on right now with respect to capacity management. You're using the five year prior period to get an average and you're throwing that into rates, that's -- that's absolutely no indication of what's going to happen in your capacity management program from a forecast perspective, correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: If you were forecasting, I guess the point that I'm getting to is, why wouldn't you be looking at forward price strips in terms of basis differentials and those -- and using that as some information to help you determine a more accurate fore -- forecast and -- or if you know that you're regularly transacting with a particular party to have a peaking exchange, why wouldn't you incorporate that into the forecast?

MR. HOWARD STEPHENS: Because it's all very much dependent upon the weather, Mr. Saxberg. So, from that perspective I have to drive out a weather forecast and try to determine what it is that we're going to do in the way of transactions and, I mean, the number would be virtually meaningless.

You're implying a degree of accuracy that just doesn't exist as compared to what we're providing now.

MR. KRIS SAXBERG: But for certain transactions you did indicate that you will look at the forward price strip and you will, in advance, determine the value of the exchange and enter into that contract?

MR. HOWARD STEPHENS: But I didn't say that it would necessarily be on the basis of that future strip, that will give me an indication as to the value of that transportation in the financial markets, not necessarily in the physical markets.

MR. KRIS SAXBERG: And just finally on this, for capacity management purposes, there was an information request that was asked by CAC and it was essentially to provide more detail about the individual transactions and the response that came back was the schedule that we looked at that really only has two (2) categories in it, diversions and exchanges, you acknowledge that?

MR. HOWARD STEPHENS: And sales and loans, and we don't do many of them.

MR. KRIS SAXBERG: Right. Is it possible, in future proceedings, to get a more detailed breakdown of the transactions and the particulars of the exchange value and what you saw as the exchange value and -- and maybe what it actually later turned out to be based on -- on the market, that sort of information?

MS. LORI STEWART: One moment, Mr. Saxberg.

THE CHAIRPERSON: Mr. Saxberg, we're going to take our break in a few minutes. I'm just wondering where you are in the progress of your -- process of your cross-examination?

MR. KRIS SAXBERG: I'm constantly cutting out questions, so I'm very, very close to finishing. I think I could finish in fifteen (15) minutes, after we get back.

THE CHAIRPERSON: Well, maybe we'll wait until then. It'll provide the next two Intervenors an opportunity to prepare themselves during the break.

MR. KRIS SAXBERG: Okay. I'll try to finish up in fifteen (15) minutes then. Thank you.

MR. HOWARD STEPHENS: I'm sorry, Mr. Chairman, I missed that last bit of dialogue.

THE CHAIRPERSON: We were just discussing timing and processes. Nothing to do with the issue you were talking about.

MR. KRIS SAXBERG: They're turning the mikes off in fifteen (15) minutes.

MR. HOWARD STEPHENS: Then I'll just wait you out. After all of that, I don't know what -- where we stand, did you ask me a question or did I ask you one?

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: I -- my consultant and my clients want to have a greater assurance about the nature of the capacity management transactions and -- and more information about them, to be frank, and I'm wondering if the Company can provide more detail the next time we go through this?

MR. HOWARD STEPHENS: I can provide you detail in terms of the trade tickets and the amount of volume that we've moved and the -- the amount of dollars that we've collected as a result of those transactions. You want to see a lot of paperwork? Get prepared for the dump truck because we'll -- we'll drop it off.

I don't know that's necessarily going to be very helpful. It's going to be indicative of what the fair value for the transportation was -- the virtual transportation was on those given days. And we've established those numbers by talking to a variety of different counterparts.

And, I mean, for the benefit of the Board, if the Board finds that useful, then that's fine with me. But I don't know that that's really necessarily going to provide any benefit.

MR. KRIS SAXBERG: You'll agree, though, there was some significant transactions that occurred in the form of exchanges to which you could provide some additional detail that goes beyond what's been provided in this application.

MR. HOWARD STEPHENS: You're talking about the base load sort of deal, or our exchange transaction that we would engage in, or the -- I mean, I've tried to give as much detail as I can with respect to the peaking transaction because it is predefined and it's very clear-cut in terms of what we're doing with respect to that.

Some of the numbers, I can't get you a number in terms of what's occurring on the other side of the deal. I could tell you what I'm extracting from the deal, but what the other -- the counterpart on the other side of the deal is getting, I don't know.

I mean, and he may be taking -- I mean, we squeeze him as hard as we can and we look at multiple different counterparts to do that squeezing, but it may be a circumstance where I'm only getting half of the revenue associated with the virtual transportation and he's taking the other half. But he may be going through a hell of a lot of effort in order to try and make that transaction work.

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

MR. HOWARD STEPHENS: Believe me, Mr. Saxberg, if I could give you an answer to this question that would satisfy you, I would be more than willing to do so, but -- because we've been over this, I mean, a number of times and it's just not something that I think that I can provide that's going to provide any real value.

THE CHAIRPERSON: Within the Corporation itself, Mr. Stephens -- I don't know if this is going to help or not -- I presume you've got internal processes that review your activities to reach a judgment as to whether or not they've been effective or not in comparison with the past, and things of this order.

MR. HOWARD STEPHENS: That's correct, sir. And, I mean, we -- I mean, the people that are doing this work, I mean -- I mean, I was doing this at one point in time myself and it's, I mean, actually kind of exhilarating doing it. It's naturally reinforcing the job to be able to go home at the end of day and say, You know I made a hundred thousand dollars ($100,000) for the customers.

I mean, and notwithstanding the fact that they don't see any, I mean, particular financial reward themselves. I mean, they've done their job. I mean, they've earn they paycheck, I mean, by many multiple times over.

So from that perspective, they are dedicated, very much dedicated towards doing the best that they can do. And we typically, I mean, work very diligently in terms of trying to beat the budget that we put forward. And for the last several years the market has been conducive to doing that, and we have beaten the -- the budget by very substantial amounts.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Has the -- the Company considered an independent analysis or independent review of these transactions to -- to determine whether or not we've been getting good value out of these exchanges?

MR. HOWARD STEPHENS: Well, we'd have to have somebody in terms of -- from an audit perspective, sitting beside the transactors day in and day out for the course of the entire year to see what the process that we used was and to make sure that we're getting the appropriate value out of the transaction.

MR. KRIS SAXBERG: But couldn't they do a -- a post facto audit whereby they would look at all the numbers, the basis differential at the time, and find out if Centra came out on top or if there's a pattern perhaps whereby the -- the marketers are -- are perhaps getting something more than they ought to out of the transaction?

MR. HOWARD STEPHENS: Well, Mr. Saxberg, that's -- that's the fallacy in this. The marketers are not going to get any more out of this than we can -- I mean, to the extent that we can negotiate the transaction and we're prepared to live with the transaction that's laid out, there's going to be some bottom line that we're going to expect to get out of the transaction, and it's always going to be positive.

And on the other side of the table, there's some bottom line that he -- he or she has to get out of the transaction, or they won't agree to it and we won't consummate a deal.

So from that perspective, in order for some -- some third party to come into the fray and try to figure out whether we got fair value for that transaction, looking at the basis differential, I mean, isn't going to do a damn thing for you, simply from the perspective that you don't know what the fair market value of that transaction in the physical market given all the circumstances on that day is.

MR. KRIS SAXBERG: In terms of diversions that -- we were just talking about exchanges and whether or not you're getting the right amount of profit on those exchanges.

With respect to diversions, it's a -- it's a different -- slightly different breed of cat, correct?

MR. HOWARD STEPHENS: Yeah, it's a different type of trend.

MR. KRIS SAXBERG: And those diversions all happen in the summer months, correct?

MR. HOWARD STEPHENS: We have diverted capacity in the winter. Last winter I believe we did because it was so warm so we didn't have our FT capacity fully utilized so we did divert that capacity. But that's a rare occasion.

MR. KRIS SAXBERG: Sorry, what's the

amount of firm transportation that you had firm? FT transportation that you have on -- on Trans Canada Pipelines in the summer period, is it less than the two hundred thousand (200,000)?

MR. HOWARD STEPHENS: No, it's the same all year round. Two hundred thousand, three hundred and -- thirty-eight hundred (203,800) -- two hundred thousand and thirty-eight hundred (203,800).

MR. KRIS SAXBERG: And so fifty (50) goes to load in Winnipeg, fifty (50) goes to storage --

MR. HOWARD STEPHENS: Well -- fifty about fifty-five (55) goes to storage. When -- the low in Manitoba can drop as low as fifteen thousand (15,000), the metres barely spin, so.

MR. KRIS SAXBERG: That's a lot of excess capacity during those summer months to spin off in a diversion, correct?

MR. HOWARD STEPHENS: That's -- we've got a tremendous valley in the summer.

MR. KRIS SAXBERG: You'll give me the same answer that it's going to be dependent on whether there's someone out there that wants that capacity before you'll be able to sell it?

MR. HOWARD STEPHENS: Precisely.

MR. KRIS SAXBERG: Let's just talk about

Louisiana for a moment. You -- you're not forecasting that you'll need any gas to refill storage from Louisiana and you have in place already a capacity release transaction such that you are -- you are -- you're not paying the full bore of the fixed transportation costs there, correct?

MR. HOWARD STEPHENS: That's correct.

MR. KRIS SAXBERG: And at Tab 36 there's a nice synopsis of these numbers. It says that the ANR Louisiana transportation costs are approximately 8.5 -- eight hundred and fifty thousand US (850,000). And that's after you've included the capacity release transaction, correct?

MR. HOWARD STEPHENS: No, I don't think that's the case, sir.

MR. KRIS SAXBERG: It says;

> "Capacity release is included and therefore reduced the annual charge for 2006/'07."

MR. HOWARD STEPHENS: I stand corrected.

MR. KRIS SAXBERG: So what would the amount have been without that capacity release?

MR. HOWARD STEPHENS: I don't know off the top of my head what the value would be.

MR. KRIS SAXBERG: You could just

undertake to provide that?

MR. HOWARD STEPHENS: Sure.

--- UNDERTAKING NO. 7: Centra to provide Mr. Saxberg transportation costs from ANR with the capacity release amounts excluded. (Answered on page 772)

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: And let me ask you this. Do you forecast ever having to use that transportation between now and the expiry of the contract in 2013?

MR. HOWARD STEPHENS: Yes, I would suggest that it's still potentially useable. But it's going to be few and far between because it is -- typically only used for design years. We've used it perhaps -- well certainly after the winter of '96, we ran it I think for the entire summer season to refill storage.

And since then, we've used it from -- for some short periods at times during the summer. And as recently as two (2) years ago. But it is not a very marketable piece of pipe. This is the first year that we would actually been able to off-load that piece of pipe during the summer months when we don't need it.

MR. KRIS SAXBERG: Is there no opportunity to permanently de-contract that commitment?

MR. HOWARD STEPHENS: Well, that gets into a very thorny nest of vipers in terms of if I want to divest myself of that piece of the -- in our package, they're going to want something in exchange for that.

Because we got that piece of pipe in the original transaction fairly cheaply and because they don't have a -- a lot of use for that pipe capacity during that period of time.

MR. KRIS SAXBERG: But -- so I don't have that number here without the capacity release transaction but I mean it's -- the eight forty-five (845) is an amount you're paying without using that piece of pipe as -- as you said.

