MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS
COST OF GAS APPLICATION

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

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
September 22nd, 2004
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APPEARANCES

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

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EXHIBITS

--- Upon commencing at 9:02 a.m.

THE CHAIRPERSON: Good morning, everyone. We’ve reached the stage of the process that involves closing comments by the Intervenors and the Corporation. The Board may ask questions seeking to clarify positions or may simply hear the statements and take the statements, all other evidence on the record and undertakings yet to be fulfilled into consideration in reaching its decisions rising out of the utilities Application.

The order today will be Mr. Peters, Board Counsel; Mr. Saxberg for CAC/MSOS; Mr. Carroll for MacDon; Mr. Brown and Ms. Melnychuk for Municipal Gas and Direct Energy. The comments of Mr. Gretener for Simplot will placed into the record by Mr. Peters. Finally, we will hear from Ms. Murphy for Centra.

Before beginning I want to make a few brief remarks. Through this process, the Application of Centra has been addressed. Notwithstanding the generality of this statement, this process has received considerable information related to a number of important issues, these including: security of supply issues, contracting for natural gas, peak requirements and pricing stability through to storage matters, touched on briefly; arrangements related to transportation to Manitoba; distribution within Manitoba;

issues such as expansion, maintenance and safety matters; mitigation related to the volatility of prices for the commodity; placements of derivatives, PGVA and monthly payment plans; pricing and billing matters ranging to include intergenerational concerns and a desire of the Utility to issue electricity and gas accounts on a single monthly bill.

Other issues: DSM, unaccounted-for gas, allocation of costs amongst customer classes, equitable pricing for customer classes and the rate model itself, issues touching on broker arrangements, issues related to competition brokers and Centra, regulatory approach, customer communications and relationships, feasibility tests and income tax issues and follow-up on subsequent events with respect to past directives and understanding.

We've also learned that Centra intends to file an Application with the Board with respect to non-gas rates and that Application may be filed as early as by the end of this year. This expectation may provide the opportunity to revisit topics dealt with to some degree during this Hearing.

We have gained the perspective of the company on how the questions raised by the Board at the PHC with respect to gas landscape matters should be dealt with. Hopefully, more of these perspectives will be forthcoming today from the Intervenors and from Centra.

At the end of the day, the Board may decide to accept, reject, or vary the Corporation's Application and will provide reasons along with its directions with the forthcoming order.

To begin with, Mr. Peters...?

MR. BOB PETERS: Thank you, and good morning, Mr. Chairman, Board Member Gerard, Board Member Santos, Ladies and Gentlemen.

I have three (3) matters to speak to this morning, Mr. Chairman. The first two (2) I will consider under the rubric of housekeeping and the third would be my closing comments.

Under the first matter, I want to just remind the parties that the Board heard an oral presentation from Professor Miller on behalf TREE/RCM and that oral presentation came after a written submission had been filed, and if possible, we try to embed the written submissions into the transcript. We will check and make sure that was done with his first written submission, just so that it's kept for the Board on the record, it will not be given an exhibit number.

The second aspect of the presentations was that Professor Miller responded to some questions from the Chairman and provided some additional information and the additional information was somewhat voluminous, but we will affix the cover letter also into the transcript and Record of

Proceedings and I'll work with Ms. Wilkinson afterwards to make sure we can do that.

LETTER OF PETER MILLER

Mr. H. Singh,
Acting Secretary,
The Public Utilities Board
400 - 330 Portage Avenue,
Winnipeg, Manitoba

Dear Mr. Singh:

RE: Documentation in support of TREE/RCM Centra Gas brief

On September 8th, I presented a brief to the PUB Centra Gas rate hearing in support of the assessment of a System Benefit Chart (SBC) on the gas throughput supplied to customers. I indicated that this was an increasingly used measure to fund efficiency programs. In response to a question from the PUB Chair, I promised to follow up with some documentation of such programs. That documentation is attached in electronic format with a hard copy delivered to the PUB office. It includes:

1. Fast Help for Soaring Gas Prices: Profiles of America’s Best Natural Gas Energy Efficiency Programs (press release describing next document)

2. Responding to the Natural Gas Crisis, America’s Best Natural Gas Energy Efficiency Programs (December 2003).

3. Schedule 190: Natural Gas Efficiency Program, Washington (Avista Corporation).

4. Schedule 191: Public Purposes Rider Adjustment, Washington (Avista Corporation).

5. Northwest Natural Gas Public Purpose Schedules (web address and index).

Particularly relevant to our brief are pages 8-11 of document 2, which discuss, "Legislative and Regulatory Mechanisms," including a table of 9 leading jurisdictions -- 8 states and Ontario. The authors identify two (2) "crucial threshold conditions for significant utility energy efficiency efforts to occur" - a legislative/regulatory requirement for funding and a mechanism for cost-recovery (9).

Documents 3, 4 and 5 are particular examples of "Public Purposes" programs and the surcharges or riders by which they are funded. Note that the example for Northwest Natural Gas indicates that Public Purposes include general efficiency programs , targeted low-income efficiency programs and low-income rate assistance.

I hope these documents are helpful to the Board's deliberations.

Sincerely,
Peter Miller
for TREE and RCM

MR. BOB PETERS: The second matter on my list was to take care of undertakings and exhibits, Mr. Chairman, and I believe that all parties now have received a number of undertakings from Centra. Those undertakings were received either on Friday at the close of business last time we met, or they came in a correspondence of September 20th, or they would have been in yesterday's correspondence of September 21st.

Those undertakings I have noted, and they are also been given exhibit numbers on the new exhibit list that has been prepared by the Board's Office. I have taken the liberty of circulating the revised exhibit list.

So, Undertakings Number 10, 11, 12, 13, 14, 16, 18, 19, 23, 24, and 25 have been given, respectively, the exhibit number of Centra exhibits 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, and 19. And in terms of yesterday's correspondence, Undertaking Number 15 has been marked as Centra Exhibit 20, Undertaking Number 17 has been marked as Centra Exhibit 21, and Undertaking Number 26 has been marked as Centra Exhibit 22.

I will leave it to my colleague, Ms. Murphy, to speak to any outstanding matters related to undertakings.

--- EXHIBIT NO. CENTRA-9: Response to Undertaking 10

--- EXHIBIT NO. CENTRA-10: Response to Undertaking 11

--- EXHIBIT NO. CENTRA-11: Response to Undertaking 12

--- EXHIBIT NO. CENTRA-12: Response to Undertaking 13

--- EXHIBIT NO. CENTRA-13: Response to Undertaking 14

--- EXHIBIT NO. CENTRA-14: Response to Undertaking 16

--- EXHIBIT NO. CENTRA-15: Response to Undertaking 18

--- EXHIBIT NO. CENTRA-16: Response to Undertaking 19

--- EXHIBIT NO. CENTRA-17: Response to Undertaking 23

--- EXHIBIT NO. CENTRA-18: Response to Undertaking 24

--- EXHIBIT NO. CENTRA-19: Response to Undertaking 25

--- EXHIBIT NO. CENTRA-20: Response to Undertaking 15

--- EXHIBIT NO. CENTRA-21: Response to Undertaking 17

--- EXHIBIT NO. CENTRA-22: Response to Undertaking 26

FINAL SUBMISSION BY MR. BOB PETERS:

MR. BOB PETERS: In terms of closing comments, Mr. Chairman and Board Members, Ladies and Gentlemen, we have now completed the evidentiary component of the Public Hearing, in respect of an Application by Centra Gas Manitoba Inc., a wholly owned subsidiary of Manitoba Hydro, for revised 2004/2005 supplemental gas, transportation to Centra, and distribution to customer rates, to be effective for all gas consumed on and after November 1st, 2004, as well as a number of other matters that have been canvassed during the past two (2) weeks.

As Board Counsel, I take no position on the merits of any part of the Application by Centra, or on any positions taken by any other parties. Rather, my role is to summarize the matters that this Board may wish to consider, and include in its Final Decision.

Those matters include that the Corporation is seeking approval of firstly, supplemental gas, transportation to Centra, distribution to customer sales rates to be charged by the Company for sale of gas, and the provision of transportation and distribution services to customers in their franchise areas served by the Company, to be effective with respect to all gas consumed on and after November 1st of 2004.

The forecast cost of non-primary gas is estimated at $83.4 million, and total gas costs are estimated to be $420.5 million. That was found on Schedule 6.2.3, which was revised August the 9th of 2004.

The Board will note that the primary gas costs are forecast to be $3.2 million less than the amount currently embedded in the non-primary gas rates approved in Order 125/03.

Secondly, approval is sought for the April 1st, 2003 to March 31, 2004 gas costs, of $368.4 million, which the Board will find on the August 9th updated version of Schedule 5.0.0.

Third, Interim Order 125/03 established natural gas sales rates effective August 1st of 2003, on an interim basis for both the primary and non-primary gas costs and the Company is seeking that matter be finalized.

The Company is also seeking approval of various non-primary purchase gas, variance accounts, and gas cost deferral account balances as at March 31, 2004 estimated at $16.5 million owing to the customers; and that is found on Schedule 5.1.0.

Fifthly, the Company is seeking approval of the disposition of various non-primary gas PGVA and gas cost deferral account balances that have accumulated to March 31st of 2004, over nine (9) months ending July 31st, 2005, and that is found calculated on Schedule 8.5.0.

Sixthly, the Company is seeking confirmation of various primary gas sales rates provided in interim ex parte orders by this Board including Orders 119/03 for rates effective August 1st, 2003, Order 161/03 effective November 1st, 2003, Order 11/04 effective February 1st of 2004, and Order 69/04 effective May 1st, 2004, and also Order 100/04 effective August 1st, 2004.

Seventhly, the Company is seeking approval of Interim Orders 143/03 and 69/04 which approved amendments to the primary gas rate setting methodology and the minimum filing requirements.

The eighth matter on my list is that Centra is seeking approval on a final basis for interim ex parte Orders 120/03 and 121/04 which approve the amended franchise agreements and the feasibility tests for the extension of gas service to certain customers in the rural municipality of Rockwood and rural municipality of Hamiota (phonetic).

The ninth item is the approval to the refinements to the allocation of unaccounted for gas to the various customer classes as part of the process in calculating sales rates. Centra has proposed changes based on the results from its unaccounted for gas review and the gas review that was done by the Company was filed in Tab 7 as Attachment Number 1.

The Board will also have to consider the evidence presented by Simplot which suggested further analysis be undertaken on Simplot’s UFG and a reduction of the amount to be allocated to Simplot from that proposed by Centra.

The Board will be aware from the evidence that because unaccounted for gas or UFG is functionally classified as a distribution cost, the distribution to customer component of sales rates will also change if the Company’s Application is approved.

Tenth, Centra is proposing that supplemental gas PGVA of approximately $9.2 million owing to consumers be refunded by way of a supplemental gas rate rider to be attached to the billed distribution rates for all customer classes except for the mainline class. For the four (4) mainline customers, Centra is proposing a separate line item on the customer's bill.

The eleventh item on my list is that Centra is proposing to change the method of determining the demand levels for purposes of billing high volume firm customers effective November 1st, 2004.

The Board also heard that Centra is proposing a concession to high volume firm customers in the billing of the demand charge such that Centra will continue to use the average peak until a new actual peak is established after November 1st of 2004, in excess of the average.

The Board must also consider the refund or the collection of billing differentials which arose from the two (2) different billing determinate methodologies that were used in the past year.

The twelfth matter that I've listed is that Centra is asking the Board to approve revisions to the terms and conditions of service including a proposal that will assist in the utilization of a single bill for both gas and electric consumption commencing November 1st of 2005.

Centra is also proposing to remove the income tax component from Centra's feasibility test for customer attachments and they want to use the overall rate of return as a discount rate in the net present value test.

Based on the Application that was filed and on an annual basis relative to August 1st, 2004 rates that are current in effect, the bill impacts of the proposed billed rates would include the following -- and I should just pause to remind the Board that the billed rates will be the base rates together with any rate riders.

And, in my opening comments, I had mentioned that there was a -- a number of undertakings filed. Undertaking 14, which has been marked as Centra Exhibit 13, contains a further revised Schedule 8.1.0 and that has the -- the up-to-date bill impacts.

For the SGS customer class, which includes the residential customers, they can expect, if this Application is approved, annual bill reductions in the range of 3.9 percent to 4.2 percent.

The LGS customers would expect bill reductions on an annual basis in the range of 2.8 percent to 3.4 percent. The high volume firm customers would expect bill decreases ranging from 7.2 percent to 10.8 percent.

The co-op customer would expect a bill increase of 5.9 percent. Mainline customers would expect a bill decrease ranging from 4.2 to 6.3 percent. The special contract customer would expect bill decreases of -- totalling

19.3 percent on an annual basis.

The power station would see an increase of 13.2 percent on an annual basis and the interruptible customer class would likewise experience an increase in their annual bills ranging from 1.2 to 1.6 percent.

Mr. Chairman and Board Members, the Board heard evidence on the review undertaken of Centra's gas supply, storage and transmission portfolio which, together with others, I have called the blank page analysis that was prepared by IGC and that Centra was currently undertaking an internal economic analysis of the certain recommendations, including the current gas portfolio being utilized, the increased ANR storage and the development of salt cavern storage.

As noted in Order 65/04 which was issued following the pre-hearing conference, the Board expected Centra to abide by a commitment to return to the Board with its conclusions prior to entering into any longer term commitments related to the blank page analysis.

In addition, the Board has heard evidence that Centra has entered into a three (3) year contract with Nexen Marketing for the supply of primary gas for which Centra is now asking the Board to approve the gas cost consequences for the test year of 2004/05.

In regards to the primary gas supply contract with Nexen Marketing, there were discussions of the terms of the agreement, including a firm base load supply component with no price mark up over index, a two (2) tiered firm swing supply component, no change in the quarterly displacement option to accommodate WTS purchases, and a restriction on the ability for Centra to purchase supplies in excess of daily needs to re-sell those supplies to generate capacity management revenue.

The agreement is for a three (3) year term to expire October 31st, 2007, and in looking at that, the advantages and disadvantage to the Manitoba consumers was discussed through the evidence of the Hearing.

The Board must also consider the re-negotiated transportation arrangements with Great Lakes Gas Transmission, the renewed transportation arrangements with TransCanada Pipelines Limited and the revised storage and transportation arrangements with ANR.

The renegotiated contracts will result in additional gas costs, for which Board approval is being sought in terms of cost consequences. The Board is not being asked to approve the contracts per se.

Also for Board consideration will be the results of the derivative hedging program. That program had results that were based on a derivative hedging policy and program based on a mechanistic hedging approach, which does not consider market views in its execution.

The Board also heard evidence on updated market research which Centra indicates supports its current hedging policy and no changes are proposed.

The Board will review the derivative hedging actions and results and determine whether they were reasonable and prudent. The derivative hedging results are summarized for the 2003/04 year in Schedule 5.2.0, and for the 2004/05 year are forecast and summarised on Schedule 6.3.1.

In addition to all of those matters, Mr. Chairman and Board Members, the Board explored issues related to the future regulatory framework of Centra and the competitive landscape in which it operates, including the soliciting of views on Centra providing alterative fixed pricing options.

In its deliberations the Board must consider the forum in which such issues are dealt with and whether through a generic hearing or as part of an upcoming General Rate Application; and I would encourage the views of Centra and the Intervenors in this regard in their final submissions to the Board today.

The Board must also consider Centra’s position and intention to file the upcoming General Rate Application on a rate based rate of return basis as well as on a cost of service basis. Centra also indicated that it would be bringing forward its natural gas demand side management programs for the Board's review.

So, in conclusion and subject to any questions you may have of -- of me, Mr. Chairman, I'll conclude my comments by suggesting that you turn to the Intervenors, as listed alphabetically in the outline of procedures, for their closing submissions and after hearing from the Intervenors then hear from Centra on its final comment.

