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
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APPEARANCES

R.F. Peters	)Board Counsel
Marla Murphy	)Centra
Kris Saxberg	)Canadian Association of Consumers, Manitoba Society of Seniors (CAC/MSOS)
Bill Carroll	)MacDon Industries Ltd.
David Brown Karen Melnychuk	)Municipal Gas/Direct Energy
Nick Gretener	)Simplot Canada
Carol Wilkinson	)Court Reporter

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--- Upon commencing at 8:07 a.m.

THE CHAIRPERSON: Good morning everyone. Welcome to day five (5). Yesterday we finished cross on high volume firm from Mr. Carroll. In Mr. Carroll's cross in his client's presentation there was an inference that decisions on high volume could be a slam-dunk and that their time in this process may have been wasted.

I want to assure Mr. Carroll and his client that their concerns with respect to that issue are baseless. Mr. Carroll as well as other Intervenors and Centra have an opportunity and are expected to address the issue of high volume firms in closing comments.

Following which the Board will review all of the evidence and submissions and deliberate to reach a decision that the Board believes to be just and reasonable and in the public interest. Mr. Carroll admitted yesterday that he has much to learn in respect of the regulatory issues and processes impacting his client.

We trust that he has and is learning through his participation in the process and should he have further questions as to the process, jurisdiction and technical matters, he is most welcome to seek assistance from the Board advisors.

Mr. Peters, do you want to make some further

introductions and give us the lay of the land where we are today?

MR. BOB PETERS: Yes, thank you and good morning. You called it day 5, it almost reminded me of the school days and the garbage cycled in my home but I don't want to go there. What I do want to do is remind people that for Thursday, September 16th we've set aside some -- some time today to address one of the issues raised by one of the Intervenors.

Specifically unaccounted for gas issues are on the -- on the Board's agenda for this morning and likely part of this afternoon. And what we will start with this morning, Mr. Chairman, is the direct evidence from the Centra Panel that's before you and was before you yesterday.

Ms. Murphy will have questions and introduce the issue and Centra's evidence on unaccounted for gas. Centra's Panel will then be cross-examined and I will go first followed by Intervenors if they have any questions. And then Simplot's counsel being one of the Intervenors, is the last on the Intervenor list to cross-examine.

Once the Centra Panel has been cross-examined, we will turn it over to Mr. Nick Gretener who joins us today. And Mr. Gretener will introduce his witnesses and his witnesses will be Mr. David Hawk, Dr. Don Reading and also Mr. Hani Riad. They are with him at the table today and he

will introduce them and he will lead their direct evidence.

Once his witnesses have given the Board their direct evidence, they will be cross-examined firstly by Intervenors, if there any Intervenors that have questions, followed by Centra's cross-examination and then I will go last in that order.

And once we have concluded on the cross-examination of the witnesses on behalf of Simplot Canada Limited, then we'll revert back to where we were yesterday and I'll pick it up with this Panel and deal with some issues that I have outstanding.

Now, I've -- I'll leave it to Mr. Gretener to specifically introduce his witnesses and they will be sworn in due course. But I also note that this morning one of the -- one of -- I'll call him one of my mentors even though he was always across the room and that's Mr. Gary Meyer has joined us.

I was joking this morning with Mr. Meyer and telling him that if I asked a question this morning that is considered a silly question, a stupid question, that I'm going to have to say, well, Mr. Meyer told me it was a good question. So, we'll see how he's taught me over the years but I do welcome him to the hearing room and it's good to see him again.

So, Mr. Chairman, I suggest you turn it over

to Ms. Murphy, she will introduce her Panel, I don't believe there's any changes but will address the issue through direct examination on unaccounted for gas and we'll continue at that point.

THE CHAIRPERSON: Thank you, Mr. Peters. Ms. Murphy...?

MS. MARLA MURPHY: Good morning. Thank you. I just wanted to mention that when I refreshed the introductions yesterday morning, I neglected to refresh the back row and there's a new fact back there that I should bring to your attention.

Ms. Kathleen Anderson is a rate analyst and she's working in support of Ms. Derksen and Mr. Barnlund today. I also was going to note for the record that Ms. Derksen had brought out the heavy artillery today and Mr. Meyer was back so we're all so very pleased to see him here today.

The Panel having been sworn, we are ready to proceed with direct.

THE CHAIRPERSON: Please.

(PANEL RESUMES)

EXAMINATION IN-CHIEF BY MS. MARLA MURPHY:

MS. MARLA MURPHY: Ms. Derksen, could you

please describe what changes have been made with respect to the allocation of UFG?

MS. KELLY DERKSEN: Good morning everyone. If you didn't get enough of me yesterday, I'm back to torture you again today. Centra pays its suppliers for the amount of gas received from the TCPL system and collects revenues from customers for the delivery of that gas.

To recognize the differences that exist between the amount of gas supplied and the amount of gas delivered, Centra forecasts the expected level of unaccounted for gas annually and recovers the cost of UFG as part of its volumetric distribution to customer rate.

Any differences between the forecast cost of UFG and the actual cost of UFG is accumulated in a PGVA and later disposed of through a rate-rider added to the volumetric distribution to customer rate.

The cost of UFG is currently allocated to customer classes on a weighted volumetric basis. The SGS and LGS classes are weighted twice their volumes while all other classes received a weighting of one (1).

As a result of the UFG review, Centra's proposing to allocate UFG to each specific customer class based on the weightings determined in the UFG study for the identified UFG. A table outlining the proposed weightings with respect to the allocation of UFG is provided at page 9

of Tab 7.

In the case of the special contract class, Centra's proposal will reduce the allocation of total UFG from 12.8 percent to 5.7 percent.

MS. MARLA MURPHY: Ms. Derksen, are you aware of the UFG allocation methodology used by gas distribution companies in Canada.

MS. KELLY DERKSEN: Yes. Gas distribution companies in Canada, for the most part, allocate UFG among rate classes on an unweighted volumetric basis. Based on an unweighted volumetric treatment the special contract class would receive an allocation of 18.7 percent of UFG.

MS. MARLA MURPHY: Simplot has suggested an alternative proposal with respect to the allocation of UFG; can you explain to the Board your concerns with respect to those alternative allocators?

MS. KELLY DERKSEN: Simplot has recommended an allocation of UFG of 2.8 percent based upon its review of the replacement value of the system that serves it. This rec -- this recommendation, as well as several other physical and financial indicators suggested in their evidence, is not appropriate as these indicators do not correlate well with the factors which cause UFG.

MS. MARLA MURPHY: Could you please describe the implications of Simplot's proposal as it relates to rate

making?

MS. KELLY DERKSEN: It is a fundamental principle of rate making that all customers with similar characteristics are treated equally no matter where they choose to reside in Centra's service -- service area in Manitoba.

This postage stamp rate making philosophy req -- requires that customers in any given rate class receive the same level of service and pay the same uniform rates as any other customer in that rate class.

The implication of Simplot's proposal is to move away from the postage stamp philosophy, for at least the special contract class, in favour of a distance based or incremental cost approach.

This is not appropriate with a system that has a significant amount of common costs. That portion of UFG which cannot be directly assigned to a particular or class is one such joint or common cost which must be allocated fairly among customer classes by applying judgment based upon the best information available.

Applying the percentage of UFG cost responsibility on a class-by-class basis and then allocating the total UFG to all customer classes in this manner is a logical methodology consistent with the postage stamp philosophy and is, in fact, the method -- methodology

advocated by Dr. Reading on page 4 of his evidence when he suggests that the first step is to assign any directly applicable costs to a customer or a customer class and then to allocate the remaining shared costs.

MS. MARLA MURPHY: Thank you, Ms. Derksen. Mr. Barnlund, would you please outline your areas of responsibility with respect to this Application.

MR. GREG BARNLUND: Good morning, Mr. Chairman, members of the Public Utilities Board, ladies and gentlemen. In my testimony I will be providing evidence regarding the unaccounted for gas review.

MS. MARLA MURPHY: Mr. Barnlund, could you please explain the circumstances that led to Centra's recent UFG study?

MR. GREG BARNLUND: Yes. In 2001 Centra's special contract customer appeared before the PUB during the 2001/'02 cost of gas proceeding to oppose Centra's allocation of UFG.

This customer was, at that time, experiencing an increase in their rates resulting from both an increase in the cost of UFG and an increase in their annual throughput.

The PUB was of the view that Centra's allocation of UFG was fair and reasonable and it approved Centra's rate request. The PUB also encouraged Centra to determine whether other alternatives could be pursued to

ensure the special-contract customers' share of UFG is properly allocated.

Centra initiated a review of the UFG allocation methodology in mid-2003. Several meetings were held with a special-contract customer to ensure a common understanding of the UFG allocation process, and an understanding of the study that was being undertaken.

MS. MARLA MURPHY: And how did Centra approach this review?

MR. GREG BARNLUND: Centra undertook a comprehensive system-wide study of the causes of UFG that considered the characteristics of all customer classes, in regard to their potential cost responsibilities.

The study determined that UFG is caused by a number of factors, such as measurement accuracy, barometric pressure effects, differences in base temperature and pressure, super compressibility, pressure-factor metering, gas temperature effects, physical loss and fugitive emissions, and customer billing practices.

The Centra Study was performed by examining each potential cause for its contribution to UFG on a class-by-class basis. Several causes were recognized as being attributable to some, but not all customer classes. These were reflected in the summation of the amount of identifiable UFG that could be estimated for each cause in each customer

class.

In the end the study was able to identify and allocate approximately 55 percent of the average UFG on the system.

MS. MARLA MURPHY: What were the results of Centra's UFG review?

MR. GREG BARNLUND: It has been determined that most of the difference between volume receipts and deliveries, is related to the normal and acceptable level of tolerance associated with industry standard practices as they relate to gas measurement and billing.

The study found that approximately 70 percent of the identified UFG was related to measurement tolerances, which occur within the parameters mandated by Measurement Canada. Other factors contribute approximately 18 percent to the ident -- identifiable amount of UFG.

A relatively small portion, approximately 12 percent of identifiable UFG, can be attributed to the physical loss of gas through fugitive emissions or operational venting. This finding is consistent with the results of other studies conducted by American gas distribution companies in the past.

MS. MARLA MURPHY: Mr. Barnlund, you've indicated that the Review was able to identify 55 percent of UFG; is that an acceptable result?

MR. GREG BARNLUND: Yes, it is an excellent result. UFG is, by its very nature, difficult to break down into its contributing components. This Study improved on a previous study which Centra performed in 1991, because at that time Centra was able to identify the causes of 40 percent of UFG.

Since that time, the company has implemented technologies and undertaken other initiatives that have provided better information for the study of UFG. For example, the company has performed a great deal of work on quantifying physical losses and emissions, as part of our participation, in voluntary green-house gas emissions reporting.

In addition, the wider deployment of SCADA systems and advanced metering technologies, have provided the capability to obtain specific data that is useful in understanding gas metering in actual operating conditions.

MS. MARLA MURPHY: With regard to the study of measurement accuracy, could you please outline for the Board, the approach that Centra took?

MR. GREG BARNLUND: Yes. There are significant complexities associated with gas measurement which must be considered. When gas is measured through a metering device, the temperature and pressure of the gas must be taken into consideration, in order to correctly calculate

the volume of gas delivered.

Therefore, the process of gas measurement utilizes, in addition to the base metering device itself, a system of components to sense and correct for gas temperature, and to regulate or sense and correct for pressure.

Centra's study of measurement accuracy was based upon metre accuracy results obtained from the meter proving tests performed on each base metre prior to its installation in the field, or from meter proving tests done as part of Centra's overall measurement compliance program.

While the available data only referred to the base metre itself, other components of the measurements system described above, while each exhibit some additional natural variability, and will contribute additional variation to the base metre measurement.

In addition, meter testing facilities and the devices used to prove and calibrate all of these will be subject to their own operating tolerances that contribute to the overall level of variability. These factors, when taken in totality, contribute to a range of uncertainty in terms of measurement results.

In addition to the study of measurement accuracy -- sorry, in addition, the study of measurement accuracy must taken into consideration the actual flow rate

conditions experienced by the meter as the meter proving tests usually report the accuracies at only two (2) different flow rates.

Centra's analysis discovered that customers, particular in large volume classes, may experience flow rates low -- low enough to negatively affect measurement accuracy from time to time. This discovery warranted the application of judgment to the available meter accuracy data to reflect the actual operating conditions that are experienced.

The accuracy data for the meters was analysed to determine the mean and the standard deviation. While the mean of the meter data indicates the average accuracy of all the base meters tested, the standard deviation describes the extent to which the results are dispersed about the mean.

Centra used its judgment, based on the influencing factors I've just described, and assigned a measurement accuracy obtained by taking the accuracy, one standard deviation below the mean or average accuracy in most cases.

In the case of turbine meters, the company assigned an accuracy of two (2) standard deviations below the mean. In other words, the study assigned a somewhat larger loss estimate to each family of meters that would -- then would be found if only the mean was used.

However, this is reasonable in light of the

factors that influence measurement accuracy in real life.

MS. MARLA MURPHY: Mr. Barnlund, Simplot has suggested that Centra initiate a six (6) month trial of gas measurement gain and loss for the portion of the system serving their Brandon facility; what is Centra's response to that suggestion?

MR. GREG BARNLUND: Simplot's suggestion is based upon the incorrect premise that Simplot is being served by a simple bullet pipeline with one (1) entry and one (1) exit point; this is not the case.

Simplot's plant is served along a common pipeline with some one thousand, six hundred (1,600) other customers in the southwest portion of Manitoba. In addition to those customers, all of the gas customers in the City of Brandon receive their gas through the same entry point at the TransCanada Pipeline at Rapid City, Manitoba.

All of the gas consumed by these customers flows through TransCanada's meter. The calculation of UFG involves comparing the amount of gas received from TransCanada with the amount of gas billed to customers over the course of a year.

The gas receipts for the TransCanada take-off include, in addition to the requirements for the Simplot plant, all of the gas consumed by the customers in the City of Brandon and the communities in the southwest part of the

province.

Therefore, while there may be one (1) entry point on the system there are many thousands of exit points in addition to the one at the Simplot plant and, as such, Centra cannot measure UFG specifically for Simplot or for any other individual customer on the system.

The study undertaken in the past year by Centra is a comprehensive one and further study on one (1) portion of the system as suggested by Simplot will not produce any better or more accurate information.

MS. MARLA MURPHY: Thank you, Mr. Barnlund.

Mr. Chairman, that concludes our direct and the Panel's available to be cross-examined.

THE CHAIRPERSON: Thank you, Ms. Murphy, the Panel. Mr. Peters...?

MR. BOB PETERS: Thank you. Good morning, again, to the Panel.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Do I take from the initial evidence that you've given Ms. Derksen and Mr. Barnlund, that the unaccounted for gas, or UFG as we'll certainly call it today, it's the aggregate of all volumetric losses that originate from the factors of measurement, physical loss and accounting errors?

MR. GREG BARNLUND: Yes.
MR. BOB PETERS: And when you say that it's the aggregate of all volumetric losses, does that include volumetric losses related to primary gas as well as supplemental gas?
MR. GREG BARNLUND: It would include all gas, sir, yes.
MR. BOB PETERS: And when you say it would include all gas are you including primary gas supplied by direct purchase?
MR. GREG BARNLUND: Yes, indeed.
MR. BOB PETERS: Are you also including supplemental gas or otherwise gas supplied through delivered services?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: In looking, first historically, Mr. Sanderson, this may be for you, am I correct in my interpretation of your schedules, and just for the record, I have 5.1.5(a), that your unaccounted for gas in 2003/'04 was $6.11 million?
MR. BRENT SANDERSON: If you'll just bear with me for a moment while I find that reference.
MR. BOB PETERS: Thank you.

(BRIEF PAUSE)

MR. BRENT SANDERSON: If you would be so kind as to refresh my memory as to what the number was that you just quoted me?

MR. BOB PETERS: I quoted you $6.11 million and I think that was the summation of lines 3 and 4 on Schedule 5.1.5(a).

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

MR. BOB PETERS: And because this is on updated yellow paper, Mr. Sanderson, is this your final calculation of what unaccounted for gas was last year?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And that's based then on an actual measurement or an actual calculation as opposed to a forecast?

MR. GREG BARNLUND: Correct.

MR. BOB PETERS: When you talk about volumetric losses on the Centra system, Mr. Barnlund and Ms. Derksen, you're referring to volumetric losses then downstream of what we call city gate; is that right?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And city gate for the -- for refreshing my memory is simply the name you give to the delivery point where gas is delivered into the Centra system in Manitoba?

MR. GREG BARNLUND: That's correct.
MR. BOB PETERS: And although you call it city gate, there are multiple numbers of delivery points to Centra system?
MR. GREG BARNLUND: That's correct. I think that there's probably twenty-six (26) or twenty-seven (27) different points where we accept gas off the TransCanada system.
MR. BOB PETERS: And at those twenty-six (26) or twenty-seven (27) points, Mr. Barnlund, they're not all in the city either; they're throughout Manitoba?
MR. GREG BARNLUND: That's correct. They would be across the province along the TransCanada pipeline.
MR. BOB PETERS: There is no part of the UFG in your application before the Board that relates to any volumetric losses on the TCPL system, is there?
MR. GREG BARNLUND: That's correct. That would be separate.
MR. BOB PETERS: Can you explain to the Board how that is treated separately?
MR. GREG BARNLUND: I think that information would be embedded in the numbers that Mr. Sanderson referred to last week. Any of the UFG that will be occurring on systems upstream of our distribution system such as on TransCanada or Great Lakes or ANR pipelines would be embedded

in their specific totals and would be a cost of gas on the upstream side.

MR. BOB PETERS: So, while you don't measure it and Manitoba consumers don't expressly get charged for UFG on the TCPL system, it's your suspicion and probably view that those costs are embedded in the TCPL tolls that are fixed by the National Energy Board?

MR. GREG BARNLUND: I would assume so, yes.

MR. BOB PETERS: So, when I heard your direct evidence this morning, I think Ms. Derksen, you're indicating that you pay TransCanada Pipeline for what is received, you then deliver to your customers and charge them for it and somewhere between what you've received and what you've delivered is -- is the unaccounted for gas?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: In terms of historical information on this subject for the Board, in one of the interrogatories and if you wish to you can turn it up. It's PUB/Centra First Round Question 14, you were asked to provide the unaccounted for gas percentage for the last ten (10) years?

MR. GREG BARNLUND: I have that.

MR. BOB PETERS: And when -- when one looks at the historical information provided, Mr. Barnlund, does that show actual percentages calculated after the fact or is

that a forecast?
MR. GREG BARNLUND: I believe those to be after the fact actuals.
MR. BOB PETERS: All right. And one of the things that we note is that there is variability year over year, correct?
MR. GREG BARNLUND: Yes, there is.
MR. BOB PETERS: And is it Centra's position that this variability will continue to occur into the future?
MR. GREG BARNLUND: We would expect so. Unaccounted for gas seems to be reasonably variable and tends to cycle up and down. But in the long run on average, we're looking at somewhere between .9 percent and 1 percent as being an appropriate estimate.
MR. BOB PETERS: And when you say point nine (.9) or 1 percent, what period have you averaged out to come to that conclusion, Mr. Barnlund?
MR. GREG BARNLUND: I believe that would be the most recent five (5) year average.
MR. BOB PETERS: So, there's nothing new in this Application before the Board that is likely to affect the quantity of unaccounted for gas year-over-year?
MR. GREG BARNLUND: No, sir.
MR. BOB PETERS: And as far as Centra's concerned it has -- it has done nothing that will reduce the

actual amount of UFG on its system?
MR. GREG BARNLUND: I wouldn't say that. We have, I think over the years, have undertaken a number of different measures that either directly or indirectly improve and reduce the amount of unaccounted for gas on the system.
And I think we had covered some of those off in a response to an interrogatory.
MR. BOB PETERS: But you'll agree with me, Mr. Barnlund, that unaccounted for gas will continue and it will fluctuate including, probably, increase in percentage?
MR. GREG BARNLUND: Well, it will -- it will continue and it will fluctuate but I have no way of predicting what will happen to the percentage in the future.
MR. BOB PETERS: In terms of quantifying the unaccounted for gas for the test year of 2004 and 2005, you've embedded in your schedules .9 percent in your revised material; is that correct?
MR. GREG BARNLUND: Yes, that's correct.
MR. BOB PETERS: And, Mr. Sanderson, that is 9 percent of total volumes?
MR. BRENT SANDERSON: That's .9 percent --
MR. BOB PETERS: I'm sorry.
MR. BRENT SANDERSON: -- of all gas received into the Centra system.
MR. BOB PETERS: I apologize, I misspoke. .9

percent of all gas receipts onto the Centra system regardless of the source of the gas?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And to help the Board put some parameters around this in terms of numbers, am I correct, Ms. Derksen, in looking at Schedule 5 -- I'm sorry, in looking at Schedule 7.5.0, that once Mr. Sanderson had told you it's going to be .9 percent of all supply of commodity you have then determined that's going to come to a cost of $5.14 million?

MS. KELLY DERKSEN: Mr. Sanderson actually provides the total dollar figure to me as well and what I do is then I decide who that $5.136 million should be recovered from.

MR. BOB PETERS: Well, Mr. Sanderson, sorry to jump away from you so quickly, but when you -- when you quantify the amount for Ms. Derksen to allocate on what -- what rate do you charge against the unaccounted for gas?

MR. BRENT SANDERSON: On a forecast basis, we would look at each month in question during the forecast period and looking at the makeup of supply in any given month the forecast makeup supply, in any given month, that will be primary gas and -- and in winter months some portion of supplemental gas.

And -- and an allocation of those receipts

into the system would be made based on the forecast unaccounted for percentage, that being .9 percent and then those volumes are costed at each individual month's respective forecasted cost for those respective supplies received into the system.

MR. BOB PETERS: And the volumes are costed, Mr. Sanderson, based on the price that is determined under your contractual arrangements?

MR. BRENT SANDERSON: On a forecast basis, yes.

(BRIEF PAUSE)

MR. BOB PETERS: I just thought of another point of -- or another source of supply, Mr. Sanderson, I just want to make sure that any T-service you provide, we haven't specifically asked that, but in terms of your transportation customers that source their gas, the unaccounted for gas percentage in your Application is applied against their volumes as well?

MR. BRENT SANDERSON: Absolutely.

(BRIEF PAUSE)

MR. BOB PETERS: All right. Ms. Derksen, let

me try again. Now that Mr. Sanderson has estimated $5.1 million for unaccounted for gas for the test year, it becomes your responsibility to allocate that to the different customer classes; have I got that correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And Mr. Sanderson doesn't -- doesn't give you an exact amount that will happen in the test year but he gives you a forecast, correct?

MS. KELLY DERKSEN: Yes, he does.

MR. BOB PETERS: And that's like all of the other costs that you are provided in your cost allocation that are forecast costs for the test year because you don't know the accuracy -- the accurate number at this point in time?

MS. KELLY DERKSEN: Yes, that's correct.

MR. BOB PETERS: Because Mr. Sanderson forecasts what that unaccounted for gas will be and because we know he will be wrong, we just don't know by how much and in which direction, what happens to the mistakes in his forecast? Where do they end up?

MS. KELLY DERKSEN: Unaccounted for gas cost is treated as all other gas costs on our system are treated and that is that they are subject to a purchase gas variance account. So, at the end of the day both the company and the customer is kept whole because we track all of the costs with

respect to that particular cost item through the PGVA.
MR. BOB PETERS: And in this case would that be in the distribution PGVA, Ms. Derksen, or gas cost of PGVA?
MS. KELLY DERKSEN: It's a distribution PGVA, sir.
MR. BOB PETERS: Mr. Sanderson was able to tell me the actual amount of the UFG for last year, that is the 2003/'04 year, how soon do you know that, of what -- what the actual's going to be?
Do you have to wait until after the year's finished or do you do -- do you know as you go month by month?
MR. BRENT SANDERSON: Well, we would accumulate actual results as we go month to month but the results for the entire year won't be known until the conclusion of that fiscal period.
MR. BOB PETERS: In my mind, Mr. Sanderson, you forecast what you think the UFG is going to be based on the volumes to be delivered month by month but at the end of the year, you may find out that your receipts and your deliveries are closer than what you intended or that you forecast. Can that occur?
MR. BRENT SANDERSON: Yes, that is true. I think you're referring to the annual accounted for gas true-

up?
MR. BOB PETERS: Yes. Well, and then let's go through that step then. Once -- once the -- you track the month by month and assign a value based on the actual gas consumed in a month but you're still using your forecast of .9 percent as an example?
MR. BRENT SANDERSON: Correct, until such time as we do a calculation to calculate what the actual percentage experienced was. And that would part of the UFG true-up process performed annually.
MR. BOB PETERS: All right. And when you say it's performed annually, it's performed at the end of your fiscal year?
MR. BRENT SANDERSON: Actually there's a little bit of a disconnect between the fiscal period on which the PGVA accounts are managed and the period over which we calculate our actual UFG percentage experienced. There's operational considerations that dictate what period of time is the most appropriate to look at what you're actual unaccounted for experience was relative to forecast.
The percentage that you calculate during the course of a true-up or the actual percentage experienced is still contains somewhat an element of estimation at any point in time. You perform the calculation by virtue of the fact that in any given month at least 50 percent of the cyclic

billings on our customer billing system will be estimate -- estimated rather than actual figures.

So, to the extent that there is a tendency for a cyclical error in those cyclical billings driven by the level of volumes at any point in the year, there is better times to perform that calculation as opposed to other times in the year.

So, our market forecast people have determined that the most appropriate time in the year to perform that UFG true-up calculation is any one of the three (3) months of May, June or July, because that is the time of year where the actual calculation will show the least variability due to extraneous factors.

So, we perform the calculation of our actual experienced over the June to May period so there's a bit of a disconnect between the way that the deferral accounts are managed. But that's the most appropriate point in which to calculate the actual percentage. It will be the closest to the real number that we can get at any point in the year.

MR. BOB PETERS: Thank you for that answer, Mr. Sanderson. Following that answer further, when you true-up in either May, June or July, you are truing-up based on the volumes delivered for the previous twelve (12) months to that point in time, correct?

MR. BRENT SANDERSON: Correct.

MR. BOB PETERS: And you're telling the Board that that may not be the exact same twelve (12) months that were used in your forecast as to the percentage of UFG?
MR. BRENT SANDERSON: Correct.
MR. BOB PETERS: And so, when you do that true-up in either May, June or July, Mr. Sanderson, what happens to -- what -- when you find out how much your forecast was off, what do you do at that point in time?
MR. BRENT SANDERSON: The amount by which the forecast was off is captured entirely in the distribution PGVA account that is active for that fiscal year in question.
So, for example, if we're truing-up from the period June 2002 to May 2003 all of the true-up quantification will be captured in the 2003/2004 PGVA account.
MR. BOB PETERS: Ms. Derksen, back to you. Once the -- once the true-up is done by Mr. Sanderson for the prior year, do you run that back through your cost allocation model then to decide which class will get what refund or what additional charge?
MS. KELLY DERKSEN: Yes, sir. When we make an application before the Public Utilities Board with respect to either a general rate application or a cost of gas proceeding I would rerun the allocation model to incorporate any true-up that was provided -- or provided to me on account

of the unaccounted for gas and that would be incorporated in customers' rates as part of an application before the Board.

MR. BOB PETERS: Ms. Derksen, can you tell the Board what amount is presently before this Board on account of prior years related to the unaccounted for gas true-ups?

(BRIEF PAUSE)

MR. BRENT SANDERSON: If I take you to Schedule 5.1.5(a) dated August 9th on the yellow paper; on line 4 of that schedule you'll see, during the month of June, an amount of one million two hundred and forty-nine thousand five hundred and ninety-six dollars ($1,249,596). So, that is the amount by which UFG was under-recognized during the June 2003 to -- to May 2003 period.

So, it's the additional amount of unaccounted for gas outflows from the primary and supplemental PGVA accounts that we were -- that we're required to book in response to the actual figure that we calculated at that point in time.