And if -- even if you have that renegotiated capacity release transaction for the next six (6) years, you're still going to pay the eight four five (845) US, Canadian is probably a million (1,000,000) so $6 million over six (6) years, wouldn't they want to de-contract for a price less than 6 million?

MR. HOWARD STEPHENS: That's something we can engage in, but I -- I mean I want to be -- I want to be sure that I don't need it before I divest myself of it.

MR. KRIS SAXBERG: We -- we certainly have not used it in the last three (3) years and we're not forecasting to use it this year, correct?

MR. HOWARD STEPHENS: No, we -- we used it two (2) years ago, Mr. Saxberg, for some period of a summer refill and just because we haven't used it for the last three (3) years doesn't mean that I'm not going to have a design winter this year and have to use that pipe next year to fill storage.

MR. KRIS SAXBERG: With respect to whether you need to fill the storage, I mean there's other ways to -- to fill it and delivered service from Alberta I think you've said on occasion can at times depending on -- on the market be cheaper than Louisiana.

MR. HOWARD STEPHENS: Yes, certainly it can be cheaper in terms of serving the Manitoba load, but you'd have to look at the overall economics of the sunk costs that we are already bearing associated with Louisiana Transportation, the commodity cost coming out of the Gulf, I mean, and that's -- I mean, anybody's guess right now given the LNG that may be coming into the Gulf and the fact that I now have to acquire transportation to haul that gas all the way across the country.

MR. KRIS SAXBERG: I know, but you have said even with the transportation sometimes the gas is cheaper to be delivered into storage from Alberta depending on the market even with that and you do and when you do that, you leave those pipelines alone.

MR. HOWARD STEPHENS: What -- I think what I've said is that there are times that we will not take the ANR southwest because we can take delivered service into the Manitoba delivery area at a lower cost, not haul it all the way to storage. There's a considerable cost associated with moving the gas on Great Lakes system as well as ANR system if I can get the capacity on those two (2) systems to fill storage.

MR. KRIS SAXBERG: Okay. And -- and on the subject of storage and it being filled, when -- when storage isn't emptied because of a warm year as was the case last year and you -- and you start your refill season with more than half of your total amount -- maximum amount of storage -- in that situation is that not a situation where it would be worth it to do more exchanges and -- and to sell that gas and -- that excess gas?

MR. HOWARD STEPHENS: Well, the point you're missing, Mr. Saxberg, is I have to have a load so that I have a need to back haul the gas from storage to load centre and then I exchange that transaction with somebody else and let them do the back haul essentially.

MR. KRIS SAXBERG: But that's -- that's -- is that because of your Nexen contract? Is that --

MR. HOWARD STEPHENS: No, it has nothing to do with my Nexen contract. We have to have a certain number of days, very cold days, where we would ordinarily be back hauling the gas to satisfy our market requirements.

And if I can take that number of days and as opposed to back hauling the gas with Great Lakes which is essentially doing the exchange transaction, now turn that transaction into a transaction with somebody that's willing to pay me, then I can make the money but we have to have the weather first of all to make it happen and last winter we certainly didn't have the weather because we had more than half our inventory still sitting in the ground.

MR. KRIS SAXBERG: Will you confirm that it's the case that the supplementary storage has never been reduced to zero, at least in the last -- since 2001?

MR. HOWARD STEPHENS: I can't give that number. I mean I can tell you that we have reduced our inventory to zero -- well, no, to -- to 2 decatherms in the winter of 1996.

MR. KRIS SAXBERG: But I -- I was referring just to the supplementary storage account and the material that's been provided by Centra through an Information Request shows that -- that supplementary storage has never been emptied during the...

MR. HOWARD STEPHENS: Yeah, and among -- simply on the basis of how we go about refilling it defines how much gas is going to be supplemental so from that perspective it depends on how much we've depleted and how much western Canadian gas we can squeeze into storage.

MR. KRIS SAXBERG: And so there's no -- there's no lost value then with gas remaining in storage year over year and not being used?

I may be looking at it from a too simple perspective but I -- when I look at the charts that are provided to us and they show that there's gas in storage and it stays there year after year after year, from my simple perspective I look at it and I say, Well that means we're not using that gas, it's sitting in there in storage, it's not being used.

MR. HOWARD STEPHENS: And by the time that we are certain that we're not going to have a design year, which is somewhere in mid-February, that's at least been the case to this point in time, I don't know what the new number is or what the date will be under the new load forecast, but if you look at the load duration curves we can't make a call with respect to selling inventory prior to February the 15th.

Now, once you get into February the 15th, I mean, we can look at the marketplace and see what it's going to do, what we can retrieve in terms of revenues associated with sales from that, but we have to also look at the cost to replace that gas for the consumers so that we have -- I mean, if -- inventory full at the end of the refill season -- and for the most part it's not been to our advantage to take the gas and spend the money on fuel to get the gas back out of storage and then bring gas back in -- I'm beating up on the mic -- and pay the fuel associated with hauling it back in and refilling storage again.

MR. KRIS SAXBERG: Well, I'll -- I'll just end this and speed it up by asking for an undertaking. At Centra -- or at CAC/CENTRA-59 there is a series of attachments that show the storage amounts in -- for supplemental and for primary accounts.

And I wonder if you could put a schedule together that shows the 2001, the amount of supplemental gas that was in -- that remained in storage, and the same for 2002, 2003, 2004, 2005, 2006, with respect to volumes and dollar values for each year.

MR. HOWARD STEPHENS: We can provide a number for you, sir.

--- UNDERTAKING NUMBER 8: Centra to provide Mr. Saxberg a schedule that shows the amount of supplemental gas that remained in storage for the years 2001, 2002, 2003, 2004, 2005, 2006, with respect to volumes and dollar values for each year.
(Answered on page 774)

MR. KRIS SAXBERG: Thank you. And subject then to, at some point marking exhibits, which we don't need to -- to do now, if we could do it as a housekeeping matter at a later point, but I --

THE CHAIRPERSON: Are you finished with your cross-examination?

MR. KRIS SAXBERG: Yes.

THE CHAIRPERSON: Why don't we look at the exhibit thing right now and then we'll have the break.

MR. KRIS SAXBERG: Okay. I'd like --

THE CHAIRPERSON: Because most of the documents in your book seem to reflect to prior evidence or things raised here, but there's a few that don't. So do you want to take us through it?

MR. KRIS SAXBERG: Well, I can go through the -- the binder.

THE CHAIRPERSON: We could just take it as one (1) exhibit subject to Ms. Murphy's comments, and we're fully aware that some of this material in here, the persons who have produced it, we have no idea what lies behind it and we'll give it the appropriate level of weight.

MS. MARLA MURPHY: The other concern I might have, Mr. Chairman, is that I've been keeping sort of a loose track of what's been referred to and what hasn't, and there's some forty (40) -- thirty-nine (39) tabs in the book and approximately seventeen (17) of them have been referred to.

So there's a whole bunch of information in there that hasn't even been put to the witnesses in this case and I would be very disconcerted to find that being referred to in argument or being referred to by the Board in making its decision in this matter.

So I'd like to maintain that this not be included as an exhibit. If Mr. Saxberg wants to go through and pull out those that he did put to the Witnesses and which have been adopted, that would be fine, but I prefer not to see the entire package marked.

MR. KRIS SAXBERG: That's an interesting observation, except that most of the documents that I didn't refer to are already marked as exhibits in this proceeding because they're right out of the IR's.

THE CHAIRPERSON: Why don't you --

MR. KRIS SAXBERG: They're already exhibits.

THE CHAIRPERSON: Why don't you help us out, Mr. Saxberg, and have a look at this. And we'll think on it too and then we'll address it at the start of tomorrow.

MR. KRIS SAXBERG: Okay. And if I might just add, it's not like I -- there's a document in here that I'm going to be pointing to in evidence. I'm going to be using the transcripts, you know, with respect to evidence provided by -- by Centra concerning the documents that I've put to their attention.

But the most important factor to consider is that, as you indicated, you can attach whatever weight you want to these documents. They've all been established as being -- the ones that I've put to them have all been established as being relevant. And so that means they are prima facie admissible in this proceeding.

With respect to the weight you give them, that's entirely at your discretion and you can give them nil weight to significant weight depending on whether it was -- they were fairly produced and -- and the Panel Members could speak to the document.

THE CHAIRPERSON: Okay. Well, give us some time to think about this and we'll return to this first thing tomorrow morning.

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

THE CHAIRPERSON: Thank you. And we'll have a break now and then we'll come back to the other Intervenors.

MR. BRENT SANDERSON: Excuse me, Mr. Chairman.

THE CHAIRPERSON: Yes.

MR. BRENT SANDERSON: Before we conclude for the break, I'm able to take care of the -- Mr. Saxberg's first undertaking regarding what is the annual fee for the Louisiana capacity after pulling out the capacity release revenues.

THE CHAIRPERSON: Please.

MR. BRENT SANDERSON: So in the schedule

under Mr. Saxberg's Tab 36, the schedule identified as CAC/MSOS/Centra/Centra-54 line 9 in our Louisiana, the $845,722 -- $845,722 US figure including the capacity release revenues. Parsing out the capacity release revenues we would be expecting an annual charge of $1.45 million US for that capacity.

THE CHAIRPERSON: Thank you, sir. Mr. Saxberg, is that all right with you?

MR. KRIS SAXBERG: Yes, it is. Thank you very much.

THE CHAIRPERSON: Thanks. Okay, we'll have our break and then we'll come back in about ten (10) or twelve (12) minutes. Thank you.

--- Upon recessing at 2:55 p.m.

--- Upon resuming at 3:15 p.m.

THE CHAIRPERSON: Mr. Hoaken, it is finally your turn.

MR. ERIC HOAKEN: It finally is. Thank you, Mr. Chair, and good afternoon to the Panel. I see they've all come back suitably armed with cups of coffee or at least I'm assuming there's coffee in those cups.

MS. MARLA MURPHY: Before they answer that one, if I could just interject for one (1) moment.

THE CHAIRPERSON: Oh, yes.

MS. MARLA MURPHY: It's not an objection already, but --

MR. ERIC HOAKEN: I was going to say --

MS. MARLA MURPHY: Welcome to you too. Mr. Sanderson took an undertaking just before the break. Mr. Saxberg had asked him for some information and he's actually been able to locate that in the material and wanted to put on the record where it could be found.

THE CHAIRPERSON: Very good. Please.

MR. BRENT SANDERSON: Mr. Saxberg had already requested that information in CAC/MSOS/Centra Number 59 as part of this proceeding and it's been provided to him through the IR process and it can be found in the response to that IR in Schedules 1 through 6 or Attachments 1 through 6 which depict our actual storage balances spread out between primary and supplementary supplies both volumetrically and the dollar value of those supplies month by month since April 2003 through to the most recently completed fiscal period

THE CHAIRPERSON: Thank you, sir. If you have any problem with that, Mr. Saxberg, just let us know.

MS. MARLA MURPHY: I might also indicate, Mr. Chairman, that during the break we had an opportunity to consider the discussion that we'd had regarding the CAC exhibit book.

And relying on Mr. Saxberg's undertaking that he doesn't intend to refer to anything in that material in final argument but rather to refer to the transcript and the information that was put to the witnesses I think we can probably accept that if the Board wishes to have that marked, it could be marked.