Thank you, Mr. Chairman, that concludes my comments.

THE CHAIRPERSON: Thank you, Mr. Peters. We'll turn now to Mr. Saxberg for CAC/MSOS. Mr. Saxberg...?

FINAL SUBMISSIONS BY MR. KRIS SAXBERG:

MR. KRIS SAXBERG: Thank you, Mr. Chairman. Mr. Chairman, Panel Members, Ladies and Gentlemen, good morning. I see Mr. Singh is graciously handing out a book of documents that I've prepared and to which I will refer during this presentation.

I'd like to begin by complimenting Centra for its hard work, cooperation, and diligence during the course of this hearing. I appreciate that putting together an Application such as this is an enormous undertaking.

The amount of documentation and detail required to elicit an approval from this Board for a modest rate reduction for residential consumers would surely come as a surprise to the average consumer.

However, as we heard during the course of the hearing, the gas business is extremely complicated. Dramatic, unpredictable changes in the weather and the extremely volatile natural gas market makes forecasting supplementary gas anything but an exact science.

CAC/MSOS has identified ten (10) major issue areas that flow out of the voluminous materials in six (6) days of testimony. The ten (10) issues are: Centra's derivative hedging program; the blank page analysis, AKA the IGC report; the new gas supply and transportation contracts; unaccounted for gas allocation; amendments to terms and conditions of service; the $16.5 million refund to customers; demand side management; high volume firm rate design; the One-Bill Initiative; and finally, miscellaneous matters, which include my comments on future regulation.

I will deal with each of these in turn in the order that I've just indicated. The format for this argument is to begin each section with an outline of Centra's Application and a brief review of the evidence on the record. That will be followed by an analysis and outline of CAC/MSOS' position and recommendations.

Turning firstly then to the derivative hedging program and Tab A of my book of documents.

In Schedule 5.2.0 updated, Centra provides a summary of the hedges purchase affecting the 2003/’04 fiscal year. The assertion is made that all of these transactions were executed in accordance with the derivatives hedging policy and procedures approved by this Board in Order 18 -- 118/03.

In that order, this Board approved Centra’s mechanistic approach to hedging it’s primary gas supplies. The mechanistic approach involves the use of a formula which is applied consistently in order to avoid the temptation of taking a market view prior to entering into transactions.

Centra now equates any exercise of judgement in the implementation of its hedging strategy with taking a market view.

Schedule 5.2.0 shows that as a result of Centra’s hedging activities, gas costs were reduced by $4.64 million in 2003/04. Of note, two (2) -- two (2) years ago in 2002/03, gas costs were reduced by $15.5 million as a result of hedging. And at this point in time, the forecast for 2004/05 is that hedging will result in a total reduction in gas prices of close to $20 million.

In terms of performance measures, Centra is opposed to considering reductions or increases in gas costs, as a measure of success for the hedging program. Rather, Centra has encouraged the Board to accept its calculation of the percentage reduction in volatility introduced in this proceeding.

Centra indicates that for the fiscal year 2002/03, volatility was reduced by 30 percent. For the year 2003/04, Centra has testified the volatility was reduced by 20 percent. In other words, primary gas sales rates were 20 percent less volatile than they would have been in the absence of a hedging program.

According to Centra the cost of the hedging program is nominal. The typical residential customer can expect to pay between thirteen dollars ($13) and twenty-six dollars ($26) every year. That amounts to 1 to 2 percent of the amount a typical residential customer pays for their gas bill each year.

Mr. Sanderson testified that the estimated costs of the program are extremely conservative in that they are over-stated, if anything, and they are based on a report written by Moseum Koja (phonetic), pardon my pronunciation, which is marked as Centra Exhibit 8.

Centra believes that the financial consequences of its hedging program, i.e. whether gas costs are increased or decreased, is irrelevant, because the object of the program is to reduce volatility, not to achieve lowest-cost gas. And in any event Centra says, in the long run, which is defined as between ten (10) and twenty (20) years, the opportunity costs generated by hedging program, should match the proceeds generated by the hedging program. In other words, gains and losses should cancel out over the long run.

Centra agreed, however, that in the short run, there could be material opportunity costs, or conversely, material cost savings. At last year's Hearing, CAC/MSOS argued that Centra's derivative hedging formula may not be the most appropriate one to restrain bill volatility within customer tolerance levels. In Board Order 118/03 at page 48, the Board determined, and I quote:

> "The Board notes Centra will be updating its market research on customer expectations related to bill volatility. The results of that research may require a change in the hedging strategy and performance measures on which the program results can be evaluated. Accordingly, the Board expects Centra to file any new updates to its hedging policy incorporating the new research at the next Annual Cost of Gas Hearing."

At page 47 of the Board Order, the Board noted that:

> "Centra's customer research will be used to reassess customers risk tolerance and the appropriateness of the fifty (50) cent out-of-the-money band."

Centra acknowledged that the customer research was to be used to determine the appropriateness of the out-of-the-money band and the current definition of eligible volumes in the gas supply management minutes attached at PUB/CENTRA 8(a).

Now Centra hired Western Opinion Research to conduct the customer market research. The key findings of the survey were that: Number 1, customers gave a failing grade to Manitoba Hydro for its activities to reduce market-related price fluctuations.

Number 2, only 19 percent of customers were aware that Manitoba Hydro took steps to reduce volatility. Of the 19 percent, only 7 percent of the customers had any knowledge that Manitoba Hydro had a hedging program. Fifty-one (51) percent of the respondents were in favour of hedging, thirty-three (33) were opposed.

Number 4, when asked a different question, 66 percent of respondents were in favour of Manitoba Hydro maintaining or increasing its hedging policy.

Number 5, 22 percent of respondents had no tolerance for any fluctuation in their natural gas bill. Fifteen (15) percent could tolerate a change between one dollar ($1) and five dollars ($5) per month.

And number 6, only 59 percent of broker-supplied households were aware that their gas supplier was a Company other than Manitoba Hydro.

In this Application Centra is not proposing to change its current derivatives hedging program. The formula that it implements in a mechanistic manner will remain unchanged, notwithstanding the new market research. Centra says that the survey supports maintaining the status quo, with respect to the out-of-the-money band and eligible volumes hedged.

Centra has not conducted any tests to see if any other formula would have achieved a better reduction in price volatility at the same, or at a lower cost.

Centra is seeking to change the way that the performance of the program is measured. In the past, the performance of the program was measured in dollar terms, based on whether hedging activities were keeping monthly bills within a variance of plus or minus five dollars ($5).

The current proposal is to have the percentage of volatility reduction measured as a percentage, rather in dollar terms. Centra’s -- mantra that it will not take a market view, is commendable on the face of it. However, Centra appears to be confusing the use or exercise of judgement in any form with taking a market view.

In Board Order 118/03 the Board noted its concern that Centra remain diligent to ensure the appropriate resources and required skills are retained to operate the program within Centra. The Board also urged Centra to apply judgement in particular circumstances related to the -- to liquidity concerns in the market.

Clearly, judgement cannot be eradicated from the operation of a program which could cost customers or save customers in the short term at least, as much as $20 million in a single year. Common sense and prudency cannot be sacrificed on the altar of the mechanistic approach. There is an exception to every rule.

Referring back now to Tab A. This Schedule 5.2.0 was discussed at length during my cross-examination. In particular, the transaction indicated at Line 21 which was a collar for the gas month of January 2004. During this proceeding and a previous proceeding, the transaction has been described as, and I quote:

"Somewhat odd looking."

End quote. That’s at transcript page 498. As quote:

"An anomalous circumstance."

End quote. That’s at transcript page 1666 during last years Hearing. And, quotation marks,

"Appears not to meet the requirements of our operating principles and procedures."

That’s at transcript page 516, lines 20 to 22.

The Centra gas derivatives hedging operating principles and procedures documents states that the upper strike price will be fifty (50) cents higher than the at the money or market price. It also says that the executive committee must approve coverage, other than the fifty (50) cent out of the money.

The collar for the gas month of January 2004 at line 21, Tab A, consists of an upper strike price of seven dollars and twelve cents ($7.12), and a lower strike price of six dollars and sixty-five ($6.65). The difference between the lower and upper strike price is a mere forty-seven (47) cents .

In other words when this transaction was finalized, the floor was above the at the money price giving the appearance that the cap was less than fifty (50) cents out of the money.

Mr. Warden confirmed on the record that the executive committee had not approved coverage other than fifty (50) cents out of the money. And so on its face, this transaction appears to be a breach of the operating principles and procedures document. Ms. Stewart stated that the transaction regrettably appears not to meet those requirements.

However, she vigorously defended the prudency of the transaction and at transcript page 523 is the following exchange between myself and Ms. Stewart and that's found at Tab B and it's been blocked off. And it reads:

Question from myself: "If you were to encounter the exact same situation again where you're faced with an incredibly rising market within the three (3) to five (5) minutes you're making these transactions, would you do the same thing?

Ms. Stewart: Certainly I would.

Mr. Saxberg: Okay, thank you for that. Why then was it important to move to trading later in the day to avoid that?

Ms. Stewart: Primarily related to the difficulty that we had with refreshes with our counter parties in the particular circumstances.

So you know, every five (5) seconds I was losing a number off the board and people were pulling their quotes off the board as soon as we could get them up. And we -- we don't want to be in that situation. My

operating principles and procedures require
me to have three (3) live quotes and we
moved to transacting a little later in the
day in order to try and preserve that.
Mr. Saxberg: So it would be better to
transact when the market isn't rising
quickly or falling quickly. Is that what
you're saying?
Ms. Stewart: For the reasons I just
outlined, yes."

End quote. It appears that Centra's position is that although the transaction was anomalous and it may not have conformed with a strict interpretation of the derivative hedging operating principles and procedures, there is a reasonable and justifiable explanation for the narrow forty-seven (47) cent bandwidth.

This Board needs to have a sense of what Centra is attempting to achieve when it goes to the market to establish a costless collar -- a cashless collar.

In other words, which of these transactions, as shown on Tab A, has best value to customers? At transcript page 519, Mr. Sanderson testified as follows, and that's at Tab C, once again marked off. Mr. Sanderson says:

"In terms of bandwidth, what provides value
to our customers is the width of the band

on the lower strike price, relative to the at the money or swap price relative to the out of the money band on the upper strike, or cap price."

At transcript page 487, Line 12, Mr. Stephens confirmed that in certain market situations, using a collar is not in the best interests of customers. The market situation Mr. Stephens described was where the lower strike on the collar the counter parties quoted, was at the money.

And I have that quote at Tab D, again blocked off. Mr. Stephens says, beginning at line 12:

"The reason we didn't pick collars at that time as opposed to the caps, given the very expensive nature of them was that the lower strike price on the collar at that particular point in time was at the money. So I mean it was essentially my fixing the lower component at the current market price with then having an upside fifty (50) cents plus the associated movement of the price relative to that. So there was no real risk reduction from that perspective, especially given the forecast that we had in terms of gas prices going forward for the winter. So we -- I mean I immediately dismissed that as an alternative."

End quote. Turning back to the trading that occurred in January 2003 for the gas months November, December and January, Lines 17 to 21 on Schedule 5.2.0, during testimony Mr. Sanderson confirmed that when the upper strike price, the cap, was set for the month of January 2004 at seven dollars and twelve cents ($7.12) it would have been set at fifty (50) cents above the futures market price.

That would indicate that the futures market price that Centra was using to set its cap and floor was six dollars and sixty-two cents ($6.62). However, if we look at the floor price at line 21, it indicates that the lower strike was set at six dollars and sixty-five cents ($6.65). That is indeed anomalous in that it is three (3) cents higher than the market price that Centra was using to solicit bids on the lower strike.

In other words, Centra knew that the floor that it set during that transaction was at the money or slightly above it.

Recall Mr. Stephen's remarks that a collar with a lower strike price at the money is not in the interest of consumers and Mr. Sanderson's testimony that the size of the band width between the lower strike and the at the money price is what determines the value of the transaction to customers.

It is important to note that the result of this particular trade was an increase in gas costs of five hundred thousand dollars ($500,000) and that's indicated at the last -- under the last column on line 21 of Tab A.

Centra explains the reasons for this -- anomalous transaction. It states that it was:

> "The dramatic run up in prices in the market during the three (3) to five (5) minutes it took to complete the transaction."

Centra's justification was that it had established a process for transacting and that whatever is happening in the market at any particular time, however anomalous, their processes cannot be altered.

They were unfaltering in their objective not to take a market view. At transcript page 509, line 21, Ms. Stewart outlines the transaction process. I'll attempt to s summarize it.

The first step is that Centra is to establish with its five (5) counterparties what the at the money swap price is. The goal is to establish a common benchmark. Each of the counterparties will have and will quote a different at the money or swap price at the commencement of the process.

Centra selects the lowest at the money or swap price. That becomes the benchmark which is then conveyed to counterparties to bid on. As indicated, the benchmark for this transaction was six dollars and sixty-two cents ($6.62).

The counterparties were then asked to provide put quotes and the lowest quote was accepted. Centra's practice is to transact for three (3) months in a row; it is not clear why that is necessary, however. As a result it takes several minutes to get to transaction number three (3), in this case, the January 2004 gas month.

By the time the January 2004 gas month was discussed, Centra says that three (3) to five (5) minutes may have elapsed. As a consequence of the dramatic runup in prices during that short period, the benchmark quote established mere minutes ago was no longer reflective of the market's view of the future's price.

On that day, in that particular time frame, there was something going on in the market that was driving prices upward at breakneck speed. The effect of the market rising rapidly at the very time Centra was transacting was two-fold.

First, the price quotes received were only good for approximately ten (10) to fifteen (15) seconds because the counterparties were watching their live markets and adjusting their positions. At transcript page 512, line 20, Ms. Stewart testifies at Tab E:

"Mr. Stephens had a bid up on the board.

> The bid moved off the board and yet, by way of my policy, I've got to ensure that I've got a minimum three (3) quotes up on that board. Ideally, I want five (5) quotes up on that board. When the market is volatile, these folks will be refreshing before almost I can blink because the market's moving. They've given me an original quote. If the market is moving up, they've got to move their quote to retain their dealer margin."

The second effect of the rising market was that put quotes ultimately wound up being above the benchmark price that Centra had set at the outset of the process. CAC/MSOS' concern is that Centra's rigidity can, in certain situations, expose customers to higher gas costs, at least in the short run.

Slavish reliance on a mechanical implementation in the instance discussed here resulted in an increasing gas cost of five hundred thousand (500,000) and we may have gotten off lucky.

My question to the Centra Panel was, why not simply abort the transaction when it became apparent that the floor strike price was above the six dollars and sixty-five cent ($6.65) benchmark? Ms. Stewart's response is contained at Tab F, again blocked off, quote:

"Mr. Saxberg: "It’s helping me. Why not just abort that day and do it on another day?

Ms. Stewart: For the same reason that I put on the record last year which is, are you suggesting to me that I should abort on that day and go back into the market and find out that the market was fundamentally moved by fifty (50) cents or a dollar? What rationale would I have to that?

Mr. Saxberg: Well, what -- what does it matter? You’re not taking a market view. Whatever it is, the next day is what it is.

Ms. Stewart: Because the principles of the mechanistic hedging implementation strategy, once again, are that the timing of the hedge, the magnitude of the hedge and the choice of the -- instrument are predefined.

Ms. Stewart: By definition, predefined. That means that I know the date that I’m going to the market a couple of months in advance and I’m not going to alter that as a result of what, in particular, the market is doing on that day."

CAC/MSOS does not agree that aborting a transaction that would have resulted in a floor price which provides no value to -- customers is taking a market view. Rather, it is using real time information to make a reasoned judgement when millions of dollars are potentially at stake. It may be the case that in the long run, theoretically speaking at least, the pluses and minuses will work themselves out. However, the short run is important.