MR. BOB PETERS: Mr. Sanderson, that was part of the information you told the Board existed in Schedule 750 which was the total amount of the $5.136 million for the test year?

MR. BRENT SANDERSON: It makes up part of that figure, yes.

MR. BOB PETERS: Ms. Derksen, in turning to Schedule 7.7.7 you have now taken the $5.136 million that Mr. Sanderson and I spoke of and you have had -- you have allocated that to the various customer classes; am I correct?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Sorry, Mr. Peters, there was a little bit of confusion there. The amount of the UFG true-up, would not be incorporated as part of Schedule 7.7.7. Those schedules provide the UFG on a forecast basis and the allocation there -- thereof.

The schedule that you would need to refer to if you were looking to find the prior period UFG amounts, because those are incorporated in a PGVA account, they are disposed of through a rate-rider and you can look to Schedule 8.4.0 at the bottom of that particular schedule, line 46, you'll find the distribution PGVA.

The total there, including carrying costs, is $1.50 million -- five (5) -- 5 million and that amount exactly ties to Mr. Sanderson's schedule of 5.15(a), which of course has embedded in it, the UFG true-up.

MR. BOB PETERS: You're also then telling the

Board, Ms. Derksen, that Schedule 7.7.7 is your forecast into the future; it doesn't contain the past actuals?

MS. KELLY DERKSEN: That's what I'm trying to tell you, yes.

MR. BOB PETERS: And so when we look at 7.7.7, you have allocated to the various customer classes, $5.136 million, which is forecast to be the unaccounted for gas cost for 2004/'05?

MS. KELLY DERKSEN: Yes, sir, we have two (2) amounts that we're talking about here: one is the forecast of $5.1 million that we are embedding in our base rates, the other is incorporated in the distribution PGVA and that will be recovered from customers through a rate-rider that we're proposing for November the 1st.

MR. BOB PETERS: When the Board looks at the percentage used to allocate the unaccounted-for gas in the test year of 2004/'05, Ms. Derksen, they will see a different percentage than what you used last year, correct?

MS. KELLY DERKSEN: For the forecast for the '04/'05 year, yes, we've applied a different percentage.

MR. BOB PETERS: And the reason you've applied a different percentage is because of the UFG review that Mr. Barnlund undertook to determine, if possible, more accurate information in allocating UFG costs?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And before I leave it, in terms of -- can you tell the Board: How do you treat the prior year UFG that you want to -- that you want to include in the rate-rider? What -- how did -- what percentages did you use? Did you use the percentages from last year or are you using the new methodology?

MS. KELLY DERKSEN: I would have used the prior year's methodology, the two (2) to one (1) weighting, given that those costs accumulated in a period in which the two (2) to one (1) weighting was approved by this Board.

MR. BOB PETERS: Mr. Barnlund, the UFG Study that you spoke of to your Counsel, Ms. Murphy, this morning; the purpose of that study was to allocate the unaccounted for gas costs, based on causation?

MR. GREG BARNLUND: To the extent possible, yes.

MR. BOB PETERS: And why do you suggest you would want to allocate it based on causation?

MR. GREG BARNLUND: Typically, we wanted to take a look at improving our judgment in terms of how we would allocate those costs and the most appropriate way to do that will be to look at the origins of -- of the unaccounted-for gas and make some determination, based on that data.

MR. BOB PETERS: Is the -- is the goal to try to determine which customer or customer class caused the

unaccounted-for gas, and therefore, should be responsible for its costs?

MR. GREG BARNLUND: To the extent that that's possible, yes.

MR. BOB PETERS: And did I gather from your evidence that the last time the Company studied this was back in 1991?

MR. GREG BARNLUND: In 1991 the Company had performed a study on unaccounted-for gas, albeit for a different purpose. At that point in time the Company had experienced an increase in unaccounted-for gas, on an annual basis, from about one point two (1.2) to approximately 1.8 percent, and the Company undertook a significant amount of work at that time to investigate that, and that was the purpose behind the study that was done in 1991.

MR. BOB PETERS: Well, maybe we'll -- maybe, Mr. Meyer, we'll -- can come over here and assist me a bit, but I'll leave that from the history point of view. But was it back in 1991 that you started using the waiting system, the two (2) to one (1) waiting that I believe you referred to a few minutes ago?

MS. KELLY DERKSEN: No, Mr. Peters, the two (2) to one (1) waiting was approved as part of the 1996 Cost Allocation and Rate Design Review.

MR. BOB PETERS: Can you briefly explain to the Board what you mean by two (2) to one (1) waiting?

MS. KELLY DERKSEN: Essentially what we do is, we take up -- we take all of the volumes for each customer class in totality, and we apply a two (2), or a double waiting to the SGS and LGS volumes, and we determine, then, the percentage that each customer is responsible for -- each customer class is responsible for, based on the waiting of doubling the SGS and LGS.

MR. BOB PETERS: At the time you did the UFG report, Mr. Barnlund, had you at that time determined -- you felt you already knew approximately where 40 percent of the UFG was -- where the responsibility lay?

MR. GREG BARNLUND: At the outset, we took a look at the 1991 study to see what we could use from that study and it was useful in that it had a comprehensive review of a number of the causes of unaccounted for gas.

However, we also expected that there had been significant changes -- or changes that had occurred since then in terms of our system that would need to be taken into consideration.

So, while it was a starting point, we essentially had to redo most of the work that was involved.

MR. BOB PETERS: In the study that you prepared for the Board, and I know it's part of your -- your

evidence under Tab 7, Attachment 1, Mr. Barnlund, but it appears that you have determined that UFG has three (3) causes; one was measurement, the second was physical loss and the third was accounting factors?

MR. GREG BARNLUND: That is how we summarized it, yes.

MR. BOB PETERS: Have you cast your eyes abroad and looked beyond Manitoba to see if there are other causes that other jurisdictions have found?

MR. GREG BARNLUND: We've reviewed a couple of studies that were performed in the -- in other jurisdictions and we're satisfied that we have identified the contributing factors that are appropriate to our system and our operation in Manitoba.

Some of the other studies that have been done in the past obviously took into consideration the characteristics of the specific utilities that were being studied and in those cases they had additional requirements to study topics that we don't -- that we don't have.

In other words, customers -- or some other utilities may have producers in their area delivering gas onto the system and have to take that into consideration and -- and we don't have that to take into consideration on our system.

MR. BOB PETERS: So, you've concluded that

measurement, physical loss and accounting factors are the only three (3) possible causes for unaccounted for gas on the Centra gas system?

MR. GREG BARNLUND: Essentially, at a high level, those are how we'd summarize them. There's obviously a number of different factors underneath of that that we have looked at and taken into consideration. But to the extent that we feel that's the -- the extent of the known factors that would contribute, yes.

MR. BOB PETERS: Is it also correct that even having done your study you now still have 45 percent of unaccounted for gas that you cannot fix the cause or identify the cause of?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And would it be correct then that your UFG study upgraded your confidence in being able to assign responsibility for the causes of UFG from 40 percent, as was the previous case, up to 55 percent in the current case?

MR. GREG BARNLUND: I think so.

MR. BOB PETERS: And of the 55 percent of the unaccounted for gas for which you can reasonable assign a cause, 69 percent was related to measurement?

MR. GREG BARNLUND: I believe that's the case. Yes.

MR. BOB PETERS: And then for physical loss, I wasn't sure in your evidence, it was somewhere between 5 and 10 percent or do you have a more specific number?

MR. GREG BARNLUND: I think that the identified portion we concluded was around 12 percent; so 12 percent of the 55 percent that we identified. I think that if you extent that out over 100 percent of the unaccounted for gas, it would be somewhere between five (5) and 10 percent.

MR. BOB PETERS: And that leaves the balance to the accounting factors?

MR. GREG BARNLUND: Of the identified, yes.

MR. BOB PETERS: All right. I don't want to get too in depth on them, but let's just turn to those three (3) specific causes for a -- for a few minutes. And you said in your answers to Ms. Murphy that gas measurement is complex due to the physical nature of the -- the product you're working with, with the commodity of natural gas?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And I understood you to say that it's atmospheric pressure and temperature can affect the actual amount of energy that's contained within a given volume of gas?

MR. GREG BARNLUND: The volume of gas that we bill to customers has to be corrected to a standard as

identified in the Electricity and Gas Measurement Act and the accompanying regulations.

So, we have to take and account for that, yes.

MR. BOB PETERS: Well, let's be clear to the Board, you buy gas based on heat units and you sell it based on volume?

MR. GREG BARNLUND: Essentially we do. Although TransCanada Pipelines, in reality, measures onto our system in volume and then calculates energy by applying daily heat unit value.

MR. BOB PETERS: In that process, Mr. Barnlund, is there room for error?

MR. GREG BARNLUND: Not to the extent that we are comparing volumes from TransCanada with volumes delivered off of our system.

MR. BOB PETERS: So, in the conversion from energy units to volumetric units, that -- if there is any error in that, that falls on the TransCanada Pipeline of the -- the equation?

MR. GREG BARNLUND: Maybe better put would be to say that when we do an unaccounted for calculation, TransCanada reports to us volume and energy and we would be looking at the volume that they are reporting as delivered to us as the reference that we would calculate our unaccounted for off our system.

MR. BOB PETERS: In sticking with the measurement concerns or as a source of unaccounted gas, Mr. Barnlund, you use metres and that's the only way you measure the volume of gas?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And you use metres when you take it off of TransCanada Pipeline from what I just understood from your second last answer? And then you also use the metres on the -- on the customer's place of business or residence to measure what sales you've made to those customers?

MR. GREG BARNLUND: I think I should clarify that TransCanada is the entity that measures the gas onto our system, not us. The custody transfer occurs with TransCanada's meter onto our system. But certainly when we deliver off of our system to customers, those are our my meters, yes.

MR. BOB PETERS: That clarification just leads me to another question, Mr. Barnlund. What act -- what degree of confidence does Centra have in the accuracy of the TCPL meters?

MR. GREG BARNLUND: We examine that issue quite extensively and we concluded that at this point that the accuracy must be fairly good because we -- we could not track down any large amount of error in terms of their

billings to us. We examined quite specifically, some of the data that they use in calibrating their temperature and pressure correction at all of their stations -- sorry, at the seven (7) largest stations they deliver onto our system.

We looked at five (5) years worth of history from there and analysed it and found that there really wasn't a great deal of -- of influence in terms of the accuracy from that. We also reviewed our billings and invoicing we received from TransCanada and we have virtually no cases where we've had an out of range issue that has required a billing adjustment from them. So, our study assumes the accuracy to be reasonably good from TransCanada.

MR. BOB PETERS: Reasonably good implies that it's not -- it's not precise and it's not 100 percent accurate?

MR. GREG BARNLUND: I would submit that there's no meter that's 100 percent accurate.

MR. BOB PETERS: And if that's the case, how do you monitor the degree of accuracy with respect to the volumes you get from TCPL if you know that they're meter isn't 100 percent accurate?

MR. GREG BARNLUND: We would monitor their deliveries onto our system and for the most part we do have check-metering equipment at our facilities that are adjacent -- located adjacent to their plant -- or to their facilities.

And we would be monitoring the results of our check-metering against their custody transfer metering to determine if they were tracking in the same direction and that if we do see during the day for example, that of the previous day there may be some discrepancy between the two (2) check-meters or between the check-meter and the custody transfer meter we would contact TransCanada and have that problem looked at very quickly.

MR. BOB PETERS: Do I gather from that answer that you monitor it daily?

MR. GREG BARNLUND: I'm not really aware of the specifics in terms of how we monitor but I know we keep a very close eye on it.

MR. VINCE WARDEN: Mr. Stephens has confirmed that it is daily.

MR. BOB PETERS: Thank you, Mr. Warden. In terms of meter accuracy, Mr. Barnlund, I take that is impacted by many factors one of which would be the mechanical accuracy?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: Is that simply wear and tear on a meter?

MR. GREG BARNLUND: It may be wear and tear. It may be the -- every meter itself as a -- as a manufactured device will have some amount of bias that it will operate at.

In other words, you can never expect to have any two mechanical devices calibrated exactly the same.

MR. BOB PETERS: How often do you calibrate meters?

MR. GREG BARNLUND: In terms of the -- I guess, the base meter that gets installed when we connect a customer, depending on the type of meter, that is governed by our measurement compliance program and our metering compliance program that we conduct under the view of the -- of Measurement Canada.

So, for example, we would install -- calibrate meters when they get installed and then according to our measurement compliance program we would periodically take those meters out of service and bring them in and re-calibrate them and -- and put them back in service.

MR. BOB PETERS: What standards have to be met, Mr. Barnlund?

MR. GREG BARNLUND: I'm not aware of the -- there's a -- a number of -- of -- it's an entire compliance program that we have where, for example, with residential small volume meters we have the capability of going out and sampling meters, bringing them in and testing them.

If those samples pass the test, according to the criteria that's been established with Measurement Canada, then we can extend the seal date on that group of meters in

the field. In other words, they can remain in the field for that much longer.

Other meters, such as some of our large volume meters will have a finite seal date to them so that we may have a six (6) or seven (7) year period where we would have to bring them in for calibration after that point in time.

However, you know, there are more components on our -- some of our large volume meters, for example, we have components that sense temperature, sense pressure and -- and correct for that.

And we would be doing calibration on those devices more frequently than six (6) or seven (7) years.

MR. BOB PETERS: From that last answer, Mr. Barnlund, it seems that pressure and temperature also affect the accuracy of your meters?

MR. GREG BARNLUND: It would be the -- the ability to sense pressure and temperature and correct for it would -- would, in the end, affect the accuracy.

MR. BOB PETERS: All right. The ability to sense the pressure and temperature does not exist on your SGS class and your LGS meters, does it?

MR. GREG BARNLUND: In a way it does. The smaller volume customers, the diaphragm meters that are used have an internal temperature sensing device that is like a bimetallic coil that will sense the temperature of the gas

that goes past it and will adjust the index reading accordingly to compensate for temperature.

There's no discrete compensation made for pressure because we have an appliance -- or sorry, a service regulator that maintains a certain pressure through that piece of measuring equipment and -- and we use a fixed factor in the billing system that takes that into consideration.

MR. BOB PETERS: And we'll probably talk a little bit about that later in these proceedings but, in terms of the fixed factor for pressure zones, I think you presently have three (3) pressure zones in the province and you're applying to the Board, or have applied to the Board, to get a fourth pressure zone added?

MR. DARREN RAINKIE: The fourth was added in, I think it was, Order 44/04 on an interim basis and looking for finalization of that in this Proceeding.

MR. BOB PETERS: And, Mr. Rainkie, thank you. That fourth pressure zone that you've added is to take into account that you have now expanded the system by purchasing the assets and the customers of the -- or the assets in any event, and have the customers from the Gladstone Austin Natural Gas Co-op?

MR. DARREN RAINKIE: That's correct. When we purchased them we found that we had a -- we had a hole in our -- between two different categories there was a bit of a hole

there so we plugged it with that application.
MR. BOB PETERS: And because I understand Mr. Barnlund telling us that there's no pressure adjustment in the LGS and SGS meters, whatever degree of variance there occurs in those classes would be one of the sources for UFG?
MR. GREG BARNLUND: Some of these customers -- some of the LGS customers will have more sophisticated metering -- that we do have actual pressure sensing and compensating equipment.
But it's going to be some -- there's going to be some effect involved, yes.
MR. BOB PETERS: All right. Just to conclude on these meters, what I think I can take from your evidence is that you're prepared to acknowledge all meters have inaccuracies; am I correct there?
MR. GREG BARNLUND: Yes.
MR. BOB PETERS: Some are more accurate than others?
MR. GREG BARNLUND: Yes.
MR. BOB PETERS: And while I will come to some of the issues relating to the special contract customer: Do you have any meters on your system that are more accurate than those used by the special contract customer?
MR. GREG BARNLUND: No.
MR. BOB PETERS: The second source of

unaccounted for gas that you speak of in your evidence is that of physical loss, if I understand it; is that right?

MR. GREG BARNLUND: We do talk of physical loss, yes.

MR. BOB PETERS: And I know you -- you break it down into some -- to some three (3) categories and you talk about fugitive emissions; what are those on the system?

MR. GREG BARNLUND: Fugitive emissions would be leakage, if you would, that would occur from service lines, meter sets, pressure regulating stations and any other pipeline that we would have.

MR. BOB PETERS: These are emissions that are leaking throughout the year and you have no way of determining that they're leaking?

MR. GREG BARNLUND: Generally, very -- at a threaded connection you may have a very small leak that's going to emit some gas over the course of the year, yes.

MR. BOB PETERS: Just help me with that. Every time the gas pipe has threads on it and you connect it to another pipe, there's a source of leak at that connection?

MR. GREG BARNLUND: There would be a potential source of leak.

MR. BOB PETERS: Okay. And that's what you call "fugitive emissions"?

MR. GREG BARNLUND: Occurring from those

types, yes.
MR. BOB PETERS: You also list "vented gas" as a type of physical loss; what do you mean by "vented gas"?
MR. GREG BARNLUND: In the normal course of operation there may be some gas that's vented off or -- or -- or relieved to the atmosphere. For example, if we have a break in the line -- a third party hit on one of our lines and we have to go out to repair it. We may isolate that leak and have to blow down a part of the system, for example, to be able to make the line in a state that we could work on it.
In addition, we have some of our controls, for example, may vent some gas in the course of their operation. It's small but, you know, it does -- it's part of their function.
MR. BOB PETERS: Would I be correct in assuming that that gas is never -- is not metered or measured?
MR. GREG BARNLUND: That's correct.
MR. BOB PETERS: Would it be estimated?
MR. GREG BARNLUND: Yes.
MR. BOB PETERS: And this would be by, perhaps, a foreman at the job site who would tell one of your engineers how many seconds they vented it? Or how do you -- how do you have some accuracy on the -- on the measurement of the vented gas?

MR. GREG BARNLUND: The work that's been done on analyzing that is related to our filing of information through the Voluntary Challenge Registry and that's the greenhouse gas emissions registry that I spoke of before.

And our engineering staff will take a look at this data in a -- over the course of the year and will, in the course of preparing that submission, will have analysed that.

MR. BOB PETERS: The last source of physical loss that you list in your evidence, Mr. Barnlund, is that of company use; can you explain that to the Board?

MR. GREG BARNLUND: Specifically, I think we're referring to the established of line-pack in the system so it's not a loss through an escape of gas. But it's the amount of gas that's required to pressurize and make serviceable a new piece of line that's put in the ground.

In other words, if we extend, you know, a new service line into a residence, obviously when you build the line and you -- you've got air in the line to begin with, you have to purge that line out with gas. Then you have to introduce enough gas to bring it up to the working pressure of, let's say, fifty/sixty (50/60) pounds per square inch before you can begin delivering gas to that customer.

So, that gas that gets introduced to that line is never -- you know, it's -- it's never sold. It has to be

there. So, there's going to be some component that eventually makes its way into the accounting for unaccounted for gas or it gets caught up in unaccounted for gas that is related to that gas being used.

MR. BOB PETERS: All right. Thank you. One of the sources of physical loss that you haven't mentioned is that of gas theft. And I recall, not too long ago, Mr. Warden and I were talking to your colleagues on the electrical side of the Utility and, I think in a lighter moment, we referred to hydroponics and grow operations and theft of electrons, but is there actual theft of molecules of natural gas?

MR. GREG BARNLUND: It's a topic we certainly looked at and there's really two (2) ways that we would experience theft of gas. One of them would be very difficult and is almost -- I don't if it's ever occurred on our system. Somebody would actually have to dig up our pipe and weld on a hot connection and -- and try and take gas off of our system before the meter; not likely to happen because it's pretty dangerous.

The second situation that might occur would be when we have a customer for example who may be locked off. And the meter and the regulator are still there but we have a valve that's shut before that that has a -- a locking device in it to prevent customers from taking that service.

On occasion you may have somebody break that lock and turn the service on, activate it. But we have dis -- discounted that as being a contributor to unaccounted for gas because those meters do get read. They may not be read every month but they're usually checked on at least every second month.

And in doing that, we would obviously have some meter reading that would occur that would eventually then be put through the billing system and you know, the customer on the end of that line would be expected to pay for it.

MR. BOB PETERS: All right. Thank you, Mr. Barnlund. The last of the three (3) causes of unaccounted for gas you list as accounting factors, correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And as I understood this there's a couple of components. One was that you have cyclical billing and that you may have an accounting mismatch in terms of timing as to when gas was received by you and when it was sold to a customer and ultimately billed to the customer. Is that the -- the one discrepancy?

MR. GREG BARNLUND: That is, yes.

MR. BOB PETERS: And that's a timing issue?

MR. GREG BARNLUND: Essentially we would assume that's a timing issue, yeah.

MR. BOB PETERS: Could it be anything else?

(BRIEF PAUSE)

MR. GREG BARNLUND: We would assume that that -- that the cyclic billing aspect of it would indeed balance out over time.

MR. BRENT SANDERSON: That would be the situation that I described where we choose the months of either May, June or July to perform the unaccounted for true-up because those timing influences would have the least amount of impact on the calculation at that point in time during the -- during the year.

MR. BOB PETERS: And in your -- in your billing to customers you also use estimated bills for some customer classes?

MR. GREG BARNLUND: Yes, we do.

MR. BOB PETERS: And does that -- is that a source of, again, some accounting issues or error that would result in UFG?

MR. GREG BARNLUND: It can be in that if you have accounts that are estimated across the -- the time period that Mr. Sanderson refers to where you cut off your -- your books for the unaccounted for gas true-up your estimates may be low or high. And so you may have actually delivered

more or less gas that would only become known in the next UFG period.

MR. BOB PETERS: Also in customer billing policies you may write-off customer accounts or you may make some concession to customers in -- in your customer service department?

MR. GREG BARNLUND: It would be specific to either meter failures or slow meters. And that what we would do in those cases, once we discover that a meter at a customer's location is either quit running or is running slow, our billing people will prepare an estimate of the consumption that was under-billed.

And upon completion of that estimate they usually provide a concession of 10 percent to the customer. In other words, if we had an estimate of a hundred (100) units of gas that under-billed to a customer, we would, in essence, present them with a bill for ninety (90) units for that period.

MR. BOB PETERS: Mr. Barnlund, if you could turn in that Book of Documents that I had circulated on the first day of the Hearing, to Tab Number 16 and for Mr. Gretener's benefit and his -- his client's, there was a Book of Documents that was just for ease of reference in the materials that had been prepared. Only this morning have I provided Mr. Gretener and his clients with a copy of it.

But I'd like to draw the witness's and the Board's attention to Tab 16.

Mr. Barnlund, if I asked you to prepare a summary of the unaccounted-for gas study, your study would have resulted in a summary -- I'm sorry, your summary would be as depicted on this sheet at Tab 16?

MR. GREG BARNLUND: I believe so. I've looked at the numbers and they appear to be all consistent with the numbers indicated in our work.

MR. BOB PETERS: All right. And, Mr. Chairman, what Mr. Barnlund is politely referring to is, this is a worksheet that was not prepared by the Utility, but was prepared by the Board advisors, and submitted.

I'd ask it to be marked as an Exhibit in the Proceedings, and if there's any explanations or corrections or revisions that the Corporation wants to provide to it, I'd certainly be amenable to that, but we'll -- we'll take it as correct unless there is further issues from them.

THE CHAIRPERSON: Ms. Murphy, are you okay with that?

MS. MARLA MURPHY: Yes, we are.

THE CHAIRPERSON: So, be it.

MR. BOB PETERS: Having said that, Mr. Chairman, I will suggest that it be marked as PUB Exhibit 8.

--- EXHIBIT NO. PUB-8: Worksheet of the Unaccounted-for Gas Study, prepared by the Board Advisors, being Tab Number 16 in the Book of Documents.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Barnlund, if you can just help me explain to the Board what your Study, in summary, shows. At the top part of the page under the heading of Metering, there are many -- there are six (6) sub-categories of metering in terms of accuracy, barometric pressure, base pressure, super compressibility, pressure factoring and gas temperature, correct?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And your study was to look at those metering factors, to see which of those could have led to inaccuracies in the volumetric receipts and deliveries of the company, that would lead to the UFG?

MR. GREG BARNLUND: Correct.

MR. BOB PETERS: And what you have done is you have, by class, assigned amounts under those various sub-headings that the Corporation feels from their study they can assign or affix responsibility to, in terms of customer class?

MR. GREG BARNLUND: Yes.

MR. BOB PETERS: And you've done the same under physical loss, both on the transmission and the distribution system?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: And then under the sub-total of accounting, you've had -- you have some accounting issues that you again assign responsibility to, in this case, only to the SGS and the LGS class?
MR. GREG BARNLUND: Yes, sir, that's correct.
MR. BOB PETERS: All right. And what you also, then, if we -- if we add up the total identifiable UFG by customer class, and carry that across, that would be the twelve thousand four hundred and ninety-two (12,492) 10-3-M-3s, that you are forecasting in the test year?
MR. GREG BARNLUND: Well, it's not what we're forecasting in the test year. This -- the twelve hundred (1,200) -- sorry, twelve thousand four hundred and ninety-two (12,492) 10-3-M-3s, is the amount of UFG that we can identify, based on our study.
MR. BOB PETERS: Sorry, that is the identifiable portion of the UFG that you have identified?
MR. GREG BARNLUND: That is correct.
MR. BOB PETERS: I will come back to that, Mr. Barnlund, but in total, this Summary on Exhibit PUB 8, shows 55 percent of your UFG forecast being assigned to

various customer classes in terms of responsibility?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: And not only do you assign 55 percent responsibility, as you show on this summary, but Ms. Derksen, you use the same percentages and apply that to 100 percent of the UFG, even though you're only sure where 55 percent of it is -- is originates?
MS. KELLY DERKSEN: Yes, sir.
THE CHAIRPERSON: Mr. Peters, would this be a suitable time to have a break?
MR. BOB PETERS: Yes, it would, Mr. Chairman, thank you.
THE CHAIRPERSON: Come back at twenty-five to 11:00. Thank you.

--- Upon recessing at 10:21 a.m.
--- Upon resuming at 10:41 a.m.

THE CHAIRPERSON: Whenever you're ready, Mr. Peters.
MR. BOB PETERS: Yes, thank you.

CONTINUED BY MR. BOB PETERS:
MR. BOB PETERS: Mr. Barnlund, I'd like to turn my line of questioning, specifically with respect to --

and turn towards the special contract customer class.

And it's a matter of the public record in this Proceeding and in Manitoba that there is one (1) and only one (1) customer in that special contract class; is that correct?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: Mr. Chairman, I just want to indicate to the Panel and to the Board that in my line of questioning I'm only asking questions where I am seeking answers that are already on the public record. I'm not looking for any confidential customer or client information.

So if I ask questions that would require the divulging of that information, I'm not asking for that to be put on the public record.

In terms of PUB Exhibit Number 8 which is found at Tab 16 of the book of documents, and it's the work sheet that we've marked, if we turn to the special contract customer class, it's the third column from the far right, Mr. Barnlund, when I look at all of the different -- of the three (3) different categories you told the Board about and all of the sub-categories you told the Board about, I see that you only assign responsibility to the special contract customer class on three (3) of those areas?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And one (1) of those areas appears to be a negative adjustment if -- if I understand the

evidence correctly?
MR. GREG BARNLUND: Yes, that's correct.
MR. BOB PETERS: Does a negative adjustment, when you're talking about unaccounted for gas, mean that it's a gas gain that you've located on the system?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: All right. Can you explain to the Board how that could possibly occur or why that result would occur?
MR. GREG BARNLUND: Yes. This issue of the gas gain is related to the different base pressure and temperature conditions that Centra uses to describe a cubic metre of gas versus those used by TransCanada Pipelines to describe a cubic metre of gas.
And both are allowable under the Electricity and Gas Measurement Act and regulations but one (1) originates in the metric or SI form of units and the other originates in the Imperial. Centra has always used the Imperial measure in our billing system and in our metering.
And TransCanada uses the metric description of the cubic metre. The difference between the two (2) when you restate TransCanada's deliveries onto our system, results in a gain of approximately .04 percent for each cubic metre.
MR. BOB PETERS: And how have you then put that through to the various classes?