THE CHAIRPERSON: Thank you. Mr. Singh, do you have a number?

(BRIEF PAUSE)

THE CHAIRPERSON: Number 3. Thank you.

--- EXHIBIT NO. CAC/MSOS-3: Book of Documents provided by Mr. Kris Saxberg.

THE CHAIRPERSON: Okay. Mr. Hoaken...?

CROSS-EXAMINATION BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: All right. Thank you, Mr. Chair. I'll start if I may to directing a question to Mr. Sanderson. This goes back some time, to about ten (10) minutes into your evidence on Monday morning. You and Mr. Peters had a discussion about conservation. I don't know if you remember that.

It was in the context you were explaining the decreasing need or requirements for supplemental gas and you had attributed the reduction as I understood it to conservation; is that something you recall?

MR. BRENT SANDERSON: I was characterizing to Mr. Peters that in the wake of the events of last fall we've -- our market or our customers have demonstrated a significant amount of conservation in the utilizing -- utilization of natural gas once you normalize for weather differences year over year, yes.

MR. ERIC HOAKEN: Right. And how I understood that discussion was that you can do a mathematical calculation which I probably wouldn't understand if you explained it to me so I'm not going to ask you to, but you do that calculation that's intended as you say, to normalize for weather factors, correct?

MR. BRENT SANDERSON: Yes.

MR. ERIC HOAKEN: And you -- you then take the difference between the forecast of consumption and the actual consumption, and the difference, as I understand it, is attributed to conservation.

MR. BRENT SANDERSON: I think what I said was is we normalize for those factors which we can quantify and weather being one of, the differences in the number of customers and the market relative to forecast and those types of things, so the -- the variables which we can quantify, we normalize the actual consumption for those discreet items back to the forecast assumptions.

And then the remaining unaccounted for difference would be what we would characterize as consumption -- or unexpected declines in usage or unforecasted declines in natural gas utilization.

MR. ERIC HOAKEN: And -- and sorry, just for the record, you would characterize those as -- you said consumption, you mean conservation?

MR. BRENT SANDERSON: I said unforecasted declines in natural gas consumption. And so one would be led to believe that it would be largely conservation. How you characterize conservation is a bit subjective. Like I said, it depends on how a fine point you put on the term 'conservation'.

If you choose to characterize behavioural changes in the face of strong price signal as conservation, be it that it may be temporary, then that -- I would agree that that's conservation.

But it's a number of different factors; some permanent, some which may be temporary in nature based on the behavioural changes.

MR. ERIC HOAKEN: All right. Then let me just explore with you then because I understood in that exchange you and Mr. Peters had, that he asked you if as part of this analysis you could isolate the specific factors such as consumers putting on sweaters or doing improvements to their homes that were leading to or comprising this consumpt -- excuse, conservation.

And as I understood your answer, you said you could not; is that fair?

MR. BRENT SANDERSON: Not in the short term, sir. Over an extended length of time, a load forecasting specialist which -- which I am not in this case, would be able to go back and perform mathematical analyses with historical data series and do things like re -- linear regression analysis looking at different variables and how customers consumption changed in response to changes in those variables and come to an educated determination as to what the distinct components of the conservation or changes in natural gas consumption might be attributable to.

But there's no way that at the end of the day that anyone will ever be able to determine with absolute certainty that this much was attributable to this, this much was attributable to that. It's a mathematical process to make a reason determination.

MR. ERIC HOAKEN: Right. And if I understand you correctly it's a mathematical process that to the extent it can be performed, can be performed in the long term or over the long term.

But for the purposes of the short term when you look at year over year changes, you cannot mathematically or otherwise determine what particular behaviours or conduct if I can put it that way, is leading to the conservation that you're observing, on the basis that we discussed.

MR. BRENT SANDERSON: I would agree, sir.

MR. ERIC HOAKEN: All right. And I -- I take it it follows from that fairly uncontroversial conclusion that if you can't identify the behaviours or conduct that are leading to the conservation, you can't identify the factors that are motivating those behaviours, is that fair?

MR. BRENT SANDERSON: I guess what we're saying here is, and I've spoken with our load forecasting professionals whose expertise I have a significant amount of faith in, and given that there was such a dramatic change in customers' natural gas consumption habits and we can see when about it started and that would have been around late summer of last year, it's directly correlated in terms of timing with the events of last fall in the natural gas market.

So the educated opinion and many -- and it's corroborated by many experts in the industry, that correlation signifies that customers changing consumption habits were correlated in some way with the dramatic events of last fall.

MR. ERIC HOAKEN: Okay. Thank you for that. And I take it then based on what you've just told us that you would agree that consumers are going to be more motivated to engage in what we might characterize as conservation behaviours if they get a strong price signal in the form of an extraordinarily large bill; is that fair?

MR. BRENT SANDERSON: That might be one factor that would incent a customer to invest, if you will, in greater energy conservation or change their behaviour in order to use less of the commodity. I wouldn't say it's the only signal that would incent customers.

A high degree of news coverage surrounding an event like last fall and the subsequent fallout that may manifest itself in prices in the future, could also be a strong incentive for customers to take action irregardless of whether that was manifested directly in their rate at the time.

MR. ERIC HOAKEN: All right. But in the case of the new coverage, that's not an independent variable, at least not independent of the price signal, that's simply the means through which the price signal is being transmitted, correct?

MR. BRENT SANDERSON: I would say that it provides valuable information to the customer when weighing what their rate tells them versus what the market is saying. So given last fall, with the high degree of new coverage, I would say customers were fairly well informed that the price they saw in their rate at the time may not be -- may not indicate what they should expect the cost of natural gas to be over the long term.

And especially surrounding Bill C-11, the Winter Heating Cost Control Act, there was a significant amount of press coverage characterizing that one (1) time intervention as being a means by which to buy customers a little bit of time to take action to more permanently reduce their natural consumption, because there was an expectation in the market at the time that going into the future the cost of the commodity would be higher than what was reflected in their rates at the time, so I think there was a greater understanding of the relationship between the two (2) at that time.

MR. ERIC HOAKEN: All right. Thank you.

That's helpful.

Let me, with your indulgence perhaps, come at this in a slightly different way, by way of an example, and I'd ask you just to bear with me. I'll start by asking you a question that may surprise you.

Do you own an automobile, Mr. Sanderson?

MR. BRENT SANDERSON: It would be a long way to walk around the city. Yes, I do, sir.

MR. ERIC HOAKEN: I thought that was a pretty safe question. And here's another one I think is safe.

Does it run on gasoline by any chance, Mr. Sanderson?

MR. BRENT SANDERSON: Yes, sir, I do.

MR. ERIC HOAKEN: All right. I'm two (2) for two (2) so far.

And I take it that as a consumer of gasoline you follow the price from time to time.

MR. BRENT SANDERSON: I guess I have a -- a bit of an unfair advantage over a typical consumer in that I follow gasoline prices at the retail level, which I see every time I go to fill my tank and I feel the pain that everyone else does, but as part of my work for the Utility I follow all energy markets, not just natural gas, so I am somewhat familiar with the goings-on in the underlying wholesale markets for gasoline, oil and heating oil and the like.

MR. ERIC HOAKEN: All right. So you're even more attuned to the price signals in the gasoline market than the average consumer, is that fair?

MR. BRENT SANDERSON: I would say that's probably a fair assumption.

MR. ERIC HOAKEN: All right. And then from that dual capacity as both a consumer and having a professional interest in the commodity price, you're aware that over part of this past calendar year the price of gasoline has been in excess, well in excess in some cases, of a dollar a litre, which has represented a significant increase over, say, the last five (5) years?

MR. BRENT SANDERSON: Absolutely. And by virtue of the knowledge I have of the wholesale markets I am also aware of the fact that from time to time, and it's not unusual for the market price and the retail price of natural gas -- or, pardon me, gasoline, to not reflect the underlying wholesale price of the commodity at any given time; there is not a direct correlation.

I know that the underlying market price of gasoline is much more volatile than what a consumer would see at the pump. So I hope that answers your question.

MR. ERIC HOAKEN: Yes, it does. But on

the issue of volatility at the pump, you've experienced, I take it, what we all have, is to drive past a gas station at one part of the day and see a posted price that is one thing and drive by sometime later and find a posted price that is different.

Is that consistent with your observations of the gasoline market?

MR. BRENT SANDERSON: Yeah. I think I'd have to be blind not to have noticed that from time to time.

MR. ERIC HOAKEN: Right. And so the point that I'm simply trying to make here is that in the case of gasoline the impact on you as a consumer is immediate and it's transparent; that fill-up that used to cost you forty dollars ($40) now costs you fifty-five dollars ($55) for a tank that's exactly the same size and that is the price signal that you as a consumer of gasoline have received as a result of the volatility in that market; is that a fair example or summary?

MR. BRENT SANDERSON: I guess I'd go back to my -- the advantage I have in knowing what I'm seeing at the retail level versus the wholesale level, and I guess I respond -- I would to choose to respond by way of I'm well aware of the fact that in the gasoline -- retail gasoline markets that what I see at the pump may not be sending me an entirely 100 percently -- 100 percent accurate price signal as to what's going on, on an underlying wholesale market.

So every move and daily gyration in the market -- wholesale market for gasoline I know does not translate in -- through to daily and hourly adjustments in the retail price of natural gas -- of gasoline.

MR. ERIC HOAKEN: Right. But even still I think we've agreed that there are still significant variations in volatility in the retail price of gasoline?

MR. BRENT SANDERSON: Significant I guess is a subjective term, but the price of gasoline is variable and changeable, yes.

MR. ERIC HOAKEN: All right. And highly volatile I would suggest?

MR. BRENT SANDERSON: Again, being part of the natural gas market I'm well aware that the price of natural gas on the wholesale markets that we purchase it is significantly more variable than gasoline markets. So again it's a subjective determination so yes, it's variable and commodities are -- the price of them is more variable than others and I know that natural gas wholesale prices are more variable than gasoline prices.

MR. ERIC HOAKEN: Right. Well, perhaps you're comparing it to the wrong thing because as a consumer -- let's put aside the professional part of your life for a minute. As a consumer of a variety of things and commodities you'd have to agree that the pricing of gasoline is among the most volatile if not the most volatile of the commodities that a consumer purchases?

MR. BRENT SANDERSON: What I've learned in my years in this business is there are some things that at first glance we would tend to just take as what -- for want of a better term as a no-brainer and a self-evident truth, and I don't know that I'm comfortable agreeing with you in this case.

If you -- if you wanted to look at an in-depth examination of commodity markets, you know, and -- and really explore what the facts are I'd be prepared to do that but I'm not prepared to sit here and agree with you that the price of gasoline is the most volatile of any commodity or product that customers in the retail markets purchase.

MR. ERIC HOAKEN: Okay. All right. Fair enough. It's unfortunate though because self-evident truths and no-brainers are a bit of a specialty of mine. No offence intended.

MR. BRENT SANDERSON: No, none implied.

MR. ERIC HOAKEN: But just to move past that particular point, in view of this volatility in the price of gasoline, did you actually modify or consider modifying your consumption patterns?

