MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.

2006/07

COST OF GAS APPLICATION

Before Board Panel:

Graham Lane - Board Chairman

Monica Girouard - Board Member

Alain Molgat - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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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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--- Upon commencing at 9:05 a.m.

THE CHAIRPERSON: Good morning everyone. It's days like today that make you thankful for gas coming on when you expect it to be, and electricity; I shouldn't forget that.

Mr. Hoaken, back to you.

Centra Panel:

Vince Warden, Resumed

Howard Stephens, Resumed

Lori Stewart, Resumed

Brent Sanderson, Resumed

Kelly Derksen, Resumed

CONTINUED CROSS-EXAMINATION BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Yes. Thank you. Good morning, Mr. Chair, and good morning to the Panel.

I think that when we broke yesterday, Mr. Stephens, you and I were in the middle of a discussion about the WTS enrollments and particularly we were talking about the three (3) options or scenarios that are outlined in that report that you wrote.

And you said several times in your evidence, I believe to Mr. Peters on this point, you --

you made reference to a scenario, and we talked about this briefly yesterday, you made reference to a scenario in which Centra is fully displaced by brokers and that in that case the model would not be a sustainable model.

Do you remember making those comments?

MR. HOWARD STEPHENS: Yes. I think you've characterized it in a very general sort of way, yes, but I do remember making the comments.

MR. ERIC HOAKEN: Okay. And if you think it can be characterized more accurately, tell me. I'm just telling you what I took to be the gist of the comment.

MR. HOWARD STEPHENS: Well, the concern that I had is that if we had a mass migration over to direct purchase, that we would not be able to manage the swings on a daily basis. And from that perspective we had a concern and -- it would not be a sustainable model.

MR. ERIC HOAKEN: All right. Thank you. And you made that comment during the discussion about WTS enrollments and these three (3) options and do I take it that Centra wants the options for enrolment to be unattractive to the brokers in order to guard against the possibility of Centra being displaced?

MR. HOWARD STEPHENS: No, not by any means. We -- I mean, we try to accommodate the requirements of the brokers to the best extent that we can, it's just a matter of making sure that it's going to function on a sustainable basis.

MR. ERIC HOAKEN: Right. And I'm just trying to understand why you made that comment in the course of the discussion about WTS enrollments.

MR. HOWARD STEPHENS: Well, I think I just made the comment because it was germane and that it was something that needs to be -- we have to be mindful of when we are making those contractual arrangements.

MR. ERIC HOAKEN: And has Centra communicated to Nexen, in soliciting these three (3) options, has it communicated its concern about Centra being fully displaced by the brokers?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: We have general discussions with respect to the environment that we're working in and they're aware of the direct purchase environment, et cetera, so from that perspective they would understand exactly what it is that we're facing.

But they're there really to -- I mean it's my -- my responsibility to identify the areas that we need flexibility and then there role is then to try and handle that and provide us with mechanisms to accommodate it.

MR. ERIC HOAKEN: But has Centra communicated to Nexen in the course of the discussions about enrollments that it would like to prevent -- it would like to prevent significantly increased migration from system gas to direct purchase?

MR. HOWARD STEPHENS: By no means.

MR. ERIC HOAKEN: And I think you agreed with me in the course of our discussion yesterday that this doomsday scenario of complete 100 percent migration is unlikely and remote?

MR. HOWARD STEPHENS: Unlikely and remote, but I'll never say never.

MR. ERIC HOAKEN: And I accept that. And I take it you'll agree with me that Centra should not, and I'm not suggesting that it has done so, but you'll agree with me that Centra should not structure its contractual arrangements be they for primary gas or storage or transportation, it should not structure its contractual arrangements in a way that has either the implicit or the explicit objective of preventing migration from system gas to direct purchase?

MR. HOWARD STEPHENS: Well, whether we should or not is another -- is one (1) matter; whether we have is certainly -- the latter is not the case.

MR. ERIC HOAKEN: Right. And it's the "should" that my question was directed to.

MR. HOWARD STEPHENS: Well, I think that's the subject which -- more the subject of a generic hearing as opposed to this proceeding.

MR. ERIC HOAKEN: Now, I'll turn to a different subject. I want to just follow up on some of the comments you made, Ms. Stewart, about volatility, and I think this has been canvassed quite fully by others, and I wanted to just ask a couple of quick questions.

And I think that you've stated quite clearly there are other steps that Centra can and does take apart from hedging to deal with volatility, correct?

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

MR. ERIC HOAKEN: Both bill and rate volatility?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: And you gave us figures for reductions in volatility and an example of those figures, it wasn't the only one, was the 53 percent reduction in volatility that you had achieved in the '05/'06 year.

Have I got that right?

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

MR. ERIC HOAKEN: And is that 53 percent, just so I understand, Ms. Stewart, is that the reduction in volatility that was achieved just through hedging or through all of the tools that you use to deal with volatility?

MS. LORI STEWART: Strictly as it relates to the benefits delivered by the hedging program.

MR. ERIC HOAKEN: Thank you. And could you just help me understand how you measure that reduction? What is the mathematical exercise or what are you use -- what are the variable you were using to compute that percentage?

MR. BRENT SANDERSON: If you just give me a moment, I'm just going to dig up a reference that I can refer Mr. Hoaken to in the course of our discussion.

(BRIEF PAUSE)

MR. BRENT SANDERSON: I won't -- I won't drag this out needlessly. There was an IR response that went into a significant amount of detail as to the methodologies employed, but I think we can just cover it pretty quickly here, just in a discussion.

We go back in time to the inception of the current hedging program and what we do is we recreate history looking at our PGVA inflows and outflows, the rates that we would have set in the absence of the hedging program, and we -- and we basically recreate history and develop a time series of what our actual primary gas billed rates would have been given the -- all the other actual factors that were -- that occurred during the period and shows us what our primary gas billed rates would have been if we haven't have carried out our hedging program.

And then for any given period what we do is we use a standard accepted measure of variability being standard deviation. We calculate what the standard deviation of our primary gas rate would have been under that hedgeless scenario if you will, and then look at what the standard deviation of our actual primary gas billed rates actually was over the period and compare those standard deviations and calculate the percentage difference in those two (2) measures over the period, with hedging and without, and that generates our percentage reduction achieved through our hedging program.

MR. ERIC HOAKEN: And -- and just out of interest do you have that IR just so I can make a note of it?

MS. MARLA MURPHY: It's PUB-42.

MR. ERIC HOAKEN: Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Okay. And if I could then just take you to Tab 21 of Mr. Peters' brief. And this is the chart we've looked at several times now showing the net reduction in costs or at least net reduction or addition to costs in that third column.

And for the portion of this year -- sorry, I'm just pausing. I see that the -- the figure on line 16 is in the order of $44 million; am I correct, Ms. Stewart, you testified that it's now a bit different than that as a result of the November results?

MS. LORI STEWART: No, that's a mix of apples and oranges. What line 16 represents is the --

MR. ERIC HOAKEN: Oh --

MS. LORI STEWART: -- cumulative results of the hedging program since it's -- since its inception.

MR. ERIC HOAKEN: I'm sorry, you're quite right.

Is it line 18? Line 18 is the unrealized results?

(BRIEF PAUSE)

MS. LORI STEWART: Sorry, you're looking for a clarification on what line 18 represents?

MR. ERIC HOAKEN: No, sorry, let me ask -- I'll just come at it a different way.

What is your best estimate thus far, based on settled positions? What is the either addition or reduction to gas costs for the '05/'06 year?

MS. LORI STEWART: The reduction to gas costs at -- as a result of our hedging activities in the 2005/'06 timeframe is a $47 1/2 million reduction to customers' gas costs.

MR. ERIC HOAKEN: All right. And then going forward into the current year could you just take me through again, and I'm sorry, could you take me through where we stand thus far in the year as to the addition or reduction?

MS. LORI STEWART: Certainly. To November 30th, 2006, thus for the timeframe of April 1st, 2006, to the -- to November 30th, 2006, there has been a realized addition to customers' gas costs of $42.3 million dollars.

MR. ERIC HOAKEN: Okay. That was the figure I had. Thank you.

And then in addition to that sum, the realized addition, there is a figure that you've quoted as being an unrealized addition, is that fair, that may vary? I appreciate it may vary but there is something else out there that you projected?

MS. LORI STEWART: Yes, I don't believe we've ever put the -- the unrealized forecast specifically on the record, however, it is certainly imbedded in line 12 which is -- is at that point in time forecasting a $77 million addition to customers' gas costs, some portion of which was realized at that point in time and another portion of -- of that was unrealized at that time, recognizing, however, that on a daily basis that value is changing.

MR. ERIC HOAKEN: Okay. Thank you. So understanding that that sum on line 12 then represents a forecast, has Centra done any forecasting of what I might call a worst case scenario of what the hedging losses might be for this period once the positions are settled and realized?

MS. LORI STEWART: Yes, we conduct that type of confidence analysis on a weekly basis.

MR. ERIC HOAKEN: All right. And what is your present analysis as to what the outside limit of the hedging losses could be for this year?

MS. LORI STEWART: Certainly. We can undertake to provide the range of potential outcomes recognizing that, you know, the -- I guess you're statement implied that there's a certainty that there will be losses in the year and --

MR. ERIC HOAKEN: No, and I don't mean to imply that. I just mean, do you do any planning that says, you know, I think I -- I characterized it as disaster planning, but any planning where you say, In no scenario that we can foresee is our hedging loss for this year, if we in fact sustain one, going to be more than 'X'?

MR. BRENT SANDERSON: It's not possible, Mr. Hoaken, to be able to say with absolute certainty in any case that the addition or reduction to gas cost on -- on a forward-looking basis will not be any worse than any -- any parameter; that's impossible for anyone to say.

We can provide a reasoned determination as to what one might characterize as a worst case -- a likely worst-case scenario, but that does not imply that it cannot be any worse or better than one or the other.

MR. ERIC HOAKEN: Right. And so what I hear you saying, Mr. Sanderson, is that although you can, and I take it do, engage in this analysis of a likely worst-case scenario, you wouldn't want anyone seeing that number to say that you were warranting or representing that the number could not be higher than that.

MR. BRENT SANDERSON: Well, there's a -- a field of study -- or for want of a better term -- called value-at-risk analysis and that's the widely accepted methodology by which to develop scenarios or outcome scenarios surrounding a hedge portfolio or a portfolio of financial instruments. And we use those -- we adhere to those practices in our operations and we prepare value-at-risk and credit value-at-risk scenarios on a weekly basis based on dealer market survey, which is objectively acquired data.

And so it's -- it mirrors what, for example, the same methodologies that would be employed by the derivatives dealers with whom we conduct business.

MR. ERIC HOAKEN: And I don't want to ask for an undertaking for those analyses but could I get an undertaking for your assessment, Centra's assessment, based on those analyses, your current assessment of what, as you put it, Mr. Sanderson, is the likely worst-case scenario for hedging losses in this year?

MR. BRENT SANDERSON: We would be able to provide you with our most recent figure, keeping in mind that like everything involved in these matters, that that changes from week to week. But we can give you our most recent assessment based on objective market data.

MR. ERIC HOAKEN: All right. Thank you. I'll take that undertaking.

--- UNDERTAKING NO. 10: Centra's to provide Mr. Hoaken current assessment of likely worse-case scenario for hedging losses this year. (Answered on page 902)

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Do you, by chance, happen to know off the top of your head what it is or what the range is?

MR. BRENT SANDERSON: Because it is so variable, I haven't seen this week's number, so, no, I don't -- can't give you a number.

MR. ERIC HOAKEN: All right. Thank you.

Now, I'd like to go back -- and I do this with some trepidation -- to the market research you and I discussed yesterday, Ms. Stewart.

I made a note when you were testifying in response to Mr. Peters I think, you said -- this is my note and you can tell me if I've got it right -- you said something like, as a preface to one of your answers, you said, Recognizing that market research is anything but definitive.

I mean, is that an accurate summary of what you said or how you characterized market research?

MS. LORI STEWART: Fairly accurate. I think I was attempting to recognize that the field of market research is not a science.

MR. ERIC HOAKEN: Right. And I think you said, quite fairly, you said that people can always question what the approach has been or what the specific question have been, those sorts of things.

MS. LORI STEWART: Yes, I've experienced it.

MR. ERIC HOAKEN: Right, yes, and are about to.

And you agree, I take it, that in order to be of value market research has to be fair and balanced.

MS. LORI STEWART: Yes, I do.

MR. ERIC HOAKEN: And it -- it has to involve broad consultation, not just from those who may have a vested interest in the outcome or the answers but others.

MS. LORI STEWART: Could you repeat your question, please.

MR. ERIC HOAKEN: Sure. That in order to

be of value the market research has to reflect just not the interests of the parties seeking the answers, who may have a vested interest in the answers, but the interests of other parties and constituencies?

MS. LORI STEWART: In this particular case, Mr. Hoaken, the Utility is hedging on behalf of consumers and I -- I would suggest that we don't have a vested interest in the parameters of the hedging program.

What we're attempting to do is to represent or structure a hedging program that will deliver a result that is in the interests of our consumers as expressed by our consumers.

MR. ERIC HOAKEN: Now, if I could turn you to -- we're back on PUB-55 which is the market study, the Western Opinion, and if I could ask you to turn to page 57, I think it's found in several places, but this is -- now, this is the statement, as I understand it -- sorry, have you got it?

(BRIEF PAUSE)

MS. LORI STEWART: I've got page 57.

MR. ERIC HOAKEN: Okay, and on page 57, there's a portion in bold that says, "Hedging Program". And if I understand how this questionnaire was performed, Ms. Stewart, there was a preliminary question which we can go to if we need to, where people were asked about their familiarity with the fact that Centra hedges?

MS. LORI STEWART: There were a number of preliminary questions that led up to the description of the hedging program.

MR. ERIC HOAKEN: All right. And as I understand it, and Ms. Saxberg touched on this in his cross-examination, only, I believe, 19 percent of respondents said that they were aware that Centra engaged in tactics or measures designed to stabilize the rates.

Is that a correct understanding?

MS. LORI STEWART: Yes, it is.

MR. ERIC HOAKEN: And as Mr. Saxberg pointed out, of that 19 percent, only 7 percent of those were aware that Centra engaged in hedging activity.

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: And so what I take from that is that the overwhelming majority of respondents had no knowledge, at least had no knowledge prior to being contacted about this questionnaire, of the hedging program or the way in which it was conducted, is that fair?

MS. LORI STEWART: Yes.

MR. ERIC HOAKEN: And so in order to

answer subsequent questions that were designed to test or assess their support for the hedging program, they had to be provided with some information, right?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: And the information that they were provided with is this bold portion on page 57, correct?

MS. LORI STEWART: In addition to some precursor questions that generally relate to the topic.

(BRIEF PAUSE)

MR. ERIC HOAKEN: Okay. Could you just flip back, then tell me which questions you would consider to be precursor questions which would give a respondent who is otherwise unaware of hedging or what it consisted or, would give him or her information upon which to base subsequent answers?

MS. LORI STEWART: I'm not sure that there are specific questions. I'm just making it clear that there was a preamble or several precursor questions to the description of the hedging program.

MR. ERIC HOAKEN: Okay. Could you just show me where that is?

MS. LORI STEWART: Well, there are nine

(9) questions that precede the description of the hedging program.

MR. ERIC HOAKEN: Right. So you're looking at pages -- starting on page 55?

(BRIEF PAUSE)

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

MR. ERIC HOAKEN: Okay.

(BRIEF PAUSE)

MR. ERIC HOAKEN: All right. I'm not seeing anything in those questions, and maybe I'm just missing it because I'm reading this quickly, but I'm not seeing anything that provides any information to the respondent about the hedging program.

Am I missing something?

MS. LORI STEWART: I don't think you're missing anything at all, Mr. Hoaken. I'm simply making sure that everyone understands that the telephone survey did not start with a description of the hedging program. There were a number of preliminary questions about the general topic of, for example, price fluctuation that led into the description of the hedging program.

MR. ERIC HOAKEN: Right. And I certainly understand that. And those questions, culminated with question 9 on page 57 which is the one that we've already talked about where people were asked -- they were asked about their awareness of measures designed to deal with volatility?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: All right. And the first place then that hedging -- that shows up in this questionnaire as a topic of discussion is after respondents have been asked about their awareness and have given their answers.

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

MR. ERIC HOAKEN: And I'm simply suggesting to you that then the information that people who were up to question 9, unaware of hedging, the information then that they used to answer subsequent questions about their level of acceptance of hedging was based exclusively on the portion that's in bold on page 57?

MS. LORI STEWART: That's fair enough.

MR. ERIC HOAKEN: All right. Thank you. And I take it you'll agree with me that there's no reference in this bold portion to the fact that one (1) alternative that consumers could pursue in order to deal with volatility -- bill -- bill or rate -- well, rate volatility, I suppose, is to contract with brokers.

MS. LORI STEWART: No, there's no reference to that.

MR. ERIC HOAKEN: Right. And you'll agree with me that if -- and I take it you'll agree with me that had there been reference in this informational piece to the fact that there were other measures available to ratepayers to deal with volatility, the answers to some of the subsequent questions about their acceptance of the hedging program may well have been different?

(BRIEF PAUSE)

MS. LORI STEWART: Mr. Hoaken, I don't think that the broker community would view favourably Centra surveying customers and then describing broker programs to customers because no doubt there would be a disagreement about how that was represented.

MR. ERIC HOAKEN: Well --

MS. LORI STEWART: So what Centra did in its market research was to describe the program that it operates and that it controls to its customers.

MR. ERIC HOAKEN: All right. You've

answered a question that I didn't ask but I will come back to that. But let's just stick with my question for a minute.

You'll agree with me that had there been reference in this informational piece to other steps that consumers could take to deal with volatility, their answers to the subsequent questions about their acceptance of the hedging program may well have been different?

MS. LORI STEWART: I -- I don't know whether that's the case, Mr. Hoaken, and, no, I don't -- won't agree with that statement.

MR. ERIC HOAKEN: So -- so you're -- you're not even acknowledging that there's a possibility that the answers may have been different?

MS. LORI STEWART: I'm saying I don't know. I can't know that.

MR. ERIC HOAKEN: You can't know one way or the other?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: Right. And just back to your point, I quite agree with you, and that was the point I was making in my earlier question about consultation. I take it Centra made no effort to consult with the broker community in formulating this questionnaire, is that correct?

MS. LORI STEWART: I think that the brokers have a very vested interest in how Centra's Derivatives Hedging Program is -- is formulated, is relayed to the marketplace, and I don't think that two (2) parties collaborating on this particular issue would make any sense.

MR. ERIC HOAKEN: All right. So you didn't answer my question though. I -- I take it from your answer you're agreeing with me that there was no effort made by Centra and you've now just told me the reason no effort was made, correct?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: And in this informational piece there's reference to the hedging program having the potential to increase gas costs in the order of 1 to 2 percent, and you've already talked about that I think with Mr. Saxberg, but I take it you'll agree with me that if there was reference, if you did the survey today and made reference to the hedging experience in the current year, the answer or at least answers to the subsequent questions again might well be quite different.

MS. LORI STEWART: The long-term costs of the program wouldn't -- the description of the hedging program and its long-term costs wouldn't change in last year or this year.

MR. ERIC HOAKEN: All right.

MS. LORI STEWART: Both periods were -- there was a significant variation in the ultimate outcome in terms of short-term reductions or additions to customers' gas costs.

MR. ERIC HOAKEN: I'm not even quibbling with that for the purposes of this question, I'm simply suggesting to you that if you reference the specific experience in this year that involves losses that you've said are at this point in the order of $42.3 million, you might well expect that respondents would have the lower level of support for hedging, is that fair?

MS. LORI STEWART: I wouldn't specifically reference the reduction to customers' gas cost of $47 1/2 million last year, nor would I reference the addition to customers' gas cost experienced today because that would be very misleading to the consumers.

We've discussed how the short-term gains and losses of a hedging program aren't an accurate performance -- and accurate measure of performance.

MR. ERIC HOAKEN: Now, what you -- you told me a moment ago, as I understood it, was your reason for not referencing brokers in that informational piece, was that you didn't -- and I -- I'm paraphrasing and if you don't agree you can tell me, but -- you didn't think you could formulate it in a way that they would find acceptable.

Is that more or less it?

MS. LORI STEWART: The Corporation was describing one of its programs to consumers. We didn't attempt to describe other alternatives in the marketplace because this survey was focussed on a program operated by Centra Gas Manitoba.

MR. ERIC HOAKEN: Well, if that's the case, then why does the survey specifically address the ability of brokers to deal with so-called drastic ups and downs of prices?

MS. LORI STEWART: We wanted to gain a general understanding of all of our consumers, because at any given point in time a consumer may be contracted with a broker for a fixed timeframe. However, that consumer may migrate back to system supply or may be migrating away from system supply to brokers.

MR. ERIC HOAKEN: Now, you -- you've told me already that the survey demonstrated that 81 percent of respondents were unaware of any of the measures that Centra was taking to deal with volatility, correct?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: And for that reason, as we've already looked at, you had to arm them with some specific information about hedging so that you could then go on and ask them more specific questions about hedging, correct?

MS. LORI STEWART: That's correct.

MR. ERIC HOAKEN: And is it fair to say that if consumers were unaware of the steps that were being taken by Centra to deal with volatility they would similarly be unaware of steps that brokers were taking to deal with volatility, correct?

Is that a reasonable assumption?

MS. LORI STEWART: No, I don't think it is at all. The broker community, I believe, invests a fair bit in their advertising and marketing campaigns.

MR. ERIC HOAKEN: All right. Well, you had some pretty compelling information in the survey to suggest that your respondents were quite unaware of what brokers were doing, isn't that fair?

MS. LORI STEWART: We weren't surveying consumers in that regard; that wasn't the focus of or the objective of this market research.

MR. ERIC HOAKEN: Well, I'll come back to that, but the question you ask on page 40:

"Please tell me how you rate those

natural gas providers who are non-Manitoba Hydro affiliated in terms of reducing the drastic ups and downs in natural gas prices for their consumers."

So I put it to you that that was something you were surveying.

(BRIEF PAUSE)

MS. LORI STEWART: Mr. Hoaken, we are in a position where we can't ignore the fact that we have a segment of our customer-base that is contracted with a broker for a fixed-price option -- fixed-price/fixed term option.

And so in a general survey of the consumers about topics such as rate volatility and bill volatility we were questioning consumers on their understanding or their perception of how brokers offerings were delivering or measuring up as it relates to bill and rate volatility, so the overriding topic, bill and rate volatility with a specific focus on the Derivatives Hedging Program.

MR. ERIC HOAKEN: Right.

MS. LORI STEWART: We also surveyed

customers about the equal payment plan with regard to this particular survey, again, because there's a relationship between the equal payment plan and the topic of bill volatility, just like there is a relationship between consumers' perceptions about the success of broker offerings in mitigating volatility to the topic of bill and rate volatility.

MR. ERIC HOAKEN: But one (1) of the objectives was to compare or purport to compare the level of satisfaction of consumers with the measures that Centra was taking with the level of satisfaction they had with what brokers were doing, correct?

MS. LORI STEWART: No, Mr. Hoaken.

MR. ERIC HOAKEN: Well, why else would you ask the question then? I -- I fail to under --

MS. LORI STEWART: We were surveying the general landscape as it relates to the topics of bill and rate volatility. I just suggested to you that the equal payment plan was one of -- another program or offering in the general landscape as it relates to the topic of bill and rate volatility. Another offering in the general landscape is brokers' fixed-price/fixed term offerings.

