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MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS
 COST OF GAS APPLICATION

Before Board Panel:
 Graham Lane - Board Chairman
 Monica Girouard - Board Member
 Mario Santos - Board Member

HELD AT:
 Public Utilities Board
 400, 330 Portage Avenue
 Winnipeg, Manitoba
 September 10th, 2004
 Volume III
 Pages 471 to 661

APPEARANCES

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3	6	Provide information as to where in	
4		the Western Opinion research they had	
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1 --- Upon commencing at 9:07 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Mr. Saxberg, are you ready to take us to back to the world of
5 cashless collars and puts and calls?

6

7 CENTRA PANEL; Resumed

8

9 MR. KRIS SAXBERG: I certainly am. Thank
10 you, Mr. Chairman. Good morning to everybody.

11

12 CONTINUED CROSS-EXAMINATION BY MR. KRIS SAXBERG:

13 MR. KRIS SAXBERG: Yesterday we were talking
14 about the mechanical approach and the mechanical --
15 mechanistic approach, rather, involves use of a formula, is
16 that right?

17 MS. LORI STEWART: The mechanistic approach
18 entails removing judgment out of the timing of the hedge, the
19 magnitude of the hedge and the choice of the instrument.

20 MR. KRIS SAXBERG: But there's a formula in
21 place you -- whereby you are -- your cashless collars are
22 fifty (50) cents above the market price. That's one (1)
23 aspect of the formula?

24 MS. LORI STEWART: That's correct and -- and
25 the 90 percent of eligible volume.

1 MR. KRIS SAXBERG: And that's what I -- by
2 formula, then, I'm referring to the use of cashless collars,
3 the fifty (50) cent band, 90 percent of warmest year and
4 always having hedged for at least nine (9) months out.

5 MS. LORI STEWART: That's correct.

6 MR. KRIS SAXBERG: And that's -- that is the
7 same formula that was approved by this Board at the last
8 hearing?

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

10 MR. KRIS SAXBERG: And just to provide some
11 history of how that formula came to be, the fifty (50) cent
12 band really has its origins in some earlier surveys that
13 Centra conducted. Is that fair?

14 MS. LORI STEWART: Yes, that's correct. The
15 Viewpoints research.

16 MR. KRIS SAXBERG: And there was a
17 correlation between those earlier surveys and setting the
18 fifty (50) cent band.

19 Can you tell us what the correlation was?

20 MR. BRENT SANDERSON: One (1) of the
21 conclusions drawn in the Viewpoint research was that the
22 majority of the residential customers surveyed were willing
23 to tolerate quarter over quarter increases in their
24 annualized total natural gas bill of plus or minus sixty
25 dollars (\$60) as a result of changes in primary gas prices.

1 The typical residential customer uses
2 approximately 120 gigajoules of gas in a normal weather year
3 so sixty (60) -- sixty dollars (\$60) divided by the 120
4 gigajoules gives rise to the fifty (50) cents and then that's
5 how the out of the money band was chosen on the collars that
6 we applied in the program.

7 MR. KRIS SAXBERG: And at Tab K of my book of
8 documents, there's an old IR from a previous hearing asking
9 what Centra considers to be extremes in volatility and the
10 answer there is the variations of plus or minus five dollars
11 (\$5) a month. And -- is that still the Company's view?

12 MS. LORI STEWART: Mr. Saxberg, this
13 information is, of course, related to research that was
14 conducted back in 1998 and I think it's very fair to
15 characterize it as out of date.

16 The energy industry has undergone significant
17 changes since 1998, in particular, the price spikes
18 experienced in the winters of 2000/2001 and 2002/2003. So,
19 the -- the Corporation -- the Company would like to rely on
20 its current research, that which was conducted by Western
21 Opinion Research.

22 MR. KRIS SAXBERG: So, does that mean, no?
23 No, in other words, this isn't your position any more?

24 MS. LORI STEWART: That's correct.

25 MR. KRIS SAXBERG: So -- and this what I'm

1 wanting to understand then. The fifty (50) cent band is
2 related to this exact idea that customers can only tolerate
3 five dollars (\$5) in variation either way a month and Mr.
4 Sanderson just indicated, well, so we figured out there's 120
5 gigajoules for an average customer a year and that correlates
6 into a fifty (50) cent band for the -- for the cashless
7 collar and now you've just told me this five dollar (\$5) a
8 month variance isn't the Company's position any more, so why
9 is the fifty (50) cent band still appropriate?

10 MS. LORI STEWART: The fifty (50) cent out of
11 the money characteristic of our program is, of course, but
12 one (1) characteristic of the program and what we did in the
13 research that was recently conducted is to directionally look
14 for an indication from our customers in terms of whether or
15 not they felt that we were hedging -- our hedging activities
16 were at an appropriate level, whether or not they would like
17 to see an increase in hedging activities or a decrease in
18 hedging activities. And embedded in that question is the
19 factors related to -- or the characteristics related to the
20 program including the fifty (50) cent out of the money band.

21 So, it is one (1) characteristic of our
22 program and the research carries on from there. I mean,
23 we're at a different point in time than we were at that point
24 in time and has it -- has that characteristic of the program
25 remained consistent? Yes, it has.

1 MR. KRIS SAXBERG: The Board, after the last
2 hearing, noted -- and this is at page 47 of Board Order
3 118/03 -- and I quote:

4 "It (Centra) will be conducting new market
5 research..."

6 And then further on:

7 "The research will be used to reassess the
8 customer's risk tolerance and the
9 appropriateness of the out of the money
10 band."

11 And you don't quibble that that's what was
12 said at the last hearing and the Board reported that
13 correctly. Right?

14 MS. LORI STEWART: That's correct.

15 MR. KRIS SAXBERG: And also if we look at
16 PUB-8A, and you don't have to flip to it. I've got it in my
17 book. It's at Tab B. Tab B of the Book of Documents. And
18 what I'm looking at is minutes from one of your gas supply
19 management meetings, all right?

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

21 MR. KRIS SAXBERG: And one of the notations
22 under customer research committee is that:

23 "Centra is in the process of conducting new
24 market research to re-assess the tolerance
25 of its customers for price volatility of

1 primary gas consumption. The results of
2 that research will be available year end
3 and will be utilised in determining the
4 appropriateness of the out of the money
5 band used and the current definition of
6 eligible volumes."

7 So, between that reference and the Board's
8 reference, am I right in that the goal of the research -- the
9 goal of Western Opinion, was to see if there should be a
10 change in the fifty (50) cent band for the cashless collar
11 and to see if there should be a change in the amount of
12 volumes hedged?

13 MS. LORI STEWART: What we have to
14 distinguish is the objectives of the research and how that
15 could be relayed to the consumers that we were surveying
16 because, of course, it would be difficult to enter into
17 conversations with consumers in a ten (10) minute telephone
18 survey referencing things like an out of the money band or
19 eligible volumes without any of the context within which to
20 -- to understand that information.

21 So, our objective in terms of the research
22 working with Western Opinion Research was to understand our
23 customers' comfort level with the current level of hedging
24 activity.

25 What that translates into internally is an

1 assessment of the out of the money band and an assessment of
2 the level of eligible volumes presently hedged.

3 That assessment was conducted on the basis of
4 the research feedback received and the assessment is on the
5 record in terms of the Company's position being that no
6 change is required to the current hedging policy.

7 MR. KRIS SAXBERG: The Board, at the last --
8 after the last Hearing was concerned that the band, the fifty
9 (50) cent band and the amount of volumes may not be
10 appropriate and they noted that Centra was going to undertake
11 some customer research to determine if customers supported
12 those two (2) elements of the hedging program.

13 MS. LORI STEWART: That's not my
14 interpretation of the Board's findings at all, Mr. Saxberg.

15 What -- the sentence that you read me just a
16 few minutes ago indicated that the Board's expectation was
17 that Centra would be conducting market research, or the
18 Board's understanding was that Centra would be conducting
19 market research and that Centra would use that research to do
20 exactly what happened, to simply assess the appropriateness
21 of the out of the money band and to assess the current
22 definition of eligible volumes.

23 I don't believe that the Board had any
24 concerns with either one of those characteristics of the
25 program. In fact, the Board approved those characteristics

1 of the program in Order 118/03.

2 MR. KRIS SAXBERG: Now, with respect to the
3 other part of the formula, the 90 percent of warmest year
4 flows, 90 percent of warmest year volumes, sorry.

5 That flows, really, from the major
6 disallowance of -- of costs in 1998 in that you want to make
7 sure that you are hedging the actual quantities of gas that
8 are being hedged, and that there isn't hedges where there
9 are no physical supplies of gas.

10 Is that -- isn't the real -- you know, the
11 rationale for that percentage?

12 MS. LORI STEWART: I would agree with the
13 second part of your statement, in that the hedging program is
14 designed so that the Corporation is not over-hedged and so
15 that the Corporation would not be in a speculative position.

16 In addition, the 90 percent versus 100 percent
17 of warmest year volumes is meant to accommodate the potential
18 for direct purchase migration.

19 MR. KRIS SAXBERG: You don't want to get
20 caught hedging without having underlying physical volumes of
21 gas?

22 MS. LORI STEWART: That's correct. That's a
23 part of our operating principles and procedures.

24 MR. KRIS SAXBERG: And then the other aspect
25 of the formula is the collars, the cashless collars, and I'm

1 going to suggest to you that Centra's preference used to be
2 to place caps. Would you agree with that?

3 MS. LORI STEWART: Mr. Saxberg, I wasn't
4 involved in the program at that time, so I -- I can't
5 personally attest to that, no.

6 MR. KRIS SAXBERG: Okay, so then I'll have to
7 ask Mr. Stephens, who was in charge of it then, and I think
8 that there's -- it's clear on the record of previous
9 proceedings that caps were the preference of the Company at
10 some point a few years ago. Is that not the case?

11 MR. HOWARD STEPHENS: Well, yes, define --
12 you have to define "a few years ago". I'm just kidding. We
13 did experiment with caps from a -- from a perspective of --
14 and I think the testimony that I led at the time in terms of
15 my preference for caps was that we would pre-define what our
16 exposure and our costs associated with the transaction would
17 be.

18 With the costless collar or the cashless
19 collar, you don't know what the outcome is going to be. That
20 was -- that was very much in the formative stages of what we
21 ultimately have in terms of a program now and very quickly --
22 I could see on the basis of what we were trying to accomplish
23 in terms of reining in volatility, that the cashless collar
24 was the most -- the more appropriate instrument to use to
25 meet the objectives that we were looking at.

1 MR. KRIS SAXBERG: And I'm going to suggest,
2 and feel free to disagree, that the reason why you went to
3 cashless collars was because in 2000, the premium for a cap
4 in the month of May and then later in the month of October
5 was so high that the Company, or at that time, the Executive
6 who was making the decision, decided not to place protection
7 and -- and then as a result of that, the gas costs were a lot
8 higher than they would have been had those caps been placed,
9 because that period of two (2) -- in the year 2000 was the
10 year that gas prices were spiking.

11 Was it from that lesson that the company then
12 decided to move to cash -- to cashless collars?

13 MR. HOWARD STEPHENS: No I would suggest that
14 we didn't enter into the caps at that point in time. I mean,
15 this is another history lesson, I guess.

16 We were looking in -- and this is really going
17 into the winter of 2000, when we could see prices were
18 spiking and we -- and I believe the evidence that I led at
19 that time was that we had just received a forecast from one
20 (1) of the firms that we use as a consulting firm, they give
21 us a price forecast for the winter.

22 I got a quotation with respect to caps for the
23 winter period and the premium was so -- the premium
24 associated with the caps was so high as to exceed my
25 tolerance in terms of the fifty (50) cents over and above the

1 market.

2 I was going to have to pay a premium of -- I -
3 - I can't remember the specific number but it was something
4 on the order of sixty (60) cents plus the market would have
5 move up to that level, so I would experience a double hit.

6 So there was no way that we could meet our
7 objective. So on the basis of the forecast that we had in
8 terms of gas prices, we -- we elected not to engage.

9 MR. KRIS SAXBERG: And that's a very, from my
10 recollection, accurate explanation of what happened for May
11 and I think in October it might have been a different
12 situation where there was a recommendation from the Gas
13 Supply Management Committee that was -- that wasn't accepted
14 by the Executive. Is that not the case?

15 MR. HOWARD STEPHENS: No, the -- the same
16 circumstances applied when we -- when we discussed -- I
17 remember the meeting very well, where we discussed it at
18 length in terms of what the appropriate action would be to
19 take for the following gas winter.

20 MR. KRIS SAXBERG: Okay, it's not important.
21 I just want to have a -- that little bit of background and to
22 put this question to you.

23 You'll recall that these Intervenors hired an
24 expert to provide testimony on whether you should use caps or
25 collars and his name was -- is Ashmead Pringle.

1 What he said was, when caps are too costly --
2 when -- maybe there is scarce resources within the Company
3 and you can't use the preferred tool which is only reducing
4 upward volatility, a cap.

5 At that point you could move to cashless
6 collars. Why is it not the case that the Company uses the
7 mix of cashless and caps. Why does it have to be from one
8 extreme to the other? Only caps or only cashless collars?

9 MS. LORI STEWART: At the very --

10 MR. HOWARD STEPHENS: This -- this is going
11 to be a multi-step dance. I get to start off. I lead I
12 guess. The reason we didn't pick collars at that time as
13 opposed to the caps, given the very expensive nature of them,
14 was that the lower strike on the collar at that particular
15 point in time was at the money.

16 So I mean it was essentially my fixing the
17 lower component at the current market price with then having
18 an upside of fifty (50) cents plus the associated movement of
19 the price relative to that. So there was no real risk
20 reduction from that perspective. Especially given the
21 forecast that we had in terms of gas prices going forward for
22 the winter.

23 So we, I mean, immediately dismissed that as
24 an alternative. And I mean, that's as far as I'll go with it
25 and I think Ms. Stewart has a few comments to make.

1 MS. LORI STEWART: We opened up this morning
2 with a discussion of the mechanistic approach and I defined
3 it as a strategy that is used without judgment regarding the
4 timing of the hedge, the magnitude of the hedge and the
5 choice of the instrument.

6 We -- we firmly believe in our mechanistic
7 approach and flip flopping between caps and collars is quite
8 -- quite frankly just not consistent with the principles of
9 the mechanistic approach. And the sum of all our experiences
10 and learnings over the past few years is what has ultimately
11 arisen with the current derivatives hedging program.

12 And so, you know, there are many learnings
13 embedded over the last few years and certainly the sum of all
14 of that experience and the sum of the experience of folks
15 sitting here today is -- is what has resulted in the approach
16 that the Corporation supports today.

17 MR. KRIS SAXBERG: Thank you for that nice
18 pose, that's all I was trying to get out. But I shouldn't
19 ask multi -- more than one question to you because then I get
20 two (2) different answers that I've got to deal with. But
21 I'll deal with yours first, Ms. Stewart.

22 I think what you're saying is that the
23 mechanistic approach requires you to only use one type of
24 instrument and use it on a regular basis over time. Is that
25 what you're saying?

1 MS. LORI STEWART: I'm saying that removing
2 judgement with regard to the choice of instrument is more
3 purely aligned with the principles of a mechanistic strategy.

4 MR. KRIS SAXBERG: And -- but that's offside
5 from your current derivative hedging policy, is it not? Your
6 operating principles and procedures do not say that. They
7 say something very different. They say, as a matter of fact
8 that, over the counter instruments that may be used are price
9 swaps, call options, and cashless collars.

10 It doesn't say you can only use either
11 cashless collars all the time, caps all the time, or call
12 options.

13 MS. LORI STEWART: Mr. Saxberg, I think we're
14 re-trenching an area that was covered quite extensively at
15 last year's GRA and the rationale for the inclusion of all
16 three (3) instruments in the derivatives hedging policy and
17 operating principles and procedures basically boils down to
18 never say never.

19 And could there be circumstances that may
20 arise I'm not sure. However, in the wisdom of folks drafting
21 the policy, we wanted to retain that flexibility.

22 The flexibility is there, however, we've been
23 quite clear and consistent in terms of our use of the
24 cashless collar and our stated preference for it as our
25 instrument.

1 MR. KRIS SAXBERG: Okay, thank you for that.
2 And then, with respect to Mr. Stephens' answer, could you
3 turn to Tab M in the book of authority -- documents, sorry.

4 MR. HOWARD STEPHENS: Is this where the past
5 comes back to haunt me again?

6 MR. KRIS SAXBERG: Well, it -- it might be,
7 because if you -- if you look at line 21, you'll see that the
8 band width -- and that's -- the band width, when I say that,
9 I'm referring to the difference between the floor and the
10 ceiling, is less than fifty (50) cents. Do you see that?

11 I -- and before you handle it, Mr. Sanderson,
12 I -- I -- know we dealt with this last year -- there was a
13 similar circumstance, but --

14 MS. LORI STEWART: In fact, it's the
15 identical circumstance.

16 MR. KRIS SAXBERG: And that's -- and that's -
17 - and I was going to ask that question. This is the same
18 number from -- from last year that we looked at. This is the
19 actual now.

20 MS. LORI STEWART: That -- that's correct and
21 the circumstances that give rise to the -- the situation that
22 Mr. Stephens referenced and the circumstances that gave rise
23 to this particular circumstance, I'm going to turn it over to
24 Mr. Sanderson to explain the difference between those
25 circumstances and -- and hopefully we can move -- move on.

1 MR. KRIS SAXBERG: Well, no, if it's the same
2 one I've got it on the -- I've got the transcript from last
3 year and -- and --

4 MS. LORI STEWART: It's the same one.

5 MR. KRIS SAXBERG: -- there was a correction
6 made. You're going to make deals later on in the morning and
7 as a result of that, that isn't going to result in the
8 unfortunate circumstance where you have the lower strike
9 price at the market rate and the upper, less than fifty (50)
10 cents above it.

11 MR. BRENT SANDERSON: That's an incorrect
12 characterization, Mr. Saxberg. If it pleases the Board I can
13 run through this -- this circumstance here just for the --
14 the sake of the Chairman who may not have -- who wasn't here
15 at last year's hearing.

16 When we set out to enter into a derivatives
17 hedging transaction, we bring all our counterparties to the
18 table and the process works in such a way that we determine
19 the futures market price at that point in time for the months
20 that we're hedging in question.

21 At that point, we set our out of the money
22 upper strike price on the cashless collar that we're about to
23 purchase at fifty (50) cents above that number and then, what
24 we do is, we solicit quotes from all of our counterparties
25 simultaneously to determine the lowest possible market price

1 that we can achieve for that collar resulting in no premium
2 to be paid either way and we do that by soliciting quotes on
3 the corresponding lower strike or floor of that cashless
4 collar and the floor strike that gives us the most downward
5 participation for our customers is the successful bid and
6 that translates into the lowest price.

7 During this particular circumstance, we
8 determined the market price at a point in time, we set the
9 price for the upper strike fifty (50) cents out of the money
10 or above that price and then began to solicit quotes.

11 On that morning, there was a significant
12 amount of turmoil or trading activity in the marketplace and
13 during the four (4) or five (5) minutes it took us to execute
14 our transactions, the market price for natural gas -- we were
15 looking at the US markets -- rose twenty-five (25) to thirty
16 (30) cents US in the matter of -- in a matter of minutes, so
17 what was happening then is the floor strikes that the
18 counterparties were quoting us on now, those instruments in
19 reality -- in the space of a few minutes -- may have become
20 ten (10) cent out of the money upper strike cashless collars
21 because the market price had moved significantly in a matter
22 of minutes.

23 Now, in that circumstance, the market
24 continued to move up during the course of the day. We
25 executed our transactions in as short a time as possible in

1 order to lock in as much value for our customers, but what
2 results is, is it has the appearance of, we were giving up a
3 significant amount of value but what was happening is the
4 underlying market price had moved significantly relative to
5 what it had been a matter of minutes before.

6 And we felt rather than defer our transactions
7 or wait for another day, if you will, that there was --
8 because we have a mechanistic program, we do not take market
9 views as to where the price will go tomorrow, a week down the
10 road.

11 We thought it was in the best interest of our
12 customers and the most prudent thing to do to execute our
13 transactions and conclude them and it did result in numbers
14 that look a little strange when you look at them in isolation
15 without knowing the background of what went on during the
16 course of the transactions.

17 Now, Mr. Saxberg said that we execute our
18 transactions later in the morning, as a result. That's the
19 not the case. There will be circumstances or may be
20 circumstances in the future where there's a lot of trading
21 activity and the market price for natural gas moves
22 dramatically.

23 When we go to transact, we can't foresee those
24 circumstances and it may happen again in the future. I think
25 what Mr. Saxberg was talking about was some market liquidity

1 constraints that our -- our counterparties had brought to our
2 attention last year, and I'm sorry if this gets into a bit of
3 an extended story-telling but our counterparties are not in
4 the business of holding this risk once they sell us these
5 instruments.

6 They have the wherewithal to go out and enter
7 into offsetting transactions to crystallize their margin and
8 to lock in and hedge away their own risk.

9 And what was happening was -- is a year or two
10 (2) ago, they normally go to an Exchange like New York
11 Mercantile Exchange and use a combination of instruments from
12 that Exchange to hedge away the risk that they've exposed
13 themselves to by selling us instruments.

14 And what was happening is -- is -- there was a
15 contraction liquidity in the market place such that the
16 volumes that we would normally hedge in a given round of
17 hedging transactions were sufficiently large that there was
18 not a lot of counterparties engaging in offsetting
19 transactions such that they could go and adequately lay off
20 this risk.

21 They were moving the market in terms of the
22 volumes that they were bring to the marketplace in the
23 tranches that we were taking the market and so our
24 counterparties asked us if we would consider breaking our
25 hedging transactions down into smaller blocks of volumes so

1 that they wouldn't influence price when they went to hedge
2 away their risk, because if we were not to do that, they
3 would be forced to charge us a higher premium to cover off
4 their liquidity risk.

5 So that led to our change in process to hedge
6 our volumes each quarter in two (2) separate tranches over
7 two (2) separate days of transacting.

8 So I think that's what Mr. Saxberg's referring
9 to as far as our change in process. That was just to deal
10 with the liquidity constraints in the market place and it's a
11 different issue from the one we're talking about here.

12 MR. KRIS SAXBERG: I'm going to get back to
13 that in a second, but just so that I'm clear. The formula,
14 the policy is to have at least fifty (50) cents, as a cap, at
15 least fifty (50) cents above the market price, correct?

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

17 MR. KRIS SAXBERG: If you -- and in reviewing
18 the transactions over the last year, this Board has to look
19 and make sure that you, in fact, did that. That you had
20 fifty (50) cent -- a cap fifty (50) cents above and -- and
21 some measure of -- below the market price for the floor.

22 They have to look at that to make sure you're
23 in compliance with your policy, correct?

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

25 MR. KRIS SAXBERG: And that's how this Board

1 is going to review whether or not Centra has done the
2 appropriate things with respect to its hedging program.
3 They're going to look at whether or not what was done is in
4 compliance with the plan, correct?

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

6 MR. KRIS SAXBERG: And when I look at Line 21
7 and, of course, here we're looking at Schedule 5.2.0 and
8 that's the actual results that are being approved by this
9 Board in this proceeding, you've got a forty-seven (47) cent
10 band width.

11 That's -- forty-seven (47) cents, is less than
12 fifty (50) cents, to be trite, and so that's not in
13 compliance with the policy.

14 And I -- I know I just heard your explanation
15 and I'm not -- you know, we can leave it what it is, but
16 prima facie, that is not in compliance with the policy, is
17 it? Whatever the explanation.

18 MR. VINCE WARDEN: Mr. Saxberg, maybe I'll
19 just jump in very briefly. We do have a -- a policy for --
20 for hedging which is -- can be found in the Book of Documents
21 provided by Mr. Peters at Tab Number 4.

22 And the policy does not refer to the fifty
23 (50) -- fifty (50) cents out of the money. That is a -- a
24 practice, but I don't think it's one that -- at least I've
25 never interpreted it as one that this Board would hold us to.

1 As a matter of fact, the -- the policy, the
2 practice gives us, the Executive Committee the discretion to
3 change that fifty (50) cent of the money. If we make a
4 determination that we want to go to a dollar (\$1) the
5 Executive Committee can so approve.

6 We would not expect to come back to this Board
7 for approval to go -- to vary from the fifty (50) cents out
8 of the money.

9 So I think we have to be clear on what the
10 policy is versus the operating procedures.

11 MR. KRIS SAXBERG: Okay. Thank you for that.
12 So, if we look then, at the second page of Tab 4 in Mr.
13 Peters' Book of Documents and the third bullet from the
14 bottom under Operating Principles states:

15 "The upper strike price will be fifty (50)
16 cents higher than the at the money or
17 market price."

18 And then it says:

19 "The executive must approve coverage other
20 than fifty (50) cents out of the money."

21 So in this particular instance on line 21 with
22 the forty-seven (47) cents rather than the fifty (50) cents,
23 did the executive approve that?

24 MS. LORI STEWART: Mr. Saxberg, no the
25 executive committee did not approve that. At last year's

1 General Rate Application Proceeding, we walked through this
2 issue and attempted to provide an understanding of what it is
3 that happens in the room when we're transacting.

4 And what I -- I think I'm hearing you propose
5 is that we should have pulled away from the table, reset the
6 market at fifty (50) cents above the then prevailing at the
7 money price, gone back into the market, in which case
8 consumers would have certainly negatively been impacted.

9 What -- what we have to understand and context
10 is important. It's very important that we understand the
11 context within which this program is operating. And that we
12 understand the markets within which we're purchasing
13 instruments. That -- that is completely relatively to an --
14 an examination of this information.

15 And we have attempted, now twice, to put on
16 the record the situation that gave rise to this somewhat odd
17 looking transaction. Now at -- on any one of these given
18 transactions, at any second in time, the at the money swap
19 price that is set at the outset of our hedging transactions
20 will have moved.

21 It's the same thing as when if Mr. Peters were
22 to ask me, Ms. Stewart, what is your mark to market as of
23 9:51 a.m. this morning. And at 9:52 a.m. this morning it will
24 have changed again. And that is exactly the circumstance
25 that is embedded in these results.

1 So we can -- you know, I just am struggling to
2 see the value in going down this path when if we accept that
3 the at the money swap price that we set, thirty (30) seconds
4 later it's something different. It can be something
5 different, and in most situations will be something
6 different. There's -- we can't control that; that's how the
7 markets work.

8 MR. KRIS SAXBERG: I haven't -- and I'm not
9 suggesting whether or not your -- your actions were
10 appropriate or weren't appropriate. All I'm saying is that
11 there's a -- it looks like there's a breach of the policy and
12 there may be a very good explanation for it. And -- and I
13 just wanted you to confirm that.