MR. GREG BARNLUND: That adjustment would be applicable to every cubic metre delivered from TransCanada onto Centra's system and, therefore, is reflected on a unweighted volumetric basis.

MR. BOB PETERS: Mr. Barnlund, in your revised information to this Board on August the 9th, you told the Board that you revised the volumes for the special contract customer class; correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And, Ms. Derksen, even though you have revised the volumes, the allocation percentage of the unaccounted for gas that you are proposing this customer class pay remained unchanged; is that correct?

MS. KELLY DERKSEN: Yes, Mr. Peters. When we were preparing this unaccounted for gas study we included volumes for this particular customer that are based on a normal year. So we accounted for the fact that in any given year this customer consumes in the neighbourhood of four hundred and twenty thousand (420,000) 10-3-M-3s .

MR. BOB PETERS: So by updating the volumes, Ms. Derksen, that just had the impact of reducing the unit rate?

MS. KELLY DERKSEN: There are a couple of impacts by updating the volumes. First of all, the more volumes that you expect to take through the system, the more

that you can anticipate unaccounted for gas to be for the year.

So, in addition to the unit rate dropping for the special contract class, that's another result as well.

MR. BOB PETERS: But I understood the answer -- that when Mr. Barnlund calculated, in particular, this -- this negative adjustment on unaccounted for gas or gas gain, I suppose, which volumes were used and I understood the answer to be normalized or normal volumes which you -- you've indicated, Ms. Derksen, is about four hundred and twenty thousand (420,000) -- sorry, four hundred and twenty thousand (420,000), four hundred and ninety-nine thousand (499,000) cubic metres?

MS. KELLY DERKSEN: It's four hundred and twenty-thousand (420,000) 10-3-M-3s, I believe, per year and that's what we included in each of the components through our unaccounted for gas study.

So -- but you have to recognize that the unaccounted for gas study is -- is -- is exactly that. It's -- it's not a forecast of what we expect to incur in terms of unaccounted for gas costs for the 04 -- 04/05 year.

And so increasing Simplot -- Simplot's volumes as part of the update on August 9th would increase what we expect, or what we forecast for unaccounted for gas to be for the '04/'05 year.

MR. BOB PETERS: You're telling the Board that you would increase the absolute total amount that you had forecast because their volumes were in essence doubled?
MS. KELLY DERKSEN: Yes.
MR. BOB PETERS: And the increase would be multiplied by the same .9 percent that we spoke of earlier this morning?
MS. KELLY DERKSEN: Yes.
MR. BOB PETERS: All right. When we looked again at PUB Exhibit Number 8 and we go down three-quarters of the way down the page and find the total percent identifiable and move over to the special contract customer class, you have put into percentage form, I suppose for the accountants on the Panel, and not the dollar amount, the -- the 5.7 percent as being the amount that you want to allocate to the special contract customer on account of unaccounted for gas?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: And the other customer classes, the percentage is -- is the -- is as shown again on the schedule, Mr. Barnlund?
MR. GREG BARNLUND: Yes, those would follow.
MR. BOB PETERS: And this 5.7 percent that you want to use in allocating unaccounted for gas to the special contract customer, that's not only for the 55 percent

that you can identify but it's also for the 45 percent that you cannot identify?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: All right. In terms of -- last time this matter was before the Board, Ms. Derksen, the allocation to the special contract customer was 12.8 percent of UFG on the system, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And in fact, in the rates that are being charged to the special contract customer today, they are paying 12.8 percent of the cost of UFG?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And in terms of quantifying it, I suppose we can do the math, but you've shown us in your allocation tables, Ms. Derksen, that you're proposing that the special contract customer class now be responsible for two hundred and ninety-two thousand seven hundred and seventy-eight dollars ($292,778)?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Mr. Barnlund, do you agree that the special contract customer is -- is unique?

MR. GREG BARNLUND: I'd say that, yes.

MR. BOB PETERS: It's unique enough that it has its own special rate design mechanism?

MS. KELLY DERKSEN: Mr. Peters, I -- I would agree that the special contract customer is unique in a couple of respects.

Number one (1) is with respect to the type or the load factor and the consumption level that they take. In addition, I think they're unique in terms of being metering facilities on -- on their particular property.

MR. BOB PETERS: In your cost allocation of other costs, Ms. Derksen, you assign some cost directly to this customer class; is that correct?

MS. KELLY DERKSEN: We do attempt to directly assign costs where we can, yes.

MR. BOB PETERS: You attempt to directly assign costs where you can determine cost causation rests with that customer class?

MS. KELLY DERKSEN: When I can specifically identify as a cost belonging to a particular customer or group of customers, I will assign it to that particular class, yes.

MR. BOB PETERS: And you understand do you, that the special contract customer wants cost causation used in respect of allocating UFG?

MS. KELLY DERKSEN: I understand that is their position, yes.

MR. BOB PETERS: And their position is that

if a customer's responsible for certain costs, that customer and no one else should pay for those costs?

MS. KELLY DERKSEN: I understand that position, yes.

MR. BOB PETERS: All right. And attached to Mr. Hawk's pre-filed evidence and also found in Simplot/Centra-19(a), is a schematic and there's Attachment 1 of 2 and Attachment 2 of 2. If you could locate that and I provided copies to the Board and if the --

MR. GREG BARNLUND: I have that.

MR. BOB PETERS: This document, Mr. Barnlund, Attachment 1 of 2, is that the schematic of the transmission system from TCPL through to Simplot's plant in Brandon?

MR. GREG BARNLUND: Attachment 1 of 2 shows the transmission lines that originate at TransCanada Pipelines and pass through Brandon City Gate Number 1 and continue down to Brandon City Gate Number 2 and they would leave City Gate Number 2 and be mapped, in terms of their path, on Attachment 2 of 2.

MR. BOB PETERS: So, Attachment 2 of 2 is just a continuation on from Brandon City Gate Number 2 at 17th Street East?

MR. GREG BARNLUND: Yes, sir, it is.

MR. BOB PETERS: And what you're showing the Board is that from the south side of Brandon, if that's at

the south side of Brandon, you're showing the Board that from City Gate Number 2, it goes on to southern Manitoba?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And that's where you referred to these additional sixteen hundred (1,600) customers in your evidence this morning?

MR. GREG BARNLUND: Yes, sir, that's correct.

MR. BOB PETERS: Is there any dedicated pipeline specifically to the special contract customer?

MR. GREG BARNLUND: Outside of the service line that runs onto their property, there were not.

MR. BOB PETERS: Is the special contract customer served by all of these transmission pipelines, or just one (1) of them?

MR. GREG BARNLUND: They receive service off of a portion of the pipeline that is not odourized and there is, at times, three (3) different pipelines that are interconnected together to provide that capacity in some fashion -- that -- they receive a part of that capacity.

The Brandon Generating Station is also served off of that system, receives part of the capacity, and the remainder of the capacity would be used to serve those customers further south of Brandon.

MR. BOB PETERS: Is the system capable of being modified so that there is a dedicated service to only

this customer?
MR. GREG BARNLUND: That's probably an engineering question, which I am not in a position to answer, but I'm not -- I will leave it at that, I guess.
MR. BOB PETERS: You're not aware as to how, if at all, the system could be modified to have a dedicated service to this customer?
MR. GREG BARNLUND: Nor would I understand why we would do that.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Barnlund, one of the possible other allocators that has been proposed is the percentage of Centra's undepreciated plant or rate base, represented by the replacement value of the assets being used by this customer. Do you understand that request?
MS. KELLY DERKSEN: I understand the proposal, yes.
MR. BOB PETERS: And in your evidence this morning, I wasn't clear on why you felt this was an inappropriate allocator?
MS. KELLY DERKSEN: Mr. Peters, a gas utility typically has three (3) drivers of costs: The first driver of costs would be the number of customers on your system, the

second driver of costs would be a commodity or the amount of volume that a customer or customers on your system would consume, the third driver of costs would the amount of demand or the -- the peak usage of -- of your customers on the system.

Recognizing that those are typically the drivers of costs in a gas utility of which Centra is no different there is no direct correlation to total amount of rate base or undepreciated plant, to the way that those types -- that unaccounted-for gas cost would be incurred, and so I don't think it is a preferable approach to allocate costs on that -- on that basis as a result.

MR. BOB PETERS: From that answer I distill you saying to the Board that there's no correlation between the amount of the undepreciated plant's replacement cost and the sources of UFG?

MS. KELLY DERKSEN: That's what I'm saying.

MR. BOB PETERS: And the sources of UFG are the three (3) that we reviewed earlier this morning and that was the metering, the physical loss and the accounting issues?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Is the use of this allocator of -- as suggested by Mr. Hawk any better or any worse then the waiting system that you had used prior to this proposal?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think if I had my druthers and I had to choose between the two (2) I would continue to choose the 2:1 weighting for a couple of reasons. First of all, it was derived out of a 1991 study of unaccounted for gas costs.

Of course there was some judgment in making the determination of the 2:1 weighting. It recognized -- it does recognize volumes which is a driver of costs in a gas utility and it -- it also recognized that our smaller volume customers in the SGS and LGS class have a greater number of meters number one (1), and number two (2), that they are billed on a cyclic basis.

So, from those number of perspectives, I think that would be a preferable approach.

MR. BOB PETERS: Do you dispute the numbers or the calculations that have been provided by Mr. Hawk and that is the undepreciated plant's replacement cost would be in the neighbourhood of $10 million and that would translate to responsibility for 2.8 percent of the rate base from '03/'04?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peters, I -- I have seen reference to the $10 million that they are referring to. I was provided a document last fall, I believe, and I had our engineering people review it for -- for accuracy and based on a cursor -- cursory review from -- from them, they couldn't discount it as a possibility of the -- the value of that particular plant.

So, I don't have any reason at this point, although I haven't looked at that information in quite some time, to dispute that.

MR. BOB PETERS: All right. And just to leave this point, Ms. Derksen, I take it from your answer that to use the allocation methodology that Mr. Hawk suggests would assume that unaccounted for gas arises equally throughout every dollar you spend on your rate base?

MS. KELLY DERKSEN: Yeah, I believe that's the -- the implication of that statement. Yes.

MR. DARREN RAINKIE: And also note, Mr. Peters, that rate base is a historic depreciated cost, it's not a replacement value cost. So, that that proposal's taking a replacement numerator and dividing by a depreciated denominator so, I'm not sure what that calculation even proves.

MR. BOB PETERS: Thank you, Mr. Rainkie, I'll think about that. What you're really telling the Board is

that to figure out what is the undepreciated plant and then put it into replacement cost is a calculation that the Corporation doesn't do and you're not sure it's a meaningful number at the end of the day in any -- in any event?

MR. DARREN RAINKIE: That's right, Mr. Peters. We didn't propose this but I'm not sure what taking a replacement value divided by an historic depreciated value really -- really means in the end. Of course, that's not our evidence so ...

MR. BOB PETERS: I understand that. In your evidence though, Panel, you come up with the measurement based -- identified source of UFG by using a case that is a high -- labeled a high case; is that correct?

MR. GREG BARNLUND: The -- I think we outlined our approach and it's been referred to in the past as the high case.

MR. BOB PETERS: And you didn't use a base case to develop your numbers?

MR. GREG BARNLUND: For the reasons that I stated in my direct evidence this morning, to just simply take an average of the numbers and go forward with that would be to ignore the other significant influences that would affect the real world results in terms of that measurement.

MR. BOB PETERS: And in -- in mathematical terms though, Mr. Barnlund, if you used a base case in your

methodology there would be a -- a gain not a loss on a system?

MR. GREG BARNLUND: For some classes, yes.

MR. BOB PETERS: So, even though the base case came out one way, the case labeled high came out another, it then took use of your judgement to determine which of those two would be the more appropriate? Would you agree with that?

MR. GREG BARNLUND: Well, I think that in actual fact we did not set out developing the base case or a high case or a low case to begin with. We followed the process that we've described in our evidence and in our information request responses where we looked at the available meter data and realizing that we had a limited set of data that didn't represent all of the system -- the measurement system that is being to work that we had to make some type of -- take that into consideration and make some type of judgement in terms of the -- the data itself.

And we also did a lot of research into how those meters are actually being used in the field. In other words, we examined eight thousand seven hundred and sixty (8,760) hours worth of meter data for over a hundred (100) customers and mapped that out and found that to simply apply the mean average accuracy would not be appropriate because a large number of those meters from time to time throughout the

year will be flowing gas at capacities underneath of the tested capacity that the accuracy was arrived at.

And in some cases we found unfortunately there are some meters that potentially could be passing gas without recording any measurement whatsoever.

Now, that's a result of having to design enough metering capacity to be able to serve the peak needs of those customers. And you have to be able to put enough metering in place to be able to make sure that they have the flow to be able to meet their peak needs.

So, it's a compromise that results in a contribution to unaccounted for gas but we reflected that in terms of our analysis.

MR. BOB PETERS: Were there any other factors that went into that subjective determination, Mr. Barnlund?

MR. GREG BARNLUND: Well in -- in addition to that by moving off of the mean to one (1) standard deviation or two (2) deviations away from it, it's also reflective of the fact that pressure and temperature compensation have a significant impact in terms of your measurement results and the accuracy of your measurement.

And we don't have specific data available that allows us to perform the complex calculations in addition to the analysis that we've done to be able to quantify that to a higher degree of precision. So, knowing that's the case, we

also use that -- the understanding of that in terms of arriving at the -- the selection of one (1) or two (2) standard deviations below the mean.

MR. BOB PETERS: Thank you, Mr. Barnlund. When we -- we talk about measurement of the -- of the gas for Simplot, you agree and -- and PUB Exhibit 8 demonstrates that the bulk of the UFG source that's being assigned to this customer comes out of the metering and the measurements?

MR. GREG BARNLUND: That's what we found, yes.

MR. BOB PETERS: And you also said that there's no meter on your system that is more accurate than the one used by Simplot?

MR. GREG BARNLUND: Generally speaking, the meters at Simplot would be the way that they have been installed and the way that they're being maintained and monitored, would lead you to conclude that that's probably a very, very accurate measurement facility.

And given that they -- those meters receive far more attention than any other meters on the system in comparison would lead you to think that we have more accuracy there than -- than otherwise.

MR. BOB PETERS: Maybe, just in my mind so I'm clear, the metres that are used to measure the gas provided to Simplot, are meter that are owned by the Utility;

is that correct?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: And then, Simplot has its own check meter on its own -- on it's own property, I presume, that would in essence check the accuracy of the Centra meter?
MR. GREG BARNLUND: Yes, sir.
MR. BOB PETERS: And the meters that both of you are using, are they the same types of meter?
MR. GREG BARNLUND: They are. But I would also correct you in terms of checking the accuracy of the meter. What they will do is they will read the gas flow that has been measured through our meter. And if you consider the example of two (2) wrist watches: If I have one (1) wrist watch, I know what time it is, if I have two (2) I never know what time it is.
MR. BOB PETERS: And what happens if you have three (3)?
MR. GREG BARNLUND: God forbid.
MR. BOB PETERS: What -- what you're telling the Board is, if you have one (1) meter, you assume that meter is giving you the absolute correct information, and if you have two (2), there inevitably may be differences between the two (2) and then you're not sure which one is correct, if either of them are correct?

MR. GREG BARNLUND: Yes, with two (2) devices you're going to -- they will never produce the identical results, and so there will be always some inevitable question.

MR. BOB PETERS: And that inevitable question, I understand from the evidence, is addressed through a protocol that the Utility has developed with Simplot, in terms of what to do when there are differences between your meters?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And that protocol has relatively tight parameters?

MR. GREG BARNLUND: I understand so, yes.

MR. BOB PETERS: And if there was a variance outside of those parameters, then the parties would investigate and presumably resolve the issue?

MR. GREG BARNLUND: Yes, sir.

MR. BOB PETERS: And when you say, resolve the issue, do you know practically what happens in those instances?

MR. GREG BARNLUND: In those cases, there would be personnel that would be sent onsite to evaluate the source of the problem and to take a look at the measurement equipment, potentially at both the Utility custody transfer station and at the customer's check measurement station.

MR. BOB PETERS: Not to get too fine with -- with the degree of tolerance and accuracy, Mr. Barnlund, but my recollection from the evidence is that the meters used for Simplot have an accuracy of plus or minus 0.1 percent?

(BRIEF PAUSE)

MR. GREG BARNLUND: Can you direct me to the number that you are referring to?

MR. BOB PETERS: I will attempt to locate that. But let -- let me rephrase the question then --

MR. GREG BARNLUND: I'm not sure if that was our evidence, sir?

MR. BOB PETERS: I don't believe it was in my -- I think it was in the Intervenor evidence. But if -- if the suggestion was, it was plus or minus 0.1 percent accuracy do you agree with that or disagree with that?

MR. GREG BARNLUND: I would have to say that we have two (2) meters onsite and the analysis that we did, evaluated the accuracies of each of those meters independently, and we came up with two (2) different results.

So, in terms of being plus or minus .01, I can't comment on that. What I can say is that, in evaluating the average performance of those meters, over an entire year's worth of operation, that the measurement accuracy or

the degree of unaccounted for gas that we're talking about here, it approximately .2 percent.

MR. BOB PETERS: And, when I look at PUB Exhibit 8, are the metres used by the mainline customers more or less accurate than that?

MR. GREG BARNLUND: What we did for the mainline class was to take a look at turbine meters and to take a look at rotary meters for our entire system. We have attributed a lesser accuracy to those, and that relates to those conditions that I spoke to earlier, in terms of the flow rates and in terms of the influences of the other pressure and temperature compensating equipment.

MR. BOB PETERS: Maybe you can just tell the Board then how does the relative degree of accuracy of the meters factor into your allocation of unaccounted for gas between your -- your customers who use a considerable volume?

MR. GREG BARNLUND: I think if we turn to our original evidence, attached to -- the Attachment 1 of Tab 7, and on page 3 of 14, we talk about the UFG loss factor applied; that's the table at line 14. And in that regard high volume firm mainline and interruptible customers are being attributed a loss factor due to measurement of .7 percent.

With respect to this -- sorry, and the power station class would be the same. The special contract

customer is looking at a loss factor attributive of .2 percent.

MR. BOB PETERS: Thank you for that, Mr. Barnlund. Does the Corporation acknowledge and I believe in Dr. Reading's evidence that the use of volumes is an inappropriate way to allocate responsibility for unaccounted for gas? Have you come to that position?

MS. KELLY DERKSEN: Our reading of Dr. Reading's evidence is that on a purely volumetric allocation approach that particular allocation is inappropriate.

MR. BOB PETERS: And even a weighted volumetric approach would be inappropriate?

MS. KELLY DERKSEN: The 2:1 weighting that's currently -- that's currently been approved is inappropriate, I would agree with that as well.

MR. BOB PETERS: And I thought I heard you say in your direct evidence this morning, Ms. Derksen, that if a volumetric responsibility was attached, the UFG percentage allocated to the special contract customer class would -- would go up to 18 percent?

MS. KELLY DERKSEN: An unweighted volumetric approach would be in the neighbourhood an 18 percent allocation to the special contract class, yes.

MR. BOB PETERS: All right. And why is it your position now that the volumetric approach is -- is no

longer appropriate?
MS. KELLY DERKSEN: We've gone through a significant amount of work in trying to identify what contribute -- contributors there are to unaccounted for gas. We've identified what we believe that -- that we can identify for unaccounted for gas. We think that it's better information; it's -- it's certainly more up to date. And that doesn't mean that the previous allocation is wrong in our mind.
It just means based on the circumstances today, based on our best of judge -- judgement that we have, that with the information that we have now available, we think that it is a -- a more fair allocation.
MR. BOB PETERS: I know in the rebuttal evidence that was filed by the Utility, you addressed other approaches to allocation that were -- were suggested but all of the other suggested approaches that Dr. Reading put in his evidence were ones that you also similarly dismissed as I -- I understand your rebuttal?
MS. KELLY DERKSEN: That's true.
MR. BOB PETERS: And would it be fair to say that you're -- you're not agreeing to them or finding favour with them was that you could not -- you could not use cost causality as a basis to get to any of the other allocated methods?

MS. KELLY DERKSEN: I think our position is that there's no -- no direct link to any of the drivers of the costs on our system. So, I think that's definitely one of our problems with the proposal.

Another issue that -- that we take with the proposal is that like I've previously said, we've gone through a significant amount of work to try and identify the causes of unaccounted for gas costs and we believe that we have been able to reasonably identify some. And to -- to the extent that our proposal acknowledges, you know, the year's worth of work that we've done, we think it's a preferable approach and it's based on the best judgement that we have -- based on the best information that we have today.

MR. BOB PETERS: Thank you for that answer, Ms. Derksen. But let me turn to the physical loss component that is being charged through to the special contract customer. And we seen thirty (30) 10-3-M-3's under the PUB Exhibit 8 as being assigned through to the special contract customer class; is that correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Is it also correct that the prior estimate in this area for this customer was one point three five (1.35) 10-3-M-3s?

MR. GREG BARNLUND: I'm not sure that we had, in the past, estimated specifically any losses for this

customer in this regard. This is the first time that we have formally done this type of an analysis for use in evaluating unaccounted for gas.

So, I'm not aware of what the other reference -- where the other reference would be originating.

MR. BOB PETERS: All right. We can address that then with the Simplot witnesses. In terms of accounting issues, both Centra and Simplot appear to be agreeing that there are no accounting issues that would lead to UFG in respect to -- to their gas supply?

MR. GREG BARNLUND: That's correct.

MR. BOB PETERS: And that's because your accounting system and methods with them is somewhat different than it is with other customers?

MR. GREG BARNLUND: I think the accounting that we're talking about here refers to the 10 percent concessions that occur from time to time when we have slow meters; that's the nature of that.

We don't have that type of a situation -- I mean, we're not in a position of having any billing corrections currently with -- with the special contract class customer.

(BRIEF PAUSE)

MR. BOB PETERS: Now, in the -- in the evidence provided by Simplot there was a number of other issues that were raised in respect of cost allocation and you -- you reviewed those did you, Ms. Derksen?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And you -- you understand that Simplot's position is that they know that this is not a general rate application where these issues may otherwise be addressed but they still had some questions or some issues relative to those matters they raised?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Can you explain to the Board then why -- well, first of all, and Simplot's gas is supplied by themselves? They arrange their own supply through direct purchase?

MS. KELLY DERKSEN: Yes, that's what we are aware of.

MR. BOB PETERS: And I was going to ask you if Centra supplied any gas to them but I recall that you do supply a very small amount of gas, if I recall, to -- to them?

MR. GREG BARNLUND: No, sir.

MR. BOB PETERS: You don't supply any gas to them?

MR. GREG BARNLUND: No. The only gas that

would be charged through them would be this unaccounted for we're speaking of.
MR. BOB PETERS: All right. You -- but you do, in your cost allocation methodology, Ms. Derksen, charge them monies on account of Oklahoma supply?
MS. KELLY DERKSEN: We do not.
MR. BOB PETERS: You don't incorporate that into your cost allocation methodology and ...
MS. KELLY DERKSEN: Oklahoma supply is certainly included as part of this Application but none of those costs have been allocated to the special contract class.
MR. BOB PETERS: Do you charge any of the Minell Pipeline charges through to this customer class?
MS. KELLY DERKSEN: A pipeline cost to -- yes, we do.
MR. BOB PETERS: A Minell Pipeline cost?
MS. KELLY DERKSEN: Minell Pipeline cost; yes, we do.
MR. BOB PETERS: Can you explain to the Board why you do that?
MS. KELLY DERKSEN: Minell Pipeline is -- is treated a little bit differently than the rest of the pipeline costs that we have on our system only because it -- it borders two (2) provinces, Saskatchewan and Manitoba, and

that's the reason why it's really treated a little bit differently than the rest of our pipeline costs.

But we really see it no differently than the -- you know, the rest of the pipeline that we have on our system.

MR. BOB PETERS: Do you charge this customer any amount on account of gas procurement?

MS. KELLY DERKSEN: Gas procurement related to operating and maintenance expenses, yes, we do.

MR. BOB PETERS: Why is that?

(BRIEF PAUSE)

MS. KELLY DERKSEN: First of all, recognize that the gas procurement costs that we allocate to them have a number of components in them. Of course, we have to deal with the unaccounted for gas issue which could be viewed as -- as a gas procurement related cost.

In addition, there -- a couple of the costs that's included in that gas procurement function are related to direct purchase and the reason that we allocate those types of costs to Simplot and every other customer in our system stems from the policy decisions that we made and that were approved by the Board, flowing out of the Western Transportation Service, which said that Centra was going to

be a facilitator of natural gas, and that competition was for the benefit of all customers, and therefore, all customers should be responsible for those types of costs.

And so that's the rationale that we have used to allocate all of those types of costs to all customers.

MR. BOB PETERS: One of the other aspects of allocation, Ms. Derksen, was a line location expense is charged through to -- to Simplot; is that correct?

MS. KELLY DERKSEN: If you could just give me a moment, please.

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes, sir, I have found that.

MR. BOB PETERS: How much are you charging through to Simplot on line location costs?

MS. KELLY DERKSEN: Approximately eighty thousand dollars ($80,000.00).

MR. BOB PETERS: And that rep -- with respect to their twenty-three (23) kilometres of pipe, from TCPL to their Plant in Brandon?

MS. KELLY DERKSEN: That is not particularly meaningful when I'm allocating a system-wide cost to this particular customer. But regardless of that fact, that's

what we've been allocating to the special contract class, approved through the '03/'04 General Rate Application.

MR. BOB PETERS: And you can just explain to the Board, what's your method of allocation of line location costs?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Peters, I would have to get back to you as to the allocation of line locations.

MR. BOB PETERS: Could you come back to me, also then, with the method of allocation on the distribution transmission maintenance costs that are charged through to Simplot, as to how you allocate those?

MS. KELLY DERKSEN: I can give you a general idea of -- I don't know the specific allocation as I sit here right now, but distribution maintenance implies something a little bit different than what it act -- what it is in actuality.

Distribution maintenance refers to maintaining our entire distribution system. So to the extent that we do cathodic protection on our entire system, that we upgrade and repair service lines on our system, those are the types of costs that would be incorporated in the distribution maintenance function and appropriately, therefore, have been

allocated to Simplot.
MR. BOB PETERS: And I suppose the point that you can help me on, just concluding on this, Ms. Derksen, is that Simplot doesn't have distribution facilities as we would normally consider them, do they?
MS. KELLY DERKSEN: That's correct. That's the point that I was trying to make, is that this is maintenance on our entire system, including the transmission portion of our system. So, to the extent that they do take service off of our transmission system and that the bulk, say for example, of our cathodic protection program which makes up the majority of this particular cost is done on our transmission system. We felt that it was appropriate, therefore, to allocate a portion of those costs to Simplot.
MR. BOB PETERS: And again, recognizing this may be a general rate application issue, Ms. Derksen, what -- you'll get back to me what the specific allocator was in that matter?
MS. KELLY DERKSEN: I can do that.
MR. BOB PETERS: All right. Thank you.

--- UNDERTAKING NO. 13: Show method of allocation on the distribution transmission maintenance costs that are charged through to Simplot.

MR. BOB PETERS: Mr. Chairman, I'd like to thank the Panel for their answers to my questions. Those complete my questions of the Panel on the issues of unaccounted-for gas. Thank you very much.
THE CHAIRPERSON: Thank you, Mr. Peters. We will turn now to CAC/MSOS and Mr. Saxberg.
Mr. Saxberg, are you ready to begin?
MR. KRIS SAXBERG: I am, sir.
THE CHAIRPERSON: Proceed.
MR. KRIS SAXBERG: Thank you, Mr. Chairman.

CROSS-EXAMINATION BY MR. KRIS SAXBERG:
MR. KRIS SAXBERG: And perhaps everyone could turn up PUB 14(c) attachment?