Major increases or, luckily, decreases as we've seen here over the last several years, to the price of gas as a result of hedging, can have significant impacts on customers, in particular, customers who live on fixed incomes.

Elderly customers are surely less concerned about the long run than they are about the short run costs. Centra's positive hedging results these past years could just as likely have been negative. In that case, customers bills would have been increased substantially. The short run counts.

Centra's trading in January of 2003 should at minimum raise a red flag to this Board about an over-reliance on a mechanistic hedging approach. To be clear, CAC/MSOS does not support taking a market view or using a judgmental hedging strategy.

However, these Intervenors do not want judgement, reason, rationality and common sense to be completely eliminated from the implementation of the derivatives hedging program.

We believe that the trades that occurred in January 2003 demonstrate that Centra should revisit its policy and procedures to ensure that consumers do not lose out, once more, as a result of a blind obedience to the mechanistic approach.

I turn now to Centra's choice of instrument. Centra's position is that it chooses not to use a mix of collars and caps because it would be using judgement. And that's offside from the mechanistic approach. At transcript page 488, line 6, Ms. Stewart testified that,

> "We firmly believe in our mechanistic approach and flip-flopping between caps and collars is quite frankly just not consistent with the principles of the -- mechanistic approach.
> Centra has not used an instrument other than the cashless collars since it moved to the -- mechanistic approach."

That's at transcript page 135. Centra's derivatives guru, Tim Simard, has advised Centra on its derivative hedging program for years. Mr. Simard appeared before this Board last year and was an impressive witness.

At Tab G of my Book of Documents, I've included an excerpt from Mr. Simard that was an opinion that he rendered to Centra Gas back in May of 1998, and that I put to the Panel during my cross-examination. At page 12, it's at the very bottom paragraph on the page at Tab G, quote:

> "The desire on the part of ratepayers for hedging activity is often expressed as -- as a desire to reduce the volatility of their gas price portfolio. This surely overstates the true desire of the ratepayer. It is difficult to accept that ratepayers would be uncomfortable with market volatility that led to downward adjustments in their cost of gas."

I asked Centra to indicate on the record whether the company agreed or disagreed with Mr. Simard's observation and after some equivocating by the Panel, Mr. Warden finally agreed that it was only logical that if a customer received declining bills they wouldn't object to that.

And he went on to note that over the long term it doesn't matter if Centra uses caps or collars, the cost to the ratepayer is going to be the same. Centra is wrong when it says that making a choice with respect to which instrument to use is akin to taking a market view.

Choosing to use caps as the first option to allow for full participation in the downward price adjustments would be a policy decision, not a decision based on a market view. There may be circumstances where the choice of instrument could flow from ones market perception but that need not be the case.

And I suppose an example of using the choice of instrument as a result of taking a market view would be Mr. Warden's comments. At the end of the proceeding on -- I can't remember which day, wherein he indicated that the company was debating whether to use caps the next time they traded because the cost of gas, the price of gas was so high.

I'm making a distinction between that kind of -- of observation and comment and simply choosing as a matter of policy to use caps in order to only reduce upward volatility. Centra also indicates that collars are the company's instrument of choice because of the zero upfront premium costs. And Mr. Sanderson indicated that Centra has to allocate scarce capital within the corporation.

The question though is, is Centra's choice of collars over caps in the best interest of consumers. It is a submission of these Intervenors that consumers are only interested to ensure against large price spikes and that derivatives should only be used for that purpose.

Consumers are not opposed to downward price movements and more importantly consumers expect to participate and enjoy downward movement with respect to the price of gas. CAC/MSOS has long taken the view that caps should be instrument of choice but the cashless collars may be an appropriate compromise when the premium associated with the cap is too rich.

Turn now to the Western Opinion Research Survey. The survey cost approximately forty-three thousand dollars ($43,000) and it's our opinion that the value of the survey is negligible. It does not provide this Board with any useful information with respect to customer tolerance levels for price volatility. And the results were a product of the limited and misleading information provided to respondents.

The object of the report was supposed to be to determine customers' appetite for natural gas price volatility. Previous reports had concluded that that appetite was for changes of plus or minus five dollars ($5) a month, sixty dollars ($60) a year.

In fact, the fifty (50) cent out of the money banned, was chosen as a direct result of the market -- earlier market research, indicating customer tolerance levels of plus or minus five dollars ($5) per month.

Mr. Sanderson explained the correlation to be based on a typical residential customer as using a hundred and twenty (120) gigajoules of gas in a normal weather year. Sixty dollars ($60) divided by a hundred and twenty (120) gigajoules gives rise to the fifty (50) cent ceiling that Centra places on gas costs in a given month.

Since the prior market research was done in 1989, it was certainly outdated. Those research studies were conducted long before the price of natural gas spiked, in a very unprecedented fashion, up to twelve dollars ($12) or thirteen dollars ($13) a gigajoule in 2000.

In Board Order 113/03, this Board noted that the new market research may result in a change to Centra's practise of hedging fifty (50) cents out of the money, and with respect to the 90 percent of eligible warmest year volumes.

Therefore, the point of the market research was to update customer tolerances, in order to determine if that fifty (50) cents out of the money ban, in volumes hedged, were still appropriate. The Western Opinion Research Survey deals with tolerance for natural gas bill fluctuations, in a summary fashion, at page 21.

And that's included at Tab H, and you will have to turn a few pages in to page 21. Heading is "Tolerance for Natural Gas Bill Fluctuations." Customers were asked the following question, which is set out in the box:

"Think ahead one (1) year, to next December's natural gas bill, all things being equal and recognizing that the market prices for natural gas will continue to fluctuate. What dollar amount of change or fluctuation in your natural gas bill for that month, would you consider to be tolerable or acceptable?"

This question does not relate to upward or downward price volatility. Surely the survey's results could not be held out to mean that 22 percent of customers considered next -- considering next December's natural gas bill, can -- would not tolerate any decrease in their bill at all. The obvious inference from the question posed is: What increase would you tolerate?

The result of the survey is thus hardly informative. And you can see the results for yourself on page 21, they are all over the place. And I'd submit that the diversity in responses is probably best explained by socioeconomic factors, in other words, what personal resources the respondents have.

CAC asserts that the Western Opinion Research Survey did not answer the key question, which is: Do customers have a concern about price volatility? The concept of price volatility should have been explained to the respondents and then they should have been asked: Are you prepared to pay an additional amount of money in order to smooth price changes, notwithstanding that in the sort run, it is equally likely that the price you pay for gas could be substantially higher or substantially lower, than it would be without hedging.

The shortcomings of the Western Opinion Survey are exposed, when one considers the information that was not disclosed to survey respondents.

Survey respondents were not told, number 1, what extent Centra's current hedging policy was restraining volatility. They weren't told what the program was doing, and what it was accomplishing, i.e. they were not told, as we heard in this Hearing, that with respect to 60 percent of their bill, volatility was reduced by 20 percent, which really doesn't amount to a whole lot, and may not, at least in my opinion, be even noticeable.

Number 2, they weren't told that in the short run, costs or savings associated with hedging costs, could be as much as $20 million a year. And as we know, last year the savings were $15.5 million a year, but they could easily have been a loss of $15.5 million.

Short, number 3, short term losses, as I indicated, are as likely as short term gains. Respondents were not told that short term losses could increase their overall gas bill by a sizeable percentage.

Number 4, respondents were not told about the actual results and cost implications of the program, i.e. the $15 million saved last year or the $4.6 million saved this year.

They weren't told about this cost to you over the long run and that it involved up to twenty (20) years time for a theoretical argument that only works in economic class, that the pluses and minuses of the program would cancel each other out.

Customers -- respondents weren't even told that the -- the view of Centra that the estimated costs were between thirteen dollars ($13) and twenty-six dollars ($26), given the long run analysis.

Here's what the respondents were told about the hedging program. Three (3) things. Number 1, they were told it's not speculative.

Number 2, they were told it's an insurance policy against extreme short term fluctuations in market prices caused by unforseen events.

And, number 3, the cost of the insurance is expected to add one (1) to 2 percent of your overall gas costs over the long term.

Well, who wouldn't support the program, if that was the information you had? And don't forget that the Western Opinion Research shows that the vast -- majority of respondents knew nothing about Centra's hedging program.

So they knew nothing other than what they were told, those three (3) pieces of information, and it's that that drives the results that are before this Board.

Western Opinion Research's biggest challenge was to ensure that the respondents fully understood the questions and the options being tested, as well as their implications. Centra witnesses noted on numerous occasions that the -- the gas business is extremely complex and that customers often find it difficult to understand.

When Mr. Stephens was in charge of the derivative program, he was of the view that customer surveys of natural gas customers provided little, if any, helpful information.

Viewpoints Research, the last market research company to work with Centra, certainly agreed and I quoted from their materials during my cross-examination and they said, I quote:

> "Given the complexity of the issues to be dealt with in this study, Viewpoints determined that qualitative research in the form of focus groups rather than quantitative research would be the most

appropriate methodology.
We felt it would be difficult to assess in a -- quantitative study whether respondents understood the issues well enough to offer an opinion or preference."

End quote. Ms. Stewart's view in this Proceeding was that the focus group approach as recommended by Viewpoints was inferior to customer surveys. And that position, I put to her, contradicts Centra's earlier position that focus groups are the way to go.

And maybe it is as simple as, well that was then and this is now. However, the Board must carefully and critically assess Western Opinion's research study in light of the limited information that was provided to the respondents.

And it is worth noting that the Board did not have the benefit of receiving evidence from the authors of the report with respect to their methodology and with respect to what their opinion is of the reliability of this information, and with respect to whether they had made suggestions to Centra about further information which should have been provided to respondents, which as we'll see later at my presentation, they did.

This Board cannot lose sight of the fact that the onus resides with Centra in this Application to establish the reliability of that survey.

One could even suggest that the Board should find an adverse inference from the fact that Centra chose not to call the Witness. On the other hand, it may well be that Centra made the decision to manage costs in this Proceeding, which is fine. The fact remains that there are serious questions about whether this survey accurately reflects customers' views.

CAC/MSOS is of the strong view that further market research should be conducted. The key question in my mind is: What are customers prepared to pay in the short run for a hedging program that reduces price volatility by only 60 percent of ones bill and within that amount, by only 20 percent?

Even if it was a reduction of 20 percent of the entire bill volatility, that would simply mean that your quarterly bills -- if your quarterly bills were going to change by ten dollars ($10) without hedging, with hedging they would have changed by eight dollars ($8) or by twelve dollars ($12). Very small impact.

And I think it's time for this Board to go back to first principles and take a hard look at the merits and value of Centra's derivative hedging program.

We've been lucky up until now in these last several years with substantial and material cost savings but as Centra indicates over and over again it could equally be likely that we would be turning the other way and one would think that it’s about time for that to happen.

Customers want to know what they’re receiving for these short-term risks and short term is -- can be up to five (5) years. Now, it’s important that when you look at the focus group report that was provided by Western Opinion Research, which is at Tab I, what’s the very first thing that they found?

The very first thing that they note under their heading, "Key Findings and Implications" is the actual price fluctuations. That is, the ups and downs did not appear to be a top-of-the-mind concern among participants. Most concerns related to the general perception that the service is becoming more expensive. That’s the first observation that they make in their findings.

There are more reasonable alternatives to provide customers with price protection. These Intervenors have advocated that Centra provide a more market transparent rate option that is -- that is with only severe upward price protection, i.e. caps, while at the same time being able to provide fixed price options for those customers who can tolerate the cost consequence of achieving a true elimination of price volatility.

Therefore, for the third year in a row, these

Intervenors recommend that Centra be permitted to provide price options that give customers choice with respect to risk tolerances.

Mr. Warden agreed that prior to implementation of various price options, the Board would need to convene a hearing to discuss the way that Centra would make such options available. And at Tab J, simply for information purposes again, I've included the tariffs and gas news release wherein that gas company announced the introduction of a new pricing option to allow residential customers to lock into the commodity price of natural gas for one (1) year.

CAC/MSOS believe that the Board should grant its approval to Centra to provide price options subject to a full public hearing into the mechanics of how those price options would be delivered by Centra and/or a subsidiary company.

Brokers will surely have an interest in participating in that process to ensure that the price option products offered by Centra or a subsidiary would not impede the development of the competitive market in Manitoba.

If that is achieved, then Manitobans will benefit greatly from true customer choice with respect to pricing options for natural gas and these Intervenors would suggest that at the present, the competitive market is not competitive and that there’s essentially one (1) company with a monopoly and that is not good for competition, obviously. That’s not good for ensuring the lowest price for those fixed contracts.

Finally, with respect to measuring the impact of the hedging program, we agree with Ms. Stewart that the proposed methodology is not a perfect measure, which is not to say that determining the percentage reduction in volatility is not useful, rather the performance measure needs to be supplemented with an additional performance measure which shows the increase or decrease in a customer’s overall bill with hedging compared to increases or decreases that would have occurred on a quarterly basis without hedging.

I note, with great interest, that the Western Opinion Research recommended a similar measure and, again, that’s at Tab I, page 5, the single page that’s in -- in Tab I, second bullet from the bottom of the page, Western Opinion states and I quote:

"Providing a chart --"

I -- I’ll quote from "furthermore":

"Furthermore, comparing it to locked-in mortgages may be one (1) means of explaining these activities. Also, providing a chart depicting the past case history of the benefits of this program in terms of reducing the direct impact of price fluctuations on billings would be beneficial."

That’s one (1) of the key findings of the focus group but that was not communicated to the Respondents in the next stage of the -- of the research.

Concerning the appropriateness of the hedging formula, the band width and volumes, Centra witnesses confirmed that increasing volumes of gas hedged or narrowing that out-of-the-money band to twenty-five cents (25) would further reduce price volatility. And Centra’s witnesses confirmed consistent with their testimony, over the last -- or the previous few Hearings that the -- that would result in only a modest theoretical increase in cost.

And I’ve included a quote at Page 540 of the transcript from Ms. Stewart, I’m not going to read it out, wherein she simply indicates that the -- that -- confirms first of all that the using a narrower band would reduce volatility to a higher extent but at a higher longer run cost which she identifies as 2 percent or 3 percent.

And it may be appropriate at this point in the development of the formulistic -- formulaic mechanism -- mechanistic approach if the Board orders that it continue for Centra to test other formulas, band widths, and volumes and to see if the results of the program to reduce volatility could be improved.

It would also be important to determine if changing the formula would affect the short run costs. Intuitively one would expect that a tighter band would mean that the short term savings and losses would be even larger.

I turn now to the blank page analysis. International Gas Consulting, IGC, was retained in September of 2001, to prepare a blank page analysis of Centra's supply and transportation portfolio. IGC completed its report in August of 2003, and recommended to Centra an optimized portfolio to be transitioned to by the year 2011.

The optimized portfolio includes the use of salt cavern storage which would provide cost savings of more that $2 million per year through avoided transportation cost and third party storage costs. More importantly though, the optimized portfolio would provide security of gas supply.

IGC concluded that the current portfolio was risky and that too much of the peak day supply remained uncontracted. IGC noted that under the current portfolio customers face the potential of nine (9) summer under service days and nineteen (19) winter under service days. The optimized portfolio provides for no under service days.

The IGC recommendations are buttressed by the Western Opinion Research finding, for what it's worth, that the most important service feature of Manitoba Hydro is reliability of gas supply.

At last year's GRA, Centra took the position that there was no point in a thorough public review of the IGC report until Centra had adopted its position.

As we sit here today, more than one (1) year later, Centra's position hasn't changed. The Company says it has now begun an internal economic analysis with respect to the IGC recommendations but as of yet had come -- has not come to any conclusions; and that's at transcript page 586.