14 I've heard your explanation --

15 MS. LORI STEWART: I think, Mr. Chair --

16 MR. KRIS SAXBERG: -- we don't need to get
17 into it anymore. But with respect to your comments, Mr.
18 Sanderson, I'm going to quote from you in your answer that
19 you gave to me last year at transcript page 1666, line 16
20 where you say:

21 "Having encountered that anomalous
22 situation, what we've done is we've taken
23 steps to try and prevent a repeat of such
24 circumstances and we've moved our
25 transacting to later in the morning. And

1 while we can't be certain that that will
2 always be the case, the market normally
3 settles down into more of a trading range a
4 couple of hours after the open and we're
5 hopeful that we won't encounter a situation
6 where the market moves so dramatically in
7 just a few minutes."

8 Now, you're not denying that that's what you
9 said and I'll take --

10 MS. MARLA MURPHY: Mr. Saxberg, do you have
11 the transcript to put to the witness? Is it in your Book of
12 Documents?

13 MR. KRIS SAXBERG: Yes, I do, I do. Well I
14 have it with me. I -- I didn't think it was going to be an
15 issue but --

16 MR. BRENT SANDERSON: I stand corrected. I
17 mean I'll acknowledge that you've refreshed my memory. Yes,
18 we did move our transactions an hour late -- later in the
19 morning.

20 MR. KRIS SAXBERG: Thank you. And all I'm
21 getting to is trying to explore what can be done and what has
22 been done so that we don't have another breach of the policy
23 and -- and I thought that that was what the step --

24 MS. MARLA MURPHY: Mr. Chairman, I would -- I
25 would like to object to that characterization. Given the

1 explanation that's been put forward by the witnesses I don't
2 think it's appropriate.

3 THE CHAIRPERSON: Ms. Murphy, have some
4 confidence in the Panel, too.

5 MR. BRENT SANDERSON: I just would like to
6 point out that I don't agree with your characterization of
7 what took place is a breach in policy and strongly -- that's
8 my strong position.

9 I think what you're implying, and you can
10 correct me if I'm wrong, is that in the course of executing
11 transactions for two (2) separate and distinct instruments,
12 which in combination result in a cashless collar, that you
13 would like us to be able to guarantee that the upper strike
14 on that instrument, at the instant we conclude the
15 transaction on the put option or setting of the lower strike,
16 at that exact instant that upper strike is exactly fifty (50)
17 cents out of the money.

18 Markets move second by second every day of
19 every trading day and what you're asking for, if that's what
20 you're implying, is impossible to provide. We need to follow
21 a process. It takes a couple of minutes to conclude that
22 process and it's a very swift process but we establish that
23 forward market price, add fifty (50) cents to that and as
24 quickly as possible, we conclude the reciprocal transactions
25 on the put options and in every case there will be some form

1 of market movement.

2 We do not want to knowingly enter into
3 transactions such that there will be dramatic market movement
4 like we saw on that given day, but the potential is always
5 there and every transaction will be somewhat different than
6 fifty (50) cents out of the money -- maybe fifty-one (51)
7 cents, forty-nine (49) cents -- and that's beyond our control
8 because that's how commodities markets work.

9 MR. KRIS SAXBERG: Okay. Thank you. Now,
10 let's just turn to the -- let's look at the floor aspect of
11 it and I think what Mr. Stephens said was, By the time the
12 floor was struck, it was right at the market price -- the
13 forecasted market price. Is that correct?

14 MS. LORI STEWART: Again, let's not mix
15 circumstances, Mr. Saxberg. Mr. Stephens was not in the
16 market purchasing an instrument. Mr. Stephens was making
17 inquiries with counterparties with regard to what the implied
18 volatility might be and what that might translate into at
19 that particular point in time in terms of downside
20 protection.

21 MR. KRIS SAXBERG: Okay, so on line 21 -- I
22 don't -- and I don't know who was involved in this particular
23 transaction, but on line 21, the floor is six dollars and
24 sixty-five cents (\$6.65). How far was that from the market
25 price at the time that that transaction was entered into?

1 MS. LORI STEWART: We -- we don't -- we don't
2 have a means of -- of -- we don't have a means of -- what's
3 that?

4 MR. BRENT SANDERSON: What I can -- I can see
5 where you're going with this. We're unable to give you what
6 the futures market price was at the instant we concluded the
7 transaction for that lower strike of that instrument because,
8 as I said, the market had moved very dramatically in the
9 course of a number of minutes, but if you look at the seven
10 dollar and twelve cent (\$7.12) upper strike price, what that
11 indicates is that the futures market price, two (2) to three
12 (3) minutes prior to concluding this transaction, when we set
13 the futures market price and the upper strike, would have
14 been six dollars and sixty-two cents (\$6.62) and that was two
15 (2), three (3) minutes prior, prior to the dramatic runup
16 that I described to -- to Board Panel a few minutes ago.

17 MR. KRIS SAXBERG: So, would you agree with
18 me, though, that that floor price would have been really
19 close to the forecasted market price?

20 MS. LORI STEWART: Mr. Saxberg, we just
21 described a runup in the market of approximately twenty-five
22 (25) to thirty (30) cents, okay? So, what we would have been
23 looking at had we tracked or marked the at the money or the
24 swap price at the particular moment that we were conducting
25 the transaction, would have resulted in -- Mr. -- Mr.

1 Sanderson just described that the swap price was six sixty-
2 five (\$6.65). If the market had moved that dramatically
3 twenty-five (25) to thirty (30) cents, then we would have
4 been looking at an -- an at the money or swap price of seven
5 dollars (\$7.00) at which point we would have set a cap of
6 seven dollars and fifty cents (\$7.50) and at which point the
7 six dollars and sixty-two (\$6.62) -- six dollars and sixty-
8 five cent (\$6.65) floor would have resulted in something in
9 the neighbourhood of thirty-five (35) cents of downside
10 protection.

11 MR. KRIS SAXBERG: What I'm getting at is,
12 you'd already set the ceiling at seven dollars and twelve
13 cents (\$7.12) and at the time you set it, it was fifty (50)
14 cents higher than what the market was saying the price was
15 going to be. Correct?

16 MS. LORI STEWART: That's correct.

17 MR. KRIS SAXBERG: Now, you've got to do
18 another transaction and in the time it took you to do that
19 next transaction, the price of gas went up considerably, so
20 much so that ate up all of the difference between what the
21 old market forecast was and what would normally have been the
22 thirty (30) cents below the -- the market rate. Did it not?

23 MR. BRENT SANDERSON: You can correct me if
24 I'm wrong here. Again, I'm just trying to follow and trying
25 to ascertain what you're implying. I sense that your concern

1 is that in some way we gave up value on behalf of our
2 customers that we -- we set an upper strike and then gave
3 away our -- all our value in terms of the narrowing of the
4 floor.

5 Like we reiterated, at the time that we set
6 that upper strike, we were looking at a futures market price
7 of six dollars and sixty-two cents (\$6.62). So the seven
8 dollars and twelve cents (\$7.12) is fifty (50) cents out of
9 the money.

10 At the instant that our counterparties quote
11 us on the lower strike, they're looking at the live market
12 and they're looking at where our upper strike is set relative
13 to the market at that instant in time that they quote us, so
14 at the time we concluded that transaction, rather than us
15 setting us a floor above the market price, or us having fifty
16 (50) cents of room to go up before we get protection, the
17 futures market price may have -- the underlying market price
18 may have very well been -- and I'm picking a number out of
19 the air here, but it's indicative, seven dollars and five
20 cents (\$7.05) if you will.

21 So we now really, in effect, have a cashless
22 collar where we really only are looking at seven (7) cents of
23 upward room to go, relative to a six sixty-five (\$6.65)
24 floor.

25 So you can see it's all relative. We're not

1 giving up any value if -- if that's what you're trying to
2 ascertain.

3 MS. LORI STEWART: In fact, the outcome, had
4 we paused, would have been -- would have resulted in a higher
5 out of the money band and -- at that time and the outcome
6 would have been even more negative.

7 We've -- we've been through this. The
8 principle is, in that situation, if the market is on its way
9 up, then it is not prudent for us to make a call and guess
10 about whether or not the market's going to continue on its
11 march up or drop back down.

12 In fact, the prudent thing to do, which is --
13 was confirmed by Mr. Simard's testimony, is to get into that
14 market at that instant in time and set your hedge protection,
15 because it may not -- it may not drop off.

16 MR. KRIS SAXBERG: If you look up at Line 5
17 and you measure the band width of Line 5, I -- my calculation
18 is that that's seventy-seven (77) cents. Do you agree with
19 that?

20

21

(BRIEF PAUSE)

22

23

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

24

25

MR. KRIS SAXBERG: Now, isn't it much better
to have a wider band width than to have a smaller one in --

1 MS. LORI STEWART: Given that all
2 circumstances are the same at the point in time, Mr. Saxberg.

3 MR. KRIS SAXBERG: Okay, and that's all --
4 that's all I'm -- that's all I want is just that confirmation
5 so I can move on to the next point which is, then, that,
6 wasn't it possible that after you'd set the ceiling and then
7 the market changed dramatically in an anomalous situation,
8 because I think that's the words that have been used here.

9 It was anomalous the way the market was going
10 that -- that moment. Couldn't you just have not entered into
11 the counter transaction and left yourself with a cap?

12 Couldn't you just have done that, because the
13 market has changed so much in between those two (2)
14 transactions that you've -- you're exposing yourself to an
15 incredible risk of loss of opportunity and which is, in fact,
16 what's occurred here, \$2 million -- \$2.3 million of
17 additional gas costs.

18 MS. LORI STEWART: Mr. Saxberg, the
19 principles of our program are outlined in the evidence, in
20 our testimony, and one (1) of the principles of that program
21 is that we will remove judgment with regard to the choice of
22 instrument.

23 So, no, it -- during -- throughout our
24 transactions, we're not going to be making decisions on the
25 fly on the basis of what the market is doing which is

1 directly in contrary with a mechanistic strategy.

2 MR. KRIS SAXBERG: But that's not taking a
3 market approach, because you already know it -- you know
4 exactly what the market's done when you set that second
5 transaction. You're not --

6 MS. LORI STEWART: No I don't --

7 MR. KRIS SAXBERG: You're not --

8 MS. LORI STEWART: -- Mr. Saxberg. No, I
9 don't. All I know is what the market has done to that point
10 in time within a five (5) minute period. And what I need to
11 do is remove myself from the market and commit to the
12 transaction that we have planned well in advance.

13 MR. KRIS SAXBERG: There may come a point
14 even using the mechanistic approach where some judgement has
15 to be used. And otherwise it could lead to, you know,
16 marching off a cliff. Here, you had specific information,
17 you knew it was going on, you knew that you were going to
18 wind up with this narrow band with the forty-seven (47) cents
19 that was going to expose ratepayers to loss of opportunity.

20 Why wouldn't that be a good time to use some
21 judgement and to just not place the lower floor?

22 MR. BRENT SANDERSON: Mr. Saxberg, I want to
23 take issue again with the characterization of this
24 transaction as a loss of opportunity for customers.

25 If we had acted as you described and revisited

1 the forward market price and reset the upper -- the out of
2 the money upper band on this transaction and then recommenced
3 entertaining quotes, the addition to customers' gas cost that
4 you see there of \$2.3 million would have been significantly
5 higher.

6 MR. KRIS SAXBERG: Okay. Because -- and, you
7 know, maybe I'm misunderstanding something. What I want to
8 know is once you've done that initial transaction that you
9 said would have put the cap at seven dollars and twelve cents
10 (\$7.12), couldn't you just stop there? Do you have to reset
11 things? Can't you just stop there?

12 MS. LORI STEWART: No, no.

13 MR. KRIS SAXBERG: And maybe you can't. You
14 can explain to me why not?

15 MS. LORI STEWART: No. We can't stop there
16 and -- and, you know, maybe we need to get at an
17 understanding a more -- more in depth understanding of our
18 process. Heading into our quarterly hedging transactions,
19 there are three (3) months that -- that we are taking to the
20 market, so months 10, 11 and 12.

21 At the -- before we start entertaining put
22 quotes on a fifty (50) cent out of the money cap, we need to
23 reach agreement with our five (5) counterparties on what the
24 at the money or the swap price is. So I've got
25 simultaneously five (5) different counterparties on the phone

1 and what I want to do is I want to establish a common
2 benchmark.

3 I want to be able to say to each of them, the
4 at the money swap that we're adding the fifty (50) cents to
5 is six sixty-five (\$6.65), and I want them all working from
6 that same premise. Because in part what that does is it
7 tells them whether or not their particular market view is --
8 is competitive enough.

9 So each of the individual counterparties might
10 have and -- and they will indeed, they will quote me a
11 different at the money or swap price at the commencement of
12 the process. And what I do is then in terms of securing
13 value for our customers and sending a message to the five (5)
14 players at the table, I take the lowest at the money or swap
15 quote.

16 So we receive five (5) at the money swap
17 quotes, I choose the lowest and convey it back to them and
18 then we're ready to start business. Okay? In -- in the
19 collar that was purchased in January 2003 for the gas month
20 January 2004 at line 12, the at the money swap quote at the
21 commencement of our hedging process was six dollars and
22 sixty-two cents (\$6.62).

23 Now as you can see, that was the third
24 transaction, or the third month within that particular
25 quarter -- quarterly hedging session. First of all, we went

1 and priced Nobey (phonetic) 2003, so I gave them -- we set up
2 the at the money, then we go out and we say okay, we'd like a
3 cap price of fifty (50) cents higher than the at the money
4 swap. Will you please, all five (5) of you counterparties
5 provide me with your put quotes.

6 And of course I'm going to take the lowest put
7 quote to lock in value for consumers. We did that for -- we
8 did that for November 2003. That -- that transaction gets
9 set aside. Rather than go back and re-create and -- and
10 cause the hedging transaction to take even more time, we
11 simply rely on the original at the money quote that was
12 priced by all five (5) of them and then that message was
13 conveyed to me.

14 Now we move to December 2003. Price me up
15 December 2003, all five (5) counterparties. So that goes on.
16 We give them the cap -- what we want in terms of a cap. I'm
17 looking for the reciprocal put quote. That transaction gets
18 put to bed. Okay, we'll deal with the particulars
19 afterwards.

20 Let's move to January 2004 and at this point
21 in time, three (3), four (4), five (5) minutes may have
22 passed since we originally set the at the money or the swap
23 quote. So the at the money or the swap quote was set three
24 (3), four (4), five (5) minutes before at six dollars and
25 sixty-two cents (\$6.62).

1 In the meantime, the market's live. The
2 market's live and there was something happening in terms of
3 the marketplace that was driving the underlying price up.

4 So now we're three (3), four (4), five (5)
5 minutes along, we're pricing out January 2003. In fact, the
6 underlying market had moved and at that point in time, rather
7 than go back -- the impact would be, if I keep refreshing
8 with these counterparties and, in particular, when the
9 markets are volatile like this, think about five (5) people
10 being on the phone with five (5) different counterparties at
11 the same point in time.

12 When they give me a price quote it's only good
13 for approximately ten (10) to fifteen (15) seconds because
14 already they're watching their live markets and ten (10) or
15 fifteen (15) seconds is all I've got to close in, rein in,
16 and secure a minimum of three (3) quotes at the same time.

17 If I don't move quickly enough in that
18 situation, the counterparty will pull the bid off the table
19 and say, I'm refreshing. So that's it.

20 Mr. Stephens had a bid up on the board; the
21 bid moved off the board and yet by way of my policy I've got
22 to ensure that I've got a minimum of three (3) quotes up on
23 that board.

24 Ideally, I want five (5) quotes up on that
25 board. When the market is volatile, these folks will be

1 refreshing before, almost, I can blink because the market's
2 moving. They've given me an original quote. If the market
3 is moving up, they've got to move their quote to retain their
4 dealer margin.

5 And the practicality of doing what Mr. Saxberg
6 is suggesting, not only would the gas cost to consumers have
7 resulted in a higher gas cost or negative impact to consumers
8 had I paused at that point in time and went back into the
9 market with a fresh or new at the money swap quote, but the
10 practicality of keeping (3) live bids on the board is
11 something that we simply need to address.

12 It's the only -- we know the value and the
13 transparency that that process delivers, but in a
14 particularly volatile market we have to be prepared to move
15 and move quickly.

16 So this suggestion that within a ten (10) to
17 fifteen (15) second time frame, that our -- our front office
18 is going to make the decision to, Well, we think we're not
19 going to buy a collar, now we're going to buy a cap. It --
20 it's simply impractical. It is impractical and unrealistic.

21 I -- which I hope has clarified the situation
22 for you, Mr. Saxberg.

23 MR. KRIS SAXBERG: It's helping me. Why not
24 just abort that day and do it on another day?

25 MS. LORI STEWART: For the same reason that I

1 put on the record last year which is; are you suggesting to
2 me that I should abort on that day and go back into the
3 market and find out that the market has fundamentally moved
4 by fifty (50) cents or a dollar? What rationale would I have
5 to do that?

6 MR. KRIS SAXBERG: Well, what -- what does it
7 matter, you're not taking a market view. Whatever it is, the
8 next day is what it is.

9 MS. LORI STEWART: Because the principles of
10 the mechanistic hedging implementation strategy, once again,
11 are that the timing of the hedge, the magnitude of the hedge,
12 and the choice of instrument are predefined.

13 MR. KRIS SAXBERG: But not --

14 MS. LORI STEWART: By definition, predefined.
15 That means that I know the date I'm going to the market, a
16 couple of months in advance, and I am not going to alter that
17 as a result of what, in particular, the market is doing on
18 that day.

19 MR. KRIS SAXBERG: The date isn't
20 predetermined in that it's the same date every three (3)
21 months. It used to be, but it isn't anymore?

22 MS. LORI STEWART: That's correct.

23 MR. KRIS SAXBERG: So, if you have -- are
24 faced with an anomalous market situation on one (1) day,
25 maybe that -- and that's not taking a market view, that's

1 just knowing what's going on that day, that's -- that's --
2 that's real experience. If you just select a date at random
3 after that to continue again, wouldn't that still be in
4 compliance with your policy?

5 MR. BRENT SANDERSON: The suggestion that we
6 step back from the marketplace and reconvene another day is,
7 in and of itself, taking a market view. Implicit in that is
8 the assumption that the market is wrong.

9 When we describe the circumstance of the
10 dramatic volatility and prices as anomalous, we're not
11 implying that the market is wrong or getting prices wrong.
12 We're just saying we don't normally see that type of movement
13 in prices in that short a period.

14 We're not in any way, shape or form saying we
15 think we're smarter than the market and that they're wrong
16 and it will settle down tomorrow. It could be an order of
17 magnitude larger.

18 And I'd also like to clarify that, while we
19 don't pick the same dates to hedge quarter over quarter for a
20 very good reason. We don't want our counterparties trading
21 in advance in anticipation of our business, because that
22 would be the practice if they knew we were coming to the
23 market the 15th of the month prior to the conclusion of every
24 transaction.

25 Counterparties would go out and start trading

1 and putting in their offsetting positions before we went to
2 market and that would add pressure to prices which would
3 adversely affect our customers.

4 So we choose varying dates each quarter, but
5 those dates are determined three (3) months before the fact
6 just so that we can assure ourselves and all of the
7 Intervenors and parties that review our transactions that the
8 choice of dates was not driven by any short term concerns of
9 the market or preconceptions about whether the market price
10 is wrong or right on a given day.

11 So it's -- they're determined well in advance
12 for that reason.

13 MR. KRIS SAXBERG: So the system that you
14 have right now works very well when prices aren't going up
15 incredibly fast in a three (3) to five (5) minute period. Is
16 that right?

17 MS. LORI STEWART: No, Mr. Saxberg. The
18 system that we have works very well in all circumstances that
19 we've encountered, including the transaction that is
20 represented here. I'm sorry that it doesn't meet the -- you
21 know, it -- it appears to not meet the requirements of our
22 operating principles and procedures.

23 However, that is not the case and what -- what
24 we've attempted to explain is that on any one of these twelve
25 (12) transactions, the actual at the money -- at the money

1 band and the fifty (50) cent out of the money cap that is put
2 on, it could be forty-seven (47) cents, it could be forty
3 (40) -- forty-eight (48) cents. It could be fifty-one (51)
4 cents; that -- that's the way it works.

5 MR. BRENT SANDERSON: If this is an issue of
6 concern over whether we're giving up value on behalf of
7 customers, I think it's important to point out that while the
8 method of transacting that we use places certain constraints
9 on us in needing to execute our transactions in as short a
10 time as possible, we've looked at how much value or potential
11 value -- additional value that that provides our customers
12 relative to dealing captively with one (1) counterparty where
13 we'd have lots of time to explore different market
14 circumstances and options.

15 If you are to look at the records of our
16 transactions, and the different quotes we receive from the
17 counter parties, if you were to assume that we were to have
18 done business in each case with the highest quoting
19 counterparty as opposed to the lowest on each transaction,
20 it's not at all unusual for our customers to have been
21 looking at giving up as much as \$2 million in each round of
22 transactions, assuming that the price were to have gone below
23 the floor price.

24 So that means there's as much as \$2 million of
25 value between the spreads on the lowest and highest bidding

1 counterparties and -- and that's with each counterparty being
2 aware that they're forced to be competitive, because there's
3 these unknown counterparties out there bidding competitively
4 against them.

5 I can't even imagine what that number might be
6 if you were to assume that a counterparty knew we were
7 captives to them and not obtaining quotes from another
8 counterparty.

9 So, while it places certain constraints in
10 needing -- as far as having to execute the transactions in a
11 timely fashion, there's concrete evidence that it provides
12 customers with significant potential value.

13 MR. KRIS SAXBERG: I just have three (3)
14 questions left in this area. If I can -- if I get the answer
15 that I'm thinking I've already heard.

16 I think you agreed that a wider band width in
17 -- overall, is better for consumers.

18 MS. LORI STEWART: I'm not sure where you
19 heard that.

20 MR. KRIS SAXBERG: Well, I asked you if you
21 were happier with the seventy (70) cent band width, on Line
22 5, than with the forty-seven (47) cent band width on Line 21.
23 I think you already said on the record --

24 MS. LORI STEWART: No, Mr. Saxberg. The
25 seventy-seven (77) -- the downside protection that is

1 represented by the seventy-seven (77) cents that -- that you
2 quoted on Line Number 5, in that particular instance what may
3 have happened is the market fell off a couple of cents.

4 Therefore the downside protection, it's --
5 it's impossible unless we're going to invest a lot of money
6 in real -- real time market intelligence and have screens in
7 our trading room and bump up this level of activity to a
8 whole other level, it is impossible for you to understand
9 where the market was relative to that twenty-seven (27) cents
10 of downside protection. In fact the market, more than
11 likely, came off in that particular instance and that, in
12 reality -- you know -- it could have been twenty (20) cents,
13 it could have been twenty-one (21) cents. What's the point
14 of tracking that?

15 MR. KRIS SAXBERG: All I'm trying to
16 establish is that if you could, if you had your druthers,
17 you'd rather have a larger bandwidth than a narrow one.
18 That's all I'm saying.

19 MR. BRENT SANDERSON: In terms of bandwidth,
20 what provides value to our customers is the width of the band
21 on the lower strike price relative to the at the money or
22 swap price relative to the out of the money band on the upper
23 strike or cap price.

24 And we ensure that we extract as much value as
25 possible from the market or as wide a band on the lower

1 strike relative to the band on the upper strike by soliciting
2 numerous simultaneous quotes in a competitive bidding system.
3 And we ensure that we're extracting as much value as possible
4 from the market in that respect.

5 So the absolute width of the band between the
6 upper strike and lower strike is irrelevant. What determines
7 the value is the width of the lower strike relative to the
8 width of the upper strike at the instant that that
9 transaction is placed. And that is evidenced by the relative
10 merits of each counterparty's quote, "one (1) relative to
11 another in terms of the width of their lower band", quote.

12 MR. KRIS SAXBERG: Okay, thank you for that.
13 I -- I appreciate that. You've confirmed that you need to
14 execute these transactions in as soon a time as possible and
15 the -- the quicker you do it, the better. Right?

16 MS. LORI STEWART: There -- there's no reason
17 for us to delay, Mr. Saxberg. We simply head into the
18 hedging transaction and five (5) or six (6) minutes later
19 it's done.

20 MR. KRIS SAXBERG: What are you trying to do?
21 Are you trying to do it quicker or can you take your time?
22 What would you rather do?

23 MS. LORI STEWART: We have to be respectful
24 of the fact that the counterparties that we're dealing with
25 here do not want their time wasted. This is -- this is a

1 business relationship and we do need to respect the fact that
2 if I keep them lagging on the phone for fifteen (15) minutes
3 there could have been an oil deal that they did, so you know,
4 it just makes sense. It's how it works.

5 MR. KRIS SAXBERG: That's not what I'm
6 talking about and --and I think you know that. I'm talking
7 about the difference -- the time between when you set the
8 ceiling and the time when you do the counter-transaction to
9 set the floor. You want to do that quickly. That -- that's
10 what you said already, because the market's changing.

11 MS. LORI STEWART: Yes.

12 MR. KRIS SAXBERG: Okay, that's -- so you
13 have to do it quickly and if the market is rising during that
14 -- those three (3) to five (5) minutes, then -- I just want
15 to get a directional sense -- if the market's rising during
16 that period, then you'll have a narrower band -- or you'll
17 have a -- a smaller amount of -- of -- a greater opportunity
18 risk for consumers.

19 Is that right?

20 MR. BRENT SANDERSON: No. The -- the band on
21 the floor strike will narrow in -- to the same extent that
22 the band on the upper strike is narrowing as the market
23 moves. There is no opportunity value given up. If the band
24 on the floor narrows because the price is moving up, the
25 ultimate effective out of the money upper strike we have at

1 the instant that transaction has concluded has narrowed as
2 well.

3 MR. KRIS SAXBERG: Well, I'm talking about
4 the market just rising in those three (3) to five (5) minutes
5 and if that's the case, then the -- if -- if the market price
6 is going up, then the protection that you have, the -- the --
7 on the floor, is decreasing. Is it not?

8 MR. BRENT SANDERSON: As will the extent of
9 the participation that we would have to face in terms of
10 rising prices as well. It's reciprocal as I've -- as I've
11 stated a number of times.

12 MS. LORI STEWART: The reality versus what
13 gets represented on a piece of paper are -- are different,
14 Mr. Saxberg. What you look at on the piece of paper will
15 appear to be in the -- in the situation of a rising market
16 less downside participation.