(BRIEF PAUSE)

MR. KRIS SAXBERG: Mr. Barnlund, you'd agree that measuring UFG is anything but an exact science?
MR. GREG BARNLUND: Calculating UFG is difficult and trying to find the components that make it up is fairly difficult too.
MR. KRIS SAXBERG: And there's some exercise of judgment then that -- that needs to be brought to bear in -- in estimating UFG and its origins?

MR. GREG BARNLUND: In terms of its origins is what I can speak to and I'd say that as we've described earlier today, there is some judgment that is applied, yes.

MR. KRIS SAXBERG: Now, the -- your UFG review identified approximately 12.4 million cubic metres of UFG correct?

MR. GREG BARNLUND: Yeah. Twelve thousand, four hundred (12,400) 10-3-M-3s. Yes.

MR. KRIS SAXBERG: And that's only 55 percent of the UFG that you've been able to explain; you've indicated that, correct?

MR. GREG BARNLUND: That's correct. Yes.

MR. KRIS SAXBERG: Which leaves 45 percent unexplained, correct?

MR. GREG BARNLUND: That's true.

MR. KRIS SAXBERG: And now, are those percentages based on the volumes that were originally forecast before the update?

MR. GREG BARNLUND: No, that's really a -- I would say, a long term average assuming about 1 percent unaccounted for gas on the system in a long run.

MR. KRIS SAXBERG: So, if we're looking at PUB/Centra 14 Attachment, there's an indication of volumes of twenty thousand (20,000) -- approximately twenty thousand (20,000) 10-3-M-3?

MR. GREG BARNLUND: Can I see that?
MR. KRIS SAXBERG: The twelve thousand, four hundred and ninety-two (12,492) isn't the identified amount of that number?
MR. GREG BARNLUND: I'd like to point out that the data that you see at PUB/Centra 14(c) is related to our forecast pre-update in the Application, whereas the UFG study that we performed used a forecast which is similar to our current forecast but reflective of -- of, I would say, the long -- a longer term average of -- of system volumes.
So, the volumes won't -- you can't exactly tie back the volumes from this attachment to the volumes that would have been produced in our forecast -- in our UFG study, sorry.
MS. KELLY DERKSEN: And if I might add that -- to that, Mr. Saxberg, our initial application that this was -- that this PUB/Centra 14 is -- is reflecting included Simplot volumes at the lower level of a hundred and eighty-one thousand (181,000) as part of the initial application.
Our UFG study took into account that -- took into account normal year volumes for that particular class. So, again, there will be some distinction.
MR. KRIS SAXBERG: Could you tell me then what the appropriate number for volumes on line 10 would be given the update?

(BRIEF PAUSE)

MR. GREG BARNLUND: If you'd just give us a minute, please.

(BRIEF PAUSE)

MS. KELLY DERKSEN: A couple of things happened as part of the update to the Application, Mr. Saxberg.

First of all we lowered our total unaccounted for gas percentage from 1 percent that was incorporated in our initial application and .9 percent. The second thing that occurred as part of the updated of course that I already mentioned is that Simplot's volumes were increased to normal levels.

With that said, if you turn either to PUB Exhibit Number 8 that we have been speaking about this morning; if you look at the bottom of that particular table on the most right-hand side two million two hundred and fifty thousand (2,250,000) approximately is what our total volume estimate is for the '04/'05 year.

MR. KRIS SAXBERG: I see. And that's because there's an offset between the increase in volumes for special contract class and a decrease because your -- you've moved

from 1 percent to .9 percent?
MS. KELLY DERKSEN: I think that's fair, yes.
MR. KRIS SAXBERG: So, the -- the changes between the 45 percent unexplained and the 55 percent explained based on the new volume would be pretty minor then I guess?
MR. GREG BARNLUND: Potentially, yes.
MR. KRIS SAXBERG: Now the last report was done, I have a date of October of 1992?
MR. GREG BARNLUND: If you're referring to the Centra UFG study.
MR. KRIS SAXBERG: Right, it's called Unaccounted for Gas Study by Centra?
MS. GREG BARNLUND: Yes, sir. I believe that was filed in conjunction with a general rate application.
MR. KRIS SAXBERG: Now, there the total UFG explained was thirteen thousand nine hundred and seventy-one (13,971) 10-3-M-3. Does that sound right? You can take it subject to check.
MS. GREG BARNLUND: Subject to check I would accept that, yeah.
MR. KRIS SAXBERG: And that was out of a total UFG of thirty-four thousand six hundred and forty-three (34,643) 10-3-M-3. Do you take that subject to check?
MS. GREG BARNLUND: Well I believe the report

indicates that the percentage of the -- the known is 40.33 percent or something around that neighbourhood. It should be in the report.

MR. KRIS SAXBERG: That's right but there's an indication of the total explained UFG of thirteen thousand nine hundred and seventy-one (13,971)?

MS. GREG BARNLUND: Yes.

MR. KRIS SAXBERG: I believe we're looking at the same page. And a total UFG of thirty-four thousand six hundred and forty-three (34,643); is that correct?

MS. GREG BARNLUND: According to this, the table here, the total UFG that they had indicated based on what they refer to as their best estimate in column 1 on page 4, is -- the unaccounted for volume would have been thirty-four thousand six hundred and forty-three (34,643) which represents 1.88 percent of system inputs as opposed to the 1 percent we currently have -- or that we had another .9 percent that we have on our Application.

MR. KRIS SAXBERG: So, is it fair to say, the new report, the new study, has identified more UFG but out of a smaller number of total UFG because UFG has declined somewhat significantly?

MR. GREG BARNLUND: I think that could be. Yes, that would be the case.

MR. KRIS SAXBERG: Now, you can't explain why

the UFG fluctuates though from year to year; can you?
MR. GREG BARNLUND: Well, we have, I think, a certain amount of empirical information and experience that leads us to believe that the fluctuation of UFG could be caused by, in part, cyclic billing.
It's -- it's impacted by the number of estimates that we may have on the system at any given point in time. It may impact -- be impacted by the degree by which we have a fairly simple model for calculating the un-billed component which relies only on number of degree days and number of billing days in a cycle.
So there are certainly some limitations to that that will end up creating some cyclical aspect in terms of the calculation of UFG.
MR. KRIS SAXBERG: If we're still on PUB 14 and we look at the very first page of that information request which shows unaccounted for gas percentages since 1996, you'd agree that the range is from a low of .134 percent to a high of virtually 2 percent?
MR. GREG BARNLUND: Yes. The UFG percentage, as taken at the end of March, shows that. I think what you'd also find too that if you took the UFG percentage at the end of December they would also vary significantly. And tending -- the tendency for the -- or I should say that we, in terms of doing the UFG true-up, have determined that the summer

months are the most appropriate months to be looking at the UFG percentages in terms of their stability.

MR. KRIS SAXBERG: But the -- the point of the 1992 report was to find out why there is -- why there was such a dramatic increase in a particular year; correct?

MR. GREG BARNLUND: I agree that the report was commissioned because of a significant increase in one (1) year from 1.2 to 1.8 percent.

MR. KRIS SAXBERG: And is that something then that's been corrected or that you haven't encountered since then?

MR. BRENT SANDERSON: One (1) of the outgrowths of the conclusions of that study was the attempt on the part of the Utility to identify a particular time of year that would be better to undertake a true-up as opposed to other times of the year.

And that -- and over time we've learned more information as we've gone on. And that's where we've come to the determination that the May, June or July periods are the most appropriate and subject to the least variability due to extraneous factors such as the number of estimates in the billing system and so forth.

To look at the March period, for example, if we assume, for example, that there's a 2 percent inherent estimate -- or inherent error in the billing estimates in the

system at any point in the year, what that will mean in terms of absolute levels of volume will depend on the level of the loads that have been at any particular time of year.

So if we just, and I'm picking this number out of the air, mind you, but if we assume a 2 percent embedded error in the billing estimates that will translate into a much larger level of absolute volumes if taken at the end of March as opposed to the end of May, June, or July.

And so we're dealing with a very small estimate of unaccounted for gas to begin with which, you know, is on the order of .9 percent presently. So, any absolute error that is larger than it can be, based on the point in time you're taking that estimate, will have big impacts on the calculated levels of UFG.

So that's the -- one (1) of the actions that was taken as an outgrowth of that study was to identify a particular time of year which would minimize the impacts of billing estimates and the like on the calculation.

MR. KRIS SAXBERG: And I suppose these -- some of the other actions are the ones that you've indicated at CAC/Centra-48 with respects to efforts Centra's made to reduce overall UFG on its system?

MR. GREG BARNLUND: Yes. And in addition to that, I would also indicate that we've made some significant, I would say, improvements or -- or advances in terms of

having our meter shop accredited by Measurement Canada.

We were, in the 1990s, we were one of the first utilities or one (1) of the early adopter utilities in Canada to put in place the quality programs that would enable Measurement Canada to afford us that certification.

So those are some of the things that we're done to -- that indirectly of course, help address the UFG problem.

MR. KRIS SAXBERG: Thank you. And can you confirm Mr. Barnlund that the 1992 report doesn't specifically recommend a double waiting for the SGS class?

MR. GREG BARNLUND: Well, the 1992 report is silent on how you would allocate it and I -- I understand that it was not the intention of the report to make any recommendation in terms of the allocation of unaccounted for gas. The intent was to be able to explain the change from one point two (1.2) to 1.8 percent.

MR. KRIS SAXBERG: And I think it was Ms. Derksen's information that it was at a 1996 hearing -- hearing where Centra proposed a double weighing for the SGS class?

MS. KELLY DERKSEN: Yes, that's true.

MR. KRIS SAXBERG: And is that something that is -- was specifically addressed by the Board in the Board Order?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Subject to check, Mr. Saxberg, yes, it was.

MR. KRIS SAXBERG: And you'd agree that the double weighting approach is unique to Centra as opposed to other LDC's in Canada?

MS. KELLY DERKSEN: I think the specific split of two (2) to one (1) is probably unique to Centra Manitoba although we recognize that other utilities out west do also use a weighting volumetric approach to allocating UFG.

MR. GREG BARNLUND: And if I could add to Ms. Derksen's answer, more recently ATCO in Alberta has received approval from the Alberta Energy and Utilities Board for a separate weighting between transmission customers and distribution customers.

MR. KRIS SAXBERG: You're not going to suggest that the -- for ATCO that their transmission system is -- anyway which is a different company I believe ATCO's pipelines from the -- from the ATCO Gas North and ATCO Gas South are different companies?

You're not going to suggest that those are -- it's analogous situation or that Manitoba -- that Manitoba

Hydro/Centra's in a similar situation?
MR. GREG BARNLUND: I'm not suggesting anything. I'm simply responding to the question of how other utilities may use weighting or may not use weighting.
MR. KRIS SAXBERG: And your evidence remains though that the majority -- vast majority of LDC's we use in unweighted volumetric allocation?
MR. GREG BARNLUND: That's correct.
MR. KRIS SAXBERG: What did Centra use before the 1996 Hearing? What type of allocation?
MS. KELLY DERKSEN: Mr. Saxberg, I'd have to check into that. I don't know at this point.
MR. KRIS SAXBERG: Okay, well would you undertake to do that then?
MS. KELLY DERKSEN: I could undertake to do that.

--- UNDERTAKING No. 14: Ms. Derksen to supply information with respect to allocations used before the 1996 Hearing.

CONTINUED BY MR. KRIS SAXBERG:
MR. KRIS SAXBERG: Thank you for that. Now is it correct to say there's always going to be a component of UFG that will be unexplained?

MR. GREG BARNLUND: I would say yes.
MR. KRIS SAXBERG: And is it too strong a word to say that there's always going to be a mystery or a gremlin in the system whereby your -- your numbers aren't going to match between what you have -- your receipts and what you've delivered?
MR. GREG BARNLUND: Well, I would say that similar to the stop watch or the comparison of the two (2) wristwatches I described before, that it's very reasonable to expect that you will never have deliveries, the number of the amount of volume delivered and the amount of volume received completely match.
MR. KRIS SAXBERG: And that's something that you've got to live with as a cost of doing business, correct?
MR. GREG BARNLUND: I guess there's really a cost in terms of approaching the problem if you were going to invest a lot more money in terms of solving the problem you have to make sure that -- that there's a related benefit to it. But I think that it's always be there to some extent.
MR. KRIS SAXBERG: And I think your evidence was that that then is a common cost, the unexplained portion of the UFG that is, is a common cost for all customers and customer classes of Centra?
MS. KELLY DERKSEN: Yes, sir.
MR. KRIS SAXBERG: Now, the special customer

class wants to directly measure their UFG; is that your understanding?

MR. GREG BARNLUND: I believe that's my understanding of their evidence, yes.

MR. KRIS SAXBERG: And if all customer classes, or even individual customers, could do that, could directly measure their UFG, and let me just stop there. You say that can't happen, first of all...?

MR. GREG BARNLUND: Essentially, the example that I provided this morning in terms of the Brandon area in the southwest, makes it -- describes that it's impossible to isolate one (1) customer out of that system and accurately determine their unaccounted-for gas.

MR. KRIS SAXBERG: So, but let's just, if you'd indulge me, assume that it could be done, that everyone could directly measure their UFG, let me ask you this: Would there still be unexplained -- would there still be an unexplained portion of UFG, if everyone was able to do that?

MR. GREG BARNLUND: Well, I don't know, I mean, I have a hard time knowing what I know of the topic, conceiving of the scenario that you are trying to portray here.

MR. KRIS SAXBERG: But there would still be some, even indirectly, measuring UFG for a specific customer, there would still be some margin of error, would there not?

MR. GREG BARNLUND: I assume that in terms of any type of measurement, let's -- let's use an example of a lateral that serves one (1) customer off the system, you're still going to have unaccounted-for gas, because you'll have a measurement that occurs for gas to enter the system, and you'll have a measurement that will occur for gas to leave the system. And those two (2) meters will never run identically the same, and so you will always have some component of unaccounted-for gas.

MR. KRIS SAXBERG: Now, with respect to the 45 percent of UFG that has not been explained, would you agree that that amount needs to be allocated, there needs to be an allocator for it?

MS. KELLY DERKSEN: I agree.

MR. KRIS SAXBERG: And that the allocator that Centra has chosen is to take the explained percentages for UFG and to apply them to the unexplained 45 percent?

MS. KELLY DERKSEN: Yes, that's our -- that is our proposal.

MR. KRIS SAXBERG: So you're allocating, to put it in plain English, you're allocating the unexplained portion of UFG in the same manner as the explained portion...?

MS. KELLY DERKSEN: I'm sorry, can you repeat the question, please?

MR. KRIS SAXBERG: You're allocating the unexplained portion of UFG in the same manner that you are allocating the explained portion...?

MS. KELLY DERKSEN: Yes, Mr. Saxberg, that is our proposal. We believe that's a reasonable proposal, we think that, for a couple of reasons, first, is that we think that the 55 percent that we have been able to identify is a conservative estimate.

And we also believe that it's -- it's a reasonable -- based on a reasonable judgment which all cost allocations have is that it is likely that the unidentified unaccounted-for gas is -- is composed of the same components as the identified unaccounted-for gas, and so likely occurs in the -- in the same proportions.

MR. KRIS SAXBERG: Well, I think I heard the evidence today to be, there are no other sources, no other categories, for unaccounted-for gas, other than the -- the three (3) main ones that have been cited in the report?

MR. GREG BARNLUND: I think that we -- very thoroughly investigated it and that as they're summarized in those three (3) categories, I think that we have covered extensively the potential sources of unaccounted-for gas, yes.

MR. KRIS SAXBERG: But the question, then, it becomes: What evidence is there that the unexplained UFG

arises from the same -- in the same order of magnitude as the explained UFG?

MR. GREG BARNLUND: I would say that there's no clear evidence in terms of the explicit source of the 45 percent. However, subsequent to an information request that was made of us about the eight thousand (8,000) non-temperature compensated meters, I can provide some additional information for you that may help understand that the 55 percent that we're talking about is conservative.

We had gone back and more recently reviewed, because we have replaced some of those non-temperature compensated meters this year. We found there was an additional offset that was taken -- that we needed to take into consideration because our original volume estimates per customer were low.

So at the end of this, by the time we see that instead of eight thousand (8,000) meters we have five thousand, one hundred (5,100) temperature compensated meters out there, however, their average -- average useage on those customers was thirty-three hundred (3,300) cubic metres and not sixteen hundred (1,600) cubic meters that we had in our original estimate.

So, if anything, our original estimate that produced the 55 percent was low. It was conservative and it understated that because we were conservative in terms of

producing those estimates.
So, I would have to say that there is a -- while there's no distinct evidence, there is a strong likelihood that the remaining 45 percent has origins that we've already discussed or already reviewed in our study.
MR. KRIS SAXBERG: Your answer then just brief was that the 55 percent identified is a conservative figure; correct?
MR. GREG BARNLUND: I believe so. Yes.
MR. KRIS SAXBERG: But if next year the total volume of UFG increases from beyond the twenty thousand, two hundred and fifty (20,250) 10-3-ù3 then that 55 percent percentage is going to come down; isn't it?
MR. GREG BARNLUND: No, sir. Because we're -- the results of this study were to develop a series of percentages on a class by class basis with which we would use to allocate future unaccounted for gas expenses regardless of their level at that point in time.
MR. KRIS SAXBERG: But for the total number of -- of unaccounted for gas you were using a forecast for 2004/2005; correct?
MR. GREG BARNLUND: We used a forecast which was, at the time, different from the forecast in our Application but very consistent with the forecast that we have updated to now in our Application.

MR. KRIS SAXBERG: But if you'd used another number, for example, the actual -- actuals for 2003/2004 you wouldn't be here today talking about 45 percent unexplained and 55 percent explained, you'd be using different percentages; isn't that fair?

MR. GREG BARNLUND: Well, the -- I guess, could you repeat the question for me again?

MR. KRIS SAXBERG: Well, rather than using the forecast twenty-thousand (20,000) and change, 10-3-ù3, if you used the actual for 2004, the actual amount of UFG volumes you then -- that would have affected the percentages vis-a-vis explained and unexplained UFG?

MR. GREG BARNLUND: All I can testify to is the way that I did the analysis was referencing a set of volumes that -- that we used which is reasonably close to what we've updated to right now and is reflective of the customers' usage that would aggregate to those volumes.

MR. KRIS SAXBERG: But -- and I'll just move on. It's not that -- that important. But if we look at Tab 16 of Mr. Peters' Book of Documents, and just in general these numbers, I just want to have it tidy on the record, you're acknowledging that there's no evidence that these same proportion of numbers apply to the 45 percent of unexplained UFG; correct?

MR. GREG BARNLUND: Well, while we, as I

mentioned, have a conservative estimate that's arrived at the 55 percent, we have no conclusive evidence one (1) way or the other, as to how the remaining unaccounted-for gas originates.

MR. KRIS SAXBERG: Thank you. And so you need an allocator and, I'm going to ask you then, did you consider using a volumetric allocator for the 45 percent?

(BRIEF PAUSE)

MR. GREG BARNLUND: I think we looked at it and we elected not to do that, because that would then say that the remaining 45 percent was caused equally by all customers. And obviously the study that we've completed that identified 55 percent being caused by various groups of customers, we would be inconsistent with our study.

MR. KRIS SAXBERG: So I guess that answer then, applies equally to whether you considered using the weighted volumetric approach for the 45 percent?

(BRIEF PAUSE)

MR. GREG BARNLUND: I'm not sure that we evaluated attempting to apply the two (2) to one (1) weighting to the remaining 45 percent. I think that we -- we

looked at either applying the same weightings that we have for the identified as for the unidentified.

And as I said before, we had looked at the possibility of allocating the remaining 45 percent on an equal volumetric basis, but that was clearly in conflict with the findings we had in the rest of the study.

MR. KRIS SAXBERG: Well, would doing -- would allocating the remaining 45 percent with a weighted volumetric approach contradict your findings in this report?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Can you repeat your question, please?

MR. KRIS SAXBERG: I'll try. Would using a weighted volumetric approach to allocate the 45 percent unknown UFG be in contradiction to the findings of your UFG Study?

MS. KELLY DERKSEN: I think to some extent, yes. The two (2) to one (1) weighting list derived from the -- the 1991 Study and proposes part of the 1996 Cost Allocation Study. And that was based on judgment that we placed, using two (2) factors: Number 1 is recognizing that the SGS and LGS class have more meters on the system, and inheriting in meters is -- is error, so we used -- that was

one (1) of the factors.

The second factor was that the SGS and LGS class both are built on a cyclic billing and we used both of those factors, then, to weight the SGS and LGS customers twice their volumes as compared to the rest of the system.

We have now gone through a study which, of course suggests metering as a major contributor to UFG, which would be consistent with the two (2) to one (1) weighting, however, we have discounted cyclic billing as a contributor to UFG. And so from that perspective, we think it would be inconsistent with our current proposal.

MR. KRIS SAXBERG: And do you agree generally then, that the study shows that the prior approach of double-weighting the volumes was too harsh for SGS class?

MS. KELLY DERKSEN: I think we have better information today to provide different allocators. It doesn't mean that what we've done in the past is wrong or too harsh.

It simply means that what we have done in the past was based on the information that we had had at hand. Today is -- we have a refinement. We've gone through a whole pile of work to get this information together and we think it's reasonable.

We also think what we did previously was reasonable under the circumstances.

MR. KRIS SAXBERG: Thank you for that. And looking at Tab 16 again, the special contract class is not allocated anything with respect to accounting and billing practices; correct?

MR. GREG BARNLUND: That's correct.

MR. KRIS SAXBERG: And when -- when the special contract class or anyone else isn't allocated for one (1) of these factors on Tab 16 then that means that they're not allocated anything with respect to the 45 percent of unknown UFG; correct?

MR. GREG BARNLUND: For that particular factor, yes.

MR. KRIS SAXBERG: So, for accounting and -- and billing practices of Centra, even though the special contract class -- well, let me -- let me back up a second.

Centra bills the special contract class; correct?

MR. GREG BARNLUND: Certainly. But the line item we're discussing here is a specific topic related to billing concessions that are applied to slow and non-recording meters in the SGS and LGS class.

MR. KRIS SAXBERG: And maybe I have this wrong then but if the concession policy -- if someone's meter fails or there is a -- there's a problem with the meter for mechanical reasons or whatever, then there is a concession

policy that Centra Gas has whereby they are going to reduce the estimated bill that flows from that failure by 10 percent; correct?

MR. GREG BARNLUND: I believe that's correct, yes.

MR. KRIS SAXBERG: Well, couldn't that happen with the special contractor class?

MR. GREG BARNLUND: Not very likely for the reasons that's been canvassed fairly significantly in this evidence whereby that account is -- or that -- those meters are monitored almost in real time and are check metered and receive a significant amount of care and attention which would -- which would indicate very early if there was any type of a discrepancy and allow that -- discrepancy to be taken care of without any type of concession.

And I might add too that other large volume customers do not receive this 10 percent concession in terms of a meter failure because generally, by and large, we have uncorrected base meter readings available for all of those types of meters and customers.

We take and we can very accurately estimate what the volume of gas was that -- that might have flowed to those customers and, therefore, they are not eligible for that concession; that concession is only for the small volume classes.

MR. KRIS SAXBERG: Okay. So no concession at all then is what you're saying?
MR. GREG BARNLUND: That's correct.
THE CHAIRPERSON: Mr. Saxberg, I don't mean to interrupt, but when you get a chance to have a pause we'll take our lunch break.
MR. KRIS SAXBERG: I think what I'm endeavouring to do is to -- to be able to finish and I think I can do that within ten (10) minutes; if that's all right with you or I could come back.
THE CHAIRPERSON: Why don't you -- why don't you come back and then you're not going to feel rushed.
MR. KRIS SAXBERG: Sure.
THE CHAIRPERSON: Thanks.

--- Upon recessing at 12:07 p.m.
--- Upon resuming at 1:36 p.m.

THE CHAIRPERSON: Mr. Saxberg...?
MR. KRIS SAXBERG: Thank you, Mr. Chairman. It's so nice out I'm surprised everyone came back. Hopefully you'll be happy you did.
THE CHAIRPERSON: We'll suspend judgment.
MR. KRIS SAXBERG: Thank you.

CONTINUED BY MR. KRIS SAXBERG:
MR. KRIS SAXBERG: This is, I think, probably for Ms. Derksen; UFG is forecast based on an actual -- based on a percentage of volumes forecast to be consumed, right?
MS. KELLY DERKSEN: I would agree with that.
MR. KRIS SAXBERG: Is it as simple as the more volumes, the higher the estimate of UFG?
MR. BRENT SANDERSON: All other things being equal, I would agree. And when I refer to "all other things being equal", price would affect it in a situation where prices are going up but the forecast of absolute volumes is going down. You could have the reverse take place, but I'll agree with your statement.
MR. KRIS SAXBERG: So, aside from that caveat, UFG cost is -- is forecast on a volumetric basis?
MS. KELLY DERKSEN: Yes, sir.
MR. KRIS SAXBERG: So you agree then that there's at least some correlation between volume of gas and UFG?
MS. KELLY DERKSEN: Yes, on an overall basis, Mr. Saxberg.
MR. KRIS SAXBERG: And the record's clear that the special contract customer used approximately 20 percent of Centra's throughput?
MS. KELLY DERKSEN: I think of total system

throughput not Centra's throughput, yes.
MR. KRIS SAXBERG: I understand. And you'd agree that in a general sense, whether weighted or not, as an allocator using volumes has, at least, some appeal?

(BRIEF PAUSE)

MR. GREG BARNLUND: Volume to the extent that as we've seen in our study, different customer classes have different -- or experience different levels of measurement accuracy which we contribute to unaccounted-for gas.
Therefore there would have to be some weighting attached to that volumetric allocation as -- as opposed to an unweighted approach which would assume contrary to our study, that all volumes would attract the same level of accuracy through measurement.
MR. KRIS SAXBERG: I think then that you would agree that since you forecast the total amount of UFG based on volumes, that there has to be at least some component within the allocation which is based on or touches on volumes?
MS. KELLY DERKSEN: Yes, and I think to the extent that we've identified the components that we believe are -- contribute to UFG, we have identified those and have allocated the ones that we believe are driven by volumes on

that basis.
MR. GREG BARNLUND: And further to add to that response, I would suggest that our proposal is indeed volumetric but is a weighted volumetric approach. Because these are allocated through a volumetric method with specific weightings for each customer class.
MR. KRIS SAXBERG: And let me just ask you. If you did use purely volumetric allocation methodology with no weighting, you're not suggesting that that would result in unjust or unreasonable rates?
MS. KELLY DERKSEN: I think that to the extent that we have gone through a UFG study which identifies sources of UFG. And those sources have been allocated on a recommendation or a judgement some of them volume for example, to that extent we think that the proposal that you're suggesting which is a purely volumetric proposal is contrary to what we are proposing.
MR. KRIS SAXBERG: It's not necessarily contrary to an allocation within the 45 percent of unexplained UFG though is it? Because you have admitted that you don't know with any certainty who has caused that UFG.
MR. GREG BARNLUND: Let me be clear that in terms of the 45 percent, while there may be no evidence to say that -- how it's caused, there's certainly no evidence either that -- that would indicate that it wouldn't be caused

by the same factors that we've currently identified in the 55 percent. In other words, there may not be strong evidence in either direction in that regard.

MR. KRIS SAXBERG: Is it fair to conclude that Centra is at least moving away from a -- a volumetric approach with this new proposal? It's distancing itself from using the volumetric approach?

MR. GREG BARNLUND: I wouldn't characterize that in that manner. I think what we have is currently we have an approach that is volumetric that is weighted two (2) to one (1) as Ms. Derksen had mentioned for the SGS and LGS customers.

We are seeking to refine that allocation. And the refinement would then create a weighting for each individual customer class as opposed to two (2) of the classes. And that we feel is strongly supported by twelve (12) months worth of investigation that the company has placed considerable time and effort and energy and diligence in pursuing.

MR. KRIS SAXBERG: Well, isn't it more accurate to say that you are relying on the report which shows direct causes of UFG as opposed to using just a broader allocation of -- based on volumes? So that it's a bottom up approach?