MR. ERIC HOAKEN: Right. But you were asking consumers to tell you their level of satisfaction with what brokers were offering in terms of dealing with ups and downs in the rates, correct?

MS. LORI STEWART: Mr. Hoaken, I can tell you that the focus of our survey and the outcomes of our survey were surrounding the description of the hedging program and those perceptions or preferences as it relates to more hedge protection, the status quo, or less hedge protection.

So when I received the survey results back from our -- our market research consultant I looked at the answer to this question as it relates to brokers and the equal payment plan and sort of went, Oh well that's interesting, however, that's not what -- why I conducted the survey.

I conducted the survey more specifically to gain an understanding of our consumers' preferences and whether or not the Derivatives Hedging Program specifically was meeting their general preferences or needs for price protection.

MR. ERIC HOAKEN: Who did the survey design -- I'm sorry, who did the survey design?

MS. LORI STEWART: A number of folks at Centra Gas Manitoba with -- in consultation with Western Opinion Research. Western Opinion Research, the experts at this, helped to drive the -- the form and content of the survey.

MR. ERIC HOAKEN: And did you know before the survey started that this question on page 40 was going to be asked?

(BRIEF PAUSE)

MS. MARLA MURPHY: I take it you're asking about not immediately before the survey began but in the beginning of the process?

MR. ERIC HOAKEN: That's right. That's right.

MS. LORI STEWART: No. In our general discussions with -- with Western Opinion Research they were asking us prompting questions about, Well what are the related topics to the Derivatives Hedging Program, and that's where things like the equal payment plan came up or the distinction that in Manitoba consumers have the option to purchase a fixed-price/fixed term contract from a broker.

But, however, no, at the beginning of the process, other than those prompting questions from the -- the research consultant, which is meant to ensure that we don't -- that we don't, in isolation, miss some other piece of information that is peripheral to the main topic.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Do I understand you -- sorry, so do I understand you to say, Ms. Stewart, that before there were telephone calls to residents of Manitoba who were being asked these questions, you did not know and Centra did not know that one of the questions they were going to be asked was the question on page 40?

Is that what you're telling us?

MS. LORI STEWART: No, not at all. I thought Ms. Murphy had clarified that your question was related to; at the beginning of this process did I know whether or not this specific question would be asked and the answer is, no, I did not.

MR. ERIC HOAKEN: All right. I may have misunderstood what -- well. So now we have the answer, that certainly before the survey had commenced and respondents were asked questions, you knew that this question on page 40 was going to be asked?

MS. LORI STEWART: Yes, I did.

MR. ERIC HOAKEN: All right. And you would want to ensure -- I mean, you -- you're asking the question presumably because you think it will yield some useful information, correct?

MS. LORI STEWART: Some useful

information about that general landscape of the topic of the survey, bill and rate volatility.

MR. ERIC HOAKEN: Right. And did it cross your mind that in asking questions in the survey about consumers' levels of satisfaction with the steps that Centra was taking to manage volatility and by asking questions about the satisfaction with steps that the brokers were taking to deal with volatility, that some people might read it as a comparison?

MS. LORI STEWART: No, I didn't.

MR. ERIC HOAKEN: It didn't cross your mind?

MS. LORI STEWART: No.

MR. ERIC HOAKEN: And I take it that quite apart from that, you'd agree with me, that in order for this information to be of any use to you, that is the answers to this question on page 40, it would have to be a fair and balanced question, right?

MS. LORI STEWART: Yes.

MR. ERIC HOAKEN: And you'd have to be satisfied that respondents had a sufficient amount of information to answer the question, correct?

(BRIEF PAUSE)

MS. LORI STEWART: I guess respondents always have the option of saying, I don't have enough information to ask that question. I know, personally, I say that often on a customer survey if a question is posed to me that I don't have sufficient information to answer, that's exactly what I tell the market research firm.

MR. ERIC HOAKEN: All right. Do you know what the thinking was in the survey design, because on page 57, as we've already discussed, there was an effort made to educate the respondents so that they could answer the question.

Do you understand or, excuse me, do you know why there was no effort made to educate the respondents so that they could then answer this question on page 40?

MS. LORI STEWART: It wasn't the focus of the survey, Mr. Hoaken.

MR. ERIC HOAKEN: All right. Now, you told us, I think yesterday, that the market research -- that you're planning to do more market research in 2008, is that right?

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

MR. ERIC HOAKEN: And -- and is there any reason that you're waiting until 2008, is there any sort of magic behind this sequence?

You've done it in 1998, you did it again in 2004 and you're waiting now four (4) more years to 2008; is there any -- I mean, what's the thinking behind that, I guess is my question?

MS. LORI STEWART: The thinking behind it is that market research comes with a price tag and that we should not necessarily be prepared to spend that money on com -- on so frequent a basis that we weren't getting value for it. And I indicated previously that one of the reasons that we did feel the need to go back to the market in 2004 is that there was a fundamental shift in the natural gas market between 1998 and, I would suggest, 2001.

And at that point in time, I'm not sure that anyone in 2001 recognized that, but certainly as time went on in 2002/2003, we could see that the former price environment that we were in had -- had shifted or changed and it seemed to be a permanent trend, so as a result that was one of the reasons why we did go forward in 2004.

There hasn't been a material shift in the market place since 2004. It just seems like a reasonable time to check back in with consumers.

MR. ERIC HOAKEN: All right, thank you.

And just on the price tag point, as I understood Mr. Warden, there is a plan to do, I took it to be market research, I think in fairness to you you said research, on a fixed-price option and what I'd understood you to say, Mr. Warden, was that that is going to be done some in 2007; I understood early in 2007.

Am I right about that?

MR. VINCE WARDEN: Well, I hate to be the one to give you a yes/no answer, but, yes.

MR. ERIC HOAKEN: I'm delighted to get yes/no answers, Mr. Warden.

And so just on the price tag point then, could either one of you just help us understand why it is that those two (2) initiatives are going to be done separately?

It seems to me at least that it might be done logically together as part of the same effort to test the needs and wants of consumers.

(BRIEF PAUSE)

MS. LORI STEWART: There is some -- some not insignificant level of complexity related to the topics that we're discussing and as a result at this time the Corporation does intend to connect those survey initiatives separately and distinctly. We believe that it may be more difficult to keep this -- the survey -- the focus of this survey discreet if we were attempting to include again a description of, for example, a hedging program and general parameters with the concept of a fixed-price option.

MR. ERIC HOAKEN: In -- in forming that conclusion has Centra received the benefit of advice and expertise from consultants such as Western Research or others?

MS. LORI STEWART: No, we haven't contracted with market research consultants for either of these initiatives at that point. And certainly in the process of engaging that consultant and commencing discussions with that firm, if there's some strong direction from the consultant that these initiatives should be combined, that's something that we're open to, however it's not the plan at this point.

MR. ERIC HOAKEN: Right. And is that something that Centra will ask the consultant and specifically seek advice on the -- seek advice from the consultant on?

MS. LORI STEWART: We will now.

MR. ERIC HOAKEN: Thank you. And just back to you, Mr. Warden, if I may, you had answered the questions earlier about the research that's being done on the fixed-price option, and could you just help us understand why, because I'd understood from our discussions thus far that market research might be Ms. Stewart's bailiwick, so why is it that you have involvement in this effort that's being made with respect to the fixed-price option?

MR. VINCE WARDEN: Well, I have certain executive responsibilities at Manitoba Hydro, one (1) of which ie executive responsibilities for the area to which Ms. Stewart reports, so the market research -- research that we are contemplating certainly wouldn't be done independent of Ms. Stewart and she would be totally involved in the process.

MR. ERIC HOAKEN: All right. Has an RFP gone out thus far for a consultant to do that?

MR. VINCE WARDEN: No, it has not.

MR. ERIC HOAKEN: And I take it you'd agree with what Ms. Stewart said earlier in answer to my question; she agreed that in order to be of value, market research has to be fair and balanced?

MR. VINCE WARDEN: I would agree with that.

MR. ERIC HOAKEN: And I take it you'd agree that it's important especially when canvassing an issue like a fixed-price option that the respondents are given enough information about what Ms. Stewart has characterized, and I agree, is a fairly complex area.

MR. VINCE WARDEN: Mr. Hoaken, I didn't really indicate that we would be taking a survey to the marketplace on fixed-price offerings, specifically. I indicated, I think, that we had done a considerable amount of internal research on that subject and that we would -- before we go -- come to a conclusion as to what direction we would go we would take some -- we would take a survey of our -- of our customers to determine what their preferences are. But whether or not that survey will be structured around a fixed-price offering I -- I did not say that.

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

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

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

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

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

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

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

MR. ERIC HOAKEN: All right. Thank you very much.

MR. BRENT SANDERSON: Whenever the schedule allows, I have a response to Mr. Hoaken's undertaking which he assigned to me a short while ago. Whenever it pleases the Board I can share that information.

THE CHAIRPERSON: We'll wait. We've reserved time for that.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Now, just back to you,

Mr. Stephens. You said in cross-examination yesterday, I believe it was under cross-examination from Mr. Saxberg, you said something I just wanted to follow up on, you said that -- and I've got a note here I'm trying to read, but -- you said that it's puzzling to you that customers choose a fixed-price product, and I take it you're referring to a contract with brokers, puzzling to you that they choose that in circumstances where their bill is still going to vary because of the weather.

Is that a fair summary of what you said?

MR. HOWARD STEPHENS: That's a fairly accurate --

MR. ERIC HOAKEN: Okay.

MR. HOWARD STEPHENS: -- description, sure.

MR. ERIC HOAKEN: And I must confessed that I'm puzzled why you're puzzled, because I take it you'd agree with me that, and we've talked about this ad nauseam, there are two (2) types of volatility; we've got bill volatility and rate volatility, right?

MR. HOWARD STEPHENS: Correct.

MR. ERIC HOAKEN: And if a customer goes and contracts with a broker, he or she is basically covering off -- if I can put it that way -- the rate volatility, correct?

MR. HOWARD STEPHENS: That's correct.

MR. ERIC HOAKEN: And your point, I take it, was that that customer would still be exposed to bill volatility that was driven by seasonal variations.

MR. HOWARD STEPHENS: Especially in this market, given this wide variations in weather.

MR. ERIC HOAKEN: And I've experienced that over the last four (4) days.

But I take it you'd agree with me that if that consumer found that remaining level of volatility unacceptable, he or she could simply sign up for the equal payment plan?

MR. HOWARD STEPHENS: And that makes much more sense to me from a perspective if you're looking for consistency in your bill on a month-to-month basis so you can budget for it, that that would make much more sense than just trying to manage one (1) aspect of the total bill volatility.

MR. ERIC HOAKEN: Right. But if somebody -- so if a system gas customer signs up for the equal payment plan, he or she is covering off the bill volatility but is still exposed to rate volatility, correct?

MR. HOWARD STEPHENS: That's right.

MR. ERIC HOAKEN: And so the advantage of

that consumer -- the advantage then to that consumer of signing up with a broker is that that remaining bit of rate volatility is then taken care of, correct?
MR. HOWARD STEPHENS: You're going to have to give that to me again.
MR. ERIC HOAKEN: Sure.
MR. HOWARD STEPHENS: I was thinking about something else, I'm sorry.
MR. ERIC HOAKEN: Sure. I think you agreed with me that the customer who signs up -- the system gas customer who signs up for the equal payment plan takes care of or covers off, to use the expression I've been using, the bill volatility, right?
MR. HOWARD STEPHENS: I -- I would characterize it as covers off the weather component of the bill volatility.
MR. ERIC HOAKEN: All right, fair enough. And then the remaining -- now, let me make sure I get this right -- the remaining portion of the bill volatility would be rate related, is that right?
MR. HOWARD STEPHENS: Right. Which is directly related to price.
MR. ERIC HOAKEN: Exactly. And that remaining volatility, in this scenario I'm giving to you, is covered off by that same consumer signing up with a

broker.

MR. HOWARD STEPHENS: That's a possible scenario, that the broker -- or a customer could sign up with a broker for a fixed-price offering and then take advantage of our equal billing plan.

MR. ERIC HOAKEN: Right, because the two (2) are not mutually exclusive.

MR. HOWARD STEPHENS: That's right.

MR. ERIC HOAKEN: Now, finally a question I think for you, Mr. Warden and I -- I think it was you who said this but it may have been Ms. Stewart, I'm not sure. This was from, I think, yesterday.

And one of you said words to the effect that rate increases can aggravate seasonal variations. Now, stopping there, does that sound familiar?

MR. HOWARD STEPHENS: It doesn't sound familiar to me. I -- sorry, I would like to make an additional comment with respect to the prior question and that is, customers end up in the scenario that we -- that we painted, where a customer elects to go to a broker fixed-price and pay a premium for price protection and then engage -- and applies for the equal payment plan, that makes much more sense to me than a customer going to a fixed-price offering, which has a premium embedded in it, justifiably so because of the risk being shed, but there's an expectation I think on the part of that customer that they're going to see much less -- less in terms of volatility on -- on their bill, and I don't know that that expectation is necessarily met in all cases.

MR. ERIC HOAKEN: And you're speaking of the situation where the consumer has signed up with the broker but not also for the equal payment plan?

MR. HOWARD STEPHENS: That's correct. Now, to your second question, you'll have to give it me again.

MR. ERIC HOAKEN: Right, and I had thought, and I don't appear to be ringing any bells, does that familiar to you, Ms. Stewart?

MS. LORI STEWART: Well, the paraphrasing isn't -- isn't quite correct. If I recall my testimony correctly I was suggesting that, for example, last November that consumers would have been in a position in the absence of the hedging program of having a three (3) month window, a fairly high consumption three (3) month window, the months of November, December and January.

They would have had the compounding effect of a potential 33 percent rate increase in the event -- in the absence of the hedging program.

MR. ERIC HOAKEN: Okay, and what I had understood from a comment that I have inaccurately paraphrased, yet again, apparently, was that you were saying that there's always going to be seasonal variations that consumers are going to see on their bill.

We're speaking, obviously, of consumers that don't have the equal payment plan, correct?

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

MR. ERIC HOAKEN: And that those variations will be magnified if there are contemporaneously rate increases?

(BRIEF PAUSE)

MS. LORI STEWART: I think a fair statement would be that the higher the rate increase is -- sorry, the higher -- just hang on.

MR. ERIC HOAKEN: And, but -- sure.

(BRIEF PAUSE)

MS. LORI STEWART: Forgive me. I've got two (2) opinions, sometimes differing, coming into each ear.

The higher the rate, the greater the impact on the consumer in terms of the bill.

MR. ERIC HOAKEN: All right. So, let's

just start with the basic proposition is that any rate increase at all is going to aggravate or magnify the seasonal variations that consumers are going to have to deal with and your point is, the greater the rate increase that's occurring, the greater the potential to then magnify that impact?

And, I'm sorry, you had...

MR. BRENT SANDERSON: I can probably --

MR. ERIC HOAKEN: Oh, okay.

MR. BRENT SANDERSON: -- deal with it, Mr. Hoaken. It's not an issue of rate increases. You cannot make the statement that the larger a rate increase the more variable the customer's bill would be.

MR. ERIC HOAKEN: And --

MR. BRENT SANDERSON: I would not agree with that statement. What I can say and what I will agree with is the larger the -- the higher the rate, all other things being equal, the larger the magnitude of seasonal swings in a customer's bill, period. It's not an issue of rate increases or decreases.

MR. ERIC HOAKEN: Okay. And the converse would obviously then be true as well, that the lower the rate, the less the impact?

MR. BRENT SANDERSON: The lower the rate, the less the absolute magnitude of seasonal swings in a customer's bill.

MR. ERIC HOAKEN: All right, thank you. I thank the panel for their patience and good humour. Those are all of my questions.

THE CHAIRPERSON: Thank you, Mr. Hoaken. Do you want to receive Mr. Sanderson's response now?

MR. ERIC HOAKEN: Yes, thank you.

MR. BRENT SANDERSON: You had requested what was the worst-case addition to customers' gas costs during the current fiscal year once we consider settled hedge results and forward looking unsettled hedge results, and so I'm able to provide that based on our most recent analysis prepared as of the market close on Friday, November 17th.

Later this week, we'll be preparing a more up to date analysis based on last Friday's market close, but the people who work on that are tied up in this proceeding right now, so we don't have numbers based on last week.

As of the end of November 2006, our settled hedge results indicate, in addition to customers gas costs, of $42.3 million for the fiscal year to date, and then if we develop a, for want of a better term, a worst case likely scenario for the remainder of the fiscal year, and this is based on expectations for potential volatility in the market as embedded in option prices, so it's subjective market data.

The worst case, likely further addition to natural gas costs over the remainder of the fiscal year, would be $55.8 million and that's to a 95 percent confidence level. So what that statement means is that only in 5 percent of circumstances would it be expected to be any worse than that.

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

MR. ERIC HOAKEN: All right. Thank you very much, Mr. Sanderson.

THE CHAIRPERSON: Thanks again. So we'll move on now to energy savings.

Ms. Ruzycki...?

CROSS-EXAMINATION BY MS. NOLA RUZYCKI:

MS. NOLA RUZYCKI: Thank you, Mr. Chair, Board Members, and good morning to the Panel.

I think the lion's share of my questions are going to be directed to Mr. Stephens.

MR. HOWARD STEPHENS: Somehow Mr. Stephens had a feeling.

MS. NOLA RUZYCKI: A hunch that that

might be the case?

The first few questions are just clarifications of the process you will be following. And I'm wondering if you could please clarify the process to be followed should Centra decide to renew the Nexen contract.

And what I'm looking for here is an indication of whether Centra will be bringing the agreement to the Board prior to the execution of the agreement or after the agreement has been executed.

(BRIEF PAUSE)

THE CHAIRPERSON: While they're conferring I thought I'd just run through our understanding of the remainder of the day.

After Ms. Ruzycki has completed her cross-examination, our expectation is we would go around the room and ask if there's any other questions of the Panel with respect to undertakings that were outstanding. After that we would provide Ms. Murphy an opportunity to re-direct back to her Panel if she so chooses.

After that we would move on to Mr. Saxberg and his witness with the direct examination or testimony and then followed by examination of Mr. Pringle.

And on the cross-examination of Mr. Pringle we would start with Direct, then go to Energy Savings, then move to Centra and then the Board usually bats cleanup on the Intervenor witnesses.

And then after that we would allow Mr. Saxberg an opportunity to re-direct on Mr. Pringle and at that stage of the game, short of any surprises, we would adjourn to closing statements on next Wednesday. We'll give you a chance to think on that.

Ms. Ruzycki, are there other questions you could pursue that would give them a chance to think on this --

MS. NOLA RUZYCKI: Sure.

THE CHAIRPERSON: -- and they could come back after they have a chance to --

MS. NOLA RUZYCKI: Maybe Mr. --

THE CHAIRPERSON: -- confer during a break.

MS. MARLA MURPHY: Sorry, Mr. Chairman, there's -- Mr. Sanderson answered a portion of the undertaking that was given a moment ago regarding the range of the potential outcomes for hedging and noted after he'd turned off his mic that he'd only answered half of it so he does have the other half to conclude. Perhaps he could put that on the record at this point and --

THE CHAIRPERSON: Sure, please.

MS. MARLA MURPHY: -- we can carry on.

MR. BRENT SANDERSON: Mr. -- Mr. Hoaken asked based on our value at risk analysis what's the range of worst or best case potential outcomes for the current fiscal year and I only gave you the worst case likely scenario.

The flipside to that equation to the same level of confidence, a 95 percent confidence level, would be a forward-looking reduction to customers' gas costs of $29.2 million based on our unsettled instruments so our -- for want of a better term our best-case likely scenario for the current fiscal year would be a net -- a net addition to customers' gas costs of $13.1 million 95 percent of the time, in 95 percent of potential outcomes.

MR. ERIC HOAKEN: I'm sorry, can I just get that figure again -- twenty-nine (29)...?

MR. BRENT SANDERSON: A $29.2 million reduction to customers' gas costs for the December '06 through March '07 period.

MR. ERIC HOAKEN: Right. Thank you.

THE CHAIRPERSON: Thank you. Do you choose to respond now or would you --

MR. HOWARD STEPHENS: I now have a

response, sir.

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

CONTINUED BY MS. NOLA RUZYCKI:

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

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

MS. NOLA RUZYCKI: Okay. Thank you for that.

Now, does Nexen's renewal provision allow for changes to the contract effective November 1st, '07? And if it does, are there areas that must remain the same? Are there restrictions to that?

MR. HOWARD STEPHENS: Well, the -- the contract really talks about renewal upon mutual agreement, which, from my perspective, implies that there is the potential for terms to change as long as we mutually agree. And that is the way we are proceeding.

MS. NOLA RUZYCKI: Terms. But is there also renegotiation to other areas of the terms and conditions --

MR. HOWARD STEPHENS: Yes.

MS. NOLA RUZYCKI: -- allowed?

MR. HOWARD STEPHENS: Definitely.

MS. NOLA RUZYCKI: Okay. Okay. Now, with respect to the energy environmental analysis report, Mr. Stephens, you indicated yesterday that the report would be filed with the Board in February of '07, and you also stated that you'd be providing brokers and interested parties with a copy of the report.

I'm just wondering if you anticipate that all parties would receive the -- the report at roughly the same time frame?

MR. HOWARD STEPHENS: I believe so. I'm sorry.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I'm advised -- I was going to give you a commitment that I was going to get myself into trouble with -- I'm advised that we typically file that type of report with the Board and they -- they will provide us direction with respect to that.

MS. NOLA RUZYCKI: Thank you. On Tuesday you may recall that Mr. Peters asked you if you had checked with the broker community regarding any interest there might be with respect to paying for load-balancing services, to which you responded no.

And I'm wondering if you could just explain why Centra has not approached the broker community to date with any type of proposal for load-balancing component of the Western Transportation Service and if you have plans to do so in the future.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: I don't recall the broker community requesting the provision of load-balancing services. And in that regard though, I mean, we don't really have the capability to provide load-balancing services as our system stands right now, and that's why we have to go through great hoops in terms of trying to provide different supplies to manage the overall load within the system.

So to the extent that -- I guess there is a situation where I can -- I could imagine, not having --

not having thought it through completely, but we could, I guess, contract for more swing service to accommodate the swings associated -- that brokers would otherwise be forced to manage, but it has a whole host of ripple effects in terms of how we balance then your annual volumes if we're using other volumes to manage day-to-day swings, et cetera. It become a very, very complicated rat's nest, I would suggest, in terms of how we manage that.

If we had storage it would be a different matter.

MS. NOLA RUZYCKI: Are you -- are you open to sitting down with the brokers to see if there could be some sort of service that could be offered?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: You're really catching me off guard, Ms. Ruzycki, with respect to this because it was not something that was contemplated. As I understood the brokers' position, was that the wanted the ability to control the gas themselves at their own MDQs and then do the nominations in much more -- less frequently.

In order for us to do this on a

sustainable basis, again, we would have to have some sort of load balancing storage to accommodate that type of swing and I -- I mean, there's a significant cost associated with that.

I mean, we do very well now in terms of balancing the load into the system. It may be somewhat painful in terms of the number of re-nominations they have to make, but we've been able to reduce our balancing fees to a mere fraction of what they originally were.

So I don't know why I would want to engage, well, I mean, if the brokers want a balancing service and the only way I can accommodate that is to provide or acquire storage, additional storage, then they're going to be paying the lion's share of the cost of it.