17 However, as Mr. Sanderson has just outlined --
18 in reality, what that means is, that the protection -- the
19 protection -- the level of protection has moved
20 correspondingly, however, we can't represent all of those
21 market moves on this particular market-to-market reporting.

22 MR. BRENT SANDERSON: Nor would it be
23 appropriate.

24 MS. LORI STEWART: It -- there's a difference
25 between what -- what you're looking at here and then

1 everything that's happening underlying it.

2 MR. KRIS SAXBERG: Okay. If you were to
3 encounter the exact same situation again, where you're faced
4 with an incredibly rising market within the three (3) to five
5 (5) minutes you're making these transactions, would you do
6 the same thing?

7 MS. LORI STEWART: Certainly, I would.

8 MR. KRIS SAXBERG: Okay. Thank you for that.
9 Why then was it important to move to trading later in the day
10 to avoid that?

11 MS. LORI STEWART: Primarily related to the
12 -- the difficulty that we had with refreshes with our
13 counterparties in that particular circumstance. So you know,
14 every five (5) seconds I was losing a number off the board
15 and people were pulling their quotes off the board as soon as
16 we could get them up.

17 And we -- we don't want to be in that
18 situation. My operating principles and procedures require me
19 to have three (3) live quotes and we move to transacting a
20 little later in the day in -- in order to try and preserve
21 that.

22 MR. KRIS SAXBERG: So it would be better to
23 transact when the market isn't rising quickly or falling
24 quickly? Is that what you're saying?

25 MS. LORI STEWART: For the reasons I just

1 outlined, yes.

2 MR. KRIS SAXBERG: Okay. I -- I want to
3 move on then -- is it the intention of the Board to take a
4 break at 10:30 or --

5 THE CHAIRPERSON: I was wondering when you
6 reach the end of this particular line. Are you close to it
7 or you've got some other elements to pursue?

8 MR. KRIS SAXBERG: I was going to move on to
9 some more specific questions about the Western Opinion
10 Survey. So it's a different line of questioning.

11 THE CHAIRPERSON: Well, why don't we have the
12 break now then?

13 MR. KRIS SAXBERG: Sure.

14 THE CHAIRPERSON: Okay, thank you very much.
15 We'll be back at 10:30.

16

17 --- Upon recessing at 10:15 a.m.

18 --- Upon resuming at 10:30 a.m.

19

20 THE CHAIRPERSON: Welcome back.

21 Mr. Saxberg...?

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

23

24 CONTINUED BY MR. KRIS SAXBERG:

25 MR. KRIS SAXBERG: Since 1999 there have been

1 three (3) surveys of customer tolerances with respect to bill
2 and price volatility. Is that correct?

3 MS. LORI STEWART: I -- I'm not aware of
4 three (3) surveys, but perhaps you could enlighten me.

5 MR. KRIS SAXBERG: In my Book of Documents,
6 at Tab C, two (2) pages in, we have a report by Viewpoints
7 Research dated August 1999.

8 That's the first one (1) . And then if you
9 flip to Tab D, there's an earlier -- I should have done this
10 in the other order. There's an earlier report which, on the
11 second page of Tab D, was also -- is also by Viewpoints
12 Research and it's dated April 1998.

13 And then we have the most recent Western
14 Opinion survey and -- and research. Is that fair?

15 MS. LORI STEWART: Sure, fair enough.

16 MR. KRIS SAXBERG: There wasn't anything else
17 in between, as far as you know?

18 MS. LORI STEWART: No, there was not.

19 MR. KRIS SAXBERG: Now, the first two (2)
20 pieces of market research were done by Viewpoints Research.
21 Is there any reason why you didn't use them again?

22 MS. LORI STEWART: They didn't bid.

23

24

(BRIEF PAUSE)

25

1 MR. KRIS SAXBERG: Wouldn't it have been
2 better to have -- have used them, given their -- their
3 extensive dealings with this topic?

4 MS. LORI STEWART: We put the -- the bids --
5 the work to tender and they didn't bid.

6 MR. KRIS SAXBERG: I guess they must be busy.

7

8 (BRIEF PAUSE)

9

10 MR. KRIS SAXBERG: Now, if you go back to Tab
11 C, and the fourth page in, which is executive summary.

12

13 (BRIEF PAUSE)

14

15 MR. KRIS SAXBERG: Viewpoints Research didn't
16 do a survey, they used a focus group. Do you recall that?

17 MS. LORI STEWART: That's my understanding
18 and the current research consisted of two (2) stages, a
19 qualitative stage, i.e., focus groups as well as a
20 quantitative stage, that being the telephone survey.

21 MR. KRIS SAXBERG: And my clients asked me to
22 ask this question. When the focus group research was done by
23 Viewpoints, CAC/MSOS was invited to participate and -- and
24 view the focus groups, and they weren't offered that same
25 invitation with respect to the focus groups that occurred

1 with Western Opinion. Why -- why not?

2

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(BRIEF PAUSE)

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MS. LORI STEWART: It -- it just -- it didn't occur to me to invite them and there was a -- you know, the -- the research -- the recent research was -- was under my supervision, so I will accept responsibility for that -- that oversight.

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(BRIEF PAUSE)

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MR. KRIS SAXBERG: Now, you indicated that there were two (2) stages to the Western Opinion work. One (1) was a focus group and then they -- the second stage was a survey, correct?

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MS. LORI STEWART: To be a -- a bit more precise, the first stage was a series of focus groups. It consisted of four (4) target groups of customers, system supplied customers who were on the equal payment plan; system supplied customers who were not on the equal payment plan; broker customers and small commercial customers.

23

24

25

So those four (4) focus groups are what make up the first stage of the study and the second stage of the study consisted of a telephone survey of two thousand (2,000)

1 customers in total.

2 MR. KRIS SAXBERG: Now, I understand that
3 focus groups provide qualitative information whereas surveys
4 provide quantitative information. Is that your
5 understanding?

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

7 MR. KRIS SAXBERG: What's your understanding
8 of -- of what's brought to the table by qualitative -- with
9 qualitative research?

10 MS. LORI STEWART: Well, in this particular
11 instance, the topic area is -- is somewhat complex and the
12 purpose of the focus groups was to observe how consumers were
13 reacting to language, to explanations, you know, were we
14 getting a bunch of blank stares as -- as we tried different
15 descriptions of what Manitoba Hydro was currently --
16 currently doing in terms of hedging activities.

17 And in the event -- and there were some of
18 those blank stares, which precipitated us to make changes to
19 the language used that would then be delivered over the
20 phone.

21 MR. KRIS SAXBERG: Now, there's a portion of
22 the report on what happened with the focus group included in
23 the materials at PUB-9A, I believe.

24 MS. LORI STEWART: I'm sorry, are you asking
25 me a question, or ...?

1 MR. KRIS SAXBERG: Yes, well if you look at
2 Tab F, I've included what was included in the -- in the PUB-
3 9A response and it's only an excerpt of the preliminary
4 research, right?

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

6 MR. KRIS SAXBERG: Do you have any objection
7 to filing the entire preliminary research?

8 MS. LORI STEWART: I -- I do in terms of
9 relevance because the outcome of focus groups -- the sample
10 size is so small that really what you're looking at is
11 opinions of, for a specific focus group, eight (8)
12 individuals. So it's important to not draw conclusions from
13 the statements and perceptions and preferences of those eight
14 (8) individuals because, of course, they're not statistically
15 valid.

16 MR. KRIS SAXBERG: Is it fair to say you --
17 you don't get qualitative information from surveys?

18 MS. LORI STEWART: Well, I'm -- I'm not a
19 market research expert, Mr. Saxberg, I -- I believe that I
20 received qualitative information from the telephone survey
21 that was also quantitatively and statistically valid.

22 MR. KRIS SAXBERG: But you'd agree that the
23 Western Opinion document says that it's qualitative
24 information that's from the focus groups and it's
25 quantitative information from the survey?

1 MS. LORI STEWART: I don't believe this study
2 says that one does not receive qualitative information from
3 the telephone survey.

4 MR. KRIS SAXBERG: Now -- so, if I'm looking
5 at -- I -- I take it then, that your answer is no, you're --
6 you don't want to file the entire document?

7 MS. LORI STEWART: We would prefer not to.
8 That's why it isn't on the record today.

9 MR. KRIS SAXBERG: I take from that then,
10 that with respect to -- well, is it fair to say there were
11 essentially then, two (2) reports -- one (1) that was the
12 survey and one (1) that is the focus group excerpt?

13 MS. LORI STEWART: No, there was a single
14 report that encompassed the relevant information related to
15 our research. And the firm with whom we contracted was quite
16 clear and very good at coaching us to not read too much into
17 the outcome of the focus groups because it -- you know, you -
18 - you could have, by fluke, received -- you know -- or had
19 included in that focus group six (6) -- six (6) out of eight
20 (8) people who had a very firm opinion about that yes,
21 hedging activity should be increased. However, if one
22 proceeded on the basis of that, that would be quite -- quite
23 flawed.

24 MR. KRIS SAXBERG: So ultimately you're
25 relying on the survey?

1 MS. LORI STEWART: That's correct.

2 MR. KRIS SAXBERG: Now, when Viewpoints did
3 its work the last time around, they reached -- they had the
4 opposite viewpoint. Their view was that quantitative
5 research and surveys wouldn't do us any good in trying to
6 ascertain the tolerances of customers to bill -- price
7 volatility.

8 MR. HOWARD STEPHENS: That was under my
9 supervision, sir, and that was my thinking prevailing over
10 Viewpoints' in terms of how we were going to approach the
11 survey.

12 MR. KRIS SAXBERG: And my colleague mentioned
13 that to me as well. I said that Mr. Stephens was a big
14 proponent to focus groups over surveys.

15 MR. HOWARD STEPHENS: Yes, and simply -- from
16 the perspective that it was very complex material and I
17 thought that it was -- recognizing that it was going to be a
18 very a qualitative analysis, but that the feedback we would
19 get would be more effective than a telephone survey. I mean
20 and I respond to lots of marketing surveys, being an ex-
21 marketer.

22 Where somebody phones me up right after I've
23 had supper and I'm laying on the couch and they ask me a
24 whole bunch of questions and I really, you know, my attention
25 span is not exactly the long -- the longest.

1 MR. KRIS SAXBERG: Okay, and so if we turn to
2 Tab C and flip to the 4th page, the Executive Summary. The
3 quote from Viewpoint Research, the second paragraph is,
4 quote:

5 "Given the complexity of the issues to be
6 dealt with in this study, Viewpoint's
7 determined that qualitative research in the
8 form of focus groups rather than
9 quantitative research would be the most
10 appropriate methodology.

11 We felt it would be difficult to assess in
12 a quantitative study whether respondents
13 understood the issues well enough to offer
14 an opinion or preference."

15 So my question to the Panel is, who's right
16 about the best way to determine customer tolerances? Is it
17 Viewpoint's that says that it should be a focus group or is
18 it Western Opinion that says it should be a survey?

19 MS. MARLA MURPHY: We have a bit of
20 difficulty in that we have retained two (2) marketing
21 experts. And we're now being asked as a Panel of gas supply
22 people which one (1) of them is -- is -- as a better expert.
23 So I don't think that's a position that our Panel can comment
24 on.

25 MR. KRIS SAXBERG: Okay. So what is Centra's

1 position at this point in time as to the best methodology? I
2 take it would be the survey.

3 MS. LORI STEWART: The most current research.
4 I of course have the pleasure of Mr. Stephens working on the
5 same floor as me and he is certainly aware of our approach in
6 the recent research. And just as we discuss many other
7 items, this was discussed.

8 And I'd like to point out that the Western
9 Opinion Research does not simply consist of quantitative --
10 quantitative data, that qualitative focus groups were
11 undertaken at the commencement of the process in order to
12 ensure that a complex topic could be understood by consumers
13 by way of the telephone survey.

14 MR. KRIS SAXBERG: Would you agree with me
15 that the single biggest challenge is to ensure that customers
16 fully understand the options that are being tested, as well
17 as their implications, before they offer their views with
18 respect to the different hedging options?

19 MS. LORI STEWART: I would agree that that is
20 a significant challenge.

21 MR. KRIS SAXBERG: And would you agree that
22 -- then just in a general sense, that if the customers didn't
23 understand fully the -- the program, that their responses
24 wouldn't be as -- as helpful as those responses of people who
25 had a better understanding of the program? Just in a general

1 sense.

2 MS. LORI STEWART: That's a pretty -- safe
3 statement.

4 MR. KRIS SAXBERG: Now, I've taken some of
5 the key sections of the report and included them at Tab E of
6 my Book of Documents. Is it fair to say that the main
7 conclusion of the report, or one (1) of the main conclusions
8 of the report is that consumers did not give high ratings to
9 Manitoba Hydro for reducing -- price fluctuations?

10 MS. LORI STEWART: I -- I think if we read
11 fully that key finding, there was a correlation drawn between
12 the fact that the vast majority of consumers were not aware
13 of the activities undertaken by the Corporation to mitigate
14 volatility and that that had an impact on their rating of the
15 Corporation's performance in that area.

16 MR. KRIS SAXBERG: They gave Manitoba Hydro
17 relatively poor marks because they didn't or weren't fully
18 aware of all of the things that Manitoba Hydro's doing to
19 reduce volatility?

20 MS. LORI STEWART: Well, in fact, you
21 introduced the fact that a very small percentage of 19
22 percent were even aware that the Corporation operated a
23 hedging program.

24 MR. KRIS SAXBERG: Now, if you flip to the --
25 to Page 14, which is the third page in, the report concludes

1 that 51 percent of those asked supported the hedging program
2 and 33 percent opposed to it -- are opposed to it. Is that
3 right?

4 MS. LORI STEWART: Yes, those percentages are
5 related to consumers' initial reaction to a description of
6 the hedging program.

7 MR. KRIS SAXBERG: And what I've just -- want
8 to get your view on is, support -- well, the next conclusion
9 is that 66 percent of the -- participants were either in
10 favour of maintaining the status quo or increasing the
11 hedging program, correct?

12 MS. LORI STEWART: Yes, in -- either
13 maintaining the current hedging levels or -- or increasing
14 them.

15 MR. KRIS SAXBERG: So, the first question
16 was, do you support it? And 51 percent said that they
17 support it. Then they were asked another question and those
18 same people indicated that they would support in --
19 increasing or maintaining the hedging program so that the
20 support went up to 66 percent.

21 MS. LORI STEWART: Following a description of
22 three (3) options presented to the consumers. One (1) being
23 to increase hedging activities and the associated risks and
24 benefits. One (1) being to maintain the status quo program
25 and the other being to decrease hedging activities with the

1 resultant risks and benefits.

2 MR. KRIS SAXBERG: So some people that were
3 in the 49 percent that didn't support hedging changed their
4 minds and decided -- and said that Centra should maintain the
5 status quo or increase hedging. Is that fair?

6 MS. LORI STEWART: Well, certainly only 33
7 percent initially said that they were opposed to the program.
8 So when I add 33 percent and 51 percent, what that tells me
9 is that some consumers were uncertain.

10 MR. KRIS SAXBERG: And that --

11 MS. LORI STEWART: At the time that the
12 initial question was asked and, upon reflection of the
13 follow-up options, that some of them may have moved into the
14 camp. Certainly you're right, some of them who were
15 initially opposed could have moved into that camp as well.

16 MR. KRIS SAXBERG: Could it also be explained
17 by the fact that sometimes the question that's asked prompts
18 a particular response and therefore you're going to have
19 difference percentages depending on the question?

20 MS. LORI STEWART: If you're asking me could
21 that happen, yes. I was hoping you'd go on to ask me whether
22 or not I felt that did happen.

23 MR. KRIS SAXBERG: I'm not going to. I -- I
24 want to ask about whether or not changing the bandwidth
25 increases the costs of the hedging program? I think your

1 answers yesterday would be that it wouldn't change. The
2 thirteen dollars (\$13) to twenty-six dollars (\$26) a year, if
3 you change the bandwidth, would -- would there be any change
4 in that -- in that cost?

5

6

(BRIEF PAUSE)

7

8 MR. BRENT SANDERSON: I might take this and
9 help out a little on this one. It would be impossible for us
10 to say. We have a general sense that the costs, long run
11 cost of hedging or the embedded dealer premium, if you will,
12 is -- is small because it's a very efficient market and due
13 to the nature in which we transact, as I described to you
14 earlier.

15 And we have the research paper that quantifies
16 long run hedging costs in the over-the-counter market is on
17 the order of three quarters (3/4) of a percent with a
18 prudently executed program. What a dealer would embed in one
19 (1) instrument relative to another relative to a tighter band
20 or a wider band, that would depend on the dealer or would
21 depend on the day.

22 There's numerous circumstances that determine
23 what the dealer has to embed in their instrument. So it's
24 impossible for us to say. Just like we can't conclude a
25 transaction and tell you what the dealer embedded in that

1 cost of that particular instrument because there's a number
2 of factors that drive what the dealers see fit to embed in
3 terms of margin in their price quotes.

4 MR. KRIS SAXBERG: Could you flip back to Tab
5 F and go three (3) pages in. And this is the report on the
6 focus group. And I'm looking at -- it says page 54 at the
7 bottom and I'm -- I'm looking at the third bullet. And it
8 says:

9 "Many respondents asked what the costs are
10 for operating the current hedging program,
11 and what these costs would be if the band
12 were narrowed by implementing a more
13 conservative hedging strategy."

14 What -- what answer did you give them?

15 MS. LORI STEWART: Well, first of all I
16 wasn't in the room conducting the focus groups, someone from
17 Western Opinion Research was. So I -- I wasn't responding to
18 that question.

19 MR. KRIS SAXBERG: You don't know what the
20 person from Viewpoints would have told the participants is
21 what you're saying? And that's fair, you weren't there
22 you're saying? Did you monitor it?

23 MS. LORI STEWART: No, no. I -- I was there,
24 but behind the glass, not in the room with the participants.
25 The focus groups were facilitated from -- by someone from

1 Western Opinion Research. Just give me an opportunity to
2 read that particular reference if you would, Mr. Saxberg.

3 MR. KRIS SAXBERG: Sure.

4

5

(BRIEF PAUSE)

6

7 MS. LORI STEWART: In fact, what this third
8 bullet outlines is one (1) of the learnings that we derived
9 from the focus groups because initially heading into the
10 focus groups and throughout the focus groups or the initial
11 one (1) or two (2) of them, we were reluctant to outline, you
12 know, to put a -- a number on what the hedging cost could be
13 because we view that matter quite conservatively and wanted
14 to be sure to relay that there would be a long run cost
15 impact and sort of struggled in terms of well, what would we
16 communicate to consumers with regard to that.

17 And so we recognize that in each of the four
18 (4) focus groups that was an important question that
19 consumers needed an answer to. That we basically needed to
20 do the research and quantify and be able to give that
21 magnitude that it would be one (1) to 2 percent over the long
22 run. And that that information needed to be delivered in our
23 telephone survey.

24 So, you know, the -- the issue of what would
25 these costs be if the band were narrowed -- I think that's a

1 very -- it was kind of a mucky area of the dialogue with the
2 facilitator and the participants in the focus groups, and if
3 you ask me, was there a clear response to that? There
4 wasn't.

5 MR. KRIS SAXBERG: Would -- would you agree
6 that if you were to narrow the band instead of using fifty
7 (50) cents out of the money, you used twenty-five (25) cents
8 and you still sought a cashless collar, you'd be reducing
9 volatility to a higher extent?

10 MS. LORI STEWART: That -- that's
11 theoretically correct for a higher long run cost.

12 MR. KRIS SAXBERG: And for -- and the
13 question then is, what is that higher long run cost? Is it
14 still in the one (1) to 2 percent range?

15 MS. LORI STEWART: Yeah, given that, you
16 know, our more precise expectation with regard to long run
17 cost related to our current program, is in the neighbourhood
18 of, you know, three-quarters (3/4) of a percent. Factoring
19 and then factoring in on top of that are hedging and
20 administration costs. You know, 2 percent, 3 percent
21 wouldn't be out of the ballpark.

22 MR. KRIS SAXBERG: And conversely, if you
23 were to widen the band and set a dollar (\$1) out of the money
24 rather than fifty (50) cents, that would result in less
25 dampening of volatility?

1 MS. LORI STEWART: That's correct.

2 MR. KRIS SAXBERG: And would the cost then,
3 go down?

4 MS. LORI STEWART: In theory, yes.

5 MR. KRIS SAXBERG: Below the three-quarters
6 (3/4) of a percent?

7 MS. LORI STEWART: Perhaps.

8 MR. KRIS SAXBERG: And what I want to know
9 then, is, were participants in the focus group or later
10 through the survey -- were they informed when asked whether
11 you want to maintain the status quo, decrease hedging or
12 increase -- hedging, were they told that -- of the relative
13 cost differences?

14 MS. LORI STEWART: What consumers were told
15 is that some -- some people say that Manitoba Hydro should
16 increase its hedging activities to further smooth out natural
17 gas price fluctuations. Even though there would be a
18 relative increase to the small cost presently incurred by
19 consumers. And conversely, other people say Manitoba Hydro
20 should decrease its hedging activities that are aimed at
21 smoothing out natural gas price fluctuations, rather that it
22 should more directly pass on the actual ups and downs of
23 market prices to its customers.

24 MR. KRIS SAXBERG: And you -- just for the --
25 the Board's reference -- you're looking at Tab G, page 58?

1 It's four (4) pages in?

2 MS. LORI STEWART: I was actually looking at
3 Tab E, page 16 but I don't suspect there's any difference.

4 MR. KRIS SAXBERG: At Tab G I've included the
5 questionnaire, the script for the survey.

6 MS. LORI STEWART: And that's what I read.

7 MR. KRIS SAXBERG: So -- but just that I have
8 it on the record, there was no precise dollar amount given.
9 It was just, it's going to be relatively more expensive if
10 you increase hedging; it's going to be relatively less
11 expensive if you decrease hedging?

12 MS. LORI STEWART: That's correct.

13 MR. KRIS SAXBERG: Was there an -- an order
14 of magnitude given in terms of the increased amount of
15 volatility that would be dampened if you paid that relatively
16 higher cost?

17 MS. LORI STEWART: Well, we just read the
18 material and, no, no, there wasn't. I mean, it's a function
19 of -- of the way the market is -- is moving at that point in
20 time.

21 MR. KRIS SAXBERG: What information on -- on
22 the performance of the program was given to the participants?
23 Did you tell them -- you know, in 2003 we reduced volatility
24 by 30 percent, and in 2003 there were -- gas costs were --
25 2002/2003 they were \$15 million lower.

1 MS. LORI STEWART: No, we --

2 MR. KRIS SAXBERG: Did you give any of that
3 kind of information?

4 MS. LORI STEWART: No, we certainly wouldn't
5 have given information related to the marked market results
6 because of course those would be related to a finite period
7 of time. And as we all know, gas cost could have -- could
8 have been increased by that same value.

9 MR. KRIS SAXBERG: So how do -- does the
10 participant know what they're getting for that relative
11 increase in costs or relative decrease in cost? How do they
12 -- how do they know whether it's -- it's worth the increase
13 in cost if -- if they don't have a measure?

14 MS. LORI STEWART: Well, for the consumers
15 who are system supply consumers, certainly we ask to speak
16 with the individual who's responsible for paying bills. And
17 so there's some assumption that the individual who responded
18 to the survey is someone who is aware of what their natural
19 gas bills are like. And embedded in that is the outcome or
20 the performance of our hedging program.

21

22 (BRIEF PAUSE)

23

24 MR. KRIS SAXBERG: Maybe I'll -- I'll come
25 back to that through this discussion. I -- I want to talk

1 just about the performance measures that the company's using
2 for these proceedings. Just by way of background, when
3 Centra pays its gas bill to Nexen, pays it every month, is
4 that right?

5 MR. HOWARD STEPHENS: Yes, sir.

6 MR. KRIS SAXBERG: Consumers pay their gas
7 bills every month as well, but their rates only change every
8 quarter?

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

10 MR. KRIS SAXBERG: Whereas the price that
11 Centra pays for gas changes every month?

12 MR. HOWARD STEPHENS: That's correct.

13 MR. KRIS SAXBERG: Now Centra's only hedging
14 a portion of the primary gas that it purchases. What
15 percentage of the bill is related to primary gas? Of the
16 overall bill?

17 MS. LORI STEWART: We would -- we would need
18 Ms. Derksen here to be able to give us a specific number. If
19 you'll just allow us to check on that quickly. Like in the
20 order of magnitude --

21 MR. KRIS SAXBERG: Yeah.

22 MS. LORI STEWART: -- somewhere likely
23 between forty-five (45) and 50 percent subject to check.

24 MR. KRIS SAXBERG: Okay. And you can correct
25 that later for an exact percentages and I'll just use 50

1 percent for now. So when you told Mr. Peters that volatility
2 had been reduced by 30 percent in one (1) year, 20 percent in
3 the next year, and you were I think predicting 36 percent or
4 something this year.

5 Is it fair to say then that that is a -- for
6 the 30 percent year, that that is a 30 percent reduction in
7 volatility of 50 percent of the bill?

8 MS. LORI STEWART: Well, it's related to the
9 primary gas sales rate so, yes.

10 MR. KRIS SAXBERG: So it's a 30 percent
11 reduction in volatility of the 50 percent of -- of the bill.
12 Were participants advised that that's how the hedging program
13 was working?

14 MS. LORI STEWART: No. That level of detail
15 was not relayed in the telephone survey.

16 MR. KRIS SAXBERG: Were they told that most
17 of the volatility that they see on their bill is as a result
18 of weather?

19 MS. LORI STEWART: I -- I'd have to go back
20 and -- and read the preamble. My -- I don't recall at this
21 moment, Mr. Saxberg.

22 MR. KRIS SAXBERG: Now Mr. Peters asked you,
23 what's the target that you have for reducing volatility? And
24 I think you said you didn't have a target?

25 MS. LORI STEWART: And I went on to say that

1 I don't have a target because the performance delivered is a
2 function of the market.

3 MR. KRIS SAXBERG: So how do you tell whether
4 or not you're -- you're within the tolerances of your
5 customers as expressed in the Western Opinion research?

6 MS. LORI STEWART: Because 66 percent of
7 consumers surveyed indicated that they were satisfied with
8 the current hedging program or --or would be interested in an
9 increase in hedging activities.

10 Given the heterogeneous customer base that we
11 operate the hedging program on behalf of, those are pretty
12 good numbers.

13 MR. KRIS SAXBERG: But that's what -- but
14 that's -- that's a response given by those people without
15 knowing the effect of the hedging program. You've just
16 described it. You haven't said whether it's a success in
17 terms of the degree of volatility that's being reduced or --
18 you haven't given them an indication of a number of what's --
19 what the hedging program's accomplishing.

