MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
2007 COMPETITIVE LANDSCAPE PROCEEDING

Before Board Panel:
Graham Lane - Board Chairman
Len Evans - Board Member
Eric Jorgensen - Board Member

HELD AT:
Public Utilities Board
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LIST OF EXHIBITS

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CENTRA-15	Response to Undertaking 3 updated information for the answer to PUB/CENTRA-13, which was found at Tab 2 of Mr. Peter's book of documents.	1455

--- Upon commencing at 1:05 p.m.

THE CHAIRPERSON: Okay, welcome back everyone. To open up with, Mr. Peters, if you could remind us where we are.

MR. BOB PETERS: Thank you, Mr. Chairman, good afternoon. A couple of matters at the outset, there's been some discussion amongst counsel about a revision that was needed for the transcript, and that revision has been done, and the transcript will be prepared and released, if it hasn't been already.

Secondly, Ms. Murphy, I think, has a further matter to address on the transcript, and a correction, I believe, to one (1) of the answers given to me of yesterday.

And then I think the third matter is to turn it over to the -- to the tandem I see, of CAC/MSOS counsel. Although I believe Mr. Holloway will be leading the charge this afternoon.

So, that will take us through to today, and I will remind the parties that by agreement last week, we are also sitting tomorrow to substitute for the Monday where we didn't sit this week, so, thank you, Mr. Chairman.

THE CHAIRPERSON: It's like ballroom

dancing in the '30s. Okay, thank you, Mr. Peters.

Ms. Murphy...?

MS. MARLA MURPHY: Thank you, Mr. Chairman. We did pretty good, I think, throughout the day yesterday, with the exception of the very last page of the transcript. At page 1386, Mr. Peters put two (2) questions to Mr. Kuczek, which Mr. Kuczek would like to clarify, for the record.

The questions relate to the ordering of the quantitative research and the focus groups, and Mr. Kuczek is prepared to speak to that.

MR. LLOYD KUCZEK: Okay, I'll -- I'll even go one (1) question prior to that. And Mr. Peters asked me:

> In the work plan that was submitted to you, Mr. Kuczek, to the Board, there was a suggestion in there that the focus group would be conducted before the quantitative research.
> Correct."

And so, what -- what that was, was the plan that we -- and just to add a little more background so everybody knows what's going on, and we're all clear on this -- we developed a plan back in January, in response to the PUB Order, and prior to submitting the

RFP, that we thought was roughly what we would undertake.

In that plan, and it was a rough plan, we had the focus groups to be conducted prior to the quantitative research. And then what happened subsequent to that, is that we issued the RFP, had discussions with eNRG, and there was a lot of discussions around the amount of information, wheth -- that we were -- the scope of the work, and whether or not we would need focus group, as well -- as -- included as part of the market research.

In eNRG's quote to us, they -- they had options of doing focus group sessions, and so at that point we decided that it was uncertain we were going to do focus groups, but if we going to do them we would decide later on.

And then Mr. Peters asked me:

"As it turned out, the focus groups wasn't conducted in advance of the quantitative research?"

And that's true, they were not. And then subsequent to that Mr. Peters asked:

"As a result of that delay..."

And -- and I guess I should add, I responded:

"No, things got delayed because of the

"consultations involved."

But that's -- that's not true. What got delayed was the whole process got delayed, which included undertaking some focus group sessions, as well. And then --so the following question:

"As a result of the delay then, the Order had to be inverted, where the quantitative research was done first, followed by the focus groups?"

And I said, "That's correct." But that's not correct, it's incorrect actually, as I explained.

MS. MARLA MURPHY: I hope that helped.

THE CHAIRPERSON: It appears it did.

Okay, Mr. Holloway?

CENTRA PANEL, Resumed

VINCE WARDEN, Resumed
HOWARD STEPHENS, Resumed
ROBIN WIENS, Resumed
GREG BARNLUND, Resumed
LLOYD KUCZEK, Resumed

CROSS-EXAMINATION BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: Thank you, Mr.

Chairman. Just for the record, my name is Ivan Holloway and I'm somewhat of a new face in here, as I'm sure you all can appreciate. And it kind of makes me wonder in this cross-examination whether you gentlemen are going to be more on the hot seat or me. I guess time will tell.

Anyway, first thing I'd like to direct you to is Centra -- Centra evidence Tab number 2. Sorry, I don't have a nice little consolidated brief.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: In particular, I'm looking at the attachment part of Tab 2 of Centra's evidence.

(BRIEF PAUSE)

MS. MARLA MURPHY: We have it, thanks.

CONTINUED BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: Now, if we look at the first page, it seems to indicate that generally for small volume customers and also for large volume customers, that the participation rate in system supply always exceeds that of the direct purchase.

Is that fair to say?

MR. GREG BARNLUND: That's correct.

MR. IVAN HOLLOWAY: And I see if we flip the page, we have tables that are -- that are the same comparison, except by volume, right?

MR. GREG BARNLUND: That's correct, yes.

MR. IVAN HOLLOWAY: And I see that for the small volume customers that that characteristic of -- that there's greater volume in the supply -- or in the system supply as opposed to the direct purchase, continues on in this graph as well, right?

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

MR. IVAN HOLLOWAY: But if I look down below and I look at the actual volumes by the industrial customer classes, I see that trend is reversed.

MR. GREG BARNLUND: Yes, sir. And that's due to the usage characteristics differences between large volume industrial customers and the residential customers. And the information in the second table is strongly influenced by one (1) customers in particular.

We have one (1) customer on the system who consumes probably 20 percent of our overall throughput, has been on transportation services for some time now. So that volume obviously would be reported in that -- in that graph and -- but the average usage per customer, for the industrial customers, is obviously quite a bit -- significantly larger than -- than an average residential customer.

MR. IVAN HOLLOWAY: Okay. So basically this would be largely skewered by that one (1) customer; is that fair to say?

MR. GREG BARNLUND: The one (1) customer would have a large influence on that information, I think.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I'd like to turn your attention to an answer to an Information Request in PUB/CENTRA Number 33, if I may.

(BRIEF PAUSE)

MS. MARLA MURPHY: We have it.

CONTINUED BY MR. IVAN HOLLOWAY:

MR. IVAN HOLLOWAY: Now -- now this document is basically a -- a listing of the complaints that Centra got regarding brokers, from I believe, early in 2007 to, I guess the time that this IR was answered.

Is that fair to say?

MR. LLOYD KUCZEK: It would be inquiries as well as complaints.

MR. IVAN HOLLOWAY: Right. Thank you for that correction. Now, if I recall the number of -- there's a hundred and fourteen (114) calls at this time, as I see from your answer, and of those hundred and fourteen (114), sixty (60) were categorized as complaint calls; does that sound about right?

MR. LLOYD KUCZEK: That's how the rep char -- characterized them, yes.

MR. IVAN HOLLOWAY: Do you have any -- any kind of information that can give us a sense of -- of the meaningfulness of this volume of complaints/ inquiries? And I'm more thinking compared to what the complaints and inquiries that Centra would get about their own service, so we can have a comparability.

MR. LLOYD KUCZEK: Just one sec.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: I do have -- this wasn't part of the Hearing, but I do have some homework here, and this is just some reading material, but what I do get is reports once a month from the contact centre that provides me with complaints and compliments that we receive as a company, overall.

So, this is for July 26th to August 24th, to give you some sort of an idea of the number of complaints we receive. There was twenty-five (25) complaints during that period, which is approximately a month, and eighteen (18) compliments.

Complaints, they're -- they're all over the map, from quality -- quality of customer service, billing and rates, IVR, meter reading, tree trimming, credit and collections, street lights, that sort of thing.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: This chart that you've provided in the Information Request, it starts at February 1, 2007; do we know, is the last day April 18, 2007?

MR. LLOYD KUCZEK: Correct.

MR. IVAN HOLLOWAY: I'm trying to do some quick math in my head, which is according to Mr. Peters, isn't always the best thing to do, especially in public. However, from February to April, we're looking at three (3) months; sixty (60) complaints in three (3) months. Roughly twenty (20) complaints a month for the -- for the market retailers; does that sound about right?

MR. LLOYD KUCZEK: Yeah, I believe it's about two and a half (2 1/2) and a half months, that period, and so -- but it's in that range; twenty-five (25) complaints, possibly.

MR. IVAN HOLLOWAY: Okay. So the -- it looks as though there's roughly twenty-five (25) complaints per month, if -- if the month that you're quoting from Centra Gas -- first of all, is that a representative month, when you say twenty-five (25) complaints?

MR. LLOYD KUCZEK: Yeah, I get those reports sent every month, and generally speaking it's in that range. It -- the -- the causes or the complaints vary. In the wintertime we tend to get more complaints about the meter readers tromping over shrubs that they don't see under the snow, but...

MR. IVAN HOLLOWAY: So the -- just from this kind of -- in fairness to the marketers, it's not a long time assessment, but it would appear that the complaints are roughly equivalent, yet of course, there's only -- the marketers are only 20 percent of the marketplace compared with system supply.

So, does this indicate that there's -- in your view, that there's more complaints on average for marketers than there is for system supply?

MR. LLOYD KUCZEK: It does suggest that, yes, for this period, anyways. I would su -- suggest that it -- it probably depends on the -- the activity that's going on in the marketplace.

MR. IVAN HOLLOWAY: If, in fact, this is indicative of some trend that's not just particular to these particular months, do you have any theory as to why that may be?

MR. LLOYD KUCZEK: No, but I -- I think in fairness to the retailers, I should add that I have been getting reports since then and the number of complaints has gone down. I don't have -- it hasn't been as high as that initial period there, but I -- I don't have the specif -- specific numbers. All I was doing is monitoring it roughly, to see how things are going for this Hearing.

MR. IVAN HOLLOWAY: I'd like to refer you to Mr. Peters' brief that he put together for this Hearing, and in particular, Tab 11 of his brief.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Now, the panel talked with Mr. Peters about this to some extent yesterday, and as I understand the evidence as provided then -- and I just want to confirm it before I continue -- is that if we are to look at what the addition -- additional cost to gas is for this fiscal year to current, it's approximately $14 million. Is that fair?

MR. HOWARD STEPHENS: That's the realised result so far this year, yes.

MR. IVAN HOLLOWAY: And if I understand the evidence correctly from ye -- from yesterday, that there's -- the projected cost of hedging for this year to the end of, I guess, fiscal March '08, would be $45 million?

MR. HOWARD STEPHENS: That was the mark-to-market as of -- well, actually it was the mark-to-market as of this morning; I looked it up this morning to make sure I had the number.

MR. IVAN HOLLOWAY: So it -- it's an accurate projection from what you know right now?

MR. HOWARD STEPHENS: Yeah, but it isn't -- I mean the greater amount is not settled yet, so it'll be -- it'll depend upon what the market does from here on in.

MR. IVAN HOLLOWAY: Right, understood. So, if -- if we're able to follow this through and figure out what a total net addition would be, as projected --

if my math is -- my rough math is correct -- we're looking at a projected net addition at the end of fiscal '08, to be about $41 million?

MR. HOWARD STEPHENS: Well, there are a lot of ifs associated with that, but I mean I can accept your -- I mean, the number is going to be somewhere in the vicinity, unless something is -- unexpected happens and that's why you hedge.

MR. IVAN HOLLOWAY: Right, but based upon the information we have right now?

MR. HOWARD STEPHENS: Based upon the information as of today, yes.

MR. IVAN HOLLOWAY: Okay. I want to talk about the concept of default gas supply. Now, my understanding is, is that in the world in which there's Centra offering one (1) product, and then the retailers offering their own products that the default is the Centra supply. Is that generally fair to say?

MR. HOWARD STEPHENS: Well, that has been the circumstance to this point in time.

MR. IVAN HOLLOWAY: Right. Now -- and that's exactly where I want to go, because we're looking at potentially allowing Centra to be able to offer multiple products, right?

MR. HOWARD STEPHENS: That's our

applications, yes.

MR. IVAN HOLLOWAY: Right. And in -- in a world in which Centra is no longer just offering just one (1) product but offering a number of products, is there some position or sense as to whether there's going to be a so-called default option?

MR. HOWARD STEPHENS: I think we alluded to the fact that we feel that the -- in our evidence, in fact, I'm sure we did -- that we -- we strong -- we feel strongly that our existing primary gas rate offering should be the default offering.

MR. IVAN HOLLOWAY: And when we say, "default" we mean that the -- if the consumer doesn't elect, that's the automatic type of gas that the consumer gets, is that right?

MR. HOWARD STEPHENS: That would be correct.

MR. IVAN HOLLOWAY: In a world in which there's potentially more choice that Centra can offer, does it need to be that there is a type of gas that the consumer gets without an election?

MR. GREG BARNLUND: Yes, definitely.

MR. IVAN HOLLOWAY: Can you explain why that is?

MR. GREG BARNLUND: Well, on one hand

you're going to have some customers that, for whatever personal reasons they might have, couldn't be bothered to be actively reviewing the options and making a choice there. It's not a -- a decision that they're actively involved in, so they're willing to accept the middle-of-the-road product that is regulated and approved by the Public Utilities Board in Manitoba, as being the standard system supply offering.

You are also going to have situations, of course, when you're adding customers to the system and a customer is building a house and they want to obtain gas service, they're going to sign up for gas service in the course of planning and undertaking the construction of their new house, and they want to make sure that the service is installed in time and the gas is ready to flow to them. And so a smaller decision for them is in terms of picking the appropriate gas price or the gas offering at that point in time.

So -- so for the most part you also have sort of a supplier of last resort situation that the Utility fulfills, in that if there are customers that for whatever reason may wish to return or cancel a contract with a broker or marketer, they can automatically return to this standard supply offering and there's no discontinuity in terms of the services they're receiving from the gas utility.