The total cost of the IGC report including expenses was four hundred and seventeen thousand dollars ($417,000), that's at transcript page 631. The report took several years to complete and the initial estimate of the cost, which was three hundred and fifty-eight thousand (358,000) plus expenses, was slightly overrun.

In addition to that, Centra incurred aborted costs to have IGC involved in this proceeding. The total cost I believe on the record are around four hundred and forty thousand dollars ($440,000); not an insubstantial amount of money.

At page 6 of Board Order 65/04, the Board noted that Centra had committed to apprising it upon formal intentions -- of its formal intentions to act with respect to any decisions related to the blank page analysis.

The Board states in that Order that Centra advised during the pre-hearing conference related to this Application, that it would not make any long term commitments with suppliers or transporters related to or rising out of the BPA prior to placing its plans before the Board. During this Hearing Centra witnesses confirmed that they made that commitment to the Board.

A few short weeks before the Hearing started, however, Centra filed copies of new gas supply -- of a new gas supply contract with Nexen and new transportation contracts. Those new contracts represent long term commitments with suppliers and transporters.

The arrangements made in some cases run contrary to the recommendations made by IGC. For instance, IGC recommended that Centra should not commit any more than 25 percent to 40 percent of their supply requirements to any one company. IGC concluded that supplier diversity would allow Centra to establish and maintain close working relationships with a number of suppliers.

These relationships would be useful in identifying new opportunities, meeting the needs of customers, in the event of unexpected market disruption, encouraging multiple competitive offers, and to reduce the risk of adverse events in the one company providing the gas, which would negatively effect on Centra or its customers.

IGC's recommendations flowed from their observation that the natural gas market is in a flux. The menu of services offered and the nature of the parties offering services in the market has changed dramatically over the years. IGC concluded that this uncertainty was likely to continue indefinitely.

Mr. Stephens confirmed that the Board did not receive advance notice that Centra was not going to follow the IGC recommendations with respect to diversifying its gas supplies. Mr. Stephens' view was that the renegotiation of the Nexen contract was simply business as usual. And that's at transcript page 592.

CAC/MSOS considers that Centra breached its promise to the Board to provide advance notice prior to making long term commitments with gas suppliers and transporters, and that result -- that development is unfortunate.

There are material cost consequences associated with the new gas supply and transportation arrangements. Centra has presented to the Board what amounts to a fait accompli and the Board's hands are now tied because all it can do is approve or disallow the cost consequences of these new gas supply and transportation arrangements.

CAC/MSOS is concerned that a similar course of conduct may occur with respect to the implementation or failure to implement, other recommendations in the IGC report. This Board should make it clear to Centra that any actions to enhance the gas supply and transportation portfolio, whether they flow from the IG report or not, should be vetted with the Board prior to implementation in light of the IGC report and in light of its cost.

That is what I believe this Board had intended Centra to do when it ordered Centra to provide notice.

So the situation today is that the fate of the blank page analysis remains undecided. The report is aging and that is a serious concern to these Intervenors, given the significant expenses which were incurred to produce this report. It's unclear what factors Centra will take into account in determining its business case.

Mr. Stephens mentioned that the Company would be considering the competitive environment and what the future of the competitive environment will be. The Company is concerned also about investing $50 million in salt cavern storage in the event that the market may change.

It appears that the Company's position is also, that so long as there is excess capacity on TransCanada Pipelines, there is little, if any concern about customers being under served in a cold weather scenario.

Therefore, the key issue on -- here, is whether Centra is rolling the dice and gambling on there being continued excess capacity on the TransCanada Pipeline. The bottom line is that if the short -- if the surplus on the TransCanada Pipeline declines, the risk of there being a shortage -- there is a risk, a real risk, of there being a shortage of physical supply of gas.

In its report IGC states that, and this is at Tab L and it’s one page in, under Estimated Cost of Portfolio Realignment:

> "The issue promoting changes -- change, the expectation the capacity on TCPL will come to be much closer aligned with contractual commitments. IGC believes that this will result from a gradual derating of TCPL operating capacity, abandonment of unused capacity or by the arrival of Arctic gas supplies. As this occurs, IGC, believes it would be imprudent to continue to rely in delivered gas supplies and other soft assets to meet the firm core market requirement to Centra’s customers. That conclusion leads to the recommendation for the development of salt cavern storage. The long lead time is necessary for the creation of cavern space for salt cavern storage corresponds with the increasing

risk of the need for new hard assets to serve the firm market." End quote.

As I indicated to Mr. Stephens during cross-examination, the use of the word "imprudent" suggests that IGC considers the risk to consumers inherent in the status quo to be significant. Mr. Stephens agreed that the word "imprudent" was a concern. I think he said that it raised the hair on the back of his neck.

At page 33 of the IGC report, Tab L, IGC notes that TCPL was taking substantial depreciation charges for their current asset base and the suggestion is then made that that will have an effect of enhancing TCPL's competitive position when Arctic gas becomes available and then IGC suggests that TCPL has positioned itself in such a way as to reduce the likelihood that uncontracted capacity will be a permanent overhang on their system.

IGC's team's qualifications and expertise were unassailed at this hearing, in fact, Mr. Stephen's view was that IGC had done a good job and that the report, even with its hefty four hundred and forty thousand dollar ($440,000) price tag, was of significant value to consumers.

So why is it, then, that IGC's collective wisdom is being ignored by Centra? IGC says Centra should not rely on excess TransCanada Pipeline capacity. IGC's recommendations are conservative. IGC notes that the lead time associated with bringing salt cavern storage on-line increases the risk of Centra's customers being under served.

So, our position is that the best evidence available to this Board with respect to that key question that things are turning on, which is whether there will be excess capacity indefinitely in TransCanada Pipeline, the key evidence is the evidence provided by IGC and not that which you heard here in testimony; which, I might add, was taking a market view and speculating and -- I don't mean to use that word in the wrong sense but it -- it was looking into the future and trying to forecast what's going to happen and making decisions based on that. And I think that if you read the IGC report that that testimony is inconsistent with what IGC is saying.

Undertaking Number 10 was a request to have Centra file a presentation of the IGC report to the Centra executive committee and at page of -- three (3) -- of that report, which is at Tab M, the executive committee was told that it's going to take seven (7) years to fully commission a 3.48 PJ salt cavern storage facility and that is at page 3 of 5, which is two (2) pages in, in the third paragraph last sentence:

> "The capital cost to develop a 3.48 PJ facility is approximately 50 million and would take approximately seven (7) years to

fully commission, although portions of the facility would be available at earlier dates."

And that, in my submission, contradicts what I recall Mr. Stephens' evidence to be, which was that the facility could be up and running in four (4) years and that's taking into account one (1) year of negotiations with TransGas.

Now, Centra indicates that it's closely going to monitor TransCanada Pipeline's circumstances and presumably, if Centra gets wind that the excess capacity is declining, it will begin negotiations with TransGas to build salt cavern storage, but the question this Board has to consider is, will it be too late at that point in time to avoid the imprudent consequences that IGC refers to in it's report? So it does become a timing issue.

CAC believes that Centra shouldn't gamble on TransCanada Pipeline's excess capacity. The benefits cited in the IGC report are numerous and include the following listed on Page 3 of 5 of this report. I've added one at the very top, which is savings of $2 million a year.

Number 1 on Page 3 of 5 is high turnover capability in cold weather. Number 2: reduce transportation costs on TCPL. Number 3: improve load factor on TCPL and lower demand costs. Number 4: improve security of supply.

Number 5: gas purchasing price flexibility. Number 6: reduced load balancing fees. Number 7: capacity management opportunities. Number 8: reduced exposure to needle peak priced gas supplies.

And later, the second last sentence at Page 4 of Tab M is also noteworthy for the quote:

"It is intuitive that the under utilized capacity on TCPL will diminish over time but it is not known how much and how quickly. IGC has indicated there is no specific urgency in moving forward."

And then, at Page 5, second paragraph:

"In the long term, Centra may be required to move forward with the development of salt cavern storage facilities near Manitoba. However in the interim and short term, it is not unreasonable for Centra to further explore additional possibilities."

Well, that statement was made more than a year ago and Centra has exhausted its exploration of additional possibilities. Mr. Stephens indicated on the record that the concept of virtual storage with TCPL was dead.

He also confirmed that there were no other initiatives or possibilities being contemplated, other than the business case and the consideration of the, quotation mark, "competitive environment", end quotation mark.

These Intervenors believe that Centra is leaving money on the table by not implementing the IGC report immediately. More importantly, however, Centra is at this late date acting unreasonably in delaying its determination as to whether to proceed with these key recommendations made by IGC.

So CAC/MSOS recommends that this Board order Centra to complete its business case on an expedited basis and that any decision that Centra executive -- Centra's Executive Committee makes concerning salt cavern storage should be communicated to the Board so that a decision can be made as to whether a hearing is necessary prior to the execution of any agreement to begin construction.

These Intervenors do not want to hear at a subsequent proceeding that the Board's jurisdiction is restricted to proving the cost consequences.

This Board and Centra would benefit from a public hearing wherein outside experts, independent experts are allowed the opportunity to comment on the merits of this specific proposal.

Having said that, these Intervenors are satisfied that in a general sense, moving head -- moving ahead with the recommendations isn the IGC report would be prudent.

What needs to be considered are the specifics and details associated with this major $15 million capital project.

Turning to gas supply and transportation contracts.

THE CHAIRPERSON: Mr. Saxberg, perhaps it would be time to take a break now?

MR. KRIS SAXBERG: Sure.

THE CHAIRPERSON: Probably be a good point. We'll come back in, say, fifteen (15) minutes.

--- Upon recessing at 10:26 a.m.

--- Upon resuming at 10:46 a.m.

THE CHAIRPERSON: Okay. Welcome back everyone. Little bit of housekeeping. Centra has replaced exhibit -- or Undertaking Number 15, Exhibit 20 because there's some problems with the scanning so it's just a different version of the one that was already referred to.

Mr. Saxberg, you're back up again.

MR. KRIS SAXBERG: Thank you, Mr. Chairman. And now onto the new gas supply and transportation contracts. On August 25th, 2004, Centra filed a new primary gas supply contract with the Board and that was with Nexen Marketing.

Centra also renewed transportation contracts with TransCanada Pipelines. In addition, Centra re-negotiated its storage contract with ANR Pipelines and negotiated new transportation contracts with Great Lakes Gas Transmission.

The major changes to the Nexen Gas Supply contract are as follows:

Number 1. Base volumes have been increased and these Intervenors acknowledged that that is an improvement.

Number 2. Price for tier 1 and tier 2 swing gas have been increased.

Number 3. The contract is for a three (3) year with an option to extend for an additional one (1) or two (2) year term.

Number 4. [Significantly] All quantities purchased are restricted to use by customers of Centra and cannot be resold on the secondary market.

The cost consequences of the new Nexen contract are as follows:

Number 1. Capacity sales revenues will decline. The estimate provided in the Application was that they would climb by two hundred and fifty thousand dollars ($250,000) per year. However during testimony Mr. Stephens provided information that the five (5) year average of capacity sales was in the order of four hundred thousand dollars ($400,000) per year; that's at transcript page 639.

It's reasonable to assume that this five (5) year average would be more indicative of the lost revenue associated with the new contract. And I think that Mr. Stephens agreed to that at least implicitly when I was calculating the total cost consequences of the new contracts.

Number 2. The increase in swing supply prices will increase gas costs by approximately four hundred thousand dollars ($400,000) per year.

So therefore the total estimated cost consequences of the new Nexen contract are approximately eight hundred thousand dollars ($800,000) per year. Centra used an RFP process to select its next supplier. At Tab 3 Attachment 5 of the Application, Centra included summaries of the request for proposal responses.

Summary comments of the eight (8) proposers lead these Intervenors to wonder why Centra didn't share the gas supply contract volumes among three (3) suppliers to maintain a spirit of competition for future contract re-negotiating purposes.

There were at least three (3) vendors that were competitive with Nexen. Vendor number 1 offers very competitive terms and would be able to offer the same degree of confidence as Nexen. The only difference is that Vendor number 1 wanted a commission of five cents (5) a gigajoule on all base and swing volumes.

Centra could readily have taken conditions in the Nexen proposal and proportioned them between -- by one-third among the three (3) vendors. If this happened, Nexen might even have been persuaded to reduce their commission for Number 2 swing gas of five (5) cents a gigajoule.

The second vendor is obviously a competent gas marketer, prepared to charge only a minimal commission for swing gas. Here again, if Centra produced a detailed contract proposal, it is likely that Vendor 2 may have been inclined to negotiate.

Vendor 3 also appears to be equally competent, having sold spot gas at Empress to Centra in the past. CAC/MSOS are of the view that Centra's RFP process may have restricted the Company's ability to acquire a diverse portfolio of suppliers. The RFP itself required proposals to submit bids to supply Centra's entire gas supply needs.

For instance, the RFP analysis for Vendor 3 indicates, under the heading Completeness of Proposal, quote:

> "As stated in the RFP, Centra requires a proposal which will supply entire primary gas requirements of approximately a hundred and seventy-five (175) gigajoules a day, excluding WTS; therefore, the proposal was incomplete and does not meet the RFP

requirements."

Centra's RFP was drafted after the IGC report was completed. The IGC report, as noted previously, recommended that Centra diversify its portfolio. The RFP document is clearly offside with that recommendation and it appears that within the decision matrix, to determine the new gas supplier, there was a penalty for proposers who offer to supply anything less than a 100 percent of Centra's gas supply needs. It should have been the exact opposite.

It was suggested during cross-examination that Centra could have initiated multi-party negotiations to realize the diversity of suppliers at a, perhaps, cumulative lower cost. Mr. Stephens disagreed with the suggestion, indicating that the RFP process was all one needed in order to best ascertain the most competitive market pricing. These Intervenors respectfully disagree.

Intuitively, one would expect that holding multiple contracts would keep each of the suppliers in check. Over the long run, competition between these suppliers may drive prices down. Associated benefits include developing relationships with multiple parties, which would increase Centra's understanding of the competitive forces at play, and, of course, multiple suppliers increase the security of supply.

Mr. Stephens testified that during the RFP process, he had limited contact with the proposers in order to avoid the impression that the process was tainted. One has to wonder whether discussions with other favourable vendors, in the absence of an RFP process, about the specific requirements of the Utility, may have resulted in proposals that were more favourable than the Nexen contract.

Ultimately, Centra chose Nexen to provide the full measure of its gas supply because Nexen's price was contingent upon supplying all of Centra's gas, or at least the proposal was contingent on that fact. Had the RFP been worded in compliance with the IGC recommendations, that threat may not have materialized.

Turning now to the ANR Pipelines Great Lakes Gas Transmission Contracts, the most notable change is that Centra's previous back haul service, which was provided on an interruptible basis, has been replaced with a firm back haul service. Changing the back haul service from interruptible to firm will result in a cost increase of approximately two hundred thousand dollars ($200,000) relative to the current arrangement, and that's American dollars.

The primary reason that Centra changed its back haul service from interruptible to firm, at the increased cost, was because of a perception that there was a significant risk of decontracting on the Great Lakes System. Centra indicates that this decontracting may result in some risk that the back haul service would not have been available in the future.

Mr. Stephens testified that the level of risk associated with decontracting turned onto what TransCanada Pipeline would do in the future with respect to its business. TransCanada Pipelines is the largest contractor on the Great Lakes system. They move approximately 1.5 million gigajoules per day out of a total capacity of 2.2; that's at transcript page 616.

Mr. Stephens testified that marketers and other members of the tolls task force are pressuring TCPL to decontract. However, Mr. Stephens acknowledged that he has no evidence with respect to TransCanada Pipelines' intentions. To the contrary, he was aware of an initiative by TransCanada to maintain its capacity on the Great Lakes system including promoting a new hub on the northern portion of -- portion of the line called the North Bay Hub.