MS. KELLY DERKSEN: I prefer to look at it as

we have identified what we believe to be the contributors of UFG which identifies 55 percent of total unaccounted for gas and to the extent that we have been able to identify it to the extent that we believe that that is a conservative estimate we think it's reasonable to allocate what we don't know based on what we do know.

MR. KRIS SAXBERG: Isn't the main driver of the allocation using the proposed methodology the judgement that was brought to bear by the author or authors of the report when making certain assumptions and attributing certain UFG to -- in certain amounts to certain customer classes?

MR. GREG BARNLUND: Well certainly there's an element of judgement in all cost allocation and there's an element of judgement clearly in this. However, this study is based on a significant body of data that was obtained that is reflective of real life conditions in terms of how the Utility operates and is largely I would say based upon that factual data.

MR. KRIS SAXBERG: Let me ask you just generally: Is it fair to one (1) customer class if another customer class pays less with respect to the dollar amount of UFG because of their location on the system?

MS. KELLY DERKSEN: No, sir.

MR. KRIS SAXBERG: And is it fair if one

customer class -- to one (1) customer class if another customer class can demonstrate its actual UFG when the former customer class can only estimate?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I think, Mr. Saxberg, if we could isolate one (1) customer and demonstrate exactly what their unaccounted for gas costs were, but the rest of the system we could not identify what those unaccounted for gas costs are, it would then be the responsibility of the Utility to suggest that that one customer class should pay for what we can specifically identify to them and to the extent they should also bear some responsibility of common costs or those costs that cannot be directly assigned.

MR. KRIS SAXBERG: Thank you for that. And so if we take a look at Tab 16 of Mr. Peters' Book of Documents. I'm just trying to clear up -- or clean up the record here.

But if we're looking at the special contract customer and noting the areas where there has been no assignment of any UFG, for example, at the top under barometric pressure, there's no assignment of UFG to the special contract customer, correct?

MR. GREG BARNLUND: That's correct because

barometric pressure is taken into consideration in the measuring equipment that is installed with that customer. Their equipment is sufficiently sophisticated enough that it senses actual barometric pressure and compensates in real time.

Similarly there are other customer classes, high volume firm, mainline and interruptible and power station that have similar equipment and they do not have that attributed to them because our metering devices are able to compensate for that.

MR. KRIS SAXBERG: But can you tell this Board for a certainty that with respect to the barometric pressure category, that this special contract customer is not contributing in any way to that 45 percent of unknown UFG?

MR. GREG BARNLUND: While there's not 100 percent certainty, it would be a very, very low likelihood of that happening because that device and that metering equipment is very, very carefully monitored and maintained and similarly the -- for that particular case the fact that there is sophisticated check measurement equipment maintained by the customer in line with it, any cause of metering deviation between the two (2) meters will become apparent very quickly and would be investigated.

MR. KRIS SAXBERG: And you acknowledge that you had indicated earlier that no measuring equipment or

equipment used to measure the measuring equipment is infallible?

MR. GREG BARNLUND: That's correct.

MR. KRIS SAXBERG: So, there has to -- does there not have to be at least some allocation with respect to that 45 percent of unknown UFG for that category -- at least some, however nominal?

MR. GREG BARNLUND: I have no data or no basis with which to do that for that particular category.

MR. KRIS SAXBERG: And does the same hold with regard to super compressibility?

(BRIEF PAUSE)

MR. GREG BARNLUND: Sorry, could you please repeat the question?

MR. KRIS SAXBERG: How about with respect to super compressibility?

MR. GREG BARNLUND: The same would apply for that as would pressure factor metering and gas temperature -- well, gas temperature is not at all a situation that would affect them.

But in -- in the end, let's be clear that the special contract class is paying for part of the unknown. They are being allocated 5.7 percent of all unaccounted for

gas and it so happens that the fact that we have identified certain factors that contribute to certain classes then goes into the calculation of those percentage; those percentages of which are used to allocate all unaccounted for gas, whether that be identified or unidentified.

(BRIEF PAUSE)

MR. KRIS SAXBERG: If I can get you to turn to PUB 14(c), the attachment? I think we confirmed earlier that this table's based on the prior 2004/2005 forecast, correct?

MS. KELLY DERKSEN: It's based on the initial Application that we filed with the PUB on February 20th of this year.

MR. KRIS SAXBERG: And I want to focus on the absolute dollar amounts. For small general service under the proposed weighting the total amount of revenue that's going to be recovered in rates from residential customers is approximately $1.6 million, correct?

MS. KELLY DERKSEN: Based on our proposal, yes.

MR. KRIS SAXBERG: Precisely. "Based on the proposal". And with respect to the current approved weighting that number would have been around $2 million;

based on the February Application?

MS. KELLY DERKSEN: Yes. There's a couple of things that we need to clarify here. First of all, this includes, like we said, the initial dollars of unaccounted for gas that were incorporated in the initial filing.

Secondly, this also incorporates the one hundred and eighty-one thousand (181,000) cubic metres of gas that -- for the special contract customer rather than a normalized volume usage which is more in the neighbourhood of four hundred and twenty thousand (420,000).

So, it's likely overstated in terms of a percentage for the SGS class recognizing that the volumes are quite low as part of the initial Application for the special contract class.

MR. KRIS SAXBERG: Could I ask you then to prepare a revised version of PUB-14(c) Attachment with the current numbers taking into account the new volume forecast for special contract?

MS. KELLY DERKSEN: Yes. And, in fact, I'm already working on that but I can prepare that.

--- UNDERTAKING NO. 15: Prepare revised version of PUB-14(c) Attachment with the current numbers taking into account the new volume forecast for special

contract.

CONTINUED BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: And just directionally, what are you suggesting that -- that we'll see in terms of the absolute dollar costs?

MS. KELLY DERKSEN: What we're proposing, of course, just -- just give me a moment please.

(BRIEF PAUSE)

MS. KELLY DERKSEN: I can -- I can give you a general direction. Our updated Application that was filed on August 9th, 2004 for the special contract class allocates two hundred and ninety (290) -- say, two hundred and ninety-three thousand dollars ($293,000) of unaccounted for gas.

The SGS class would be allocated in total dollars one point (1.) say $9 million. That includes both the updated volumes and then, of course, the updated dollar value associated with unaccounted for gas.

If we were to apply that same information to the February 20th Application, I think we would be looking in the neighbourhood of six (6) -- a little over six hundred thousand dollars ($600,000) allocated to the special contract class and maybe about $2.2 million to the SG -- to the SGS

class.
But, of course, those are just preliminary calculations. I have not finalized any of that information so, it's subject to change.
MR. KRIS SAXBERG: Okay. Thank you and you'll -- you're going to prepare a revised version of PUB/Centra-14(c) Attachment along those lines then? Thank you for that.
Have you considered what the numbers would look like if the Board accepted Simplot's recommendation that attributes 2.8 percent to it?
MS. KELLY DERKSEN: You probably could take, you know, the rough, approximate two hundred and ninety-three thousand (293,000) as a ballpark figure and half -- half it to get a ballpark estimate.
MR. KRIS SAXBERG: I guess what I would like to know, and like to have on the record, is the dollar impact to the residential class if the Centra -- or sorry, if the Simplot recommendation is -- is approved? In terms of how -- how would that then spin out and affect the other customer classes?
MS. KELLY DERKSEN: I can't provide that information to you, Mr. Saxberg, because that information was just one allocator for the special contract class. I have no way of determining, based on that proposal, who would pay for

the rest of the UFG costs on the system.
MR. KRIS SAXBERG: Could you though provide a -- a table in the form of PUB/Centra 14(c) Attachment that shows the results of a combined weighting wherein 55 percent is based on the UFG report and 45 percent is based on a purely volumetric allocation?
MS. MARLA MURPHY: I guess, Mr. Saxberg and Mr. Chairman, Ms. Derksen can run scenarios from now until she's a very old woman but without some sort of parameters around this process we've had a number of IR's, a lot of information exchanged and -- and, at some point, we have to stop running scenarios and -- and move forward.
THE CHAIRPERSON: Mr. Saxberg, I take it you're looking for this for your closing remarks?
MR. KRIS SAXBERG: That's right. And, I mean, I don't want to burden the Centra Panel. I know they do a lot of work to prepare for these proceedings and by way of undertakings. Although I think this is the -- this Hearing probably has the fewest number of undertakings of any hearing that I've ever been at, by a large margin.
So with that in mind, all I'm asking is so -- is to know what the dollar impact would be if the -- if the allocation was 55 percent using the report and 45 percent based purely on volumetric.
THE CHAIRPERSON: Are you prepared to accept

that on an approximate basis?
MR. KRIS SAXBERG: Sure.
THE CHAIRPERSON: Ms. Murphy.
MS. MARLA MURPHY: I think on the understanding that we're not prepared to run an infinite number of scenarios, that would be fine.
THE CHAIRPERSON: I think that's your understand as well, Mr. Saxberg?

--- UNDERTAKING NO. 16: What would the dollar impact would be if the allocation was 55 percent using the report and 45 percent based purely on volumetric.

CONTINUED BY MR. KRIS SAXBERG:
MR. KRIS SAXBERG: Yes. Thank you for that then. Just one (1) quick question I'm only -- I'm asking out of curiosity. The -- the total UFG actual costs for 2003/04 were 5.13 million, is that right?
MR. BRENT SANDERSON: That sounds like the number we were discussing earlier today, yes.
MR. KRIS SAXBERG: And that is up from what's on PUB/Centra 14(c) of 4.34 million, correct?
MS. KELLY DERKSEN: 4.34 million was our

initial application and that was a forecast of what we expect the unaccounted for gas costs to be based, number 1, on an expected level of UFG of 1 percent and also based on a strip date of, I can't remember off the top of my head whatever the date was so, those were our forecasted expected costs for the 04/05 year at that point in time.

MR. KRIS SAXBERG: Sorry. I should have said the forecast is down from what the actual was the year before.

MR. BRENT SANDERSON: The forecast as depicted in Centra 14(c), yes the amount is somewhat less than the actual result from 2003/2004. I might point out that it's been referenced as 14 million -- 14.3 million, it's 4.3 million in Centra -- in PUB/Centra 14(c) just for sake of clarification.

And that can be largely explained due to the fact that we were using an amount for UFG in 2003/2004 in the neighbourhood of 1 percent in the forecast is now at .9 percent. Prices -- changes in market prices play some role in that change as well.

MR. KRIS SAXBERG: I appreciate that but PUB/Centra 14(c) is going to be updated and we'll be looking at line 10 at the -- at a new number there. Will it be higher or lower than the one on the current?

MS. KELLY DERKSEN: It would be -- what we

are now proposing filed in our April -- sorry, the August 9th, 2004 filing is total UFG costs anticipated for the 04/05 period of five million one hundred and thirty-six thousand dollars ($5,136,000).

MR. KRIS SAXBERG: When the Application was initially filed, that forecast was for $4.34 million?

MS. KELLY DERKSEN: Yes, sir.

MR. KRIS SAXBERG: Notwithstanding that we've gone from -- down from 1 percent of volumes to .9 percent, the absolute dollar amount has, I was going to say, shot up. Not shot up, but increased?

MR. BRENT SANDERSON: And that would be the increase in the market prices that I described to you earlier.

MR. KRIS SAXBERG: That's just a factor of gas -- for the price of gas?

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

MR. KRIS SAXBERG: Okay, thank you for your patience, Panel, and those are all my questions, Mr. Chairman.

MR. BRENT SANDERSON: I might also add before we close, if -- if the Board will allow it. That increase in costs as well as contributed to by the near doubling of Simplot's volume in the updated forecast relative to the original forecast. So I can't give you exact quantification

right here as to which portion of that increase was attributable to market price and which was Simplot's increase in volumes. But there was those two (2) factors at play.

THE CHAIRPERSON: Thank you, Mr. Saxberg. Ms. Melnychuk, would you like to ask questions of this Panel and if so, maybe you could trade chairs with Mr. Saxberg.

MS. KAREN MELNYCHUK: We have no questions of this Panel, thank you.

THE CHAIRPERSON: Thank you. Mr. Carroll...?

MR. BILL CARROLL: Mr. Chairman, I really have four (4) questions of this Panel that require yes, no answers although I doubt the answer will be yes or no. So I won't take long.

THE CHAIRPERSON: Your speakers working fine from there, so that's okay.

CROSS-EXAMINATION BY MR. BILL CARROLL:

MR. BILL CARROLL: Thank you, Mr. Chairman. As I understand your proposal, the proposed weightings for unaccounted-for gas for the high volume firm customers will move from 4.3 percent where it is today to 8.8 percent, and that's on Tab 7, page 9?

MS. KELLY DERKSEN: 4.3 percent to 8.8 percent, yes.

MR. BILL CARROLL: So this -- on -- on Tab 7,

page 9, lines 8 and 9 you say:

"For most classes the bill impact of the proposed change to the UFG weightings is almost negligible."

And in response to our clarification question of MacDon/Centra-3 that number turns out to be about a half a percent increase per year for the high volume firm customers which, in my client's case on a half million dollar a year bill, is around twenty-five hundred dollars ($2,500) of ongoing additional cost?

MS. KELLY DERKSEN: That -- that very well may be. Our -- our -- what we were proposing or what we were suggesting in our statement was that total UFG in relation to the total cost of gas which is in the neighbourhood of four (4) -- over $400 million, $5 million of that $400 million is, in our view, not a significant amount.

MR. BILL CARROLL: Thank you. I was just trying to get it back to what my client is facing. My third question is, as I understand it the new allocation or weighting is based on your study in which about a half or 55 percent of the unaccounted-for gas problem, if I can call it that, was accounted for?

MR. GREG BARNLUND: That's correct.

MR. BILL CARROLL: Is it possible that if you could identify the other half of the problem or the other 45

percent of the problem that it could move the new 8.8 percent weighting back towards the old 4.3 percent weighting or maybe even the other way?

MR. GREG BARNLUND: I really -- I don't have any information that -- that would give me any better direction in terms of what might happen if we identified more of the unaccounted-for gas.

We spent the better part of a year and probably a hundred and twenty thousand dollars ($120,000) of company time to try and identify this -- the origins of this matter and try and come up with a -- a more appropriate set of data with which to apply the judgment for allocating this.

And I feel confident that we have done that. We have accomplished that task and that the results speak for themselves. And I wouldn't begin to speculate as to what might happen, you know, if you -- in terms of the remaining 45 percent as you describe.

MR. BILL CARROLL: Thank you. I -- I guess I'll touch on that in my closing. Those are my questions.

THE CHAIRPERSON: Thank you, Mr. Carroll. Mr. Gretener...?

MR. NICK GRETENER: Thank you, Mr. Chairman. And good afternoon, Mr. Chairman, and Panel members. As Mr. Peters had noted, my name is Nick Gretener. And for the court reporter that's G-R-E-T-E-N-E-R and I represent Simplot

Canada Limited.

And I do like, Mr. Chairman, the round table format we have here. I find it a little more congenial atmosphere than -- than the one (1) I'm used to in the Hearing Room. And -- and I think it is conducive to -- to the information exchange process so...

And before I start, I would like to thank the Board. I'd like to thank Mr. Peters and I'd like to thank the Applicant, Centra, for having crafted this UFG day that allowed us to save some time and -- and money in our participation in this Hearing.

Some of our witnesses have come from afar and I just wanted to let you know that we do appreciate those efforts very much. And, good morning, Witness Panel -- or good afternoon, lady and gentlemen.

Being at the end of the train has its advantages and disadvantages. I think Mr. Peters laid a good foundation here in terms of understanding the UFG issues to the extent that they are understandable.

And I've tried to adjust my questions but there may be some overlap. I think it's a bit inevitable. And my questions today are on behalf of the Simplot Brandon Plant. I want to make that clear. Simplot also has other service on the Centra system, in particular, the Portage La Prairie Potato Processing Plant, but our UFG concerns are

focused on the special contract plant.
So, please take my comments in that context -- and my questions.
And at the outset, I -- I would note that Simplot was very much encouraged to see the -- the good work the Company has done in addressing this issue. It's been one (1) of long-standing concern to -- to Simplot and -- and -- and ever increasing concern as we've seen gas prices rise, and -- and the natural impact that has on UFG.
And as you'd understand from our evidence, we believe that -- that we've gone a good way towards getting to the right answer here, but we don't think we're quite at the finish point.

CROSS-EXAMINATION BY MR. NICK GRETENER:
MR. NICK GRETENER: Before I get into my cross-in-chief, I'd just like to do a bit of follow-up on some of the questions that were -- that were raised before me.
And in particular, Mr. Rainkie, I think I heard you say that the Simplot indicator that compares the 2.8 percent of replacement cost to a depreciated rate base, is not particularly meaningful, because you're comparing an undepreciated to a depreciated number; do you recall that, sir?

MR. DARREN RAINKIE: I recall that, but our overall position is that the indicator is an inappropriate to begin with, so, whether we refine that calculation or not, if you have an inappropriate allocator, it's still an inappropriate allocator.

MR. NICK GRETENER: And I understand that's the position of the Company, but I heard you raised a, sort of an extra concern, if I can call it that, of mixing undepreciated and depreciated numbers; was that -- is that fair?

MR. DARREN RAINKIE: That's fair. I mean, I wasn't quite sure when I read the evidence what that number was getting at when you have kind of an apples and oranges comparison. But I want to make it clear we don't think that's an appropriate allocator and we could do a depreciated replacement study of Centra's System and get a new number, but I still don't think that's an appropriate allocator.

MR. NICK GRETENER: And I understand that, sir. Could you pull up Simplot/Centra 14 ...

(BRIEF PAUSE)

MR. NICK GRETENER: And in particular, 14(j), which is on page 4 of five (5).

MR. DARREN RAINKIE: I have it now.

MR. NICK GRETENER: You see there that we had asked for the dollar value of Centra's System on an undepreciated basis, and the response was, it was in the order of $522 million; do you see that, sir?
MR. DARREN RAINKIE: That's correct.
MR. NICK GRETENER: And would you accept, subject to check, that if we had used that undepreciated number, our indicator would have come out at a level of 1.9 percent, as opposed to 2.8 percent?
MR. DARREN RAINKIE: Yes, directionally that number would have been lower, but let's look at the components of rate base. What does -- what does working capital have to do with UFG? What does contributions and native construction have to do with UFG?
What does depreciation have to do with UFG? There may be some weak correlation to the physical loss with respect to gross plan, but our overall position is this allocator is an inappropriate, so no matter how you want to slice this calculation, our position doesn't change.
MR. NICK GRETENER: And, again, I understand that, sir. I was simply trying to pick up on the point of mixing undepreciated and depreciated numbers. Would it be fair to say by choosing the depreciated numbers then, Simplot was in fact being conservative when it calculated its -- its indicator? Using an undepreciated number would have driven

the indicator lower.
MR. DARREN RAINKIE: Simplot was being conservative in estimating the relative value of its plant to total -- to Centra's total rate base, but that's an interesting calculation, but I don't think it has anything to do with the subject of UFG.
MR. NICK GRETENER: Okay. Thank you, sir. And we can agree that when we refer to UFG, we're referring simply to the amount of gas that's received by Centra onto its system, compared to the amount of gas that's delivered by Centra off of its system; is that a fair definition?
MR. GREG BARNLUND: Yes, sir. Yes, it is.
MR. NICK GRETENER: Does UFG on the Centra System include any fuel gas?
MR. GREG BARNLUND: No, sir.
MR. NICK GRETENER: Okay. So the -- do you have any compression on your system?
MR. GREG BARNLUND: None.
MR. NICK GRETENER: So the pressure support you get from TransCanada is all that's required to drive your system?
MR. GREG BARNLUND: That's correct.
MR. NICK GRETENER: Thank you. I'd like to briefly explore the facilities that are used to serve the special contract class, and I believe Mr. Peters touched on

this, there may be a bit of overlap, but if you could pull up once again, the Attachment 1 to Simplot/Centra-19, that schematic diagram of the system serving the Brandon plant...?

MR. GREG BARNLUND: I have that.

MR. NICK GRETENER: Now, in your IR Response, you indicate that there's a custody transfer point at the TransCanada facility near Rapid City, that measures the flow onto the Centra System, and on Attachment 2, sorry, on Attachment 1, we see the take-off point from the TransCanada System onto the Centra System at the top of that page; correct?

MR. GREG BARNLUND: Yes, sir.

MR. NICK GRETENER: Would that, then, be the Rapid City take-off point?

MR. GREG BARNLUND: That's what's represented there, yes.

MR. NICK GRETENER: And would I be correct in assuming that there is one (1) metering facility at that point measuring the flow onto the Centra system?

MR. GREG BARNLUND: TransCanada has there metering facility there, yes.

MR. NICK GRETENER: And I think I heard you say this morning there's a -- there's two (2) meters at that station, a TransCanada meter but Centra has also put in its own check meter; is that correct?

MR. GREG BARNLUND: Well, adjacent to TransCanada's property we have property where we have our -- what we call our primary station. I think Mr. Peters referred to that as our City Gate and we have measurement -- check measurement facilities there.

We also have pressure regulation and odourization facilities and -- for part of that system.

MR. NICK GRETENER: Okay. And focusing on the metering equipment, are these meters of the highest quality and accuracy; that is the TransCanada meters or the TransCanada meter?

MR. GREG BARNLUND: I assume so. The metering that TransCanada provides in terms of its custody transfer of gas to us would have to comply with the Electricity and Gas Measurement Act and Regulations and -- and be met -- meet the same standards as we have to meet for custody transfer to our transfers.

MR. NICK GRETENER: And what's the nature of the Centra meter that's at that station?

MR. GREG BARNLUND: We would -- in terms of our check metering, we have got metering located, I would say, at most of our primary stations along the system. Bearing in mind that that check metering does not receive the same level of attention as our custody transfer meters do because it's not intended for custody transfer purposes.

It's probably serves two (2) purposes really. The main one would be to provide a signal for our odourization equipment to be able to provide odourant in the proper ratio to the gas flowing through it.

And, similarly, the second purpose is to be tied into our SCADA system to provide our gas control people with some type of feedback in terms of being able to track the receipts onto the system and compare those, at some level, against the TransCanada deliveries.

MR. NICK GRETENER: Okay but these -- your check meter and the TransCanada meter, these are fairly sophisticated meters to the extent, I think I heard you say this morning, that -- that you were comfortable that there was a -- would be negligible error at this -- at the take-off point through that measuring equipment; is that fair?

MR. GREG BARNLUND: And I think that, as far as the TransCanada meter is concerned, as I said, we've done some analysis on the -- on the metering and it leads us to believe that the meters are running reasonably accurate in that regard.

And I -- beyond that, I would not be using our check metering equipment to try and verify down to the cubic metre in terms of how their -- their custody transfer meter is performing.

It's simply to provide us with trending

information in terms of the correlation between their meter and ours.

MR. NICK GRETENER: Okay. Thank you, sir. And at the Simplot delivery point there's also two (2) meters. There's the Centra meter and Simplot itself has installed a -- a check meter; correct?

MR. GREG BARNLUND: Yes.

MR. NICK GRETENER: And, in fact, those meters are very high accuracy, auto adjusting, turbine meters. They're at the upper level of what can be done in terms of measuring equipment?

MR. GREG BARNLUND: That's what I understand, yes.

MR. NICK GRETENER: So, to the extent that we have two (2) wristwatches there and they will be different from time to time, they're probably within seconds and not minutes of each other, if I could put it that way?

MR. GREG BARNLUND: I think that, given the level of attention that they receive, that there's a very good likelihood that they're, you know, going to be maintained and would provide you with pretty good accuracy in terms of that.

MR. NICK GRETENER: And, in addition to that, effective of January of this year, Simplot and Centra have initiated what we called in our evidence, a natural gas

metering protocol; is that correct, sir?
MR. GREG BARNLUND: Yes, it is.
MR. NICK GRETENER: And that metering protocol essentially calls for almost realtime attention to the -- to the meters at the Simplot facility and to the extent that -- that there are concerns with respect to the accuracy of those meters, that is addressed in a very timely manner; is that a fair characterization of that program?
MR. GREG BARNLUND: Well, "realtime" depends on your definition of "realtime". I think there's a certain number of hours or days that are contemplated in that protocol that if there is an issue that we would be on-site within that time period.
MR. NICK GRETENER: Okay. That's fair enough, but we're talking days not months?
MR. GREG BARNLUND: That's correct.
MR. NICK GRETENER: Now, back to our Attachment 1, the schematic diagram of the system. We see a number of pipelines between the Rapid City TransCanada take-off at the top of the page and the Brandon Number 2 City Gate at the bottom of that page, correct?
MR. GREG BARNLUND: Yes, sir.
MR. NICK GRETENER: And the pipeline on the far light is odourized while the remaining pipeline are not?
MR. GREG BARNLUND: Yes, sir.

MR. NICK GRETENER: Would I be correct in assuming that only the unodourized pipelines would be used to deliver gas to the special contract class?

MR. GREG BARNLUND: The special contract customer receives service off of the unodourized system. Also the Manitoba Hydro Brandon generating station also receives service off the unodourized system. And the customers to the south of Brandon, sixteen hundred (1600) customers in the southwest area have capacity supplied to them off of the unodourized system.

MR. NICK GRETENER: Okay, but the special contract class would not be receiving service on that unodourized pipeline -- that odourized pipeline on the far left of the diagram?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: Okay. And on Attachment 2, which is the continuation of your system, we see the more complex distribution system that occurs downstream of your Brandon Number 2 City Gate, right?

MR. GREG BARNLUND: Yes, sir.

MR. NICK GRETENER: And that part of Centra's system would not be used or required to serve the special contract class; is that fair?

MR. GREG BARNLUND: Facilities downstream are not required to serve the special contract customer but these

customers do share in all the facilities from the -- from their -- I guess from the TransCanada, the origin of TransCanada itself.

MR. NICK GRETENER: These customers all receive gas that flows through the pipelines that connect with TransCanada but -- but again if you were -- if you had to truncate your system at City Gate number 2, the special contract class could continue to be served?

MR. GREG BARNLUND: If we had -- could you repeat that question for me?

MR. NICK GRETENER: If -- if your system just stopped at City Gate number 2, you didn't have Attachment 2 of 2, that wouldn't have any impact on your ability to serve the special contract class?

MR. GREG BARNLUND: Hypothetically but we would be -- we would have quite a bit of extra capacity as far as City Gate Number 2 then is concerned.

MR. NICK GRETENER: Okay. But the simple point being that all of the facilities on Attachment 2, none of those facilities are required to serve the special contract class, right?

MR. GREG BARNLUND: I would agree with that.

MR. NICK GRETENER: Now in your IR response, when you refer to the whole part of the Centra system downstream of the Rapid City takeoff point, you referred to

the fact that you have sixteen hundred (1600) custody transfer points off of this portion of the system, right?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: And to be clear, these sixteen hundred (1600) custody transfer points, they're located on the distribution portion of the system shown in Attachment 2, correct?

MR. GREG BARNLUND: Also taking into consideration the one custody transfer point at the Manitoba Hydro Brandon generating station which is north of the Simplot plant.

MR. NICK GRETENER: Okay. So, the distribution portion of the system where the sixteen hundred (1600) custody transfer points again has nothing to do with the special contract class; is that fair?

MR. GREG BARNLUND: That's fair.

MR. NICK GRETENER: Now could you pull up your rebuttal evidence? Page 9, the last page of that evidence?

MR. GREG BARNLUND: I have that.

MR. NICK GRETENER: Okay. And I think we heard you mention this again this morning. At line 8 and following you say and I quote:

> "Simplot suggests that it is being served by a simple bullet pipeline with one entry

and one exit point. This is not the case. Simplot's plant is served along a common pipeline with some eighteen hundred (1,800) other customers in the manner described in Centra's response as to Simplot/Centra-19(a),(b),(c),(d) and Attachments 1 and 2 to Simplot/Centra-19(a). As such Centra cannot measure UFG specifically for Simplot or any individual customer on the system." Endquote.

First of all where does the eighteen hundred (1,800) come from as compared to sixteen hundred (1,600) that was in the IR response?