MS. NOLA RUZYCKI: Okay, thank you. I want to come back to part of your response there later in my questions, but I guess you confirmed that Centra would be doing a complete review of future options with respect to storage.

Would you be able to look at something like that within that option? I know we're talking, like, 2013?

MR. HOWARD STEPHENS: Certainly, we will be looking at all of the options available to us and if local storage that provides us with additional load -- load balancing functionality, then certainly we would be in a position to try and accommodate the situation with the brokers in some fashion.

MS. NOLA RUZYCKI: Okay. And when might parties be able to expect an updated report on storage? I know there's quite a significant lead time with respect to storage.

MR. HOWARD STEPHENS: Well, I've been accused of over-committing and under-delivering, so I think I'll do the opposite this time.

By the end of 2008, and then if I give it to you much sooner, then you'll be happy.

MS. NOLA RUZYCKI: Thank you. Does Centra believe it's important to look at the WTS issues and suggestions raised by parties at the August 16th, 2006 meeting and through subsequent comments prior to renewal or replacement of the Nexen contract?

MR. HOWARD STEPHENS: And certainly we took all of the feedback that we received and filed it with or provided it to the consultant and we are dealing with the issues that were addressed to the extent that we can.

I'm not going to say that we're going to give you everything you want, because some of the things you want we may not be able to provide. It's as simple as that.

But certainly we will try to accommodate as many of the requirements of the broker community as we can. They may not be free, however.

MS. NOLA RUZYCKI: One of the suggestions that was put forward by Energy Savings Manitoba Corp was a break down of the components of the nominations to include projection of the current days' consumption; a volume to settle the previous days' consumption and volume to mitigate the overall inventory position to trend the imbalance by the end of the year to zero (0).

Would that be something that you may be open to providing?

MR. HOWARD STEPHENS: I -- right off the top of my head I don't know that that's going to provide you any value because we look at the load in aggregate. For us to break out the one (1) component with respect to the series of contracts that you may have or a certain component of the -- of the marketplace I think will just add an additional level of complexity.

And, as I've indicated, our ability to balance the load has become -- we are very good at balancing the load now.

I mean, I think at one point we were at

the top of the chart in terms of the fees that we had to pay. I think we're now at the bottom of the chart. So -- and we're forecasting the load associated with all of the brokers supply as well as system supply, if you will.

So, from that perspective, I don't know how you're going to improve upon that because a large amount of this relies upon experience with -- with the marketplace and, quite frankly, assessing what the weather's going to do not only on the basis of weather forecasts but looking out to see which -- which way the wind is blowing from and whether the sun is coming out and, I mean, whether there's going to be a full moon tonight.

MS. NOLA RUZYCKI: Perhaps I can explore a little further with you about the inventory positions. I know these -- and maybe I'm paraphrasing this and I don't know that I have it exact, but you stated on Tuesday that if errors existed in the nomination forecast, that they were caused by Centra.

MR. HOWARD STEPHENS: Yes. Because we --

MS. NOLA RUZYCKI: Do you recall that?

MR. HOWARD STEPHENS: -- because we control the gas, certainly, and we make the nominations, then the errors are ours to correct.

MS. NOLA RUZYCKI: Okay. And could you

please confirm that even after implementing changes to the MDQ during the contract year with the goal to trending the yearly imbalance to zero (0), that the inventory positions for the brokers at the end of the year have remained significantly high.

(BRIEF PAUSE)

MR. HOWARD STEPHENS: We've made some improvements with respect to how we handle MDQ changes for specific broker customers. So from that perspective you -- you won't have seen the results of that this year so much as -- but certainly you will see it over the course of the coming winter and when we come to settle up at the end of the gas year.

There -- there were some -- I'll refer to them as glitches within the process that we were using, that we've identified and have improved. So I -- I anticipate that the overhang that you see or the imbalance that you see at the end of the next gas year should be substantially less.

MS. NOLA RUZYCKI: Okay. And I would suggest that for the last two (2) years the imbalance has been significantly high and I guess I'm wondering if you would agree then that Centra had made errors in the nomination process.

MR. HOWARD STEPHENS: No. I don't think it's a matter that we made errors in the nomination process. It's more that we made errors in the calculation of the MDQ's.

MS. LORI STEWART: Just to add some context to that because I -- I'm not prepared to accept the concept that an error was made. The way the system -- the way the service was being provided, the practice had been to only adjust MDQ's on an annual basis. So that previously there were not quarterly changes to the brokers' MDQ's. The MDQ is set for the year and it rode through the year.

And what happen at the end of that annual true up process is there's an election that the broker makes to either roll the financial impacts of the imbalance or role the volumetric imbalance or to cash it out.

And the timing of the service is such that we don't actually receive the numbers to start being able to calculate that annual true up value until about the middle of November. And usually by the end of December we have our annual true up results available, except that we set the MDQ for the forward year on October the 15th of that time frame.

So at that point in time, even if we're forecasting volumetric imbalances, we don't know what the broker is going to elect. Is it going to elect to roll the volumetric imbalance into the forward year or is it going to elect to cash out. And as a result we weren't making a guess in setting the MDQ on October the 15th, as to what the broker would do.

And in the event that the broker rolled the volumetric imbalance, I then had a compounding imbalance in the forward year, which I had -- or which the practice had been to leave, that is not to adjust the MDQ mid-year on behalf of the brokers.

So that's the change that Mr. Stephens has referenced. Whereby last year we also identified -- and, you know, Energy Savings Manitoba Corporation's Gas Supply folks talked with us, expressed their concern with regard to the volumetric imbalance and we saw that one of the solutions was that we could and did have within the terms and conditions, even though it hadn't been our practice, the ability to adjust the MDQ's on a quarterly basis and thereby reduce any forecast volumetric imbalance by adjusting that MDQ on the quarter.

So that's a bit more of an extensive description of the situation that we found ourselves in. We were perhaps trapped by past practice and then based on the outcome for a couple of the brokers in the past year or two (2) we realized that we need to break out of that past practice and simply adjust the MDQ on a quarterly basis as is permitted by the "T's" and "C's".

MS. NOLA RUZYCKI: Thank you. That was helpful. Do -- do your nominations include any component for trying to clear that makeup? Like, on a daily basis is there some component to try and clear the yearly inventory to trend it to zero (0)?

MR. HOWARD STEPHENS: Yes, we -- on a monthly basis during the -- the balancing period we do adjust the nominations to try and bring us more closely back into balance if we have imbalances.

MS. NOLA RUZYCKI: Thank you. And my next -- next question was: Do you think it would be appropriate to set accountability targets with respect to the nomination forecast?

MR. HOWARD STEPHENS: Yeah. I think that the best indicator of our performance is the balancing fees that we incur and if you look at that charts we have a chart within the material some place but it's certainly -- I mean I think we were paying a tenth of what we originally were starting to pay.

In terms of putting an absolute limit to it, I mean given the volatility of the weather in

Manitoba I would be very hesitant to go down that road simply from the perspective that our best efforts could be producing very good results until the last month of the year and if we have crazy weather in October which is very, very possible it could throw the whole thing out the window.

So from that perspective, I don't think that it would be appropriate.

MS. NOLA RUZYCKI: Perhaps I could suggest that your balancing has been -- you've reduced your charges on TransCanada and by doing so the broker's charges have increased because now we end up with large inventory positions at the end of the year which we're clearing and in our case we're clearing them within certain guidelines that we had to clear them immediately and often the market prices may not be acceptable.

So when we're finding out we have an MDQ change, we have to clear our balance at that point. So I'm wondering if you would agree that although your charges have come down significantly that charges to the brokers may have increased?

MS. LORI STEWART: The current terms and conditions of Western Transportation's service which -- which I believe you're familiar with permit the broker to make that election as at the end of October or as at the end of the gas year.

And the terms and concerns of service are actually quite favourable to the broker community because it permits the broker to look at what October settled based on the Canadian gas price for quarter and then make the decision to either cash out the volumes or roll them on the basis of whether or not they can make money based on -- on that October CGPR.

So it's actually a provision in the terms and conditions of service that -- that made sense at the time the service was developed but have -- has over time resulted in a situation where the broker community has quite an advantage in terms of that election and looking at what the October price settled at and making a determination relative to the forward price, whether or not to take the money or roll the volumetric imbalance.

So I -- I guess the -- the -- I -- I think it's important that the Board understand that -- that the -- the brokers have that election option and also that as Mr. Stephens has already put on the record there were some -- I -- I think you referred to them as "glitches" in -- in our process that I believe we've adapted and we'd like to watch that over the next year or so and determine whether or not we've in essence fixed the problem or whether there are additional efforts that need to be made in that regard.

But I -- I believe that our adjustment of the MDQs on a quarterly basis will go a long way to reducing that volumetric imbalance at year end.

MS. NOLA RUZYCKI: Okay. Thank you.

MR. HOWARD STEPHENS: I -- I would just like to add to that. I mean we have, when we develop most of our transportation services, we have tried to provide as good a level of service as we possibly can in terms of allowing the brokers to bring their gas to the market -- to our -- the Manitoba marketplace. I mean, I talked about a bit about that in terms of the T-service customers and certainly the same thing applies to the western transportation service.

And we are finding, after some period of time, that there are areas for improvement and we are making those areas -- those improvements. And we will contemplate other alternatives if you're -- I mean, if they're within our ability to accommodate them, but some of that, I think, is going to be driven out by the generic hearing and what the relative positions of the parties are.

So we'll see in the long run, as to exactly how far we can go with some of this.

MS. NOLA RUZYCKI: Okay, thank you. And

we will also monitor the progress of the quarterly adjustments. I agree that those will help and that's where our concern more, was the quarterly not the clearing mechanism at the end of the year.

So, our management had seen the inventory building up and no changes were occurring, so I believe, you know, that the changes that have been put in place will address the concern.

MR. HOWARD STEPHENS: One (1) final element. If you want to serve in the Manitoba marketplace, I mean, Mr. Sanderson alluded to the fact that are the most sensitive load -- weather sensitive load in North America, so we don't have local storage -- and you've heard the story from me before but I certainly want to get it on the record again.

It's -- it's challenging, to say the least, to try and balance the load on a day to day basis so -- and if you want to serve in this marketplace, I mean, get ready to ride the wild horse.

MS. NOLA RUZYCKI: Thank you for that. Being from Alberta, I have actually rode a number of wild horses, so.

I'd just like to briefly touch now on a different area, that being the enrollments. And perhaps I can tie it in to Mr. Peters had -- you had noted to Mr.

Peters that you had not received any response back to the WTS report of 2005 and I just wanted to relay our comments to you at this point.

MS. MARLA MURPHY: I find this a bit unusual and I'm sorry to interject, but the purpose at this point is to be cross-examining the Panel, so it's rather difficult to have Ms. Ruzycki giving evidence in this format at this point without availing herself or availing me the opportunity to cross-examine if that were the case, so I'm a bit concerned about where this might be going.

CONTINUED BY MS. NOLA RUZYCKI:

MS. NOLA RUZYCKI: Okay, perhaps I can just get some clarifications on numbers, then, and I can go down that road.

The -- for the 3.3 million and the six hundred and sixty-four thousand (664,000), I'm assuming those were yearly figures?

MR. HOWARD STEPHENS: Yes, they would have been.

MS. NOLA RUZYCKI: Okay. And I'm just wondering if Centra had done any calculations themselves on what those rates would actually work out to for the Options 1 to -- for customers of direct purchase?

MR. HOWARD STEPHENS: No, we had not done any calculations with respect to that.

MS. NOLA RUZYCKI: Maybe I can just give you a brief what -- what my numbers worked out to per customer for Option 1, with the ten (10) cent premium, was roughly -- and basically what I did here was I just took the number of customers and assumed an equal pro rata share; it was two hundred and seventy dollars ($270) per customer, per year, for the service, for Option 1. And that included the eight dollars ($8) per customer for the administration fee that possibly could be contemplated for the service.

And the second one was roughly sixty dollars ($60) which we found quite cost prohibitive in both cases.

So -- so I would -- I would just comment that we did not provide comments but it was more based on our disappointment in the numbers and that was just a comment, so...

MR. HOWARD STEPHENS: Well, I'll take your numbers as -- as given. I have some concern with respect to whether or not you have a clear understanding, with respect to that, as to how the numbers were going to be applied.

I don't know that those numbers are

necessarily reflective of what we will finally end up coming forward with, just based upon the fact they're going -- we may be going to RFP, we may be settling with Nexen, et cetera.

And from that perspective I think you should -- I mean, it would have been very helpful for us to have gotten the feedback in terms of your reaction to it so -- so that we could have assessed -- I mean, put that into our overall bag of goodies in terms of the things that we're looking for in terms of changes to the contract -- disappointed or not.

MS. NOLA RUZYCKI: Perhaps we can discuss in the future options going forward under the new -- either renewed contract or new contract.

And, sir, I just want to check here. I had a couple of questions that had already been asked and I just want to check and make sure that I have asked all the questions that I had of the Panel, so if you bear with me for a second?

(BRIEF PAUSE)

MS. NOLA RUZYCKI: Sorry, I did have one (1) other question; if you had an average gigajoule usage per -- per residential customer that Centra uses?

(BRIEF PAUSE)

MR. HOWARD STEPHENS: We use an annual consumption of 2,801 -- 2,801 cubic metres per year for the average residential customer.

MS. KELLY DERKSEN: I might just correct that; it's twenty-eight-o-two (2,802).

MR. HOWARD STEPHENS: That was my conundrum here. I was getting, you know tell -- indicate decimal points.

MS. NOLA RUZYCKI: Well, thank you for that precision number.

And with that, that concludes the questions I have for the Panel today. Thank you.

THE CHAIRPERSON: Thank you. Just before we have a short break and then Mr. Saxberg can bring forward his witness, is there any other questions of the Panel with respect to outstanding undertakings by any of the parties here?

Mr. Peters...?

MR. BOB PETERS: Mr. Chairman. Yes, I have just one (1) undertaking that I want to ask question on I think to Mr. Sanderson.

RE-CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: You'll recall yesterday Centra filed Exhibit 6; this was a chart that had replotted the pro forma residential primary gas billed rates excluding the impacts of hedging.

Mr. Sanderson, you're the primary author of that I would take it?

MR. BRENT SANDERSON: Yes, I am, sir.

MR. BOB PETERS: And you didn't put a timeline on the X-axis, but would I be correct in assuming that it's the same timeline that the Board will find on PUB/CENTRA-42(b) Attachment 2, found at Tab 18 of the book of documents that I handed out on the first day?

MR. BRENT SANDERSON: Could you give me the tab in your book of documents again, please?

MR. BOB PETERS: Yes, Tab 18 and it's PUB/CENTRA-42(b) Attachment 2.

(BRIEF PAUSE)

MR. BRENT SANDERSON: The timeline on the undertaking to which you refer is identified at the top of that chart, is for the period April 1st, 2002, through to September 31st, 2000 -- September 30th, 2006. So it's clearly identified at the top.

The chart in Attachment 2 to CENTRA-40--

PB/ CENTRA-42(b) has the same starting point as the undertaking to which you refer and ends at the same point in time. So, yes, the time periods are -- are the same.

MR. BOB PETERS: And if I understand what Ms. Stewart said this morning to some of the questions asked of her, that without the effects of hedging there would have been a 33 percent rate increase at one point in time.

MR. BRENT SANDERSON: To be clear, the 33 percent that we've been discussing is an annual bill increase. The actual rate increase would have been closer to 50 percent.

MR. BOB PETERS: And that would have been for the months of approximately November '05/December '05 which are identified by the high peaks in -- in the Exhibit 6?

MR. BRENT SANDERSON: It -- it would have been for the period November and December of 2005 and January of 2006.

MR. BOB PETERS: And does the blue -- that is the -- the blue line is the additional line on this coloured exhibit, is that correct?

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

MR. BOB PETERS: And does that blue

line, for the months of November '05/December '05, reflect the impact of the Board's variation on the rate-setting methodology for November 1st of '05 and February 1st of '05 -- '06?

MR. BRENT SANDERSON: No. The red line includes the effects of the Board decision to which you refer, the blue line depicts what would have occurred had we adhered to our normal rate-setting process without any intervention in the event that we did not maintain our hedging program.

We make no supposition about what intervention, if any, may have occurred if our hedging program had not been in place. And as I discussed before, it would be my position that the options to intervene would have been -- or the options available to all concerned to intervene and provide an additional level of rate-smoothing would have been much more limited in the event that we would have had not maintained our hedging program.

As I stated yesterday, in the absence of our hedging program, given where we actually did set rates on November 1st of 2005, by April 30th of 2006, putting ourselves back in time, in November 1 we would have been looking at $180 million accumulation of unrecovered costs in our PGVA; that would have been the most likely outcome at that point in time.

MR. BOB PETERS: So what we have is the red line showing the effects of hedging plus the Board changing the rate-setting methodology, and the blue line showing just no hedging but not including the Board's use of a variation of the rate-setting methodology.

MR. BRENT SANDERSON: The red line shows what our actual billed rates were to customers, and that includes the effect of the hedging program and all the other developed elements of our Rate Volatility Management Program, which we've covered in a fair amount of depth in this proceeding, as well as the one (1) time additional rate-smoothing introduced by the Board November 1st.

The blue line shows -- excludes the effect of the hedging program but still includes all the other elements of our rate volatility management measures and makes no suppositions about what type of intervention, if any, would have occurred had we not had our hedging program.

MS. KELLY DERKSEN: If I --

MR. BOB PETERS: Thank you.

MS. KELLY DERKSEN: -- if I might add, Mr. Peters. It might be just a small clarification, but I -- I don't want to perpetuate the situation.

Centra indeed applied to the Public Utilities Board last -- for rates last November 1st, 2005, that suggested a move away from the normal rate-setting mechanism to which the Board ultimately agreed with some modification. So I just wanted to make that clarification for the record.

MR. BRENT SANDERSON: And I'm not making any effort to attribute the credit for that intervention to one party or another. I leave it to -- I defer to Ms. Derksen and her characterization as what -- as to what led to that.

MR. BOB PETERS: Thank you. Mr. Sanderson, the black line that has the jagged peaks and valleys, that's the twelve (12) month forward price strip that you've used; correct?

MR. BRENT SANDERSON: Day by day through that period, yes.

MR. BOB PETERS: Just help me understand that clearly. In November of '05, when we see the spikes on Centra Exhibit 6, was that the twelve (12) month forward price a year before November of '05?

MR. BRENT SANDERSON: No, sir. That was the forward-looking price as of that date, looking out into the future, what would the future -- what is the price for a twelve (12) month average looking out twelve

(12) months into the future have shown on that day. That is what is indicated in his chart. It is not backward looking.

MR. BOB PETERS: All right. And if -- what price would Mr. Stephens have paid for his gas on that November period? How do we figure that out on this chart?

MR. BRENT SANDERSON: We've discussed at some length during this proceeding that there's two (2) ways to look at our rates versus market prices. We've provided a chart -- and I don't have the exact reference -- where it's -- what we characterize is a backward-looking analysis looking at the monthly market or index price that Centra actually paid versus our rates. So that's another analysis, sort of the flip side of the coin relative to what we're looking at here.

What we would have paid on any one of these days for our gas -- it's important to keep in mind that we not only buy gas at the monthly market price, we buy approximately one third (1/3) of our supplies at the daily market price.

And I can tell you that periods during last fall we were paying prices approaching seventeen dollars ($17) a gigajoule for our supplies on some of those days. So on any given day I would have to go back and I would have to specifically look at that.

But prices on the day markets in which we buy as much as a third (1/3) of our supply or maybe more in a colder year, gyrated around much more significantly than what's shown in this chart for the twelve (12) month future's price.

MR. BOB PETERS: Wouldn't this chart be more accurately -- these blue and red lines compared to what the actual prices Centra would have paid on those days --

MR. BRENT SANDERSON: No, sir --

MR. BOB PETERS: -- as opposed to the forecast?

MR. BRENT SANDERSON: The intention of the analysis is to show what we would have been faced with or the basis on which we would have had to set customers' rates at those point in times in the absence of the hedging program because what we're paying on any given day or month has no bearing on what we -- on the basis on which we set rates.

Our rates are set on a prospective basis, so we look out at what the market is trading at into the future one (1) year out and that is the basis on which we set our rates.

So what we're showing here in the form of the twelve (12) month futures price is the most relevant comparator looking at the rates versus what the twelve (12) months strip was showing.

But on any given day, that's not -- that may bear no relationship to what we may have been paying. We may have been paying a price on any of those days much higher or much less than that indicated in the twelve (12) month future strip, but our rates are forward looking.

(BRIEF PAUSE)

MR. BOB PETERS: Thank you for that, Mr. Sanderson. Mr. Chairman that completes my questions this panel. I thank them again.

THE CHAIRPERSON: Do either of you have any further questions?

MR. ERIC HOAKEN: No, I do not, Mr. Chairman, thank you.

MS. NOLA RUZYCKI: No, I do not.

THE CHAIRPERSON: Thank you. Ms. Murphy, do you have any re-direct of the panel?

MS. MARLA MURPHY: I don't know if you're planning on taking a break shortly, Mr. Chairman, but if I could have that opportunity just to discuss with my

Panel then we could come back and answer that question definitively.

THE CHAIRPERSON: Yes, that would be fine.

MS. MARLA MURPHY: Thank you.

THE CHAIRPERSON: So, I'm assuming that this is the day that we have the -- the early and lengthy lunch hour.

Mr. Saxberg, if -- if Mr. Pringle was introduced and began his testimony at, say, 11:00, would he be able to complete it by 11:30 or are we are going to assume that we're going to be into the afternoon?

MR. KRIS SAXBERG: I think if we started at --

THE CHAIRPERSON: Before we get into the examination.

MR. KRIS SAXBERG: If we started at -- in ten (10) minutes, we'd be able to finish by 11:30.

THE CHAIRPERSON: Okay, we'll be back in ten (10) minutes.

(CENTRA PANEL STANDS DOWN)

--- Upon recessing at 10:45 a.m.
--- Upon resuming at 10:58 a.m.

THE CHAIRPERSON: Okay everyone. I think we should -- Ms. Murphy, do you have any re-direct?

MS. MARLA MURPHY: You can probably tell by the commotion that we don't, so we're concluded.

THE CHAIRPERSON: Very good, thank you.

MS. MARLA MURPHY: Thank you.

THE CHAIRPERSON: Mr. Saxberg, perhaps you could begin now by introducing Mr. Pringle, who I hope brought a coat.

MR. KRIS SAXBERG: Thank you, Mr. Chairman. Perhaps I could begin with some housekeeping. There have been some documents circulated that we'll be referring to. The first being Mr. Pringle's resume and perhaps we could mark that as the next CAC exhibit.

THE CHAIRPERSON: Number 4.

--- EXHIBIT NO. CAC/MSOS-4: Resume of Ashmead Pringle.

MR. KRIS SAXBERG: The next document is -- flows from an Information Request of Centra and it would be the filed copy of Mr. Pringle's evidence from the 2000 Rate Management hearing and that's the one that's dated January 24th, 2000, has a cover letter from D'Arcy & Deacon January 24th, 2000. That should be the next exhibit, 5, I presume?

--- EXHIBIT NO. CAC/MSOS-5: Filed copy of Mr. Pringle's evidence from the 2000 Rate Management Hearing.

MR. KRIS SAXBERG: And then moving forward chronologically, the document that indicates a date March 5th, 2001, written evidence of Ashmead Pringle, that should be the next exhibit, CAC-6.