Mr. Stephens testified that if TCPL was successful in doing so, then some of the pressure would ease, and that's at transcript page 618. To date, TransCanada has not shown any indication that it would be prepared to reduce its capacity on the Great Lakes system.

Centra's concern that the security of its interruptible back haul arrangement was in jeopardy seems to be overstated. Moreover, IGC did not identify this risk as being substantial enough to even mention in the report. This notwithstanding the fact that the events that Centra describes in its Application on this matter were present as far back as the year 2000, and that's something that Mr. Stephens confirmed at transcript page 619.

Clearly, any concern raised by ANR Great Lakes during the general discussion that Mr. Stephens mentioned about interruptible back haul being at risk would have been self-serving. Centra should have consulted with an independent objective third party expert like IGC as to whether the risk was substantial enough to require a switch to firm back haul at a cost of two hundred thousand dollars ($200,000) American.

Concerning the reworded ANR contract, Centra states that it will not be paying any more as a result of the new contract. Then contention is that the contract simply is an updating of the language that provides for a more precise compliance with FERC requirements.

It appears, from our perspective, that Centra has missed out on an opportunity to negotiate changes to the ANR agreement to achieve some of the recommendations in the IGC report with respect to increasing ANR storage.

However, we are pleased to hear that Centra considers that ANR at least owes it one and that there is a good working relationship that will bode well in terms of any future contract renegotiations to add more ANR storage capacity while decreasing the amount of required deliverability as recommended by IGC in their report. CAC/MSOS supports Centra's renewal of the two (2) existing firm service transportation contracts with TCPL.

So, in conclusion in this section, CAC urges the Board to carefully consider the additional more than $1 million in gas costs that arise as a result of the new gas and trans -- gas supply and transportation contracts.

Turning now to unaccounted-for gas, and I wish I could simplify this issue by indicating to all present that I'd found the elusive unaccounted-for gas, and I checked my colleague, Brian Meronek's office but it wasn't there.

UFG is a problem common to all LDCs. It represents approximately 1 percent of Centra's annual revenue requirement and it's defined simply as the difference between the amount of gas received and the amount of gas delivered. Essentially, it's unbilled gas.

Measuring UFG is anything but an exact science. Mr. Barnlund testified that calculating UFG is difficult and trying to find the components that make it up are difficult as well; that's at transcript page 964.

Centra has undertaken a comprehensive study to identify the causes of UFG. The study was only able to identify 55 percent of the estimated amount of UFG on

Centra's system. That leaves 45 percent unexplained.

CAC/MSOS supports Centra's proposed allocation of UFG but only with respect to the 55 percent of identified UFG. Centra's UFG study is the best evidence this Board has before it of the most appropriate direct allocation of UFG to various customer classes.

However, for the remaining 45 percent that is unexplained by the study, CAC/MSOS is of the view that these volumes should be allocated based on a pure, unweighted volumetric basis.

The existing methodology allocated UFG on a weighted volumetric basis.

Centra concedes that this methodology is different than the approach taken by most other gas distribution companies in Canada to date. Most LDCs, Centra concedes, allocate UFG to customer classes on a purely unweighted volumetric basis.

And that's the way Centra used to do it, prior to 1996 and that information was -- comes from Undertaking 17.

Centra's position is that the 45 percent unexplained UFG is a common cost for all customers and customer classes of Centra. The golden rule of cost causation suggests that costs are first directly assigned where possible, and the remaining costs are allocated.

Centra agrees that with respect to the 45 percent of unknown UFG it must be allocated, because it cannot be directly assigned.

Centra's proposal is to allocate that 45 percent unexplained UFG in the same manner as the explained portion of UFG identified in the report.

At CAC/MSOS Centra-48-B, Centra was asked to provide any evidence that the unidentified UFG is lost in the same manner as the identified UFG is. Centra's response was, that due to the nature of UFG, there is no conclusive evidence as to how the unidentified UFG is lost.

Mr. Barnlund testified that while his estimate of identified UFG is conservative, there is no conclusive evidence one way or another as to how the remaining, unaccounted-for gas originates.

And UFG is forecast on a volumetric basis. All things being equal, the more volumes, the higher estimate of UFG. Thus there's a strong correlation between volume consumed and the amount of UFG attributable to a particular customer class.

With respect to the 45 percent unexplained UFG, CAC/MSOS strongly recommends that the Board allocate UFG on a purely volumetric -- volumetric basis.

The fact that most other LDCs do it this way is good -- a good indication that a volumetric allocation will result in fair and reasonable rates.

Simplot's proposed that its allegation -- allocation be reduced from the proposed 5.7 percent to 2.8 percent of UFG and evidence has been filed that Simplot is responsible for less than 1 percent of Centra's UFG.

But that evidence is based on five (5) proposed allocators or measures which bear no direct relationship to the cause of UFG. Three (3) of the measures are physical measures and two (2) are based on financial indicators.

Dr. Reading's testimony was that taken cumulatively, these measures or allocators indicate that Simplot's share of UFG is less than 1 percent. Because certainly taken individually, they don't accomplish anything.

David Hawk's evidence adopts Dr. Reading's position and adds one (1) further indicator, the replacement value of assets being used to serve the Simplot Brandon plant.

Mr. Hawk's information is that the value of assets is in the order of 10 million which represents approximately 2.8 percent of Centra's rate base. It's -- it's worthy of note that Dr. Reading had not even considered this measure or allocator in his evidence.

None of the allocators or measures recommended by Simplot bear any relation to causes of UFG. For instance, if replacement value as a percentage of rate base were used to allocate UFG, then any changes which impact rate base would affect the allocator.

Contributions in aid of construction would reduce rate base and increase the allocation of UFG as would changes to the working capital allowance similarly impact the allocation of UFG.

On a practical note, if this Board approves Simplot's recommendation to reduce its allocation to 2.8 percent, Centra is left, and perhaps the Board is left with determining who's going to pay for the rest of the UFG costs on the system.

Simplot suggests that it would be allowed -- that it should be allowed to directly measure its UFG. The company proposes that extra meters be installed in order to specifically measure whether its contribution to UFG is 5.7 percent.

Mr. Barnlund testified that it is not possible to isolate one (1) customer out of a system and accurately determine their unaccounted-for gas. That's at transcript page 977. Even if Simplot could -- could directly measure its UFG, its direct measure allocation would not be fair to other customer classes since Simplot holds a favourable location on the Centra system.

As indicated in Centra's rebuttal evidence, Centra’s existing methodology, commonly referred to as postage stamp rate making, treats all customers with similar characteristics equally, no matter where they choose to reside in the Centra service area. Cust --- customers in any given rate class must receive the same level of service and pay the same uniform rates.

The fact that Simplot is the only customer in its class does not mean the distance -- that a distance -- distance-based allocator would be appropriate. If there were other customers in the class, then Simplot’s favoured location on the system would not be allowed to be taken into account to maintain the principle of postage stamp rate making.

And one (1) further point with respect to Simplot’s proposal, CAC/MSOS does not consider that it would be fair to other customers and customer classes if Simplot could, because of the nature of the system serving it, -- or other -- or for other reasons -- directly measure its UFG when all other customer and customer classes must receive an allocation based on estimates and judgement.

Notwithstanding Simplot’s desire to direct measure its UFG, it has not presented any evidence in this hearing that Centra’s analysis is out of line with the actual functioning of the meters at the Simplot plant. As a result, CAC/MSOS opposes Simplot’s request to direct measure its UFG and similarly, the request to reduce the allocation to 2.8 percent.

Undertaking 19 was to provide a table similar to Attachment C from PUB/Centra 14 which illustrates the results of using a combined weighting wherein 55 percent of the UFG is allocated on the basis of Centra's report, and forty-five (45) is allocated on a volumetric basis. I have attached Undertaking 19 as Tab N in my Book of Documents, and you have to flip to the very last page to see the chart that I'm bring to your attention.

CAC recommends that the Board order Centra to adopt the proposed weighting indicated on the right side of the page, which provides for an allocation of 35.7 percent for residential customers and an allocation of 11.5 percent for the special contract customer.

Turning to amendments to the terms and conditions of service, Centra proposed a change to the allocation of account -- payments. And I want to refer the Board to Tab O in the Book of Documents which contains the language proposed by Centra to effect a change to the allocation of account payments.

And when I read this language, it struck me that Manitoba Hydro was attempting to gain a priority for its finance and rental debts, that those debts were to be paid first but during the Hearing the intention of Manitoba Hydro was clarified by Mr. Warden. He indicated that the language was intended to convey importantly, that all debts would be of equal importance -- that the three (3) broad groupings of charges would be paid on a pro rata basis.

Mr. Warden confirmed on the record that if there was any uncertainty with respect to how these provisions would be interpreted, then Manitoba Hydro would make any necessary changes to ensure that its intention was understood.

CAC/MSOS takes the view that the current wording is not clear and that Manitoba Hydro should be ordered to rewrite these provisions in order to clearly state that all debts will be treated equally and that credits will be applied pro rata between the three (3) items you see at Tab O.

The provision is also unclear with respect to the right that customers have to a choice with respect to which accounts they want to pay first if they are only making a partial payment.

For arrears of equal vintage, it was Hydro’s intention to allow customers to make a choice with respect to which account their partial payment would apply. It is only in situations where the customer has not made an election that all debts should be treated equally on a pro rata basis. And that’s at transcript page 1203.

CAC/MSOS recommends that Centra provide check-off boxes or some other convenient method for customers to make that election.

The other proposed amendment to the terms and conditions which concerns these Intervenors is the request of Centra to move from a fixed labour rate for miscellaneous services to various cost-based rates, depending on the nature of work performed.

CAC/MSOS opposes this amendment because it allows for variable labour rates which are solely at the discretion of the Company and which would not be approved by this Board.

Manitoba Hydro has testified that it reviews its fully loaded cost-based rates on a quarterly basis. The upshot is that there could be a new rate established without the approval of the Board each quarter.

Centra was provided -- has provided a table with some of the various cost-based labour rates that would be charged for miscellaneous work. That table indicated that, for the most part, Centra was requesting an increase in the labour rate from the current approved rate of fifty-five dollars ($55) an hour to seventy-four dollars ($74) an hour.

These Intervenors strongly urge the Board to retain their jurisdiction to -- to review and set these charges. The Board must maintain its supervision of the

Company to ensure that the specific labour rates being charged are fair and reasonable.

There should also be some consideration as to whether those labour rates are reflective of market costs. In this Proceeding, Centra did not provide any evidence at all to justify the increase in these labour rates. Moreover, Centra has not provided a full schedule of the rates that it proposes to charge and we don't even know what all the rates are for all of the different services.

During cross-examination, Centra indicated that the schedule set out at CAC-22 was just to provide some information as to the types of services provided; it was not a complete listing of the rates that would be charged to customers. And that's at transcript page 1216.

It may be the case that the Board approved the overall Centra method -- or Hydro methodology to allocate O&M costs between Hydro and Centra.

However, setting specific rates for these types of services is another matter and Mr. Warden conceded, in any event, that the specific fully loaded rates for different functions have not been approved by the Board. And that's at Page 1213 of the transcript.

Turning now to the $16.5 million refund to customers. In this Application, Centra is seeking approval to refund the supplementary gas PGA -- PGVA and other gas cost deferral accounts in the amount of 16.5 million owing to customers.

Two (2) issues arise in that regard. Should the refund be made as a single lump sum payment to -- customers or as part of a rate rider spread out over the course of nine (9) months? That's the first issue.

The second is: If it is a rate rider, then should that rider be embedded in the supplemental -- supplemental gas rate as has been the past practice or as part of the distribution rate, as proposed by Centra in its updated Application?

I'll begin with the first issue, which is lump sum refund or the nine (9) month rate rider. Using a rate rider to refund customer overpayments to Centra can result in inequities, the most obvious being that new customers who join the system will benefit from a -- from the refund, even though they did not contribute to the overpayment.

Second inequity is that the refund is based on current year usage, whereas the overpayment arose from prior years usage.

Finally, another negative aspect of using a rate rider to refund is that customers have to wait to receive the full measure of their refund.

With respect to refunding by way of lump sum payment, Centra acknowledges that -- that it had considered that option. A lump sum refund would eliminate inter generational inequities. It would also allow Centra to refund based on volumes consumed in the year the overpayment was made.

Lump sum refunds increase the accuracy of the refund. They make that the refund goes to the right customers or customer classes. And to dovetail this with the discussion into the next issue, a lump sum refund would cure Centra's concern that the supplementary gas rate rider will disport -- will distort the supplementary gas rate.

Finally, and most importantly to many clients, they would enjoy receiving the refund in one (1) lump sum -- sum payment and that way they could spend it or invest it as they see fit.

Now the total amount of the lump sum payment is modest - to the typical residential consumer it would amount to thirty-one dollars and thirty-five cents ($31.35).

It's conceded that, although that number is not large, there are other customers who would receive larger refunds, based on the amount of volume -- the amount of gas they used.

In other jurisdictions, LDCs refund on a lump sum basis, Centra itself has done it here on two (2) occasions. It's not an administrative burden. Centra's primary retort is to suggest that if this was a debt owing the Company rather than a refund to customers, consumer advocates wouldn't be suggesting a lump sum payment.

But I would suggest that there's a major difference between the Company's financial circumstances and ability to absorb a delay in repayment, compared to the financial circumstances of most typical residential customers, particularly in light of high gas costs.

It is not necessary -- necessarily the case that it's a double standard to refund over payments by way of lump sum, and to collect under payments through rate riders. In terms of public relations, the lump sum refund would surely impress customer -- Hydro customers.

Centra also states that it would be an administrative burden to refund on a lump sum basis as a result of unbundling.

However, Ms. Derksen conceded that the entire thirty-one dollar ($31) refund could be credited towards the customer's distribution charge on a single bill. If that were done a bill stuffer could provide information explaining the refund, and that's at transcript page 1272. Surely, there are other creative approaches to facilitate the one-time lump sum refund.

Having said that, CAC/MSOS is not opposed to the refund occurring by way of a nine (9) month rate rider. However, it is my client's preference to see the refund paid out in a lump sum without it having -- without it forming a precedent for lump sum repayments by customers to Centra.

With respect to the second issue, CAC/MSOS supports Centra’s proposal to embed the supplementary gas rate rider into the distribution volumetric charge for all customer classes, except for the mainline class. These Intervenors agree that the supplemental gas rate rider distorts the supplemental gas rate and leads to confusion among customers as to why the supplemental gas rate varies so much from the primary gas rate.

Of course, if the refund is effected by way of lump sum, then there would be no rate rider and no distortion, as I mentioned earlier.

Briefly, on the topic of demand side management, Centra indicated in its evidence, that it had an initiative in the works and Centra, CAC/MSOS encourages Manitoba Hydro to continue to offer programs to assist low income customers and others to achieve greater cost efficiencies by allowing for affordable financing of high efficiency furnaces and programs to renovate homes and keep the heat in and the cold out.

My clients want to ensure, however, that program costs are transparent and that there is accountability with respect to how the money is spent.

There was some -- a brief discussion

concerning -- during the Hearing concerning Hydro's 6.5 percent financing rate. On the surface that rate appears high relative to Hydro's ability to borrow on a short term basis, and that may be something that these Intervenors would address when Centra unveils its new demand side management initiative.

CAC/MSOS also encourages Manitoba Hydro to extract as much money as it can from the Federal Government and Provincial Government to assist with this worthwhile initiative.

In terms of the high volume from rate design, CAC indicated at the Pre-Hearing that it was not going to take a position on this matter. However, in information requests and during cross-examination, there was some discussion with respect to whether residential customers' basic monthly charge should be increased to more accurately reflect the fixed costs associated with providing service.