MR. GREG BARNLUND: Our apologies, eighteen hundred (1,800) would be a typographic error. It should be sixteen hundred (1,600).

MR. NICK GRETENER: Sixteen (16)?

MR. GREG BARNLUND: Yes.

MR. NICK GRETENER: Okay. Thanks. But again these sixteen (1600) customers, they again are the customers downstream of that Simplot delivery point on the portion of the system that we've established has nothing to do with the special contract class, correct?

MR. GREG BARNLUND: Well and it would also include the Manitoba Hydro generating station north of the

Simplot plant.

MR. NICK GRETENER: That's fair enough. That's that one other delivery point. And indeed gas flowing to the special contract class is measured only at two (2) points, that is at the Rapid City take-off point onto the Centra system and at the delivery point to the Simplot Brandon plant; is that correct?

MR. GREG BARNLUND: Well I think to be clear, it's certainly measured at the -- at the customer's location at the delivery point on your property -- or on Simplot's property sorry. However, I would say that the gas being measured onto the system at TransCanada doesn't -- you can't distinguish at that metering location which gas is for Simplot and which gas is destined for all the other customers down -- down the line.

It's -- it's, essentially, one metering point and all of the flow will pass through that meter. And so in the course of a day you'll have some volume that's being consumed at the Simplot facility, you may have some volume consumed at the generating station and you're going to have some volume consumer, not just for the sixteen hundred (1600) customer southwest of there, but all the gas that's consumed in the City of Brandon area also flows through that metering point.

So, the gas that becomes odourized at our

primary station and travels down to the City of Brandon will be feeding eleven thousand (11,000) and some customers in the City of Brandon as well.

So, there's no way of distinguishing, at it's origin, which gas is destined for which customer. It's all co-mingled together and measured in one -- in one batch.

MR. NICK GRETENER: Okay. Thank you, sir. And I understand that. So, as the system is currently configured, the gas that's measured at the Rapid City take-off point includes non-Simplot gas, if I can call it that -- gas that's destined for other destinations.

But gas going to the Simplot plant would be measured at that take-off point along with gas that's going to the balance of the system. And then it would be measured again when it enters the Simplot plant. A molecule of gas going through the system would it -- would be metered at those two (2) metering stations?

MR. GREG BARNLUND: Essentially, yes.

MR. NICK GRETENER: And those are two (2) metering stations that have very high quality meters, in fact the best that, basically, you can get; is that fair?

MR. GREG BARNLUND: I would say that -- that they would be very high quality meters; yes.

MR. NICK GRETENER: Now, I'd like to understand the relative volumes of gas that use this part of

the Centra system. And, again, in Simplot/Centra-19 at page 4 of 4 you indicated there that the combined volume of gas that's delivered to customers other than the special contract class over a recent twelve (12) month period was some forty-six thousand two hundred and seventy (46,270) 10-3-M-3s; correct?

MR. GREG BARNLUND: That's correct. Yes.

MR. NICK GRETENER: Would you know how much of that would be accounted for by the power station class?

MR. GREG BARNLUND: I would have to do a check. Just give me a second.

(BRIEF PAUSE)

MR. GREG BARNLUND: We'd like to double check that at the break before we provide that, I think.

MR. NICK GRETENER: Okay. That's fine. I'm just looking for a ballpark number. But, is it fair to say you're estimating the annual throughput for the special contract class in the upcoming year to be in the order of four hundred and twenty thousand (42,000) 10-3-M-3; that's the number you recall?

MR. GREG BARNLUND: Yes. It's so we've got basically almost like a one-tenth (1/10) --

MR. NICK GRETENER: That's where I was going.

So, roughly ten (10) times the throughput for all the other customers?

MR. GREG BARNLUND: Yes, I'd accept that.

MR. NICK GRETENER: Okay. Thank you. Before I leave this area, let me ask you a hypothetical if I may: If you have a special contract customer that was basically -- almost a tap off the TransCanada system located say, just a kilometre or half a kilometre off the TransCanada system and it had clearly the TransCanada meter, that high quality meter that measured the meters on -- on the take-off point, and that special contract -- special contract class had an equally accurate meter, would you still apply a 5.7 percent UFG ratio to the service to that customer?

And -- and be clear, this is a dedicated service. No other customers involved. A simple short line tap to this one (1) customer?

MR. GREG BARNLUND: All other things being equal, given that our study is based -- the results are -- are pointing us directly towards measurement accuracy as being the major contributor, if we had -- the results of our study would not change regardless of the location of that customer.

If that -- that customer could be virtually located in TransCanada's right-of-way and it would have no influence in the results of our study hence no change to the

percentage that we'd recommend for allocation of unaccounted-for gas.

MR. NICK GRETENER: Okay. Thank you, sir. I'd like to just next briefly explore industry standards for UFG if I could. And there were a few IR responses that went to that.

If you turn up your Application; Tab 7, page 8.

(BRIEF PAUSE)

MR. GREG BARNLUND: I have that.

MR. NICK GRETENER: At lines 4 and 5 you say that your actual UFG during the period '96 to 2003 fluctuated between 0.95 percent and 1.39 percent of total system throughput; correct?

MR. GREG BARNLUND: Yes.

MR. NICK GRETENER: And so the midpoint of that range would be something a little over 1 percent; is that fair?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: And you go on to say that Centra's UFG was well below industry average during that period; right?

MR. GREG BARNLUND: Yes.

MR. NICK GRETENER: And what's the basis for that conclusion?
MR. GREG BARNLUND: Well, if we look at the data that -- I believe there was an IR that was asked on that.
MR. NICK GRETENER: You might refer to PUB/Centra 14?
MR. GREG BARNLUND: Correct. PUB/Centra 14(b), page 3 of three (3). We have a wide range of results from different utilities across Canada. And if we take a look at the distribution companies and average out the ranges that could exist for the data that's there, it's possible that their average, between all those utilities, is about 1.5 percent or somewhere in that regard.
MR. NICK GRETENER: Okay. And that's what I got, 1.43 percent. I did the same exercise. I took the midpoints. But would you agree, subject to check, at the bottom of your list you have Enbridge New Brunswick; do you know anything about that distribution system, sir?
MR. GREG BARNLUND: Enbridge in New Brunswick is a rather new gas distributor that has been in business for a little over a year now. And so they're basically a green field operation that is really just getting underway and getting established.
MR. NICK GRETENER: And you understand that

they've been struggling to try and get their customers up. They've been having trouble meeting their forecasted customer -- customer projections?

MR. GREG BARNLUND: Well, I have no idea about that. But they did provide me this unaccounted-for gas information.

MR. NICK GRETENER: Okay. And they are a green field operation. Did it occur -- did it seem a bit odd to you that their numbers are really out of the ballpark here in -- in -- in comparison to the rest of the group?

MR. GREG BARNLUND: Well, understanding that they are a green field operation, I imagine that they would be endeavouring to reduce that percentage going forward as we -- as we would see.

MR. NICK GRETENER: Would you agree, and this can be subject to check, that excluding Enbridge New Brunswick, the average of the midpoint of those ranges would be in the order of 0.57 percent?

MR. GREG BARNLUND: If we did it in that fashion, subject to check, I'd -- I'd accept your numbers.

MR. NICK GRETENER: Okay. And that would be well below your UFG level of something over 1 percent or in the order of 1 percent; is that fair?

MR. GREG BARNLUND: Well, it would certainly be different. But as I look across these numbers and I see

an extremely wide variation. And I also see, when I compare Union Gas in Ontario with Enbridge Gas in Ontario, two (2) very similar gas LDCs with a couple of million customers a piece, and their -- they've got quite a wide range of difference between -- in fact, an extremely wide range of different results between those utilities.

So, I think that this data tells us that it's extremely -- difficult to make any uninformed comparisons, if you would, from LDC to LDC without understanding the circumstances behind the numbers.

MR. NICK GRETENER: That's fair. But if we -- if we -- you know, I mean, you use these numbers to support your -- your position that you're well below industry average. If we're using these numbers and trying to get a sense of them, the best we could do probably is take a midpoint; is that fair?

MR. GREG BARNLUND: Potentially.

MR. NICK GRETENER: Okay. And now, in your rebuttal evidence, and I don't think you need to pull it up for this, you probably recall this point, you say that most gas distribution companies in Canada allocate UFG on a volumetric basis; is that fair?

MR. GREG BARNLUND: That's our findings, yes.

MR. NICK GRETENER: Would you agree that certain systems that provide both transmission type service

and distribution type service differentiate between UFG for their transmission and distribution sides?

MR. GREG BARNLUND: That would be my understanding. Yes.

MR. NICK GRETENER: And, indeed, first of all, would you consider the special contract class to be receiving a transmission type service or a distribution type service?

MR. GREG BARNLUND: If I was to evaluate what other utilities call a transmission type customer, I think that the special contract customer would fit that description.

MR. NICK GRETENER: Okay. Fair enough. And I think this was born out by your physical loss analysis where you attributed a transmission UFG loss to the special contract class but not distribution; fair enough?

MR. GREG BARNLUND: Correct.

MR. NICK GRETENER: Now, on that table, PUB/Centra 14, page 3 of three (3), there are actually a few networks that reported their UFG percentages broken out between distribution and transmission systems; correct?

MR. GREG BARNLUND: That would be the ATCO system in Alberta, yes.

MR. NICK GRETENER: And as well, the -- so the two Atco Systems and as well, I believe, the Trans Gas

System; correct?
MR. GREG BARNLUND: That's correct, yes.
MR. NICK GRETENER: Okay. So, if we look at those three transmission numbers only now, Atco Gas North has a rate of .691 percent, Atco Gas South 0.19 percent, and Trans Gas has a range from a gain of .5 percent to a loss of .48 percent, which basically almost zeros them out to a net gain of -- of zero, basically; is that fair?
MR. GREG BARNLUND: I'd say so, yes.
MR. NICK GRETENER: And the average of these three (3) transmission UFG rates, which would be more in the order of the kind of rates that should apply to the special-contract class, is in the order of 0.29 percent, and, again, you could take that subject to check?
MR. GREG BARNLUND: Subject to check, yes.
MR. NICK GRETENER: And that again, would then be well below, in fact, that would be about a quarter of the -- of your UFG rate of 1 percent; is that fair?
MR. GREG BARNLUND: In round numbers, yes.
MR. NICK GRETENER: Okay. I'd like to move on and briefly discuss supplying UFG in kind, as opposed to paying for it in dollar terms. And, first of all, I think we touched on that a bit this morning.
The charge for UFG to all customer classes, including the special-contract class, is based on Centra's

cost of gas; is that correct?
MR. GREG BARNLUND: That's correct.
MR. NICK GRETENER: Can you confirm that the special-contract class -- purchases its own gas?
MR. GREG BARNLUND: Yes, I can.
MR. NICK GRETENER: And do you know if Centra's cost of gas is the same as the special-contract classes' cost of gas?
MR. GREG BARNLUND: We have no idea, because we're unaware of the cost of gas for the special-contract classes.
MR. NICK GRETENER: And, that's what I expected you'd say. If I'd had an answer to that question, it would have been interesting.
So, what we're talking about here when we're talking about supplying UFG in kind, is if you have a customer that -- that already purchases its own gas, that customer like -- might like to explore the ability to -- to also provide UFG in kind, and actually pay its UFG costs through its own gas costs rather than the utilities; you understand that that's the driver behind this line of questioning?
MR. GREG BARNLUND: Yes, I understand that.
MR. NICK GRETENER: Now, in Simplot-Centra 13, you presented your review of how other pipelines

dealt with the UFG in kind issue. You might want to pull that up...

MR. GREG BARNLUND: Yes, I have that.

MR. NICK GRETENER: And, can you confirm that of the nine (9) pipelines you canvassed there, that seven (7) allowed customers to deliver gas in lieu of cash payments for UFG?

MR. GREG BARNLUND: Well, and I think the important distinction here is that some of these are pipeline companies, some of these would be gas distribution companies, but of the companies that we've identified, I believe that those numbers that you've got are correct.

Now, and I just to footnote though, in terms of Enbridge, Ontario; while technically it says yes, effectively they do not accept receipt of gas in terms of, or in lieu of UFG. That particular option is only available to two (2) rate classes; there are no customers that are using those rate classes, and no -- therefore, that option is not -- has not been exercised in the last number of years.

So, for the remaining, say three (3) or four (4) million customers on the Enbridge System, they will all pay for UFG as part of their tariff. So, I just want the clarification on this.

MR. NICK GRETENER: Yes, that's fair enough. And that's Footnote 1 to the Table, I believe.

Do you know how TransCanada Mainline deals with the UFG issue?
MR. GREG BARNLUND: I'm told that it is assessed as part of the compressor fuel.
MR. NICK GRETENER: And, is compressor fuel provided in kind by TransCanada -- customers, that is, as gas?
MR. GREG BARNLUND: I believe it is, yes.
MR. NICK GRETENER: Okay. And do you know how Nova Gas Transmission deals with the issue?
MR. GREG BARNLUND: I believe it's the same on Nova.
MR. NICK GRETENER: So we could put both of those systems into the yes category, that is, they allow shippers to provide gas in lieu of cash, for UFG?
MR. GREG BARNLUND: Being pipelines and not LDCs, I suppose we could include them on the list.
MR. NICK GRETENER: Now you indicate that one (1) of your reasons for being reluctant to allow customers to provide UFG in kind, is the fact that you have no storage on your system; do you recall that?
MR. GREG BARNLUND: I think probably the greater issue is that we do not -- UFG is -- is not a loss that we have to makeup gas for. It's not like a compressor field it gets consumed off our system and needs to be

replaced. It's largely the accumulated error of a number of different sources of which may be only 12 percent of that may actually be the physical loss itself.

MR. NICK GRETENER: And I just -- I want to go to that point next that you don't have to replace losses from meter error. But first, sticking with storage, are -- are you telling me now that storage really isn't a roadblock to being able to provide UFG in kind?

MR. GREG BARNLUND: Well, I'm just indicating that most of the -- the companies that accept gas in lieu of UFG, have storage facilities available or operate their own storage facilities on their system and -- and maybe the facilitation of that is simpler for them.

MR. NICK GRETENER: Do you know whether TransCanada or Nova operate their own storage facilities?

MR. GREG BARNLUND: I think that probably those two (2) companies would be able to manage through line pack as opposed to storage directly.

MR. NICK GRETENER: Okay, fair enough. Now, back to the issue of -- of meter errors. We discussed at the outset the -- the definition of UFG which is the difference between the amount of gas received and the amount of gas delivered.

So whether you have a shortfall in the amount of gas due to a physical loss which you have to replace or

whether you have a shortfall due to measurement error. In other words your meter has read high and low and you've sent more gas out than you thought you did, you've drafted the system, you still have to replace the gas for meter error as well, would you not?

MR. GREG BARNLUND: It becomes a transactional imbalance as opposed to physical imbalance. In other words -- in other words the gas entered the system, it left the system, it just didn't get counted properly leaving the system.

MR. NICK GRETENER: But when you say you have 1 percent UFG in a year, that means you have to go out and buy 1 percent of UFG to repack your line, right?

MR. GREG BARNLUND: No. That's not the case at all. We're saying that sales and deliveries fell short of receipts by 1 percent through whatever reason.

MR. NICK GRETENER: So you've under-billed your customers?

MR. GREG BARNLUND: Essentially that would be the case, yes.

MR. NICK GRETENER: So you're not purchasing makeup gas for that full 1 percent. You're purchasing makeup gas in the order of 12 percent and the rest is for an under-billing of the customers?

MR. GREG BARNLUND: Well, we would not be

purchasing gas, we would -- we would not be purchasing gas to make up any of that UFG related to the measurement issues. The only potential makeup gas we would have will be some small amount to replace gas that was lost through emissions through physical -- physical means. Which amounts to as you indicated 12 percent of 1 percent of our UFG.

MR. NICK GRETENER: Let me stay with this for one more minute if -- if you would. If I have a meter that reads high and tells me that a hundred (100) units have entered the system when in actuality only ninety-nine (99) units have passed through.

And then my takeoff meter reads low and it tells me that a hundred (100) units have passed through when a hundred and one (101) units have passed through. Isn't my system going to be short two (2) units? Due to the meter error I've -- I've -- I'm two (2) units short?

MR. GREG BARNLUND: Well, when we look at overall the entire system I think that that's -- you may not be units short so much as you're revenue short. In other words, the gas left the system. The meter did not account for it properly leaving the system. And therefore, you're short the money --

MR. NICK GRETENER: But I'm also physically -- I've -- I've taken in less gas than I thought I was taking in and I've pumped out more gas than I thought I was pumping

out, so I've got a deficit in my inventory -- in my pack of -- of those two (2) units, right, physically?

MR. GREG BARNLUND: But I guess over the entirety of the system, any of that -- I mean, basically that will get averaged out right across the system so that we would end up with the scenario that we're talking about here today, where over the course of the whole year all the pluses and minuses accumulate together.

And we have the net result is meter readings are 1 percent less than the meter going off the system than the gas coming onto the system.

MR. NICK GRETENER: I'm going to have to sleep on that because I don't think I'm -- I'm not -- I don't think I'm there get.

As I understand, if you have a total system meter error of 1 percent than that -- that means you've got a net loss on your system that has to be made up and that's why you're purchasing UFG.

You're applying your cost of gas price to -- to the UFG; right?

MR. GREG BARNLUND: That's -- but before we leave that, I just want to make sure that we don't confuse daily balancing processes off the pipeline with UFG. These are two (2) entirely separate topics. What you're referring to is the state of balance or imbalance we may be on the pipe

every day.

And that does -- that is a process that's controlled on a day-to-day basis by our staff at the gas control centre at City Gate that is not what we're talking about in this Application.

We are talking about the sum of all of the meter readings we have of gas leaving the system versus the sum of the meter readings of the twenty-seven (27) meters coming onto the system over the course of a year and that's what we're referring to. I just want to be clear about that.

MR. NICK GRETENER: Yeah, I -- no, and I understand that. But I understand at -- at the end of the day when you net those two (2) numbers you still come up with -- with being 1 percent short because of -- of -- of the meter error and -- and I take that to mean that 1 percent of extra gas has left the system because the meters weren't entirely -- reading it entirely accurately?

MR. GREG BARNLUND: Well, as much gas came on to the system left the system in the course of the year because we have no other place for it. I mean, except for a little bit of gas that escapes through physical loss, ours is a -- a pipeline that has no compressors and no storage.

We take gas off at TransCanada and ultimately it gets sent off to the customers and -- and gets metered. If those meters, when you sum them up, don't reconcile

perfectly with your receipts, that's understandable.
But we don't reconcile those meters every day to do balancing. We do our balancing using other methods and so that this balancing process and the state of imbalance we may have with the pipeline is, indeed, a separate matter that we're not discussing here in terms of this topic.
MR. NICK GRETENER: Okay. Maybe I'll move on to what may be the -- the to discuss the contribution to UFG from -- from measurement variance or meter error.
And I think we've heard this before this -- in this morning's testimony, the -- the measurement variance from your analysis accounts for about 70 percent of the total UFG; is that right?
MR. GREG BARNLUND: That's correct. Yes.
MR. NICK GRETENER: And if I wanted to determine UFG resulting from measurement variance between a receipt point and the delivery point, would it be fair to say that what I'm measuring is the difference in accuracy between those two (2) meters rather than the actual accuracy of the meter at the inlet point or at the outlet point?
MR. GREG BARNLUND: Can you pose that to me again?
MR. NICK GRETENER: Yeah. If I have two (2) meters, an inlet and outlet point, and one (1) meter's reading high, is -- is biased high, but the other meter is

equally biased then I really wouldn't have any UFG or measurement variance loss through UFG; would I?

I'm comparing the delta between the two (2) meters, not the absolute accuracy of either meter?

MR. GREG BARNLUND: I'd -- I'd agree with that. If the meters measuring gas onto the system show the same bias as the meters measuring gas off the system then you would probably end up with a very low UFG.

MR. NICK GRETENER: Okay. Now, in your determination of metering accuracy, it's fair to say that you divided your meters into four (4) classes, your turbines, your large rotary, your small rotary/diaphragm and the special contract class meters; is that fair?

MR. GREG BARNLUND: That's fair. Yes.

MR. NICK GRETENER: Okay. Could you pull up Simplot/Centra-8?

MR. GREG BARNLUND: I have that.

MR. NICK GRETENER: And Attachment (b) of that -- of that IR?

MR. GREG BARNLUND: I have that.

MR. NICK GRETENER: So on Attachment (b) we have the results for the first two (2) classes, turbine and rotary. And we see that the -- the mean or base meter error for the turbine meters was .1 percent; right?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: And I'm going to be, for this exercise, rounding to one-tenth (1/10) of a percent because I think that's what you did in your final analysis?
MR. GREG BARNLUND: That's fine.
MR. NICK GRETENER: And the mean meter error for the rotary meters was a loss of .1 percent; right?
MR. GREG BARNLUND: I'd agree with that, yes.
MR. NICK GRETENER: And then if we turn the page to Attachment (c), that addresses the third class of meters, the small rotary/diaphragm and there we -- we had a range depending on what -- what data source you chose but I'm going to go with the third one, which is all data since 1979, and we see there, there was a gain of .3 percent; is that fair?
MR. GREG BARNLUND: That's fair, yes.
MR. NICK GRETENER: And, finally, if we turn to Attachment (d) on page 2 of 2 ...
MR. GREG BARNLUND: Yes, sir.
MR. NICK GRETENER: We see the error -- the mean meter error for the special contract class was zero percent, right?
MR. GREG BARNLUND: Rounded to zero percent, yes.
MR. NICK GRETENER: And, actually, we had two (2) meters there, we have the Centra meter and the Simplot

check meter. Could you confirm for me that even on an individual basis, each of these meters would still have shown as zero percent error, right?

MR. GREG BARNLUND: I just want to clarify that both of these meters that are shown here are the Centra meters.

MR. NICK GRETENER: Fair enough. You've got your own backup meter.

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: So, each of the two (2) Centra meters, on an individual basis, would have yielded a zero percent error, right?

MR. GREG BARNLUND: I think it's worthwhile paying attention to the -- the absolute volume that we're talking about in error. The error volume for meter A was eighty-six (86) 10-3-M-3 and the meter volume for Error B was a hundred and seven (107) 10-3-M-3s.

MR. NICK GRETENER: Right. But these -- these watches are within seconds of each other. They're both showing rounded a zero percent error.

MR. GREG BARNLUND: That's true.

MR. NICK GRETENER: And so, from your initial analysis, the only meters that had a mean error of zero percent, which means no error, were each of the two special contract meters; is that fair?

MR. GREG BARNLUND: Compared against the other meters which were indicating a gain, yes.
MR. NICK GRETENER: Thank you. And then you had to make an adjustment or you decided to make an adjustment to these meter base results, because of the fact that the mean results reflected only the accuracy of the meter itself, and there are not other components of the measurement system, such as pressure and temperature sensing equipment and electronic flow meters; is that right?
MR. GREG BARNLUND: Yes, plus the other topic that I discussed this morning, in terms of the range of accuracy of the meter and the range of flow that the customers may be experiencing.
MR. NICK GRETENER: Okay. And, again, if you could turn up Attachment (b), the adjustments you made, you made by going on the down side, if I can call it, that negative, and that you assumed added losses by using one (1) or two (2) standard deviations under the mean, for the turbine and rotary meters, right?
MR. GREG BARNLUND: Yes, sir.
MR. NICK GRETENER: And choosing the high case for the special contract class, right?
MR. GREG BARNLUND: That’s correct.
MR. NICK GRETENER: Would it be possible that just a sum of the meter measurement base results, showed a

zero loss, or even a gain, that the variations from the non-meter components could have resulted in a gain as well?

MR. GREG BARNLUND: It is possible.

MR. NICK GRETENER: Okay. And when you chose standard deviations under the -- sorry, I've covered that. If you can turn back to Attachment (b), you chose two (2) standard deviations under the mean for the turbine class, which gave you, instead of a gain of .1 percent, you had a loss of .7 percent, correct.

MR. GREG BARNLUND: That's correct, sir.

MR. NICK GRETENER: And -- and indeed, if you had chosen three (3) standard deviations, you would have had a loss of 1.1 percent, correct?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: And for the large rotary meter case, just below it, there you chose one (1) standard deviation below the mean, and that's due in part to the fact that rotary meters may be more accurate than turbine meters at low-flow rates, correct?

MR. GREG BARNLUND: Yes, the view we took was that the rotary meter is a positive displacement device and the turbine meter is an inferential device, in other words, it's not positive displacement, but it relies on the velocity of the gas going through the meter, to be able to operate the meter and measure.

So, we took that into consideration in terms of the low-flow characteristics in weighting the turbine meters with two (2) standard deviations and the rotaries at one (1) standard deviation.

MR. NICK GRETENER: Okay. Thank you, sir. And that resulted in a change from a loss of .1 percent to a loss of .6 percent for the rotary meters?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: And, if you had gone to two (2) standard deviations, that could have gone up to 1.1 percent?

MR. GREG BARNLUND: Yes.

MR. NICK GRETENER: And a three (3) standard deviations would have taken you to 1.6 percent, right?

MR. GREG BARNLUND: It would have, yes.

MR. NICK GRETENER: And if we turn to Attachment (c), 'Small Rotary Meters', you again chose one (1) standard deviation below the mean, and that took you from a gain of .3 percent to a loss of .3 percent, is that fair?

MR. GREG BARNLUND: Yes, I did.

MR. NICK GRETENER: And, again, if you had gone to two (2) standard deviations, that would have been a loss of 1 percent, right?

MR. GREG BARNLUND: That's correct.

MR. NICK GRETENER: And, finally, on

Attachment (d), the special contract class, the adjustment took you from a base case of zero to a loss of .2 percent, right?

MR. GREG BARNLUND: That's correct, yes.

MR. NICK GRETENER: Okay. So, it's clear that the adjustments to account for these non-meter variances, they significantly change the actual measured base results, correct?

MR. GREG BARNLUND: Yes, they do.

MR. NICK GRETENER: And would you agree that what we can conclude from all of this rather painful number crunching is that the measurement variance results are quite sensitive to whether one chooses the base case one (1), two (2) or three (3) standard deviations from the base case or in the high case for the special contract class?

MR. GREG BARNLUND: I would agree with that.

MR. NICK GRETENER: And would you also agree that the choice of two (2) standard deviations below the mean for the turbines and one (1) standard below the mean for the rotaries was somewhat arbitrary?

MR. GREG BARNLUND: It would be somewhat arbitrary but we feel quite justified in view of the data that we have on that particular type of -- customer and that particular type of meter.

MR. NICK GRETENER: Okay, but it's -- you

presumably -- you could have chosen adjustments of three (3) and two (2) standard deviations below the mean or -- or any other increment; is that fair?

MR. GREG BARNLUND: Well I suppose that could have been done but we, you know, try to make a judgement that was reasonable in view of, you know, the -- the factors we've got.

MR. NICK GRETENER: And had you not made these adjustments, you would not have identified any UFG in that you would've had actually a total gain on your system; is that fair?

MR. GREG BARNLUND: Quite possibly.

MR. NICK GRETENER: And if you'd made a greater adjustment, that is gone down to two (2) or three (3) standard deviations you may have accounted for all of your UFG?

MR. GREG BARNLUND: I suppose that's possible.

MR. NICK GRETENER: Okay. Can we move on, if you could pull up your rebuttal evidence? And, Mr. Chairman, this is my last point so I think we should complete comfortably by 3:00 for the break.

Page 5 of your rebuttal evidence.

MR. GREG BARNLUND: I have that.

MR. NICK GRETENER: At page -- sorry, at line

28, you say that the implication of Simplot's proposal is to move away from the postage stamp rate making philosophy, right?

MS. KELLY DERKSEN: We did say that, yes.

MR. NICK GRETENER: And you described the postage stamp rate making philosophy to be one that treats all customers with similar characteristics equally, right?

MS. KELLY DERKSEN: Yes, we do.