MR. IVAN HOLLOWAY: Okay. Leaving aside the situations where someone wants to leave a broker and go back to system supply, is it not -- surely it's possible to say, Look, you -- you want us to connect gas to your house or you're moving into a new house with a gas connection, you have to make the choice between option A, option B or option C, and if you don't, you don't get gas.

Is that not possible?

MR. GREG BARNLUND: Well, I'm certain it's -- that's one (1) possibility, but in the intent of providing reasonable customer service, I don't think that that's something that -- that is really of benefit to customers.

I mean, they don't -- unless they -- if they -- if, when they're signing up for gas service, if they have another option in mind, in terms of who would be supplying their gas, they can sign up for that supply. If it's through a broker, for example, they can sign that up and that would -- that supply arrangement would get enrolled and -- and they'd be able to take advantage of that.

So -- but in terms of -- to be having somebody to select -- supply a specific supply every time that they either move or -- or take a -- or build a house, that's, I would say fairly inconvenient and doesn't provide very good customer service to them; where you're asking them to fill out a lot of extra information; they may not be interested in -- in being involved with at that point in time.

And -- Mr. Stephens reminds me quite correctly that -- when a new house is being built it's often the general contractor that's applying for gas service and not the homeowner directly. And that -- the decision to be made -- that the homeowner would make could conceivably be different from the decision that the general contractor or builder would be making.

MR. IVAN HOLLOWAY: But surely under -- under those circumstances -- when the customer moves in and -- and the gas starts to flow -- that a -- a phone call to the customer could be made, and that could be done relatively simply. Is that not -- is that not -- is it -- really more required than that?

MR. GREG BARNLUND: Can you describe that again? You're saying that the Utility would then phone the customer?

MR. IVAN HOLLOWAY: Well, I'm -- I'm giving a -- a possibility.

MR. GREG BARNLUND: Well, I mean that's

conceivable, but it's also costly. I mean, we would have to try and figure out when a customer is taking possession of a building, and then approach them -- on an out -- out -- outbound call basis, hoping to catch that person at home, and then trying to facilitate some type of a communication transfer. I mean, it's conceivable but it just seems very awkward to me.

MR. IVAN HOLLOWAY: The reason why I'm going down this is that, I -- I believe -- I think it was Mr. Stephens said yesterday, that when talking about -- talking to Mr. Peters about the default supply, said something in the effect of, One size fits all. Rate setting mechanism serves customers very well -- and Centra doesn't want to see the default offering that is not -- not viable for customers, that there's a con --

MR. GREG BARNLUND: That's correct.

MR. IVAN HOLLOWAY: -- there's a concern there to look out for customers basically.

MR. GREG BARNLUND: Yes, that is correct. Yes.

MR. IVAN HOLLOWAY: Yet, if the customers don't have an opportunity to focus their mind as to what they would like, the default that may be provided to them may, in fact, not be what they want.

Is that fair to say?

MR. GREG BARNLUND: That's possible. And I think that it's also then the customers responsibility to evaluate the options that would be available to them. And -- and when they're ready to make a choice then they should be able to make that choice, and -- and that choice should be implemented as quickly as it possibly could be done.

But I think that you have to take the customers circumstances into consideration quite carefully, in terms of that whole situation. And customers -- may not be ready to make the decision when you're asking them to make the decision.

MR. LLOYD KUCZEK: Just to add to that, you know we haven't done specific market research, but -- the research that we have done suggests that there are a number of customers that simply, it isn't on the top of their mind; it's not a priority for them. And so I think that they -- and if we did some market research, I would -- I would think that they would suggest that -- if they were in that -- category, they would just prefer that -- Centra Gas decide what's best for them.

And -- you know if they're not gonna make the decision and -- if it was -- that were the case, then it seems to me the best would be what Mr. Stephens proposed, with the something in the middle-of-the-road that -- as a product for a default.

And when I say middle-of-the-road, it's actually also the category which seems to match the largest percentage of customers' preferences, as well.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Now, I -- I can't remember which one of the panel said this yesterday, but I just want to confirm it, that -- that the -- the only reason for hedging is to reduce volatility. Is that fair to say?

MR. HOWARD STEPHENS: That's correct.

MR. IVAN HOLLOWAY: And of course the concern about volatility is -- is essentially a concern that a price change -- unexpected price change, or a severe price change, in a short period of time could take consumers off guard.

MR. HOWARD STEPHENS: Completely by surprise, yes.

MR. IVAN HOLLOWAY: Now, I believe Mr. Warden said yesterday, that the most significant factor in volatility is the weather. Is that right? Fair to say?

MR. HOWARD STEPHENS: I believe he --

well if he didn't say it I will, lets put it that way.

MR. IVAN HOLLOWAY: And if I look at PUB/CENTRA IR answer 26, on the first page, the second last paragraph, it seems to me that it's stated even -- even stronger than that. I just want to quote for the record, in the middle of the first sentence of that second last paragraph:

> "Centra maintains that the overwhelming majority of the volatility or variability that customers experience in their monthly natural gas bills, is the result of changing consumption in response to changing weather conditions."

Do you see that?

MR. HOWARD STEPHENS: I do.

MR. IVAN HOLLOWAY: So is it -- is it for -- is it fair to say, that in fact it's really -- the volatility in your gas bill, the overwhelming majority is attributable to weather factors?

MR. HOWARD STEPHENS: I think ultimately we look at the customers' bill volatility as being, I mean, one of the key indicators of performance, because that's what the customer typically looks at. I mean, in my own personal opinion, I have no research to demonstrate this, but I would dare say that half of our customers don't even know what the rate that they're paying is.

And so, from that perspective, we are concerned with respect to the bill, and the bill varies very significantly as according to that re -- that reference that you've given us, with re -- with respect to the weather. And it's a bit of a conundrum when they sign up for a fixed price offering and it's hard to rationalise why they would to fix the price without fixing any component too, but...

MR. IVAN HOLLOWAY: It's -- it's -- basically, the bottom line bill is what customers are concerned about, right?

MR. HOWARD STEPHENS: It's sure what I look at.

MR. IVAN HOLLOWAY: And I believe, Mr. Stephens, I think you said yesterday that -- that the ideal tool, I have in my notes, in quotation marks, for managing bill volatility is the EPP Program, right?

MR. HOWARD STEPHENS: Certainly, because it deals with both components; of the price rates and all of the rest of the pricing factors, as well as the weather component.

MR. IVAN HOLLOWAY: And if we look at the responses to the IRs in DEML/CENTRA-16 and PUB/CENTRA-26, I think -- I think, the former was looked at yesterday with Mr. Peters...

(BRIEF PAUSE)

MR. HOWARD STEPHENS: You could have saved me some time if you would have told me the one (1) with the fun -- the funny curves on it.

MR. IVAN HOLLOWAY: Yeah, I know which one (1) you're talking about, sir. I -- I don't intend to go through these in any great detail because they were canvassed to some extent by Mr. Peters yesterday, although I'm not sure that PUB/CENTRA-26 was -- was canvassed.

But essentially, what these appear to be showing is that the empirical evidence of -- of the value of a more fixed product, or a perfectly fixed product, appears to show that there's either no effect on bill volatility or that in fact it's an opposite, a counter intuitive effect on bill volatility, in that the more the rate is fixed, the more volatile the bill seems to be.

MR. HOWARD STEPHENS: No, it's not only the more the bill is fixed; the higher the price the bill is fixed, or the rate is fixed at, and then it multiplied by the consumption is obviously going to drive out more volatility.

MR. IVAN HOLLOWAY: Right. But the -- the bottom line is, is that the evidence that we have before us right now, the empirical evidence, of the extent to which fixed rates are improving bill volatility, is such that it doesn't appear that it's having any effect on bill volatility. Is that fair to say?

MR. HOWARD STEPHENS: Yeah, this is just some analysis we had done some time ago. And actually, when we got the results of it, you know, I mean, my eyes couldn't believe it, and -- 'cause it is counterintuitive.

But if you look at it in the context that even though our rate is variable, our rates and the underlying price associated with them, are not necessarily correlated with the weather in Winnipeg.

So, there could be some other factors in the States that are driving prices up or down. And it could be down, at the -- at the very same time that we're experiencing very cold weather, and from that perspective then we wouldn't see as much volatility under our rate setting methodology.

So it's, if -- I mean, there is a good

rationale with respect to it, in terms of the findings that we did come across with this.

MR. IVAN HOLLOWAY: And the effects in the United States that you're eluding to, it sounds like these could be effects that could be ongoing, not just something that was peculiar to the last six (6) years that were looked at, but potentially could be ongoing. Is that fair to say?

MR. HOWARD STEPHENS: I mean, anything can be happening. I mean, it could be very warm here, could be -- very cold in the States, larger demand in the northeast, great big pull on storage; any one of a number factors can take the price up, and as a result our rates would go up.

MR. IVAN HOLLOWAY: So, I guess what you're saying, is that there's no sense from the Utility as to whether such a trend would likely continue on in the future, like we've seen in these graphs, or not?

MR. HOWARD STEPHENS: Weather is always going to be a very big contributor to the volatility of a customer's bill from month to month.

MR. IVAN HOLLOWAY: Understood. But I'm not really talking about the weather. I'm more talking about the -- whether the -- a fixed rate is -- would likely continue to either have no effect or a counterintuitive effect on bill volatility, into the future.

MR. HOWARD STEPHENS: If a customer's expectation is that they're going to reduce the volatility of their bills, we would like to make sure that they understand that that may not always be the case, and I think that that's going to be a fairly longstanding rule.

MR. IVAN HOLLOWAY: That may not always be the case, but it -- it seems from the only evidence that we have right now, that is the case.

MR. HOWARD STEPHENS: Sorry, can I get you to repeat?

MR. IVAN HOLLOWAY: I'm sorry. It -- it seems that from the evidence that we have, unless there's more evidence that's -- that's not being put forward here, but seeming from the evidence that we have in front of us, that the rate volatility, or the extent to which a rate is fixed, is not significantly impacting bill volatility. I mean, that's basically the evidence we have, right?

MR. HOWARD STEPHENS: Based upon the evid -- of the time period we're talking about now. On forward going basis, I don't think I can predict that.

MR. IVAN HOLLOWAY: No, understood. But

just based upon what we have right now?

MR. LLOYD KUCZEK: Yes.

MR. IVAN HOLLOWAY: I want to talk about the cost of hedging, and not par -- not so much the -- the swings, in terms of what the Utility may be paying more, or may be paying less as a result of it's hedging program, but more the, kind of the internal costs.

Did I understand Mr. Warden to say yesterday that the -- it's estimated that the costs of hedging to Centra were approximately one tenth (1/10th) of 1 percent primary gas costs?

MR. VINCE WARDEN: Yes, Mr. Holloway, you understand it correctly. That was the number that we put on the record and has been put on the record in previous proceedings.

MR. IVAN HOLLOWAY: And that that number is, when we actually do the 1 per -- one tenth (1/10) of 1 percent computation, that that works out to, I think you said yesterday, less than one hundred thousand dollars ($100,000) dollars a year?

MR. VINCE WARDEN: Well no, no. I think we're talking two (2) different things there. The -- the hundred thousand dollars ($100,000) was -- I think was asked what the internal costs of Centra gas were to administer the -- the hedging program. We didn't have a precise figure on that, but my rough estimate was less than a hundred thousand dollars ($100,000) per year.

MR. IVAN HOLLOWAY: So what -- what do you mean by the internal costs of hedging? What -- what are you referring to?

MR. VINCE WARDEN: Well, essentially the costs, wages and salaries of employees, overheads, training costs associated with attending seminars, so that would comprise the majority of -- of the hundred thousand dollars ($100,000) that I'm talking about.

MR. IVAN HOLLOWAY: So those are basically the costs that Centra incurs to manage the program; is that fair to say?

MR. VINCE WARDEN: Correct.

MR. IVAN HOLLOWAY: But that doesn't include dealer margins, is that right?

MR. VINCE WARDEN: No, it wasn't intended to include deal -- dealers margins.

MR. IVAN HOLLOWAY: Okay. And -- and what's your estimate on an annual basis of the dealer margins?

MR. VINCE WARDEN: Well, there -- there really is no annual number. We -- we've indicated that over the long term -- and when we talk long term, we're talking ten (10) years thereabouts or longer -- that we expect that essentially a -- a hedging program will be cost neutral, except for the dealer margin piece, which is -- is that one-tenth (1/10th) of 1 percent, on average over that period of time.

MR. IVAN HOLLOWAY: And -- and what is the -- can you tell me, you know, a -- a rough calculation of what that one-tenth (1/10th) of 1 percent is on an annual basis?

MR. VINCE WARDEN: Well, primary gas costs are -- are about five hundred thousand dollars ($500,000), or $500 million per year. So, one-tenth (1/10th) of 1 percent of fi -- $500 million, five hundred thousand dollars ($500,000).

Now, that's -- the 500 million is a gross -- actually it's appr -- approaching 600 million now, for total gas costs. Not all of that would be hedged; about two-thirds (2/3s) of that would be hedged. So you'd have to do a calculation to determine exactly what that would be, but roughly those -- that the magnitude -- order of magnitude of the numbers.

MR. IVAN HOLLOWAY: So if -- I'm doing some quick math here -- we're looking at six hundred thousand (600,000) on 600 million, and then there would be two-thirds (2/3s) of that, so we'd be looking at around four hundred thousand dollars ($400,000).

Does that sound right?

MR. VINCE WARDEN: Yes, that's about right.

MR. IVAN HOLLOWAY: And so the -- the cost to the Utility on a order of magnitude, and not on an exact number basis per year, we're looking at around five hundred thousand dollars ($500,000).

Is that fair to say?

MR. VINCE WARDEN: Approximately, yes.

MR. IVAN HOLLOWAY: Now, does that five hundred thousand dollars ($500,000) include costs such as the Util -- the regulatory hearing costs; like this one, for example?