CAC/MSOS was encouraged by Centra's position that it had no interest in adjusting the ten dollar ($10) basic monthly charge. Mr. Warden confirmed, on the record, that those customers that are least able to pay an increase -- for those customers that are least able to pay an increase in the basic monthly charge would have an impact, and that -- and he indicated that Manitoba Hydro is sensitive to that.

These Intervenors strongly oppose any

adjustment to the basic monthly charge and would urge the Board to hold off any deliberations on the issue until there was an application by Centra in hearing into the matter.

CAC/MSOS notes that maintaining a low fixed monthly charge acts as an incentive to customers to reduce their gas usage. An increase in the basic monthly charge would work against Hydro's initiatives to encourage demand side management. And that was confirmed at transcript page 1278.

With respect to the one bill initiative, these Intervenors support the synergy savings that can be achieved from a single bill for natural gas and electric service. Manitoba Hydro expects to issue the first of the one (1) bill for customers who have both natural gas and electric services in November of 2005 and CAC/MSOS welcomes Hydro's invitation to participate, or at least observe the focus groups that will review the new one-bill design.

We are also encouraged by Centra's comments that it will attempt to simplify the bill while not eliminating any information that is currently contained on the bill. I should note that that was one of the useful recommendations that flowed from the otherwise maligned Western Opinion Research Survey.

One final note on the subject, is that CAC/MSOS would encourage the Board to order Centra to file the proposed one (1) bill design at next year's GRA. The Board and Intervenors should be given the opportunity to provide input or critique with respect to the bill format prior to its implementation.

Whether or not Centra is required to seek Board approval is not the issue. The point is that Hydro's bill is the first and primary point of contact between this Company and its customers. And one would expect that customers would presume that this Board would have some input into the presentation of the bill in order to ensure transparency and understanding.

And finally, just a few miscellaneous matters. Of course these Intervenors are pleased that this Application will result in a modest rate reduction of 3.9 percent, however, the Board should note in its Order that the actual decrease in rates is only .7 percent.

The balance of the decrease relates to the refund of the $16.5 million over-collection, which flows from fortuitous circumstances, including higher than expected capacity management revenues and favourable weather conditions.

And in any event, in nine (9) months, if there's a rate rider, rates will go up by 3.2 percent. So the customers should at least be advised that this rate reduction is definitely temporary.

Concerning Centra's forecasted 2004/05 non-primary gas costs of $83.4 million, CAC/MSOS encourages the Board to require Centra to file an update taking in to account all actual costs incurred up to October 1st, 2004. When available, the most updated information with respect to gas cost forecasting should be used.

CAC/MSOS does not oppose Centra's request for approval of the 2003/04 gas costs summarized in Schedule 5.0.0 update. We do reiterate our concern with respect to the anomalous hedging transaction which occurred in January of 2003, for the month of 2004, without recommending a disallowance, we encourage the Board to reflect on that transaction during its deliberations.

And a small matter in connection with Tab P in my book of documents, that's the copy of the bill. It was noted during cross-examination that the rates indicated on the natural gas bill were not listed in a consistent order, that, i.e. either old rate to new rate or new rate to old rate.

In answer to Undertaking No. 26, Centra has indicated that the rate components are currently categorized on a lowest to highest rate basis. And you can see that, then, from the bill at Tab P.

Centra notes that it's possible to re-sort by rate effective date and CAC/MSOS would encourage that change in order to reduce customer confusion as to in what direction rates are going, whether they're going up or going down, when customers get their bill.

With respect to capacity management results CAC/MSOS was encouraged by Centra's performance this year which resulted in net capacity management revenues of $6.27 million. Centra is encouraged to work as diligently this year as it did last year to maximize capacity management revenues.

With respect to the forecast for capacity management revenues these Intervenors recommend that the Board use a three (3) year average rather than a five (5) year average of capacity management results.

The result would be an increase in the forecasted credit of capacity management revenues from $3.25 million to approximately $5 million. Given the success of the program over the last three (3) years, a forecast of that amount would seem reasonable and would provide consumers with a greater rate decrease.

Centra should be required to notify the Board in quarterly rate applications of billing percentage adjustments between supplementary and primary gas because they do impact the amount that a customer pays in that month for gas.

And finally, with respect to future

regulation, CAC/MSOS reiterates its position set out in Mr. Meronek's letter of May 31st, 2004 which was marked as an exhibit in these proceedings along with several other letters.

In short, our position is that until there is a legislative amendment, the Board is required to regulate Centra on a rate base rate of return methodology.

This Board has made that finding on two (2) previous occasions. In particular in Board Order 146/99 the Board recommended to -- to the legislature that there should be certain amendments to the legislation as a result of Hydro's purchase of Centra Gas.

Centra has indicated on the record in these proceedings that it will be filing its GRA application based on both a cost of service methodology and a rate base rate of return methodology.

CAC/MSOS welcomes the opportunity to review the differences in cost implications that may arise out of these two (2) forms of regulation. While CAC/MSOS does not have a final position on what is the best appropriate methodology they recognize that there are several options which could be canvassed fully if this Board intends to make another recommendation to the Government of Manitoba.

In the meantime, this Board should maintain its stringent oversight of Centra Gas, notwithstanding the fact that it is now a subsidiary of a Crown corporation.

I note that -- that your remarks, Mr. Chairman, at the beginning of this process that Centra's decisions and operations are subject to a number of oversight bodies and processes and you said that shouldn't affect the importance of this Board's function and I agree.

I'd also indicate and add to that, that those other bodies are certainly not tasked with the particular responsibility of this Board to set rates that are just and reasonable and in the public interest.

And with that said these Intervenors welcome a more intense and comprehensive dialogue with respect to future regulation at Centra's upcoming general rate application.

And -- those are my comments.

THE CHAIRPERSON: Thank you very much, Mr. Saxberg.

MR. KRIS SAXBERG: Thank you.

THE CHAIRPERSON: We'll move now to Mr. Carroll for MacDon.

FINAL SUBMISSIONS BY MR. BILL CARROLL:

MR. BILL CARROLL: Thank you, Mr. Chairman, and good morning, good morning Board Members, Ladies and Gentlemen. Mr. MacDonald is out of the country this week and sends along his regrets.

We have prepared some closing comments that hopefully will provide some food for thought for the Board Members during their deliberations. Mr. Singh is passing out copies of them now. And I would like to read them into the record at this time.

My client, MacDon Industries Limited became an Intervenor in these proceedings because of their concern over utility costs, which are an important component in their cost base, and because of their concern over the larger picture, that being the competitiveness and sustainability of the business climate for manufacturing industries in this province.

We knew that participation in this process would not be easy and believe that the absence of other manufacturers from participating should not be taken as a sign of their satisfaction with the subject proposal.

The specific matters of interest to MacDon are the changes to the demand rate charge methodology and the change to the unaccounted for gas weighting. Both of these changes have negative cost implications for MacDon.

Some other ancillary matters came to light throughout the course of the Hearing and will be touched upon.

Demand rate charge methodology: We disagree with the proposal put forward by the Utility to move to a daily peak charging methodology for the following reasons:

1) The new system will constrain our ability to run occasional extended shifts during the winter, which is MacDon's busiest production time. Further, the new system interferes with our ability to plan the work in an unfettered manner.

2) The gas use pattern that was demonstrated in our submission is not readily changed. Natural gas demand charges are unlike electricity demand charges where we were able to put in place state-of-the-art power factor correction systems to manage and control our costs.

3) The majority of costs for demand charges are not recovered from the majority of customers by way of demand charges. The rationale given for this apparent disconnect is understandability and metering capability.

4) The ability the measure a daily peak demand is not, in our view, sufficient justification to use it as a charging mechanism. The imposition of this methodology creates a situation where half the customers are winners and half of the customers are losers without knowing what implications the change has in the bigger picture, i.e. on the customer's business practices. This change seems to target the large industrial user with low load factors.

4(sic)) The change has a greater impact upon low load customers who typically are using the commodity as production input and not just for space heating. Production use typically creates larger peaks and valleys in gas use patterns. There does not appear to be an appreciation for the fact that production fuel is less easily managed than heating fuel.

On the other hand, production fuel leads to economic spinoff into the community. The notion that this use pattern is a business reality does not address the underlying issue.

6) Is it -- it is admitted by the Utility that the cost allocation methodology is not an exact science and significant scope exists for policy judgements to be made. These judgements should take into account factors such as the end use of gas.

7) We believe that the current trend towards fine tuning the cost allocations ultimately takes all of the balance out of a system that is designed to serve a community, not just the individual customers in the community.

Just as no two (2) residential customers are alike, no two (2) industries are alike and the same arguments can be made for a balanced approach in dealing with them. Just as we don’t want seniors to be put out of their homes, we don’t want industry put out of theirs either.

8) We have demonstrated in our submission that the impact on industry is greater than that shown in the impact analysis and the Utility agrees our calculations are essentially correct. We believe that the ultimate ongoing impact for industry is that which occurs after the rate riders disappear in nine (9) months and that impact is a real increase to gas costs.

Unaccounted-for gas weighting: We disagree with the proposal put forward by the Utility to adjust the unaccounted-for gas weighting for the following reasons:

1) This change will add another 0.5 percent to the cost of our natural gas and is not justified by the analysis conducted.

2) The -- Utility study was well-intentioned but only identified or rationalized 55 percent of the problem which caused a shift in the high volume firm weighting from 4.3 percent to 8.8 percent. The Utility says it cannot determine if identifying the remaining 45 percent of the problem would bring about a reverse shift in the high volume firm weighting.

3) Of the identified portion, over 70 percent of the problem is found in the metering. We were told that the Utility has installed new expensive metering at all of the industrial customers, in preparation for moving to daily peak demand billing.

We would think that this should help, not hurt the weighting. At the same time, the weighting for the SGS and LGS classes, where all of the old small meters are, go down. This does not make sense to us.

4) Given that almost half of the problem remains unaccounted for, it does not seem reasonable to bring about a shift in cost responsibility.

Other matters: We think that delaying the implementation of a proposed cost increase does not cancel out the need to make refunds to customers for past over payments.

And I might comment here, that inherent in this plan is the huge assumption that the Board is going to approve going to peak day, and of course, this is a matter that the Chairman and I have traded views on earlier in this Hearing.

2) We would like to see the Utility be more flexible with its metering policy. We think that having more than one meter, i.e. one for production gas and one for space heating, may be advantageous and this option should be allowed.

3) We encourage the Utility to begin using workshops to transmit needed information to its large industrial customers.

4) We encourage the Utility to be more pro-

active in working with industry to find ways to save energy and to create win-win incentive programs to foster energy conservation.

5) Finally, any move to increase to present demand charge to 100 percent, will only exacerbate the concerns outlined above and should not be undertaken.

Conclusion: Some of the concerns outlined above are self-serving, while others are voiced in the interest of preserving a market place that remains cost effective for all manufacturers.

Global competitive pressure makes the days of passing along input cost increases to customers, history. These costs must now be absorbed and eventually the viability of the industrial base is eroded.

We could list here a number of large industrial manufacturers in this City and Province who are on the brink of collapse or who have moved their operations elsewhere. We all know who they are.

The City and Province cannot be sustained with retail expansion. We need the jobs and accompanying economic activity that manufacturing creates. We ask that you be sensitive to these issues in your deliberations.

In closing, we would like to thank all participants. The Centra panels were knowledgeable and acted with great professionalism throughout. Mr. Peters’ and his colleagues' thought provoking questions were very helpful, and their organizational skills made the process run smoothly.

And, finally, our thanks to the Chairman and Board Members for their tireless attention throughout the long days of testimony. Thank you.

THE CHAIRPERSON: Thank you, Mr. Carroll.

Ms. Melnychuk and Mr. Brown, I'm just trying to get a grasp on how much time that you think will be required as to whether or not we should carry on right now or adjourn for lunch; what's your thoughts?

MR. DAVID BROWN: I would say thirty (30) to forty (40) minutes.

THE CHAIRPERSON: Then let's begin.

MR. DAVID BROWN: Thank you very much, Mr. Chair, Members of the Panel. I appear today on behalf of Direct Energy Marketing Limited --

THE CHAIRPERSON: Mr. Brown, excuse me, let's just take a two-minute break, okay.

MR. DAVID BROWN: Certainly.

--- Upon recessing at 11:38 a.m.
--- Upon resuming at 11:42 p.m.

THE CHAIRPERSON: Okay, welcome back. Ms.

Melnychuk, Mr. Brown...?

FINAL SUBMISSION BY MR. DAVID BROWN:

MR. DAVID BROWN: Thank you very much, Mr. Chair, Members of the Panel. As I mentioned, I'm acting on behalf of Direct Energy that operates here in Manitoba as Municipal Gas.

First of all, I want to thank the Board once again for its courtesy and accommodation during the course of these Hearings.

For the purposes of today's final submissions, Direct Energy wishes to make submissions on four (4) points. Firstly, the new primary gas supply contract entered into by Centra with Nexen.

Secondly Centra's proposed changes to its billing system to move to an integrated billing system.

Third, some comments on the future regulatory regime for Centra, including the issue of Centra offering more than its quarterly adjusted default supply service.

And then fourthly, and I see this fourth point linked to the third point in terms of the role of Centra, the fourth point is Centra's ongoing primary gas advertising campaign and the -- the costs associated with that.

In terms of each one of these four (4) points I intend to make some submissions, but at the end of each section, there's some very, what I hope are, concrete and practical recommendations and submissions that I will be making to the Board on behalf of my client in terms of how one goes forward.

So, dealing with the first issue, the -- the new Nexen marketing primary gas contract. There's a historical background to the submissions that I wish to make on that point. As this Board knows, it approved the WTS service back in its 19/00 Decision.

Prior to then the mechanism by which customers could access direct purchase, particularly at the low volume level, was through the buy-sell contract which, as the market evolved, became very cumbersome.

In 2000, the Board approved a new kind of service for core customers, and that is the western transportation service, which is now found in Section 7.A of Centra's Terms of Service.

And the WTS is now the primary means by which core and other low volume consumers are able to engage in the direct purchase of gas, largely from the western Canadian sedimentary basin.

In terms of the WTS service, although Centra's terms and conditions of service set out some very specific terms for that service, that service, in my submission, must be understood in the -- against the background of Centra's own primary gas contracting practices.

And the reality of the market here in Manitoba and also in other jurisdictions is that the terms and conditions upon which the utility, in this case, Centra, contracts for its own primary gas supply, have a very substantial effect on the ability of consumers within any franchise area, to enter into direct purchase arrangements on their own behalfs.

So the viability of WTS depends not only on the specific terms and conditions that you see for WTS service in Centra’s terms and conditions, but also on the terms and conditions that Centra engages in when it contracts for primary gas supply.

Now going back a bit in time to 1998, that was really -- 1996/97 and the Decision in ’98 was the last time when this Board really took a comprehensive look at the state of the competitive natural gas market in Manitoba. And it sort of gave a lay of the land assessment at that point of time.

In its Board Order 15/98 portions of which I included at Tab 1 of Direct Exhibit Number 3. The Board enumerated a number of different factors which it thought had to be met in order to improve the competitiveness of the natural gas market. A number of these were consumer related, price transparency, education, and those sorts of things.

Some of them however were also operationally related. And at page 67 of Board Order 15/98, the Board identified some operational impediments to a fully competitive market in Manitoba. And I'll just quote from one (1) passage at page 67 of its Decision. The Board wrote:

> "The Board has previously stated its view that the changes required to bring about a fully competitive commodity market will need to occur gradually over time and managed so that consumer protection and public interest concerns are satisfactorily addressed.
>
> Other impediments to a competitive unregulated merchant function includes Centra's long term storage, transportation, and supply contracts. The industry must take a leadership role in the process of addressing these issues. The removal of these impediments will likely occur in the long term as the natural gas industry evolves."