--- EXHIBIT NO. CAC/MSOS-6: Written evidence of Ashmead Pringle dated 6th March, 2001.

MR. KRIS SAXBERG: Followed by the May 29th, 2002 cover letter document which contains Mr. Pringle's evidence from May 23rd, 2002. That would be, then, CAC-7.

--- EXHIBIT NO. CAC/MSOS-7: Evidence of Ashmead Pringle dated 29th May, 2002.

MR. KRIS SAXBERG: And there's one (1) other matter. I have spoken to Ms. Murphy off the record about a portion of a transcript that I know I'll be referring to in closing argument and that I had put to the panel and I'd like to mark that as -- as CAC Exhibit

8, since I will be referring to it and --

THE CHAIRPERSON: I'm not sure if we have that one (1).

MR. KRIS SAXBERG: It's one that was -- that I circulated --

THE CHAIRPERSON: Oh, I recall.

MR. KRIS SAXBERG: It's --

THE CHAIRPERSON: Thank you.

MR. KRIS SAXBERG: -- page 338 to page 345 of the GRA Hearing from 2005.

THE CHAIRPERSON: Very good.

MR. KRIS SAXBERG: And that would be CAC-8.

--- EXHIBIT NO. CAC/MSOS-8: Pages 338 to 345 of the GRA Hearing from 2005.

(VOIR DIRE COMMENCED)

EXAMINATION-IN-CHIEF BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. I have the pleasure to introduce Ashmead Pringle to those of you that already haven't had the pleasure of receiving his evidence in a -- in a prior hearing.

Mr. Pringle, you have prepared written evidence in this proceeding which we've marked as CAC/MSOS Exhibit number 2.

Is that correct?

MR. ASHMEAD PRINGLE: That's right. That's right.

MR. KRIS SAXBERG: And you've also authored some information responses to requests posed by the Board counsel and Centra.

Do you adopt that evidence as your own?

MR. ASHMEAD PRINGLE: I do.

MR. BOB PETERS: Mr. Chairman, just will interject here and I -- I apologize to Mr. Saxberg for perhaps putting him on the fast track, but we should take the formality of putting the witness under oath just so that --

THE CHAIRPERSON: Yes, we should, Mr. Peters.

MR. BOB PETERS: -- the evidence can be transcribed under oath, and I think Mr. Saxberg would agree --

THE CHAIRPERSON: Mr. Singh, would you mind?

MR. KRIS SAXBERG: I'm red-faced. Sorry about that.

ASHMEAD PRINGLE, Sworn

THE CHAIRPERSON: Thank you, Mr. Singh.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Mr. Pringle, you've appeared before this Board on two (2) prior occasions. Your first appearance was at the Rate Management Hearing which occurred in 2000 and the evidence you presented at that hearing has been attached to your evidence along with evidence you presented at other hearings.

Do you have any corrections to make with respect to any of the evidence that's included in CAC Exhibit number 2?

MR. ASHMEAD PRINGLE: Yes, I do. I have a couple. Just sort of in order of occurrence, let's see, on page -- on page 2 of the November 6th letter, I think it's line 23 -- line 22, 23, I said:

> "My understanding is that these storage volumes are not hedged in advance by Centra but are purchased ratably or costed into gas rates at market prices."

And that was wrong. My understand is corrected. I understand now that Centra hedges storage volumes in advance of their purchase by their inclusion in eligible volumes, but that once those purchases are made there are no hedges carried against the price risk from that point forward.

So storage gas, once it becomes storage gas is -- is not hedged, as I understand it, but its -- its placement into storage is hedged. And if that's not the case I -- I ask for more correction.

On page 8, line 9 -- or line 8, the sentence begins:

> "If the market falls less than that amount then the collars will show up best since they are burdened by a premium cost."

There should be a "not" in there. It should read, Since they are not burdened by a premium cost. I'm talking here about the costless collars, cashless collars that Centra has done, which are not burdened by a premium cost.

I think that's all I had in -- in the current one (1).

Then on the March 2001, which is -- what number is that, Kris? March 5th, 2001. Okay. In -- when I had added on a couple of these past offerings of mine I made a mistake and included a working draft for this particular set of evidence which was slightly different from the one which was actually filed.

The main difference being a -- the addition of -- of a conclusion. And so that conclusion was added to it, on page 8. Then the -- then the major part of his con -- conclusion was in the context of risk management there was imprudency on the part of Centra; the reasons were -- occur a little earlier. In the final draft they occurred on page 5 whereas they'd been at the end before, which talked about lack of training, lack of modifying policy, and -- and so forth.

I think that's -- that's all the corrections I have, Mr. Saxberg.

MR. KRIS SAXBERG: Thank you, Mr. Pringle. And with those corrections then do you -- you adopt this evidence that's being presented as your own?

MR. ASHMEAD PRINGLE: I do.

MR. KRIS SAXBERG: We have marked your resume as Exhibit CAC-4. Could you please review your education and professional qualifications from your resume as they relate to your expertise in hedging?

MR. ASHMEAD PRINGLE: Well, hedging is sort of an acquired skill but -- but my education was a BS in mechanical engineering from Duke in 1967, and then a business degree -- an MBA from Harvard in 1969. I'm sort of going down the list here.

Professionally I'm a futures broker and a principal of a commodity training firm. And -- and in the US all that's regulated by the Commodity Futures Trading Commission or CFTC. It's sort of akin to the SEC (phonetic) that oversees securities.

And under the CFTC and the NFA self-regulatory body then anyone involved in -- in the futures business has to be registered and vetted and pass certain tests, et cetera; Associated Person, one (1) of those commodity trading advisors, and other types of registration. We're also a commodity pool operator at this point.

The work experience, I'll briefly say I started this company in 1984 after a few years in -- in hedging in the grain markets and our -- our business was primarily in grain hedging -- GSC stands for Grain Service Cooperation -- and hedging's a longstanding practice in agricultural markets as I'm sure folks in Central and Western Canada know.

Energy markets came along in 1983 with a crude oil futures contract, natural gas coming in 1990, and so we began doing hedge work in energy, both training and consulting. And so we still do and some of the consulting experiences listed here -- we do a -- a good many seminars on hedging in natural gas and now also on accounting for hedging.

Some of you might be familiar with Financial Accounting Standard 133 which is a -- a fairly burdensome rule on US entities which provide some fairly stiff benchmarks for achieving hedge accounting, a deferral-based accounting, on derivatives, if you choose. So we -- we do a good many seminars on -- on that.

The in-house training lists grew a little bit last year. We -- we did some seminars on hedging and on hedge accounting for Constellation in Baltimore, for Tesoro, for One Oak (phonetic), for the Tennessee Valley Authority. We'll be doing one next week in Los Angeles for Macquarie which has a natural gas marketing office in Los Angeles. They -- they purchased what was Cook Inlet Energy, which was a natural gas marketer on the west coast. And we did one in April for Nexen, really two (2) -- two (2) one (1) day seminars; one was on natural gas hedging and the other was on accounting for natural gas hedging, under the FAS-133 rules.

MR. KRIS SAXBERG: With that I'd ask that the Board qualify Mr. Pringle as an expert to provide opinion evidence in this proceeding on the relevant topics.

THE CHAIRPERSON: The Board has prior

knowledge of Mr. Pringle.

Does Centra or either one of the Intervenors have any questions of Mr. Pringle of objections to qualifying him as an expert?

MS. MARLA MURPHY: We have no objections. We'll certainly have questions for him after he testifies, but at this point, no.

MR. ERIC HOAKEN: Yeah, same for us, Mr. Chair. We have no questions and accept Mr. Pringle's expertise.

MS. NOLA RUZYCKI: It will be the same for us. Thank you.

THE CHAIRPERSON: Very good, sir.

(VOIR DIRE CONCLUDED)

EXAMINATION-IN-CHIEF BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. Mr. Pringle, then, with that, would you please present your evidence for the Board in the form of an overview.

THE CHAIRPERSON: BY the way, Mr. Pringle, just so that you're aware and you don't find this rude, we have a prior commitment that we're going to have to adjourn until 2:00 at 11:30.

MR. ASHMEAD PRINGLE: Right.

THE CHAIRPERSON: So it's pretty -- until 1:30. So when 11:30 comes, we're going to shut down fairly quickly.

MR. ASHMEAD PRINGLE: I understand. So, if you cut me off in mid-sentence, that's fine. I do want to thank you, Mr. Chairman, for convening today's meeting indoors to accommodate me.

THE CHAIRPERSON: It's pretty warm for us, actually. We were thinking of it in the park, but...

MR. ASHMEAD PRINGLE: I know and I do -- I did bring a coat. In fact, it's a coat I bought at the Bay in Calgary, so I know it's adequate.

I appreciate the chance to come back to Canada and to revisit some of these issues. I'm just going to run through some highlights here from my -- my letter form testimony of November 6th and -- in which I said it seems to me that there's some major fundamental questions here; one is -- is continued hedging by Centra necessary to provide gas consumers protection?

And I think along these -- these years that I've been involved, concern for the consumer has certainly been an overriding objective, I think, of the Board and rightfully so.

And second, if -- if hedging is necessary who should do it and what form should it take?

And I -- sort of a springboard for some of these things, took the -- the Board's white paper in which it had laid out a number of understandings to Centra and others and I picked a few, not all of them, about six (6) here, and talked about them.

We talk about storage as one (1) mechanism. There's several mechanisms that mitigate volatility for the rate payers, storage is -- is certainly one. And as storage is -- is bought forward under the eligible volumes and primary gas hedging, once it's bought in price for that April/October period or May/October, then it's not hedged from that point forward, so it becomes a stable component of gas cost and -- and will dampen volatility to the extent that that gas is used in the winter. And I think it's still about 30 percent of winter gas is going to come from storage sources.

Also the equal monthly payment plan, which I've talked of before, is certainly a way to smooth bill volatility. It has no effect on rates, ultimately, but it does allow the consumer a way to smooth their cost.

Subject to some true-ups -- granted those can be -- those can be sharp and I -- we -- I note here that almost half of the customers have elected that program.

Another thing that smooths the rates, and anything that smooths rates, of course will have some effect on smoothing the bill, although it's not one for one because gas is less than 100 percent of the bill. I understand now it's about 65 percent of the bill is -- is primary gas.

The fact that Centra resets the price every quarter based on the -- on the forward price and then transmits accumulated differences through the PGVA is another fairly strong smoothing mechanism.

And, finally, I was made aware that the winter Heating Costs Control Act may come into play; that it's been enacted but not -- but not formally activated.

What's the word I need there, Kris? It hasn't been...?

MR. KRIS SAXBERG: Received Royal Assent.

MR. ASHMEAD PRINGLE: Okay, hasn't received the final go-ahead. But -- but there it is and it -- I think it looms over the landscape to -- certainly to some degree. And that, I've characterised as sort of a deus ex machinae; you know, it's something that can come down sort of out of the sky when need be and be a backstop for the ratepayer.

So it seems to me, with all those things the ratepayer is -- is fairly well -- is fairly well protected.

I went on and talked about Centra's mechanistic approach and sort of the conflicts that are inherent between the mechanistic approach and -- and a judgment-driven market view-driven approach.

And in the past I have said that I think that the Utility, and utilities in general, that have no financial incentive to hedge, are -- are, you know, placed in something of an awkward position, and that they become or can become, subject to a second review, not just review on their purchase of physical gas but on -- on their hedges.

In the interest of performance a mechanistic program, in my view, works better in that circumstance; more likely to be done when there are rules to be followed rather than in judgement. I've said it's not fair, in my opinion, for Centra to be tasked with outguessing the market.

And I figure that Centra's hedging is in loco parentis and certainly it is, and many of these things are. The Winter Heating Cost Control Act, there's certainly an in loco parentis or in loco consumer, if you will, kind of act, with the objective of providing protection for those who may not be able to -- to get it themselves; that's a conflict with -- with exercising judgment. And then to me I think that it's difficult to expect the Utility to exercise judgment about natural gas prices. As a matter of fact, I think it's difficult to expect anybody really to -- to have a consistently accurate view of natural prices.

And Centra said they -- they really, you know, are reluctant in effect to exercise judgment. I've said in the past that they were unwilling hedgers; that's not to characterize any of the individuals involved with the program but just that there's no real incentive there for a utility to stick its neck out and -- and take views.

We looked at different mechanisms and Centra has certainly provided the same sorts of things. Essentially as a hedger you fix the price forward in some fashion; that's really the essential dilemma for the user hedger. For the producer hedger it's -- it's fixing a sale -- sale price forward.

And three (3) basic strategies; you know, set the forward price, just fix the price, and now it's done, at least on that gas. Another one is to set a cap on the price with some kind of call option. And the third is really a compromise, and that is some kind of a range product; a collar with a -- a cap and a floor. And while Centra has some -- some discretion on paper, I think in fact it's -- it's been mechanical almost all the time.

I have expressed in this particular paper and in prior years the fact that as prices rise a fixed collar width becomes in effect a smaller and smaller percentage. And in the nature of options, and not just natural gas, when you do a costless collar the cap gap and the floor gap are not equal typically; that is, the price above the market of the cap and the price below the market of the put tend not to be equal. Occasionally they are, but most of the time they're not just because the market feels that there's more risk of higher prices than of lower ones in general; in markets prices can't go to zero.

But, in any case, that ratio, in almost all the markets that we've dealt in, runs around 60/70 percent. So that is when you get done with a costless collar, whatever the cap gap is you're going to find that the floor gap that you've got to accept to make it costless is about 60 percent, give or take, of the cap gap.

So when you have a fifty (50) cent cap gap you're typically going to have about a thirty (30) cent floor gap, so you're going to have an eighty (80) cent bandwidth on your collar; that's a fair amount of flexibility when gas is two fifty (2.50) per Gj, but when gas is twelve dollars ($12) per Gj it isn't much.

So maintaining a fixed bandwidth at higher prices means that your collars become more and more like swaps; they become more and more like fixed-price deals. A very narrow collar, a zero width collar is in effect a swap. So I have said before and now that if those continue to be used, that those ranges should be percentage driven and not absolute price driven.

Noted that -- that the program to-date, you know, has had generally a flat outcome net/net, cost of gas to consumer 6 or 7 million, less than about a third of a percent of gas cost over that time and with time value of money, might even have been a wash.

Centra had looked at what if they had used caps fifty (50) cents out of the money and they had the premiums for those because it was part of their collar trade, as well as -- as swaps and looked at those outcomes.

And I agree with their findings there that in a rising market fixed-price would have been best but who -- who knew? Collars provided some offset; the caps did not in that particular case do enough to offset their premium cost.

I didn't try to derive a strategy that would have worked optimally during that period because you can always do that, but there's no guarantee that's the one that would -- that would work going forward.

Looking back at that research of 1998, I had assumed that that fifty (50) cent upper band had come from the target of volatility and the annual bill increase of sixty dollars ($60). And at that time based on usage then and prices then that worked out to about fifty (50) cents per GJ.

I think the testimony -- perhaps it was yesterday that it was Mr. Stephens I think said, Well, it didn't come directly from that but it was -- it was more of a -- a broad-brush attempt to -- to set some disaster insurance or some protection against a good bit higher market. And in today's context fifty (50) cents certainly doesn't do that.

So I've -- I've suggested then that collars, if they are -- are maintained and, again, -- and my conclusion here, of course, is that the consumer is fairly well protected by this host of mechanisms now including the Winter Heating Control Act and -- and even so, in my view, there are better ways for the consumer to -- to get price protection than sort of an in loco parentis program which is -- is not too visible to the consumer.

But if that were to continue and collars were to continue to be a choice, and certainly they're a -- they're a good one, then I'd expand them and move away from the fixed -- eighty (80) -- roughly eighty (80) cent per GJ band.

Should hedging continue? I'll come to that in just a minute.

While on -- on paper Centra has discretion, it has -- has rarely exercised it and, in fact, I think has pledged, in essence, not to. Special circumstances or -- or a case where they may be able to do things differently and I -- I agree with some of their characterizations, that special circumstances or unforeseen events that affect gas transportation, perhaps the -- the volumes that you've projected you will need change but not market views.

I would remove market views from being a -- a special circumstance but -- and I've reviewed here at the bottom some -- some of the various LDC approaches that -- that have been taken at different places. One, of course, is that the LDC exits the merchant function and others fill the -- the gap. Brokers, for example, would compete for the commodity business and the LDC would remain a supplier -- a transporter but not a supplier -- a supplier of last resort. In some cases they might be allowed to compete.

But in that case, the -- the ratepayer is given individual choice of price protection or not. I've also recommended in the past that -- that they have their volatility seatbelt fastened for them by having the EPP Program made a default rather than an option.

So what I -- I say is this, is in the past Centra's hedging has -- has been effective to the -- to a degree in -- in reducing some rate and -- and bill volatility. On a net/net basis going forward it -- it seems a -- awash.

The -- the effect of having very tight collars over the past three (3) or four (4) or five (5) years has resulted in -- in bigger swings in that plus and minus line. I would agree with the -- the notion that -- that over time, you know, a -- a mechanical hedging program is simply going to smooth prices, it's not going to achieve higher or lower ones. There will be times when it achieves lower prices; there'll be times when it achieves higher prices. And I don't think it's reasonable to task the Utility with trying to decide when to hedge and when not to hedge, because that's really the same as when to speculate and when not to speculate.

If one grants that index gas is market

price gas and that there's no burden on the Utility to try to beat that - because index gas is a competitively arrived at number - and the same case the price over here in the financial markets is just as independently arrived at and just as -- as competitive. So trying to -- to nudge the Utility to beat that I think is unfair.

And I don't think that they -- they can. So, I think you've got to stick with a mechanical program -- I'm going to get more into that with some of the other years. All right. So, so far, I think it's been about a push, saved some money, made some money, it's about awash going forward with the mechanisms in place, having weathered pretty much the big price storm. I don't think we necessarily need hedging to do more hedging if we assume that the -- the Heating Cost Control Act does come into play.

If it doesn't come into play, then I think there could be some additional hedging, again, from a -- from a -- you know, to protect against disasters, if you will, higher price markets, by using collars with wider band width.

But I do think these things -- that these protections can be provided to the ratepayer more effectively, more transparently, more efficiently by allowing the ratepayers to -- to be presented with, in a sense, individual choice, whether it be from brokers or from brokers and Centra or both. And that's really what I -- I concluded this part with.

What -- in this past year though -- and I would say too, as it was in my -- probably the last one I think I sent that -- I think I was fairly complementary of the program, that it was -- that is was being adhered to pretty religiously, that is, there was a -- a plan to do a certain amount of hedging and it was done.

Those amounts of hedging changed somewhat. For a while it was a 50 percent minimum that would be hedged going forward, and then there was 90 percent, and then there was 100 percent last year with the injection of some discretion.

And I think here's -- here's what troubles me about the discretion issue. It's sort of a Pandora's box, you know. How do you open that box? And can you open it without opening it all the way?

The advantage of the mechanical program is it's likely to get done. Yeah, sometimes it's going to be good; sometimes it's going to be back. But if we accept the premise that we really can't outperform the market, we can simply shift it a bit, then that's a reasonable approach.

As soon as we say, Well, think about it, Maybe you should take some views. Now we're back in a whole different ball game, one that I think is unfair to ask the utility to do. And -- and while last year the Board's sense, intuition or apprehension about the markets was right, you know, I'm just not sure that anybody can be right about natural gas very consistently.

So I think when we open that door and say, Okay, begin to take market views, we have moved away from what was the core of the program and the core of the program was a rules-based mechanical approach.

So I've been a bit troubled by that. And I would echo Mr. Simard's prior testimony, I think, or other offerings in which he said, Well, you just got to stick to it, that's the nature of a mechanistic approach. It can be half judgmental, half mechanistic. It's just got to be all one way.

So I would -- I would say that I think that the -- and I think that the Utility has done that, basically been wanting to stick with that mechanistic approach.

I see I don't have a whole lot of time left before we break, so I don't think I'm going to -- well, maybe I'll begin a little bit.

I can probably do --

THE CHAIRPERSON: I think what we'll do

now is we'll break now.

MR. ASHMEAD PRINGLE: Oh.

THE CHAIRPERSON: Because we've got kind of a hard limit ourselves in this.

MR. ASHMEAD PRINGLE: All right.

THE CHAIRPERSON: So we'll come back at 1:30 and then you'll have all the time in the world.

MR. ASHMEAD PRINGLE: All right.

THE CHAIRPERSON: Thank you.

MR. KRIS SAXBERG: Thank you.

--- Upon recessing at 11:30 a.m.

--- Upon resuming at 1:37 p.m.

THE CHAIRPERSON: Welcome back, everyone. I'm glad Mr. Pringle hasn't fled down south.

Okay, Mr. Saxberg.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. Mr. Pringle, did you want to continue presenting your evidence.

MR. ASHMEAD PRINGLE: Yes, thank you. I think I'd like to just reiterate the conclusions I had on page 12 of this year's stuff. I was about to move towards some prior years.

And what my conclusions here are that with the -- with the existing mechanisms, storage, the EPP, the rate setting mechanism, possibility of the Control Act coming into play and even of the Board as it did once last year, restraining rate increases or deferring a rate increase for a while, the consumers are -- are pretty well protected.

If -- if we assume, though, that we can't rely on the Control Act, necessarily, or the Board to step in, then if we continue on the current path of -- of Centra hedging in loco parentis, then I think it should use collars of a wider bandwidth.

One of the points I was trying to make before lunch but probably didn't make very well was that as the prices have moved up and -- and the same collar bandwidth has been retained and the hedges have become more and more like fixed price hedges, they have, of course, acted more like fixed price hedges.

They have, as Centra folks said, that fixed priced hedge is -- gets rid of all the volatility in that gas. And so this comes close to that. But it gets close to it at the expense of a potentially larger adjustment later on when we get to that period and we compare gas costs and the settlements of that product.

So if we had a wider bandwidth looking back, what would the difference have been? Well, I think simply it would have been that there would have been smaller gains in those years there were gains.

There would be smaller losses in the years that were losses and there would be a little -- it would be more volatility in the short run, if you will, and less in the potential adjustments along the way, in some of the year over year comparisons.

Ultimately, which -- I'd say there's no way to get around the price of the gas. It's just -- it's trading one (1) volatility for another. But I think the broader bandwidth would have had a -- that effect of diminishing the size of the potential year over year adjustments and -- and giving a little more leeway to rate changes within quarters and within years.

So having said that, as I've said before I think that Centra hedging in loco parentis is not the best way, in my view, for the ratepayer to have protection. But if that's the path chosen, then I would stick with the collars with those wider bandwidths.

I recommend here that -- that Centra not have to hedge in loco parentis and then the other possibility is either they can offer potential offerings or not. If they did, they would hedge those; if they didn't, others would offer them and hedge the resulting price risk.

Okay. I think that's all I'm going -- wanted to say about the -- the recent stuff. I'd like to go back and just briefly go through a little bit -- probably more for my own benefit of these other three (3) documents that -- that you have, I think. That's the ones that Mr. Saxberg marked earlier as CAC Exhibit 5, 6, and 7.

Although I want to make -- I -- I want to take them in the earliest first. So is Number 5 the -- the 2000 or was that Number 7? Is Number 5 the 2000 -- February 2000 -- okay?

That's the one I wanted to take on first just to sort of have that -- that time line. And -- and back at this particular time the -- the proposal was there be a -- a smoothing mechanism where rates would be adjusted quarterly based on the forward curve, but that only -- but half of that higher or lower rate would go through the bill; the other half would be collected in a -- in a PGVA.