MR. NICK GRETENER: And you say that customers in any given rate class receive the same level of service and pay the same rates as any other customer in the rate class regardless of where they're located, correct?

MS. KELLY DERKSEN: We do say that.

MR. NICK GRETENER: Do you understand that under Simplot's proposal, customers in any give rate class will receive the same level of service and pay the same rates as any other customer in that rate class?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I couldn't conclude that, no, sir.

MR. NICK GRETENER: And why not?

MS. KELLY DERKSEN: All we've been provided is information with respect to the special contract class,

not with respect to all other customer classes.
MR. NICK GRETENER: Okay. But the Simplot proposal isn't attempting to provide any customer specific treatment, it's class specific treatment; is that fair?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Mr. Gretener, we just -- we don't have enough information to base that conclusion, sir.
MR. NICK GRETENER: Okay. But, let me ask you this: Does Centra provide different treatment such as different rates for different customer classes?
MS. KELLY DERKSEN: Recognizing different levels of service, yes.
MR. NICK GRETENER: And does Centra consider that different treatment such as class specific rates to be in conflict with postage stamp rate making?
MS. KELLY DERKSEN: No, I don't think so.
MR. NICK GRETENER: Okay. Thank you very much Panel, that was very helpful.
Thank you, Mr. Chairman. Those are my questions.
THE CHAIRPERSON: Thank you, Mr. Gretener.
Ms. Murphy, do you any cross-examination?

MS. MARLA MURPHY: Sorry, no, I have no re-direct.
THE CHAIRPERSON: I'm not watching enough TV, obviously.
MS. MARLA MURPHY: If I cross-examine them I'm probably really in trouble.
THE CHAIRPERSON: Okay. We'll have our break, we'll come back. Mr. Gretener, how long do you think it'll take to go through your witness?
MR. NICK GRETENER: That depends entirely on how verbose my witnesses are going to be; you mean in my direct examination?
THE CHAIRPERSON: Yes.
MR. NICK GRETENER: I -- I think it would be a matter of maybe twenty (20) minutes, thirty (30) minutes -- thirty (30) minutes.
THE CHAIRPERSON: I'm quite conscious of the fact that you've come from afar. So, we'll see whether we can get it all done today; that's the intent anyway.
MR. NICK GRETENER: We would appreciate that, sir.
THE CHAIRPERSON: So, we'll break for ten (10) minutes and come back.

--- Upon recessing at 2:58 p.m.

--- Upon resuming at 3:11 p.m.

THE CHAIRPERSON: We're back and listening very eagerly. Go ahead.

MR. NICK GRETENER: Thank you, Mr. Chairman. Let's hope you can keep up your enthusiasm for another hour or two (2). Mr. Chairman --

THE CHAIRPERSON: I wouldn't -- I wouldn't count on that.

MR. NICK GRETENER: I was afraid of that. Mr. Chairman, members, it's -- it's my privilege to introduce the Simplot Canada Panel. And seated closest to the Board is Mr. Hani Riad, who is the plant manager of the Simplot Brandon Plant. Mr. -- and Riad, that's R-I-A-D. He's a late breaking member of the Panel, Mr. Chairman. We just discovered this morning that he was going to volunteer to -- to help out.

So, he won't be sponsoring any of the specific pre-filed evidence but the thought was there might be some questions, plant specific, and it might be helpful to have Mr. Riad on board.

Next to Mr. Riad -- to Mr. Riad's left, is Mr. Don Reading, Vice-President of Ben Johnson Associates, Inc. Dr. Reading is responsible for the -- and I should say the spelling is R-E-A-D-I-N-G. Dr. Reading is responsible for

the evidence of Don C. Reading being Exhibit Simplot 3 and the related IR responses being Exhibits Centra/Simplot 5-1 through 5-14.

And next to Mr. -- Dr. Reading is Mr. David Hawk. Mr. Hawk is responsible -- sorry, Mr. Hawk is the Director of Energy Natural Resources for J.R. Simplot Company which is the parent of Simplot Canada Limited. And Mr. Hawk is responsible for the evidence of David Hawk being Exhibit Simplot 2 and the related IR responses, again, being Exhibits Centra/Simplot 5-1 through 5-14.

I wonder, Mr. Chairman, if the witnesses might be sworn.

THE CHAIRPERSON: Mr. Singh...?

DAVID HAWK, Sworn
DON READING, Sworn
HANI RIAD, Sworn

MR. NICK GRETENER: Gentlemen, to expedite matters, I'll ask you a series of questions at the same time, except for Mr. Riad, who won't be adopting the pre-filed evidence and perhaps each of you can answer in turn.

Can you confirm that the documents I have referred to as being your responsibility were prepared by you or under your direction and control? Mr. Hawk...?

MR. DAVID HAWK: Yes, with the exception of one change; page 7, line 22 where we used the term "79 percent" it should be "69 percent"; that's page 7 of my testimony, line 22. Sixty-nine (69) rather than seventy-nine (79).

MR. NICK GRETENER: Thank you, Mr. Hawk. And that was corrected, I believe, in one of the IR responses as well, Mr. Chairman.

Dr. Reading, are the documents that I referred to as being your responsibility, were they prepared by you or under your direction and control?

MR. DON READING: Yes.

MR. NICK GRETENER: Gentlemen, do you have any material corrections to make? I should say, Dr. Reading, do you have any material corrections to make since Mr. Hawk's already ahead of me on this one?

MR. DON READING: None that weren't corrected in the IR responses.

MR. NICK GRETENER: Gentlemen, are these documents then accurate to the best of your knowledge and belief, Mr. Hawk?

MR. DAVID HAWK: Yes.

MR. NICK GRETENER: Dr. Reading...?

MR. DON READING: Yes.

MR. NICK GRETENER: And, gentlemen, do you

adopt these documents as your evidence in these proceedings? Mr. Hawk...?

MR. DAVID HAWK: I do.

MR. NICK GRETENER: Dr. Reading...?

MR. DON READING: Yes.

MR. NICK GRETENER: Thank you. Turning to Dr. Reading, Mr. Chairman, he hasn't had the pleasure of appearing before this Board previously. So I wonder, Dr. Reading, if you could briefly summarize for us your educational and professional qualifications and, in particular, your experience on rate design matters?

MR. DON READING: Yes. Attached to my testimony is a resume and so I won't go into that much detail. But, briefly, I have a Bachelor's, a Master's and PhD in Economics with a doctoral minor in statistics.

Upon receipt of the -- well, I actually taught some. I taught at the University of Hawaii, Hilo; Middle Tennessee State University in Murfreesboro, Tennessee; and Idaho State University in Pocatello, Idaho.

And the collective of -- of that teaching experience was about fourteen (14) years. I left there and went to work for the Idaho Public Utilities Commission where I was hired as an economist. Moved up to Chief Economist and head of the consumer division, then eventually was staff director.

I left there for Ben Johnson Associates which is located in Tallahassee, Florida, looking out the windows today for big wind and tornadoes. The report from the home office is, it's just raining a lot, and it does that. So it looks like, at least up until a few hours ago, Tallahassee's being spared.

I work out of Boise, Idaho. Been a tele-commuter and worked there since about 1986. So the collectivity of regulatory experience I've had is it's -- it's now better than twenty-five (25) years and I'm, you know, the number's starting to scare me some.

MR. NICK GRETENER: Thank you, Dr. Reading. Mr. Chairman, I would ask that the Board accept Dr. Reading as an expert witness on rate design matters in this Proceeding?

THE CHAIRPERSON: Ms. Murphy; do you have any problems with that?

MS. MARLA MURPHY: No objection.

THE CHAIRPERSON: Mr. Saxberg...?

MR. KRIS SAXBERG: No objections.

THE CHAIRPERSON: Ms. Melnychuk...?

MS. KAREN MELNYCHUK: No objections.

THE CHAIRPERSON: And I don't see Mr. Carroll and it's fine by the Board.

MR. NICK GRETENER: Thank you, Mr. Chairman.

I'll now conduct a brief examination-in-chief of the witnesses wherein they will highlight their -- testimony for you and outline exactly why Simplot is participating actively in this proceeding.

EXAMINATION-IN-CHIEF BY MR. NICK GRETENER:

MR. NICK GRETENER: Maybe I can start with you, Mr. Hawk, I wonder if you could briefly tell us who Simplot Canada Limited is and how they fit into Centra's system?

MR. DAVID HAWK: Simplot Canada Limited is a agribusiness, a portion of the J.R. Simplot Company which also is headquartered in Boise, Idaho and is an agribusiness. And we are one (1) of Centra's longest, and I guess a long client of thirty-seven (37) years and certainly one (1) of their larger clients during that time frame.

We operate a major fertilizer plant in Brandon as well as potato processing facility that's relatively new in Portage La Prairie, Manitoba and formerly, up until just very recently, we had a one-half (+) interest in a potato processing plant with Nestle's at Carberry and that plant has now been sold.

In the early 1980s we were the first industrial to take TransCanada pipeline in our name and to take natural gas in our name to move through that pipeline.

Gas that we both owned through our own exploration and production efforts and gas that we acquired and we moved it to the facility at Brandon.

And over the last twenty (20) years we have taken some limited distribution service, if you will, from Centra. The unique nature of the facility is described in Mr. Reading's testimony. It's been recognized by Centra that this plant constitutes its own Centra customer class called the special-contract class.

In fact, when we recently asked to have the new Simplot potato processing facility placed in the special-contract class we were advised that only the fertilizer plant qualified for the special-contract status.

Historically the plant when others have tried to woo us to build elsewhere such as Saskatchewan, we've stayed in Brandon and a few years ago we added immeasurably to the facility there by more than doubling its size and making our commitment to Manitoba.

MR. NICK GRETENER: And, Mr. Hawk, why exactly is Simplot participating in this Proceeding?

MR. DAVID HAWK: Because we have sincere concerns regarding Centra's allocation of the UFG to the special-contract class.

MR. NICK GRETENER: Could you elaborate on those concerns for us?

MR. DAVID HAWK: Well, we believe the special-contract class is being allocated UFG costs above and beyond those costs that the customer class is causing. We have no quarrel with paying for costs we cause. We do object to paying more than what we believe are our fair share of costs.

MR. NICK GRETENER: And is this a recent concern?

MR. DAVID HAWK: No. As noted in my evidence the representatives of the company appeared before the Board in 2001 during Centra's 01/02 Cost of Gas Proceeding opposing the allocation of UFG. And while the Board at that approved Centra's allocation, the Board did encourage Centra to determine whether other alternatives could be pursued to ensure that Simplot's share was fairly and accurately allocated.

MR. NICK GRETENER: And, Mr. Hawk, why do you believe that the special contract class has been overcharged for UFG costs?

MR. DAVID HAWK: Well, on a rounded basis, the Brandon plant consumes approximately 20 percent of the throughput on the system at a relatively stable flow rate. In fact you've heard it described today as a high load factor facility. Using Centra's current volume based UFG allocation methodology, the Simplot plant was assigned a large

proportion, approximately 12.8 percent after weighting of the cost of the UFG.

Over the past five (5) years the plant has paid more than $2.5 million in UFG costs of the total $7.7 million charges that we've had from Centra. And while the plant uses a large amount of gas, I don't believe it contributes to Centra's UFG problem anywhere near the volumetric proportional basis of 12.8 percent.

As noted in Dr. Reading's evidence, the plant is served by a simple set of pipelines off the TransCanada main line that Simplot Brandon plant has been from the outset a predominant user of the pipeline facilities.

In face we signed a ten (10) year agreement at the time we were told, this was nine (9) years ago, that a part of the reason for it being ten (10) years was that it would be our responsibility to -- amortize the investment that Centra was making in the line.

And also that was to ensure that -- that we would stay in and continue to work with them. Which in fact we did and we appreciated their investment. That cleaned up some of the problems that we were having prior to that time. Over the time these pipelines have started to serve more Centra customers including a power plant.

And distribution customers which are all downstream of our -- of our take. While the facilities

required to serve such customers have added complexity to the Centra system, basically the facilities required to serve us have stayed essentially the same.

One (1) meter or custody station off of the TransCanada system, twenty (20) kilometres, twenty-three (23) kilometres of pipe to the plant and another meter to measure deliveries to the plant. And we would point out that while it was overlooked perhaps earlier, certainly not purposefully, that a series of additional meters would allow you to isolate the plant in total.

As Centra has advised us, UFG losses are attributable in large part to the complexity of a utility system. The portion of Centra's system required to serve the Simplot Brandon plant is compared to the rest of Centra's system really quite simple.

MR. NICK GRETENER: Dr. Reading, do you believe that Centra's proposed method of allocating UFG costs is accurate and fair?

MR. DON READING: No, and I'd like to -- before I make my comments, emphasize to the Board the fact that the steps that have been taken by the company, in my mind, are the correct steps that they are attempting to and have invested significant effort in coming up with what the causes of UFG are. And that is the correct way to try to assign any costs.

And that is find the direct costs you can find for any customer or any customer class, assign those costs and then look at real causes of those costs. And assign values to that. So the -- the criticisms here need to be taken that we're making need to be taken in -- in that context.

And they've -- in our mind made a very large step as has been pointed out here, between 5.7 percent -- from 12.8 percent to 5.7 percent. It's a good large step, it's moving in the correct direction, given the things that are in evidence that we presented in some of the cross-examination here, and I'm sure will come up in -- in our cross-examination. There are certain areas that -- that need to be remedied and investigated further.

MR. NICK GRETENER: And what do you say to Centra's position, that the indicators that you present in your evidence, are not representative of the causes of UFG?

MR. DON READING: If you look at the UFG Study that's presented by the company, and also you look at the special customer class or Simplot allocation, it's the measurement error, is the one (1) that contributes the most.

And when you look at a whole set of other indicators which can serve as proxies for the allocation of UFG, those indicators, as indicated in -- in the evidence that has been filed here, are one (1) -- are close to 1

percent or less, and so that is still high in our mind, given the 5.7 percent as proposed by the company.

MR. NICK GRETENER: Dr. Reading, do you believe that measurement variance for the special contract class should be lower than that estimated by Centra?

MR. DON READING: Yes.

MR. NICK GRETENER: Mr. Hawk, maybe you can tell us what specifically you are asking the Board to do in the context of this Application...?

MR. DAVID HAWK: Well, we're asking the Board to consider revising Centra's proposed allocation of the UFG costs, from 5.7 percent to 2.8 percent of the Centra throughput. And that's based on several things, on the indicator-replacement costs for the facilities, to be served -- to serve the Simplot Brandon Plant, via an analysis with which Centra does not disagree.

And the allocation would still be higher than that resulting from the five (5) indicators -- reviewed by Dr. Reading in his evidence, and in his particular case, if you took any one (1) particular reading, I don't think you could base it on all those things.

If you took all the readings, all of Dr. Readings work, all of the indicators together then, I think it gives you, and some people like to use the term, directionally or trending, clearly to the smaller number.

And while I use the 2.8 percent, that was derived to some extent by taking an approximate $10 million Canadian, a replacement cost, which was very conservative on -- on our point, and -- and dividing that by the undepreciated value of the system. Now, if -- if the remaining undepreciated value of the system.

Since the 10 million was a new number, then maybe we should take the total system cost, which is 550 million. Now we're down to 1.9 percent. And if we take the replacement value of the system so that it really is apples to apples, we're probably at 1 percent or perhaps even less. So consequently, we were being conservative in taking ten (10) and dividing it by approximately $350 million.

And we do commend Centra for their work on UFG today. There's no question that they have worked an extremely difficult issue and have worked it very hard. As is typical, sometimes with utilities, not a lot of ideas get to enter into the process, necessarily.

I'm a geologist by education and we have an imagination, we have a curiosity, and we have a natural undaunting spirit. How else could I take a million from Chairman Graham, drill a dry hole and ask him for another million, all on the same phone call?

So, that's kind of our nature, so we -- we try to look at many different approaches to get to some kind of

an answer. We think Centra has worked very hard and reasonably to get where they are today, and we offer up additional analysis as a requirement to go further, but we certainly accept their number.

MR. NICK GRETENER: Mr. Hawk, beyond Centra's methodology, is there any other way to measure or allocate UFG for the special-contract class?

MR. DAVID HAWK: Well, in our responses to Centra, we noted that the simplest and most accurate way is to try to determine exactly how much UFG is caused specifically by the special-contract class, and that would be to simply measure directly.

And that would probably entail, given Mr. Barnlund's testimony, additional metering, to totally isolate the plan. I mean, that wasn't offered up, but in fact it became very clear that you have "X" number of pipes and "X" number of opportunities for gas to move around in the system, all of which can be metered, all of which can be compared then.

And therefore, if that's, you know, not necessarily possible, it could be actually the other way I suppose is to look at totally constructing facilities that isolate the Simplot plant. Either by Simplot or by Centra. So those would be the ways that I would suggest you could do it.

MR. NICK GRETENER: And would that be the only way to control UFG costs for the special contract class?

MR. DAVID HAWK: Well, I mean, as I said, isolating it is the -- is the ultimate way to do it. By its own separate pipeline coming off of TransCanada, it's own separate metering station there, and then a metering station where consumption occurs.

MR. NICK GRETENER: Okay. Before we conclude, gentlemen, do you have any comments on what other Intervenors have proposed through their presentations to the Board?

MR. DAVID HAWK: I think there were two (2) -- a couple of points. First, we were not present to hear the presentation by Professor Miller representing TREE and RCM and saw in his proposal that Centra initiate natural gas efficiency or DSM programs and pay for them through a system benefit charge. And I -- I would ask that, you know, of course something like that I -- I would hope would be noticed and testimony taken and -- and the whole concept reviewed openly.

I would note that it certainly shouldn't levied, a charge like that at customer classes who are not able to take advantage of it. For one, that our primary use of natural gas at the -- at the Simplot Canada facility in Brandon is feed stock.

And we use it for its chemical components. We don't have an opportunity to use it in other ways. But I would also suggest on behalf of Simplot Foods, part of Simplot Canada at Portage La Prairie, that -- that's a brand new facility. And in fact it won an award from Manitoba for doing what it could from an electrical standpoint to be as efficient and conserve as much energy as possible.

We appreciate that award and notification of the same. But on the other hand we did the same kinds of things with how we use natural gas, which is boiler fuel and direct fire application. And, I mean, we've got to heat that oil to make those potatoes into those great fries that you all love, I hope.

And so -- so consequently we -- we would not be a user of those benefits and we believe that to the extent that those benefits flow once again to a class. They should be accomplished by receiving the money from that class. As to his comment that maybe somewhere on the west coast, he assured that this has happened.

I can tell you that we take service from a number of utilities in the western United States and none of the natural gas utilities have demand side programs like this. The only programs that they've had of which I'm aware and that would be Questar Intermountain Gas, Cascade Natural Gas, Northwest Natural out of Portland, and even talking to

people at Puget.
I would suggest would be those programs where they made low interest loans available for homeowners to buy high efficiency gas furnaces. The reason I know that program isn't around, I bought a high efficiency gas furnace a year ago and there was no program left. But it was a good investment nonetheless.
Sec -- I would just say, we were not hear to MacDon's presentation but we noted in his submission that it suggested the Board should make no changes to Centra's existing method of allocation of UFG. And I think in all due deference in respect to Centra and the amount of work they've done it demands that some kind of a change be made. And also the fact that leaving it as status quo there's just too much information and I think between the two (2) parties, it presented too much evidence, that -- hopefully would -- would rule out an opportunity for status quo being maintained.
MR. DON READING: On the presentation by Professor Miller and TREE, from our perspective, looking at the cost benefits of any DSM program on a customer class basis, if in fact it would turn out that that would be a cost benefit to that class as Mr. Hawk indicated, high efficiency furnaces or water heater wraps or -- or any kind of a, you know, device.
Since a water heater uses a lot of energy in

the home that turn it off and turn it on, again, on a DSM specific basis and then the cost allocated that class, that would make sense.

MR. NICK GRETENER: Thank you, gentlemen and thank you, Mr. Chairman, and Panel members. The witnesses are available for cross-examination.

THE CHAIRPERSON: Thank you very much. We'll start with Mr. Saxberg.

MR. KRIS SAXBERG: Thank you, Mr. Chairman and good afternoon Panel Members.

CROSS-EXAMINATION BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Let me start with you, Mr. Hawk, just to clarify, probably the obvious, but, you're not advocating in any way for the status quo UFG allocation?

MR. DAVID HAWK: That's correct. That's correct.

MR. KRIS SAXBERG: But ultimately, you don't support the findings of the UFG Report either?

MR. DAVID HAWK: No, I wouldn't say that we -- we think that their in-depth study has a fair amount of accuracy associated with it. We think that we've added to an understanding of the issue, with the numerical analyses that we made, and we think that should be incorporated down the road here, frankly, if not right now, which we would prefer.

And, and we understand that -- that the process has a fair amount of intuitiveness in it. I do know, if you asked me if the sun's going to come up tomorrow, I'm going to tell you, yes. But, Counsellor, I can't prove it to you.

And I do know that in their case, I felt like they clearly said "A" equals "B" and they proved that "B" equals "C", so therefore, I'm going to be pretty close onto "A" equals "C". And I think -- I think that in anything, there's a fair amount of intuitiveness involved, when you can't measure it exactly.

And as a Scientist, I know that I make small leaps of faith at times, when I have taken people's money and drilled holes. They weren't all dry holes, Mr. Chairman.

MR. KRIS SAXBERG: You have -- you've praised Centra for the report and you've indicated in your direct that what they've done is a good step forward, but ultimately though, you don't want to use any of the information in that Report with respect to Simplot, and you want to use a completely different indicator, that being a replacement cost. I mean, isn't that the upshot of your evidence?

MR. DAVID HAWK: No.

MR. KRIS SAXBERG: And, is it not your position, then, that the 2.8 percent should be the allocation of UFG for Simplot?

MR. DAVID HAWK: I've explained how I arrived at the 2.8 percent, and how it varies from that which Centra has offered, and how it varies from that which Dr. Reading has offered. And I'm a prudent business person that believes there's a middle ground for both understanding and calculation.

Would I accept 2.8 percent and go home and not ask for reconsideration? Yes. Would I accept 5.7 percent and go home and not ask for reconsideration? I'm not sure. Would I accept 1 percent? Yes. Would I accept 12.8 percent? No.

MR. KRIS SAXBERG: Dr. Reading, in your evidence you quote from Bonbright text, and endorse what's known as, The Golden Rule, which is that Centra should assign any directly attributable costs to the customer class that has caused those costs.

MR. DON READING: Correct.

MR. KRIS SAXBERG: And Centra has said that they have done a study and have determined, for 55 percent of UFG, who it is that's caused these costs; have they not?

MR. DON READING: Yes.

MR. KRIS SAXBERG: So, with respect to the findings that Centra's made on that 55 percent, why aren't you endorsing, then, an allocation of 5.7 percent as -- as indicated by Centra?

MR. DON READING: The reason is that as pointed out in the evidence that I filed -- filed, that there were five (5) other indicators that could be used as proxies. And I want to say it, and -- and several of those have been discussed in the cross-examination here, and I want to indicate that you really need to look at them as a group, not necessarily individually.

And, if you look at those indicators, three (3) of them physical; miles of pipeline, miles of transmission line and number of meters, what they indicate is the degree and extent of complexity of the system.

And as pointed out by Centra, measuring UFG is complex and can have many aspects. And it is not unusual in the regulatory world that we do the best we can, and use proxies. The other two (2) that have been discussed are financial; rate of return and revenue requirement -- not rate of return, pardon me -- rate base and revenue requirement and there's been some cross-examination on the rate base section of it.

And again, I would say, that it's also a proxy for the size, complexity of the system, how the company makes its money by using those. So, to -- to come back and -- and answer your question more directly, if you look at all of those potential measures which are not direct but are proxies which are not unusual in a regulatory.

They're all of 1 percent or less. That tells me that the 5.7 percent that's being offered by the company is too high. And so that -- that is the reason that I'm saying that 5.7 is not the best number to use.

A lower number would be a number that would be closer to what the accurate fair and true number is. I'll -- I'll just end by saying that, also advocated if you could measure Simplot directly, that would be the best approach.

MR. KRIS SAXBERG: And -- and I'll pick up that in a second. But what you're saying is that these five (5) indicators that you mentioned in your evidence are proxies for what you said earlier in your evidence, is the best method and that is for there to be directly attributable costs; that's what you're saying?

MR. DON READING: I'm not -- I'm not sure I understand your question.

MR. KRIS SAXBERG: Well, what are these indicators proxies of?

MR. DON READING: Of the complexity of the system, the extent of the system, how many customers are on the system, the number of customers in each class, how far away customers would be and of course, I focused in on the special contract class because that's the one that I'm measuring again so I measured its meters to all the meters, it's miles of pipeline to all the pipelines, its revenue

requirement to the revenue requirement.
So, in that sense, it's in a direct assignment, it's a direct assignment of either the physical or the financial capability of financial characteristics of Simplot. So, in that sense, it is direct.
MR. KRIS SAXBERG: Are you suggesting that the proxies of -- to determine the specific amount of UFG caused by Simplot?
MR. DON READING: Yes.
MR. KRIS SAXBERG: And then you're suggesting that that method by taking those indicators cumulatively, is superior to all the work that Centra undertook for the last year at an expense of approximately a hundred and twenty thousand dollars ($120,000)?
MR. DON READING: It is -- I -- I would not use the term superior. What I would say is when -- whenever one is engaged in -- in studies to measure allocations and cost allocations, there is the work that you do where you get the numbers and you crunch them through. And then you stand back and you do a reality check. And you say, does this make sense given this particular situation or this particular class?
And that's what I did. So, I think the approach that the company has taken, the first steps that they have taken, those steps methodologically are superior to

any of the proxy measures I've used. But the proxy measures I've used show that they haven't gone far enough yet.

MR. KRIS SAXBERG: And if I could just narrow down what you're saying, if -- if you'd let me. The 5.7 percent that comes out of Centra's survey, their report, you think it's wrong it's that simple?

MR. DON READING: I think it's -- I think it's too high and as pointed out in my direct evidence, it is -- it is too high primarily for the way in which the company use their measurement error by taking a high case et cetera, et cetera, et cetera.

MR. KRIS SAXBERG: Do you also say that Centra's assessment of costs directly attributable to the other classes is too high?

MR. DON READING: I -- I would have to look specifically at -- and this -- investigate whether they're too high. Certainly, if you look at all of the components of the UFG study, the -- the one that I discussed the most is a measurement error. I discussed a little of physical loss error.

MR. DAVID HAWK: Let me add to that, may I? I think part of what's being said here is that the complexity of the system other than serving Simplot is much greater. There's thousands of meters, there's hundreds of miles of pipeline, thousands of miles I presume, there's hundreds of

millions of dollars of cost involved in serving the rest of the system.

The company has said and we believe correctly so, complexity is the source of UFG. And you can define and break that out by several -- such as volume, such as metering, such as when you measure the meters, that is when you read the meters, that's all complexity.

We maintain that we're quite simple when compared to the total complexity of the system. And we use several different financial and other types of indicators to make that clear. And those taken in context with what the company has done, I think form the basis for a solid UFG analysis and allocation.

MR. KRIS SAXBERG: But, you or Dr. Reading aren't specifically endorsing then or rejecting the percentages determined by the report with respect to all other classes?

MR. DAVID HAWK: No.

MR. DON READING: No.

MR. KRIS SAXBERG: And is it fair to say that on what Mr. Gretener had described in his cross as the key issue, that is the accuracy of the meter or the meters, the check meter and the centre meter at -- at Simplot, that you have presented to this Board no definitive evidence whatsoever, that these specific meters are any more accurate

than the report suggests?
MR. DAVID HAWK: Well, I believe that Centra did that in their testimony.
MR. DON READING: And -- and Centra in their testimony has indicated that these particular meters are more accurate, as accurate or more accurate, than any others and that certainly there's more care given to them, that they're monitored almost in a real time basis that if there's anything that looks a mess, it is corrected and it's corrected immediately and the special customer class is the only class where that care expanse and -- and accuracy of the meters applies to.
MR. KRIS SAXBERG: The record will disclose what Centra said but you haven't presented any evidence of that sort, have you?
MR. DAVID HAWK: We agree with what Centra said about the -- and -- and that's why we didn't cross them on it.
MR. KRIS SAXBERG: Well Centra --
MR. DON READING: And as I remember, I would have to look, but I remember I presented in my direct evidence, a discussion of the protocol and the methods that were in place for the plant. I got that information from company documents and discussions with Hani on my right here.
MR. KRIS SAXBERG: But with respect to

measuring Simplot's actual contribution to UFG, you're recommending that further analysis be done, right?