So in my submission, the Board quite clearly recognized that part of the conditions that are needed to move to a competitive market relate to operational matters. But the Board also quite wisely recognized that the resolution of those issues must, in large part, rest with the industry.

The Board said the industry must take a leadership role in the process of addressing these issues. And that only makes sense. The Board deals largely with accounting matters and the financial consequences of the utilities activities and the nitty gritty of the operation on a day-to-day basis of the gas system is something that the Board is familiar with.

But practical solutions in large part have to come from the -- industry participants who use those services. It’s against that background that the industry must take a leadership role in addressing the operational impediments to a competitive market, that the WTS Service was introduced.

And I would submit that the WTS Service was really the first offspring or product of good industry consultation between the utility and market participants about the development of a new gas sale service in -- in Manitoba.

And going back to 1999, there were extensive stakeholder consultations in which, I believe, Board Staff observed, leading up to a negotiation of the terms and conditions of service of WTS and some of the related aspects of the introduction of that service. In particular, the consumer education program that was associated with the introduction of the service.

And secondly, the introduction and adoption by this Board of a -- a brokers code of conduct. That's something in which Direct Energy took a major lead. WTS was a very good product of an industry consensus building process. But in my submission it was only the first step in the right direction.

It was introduced at a time when Centra was still only part-way through a number of multi year contracts it had including what was the old Nexen Marketing contract. And Centra quite understandably said at that point of time, Look we are contractually bound for the next few years, there's a limit to what we can do while we are contractually bound. So therefore, one will have to wait a bit of time before addressing new issues.

The new issues to be addressed were soon upon us and they were soon upon us in -- in two (2) ways. Firstly, the Board, back in the middle of the 1990's, had directed Centra to do the blank page analysis of its gas supply and transportation and storage portfolio. And that took time for Centra to do but come May of 2003, the analysis was finally completed.

At the same time Centra was aware that its major primary gas supply contract with Nexen and a number of its TCPL transportation arrangements were going to come up for renewal come November 1, 2004. And so, last summer, the summer of 2003 when it came to Centra's General Rate Application, this information was known to all the market participants.

That is to say that Centra had just completed a blank page analysis and that in a little more than a year, Centra was going to have to enter new contractual arrangements, which would be multi-year arrangements.

So, it was as a result of the timing of those things that Municipal Gas made some very strong submissions before this Board in the 2003 General Rate Application, that the Board should direct Centra to consult extensively with stakeholders, both in respect of what it was going to do with the results of this blank page analysis. And secondly to consult with stakeholders before it embarked upon the critical negotiation of new gas supply and transportation arrangements.

Now, I included in Exhibit 3 -- and I think I took the Panel to it during the course of cross-examination, extracts from the Board's 2003 General Rate Application. It's Board Order 118/03 and it's found at Tab 2 of Municipal -- or Direct Energy Exhibit Number 3.

And Municipal Gas tried to be very specific during the 2003 GRA as to the various elements of new contracts that Centra should take a look at and consult with market participants on and those are summarized in Section 8.5.3 of the Board's decision.

And I think I put these to -- to Mr. Stephens, but Municipal said that it -- it identified several operational limitations and they included Centra establishing the maximum daily quantity, Centra's control of daily nominations, the frequency of enrolment of WTS customers and the reduction of daily nominations of direct purchase.

And Municipal's submissions to the Board at that time were that Centra should get together with stakeholders and discuss what can be done in these areas before Centra goes off and negotiates new contracts.

Well, the Board decision came out on July 29 of 2003 and the Board took notice of Municipal's concerns but did not go so far as to direct or mandate Centra to consult with others but I think the Board used pretty strong language. You know, it's about as strong a language as a Board tends to use in these circumstances and in its Decision on page 43, the Board said, and I'm quoting:

> "The Board urges Centra to involve all stakeholders in the upcoming review of all aspects of Centra's gas supply, including commodity storage and transportation arrangements. The Board encourages the

> development of a competitive gas supply market in Manitoba and all parties should consider this factor in their deliberations."

So, in my submission, that's a pretty clear message from the Board urging the Utility to, you know, sit down and chat with the market participants about these issue.

Well, we know from the evidence that came out before this Board in this hearing that that didn't happen and that the chronology that the evidence shows is as follows: On July 29th of last year, the Board issued its Board Order 118/03 urging stakeholder consultation with the Utility. Then on August 21st, 2003 IGC submits its blank page analysis and by the end of August, Centra had filed that with the Board and also circulated it amongst the Intervenors.

Once that was done, my client -- and I believe Mr. Saxberg's client, although my memory might be a bit bad on that -- wrote to the Board urging that the Board immediately hold some sort of consideration of the blank page analysis because time was clicking away and the period -- the -- the timetable for negotiating extensions to contracts was soon going to be upon Centra. The Board took the view that the appropriate time to deal with the blank page analysis would be in the next rate case.

Well, come January of this year of 2004, Centra issued its RFP with respect to a new gas supply contract and that's detailed at the PUB/Centra IR-1A. The terms of that RFP were quite specific.

First, suppliers had to respond by January 30, 2004. That was the window of response and then secondly, suppliers were told what to respond to. Section 4 of the RFP defined the scope of work and my recollection is, is that there were four (4) specific elements that Centra requested suppliers to submit bids on.

One (1) of those elements was to maintain the quarterly displacement for direct purchase. That is to say that under the -- under the contract what Centra was asking suppliers to do was to maintain the status quo. That was in January of 2004. We know that responses to the RFP were received by January the 30th and then on March the 3rd, Centra held a meeting with gas brokers and the minutes of that were marked as Direct Exhibit 4. And then in August, Centra confirmed that it had entered into a new contract with Nexen.

Throughout Centra's negotiations with -- with Nexen and with other suppliers, Centra took the position vis-a-vis this Board and vis-a-vis participants in this Proceeding, that it couldn't get into the nitty gritty details of what they were discussing with the various suppliers because that might compromise any -- bargaining leverage that Centra had.

And that position was articulated by Centra in response to one (1) of the -- the Board interrogatories. It was -- yeah, interrogatory -- Board Interrogatory 1, sub question B (ch). So it was really only in August when they -- when Centra had concluded the agreement with Nexen that that agreement was disclosed to the Board and then there was the -- the summary of the material terms from others.

What is clear from this process, in my submission, is that notwithstanding in the GRA proceeding last summer when Municipal Gas submitted that this Board should strongly encourage Centra to consult with stakeholders on some very specific items that would form a part of any new supply contract. And notwithstanding the Board in its Decision last summer urged Centra to consult with stakeholders, no consultation took place.

The record and the evidence before this Board is quite clear. No consultation took place prior to Centra issuing its RFP in January of 2004 and then once that was done, the -- the door was closed. There’s absolutely no scope for discussion because Section 4 of the RFP was very specific on what Centra was looking for.

It would be an understatement against that background to say that Direct Energy and Municipal Gas are extremely frustrated and disappointed by Centra’s actions and by the approach which Centra took to the renegotiation of its primary gas supply contract.

Municipal Gas tried to engage in the appropriate process before this Board. It raised its concerns last summer, drew them to the Board's attention, elicited a direction from the Board, or an urging from the Board for Centra to do something and then in the result, nothing happened.

And what seems to have taken place is that the Board's efforts at moral suasion when it urged Centra to consult with stakeholders, failed, because so -- because no consultation occurred. Essentially Centra just pulled the curtains around the process and didn't say anything until a contract was actually executed by -- by them with Nexen.

My primary submission against that background, is that the industry in Manitoba can't work that way. This Board has sanctioned direct purchase in this province. Indeed, it was one (1) of the first provinces to give sanction to it.

This Board has consistently supported the availability of direct purchase for large volume and small volume customer.

This Board has been very creative and proactive in introducing new services to facilitate competition and in order for competition to occur, the utility which stands in a monopoly position, with respect to access to the pipeline, must cooperate.

There has to be an element of cooperation between the distributor that has a monopoly franchise over the pipelines and those participants who want access to, and use the pipelines for the purposes of flowing primary gas.

Whether those participants are the very large industrial customers that you've had here, or whether they are brokers who act on behalf of large customers, or whether they're brokers who act on behalf of small customers, the industry must be marked by cooperation and flexibility and lines of dialogue between the Utility and its customers, the brokers.

Because, in a very real way, the brokers are a customer of the Utility in terms of trying to get access to the pipeline for their own customers.

So the system to, I think a very major extent, is broken. One can't have a competitive market in any franchise area unless there are constructive lines of communication between the utility and participants within that particular market.

What can one do about that? Well, in terms of the issues that are specifically before this... Well, before I get to the issues that are specifically before the Board, the response that I heard in -- I think it was from Mr.

Stephens, although it may have been someone else in terms of what can one do about it, I think Centra suggested, well, it was always up to Direct Energy to come in with a bid that would have contained all of these things.

Well, bids work in a certain way. And when Section 4 of an RFP defines the scope of work and says that the proposal by any supplier will address the following issues, there's not a heck of a lot of room for flexibility, under that particular situation.

So, in my respectful submission, that's -- that's not an appropriate answer. But what can be done in this proceeding?

Well, one (1) issue that's before this Board is the cost prudency of the Nexen contract that Centra has entered into. Municipal Gas does not take a specific position on that because in large part, those costs relate to the costs of primary gas for primary gas customers and that's -- that's simply not the purview of Municipal Gas.

So, it can't make any general comment on the prudency. But, in my respectful submission, it is not possible for -- it is not possible for this Board to conclude that Centra was prudent in entering into a further three (3) year contract containing quarterly displacement terms, when Centra made no effort to ascertain whether potential gas suppliers would be prepared to contract on the basis of more frequent displacement terms and ascertain the costs, if any, that would be associated with the more frequent displacement terms.

Nor in my submission, is it possible for this Board to reach any conclusion about the prudency of Centra in entering into a three (3) year gas supply contract, which failed to address the issues of maximum daily quantity, the control of daily nominations, and the reduction of daily nominations of direct purchase gas as raised by Municipal Gas in the GRA last summer.

The situation seems to be that having introduced WTS in 2000, Centra has taken the view that no further steps need to be done to enhance or develop a competitive market in -- for gas supply in Manitoba and what you see is what you get.

Life is not like that. And certainly life in the North American natural gas industry is not like that. One can point to some developments in my -- my own home province of Ontario, where the utility regulator there, the Ontario Energy Board, is now engaged in a very comprehensive national -- natural gas forum, the first step of which, was simply to take a snapshot of certain parts of the industry.

Rate making, gas supply and storage and find out what's going on. And once we know what's going on, is our regulatory regime in sync with what's going on in the rest of the market.

So it's inappropriate in my submission for a utility, such as Centra, to effectively take the position, we don't need to do anything more. A utility always has to be open to new ways of business because its customers within the province have to be open to new ways of doing business.

And I think MacDon's representative Mr. Carroll, made that point in spades, in his submission.

In terms of the specific what to do in this Proceeding, Direct Energy and Municipal Gas have some specific requests that they wish to make of the Board.

And, in particular, they would ask that this Board make the following findings and issue the following directions in this Proceeding.

First, this Board should find as a matter of fact that Centra did not comply with the Board's urging, made in Order 188/03, to involve all stakeholders in the upcoming review of all aspects of Centra's gas supply, including commodity storage and transportation arrangements.

Secondly, the Board should direct Centra to begin Board supervised discussions with all industry stakeholders, beginning no later than November 1, 2006, in respect of the approach which Centra should take to the extension or replacement of the existing Nexen marketing contract, which terminates effective November 1, 2007.

Direct Energy recognizes that Centra is now party to a binding contract, there's really no use crying over spilled milk, to a degree in that respect.

But it's only a three (3) year contract, time moves on very quickly, and in my submission, there should be Board supervised discussions between stakeholders and the Utility, at least one (1) year in advance of the expiration of this new contract.

The third direction which this Board would request -- which Direct Energy would request from this Board is to direct Centra to prepare and file in its next rate case, or in any event, no later than March 31, 2005, a report which addresses the benefits and costs of implementing the following changes to WTS -- WTS Service.

First, alternatives to Centra establishing the maximum daily quantity.

Secondly, the alternatives to Centra controlling daily nominations.

Third, the alternatives to Centra controlling the reduction of daily nominations of direct purchase gas.

And fourth, the ability to move to the enrollment of WTS customers more frequently than quarterly.

There was much talk, or there was some talk in this Hearing about the things that Municipal Gas was asking for, would not bring any benefit or would be too costly. In my respectful submission, that discussion should not proceed in the air. Centra should prepare a report specifically addressing those issues.

Direct submits that such directions are necessary from this Board, if it wants to ensure that Centra takes the Board's directions and urging seriously.

Last summer the Board urged Centra to engage stakeholders in consultation, Centra didn't do that. So, to a certain extent, in my submission, there's an element of credibility at stake here, as to whether the Utility will follow very reasonable directions from the Board.

And there can't be any more reasonable direction, in my submission, that the Utility should talk with its customers, whether they be large industrials like Mr. Carroll's client, or whether they be brokers. You can't have business going on without people talking to each other.

And given that the Utility stands a -- in a monopoly position, one (1) of the duties that it has, because it has a privileged monopoly in the franchise area, should be to take the first steps and make sure that appropriate communications are going on with people in its franchise area.

Now, last summer in the 2003 GRA, and I guess I'm going more than thirty (30) minutes, but I'm -- at an end at this point.

Last summer, the 2003 GRA, and it’s reflected in the Board’s decision, Municipal Gas submitted to the Board that if Centra didn’t consult with stakeholders, then the Board should reduce the ROE that Centra would be asking for in its rate case.

Well, rate of return is not before the Board in this Proceeding. Rate of return may well be before the Board in an Application that’s just coming down the pipe. So Municipal Gas reserves the right to make submissions on that point at that time.

I’d then like to move to the -- to the second issue, which is the -- the billing system.

Centra is proposing to migrate to an integrated one (1) bill with Manitoba Hydro, by November of 2005. Direct Energy has no objection in principle to that migration, but Direct Energy does want to draw to the Board’s attention that that migration will impact not only Centra’s customers, but also brokers who have direct purchase customers in this franchise area.

There are two (2) specific issues that are of concern to Direct Energy, in terms of the migration. The first is the name, the customer name that will -- appear on the integrated bill.

And secondly, the movement of one (1) system of customer account numbers to a new system. That is, currently Centra's customers are all assigned an account number, at the end of that migration that account number may or may not be the account number by which the -- the customer is known.

In terms of the -- the first concern, the name on the bill, the -- the current policy of this Board is that with respect to any broker signing up a natural gas customer, the broker can only enter into a contract with the person who is actually -- whose name actually appears on Centra's bill.

Now, in terms of responsibility for bad debt, the evidence before you in this Hearing, indicates that Centra takes a slightly broader view of who it can go after in the event of a default, and it takes, I think, the very practical view, that it can go against any of the -- the adult householders, where there are essentially a husband and wife, or a couple or whatever, living in the house.

And they both get the benefit of gas service, and even if only one (1) person's name is on the bill, if you can't get the money from that person, if the other person was warm during the winter, well, they should pay for the bill, and that's very practical. Although the Board does have its own policy with respect to disconnection and appeals from -- from disconnection.

When Manitoba Hydro moves to integrate the bills, there may well be some situations where the customer name on the Manitoba Hydro bill, the integrated bill, may not be the same as the name that appeared on the Centra bill. For example, the husband's name may be on one (1), the wife's name may be on the other.

Mr. Warden testified that Manitoba Hydro planned to resolve such situations by contacting the customer directly and asking which name do you want to appear on the bill.

This integration process potentially could affect brokers in several ways.