There was storage gas as well and there was still the -- the levelized billing. And I chatted a bit about changes in the gas markets at that particular time and I looked at bill volatility over that period of time -- not so high.

I reviewed the budget plan a little bit but here's the main point I want to make. In that scenario the derivative use planned by -- by Centra was not mechanistic and it was not large scale. It was proposed to be -- when appropriate to be an add-on or perhaps disaster insurance to -- to complement the other mechanism -- the new smoothing mechanism which is sort of a flywheel effect in -- in my mind, storage in the budget plan.

And -- and so we -- we looked at some additional -- the additional use of derivatives but I said it should be reviewed for appropriateness of strategy or cost. Because Centra has no price risk its use of derivatives is solely paternal.

And here -- here's an item that came up in an IR on page 18 line 9:

> "Since gas prices are historically volatile, many gas customers can ill afford higher prices. It's prudent to seek additional protection for the consumer."

I was asked about that and I -- I would say -- I would say it a little bit differently. I would say it is -- it is prudent for the consumer to seek additional protection. And it talked here about options and the fact that in terms of derivatives to this point I wasn't encouraged by the apparent prior experience in dealing by Centra with derivatives and -- and basically asked for some more specificity on hedging strategies.

I like the idea of hedging more than just warm winter volumes because in my mind risk is -- risk is what you don't know. Risk -- offsetting uncertainty by about cash loads is -- is hedging and our best guess of -- of future gas needs is really an average winter, not -- not a warm winter.

So I argued for the allowance of hedging up to expected volumes and even in some cases on -- on cold winters if the right instruments are used.

But in any case, at this point Centra's hedging was going to be supposedly regular and -- and fairly limited. It will buy collars perhaps quarterly; leave them in place, a limited activity which doesn't justify setting up an in-house derivatives operation.

And -- and this was formulaic hedging so at the conclusion of that I -- I recommended that the smoothing mechanism be approved, that here again I've been beating this horse for a while, budget plan should be the default for the small general service customers and in this particular case that -- that Centra should flesh out how it planned to use derivatives which this point were really meant to be another layer, sort of a final layer of protection for the consumer on top of storage, budget plan, and -- and the rate smoothing mechanism with the 50 percent flywheeling. So that's really what happened in that particular year.

And as I move on to the evidence as filed in March of 2001, and you have that version I think, I'd really come away from that hearing with the notion that the ratepayers would gain some protection, with the -- Centra doing some hedging for that sort of fail safe or disaster insurance stuff. And it did not turn out to be the case.

So the evidence of 2001 is a good bit of chapter and verse about, as we went through the -- through the gas year and prices changed, that -- that things were not done, hedging mechanisms or -- or the hedging policy was not better defined. I think that a cap at one point was considered and rejected because of a high absolute cost or high perceived absolute cost, rejected by the Executive Committee I think because of a cost of, if memory serves, $500,000.

And my point was if the cost of caps and other hedges too I think need to be considered in terms of its per-unit cost, not its absolute cost. The five hundred thousand (500,000) in the scheme of things was not a large number. Hindsight, of course, twenty/twenty (20/20), that -- that cap would have been a -- a good deal or it would have turned out well.

So I -- I went through a number of -- of minutes that were provided, looking for some ideas of -- of what decisions were being made or why -- why the hedging was not taking place. And without wading through all of that, I just want to point you to one (1) paragraph.

Some hedging was deferred, I -- I remember as I see this now, because the TransCanada contract had not been finalized, but I think enough was known about it so that it could have been. It was going to be likely tied to Empress or AECO or a mix, and certainly some hedging could have been done.

Page 5, line 21, the summary of Centra's risk management activities, and this is really where I'm listing the reasons why I had concluded that they just were remiss in their hedge duties.

The minutes here or summary don't disclose all the details. And I would say that -- that's been a general theme and observation, is that -- that the minutes do not shed much light even today on what -- what discussions or the thought process that goes into the Gas

Supply Committee meetings or the Executives Committee meetings. They are fairly non-informative.

But the training and derivative use that had been planned didn't take place. The plan to modify the derivative policy was put off repeatedly. The Committee did not apparently meet every month, even when prices were fairly volatile. Fourth, it didn't appear to have any in-house ability to analyse options to look at different strategies.

Fifth, as the market continued to rise it changed the rules really, it appeared to me, on how they measured the bill volatility. Sixth, they decided the derivatives weren't useful and that the smoothing mechanism that was enacted the year before would be the key protection. And finally that the consumer, if he wanted protection, could just deal with a broker.

So those were the reasons why I felt like things did not happen as -- as they should have. And you have those conclusions there.

Then let's move on to the May 2002, in which I, again, I summarize some of this prior business, talk about lowest cost gas being essentially index gas. And that includes an assumption, an implicit assumption that the -- the price of gas as -- as disclosed, observed at AECO and other market hubs, is a competitive, transparent, liquid price and therefore it is the market.

I revisited the issue of the monthly bill volatility. The 50 percent deferral mechanism was changed in Order 91/'01 so that it was not a 50 percent deferral anymore, it was a 100 percent, so that there would now be only two (2) traditional smoothing mechanisms left, storage gas and levelized billing, and so protection would have to come from increased reliance on derivatives and that their current policy reflected an approach.

It was a compromise between a mechanical rule to base program and a discretionary and I thought that was understandable given Centra's lack of incentive to hedge.

Again, I said given the history of Centra's use of derivatives, this refers back to perhaps the '98/'99 incident, speculative use and then non-use of the prior year when things -- no derivatives were basically placed and the lack of hedges, I was not confident the consumer can rely on Centra in that particular case.

And -- and what I said here, page 38:

> "The hedge policy was vague in general, took a long time to get. Meetings were not apparently frequent or regular.

"The minutes of the meetings of the Gas Supply Committee and Executive Committee were minimal. Derivatives training was limited. Reliance on Centra staff experience was misplaced."

Talked about a position report showing possible price outcomes of different kinds of hedging.

And therefore I concluded this particular evidence or testimony on page 39, starting page 39, line 50:

"My choice would be number 2 in which Centra would offer pricing alternatives to its individual customers as competing brokers do, hedging the resulting price risk for its own account.

Would not hedge in loco parentis; no hedging review would be needed. Customers who do not -- do not elect a pricing choice would pay the actual cost. Index would continue to be accepted as the lowest cost of gas. Market signals would come from Centra and others and the consumer would better know his exposure."

I don't think in this particular one I said, unless I missed it, make the -- make the extended payment program a default but it certainly could be.

And this last one, you had -- had this one, too, the '03 or no? Is this one that's --

MR. KRIS SAXBERG: It's part of the -- that's part of the CSE Exhibit Number 2 --

MR. ASHMEAD PRINGLE: Oh, number 2, okay, the one of June 2003. I'll do that very briefly.

And -- and here I said, well, gee, it -- it's -- I was wrong, it's worked out -- it's worked out pretty well lately.

Centra has hedged on a regular basis and the current hedges are -- are good as well.

So down here at the bottom of page 42:

> "It's movement toward a mechanical hedging process and away from a discretionary one is a natural response to having no financial incentive.
> The advantage of mechanical programs are more likely to result in action being taken.
> Their disadvantage is they're inherently less adaptive to changing market conditions."

So again mentioned the cap situation with the -- the caps, the bandwidth, rather the collar situation, the bandwidth being quite narrow.

I suggested as well, on page 44,

"Looking at hedges with their effect on volatility, that is not just putting all of them together, [but I say] lumping together caps, collars and hedges is too simplistic; large difference in the possible outcomes."

Line 18:

"A mechanical approach makes sense but such an approach carries the risk of marking -- marching off a cliff."

And I recommended here that Centra:

"Retain a mechanical approach but its set of hedging rules be vetted and at least quarterly thereafter by an outside party to retain a mechanical approach but one that could evolve or change with conditions."

And I concluded here with another indication that Centra could be allowed to hedge directly and offer price protection.

But the main -- main thing in this

particular one that I wanted to emphasise is the -- the hedging rules. I think that it's important to me that the -- that the program be mechanistic, that there be rules to follow, primarily from the point of view of ensuring or increasing the chances that -- that it actually gets done.

Is -- if -- if market view becomes a factor it's a slippery slope, I think. We open a Pandora's box and -- and it's a -- a very difficult thing, it seems to me, to try to implement and to -- to oversee.

So I'm -- I'm much in favour of a strictly mechanical approach, however, mechanical approaches can be flexible in their design. It doesn't have to be a program that says we'll hedge 100 percent in months nine (9) through twelve (12) every time. Rules can have some flexibility. Summer months the percentage will be different or other factors could be included in the rules if so advised by the third party.

So to my mind, that's the way flexibility -- if more flexibility is needed in a mechanistic approach is to have rules that incorporate some other information besides just the forward twelve (12) month strip.

But I'm -- I'm concerned that trying to

implement a market view is a difficult thing no matter who does it and I think it's -- I think it's unrealistic and perhaps unfair to ask Centra to do it.

(BRIEF PAUSE)

MR. ASHMEAD PRINGLE: The market -- if we do grant that the market is the market, then hedging is only going to shift the timing of -- of the impact; it's not going to create net gains or losses. And if Centra or others could predict the marketplace with even a sixty forty (60:40) degree of accuracy they would certainly be employed on Wall Street or in New York at NYMEX or wherever.

Okay. I think I'm concluded with that summary.

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

THE CHAIRPERSON: Thank you, Mr. Pringle, Mr Saxberg.

So we'll begin now with the cross-examination and first up is Direct, Mr. Hoaken.

CROSS-EXAMINATION BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Yes, thank you, Mr.

Chair. Good afternoon, Mr. Pringle. We met earlier, I'm Eric Hoaken and I act for Direct Energy.

I'm -- I'm going to make exclusive reference to CAC Exhibit 2 which is your most recent report which then has appended to it and numbered sequentially some of the previous reports that you've made reference to.

MR. ASHMEAD PRINGLE: All right.

MR. ERIC HOAKEN: Now, if I could start by asking you to look, Mr. Pringle, at page 2 of your current report, as I'm going to refer to it, the November 6, 2006, report, there's the heading that says, Hedging Is But One (1) of Several Mechanisms.

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: Right. And then as part of that discussion you go on to discuss this new piece of legislation that you'd made reference to in your evidence in-chief, the Winter Heating Control Act, correct?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And my first question is whether you would agree with me that the title of that legislation is to some extent a misnomer in the sense that the legislation doesn't control the costs in the sense of bringing them lower, it simply defers the impact of higher costs.

MR. ASHMEAD PRINGLE: Yes, as I understand it the -- any lack of recovery because of rate freeze would be recovered later.

MR. ERIC HOAKEN: Right. And any -- any difference in an actual increase in the market and the amount that the Utility is permitted by the legislation to pass on to the consumer goes, as you understand it, into a deferral account?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And that deferral account is not some -- is not some hole where the costs disappear; the costs have to be recovered later, right?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And they have to be recovered later through rates that are charged to the ratepayers.

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And I'm going to suggest to you that in a rising market and particularly in a rapidly rising market, you might never catch up, you might keep rolling over deferral to deferral to deferral; correct?

MR. ASHMEAD PRINGLE: It's possible.

MR. ERIC HOAKEN: And you've said in your report, at page 4, that this legislation or, more correctly, the impact of this legislation is that it could cause a price distortion; correct?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And on page 4, at line 14 you make reference -- and I think this is intended to be an example, but there's -- there's reference to the government allowing a maximum increase of 20 percent; right?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And so, again, even if that were the effect of governmental intervention, it would still mean that any amount in excess of 20 percent that the prices had actually risen would have to be put into a deferral account and -- and would have to be recovered some time later; correct?

MR. ASHMEAD PRINGLE: Right.

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

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

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

MR. ASHMEAD PRINGLE: It can, yes.

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

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

MR. ERIC HOAKEN: And one (1) of the basic functions of the price signal is to serve as a rationing device to equate the quantities of the product available from suppliers with the quantities that are available to buyers; correct?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And one (1) risk -- it follows from that, I'll put it to you, that one (1) risk associated with the situation in which non-market base prices are charged is that if the prices are set so that the two (2) quantities do not meet up, there will either be a shortage if the price is too low or a surplus if the price is too high; correct?

MR. ASHMEAD PRINGLE: Yes.
MR. ERIC HOAKEN: And in an efficiently functioning market a price increase will immediately -- what's the right word -- it will convey to consumers the important information that they need to know in order to make consumption decisions; correct?
MR. ASHMEAD PRINGLE: It will, but -- and I think the reason though that -- that often markets are interfered with to some degree is because if -- if demand is -- is quite an elastic in the short run, maybe the consumer has no real opportunity to respond in the short run.
And so -- and, again, in sort of a loco parentis way, it's seen as wise policy to shield the consumer in the short run from that. Really, a -- I think a policy decision and, you know, the landscape is -- has got plenty of examples in the US --
MR. ERIC HOAKEN: Right.
MR. ASHMEAD PRINGLE: -- for sure.
MR. ERIC HOAKEN: Right. Just going, if I may then, to page 5 of your report, you say that Centra's objective in hedging as you understand it is not to reduce costs; correct?
MR. ASHMEAD PRINGLE: Yes. Not to reduce costs below market.

MR. ERIC HOAKEN: Right. Exactly. And as I read this and as I heard your evidence earlier today, Mr. Pringle, you agree that that should not be the objective.

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And I took you to say that even if it was the objective, so if we were to assume that that was an objective of Centra's hedging program, there would be no reason to think that they would be able to accomplish it over the long run; correct?

MR. ASHMEAD PRINGLE: That's correct. And I -- I rely there on -- really on Mr. Simard's evaluation of the expertise and experience within the Company that I think he did in 2003 and unless -- unless his conclusions are changed or other things have changed, I would say yes, that's still true.

MR. ERIC HOAKEN: And as I heard you this morning, you described the hedging results over the last five (5) years or so as being a wash in the sense that there have been no real material either increase or decrease in the gas costs that consumers are being asked to pay as a result of the hedging program?

MR. ASHMEAD PRINGLE: I think that's correct. Over the, I think those five (5) or six (6) years presented there was a net -- including some still open transactions to be fair, I think the net result was a small addition to gas costs of about $7 million across that whole period.

So, I think I said, well, since the gains came first and the losses second, maybe the time value of money made that pretty close to -- to zero, yes.

MR. ERIC HOAKEN: Right. And just as far as your understanding of the current year's -- current year's position is concerned, we've heard evidence from Ms. Stewart that as far as the closed positions are concerned, the losses, if I can characterise it that way, are in the order of forty three point (43) -- excuse me, $42.3 million.

Is that your understanding?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And you've seen the projection in the materials for the additional positions that are not yet closed that was in the order of a -- total, including the amount I just told you, in the order of about $77 million?

MR. ASHMEAD PRINGLE: Seventy-seven (77) on top of the forty (40)?

MR. ERIC HOAKEN: No, no, sorry.

MR. ASHMEAD PRINGLE: Oh total --

MR. ERIC HOAKEN: Including the forty (40) --

MR. ASHMEAD PRINGLE: -- of seventy-seven (77)?

MR. ERIC HOAKEN: Yes.

MR. ASHMEAD PRINGLE: Yeah, I think another thirty (30) odd and that may have changed a bit.

MR. ERIC HOAKEN: All right.

MR. ASHMEAD PRINGLE: Lately.

MR. ERIC HOAKEN: And just in terms of your experience in the marketplace and looking in the activities of utilities, is it common in your experience for a utility to incur in one (1) year losses of that magnitude viewed in terms of the total gas purchase which, in this case, the primary gas purchase I think for Centra is in the order of $400 million annually?

MR. ASHMEAD PRINGLE: Well, I don't really have a comprehensive view into other LDC's and what their hedge gains or losses are; that's certainly a sizeable percentage, some of it's a moving target --

MR. ERIC HOAKEN: Yes.

MR. ASHMEAD PRINGLE: -- and could change. I think it -- it's a -- it's a result, I think, of not widening the bandwidth of the collars, if I get back to that -- because as the prices advance, sticking with the -- with the initial bandwidth of eighty (80) cents resulted in the hedges being almost the same as fixed price gas over the last several years and fixed price gas is going to give you the most volatility reduction in the short run but it's going to come at the expense of potentially large year over year adjustments when everything settles out.

MR. ERIC HOAKEN: So I hear you saying you're not in a position to peg this experience in this year and to compare it to the experience of other LDC's?

MR. ASHMEAD PRINGLE: No. But again, I think it's really a market function. I mean, it's a certain percentage of the purchase is true, over the -- over the span of the period the fact that it's pretty much a wash lends some credence to the thought that over time hedging isn't going to produce net gains or losses but is simply going to smooth the outcome.

MR. ERIC HOAKEN: Right, but if the hedging losses, assuming that the year ended in a fashion that is similar to the current projection in the order of $77 million of --

MR. ASHMEAD PRINGLE: Hmm hmm.

MR. ERIC HOAKEN: -- losses, I'm asking to you to assume that for the purposes of this question--

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: -- that would represent, by my very rough calculation, hedging losses of approximately 20 percent of the amount of the overall primary gas purchase.

Is that -- I think that's roughly correct.

MR. ASHMEAD PRINGLE: Yeah, I would agree with that percentage. I think it just happened that way because nowadays the hedging percentage is up to a 100 most of the time.

It was 50 a while back and -- and using what, in essence, is almost a fixed price hedge, has created both bigger gains and bigger losses.

You know, if -- if the collar bandwidth had been adjusted or, just say that simple thing, it might have been that -- that year -- that over this five (5) year period perhaps the gains would have been 50 million and perhaps the losses would be 50 million and they might have fallen in not quite so dramatic a fashion.

MR. ERIC HOAKEN: Right, but you made reference a moment ago to a comment you made in your February 2000 report, which is page 44 of CAC Exhibit 2 and it's at line 19 and it's this comment about marching off the cliff.

MR. ASHMEAD PRINGLE: Okay.

MR. ERIC HOAKEN: And does the experience of the Utility this year experiencing hedging losses in an order of magnitude, you know, roughly 20 percent assuming that the experience ends up the same place as the projection, is that the cliff that you were talking about?

MR. ASHMEAD PRINGLE: Yes, that's -- that's what can happen. Any -- any consistent forward, you know, purchase programs could have that risk. And the risk is increased, the -- the greater the percentage hedge, the more it's done with fixed price instruments.

MR. ERIC HOAKEN: Now, could I ask you to turn back to page 33 of that same exhibit, Mr. Pringle?

MR. ASHMEAD PRINGLE: All right.

MR. ERIC HOAKEN: And on this page starting I think at about line 5 I took you to be saying here -- and this was the report -- skip the date on it -- this was the one you did in May of 2002 and I took you to be saying here that because of conditions in the wholesale natural gas market, long-term supply contracts were no longer necessary; is that -- first of all is that an accurate summary of what you were saying in this portion?

MR. ASHMEAD PRINGLE: Yes, to ensure supply security was the goal.

MR. ERIC HOAKEN: Right. And is that still an accurate assessment of the market? Does that assessment you made in this report apply to the current state of the market?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And I take it from that then that Centra could contract for a period -- sorry -- it could contract for its primary gas requirements for a period of time shorter than four (4) years?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And -- and you're aware that four (4) years is the term of its current primary gas contract?

MR. ASHMEAD PRINGLE: Well, I'll take your word for it. But I -- I think what I'm saying here really is that longtime fixed price contracts are really no longer necessary.

A -- a contract at -- at market price when it happens may be a commitment that is very useful to both sides simply because it ensures a supply security, it ensures the seller there's a market for the gas, so forth and so on but it isn't necessary to -- to contract that gas at a -- at a price.

MR. ERIC HOAKEN: I -- I understand and I -- I misunderstood that. So what you're saying is an indexed price or a contract that has an indexed price can really be of any duration?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: Going now back to your current report if I could ask you to look at page 11, Mr. Pringle, on page 11 you -- you start -- under the heading of "Conclusions' you start by itemizing what you describe as categories of regulation of LDC's, correct?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And I'm -- I'm going to suggest to you that there could be a fifth category or model and that would be where the LDC would simply use the forward monthly price or forward monthly pricing for its offer.

MR. ASHMEAD PRINGLE: In -- in one (1) -- okay, in 1 through 4, what we're saying -- you're saying is the LDC would strictly be -- it would be in the merchant function or not?

MR. ERIC HOAKEN: Would be in the merchant function?

MR. ASHMEAD PRINGLE: Would be in the merchant function but it's offering would simply be market price gas.

MR. ERIC HOAKEN: The forward monthly price?

MR. ASHMEAD PRINGLE: Yeah, that's true.
MR. ERIC HOAKEN: All right. And that would be a fifth option that we could --
MR. ASHMEAD PRINGLE: Right.
MR. ERIC HOAKEN: -- add to this list?
MR. ASHMEAD PRINGLE: Right.
MR. ERIC HOAKEN: And you're aware that there's a number of jurisdictions in which that is happening?
MR. ASHMEAD PRINGLE: I'll take your word for that.
MR. ERIC HOAKEN: Well, I'm -- yeah, I'm certainly not going to ask you to do that. If you're not aware, that's -- that's fine.
And if -- oh, sorry, I'll come at it a slightly different way. I take it you'd agree with me that there's one (1) way of consumers managing rate volatility that is not referenced in your report and that is the contracting with brokers for their gas supply, correct?
MR. ASHMEAD PRINGLE: Well, I think it's -- I think it's mentioned here. In -- in Item 1 and Item 2 -- Number 1 and Number 2 there are marketers -- or there are others who compete for the commodity gas business, and I think implicit in that is they could

offer choice.

MR. ERIC HOAKEN: That's fair. But even if we assume that the utility in this market is not itself going to offer that choice, that choice is already there for consumers. Consumers who cannot tolerate the rate volatility currently, under the current regime, have an option to contract out and that is to contract with a broker; correct?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And as you said a moment ago, it is prudence -- prudent for consumers to seek additional protection from volatility and one (1) of the ways that they're currently able to do that in the province of Manitoba is to contract with marketers.

MR. ASHMEAD PRINGLE: Correct.

MR. ERIC HOAKEN: And in some of the materials that we've looked already, some of the market research that Centra did, the exercise of hedging was described as or analogized to an insurance policy.

Is that something you've seen in any of the materials?

MR. ASHMEAD PRINGLE: Yes. Hmm hmm.

MR. ERIC HOAKEN: All right. And it was characterized as an insurance policy that would protect consumers from extreme volatility, upswings, largely, in the price of the gas that they're paying for.

Is that something that you've seen in the materials?

MR. ASHMEAD PRINGLE: Yes

MR. ERIC HOAKEN: And --

MR. ASHMEAD PRINGLE: I think the intent was to protect from upswings. We assume that consumers don't mind downswings.

MR. ERIC HOAKEN: Yeah, that's exactly right. But I take it you'd agree with me that if hedging is an insurance policy, that a fixed-term contract with a broker that fixes the price is also an insurance policy in that sense.

MR. ASHMEAD PRINGLE: Yes. I would say it's also a hedge. It's another way for the consumer to establish a -- a certain or more certain cost of gas.

MR. ERIC HOAKEN: Right. And it's a hedge that the consumer himself or herself decides to pursue rather than having it pursued on his or her behalf by the Utility.

MR. ASHMEAD PRINGLE: Correct.