MR. BRENT SANDERSON: The perspective I take in response to short-term up or down and downward movements in gasoline prices, just looking at that in isolation, is I tend not to change my behaviour or make large investments or divestitures one way or the other based on what I know to be short-term noise in the market and that's what I would characterize as these day-to-day movements in commodity prices, as noise.

I would tend to take a longer term horizon in my view and look at what my expectation or what a reasonable expectation is, is the long-run average cost of gasoline and then when I'm faced with choices that would allow me to respond to that view that I have, be it replacing a vehicle, maybe I'll want to go make a bigger investment in a more energy efficient vehicle, but I do not change my behaviour on a day-to-day, week-to-week, or month-to-month basis in response to short-term movements in gasoline prices.

The price is what it is and I consider that in my longer term decision making and I'm more concerned with what a long-term average expectation is for the price of gasoline, not what it is today or tomorrow, what it might be next week or what it was last week.

MR. ERIC HOAKEN: All right. But you would accept I take it that there are some consumers perhaps who are unable to tolerate that volatility and do in fact need to try to modify their patterns of consumption as a result of the price increases?

MR. BRENT SANDERSON: I wouldn't disagree with you at all and we've concluded that similar to our own customers that there are some customers who are not prepared to tolerate extreme volatility in their natural gas rates as well.

MR. ERIC HOAKEN: Right. But in the case of gasoline, I would suggest to you that the tolerance of volatility manifests itself in the modification of consumption patterns.

So people have their children ride their bicycle to soccer practice instead of being dropped off. They don't go on that fishing trip to the cabin on the weekend. They car pool with their buddies to the golf game.

All things that they do to weather the storm of the higher price and all part -- I would suggest of tolerating the volatility that they may on a theoretical basis say they're unable to tolerate.

And now why wouldn't those factors

translate into the natural gas market?

MR. BRENT SANDERSON: Well you're -- you're free to make the suggestion that you've made that customers respond very quickly to volatility in gasoline prices but the fact is, Mr. Hoaken, that an extensive amount of analysis has been done with respect to the volatility in oil and gasoline prices over the past few years and in fact customers haven't reacted in the way you describe. Demand has been very stable and it's in fact left analysts scratching their head at just how stable it's been in the fact of the extreme volatility and sometimes extraordinarily high price levels.

And the research that I've looked at has left one to conclude that the situation I described for myself tends on average to be the case for most consumers is that they consider the short term volatility and don't change their day to day behaviour, but instead look to longer term decisions, capital investment decisions, vehicle purchases and consider that when planning to -- when they reach that decision point in their life where they hae a choice to act to bring longer term affect to their long term energy costs.

So the facts are is that customers haven't responded in the way you suggest for gasoline in that --

MR. ERIC HOAKEN: Right. But doesn't

that prove my point? If demand is staying stable, doesn't that suggest that there is a tolerance there for volatility?

MR. BRENT SANDERSON: Which -- you'll have to pardon me, but my understanding was is your assertion was that the customers couldn't tolerate that volatility.

MR. ERIC HOAKEN: No. I'm sorry. I was suggesting the opposite is that the patterns of behaviour that we've seen in the gasoline market or at least among consumers of gasoline, has suggested that they have in fact been able to tolerate volatility that they may in a theoretical sense in advance of these shocks occurring have said they couldn't tolerate.

MR. BRENT SANDERSON: That's not what I understood you said at all.

MR. ERIC HOAKEN: Yeah. I may have misspoke myself, but that's my question now.

MR. BRENT SANDERSON: I'm not sure I understand the question, sir.

MR. ERIC HOAKEN: But in the example of gasoline there is an immediate and transparent impact on the consumer of his or her consumption of gasoline at that higher price.

So going back to my example of the fill

up, the tank that's the same size, cost forty dollars ($40) last week and it cost -- now cost fifty-five dollars ($55), and all I'm suggesting to you is that that is an immediate and pretty clear signal to the consumer that the price of his or her consumption has now gone up.

MR. BRENT SANDERSON: But your implication is -- is that in some way any move in the price of gasoline on the market price is immediately and entirely reflected in customer's cost to purchase gasoline and that's absolutely not the case. They will, to the extent that gasoline prices go up or go down, absolutely like -- like our own natural supplies we deliver to customers, they will see an impact financially.

But I know it for a fact that the retail natural gas markets are not 100 percent transparent in terms of transmitting every price signal that is being transmitted in the underlying wholesale markets and it is sometimes slow to respond for many reasons. And on any given day a customer could be paying a price at the pump that in now way reflects the underlying market price for natural gas on that day, that week or that month.

MR. ERIC HOAKEN: I'm not sure how we got off sync. And let me try and bring you back in sync because I'm not interested in the correlation between the market price and the wholesale price. What I'm -- because I think most consumers obviously don't have the level of sophistication that you do.

But all I'm suggesting to you is that each time a consumer goes to the gas station, he or she is seeing a different price and in fact a dramatically different price in some circumstances.

MR. BRENT SANDERSON: Again, sir, I would not agree with you that every time a customer goes to the gas pump they see a different price and a material impact on their cost. I can show you extended periods of time, Winnipeg is a prime example, where gas has been stuck at eighty-nine point nine (89.9) cents a litre for weeks, so I can't agree with your statement.

MR. ERIC HOAKEN: All right, fair enough. But let's -- I think we can agree on this, that if -- well...

(BRIEF PAUSE)

MR. ERIC HOAKEN: The consumer of gasoline has got a greater incentive, leaving aside your thoughts on whether they actually avail themselves of it is another thing, but they have a greater incentive to conserve or try to think of ways to conserve when they're experiencing price volatility that is increasing the cost of their fill-up.

MR. BRENT SANDERSON: I would say that a rule like that would apply to any product in the marketplace, that the most costly or dear that it becomes, the more incentive that a consumer would have to use less of it. And I think that would be a self-evident truth that I would not take issue with in any way, shape or form.

MR. ERIC HOAKEN: Perfect. Now, if you can turn to Tab 18 in Mr. Peters' brief.

(BRIEF PAUSE)

MR. ERIC HOAKEN: And I'm looking at Attachment 2, which is the first page of this brief and we have plowed this field for some time already and I'm not going to spend much time with you.

But what I think -- I mean, these two (2) lines, I would characterize the difference between these lines as a discrepancy or a distortion between what the customer -- and in this case now we're talking about natural gas you'll be pleased to know -- is paying for natural gas, being billed for natural gas, and what he or she would have been paying had he or she been purchasing it on the market, right?

MR. BRENT SANDERSON: And seeing as we're talking about the similarities, or what have you, between the gasoline and the natural gas markets, I would say to the extent when gasoline increases ten dollars ($10) a barrel on a given day and I don't see a response at the pumps in the price that I pay, the same rule would hold.

MR. ERIC HOAKEN: All right. Well, let's take it one step at the time. I would be grateful, just to make sure that we're on the same page here.

You're agreeing with me that this gap between these lines is a distortion or a discrepancy between what the -- what the customer is being asked to pay and what he or she would be paying if he or she were going into the market?

MR. BRENT SANDERSON: But our customers aren't going into the market. We have that role -- we act in an agency role on behalf of customers and in the course of doing that we manage our exposure to those type of events so that our customers don't have to incur the pain of going through events like that.

MR. ERIC HOAKEN: I absolutely understand that. But the question is simply, if they were going into the market, and this is reflective of the market price, the difference between the two (2) lines is a discrepancy between those two (2) experiences?

MR. BRENT SANDERSON: I don't know if I like the term "discrepancy." It's a fact --

MR. ERIC HOAKEN: Okay. Give me one you do like.

MR. BRENT SANDERSON: -- it's a fact that if this customer is going into the wholesale natural gas market to buy gas on their own on -- at a point in time such as that -- that high spike would be typical of what they would expect to pay.

Similarly, if gas is trading on the wholesale markets for a dollar thirty ($1.30) a litre today and that customer goes to the pump and has the benefit of paying ninety (90) cents today, the same can be said, that if they were to be in the natural -- in the gasoline markets, buying their own gas, they would be paying a dollar thirty ($1.30) a litre today.

A dis -- whether that's a discrepancy, I guess, it's a subjective opinion and it's your words, so I -- I don't agree or disagree.

MR. ERIC HOAKEN: Well, you can tell me a word that you think more accurately describes it.

MR. BRENT SANDERSON: It's a price that the customer would pay that is different than the prevailing market price on that day.

MR. ERIC HOAKEN: I accept that.

And going back to conservation, which is where I started this whole discussion, you would agree with me that a customer -- in looking at the graph now, a customer paying the price that's depicted on the graph for December of 2005, that is the pro forma rate, is going to be more likely to conserve or moderate his or her consumption than the customer who's paying the lower rate on the graph.

MR. BRENT SANDERSON: I would agree, with a qualification. As I said, my professional opinion is that short-term events like that in the context of a longer term average of market prices could be characterized as noise.

So the means by which a customer might conserve their use of natural gas may at the end of the day might not be in their long-term best interests and, you know, would -- would submit a circumstance by which a customer not having benefit of the knowledge of the underlying markets such as all of us around the room here, by virtue of being billed a rate that is in response to a short-term market event, may adopt the mistaken perception that that is expected to be the long-run average price of natural gas.

So on that given day, if a customer without adequate knowledge to make a decision based on that noise, may look at the price of natural gas today, relative to hydro, and may make the irrational move of tearing out a perfectly good high efficiency natural gas furnace and replace it with an electric furnace that based on today if they were in the wholesale market, today their energy costs would be cheaper when over the long run they would be left with a higher net cost of energy which would clearly not be in the best interest of the customer.

MR. ERIC HOAKEN: You and others on the Panel have, I think on a number of occasions discussed the concept of consumers' tolerance for volatility and -- as I -- and I'm speaking about consumers of natural gas now. I'm now finished with gasoline.

And if I understand it, the conclusions that you and your colleagues have expressed on this, and any of you may answer if you wish, are based largely, if not exclusively -- well, I should say largely on the market research that you've conducted, is that fair?

MR. BRENT SANDERSON: The quantitative conclusions were drawn from that market research, but I just don't want to leave the mistaken impression that we do not spend a significant amount of time getting close to our customers. Our contact centres are in contact with our customers regularly and the Executive of the

Corporation has a very reasonable sense of what customers' attitudes are in response to, for example, rate volatility.

And when we've been through dramatic market events in the past where customers were left to float with the market, the winter of 2000/2001 being an example, customers availed themselves of the opportunity to communicate to the Corporation their displeasure with being exposed to -- to those events and the uncertainties surrounding them.

So it's not solely based on that market research.

MR. ERIC HOAKEN: No, I accept that. Thank you. And I expect that you have consumers expressing their displeasure about a whole range of issues from time to time, not just gas price volatility.

MR. BRENT SANDERSON: Along with their satisfaction in a number of regards as well. We don't just do a horrible job at everything we do.

MR. ERIC HOAKEN: Right. No offence intended this time.

But just to focus if I may for a moment on the market research, that market research, as I understand it, is consisted of asking questions of consumers -- and, again, anyone can answer this -- that are designed to understand their subjective belief about their ability to tolerate volatility in their natural gas prices.

Is that a fair -- a fair statement?

MR. BRENT SANDERSON: Any personal opinion that anyone holds is, by its very nature, a subjective opinion.