MR. VINCE WARDEN: Well, we are getting down to a level of preciseness now, and when I -- when I threw out the number of a hundred thousand dollars ($100,000), I -- I -- you know, I -- those are the total costs that we would incur.

So regulatory costs, I think, could probably -- if we added up all the -- tallied up all the costs, I think regu -- regulatory costs could be included within that hundred thousand dollars ($100,000) number.

MR. IVAN HOLLOWAY: Could be included, but I sense that you're not sure about that.

MR. VINCE WARDEN: Well, I wasn't -- I

hope I'm clear -- I wasn't sure about the hundred thousand (100,000), I'm -- I'm just saying it's not a significant number, it's less than a hundred thousand dollars ($100,000) per year.

MR. IVAN HOLLOWAY: Now, in the '07 study that was done by eNRG that we've spoken about before -- or that Mr. Peters, I guess, spoke with you about before -- there was a reference in there to the cost of hedging being less than 1 percent.

And now, I guess one-tenth (1/10th) of 1 percent is technically less than 1 percent, but one usually assumes when someone says less that 1 percent, they usually mean .9 percent or .8 percent. Is -- is there -- is this just kind of a fluke or a happenstance or is there some reason behind that?

MR. LLOYD KUCZEK: I could respond to that. We did provide the one-tenth (1/10th) of 1 percent to eNRG. eNRG thought it's insignificant to the cus -- or small enough and the best way to portray it would be in a less complicated manner just saying 1 percent and not going with the one-tenth of 1 percent.

MR. IVAN HOLLOWAY: Thank you. Now, if my memory serves me correct I think I've read that the previous number that was quoted either at Board hearings or in previous market research was between 1 and 2 percent.

Does that sound about right?

MR. HOWARD STEPHENS: I think we may have led that evidence at one (1) point or another but we refined our knowledge of the -- the dealer margins and how they're calculated and that's how we've arrived at the newer numbers.

MR. IVAN HOLLOWAY: So, I'm not sure I fully understand that answer, but, are you saying that the previous 1 to 2 percent may have included dealer margins?

MR. HOWARD STEPHENS: That's what I'm speaking of is dealer margin.

MR. IVAN HOLLOWAY: So it's basically not directly comparable to the one-tenth (1/10th) of 1 percent that we were talking about before because that did include dealer margins. Oh no, sorry, that is --

MR. HOWARD STEPHENS: What --

MR. IVAN HOLLOWAY: -- I'm sorry. My fault. I'm confused. Okay. When you say that process was refined in terms of determining one-tenth (1/10th) of 1 percent, can you elaborate on what you mean by that?

I mean, it seems like a change from 1 to 2 percent to one-tenth (1/10th) of 1 percent -- while both small numbers in kind of a relative sense -- they are pretty big numbers when you actually do the math compared with five or $600 million of gas.

MR. HOWARD STEPHENS: It's just a -- it's a matter of learning over time. We've run the program now for seven (7) years. We've gotten our people trained much better with respect to the program and the -- the use of derivative products, et cetera, to the point where we have experts on staff now.

And so from that perspective we are now better able to establish exactly what kind of dealer margins are expected and it's not exactly easy information. You just don't go to the dealer and ask them how much -- what's your margin, I mean, that's pretty much a confidential piece of information.

MR. IVAN HOLLOWAY: So there's a certain...

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: So there's a certain --

MR. HOWARD STEPHENS: Maybe I'll add -- I'll just add to that. We did have one (1) consultant's report that did confirm that number as well. So from that perspective -- and I believe that Mr. Pringle in his evidence last year agreed with us with respect to that cost -- your -- and that would have been your witness.

MR. IVAN HOLLOWAY: I want to -- Mr. Saxberg informs me he tells all his experts to not agree, so, that's not possible.

MR. HOWARD STEPHENS: I think we'll discuss that later.

MR. IVAN HOLLOWAY: I'd like to talk about the -- the PGVA and I believe that -- and I can't remember which member of the panel said this yesterday. I -- I think it might have been Mr. Barnlund but I could be wrong, that the PGVA count -- there's a -- when there's a disconnect between the -- when -- when gas is purchased -- the cost of gas is purchased and when it's ultimately -- and when the -- the rate is changed to reflect that purchase, there's a difference which causes an account, either negative or positive, in the PGVA?

MR. GREG BARNLUND: I think what I was describing was at a high level of purpose the PGVA is to track over some period of time the cost of the gas that's acquired to serve the load for that period of time versus the revenues that are generated from the volumes that are sold to customers over the same period of time.

MR. IVAN HOLLOWAY: Right and I probably misspoke myself but I think that's my -- my general understanding of what you said.

And -- but I think there's something further and that is, is that this -- the PGVA can cause greater volatility but that hedging can reduce this greater volatility. Did I get that right?

MR. GREG BARNLUND: I -- I think, essentially, that's the case because what happens when you're hedging you are incorporating the effect of the hedge into the forecast gas cost for the period that you are going to set your rates for on a prospective basis.

So, potentially then, if those rates are closer to recovering what your actual costs are, then you have less that would flow into the PGVA -- or accumulate in the PGVA at the end of period that would end up needing to be recovered from customers in some subsequent period.

MR. IVAN HOLLOWAY: Okay, and -- and I think that there's even something that went farther than that, that -- that there was -- where the PGVA had to be recovered in a net -- in a -- and if it built up significantly and then had to be recovered in a time period, in the next time period, especially a time period in which there was low gas volumes, that that could have a significant volatility impact; is -- is that -- did I get that right?

MR. GREG BARNLUND: Well, I think that was -- first of all, that discussion was occurring in the context of a monthly rate changing product where the PGA -- PGVA would be recovered not in the quarter or over the next period of time, beginning in the next quarter, but beginning each subsequent month. And so we were talking about the effect of that recovery having on amplifying the volatility in the primary gas price over what you would normally see as the volatility in -- volatility in the underlying gas cost itself.

But separately from that, the nature of the PGVA and the nature of -- of the recovery of that, even under a quarterly arrangement that we've got right now, that let's say, for example, that we were required not to hedge and we go through a period of time where over a quarter, say from November until February 1, which is a very cold part of the year, gas prices for whatever reason were to dramatically increase beyond what we have imbedded in our forward-looking sales rate for that period of time.

We are going to accumulate a significant buildup in the PGVA that would be owing to the Company from the customers by virtue of a large percentage of our annual volume being delivered to those customers in that three (3) month period, coupled with a significant runup in price occurring at the same time.

So, you have a large PGVA balance that you have to contend with at that point in time and you have some decisions to make as to how you recover that from customers and you also have some implications in terms of customers that may wish to move off of your primary gas on to some other product because then you have issues in terms of the fairness of recovering from those customers.

And so that's the problem or the conundrum you have with the buildup of the PGVA if you're not allowed to use hedging.

MR. IVAN HOLLOWAY: Okay. Just leaving aside the -- the -- you know, some possible inequities of people moving out of the market and -- and -- you know, and people moving into the market.

It seems to me that from a volatility perspective, that problem can be solved if the PGVA is recovered on an amortized twelve (12) month basis, which is what I thought was said later on in the testimony; is that -- is that not correct?

MR. GREG BARNLUND: Well, we do recover it on a twelve (12) month basis. I mean, I don't want to confuse the discussions here in terms of what we're currently doing now. Some of those discussions we had before were in the context of a monthly price resetting process and how would you recover a PGA balance in that regime.

MR. IVAN HOLLOWAY: So, if I understand you correctly then, that wouldn't be an issue in terms of volatility if it was -- if PGVA was recovered on an amortized twelve (12) month basis?

MR. GREG BARNLUND: It's always an issue. These things are highly interrelated. The recovery -- the period over which you recover that PGVA is important and if you were to recover it over some period other than twelve (12) months, it's going to have an effect.

And so these things all interrelate together, so when you sever one piece, you have to make adjustments to the other pieces. It's a very interrelated mechanism, if you would.

MR. IVAN HOLLOWAY: I understand -- and I don't have a quick source for this, but I understand that it -- there was some market research done that indicated the consumer tolerance for price volatility. I -- I essentially, I guess, price increase on an annual basis was about sixty dollars ($60). I think that was done some years ago. Does that sound about right?

MR. GREG BARNLUND: I believe so, yeah.

MR. IVAN HOLLOWAY: And the -- the most recent report that was put forward in evidence, the eNRG survey, indicates -- and I have the numbers handy, we can go to it if -- if you like -- but there -- there seems to be from -- from the results of their research is that the new tolerance is approximately a hundred and ninety-five dollars ($195) for Hydro residential customers and two hundred and thirty-four dollars ($234) for -- the marketer residential customers.

Does that sound about right?

MR. GREG BARNLUND: I understand that was presented in that research, yes.

MR. IVAN HOLLOWAY: And -- and I understand that -- that Centra is adopting and putting forward that evidence as being accurate; is that fair to say?

MR. GREG BARNLUND: Yes. Well, it's -- it's the -- the contents of our research report, which we've incorp -- incorporated into our evidence, yes.

MR. IVAN HOLLOWAY: Right. But I guess what I'm getting at specifically is you're not taking any issue with this particular statistic that was put forward of a hundred and ninety-five dollars ($195) and two hundred and thirty-four (234).

MR. GREG BARNLUND: No.

MR. IVAN HOLLOWAY: Now, the -- the bandwidth for the hedging program was increased, I believe, in January, right?

MR. GREG BARNLUND: Yes.

MR. IVAN HOLLOWAY: To 15 percent?

MR. HOWARD STEPHENS: 15 percent above the swap price at the time.

MR. IVAN HOLLOWAY: Now, I -- I'm gonna take a chance here, but it seems to me, on a very kind of rough calculation basis, that -- that it wouldn't likely be a circumstance even on an extreme price increase basis that with -- with a 15 percent bandwidth that we would get anywhere near a hundred and ninety-five dollars ($195) or two hundred and thirty-four (234), on an annual basis.

MR. HOWARD STEPHENS: Okay. I -- I'm not really sure that I understand your question, be -- but -- because you're talking annual differences in terms of bills, and I don't know what my reference is here.

MR. IVAN HOLLOWAY: I -- I understand that. And you're -- I mean the -- the -- let me go back a step maybe --

MR. HOWARD STEPHENS: Let me -- let me help you, maybe. Maybe I can help you --

MR. IVAN HOLLOWAY: Please.

MR. HOWARD STEPHENS: -- and then we'll -- then we'll take it from there.

MR. IVAN HOLLOWAY: Okay.

MR. HOWARD STEPHENS: The sixty dollars ($60) was based upon a fifty (50) cent -- a fifty (50) cent move of the pricing curve over the course of a year. And the likelihood of that was considered to be very low. But this very still the -- this is something -- I still had hair when we developed that number.

So that -- that information is not really relevant. So it was fifty (50) cents relative to say a four dollar ($4) market or a three dollar ($3) market, and so when the Board came back, I mean, and suggested that we look at 15 -- or 20 percent, or something like that, as a percentage of the marketplace and, I mean, it was really, I mean, mirroring what we were doing in the past, without, you know, specifically defining the dollar amount.

MR. IVAN HOLLOWAY: So I -- I take it from your answer that there's been no kind of attempt to assess, you know, if let's say there is a year in which, on an average customers bill, that the -- the price of gas was hitting the upper strike point continually, that what this would -- what dollar effect this would have on an average persons annual bill? There's been no kind of internal assessment in that regard?

MR. HOWARD STEPHENS: Well, in terms of

your example, if the price is hitting the upper strike -- that means we're cutting the -- the peaks off the price, so the end effect is going to be a lower cost to the customer.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Maybe I'll come at this from a different direction, upon the advice and direction of counsel.

If -- if we didn't have hedging on a typical year or -- yeah, on a typical year, what's the chances that we're going to reach the one hundred and ninety-five (195) or two hundred and thirty-four (234); do you have any -- any analysis or information on that?

MR. HOWARD STEPHENS: Nobody could tell you that because it's -- I mean it's -- you'd have -- you're really asking me to forecast what prices are going to do over the course of the year, and nobody could do that.

MR. IVAN HOLLOWAY: No, understood, but I mean, just in terms of from historical analysis perspective.

MR. HOWARD STEPHENS: History is not a good predictor of the future with respect to gas pricing.

MR. IVAN HOLLOWAY: That may be so,

although I guess it's largely the only thing we have except for theory, right? You can't give me some kind of sense? I mean surely the sixty dollars ($60) and the -- the fifty (50) cents had some connection. I mean did it -- did it not -- was there not a...

MR. HOWARD STEPHENS: Certainly -- I wish the author of this stuff was going back a ways. Fifty (50) cents was considered by myself to be an extremely large move with respect to AECO prices. So we wanted to protect our customers from what you would call disaster insurance, I mean providing disaster insurance. And if you took that multiplied by the average per customer, it ended up to be sixty dollars ($60) a year. So we wanted to try and rein in a customer's bill within sixty (60) -- plus or minus sixty dollars ($60) based upon normal consumption.

MR. IVAN HOLLOWAY: And that's what I'm getting at. You're doing a similar calculation for today -- for the --

MR. HOWARD STEPHENS: No. With the --

MR. IVAN HOLLOWAY: -- ninety-five (95) and the two three four (234).

MR. HOWARD STEPHENS: The -- the benchmark that we use today is to look at the percentage of volatility reduction that we've achieved relative to the market.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Maybe I could add some context to that as well just so everybody's clear on this. When we ask the customers that information or responses to that question, it was on their annual bill and there was no -- I guess part of the -- the exposure that they have is to weather each and every year and weather variations could impact customers' bills by 20 percent.

So, you know, the 15 to 18 percent that they're exposed to here, they're -- without any hedging that's done, they're exposed to at least half that due to weather regardless so.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I guess I'm not sure entirely what the value is of -- of obtaining the one ninety-five (195) and the two thirty-four (234); even asking people that question if there's no kind of sense as to what the -- the hedging program is going to drive or impact that.