20 MS. LORI STEWART: Certainly, Mr. Saxberg, I
21 -- what I outlined is that fifteen hundred (1,500) of the two
22 thousand (2,000) customers surveyed have personal knowledge
23 of the impact of our hedging program because they're the
24 individuals in that household that are responsible for -- for
25 payment of their natural gas bills.

1 And if -- I would assume that if consumers
2 were expressly dissatisfied with Manitoba Hydro's hedging
3 program or its activities related to mitigating price
4 volatility, that they may have moved to a broker offering.

5 MR. KRIS SAXBERG: So I take it that what
6 you're saying is, you didn't have to tell them about how the
7 hedging program was performing because they -- they should
8 know themselves, because they pay the bill every month?

9 MS. LORI STEWART: I'm saying that the
10 performance of the hedging program is embedded in the natural
11 gas bill, yes.

12 MR. KRIS SAXBERG: If you can flip, then,
13 back to Tab E in the second page.

14

15 (BRIEF PAUSE)

16

17 MR. KRIS SAXBERG: There's a pie chart that
18 shows that only 19 percent of these people that pay their
19 bill were aware that there was anything being done by
20 Manitoba Hydro to reduce volatility. And then out of that 19
21 percent, only 7 percent were aware of the hedging program,
22 right?

23 MS. LORI STEWART: The statistics are what
24 they are, Mr. Saxberg.

25 MR. KRIS SAXBERG: Well, doesn't that show,

1 then, that people -- that you -- that what you were asking,
2 whether they should increase, decrease, or maintain the
3 hedging program didn't know what the hedging program was
4 doing.

5 I mean, they even know about the hedging
6 program. How could they know what it was doing or
7 accomplishing?

8 MS. LORI STEWART: Mr. Saxberg, the
9 description that was read to consumers in the survey reads as
10 follows:

11 "Currently Manitoba Hydro operates a
12 hedging program on behalf of its customers
13 to reduce the price volatility of natural
14 gas purchases made in the open market."

15 So, yes, we were well aware of it, consumers,
16 or had -- had an indication that consumers were confused
17 coming out of the focus groups or that they weren't aware of
18 -- of the hedging program which is why this description was
19 read into -- was read to each and every one of the two
20 thousand (2,000) consumers.

21 In fact, it goes on to say:

22 "The program only relates to the primary
23 gas portion of your bill and does not
24 eliminate the bill volatility impact of
25 consumption fluctuations due to weather or

1 long-term natural gas price trends."

2 MR. KRIS SAXBERG: And what I'm trying to get
3 at is what's missing here is by how much the hedging program
4 reduces price volatility. It doesn't say that here. It -- I
5 mean you -- you -- it could be the case that it produces it
6 by -- it reduces it by next to nothing.

7 MS. LORI STEWART: And at the end of the day,
8 that wouldn't be relevant to consumers, because it would have
9 simply meant that the market was flat during that time frame.

10 MR. KRIS SAXBERG: If -- if you said in this
11 statement to those being surveyed, if you said that currently
12 Manitoba Hydro operates a hedging program on behalf of
13 customers to reduce the price of volatility -- volatility of
14 natural gas purchases by 20 percent of your primary gas bill.
15 And the cost is thirteen dollars (\$13) a year. Do you
16 support increasing it, decreasing it, or maintaining the
17 status quo? Wouldn't that have been more effective in being
18 able to solicit a response and informed response?

19 MS. LORI STEWART: I'm not sure, Mr. Saxberg.
20 Could have, should have. The fact is, we didn't. The -- the
21 information that was conveyed to consumers was a high-level
22 of description of our hedging program.

23 It did not include the specifics that you
24 related to. It certainly did outline to consumers that this
25 questionnaire is related to the primary gas portion of your

1 bill and that it does not remove the fluctuations related to
2 weather. It outlined that the cost of the program is in the
3 range of one (1) to 2 percent. That's the information that
4 was provided. What wasn't, isn't there.

5 MR. KRIS SAXBERG: And did -- did the
6 research determine whether people are aware that there are
7 five (5) separate charges on their bill and the relative
8 proportions between them and how much of the bill is made
9 up --

10 MR. KRIS SAXBERG: No, Mr. Saxberg.

11 MR. KRIS SAXBERG: Wouldn't that be important
12 for them to know that you're only reducing price volatility
13 with respect to 50 percent of the bill?

14 MS. LORI STEWART: If I could keep a consumer
15 on the phone for thirty (30) or forty-five (45) minutes to go
16 through that, perhaps.

17 MR. KRIS SAXBERG: But in a focus group
18 situation you can surely do that?

19 MS. LORI STEWART: And that -- those types of
20 conversations would have arisen in a focus group setting,
21 however, the outcome of that type of dialogue is not
22 statistically valid and one should not be making decisions
23 about a program on the basis of that data.

24 MR. KRIS SAXBERG: I know you weren't here at
25 the, you know, rate management hearing three (3) or four (4)

1 years ago, but Centra's position was the opposite of that.
2 It was that the focus group alone is sufficient information
3 on which this Board could determine the preferences of -- of
4 customers.

5 MS. LORI STEWART: That was then and this is
6 now.

7 MR. KRIS SAXBERG: Okay, well that's fair
8 that you've changed your position.

9 Now, I -- I just want to -- and I'm sure this
10 is going to be for Mr. Sanderson -- I just want to understand
11 how the -- the measure of volatility is -- is occurring. And
12 at Tab --

13 MS. LORI STEWART: Just to tidy up the
14 record, we've heard back from Ms. Derksen and right now the
15 portion of a typical resident -- residential bill represented
16 by primary gas is actually 60 percent.

17 MR. KRIS SAXBERG: Thank you for that and as
18 the price of gas -- if the price of gas goes up, it becomes
19 even higher. Is that fair?

20 MR. BRENT SANDERSON: It would -- it would
21 depend what would happen with the rest of the component costs
22 of the customer's bill.

23 MR. KRIS SAXBERG: Now, on the first page at
24 Tab J, this is a -- another excerpt from Gas Supply
25 Management minutes. Correct?

1 MR. BRENT SANDERSON: It appears such,
2 subject to check.

3 MR. KRIS SAXBERG: And it says that for
4 2003/2004 -- and those are the costs that we're reviewing in
5 this hearing -- as a result of the hedges that we looked at
6 on Schedule 5.0, volatility was 20 percent less. Fair?

7 MR. BRENT SANDERSON: That's correct as a
8 result -- direct result of the derivatives hedging program
9 for primary gas only.

10 MR. KRIS SAXBERG: Because of Schedule 5.0?

11 MR. BRENT SANDERSON: And what was --?

12 MR. KRIS SAXBERG: What's depicted on
13 Schedule 5.0.

14 MR. BRENT SANDERSON: I'm not --

15 MR. KRIS SAXBERG: Well, --

16 MR. BRENT SANDERSON: -- sure I follow.

17 MR. KRIS SAXBERG: Tab M is Schedule 5.0.
18 These are the hedge transactions that this Board's reviewing
19 in this Proceeding. Right?

20 MR. BRENT SANDERSON: That's correct and --
21 and if by -- you mean as direct result of what happened in
22 Schedule 5.2.0, and if you mean as a direct result of the
23 hedging transactions that were in place, yes, I'd agree with
24 you.

25 MR. KRIS SAXBERG: Right, so the -- in -- in

1 Schedule 5.2.0 this -- this Board's charged with approving
2 these hedge transactions. Ad what you're saying is that the
3 measure or one (1) measure that this Board should take from
4 those transactions is that volatility was reduced by 20
5 percent?

6 MR. BRENT SANDERSON: Keeping in mind that
7 the figures depicted in Schedule 5.2.0 -- a large portion of
8 those were forecast at the time that this schedule was
9 prepared. And those numbers are significantly different now
10 that all of the results are in. And to answer your question,
11 the percentage reduction in primary gas rate volatility is a
12 measure that we calculate to try and gauge the effect of our
13 hedging activities on customers' primary gas rates.

14 MS. LORI STEWART: Mr. Saxberg, the reduction
15 in gas costs related to the 2003/04 hedging costs is in the
16 neighbourhood of \$4.6 million. This schedule that we're
17 looking at in Tab M is a schedule that was prepared as of
18 November 14th, 2003 which, of course, is only midway through
19 that fiscal year.

20 MR. KRIS SAXBERG: And -- and you know what,
21 and I'm red in the face here because I thought that I'd put
22 in the updated schedule which -- which you provided but it
23 isn't there. So when I -- I mean if we look at -- the
24 Board's going to ultimately look at the updated schedule and
25 -- and that's my mistake it should have been in here.

1 But when they look at that updated schedule,
2 is it still the case then that it -- what flows from it is a
3 20 percent reduction in volatility?

4 MR. BRENT SANDERSON: Absolutely.

5 MR. KRIS SAXBERG: And is that then the 20
6 percent reduction in volatility of 60 percent of the typical
7 residential consumer's bill?

8 MR. BRENT SANDERSON: Without -- without
9 getting overly technical, it's a 20 percent reduction in the
10 volatility of the rates that make up 60 percent of the
11 customer's typical annual bill. I don't know if that's
12 stating it differently than you had state it -- stated it.

13 MR. KRIS SAXBERG: And if the reduction is 30
14 percent which is -- was the case for the year before, does
15 that mean that the formula performed better because of the --
16 and I understand it's because of the market, but performed
17 better in that previous year? Is 30 percent better or is 10
18 percent better than 20 percent?

19 MR. BRENT SANDERSON: The higher percentage
20 of volatility reduction that we achieved was a result of our
21 hedging activities as been stated a number of times. It's a
22 function of the marketplace. The higher the percentage, the
23 greater the underlying volatility of the markets on which we
24 buy our gas.

25 If you had to ask us for a preference,

1 probably the best of all possible situations would be a zero
2 percent reduction which would indicate a flat market where
3 customers rates are inherently stable. So to characterize as
4 better or worse, I have no opinion one (1) way or the other.

5 It's -- it's just a way of quantifying in the
6 absence of anything -- any better means of measuring what the
7 hedging activities led to than that. Maybe if you want to
8 talk about whether one (1) year was better than another, we
9 do go on a bit -- if you could just take me back to the
10 reference from the Gas Supply Management committee meeting
11 that you had referred to.

12 I forget now which tab that was.

13 MS. LORI STEWART: Tab J.

14 MR. BRENT SANDERSON: Tab J. Right. If you
15 read the item under bullet C, we do do some underlying
16 comparison of the markets relative to those different
17 percentage volatility reduction figures in each of those
18 fiscal years.

19 And it is pointed out that the year over year
20 change in volatility reduction is a 33 percent decrease in
21 the volatility reduction generated by the hedging program.
22 But the underlying markets against which we're measuring that
23 were two-thirds (2/3) or 67 percent less volatile.

24 So if you want to say one (1) is better than
25 another, I think that's -- that's indicative that even though

1 the markets declined significantly in volatility, we didn't
2 enjoy a corresponding large reduction in the volatility
3 achieved on behalf of customers. And I'll just leave it to
4 everyone in the room to apply their own interpretation to
5 that as whether that's good or bad.

6 MS. LORI STEWART: Perhaps I can speed this
7 along a little bit. Mr. Saxberg, it's not a perfect measure.
8 I'll be the first one to admit that. This is something that
9 anyone operating a hedging program struggles with and it
10 becomes obviously more of a struggle when a mechanistic
11 approach is employed.

12 And by virtue of that decision to employ a
13 mechanistic approach, the marked market results are -- are so
14 clearly not the appropriate measure. And so we're then left
15 to attempt to find other ways to measure or to communicate
16 what the program has delivered.

17 It's not a perfect measure. I -- I recognize
18 that it doesn't meet that hurdle in addition to the measure
19 about the measure related to whether or not we're operating
20 the program consistently with the hedging policy and the
21 operating principles and procedures. It's a means for us to
22 communicate to an audience like this, to an audience like
23 senior management what benefit has our hedging activities
24 delivered.

25 And in this particular incident the benefit

1 that it delivered is that consumers primary gas sales rates
2 were 20 percent less volatile than they would have been in
3 the absence of a hedging program.

4 MR. KRIS SAXBERG: Thank you and I think I
5 understand how the measure works now. If the market is
6 particularly volatile in any -- in any given year, then the
7 reduction in volatility as a percentage indicated here, is
8 going to increase.

9 MS. LORI STEWART: That's correct.

10 MR. KRIS SAXBERG: And if you have a great
11 year -- the customers enjoy a great year where there isn't a
12 lot of volatility in the market, the reduction in volatility
13 is going to be less?

14 MS. LORI STEWART: The -- that's correct.

15 MR. KRIS SAXBERG: So, is it fair to say,
16 then that it's really a measure of what's happened in the
17 market in terms of volatility?

18 MS. LORI STEWART: It's a measure of that, as
19 well as it's a measure of what benefit to consumers as a
20 result of the hedging program or hedging activities.

21 MR. KRIS SAXBERG: And -- and just to tie
22 things up here in terms of getting -- the Board knowing what
23 it should be looking at to determine whether the program's a
24 success -- you don't want this Board to look at the marked
25 market results and where gas costs were lowered or increased

1 in any given year? You -- you strenuously oppose that?

2 MS. LORI STEWART: That's correct.

3 MR. KRIS SAXBERG: And the reason for
4 opposing it is because you have to look at the long run. You
5 can't just look at a couple of years. Is that right?

6 MS. LORI STEWART: No, it's -- it's primarily
7 related to the fact that reviewing the cost impacts of the
8 hedging program is inconsistent with the objectives of our
9 program, which is not to reduce or lower costs. Don't get me
10 wrong. If that is the outcome, we are the first people to
11 feel excited and pleased about the fact that gas costs will
12 be -- will be reduced for consumers.

13 I mean, this whole panel exists for that
14 purpose -- to try to best manage gas supply costs for
15 consumers of Manitoba, however, it's inconsistent with the
16 objective of our program, which is to mitigate volatility.
17 So to be trying to match up the objective of a program which
18 is the reduction in volatility and then looking at marked
19 market results as a benchmark or performance measure of that,
20 those two (2) things simply don't tie together.

21 MR. KRIS SAXBERG: On the second page of Tab
22 J, PUB/Centra 80 attachment one (1) of two (2), primary gas
23 base rate, April '02, is a hundred and fifty-five eighty
24 (155.80). How do you get that number?

25 MR. BRENT SANDERSON: That was the actual

1 primary gas base rate in effect during -- in the month of
2 April 2002.

3 MR. KRIS SAXBERG: That was the amount for
4 the primary gas base rate for the -- just -- for the month?

5 MR. BRENT SANDERSON: No, for the quarter but
6 that is just one (1) month depiction. This is depicting the
7 2002/2003 fiscal period. And by necessity, if we're going to
8 measure the monthly volatility of customers' rates, we need
9 to set up in this spreadsheet the rates that were in effect
10 each month. So that rate was in effect during the months of
11 February 2002 through April 2002. As well, that is the rate
12 that was in effect during the month of April 2002.

13 MR. KRIS SAXBERG: Okay. I -- I just wanted
14 to understand it. I -- I thought it was per month and that
15 would be high compared to the bill, but that's for three (3)
16 months. For May through to July, the portion that you bill
17 related to primary gas for the average consumer is a hundred
18 and ninety-seven dollars (\$197), flowing out of the base
19 rates that were approved for that quarter?

20 MR. BRENT SANDERSON: No, I need to correct
21 you, Mr. Saxberg. That's not the portion of the customer's
22 bill. That is the unit rate in dollars per -- per thousand
23 cubic metres. And if you'll look, the -- the schedule is
24 clear in defining it as a rate rather a portion of the
25 customer's bill.

1 MR. KRIS SAXBERG: Okay, and we're looking at
2 2002/2003 in the first part of the -- of this document and
3 actual -- volatility increase reduction due to hedging is
4 minus 30.2 percent. That -- is that where you get the 30
5 percent on the page before? Is that -- is it flowing out of
6 this chart or...?

7 MS. LORI STEWART: Yes, that's correct. The
8 sentence that reads:

9 "This compares to 30 percent less
10 volatility for the 02/03 fiscal year."

11 MR. KRIS SAXBERG: Because if you flip to the
12 end of that -- the documents in this tab which is PUB/Centra-
13 83, there's a different calculation done there, isn't there?

14 MS. LORI STEWART: No. For the time frame
15 April 2002 to March 2003, what we're showing is a 30 percent
16 reduction in primary gas rate volatility.

17 MR. KRIS SAXBERG: So I just wanted to
18 compare these two (2) work-ups then are using the same
19 methodology to -- to calculate the percentage reduction
20 volatility?

21 MR. BRENT SANDERSON: Yes they are. I think
22 it's important to point out though that this schedule that
23 you're showing as PUB/Centra-80, attachment 1 of two (2),
24 this is a somewhat dated schedule and I -- by looking at it,
25 this is probably from last year's Proceeding.

1 So if you're looking for differences in
2 numbers, I'll take you to the 2003/2004 figures in that same
3 schedule. And you see it's a 36 percent reduction and that
4 was to that point in the 03/04 fiscal year. If you'll refer
5 to the -- to the last schedule in this tab, you will see that
6 the final number for fiscal 03/04 is minus 20 percent and
7 that difference can be explained by the fact that the 36
8 percent figure only includes a portion of the fiscal year.

9 Whereas the figures in the last tab identified
10 as PUB/Centra-83C include the full fiscal year after its
11 conclusion.

12 MR. KRIS SAXBERG: Okay. That's answers my
13 question. And the third page in in the same tab is another
14 diagram with some very small font, it's going to test
15 everybody's eyes, but what are you showing here?

16 MR. BRENT SANDERSON: What this indicates, it
17 is measurement of performance against the prior and no longer
18 utilized sixty dollar (\$60) annualized increase/decrease in
19 the customer's bill on a quarter by quarter basis. And it's
20 just quantifying the relative performance against that
21 measure that Centra use to employ but no longer feels is
22 appropriate.

23 MR. KRIS SAXBERG: And is it telling us then
24 that it's for the November 1st to October 31st, you've got a
25 fourteen dollar (\$14) increase? And then the next series of

1 four (4) quarters, it's a -- minus thirty-one dollar (\$31)
2 decrease? Is that -- am I reading that right?

3 MR. BRENT SANDERSON: That's correct.

4 MR. KRIS SAXBERG: And then there's a
5 percentage underneath that. Underneath the Oct -- November
6 1st, October 31st, '01, you've got 2 percent. What is the 2
7 percent reference?

8 MR. BRENT SANDERSON: That's just the quarter
9 over quarter change in the primary gas component. The total
10 primary gas component of a customer's monthly bill. Or
11 pardon me, annual bill. It's just an item of information.

12 MR. KRIS SAXBERG: So when I look at this
13 document, there are -- using this particular type of analysis
14 and I -- I understand there's -- there's different ways of
15 measuring that five dollar (\$5) a month or sixty dollar (\$60)
16 a year tolerance, but there are instances here where that
17 measurement is -- isn't achieved. The five dollars (\$5)
18 swing either way. Is that right?

19 MR. BRENT SANDERSON: I would only agree with
20 you in the case of the negative hundred and ten dollar (\$110)
21 figure and the negative seventy-three dollar (\$73) figure.
22 That performance measure was previously described as
23 increases or decreases greater than sixty dollars (\$60) in
24 the customer's annualized bill on a quarter over quarter
25 basis.

1 So the decreases during those quarters were
2 greater than that sixty dollar (\$60) threshold.

3 MR. KRIS SAXBERG: Probably not something the
4 people would complain about.

5 MR. BRENT SANDERSON: I can't speak for
6 everyone. But I know as a gas consumer myself, I wouldn't
7 have any problems with that.

8 MR. KRIS SAXBERG: Now, would it be hard to
9 produce a -- a document that showed for every quarter on an
10 ongoing basis, the increase or decrease in your overall bill,
11 and then beside it a pro forma increase or decrease in your
12 bill without hedging? Would that be something that would be
13 difficult to produce?

14 MR. BRENT SANDERSON: It would be a
15 significant undertaking. I can assure you that the
16 measurement of the reduction in -- percentage reduction in
17 primary gas rate volatility is a significant modelling
18 undertaking to recreate history under a number of different
19 assumptions, it's -- it's very involved and requires a -- a
20 number of man hours.

21 And to do this, what you've suggested would be
22 a significant addition to that labour requirement and
23 personally, we don't see the value in that -- in that we
24 don't view that as a valid measure of performance that we
25 want to adopt to the program. So, it would be possible, but

1 it would not be without its costs.

2 MR. KRIS SAXBERG: I -- I'm just wondering,
3 you know -- as a consumer myself and I know you are as well,
4 that every month I'm going to have a change in my rates. I'm
5 sorry, every quarter.

6 MS. LORI STEWART: Quarter.

7 MR. BRENT SANDERSON: You may have a change
8 in your rates. I can't forecast whether the markets will
9 change such that we'll need to adjust rates. The most
10 previous quarterly rate setting -- for example, the rate
11 rider component of the primary gas rate was zero (0) and
12 there may be circumstances in the future where the rate holds
13 constant.

14 MR. KRIS SAXBERG: I -- I'll give you that.
15 That may happen and it will be a happy day when it does but
16 it hasn't happened yet and every quarter there's going to be
17 a change -- could be up, could be down?

18 MR. BRENT SANDERSON: Correct.

19 MR. KRIS SAXBERG: So, to measure the impact
20 or effect of this hedging program, what I'd like to know is,
21 what happened to the typical residential customer's bill for
22 a whole year with hedging in terms of the increase or
23 decrease every -- every quarter and what would have happened
24 had there been no hedging and --

25 MS. LORI STEWART: For what purpose?

1 MR. KRIS SAXBERG: To know the value of the
2 program.

3 MS. LORI STEWART: We --

4 MR. KRIS SAXBERG: And whether it should be,
5 you know, increased, decreased or maintained.

6 MS. LORI STEWART: The value of the program
7 is measured in terms of the reduction in volatility of
8 someone's bill.

9 MR. KRIS SAXBERG: No, I -- not -- not
10 according to your survey. Your survey -- the value of the
11 program you're asking people is related to the costs. I
12 mean, you -- you're saying, Here's the value. This is what
13 you're getting and here are the costs, only one (1) to 2
14 percent of your -- of your gas bill in the long run.

15 So, isn't that how these people were judging
16 the value of the program? They were saying, Here's what
17 you're paying; it's relatively small. Here's what you're
18 getting. Do you --

19 MS. LORI STEWART: In the context of a -- a
20 description of the impact that there would be on the
21 volatility of the primary gas portion of their bill.

22 MR. KRIS SAXBERG: Well, isn't that --
23 wouldn't that show me what the volatility decrease was if --
24 if I saw what I -- what I'm actually paying every quarter and
25 then I -- because -- because -- and then I see what I would

1 have paid had there been no hedging program and I can say,
2 That's worth thirteen (13) to twenty-six dollars (\$26) a year
3 for me?

4 MS. LORI STEWART: Mr. Saxberg, the
5 corporation is satisfied that the current -- the current
6 analysis that it performs with regard to measurement of -- of
7 the program is -- is satisfactory. Mr. Sanderson's time is
8 fully employed to-date and I -- I would not want to commit
9 here to an undertaking that I'm not convinced of the value of
10 yet at this point.

11 MR. BRENT SANDERSON: I'd also like to take
12 this opportunity to add that to measure the absolute dollar
13 increase or decrease in the customers' primary gas component
14 of their annual bill with and without hedging, is nothing
15 more than a measure of the market to market results and we've
16 already stated on the record numerous times that we don't
17 feel that's a valid measure of performance and that's all
18 that Mr. Saxberg suggested measurement would be measuring is
19 the market to market impacts on a short-term basis which we
20 don't feel are relevant.

21 MR. KRIS SAXBERG: Okay. Thank you for that.
22 Would you agree that when you don't take out the weather
23 component that the best way to reduce bill volatility is the
24 equal payment plan?

25 MS. LORI STEWART: Yes, we do.

1 MR. KRIS SAXBERG: And only -- the survey
2 showed that only 41 percent of the people that aren't on the
3 plan feel they're knowledgeable about what the plan offers?

4 MS. LORI STEWART: I can't recall
5 specifically that -- that statistic but I'll -- I'll take
6 that subject to check.

7 MR. KRIS SAXBERG: Sure, I -- I think I wrote
8 it down right, but -- at page 7, the report recommends a
9 targeted communication campaign to promote the -- the equal
10 payment plan and also to build Manitoba Hydro's image. You -
11 - you recall that, right?

12 MS. LORI STEWART: Yes, I do.

13 MR. KRIS SAXBERG: And you have commenced and
14 advertising campaign?

15 MS. LORI STEWART: You're mixing apples and
16 oranges here. There was -- there were two (2) aspects of
17 communication that Western Opinion Research suggested that
18 the Corporation consider.

19 One (1) was related to consumers relative
20 absence of information about the activities Manitoba Hydro
21 undertakes to mitigate price volatility and that -- the
22 awareness campaign that is currently away, the conversations
23 we had about Goldilocks and the three (3) bears yesterday,
24 that's that campaign -- Goldilocks and the two (2) bears, Mr.
25 Warden corrects me.

1 There was a second communication effort that
2 Western Opinion Research suggested that the -- that the
3 Corporation consider and that is related to the equal payment
4 plan and, of course, the Corporation does have -- have
5 promotional efforts under way in terms of the equal payment
6 plan.

7 Although, forgive me, that's not my area of
8 responsibility, Mr. Saxberg.

9 MR. KRIS SAXBERG: In due course, could you
10 point out or do you know just off the top of your head where
11 it is in -- in the Western Opinion report that it says that
12 you should undertake a communication campaign with respect to
13 what Manitoba Hydro does to volatility?

14 Did they actually say or are you just getting
15 it -- reaching that conclusion on your own because of the
16 fact that no one really knew what was happening with Manitoba
17 Hydro?

18 MS. LORI STEWART: I would have to go back
19 and review the report. But I -- I'd be surprised if someone
20 didn't reach the conclusion reading the statistics that only
21 19 percent of consumers are aware of the activities that
22 Manitoba Hydro undertakes.

23 MR. KRIS SAXBERG: Yeah, I -- I'm not saying
24 that I disagree with you. I just don't remember a specific
25 line where they said, we recommend you do this. But I do

1 know that at Page 7 --

2 MS. LORI STEWART: I would have to go back
3 and review the material.

4 MR. KRIS SAXBERG: If you could. I'd
5 appreciate that.

6 MS. LORI STEWART: Certainly.

7

8 --- UNDERTAKING NO. 6: Provide information as to where in
9 the Western Opinion research they had
10 suggested that we conduct marketing or an
11 awareness campaign related to Centra's
12 activities with derivative hedging
13 (answered on page 581)

14

15 MR. KRIS SAXBERG: And I know that at Page 7
16 they said specifically, targeted communication campaign with
17 respect to the equal payment plan.