MR. ERIC HOAKEN: You may well be right, but I guess the point that I'm trying to make is that it is a snapshot of what consumers say they would do or be able to do if confronted with rate volatility, is that fair?

MS. LORI STEWART: The focus of the -- of the research, Mr. Hoaken, was to ensure that the customers that were -- we were surveying had a basic understanding of the Derivatives Hedging Program and then these customers were then asked to express a directional preference for either looking for more protection at a slightly higher cost, the status quo, or less protection at a slightly lower cost.

MR. ERIC HOAKEN: I'm addressing my question at this point at least to just the very narrow aspect of the research that was designed to elicit views from consumers about their ability to tolerate volatility.

So leaving aside for a moment the questions about hedging which I know were part of the research as a threshold.

As I understood the research that was done they were asked about their ability to tolerate swings or increases or any volatility at all in their gas price.

And all I thought I was asking you to agree with is that they were being asked to assess or describe their ability to tolerate volatility in the gas price in the future.

(BRIEF PAUSE)

MS. LORI STEWART: I guess, Mr. Hoaken, the crux of our -- of our research was the telephone survey conducted with the statistically valid sample. And if you would like to direct me to a specific place in that -- in that script that was followed by those conducting the survey, that might be helpful.

MR. ERIC HOAKEN: Okay. Certainly. Turn if you will to the study which I believe is at CAC-55 -- or excuse me, it's -- sorry, PUB. So sorry, PUB-55. It's a large tab. I'm looking at the 2004 study that was done.

MS. LORI STEWART: I have the reference.

MR. ERIC HOAKEN: All right. And if -- if you turn to page 21 of that study which is the Western Research Study. And at the top of that page is the question that I was going to ask you about.

So that is the question that was asked. It's the box there. Has everyone got it? Yeah.

So the question is -- I'll just read it for the record.

"Think ahead one (1) year to next -- excuse me, next December's natural gas bill, all things being equal and recognizing the market prices for natural gas will continue to fluctuate, at what dollar amount or change of fluctuation in your natural gas bill for that month would you consider to be tolerable or acceptable?"

So I think part of my question to you was asking you to agree that this question was designed to illicit from the respondent his or her view of his or her ability to tolerate volatility in the future. And here, in fact, it's in the month of December, a year hence, correct?

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

MR. ERIC HOAKEN: All right. And so the -- the study or at least this question was designed to understand what customers said they would do or be able to do in response to volatility in the natural gas price. Is that fair?

MS. LORI STEWART: I'm not sure whether -- whether your assertion is that this question in the study provides some insight into what customers' behaviour would be in the event that -- that for example, their natural gas bill exceeded their stated or preferred tolerance level.

MR. ERIC HOAKEN: No, not at all. And that's actually exactly the point I'm making is this is simply asking them to say what they think they will find to be acceptable. Not what they will do, but what they will find to be acceptable.

And so what they are stating is degrees of tolerance that are mapped out here on the graph fore a variety of types of changes or categories of changes.

MS. LORI STEWART: Yes, I think that's fair.

MR. ERIC HOAKEN: All right. And so that's exactly the point and you put it better than I did. But these consumers who are the respondents here are simply saying if they would find it acceptable or tolerable if there was a change to the natural gas price in a certain range.

MS. LORI STEWART: With respect to this specific question, yes.

MR. ERIC HOAKEN: And it's kind of a trick question, don't you think, if someone is called up and asked if they'd be happy paying a hundred dollars ($100) more for natural gas and especially if they know it's the gas company doing the survey, I take it you'll agree with me some people may be loathe to agree that they would be able to tolerate any amount of increase at all?

(BRIEF PAUSE)

MS. LORI STEWART: I think what you've described may be the case for a certain segment of -- of respondents. However, certainly it's clear that a number of respondents did provide an indication of what they believe their tolerance level to be.

MR. ERIC HOAKEN: Right. That was the -- right. All right. And so that -- and 5 percent, is that what you're referring to?

MS. LORI STEWART: No. I'm referring to all of the customers --

MR. ERIC HOAKEN: Right.

MS. LORI STEWART: -- who responded something other than none.

MR. ERIC HOAKEN: Right.

And so you'll agree with me, I take it, that what customers say they will do sometime in the future when confronted with price volatility in natural gas, is different or may very well be different than what they actually do when they're confronted with it; correct?

MS. LORI STEWART: I guess, Mr. Hoaken, this -- I thought we had agreed that this particular question in the survey doesn't canvass the question of what a consumer would do. So I'm not -- there's no evidence here that is suggesting that there is a variation from what customers say they would do and what they actually do.

MR. ERIC HOAKEN: Right. But similarly there's -- there's only evidence of what consumers say they would do when confronted with price volatility, not of what they would actually do.

MS. LORI STEWART: I think we're on the same page. I thought we were on the same page. This question and this study does not canvass the -- the question of what consumers would do in the event that their actual bill fluctuation is something other than what their stated tolerance level is.

MR. ERIC HOAKEN: Right. But what I'd understood you and your colleagues to be saying earlier in this proceeding was that -- words to the effect, We found that our consumers have very little tolerance -- in some cases have very little tolerance for increases.

And my point is that all you know, with respect, from this question is that your consumers say that when confronted with some future price volatility they will have little tolerance for it.

MS. LORI STEWART: That was the purpose of the question, was to find out what those consumers would say in response to just that question.

MR. ERIC HOAKEN: Right. But what they say about a future and hypothetical increase and how they will be able to tolerate it may very well be different than what they actually do when actually confronted with it; right?

MS. LORI STEWART: There could be variation. I really can't comment on that.

MR. ERIC HOAKEN: Right. And your data doesn't address that.

MS. LORI STEWART: No, it doesn't.

MR. ERIC HOAKEN: Right.

Now, has Centra done any more objective study or analysis, so not looking at what consumers say they would do but to look at patterns of what they actually do when there's volatility in the rates?

MR. BRENT SANDERSON: Well, as I -- we've stated a number of times on the record, Mr. Hoaken, that the fairly significant changes in consumption, given a standard baseline of weather that we've witnessed over the past year is of very -- very great interest to the utility.

And you can be sure that over the coming years our load forecasting experts will be studying customer behaviour on an ongoing basis in order to ascertain to the best of their ability what they believe to be the underlying causes of these changes that we've seen in our customers' natural gas usage behaviour.

We want to make the best -- do the best job that we can as an organization of trying to generate accurate load forecast and capture every underlying change that's going on in the marketplace.

But, as I said, no one is ever going top be able to determine with certainty every underlying cause and the quantification underlying -- surrounding that cause that gave rise to a change in customers' usage behaviour. It will be an informed determination and it will take some years to arrive at that informed determination as to what the different elements were that drove these changes in customers' usage behaviour.

MR. ERIC HOAKEN: All right, I accept that and what you said earlier I think when we started out on this theme was that there was a correlation as you put it and even as a non-mathematician I know what a correlation is but there's a correlation between increases in price and patterns where you're seeing, on the aggregate level, conservation.

Now, that doesn't -- you're quite right -- that doesn't prove that there's a relationship but there's a correlation there and it's certainly suggestive of something, right?

MR. BRENT SANDERSON: No, that's not what I said, Mr. Hoaken, I said there was a correlation between the events of last fall and the publicity surrounding them and the timing with which we started to see evident changes in customers' usage behaviour or this fairly dramatic increase in conservation. I made no representation about what those changes in conservation had to do with our rates.

MR. ERIC HOAKEN: All right. But just going back because I'm not sure you really addressed my question, you told me all the reasons you would never know all the causes for changes in consumption, but what I really wanted to know was whether, apart from what you've already told me, there was any objective analysis that Centra had done to look at how consumers were actually tolerating rate volatility.

For example, let me give you an example and I don't know if it's apposite but let me try. Have you looked for example to see if the bad debt experience changes or goes up at the time when you've got high rates?

(BRIEF PAUSE)

MR. BRENT SANDERSON: I'm not familiar with that area of the company, Mr. Hoaken, so I can't answer.

MR. ERIC HOAKEN: Okay. Could you take an undertaking on that, Mr. Sanderson?

MR. BRENT SANDERSON: Pardon me?

MR. ERIC HOAKEN: I asked if you or your colleagues could take an undertaking on that. I'd like to know if -- you performed that partic -- excuse me -- that particular analysis but I'd like to know if there's any other objective analyses that have attempted to measure patterns of consumption or consumer behaviour in response to volatility in the price?

MR. BRENT SANDERSON: And I want to clarify here that there's a danger of us mixing up apples and oranges here.

I need to remind everyone all assembled that it would be very difficult for us to do an objective correlation between customer behaviour and dramatic changes in our price, as you put it, because our price didn't change dramatically last year but virtue of the activities we undertook on behalf of customers to stabilize their rates.

So there's this cause which you're trying to ascertain and the resultant effect of the cause that you allude to as it relates to our rates didn't exist in the first place.

THE CHAIRPERSON: Mr. Sanderson, just in an effort to help out here. It seems to us because we've been through, just like all of the rest of you here, been through a number of hearings, natural gas prices have clearly gone up since 1999, okay?

And during that same period of time I think it's fair to note that Hydro and Centra Gas have entered into a number of DSM expenditures, efforts to help low income. There's been a federal program to assist people in buying high energy furnaces. There's lots of things presumably that consumers have undertaken and Hydro itself has attempted to assist people in trying to reduce the consumption of natural gas; isn't that fair to say?

MR. BRENT SANDERSON: It's always been our position that at the end of the day if customers are -- are concerned about the level of their natural gas costs the only true way for them to lower those costs over the long run effectively is to reduce their consumption of the commodity and then we stand ready to help them in every way possible to accomplish that.

THE CHAIRPERSON: I think it was only a week or so ago that Manitoba Hydro put out a press release saying that you'd hit the $100 million mark with respect to PowerSmart loans for example.

I think back on the last GRA about the deferring of expenditures and demand side management and the amortization over a period of time and evidence that came under the hearing at that time that all of those investments were calibrated to deliver a certain result and in those past hearings the Utility has indicated that those types of measures were capable of addressing the, if you like, the price rises that otherwise the consumers would face.

I'll just add in --

MR. BRENT SANDERSON: I'm not --

THE CHAIRPERSON: -- I think we've also, in hearings - just to help out because Mr. Hoaken hasn't been present - but we have polled and received from the Corporation information related to rising delinquency and bad debt expenses.

Like the Corporation has done those analysis in the past and if I recall properly, and you can correct me if I'm wrong, the past evidence shows that the bad debts have increasing with the rising natural gas prices over a number of years.

MR. VINCE WARDEN: Mr. Chairman, there's -- there's no doubt that the bad debts of both the electricity side of our business and -- and the natural gas side of our business have gone up quite dramatically in recent years.

I think the question was: Is there a direct correlation that we can draw between the increase in bad debts and -- and the prices -- the price of natural gas and I'm not sure that we can do that.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: No, and in fairness, Mr. Warden, that wasn't intended to be my question. My question was simply, because we were talking about sort of correlations, what I wanted to know is: Is there any analysis that has been done? And the example I used, I didn't mean to be exhaustive, was bad debt.

So we have seen, as the Chairman has just said, we have seen an increase in natural gas prices over a certain period of time and has there been any effort to identify factors such as bad debt and to see what the experience has been?