MR. LLOYD KUCZEK: I -- I asked the question but I -- I -- it was for Howard's purpose, so it wasn't of much value to Howard or Mr. Stephens, I was mistaken.

MR. HOWARD STEPHENS: Simply because the volume -- I mean there's so much variability associated with volume and weather. I mean, it's very difficult to, you know, relate that number in terms of a customer's bill.

And a customer's bill is going to be different based upon size of house, their kind of consumption, lifestyle, and a variety of things. So it's very difficult to make that sort of an assumption unless you look at it from a very grand perspective, and look at an average customer, which doesn't really exist, and try to establish a benchmark in that way.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Without doing any kind of serious quantitative analysis here -- although this may need to be done -- it -- it seems that if we're talking about, you know, roughly two hundred dollars ($200); one ninety five (195) or two -- two-thirty (230), I think is the number. Let's just say it's two hundred dollars ($200).

We're looking at two hundred dollars ($200) either up or two hundred dollars ($200) down that a customer -- average customer says that they can handle in a year. I'm advised by my colleague that that's about a 33 percent variance. It...

(BRIEF PAUSE)

MR. HOWARD STEPHENS: Could you perhaps put the question to me, now that I have some reference in front of me?

MR. IVAN HOLLOWAY: Absolutely. What -- what I'm getting at is that if we're looking at -- if the average bill, which we talked about yesterday, which I think was assumed to be, for a residential, twelve hundred and sixty dollars ($1,260) -- first we agree to that, right?

MR. HOWARD STEPHENS: Yeah.

MR. IVAN HOLLOWAY: And if we -- if the survey results tell us that the average residential customers can handle a two hundred dollar ($200) variance, either up or down -- well, presumably anything down, but at least two hundred dollars ($200) up -- that we're looking at a fairly significant variance around the twelve hundred and sixty (1,260) number.

MR. HOWARD STEPHENS: Yeah, so it would be about 33 percent.

MR. IVAN HOLLOWAY: Right. And we're talking about the bandwidth of the hedging program being 15 percent of the primary gas component.

Now, I know -- and I'm sure there's more complicated ways of -- of -- there's a more complicated analysis that needs to be done in order to properly compare those two (2) things. But on a -- kind of on a high-level global basis, doesn't it seem that the -- the hedging program at 15 percent is really cutting things off well before they -- they -- would need -- need to be?

MR. LLOYD KUCZEK: But just to point out my earlier point, you have to take the weather variation at least off because the -- the customer is responding, saying that this is his willingness to be exposed to this amount on his total annual bill, which includes weather variation, as well as any variation due to the hedging.

So the first -- I would suggest the first thing that should be done is subtract the weather variation off. And I mentioned earlier that it's about 20 percent you're exposed to, so if you say plus and minus 10 percent, these numbers probably should be reduced at least in half and then that same question should be proposed to Mr. Stephens.

MR. HOWARD STEPHENS: Well, you don't have to coach him, Lloyd.

MR. LLOYD KUCZEK: I was just trying to get my point in about the weather.

MR. HOWARD STEPHENS: We'll talk later.

MR. IVAN HOLLOWAY: I understand that when the consumer answers the question then, I think that weather would be bound up in that. But I'm just trying to isolate the component dealing with -- with rates, and it seems to me that if -- if the component dealing with rates is -- is far less, even taking into consideration weather, that -- well, I guess the question I'm posing to you -- maybe let's put that over.

If we do take into account a weather variation of, you know, my -- taking that in half, what -- would you have any computations to provide us with on -- on that?

MR. HOWARD STEPHENS: Do I have -- I didn't catch the --

MR. IVAN HOLLOWAY: The continuing run of -- of commentary. If -- if we take into the account the weather, as Mr. Kuczek is saying, and let's say we reduce it very -- reduce that number by half; the -- the two hundred (200) variance. Is the -- is the -- is there some sense as to whether the 15 percent bandwidth is going to -- with the hedging program, is going to even hit that?

MR. HOWARD STEPHENS: Oh, it depends on the absolute cost of the swaps, so obviously 15 percent of a number, of which I can't predict, is going to be -- I mean, will result in an upper strike on a pr -- on the product and that may or may not be within the tolerances that Mr. Kuczek has identified.

MR. IVAN HOLLOWAY: Yes --

MR. HOWARD STEPHENS: But -- but it is possible to do an analysis, I guess, in terms of what's the probability of an occurrence with respect to those prices, and then analyse what the effects would be.

My sense is, though, that we might be -- we would might have to tighten the -- the bandwidth with respect to the instruments to meet that target.

MR. IVAN HOLLOWAY: Okay. So that's what I'm getting at. That analysis hasn't been done, is basically what you're saying?

MR. LLOYD KUCZEK: That's clear.

MR. HOWARD STEPHENS: What was that, sir?

MR. IVAN HOLLOWAY: Well, I think Mr. Kuczek answered it, but I was -- just wanted to confirm that that analysis that we were just talking about, has not been done. I'd like to direct you to the eNRG survey, please. And in particular, table 14 on page 36.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Now, the...

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: The -- the question posed here, just for the record:

"Are you prepared to pay a premium for -- are you prepared to pay a premium to eliminate the ups and downs in the price for gas?"

And this refers back to the table 13, which talks about peoples various preferences. But the -- the answers here for a residential hydro customer is that for -- are people prepared to pay a premium to eliminate ups and downs in the price of gas where your rate for natural gas changes every three (3) months; 79 percent of respondents say no.

And if it's up to changes for every year, it's 74 percent say no. And -- and then there's other statistics for -- for other groups, and -- and other time levels, but they're generally fairly consistent in the strength in which they say no.

Would you not think that this response indicates that consumers don't want to pay anything for programs that eliminate ups and downs in price?

MR. LLOYD KUCZEK: I guess you have to look at it in -- from both sides; those that are not willing to pay anything, and those that are willing to pay something. And I think a further analysis is required where you have to do some weighting.

But I -- I did a rough calculation myself just on the Manitoba Hydro customers, and if you took at the -- the "yes" responses, and I did that calculation for each one of them, and multiplied it by the end number factor for each one of the categories; then added them up to see how many out of the eight hundred (800) were willing to pay a premium and the -- it worked out to 26.6 percent. So, basically, one (1) out of four (4) are willing to pay a premium and the other three (3) are not.

So, yes, a majority of customers are not willing to pay a premium, but there is a smaller market share, but yet what I would refer to as a significant market share willing to pay a premium.

MR. IVAN HOLLOWAY: Would you agree that

-- that the costs that we talked about before for providing the hedging program, the roughly five hundred thousand dollars ($500,000) a year, could be characterised as a premium?

I mean, it's essentially a cost that's passed along to the customer for that program, right?

MR. HOWARD STEPHENS: It's the costs of mitigating the volatility within our cost of gas, yes.

MR. IVAN HOLLOWAY: Yes, so -- but it's passed on to the customer, right?

MR. HOWARD STEPHENS: Yep.

MR. IVAN HOLLOWAY: So, I mean essentially you characterise that as a premium for the customer, right?

MR. HOWARD STEPHENS: Yes, you could characterise it as such. There is a cost associated with providing that insurance that we're providing, so I guess that would be the premium associated with it.

MR. IVAN HOLLOWAY: So, in light of this -- the results of this table 14, which indicate that a lot of people don't want to pay a premium for -- to eliminate ups and downs in gas; does that in any way change your conclusion as the whether you want to have hedging -- hedged gas as the default option?

MR. VINCE WARDEN: Mr. Holloway, I -- I

really think you have to be careful you don't confuse this with price management. Table 14 relates to table 13, and in which we're talking about variable products versus fixed products; totally different from what we're talking about in terms of price management.

So there is another probably more direct question with respect to the premium we pay on price management that's more relevant. So I think to conclude out of table 14, that -- that customers do not want us to manage prices through derivatives would be an incorrect conclusion.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: But wouldn't you agree that a fixed price -- a fixed rate is the logical end of a continuum of hedging? I mean, if -- it's true, the -- the question asks, you know, about the elimination of ups and downs, but hedging doesn't totally eliminate the ups and downs, but it eliminates some of the ups and downs, at least on a theoretical basis.

So I don't -- I don't mean to be argumentative, but I don't -- I don't see how -- I'm -- we're -- you -- you would agree that consumers -- and I think was stated yesterday -- don't really understand or have a great level of sophistication when it comes to looking at their bill, right?

MR. VINCE WARDEN: Well, I'm not sure I'd want to generalise in that manner, but I think there's some customers have a very -- pay -- pay very close attention to their bill -- their bills and -- and others don't.

MR. IVAN HOLLOWAY: But the -- you would agree that the fo -- focus report seems to indicate that when it talked to people about their understanding of the various components, the bills -- the bill, that their understanding was generally fairly low.

MR. GREG BARNLUND: It may be that they're somewhat confused by the descriptions of the items they are seeing on the bill, but it's hard to interpret exactly what conclusions you can make from that.

MR. IVAN HOLLOWAY: Well, if -- if I look at page number 2 of the eNRG focus group report, which is part of the executive summary. I know there's dangers in inferring things from executive summaries as Mr. Hoaken has pointed out to us. However, this is a report that was commissioned by Centra Gas and it appears to be relying upon it.

I see that in the -- in the fourth

paragraph from the top of the page, under the section Consumer Awareness: Understanding the Components of Natural Gas Bill, the first sentence says:

> "Beyond the above points there is very little appreciation for what the detailed billing section consisted of."

MR. GREG BARNLUND: And I think if you read further it supports what I was saying before in that customers -- are not sure what is meant by transportation, or may not understand what is meant by the word, "distribution," or supplemental gas.

MR. IVAN HOLLOWAY: Well, I mean, the document says what it says, but -- it doesn't seem to be anywhere in here where there's a particular mention of people having a good understanding of the rate component of their bill. Is that fair to say?

MR. GREG BARNLUND: Well, the -- it says what it says, in terms of the confusion and in terms of the description of line items, but...

MR. LLOYD KUCZEK: As far as the '07 market research goes if -- if you -- I think -- if you were looking for what consumers -- are willing -- what their willingness to pay for hedging for the current product, I -- I would suggest that possibly looking at the responses to -- starting at page 39 of the -- where is it -- 38 is it, of the -- the report?

But it -- but it eventually gets to after explaining to the customer that -- there is a 1 percent premium, and that -- are -- are they in favour or not in favour. This is Page 40. And -- and I'll just read the question.

"I am now going to read you three (3) different points of view about Manitoba Hydro's efforts to reduce the primary gas fluctuations. After I read all three (3) statements, I'd like you to tell me which one of these statements is closest to your own view."

And, this is after we had told the customer that -- what the Price Management Program was, in general terms. But they were told that it -- costs them over the long run, less than 1 percent and it also -- they were not exposed to the -- dramatic -- price fluctuations, up or down.

And a significant number of customers in this case still said that they still favoured the Manitoba Hydro or Centra to continue with the program, and that was 63 percent of the residential -- Manitoba customers and 55 percent of the retail customers in that. And 16 percent of said that we should increase our hedging and -- of the Manitoba Hydro customers, and 13 percent of retail customers said we should increase it.

But I would suggest that would be -- those questions give a better indication of what a -- our consumers feel about the hedging program and the costing of it.

The earlier question that you were referring too was just a generic question that we were asking that really didn't really include our product that we're currently -- currently offering. And we were just trying to get a sense for customer preferences among those products, which ones they would prefer, and -- whether they're willing to pay a premium or not for those products.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: My colleague corrects me. I was referring to the retail customers when I was talking retailer customers responding at table 19, and that's not true; that was the small commercial customers. Sorry about that.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Doesn't it seem to you that there is a certain amount of inconsistency between some of these results in the survey?

MR. LLOYD KUCZEK: I didn't feel that way.

MR. IVAN HOLLOWAY: Well --

MR. LLOYD KUCZEK: Inconsistencies in terms of different customers prefer different things, but...

MR. IVAN HOLLOWAY: We're talking about a representative sample of gas consumers, right?

MR. LLOYD KUCZEK: Correct.

MR. IVAN HOLLOWAY: We're talking about people that have, presumably, a representative sample of understanding of the whole natural gas market, right?

MR. LLOYD KUCZEK: The customers would have varying understanding of the gas market that we're surveying, and so you have to -- and that comes out in the results as well, I would suggest.

But as you're asking questions, some of them are getting educated on some of the -- the components of the --the market along the way, with -- by asking the questions.

MR. IVAN HOLLOWAY: Understood, and I understand there's a variability between individual respondents to this survey, but as an overall, what I'm suggesting is that -- assuming this is done somewhat properly -- is that the people answering these questions are representative sample of gas consumers?

MR. LLOYD KUCZEK: That's true, although we're excluding one segment of the market here which was identified earlier by eNRG, and that was consumers that are with the -- signed up with retail cust -- or suppliers, but don't know they are.

MR. IVAN HOLLOWAY: Right. But -- but leaving aside that detail for -- for a moment, the people that are responding the this survey, are not -- you wouldn't suggest are people that have a certain high level of sophistication when it comes to the operation of the gas market, right?

MR. LLOYD KUCZEK: I would suggest they're a broad range of customers.

MR. IVAN HOLLOWAY: There is a broad range of customers, but if we took this room, for example, and did a -- a survey of this room and its knowledge, it would be significantly higher and greater understanding than the average survey recipient. You'd have to agree with that, right?

MR. LLOYD KUCZEK: Certainly.

MR. IVAN HOLLOWAY: So isn't it

reasonable to draw from some of these results that when people are answering these questions, that they're -- they're answering the question based upon a variable, admitted, but also a basic understanding?

MR. LLOYD KUCZEK: Yes.