18 And you're saying that, as a result of this
19 report, have you actually -- has something actually been done
20 to start that type of campaign?

21 MS. LORI STEWART: Yes, that's my
22 understanding.

23 MR. KRIS SAXBERG: Okay. And why can't you
24 do those two (2) things together? Why wouldn't you, in the
25 Goldilocks ad, why wouldn't you be able to say, we also offer

1 equal payment plans --

2 MS. LORI STEWART: We --

3 MR. KRIS SAXBERG: -- that --

4 MS. LORI STEWART: Mr. Saxberg, in the
5 information posted on Manitoba Hydro's website, in the last
6 page of Mr. Brown's -- a specific section of Mr. Brown's Book
7 of Documents, the equal payment plan is promoted on the more
8 in-depth information that is available on Manitoba Hydro's
9 website.

10 In terms of why isn't it in this particular
11 ad, because our creative people tell me that you have about a
12 -- you know, five (5) to ten (10) second window to attract
13 the attention of someone and to convey a message and that
14 it's very important that you don't try to convey multiple
15 messages by way of advertising.

16 However, that's not my area of expertise.

17 MR. KRIS SAXBERG: Now, I -- I just have one
18 (1) question on -- and with respect to Mr. Brown's line of
19 examination yesterday. I -- for what it's worth and I'm sure
20 it's not worth much to you, I agree with Mr. Brown's
21 interpretation of the -- of the ad. It -- it strikes me as
22 being fairly obvious.

23 But what I want to know is, I could be wrong,
24 Mr. Brown could be wrong. I -- and it wouldn't be the first
25 time, at least for me.

1 But let's just say in this case I'm not, and -
2 - and inadvertently the message that's being sent is the
3 message that Mr. Brown was trying to suggest that was being
4 made by this advertisement, let's say it's inadvertent, but
5 it's being made.

6 Let's say that everyone who sees this --

7 MS. LORI STEWART: Which message is that?

8 MR. KRIS SAXBERG: The message that Mr. Brown
9 indicated that he thought this meant, which was that it's a
10 -- it's a communication to people to get off WTS, because
11 it's too expensive and to switch to Manitoba Hydro.

12 Now let's just assume for the moment that that
13 is the message that's being sent. I just want -- I have a
14 very basic question. I want to know, is -- is Manitoba Hydro
15 entitled to, if it chose -- chose to, communicate that kind
16 of message? Is there some prohibition that allows them not
17 to communicate that message?

18 MS. MARLA MURPHY: I think that's probably,
19 an item that would be a legal opinion and perhaps legal
20 argument that can be made at some point, but not for the
21 purposes of this hearing.

22 MR. KRIS SAXBERG: Well, maybe I'll just try
23 it in a slightly different way. If it is the case that the
24 -- the Company finds out that most people are viewing it in
25 the -- in the way that Mr. Brown and I see it, would that be

1 something that would affect whether or not you continue with
2 the advertising?

3 MS. LORI STEWART: Well the difficult
4 situation is of course, by the time the four (4) ads have
5 been run, it will only be after the fact that one can
6 ascertain whether or not consumers were reading the message
7 in a certain way. And even in that circumstance, I have no
8 idea how you would assess the rationale for a consumer
9 ultimately moving away from WTS; particularly given the
10 consideration that most of those contracts are long term
11 contracts and a consumer wouldn't even be in a position to
12 act on them in the very short term.

13 MR. KRIS SAXBERG: Thank you for that.

14 THE CHAIRPERSON: Ms. Murphy, I'm just going
15 back to your comment. Wouldn't it be logical to assume that
16 the Corporation takes a view that it can run such an ad,
17 given that it has run the ad?

18 MS. MARLA MURPHY: Well certainly the
19 Corporation didn't undertake this ad thinking that they were
20 doing something they shouldn't have. But in terms of the
21 long term or -- or broader implications of competition which
22 Mr. Saxberg alluded to, that's not something that was
23 undertaken in the context here.

24 THE CHAIRPERSON: Thanks.

25

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: There's one other
3 important finding from the survey that I want to discuss.
4 And it's at the last page of Tab E. And it's with respect to
5 awareness about brokers. Would you agree that the survey
6 indicates that many customers who are on broker supplied gas
7 don't know that they are having their gas supplied by a
8 broker?

9 And I've got two hundred and six (206) out of
10 the five hundred (500) broker households didn't know that
11 they were getting their gas from somewhere other than Centra?

12 MS. LORI STEWART: 41 percent; correct.

13 MR. KRIS SAXBERG: Now does that raise any
14 concerns with Manitoba Hydro about -- about marketing
15 practices of brokers?

16 MS. LORI STEWART: It's not clear -- there --
17 there is no cause and affect outlined in this research study,
18 Mr. Saxberg. So the reason why an individual was unaware
19 that they had signed a contract with a broker -- the reasons
20 simply are -- are not clear and it wouldn't be appropriate
21 for me to speculate on them.

22 MR. KRIS SAXBERG: And that's fair. Has the
23 -- has the Company heard anything from its -- from its
24 customers on that score? Because they're still your
25 customers in terms of your distribution element?

1 MS. LORI STEWART: They're still our
2 customers. However, any disputes between consumers and --
3 between consumers and brokers are of course resolved by way
4 of a dispute re -- resolution mechanism here with the Public
5 Utilities Board.

6 MR. KRIS SAXBERG: So you have absolutely no
7 information of improper activities at all? And -- and you're
8 saying the survey doesn't indicate that either. Is that what
9 you're --

10 MS. MARLA MURPHY: I think, Mr. Saxberg, that
11 what Ms. Stewart was saying was that wasn't her area. That
12 there may be information that comes in by way of phone calls
13 but that the dispute is resolved at the Board level so that's
14 the appropriate way to judge whether or not customers are
15 having concerns with brokers, not through this Panel.

16 MR. KRIS SAXBERG: Yeah. I -- I just wanted
17 to know because if there's an inference -- it seems that
18 there's an inference with respect to marketing practices from
19 the survey. And I -- I just wanted to know in the experience
20 of Manitoba Hydro, have they -- is there any direct
21 information about there being any -- anything that -- that
22 seniors or any other clients you'd be concerned about?

23
24
25

(BRIEF PAUSE)

1 MS. LORI STEWART: Mr. Saxberg, if -- to be
2 clear there are phone calls made to Centra's contact centre,
3 however, the validity of that complaint is obviously one
4 shouldn't be assessing the validity of it in the absence of
5 the broker perspective, relative to that complaint.

6 MR. KRIS SAXBERG: So -- and -- and I think I
7 understand what you're saying. It -- It's not Manitoba
8 Hydro's or Centra's job to -- to concern itself with -- with
9 that matter and -- and/or to follow up with respect to those
10 complaints, notwithstanding that these are also your
11 customers?

12 MS. LORI STEWART: It's not -- the
13 delineation of responsibility is not that clear. I have an
14 individual who reports to me who is responsible for broker
15 relations, my direct purchase services advisor. And so is
16 there communication back to the broker community in the event
17 that we're seeing a recurring trend?

18 Certainly there is because we want the broker
19 to be in a position to investigate and to respond
20 appropriately if there is just cause and that -- that
21 relationship exists. We want to give the broker the
22 opportunity to take action if action is required and it -- if
23 in fact the complaint is valid. That -- that happens
24 informally.

25 MR. KRIS SAXBERG: With respect to offering

1 price options, different price services, Mr. Warden, I think
2 you said yesterday that you don't want to be in competition
3 with brokers; you don't want to be providing an alternative
4 to something that a broker's already offering.

5 Do I have that right?

6 MR. VINCE WARDEN: I don't think I said that
7 we don't want to be, necessarily. I'm saying that this
8 Application does not have provision for us to -- to provide
9 more than one (1) service offering.

10 MR. KRIS SAXBERG: And at some point in the
11 future -- and I just glanced at -- at your letter -- the
12 letter that was written in response to the Chairman's
13 invitation for comments and I think in that letter it
14 indicated that you wanted to have the ability to offer
15 different pricing options?

16 MR. VINCE WARDEN: We would like to have that
17 ability, yes.

18 MR. KRIS SAXBERG: And -- but you're not
19 specifically applying for it in the context of this cost of
20 gas Hearing?

21 MR. VINCE WARDEN: That's correct.

22 MR. KRIS SAXBERG: And, if you did want --
23 want to apply -- and you do want to be able to offer
24 different price options but if you -- when you decide to
25 apply, it -- should it be fully vetted at a -- in a public

1 hearing where the brokers can participate and -- when -- and
2 my clients can be involved?

3 MR. VINCE WARDEN: That would seem
4 reasonable, yes.

5 MR. KRIS SAXBERG: And -- so, I'll just ask
6 this as a -- just a general sense. If you get involved in
7 that -- in offering a fixed price contract, whether it be one
8 (1) year or three (3) years. And -- and I've included in the
9 material a - a news release from Terasen Gas, and they're
10 doing the same thing now. And -- and I only put it in there
11 -- it's at Tab N for everyone's information -- as -- that
12 this could be a similar kind of program that -- that Manitoba
13 Hydro or Centra would undertake?

14 MR. VINCE WARDEN: Sure.

15 MR. KRIS SAXBERG: And what I want to know
16 is, when you do that, you wouldn't -- there wouldn't be a
17 profit element in it for the Corporation, would there?

18 MR. VINCE WARDEN: Not as we're currently
19 structured. I wouldn't expect there would be a profit
20 objective, no.

21 MR. KRIS SAXBERG: And -- and then, so I
22 guess the issue at this next hearing would be whether or not
23 there would be an equal playing field between your one (1)
24 year fixed price deal and the one (1) year fixed price deal
25 of a broker who has to have a profit in their -- those are

1 the issues. I'm just trying to -- would you agree with that?

2 MR. VINCE WARDEN: Those are definitely the
3 issues, absolutely.

4 MR. KRIS SAXBERG: Okay. Now, I -- this is
5 just a small item that I wanted to tidy up. Primary gas
6 rates change four (4) times a year. And I know that it's
7 been the practice of the Board and Centra to marry any
8 additional applications for rate increases to those quarterly
9 implementation dates. Correct?

10 MR. VINCE WARDEN: Correct.

11 MR. KRIS SAXBERG: So that this cost of gas
12 Application and the rate impact that's arising out of it is
13 going to occur at the same time as the next quarterly rate
14 adjustment on November 1st?

15 MR. VINCE WARDEN: That's the Application,
16 yes.

17 MR. KRIS SAXBERG: Can consumers -- could you
18 make -- can consumers count on only having the rates change
19 four (4) times a year? I mean, is this a policy then, that
20 you can endorse and suggest will continue on in terms of only
21 having rates increase quarterly?

22 MR. VINCE WARDEN: Well, not necessarily. If
23 we come with a GRA, for example, which we talked about
24 earlier, we would be proposing an April the 1st
25 implementation date. So there could be an instance like the

1 example I just gave where it could be more than four (4)
2 times per year.

3 MR. KRIS SAXBERG: Okay. That's a month --
4 it's usually May 1st that the quarterly adjustment happens?

5 MR. VINCE WARDEN: That's right.

6 MR. KRIS SAXBERG: And now when we get to
7 having one (1) bill on November 5th, 2005, that one (1) bill
8 then, there may be more than four (4) quarterly adjustments
9 on the gas component of that one (1) bill, but there may also
10 be another increase with respect to the electric component,
11 then?

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: Changes -- I'll speak
16 quickly. Yes, changes could occur up or down more than four
17 (4) times per year, yes.

18 MR. KRIS SAXBERG: Because ultimately, and I
19 guess we'll get into this next week with respect to the
20 impact of the -- of the changes to terms and conditions. So
21 maybe I'll leave that for now.

22 THE CHAIRPERSON: Mr. Saxberg, do you have
23 quite a bit more or ...

24 MR. KRIS SAXBERG: No, I -- I was just trying
25 to see if I've finished with this area, and I think -- I

1 think I have finished any discussion --

2 THE CHAIRPERSON: Well --

3 MR. KRIS SAXBERG: -- of the survey and
4 derivatives and I've got other areas to begin after the
5 lunch.

6 THE CHAIRPERSON: Okay, then we'll come back
7 at 1:30. Thank you very much.

8

9 --- Upon recessing at 11:58 a.m.

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

11

12 THE CHAIRPERSON: Ms. Murphy, you have
13 something for us?

14 MS. MARLA MURPHY: Yes, I do, sir, thank you.
15 There was a couple of undertakings taken late yesterday and
16 this morning that we're prepared to speak to.

17 The first one was the request for our best
18 estimate of the overall cost of posting the information
19 related to the awareness campaign on the website, and you had
20 also asked for the incremental costs of that.

21 Mr. Warden's prepared to speak to those.

22 MR. VINCE WARDEN: Yes, the cost of the
23 balanced rate initiative, posting that on the website was
24 twenty-five hundred dollars (\$2,500) and all of those costs
25 were internal, no external costs were incurred.

1 MS. MARLA MURPHY: The second one was taken
2 this morning by Ms. Stewart, which was Mr. Saxberg's request
3 that she provide information as to where in the Western
4 Opinion research they had suggested that we conduct marketing
5 or an awareness campaign related to Centra's activities with
6 derivative hedging.

7 MS. LORI STEWART: There are actually two (2)
8 -- two (2) places the Western Opinion research where a
9 recommendation was made by WR with regard to an awareness or
10 education campaign.

11 The first place is on Page 53 under key
12 findings and implications. It's the fourth bullet and it
13 reads:

14 "Consumers appear -- appear to be poorly
15 informed about the causes of price
16 fluctuations. A new communication strategy
17 may be useful with regard to increasing
18 customer knowledge pertaining to natural
19 gas services and prices."

20 And the second location is on Page 54 of the
21 study, the third bullet down. It reads:

22 "Manitoba Hydro should consider the
23 different ways in which it can communicate
24 directly with its consumers about the
25 benefits of the derivatives hedging

1 program."

2 MS. MARLA MURPHY: Mr. Chairman, there's a
3 couple of other undertakings that we're in the process of
4 photocopying so I hope that after the break we'll be able to
5 file them this afternoon.

6 THE CHAIRPERSON: No problem. Thank you. Mr.
7 Saxberg...?

8

9 CONTINUED BY MR. KRIS SAXBERG:

10 MR. KRIS SAXBERG: Thank you, Mr. Chairman.
11 Just before I move on to a new topic area, one (1) last
12 question and it relates to Tab F of my book of documents.
13 It's the focus group study excerpt.

14 Ms. Stewart, this document was attached to a
15 response to PUB Information Request 9A. Is it, in your --
16 from your perspective, relevant to these proceedings?

17 MS. LORI STEWART: Yes -- yes, it forms a
18 part of the research report from Western Opinion Research.

19 MR. KRIS SAXBERG: And I had asked if you
20 would be prepared to file the complete document and you said
21 that you didn't want to do that because the complete document
22 wouldn't be relevant. I'm just wondering why would a portion
23 of the document be relevant but the other portion not be
24 relevant?

25 MS. LORI STEWART: Because, Mr. Saxberg, it

1 is important to understand what -- it's important to
2 understand the two (2) components of the market research and
3 it's important to have an understanding of the methodology
4 and the high -- high level key findings coming out of the
5 focus groups.

6 However, we've noted on a number of occasions
7 that those findings are not statistically valid and we also
8 talked about the reason for conducting those focus -- focus
9 groups, so this is the relevant portion of information
10 related to phase 1 -- the focus group or the qualitative
11 research that was selected to be included in -- in the
12 overall research report.

13 MR. KRIS SAXBERG: Then I'd like to make a
14 motion to have the Board order Centra to produce the full
15 document and the reason being that it's acknowledged that a
16 portion of the document's relevant so I -- I don't understand
17 how it is that the full document couldn't also be relevant.

18 THE CHAIRPERSON: Okay, we'll take it under
19 advisement and get back to you after the break.

20 MR. KRIS SAXBERG: Thank you.

21

22 CONTINUED BY MR. KRIS SAXBERG:

23 Mr. KRIS SAXBERG: Now, switching gears then,
24 the blank page analysis. Just one (1) small matter that I
25 wanted to tidy up with respect to the cost of that report,

1 Mr. Stephens. I think it was on Wednesday that you said you
2 thought that the cost was around four hundred and fifty
3 thousand dollars (\$450,000). There's an IR PUB 41E that says
4 it was four hundred and seventeen thousand dollars
5 (\$417,000)?

6 MR. HOWARD STEPHENS: Is that current -- this
7 year's go round?

8 MR. KRIS SAXBERG: Pardon?

9 MR. HOWARD STEPHENS: If that -- there is an
10 IR in this go round that said it was four hundred and
11 seventeen thousand dollars (\$417,000) then I'll take it at
12 face value.

13 MR. KRIS SAXBERG: Okay, and I've included
14 the quote from IGC in the material and it's at Tab P and the
15 third page in, indicates that the -- third page in at
16 Tab P --

17 MR. HOWARD STEPHENS: I have it, sir.

18 MR. KRIS SAXBERG: It indicates the quote
19 being three hundred and fifty-eight thousand dollars
20 (\$358,000) plus thirty-three thousand dollars (\$33,000) in
21 incidental expenses plus taxes.

22 Did -- I haven't done the math, I just want to
23 know if there -- if -- if that four seventeen (417), then,
24 is above or below this quote?

25 MR. HOWARD STEPHENS: That four seventeen

1 (417), didn't that reference the -- their expenses? It would
2 have been comparable to the three fifty-eight (358) that was
3 quoted up higher on the page.

4 MR. KRIS SAXBERG: Okay. So -- so the cost
5 of the report was approximately -- wound up costing more than
6 sixty thousand dollars (\$60,000) more than -- than estimated?

7 MR. HOWARD STEPHENS: And there was an
8 additional cost associated with the false start that we got
9 with respect to this process in terms of we were -- first of
10 all, we were going to have IGC involved. They started to
11 produce responses to information requests, we -- I had done
12 working over the weekend.

13 There were costs associated with that. We
14 ended up deciding not to have them involved so there was a
15 cost associated with that. So -- and that's where I ended up
16 with the four hundred and fifty thousand dollars (\$450,000),
17 roughly, yesterday.

18 MR. KRIS SAXBERG: Could I ask you to
19 undertake to -- to -- to just provide what the actual number
20 is?

21 MR. HOWARD STEPHENS: Sure.

22

23 --- UNDERTAKING NO. 7: To provide actual costs
24 associated with ICG
25

1 MR. KRIS SAXBERG: And all I want to know is
2 the -- the amount over the estimate and then the -- then the
3 incremental amount associated with this Hearing that -- that
4 -- which work was, I guess, terminated at some point. Thank
5 you.

6 At last years' GRA, Centra took the position
7 that there's really no point in reviewing publically, the
8 blank page analysis which was available at that point in
9 draft form, until Centra had adopted its position.

10 Is it fair to say after the evidence that's
11 been given so far in this Hearing that Centra still hasn't
12 adopted its position?

13 MR. HOWARD STEPHENS: Yeah, I think that was
14 pretty clear in terms of some of the questioning that was
15 going on yesterday with respect to what our next steps are
16 that we're doing some internal evaluation and that's not --
17 that has not been completed yet, and until such time as
18 that's been completed, we haven't come to any conclusions.

19 MR. KRIS SAXBERG: And the -- so there's a
20 business case that's being made internally at Manitoba Hydro?

21 MR. HOWARD STEPHENS: That's correct.

22 MR. KRIS SAXBERG: And in the IRs there's
23 reference to other -- considering other options. Are there
24 other options being considered now or is it solely -- are we
25 solely focussing on the business case?

1 MR. HOWARD STEPHENS: We're solely focussing
2 on the business case, always being mindful that the
3 environment is changing continuously, so that if something
4 were -- earth shattering were to occur, that we would take
5 that into consideration.

6 But, the other things that we were -- we've
7 discussed or talked about in terms of other considerations
8 were additional negotiations with Trans Canada et cetera, and
9 I believe we've updated the material to reflect what the
10 outcome of those were, so.

11 MR. KRIS SAXBERG: I mean, virtual storage,
12 that initiative is dead?

13 MR. HOWARD STEPHENS: Pretty much.

14 MR. KRIS SAXBERG: And --

15 MR. HOWARD STEPHENS: Unless Trans Canada
16 decides to see it my way all of a sudden.

17 MR. KRIS SAXBERG: Fair enough. So really
18 the choice is that the business case we'll analyse is status
19 quo versus adopting the recommendations of the report? Is it
20 -- is it that simple?

21 MR. HOWARD STEPHENS: No, it's never that
22 simple. There have been -- and I did talk about a number of
23 factors yesterday that will guide us in terms of making a
24 decision as to whether or not to proceed, one of them being
25 the competitive environment that we're operating within and

1 what the future of that competitive environment will be.

2 We don't want to invest \$50 or \$60 million and
3 find out that we have stranded assets. We'll want to see,
4 potentially, what happens on the Trans Canada system, how
5 fast it's going to refill.

6 We'll want to look at the declines in the
7 Western Canadian sedimentary basin, alternate supply sources,
8 and a variety of issues.

9 So it's not a cut and dried, just take the
10 report, cut the numbers and say, this is the way we're going
11 to do it.

12 MR. KRIS SAXBERG: So, it is fair to say
13 you're -- you're acknowledging that circumstances may change,
14 the world may change in the next little while?

15 MR. HOWARD STEPHENS: That's correct.

16 MR. KRIS SAXBERG: And that just leads me to
17 this concern. I'm wondering, then, if the world does change,
18 doesn't that mean that this report's becoming stale and --
19 and then, therefore, it's -- you know, it's value is
20 diminishing the longer it takes to make a decision, because
21 the world may change and then the report's no longer
22 applicable?

23 MR. HOWARD STEPHENS: At some point, that may
24 be the case, yes. I don't think we've reached that point by
25 any stretch -- to this time -- to this point in time.

1 MR. KRIS SAXBERG: We haven't reached it yet,
2 but you -- you foresee that at some point it could get there?

3 MR. HOWARD STEPHENS: If natural gas reserves
4 all of a sudden run dry tomorrow, I mean the report becomes
5 pretty meaningless.

6 MR. KRIS SAXBERG: Now the inference that I
7 got out of previous testimony, the GRA and then from reading
8 the -- the transcript of the pre-hearing in this matter, was
9 that once Centra had adopted its position, then that would be
10 the time to really do an in-depth analysis and take a look in
11 a public setting at the report. Do I have that right or?

12 MR. HOWARD STEPHENS: I guess it depends on
13 your definition of how or when Centra has adopted its
14 position.

15 MR. KRIS SAXBERG: If -- I'm hearing that
16 it's not going to adopt its position until after a business
17 case is made and then the business case is presented to the
18 executive and then the executive says adopt the
19 recommendations of the business case or don't do it or do
20 something else?

21 MR. HOWARD STEPHENS: That would be the
22 process, yes.

23 MR. KRIS SAXBERG: And assuming that the
24 executive -- that the business case says that you go ahead
25 with the recommendations and then the executive endorses

1 that, what I want to know is, will there be a public review
2 of the report and -- and will Intervenors get a chance to ask
3 questions of the authors of the report and to explore all of
4 the details of the report? Is that opportunity going to
5 arise?

6 MR. VINCE WARDEN: Mr. Saxberg, the report of
7 course has been filed with these proceedings so you're
8 perfectly welcome to ask any questions you like. We don't
9 anticipate the authors of the report, though, will be
10 presented here.

11 That report was prepared for Centra Gas and as
12 Mr. Stephens indicated, we may or may not accept the
13 recommendations that are in that report; that's yet to be
14 determined, but the report is part of the public record.

15 MR. KRIS SAXBERG: Okay. If I could get you
16 to turn to Tab O, which is the Board's Order number 65/04.

17 MR. HOWARD STEPHENS: I have it, what page?

18 MR. KRIS SAXBERG: I'm just looking for that
19 right now, page 6, which I don't have in here. So it mustn't
20 be page 6.

21 MR. HOWARD STEPHENS: Maybe I can help you
22 and I think it may be the paragraph, my counsel may shoot me
23 in a second. It may be on page 7, the second paragraph.

24 MR. KRIS SAXBERG: Yeah, that's one of them.

25 MR. HOWARD STEPHENS: That's as much help as

1 I'm offering.

2 MR. KRIS SAXBERG: I have here and I'll find
3 it at some point, but I -- I typed it into my notes so --
4 that Centra committed to apprise the Board upon forming
5 intentions to act with respect to decisions related to the
6 BPA. Centra advised that it would not make any long term
7 commitments with suppliers or transporters related to or
8 arising out of the BPA prior to placing its plans before the
9 Board. You know, I think that is on page 6 and I just didn't
10 include page 6 in the material.

11 MR. DARREN RAINKIE: Mr. Saxberg, I'm
12 familiar with that Order. I think I can accept that's what
13 it says.

14 MR. KRIS SAXBERG: So -- and then at page 8
15 I think the Board Order says that Centra's committed to not
16 implement any changes relating to the blank page analysis
17 until there's an opportunity for further review. Do you
18 agree that -- that those are -- that Centra made that
19 commitment at the pre-hearing?

20 MR. DARREN RAINKIE: I think we made the
21 commitment to file the information with the Board before we
22 -- it's hard to provide notification to the Board. I'm not
23 sure that it's our wherewithal to tell the Board whether it
24 has a review or not. I think we said prior to making any,
25 you know, final determination we would file that with the

1 Board. We made -- that was our commitment. I think's also
2 reiterated in response to PUB-76 as well.

3 MR. KRIS SAXBERG: And -- and I think that's
4 fair. The commitment was to let the Board know before you
5 did anything major relating to the BPA. It wasn't to hold a
6 hearing.

7 MR. HOWARD STEPHENS: Nor was it to
8 necessarily ask for approval for it. We would be looking for
9 the approval of the gas cost consequences at some point in
10 time.

11 MR. KRIS SAXBERG: We know that you've got
12 some -- you've got a new gas supply contract and -- and some
13 other refreshed agreements with transportation. Had you
14 advised the Board about entering into those contracts and
15 provided them details before -- sorry, provided notice that
16 you were going to do that before signing the contracts?

17 MR. HOWARD STEPHENS: Those contracts were
18 quite separate and distinct from the blank page analysis and
19 I would characterize that as business as usual.