And perhaps we can draw a correlation between them and perhaps we can't, but my question was, has any effort been made to do that?

MR. VINCE WARDEN: There has been no specific project undertaken to draw that correlation between the increase and bad debts and the increase in natural gas prices. However, one can assume reasonably that there is -- there is some connection there.

MR. ERIC HOAKEN: And have the analyses that have been done that you're referring to in your answer, have they been done for the purpose of trying to test this proposition of what consumers actually do when faced with volatility?

MR. VINCE WARDEN: Not specifically, no.

MR. ERIC HOAKEN: All right. So back to the request for the undertaking, could I have an undertaking then for those analyses over the period of time that's covered by the graph that is in Mr. Peter's brief. It's actually -- sorry attachment to -- to PUB/CENTRA-42(b).

And I'd like the analysis that you referred to, Mr. Warden, on bad debt and I think there was something else you made reference to, it may have been delinquency. I don't know if you meant that to be the same thing as bad debt.

MS. MARLA MURPHY: I think the difficulty we have with that undertaking is that while there will be information about the bad debt of the Corporation it won't be an analysis as Mr. Hoaken is looking for.

So we can provide the information as to the bad debt of the Corporation but I don't know that -- of Centra, but I don't know that we can undertake to provide an analysis because I think the witness' evidence has been that that doesn't exist.

MR. ERIC HOAKEN: And I understand that.

MS. MARLA MURPHY: So I would interpret that --

MR. ERIC HOAKEN: So --

MS. MARLA MURPHY: I'm sorry. I would interpret that undertaking then to be specific to the bad debt of Centra for the period that's defined.

MR. ERIC HOAKEN: Yes.

MS. MARLA MURPHY: Thank you.

--- UNDERTAKING NO. 9: Centra to provide an analysis to Mr. Hoaken of the bad debt over the time period that's covered by the graph in Mr. Peter's brief, attachment to PUB/CENTRA-42(b).

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Just to conclude on this point, Ms. Stewart, perhaps I'll direct this to you, you would agree I take it that forming an accurate assessment of consumers' ability to tolerate volatility or at least in -- in doing that, it's important to focus both on what they say they would do, which is what you've done in the market study, and on what they actually do.

MS. LORI STEWART: Mr. Hoaken, the purpose of our market research was to ascertain our customers' preferences. It wasn't to obtain that information and then be sceptical about what our customers' stated preference is.

MR. ERIC HOAKEN: Right.

MS. LORI STEWART: In which case I don't know why anyone would ever undertake market research if you're going to get the outcomes back and then say, well I don't believe what the -- our customers said; that -- that makes no sense to me.

So this premise of yours that we've undertaken subjective research and no objective research, well we have an entire market forecast department in our organization that is tempting -- attempting to understand the changes in our market consumption, what they relate to, in order to go forward and make a better load forecast for years forward so.

MR. ERIC HOAKEN: On an aggregate basis.

MS. LORI STEWART: On an aggregate -- aggregate basis. And I think it's worth noting here that we are the only party to this proceeding that has produced substantive evidence in terms of what customers are looking for relative to rate volatility mitigation.

And so certainly by virtue of having put forward some -- some evidence in this regard we should be subject to some questioning about it, but I -- I also don't see any evidence to the contrary related to the positions that we're put -- putting forward, which are based on substantive evidence and a statistically valid sample of our customers.

MR. ERIC HOAKEN: Well, quite apart from that, that's really what I'm trying to explore, you and your colleagues have over the last few days said on a number of occasions what customers tell you and you've made it clear I think that your hedging program is -- and at least your commitment to the hedging program is based upon what you believe customers want, is that right?

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

MR. ERIC HOAKEN: Right. And I'm not in any way -- well, the -- the premise of your research was to ask consumers to look at some point in the future and tell you how they would react to a change or a range of changes in the gas price at that point in the future, right?

MS. LORI STEWART: No, Mr. Hoaken, that's not correct. I've already gone on the record to clear up that the focus of our research was to provide the consumers that were surveyed with a reasonable simple description of our hedging activities and to obtain a directional indication from that consumer of whether or not the program was meeting their needs, whether or not from their perspective they would like more hedge protection or less hedge protection.

MR. ERIC HOAKEN: I'm sorry. I was directing myself just to the specific question that you and I had been looking at on page 21. So I -- I didn't mean to say that that was the purpose of all of the research you were doing, I was referencing only the question that you and I had looked at.

So the purpose of the specific question that you asked, that's referenced on page 21, was to ascertain what customers said they would be able to tolerate or find acceptable in terms of a price change or variation at some point in the future.

MS. LORI STEWART: We're already clear on that matter.

MR. ERIC HOAKEN: Okay. Good. And I think you've already agreed with me that what -- what customers say they will do or may do, or what they may find acceptable or tolerable in the future may be different than what they actually do or find acceptable when that even materializes.

MS. LORI STEWART: Yes, that's the case.

MR. ERIC HOAKEN: All right. Thank you.

That might be a good time to break. I'm in your hands, Mr. Chair.

THE CHAIRPERSON: How --

MR. ERIC HOAKEN: But I'm certainly happy to keep going if -- I don't know what the intention is of the Board in terms of sitting tonight.

THE CHAIRPERSON: How much more time do you think it will take you?

MR. ERIC HOAKEN: Well --

THE CHAIRPERSON: We have Ms. Ruzycki to come yet.

MR. ERIC HOAKEN: Right. I'm sort of reluctant to give you a clear answer because the counsel who went before me were very able in all respects except estimating time.

THE CHAIRPERSON: Why don't you carry on for now and we'll make another assessment in --

MR. ERIC HOAKEN: I will. Thank you.

THE CHAIRPERSON: -- fifteen (15) minutes or so.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Now, turning, if I may, to you, Mr. Stephens, I want to ask you a little bit about gas contracting.

As I understand it from what you've told us already the Nexen contract expires as of October 31, 2007?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And as I understood you it expires on that date unless it's been renewed six (6) months prior to that date.

MR. HOWARD STEPHENS: Yes. By mutual

agreement, yes.

MR. ERIC HOAKEN: Right. And I understood you to say, Mr. Stephens, that Centra is currently or already in discussions of what sounded like a fairly informal nature with Nexen about a possible renewal.

Is that accurate?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And those discussions have involved, I presume, some reference to the specific terms on which the parties would be willing to carry on in the future.

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And if I could just ask you to turn to Tab 26 of Mr. Peters' brief of documents.

(BRIEF PAUSE)

MR. ERIC HOAKEN: And at the front page of this tab is a letter from the Board dated August 11, 2006.

You've got that?

MR. HOWARD STEPHENS: I do.

MR. ERIC HOAKEN: And if you note in the -- I believe it's the fourth paragraph down, it says:

"The Board notes that Centra is considering -- is considering possible future changes to its primary gas supply contract. The Board suggests that this consideration take into account matters raised in this paper."

And the paper is the document that then follows at Tab 26, which I've been referring to as the observations and suggestions document, correct?

MR. HOWARD STEPHENS: That's correct.

(BRIEF PAUSE)

MR. ERIC HOAKEN: And I'll come back to that document in a minute but what I understood you to say yesterday is that as part of its process in -- in assessing its gas re-contracting, Centra has engaged EEA to give it some advice and assistance.

MR. HOWARD STEPHENS: That's right. To assist us through the entire process.

MR. ERIC HOAKEN: Right. And I think what you said yesterday, and this wasn't exhaustive but you said that part of what they're helping you with is to identify the most cost-effective way of re-contracting for your primary gas supply.

Is that a fair statement?

MR. HOWARD STEPHENS: That's a fair statement, yes.

MR. ERIC HOAKEN: And as I understand it, though, EEA has been asked to look at not just the cost effectiveness but also other implications of your re-contracting such as, for example, I think the example you gave Mr. Stephens was storage.

MR. HOWARD STEPHENS: No. The -- I mean, we -- just let me stop here for a second.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: The first phase of the RFP that we let out was the -- simply the re-contracting of the primary supply.

MR. ERIC HOAKEN: And --

MR. HOWARD STEPHENS: Of the primary supply.

MR. ERIC HOAKEN: -- and, sorry, this was the RFP you let out to EEA?

MR. HOWARD STEPHENS: Yes.

MR. ERIC HOAKEN: Yes.

MR. HOWARD STEPHENS: That's right.

MR. ERIC HOAKEN: Okay.

MR. HOWARD STEPHENS: And we asked consultants to come back and assist us in the recontracting of primary supply. There is a phase 2 contemplated which will deal with the other -- the remaining assets that we have at our disposal.

MR. ERIC HOAKEN: I see. And is phase 2 going to be the subject of a separate RFP process or is EEA -- or is part of -- part of their retainer now to assist you in phase 2 as well?

MR. HOWARD STEPHENS: We've reserved judgment to -- based upon the performance of the incumbent, if you will. If we're not entirely satisfied with or we find that we can get a better service from some place -- somebody else, we would do a separate RFP for the second phase.

MR. ERIC HOAKEN: And where are you in phase one, temporally? How soon do you expect to have that phase complete and how soon do you expect to have a report from EEA?

MR. HOWARD STEPHENS: We anticipate getting the report back from EEA by the end of December and then going through the various internal approvals with respect to it between then and February.

MR. ERIC HOAKEN: And then when is it anticipated, if it is presently anticipated, that phase 2 would begin?

MR. HOWARD STEPHENS: That would be later in the year. We discussed that earlier in terms of the portfolio review --

MR. ERIC HOAKEN: Yes.

MR. HOWARD STEPHENS: -- we were talking about and I indicated late this year or early next year.

MR. ERIC HOAKEN: All right. And then am I understanding correctly that only phase 1 of this process would need to be complete before you -- or at least before you contract for your gas supply after October 31, '07?

MR. HOWARD STEPHENS: That's correct. This component of the RFP limited the scope to replacing our primary supply contractor with contracts within the context of our existing physical assets in terms of storage and pipeline capacity.

MR. ERIC HOAKEN: And just back then to this letter at Tab 26, the portion I read is a reference to the Board asking Centra to take into account the elements of the observations and suggestions document, when it's -- what's the right word, in the process of considering contracting for its gas supply.

Is that something that Centra has, in fact, done?

MR. HOWARD STEPHENS: Certainly, we held the one (1) stakeholder meeting -- well, we've actually held two (2) stakeholder meetings with respect to the topic.

We did get no feedback with respect to the first report as I indicated yesterday, but we did get some feedback in terms of the second stakeholder meeting that we held in August.

And we have delivered that to the consultant and they are incorporating those findings into their report.

MR. ERIC HOAKEN: And was EEA asked to assist you in responding to the suggestion or at least the contents of the suggestions and observations document and to incorporate that assistance in the report they're going to be issuing?

MR. HOWARD STEPHENS: Can you run that by me one (1) more time?

MR. ERIC HOAKEN: Sure, was EEA, as part of phase 1 as you've described it, asked to address the contents of the observations and suggestions document and incorporate its analysis or suggestions in the report that it's going to issue?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: The document that you're referring to is focussed more on hedging as opposed to the physical supply contract.

MR. ERIC HOAKEN: Excuse me, sorry I missed that, is focussed?

MR. HOWARD STEPHENS: More on our hedging practices than on the physical supply contract. So from that perspective the data that they've collected is the data they collected during the stakeholder meeting in August.