MR. ERIC HOAKEN: And it's also a more effective insurance policy in the sense that we've seen the evidence that hedging can achieve some reduction in volatility but doesn't eliminate it, but a fixed contract does eliminate it in the sense that the rate is fixed or certain for the consumer; correct?

MR. ASHMEAD PRINGLE: Yes, that's true. The other difference might be that a consumer might elect that insurance one (1) year and not another, whereas under the current program it -- it is in essence placed every year.

MR. ERIC HOAKEN: So the consumer gets to take the market view in a way that the Utility couldn't or shouldn't.

MR. ASHMEAD PRINGLE: Correct.

MR. ERIC HOAKEN: And you're, I take it, also aware that in this province a consumer who contracts with a broker can also enrol in the equal payment plan.

MR. ASHMEAD PRINGLE: I was uncertain about that but I'm -- I'm hoping it's true.

MR. ERIC HOAKEN: I think it is true, I think that's what we've heard in the evidence thus far.

And I take it you would agree with me that a consumer who has contracted with a broker and has signed up for the equal payment plan has in some senses the best insurance policy that is available because he or she is protected both from rate volatility and bill volatility.

MR. ASHMEAD PRINGLE: Yes. And an ideal

situation would be if -- if the fixed price pertains not to just a fixed quantity of gas but to all the gas the consumer might require, then the consumer would certainly be totally protected from rate volatility and would be subject only to weather factors as to bill volatility.

MR. ERIC HOAKEN: Right. And so in -- in view of the protection that is available under that insurance policy that can be purchased from a broker, I would suggest to you that we could add to your list of possible options the possibility that the LDC would continue with all of its non-hedging rate management measures -- or, excuse me, volatility management measures and for consumers with no tolerance for rate volatility to simply contract with brokers.

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And that has certainly been the approach in a number of jurisdictions of which you're aware, I take it?

MR. ASHMEAD PRINGLE: Well, not first hand, but I -- I will take your word for that.

MR. ERIC HOAKEN: All right. Have you heard about the Ohio experience for example?

MR. ASHMEAD PRINGLE: Not in specific, no.

MR. ERIC HOAKEN: All right. And you've

made reference in your report to the experience of Maryland and I take it from your curriculum vitae that you're referring to the Baltimore Gas and Electric Company, is that right?

MR. ASHMEAD PRINGLE: Right.

MR. ERIC HOAKEN: And that is the LDC in that jurisdiction?

MR. ASHMEAD PRINGLE: Correct.

MR. ERIC HOAKEN: And I take it that you've done work with or for that organization?

MR. ASHMEAD PRINGLE: I did do some projects for them looking at how they would hedge their fixed price offerings if they did it.

MR. ERIC HOAKEN: All right. And as I read your report, Mr. Pringle, it's your understanding that that utility or LDC is competing directly with brokers, is that right?

MR. ASHMEAD PRINGLE: At -- at the time, this was three (3), 4, five (5) years ago, at the time it was my understanding that they were allowed to compete --

MR. ERIC HOAKEN: And so --

MR. ASHMEAD PRINGLE: -- with brokers.

MR. ERIC HOAKEN: All right. So you couldn't speak to what the current situation is in Maryland?

MR. ASHMEAD PRINGLE: No.

MR. ERIC HOAKEN: Thank you. The trend in utility regulation in the last, say, ten (10) or twenty (20) years I take it you'd agree with me has been one of unbundling and the opening of competitive markets, is that fair?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And you're aware that since 1992 there has been competition in the Manitoba market for natural gas?

MR. ASHMEAD PRINGLE: Well, I -- again I will take you word for that.

MR. ERIC HOAKEN: And I take it you're aware that some regulators in North America have been careful to implement measures to ensure that market entrants -- and I'm referring really to brokers -- do not have unfair competition from or with the LDC's; is that something you're aware of?

MR. ASHMEAD PRINGLE: Not firsthand but it -- it certainly is plausible and reasonable.

MR. ERIC HOAKEN: Right. Well, in a -- in a general sense are you aware that there's been a recognition by regulatory bodies in North America that brokers will be at a disadvantage if they have to compete directly with the LDC?

MR. ASHMEAD PRINGLE: Yes.

MR. ERIC HOAKEN: And your category 2 on page 11, if that was permitted, what you're proposing there, I take it you'll agree with me that that would have a negative competitive impact on the retail market, correct?

MR. ASHMEAD PRINGLE: Well, it -- it depends on how it's implemented. I -- I think that -- that brokers will certainly argue that -- that a -- that the LDC itself, if it's allowed to compete directly, enjoys some advantages, the inertia, the name brand, being perhaps the term, 'the supply of last resort' anyway that make it difficult for the -- for a broker to -- to try to acquire market share.

MR. ERIC HOAKEN: And -- and just to stop you there, in your opinion is there some validity to those arguments?

MR. ASHMEAD PRINGLE: Yes. In the -- in the case of Georgia, the LDC was -- was required to exit the merchant business but it was allowed to have an unregulated affiliate which is active and does a lot of business and -- and that -- that can provide some -- some advantage too if it's not implemented, you know, evenhandedly.

MR. ERIC HOAKEN: And are you aware, at

least in a general sense, that a number of regulators in North America have declined to permit LDC's to fulfill the role that you've referenced in Item 2 of your report?

MR. ASHMEAD PRINGLE: All right.

MR. ERIC HOAKEN: I'm just asking if you're aware of that.

MR. ASHMEAD PRINGLE: No, I -- I'm not aware of it specifically. It's -- it's not a -- it's not information that we -- we collect.

MR. ERIC HOAKEN: All right. Thank you. Those are my questions.

THE CHAIRPERSON: Thank you, sir. Well, Ms. Ruzycki's had to leave.

Ms. Murphy, Centra...?

CROSS-EXAMINATION BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Good afternoon.

MR. ASHMEAD PRINGLE: Good afternoon.

MS. MARLA MURPHY: Mr. Pringle, I wanted to take you to one of the first premises in your evidence which I think you took from the Board August 11th letter, and that is that hedging's one of several mechanisms in place by which primary gas rate volatility and costs are managed.

MR. ASHMEAD PRINGLE: Okay.

MS. MARLA MURPHY: You will recall that you -- well, you've obviously referred to it already today -- that you gave evidence on behalf of CAC/MSOS almost six (6) years ago, at which time you indicated that the rate setting methodology and the budget plan were means by which rate volatility could be mitigated.

Do you recall that?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And you provided as a -- a copy today as Exhibit 5 your evidence in that proceeding from February 16th of 2000?

MR. ASHMEAD PRINGLE: I have it.

MS. MARLA MURPHY: On page 6 of that evidence -- I'm referring to the one that was marked as an exhibit now.

MR. ASHMEAD PRINGLE: All right. I have it.

MS. MARLA MURPHY: Lines 7 through 13 you answered:

"The self-imposed question, is protection necessary?"

Do you see that?

MR. ASHMEAD PRINGLE: I do.

MS. MARLA MURPHY: And you concluded there that:

"Since gas price are historically volatile and since many gas customers can ill-afford sharply higher prices, it is prudent to seek additional protection for the consumer."

Correct?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And based on your comments, earlier I think, you now would somewhat modify that and say that it was prudent for the consumer to seek additional protection.

Do I have that right?

MR. ASHMEAD PRINGLE: Yes. It would be -- it would be good for the consumer to have ways to protect himself or herself.

MS. MARLA MURPHY: So since 2000 there's been a shift in your thinking that that's now the consumer responsibility, is that fair?

MR. ASHMEAD PRINGLE: Well, at this -- at this particular point, you know, the study was done back here to -- with the intent of trying to figure out how much volatility could the consumer withstand.

So, you know, this sort of became -- this was sort of approached from the point of view of the utility hedging in -- in loco parentis. Yeah, so I -- I basically did not, you know, say, No don't hedge in loco parentis that year, that's true.

MS. MARLA MURPHY: Right. And in fact at that time your recommended that Centra hedge more volume than what they -- they were hedging.

MR. ASHMEAD PRINGLE: I said that they -- that in my view eligible volumes could include more than just warmest winter gas. I didn't say they -- they should do it but I said they should be able to consider it, because getting back to the definition of risk being uncertain cash flows that your best guess -- hedging against your best guess is going to be, you know, your best -- your best hedge.

Hedging against the warmest winter is going to leave you with a piece of risk that you still keep.

(BRIEF PAUSE)

MR. ASHMEAD PRINGLE: The point -- the warmest gas is gas that you're pretty certain you're going to need. Then there's some other gas, from warmest up to average, that you, you know, you -- you very well might need but you may hedge it in a form that's less -- less onerous if you don't need it, but it still could he hedged.

MS. MARLA MURPHY: And that's why you said at lines 16 through 18 of page 7 that this argues against using collars for gas needed in the cold scenario certainly permits them in covering warm and makes them reasonable up to the average scenarios?

MR. ASHMEAD PRINGLE: Yes, that's right. I'm saying it -- in my view it would be okay to use collars, certainly for warm -- warm years volumes. It would be okay -- no it -- for up to average, makes them reasonable, although they might expand the bandwidth because you have -- you have an increased chance that perhaps you don't need the gas; that's only going to cost you if the put strike is violated on the floor. But in the cold winter scenario, where there's maybe only a 5 or 10 percent change you'll need it, I would say, no don't do collars, stick only with caps.

Caps are always the first choice for the user hedger if you can tolerate the cost. It's -- it gets rid of upside volatility after a point and you keep all the downside volatility, which is good, and the collar becomes attractive as a compromise because caps are just too expensive in natural gas because of high volatility and also because you're looking out nine (9) to twelve (12) months.

(BRIEF PAUSE)

MS. MARLA MURPHY: Would you agree with the evidence that Centra's put on the record that notwithstanding the premium and -- and the affordability issues that you've raised, that the long-term cost of any strategy, caps or collars, the expected outcome will be zero?

MR. ASHMEAD PRINGLE: Well, let me think about that.

MS. MARLA MURPHY: I should qualify that by saying absent the embedded dealer margin, but other than that it would be zero?

MR. ASHMEAD PRINGLE: Oh, dealer margins are good. No -- well, an originally applied fixed price program, yes, I -- I think you're going to find that it -- it's going to work out pretty close to zero.

Collars because, you know, you have this unequal bandwidth in costless collars where you have typically, you know, fifty (50) cents on the upside and thirty (30) cents on the downside may not necessarily work out to zero.

And in terms of buying options I'm not so sure. I think if you're buying options you -- you ultimately end up paying some net premium just as you do when you buy some insurance that there will be a net cost just in the purchase of options over time.

MS. MARLA MURPHY: That would be the -- the dealer premium --

MR. ASHMEAD PRINGLE: Purchasing -- no, well, it's the premium, it's not the dealer margin. It's -- it's simply the risk premium.

MS. MARLA MURPHY: Back in 2001 you testified before the Public Utilities Board at the Cost of Gas Hearing of March 16th in 2001, and at that time you talked about the same thing about whether or not caps or collars were appropriate.

And the evidence that I have, and I'll provide you the transcript if you need it, at page 515, is that to reach any distance at all, three (3) months or six (6) months you've got to use collars; there's -- there's just -- there's no other affordable alternative if you're trying to reach a distance in a highly volatile market.

Do you still agree with that?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: Your evidence in this proceeding raises the suggestion that Centra ought to forego hedging, is that right?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And --

MR. ASHMEAD PRINGLE: Well, let me -- let me amplify that; that ideally it -- it would not hedge in -- in mass for the ratepayer but would be hedging for -- for those that -- that took certain programs that it might offer and if it didn't offer them or wasn't taken then they would not do any hedging, no. If they -- if they continued to be in loco parentis then, yes, they will continue hedging.

MS. MARLA MURPHY: I think one (1) of the reasons that you made your recommendation or your suggestion was that you thought that with the Winter Heating Cost Control Act consumers were well-shielded from gas rate and gas bill volatility, is that fair?

MR. ASHMEAD PRINGLE: That's fair, yes.

MS. MARLA MURPHY: And you conclude that with only storage the equal payment plan and the rate-setting methodology there is still some chance that a sharp price rise would result in a unacceptable rise in consumers' gas bills. I have that at lines 12 to 14 of your evidence.

Do I have it right?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And that in your view a legislative maximum increase would have to be enacted in order to eliminate the need for additional measures including hedging, correct?

MR. ASHMEAD PRINGLE: Could be or -- or if the Board could choose to -- to defer rates -- rate increases as it has in the past at times.

MS. MARLA MURPHY: But --

MR. ASHMEAD PRINGLE: Those things are not necessarily going to happen for sure.

MS. MARLA MURPHY: Right. Absent Board intervention or legislative intervention we still need to take on some additional measures?

MR. ASHMEAD PRINGLE: Yes, as long as you are charged with hedging in loco parentis.

MS. MARLA MURPHY: And I think from the -- the evidence before us you're aware that there's portions of the Winter Heating Cost Control Act relating to limiting increases in customers' natural gas bills during the winter months is specific to the 2006 and 2007 year, correct?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And for -- there's no direction in that Act beyond the years 2006/'07?

MR. ASHMEAD PRINGLE: Not to my knowledge, no.

MS. MARLA MURPHY: And I think you're

probably also aware that sections of the Act which addressed those limitations have not yet been proclaimed?

MR. ASHMEAD PRINGLE: That's right.

MS. MARLA MURPHY: And I think you agreed with Mr. Hoaken a few minutes ago that measures such as the Winter Heating Cost Control Act, and I think you could probably put the Board intervention into the same pool, don't provide any price protection to ratepayers against price spikes but actually only defer the ultimate payment of the costs?

MR. ASHMEAD PRINGLE: That's right.

MS. MARLA MURPHY: And would you agree with me that measures such as that, such as the Winter Heating Cost Control Act could actually contribute to rate volatility?

MR. ASHMEAD PRINGLE: Well, no, don't think that it would. I mean, it -- if it dampens rates at one (1) period -- if it represses them in one (1) period it's certainly going to raise them at another, but the net affect I think would be something of a smoothing; that's certainly its intent.

MS. MARLA MURPHY: That would depend on how the costs were recovered?

MR. ASHMEAD PRINGLE: Yes, but I -- I believe they'd be recovered gradually, and even that's not clear to me from the Act at how quickly they -- they would be recovered.

It may be a function of how much needs to be recovered; that's why I was -- I'm uncertain as to how much dampening or price distortion or what you might want to call it could occur. It would depend on the severity of a spike and it's length as to how much was deferred.

MS. MARLA MURPHY: And in a rising market when you recovering any other balance you are in fact increasing the volatility, correct?

MR. ASHMEAD PRINGLE: That's -- well you're it -- yes, I -- I would guess. Although, you know, if you're recovering it in the summer perhaps the affect is not so great.

MS. MARLA MURPHY: You made the suggestion that perhaps the band of Centra's collar should be widened.

Would you agree with me that for some consumers adding additional volatility in a circumstance where you already have perhaps higher prices or absolute cost of gas rising will in fact increase their volatility; that they may not actually have tolerance for that?

MR. ASHMEAD PRINGLE: Well, you know, the question of how much tolerance the consumer has is certainly an important and -- and I don't know the exact answer.

Going back to the study of five (5) or six (6) years ago it -- it was said that, oh, sixty dollars ($60) a year is -- is going to be tolerable and it would take a certain amount of -- at that time, a certain amount of -- of an increase to bridge -- to breach that. Maybe about twenty (20) -- twenty (20) but it happened to be about fifty (50) cents per Gj, that may have been a coincidence.

It's only my personal sense that the consumers thinks the volatility is a percentage thing and not as an absolute price issue, and that a collar bandwidth of eighty (80) cents a Gj if prices are at -- at twelve dollars ($12) may be only what, 5 or 6 percent or so, and is essentially a fixed-price deal, that the ratepayer could -- would probably tolerate something larger. I -- I was hypothesizing perhaps 15 percent in some of the -- later on in this particular evidence.

MS. MARLA MURPHY: You'd agree with me though that if the price of gas is twelve dollars ($12) it's quite possible that consumers may not be able to tolerate a larger percentage increase.

MR. ASHMEAD PRINGLE: Well, yes, that -- that's possible, and again, you know, sort of get into some policy issues. But again, it's sort of a year over year issue. You know, obviously bills are an awful lot higher than they were four (4) or five (5) years ago.

It -- it's just a tradeoff. If -- if we're going to fixed-price hedging and that -- that's really my point about of the collars bandwidth being the same is that the higher prices go, the more we're going to end up with essentially fixed-price hedges.

They will get rid of more volatility than say a wider collar that protects for -- for that period, but that's at the expense of some greater volatility perhaps later on; that is the greater volatility of accumulated gains or accumulated losses that are to be recovered.

So the consumer's going to get hit with it one way or the other.

MS. MARLA MURPHY: And it's probably appropriate then for us to obtain the customers views through market research before we make any kind of move or change in that direction, would you agree?

MR. ASHMEAD PRINGLE: Well, it certainly sounds reasonable. I think that, you know, consumers -- we know that consumers like lower prices and they like stable prices and -- and those sorts of things and I think you can -- you can do those studies and -- and use that as an input, but I -- I don't know personally whether they're going to -- whether they'll tell us anything new.

MS. MARLA MURPHY: Could I ask you to have your counsel provide you with the response to information request CENTRA/CAC/MSOS-5, please?

(BRIEF PAUSE)

MR. KRIS SAXBERG: I don't think I have a copy of it with me. Do you have an extra copy?

MS. MARLA MURPHY: This is the IR's that CAC responded to.

MR. KRIS SAXBERG: Oh, CENTRA/CAC. I thought you said CAC/CENTRA.

MS. MARLA MURPHY: Nope, CENTRA/CAC Number 5.

MR. KRIS SAXBERG: Sorry, I have that.

(BRIEF PAUSE)

MR. KRIS SAXBERG: We have it.

CONTINUED BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Mr. Pringle, are you

the drafter of this response? Did you prepare this one (1)?

MR. ASHMEAD PRINGLE: This particular one (1), no. I prepared the answers and -- and then they were put into this particular format.

MS. MARLA MURPHY: Did you provide -- what I want to know is did you provide the information?

MR. ASHMEAD PRINGLE: I did. Well, as far as the information about CAC, no, I didn't answer those questions.

MS. MARLA MURPHY: So which ones did you answer?

MR. ASHMEAD PRINGLE: I answered the ones that didn't relate to CAC's members and what was going -- well, let's just take from page 5 -- let's see, from 'B', line 12 on down, then all of the next page, page 6, and all of page 7, and -- this is something different, the next page of consumer protection -- okay. Then starting on page 8, that's me.

MS. MARLA MURPHY: Okay. So for the information request that labelled CENTRA/CAC-5, you answered Part A and then the rest was answered by someone else?

MR. ASHMEAD PRINGLE: That's right.

MS. MARLA MURPHY: Do you know who

answered the rest of it?

MR. KRIS SAXBERG: Well, this is -- these are all information requests answered by CAC and to the extent that the questions related to our consultant's evidence, then CAC was answering with his input.

With respect to the questions that were asked about the organization, our clients were providing information and CAC was answering to that extent.

MS. MARLA MURPHY: I understood when Mr. Pringle adopted this evidence that it was also his evidence.

MR. KRIS SAXBERG: Well, to the -- you're making a good qualification. I should have made that distinction.

MS. MARLA MURPHY: Fair enough.

MR. ASHMEAD PRINGLE: Yeah. When I received the information request I answered the questions that -- that I thought were relevant to -- to me. And the ones that I thought were -- were ones that needed to be answered by someone else, about CAC members, I left those blank.

CONTINUED BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Maybe I could just ask you to undertake to provide us with a breakdown of which of the questions are actually answered by Mr. Pringle and which have been answered by someone else and, if it's by someone else, who that might be.

MR. KRIS SAXBERG: I think he's just done that -- it's only that -- I think that's the only question, as far as the --

MR. ASHMEAD PRINGLE: I can --

MR. KRIS SAXBERG: There might have been some others.

MR. ASHMEAD PRINGLE: I can do that pretty quickly.

MR. KRIS SAXBERG: There might have been some others, including which evidence was filed in which proceedings. So I will undertake to do that.

MS. MARLA MURPHY: Thank you.

--- UNDERTAKING NO. 11: CAC/MSOS to provide details regarding who answered which questions with respect to IR CENTRA/CAC/MSOS-5.

CONTINUED BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Mr. Pringle, did you review the response to Parts B through -- B, C and D --

MR. ASHMEAD PRINGLE: Oh, I just took a

quick glance.

MS. MARLA MURPHY: So you -- you haven't made any assessment of the accuracy or made any attempt to verify any of the information that's in there?

MR. ASHMEAD PRINGLE: No.

(BRIEF PAUSE)

MS. MARLA MURPHY: And I take it you haven't personally undertaken any surveys or sent any questionnaires to Centra's customers respecting hedging?

MR. ASHMEAD PRINGLE: That's correct.

MS. MARLA MURPHY: If I could ask you to turn up PUB/CAC-7.

(BRIEF PAUSE)

MR. ASHMEAD PRINGLE: All right.

MS. MARLA MURPHY: You were asked in that question whether it's still your opinion that the equal payment plan should be the default and your response was:

"If mitigating bill volatility is an
important goal for the PUB, then you
see no reason not to make it a default.
It would be another act in loco

parentis as has been the hedging mandate."

Do I have that right?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: I'm interested to know why you wouldn't allow customers the choice they presently enjoy of enrolling in the EPP if they wished to use the mechanism, but not having it imposed on them.

MR. ASHMEAD PRINGLE: Well, they'd still have the choice. If they wanted to unbuckle their seatbelt, they could. It's -- I don't see -- there's a choice to be made either way. But beginning from a default position which is the safest for them, again it's an in loco parentis issue.

We're not here trying to give them all this choice. If we were, we would just let them choose whatever individual programs they wanted.

So, you know, if we're going to look out for them, we might as well look out for them -- look out for them as much as we can.

MS. MARLA MURPHY: Could I ask you to turn to page 10 of your evidence?

MR. ASHMEAD PRINGLE: All right.

MS. MARLA MURPHY: At line 13 of that evidence, you indicate:

"CAC/MSOS is opposed to a continuation
of the current situation in which
Centra hedges on behalf of all of its
customers."

MR. ASHMEAD PRINGLE: Okay.

MS. MARLA MURPHY: And there's a number of reasons given there. Are those your reasons? Or is that information that comes from someone at CAC?

MR. ASHMEAD PRINGLE: Those are my reasons. Well, they're my reasons why I believe they're opposed to a continuation of hedging. And my -- my view is that the hedging is not necessary to protect the ratepayer anymore if we have these other things in place

The -- the statements that they're opposed to hedging is one of the views that was cited in the -- in the Board's white paper. It's not -- it wasn't my characterization. It was just one (1) of -- one (1) of the 6 or so I took to -- to expand upon.

MS. MARLA MURPHY: And did you discuss that with principals of CAC or MSOS?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: So who informed you of those matters? Who -- who were you discussing that with?

MR. ASHMEAD PRINGLE: Mr. Saxberg.

MS. MARLA MURPHY: Nobody else?

MR. ASHMEAD PRINGLE: Right.

MS. MARLA MURPHY: So you weren't provided with any surveys or questionnaires or reports?

MR. ASHMEAD PRINGLE: Well I -- I have a copy of the survey of 2004.

MS. MARLA MURPHY: Centra's Western Viewpoints?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: Western Opinion Research?

MR. ASHMEAD PRINGLE: Right.

MS. MARLA MURPHY: Nothing else? At page 12 of your evidence, you reached two (2) conclusions. First that Centra should be released of any obligation to hedge on behalf of customers.