20 Obviously we had to have a gas supply in place
21 for this fall. We had discussion about that at the last
22 hearing, I believe, and the fact that we are going to go to
23 tender with respect to our new supply arrangements and that
24 sort of thing, so from that perspective I don't think it was
25 a surprise to the Board.

1 The ANR contract revisions, as I characterized
2 them yesterday, were more housekeeping as opposed to -- and
3 they didn't have any substantive impact on -- well, they
4 didn't have any impact on costs associated with those
5 arrangements and the Great Lakes -- we discussed that in
6 terms of the rationale and the reason for why we engaged in
7 that.

8 MR. KRIS SAXBERG: Well, the -- the blank
9 page analysis, though, does speak to renegotiating your gas
10 supply arrangements and it says, as you discussed with Mr.
11 Peters the other day. It says:

12 "Don't contract with any one (1) company
13 for more than 25 percent of 40 percent of
14 your needs."

15 And -- and that was a recommendation that's
16 made in fairly strong language in the IGC report and -- so
17 isn't that taking action with respect to the report? Or
18 maybe it isn't.

19 MR. HOWARD STEPHENS: I think that that was
20 the general recommendation in terms of how to go about
21 managing your portfolio of supply assets and they made a
22 recommendation and I'm not obligated to follow it.

23 And we had this discussion yesterday in terms
24 of -- when I looked at the proposals that we had in front of
25 us, and I looked at the three (3) overriding criteria from my

1 perspective -- and again in no particular order, but security
2 of supply, price, and flexibility -- there was very little
3 question as to which direction to go.

4 MR. KRIS SAXBERG: In -- I will get into that
5 later. I just -- it seemed to me that there was a
6 recommendation coming out of the BPA about gas supply
7 contracts and there was action taken. It wasn't -- it didn't
8 comply with the recommendation but there was still action
9 taken. So your view is that it would -- wasn't necessary in
10 those circumstances to advise the Board in advance, i.e. that
11 you were going to disregard IGC's recommendations?

12 MR. HOWARD STEPHENS: No, from my perspective
13 there was no need to advise the Board.

14 MR. KRIS SAXBERG: Now, just with respect in
15 a general sense, to the good people at IGC, you have
16 absolutely no issue with their competence and -- and you
17 fully endorse their skills?

18 MR. HOWARD STEPHENS: Certainly. I think
19 they -- I mean we -- we took the opportunity to teach them a
20 few things but certainly they were very comparable --
21 competent individuals.

22 They picked up on the state of affairs in the
23 Manitoba marketplace and understood our existing assets and
24 did a very comprehensive job in terms of looking at all the
25 alternatives and so on. I was very satisfied from that

1 perspective.

2 MR. KRIS SAXBERG: And that's what I picked
3 up from your evidence with Mr. Peters, that you -- in your
4 view, you think these guys did a good job and so the question
5 I have is, would -- would you hire them again or will you
6 continue to use them as consultants now that they're fully up
7 to speed with respect to Centra's needs and that sort of
8 thing?

9 MR. HOWARD STEPHENS: Well, it depends on the
10 nature of the engagement. They have a certain level of
11 expertise in a specific area. If I had to do another blank
12 page analysis, which I hope not to do for another -- well, I
13 hope never to do again in my career, thank you very much --
14 then certainly I would recommend them but if it's for some
15 other type of project, I mean, I would have to look at their
16 qualifications relative to other parties.

17 MR. KRIS SAXBERG: Okay. At the last hearing
18 you'd indicated that you had the draft report and you need to
19 do a technical analysis review and that was done and there
20 wasn't anything major that came out of that review except for
21 some corrections in spelling, I think you said?

22 MR. HOWARD STEPHENS: Yeah, I mean, there
23 were a few corrections in terms of numbers, et cetera, but
24 none of them had -- had a material impact in terms of the
25 recommendation they were making.

1 MR. KRIS SAXBERG: And then you were going to
2 prepare a report to your internal task force. Do you -- do
3 you recall providing some evidence saying that that was the
4 next step, was that you were going to report, after you had a
5 good chance to -- to read the report and digest it, you were
6 going to report yourself to the internal task force that was
7 responsible for the IGC project?

8 MR. HOWARD STEPHENS: Yes, I did a
9 presentation for the -- for our internal task force. I'm
10 going to say last -- up to -- a year ago, or about a year
11 ago. That did occur, yes.

12 MR. KRIS SAXBERG: And then there was another
13 presentation to the Executive?

14 MR. HOWARD STEPHENS: That's correct.

15 MR. KRIS SAXBERG: I presume those were in
16 writing?

17 MR. HOWARD STEPHENS: Well, if -- certainly
18 slides and generally we provide a briefing note that goes
19 along with it.

20 MR. KRIS SAXBERG: Could I ask you to
21 undertake to provide that information? The -- whatever
22 written documents were provided and used for your report to
23 the internal task force and also whatever written documents
24 were presented and used to support your presentation to the
25 Executive, and if there -- if it went higher than that,

1 ditto?

2 MS. MARLA MURPHY: Sorry, I missed the ditto
3 part, but other than that...

4 MR. KRIS SAXBERG: Sorry, I -- I -- if it
5 went higher than the Executive, to Manitoba Hydro Board, I
6 guess. More my mixing things up that the Executive is
7 the ...

8 MS. MARLA MURPHY: No, there is a difference
9 between the Executive Committee and the Board, but this
10 hasn't gone any further than the Executive Committee and we
11 will file that material for you.

12 MR. KRIS SAXBERG: Thank you.

13

14 --- UNDERTAKING NO. 8: To file all written documentation
15 presented and used to support
16 presentations to the Executive
17 Committee and internal task
18 force.

19

20 (BRIEF PAUSE)

21

22 MR. HOWARD STEPHENS: That's two (2)
23 undertakings and I'm not taking any more.

24

25 (BRIEF PAUSE)

1 CONTINUED BY MR. KRIS SAXBERG:

2 MR. KRIS SAXBERG: Now, just with respect to
3 the -- the risk that's -- that's been identified in not
4 proceeding with implementing the recommendations in the
5 report.

6 Mr. Warden has said -- committed that there is
7 no risk -- supply risk at this time and there -- there's no
8 risk of, I took from that, twenty-eight (28) days of -- of
9 under service with the present portfolio. Is that a fair
10 characterization?

11 MR. VINCE WARDEN: Yeah, I think that's what
12 I said and the qualification was that as long as there is
13 surplus on the Trans Canada pipelines then -- then we don't
14 have a physical risk of supply.

15 MR. KRIS SAXBERG: So as the surplus on Trans
16 Canada pipelines, if it diminishes, declines, the risk
17 increases?

18 MR. VINCE WARDEN: That really is quite a big
19 if, though.

20 MR. KRIS SAXBERG: But as time goes on, would
21 you agree that the risk increases?

22 MR. VINCE WARDEN: We -- what we've said we
23 would do is monitor the situation as time goes on. It's not
24 something that's going to catch us by surprise, though,
25 there's nothing out there that's going to suddenly take up

1 that capacity.

2 MR. KRIS SAXBERG: And just so that I have it
3 clear on the record, has Centra implemented any
4 recommendations from the report?

5 MR. VINCE WARDEN: Yes --

6 MR. KRIS SAXBERG: Anything?

7 MR. VINCE WARDEN: -- we have. And I
8 indicated that to Mr. Peters yesterday, I believe. We don't
9 go into the winter with that pink portion of the graph that
10 we were referring to uncontracted.

11 We have some sort of arrangement, whether it
12 be -- and I hate to use the term again, soft asset
13 arrangement, in place to satisfy that requirement, and we
14 will every winter have some sort of an arrangement to cover
15 off the peak period requirement.

16 MR. KRIS SAXBERG: That's the capacity
17 management transaction that you mentioned, of 50,000
18 gigajoules a day?

19 MR. VINCE WARDEN: That's correct.

20 MR. KRIS SAXBERG: And so, your view is
21 that's better -- that's moving towards the recommendations of
22 IGC to firm up that seventy-one (71) PJs and it -- it moves
23 then from using delivered services to this rate management
24 initiative?

25 It's not all the way to what IGC said where

1 they wanted it to be contracted, but it's part way there.

2 MR. HOWARD STEPHENS: And it's actually a
3 decision or a conclusion that I came to prior to receiving
4 IGCs report. It was become -- I was becoming increasingly
5 uncomfortable with the amount of uncontracted peak day that
6 we had.

7 So we were doing something well in advance and
8 I think the first transaction we engaged in was back in 1998
9 to cover off a portion of the uncontracted peak.

10 MR. KRIS SAXBERG: So they can't take any
11 credit for that? Or they shouldn't --

12 MR. HOWARD STEPHENS: I said they -- I told
13 the -- I made the comment that they did learn a few things
14 from us.

15 MR. KRIS SAXBERG: Okay. So that's one
16 recommendation that I don't know whether now the answer is
17 that you've -- that's it a -- that it's a step you've taken
18 as a result of the recommendation from IGC. I guess in light
19 of that comment it isn't. But is there anything else? Any
20 other recommendations that have been implemented?

21 MR. HOWARD STEPHENS: No, I would say no.

22 THE CHAIRPERSON: Mr. Stephens, did they not
23 recommend that you pay them?

24 MR. HOWARD STEPHENS: Yeah, but I haven't
25 yet. In jest, sir.

1

2 CONTINUED BY MR. KRIS SAXBERG:

3 MR. KRIS SAXBERG: The -- with respect to the
4 Trans Canada Pipeline renewals, I -- I suppose they've been
5 renewed for the shortest period of time possible. I guess
6 that would be in line in a rough way with the recommendations
7 of IGC?

8 MR. HOWARD STEPHENS: Yes. I mean, ideally I
9 would have preferred just to renew them for the twelve (12)
10 month minimum but they wouldn't allow me the twelve (12)
11 month minimum and align it with the end of the gas year. So
12 we went to the twenty-two (22) months for the two (2) FS
13 contracts.

14 MR. KRIS SAXBERG: Now, IGC's job was to
15 optimize the portfolio and they have prepared an optimized
16 portfolio that they say results in gas at the lowest cost,
17 with reduced price volatility and increased gas supply
18 security. I think you agree that -- that they have put
19 together an optimized portfolio that accomplishes those
20 things.

21 MR. HOWARD STEPHENS: I agree with the one
22 exception that I pointed out to Mr. Peters yesterday with
23 respect to there's a certain amount of over capacity that
24 they've -- they're recommending that we contract for, which
25 is on the order of about thirty thousand (30000) GJ's per day

1 which is the equivalent to our interruptible load. So if we
2 were to pursue that avenue, our interruptible customers would
3 be seeing very little curtailment.

4 And I would want to look at that a little more
5 -- in more depth before we engage in that.

6 MR. KRIS SAXBERG: Now they -- that's to get
7 to the 95th percentile of peak day?

8 MR. HOWARD STEPHENS: That's correct.

9 MR. KRIS SAXBERG: And didn't IGC also say
10 though that that 30,000 gigajoules a day would be a great
11 capacity management resource because it could be sold off in
12 the winter?

13 MR. HOWARD STEPHENS: I believe the words
14 were 'potentially a great capacity management resource' and I
15 wouldn't want to hang my hat on the fact that it would always
16 be saleable.

17 The one thing I have learned, I mean, we've
18 had this discussion or certainly Mr. Meronek and I have had
19 this discussion a number of times, is that you can't forecast
20 capacity management results and certainly trying to sell off
21 excess assets is at best a crap shoot.

22 MR. KRIS SAXBERG: Now the corollary of IGC
23 being able to come up with an optimized portfolio is that the
24 current portfolio of assets isn't optimal?

25 MR. HOWARD STEPHENS: I'll agree with you.

1 It's something that's subject to your interpretation or your
2 definition of what optimal means, but -- they did though
3 certainly state that the current portfolio has served Centra
4 customers reliably and well over the last -- or since 1993.

5 MR. KRIS SAXBERG: And -- and I appreciate
6 that. They're just -- they found a way to improve on it
7 perhaps.

8 MR. HOWARD STEPHENS: They -- they made some
9 recommendations to Centra and which we might consider for
10 improvement. Some of them being philosophical and I alluded
11 that yesterday. It's -- this is not an entirely an economic
12 analysis. This is -- is to a certain extent and to a large
13 extent a matter of philosophy in terms of how you serve the
14 load. And they're recommending, like any good conscientious
15 consultant would, a very conservative approach.

16 MR. KRIS SAXBERG: And I'm just going to list
17 off what I understood their concerns to be only so that if --
18 if I've missed anything you can add to it. That they want a
19 gas supply diversity no more than 25 to 40 percent to one
20 company for the supply of gas, that's number 1.

21 Number 2, they want to make you have -- make
22 arrangements to cover the 95th percentile in a firm way of --
23 for your peak day requirements. The other is that their
24 observation -- they're concerned that LDC's rarely leave a
25 significant portion of their firm demand uncovered.

1 And -- well that's all I have right now, is --
2 what other concerns did they have?

3 MS. MARLA MURPHY: I think, Mr. Saxberg and
4 Mr. Chairman, the report speaks for itself. It's -- it's a
5 rather voluminous report and I wouldn't like to put Mr.
6 Stephens on the spot of having to list any concerns that were
7 in the -- the number of pages that are there.

8 MR. KRIS SAXBERG: Well, I just meant in a --
9 did I miss anything major?

10 MR. HOWARD STEPHENS: No, you didn't.

11 MR. KRIS SAXBERG: Okay. I just want to talk
12 about the benefits now because this I -- I -- I don't -- I've
13 got three (3) benefits down: one (1) is security/supply,
14 that's been talked about already. We don't need to get into
15 that.

16 The -- least cost is the one that I'm not --
17 not sure about yet because I see at page 2 of the report it
18 says the cost savings will be between \$2.6 million and \$7.7
19 million per year through avoided transportation costs and
20 third party storage costs and then it also mentions the
21 improvement to the imbalance penalties of five hundred
22 thousand (500,000) a year.

23 Are those offset by the approximately eleven
24 (11) to \$12 million of increased fixed costs?

25 MR. HOWARD STEPHENS: Yes. I mean, the

1 benefits that they accrue -- I mean are offset to a certain
2 extent by increased fixed costs as well as the cost
3 associated with development of new storage.

4 MR. KRIS SAXBERG: And I -- I'm just trying
5 to figure out what the net benefit is in terms of dollars a
6 year in savings. Is that the \$2 million that you've
7 identified in CAC 10 and is there -- and how is that \$2
8 million derived?

9 MR. HOWARD STEPHENS: I'm sorry, Mr. Saxberg,
10 can you -- can you run that by me again. I was -- at the
11 table here.

12 MR. KRIS SAXBERG: We asked the question in
13 an IR and -- and Centra indicated that the cost savings
14 associated with salt cavern storage, this new portfolio, were
15 approximately \$2 million a year and I just want to know how
16 you derived that \$2 million a year number?

17 MR. HOWARD STEPHENS: If you look at Appendix
18 12, the TransGas Salt Storage Scenario, the overall cost of
19 the portfolio is \$514.6 million relative to our current
20 portfolio --

21 MR. KRIS SAXBERG: Five hundred and sixteen
22 point eight (516.8).

23 MR. HOWARD STEPHENS: -- of five hundred and
24 sixteen point eight (516.8), yes.

25 MR. KRIS SAXBERG: Now, so that \$2 million,

1 though, it doesn't include what IGC mentions on page 128 and
2 that's this extra 30,000 gigajoules a day of annual capacity
3 that could be used for capacity management?

4 MR. HOWARD STEPHENS: Well, they have assumed
5 that they -- we would be able to recover some of our fixed
6 costs associated with that capacity.

7 MR. KRIS SAXBERG: And -- so therefore, the
8 potential yearly cost reductions, IGC says are probably going
9 to be more than 2 million a year, then?

10 MR. HOWARD STEPHENS: That's right. I mean,
11 in -- in terms of order of magnitude, that's what they're
12 talking about. Certainly none of those numbers are cast in
13 stone.

14 The balancing fees, for example, I mean we
15 budget for half a million dollars worth of balancing fees.
16 This year they came in at around two hundred and fifty
17 thousand dollars (\$250,000). I don't anticipate that they're
18 all ever going to disappear completely but certainly they
19 would be substantially reduced.

20 MR. KRIS SAXBERG: In -- in terms of the
21 construction of the salt and storage cavern, is -- is the
22 cost associated with that included in -- in the analysis of
23 the -- the lowered cost of 2 million plus a year?

24 MR. HOWARD STEPHENS: Yes.

25 MR. KRIS SAXBERG: And is that -- that's

1 under the scenario where TransGas would -- would construct
2 the -- the salt cavern storage rather than Manitoba Hydro?

3 MR. HOWARD STEPHENS: Well, it's incorporated
4 in both the Manitoba scenario as well as the TransGas
5 scenario. It's just a matter of who's going to do it.

6 MR. KRIS SAXBERG: One (1) alternative isn't
7 necessarily cheaper than the other?

8 MR. HOWARD STEPHENS: Well, the -- the
9 TransGas alternative is slightly cheaper. In reality, I
10 mean, you're likely talking about TransGas doing it on -- on
11 our behalf within the Manitoba border as opposed to doing it
12 on Saskatchewan's side of the border because they've got the
13 experience in terms of washing out the caverns so it's six
14 (6) of one (1), half dozen of the other.

15 MR. KRIS SAXBERG: And TransGas has made a
16 proposal, have they not?

17 MR. HOWARD STEPHENS: They provided me with a
18 conceptual design.

19 MR. KRIS SAXBERG: And that's in written
20 form?

21 MR. HOWARD STEPHENS: Yes, but it's marked
22 confidential and privileged all over the place.

23 MR. KRIS SAXBERG: All right. And it would
24 be from that document you'd be negotiating in any event,
25 after reviewing your own business case, so --

1 MR. HOWARD STEPHENS: As I indicated, it was
2 a conceptual design. They got wind of the fact that, you
3 know, during the process of doing the portfolio review that
4 we were looking at different alternatives and they came --
5 came forward with -- well, actually they came forward with a
6 request for us to make a request, but we got things sorted
7 out and we finally got a proposal out of them, to make a long
8 story short.

9 MR. KRIS SAXBERG: So just to -- to wrap up
10 this and get on to the new gas supply contracts, I -- I have
11 to -- to lead you to the one (1) quote with respect to Trans
12 Canada Pipeline capacity and that's at Page 132, and so if
13 you're -- if you're in my Book of Documents, it's at Tab R.

14 And it's at Page 133. Actually, it begins on
15 Page 132 at the very bottom. I'm sure you know what the
16 quote is. It's:

17 "The issue promoting change is the
18 expectation that capacity on Trans Canada
19 Pipeline will come to be much closer
20 aligned with contractual commitments.
21 IGC believes that this will result from a
22 gradual de-rating of TCPL operating
23 capacity."

24 Now, I'm on Page 133:

25 "Abandonment of unused capacity or by the

1 arrival of Arctic gas supplies. As this
2 occurs, IGC believes it would be imprudent
3 to continue to rely on delivered gas
4 supplies and other soft assets to meet the
5 firm core market requirements of Centra's
6 customers."

7 And I -- I just have to note that it's fairly
8 strong language, is it not, I mean, to use the word
9 "imprudent"?

10 MR. HOWARD STEPHENS: No, there's no question
11 that it mean the word "improvement" -- "imprudent" is
12 certainly -- raises the hair on the back of my neck.

13 But they mean -- I think it's just another
14 case where -- I'd like to take you back a page and -- on Page
15 132 at the very bottom of the page, under estimated costs of
16 portfolio realignment:

17 "IGC finds no flaws with the current
18 portfolio for the current circumstances."

19 The discussion that they're having that you
20 made reference to is a circumstance where we're caught flat
21 footed with Trans Canada fully contracted and our not having
22 enough capacity to satisfy our firm peak day.

23 As Mr. Warden pointed out, we are not going to
24 find ourselves in that circumstance. This is a very much --
25 I mean -- and it goes back again to the philosophical

1 portion of salt storage cavern coming on line in 2005.

2 MR. HOWARD STEPHENS: That was assuming,
3 though, that -- I mean, at the time they made the proposal to
4 me and it was two (2) years ago.

5 MR. KRIS SAXBERG: So you're -- when you say
6 "four (4) years" it would be -- there'd be a -- some storage
7 would be available earlier than the four (4) years?

8 MR. HOWARD STEPHENS: That's right. It's a
9 very aggressive timetable, I would suggest but I mean -- I'm
10 allowing about a year for negotiations and then three (3)
11 years for washing out the caverns.

12 MR. KRIS SAXBERG: Now, I want to turn to the
13 new contracts and begin with the Great Lakes backhaul
14 service. Great Lakes Pipeline is owned one-half by ANR and
15 one-half by TCPL. Right?

16 MR. HOWARD STEPHENS: That's correct.

17 MR. KRIS SAXBERG: And the backhaul contract
18 used to be held by ANR and the result of what you've done in
19 your renegotiation is that the contract is now in the hands
20 of Centra?

21 MR. HOWARD STEPHENS: That's correct.

22 MR. KRIS SAXBERG: Who was it -- let me
23 strike that and start again. Did ANR approach Centra to move
24 from interruptible to firm or was it Centra's idea?

25 MR. HOWARD STEPHENS: ANR didn't make any

1 recommendations with respect to either one.

2 MR. KRIS SAXBERG: Was it Centra's idea?

3 MR. HOWARD STEPHENS: When we engaged in
4 discussions with ANR/Great Lakes, we had a general discussion
5 with respect to the Great Lakes arrangements and I had some
6 concerns with respect to how they were going to be treated so
7 we had a -- a very good collaborative meeting in terms of
8 what, I mean -- in what the best possible outcome could be
9 with respect to providing the service.

10 MR. KRIS SAXBERG: There was no demand charge
11 for the interruptible arrangement for backhaul? Right?

12 MR. HOWARD STEPHENS: That's right and there
13 was also no commitment on a month-to-month basis that the
14 backhaul would be there.

15 MR. KRIS SAXBERG: And changing the backhaul
16 service from interruptible to firm results in a cost increase
17 of two hundred thousand dollars (\$200,000) a year, US --

18 MR. HOWARD STEPHENS: US dollars, yes.

19 MR. KRIS SAXBERG: And then there's a
20 statement that follows on that -- it's in your Tab 3, I
21 believe -- that there's also a new monthly reservation fee of
22 two hundred and six thousand seven hundred and seventy five
23 (267,775) US for the period November 1 to March 31st and that
24 gives rise to an annual commitment of approximately \$1
25 million.

1 So, if there's no gas flowing at all and I
2 know it's not possible that you -- you wouldn't have this --
3 but if there wasn't any gas flowing in the backhaul --
4 backhaul arrangement, then you'd still be obligated to pay
5 that \$1 million every year? That's the demand charge?

6 MR. HOWARD STEPHENS: Then that arrangement -
7 - I mean, even under the interruptible backhaul was heavily
8 weighted towards reservation charges and we were paying the
9 costs associated with that in any event, anyways.

10 MR. KRIS SAXBERG: So, if you -- well, just
11 so that I get a perspective -- if you had -- under the new
12 arrangement, if there's no gas flowing it's just over \$1
13 million US that you're going to pay in any event. Correct?

14 MR. HOWARD STEPHENS: That's correct.

15 MR. KRIS SAXBERG: Under the old arrangement,
16 what would be the -- and you -- you didn't need backhaul --
17 backhaul at all -- what would be the -- the minimum amount
18 you'd have to pay?

19 MR. HOWARD STEPHENS: It was eight hundred
20 thousand dollars (\$800,000) a year.

21 MR. KRIS SAXBERG: Oh, okay. And so that's
22 how you get the two hundred thousand (200,000)?

23 MR. HOWARD STEPHENS: In very round numbers.

24 MR. KRIS SAXBERG: Now, the storage facility
25 is 15 PJs. Is that right?

1 MR. HOWARD STEPHENS: 15.5 million -- or PJs
2 -- okay, sorry. I stand corrected -- 15.5 PJs.

3 MR. KRIS SAXBERG: And in a warm year, you --
4 you don't need all that storage, do you?

5 MR. HOWARD STEPHENS: No, in a warm year
6 we're substantially less.

7 MR. KRIS SAXBERG: And under the old
8 arrangement then, when you're not using all of that storage
9 capacity, can you reduce the amount of -- that you're paying
10 for backhaul and -- as a capacity management transaction and
11 take, say, delivered services?

12 The question is, was there more flexibility
13 under the old arrangement to -- to reduce your costs?

14 MR. HOWARD STEPHENS: No, the flexibility has
15 not changed at -- in -- in any -- any way, shape or form. We
16 have now a greater security of supply and that is the only
17 significant change other than the price tag associated with
18 it.

19 MR. KRIS SAXBERG: But if you avoided using
20 backhaul under the old arrangement when it was interruptible,
21 you'd be reducing your costs?

22 MR. HOWARD STEPHENS: No, as -- because as I
23 indicated, the costs associated with that interruptible
24 backhaul were primarily reservation charges. We paid them
25 regardless of whether we backhauled any gas or not.

1 MR. KRIS SAXBERG: Now, the reason -- the
2 primary reason why you've entered into this firm arrangement
3 for backhaul is because of the statement that there has been
4 significant de-contracting on the Great Lakes system,
5 resulting in a risk that backhaul service may not be
6 available any longer, and that's at Page 23 of Tab 3.

7 Is that the main reason you went from
8 interruptible to firm?

9 MR. HOWARD STEPHENS: Yes, I mean we were --
10 during the period where we experienced our peak day last
11 winter, we were very much aware of the fact that, although it
12 had no impact on us, that Great Lakes was, in fact, having to
13 turn the gas around and make what was -- what ordinarily
14 would be a backhaul into a forward haul.

15 MR. KRIS SAXBERG: Just in that quote, you
16 say that there's "some risk" as opposed to -- you just say
17 "some risk". Is -- is that -- I mean, just loose language,
18 or it is -- I mean, how serious and how -- is the risk of the
19 -- de-contracting's going to mean that you can't have your
20 backhaul, if you had interruptible?

21 MR. HOWARD STEPHENS: Well, I'd be worth a
22 lot of money if I could tell you how much they're going to be
23 de-contracted, sir.

24 MR. KRIS SAXBERG: Now, to determine that
25 level of risk, though, you -- you have to look at what's

1 going on in the whole pipeline industry, do you not?

2 MR. HOWARD STEPHENS: Yes, and as I indicated
3 to Mr. Peters in response to this question, in terms of the
4 forecast associated with de-contracting on the Great Lakes
5 system, the largest contractor on the Great Lakes system is
6 Trans Canada Pipelines.