MR. IVAN HOLLOWAY: So wouldn't it be -- based upon that, wouldn't it be prudent to infer from these results that from less complicated questions where customers are being asked questions like, you know, Do you prefer rate stability vs non rate stability, Do you prefer, you know, to pay less or to pay more; basic questions as opposed to complicated questions, that you may get more reliable results?

MR. LLOYD KUCZEK: You're suggesting asking simpler questions and moving to more complicated questions?

MR. IVAN HOLLOWAY: I'm saying that the question in table 14 is a -- is a fairly straight forward question. It's saying:

> "Are you prepared to pay a premium to eliminate the ups and downs at various -- various intervals -- ups and downs during various time periods, at various time intervals?"

And you're getting some fairly clear

responses from a fairly simple question.

Whereas when questions are being asked where there's, you know, some complication being built into them, you seem to be getting results that don't really jibe with the ones that are more simple.

Is that fair?

MR. LLOYD KUCZEK: I -- I didn't see it that way. What we were trying to do with the earlier questions, was trying to find out -- and you've got to remember that part of the objective here is to try to determine what customer's preferences are for different products, so we -- we -- eNRG designed the question to help us determine that.

So we -- we were trying to determine how many customers would have a preference without regard to a premium, first of all, for these different product. And to keep it quite simple, we just put on the table four (4) different product. We didn't complicate it by putting our current product on the table, because that's a -- as an option, that is a very complicated product, and we discussed that many times, and very hard to explain to customers.

So the objective here was just to find out, broadly speaking and in simple terms, if you had a choice without even consideration for a premium, what is your preference?

And then the second part of that, that we wanted to find out, was -- okay, now if this your preference, are you willing to pay a premium?

And of course, we're interested and I'm sure the retailers will find this very interesting as well, because it gives you market information to help you determine whether or not you want to pursue a particular product in a market.

Later on we were interested in getting at least some information on customers' preferences and awareness for our current product, and that's what the questions that I led you to -- were -- were -- that was the objective of those questions.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: Mr. Chair, judging by the hour, I'm wondering if we could take a brief break.

THE CHAIRPERSON: Very well, Mr. Holloway. We'll come back then in fifteen (15) minutes.

--- Upon recessing at 2:34 p.m.

--- Upon resuming at 2:55 p.m.

THE CHAIRPERSON: Okay, Mr. Holloway --

MS. MARLA MURPHY: Mr. Chairman, if I might indicate just before we begin and while you're getting settled, we have circulated a response to Undertaking number 3, which Mr. Peters had requested. It's the updated information for the answer to PUB/CENTRA-13, which was found at Tab 2 of Mr. Peter's book of documents.

I believe it should be Centra Exhibit 15, if that's acceptable.

THE CHAIRPERSON: Thank you. 15 it is.

--- EXHIBIT NO. CENTRA-15: Response to Undertaking 3; updated information for the answer to PUB/CENTRA-13, which was found at Tab 2 of Mr. Peter's book of documents.

MS. MARLA MURPHY: Thank you.

THE CHAIRPERSON: Okay, Mr. Holloway.

CONTINUED BY MR. IVAN HOLLOWAY

MR. IVAN HOLLOWAY: Thank you. I'd like to direct the panel back to table 14. I appreciate that there's other tables that the panel is interested in, but I -- I want to focus on this one for -- for just a moment more.

If respondents are saying that for residential hydro, for example, that 79 percent are not prepared to pay a premium to eliminate the ups and downs for the price of gas for three (3) months, why would -- intuitively, why would customers want to pay a premium to have something that's slightly less than fixed?

I mean, the hedging program is essentially prices that aren't quite market prices but they aren't quite fixed, right?

MR. LLOYD KUCZEK: Well, our -- our, you know -- our hedge product is -- it's a combination of many things, and that we even tried to come up with a -- a term that we can describe it. But I -- I view it as a -- a product that somewhere's between a three (3) month fixed product and a one (1) year fixed product, because we do some hedging that protects customers for specific volumes for one (1) year out.

And -- and they're also exposed for fluctuations and price every three (3) months, so it's somewhat of a complicated product. And what the customers are being asked here is a very -- it's a very simple product and a fairly straightforward question, as well.

MR. IVAN HOLLOWAY: Well, right, but the -- the -- the value to the hedge project -- product is that it's less volatile than a pure market product, right?

MR. LLOYD KUCZEK: That's correct.

MR. IVAN HOLLOWAY: And the value of a fixed-price product is that the rate isn't volatile at all, right?

MR. LLOYD KUCZEK: That's true.

MR. IVAN HOLLOWAY: So, if the value has to do with the extent to which a rate is fixed, then why would consumers want to pay a premium for a totally fixed product -- wouldn't want to pay a premium for a totally fixed product and want to pay a premium for a slightly fixed product?

MR. LLOYD KUCZEK: Now, you got me confused.

MR. IVAN HOLLOWAY: Well, you're -- what's being suggested is that there's other parts to this report that -- and I -- I acknowledge them -- that say, well, no, there is support for hedging; we have this question and that question.

I've put to the panel that perhaps there's some problems with those questions in terms of complications and -- and other things and -- and perhaps there's some contra -- contradictions between the -- the responses there and the responses here.

And what I'm putting to you is that if in fact the customers do want to pay a premium -- essentially, is what -- what's acknowledged, is -- is the cost of hedging is -- is a premium for -- for a hedged product, then this table seems to directly contradict that if the value in the fixed product -- if the value in -- in the hedge is that it's slightly fixed, for lack of a better term.

MR. VINCE WARDEN: Mr. Holloway, it -- it does seem to me that you are somewhat questioning the credibility of the responses that were provided by -- by the respondents to -- to this survey. And perhaps that question might have been more appropriately directed to the expert witness.

I think we can only interpret the results as they're presented here to us. And we had a question that was directly related -- as Mr. Kuczek poi -- pointed out -- a question that was directly related to the hedging program and the premiums that are associated to -- with that program, and the results are -- overwhelmingly support Manitoba Hydro Centra Gas continuing to -- to hedge.

So I -- I do think that -- that -- and I also think you shouldn't, in my view, read table 14 or try to -- and table -- interpret table 14 in isolation. You really have to interpret it with table 13, so you have to read the both of them together. And I -- I do believe you're trying to read too much into -- into that one table and translate that into some questions as better answered by another -- by another question.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: You would agree with me that it appears that -- based upon the consumer research -- that a majority of respondents would like to see Manitoba Hydro provide more that one offering option, right?

MR. LLOYD KUCZEK: Correct.

MR. IVAN HOLLOWAY: If you look at table 21-A on page 42, it indicates that 64 percent of residential customers and 75 percent -- pardon me, 64 percent of Hydro residential customers and 75 percent of residential marketer customers would like more than one option. Do you doubt that?

MR. LLOYD KUCZEK: Yes.

MR. IVAN HOLLOWAY: And if you would just flip back a page to page 41, table 20, it indicates that -- the second part of the table -- that there's 48 percent of respondents support a market price or variable rate plan where the consumer pays the actual market rate for natural gas on a monthly basis.

Do you -- do you adopt that and accept that?

MR. LLOYD KUCZEK: Yes. Just in -- in the context of how the question was asked, yes.

MR. IVAN HOLLOWAY: And of course, Manitoba Hydro, I assume, is going to want to, as much as possible, provide options for its consumers, the consumers want; that -- that's fair to say; right?

MR. LLOYD KUCZEK: Having said that, it is much more complicated than that.

MR. IVAN HOLLOWAY: Understood, but just as a high-level general principle.

MR. LLOYD KUCZEK: Yes, as a high-level principle if -- we'd like to meet our customers' needs.

MR. IVAN HOLLOWAY: So is there -- I mean, if we compare that 48 percent support for a variable plan with the support for a fixed plan of one (1) to five (5) years, we see there's slightly more support for the fixed-rate plan of 56 percent. But they're not, I mean, they're -- they're roughly around the 50 percent range.

I understand from the evidence given yesterday that there's -- Centra Gas is looking to put forward a -- or thinking seriously about putting forward a fixed-rate plan.

Based upon this evidence that was provided after IRs were answered, is there -- has there been some discussion or -- or plan to offer a market variable plan?

MR. LLOYD KUCZEK: There's been some discussion but, you know, we've had some discussion about if we were to offer our product, you know, how receptive would it be to the marketplace and how would we go about doing it and then a number of other issues.

There -- there is, as the marketing person in the Corporation, I'm very concerned about how, on the uptake of the -- the various products, you could do customer research. and you can ask customers if they prefer these products, but that's one thing; and then it's a lot -- it's another issue to -- to actually offer the product.

and whether or not you'll get that uptake is very dependent on how you do with the marketing effort, the consumers' preference -- preference for that or at least have the consumers' -- where -- where on the consumers' priority list that decision actually falls.

So, there's -- there's many issues so, given all the various issues I suspect that if we were to offer any products, we would start with one product and then see how that goes and then move from there.

MR. IVAN HOLLOWAY: I believe Mr. Warden said yesterday, if I have this correct, that the cost to implement a fixed-price offering would be, I have in quotes, "minimal". Is that -- is that fair from your recollection?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, Mr. Holloway, I'm not sure I -- I used the word "minimal," but if you could be more precise with that or referen -- give me a reference then we can maybe put it in context.

MR. IVAN HOLLOWAY: Yeah, and I appreciate that, and I apologize that it's not fair to be out of context, and I don't have a reference, I'm sorry, it's in my notes and wasn't -- wasn't from reviewing the transcript.

But I think it was a line of questions that -- that Mr. Peters was asking that had to do with what -- what the costs were, perhaps involved in setting up an affiliate to offer another offering as opposed to -

- to what the price would be if the -- if the Utility did it internally and I think there was some reference to it being not a substantial cost in the scheme of things.

MR. VINCE WARDEN: Yes, yes. I absolutely concur with that statement, relative to setting up a subsidiar -- or an affiliated company, the costs of administering a fixed price offering or an alternative offering would be -- would be minimal within the regulated utility, by comparison purposes.

MR. IVAN HOLLOWAY: I -- I'm sorry, I can’t remember if this question was asked yesterday, but I think I have to ask it: Is -- is there some sense of what it would cost to put out a fixed price offering?

MR. LLOYD KUCZEK: It varies, I mean, we -- we can minimize the costs, from -- on one extreme we could minimize the costs by Mr. Stephens going out and procuring the product and me simply just offering it to the customer through some low-cost marketing initiatives, such as billstuffers, and so it could be accomplished that way at a fairly low cost.

However, I don't know what Mr. Stephens' costs are, but from a marketing perspective I could do it at a low cost and then -- but the update might not be that great, so I might have to spend a lot more money and start going door-to-door to my neighbours to fulfill those gas molecules that Mr. Stephens is going to be pushing down my throat.

MR. IVAN HOLLOWAY: Okay, let me approach this from another way. Is there -- if Manitoba Hydro were to offer a variable rate offering -- a market rate offering, would -- is it reasonable to assume that that offering would be roughly -- would roughly cost the same amount as an offering for a fixed rate? All things being equal.

MR. LLOYD KUCZEK: I can only answer from the marketing side, and I'll let Mr. Stephens address the supply side. But from the marketing side it would be approximately the same.

MR. HOWARD STEPHENS: Can you give me the question again?

MR. IVAN HOLLOWAY: Yes, sir. I'm just wondering if the cost of offering a -- if Manitoba Hydro were to offer a market rate plan -- offering. I'm wondering if the cost to do that would likely be roughly the same as the cost to offer a fixed rate offering?

MR. HOWARD STEPHENS: I don't know that I can give you a direct answer with respect to that, because it depends on the function -- or the -- the way we manage it, whether it's through a fixed price contract, and as we discussed yesterday, under our Nex --

Nexen contract, for example, and volume certainty has been eliminated.

They will basically sell us exactly how muc -- the amount of gas that we need to satisfy the customers that have elected that option. Or whether we have to go out and hedge, and then we'll have volume uncertainty associated with that, and we have to be prepared to deal with that as well, so.

We're not far enough down the road with respect to how we're going to develop these programs to really give you a good answer with respect to that.

(BRIEF PAUSE)

MR. IVAN HOLLOWAY: I wish to thank the panel, I have no further questions.

THE CHAIRPERSON: Thank you, Mr. Holloway.

So Mr. Hoaken, are you ready to begin?

MR. ERIC HOAKEN: I am indeed, thank you, Mr. Chair.

CROSS-EXAMINATION BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: So finally good afternoon, panel. I'm going to start, if I may, with something that you said early on, Mr. Warden.

As I understand it, the premise for Centra or Manitoba Hydro even considering a fixed rate offering is that it has diagnosed, if I can put it that way, it has diagnosed the current competitive market as not working properly; is that fair?

MR. VINCE WARDEN: Well, first let me say that the desire by Manitoba Hydro to enter the fixed price market is more so driven by the expressed needs and wants of our customers.

So, whether or not the -- the market is working as intended or as envisioned when it was first set up, hard to say. I don't think it's -- I think we've -- we said in our -- in our filing, that the competitive market is not flourishing the way it might have been envisioned some years ago.

MR. ERIC HOAKEN: All right, but are you telling me, Mr. Warden, that even if the current market was meeting the expectations that you had in 1996 and 1998, you might still be here today suggesting that Centra should have a fixed rate offering, because your customers have indicated that they want it?

MR. VINCE WARDEN: I'd say that's -- that's likely, yes. If the customers have expressed to us that this is something they want, that -- I think we have an obligation to at least investigate that and attempt to respond to our customers' needs.

MR. ERIC HOAKEN: And just dealing with this evaluation of the competitive market, the -- the current regime, if I can call it that, under the WTS really only started in 2001, right?

MR. GREG BARNLUND: May of 2000.

MR. ERIC HOAKEN: Of 2000. I'm sorry, Mr. Barnlund. And so we had the Hearing in '96, the decision in '98 and then the implementation of some of the aspects of that decision, including the elimination of the buy/sell and the commencement of the WTS which, as you say, started in 2000, right?