And we passed that information on, some we received after the fact and we did pass that on to the consultant for consideration.

MR. ERIC HOAKEN: All right. And as I read the paragraph that I just read to you, I see that as a suggestion from the Board that the contents of the observations and suggestions document may be relevant to Centra in this process of contacting for its gas supply, is that the way you read it, Mr. Stephens?

MR. HOWARD STEPHENS: I think that's a fair statement, sir.

MR. ERIC HOAKEN: All right. Thank you. And then if I could ask you just to turn over to the second page of the observations and suggestions document itself, at the top of the second page this is part of the executive summary.

And it's a listing of what the Board describes as alternative approaches, as I understand it, alternative approaches to the current hedging program at Centra. And was EEA asked to consider or comment on any of these alternatives?

MR. HOWARD STEPHENS: EEA was asked to deal with hedging, in general, in terms of re-contracting and the ability to hedge.

MR. ERIC HOAKEN: And you expect those matters to be canvassed in the report that they issue as part of phase one (1)?

MR. HOWARD STEPHENS: Yes, I expect a response in that regard.

MR. ERIC HOAKEN: And then quite apart from what EEA is doing or may be doing on that point, just looking Mr. Stephens at page 2, item b) one of the alternative approaches elucidated by the Board is:

> "No hedging with an adjustment to the primary gas purchasing agreement to provide more rate assurance one (1) year out."

And is that an option that Centra has been considering as part of this process of its gas supply contract?

(BRIEF PAUSE)

THE CHAIRPERSON: We'll just take a ten (10) minute break now. It'll give him a chance to confer.

MR. HOWARD STEPHENS: Actually I think I can respond now.

THE CHAIRPERSON: Please, Mr. Stephens.

MR. HOWARD STEPHENS: The answer would be, yes, sir, that we did contemplate that and had some discussion with Nexen in that regard.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: I'm sorry, had some discussion with Nexen?

MR. HOWARD STEPHENS: Yes.

MR. ERIC HOAKEN: All right, that was going to be my next question. What was the substance of the discussion you had with Nexen?

MR. HOWARD STEPHENS: Just to get a sense in terms of what the price would be.

MR. ERIC HOAKEN: All right. Did you get any sense of the availability, leaving aside for a moment the issue of price, did you get any sense of the availability of that option? The openness of the people at Nexen to entertain that option?

MR. HOWARD STEPHENS: Nexen I think is pretty much prepared to do anything we want them to do.

MR. ERIC HOAKEN: As long as it's the right price.

MR. HOWARD STEPHENS: Yes. As long as it's the right price.

MR. ERIC HOAKEN: Yeah, funny how that works. And then quite apart from Nexen, do you have any understanding, Mr. Stephens, of the availability of that option, that type of pricing option, elsewhere in the marketplace?

MR. HOWARD STEPHENS: Well it's available to us in a number of different forms and a number of different ways from different parties.

MR. ERIC HOAKEN: All right. And I should have asked you this. You said you've had these preliminary discussions with Nexen. Have you had similar discussions with other potential counterparties or contracting parties?

MR. HOWARD STEPHENS: No, because the significant option here -- or the -- the difference here between Nexen and the rest is that they are the incumbent, the contract contemplated a potential for renewal so we've had those discussions in -- in alignment with those provisions.

If that doesn't bear fruit, then we will go the RFP route. And then there would be further discussions obviously --

MR. ERIC HOAKEN: Yes.

MR. HOWARD STEPHENS: -- with the candidates at that point.

MR. ERIC HOAKEN: And as part of considering this alternative, Item 'B' on page 2, has Centra investigated the extent to which other utilities have availed themselves of these provisions in contracts with their gas contracting parties?

MR. HOWARD STEPHENS: Yes, we have -- we have familiarity in terms of how -- how other LDC's are contracting, et cetera with, respect to fixed prices versus variable or floating prices.

MR. ERIC HOAKEN: All right. And I apologize if the answer to this has already been given, but has -- has Centra agreed or undertaken to produce the EEA report when it becomes available?

MR. HOWARD STEPHENS: We will produce it when it becomes available.

MR. ERIC HOAKEN: All right. Thank you. Now based on the preliminary discussions you've had with Nexen, do you have any understanding of what the term of any new contract you might be able to conclude with Nexen would be?

MR. HOWARD STEPHENS: I think our discussions are too preliminary for me to give that information out.

MR. ERIC HOAKEN: And is there any -- well, I'll ask you this way. Do you have any sense, based on the discussions you've had so far, as to whether the same pricing structure would be found in a new contract with Nexen?

For example, the first tier having a take-or-pay obligation?

MR. HOWARD STEPHENS: I think I'll stick to my last response. I think it's a little too early for us to lay out the terms of the discussion that we've had.

MR. ERIC HOAKEN: All right. But one (1) of the items that will have to be addressed I suggest to you, either in a new contract with Nexen or a contract with another party is the ability to re-contract for base volumes from time to time in the manner that you've described?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And the frequency with which you can re-contract for those base volumes?

MR. HOWARD STEPHENS: And we're mindful

of the broker's concerns in that regard.

MR. ERIC HOAKEN: And -- all right. And I think you said yesterday or perhaps the day before, that one of the factors that affects the base load requirements of Centra is the extent to which in -- the extent to which consumers increasingly look to direct purchase for their gas.

MR. HOWARD STEPHENS: Well, it is a concern. I mean we -- when we contract we try to contemplate all scenarios so that we don't find ourselves in breach of contract or unable to perform under the contract.

MR. ERIC HOAKEN: Right, but ---

MR. HOWARD STEPHENS: And --

MR. ERIC HOAKEN: Oh, I'm sorry, I thought you were --

MR. HOWARD STEPHENS: So from that perspective, we contemplate a situation where the brokers have made significant inroads into the marketplace and we are now in a position where we have to divest ourselves of gas that has been contracted in good faith and what the consequences associated with that would be.

MR. ERIC HOAKEN: Right. And going forward you need to contract in a way that recognizes the possibility that further inroads will be made by brokers.

MR. HOWARD STEPHENS: That's correct.

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

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

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

Is that fair?

MR. HOWARD STEPHENS: That's very fair.

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

(BRIEF PAUSE)

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

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

MR. ERIC HOAKEN: All right. But I take it that Centra is mindful -- well, first and foremost, it's mindful of needing to ensure its primary gas supply; correct?

MR. HOWARD STEPHENS: That certainly weighs heavily on my mind, yes.

MR. ERIC HOAKEN: I can imagine it's the last thing you think of every night before you drift off, Mr. Stephens.

So that is obviously, and I accept, a top priority. But similarly I take it you agree that Centra does not want to, in going forward with its re-contracting arrangements, in any way tie the hands of this Board or anticipate or presume to anticipate what orders are going to be made by this Board as a result of the generic hearing.

Is that fair?

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

MR. ERIC HOAKEN: No. And that's perfect. I may have asked you this and if I did I apologize, but have the discussions you've had with Nexen so far -- have they touched on the frequency of enrollments?

MR. HOWARD STEPHENS: I think you asked me the question and I think I turned you down in terms of an answer, and that's what I'll do again.

MR. ERIC HOAKEN: That's vaguely familiar, yes.

Just if I may touch on one (1) thing you said, Mr. Stephens, I think a couple of days now. You were describing I believe for Mr. Peters the steps that were taken by Centra to deal with the Western Transportation Service that culminated in the report that was issued in the summer of 2005.

And you, in your comments, said that this report had, to your knowledge, been circulated to interested stakeholders including the broker community.

Is that fair?

MR. HOWARD STEPHENS: Yes. We did file it with the Board and, as I understand it, we did circulate it to all the Intervenors of record.

MR. ERIC HOAKEN: Right. And you said something -- something to the effect that you were -- not just you, Centra had not received any specific feedback or input from the broker community.

Is that right?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And I take it that you didn't need a crystal ball or a tea leaf to know that the broker community didn't find these proposals, the alternatives in that report, acceptable.

Is that fair?

MR. HOWARD STEPHENS: I didn't anticipate they were going to be sending me any roses.

MR. ERIC HOAKEN: Right. And you didn't take the silence as being agreement with or acceptance of those proposal?

MR. HOWARD STEPHENS: By no means.

MR. ERIC HOAKEN: Right.

THE CHAIRPERSON: Just to help everyone's scheduling, our intention is to stand down at 5:00, regardless. I think both of you Intervenors were going to come tomorrow for their cross-examination of the witness in any case, and I don't want to short Ms. Ruzycki.

Perhaps we'll just take a short break right now and come back and at least conclude with you, if we could.

MR. ERIC HOAKEN: I'll certainly do my best. I can't promise I'm going to be finished by 5:00, but I'll do my best.

THE CHAIRPERSON: And if not, we'll start again.

MR. ERIC HOAKEN: Thank you.

THE CHAIRPERSON: Ten minutes, that's it.

--- Upon recessing at 4:34 p.m.

--- Upon resuming at 4:44 p.m.

THE CHAIRPERSON: Okay. Mr. Hoaken...?

MR. ERIC HOAKEN: All right. Thank you Mr. Chair.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: I think we're still with you Mr. Stephens, I wanted to just pursue a few more questions about the Western Transportation Service.

You and your colleagues told us about the three (3) options that are referenced in the WTS report, that is the three (3) options for increasing the frequency of enrollments, do you remember that?

MR. HOWARD STEPHENS: I do.

MR. ERIC HOAKEN: And just to start off with, has Nexen, I didn't understand clearly, has Nexen put those three (3) options in writing to Centra in any legally binding fashion?

MR. HOWARD STEPHENS: No, not in any legally binding fashion.

MR. ERIC HOAKEN: In any fashion are they in writing at all?

MR. HOWARD STEPHENS: They were made as suggestions in terms of how to deal with an issue.

MR. ERIC HOAKEN: Just in the course of a discussion?

MR. HOWARD STEPHENS: That's right.

MR. ERIC HOAKEN: I see. And so what Centra has done is then summarized those proposals for the purposes of the report?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: All right. And if I understand it correctly, option number one (1) is a premium of ten (10) cents per GJ, and this is the option with thirty-two (32) days notice fifteen (15) days tweaking, is that right?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: Okay. And what is, as far as you understand it, Mr. Stephens, what is Nexen rationale for applying the premium to the entire baseload and not just the marginal amount?

Yeah, I'd understood Ms. Stewart's evidence and you can certainly speak to this, I'd understood you and perhaps others to say that the premium is applied not just to what I might describe as the migrating volume, but to the entire baseload amount, am I right about that?

MR. HOWARD STEPHENS: Give me your question again, sir?

MR. ERIC HOAKEN: And I'm happy for any of you to answer this if you know, but what is Nexen's rationale for applying that ten (10) cents GJ premium to not only the migrating volumes but to the entire baseload?

MR. HOWARD STEPHENS: It just -- it would be from my perspective and they haven't give me this as their rationale, it's just my explanation for it.

MR. ERIC HOAKEN: Sure.

MR. HOWARD STEPHENS: Would be to cover

off the risk of that they're exposed to in the two (2) week period where we have the opportunity to change the volume.