7 They move about 1.5 million gigajoules per day
8 out of total capacity of two point two (2.2). So if they cut
9 that in half or make a significant reduction in terms of the
10 amount of capacity that their contract is on a forward haul
11 basis, then it starts to put pressure on and put the backhaul
12 at risk.

13 MR. KRIS SAXBERG: And that -- that was going
14 to be my next question: who's the biggest contractor in
15 Great Lakes, and it is Trans Canada Pipeline and I understand
16 that marketers have been pushing Trans Canada Pipeline to de-
17 contract.

18 Is that your understanding as well?

19 MR. HOWARD STEPHENS: I believe I led that
20 evidence yesterday, yes.

21 MR. KRIS SAXBERG: And yet Trans Canada
22 Pipelines hasn't done that yet, have they? And they refuse
23 to.

24 MR. HOWARD STEPHENS: They've been successful
25 in stonewalling the issue to this point in time but it will -

1 - their chickens will come home to roost at some point in
2 time.

3 MR. KRIS SAXBERG: But you don't have any
4 evidence that you're going to present in this Hearing that
5 Trans Canada Pipeline is going to be de-contracting, other
6 than it's the wishes of marketers who want lower rates?

7 MR. HOWARD STEPHENS: Well it's not -- I
8 wouldn't characterize it just as marketers. It is the
9 members of the Tolls Task Force are looking at Trans Canada
10 very hard and they're saying, you've got 2 petajoules in the
11 western leg of the system of unutilized capacity, the
12 northern loop -- the northern run up and around the lake is
13 not fully utilised either.

14 Why is it that we're paying all costs these
15 associated with transportation by others, which is the -- the
16 terminology used for the -- the capacity that Trans Canada
17 contracts on the Great Lakes system.

18 So the message being, if you've got too much
19 capacity on your own mainline, why are you carrying capacity
20 on somebody else's line? And why should we be bearing the
21 costs associated with that?

22 MR. KRIS SAXBERG: But are you are aware of
23 any initiatives that -- or business decisions of Trans Canada
24 and what -- you know, what they are intending to do with that
25 capacity and -- and what steps they're taking in order to --

1 to greater utilize it?

2 MR. HOWARD STEPHENS: I do know that they are
3 trying to promote a new hub on the northern portion of the
4 line. It's called the North Bay Hub.

5 They're trying to create what is, in essence,
6 a new trading hub to attract more transportation, more
7 shippers to transport gas over the northern route to better
8 utilize that piece of pipeline to the extent that they can --
9 they're successful in doing so, then some of the pressure
10 eases in terms of being over-contracted or -- or contracting
11 with secondary pipeline.

12 MR. KRIS SAXBERG: Now IGC would be familiar
13 with all of these dynamics and -- and initiatives within the
14 industry, is that right?

15 MR. HOWARD STEPHENS: Some of this is
16 relatively new. I mean, they -- they may be very much aware
17 of it in terms, if I phone Mr. Beckman up today and ask him
18 about it, he might be and I'm sure that he would be right up
19 to speed with respect to it.

20 These issues weren't necessarily present
21 though at the time that they were performing the portfolio
22 review.

23 MR. KRIS SAXBERG: I mean all of the
24 different factors as to what's going to happen, who's going
25 to win out between Trans Canada and Alliance and Vector --

1 all -- all of the -- it's complicated and there's -- there's
2 a real dynamic there that's -- that even the most
3 knowledgeable person may not fully understand and -- and may
4 not be able to predict. Is that fair?

5 MR. HOWARD STEPHENS: Makes my head hurt.

6 MR. KRIS SAXBERG: So the risk of
7 de-contracting -- in any event -- what I want to know is why
8 -- why did you guys not utilize IGC in order to -- to give
9 you an opinion on -- on whether there was a risk of -- of
10 your backhaul no longer being available because it's
11 interruptible?

12 MR. HOWARD STEPHENS: Quite frankly it was on
13 the radar screen at the time. At that time Trans Canada was
14 going through its services and pricing negotiations which IGC
15 makes reference to and I suffered through for a number months
16 where Trans Canada was trying to reshape itself and identify
17 new services where they could attract -- re-attract shippers
18 that -- whose contracts were going to be coming up for
19 renewal.

20 And through that process, I mean, that process
21 took up the majority of their time and effort and -- and
22 resources just to try and deal with that -- those aspects of
23 it.

24 MR. KRIS SAXBERG: My understanding is that
25 many of the events that have led to this risk of

1 de-contracting occurred some time ago in around 2000. Is
2 that fair?

3 MR. HOWARD STEPHENS: That's when the first
4 wave of contracts came up in terms of the termination dates
5 coming up.

6 MR. KRIS SAXBERG: So it's not necessarily
7 new, is it?

8 MR. HOWARD STEPHENS: No, but it carries on
9 to this day and likely for another year.

10 MR. KRIS SAXBERG: But IGC didn't pick up on
11 this as being a risk in their report?

12 MR. HOWARD STEPHENS: At that time that --
13 and we're going back in history but in order to protect
14 itself, Great Lakes volunteered to freeze its rates. And
15 that was a great incentive for shippers to remain on their
16 system as a result of that.

17 Whereas that was not Trans Canada's position.
18 Their position was that to the extent that they were
19 de-contracted and their revenue requirement went down -- or
20 revenue stream decreased, I mean, they would just spread it
21 over a smaller through-put volume and the rates would go up.

22 Great Lakes took a different tact and said
23 we're going to hold rates, fix them for five (5) years and
24 hopefully shippers will remain on our system. And it was --
25 and it had that affect.

1 MR. KRIS SAXBERG: But -- but in drafting
2 their report, did IGC drop the ball in not noting that you
3 should be moving from interruptible to firm?

4 MR. HOWARD STEPHENS: No. Because I don't
5 think there was any indication, and certainly there was no
6 indication from my perspective and we talked with Great Lakes
7 quite frequently that the IT backhaul would be at risk.

8 MR. KRIS SAXBERG: Just with respect to the
9 forward haul and the notion that if it came to pass that
10 there was enough de-contracting that backhaul wasn't
11 available under the interruptible regime that you'd have to
12 forward haul. And I'm new to this stuff, but my consultant
13 tells me that that would involve major re-engineering of the
14 pipeline?

15 MR. HOWARD STEPHENS: Not really. It
16 requires some re-configuration of the stations and in a
17 number of situations, the valving is already there. And it's
18 -- as a witness to that is the fact that they did do some
19 forward haul of gas where they would ordinarily would have
20 been doing backhaul during the course of the last winter.

21 MR. KRIS SAXBERG: So -- and by forward haul,
22 I mean, the -- the gas molecules are actually moving west?

23 MR. HOWARD STEPHENS: That's right. The
24 biggest benefit is the metres all spin backwards so we get
25 money back.

1 MR. KRIS SAXBERG: Just to turn then, to the
2 Nexen gas supply contract. You'd indicated that you didn't
3 want to have, yesterday I believe it was, that you didn't
4 want to have a -- a real interaction between the nine (9)
5 proposers -- you didn't want to go back and forth to them and
6 I'm -- these are my words -- because it would taint the
7 process? You didn't want to be seen as -- as being biased?

8 MR. HOWARD STEPHENS: I think, "tainting the
9 process", is a very good way to characterize it. I wanted it
10 to be a very clean process and certainly didn't want to be
11 accused of providing preferential treatment to any party.

12 MR. KRIS SAXBERG: Now, you agreed with the
13 philosophical position of IGC that if you have multiple
14 contracts and they expire at different times, that you can
15 then determine whether or not those individual contracts --
16 say we had -- say you had four (4) for 25 percent each -- you
17 could determine whether or not they're fair market
18 competitive prices?

19 MR. HOWARD STEPHENS: I don't have to have
20 the contracts in front of me. All I need is the proposals.
21 I'll determine very quickly what the appropriate price is.

22 MR. KRIS SAXBERG: If you had -- if you had
23 adopted the recommendations from IGC and you'd entered into
24 four (4) contracts that all had different ending points, then
25 when it came time to renegotiate each of those contracts,

1 you'd be at an advantage in knowing what you'd been able to
2 negotiate with the one (1) party before you started contract
3 negotiations with the next party.

4 And isn't it the case that you would be much
5 more informed about what a -- what the most competitive rate
6 is and the most competitive price for your supply?

7 MR. HOWARD STEPHENS: I don't agree. We --
8 we will go to RFP in every circumstance and in that
9 circumstance we will get proposals from various suppliers and
10 on the basis of those proposals I can do an analysis as to
11 which is the most attractive service option.

12 MR. KRIS SAXBERG: So, you don't agree that
13 by holding multiple contracts that you're in a better
14 position to just speak generally to -- to leverage positions
15 with respect to your different suppliers by negotiating, you
16 know, terms that are -- become a precedent for the next
17 negotiation with another supplier?

18 MR. HOWARD STEPHENS: Then there's no
19 question, I mean, and I indicated this, I guess yesterday
20 also in testimony, that diversity is obviously a good thing.
21 And to extent that you have your portfolio diversified, there
22 are benefit to be accrued from that, one (1) of them being
23 you don't have all your chickens -- or all your eggs in one
24 (1) basket and chicken and eggs are something different.
25 Sorry, it's Friday afternoon.

1 MR. KRIS SAXBERG: Yeah, I'm putting the
2 security of supply issue aside. I -- I -- you said
3 yesterday, quite clearly that's a benefit of having multiple
4 parties supplying your gas.

5 I -- what I'm saying is, that having multiple
6 parties, doesn't that allow you to ultimately, over the long
7 run, be able to negotiate better contracts because you're --
8 you have an interaction with more parties, first of all, and
9 also because you're essentially playing them off each other?

10 MR. HOWARD STEPHENS: I guess I mean it's --
11 it's the characterization of negotiation. There is no
12 negotiation with respect to this process. This is a request
13 proposal process. The only -- I mean, the only semblance of
14 negotiation that would be -- you could consider in this -- is
15 clarification of terms.

16 I mean, the onus is on us to identify very
17 clearly what our requirements are. Then the onus is on the
18 proponent or the proposer to provide what services they're
19 prepared to provide and at what price. So, I wouldn't
20 characterize it as negotiations.

21 MR. KRIS SAXBERG: And -- and that's the
22 process that you've put in place but it's not something that
23 you're required to do, is it?

24 MR. HOWARD STEPHENS: I think it's a very --
25 it's a sound business practice.

1 MR. KRIS SAXBERG: If you have only one (1)
2 supplier -- it may be the case but if you've got four (4)
3 different suppliers, what's wrong with renegotiating with
4 each of them individually and -- instead of going to an RFP
5 process?

6 MR. HOWARD STEPHENS: Well, I guess I'll just
7 take your argument by extension, Mr. Saxberg, and if it's
8 four (4) is good, isn't it much better for me to put out a
9 request for proposal to twenty (20) or twenty-five (25) or a
10 hundred (100) and get that many more difference perspectives
11 on how this best serves the market.

12 MR. KRIS SAXBERG: Isn't one (1) of the
13 reasons -- I mean you said that you agreed, theoretically,
14 with what IGC recommended because of security supply issues
15 but that the practical reality came to be that Nexen was
16 going to offer you a more favoured price if you allowed them
17 to provide 100 percent of your gas needs?

18 MR. HOWARD STEPHENS: Well, that their
19 existing proposal would stand if they got the entire market,
20 yes.

21 MR. KRIS SAXBERG: And -- just so I don't
22 have to take you to it, the RFP, though, said that you wanted
23 proposals for 100 percent of -- of your -- of your gas needs.
24 The hundred and seventy-four thousand (174,000), right?

25 MR. HOWARD STEPHENS: That's right.

1 MR. KRIS SAXBERG: So you'd already decided
2 when you wrote the RFP that you were looking for 100 percent
3 and that was before Nexen said to you, if you don't let us
4 supply 100 percent, we're going to penalize you on our quote?

5 MR. HOWARD STEPHENS: Your drawing some
6 conclusions that I don't know you're -- how, quite frankly,
7 how you're drawing them. All we were doing is leaving the
8 option open and I wanted to leave as many options open in
9 terms of developing the RFP as we could.

10 Why would I limit myself and say I only want
11 you to provide a portion of the supply? We would like you to
12 quote on the entire supply or some portion thereof. It
13 provides me with more alternatives to look at.

14 MR. KRIS SAXBERG: Well, I -- the RFP came
15 after IGC had completed its report, right?

16 MR. HOWARD STEPHENS: That's correct.

17 MR. KRIS SAXBERG: And IGC wasn't involved in
18 -- in drafting the RFP?

19 MR. HOWARD STEPHENS: No, they weren't.

20 MR. KRIS SAXBERG: And they weren't involved
21 in the selection process of the gas supplier?

22 MR. HOWARD STEPHENS: No they weren't.

23 MR. KRIS SAXBERG: Let me just stop there.
24 Why -- why not? Because they had put their minds to this and
25 you'd -- you'd spent considerable amount of money so that

1 they would put their minds to -- to issues like this, why not
2 have them involved in the process of -- of signing up with a
3 new supplier?

4 MR. HOWARD STEPHENS: I would view the
5 acquisition of the supply as a management decision first of
6 all. Secondly, I've already spent enough money with IGC,
7 thank you very much. So I didn't need the resistance in that
8 regard in terms of evaluating new gas supply arrangements.

9 MR. KRIS SAXBERG: I -- I just wondered why
10 the RFP didn't more closely approximate the recommendations
11 that IGC was making with respect to renegotiating your gas
12 supply arrangements?

13 MR. HOWARD STEPHENS: Well, it's -- it's
14 simply a function and I think I eluded to this yesterday and
15 if I didn't I was remiss. Nexen was really the only
16 counterpart that was able to fully satisfy all of our
17 requirements. And I -- and I did start off when we started
18 off this afternoon and I talked about the three (3) key
19 components that I looked at and that's security of supply and
20 flexibility and price.

21 And when you went through the analysis, they
22 were head and shoulders above the rest.

23 MR. KRIS SAXBERG: But there were a lot of
24 companies that received on your eight (8) list -- eight (8)
25 point decision matrix. There were a lot of companies that

1 received a negative because they weren't offering to supply
2 all of your gas needs.

3 MR. HOWARD STEPHENS: And when you draw up
4 criteria you -- if you're going to have a pure process, you
5 live by the rules that you established at the front end. And
6 if I were to say well, I'm going to accept that proposal
7 notwithstanding they haven't met all the criteria, the rest
8 of them could come after me from a legal perspective.

9 I mean, I think you can council me better on
10 that as to whether or not I'm playing fair ball.

11 MR. KRIS SAXBERG: I note the time and we
12 haven't had a break.

13 THE CHAIRPERSON: You would like a break, Mr.
14 Saxberg?

15 MR. KRIS SAXBERG: Well, I -- I can keep
16 going right til 4:00 and then I'll be able to finish but --

17 THE CHAIRPERSON: Okay. We'll have -- have a
18 break. But before we shut down I'm going to try and address
19 that point you raised earlier. First of all just to make
20 sure we're all on the same wavelength, what exactly were you
21 -- are you seeking when you request for material?

22 MR. KRIS SAXBERG: I'm asking that the full
23 report relating to the focus group be filed as opposed to
24 what the Board has before it right now, which is an excerpt
25 from that report.

1 THE CHAIRPERSON: Okay. Now, as I understand
2 it, Ms. Stewart suggested that -- that Centra didn't have an
3 inclination to do that, so I'll ask Ms. Murphy if she has
4 anything else that she would like to add.

5 MS. MARLA MURPHY: I can make it really easy.
6 We don't have a objection to filing the material.

7 THE CHAIRPERSON: Oh, so be it then. Okay,
8 one (1) other -- one (1) last thing, if I may. Mr. Warden,
9 perhaps we could open up when we come back and you could
10 answer this. Well, let's -- we'll just have the break.
11 Obviously it's needed.

12

13 --- Upon recessing at 2:45 p.m.

14 --- Upon resuming at 3:01 p.m.

15

16 THE CHAIRPERSON: Mr. Saxberg...?

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

18 MS. MARLA MURPHY: Just before we get
19 underway, I might indicate that during the break there were
20 some undertakings distributed. I hope they've found their
21 way to you.

22 THE CHAIRPERSON: Yes, we have two (2) --

23 MS. MARLA MURPHY: Three (3), I hope.
24 Response to Undertaking Number 2, Undertaking Number 3, and
25 Undertaking Number 7?

1 THE CHAIRPERSON: You're correct.

2 MS. MARLA MURPHY: And if I could have those
3 marked as Exhibits, please?

4 I believe they'll be CENTRA-6,7, and 8.

5 THE CHAIRPERSON: So Undertaking Number 2
6 would be CENTRA-6.

7 Undertaking Number 3, seven (7).

8 And Undertaking Number 7, eight (8). Is that
9 correct?

10

11 --- EXHIBIT NO. CENTRA-6: Response to Undertaking Number 2.

12

13 --- EXHIBIT NO. CENTRA-7: Response to Undertaking Number 3.

14

15 --- EXHIBIT NO. CENTRA-8: Response to Undertaking Number 7.

16

17 MS. MARLA MURPHY: Thank you, yes. And while
18 I have the mike, Mr. Rainkie, on the transcript yesterday, at
19 Pages 330 and 331, indicated that he was going to check on
20 the feasibility true up provisions as related to the main
21 extensions and he'd like an opportunity to speak to that if
22 he could?

23 THE CHAIRPERSON: Please.

24 MR. DARREN RAINKIE: I promise I'll be brief.
25 Just a point of clarification in my discussion with Mr.

1 Peters, we covered off the very small main extensions we do
2 as a matter of routine business and we covered off some of
3 the -- what I call ex-franchise larger expansions that were
4 done under the funding arrangements.

5 What we missed in that discussion, Mr. Peters,
6 was -- was some fairly major, large enfranchised projects
7 that we did over the last couple of years including the
8 Brandon Combustion Turbine and the Selkirk Generating Station
9 and the Simplot potato plant in -- in Portage La Prairie.

10 Those all had the so-called two (2) way true
11 up provisions as we discussed yesterday. So I just wanted to
12 make that clarification.

13 MS. MARLA MURPHY: Just one (1) more matter.
14 Mr. Stephens was hoping not to take an undertaking but he's
15 now going to be the fastest answerer on the record and he'd
16 like to speak to the undertaking he took just a few minutes
17 ago related to the cost of the ICG report.

18 THE CHAIRPERSON: Mr. Stephens...?

19 MR. HOWARD STEPHENS: I'd indicated it was
20 roughly on the order of four hundred and fifty thousand
21 dollars (\$450,000). Our actual expenditures -- and I was
22 incorrect before -- were four hundred and seventeen thousand
23 dollars (\$417,000) including expenses, plus we had the
24 additional amount of approximately twenty-two thousand five
25 hundred dollars (\$22,500) as a result of the false start that

1 I talked about.

2 So in total, our -- our costs from IGC were
3 around the order of four hundred and forty thousand dollars
4 (\$440,000) Canadian. I hope that suffices.

5 MR. KRIS SAXBERG: That includes taxes, then?

6 MR. HOWARD STEPHENS: I'll say definitely,
7 yes. Okay, I stand corrected, already. It doesn't include
8 taxes.

9 THE CHAIRPERSON: Mr. Rainkie, just one (1)
10 question on the further expansion information that you
11 provided. Were they completed or undertaken before January
12 1, 2004?

13 MR. DARREN RAINKIE: Yes, all three (3) of
14 them were. We discussed them at last year's GRA.

15 THE CHAIRPERSON: So they'd all fall within
16 that envelope if the retroactivity was granted with respect
17 to the income tax component?

18 MR. DARREN RAINKIE: That's correct.

19 THE CHAIRPERSON: Thank you. Mr. Saxberg...?
20

21 CONTINUED BY MR. KRIS SAXBERG:

22 MR. KRIS SAXBERG: Thank you, sir. Have the
23 -- the costs for the IGC report -- they -- they weren't
24 included as -- in the rates as part of the GRA last year,
25 were they?

1 MR. DARREN RAINKIE: I can -- I can speak to
2 that. Those costs are currently being deferred and we would
3 start amortising them once we have some resolution coming out
4 of the report.

5 MR. KRIS SAXBERG: Now, the other American
6 pipeline agreement to discuss is the reworded ANR agreement
7 and I think your view is that there's nothing material that's
8 changed about that agreement other than the language. Is
9 that fair?

10 MR. HOWARD STEPHENS: That's correct.

11 MR. KRIS SAXBERG: But you'd concede that ANR
12 needed to change that language because of some FERC
13 requirements?

14 MR. HOWARD STEPHENS: A combination of FERC
15 requirements as well -- they have a new owner, so I would
16 think the new owner would have certain policies, procedures,
17 practices that they would like to follow and make them
18 homogenous throughout the corporation.

19 MR. KRIS SAXBERG: Are -- are you -- would
20 you consider yourself to be well-versed in -- with FERC's
21 orders and regulations and requirements?

22 MR. HOWARD STEPHENS: I -- I have a general
23 understanding of how the FERC works to the extent that I -- I
24 need to. Let's put it that way.

25 MR. KRIS SAXBERG: Did you consult with

1 anyone like IGC in order to determine that the change --
2 changes to the language of that agreement really were
3 inconsequential and -- and -- and nothing but wordsmanship?

4 MR. HOWARD STEPHENS: We -- well I had
5 extensive discussions with -- with ANR. We compared numbers
6 to make sure that -- what the end result of all of the
7 changes in terms of the tariff -- contract language would
8 result in the same dollar amounts, in terms of the revenue
9 cap.

10 Certainly, we had -- I had spent a great deal
11 of time with internal counsel, and we do have internal
12 counsel that's very familiar with FERC related issues. So,
13 from that perspective, I believe I got the necessary
14 consultation to make an informed decision.

15 MR. KRIS SAXBERG: So in this circumstance,
16 you don't think it would have been necessary to hire a third
17 party with sort of an objective viewpoint, to determine that
18 the changes to the contract really weren't going to be in any
19 circumstance detrimental to Centra?

20 MR. HOWARD STEPHENS: We did also in --
21 during the course of my deliberations with some of our
22 internal counsel, decide to engage a legal firm that is very
23 well versed in FERC related matters. And they -- their
24 opinion was pretty much as I've explained to you.

25 MR. KRIS SAXBERG: And yesterday I think you

1 told Mr. Peters, you're not paying anymore, and you're not
2 paying any less, as a result of this new contract?

3 MR. HOWARD STEPHENS: That's correct.

4 MR. KRIS SAXBERG: Did you incur costs to
5 have to renegotiate this contract? I mean, you've just said
6 you had to hire a lawyer?

7 MR. HOWARD STEPHENS: Obviously, I mean that
8 cost us, and there was I mean, my time, as well as our
9 internal counsel's time. But in terms of incremental costs?
10 No, other than the hiring of the external law firm.

11 MR. KRIS SAXBERG: And what did you get for
12 that, other than making ANR's life easier? Is there any --
13 anything that -- any benefit that Centra received from --
14 from that expenditure in that time, to renegotiate the -- or
15 not renegotiate, but to redo that contract?

16 MR. HOWARD STEPHENS: Reduced risk that the
17 contracts would have to go before the FERC on a holus bolus
18 basis, that would have been a risk that we would have taken
19 that we could potentially have been dragged up to maximum
20 tolls and lost our discount and the revenue cap.

21 And secondly, and more intangibly, but I mean,
22 a continued beneficial working relationship with AR that we
23 are going to have for a long time to come yet.

24 MR. KRIS SAXBERG: Was it not an opportunity
25 to be able to see if you could improve the contract from

1 Centra's perspective, because A & R wanted something, and it
2 could have been a quid pro quo?

3 MR. HOWARD STEPHENS: I went down that road a
4 bit in terms of trying to leverage their desire to make some
5 changes for -- in exchange for some changes that I might
6 like.

7 But at the time -- once all was said and done,
8 once we got the portfolio review, we got the review from IEC,
9 there was no immediate need for any changes that I could see.
10 So, that doesn't close the door from my approaching ANR at
11 some point in the future and requesting changes if we require
12 them. And that goes back again to the maintaining a good
13 working relationship with them.

14 MR. KRIS SAXBERG: So they owe you one (1),
15 or you did it for future considerations?

16

17 (BRIEF PAUSE)

18

19 MR. HOWARD STEPHENS: Sorry, Mr. Saxberg?

20 MR. KRIS SAXBERG: Well, I'm just saying, so
21 there's some -- some -- you cooperated with them on this
22 occasion, and so you're hopeful that in the future when you
23 have a request, they will cooperate with you?

24 MR. HOWARD STEPHENS: And I'm pretty much
25 assured of that. And the one (1) thing that Mr. Warden did

1 remind me of is the fact that we -- as a result of the
2 overall negotiation of the package of contracts. And so
3 we're exposed to somewhat less risk, from a couple of
4 different perspectives.

5 MR. KRIS SAXBERG: Now that I've touched on
6 the matters that I want to touch on with respect to the new
7 contracts, but I just want to go over the cost consequences
8 of them.

9 First, the Nexen contract results in a
10 reduction in capacity sales, which you estimate to be around
11 two hundred and fifty thousand dollars (\$250,000); correct?

12 MR. HOWARD STEPHENS: Well, and to be clear,
13 it's two hundred and fifty thousand dollars (\$250,000) out of
14 a six (6) point odd million dollars of gas management
15 revenues that we're -- we're refunding to customers this
16 year. That number varies year by year.

17 MR. KRIS SAXBERG: Right. I mean it could be
18 higher, it could be lower. And that then begs the question I
19 guess, what amount has it been for the last five (5) years,
20 the net proceeds?

21 MR. HOWARD STEPHENS: I believe you asked an
22 IR with respect to that. I don't have it in front of me but
23 I would have hoped you would remember the answer. I don't.

24 MR. KRIS SAXBERG: I wasn't involved at that
25 -- in that stage actually.

1 MR. HOWARD STEPHENS: If you can bear with me
2 for a minute.

3
4 (BRIEF PAUSE)

5
6 MR. HOWARD STEPHENS: Bear with me just for a
7 minute.

8
9 (BRIEF PAUSE)

10
11
12 MR. HOWARD STEPHENS: I stand corrected, Mr.
13 Saxberg. It's PUB-12, Attachment B.

14 MR. KRIS SAXBERG: And so you've indicated
15 that any capacity sales aren't static, I mean, and what we're
16 really talking about here is the net. The net amount from
17 sales of excess commodity?

18 MR. HOWARD STEPHENS: Correct. We could have
19 sold -- bought the gas at four dollars (\$4) and sold it at
20 six (6) and made two (2).

21 MR. KRIS SAXBERG: Right, and -- so in order
22 to forecast the cost impact of moving to the new Nexen
23 contract, would it be better to estimate that figure by
24 looking at the last five (5) years or something and do an
25 average?