MR. GREG BARNLUND: Yes.

MR. ERIC HOAKEN: So if we are trying in this process to evaluate how the competitive market has developed since these issues were last canvassed by this Board, is it fair to say that the period we really should be turning our mind to is that April 2000 period up to today?

MR. GREG BARNLUND: Well, I -- I don't know if you can define it that closely or not. I -- I would tend to look at it more in the regard -- with regard to this market having been opened in around 1991 for direct purchase to residential customers.

Because I think if you look at it from the perspective of the market and from the customers themselves, they've been exposed to direct purchase for that period of time.

MR. ERIC HOAKEN: All right. Let's be fair, though, Mr. Barnlund. The nature of the products that they've been exposed to has changed dramatically since April of 2000. Correct?

MR. GREG BARNLUND: Well, I -- obviously in going from a buy/sell arrangement to a Western Transportation Service ABC process where marketers can provide a distinct product with a separate price for it, that is an improvement that was incorporated in this market at that point in time.

MR. ERIC HOAKEN: Okay. But coming back to my question, really, though, the products that have been available on the market since April 2000 are dramatically different than those that were available before. Correct?

MR. GREG BARNLUND: Well, the products themselves are different, but the aspects of the market, like I say, are -- are part of that continuum. And the aspects of the market are customers understanding direct purchase and understanding what a gas marketer is and understanding what natural gas, the product, is itself.

MR. ERIC HOAKEN: But the -- the structural mechanism that permits the direct purchase customer to contract with a broker or retailer has been considerably different since April of 2000 than it was before.

MR. GREG BARNLUND: So for the last seven (7) years that it's been in place? Sure.

MR. ERIC HOAKEN: Right. And so all I'm suggesting to you is that we have had, in this province, since April of 2000, a different market structure in the competitive sector than we had before.

I'm not suggesting it's the first time we had a competitive market, but we had a different structure of the competitive market in that period. Is that fair?

MR. GREG BARNLUND: Well, I guess the ability for marketers to offer different products began in -- in May of 2000, so I -- I just don't know, in terms of characterizing market structure whether -- you know, how you define market structure in that regard.

I -- like I'm saying is that the ability to offer these products really began in this way in May of 2000.

MR. ERIC HOAKEN: So you -- you're -- you don't feel in a position to disagree -- or to -- to agree with my proposition that the market structure is different since April of 2000?

MR. GREG BARNLUND: Well -- and I guess it just depends on what you're talking about in terms of market structure. If you mean market structure in terms of there were X number of brokers in a marketplace at one point in time and now there are Y number -- you know, I -- I just don't understand really the definition of what you're getting at in terms of market structure.

MR. ERIC HOAKEN: Okay. Now, coming back to you, Mr. Warden, as I understand what you said in your evidence in-chief, the assessment that has been made by Manitoba Hydro is that this market is not working appropriately or effectively.

And you cited a number of reasons for that, and I just wanted to make sure I understand them correctly. There was reference to the fact that there are only two (2) market participants.

Is that a factor that Centra relies upon for its conclusion that this market is not a healthy or effectively functioning competitive market?

MR. GREG BARNLUND: There is one -- sorry. Mr. Warden, go right ahead.

MR. VINCE WARDEN: I'll answer then. Mr. Barnlund can finish it off, but -- I was simply going to say that that's part of -- of our conclusion, yes; that that contributes to our conclusion -- it isn't working as it per -- perhaps should at the optimum.

MR. ERIC HOAKEN: I think it was you, Mr. Barnlund, who said earlier that there's nothing in and of itself alarming or concerning about the fact that there was a greater number of market participants earlier and we now have what fewer number in the market.

That fact in and of itself is not of concern.

MR. GREG BARNLUND: I believe what I said was that there is a -- there's the expectations that you're going to have a natural evolution occur from the time of opening of any market as time goes forward.

And at the time of opening of the market, it's usually expected that you have a large number of participants at the outset that are participating in that marketplace and over time -- and that time can be measured in years, I suppose, it's -- there's no way of putting, you know, any accurate yardstick to this, but over some period of time, depending on the circumstances within that market and within the industry, one can expect to see some co -- consolidation to occur and some consolidation will likely occur in any market that opens up.

But I said the concern lies in that, at some point in time, that concentration will -- will coalesce to such a point that there may not be a sufficient number of competitors existing in that market to provide workable competition, those are my words.

MR. ERIC HOAKEN: Yeah. No, I understand that completely, but -- I'll let Mr. Stephens say what he wants to say to you and I'll ask you the question.

But just in and of itself, the -- the fact that there are today fewer participants in the market, leaving aside what the absolute number is, the fact that there's fewer participants in the market today than there were, say, in April of 2000 is not a fact that can be relied upon for the conclusion that this is not a healthy market; right?

MR. GREG BARNLUND: Well, the number of participants was -- would be one of the -- one of the factors that would be involved in the equation, but not the only factor.

MR. ERIC HOAKEN: Yeah, and -- and I think you and I are speaking at cross-purposes because I don't think we're going to disagree on this point. I'm not talking about the absolute number, Mr. Barnlund, I'm talking about the fact that there were X in 2000 and there is now some percentage of X.

The mere fact that you've had a decrease -- leaving aside what the absolute numbers are, the mere fact of a decrease is not in and of itself evidence of an ineffectively functioning market.

MR. GREG BARNLUND: Well, and I think I also referred to the fact before that we don't know what that threshold is in terms of a minimum number of firms within a market that would create a workably competitive situation.

MR. ERIC HOAKEN: All right, but subject to determining what that threshold is, the mere movement downward in the number of firms is not in and of itself cause for concern.

MR. GREG BARNLUND: Possibly, yes.

MR. ERIC HOAKEN: Okay, what does your answer depend on?

MR. GREG BARNLUND: Well, it depends if we're talking the change between one (1) firm to two (2) firms or two (2) firms to one (1) firm, that could be a significant factor.

MR. ERIC HOAKEN: Right, which is what now we're -- that's not what we're talking about in this case, right?

MR. GREG BARNLUND: Well, I think if I recall back to May of 2000, in terms of the retail market, I think probably one of the participants in this hearing was likely the only participant that had fixed priced offerings in the market at that point in time; today we have two (2).

Is that a dramatic improvement or a dramatic change one way or the other; I don't know, the number is such a low number that I have a hard time really answering you properly and -- with regards to that, I'm sorry.

MR. ERIC HOAKEN: Okay. And so then let's stick with this thought because what you are saying, I think, is that you -- you just can't get past this issue of the number of market participants, that, for you, is clear evidence, I think you're telling the Board, of a market that's not functioning appropriately.

MR. GREG BARNLUND: Well, again, that is one (1) factor taken in consideration with other factors, too, yes.

MR. ERIC HOAKEN: And let's just go through what those other factors are. Would the -- the aggregate market penetration rate of the retailers be another factor that you would rely upon in support of your conclusion that the market's not functioning effectively?

MR. GREG BARNLUND: If you just give me a second, I just have to turn something up.

MR. ERIC HOAKEN: Sure.

(BRIEF PAUSE)

MR. GREG BARNLUND: So I've just turned up our application tab 2, and I'm just looking at the assessment of the market structure.

MR. ERIC HOAKEN: I'm sorry, do you have an application before the Board?

MR. GREG BARNLUND: Oh, sorry.

MR. ERIC HOAKEN: Because I was going to say, I missed it.

MR. GREG BARNLUND: Just -- it's a bad habit, I apologize. We have a submission but I am at tab 2, and I'm looking at the Assessment we made of the market structure and that's on page 8 of 17.

MR. ERIC HOAKEN: And I'm sorry, what tab did you say, Mr. Barnlund?

MR. GREG BARNLUND: Tab 2. And in Section 2.3, we describe our assessment of the market structure and we identified a certain number of criteria that we used within that assessment.

So one of the criteria was the number of participating customers, and I think that's maybe what we were just talking about before we turned this up.

MR. ERIC HOAKEN: And just so we're clear, I -- I have in fact read this; so that's not what I was asking you about.

What I was asking you about was the penetration rates. Is the penetration rate in the aggregate of retailers, is that another factor that Centra relies upon in support of its conclusion that the market is not functioning appropriately?

MR. GREG BARNLUND: Well, and that -- and that is the number of participating customers. So if you've got a market of two hundred and fifty thousand (250,000) customers, fifty thousand (50,000) of which are participating on direct purchase, that would be the participation rate and that's probably what you're referring to in terms of the market penetration.

MR. ERIC HOAKEN: Right. And I think we've talked about that in those terms earlier in this proceeding. So, you - not you personally but - Centra is concluding from the fact that the penetration rate in the residential and small commercial sector is in the order of 20 or 21 percent, that is a factor you point to as evidence of this being a market that's not functioning appropriately; is that fair?

MR. GREG BARNLUND: Well, that is one of

the factors. But we also -- we're not looking at this independently, one factor in isolation from any of the others.

MR. ERIC HOAKEN: And I certainly didn't suggest that, Mr. Barnlund, I'm just -- I'm trying to be -- I'm trying to take you through the factors, and I think what I said was, "one of the factors." So I certainly wasn't suggesting to you it was the only factor.

MR. GREG BARNLUND: No, that's fair.

MR. ERIC HOAKEN: All right. So, the penetration rate in this province is, as I understand it on the evidence that's been filed by Centra, perhaps the IR response is comparable to that of the province of Alberta; is that right?

MR. GREG BARNLUND: I think that's correct from what we were able to determine, yes.

MR. ERIC HOAKEN: Now, I take it you'd agree with me that another indicia, if you will, of how well the market is functioning is the range of product offerings; is that fair?

MR. GREG BARNLUND: That's correct.

MR. ERIC HOAKEN: And the -- the range of product offerings in Manitoba is certainly broader today than it was in 2000 or 2001; is that fair?

MR. GREG BARNLUND: I believe so, yes.

MR. ERIC HOAKEN: And there have, in fact, been recent new offerings in the market in the last twelve (12) months; is that right?

MR. GREG BARNLUND: I understand that, yes.

But I also want to reflect back on the context that we were in in 1996, '97, and '98 when we had a generic Hearing and we ended up concluding that to take this to the next step we had to the changes such as putting Western Transportation Service in place.

And at that point in time there was a, I think, a consensus in the industry that this deregulation was going to open, you know, kind of unleash the flood gates and allow a plethora of different product offerings to be issued into the marketplace.

And this was a view that was held by LDCs and by marketers alike. And there was the thinking that -- that by facilitating this type of activity that there would be a vast array of products across a broad spectrum of options for customers that would, basically, give customers a -- a very wide choice of products and different types of service offerings and durations, potentially bundled together with other products and other offerings and unto themselves and those things have not -- that consensus has proven wrong and we are not in that environment today.

MR. ERIC HOAKEN: Right.

MR. GREG BARNLUND: And we are in a far less -- an environment with far less products than what was originally contemplated in the first hearing or the sec -- the 1996 hearing with regards to this that has, I guess, set us on this course here today.

MR. ERIC HOAKEN: Right, well that's an excellent segue for me to go back to Mr. Kuczek because you -- you made the point earlier today that the real world doesn't really work that way, right?

You can blue-sky products all you like, but the real issue is, what's the uptake going to be when you've actually designed and priced the product; is that fair, Mr. Kuczek?

MR. LLOYD KUCZEK: Yes, you could open a store and stock your store with a number of products, but if nobody comes in to buy those products, that really doesn't matter.

MR. ERIC HOAKEN: Right, so, although in the hearing that Mr. Barnlund has referred to in '96, there may have been lots of optimistic expectations. The real issue is where the rubber hits the road, right?

You have to go back and design the

product, you have to canvas customers, do market research and determine if they're interested in them, and only then can you develop a realistic expectation of what products you can really sell in the market.

Isn't that how it works, Mr. Kuczek?

MR. GREG BARNLUND: If I might jump in first before, Mr. Kuczek --

MR. ERIC HOAKEN: Well it --

MR. GREG BARNLUND: -- answers, I just wanted to -- you're taking it from -- and really basically the point I'm making is, the blue-sky thinking was in terms of the structure of the industry and the -- and the activity of the industry as opposed to the blue sky of creating these products -- of the individual product itself.

And the industry did not evolve in the way that the consensus thinking held in the mid 1990's.

MR. ERIC HOAKEN: Okay, so you've now had time to think about my question, Mr. Kuczek.

MR. LLOYD KUCZEK: You don't know me very well. You're going to have to repeat that, I'm sorry.

MR. ERIC HOAKEN: Sure, well let me pick up on the theme of what Mr. Barnlund said.

How the market actually develops is going to be a function of what customers actually want and what they actually buy, right?

MR. LLOYD KUCZEK: I'll agree with that.

MR. ERIC HOAKEN: So I'm sure you, as a marketing person, have often presided over projections of what might happen, and have been in the situation where the actual appetite for products has been different than what you forecast?

MR. LLOYD KUCZEK: That would be true in many markets, yes.

MR. ERIC HOAKEN: Right. So, the range of product offerings that is available today, you would expect, as a marketing person, Mr. Kuczek, is a function, at least to some degree, of what consumers in this province have said they want; is that fair?

MR. LLOYD KUCZEK: Well I -- you know I -- the customers -- we've done some market research. Customers say they want different products, and I -- I don't think that that would have been a lot different five (5) or seven (7) years ago so, you know, in support of what Mr. Barklund's saying -- Barnlund.

MR. ERIC HOAKEN: He's -- he's been called a lot of things over the last week.

MR. LLOYD KUCZEK: I would have thought that even as a marketer or a business person, that the market would have evolved quicker than it has but I would offer that comment.

MR. ERIC HOAKEN: But, as -- as you've quite fairly said already, there can often be a discrepancy between what customers say, in a general sense they want, and what they actually want when they're presented with a specific product at a specific price, is that fair?