MR. ERIC HOAKEN: Okay. And I think Mr. Peters asked you a question that I certainly would have asked if he hadn't and you've anticipated, I guess, but he said, why are you paying them, I think it was $3.3 million, why are you paying them that much because they're not doing much work?

And I think the answer that Ms. Stewart gave was, well, it's the risk and you described it, Ms. Stewart, as the optionality cost, I think that's what you said.

(BRIEF PAUSE)

MS. LORI STEWART: Yes, what I went on the record to clarify because Mr. Peters' question, whether he intended it this way or not, intimated that Nexen must have some incredible amount of new work to do to justify a $3.3 million premium, so to speak, above our current contractual arrangements.

And I wanted to clarify for the purpose of the Board that the $3.3. million would be related to the risk that Nexen was undertaking by virtue of now not just four (4) times a year permitting Centra to tweak its volumes, now twelve (12) times a year permitting Centra to tweak its volumes and thus undertaking this additional risk.

MR. ERIC HOAKEN: That's very helpful and what Mr. Stephens said as well is very helpful, is that -- does the re-contracting then if I could put it that way, for the base load, does that permit Centra to contract out of the entire base load if it wanted to?

MR. HOWARD STEPHENS: Under the -- the current discussions that we're having with Nexen? I -- I'm not in a position to speak to that right now.

MR. ERIC HOAKEN: Okay. Well, what I'm just trying to understand is the point that Ms. Stewart made that I thought I understood which was tweaking the volumes is that if there are migrations to direct purchase, the amount of base load that Centra is going to require is going to decrease, right?

MR. HOWARD STEPHENS: That's correct. I mean to the extent that we have more customers on direct purchase then our base load volumes will decrease accordingly.

MR. ERIC HOAKEN: Right. And so if in hypothetical example, suddenly one month every single customer you have migrated to direct purchase, would the provisions of the contract permit you then, on the quarterly basis that we've been discussing, to contract out of that entire base load that you previously contracted for under the contract?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And so when we talk then about the optionality cost or the risk, it's the risk to Centra -- or excuse me, to Nexen that some portion of that base load and perhaps even a very large portion is going to be contracted out of by Centra?

MR. HOWARD STEPHENS: That's right. I mean, we could put gas back to them and I mean they have to now file a new market report.

MR. ERIC HOAKEN: And as part of its exploration of options, has Centra investigated the possibility of putting some sort of cap on the amount that it could re-contract for monthly?

So for example, it would -- it would re-contact for no more than to 80 percent of the previous base load value?

MR. HOWARD STEPHENS: So that I would -- I hate to ask you a question in --

MR. ERIC HOAKEN: Sure.

MR. HOWARD STEPHENS: -- response to a question but just to make sure that I'm clear. I would essentially limit the number of conversions over to WTS so I'm not putting as much risk to Nexen.

MR. ERIC HOAKEN: Right, exactly. Is that something that's been considered or discussed?

MR. HOWARD STEPHENS: We thought -- we contemplated but we have never specifically -- I mean asked the question.

MR. ERIC HOAKEN: Because I gather that Centra has now some historical experience with the rate of migrations to direct purchase. Is that fair?

MR. HOWARD STEPHENS: We have a history with respect to it. But I mean, I'm a little bit nervous in terms of history it's not always a good indica -- indicator of the future.

MR. ERIC HOAKEN: I accept that. But you have, I take it, have you observed or studied any patterns in the migrations when they're happening, what events they can be correlated with, anything of that nature?

MR. HOWARD STEPHENS: Well, they're actually -- it's relatively flat when we look at the numbers it's neither growing or shrinking to any significant amount.

MR. ERIC HOAKEN: All right. And have you formed any conclusion about what a likely -- and I accept you can't exclude all sorts of things but, what a likely range or rate of migrations per quarter is or has been?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I don't have enough statistically relevant data to give you a really good response to that.

It would be a very -- an uneducated guess on my part again, so, I don't think it would be doing a service.

MR. ERIC HOAKEN: All right. Well let me take a non-statistical approach to it. Do you -- I mean your -- your base load as I understood you to say, again, I may have got it wrong, but was in the order of 80,000 Gj's per day?

MR. HOWARD STEPHENS: Well, it varies during -- it varies during the course of the year.

MR. ERIC HOAKEN: Right.

MR. HOWARD STEPHENS: So, I mean, the volume -- or the volume in the summer months could be in that vicinity, certainly during the winter months it could be much higher.

MR. ERIC HOAKEN: But just using for the

sake of this illustration, that eighty thousand (80,000) figure, do you agree with me that it's a pretty remote possibility that all of that eighty thousand (80,000) would be at risk to Nexen on the quarterly recontracting?

So it's an extremely unlikely event that Centra would be in the position of contracting out of that entire 80,000 Gj's per day.

MR. HOWARD STEPHENS: Again, that's a very hypothetical situation, sir, and I -- I would not want to put my seal of approval on that, on a response to that because I would want to do some analysis before we -- we provide you with a, I mean, a definitive response on that.

MR. ERIC HOAKEN: Okay. But what analysis would you perform?

MR. HOWARD STEPHENS: I would look at our existing load and what potential worst-case scenario that we could see over the course of a quarter in terms of having customers moved over, I mean, and that's simply from a processing perspective, and see what we can do in that regard.

So -- and I'd want some time to think about it.

MR. ERIC HOAKEN: All right. Well, can I take that as an undertaking?

MR. HOWARD STEPHENS: Well, you -- I may not be done thinking about it by the time --

MR. ERIC HOAKEN: Well, I'll put a cap on your time frame. No. What I understood you to say, quite fairly, is that you don't want to give me an off-the-cuff answer, and I think that's quite appropriate given the complexity of what I asked you.

But could you now go and try to perform some of that analysis and to answer the question that I asked, which is, you know, is this, in your judgment based on the analysis you'd like do, an exceedingly remote possibility that Centra would be in the position of, in the next quarter or the next or maybe the next, contracting out of its entire base load obligation under the contract?

MR. HOWARD STEPHENS: Well, I guess the answer, generally speaking, would be over the term of the next contract that we sign. And that's the exposure that I, I mean, I really have. And that is not that remote a possibility, depending upon the nature of the marketing programs the brokers endeavour into, et cetera.

So, I mean, especially given the fact that we're potentially going to be going into a generic hearing, there may be an entirely different marketplace.

MR. ERIC HOAKEN: Right. Well, and just

to be fair, I'm asking about the marketplace as it exists today. I take your point, there may be changes that you and I can't contemplate, but --

MR. HOWARD STEPHENS: And, I mean, but it's given those -- those considerations that I wouldn't be prepared to give you, I mean, an answer in terms of saying, No, I -- I mean, I think we could live with the circumstance where it would be limited by such -- such and such an amount, unless the broker community was prepared to give me the -- that commitment in terms of not, I mean, displacing that much load.

MR. ERIC HOAKEN: Right. But I guess my point, Mr. Stephens, is that in order for this event to occur, that all of the customers that Centra has would have to migrate over to direct purchase.

Isn't that right?

MR. HOWARD STEPHENS: That's right.

MR. ERIC HOAKEN: And are you aware of any jurisdiction at all in North America in which that's occurred?

MR. HOWARD STEPHENS: Just because it hasn't occurred, sir, does not mean it can't.

MR. ERIC HOAKEN: And I'm certainly not -- just understand I'm not asking you to exclude the possibility, I'm simply asking you to agree with me that, you know, having regard to current market conditions and the experience that we've had in the industry, it's a remote thing.

MR. HOWARD STEPHENS: I am going to take a very conservative response with respect to this because -- and I acknowledge your premise but I will not -- I'm not prepared to engage in terms of giving you my best estimate in terms of what we -- we could manage or not manage.

As I've mentioned over -- over the course of the last couple of days, is that we -- when we develop and provide the service that we provide -- I mean, contract for supply et cetera, we try to do a basis -- on the basis that it's a sustainable service and we could operate on a sustainable basis.

And if I give you a guarantee now or any kind of an estimate with respect to that it's going to be fed back to me at some point in the future. I'm not doing you a service, nor myself.

MR. ERIC HOAKEN: All right. So what I hear you saying is that -- is that Nexen, if you were to go to monthly subscriptions, which would effectively give Centra monthly ability to re-contract for its base load, that Nexen would have a risk that it would be entitled to be compensated for with respect to that entire base load?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And has Centra taken any steps since receiving these proposals from Nexen, the three (3) that we've outlined, has it taken any steps to ascertain the extent to which they're in keeping with what other parties in the market are doing or asking?

MR. HOWARD STEPHENS: I think I'm going back to my answer in terms of before -- or it's a little bit too preliminary in terms of our entire process for me to give you a response.

MR. ERIC HOAKEN: Okay. And I'm just wondering, have you even tried to do that? That's really my question.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: We have had some very, very preliminary discussions but, I would not call them substantive by any stretch of the imagination.

MR. ERIC HOAKEN: Okay. But, really what I'm trying to get at Mr. Stephens is, Centra issued a report which is in the materials dated, I think, July of 2005.

And this is dealing with the WTS and by that time, certainly by the time that report was finalized and issued, Centra had received these three (3) proposals from Nexen correct?

MR. HOWARD STEPHENS: Yes, we must have. I mean, I wrote the report and I would have been in receipt of the estimates, so that time line has to work.

MR. ERIC HOAKEN: Perfect. And that report or -- those inquiries of Nexen were made not in the context of Centra's need to re-contract for its gas supply after the 31st of October, 2007, but rather to respond to the order of this Board dealing with the specific issue of enrollments to WTS, correct?

MR. HOWARD STEPHENS: Precisely.

MR. ERIC HOAKEN: And so after you received those proposals, did Centra take any steps to evaluate those and to consider how they compared to what otherwise would be available in the marketplace with other gas suppliers?

MR. HOWARD STEPHENS: Other than some of the discussions that we -- I just referred to, no, not really because we knew we were going to be going through a review in regard to the RFP effort that we were going through right now.

MR. ERIC HOAKEN: For the new supply?

MR. HOWARD STEPHENS: For the new supply. So the answer would come out of that.

MR. ERIC HOAKEN: Right. Okay. So, then is that something that Centra is expressly addressing itself to and asking bidders in the RFP process to respond to?

MR. HOWARD STEPHENS: Throughout the replacement of the gas supply arrangements, I mean, it is one (1) of the requirements that we are asking potential suppliers to address.

MR. ERIC HOAKEN: And are you communicating either expressly or implicitly a need for suppliers to respond to the concerns of brokers that the current enrollment arrangements are not satisfactory?

MR. HOWARD STEPHENS: Well, let's be clear. Where we're at is, we've got -- we have our consultant looking at the situation, has attended all of the components in terms of the process that we've engaged in to this point and they are now taking that information away and distilling it and providing us a report in terms of the best way to move forward.

They will be making recommendations to us in terms of, the best way to facilitate all of the requests that we've had in terms of the broker community, et cetera, plus our own internal requirements.

And it won't be until I have that report that I really have an answer for that.

THE CHAIRPERSON: Okay. I think we're going to adjourn, stand down for the day. So if everyone could sort of suspend where they are right now, other than that you can go home before your carriages turn into pumpkins.

So we'll see you all in the morning. Thank you.

(PANEL RETIRES)

--- Upon adjourning at 5:00 p.m.

Certified Correct

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Wendy Warnock