And second, that directly or through an unregulated affiliate, Centra should be allowed to offer gas and related price protection programs in competition with brokers, correct?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And by gas and related price protection programs competing with brokers, do I understand you to be specifically referring to fixed-price offerings?

MR. ASHMEAD PRINGLE: Yes.

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

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

It would strictly be selling gas at -- at a market price. It would compete in a sense and it would be offering gas but it -- it's offering would be restricted to just market price gas.

It couldn't compete for price protection programs. I think that was Mr. Hoaken's point. No, but they're not mutually exclusive. It's a policy issue I think.

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

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

MS. MARLA MURPHY: Are you aware that Centra is currently restricted to offering a single regulated gas supply option and price?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And if Centra were to stop placing hedges and allow the existing ones to settle as they mature, that would mean that our customers would then be exposed to more volatility in their natural gas rates, correct?

MR. ASHMEAD PRINGLE: Well more than -- you mean going forward would they? Yes.

MS. MARLA MURPHY: Yes.

MR. ASHMEAD PRINGLE: I mean going forward for the unhedged months they would have -- they would be now open to volatility. Presumably they would have, though, a place where they could address that either through brokers or Centra or however the policy is -- is driven.

MS. MARLA MURPHY: And assuming for the moment that Centra stayed with one (1) offering, customers would then have a choice of either an unhedged product or a fixed-price product offered from a broker, correct?

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And I'm interested to know why you view that as preferable to our current circumstance?

MR. ASHMEAD PRINGLE: Well, in the current circumstance the -- the individual customer really has a choice; it can go to the broker -- in fact it appears that almost half of them aren't aware they've made the choice. It seems that in one (1) of the studies, maybe it's the Western, they said 40 percent or so of -- of the subscribers to broker gas thought they were getting gas -- they were still on Hydro basically.

So individually, you know, if they go with broker gas then certainly they -- they have some transparency and they see what they're getting. If they're on system gas, I think it's a tougher thing.

They don't really know what -- what is the price they're going to pay ultimately. They don't know what the hedges are and not that they need to know, but I think it's -- it's -- I -- I think they don't know exactly what they're going to get. They're getting something. It -- it's -- it may be fixed-price gas, it may be market, it -- who knows exactly?

MS. MARLA MURPHY: Customers don't know what they're going to get if they have an unhedged product either, do they? They won't know the price.

MR. ASHMEAD PRINGLE: No. No, they won't, but at least they know it's the market, so to speak. In other words, if they just get gas at market, you know, they'll know they're open to the vagaries of the market. What they get now is a price -- you know, they'll see -- you know, down the road they'll find out what that -- what that price is -- is going to be.

MS. MARLA MURPHY: Are you aware of the evidence that Centra gave this morning that absent its hedging program residential customers would have experienced an annual bill increase in the increase of 33 percent in November of 2005?

MR. ASHMEAD PRINGLE: I -- I was not present this morning and didn't hear much over the -- over the intercom.

MS. MARLA MURPHY: How would you expect that customers would react to such a rate increase?

MR. ASHMEAD PRINGLE: And the rate increase will -- will take place when?

MS. MARLA MURPHY: It would have taken place in November of 2005.

MR. ASHMEAD PRINGLE: I see. Okay. Well, the customers are not going to like rate increases; that's for sure, but the -- you know, with the hedging program it's not always -- those things may be more visible to them than the rate decreases or the rate increase repression that they've experienced earlier. There -- there's -- it's difficult for them to see that.

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

So I grant that's -- it's difficult to inform the consumer about what he's really -- he or she is really getting.

MS. MARLA MURPHY: In June of 2003, you wrote a letter to counsel for CAC/MSOS with respect to our 2003/'04 General Rate Application and that's attached to your Exhibit 2 evidence at page 41 and following?

MR. ASHMEAD PRINGLE: Yeah.

MS. MARLA MURPHY: That letter says:

"In my letter to you of about a year ago regarding a similar application I said that the current approach has not worked well for any stakeholder and it's not likely to do so in the future. Fortunately for the ratepayer, Centra has proved me wrong."

Do you see that?

MR. ASHMEAD PRINGLE: I -- I do.

MS. MARLA MURPHY: And you went on to say that:

"During the last year, Centra has in fact hedged on a regular basis and to excellent affect at this point."

Correct?

MR. ASHMEAD PRINGLE: That is correct.

MS. MARLA MURPHY: You conclude that paragraph by saying:

"More importantly, Centra's customers are well protected from prices going even higher for much of the coming winter."

Do you see that at lines 30 and 31?

MR. ASHMEAD PRINGLE: I do.

MS. MARLA MURPHY: And in your current evidence of November 6th, 2003, you conclude on page 12 by indicating that our past hedging has been effective overall in reducing rate and bill volatility for the ratepayer and at basically zero cost after considering the time value for money.

MR. ASHMEAD PRINGLE: Yes.

MS. MARLA MURPHY: And you also conclude that reducing gas cost through hedging or beating the market is not a realistic goal for the Utility and shouldn't be expected of Centra, right?

MR. ASHMEAD PRINGLE: That's correct. Let me -- well, since you went to my June 3rd letter of 2003, let me go a little further in it. On -- on page 44, line 18, I said:

> "I grant a mechanical approach makes sense but such an approach carries the risk of marching of a cliff. To lessen this risk I recommend Centra retain a mechanical approach but instead of hedging those be vetted by an outside party so it can retain the advantage of a mechanical approach [and so forth]."

So this is where I would have hoped that, you know, rules might have become more flexible, be they wider collars or -- or some other recommendation. But the tight shoe has materialized and -- and while the overall effect has been about even and volatility has been smoothed, you know, the net effect is what -- what one has classically expected.

I mean, Centra has put forth that there's not going to be a net hedging gain or loss, we're just going to -- we're going to dampen some things, but at the expense, when we use fixed-price hedges, of -- of creating big year-to-year swings.

So, again, I think my position has -- has been consistent for most of these years and that is: the consumers should have choice, the more visible that choice is to them the better, that Centra hedging en masse in loco parentis is -- is a bit awkward. I grant it that in the 2003 letter the results were certainly -- were positive and continued to be for a while, but then, you know, we marched off the cliff.

So if Centra will -- must continue to hedge in loco parentis, I say fine, keep it purely mechanical, let the rules incorporate flexibility if they need be, avoid incorporating market views, don't go down that slippery slope.

MS. MARLA MURPHY: I think what you just

told me is a little bit different than the conclusion that's at page 12 of your evidence, and maybe I'm wrong, you can correct me, but your recommendation at page 12, lines 9 through 11, was that even though our past hedging had been effective overall in reducing rate and bill volatility at basically zero cost, that you concluded that we should be released from any obligation to hedge on behalf of our customers.

MR. ASHMEAD PRINGLE: Right.

MS. MARLA MURPHY: Is that still your view?

MR. ASHMEAD PRINGLE: Well, yeah, it is. I'm saying that, you know, maybe we've come to a tidy stopping point. You know, hedging 100 percent fixed-price gas forward is -- is aggressive stuff and -- and it's going to smooth things in the short run and give you big -- could give you big year-over-year adjustments that can be competitively a problem. I mean, if I was a broker today I'd be leading with that story. Centra's rates are going up and -- and that's part of the problem.

Yeah, I continue to think that the ideal way for the consumer to get protection is straight ahead, you know, one on one, and not sort of en masse.

MS. MARLA MURPHY: And in terms of -- of Centra being released from its obligation to hedge on behalf of customers, do you view that as a matter that's left in Centra's discretion?

MR. ASHMEAD PRINGLE: A matter that's at Centra's discretion?

MS. MARLA MURPHY: Yes. Whether or not the hedging --

MR. ASHMEAD PRINGLE: Oh, no, I think it's the PUB's oversight. No, I don't think it's a choice that Centra has.

MS. MARLA MURPHY: So your suggestion is that the Board should order Centra to decease from hedging?

MR. ASHMEAD PRINGLE: Well, they should do that if -- if and only if they provide -- when they provide other -- other mechanisms, you know, for -- well, for the ratepayer.

I think that there should be more ability for the ratepayer to roll their own so to speak in terms of price protection and, therefore, let -- whether or not Centra is allowed to participate in the provision of those things, again I think is a policy issue. If they were, then I think they should hedge their required risk and they wouldn't be subject to review. They would just hedge whatever gas they sell. Again, that -- that's a policy issue.

But hand in hand with -- with doing that is -- is -- is obviously providing that either Centra offers just market price gas or it offers market price gas and is allowed to compete with alternatives with the brokers.

MS. MARLA MURPHY: Looking for a minute at fixed-price offerings, are you aware of the price premium embedded in a fixed-price offering?

MR. ASHMEAD PRINGLE: An offering by the brokers?

MS. MARLA MURPHY: Sure.

MR. ASHMEAD PRINGLE: Well, there's usually a profit somewhere but I'm not sure what -- what you're driving at.

MS. MARLA MURPHY: Well, if you looked at a four (4) or a five (5) year fixed-price offering, are you able to characterise or give some suggestion of what the premium embedded in that might be?

OBJ MR. KRIS SAXBERG: I'm going to have to object to the question since it was Manitoba Hydro and Ms. Murphy on behalf of Manitoba Hydro that wrote to this Board and requested that these very issues not be discussed in this Hearing.

And, for the fairness of all parties, and in particular Direct Energy, I don't think that it's proper for Mr. Pringle to be addressing those kind of questions and I find it interesting that they're coming from Hydro.

MR. ERIC HOAKEN: Well, I would just add, I was just reaching for my microphone when Mr. Saxberg jumped in to make precisely the same point. And I think you noticed, I was extremely careful in my cross-examination to avoid getting into the details of fixed-price offerings.

THE CHAIRPERSON: You did touch it, Mr. Hoaken.

MS. MARLA MURPHY: Exact -- that was my comment --

THE CHAIRPERSON: Ms. Murphy, do you want to --

MS. MARLA MURPHY: -- first is that --

THE CHAIRPERSON: -- reconsider the direction in this case because we are going to look at this separately?

MS. MARLA MURPHY: I understand and I really don't. I think it's been -- it's been raised here and it was one (1) question by way of preamble to a second question that's coming, so if we have an answer we can move on.

THE CHAIRPERSON: To be fair, I was

hearing your question more in light tied to the hedging issue but, anyway, please continue.

MR. ASHMEAD PRINGLE: Well, to answer your question, I wouldn't consider there are any premium in a fixed-price offering in the sense that there's a premium related to an option to a cap or a floor.

Certainly there may be the bid ask spread which relates to a dealer mark up, and if you go out and get quotes from a host of counterparties, and I think you have six (6) or seven (7) that are approved, and ask them for -- at what price would they sell you gas for the next five (5) years and what price would they -- could you buy gas from them or, excuse me, could you sell them gas for the next five (5) years, you're going to get two (2) different numbers and that's the bit offer spread. And that's the dealer's margin, if you will --

THE CHAIRPERSON: Okay, I think --

MR. ASHMEAD PRINGLE: -- for a five (5) year deal, it may be a couple of cents a Gj.

CONTINUE BY MS. MARLA MURPHY:

MS. MARLA MURPHY: You told me a few minutes ago that there was, in a fixed-price swap, if Centra would enter into a swap that there was a premium associated with that, is that right?

MR. ASHMEAD PRINGLE: I did? No, I didn't mean to.

MS. MARLA MURPHY: That there was some cost over and above the dealer margin because you were shedding that risk fixing the price?

MR. ASHMEAD PRINGLE: No, I didn't mean to say that. If I did, I misspoke.

There's typically -- there's no additional transaction cost in doing a fixed-price swap as there is an option where you pay a premium. There may be some transaction costs that are embedded in the deal which aren't very visible because it's not an agency market like NYMEX.

Your -- the Kiodex Study speaks to that and -- and it's the bit offer spread that is really the main cost in getting in and out of a fixed-priced position.

THE CHAIRPERSON: Ms. Murphy, I don't want to interfere with your cross-examination but if you're going to be any longer than about five (5) minutes, I think we'll take a short break.

MS. MARLA MURPHY: I can probably wrap up, I believe.

THE CHAIRPERSON: Okay, carry on, and then we'll have the break and then return with Mr.

Peters.

(BRIEF PAUSE)

MS. MARLA MURPHY: Mr. Chairman, that in fact concludes my questions. I'd like to thank Mr. Pringle for his time.

THE CHAIRPERSON: Thank you. Okay, we'll have a break. We'll come back in ten (10) minutes.

--- Upon recessing at 3:05 p.m.
--- Upon resuming at 3:20 p.m.

THE CHAIRPERSON: While we're waiting for Mr. Pringle, you have a response for an undertaking?

MS. MARLA MURPHY: Yes, we do, although I don't have a benefit of a copy, but it has been circulated to the Board. And it believe it would be Centra Exhibit Number 7.

THE CHAIRPERSON: Yes, it's Undertaking provided by Mr. Warden, Undertaking No. 9. It has to do with bad debts. So we'll put that in as --

MS. MARLA MURPHY: Yes, thank you.

THE CHAIRPERSON: -- Number, you said Number 9?

MS. MARLA MURPHY: Exhibit No. 7, yes.
THE CHAIRPERSON: 7, right.

--- EXHIBIT NO. CENTRA-7: Response to Undertaking 9.

THE CHAIRPERSON: Whenever you're ready to begin, Mr. Peters.

CROSS-EXAMINATION BY MR. BOB PETERS:
MR. BOB PETERS: Thank you. Good afternoon, Mr. Pringle. It's your job and mine collectively to make sure that we make it out of here at the ususal closing time.
MR. ASHMEAD PRINGLE: That's right.
MR. BOB PETERS: Mr. Pringle, why do you believe Centra hedges some of its primary gas volumes?
MR. ASHMEAD PRINGLE: To mitigate the volatility, rate volatility, and subsequently bill volatility as well for the -- for the ratepayer.
MR. BOB PETERS: Why are they doing that?
MR. ASHMEAD PRINGLE: In my mind, they're doing it to -- to satisfy the Board, the regulatory authority.
MR. BOB PETERS: In a similar question that I asked of Centra, they gave me a bit of a different

answer I recall and it was to suggest that their consumers want them to do that. And those are my paraphrasing of their words, but -- would you accept or you don't -- you don't accept that they're -- they're hedging because their consumers want them to?

MR. ASHMEAD PRINGLE: Well, you know, why they started hedging and -- and why they are continuing may be two (2) different things. I -- I think that the -- the 2004 study there were question -- there was a question posed to consumers along the lines of; Centra operates a hedging program to reduce bill volatility and it costs a little bit should -- would you like them to continue. And -- and I think a majority, 60 percent said yes, continue, and some said do more, some said no.

You know, I take that question with a little bit of a grain of salt because it's -- it sounds pretty good; you know, mitigate my bill volatility and it costs just a little bit, sure, I'd like that and maybe do a little more.

But back -- going back to, you know, 2000 and those periods when for example, in the year that I fist discussed with some of the evidence I submitted and I think it was 2000, where hedging didn't happen and -- and prices moved higher. I think the consumers would have wanted some protection then had they been able to express a view.

And under the study that had been done up to that point, they -- they had said, yes, we could -- we'll take a little volatility but not too much, sixty (60) bucks would be okay but we'd like to do the rest.

So it -- it may well be that that's the view of Centra now, I can't speak to it. But my impression overall is that the process started really with the nudging of the Board.

MR. BOB PETERS: And assuming if that's how it started, their continuing it is at the behest of some of their customers as they interpret it.

Would you accept that's their -- their view?

MR. ASHMEAD PRINGLE: Well, I -- I can't really comment on -- on their motives for doing it or not doing it at this point.

MR. BOB PETERS: Is it --

MR. ASHMEAD PRINGLE: My -- I guess my assumption would be that it's -- I have said as much that I think they probably prefer not to do it, just to have a simpler life. But, you know, maybe I'm wrong, maybe they would rather do the hedging.

MR. BOB PETERS: All right. Am I correct to suggest that you certainly haven't done any surveying of Manitoba gas consumers to find out what their preference is or needs or wants would be?

MR. ASHMEAD PRINGLE: That's correct.

MR. BOB PETERS: And to your knowledge, nor has CAC/MSOS done that kind of customer survey market gap --

MR. ASHMEAD PRINGLE: Well I -- I haven't really asked them the question; that you'd have -- have to check with them.

MR. BOB PETERS: All right. I won't ask -- I won't -- well Mr. Saxberg seldom takes the stand under oath so I can't really go there, but would it be fair to say they haven't told you of any evidence or any market surveys that they have conducted --

MR. ASHMEAD PRINGLE: That's the --

MR. BOB PETERS: -- dealing with consumer preferences for hedging in Manitoba?

MR. ASHMEAD PRINGLE: That's correct. And I -- just ask you, Mr. Peters, if there's too much sun in your face I'm feeling that --

MR. BOB PETERS: No, my wife's a photographer, I'm used to flashes and --

MR. ASHMEAD PRINGLE: You're used to the spotlight, okay. All right.

MR. BOB PETERS: I'm okay. It's the only

warmth we're going to see for the next four (4) months so I want to enjoy it.

MR. ASHMEAD PRINGLE: I know.

MR. BOB PETERS: Are you aware, Mr. Pringle of any consumer evidence that would be considered empirical and applicable to Manitoba that could come here from other jurisdictions?

MR. ASHMEAD PRINGLE: No.

(BRIEF PAUSE)

MR. BOB PETERS: Why do you believe that CAC/MSOS does not want Centra to hedge gas volumes?

MR. ASHMEAD PRINGLE: I believe because they believe over the long pull that -- that hedging will not produce any net gain or loss, that it will have some cost -- transaction cost, perhaps administrative costs as well -- and that in the -- its -- in its current form it has -- has resulted in some -- some large accumulations which are problematic I guess is the way to see it, and also that there are other mechanisms in place.

MR. BOB PETERS: If the consumer market surveys are interpreted by the Utility to be -- to mean that volatility control is wanted, do you think the Utility has an obligation to try to provide that?

MR. ASHMEAD PRINGLE: Well, I think that's really a policy issue, Mr. Peters. I -- I think it's -- it's a worthwhile endeavour to -- to see that they get it but I think it's really a policy issue and a provincial matter as to how they get it. Giving it to them via Centra hedging for the customer class is one (1) way and -- and one (1) way I've suggested is, in my view, not -- not the ideal way.

MR. BOB PETERS: Is your -- maybe Mr. Saxberg could provide you with a copy of Exhibit Centra 6 which was a coloured chart.

(BRIEF PAUSE)

MR. BOB PETERS: Would you have had a chance to review that prior to just now, Mr. Pringle?

MR. ASHMEAD PRINGLE: I have -- I have looked at it and is this -- the one that you have has red and blue lines on it as well?

MR. BOB PETERS: Yes, it is.

MR. ASHMEAD PRINGLE: Okay. All right. Yeah.

MR. BOB PETERS: And you understand that the red lines are the actual residential primary gas billed rates to Manitoba over a span of, I guess, from

April of '02 through to September of '06?

MR. ASHMEAD PRINGLE: Yes.

MR. BOB PETERS: And you understand the blue lines represent the pro forma primary gas billed rates; what they would have been had there been no hedging, but the other components of Centra's volatility management program in place?

MR. ASHMEAD PRINGLE: Right.

MR. BOB PETERS: And when you look at it on this Exhibit 6, Mr. Pringle, does that suggest to you that the hedging program has provided benefit to the consumers?

MR. ASHMEAD PRINGLE: Yes, it -- it did and in -- in many of those months it was a positive benefit. I'll come to this big month in a second.

And -- and I'm not -- you know, in terms of what the effect was on the -- on the bill, if we look at that -- I'm not sure which exhibit I'm thinking of but there -- there may have been -- I'm trying to think if there was one that showed the effect of -- of what happened to the bill over time. But anyway this is the rate, is that correct, and not the bill? This is the rate?

MR. BOB PETERS: This is -- this is the rate, yes.

MR. ASHMEAD PRINGLE: Yeah. I would say yes, and -- and that's consistent with the -- with the data provided elsewhere that says that, you know, in the past the program had generated some -- some large reductions in gas cost, and to the right of this graph there may be coming in part or in whole some significant additions to gas cost.

One (1) -- one (1) of the questions I had in looking at this though was in terms of the -- the red line. And -- and I -- I did -- I did hear part of this testimony this morning that when we get to this big -- this big increase, you know, sort of the second half of the spike, you know, it looks like that in the first half of that spike we got right to the end of a quarter in price. The forward price just had not taken off yet so just by a matter of maybe a week or two (2) the -- the forward price was not set very high and then -- then it was.

But the red line, does that include the effect of some additional dampening that the Board put in at that point? It -- didn't it elect to restrain half of the increase at that time?

MR. BOB PETERS: I believe you're correct in that and I also believe the evidence from this morning from Mr. Sanderson was that the red line does include the other volatility management aspects utilised not only by the utility, such as the quarterly price-setting mechanism, but also what the Board had ordered on that November 1st increase.

MR. ASHMEAD PRINGLE: Okay. Well, I guess my -- my thinking was -- and it's not a huge difference -- was that the -- the jump in that red line might have been twice as large without the restraint; still, obviously, would have provided a bit benefit.

MR. BOB PETERS: What --

MR. ASHMEAD PRINGLE: But, in any case, I -- I grant that during this period there were significant net savings to the consumer, some much better than other.

MR. BOB PETERS: In your answer you were indicating you didn't have at your fingertips the impact on the consumer's bill. I do have a copy at hand of the latest Board Order 144 of '06, which is a primary gas quarterly rate setting for November 1st. And in the Board Order there is generally a table showing the annual -- or, sorry, showing the percentage change in the total annual bill.

Was there some comment you wanted to correlate between that and Exhibit 6?

MR. ASHMEAD PRINGLE: Just -- my question -- just what sort of, you know, difference in the bills had -- had been present due to these -- these rate savings, but, no -- no major point.

MR. BOB PETERS: Well, I think it was also this morning and it may have been Ms. Stewart who had indicated that on that November spike that you've just drawn attention to, the primary gas rate would have increased by approximately 50 percent but the bill impact would have only been 33 percent, recognizing the relative proportion of primary gas on a consumer's bill.

MR. ASHMEAD PRINGLE: Hmm hmm.

MR. BOB PETERS: Does that answer your concern or your question?

MR. ASHMEAD PRINGLE: Yeah, I think so.

MR. BOB PETERS: When you look at Exhibit 6 and if the Board is looking to measure whether or not volatility has been controlled, what should those blue and red lines be compared to?

What should be the comparison for determining volatility control?

MR. ASHMEAD PRINGLE: Well, the way volatility was framed in the early going was for the consumer in terms of a year-over-year bill change and I think that -- that really isn't going to be apparent from this. But I think that's one of the measure of volatility that was suggested and -- and may still govern; how much -- how much the consumer, who I think is going to look at his bill pretty much year over year, particularly after the winter months, when usage is high, and compare that to the prior year.

I would like to say this too though, that I'm a fan of hedging, obviously. I like hedging. Hedging is good. I wish more people hedged. And I'm glad that there's discussion about it because, you know, people don't understand what, you know, I do. If I say, Well I'm -- I'm a hedger. Okay, well, yard work must be pretty -- pretty good.

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

MR. BOB PETERS: I don't know that you've been specific as to what that direct access should be to, in terms of what are the tools that the consumer should have direct access to but presently doesn't.