MR. LLOYD KUCZEK: Yeah, that's fair, yes.

MR. ERIC HOAKEN: All right. And so when we're evaluating the product offerings that are available today, I think as Mr. Barnlund said there are more products available today.

And in the last twelve (12) months there have been additional products that have been offered by the retailers. You'd be aware of that, right, Mr. Kuczek?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: And so to the extent that there are more choices available -- more products available to consumers today, that would be at least one benefit that's being produced by the competitive market, is that fair; that there's more customer choice that is available now then there was, say, twelve (12) months ago, is that fair?

MR. GREG BARNLUND: Well I guess my only observation would be, why has it taken six and a half (6 1/2) years to get to that point? I mean, what changed in the last twelve (12) months that has promoted the development and the introduction of one (1) or two (2) new products in this market?

MR. ERIC HOAKEN: Okay, but leaving that aside, the fact that there are new products; leaving aside that point, Mr. Barnlund -- leave -- the fact that there are products in the market that weren't available twelve (12) months ago is a benefit for consumers in Manitoba.

MR. GREG BARNLUND: Yes, potentially, but the overall observation is that the ability to offer those products existed in 2007 and 2006, 2005, 2004, all the way back to May of 2001. So why weren't they offered? MR. ERIC HOAKEN: How do you know that?

MR. GREG BARNLUND: Well, why are they offered now, and they weren't offered in 2001?

MR. ERIC HOAKEN: Well, did you do any research -- well, actually I should ask Mr. Kuczek this, this is your department.

Did you do any research in those years to canvas the appetite for those products?

MR. LLOYD KUCZEK: I was busy doing DSM back then, but we didn't do any research back then, because we weren't -- we weren't thinking of pursuing the market; that wasn't our -- our position back then. We're only interested at this point.

MR. ERIC HOAKEN: All right. Let me come back to you, Mr. Warden.

You said yesterday, I think, that what Manitoba Hydro would be looking to do in entering the fixed-rate market or perhaps more arc -- more accurately, in offering other products would be to fill the void that exists in the market. Is that fair?

MR. VINCE WARDEN: I used those words, yes.

MR. ERIC HOAKEN: And I take it you'd agree with me that based on the results of the customer research that Centra has most recently conducted, the products that are most popular with customers -- or at least that they say that they want the most, are already being offered in the market?

MR. VINCE WARDEN: Yes, and I think that's why I -- I indicated that I wouldn't -- Manitoba Hydro wouldn't want to limit itself to one (1) or two (2) year products. We would like to have the authority to -- to go into the longer-term product offerings if, in fact, we -- following our additional research, following -- following these proceedings, if our customers indicated more of a preference for us into that marketplace, I -- we would like to be -- have the ability to do that as well.

So -- the void is in one (1) and two (2). I think I indicated that would be a likely target but not necessarily the only target.

MR. ERIC HOAKEN: No, and I -- that's absolutely right, but my only point, Mr. Warden, is that to the extent that you did end up offering three (3) and five (5) year products, that wouldn't really square with your analogy of filling the void.

You wouldn't be offering products, in those examples, that were not available in the market, you would, in fact, be offering products that are already available in the market, right?

MR. VINCE WARDEN: Already available, perhaps at a different price, but yes, the -- the products are there.

MR. ERIC HOAKEN: Right. And just on this point again, and perhaps we don't need to go back to it, Mr. Kuczek, but on the one (1) year product, if I understood you correctly, Mr. Warden, you've not really designed the product, if I can put it that way?

MR. VINCE WARDEN: We have not.

MR. ERIC HOAKEN: Right. And so you don't, at this point, know, sort of what the costing is going to be, or, on the customer side, what the pricing is going to be?

MR. VINCE WARDEN: That's the next step.

MR. ERIC HOAKEN: Right. And -- and until you know those things, it's hard to know -- as you've said earlier, Mr. Kuczek, what the uptake would be. Right?

MR. LLOYD KUCZEK: We won't know what the uptake's going to be until we actually offer it to the customers.

MR. ERIC HOAKEN: Right. That's the jump-off-the-cliff, right; where you hope that you're going to be able to sell as many of these things as you thought you were, right?

MR. LLOYD KUCZEK: Correct.

MR. VINCE WARDEN: We would design it in such a way, however, that it wouldn't be jumping off the cliff.

MR. ERIC HOAKEN: I -- I would have been really disappointed if somebody didn't jump in after that analogy.

Now, you -- you said yesterday in

evidence, Mr. Barnlund -- you know, back to this issue of what is the ideal number of market participants. And I think you quite fairly said that you don't know. Is that fair?

MR. GREG BARNLUND: That's fair, yes.

MR. ERIC HOAKEN: And you, though, offered an illustration by making reference to the experience in Georgia. And then your counsel was good enough to then file the written materials that you'd made reference to.

But I -- I take it you'd agree with me that that's a dramatically different market structure in Atlanta than the one (1) that we're talking about here in Manitoba. Is that fair?

MR. GREG BARNLUND: It is a dramatically different market structure, and the example we use was the fact that they had actually done -- passed some legislation that identified a -- a threshold in terms of the number of participants that would -- that would be important to them.

MR. ERIC HOAKEN: Right. And you certainly weren't meaning to suggest to this Board that that threshold that was appropriate in the unique circumstances of Atlanta would somehow be applicable to the circumstances of Manitoba. Is that fair?

MR. GREG BARNLUND: That's fair, yes.

MR. ERIC HOAKEN: And just -- this is probably unnecessary, but part of the reason for it not being an appropriate comparator is that in Atlanta, there'd been a complete exit of the Utility from the merchant function.

MR. GREG BARNLUND: Well, there is a dramatically different restructuring of the -- of the natural gas market in Georgia than what had occurred anywhere else in North America.

MR. ERIC HOAKEN: Right.

MR. GREG BARNLUND: And --

MR. ERIC HOAKEN: Which included the exit of the Utility from the market function -- or from the merchant function.

MR. GREG BARNLUND: And the -- the Utility chose to exit the merchant function, and the customer base was very quickly propelled into -- through the deregulation process, as opposed to going at an incremental pace. And that rapid pace of -- of restructuring caused numerous problems and difficulties in that particular market.

MR. ERIC HOAKEN: All right, so none of that in the end is terribly relevant to what we're talking about here, is that fair?

MR. GREG BARNLUND: I think it's -- the relevance of it is that everybody in the industry can look at Georgia and understand what can go wrong if deregulation is taken at too dramatic a pace in a given market before customers and the other institutions are ready to take up on it.

MR. ERIC HOAKEN: And there's really a spectrum or continuum of deregulation and what had happened in Atlanta was pretty close to the far end, is that fair?

MR. GREG BARNLUND: I would actually characterise Georgia as being the outlier; it's that far out.

MR. ERIC HOAKEN: So it's off the continuum.

MR. GREG BARNLUND: It's at the edge of the continuum, yes.

MR. ERIC HOAKEN: All right, thank you. Now, I want to just have a little bit better understanding of Centra as an organization. I -- I understand that Centra Gas was purchased by Manitoba Hydro, and I'm probably going get the year wrong again, Mr. Barnlund, but it was -- was it 1999? Oh, I should ask Mr. Warden that.

MR. VINCE WARDEN: July, 1999, yes.

MR. ERIC HOAKEN: Okay. So -- pardon me? I think Mr. Stephens was just telling me I got it right. He was as surprised as I was. And if I understand it correctly, Centra Gas -- is it Centra Gas Manitoba Inc., is that cor -- the full name?

MR. VINCE WARDEN: Yes.

MR. ERIC HOAKEN: Can I call it Centra?

MR. VINCE WARDEN: Sure.

MR. ERIC HOAKEN: It -- it operates as an operating division, effectively, of Manitoba Hydro, is that an accurate characterization?

MR. VINCE WARDEN: Well, no, I -- I would more -- I think it's more appropriately described as a wholly- owned subsidiary of Manitoba Hydro.

MR. ERIC HOAKEN: All right, fair enough. But as I understand it, the Centra brand is -- is not really being actively used in this marketplace; am I wrong about that?

MR. VINCE WARDEN: Well, we use it interchangeably, actually. Even in this proceeding, I've referred to Manitoba Hydro frequently. We do re -- refer to Centra Gas, so it's still used in -- in some of our communications with customers, so we haven't dropped the Centra moniker by any means.

MR. ERIC HOAKEN: Okay. But is it fair

to say -- I mean it's just my perception that there's been, over the last three (3) or (4) years, an evolution where the Manitoba Hydro brand or name is being used in connection with the gas activities of the Company; is being used more frequently than was the case previously, am I wrong about that?

MR. VINCE WARDEN: You're right about that.

MR. ERIC HOAKEN: Okay. And an example of that is the re-branding of your bill that occurred, and I don't know exactly what had happened, but in the last couple of years what you did is you've now got a Manitoba Hydro branded bill, as opposed to a Centra bill, is that right?

MR. VINCE WARDEN: Yes, it was the -- in the result of combining our billing systems and with a -- using one (1) billing system, we were able to use the one (1) branding, which is Manitoba Hydro, yes.

MR. ERIC HOAKEN: All right, so the name that gets imprinted on the minds of consumers, at least every month when they get their bill, is Manitoba Hydro now, as opposed to Centra?

MR. VINCE WARDEN: Correct.

MR. ERIC HOAKEN: And does -- does Centra have its own office premises that are dedicated exclusively to the operations of Centra?

MR. VINCE WARDEN: No.

MR. ERIC HOAKEN: And are there some employees of Manitoba Hydro -- I take it you are all formerly, or at least legally, employed by Manitoba Hydro, is that right?

MR. VINCE WARDEN: Yes --

MR. ERIC HOAKEN: And --

MR. VINCE WARDEN: -- we are all Manitoba Hydro employees.

MR. ERIC HOAKEN: All right. And are there some employees of Manitoba Hydro who exclusively perform functions on the gas side? I'm guessing Mr. Stephens would fall into that category.

MR. VINCE WARDEN: No, I -- I think even Mr. Stephens; we work together on electric-type issues and so -- but there -- there are a small core of people that work exclusively on gas operations. There -- they number -- out of approximately six thousand (6,000) employees, there's about three hundred (300) that would -- could be termed exclusive gas employees.

MR. ERIC HOAKEN: In -- in what business functions are they typically engaged in?

MR. VINCE WARDEN: Those would be typically in the service part of our business, so they would be installers, pipe -- pipefitters; that type of function, so it would be in the trades primarily.

MR. ERIC HOAKEN: All right, the front lines personnel, if I can call them that way.

MR. VINCE WARDEN: Well, the front -- lot of the front lines personnel are in Mr. Kuczek's area so the customer service people --

MR. ERIC HOAKEN: Right.

MR. VINCE WARDEN: -- would not -- would not necessarily fall into that category.

MR. ERIC HOAKEN: All right. What about, though, staff who are administrative or managerial in nature; is there some subset or group of employees in Manitoba Hydro who are dedicated exclusively to Centra operations?

MR. VINCE WARDEN: No.

MR. ERIC HOAKEN: And when the market research was done this year, as I read it, in any case, when you were identifying the supplies of natural gas -- the regulated utility for natural gas in Manitoba; the customers for the purposes of that study -- you used the moniker Manitoba Hydro as opposed to Centra; is that fair?

MR. LLOYD KUCZEK: I believe we did, yes.

MR. ERIC HOAKEN: Right. And as you very

proudly told us at the outset of your examination-in-chief, Mr. Warden, there's a very positive perception among consumers in Manitoba of Manitoba Hydro; is that right?

MR. VINCE WARDEN: I have difficulty concealing that pride, yes.

MR. ERIC HOAKEN: That -- that was very apparent. And, as you told us -- as we learned both from you and Mr. Kuczek, the JD Power Study certainly demonstrated that as far as electricity is concerned, that consumers in Manitoba have a very positive impression of Manitoba Hydro; is that fair?

MR. VINCE WARDEN: Yes, I think so.

MR. ERIC HOAKEN: And -- and although you quite fairly said that you didn't have any data necessarily to support it, you said you would expect that they would have a similarly positive impression of the gas operations in Manitoba Hydro; is that fair?

MR. VINCE WARDEN: Yes.

MR. ERIC HOAKEN: And at least part of the reason for that would be their familiarity with and trust of the electricity side of Manitoba Hydro; is that fair?

MR. VINCE WARDEN: Again I'd say that's fair.

MR. ERIC HOAKEN: Now, in the course of your evidence-in-chief, Mr. Warden, you said that Manitoba Hydro has -- I think you said, "excellent relationships" with brokers or retailers; is that right?

MR. VINCE WARDEN: I did say that.

MR. ERIC HOAKEN: And at the risk of sounding impolite, would it surprise you to know that the retailers don't necessarily perceive the relationship the same way?

MR. VINCE WARDEN: I'd be disappointed in that but I -- I'll accept that.

MR. ERIC HOAKEN: All right. It wouldn't surprise you?

MR. VINCE WARDEN: Yes, it does surprise me actually.

MR. ERIC HOAKEN: Would it surprise you to know that the retailers find that Manitoba Hydro is secretive and non-consultative and dictatorial; would any of that surprise you?

MR. VINCE WARDEN: I would be astonished at that, yes.

MR. ERIC HOAKEN: You would; all right. And tell me this; would it surprise you to know that the perception of the retailers is that Manitoba Hydro consults with the retailers only when they have to and even then only perfunctorily?

MR. VINCE WARDEN: Again, yes I'm somewhat -- I would be somewhat surprised if that was fact. I -- I don't accept that as fact. I -- I'm assuming you're just putting forward a supposition, but -- but I'd be surprised under -- under that circumstance, yeah.

MR. ERIC HOAKEN: All right. Well, maybe it would be helpful then, for us to explore a little bit of the factual basis for that perception. Turn if you will to, I believe it's DEML/CENTRA-18. Sorry, DEML/ESMLP.