MR. DAVID HAWK: We're recommending that 12.8 percent is unacceptable given the analysis done by Centra and giving the comparative analysis done by Simplot. And so consequently we believe that that inherent question should probably continue in terms of study. But that the issue needs to be addressed now in terms of a reduction.

MR. DON READING: The 5. -- what we're saying is -- is that the 5.7 percent in our mind because of the -- the evidence that we've given, is too high and so as a place holder that the 2.8 percent is better, if I may borrow Mr. Buckland's -- Barnlund's example of a watch.

We think that five point eight (5.8) -- of the two (2) watches five point eight (5.8) -- 5.7 percent is closer than twelve (12) and 2.8 percent is closer than five point eight (5.8). So we think it's in a directionally -- directional sense.

And to be able to -- to come up with the definitive evidence that -- that you were asking for that we're asking a further study be done so that we can fine tune it. And I might add if that fine tuning and that investigation indicated that the number was higher, so be it.

MR. KRIS SAXBERG: To be specific, if you could turn to Tab 16 in Mr. Peters' Book of Documents? It

was discussed earlier this morning. And under the heading "Metering and Accuracy"; you see that, the report has attributed eight hundred and forty (840) 10-3-M-3 to Simplot; right?

MR. DON READING: Correct.

MR. KRIS SAXBERG: And that's the heart of the issue, isn't it? You think that number's too high?

MR. DON READING: Yes. I might add that we also think that the thirty (30)'s too high but that in a relative sense, the one that -- that we're most concerned with is the measurement accuracy.

MR. KRIS SAXBERG: And with respect to base pressure temperature that's a minus, you don't have any concerns with that one?

MR. DON READING: No.

MR. KRIS SAXBERG: So it all comes down then to this accuracy and all I was asking was, on that score, you had -- you don't -- you haven't presented any independent information or evidence that the Board can weigh against the report that Centra's prepared, and say, it shouldn't be eight forty (840), it should be some lower number?

MR. DON READING: That -- that's -- okay. I -- without being redundant, I thought I had answered that. We do not have a definitive study where we have a meter at the top of the pipeline, downstream from the one meter that

comes off where the odourization and that stuff takes place.

Measure there, maybe even have a check meter there, then move down the system, look at the two (2) generating stations, look exactly at what comes off there. Measure what's there. Move down to the Brandon Plant, measure what's off there. Have a meter just downstream from the Brandon plant and measure what's there.

If you went through that whole procedure then you would have a -- a very direct indication of -- of what the gas usage is and any mistakes -- any measurement errors that may occur.

If you're asking have we done that, no. What we've said is, is that for the system as whole the meters on the Brandon plant are the most accurate and checked and looked at. And that, given twenty-three (23) kilometres, we think that the assignment of eight forty (840) is too high.

MR. DAVID HAWK: You might also look at my testimony and that would be question 15. We offered that as evidence after meeting with Centra and having discussions with Centra, over a period of years actually I might add, about the quality of those meters and the protocol in -- aligned and working with those meters.

So we did offer something. And certainly we would agree with their testimony about the accuracy of these meters and the fact that no other meters on the system

maintain that kind of accuracy.
Were you suggesting that our meters were the same accurate as a 5B home meter for instance?
MR. KRIS SAXBERG: Thankfully, I don't have to answer questions so I won't.
MR. DAVID HAWK: Okay.
MR. KRIS SAXBERG: I'll just put another one to you. What Simplot ultimately wants to do through further work with Centra is to determine, by direct measurement, a more precise measure of what Simplot contributes to UFG; is that not the case?
MR. DAVID HAWK: We want to determine what really is the responsibility of the special contract class to pay UFG, as accurately as possible.
MR. KRIS SAXBERG: And your view is that that can be done. That -- that it's possible, because you heard the evidence from the Centra Panel earlier today that it can't be done, but your view is that it can be done?
MR. DAVID HAWK: I -- I suppose everything is possible at a cost and if, in fact, it's -- it's -- it's not capable of being done, based on some technological aspect with which we're not familiar and certainly won't stand in awe of, nor we will stand in disagreement of it, once proven to us.
That -- we would suggest that either that or a

combination of what we've presented with the work Centra has done is the appropriate approach.

MR. KRIS SAXBERG: Well, if that additional work isn't done, what are you recommending as the --

MR. DAVID HAWK: 2.8 percent.

MR. KRIS SAXBERG: And that 2.8 percent is based solely on replacement cost, correct? It's not based on those five (5) other indicators?

THE CHAIRPERSON: Mr. Saxberg, with all due respect, I think we've been around this horn several times.

MR. KRIS SAXBERG: Okay, that's fine. I'll move on. You indicated that you want to measure for Simplot directly it's contribution to UFG and that that may be possible.

If it isn't possible for other customer classes, Dr. Reading, is it -- is that fair then? Is that something that -- that Professor Bonbright would endorse?

MR. DON READING: Well, without being sacrilegious and stepping on holy ground of Dr. Bonbright, I would think that he would agree with that, because as I understand what he had to say, is you do the best you can to do the direct, the most you can.

And if it is feasible for one (1) class and not another class, so be it. You do that and then you use -- you know, lapse into econ lecture, second best solution when

first best solution isn't available for those others.
And it's a cost benefit. Yeah, one (1) of the things that -- that the company is struggling with, with UFG is -- is the billing cycle problem and -- and that billing cycle problem is -- is not unique to UFG. The billing cycle problem occurs in electric and water utilities, for instance, where they have seasonal rates.
And so one (1) of the solutions to that that's being offered is electronic automatic meter reading. Well, I don't know whether on Centra's system, the cost benefits of doing that. But in a perfect world, if it were free, then every individual could have a meter that would be read at two (2) seconds after midnight on the last day of the month. And then that problem would go away and that particular segment of their study would be fixed.
So, you look at each individual circumstance and each individual class and do the best you can. So, a very short answer and, again, not trying to presuppose what Dr. Bonbright would say, I think he would agree with that.
MR. KRIS SAXBERG: If this Board endorses the -- the use of a direct measurement for Simplot alone, does that not then contravene its earlier policy of not a postage stamp system where you -- where you're location on the system doesn't benefit you or doesn't work to your detriment?
MR. DON READING: As I think's been pointed

out here, we're talking about postage stamp rates within a class. We're not talking about postage stamp rates for all customers.

And, certainly any position that Simplot would advocate if there would be another -- don't hit me when I say it -- another fertilizer plant would come on the system to compete with the Brandon plant and have usage characteristics the same, we would be advocating they be treated the same and that to me is what postage stamp rates are.

MR. DAVID HAWK: Let me just clear the air on that point, if I may. First of all, there are a dozen fertilizer plants, not on this system, but that compete with us.

And, secondly, I think that if one recalls the cross-examination that our Learned Counsellor performed with regard to Ms. Derksen and Mr. Barnlund, I think it became clear that we're not talking about distorting the postage stamp rate on the total system.

But we're addressing a special class of customer as if something could occur that would affect, such as a public DSM benefits charge that might go just to the residential customers. Same kind of thing that wouldn't come to us, because no benefits could accrue to us.

MR. KRIS SAXBERG: Well, what if there is, and you'll have to take this as a hypothetical, another

customer that comes on board, but this time is -- is much further away and at the other end of the system, then wouldn't the methodology that you're asking the Board to endorse then, be something that would be a detriment to that other special-contract customer?

MR. DON READING: I think that what would happen is the company and, both companies, Centra and whoever that was, would look at the special circumstances of that particular customer, do the best they could to directly assign all that they could directly assign, and then come up with other kinds of measures for the other aspects.

MR. KRIS SAXBERG: Those are all my questions. Thank the Panel.

THE CHAIRPERSON: Thank you, Mr. Saxberg. Ms. Melnychuk. Would you like to cross-examine the Simplot Panel?

MS. KAREN MELNYCHUK: I have no questions, sir, thank you.

THE CHAIRPERSON: Sorry to single you out. Mr. Carroll; do you have any comments or questions?

MR. BILL CARROLL: We have no questions, thank you.

THE CHAIRPERSON: Thank you, Mr. Carroll. Ms. Murphy...?

CROSS-EXAMINATION BY MS. MARLA MURPHY
MS. MARLA MURPHY: Thank you. Good afternoon, Panel.
Dr. Reading, we talked about costs that can be directly attributed and costs that can be allocated on some reasonable basis, and I take it that you'd agree that the unidentified portion of UFG is one (1) of those costs that needs to be allocated on its individual basis?
MR. DON READING: I think, on some reasonable basis? Certainly, all costs should be allocated on the most reasonable basis and that -- that's we do in these Hearing rooms, is decide what's most reasonable.
MS. MARLA MURPHY: So I take it from that that -- that Simplot, like all other customers, accepts that they'd be allocated some portion of costs which can't be attributed specifically to them?
MR. DON READING: Oh, certainly.
MS. MARLA MURPHY: And, I think where we part company is that you're suggesting that Centra's allocation of five point seven (5.7) is too high?
MR. DON READING: Yes.
MS. MARLA MURPHY: And you're suggesting that two point eight (2.8) is better; is that correct?
MR. DON READING: Yes, as -- as a placeholder and then further study.

MS. MARLA MURPHY: And, when you talk about further study, I think I got from your evidence today that you're suggesting that we should put a number of additional meters close to the TCPL takeoff, and measure those meters; is that fair?

MR. DON READING: Yes, that that should be investigated and again looked at on a cost-benefit and technical-feasibility basis.

MS. MARLA MURPHY: And when we go back to Mr. Barnlund's many wrist watches, we'd now have probably four (4) or five (5) or maybe six (6) more wrist watches that we'd be calibrating and looking at if we were to do that?

MR. DON READING: Without torturing the analogy too much, I would say yes.

MR. DAVID HAWK: Ma'am, let me just add to that metaphor just a moment, if I could. Once again, if you have two (2) watches, or four (4) or five (5) watches on the same arm and you purchased them virtually at the same time, and they're of the same accuracy. And they're watches all of the same, as in the same meter, you're far likely to have fewer variations of significance unless a turbine blade is thrown and there's real destruction, and then the others will pick that up.

Versus the, I don't know how many other types of meters that you had; you described four (4) here. And

then you have various sizes of those meters, I'm certain, within your system and -- and various regulator stations of various sizes and various piping, relationships of various sizes approaching that equipment.

So, consequently, from a complex standpoint, four (4) or five (5) meters still, not an issue in terms of complexity compared to the rest of the system.

MS. MARLA MURPHY: Mr. Hawk, you've suggested that we should use an estimate of the replacement cost of Simplot's plant, in order to -- or you've used it to drive your 2.8 percent; is that right?

MR. DAVID HAWK: Well, I think I've already answered that, that we -- we used a number of approximately $10 million Canadian to run a hot tap off TCPL, acquire the rights of way and lay a line to our facility and that would include metering.

And but that -- that's part of what drove the 2.8 percent. The other thing is that you had come up with a number of 5.7 percent. Dr. Reading had come up with a number of 1 percent, on average.

And so, consequently, there's a variety of numbers that fall in between the one point (1.) and the 5.7. Arriving at the 2.8 percent was done, not only through the comparison of those numbers that I had put together, but also through the numbers you had acquired and Dr. Reading's

numbers.
MS. MARLA MURPHY: So it's a bit of saw off as well?
MR. DAVID HAWK: It is.
MS. MARLA MURPHY: And the calculation that you used in your evidence was based on the cost to replace facilities to Simplot; correct?
MR. DAVID HAWK: That would be to provide service to Simplot from TCPL.
MS. MARLA MURPHY: And a large driver in that cost would be the length of the pipe; wouldn't it?
MR. DAVID HAWK: Of course, yes.
MS. MARLA MURPHY: So the location of Simplot would become important in that calculation?
MR. DAVID HAWK: Well, I used twenty-three (23) kilometres approximately so -- I mean, we are where we are. We're not going to move that plant, I can tell you that. I know Mr. Riad may want to comment on that but.
MS. MARLA MURPHY: Would you agree that if the Board didn't accept Centra's study that one of their options would be to remain at the status quo?
MR. DAVID HAWK: Yes.
MS. MARLA MURPHY: And, Dr. Reading, if I could just take a minute to turn you to page 15 of your evidence. There's a number of factors there that you

indicate impact on the allocation of UFG?
MR. DON READING: Where again?
MS. MARLA MURPHY: It's page 15 of your evidence.
MR. DON READING: Yes.
MS. MARLA MURPHY: You note, first, that Simplot is served by only twenty-three (23) kilometres of transmission line; is that right?
MR. DON READING: Correct.
MS. MARLA MURPHY: And I think that you'd agree that the length of the pipe is a factor that relates only to physical loss, not measurement loss; is that fair?
MR. DON READING: Yes.
MS. MARLA MURPHY: And I think we've already established today that the portion of UFG that relates to physical loss is fairly small?
MR. DON READING: Given, pardon me, given the study that the company has done, they have calculated that 12 percent is the amount of physical loss. And I might add, that's -- that's kind of a fall out of the -- the process of taking those various categories and measuring them.
If -- if the company would have undertaken, for instance, Mr. Gretener's cross-examination picked maybe different standard deviations then that 12 percent, in fact, could have been a different number.

But given the -- the study that the company did, yes, 12 percent was the result of that.

MS. MARLA MURPHY: You've also noted that Simplot is a customer in its own class; how does that impact UFG?

MR. DON READING: It doesn't affect UFG whatever it is. It certainly can affect the calculation of UFG because it's only one (1) customer and, therefore, it only has one (1) or two (2) meters and given that one of the reasons for UFG is meter error, if you have one (1) meter or two (2) meters rather than one thousand, six hundred (1,600) meters or eight hundred thousand (800,000) meters, that certainly would impact what UFG would be.

MS. MARLA MURPHY: Thank you. You also indicate that "Simplot purchases its own gas"; how would you say that impacts UFG?

MR. DAVID HAWK: Well, it -- it impacts UFG in -- in terms of our costs. Once again, I think the point was made that our price of gas which Mr. Barnlund suggested he was not aware of, and -- means that we may or may not be paying too much if we were otherwise had the opportunity to pay UFG in kind.

But as far as how it affects UFG, as the price of gas goes up and you have the same amount of UFG the whole time, then the cost of UFG goes up. And, likewise, down.

MS. MARLA MURPHY: But it doesn't impact the allocation of UFG?
MR. DAVID HAWK: No.
MS. MARLA MURPHY: You also indicate that "the constant use pattern is a factor"; I take it that refers to Simplot's load factor?
MR. DON READING: Yes.
MS. MARLA MURPHY: Dr. Reading, as a general principle, I think we've talked today about the fact that rates within a customer need to be equitable and fair -- reasonable among the customers in the class. Would you agree with that?
MR. DON READING: Yes.
MS. MARLA MURPHY: And would you also agree that one (1) of the Utility's responsibilities is to ensure that their rates are equitable, fair, and reasonable among the classes of customers --
MR. DON READING: Among all customer classes, yes.
MS. MARLA MURPHY: Thank you. Those are my questions.
THE CHAIRPERSON: Thank you, Ms. Murphy. Mr. Peters...?

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Thank you. Mr. Riad, good afternoon. I thought I should talk starting first with the Manitoban in the crew. I -- I have not very many questions for you, sir, but in terms of where we are at in this Application, the evidence discloses that the volumes that are being forecast for Simplot in Brandon have been revised recently. Are you aware of that?

MR. HANI RIAD: Yes. Last year we did shut down for two (2) months because of the very high natural gas costs and we really at that point were not sure what 2004 will turn out to be.

So we had to revise some forecasts as the business climate ...

MR. BOB PETERS: Would it be fair to say that your forecast for the fiscal year used by the Corporation of April 1st of '04 to March 31st of '05, you're hoping you'll be up to 100 percent production, if I might?

MR. HANI RIAD: Yes, this is the forecast we forwarded to Centra earlier this year.

MR. BOB PETERS: And that's your expectation of -- of how you're going to operate this year?

MR. HANI RIAD: That's my expectation.

MR. BOB PETERS: Can you tell the Board when you expanded your Brandon facilities and the nature of that expansion, please?

MR. HANI RIAD: In the mid-90s we embarked on a project to upgrade the ammonia manufacturing facilities. We retired two (2) old technology plant and we -- plants, and we erected a significantly larger, newer technology plant in Brandon. And that more than doubled our capacity at that time.

MR. BOB PETERS: Well, you said is that -- was that 1996, 1997, somewhere in that range?

MR. HANI RIAD: The construction took place in 96/97 and the plant was started up in '98.

MR. BOB PETERS: Do you -- is the cost of that on the public record that you'd be prepared to disclose it here or --

MR. HANI RIAD: Yes, it was in the vicinity of $250 million. At that time, this was the largest project in Manitoba, by far.

MR. BOB PETERS: Dr. Reading, turning to you, and thank you, Mr. Riad. The five (5) indicators that are in your evidence are all around a 1 percent allocation proxy for UFG for Simplot. Is that correct?

MR. DON READING: Correct.

MR. BOB PETERS: And you come before the Board with your clients and your clients are now saying 2.8 percent and we've heard from Mr. Hawk how he's derived that proxy.

Do you agree with his proxy?
MR. DON READING: Yes.
MR. BOB PETERS: Why -- why do you develop five (5) proxies that are around the 1 percent level, and yet you didn't develop one (1) at 2.8 percent?
MR. DON READING: Two (2) reasons. One (1) reason is -- is to be conservative. The second reason is what I said at -- at the top of my direct and that is I think the approach the company's taken in trying to identify the causes of UFG is a important and significant step and that we want to support that effort.
And so that's why we're settling as a place holder on two point eight (2.8) and saying, let's investigate it further and fine tune it further, so that we can come up with a -- a percentage given the approach that the company's taken that we think is accurate.
MR. BOB PETERS: I would have accepted a third explanation perhaps, in a more lighter vein that Mr. Hawk is paying the bill so you don't want to disagree with his 2.8 percent, but --
MR. DON READING: Well, that --
MR. DAVID HAWK: Let me add to that, that has never kept him from disagreeing with me either publically or privately and certainly not politically, do we find ourselves agreeing.

MR. BOB PETERS: We'll get into that --
MR. DAVID HAWK: He's wrong and I'm right.
MR. DON READING: Yeah, you're wrong about that as well.
MR. BOB PETERS: All right. Let's -- let's get back to your comment, Dr. Reading, that -- and you both have been complimentary towards the Utility and the steps they have taken, but you also say they should take additional steps forward.
The only additional steps forward that I hear you recommending is that they attach some more meters. Is that the additional steps?
MR. DON READING: That -- that would be one (1) approach more -- more meters and a, you know, I think Mr. Barnlund was asked the question about well couldn't the plant be served from just one of the unodourized lines and his answer was, I can't answer that because I'm not an engineer.
That would certainly be one (1) approach. Another approach would be further measurement meter studies. Another approach may be as kind of indicated, going back and looking at the selection of the standard deviations from base. A whole variety of steps could be undertaken.
I certainly didn't disagree with the billing cycle and -- and this is, Mr. Gretener hit on me for gut level statements by experts in the -- in the Hearing room.

But I was surprised when I saw the study at how low the allocation was to the billing cycle amount.

My gut level in looking at electric and water is as usually when you have billing cycle problems of calculation and matching to particular date, it's usually on a system basis a higher percent of that. So that may be something that they would want to look at, I don't know.

MR. BOB PETERS: Mr. Hawk, from -- from that answer and the ones given previously, would it be a correct understanding that Simplot would like to be involved in the development of further studies on this issue?

MR. DAVID HAWK: Yes, that would be correct.

MR. BOB PETERS: Would Simplot like to be involved in the payment for the costs of the development of these further studies?

MR. DAVID HAWK: That would be fine.

MR. BOB PETERS: And in terms of the dedicated system --

MR. DAVID HAWK: We'll spread that to our customer class.

MR. BOB PETERS: In terms of the discussion from Dr. Reading of -- of perhaps a single pipeline flowing on the unodourized side down to Simplot, that starts to look more and more like a dedicated system from this side of the room.

Would you agree with that?
MR. DAVID HAWK: Yes.
MR. DON READING: Yes.
MR. BOB PETERS: And it would be -- it would be just one -- one (1) customer class with one (1) customer in its specific infrastructure designed by the Utility to serve it.
MR. DAVID HAWK: That's correct. Similar to Manitoba Hydro's peaking unit.
MR. DON READING: And -- and I might add, you know, we're -- we're investigating it could be on a -- a short term basis to determine what the -- or a shorter term, you know, what's temporary, to investigate, you know, what the potential is without losing and again I'm stepping on dangerous ground of engineering.
But, you know, the security of a loop system and the ability to have backups and all of that kind of stuff that are important to a gas distribution system.
MR. DAVID HAWK: And -- and I might add as one other thing that I think has been overlooked a little bit. If you take the first 55 percent that Ms. Derksen and Mr. Barnlund visited with us about earlier today and then you take the other 45 percent which follows a line of intuition and good judgement I think.
But the point is that maybe that is the place

where you apply some of the numbers that Dr. Reading has accumulated and some of the comparisons that we've made. And you do that on a customer class basis. Because they do have expenditures per customer class I'm sure relegated on an accounting format, spreadsheet somewhere by customer class.

So consequently I think there's room there for visiting further without adding another meter, even. Although that -- that certainly's our preference. And if in fact other meters mean we'd pay more then we pay more.

MR. BOB PETERS: Do you agree that the fact that you are a single customer with relatively close proximity to the main line from TCPL puts you in a different position relative to other customer classes and -- and their specific members on this issue?

MR. DAVE HAWK: Yes.

MR. BOB PETERS: And if the other customer classes wanted the same -- the same dispensation you're requesting, should it be afforded them?

MR. DAVID HAWK: If those calculations can be made for the other customer classes, in particular I would think of the main line large industrials and the high volume firm type customers, if that can be done, then I think an analysis should be made. The more information you can find, the more cost that you can assign, cost-causers should pay.

And those who don't, shouldn't. We don't have

a problem with that.
MR. BOB PETERS: Mr. Hawk, before I leave it, you threw out a comment before that you thought you were being treated the same in your gas supply as was, I think you said Peaking Station. Did I hear you correctly?
MR. DAVID HAWK: No. No, I think -- I think they have been treated as an individual class and that's what I meant when -- when you were saying, I thought you were saying: Are we the only class customer off that lateral.
MR. BOB PETERS: I heard in the evidence this afternoon that there's a ten (10) year contract in place between Simplot and the Utility; did I hear that correctly?
MR. DAVID HAWK: Yes.
MR. BOB PETERS: And that expires in one (1) year?
MR. DAVID HAWK: Subject to check January 1, or December 31st at midnight, 2005; is that correct?
MR. HANI RIAD: Yes.
MR. BOB PETERS: Mr. Reid's answering your question, so I'll take that as --
MR. DAVID HAWK: Well, if we have it here I can check, but ...
MR. BOB PETERS: All right. And just explain to the Board briefly, what is the nature of that contractual arrangement?

MR. DAVID HAWK: Well, I haven't reviewed it for quite awhile, but it was the -- it was -- it was the contract we entered into that allowed, apparently, Centra to go forward and expand their system by looping it, if you will, and giving us more of a dedicated line than what we previously had -- there were some issues previously, and also we did need additional capacity and this allowed them to do that.

We went from a peak day of twenty-one (21) million cubic, or twenty-one thousand (21,000) GJs a day, to approximately fifty-five thousand (55,000) GJs a day, and so this had to do with extra capacity, and their ability to serve us.

MR. BOB PETERS: Can you tell the Board if -- if there's a renegotiation of that contract planned, or where -- where that sits?

MR. DAVID HAWK: Well, let me say this, the GR Simplot Company, both gas and electricity-wise, and I want to make sure I run everything through my mind, we've never bypassed anyone, we have used some of our own electricity that we've generated in-house at some of our facilities through co-generation, but we've never bypassed anyone, and yes, we do intend to sit down at some time in 2005, with Centra, and we're going to ask them to come to a southern climate in the middle of December and we think we'll get them

there or something. Actually they always make us come over here so, that's why -- we'll meet at Brandon; how's that?

MR. BOB PETERS: All right. You just raised one other area I wanted to talk to you about, and that was on the bypass equivalent rates. Is -- is your methodology designed to get to a bypass equivalent rate?

MR. DAVID HAWK: No, not necessarily, no, not at all. That's just one measure of the complexity of the system, we believe.

MR. BOB PETERS: And with respect to the other allocations, you've indicated in the evidence that that's a matter that you still want to address, but that would probably be in a different forum, such as the General Rate Application?

MR. DON READING: You're talking about those cost-of-service issues?

MR. BOB PETERS: I was.

MR. DON READING: Yes, yes, in a general rate application, and also, you know, discussions with the Company so that we can better understand what they are and -- and whether from our position we think they're -- they're fair and equitable.

MR. DAVID HAWK: We have -- we have traditionally had a relationship, I think, Mr. Peters, with utilities and we believe that we have one with Manitoba Hydro

hopefully, and certainly with Centra, whereby we can sit down and visit about issues that are in rate cases, to some extent before they come up, so that we can understand them and then we can jointly either agree or disagree and go our own ways on those things.

And we appreciate the -- the mutual respect that we have with Idaho Power, InterMountain Gas and Grand Forks, and Northern States Power, that allows us to do those kinds of negotiations, or understanding, and then respectfully go our own ways.

MR. BOB PETERS: Thank you. In the summary of the Centra unaccounted-for gas study, that was found at Tab 16 of the Book of Documents that have been circulated and marked as PUB Exhibit No. 8, the measurement or metering accuracy was -- is the largest source of UFG that the Utility is attributing to Simplot, correct?

MR. DON READING: Correct. And -- and all other classes as a group, also.

MR. BOB PETERS: And, Dr. Reading, is it your understanding that that -- that number was calculated, based on an accuracy level of plus or minus .2 percent?

MR. DON READING: Yes.

MR. BOB PETERS: And, do I correctly understand from your evidence that you feel that the accuracy is more in the area of .1 percent of these actual meters?

MR. DON READING: That's our suspicion, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, I'd like to thank Mr. Riad, Dr. Reading and Mr. Hawk for their answers to my questions, also appreciate their attendance here this afternoon on behalf of the other parties.

Those conclude my questions and I -- I trust they'll have a good evening as Mr. Riad takes them on a tour of their facilities in Portage la Prairie and maybe over to Brandon, again. So, thank you.

THE CHAIRPERSON: Thank you again, Mr. Peters. Mr. Gretener, do you have any re-direct...?

MR. NICK GRETENER: I'd be very reluctant to detain the room at this time of day, Mr. Chairman, but I do understand -- I think Dr. Reading has just a follow-up to elaborate on an answer he gave Mr. Roberts.

MR. DON READING: Just -- just one follow up on -- on what Mr. Hawk said about co-operative -- co-operation of the company.

It may look adversarial here, but in the throws of trying to put this case together when somebody called him from Idaho and bothered him, I got my phone calls returned quite promptly and either the question answered or

we'll get back to you and lo and behold, they did get back to me.

So, I want to make sure the record shows that that -- that a lot of co-operation from the Company.

MR. BOB PETERS: And I -- in closing, Mr. Chairman, I'd also like to again reiterate our thanks for streamlining the process, being able to come in and out on one day is -- is exceptional and we do appreciate it.

THE CHAIRPERSON: I'm sure we're all happy to oblige. I hope you enjoy your stay, and thank you everyone. We'll see you tomorrow.

(PANEL RETIRES)

--- Upon adjourning at 4:25 p.m.

Certified Correct

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Carol Wilkinson