MR. ASHMEAD PRINGLE: Well, he does have access to -- to fixed-price gas through brokers. He does have access to -- which is -- can be a rate volatility constraint. He's got access to the extended payment program under those things. As well, what he doesn't have access to at the moment, and that's really a policy issue, is he doesn't have access to fixed-price offerings individually, you know, from Centra.

MR. BOB PETERS: You may have occasion to come back to Manitoba in 2007 to talk about that, and it probably won't be quite as cold as it is today.

MR. ASHMEAD PRINGLE: You know, that's great.

MR. BOB PETERS: But --

MR. ASHMEAD PRINGLE: That's my purpose. Plant the seeds of another trip.

MR. BOB PETERS: Yes, but -- but other than the fixed-price offering by the LDC, all of the other tools are available and, in fact, are being utilized by consumers in Manitoba; would you agree with that?

MR. ASHMEAD PRINGLE: Yes. I think -- I'm not sure the percentage. It may be 40 percent on broker gas, I'm not sure. I'm not sure how -- of those how much are on fixed-price deals. I think over 40 percent are on -- are on the extended payment program, that's true. I'd like to see a 100 percent on that -- on that -- on that program.

MR. BOB PETERS: Are you aware of what

specific broker offerings there are in Manitoba in terms of the terms that are offered by the brokers here?

MR. ASHMEAD PRINGLE: I'm not. My sense is that it's fixed-price gas for up to multi-year periods.

MR. BOB PETERS: You're not aware of how long of contracts are --

MR. ASHMEAD PRINGLE: I've heard --

MR. BOB PETERS: -- are available?

MR. ASHMEAD PRINGLE: -- of up to five (5) years.

MR. BOB PETERS: Are you aware of any ones that are of shorter duration in Manitoba?

MR. ASHMEAD PRINGLE: Well, I assume that there are some, yes; that they're probably at least a season long, maybe more.

MR. BOB PETERS: But you're not aware of that?

MR. ASHMEAD PRINGLE: Well, I haven't seen particular offerings or -- or descriptions of the plans.

MR. BOB PETERS: If -- if in Manitoba there was only available long term and let's say, three (3) or five (5) year contracts from brokers, would that in anyway change your evidence that you're giving the

Board?

MR. ASHMEAD PRINGLE: Perhaps. I mean, I would like to see the customer have more than just a long term choice, but to be able to choose single year or -- or more. But that's really a competitive -- to me -- it seems to me a competitive issue unless -- unless it's prohibited and I don't know that it is.

MR. BOB PETERS: If it's not prohibited and it's not being offered, what does that tell you about the Manitoba marketplace?

MR. ASHMEAD PRINGLE: Well, that it could -- it could have more offerings. I'm not sure why they wouldn't be offering shorter term contracts.

(BRIEF PAUSE)

MR. ASHMEAD PRINGLE: And where -- where you may be going, I mean -- I mean, perhaps it indicates that more competition would be useful.

If no one's offering less than three (3) years and then there's a demand for two (2) years, it seems like a -- a market or broker could -- could add some market share by offering something no one else is.

MR. BOB PETERS: But if a broker's not offering that currently in Manitoba what -- what does that say, if anything, about the Manitoba marketplace?

MR. ASHMEAD PRINGLE: Well, it could say a number of things and I'm -- this is sort of assumptions. I've trusted it doesn't say they're prohibited from doing it and, if they're not, they're either -- have decided not to or -- or they find that there's no demand for it, or that in terms of making it profitable enough to offer fixed-price contracts, because the broker has to make some money, that they need multi-year contracts to -- to make it worth their while and to recover marketing costs; customer attention issue perhaps.

MR. BOB PETERS: In your direct evidence to Mr. Saxberg, you looked at the Board's -- you called it a white paper and interpreted it to mean that the Board had a concern for the consumer welfare in Manitoba.

MR. ASHMEAD PRINGLE: Yes. Although I think I assumed that the Board had that concern, you know, from its origination most likely.

MR. BOB PETERS: But they you also talk about this loco parentis offerings in the Manitoba -- what's presently offered or done by the Corporation, and is it your suggestion that all of those other volatility management techniques should be left only to the choice of the consumer?

MR. ASHMEAD PRINGLE: Yes. In -- in giving -- and I would make the extent -- the EPP program a default for the consumer and then I think the consumer's fairly well protected from a lot of volatility, and that with some customer choice, I think, is sufficient.

In that case that the in loco parentis hedging would no longer be needed.

MR. BOB PETERS: And that assumes that there is a -- an active competitive market where there could be fixed-price offerings of -- of durations such as one (1) year, two (2) year, three (3) year and five (5) year.

MR. ASHMEAD PRINGLE: Yes.

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

MR. ASHMEAD PRINGLE: Well, I -- yes, I would -- to the extent that -- that the consumer cannot obtain a reasonable amount of customer choice from the brokers, then I would say, Well that's a good argument for allowing Centra or an unregulated affiliate to offer programs under the assumption that it would offer more than just a five (5) year program.

MR. BOB PETERS: Let's just discuss Centra's continued use of mechanistic hedging, which I understood you to say that if Centra has to hedge then it should stick to mechanistic hedging.

MR. ASHMEAD PRINGLE: Correct.

MR. BOB PETERS: And you had a few tweaks to that in my -- in my suggestion, one of those tweaks would be the -- the collar size.

MR. ASHMEAD PRINGLE: Hmm hmm.

MR. BOB PETERS: But in terms of --

MR. ASHMEAD PRINGLE: Yes.

MR. BOB PETERS: -- the mechanistic hedging you don't think they should be permitted under the -- under rules to be established to deviate from mechanistic hedging when they take a market view.

MR. ASHMEAD PRINGLE: Yes. What I'm saying is I don't think that -- that a market view should -- should come into it. Based on Mr. Simard's analysis and -- and so forth, I'm not sure that -- that they're going to be successful at that or that other people will either.

It's a very difficult market to -- to try to forecast price wise. And I believe that the risk goes up for the ratepayer when market views come into play.

MR. BOB PETERS: And you're aware that in the years under review that are before the Board in this Hearing, the occasions where Centra took a market view, one of them at least had to do with the -- the market prices post-hurricane season and specifically post-Katrina and Rita.

MR. ASHMEAD PRINGLE: Yes.

MR. BOB PETERS: And in that particular case when -- when the executive of Centra took a market view you're suggesting that it was inappropriate of them to do so even if permitted by the policy.

MR. ASHMEAD PRINGLE: Yes. I think that it was and I think they should not do it. I don't consider market view one of the special circumstances that were -- were discussed earlier in terms of presenting a need to alter the program.

I would say that, you know, there's more than one set of rules that's possible. And in my -- my testimony a few years ago when I was talking about marching off the cliff and all that good stuff, I said, Let Centra have those rules reviewed and possibly revised and changed and -- rules can incorporate some flexibility as well.

A mechanistic program doesn't mean that you have to have a single rule and stick with it forever. It simply means you stick with the rules but you can certainly change them. So the rules could have been changed, including the -- including the widening of the collar or a provision for hedging lower percentages in summer months or hedging lower percentages if -- if prices were, you know, X above history, and so forth.

But I'm a believer in the mechanistic approach being appropriate here and -- for the interest of -- of making sure things do get done. The risk of course with market view is highlighted in the 2000 or 2001, whenever it was, when it -- you know, after the hearing of the year before I felt like the understanding was, you know, there was the 50 percent mechanism, there was EPP and rate-smoothing and -- and there would be some hedging to guard against higher prices, and it never got done.

And every month there was a meeting and the market views were discussed and things were too expensive, and nothing ever happened. That's the risk with -- with market views.

MR. BOB PETERS: Did I understand your evidence through Mr. Saxberg to be that the only special circumstances that should get the attention of Centra's executive would be when there are transportation and supply concerns, and then they may want to do something other than mechanistic hedging?

MR. ASHMEAD PRINGLE: Well, yes, things that -- that -- are -- are not related to the market or -- or the price of gas, certainly things that would have to do with projected volumes. I think one (1) of Centra's examples is if -- if there was a big change in -- in projected volume because of a migration to broker gas or if there were changes in supply structure or pipeline interruption or some such then, yes, those are special circumstances.

MR. BOB PETERS: And to that end then back to Centra Exhibit 6, Centra customers in Manitoba should have followed the blue line for the months of November and December of '05, and just fought through that price increase, whatever it would have been?

MR. ASHMEAD PRINGLE: Well, I'm not saying go back in history and -- and undo it. You know, hindsight is twenty/twenty (20/20). It -- it was nice to have that protection. My point is is that, you know, hedging in essence in this fashion is -- and I think Centra said this, not likely to produce a net gain over time or loss so it's just a matter of -- of some smoothing.

MR. BOB PETERS: But Centra didn't have--

MR. ASHMEAD PRINGLE: With --

MR. BOB PETERS: I'm sorry to interrupt.

MR. ASHMEAD PRINGLE: With the tools that are available, I mean, one could take the approach and be quite strict with the ratepayer and say, Ratepayer, you do have the tools you need. You have broker gas. You have the EPP and if you don't do it, well, then it's too bad. But that's politically maybe not very attractive.

But I don't suggest that -- that the ratepayer would have been well served by being exposed here, but we're talking in a going forward approach.

MR. BOB PETERS: But before the monthly prices, Mr. Pringle, were put in effect for the November/December period Centra was relying on future prices. They weren't looking in a rearview mirror when they did that, were they?

MR. ASHMEAD PRINGLE: No, I believe they -- they set the forward price based on the curve at the time; that's true. And in fact if they'd been using the wider collars that I've discussed they would have had a little less positive results; that's just out of the tradeoff that you make with those. But -- and again in -- in the later situation since they would have had less loss to dispose of.

MR. BOB PETERS: Let me just switch to that wider collar that you've suggested be one (1) of the -- one (1) of the tweaks to the mechanistic hedging program.

Your point in the wider collar is essentially the fifty (50) cent out of the money, whether that was Mr. Stephens' brainchild or the consumers back in the day. Whatever it was, it represented approximately 20 percent of the then -- of the then market price and therefore that same percentage should be applied to the market price today?

MR. ASHMEAD PRINGLE: I -- I think it's a good place to start, yes. I -- I don't know that the 20 percent is a magic number. It -- it came from the fact that back then, given the proportion of primary gas to the gas bill and the then current prices, a fifty (50) cent move would -- would be about sixty dollars ($60) in annual cost with the -- I think the annual usage was something around 1,200 Gj's and it may be a little lower now.

So that -- that's the 20 percent notion, right.

MR. BOB PETERS: And -- and the 20 percent notion today, whatever that would increase, there would also be a 60 percent of that 20 percent as you've explained or, say, 12 percent reduction for the floor price expected?

MR. ASHMEAD PRINGLE: I think typically

that's what you'd find. If -- if you look at the executions of Centra they're fifty (50) cents above and then on the downside they're not -- they're not all thirty (30) cents obviously but they tend to cluster around that number.

So it -- it's -- I think it tends to hold true. So if they were two dollars ($2) higher, they would be a dollar twenty ($1.20) lower.

MR. BOB PETERS: You also said in your evidence this afternoon, Mr. Pringle, that the hedging program should be more flexible in its rules and I was wondering, in terms of volumes can it be any more flexible than it currently is?

MR. ASHMEAD PRINGLE: Well, it -- it's flexible on paper but I don't think it's flexible in practice. In other words the -- the policy says essentially that they will hedge up to 100 percent of primary volumes for that fourth quarter out and subject -- subject to Executive Committee override and so forth. And I think whether it's part of that statement or some other, then I think it says, as a matter of course, though, here's what we're going to do.

We're going to rarely exercise this discretion. We're going to do it infrequently. What we're going to do instead, though, as a matter of course is, we will -- we'll hedge 100 percent and we'll do it with costless collars and we'll do it with collars that have a fifty cent (50) topside gap.

So that's -- that of course is what was done consistently for -- for quite some period. So I -- to me in practice it was -- it was a strictly mechanical program.

Now the business and I think it was just last year, I -- I may be mistaken, but recently the percentage I think changed from 90 percent to 100 percent.

And that subject to special circumstances a escape clause was -- was inserted. I think that may have been last year. But prior to that I think it was just -- it was really a very mechanical mechanistic program and I think Centra, you know, said a number of times, this is what we're going to do. We're going to just -- we're going to do it like clockwork in essence, by golly.

And -- and that's the troubling thing is that it didn't happen a couple of times last year for whatever reason. I think it -- market views started to -- to come back in.

MR. BOB PETERS: Is the flexibility in volumes hedged that you think should be written into the rules tied to summer variation and winter variation?

MR. ASHMEAD PRINGLE: Well, it could be. I -- I'm not presuming to say I have a set of rules that are better. What I'm saying is that the -- the current rule that had been followed fairly religiously does really has no flexibility.

And that rather than have market views which are a very, sort of, ad hoc type of thing and I think hard to -- hard for me to be comfortable with anyway. It's possible to write rules that have some -- some flexibility.

One of those might be that hedge percentages, minimum and maximums could be set. It could be different for different times of the year. It could be -- could be increased as periods get closer, you know, we have clients who do that.

One year out they may hedge 10 to 30 percent. Nine (9) months out that percentage may go up. And it may vary depending on the time of year and a seasonal fuel market.

MR. BOB PETERS: Does the same general answer apply to the flexibility that you think the corporation should use for the type of instruments used?

MR. ASHMEAD PRINGLE: Well, it -- it's so -- you know, it depends on what their -- what the purpose of the instrument is. The -- originally, you know, they began with the collar, well actually with the caps.

And -- and the hedging was going to be sort of a disaster insurance program and caps are great for that. If they're not too expensive, you're just going to limit the upside and -- and keep the downside.

Collars came along as the compromise and again, initially that was going to be perhaps a discretionary amount. Whatever it was going to be needed to protect against this -- this runaway market.

Because we had some -- we had a little more smoothing then. We had the 50 percent flywheel affect. And -- and then we got away from that and went to 100 percent passthrough and -- and the quarterly rate setting and more reliance on derivatives.

So it went up to -- what 90 percent. And the collar was selected -- I -- I don't really have any problem with the collar. Fixed price could be used as -- as well to some degree. That -- that's really a choice.

Collars are attractive to folks because they -- costless collars are because they have no up front cost, they have an opportunity cost.

Again, I -- I don't -- it's easy to go back and say, well here's rules that would have been the maximum best thing you could have done in the past. And

I'm not suggesting that's useful.

I'm only suggesting that the rule that was being followed had a risk of running into losses and that Centra should look at its hedging rules and have some outside source like risk advisory give them a periodic recommendation on making any changes.

MR. BOB PETERS: Thank you for that. I want to turn with you to -- in the book of documents that Mr. Saxberg has -- those would be the, sorry, -- the selected hearing documents that were prepared on behalf of the Board, not Mr. Saxberg's treatise.

At Tab 22 there's a listing of the seven (7) counter parties with whom Centra is permitted to interact.

MR. ASHMEAD PRINGLE: All right.

MR. BOB PETERS: Are you aware of any or all of those?

MR. ASHMEAD PRINGLE: Yes. I've heard of them.

MR. BOB PETERS: Can you tell the Board what are your views on the nature of the reward expectations of AECO based trading as set out by these counter parties?

MR. ASHMEAD PRINGLE: Well, I can't tell you what -- what the kind of profit margins they shoot for, et cetera, but certainly they shoot for some in terms of their trading.

How much risk their individual trading desks take as a possible income source is another issue. I can't tell you about that and that may influence the extent to which one (1) of them has a stronger offer one (1) day or another.

What I think I can say with confidence is that in the marketplace, as you survey these counter parties, and it's certainly a rich set, and you look for price, say, swap prices, I think you'll find them fairly close together and there will be a bit offer spread between the two (2).

Each of these desks will be willing to buy at one price and sell at another. And that may be a little different from one to the other, depending on their book, their position, whether they're long or short and their market view, perhaps.

They may well take a market view. Characterize that? I don't know. AECO's a pretty tight market.

I'd say most of the time for something within a year, maybe that bit offer spread is -- is a penny a GJ, maybe two (2). It's going to depend on the volatility.

MR. BOB PETERS: When you say this is a rich set of counter parties, what do you mean by that?

MR. ASHMEAD PRINGLE: Well, I mean seven is a nice number and these are all major strong financial institutions that -- that should be financially worthy counter parties.

MR. BOB PETERS: You'd expect these counter parties to have a high level of sophistication in dealing with derivatives trading of natural gas?

MR. ASHMEAD PRINGLE: I would.

MR. BOB PETERS: And has -- have you come across anything in the filing in this case to suggest that Centra is not well suited in transacting with these counter parties?

MR. ASHMEAD PRINGLE: No. No, I -- I think they've -- their transaction process as described seems -- seems reasonable.

As I understand it, they go out for bids and not always to all of these counter parties, but at least two (2) or more, I presume, maybe three (3) or more and look for the -- the best numbers.

MR. BOB PETERS: There's no suggestion by you that Centra's bringing a knife to a gunfight here with these people?

MR. ASHMEAD PRINGLE: No, I don't think

so. As long as they are getting competitive bids, no, I think that takes care of itself.

MR. BOB PETERS: And if Centra estimates the dealer margin to be approximately three-quarters (3/4) of one (1) cent per GJ, you'd find that reasonable?

MR. ASHMEAD PRINGLE: Well, I saw that in the Kiodex study and I don't know, I would just go back to the bid offer spread in -- in the market place and my guess is, it's probably a bit wider than that but -- and it will change, depending on what's happening in the natural gas market.

There are going to be times when it may be a nickle, just depending on how -- how much volatility is going on at that particular time.

So, I would say probably, you know, if you want to split it down the middle and say it's two (2) cents and then, you know, in mid market maybe it's a penny, yeah, I think it's small. Three-quarter (3/4) of a cent, maybe. That's a good, tight market.

MR. BOB PETERS: Does that suggest that there's a high liquidity in the market?

MR. ASHMEAD PRINGLE: Yes. No, I think that AECO is a very liquid market.

And, you know, I -- in fact, yeah, I'd argue that -- that AECO -- the price of gas is already fairly competitive and the price at AECO is a -- it's a highly liquid point, transparent, lot of counter parties and I think one can look at that price, generally, with confidence that it is arrived at through a competitive process; that it is -- it is the price, it is the market price, and -- and, you know, nobody has a magic wand to make it lower or make it higher.

MR. BOB PETERS: Just to conclude, in the evidence you had through questions from Ms. Murphy, I think you indicated that ideally your recommendation to this Board would be to order Centra to stop hedging once the ratepayers can, and I think I wrote down -- roll their own.

Were those your words?

MR. ASHMEAD PRINGLE: That's a folksy expression.

MR. BOB PETERS: Maybe from the tobacco industry, I don't know.

MR. ASHMEAD PRINGLE: That's right. That is correct.

MR. BOB PETERS: I think it has a different meaning to some, but, having said that, what you meant by that was if the Board is satisfied that Manitoba consumers have a wide spectrum of options in terms of fixing the price that they want through a broker as well as these other opportunities such as the equal payment plan, that might be the time that Manitoba should consider letting Centra discontinue hedging if that's their -- if that's their --

MR. ASHMEAD PRINGLE: Yes. I'm -- yeah. I'm not suggesting that the -- that the customer be -- be abandoned, that the consumer be abandoned, but that -- that these -- these choices of managing their risks can be delivered, you know, more efficiently and individually.

MR. BOB PETERS: And included in that, I think you've told me already, is your expectation that that fully competitive marketplace would include one season out fixed-price offerings, maybe two (2) seasons out, maybe three (3), as well as five (5).

MR. ASHMEAD PRINGLE: I think so. I mean, in a -- you know, I'm not sure who wants the five (5), I mean, of course maybe my time line is getting short but in -- in Georgia we have these choices and -- and I'm not so interested in a -- in a five (5) year program.

And if I were offering one (1) I would be -- I would be concerned about how do I enforce it, because it's not very -- it's not easy to chase individual consumers down if they default. It's hardly worth the trouble. A good bit of risk in five (5) year programs.

As the Board I would be -- I would be interested in making sure that those who offer five (5) year programs at fixed-prices and who thereby take on a lot of risk, are able to hedge it so that the ratepayer doesn't find himself in a year, out of luck.

I think that's -- that's one (1) argument that folks might advance for saying, Gee, let Centra do it too before of their financial strength. But, again, that's a separate issue.

MR. BOB PETERS: It may be a separate issue for the next year. So, Mr. Pringle, I want to thank you for your answers to my questions.

And, Mr. Chairman, Board Members, those conclude my questions.

THE CHAIRPERSON: Thank you, Mr. Peters.

Mr. Saxberg, do you have any re-direct for your witness?

MR. KRIS SAXBERG: No, I don't, sir.

THE CHAIRPERSON: Thank you then. Thank you, Mr. Pringle.

MR. ASHMEAD PRINGLE: Well, you're welcome. And I understand you'll be convening outdoors tomorrow again, as you're accustomed, right?

THE CHAIRPERSON: Some of us will.

(WITNESS STANDS DOWN)

THE CHAIRPERSON: This brings this segment of our proceedings to a close. We greatly appreciate the cooperation of the parties to arrive at a reasonable scope for the proceedings and the evident effort to stay constrained to the process that was agreed upon.

We understand Centra will be filing a GRA in the new year and we've also spoken about yet another proceeding to consider the wider landscape. So we expect to come together to seek the public interest on other occasions.

Likely, at a future occasion the process will be joined by at least RCM/TREE who sat out this process as a result of certain understandings.

We want to at this time express our thanks to all those who have directly or indirectly participated in this process to this point, particularly thanks to those who came from afar, including Mr. Pringle and the counsel for Direct and Energy Savings.

And particular thanks to Centra's counsel and witnesses. In the absence of their cooperation and forthrightness, this hearing process would be very difficult to say the least.

We're going to stand adjourned now to closing arguments on the 5th, which I believe is on Wednesday. At that point in time -- it's the 6th, is it not? I think it's the 6th. On that date we're going to accept written closing arguments if some would like to go on that proceedings and they'll be put into the record.

Centra will be provided an opportunity to reflect on the closing statements made by the others before they provide those. Hopefully you'll be able to do it the same day but, if not, we'll figure out something at that point in time.

Mr. Peters, can you think of anything I've missed?

MR. BOB PETERS: I think you've covered it. I can only indicate that there has been a discussion amongst counsel to -- to meet next Wednesday as the date for closing submissions.

It was anticipated that I would start the day off, followed by the Intervenors in alphabetical order, which means Mr. Saxberg will follow me. My Friends from Direct Energy, including Mr. Hoaken and Ms. Gibbs will consider either coming back if the temperatures moderate or providing their -- their comments in written form and they will use their best efforts to get them to us the day before and 4:00 p.m. Toronto time is only a loose understanding we have and if that can be met that would hopefully satisfy Centra's concern.

The same -- the same time line with -- with Ms. Ruzycki from Energy Savings Manitoba Corporation that should she not be coming back to Winnipeg for closing argument she would provide them in writing and I'll just remind her of those time lines and it's hoped that we would have an opportunity to review those prior to the -- the morning; that would facilitate matters for Centra as well.

And then it'll be for Ms. Murphy to indicate whether she's prepared to provide her closing submissions that same day which presently I think is our expectations but we'll see how it rolls out.

THE CHAIRPERSON: Thank you, Mr. Peters, and thanks again to yourself and our other Advisors and our staff that assisted us in our process to this point. We stand adjourned.

--- Upon adjourning at 4:08 p.m.

Certified Correct

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Wendy Warnock