(BRIEF PAUSE)

MR. ERIC HOAKEN: And if you'd go -- turn to attachment 2; and I see you're turning it up, Mr. Kuczek, which is a good thing because, really, in all fairness, you're probably the person I should ask this question of.

(BRIEF PAUSE)

MR. ERIC HOAKEN: I'm going to wait for you until you say you've got it, Mr. Kuczek, 'cause I

think I'm going to ask you, since it's your letter.
MR. LLOYD KUCZEK: I -- I do have it.
MR. ERIC HOAKEN: Okay. And this is a letter that you wrote to all brokers in Manitoba on the 18th of April, 2005; is that right?

(BRIEF PAUSE)

MR. ERIC HOAKEN: Sorry, I'm on attachment 2. Do you have that?
MR. LLOYD KUCZEK: You mentioned the date of April the 18th?
MR. ERIC HOAKEN: I believe so. I've never been good at this number thing, but it's 2005-04-18, and since there's not eighteen (18) months, I'm assuming that it's April.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Okay, I've finally got it.
MR. ERIC HOAKEN: Okay, and that is a letter written and authored by you, correct?
MR. LLOYD KUCZEK: Yes.
MR. ERIC HOAKEN: And what's going on

here is that there had been a decision by this Board in 2004, that being, Order Number 131/04, right?

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: And do you -- off the top of your head, can you recall the date of that Order?

MR. LLOYD KUCZEK: The date of the Order?

MR. ERIC HOAKEN: Yeah.

MR. LLOYD KUCZEK: Nope.

MR. ERIC HOAKEN: Okay, but in any case we can tell from -- from this that it was in 2004 sometime?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: Yeah. And in any case, you're -- you're writing to say that in that Order the Board has directed Centra to report on the advantages and disadvantages of Centra offering fixed price arrangements; you see that?

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: And, indeed, the Board as part of its Order, had also directed Centra to consult with the broker community about that?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: Okay. And so, you were writing this letter in order to -- to comply with a directive of the Board; is that fair?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: All right. And so, you were writing in April, which was at least four (4) months after the release of the decision.

I think we can take that as a given, right?

MR. LLOYD KUCZEK: Yes, that's correct.

MR. ERIC HOAKEN: And asking for input from the brokers, and if you see at the very bottom on the second page, you're asking for their input on the 29th of April; about eleven (11) days hence?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: And just to try and put the perception that I put to, I think, Mr. Warden -- just to put it in perspective, can you understand how the brokers would be concerned that they're being consulted (a) after such a long time after the Board's decision's been released, and (b) with such a short time frame put on their ability to make a meaningful response?

MR. LLOYD KUCZEK: Well, my -- you know, my experience to date has been that if I ask for something and I don't provide enough time for an appropriate response, the brokers have asked for more time, and have pointed out the short-notice period whenever they felt it was short. And so I do think that if it was too short, the brokers would have pointed it out to me, and I would have extended the -- the period of time.

MR. ERIC HOAKEN: All right. What was -- I know it's not fair, perhaps, to ask you think back to 2005, but what was the urgency of getting the response by the end of April?

MR. LLOYD KUCZEK: Oh, this all comes down to another Order -- or Hearing I guess, and so I think we committed to -- and I'd have to be careful on how I say this, because I'm not sure if we committed to, but our -- if we didn't commit to, it was our desire to provide the Board with this information prior to that Hearing.

So we hadn't undertaken that effort until this point, and realized that we really needed to do that and get that information before the Board.

MR. ERIC HOAKEN: All right. And then turn over the page, and we see Attachment 3, and this is as similar then -- that you wrote early this year to comply with the directive that the Board made in Order number 175/06, correct?

MR. LLOYD KUCZEK: There is a link with the Board, yes.

MR. ERIC HOAKEN: I'm sorry, say that

again?

MR. LLOYD KUCZEK: I said -- I was joking actually, but you're correct, yes.

MR. ERIC HOAKEN: Okay. And you again have got a fairly short time frame. I take it, it was because of Centra's interest in trying to get the market research completed before this Hearing was started?

MR. LLOYD KUCZEK: Clearly that was the reason behind it, yes.

MR. ERIC HOAKEN: All right. And you did in fact get responses to this letter, right?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: And I'm going to ask you to turn up the brief. I don't know if Ms. Murphy has a copy she can lend you. It's the brief that's been marked as DEML/ESMLP Exhibit 7. This is the brief of documents presented to Mr. Enns in his cross-examination.

Okay, you got it? Okay, is -- is that the same thing? Does it say on the front, "Brief of documents presented to Mr. Enns?"

MR. LLOYD KUCZEK: I -- I don't see that on the front cover, but it's eNRG panel cross-examination review.

MR. ERIC HOAKEN: Yeah, sorry, we've got two (2) briefs. This is Exhibit 7; this was the second brief that consolidated a lot of the material that was provided in answer to DEML/ESMLP IR-60.

MS. MARLA MURPHY: I'm sorry, we are short of copies on that one. Mr. Enns has taken one with him, so...

MR. ERIC HOAKEN: Oh -- oh, thank you. Mr. Holloway is going to make his available, thank you very much.

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: So, if you'd turn, if you will, to Tab 1 and this is a letter dated January 18, 2007 from Andrea Gibbs at Direct Energy.

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: And this is a letter you received in response to the letter that you and I have just been looking at DEML-18, Attachment 3.

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: And you -- you see -- in this letter at the bottom of the second page -- you see that Ms. Gibbs says:

> "We fully anticipate that we'll have an opportunity as a stakeholder in the Manitoba natural gas market to participate in the final survey before

it is distributed to the marketplace."

Do you see that?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: Okay. And then you got a similar request from Energy Savings. Flip over to Tab 3; this is a letter dated January 22, 2007 you received from Ms. Ruzycki of Energy Savings.

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: And if you look on the second page, second last paragraph, you'll see the statement:

"ESMC contends that once the market survey questions have all been..."

Sorry.

"...have been prepared, all interested parties should be asked for input and feedback on the appropriateness of the market research questions prior to commencing the research."

Do you see that?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: And that didn't happen, right?

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: And to the extent that

the retailers had an opportunity to comment on any drafts of the survey, they commented on draft number 3, right?

MR. LLOYD KUCZEK: That's correct.

MR. ERIC HOAKEN: And they did not have an opportunity to comment on any draft after draft 3?

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: And we know from the evidence of Mr. Enns that there were in fact six (6) drafts, right?

MR. LLOYD KUCZEK: I believe there was five (5) drafts with the sixth being the final version, but I could be wrong on that.

MR. ERIC HOAKEN: Okay, I -- I had understood that there were six (6) drafts, but I -- I may have that wrong. But in any case, let's say six (6) versions, which would include the final version.

And you'll agree with me that there were substantial changes in the draft survey between the time it was presented to the retailers and the time that was actually implemented, is that fair?

MR. LLOYD KUCZEK: That would be fair.

MR. ERIC HOAKEN: And just dealing with CAC/MSOS, am I correct that they were also only presented with one (1) draft?

MR. LLOYD KUCZEK: I believe they were

presented with two (2) drafts.

MR. ERIC HOAKEN: All right, so they saw draft 3 and then, as I understand it, there were two (2) meetings where the concerns of CAC/MSOS were discussed and then did -- did they see a draft that came out of those meetings?

MR. LLOYD KUCZEK: They did, yes.

MR. ERIC HOAKEN: And was that draft 4, Mr. Kuczek?

MR. LLOYD KUCZEK: Correct.

MR. ERIC HOAKEN: All right. And so they also did not see either the ultimate draft, the final draft, or the penultimate draft, is that right?

MR. LLOYD KUCZEK: I believe they've seen -- and I -- I believe we've provided everybody with the final that did get sent out and it was filed obviously with this Hearing. But I -- I thought we sent it out to everybody once it was finalised and my colleague behind me will correct me if I'm wrong.

MR. ERIC HOAKEN: Sorry, I --

MR. LLOYD KUCZEK: But -- but you didn't have -- there was no opportunity provided for comment at that point. I made a decision to -- to meet -- in order to meet the time lines that I had to make a decision to actually proceed with the survey at a certain point and -

- and even as much as I would have liked to have given more people an opportunity to comment, it was paramount in my mind that I get that market research done in time for the hearings.

MR. ERIC HOAKEN: All right. And -- and so just so I understand what your saying, is that the final draft, if you will, of the survey; the one that was used to conduct the research was presented to -- or at least a copy of it was provided to the external stakeholders, but it was provided as a fait accompli, is that right?

MR. LLOYD KUCZEK: We were being courteous to let everybody know what was -- what we were using for a surv -- or what eNRG was finally using for a survey, yes.

MR. ERIC HOAKEN: All right. but you weren't giving them an opportunity to comment any further?

MR. LLOYD KUCZEK: No.

MR. ERIC HOAKEN: All right. And if I can ask you to turn up, Mr. Kuczek, the answer to PUB/CENTRA-39.

(BRIEF PAUSE)

MR. ERIC HOAKEN: This is and IR response. I'm not going to read all of the lead-in, you can do that if you need to. I'm sorry, Ms. Murphy.

MS. MARLA MURPHY: I don't think we're quite with you yet, just give us a minute.

MR. ERIC HOAKEN: Okay.

(BRIEF PAUSE)

MS. MARLA MURPHY: Did you say PUB/CENTRA-39?

MR. ERIC HOAKEN: Yes, I did.

(BRIEF PAUSE)

CONTINUED BY MR. ERIC HOAKEN:

MR. ERIC HOAKEN: Just -- if it assists, this was one of the second round. I think this was the only IR that Mr. Peters submitted after the customer research report and focus group report were delivered.

(BRIEF PAUSE)

MR. ERIC HOAKEN: Okay, have you got it, Mr. Kuczek?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: Okay. And so, if you could turn to the second page. Look at the paragraph that starts at line 12. It says, "The -- the natural gas market perception survey." I'm just stopping there, I take it that's a reference to the customer research report that eNRG did?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: Okay. So it says:

> "The survey was designed through a process with eNRG providing an initial draft distributed to stakeholders for feedback."

Now stopping there, you'll agree with me, that's actually not what happened?

MR. LLOYD KUCZEK: It depends on your definition of "initial."

MR. ERIC HOAKEN: Well, I would take it to mean the first draft. Do you think there's some other logical definition that we should use here?

MR. LLOYD KUCZEK: It was the initial draft provided to the brokers and the -- the external stakeholders. It wasn't the first draft. I -- I use those words differently than yourself.

MR. ERIC HOAKEN: All right. So, if --

if someone were to read this, like me for example, and think that this meant it was being suggested the first draft was given to the external stakeholders, that would not be a correct reading on this, is that your evidence?

MR. LLOYD KUCZEK: It wasn't the first draft prepared by eNRG, no.

MR. ERIC HOAKEN: Okay. And then if you go down -- well actually, the next sentence it says:

> "eNRG then revised the draft taking into consideration the feedback received. External parties were then asked for their input regarding the revised draft survey."

Now that certainly didn't happen, right, Mr. Kuczek?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: Just one (1) sec.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: This draft was prepared by my colleague, but I did read it and I -- I read it somewhat different, but I'm informed that when this was written, that initial draft was distributed to stake -- to stakeholders, that was in reference to the internal stakeholders at that point.

MR. ERIC HOAKEN: I see. So you had originally read it like me, to refer to external stakeholders, but you're now being told by Ms. Derksen who wrote it, that she meant something other than that?

MR. LLOYD KUCZEK: Mr. Meder was the coordinator for me on this project and Mr. Meder referred to stakeholders interchangeably, internally and externally, sometimes using the phase "internal stakeholders" and "external stakeholders" but...

MR. ERIC HOAKEN: All right. So then if that's true, if -- if we accept that definition of stakeholders, then we have to go back to the word "initial," don't we? Because "initial" then means precisely what I said it does.

MR. LLOYD KUCZEK: That would be the case, yes.

MR. ERIC HOAKEN: Right. And so what you're saying this IR response means is that an initial draft, the first draft, was provided to "internal" stakeholders; we need to write that word in here; right;

MR. LLOYD KUCZEK: Yes. And as I recall there was only some internal stakeholders, it -- the first -- if you -- if you go to the history of it, I mean, I -- the history speaks for itself. There was an initial draft prepared by eNRG and it -- it was thought to be efficient in a -- to at least go through the initial draft with an internal working group and that involved a few -- a few people that worked in my division, and some people it was for development purposes, but nonetheless there was a group of people involved, and then we provided feedback to eNRG and there really wasn't much feedback provided on that initial draft, it was really high level.

You really have to understand the context of what was going on back then. When we had our first meeting with eNRG, we had our big wish list of everything we wanted to do market research for. And in that initial meeting the discussions, and this was the kickoff meeting that I'm referring to, the discussions were -- we had a lot of discussions around "Can we really capture all this information in this market research," and so, and how long it would be.

So the first draft attempted -- eNRG attempted to try to capture everything that we had hoped for, our wish list. And so there were -- the other internal stakeholders weren't involved at that point.

MR. ERIC HOAKEN: I'm sorry. Could I

just ask you so I make sure we're talking about the same thing. When you say "wish list," are you talking about the research objectives?

MR. LLOYD KUCZEK: Yes.

MR. ERIC HOAKEN: Okay. And could I just say to the Chair that I may be sometime longer on this point, so I'm in your hands. If you'd like me to continue I'm certainly to do that; if you'd like to adjourn for the day we can do that as well.

THE CHAIRPERSON: I think we can wait until tomorrow, Mr. Hoaken, if that's all right with you.

Okay, we'll adjourn now and we'll see you all back tomorrow at nine o'clock. Thank you.

MR. ERIC HOAKEN: Thank you.

(PANEL RETIRES)

--- Upon adjourning at 4:05 p.m.

Certified correct,

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Wendy Warnock, Ms.