1 MR. HOWARD STEPHENS: Yes, yes. And, Mr.
2 Sanderson has very handily just calculated the last five (5)
3 year average and it would be more in the order of (400) four
4 hundred -- four hundred thousand dollars (\$400,000) a year.

5 MR. KRIS SAXBERG: Thank you for that. Now,
6 swing supply has gone up in the Nexen contract and the
7 estimate is it's going to be approximately a four hundred
8 thousand dollar (\$400,000) a year impact?

9 MR. HOWARD STEPHENS: That's correct.

10 MR. KRIS SAXBERG: And in the Great Lakes
11 system we have discussed that already, it's two hundred
12 thousand dollars US (\$200,000)?

13 MR. HOWARD STEPHENS: In round numbers, yes.

14 MR. KRIS SAXBERG: And so is it, just very
15 roughly, and you can correct this, we're talking about a \$1.1
16 million in -- in extra gas costs as -- as a result of the new
17 gas supply contracts and transportation contracts?

18 MR. HOWARD STEPHENS: I rounded it off to a
19 million but I -- I won't quibble with you for the hundred
20 thousand (100,000).

21 MR. KRIS SAXBERG: Well, I was putting in the
22 American exchange rate. And so that if we were looking and
23 comparing Schedule 5.0.0, the updated version against the --
24 against the initial filing, there's going to be a cost
25 increase there of -- of the 1.1 million that relates just to

1 this? Oh, sorry. Only for -- because there's an impact only
2 of six (6) months here in the forecast.

3 MR. HOWARD STEPHENS: Well, that and there
4 are other offsetting reductions in costs in terms of
5 balancing fees and that sort of thing.

6 MR. KRIS SAXBERG: And -- and sorry, and I
7 said Schedule 5 and I would have been -- I should have said
8 Schedule 6 in terms of the forecast. Anyway, the 1.1 million
9 is included in Schedule 6 update the forecast and it's --

10 MR. HOWARD STEPHENS: That's correct.

11 MR. KRIS SAXBERG: -- but it's -- it's going
12 to be averaged out because the contracts come in to being --
13 they become effective October 31st? Or did they become
14 effective immediately when they're signed?

15 MR. HOWARD STEPHENS: The Nexen contract
16 obviously November 1st, the Great Lakes backhaul November
17 1st, the Great Lakes forward haul effective September 1st,
18 and the ANR contracts September 1st.

19 MR. KRIS SAXBERG: I'm going to come back to
20 the capacity management just briefly in a second but since
21 we're on this topic, is it Centra's policy to use the most
22 current information in updating the Board before a hearing
23 like this concludes and rates are set?

24 MR. HOWARD STEPHENS: Yes, it is our policy
25 to try and give the most current information that we have.

1 MR. KRIS SAXBERG: And the --

2 MR. DARREN RAINKIE: I'd say, Mr. Saxberg,
3 it's a practice. I'm not sure it's a policy. But I'm not
4 sure you're going to see a policy statement on it but it's
5 what we do for regulatory purposes.

6 MR. KRIS SAXBERG: And I think there's --
7 there's some agreement that using the most current
8 information is probably the best way to go?

9 MR. HOWARD STEPHENS: That's presumably why
10 we do it. Yes.

11 MR. KRIS SAXBERG: And in the supplemental
12 gas PGVA there is, as a result of last year's forecast being
13 off, around \$11.1 million owing to customers?

14 MR. HOWARD STEPHENS: That's correct.

15 MR. KRIS SAXBERG: Now, with better
16 forecasting and I'm not -- I'm not casting aspersions on the
17 forecasting that was done but if there was a -- if the
18 forecast was more closely aligned to what happened, that
19 number would be lower; right?

20 MR. HOWARD STEPHENS: Well, no, I wouldn't
21 agree with that. When that budget is put together, and
22 really Mr. Sanderson should speak to this because he's the
23 author of the budget, but I will defend him to the hilt with
24 respect to this, he uses the best information that's
25 available at the time.

1 And at the time, our supplemental gas costs,
2 that was the strip at that time and that was the legitimate
3 best information that we had available to us.

4 MR. KRIS SAXBERG: Exactly. And if you were
5 setting that in -- in hindsight, and you actually knew what
6 the cost of gas was, you'd be more accurate and that \$11.1
7 million would be lower; wouldn't it?

8 MR. BRENT SANDERSON: I just want to point
9 out, if I may, that the \$11.1 million balance is not entirely
10 attributable to differences in the cost of supplemental gas
11 relative to the forecast.

12 The ultimate residual balance in supplemental
13 PGVA is very heavily driven by weather variances, in that we
14 recover the costs of supplemental gas over an entire one (1)
15 year period. And we incur the lion's share of those costs
16 during the winter period.

17 So to the extent that weather varies from a
18 normal weather year forecast, significant balances can build
19 up in that account in a very short period of time. So to
20 characterize them as differences due to price forecasting
21 variances wouldn't be entirely correct.

22 It is part of what contributed to that balance
23 but I would say the vast majority is weather related.

24 MR. KRIS SAXBERG: That would be with respect
25 to the inflow portion where it would all be related to the --

1 to the forward price strip and whereas the out -- outflows
2 would be a product of -- of use?

3 MR. BRENT SANDERSON: Both inflows and
4 outflows would be affected by weather variances insofar as
5 the weather is warmer than normal. For example, we're
6 purchasing drastically lesser amounts of supplemental
7 supplies regardless of the price, so the amounts flowing into
8 that account will be less than forecast.

9 And, as well, because we recover the costs of
10 the supplemental gas on a volumetric basis, the outflows from
11 that account will be somewhat different than forecast due to
12 customers' volume takes being different than forecast.

13 So it -- it affects the inflows and outflows
14 into the account in -- in both respects due to weather.

15 MR. KRIS SAXBERG: And I appreciate that
16 qualification and your precision. But just in a general
17 sense, I mean, if you had a more accurate reading on what the
18 price of gas was going to be, for instance if you knew it,
19 what it was, then that \$11.1 million would be lower?

20 MR. HOWARD STEPHENS: In -- I'll take this
21 component of it, and Mr. Sanderson's pointed out that there
22 are two (2) variables associated with one (1) price, one (1),
23 the consumption. We then made a deliberate decision during
24 the course of the last winter not to buy as much gas in the
25 southwest and that is the volume reduction associated with it

1 and that is by far the largest component or variable that's
2 affected that variation.

3 MR. KRIS SAXBERG: Nothing from Oklahoma,
4 that was the --

5 MR. HOWARD STEPHENS: That's right. So, from
6 that perspective, what I need, not necessarily is a better
7 price prediction, I need a better weather prediction.

8 MR. KRIS SAXBERG: Okay. But -- okay, and
9 that's -- that's -- I understand that. But there was some
10 component that was related to the price; right?

11 MR. HOWARD STEPHENS: Without having gone
12 away and done the calculation with respect to the \$11.1
13 million balance, I can't state on the record how much of that
14 balance -- if -- if -- even if there is a material amount in
15 that balance that's a result of pricing variances but if --
16 I'll give you that much that we assume some portion of it is
17 attributable to pricing differences.

18 If we assume we get our price forecast or the
19 futures market is in an exact indicator of ultimate prices
20 then yes, I would agree that that balance would be somewhat
21 smaller but to what extent, I can't tell you.

22 MR. KRIS SAXBERG: Yeah, so there's the --
23 ultimately if the price turns out to be something different
24 than you've forecast, there's going to be an effect of the --
25 in the deferral account. There's going to be a buildup in

1 the deferral account. I mean, that's fairly trite. Right?

2 MR. BRENT SANDERSON: Works both ways. It's
3 -- yes if the price of gas is higher, that will contribute to
4 buildup of a credit -- or debit balance owing to the utility
5 and the extent that prices are lower, a credit balance owing
6 to the customers.

7 MR. KRIS SAXBERG: And this year's buildup in
8 the supplementary gas PGVA and -- and all the deferral
9 accounts put together -- it's a fairly substantial \$16.5
10 million compared to -- it was \$90 million, I think, that was
11 the total non-primary gas revenue requirement that was
12 approved last year? That's what it says in the Board order
13 anyway.

14 MR. BRENT SANDERSON: I can take that as
15 given but I guess you can paint a picture of the relative
16 magnitude of that balance and in light of an overall purchase
17 gas cost budget in the neighbourhood of \$400 million. It
18 doesn't represent a huge variance. We want them as small as
19 possible but in -- in that respect, it's -- it's not
20 troublingly large.

21 MR. KRIS SAXBERG: It's causing you a little
22 bit of trouble in terms of how you're going to refund it,
23 though, because of its size?

24 MR. DARREN RAINKIE: That's correct. That's
25 why we made a proposal on the -- how we refund that money in

1 -- in rates.

2 MR. KRIS SAXBERG: Sorry, I'm just leading to
3 this point. I mean, by the time we set -- or the Board --
4 sets these rates, it's going to be into October and we'll
5 know what happened for the first six (6) months of this gas
6 year.

7 You -- you'll have paid your bills with
8 respect to supplementary gas. You'll -- you'll know a lot
9 more about capacity management because the summer's when you
10 are doing most of your transactions. No?

11 Anyway, there's going to be at least five (5)
12 months of actual information out there and you can tell me
13 where I've got it wrong, but why -- why wouldn't we just use
14 the five (5) months of actual information to put into these
15 forecasts and then forecast for the balance?

16 MR. BRENT SANDERSON: With respect to
17 pricing, the update that's before the Board reflects our
18 actual known Nexen contract pricing to July.

19 I'll reiterate again that one (1) of the
20 single largest contributors to non-primary gas PGVA balances
21 is weather variances and by the time we have six (6) months
22 under our belt in the fiscal year, we've gone through
23 relatively low load periods that aren't subject to a lot of
24 variability and our largest uncertainty with respect to
25 weather and load still is in front of us.

1 And it would be -- us -- premature for us to
2 give anyone a greater degree of comfort that we're any more
3 comfortable that the ultimate weather affect on our load and
4 our PGVA balances is known with any higher degree of
5 certainty than it was at the beginning of the year.

6 MR. KRIS SAXBERG: Well, it has been the
7 coldest summer ever. I don't know --

8 MR. BRENT SANDERSON: You had to remind me of
9 that.

10 MR. KRIS SAXBERG: Would it be an overly -- I
11 think what you're saying is that rather than it being
12 difficult to use some of the actuals that we're -- that we're
13 already aware of, you're saying it really wouldn't make much
14 of a difference?

15 MR. BRENT SANDERSON: It would be a lot of
16 work and it may provide, in the end, little to no value
17 when --

18 MR. KRIS SAXBERG: And --

19 MR. BRENT SANDERSON: -- it's all said and
20 done.

21 MR. KRIS SAXBERG: And at the end of the day,
22 the -- whatever the difference is, is collected in deferral
23 accounts?

24 MR. BRENT SANDERSON: Absolutely. That's --
25 that's why we use those accounts.

1 MR. KRIS SAXBERG: Just with respect to peak
2 day calculations, and I put this in my book of documents but
3 I don't -- this is just a quickie question so I don't know
4 that we have to go to it but -- last year's application said
5 that the peak day was 499,300 gigajoules a day. This year's
6 is four ninety-three (493) and IGC is saying 487,777, down
7 the road, I think, in -- in 2010, and why -- why is it that
8 the peak day amount is going down like that?

9 MR. HOWARD STEPHENS: Primarily due to
10 conservation, over the -- in the difference between what we
11 see today in IGC's projected peak day, is associated with
12 conservation.

13 MR. KRIS SAXBERG: Now, with respect to
14 capacity management, and I won't be long on this, the results
15 for this year are 6.26 million, I'm sorry, last year's Final
16 Capacity Management Results for -- for 03/04, 6.26
17 million...?

18 MR. HOWARD STEPHENS: For the last fiscal
19 year, yes.

20 MR. KRIS SAXBERG: Fiscal year or... fiscal
21 year, right, sorry. And the year before that, it was 5.3
22 million; do I have that right?

23 MR. HOWARD STEPHENS: I won't dispute it,
24 sir, I don't have it in front of me, but it sounds correct.

25 MR. KRIS SAXBERG: Sorry, that was for

1 2002/03, was 5.3 million. And for -- and you can take this
2 all subject to check, this is at Tab 5, page 16 of the
3 Application, for 2003/04, sorry, I've already given that, in
4 the update it's six point two six six (6.266).

5 The question is, the last three (3) years,
6 you've had great success with your Capacity Management
7 Revenues...?

8 MR. HOWARD STEPHENS: Well, more significant
9 in the last two (2) I would characterize it, but, if you want
10 to give us credit for the third one, fine too.

11 MR. KRIS SAXBERG: Well, I thought that I had
12 it down here, but I don't, and do you know what the results
13 were for 01/02?

14 MR. HOWARD STEPHENS: No, actually, we --
15 yes, I do have numbers here, going back to 1996. Total
16 Capacity Management Revenues for 1996, and that's calendar
17 year '96, were 5.9 million, then we went to 2.5 million for
18 calendar year '97, 2.8 million for calendar year '98, a half
19 a million bucks, or six hundred thousand dollars (\$600,000)
20 for -- oh no, that's calendar year '99, yes, calendar year
21 2000, \$3.6 million, then we get the ... so for calendar year
22 2001, we've got 4. ... we've got a bit of an aberration
23 because we changed the way we account for it, and it's not on
24 the basis of a calendar year, so I'm going to skip 2001.

25 2002/2003, and this is on the fiscal year, we

1 had 5.2 million, and April 2003 to March 2004, we got 6.2
2 million.

3 MR. KRIS SAXBERG: And I have here for
4 2001/02, and that's at Centra -- CAC/CENTRA-25, Attachment 3
5 of 5, it says 3.88 million.

6 MR. HOWARD STEPHENS: Sorry, Mr. Saxberg.

7 MR. KRIS SAXBERG: I have at CAC-25,
8 Attachment 3, it indicates 3.88 million for 2001/2002...?

9 MR. HOWARD STEPHENS: I don't know why the
10 number would be different. That's...

11 MR. KRIS SAXBERG: Well, subject to check
12 then --

13 MR. HOWARD STEPHENS: Yes.

14 MR. KRIS SAXBERG: -- you can look. And so
15 we've got three (3) fairly numbers for the last three (3)
16 years, and the point is, shouldn't we be including more than
17 three point two five (3.25) in the forecast?

18 MR. HOWARD STEPHENS: I'll point you to -- it
19 would be the stub-period year, where we had some zero dollars
20 associated with sales, and while we had the one (1) year at
21 six hundred thousand dollars (\$600,000), that was the year,
22 the warm year that we had, in the calendar year, January of
23 '99.

24 And, I've gone on at length during these
25 hearings in terms of all the factors that are -- associated

1 with generating capacity management revenues.

2 And it's a function of the marketplace, it's a
3 function of capacity on Trans Canada system, basis
4 differential between the Manitoba delivery area and the
5 eastern markets, what have you. And that's why I -- I mean
6 I've been very reluctant to this point in time in terms of
7 trying to provide any kind of a meaningful or scientific
8 estimate as to what our capacity management revenues are
9 going to be.

10 Because there are so many variables that are
11 beyond our control that I could not possibly provide you with
12 anything that would be more meaningful than just me --
13 scribbling a number on a piece of paper.

14 MR. KRIS SAXBERG: But you've -- ultimately
15 you've picked one, 3.25 million for the purposes of this
16 application.

17 MR. HOWARD STEPHENS: Simply the five (5)
18 year holding average.

19 MR. KRIS SAXBERG: And if that number was
20 higher, if it was the average of the last three (3) years,
21 and I'd like to ask you to perform that calculation to
22 determine what the number would be if you use the last three
23 (3) years. Not right now but -- then the -- is it -- just
24 from a simple perspective it would mean that the reduction
25 that customers are going to enjoy as a result of this

1 Application would be more than 3.9 percent reduction?

2 MR. HOWARD STEPHENS: Very roughly speaking,
3 if we looked at the last three (3) fiscal years, it would be
4 about \$5 million.

5 MR. KRIS SAXBERG: And so if it was -- if you
6 put \$5 million into the credit for capacity management, that
7 means that the rate would reduction that would flow out of
8 this Application would be more than 3.9 percent?

9 MR. HOWARD STEPHENS: Yeah. You're quite
10 correct. But I think with --

11 MR. KRIS SAXBERG: And -- and at the end of
12 the day there really wouldn't -- I mean, you're saying that,
13 you know, you're not going to be held to that 5 million
14 because it's -- it's a deferral treatment in any event. And
15 -- so if you're going to estimate what -- what, and as you
16 said, you're just picking a number out of the air, why not
17 pick the higher one?

18 MR. HOWARD STEPHENS: My philosophy with
19 respect to this is I would prefer to be conservative with
20 respect to setting the number for the customers benefit than
21 to the extent that we'd do better than that, they get a nice
22 surprise. So if we do it the other way around it's not such
23 a nice surprise. Now maybe they can't see the net affect of
24 it in terms of the overall rate because if it gets -- it gets
25 diluted pretty substantially.

1 But that has been my philosophy in terms of
2 how we've --

3 MR. KRIS SAXBERG: And they are getting their
4 nice surprise with -- in connection with the \$16.5 million
5 refund?

6 MR. HOWARD STEPHENS: That's right.

7 MR. KRIS SAXBERG: Because last year's
8 estimate was around 3 million?

9 MR. HOWARD STEPHENS: That's correct.

10 MR. KRIS SAXBERG: And you did 100 percent
11 better than you thought you would.

12 MR. HOWARD STEPHENS: The other -- and the
13 other aspect of it is that is that if you put the bigger
14 number in there, then it almost becomes an expectation and
15 that -- that's going to be -- that's going to be
16 materializing and I'll be spending three quarters of the day
17 explaining to you why it is that we can't -- haven't been
18 able to make that amount of money.

19 MR. KRIS SAXBERG: Well I don't want to spend
20 -- I don't want to spend too much time on that because that
21 was the subject of quite a lot of debate at a few hearings.
22 And -- but one (1) of the things that came out of one of
23 those hearings was the Board saying that what can you do to
24 fine tune your method of forecasting capacity management
25 revenues?

1 And I included that quote somewhere in my
2 material, but is there anything specific that you've done in
3 order to improve the forecasting of that number? I mean it
4 doesn't sound like it, given what we've just discussed.

5 MR. HOWARD STEPHENS: I mean we looked at it
6 certainly. But I mean it's all of the variables that I've
7 talked about and all of those variables, I mean, they're just
8 about as ephemeral as the price on the NYMEX or the AECO
9 index when we're going to try -- do our hedging. I mean,
10 they change from day to day, minute to minute, hour to hour.
11 So it's very difficult to provide an estimate.

12 MR. KRIS SAXBERG: So you -- you can't, to
13 use the words of the Board, refine the tools of estimating
14 capacity management results?

15 MR. HOWARD STEPHENS: No. I know what the
16 tools are, it's just that they aren't very damned accurate.

17 MR. KRIS SAXBERG: There was a quote at page
18 13 of Tab 3 and -- and it says -- it notes that you know,
19 your performance is going to involve parties finding a
20 market, knowledge, and then here's the word I struck on,
21 creativity and determination. That -- that sounds like that
22 there is a human variable here.

23 For instance, if -- if you were graced with
24 being able to hire five (5) more people for your department
25 to work on this, day and night, you might be able to improve

1 your capacity management results?

2 MR. HOWARD STEPHENS: Mr. Meronek and I went
3 around the horn with this a couple of times. I'm not
4 convinced that adding extra horsepower to it would result in
5 proportionately higher revenues associated with that.

6 In order to engage in these transactions you
7 have to have, on a day to day basis, a very good handle in
8 terms of what gas you're moving where, and how.

9 And these transactions then are interwoven
10 into the way we serve the load on a day to day basis.

11 So, to have more than one (1) person involved
12 at any particular point in time, dealing with transactions,
13 would -- could potentially lead us into a situation where we
14 over commit or under commit, and that would imply an element
15 -- an extra element of risk that the Corporation is taking
16 on. And our Capacity Management Program is to the extent
17 that I have been able to build it, risk free.

18 So, there is limited opportunity from my
19 perspective, in terms of adding staff.

20 MR. KRIS SAXBERG: Okay. Do -- are you
21 involved in all of those transactions?

22 MR. HOWARD STEPHENS: Far more -- far less so
23 than I used to be. I spend more time doing this sort of
24 thing.

25 MR. KRIS SAXBERG: I have no further

1 questions. But I do want to put on the record that I want to
2 ask the next Panel about future regulation, and I've seen Ms.
3 Murphy's nodding in agreement. And so with that then, I'd
4 like to thank the Panel for their cooperation.

5 THE CHAIRPERSON: Thank you, Mr. Saxberg.
6 I'm going to turn back for a few minutes to Mr. Peters, to
7 give us an outline of where we go next. But before that, Mr.
8 Warden, I have something I wanted to pose to you earlier, and
9 if you could just help me through this a little bit.

10 I gather, first of all, it's apparent you're a
11 member of the Centra Hydro's Executive Committee, and it's
12 the -- this Committee that establishes the boundaries around
13 the hedging program, the policy, the approach to contain
14 volatility, is that correct?

15 MR. VINCE WARDEN: Well, it is the Executive
16 Committee that ultimately approve the -- the hedging program,
17 based on a recommendation that came from the Gas Supply
18 Management Committee, yes.

19 THE CHAIRPERSON: Okay, I'll quickly get
20 where I'm going on it. The -- and Centra has chosen for a
21 lot of various reasons that have been laid out here, a
22 mechanistic application of cashless collars, as the approach
23 to reduce volatility.

24 As a general test, and as a learning or an
25 assessment test or risk management issue, if you like, does

1 Centra model retrospectively, various notional gas supply
2 purchases approaches, to compare against the approach taken
3 and the results achieved?

4 MR. VINCE WARDEN: We did a lot of modelling
5 when we were setting the program up initially. As a routine,
6 on an ongoing basis, I don't believe, at least I haven't
7 personally seen a lot of different retroactive type of
8 modelling applications.

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: It's the modelling that
13 Mr. Sanderson was just pointing out, was with respect to the
14 variations that arise from the sensitivity analysis that we
15 do with respect to what the variation would be with
16 volatility, that is the numbers that we referred earlier --
17 referred to earlier at the 20 and 30 percent reduction
18 volatility, that modelling is done to determine what the gas
19 costs would have been, absent the hedges in place.

20 THE CHAIRPERSON: Thanks what I was getting
21 at, I wasn't trying to by hindsight sort of have a look at
22 the gas cost management approach, I was more looking at it as
23 whether you were modelling the approach against other
24 alternatives, on sort of an ongoing basis, to assist you in
25 your judgment as to whether your selection of that particular

1 approach would be the most effective one (1) as conditions
2 change?

3 MR. VINCE WARDEN: Well, we do have the, as I
4 mentioned, the Gas Supply Management Committee which meets a
5 minimum of four (4) times per year and we discuss issues as
6 to whether or not the approach we're taking with derivative
7 instruments is appropriate.

8 And one (1) -- as a matter of fact, for our
9 next agenda of the Gas Supply Management Committee we'll be
10 looking at whether or not with the market as high as it is
11 whether a cap might very well be appropriate.

12 So, even though the practice has been to use
13 cashless collars over the past number of months, we're not
14 necessarily -- our policy does -- allow for flexibility in
15 terms of the instrument we use and a cap might very well be
16 appropriate.

17 We'll be talking more about that. It's a bit
18 of a departure from the -- mechanistic approach because it
19 does require some sort of a price view as to what the price
20 is going to do in the future.

21 And we have great debates about that at our
22 Gas Supply Management Committee. But they're necessary
23 and --

24 THE CHAIRPERSON: I imagine as well you have
25 the experience and sharing of information with your

1 colleagues in other -- other utilities of similar ilk?

2 MR. VINCE WARDEN: We do, very much, and I
3 think Mr. Sanderson pointed out that a lot of utilities look
4 to Centra Gas as being the model for -- for derivative
5 hedging.

6 MR. VINCE WARDEN: Well, thank you very much.
7 Mr. Peters...?

8 MR. BOB PETERS: Thank you, Mr. Chairman.
9 With Mr. Saxberg concluding his cross-examination of Centra's
10 Witness Panel Number 1, the order of procedures would
11 contemplate that Mr. Carol, on behalf of his client, MacDon
12 Industries Limited be given an opportunity.

13 If I can take the liberty of speaking for Mr.
14 Carol, which I would rarely do, I did speak to him this
15 afternoon and he indicated that of this Panel he has no
16 questions. And he will wait to see if his questions of the
17 next Panel get asked by those who precede him before he
18 determines whether he'll have questions of the second Panel.

19 So, at this point in time, this Panel appears
20 to have finished their direct evidence and their cross-
21 examination by all parties. They have filed some
22 undertakings and unless Mr. Saxberg, Ms. Melnychuk have
23 questions on any of the undertakings that they have been
24 provided to date; then I suggest it would be appropriate that
25 this Panel could be discharged, recognizing that only Mr.

1 Stephens and Ms. Stewart are the ones who will not be with us
2 next week.

3 Mr. Stephens and Ms. Stewart will be leaving
4 the Board offices and the Hearing room and they will be -- in
5 their stead will be Ms. Kelly Derksen and Mr. Greg Barnlund.
6 And they will be on the second Panel which would be seated
7 before the Board on Wednesday morning of next week.

8 And at that point in time, Ms. Murphy may have
9 some questions on direct and then they'll be turned over for
10 cross-examination, again, by Board Counsel and the
11 Intervenors.

12 So that's a preview of what's to come and I
13 don't believe there's any more matters of this afternoon
14 unless there are questions on any undertakings by any of the
15 parties.

16 I should also remind people, as is on the
17 outline of procedures, that Wednesday morning next we would
18 commence the morning -- at this time the presentation of
19 MacDon Industries is contemplated.

20 It may be that just for the benefit of the
21 Board on Wednesday morning we will structure the direct
22 evidence of the Centra witnesses, maybe then the presentation
23 of MacDon Industries, but it would all happen in the morning,
24 early in the morning, so that we could put the best cases
25 before the Board so that the Board has an ability to

1 understand the issues that will be coming before them next
2 week.

3 So those are my comments and thank you.

4 THE CHAIRPERSON: Thank you, Mr. Peters.

5 Well, then we will close for the day and adjourn for a long

6 weekend. I want to thank the Panel, Ms. Murphy, the

7 Intervenors and we'll see you all next Wednesday. Thank you.

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9 --- Upon adjourning at 3:52 p.m.

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12 Certified Correct

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Carol Wilkinson

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