First of all, the name of the customer with whom the broker has already contracted to provide WTS service may no longer appear as the customer name on the integrated bill. And although I suspect that wouldn't give rise to any questions of validity of existing contracts it could give rise to some very practical concerns about customer care functions with the -- the customer.

Who should you be talking to, to resolve a problem? The -- one of the -- the second impacts of this sort of migration is that if a broker has an existing contract, a WTS contract, with a customer and after the migration, the broker is not notified of who the new account holder is, then if the broker goes to try and renew its WTS contract with its existing customer and signs up with the existing customer, it may turn out that they're dealing with the wrong person because the other person’s name appears on the bill.

And the Board has a policy that says you can only deal with the account holder that -- whose name appears on the bill and there’s lots of potential on a migration system where there are going to be innocent mistakes made in that regard. All of which, in my submission, points to the need that these kinds of issues have to be addressed well in advance of the Utility implementing an integrated bill.

Municipal Gas sees two (2) ways of resolving these problems. First, the integrated bill could bear the name of both adult holders -- adult householders. Both would be responsible for payment of the account and both could enter into a WTS contract on behalf of the household.

Alternatively, the Board could alter its policy so that a broker could enter into a WTS contract with either adult householder regardless of which name appeared on the bill. So there are two (2) possible options.

Dealing withe the -- the second migration issue, the customer account number, Mr. Warden was unclear in his testimony as to whose account number ultimately would appear on the bill. It sounds like Centra hasn’t gone down that -- or hasn’t gone that far down the road of the migration process and it’s still an open question.

Although I think Mr. Warden did indicate that there are more Manitoba customer accounts out there than there are Centra and it probably would make sense that at the end of the day the Manitoba Hydro account number is the one that appears and that may well be the -- the most sensible one to -- to adopt.

But that customer name or that customer account number is going to impact the brokers because if a cus -- a WTS customer is assigned a new customer number, then the broker is going to have to change its IT systems and its customer care systems so that it uses the new number and can then appropriately service its customer with respect to gas supply issues.

And of course as you've heard from the Utility, any kind of IT change that is implemented takes time. And it sounds like Manitoba Hydro is adopting almost a sixteen (16) to eighteen (18) month time process from the -- the initiation of thinking about this through to the implementation of it in November of 2005.

Well, just as Manitoba Hydro requires time to make those changes, brokers too will require times -- to imple -- time to implement these changes. They -- they simply can't be told on October the 1st that come November 1 you've got to change all these things. The IT world just doesn't work that way.

So again that points, in my submission, to the need for talk and communication between the various parties involved. So on the integrated billing issue, Manitoba -- sorry, Municipal Gas submits that the Board should issue the following directions to Centra.

First, Centra should consult frequently with brokers and other service providers who utilize the Utility's bill and would be affected by a move to integrated billing. These consultations should involve timely discussions of the details of the proposed integration and the format of the proposed bill and should be characterized by a cooperative approach to identifying and resolving problems of mutual concern.

Secondly, Centra -- or this Board should direct Centra to report quarterly to the Board or to Board Staff, about the consultations amongst stakeholders on the move to integrated billing. These reports should commence no later than January 1, 2005.

And I -- I pause there in my submission in light of the difficulties in getting dialogues going between stakeholders and the utilities, its appropriate in my submission for the Board or Board Staff to take some ownership of this particular issue and make sure that there is some sort of supervised or structi -- structured consultation process in place.

That's not to try and put a lot more burden on the Board or Board Staff but in my submission under the current market circumstances it's a necessary step.

Then the third submission that Direct Energy makes on this point, is that Board might consider it appropriate that Board Staff also participate in these billing system discussions. They don't have to be there to make decisions, but it's very useful, I have found, for Board Staff to participate in these sorts of stakeholder consultations, because they can bring a certain perspective and they can raise some very good questions that the parties themselves don't necessarily deal with.

And, again, by way of historic example, in Ontario when the electricity market opened in 2002, you had over a hundred local distribution companies and a number of retailers, people had to get together to make sure that IT systems were talking to each other, because integrated billing, and various options of billings, could take place.

And as a result you had the better part of two (2) years prior to 2002, of various task forces taking place where the IT people talked to each other and dealt with these issues and Board Staff, the Ontario Energy Board Staff, participated in those. Now, they don't have to be a referee, they don't have to be an umpire, they don't have to be a discipliner, but it's often very helpful for them to -- to participate.

So those are Municipal Gas's submissions on the -- the bill.

Moving to the third issue, which is the future regulatory regime for Centra, as I understand Centra's submissions, they -- they wish to move from a rate base return system, whereby their revenue requirement includes some sort of rate of return on equity and debt, to a cost of service system, where they would get some sort of surplus above their costs, but it wouldn't necessarily be the same as a rate of return, and I guess the implication is, it might be less than what you would find under a rate of return. You'd have a surplus that would be necessary for working capital to make sure they could meet their future needs, but not much more than that.

At a level of general principle, Municipal Gas and Direct Energy do not have a strong view one way or the other, as to what regulatory regime should govern a utilities revenue requirement and the calculation of its revenue requirement.

However, Direct Energy does want to draw to the Board's attention, that when the Board considers whether there should be changes in the methods of regulating utility, the Board should take into account the impact that any such changes might have on the larger market in Manitoba, and specifically, on the competitive market in Manitoba.

I say this because I think, based on some of the responses that were given by the Centra Panel, and I think Mr. Rainkie was perhaps the one who testified on this particular point.

The -- Centra seems to perceive the shift from one system to the other to be a shift from an investor-owned utility kind of regulatory scheme, to a publicly-owned Crown Corporation utility kind of regulatory scheme.

And once you get into Crown Corporation owned utilities, you get very different risk profiles, and very different abilities to attract capital, to attract financing, because of the credit worthiness of Provincial Governments.

And once you begin to move from a private risk factor to a public risk factor kind of scenario, there can be impacts on the larger competitive market if the Utility wants to move beyond offering simply one regulated product to offering multiple products, some of which would be in competition to what the investor-owned brokers are offering, one (1) of which was suggested by My Friend, Mr. Saxberg this morning.

So, underlying or accompanying any such move, in my submission, the Board does have to be sensitive to that particular fact, because, although Centra in this Application is not asking for Board approval to offer another service offering and Mr. Warden made it quite clear that if as a management decision they decide to do so at some time, they will bring forth the appropriate application.

A move in that direction raises a host of questions: the question of cross-subsidization, will one side of the Utility, through its regulated sort of price-sensitive quarterly adjusted one (1), be subsidizing the other side of the -- the service offering.

Should the Utility be offering more than one (1) product, and if so, should the other products be in an affiliate? Mr. Warden seems to suggest that that's the current thinking of Manitoba Hydro.

But then you get into issues of an affiliate code of conduct, and in particular, you want to prevent not only cross-subsidization, but you also want to prevent the Utility, which has a good chunk of broker-related customer information, not privileging its affiliate by disclosing that information to its affiliate, who would then have an unfair competitive advantage.

So there -- there are a host of issues once you get beyond the one (1) size fits all standard default supply offering into something else and Municipal Gas is simply raising these issues at this point of time so that the Board is sensitive to them when it considers Centra's subsequent request to move from one (1) form of regulation to another.

Which then leads me to, I think, a related but slightly different topic which is the advertising campaign. And I deal with the advertising campaign against the -- the larger background of what is the appropriate role of a utility when it comes to gas supply in a province?

As matters now stand in Manitoba, this Board, through its -- I think it was the 1998 decision -- yes, it was the 1998 decision -- approved -- approved Centra offering one (1) default supply service, but no more. There was just going to be one (1) regulated service.

And the Board made it clear, and I think the reality is, the Utility makes no money off of its supply service. It simply passes through the costs of that service to the customers and those costs are adjusted on a -- a retroactive basis and in this province they're adjusted quarterly. So there's really no -- nothing in it for the Utility to -- from a financial point of view.

In this proceeding, whether it was fortuitous or coincidental, I don't know, but as the proceeding unfolded some advertisements appeared in the local press and on the Manitoba Hydro website and I took you through those and the Panel through those during the course of the -- my cross-examination.

In my submission, Direct Energy has three (3) major concerns about what Manitoba Hydro was doing through that advertising campaign and I'm going to go through those concerns, but I want to preface my concerns by advising the Board that once that campaign started, Direct Energy -- I think through my office -- wrote to Manitoba Hydro asking for a meeting and I wish to advise the Board that a meeting has been scheduled for the first week of October to take place between senior people at Manitoba Hydro and also with Direct Energy and I view that as a very positive and constructive sign.

I don't want to do anything to -- to prejudice what's going to happen at those meetings, but I think, sort of standing back, there are, objectively speaking, several concerns that flow from the advertising campaign and there are there (3) in specific that Direct Energy wants to draw this Board's attention to.

The first is the content of the publication The second, the lack of prior consultation with brokers, and third, the costs of that program; that is, who's paying for them.

Dealing first with the content of the advertisements, during the course of my cross-examination with the Panel Members, whether dealing with the Goldilocks ad or the hockey-equipped happy-faced ad, or whatever you want to call it and I'm a lawyer and I may tend to incline in one (1) direction rather than the other, but I think notwithstanding the answers of the Panel, there was an obvious message from those ads.

And those ads went beyond trying to inform the public about what their various choices were to encouraging or warning the public that if you go with a broker, you're going to be overprotected but if you go with the Utility it will be just right and you'll be Goldilocks, you know, sleeping away merrily for the rest of your life.

That kind of message which I think, objectively speaking, is a realistic message to take from those ads, is a message in my submission, that is inappropriate for the Utility to take as the regulatory regime now exists in Manitoba.

During the WTS stakeholder meetings and then during the WTS hearing, this Board emphasized the need for customer and consumer education. Consumers should know their various choices. Consumers should know what those various choices are and what the risks and benefits of those choices are.

And that's -- that's all very good public policy and Direct Energy recognizes that a utility does have a legitimate role to play in customer education but there is a line between customer education and marketing. There's a line between customer education and advocacy of a particular service or discouraging people from taking another kind of service.

And in my respectful submission, in the current advertising campaign, Centra Gas crossed that line and they went beyond public relations designed to inform consumers in a very -- very factual way about what's out there to putting a spin or a marketing gloss or whatever the -- the marketing experts call it -- on the two (2) different service options so that if you went with the broker you'd be laden down with the expense of hockey equipment. If you went with Manitoba Hydro, you'd be light and free and perhaps you'd get one (1) of those hard hats as well, I don't know.

But -- but that's more than facts -- the provision of factual information. That's trying to persuade people by -- by contrasting two (2) offerings, trying to portray one (1) better than the other and encourage them to go in a particular direction. That is an inappropriate role in my submission for the utility to be taking in this particular environment.

There's a second concern about the content of the -- advertisements and that is the accuracy of the representations in those advertisements with respect to cost. During the course of my cross-examination, I took the Centra Panel members to parts not only of the -- the information handbook that was on the web page, but also the -- the goldilocks ad.

And a common theme of both ads was lower cost, the suggestion being that if you went with the utility quarterly adjusted rate mechanism, there would be lower costs.

In my respectful submission, that is not an accurate representation by the Utility to the consumers. And I think the admissions that I obtained from the Centra panel on cross-examination provide the evidence in support of that, because I put it to the panel, and I think it was to Ms Stewart and also Mr. Warden, that if a customer came to you today and said, I'm new to the province, I just bought a home, should I go utility, should I go broker?

Could you tell that customer today whether, over the course of a three (3) year time period or a five (5) year time period that its gas supply costs would be lower if it went with the utility than if it went with the broker?

And both of them had to agree that, no, you couldn't make that representation today because you don't know that until after the fact. And specifically that -- certainly Mr. Warden testified to that at page 330 of the transcript.

Now, in light of that evidence, it's important to recall that in this province when brokers make representations to consumers to try and encourage them to sign up, they are subject to a code of conduct. There's certain rules of the game.

And the code of conduct for direct purchase transactions, Section 3.2 reads, in part, as follows. It reads:

> "A broker shall do the following when marketing or making an offer to a consumer.
> (E) Not make any representation or statement or give any answer or take any measure that is false or is likely to mislead a consumer with regard to any term in an offer.
> (F) Provide only timely, accurate, verifiable and truthful comparisons."

And then 3.3 goes on to deal with comparative marketing. It reads:

> "Where a broker's marketing or advertising contains representations concerning the nature, quality, and price of any distributors or suppliers service, the broker shall take such steps as are reasonable and appropriate to ensure that such representations are timely, accurate, verifiable, and truthful."

And I guess my submission on this particular point is what's sauce for the goose is sauce for the gander.

It’s appropriate for this Board as a matter of public policy, to have decided that brokers should be subject to those rules to ensure that consumers only receive fair and accurate representations with respect to WTS offerings.

By the same token, the utility that does bear a statutory duty to its consumers because of its privileged position, should be subject to exactly the same obligation with respect to representations, that it representations must -- its representations must meet the same standard as must a broker.

A final comment on the content of the advertising campaign relates to the use of information regarding forward prices. In our book, I reproduced the material that was on the Manitoba Hydro website and the reference is Tab 4 of Exhibit 3. And one (1) of the things they had on that was a graph which showed the utility price and much of it was historic information, but it did contain a twelve (12) month forward information, both based on their most recent price strip.

And indeed, having going to the Manitoba Hydro website late last week, I noticed that what Manitoba Hydro was doing is that it actually updates that graph so that the price forecast that was the basis of the written graph I produced in our document is now old. And when you go to the website, you will see that they’re using a more updated twelve (12) month forward price strip for the purposes of the graph, so they're trying to make it as accurate as possible.

The reason I raise the use of this forward looking information is that there had been -- had been some proceedings between Municipal Gas and the Board in the context of customer complaints, where the Board strongly suggested that the use of forward price information was not appropriate.

Now the Board wasn't dogmatic on that in terms of a hard and fast rule, but it seem to -- it seemed to be indicating that it had problems with -- with that being done.

If the Utility is now doing that based on a forward price strip, then, in my respectful submission, it's appropriate for the Board to issue some sort of clarification as to what brokers can appropriately do with respect to -- to the forward prices. And I'll deal with that specifically in my recommendations.

So those are my submissions on the content of the advertisements and I'll -- I'll have some recommendations in a minute. The second deals with consultation. There was no consulta -- if the advertising campaign, in effect, was not an advertising campaign but was designed as a customer education campaign which I think was sort of the gist of the evidence of the Utility members then there should have been prior consultation.

There was prior consultation about consumer education as part of the WTS process. This Board in its WTS Decision lauded the fact that there had been that kind of consultation. In 2001 Manitoba Hydro began using certain pop-ups on its web page to which my client took exception and we put in Exhibit 3, some of the correspondence back from November of 2001 in that regard.

And one (1) of the complaints was lack of prior consultation. And there was a letter from Mr. Brennan which seemed to strongly suggest as part of the settlement that we talk if this was to -- to happen again. Well, there was no prior talking and in my submission where customer education campaigns are involved, there should be consultations between the utility -- utilities and brokers before those customer education campaigns go on.

The third part of my submission with respect to the advertising campaigns is in respect to the cost. Mr. Warden’s evidence was that the costs of the advertising campaign would be taken out of currently approved distribution expenses.

And so therefore, since about direct purchase and system supply customers pay distribution costs you would have direct purchase customers paying for some of the ads which are, in my submission, sending out a message that they should return back to the Utility and not go on WTS.

It's one (1) thing, in my submission, to spread costs of the customer education campaign over both direct purchase and system costs. I mean there is an argument that that benefits everyone and the cost should be incurred by everyone.

But where you have an advertising campaign that is designed to change conduct and prefer one (1) choice over the other, that sort of allocation across the board is inappropriate. This should only be allocated to primary gas costs and it shouldn't be embedded in distribution costs.

So therefore, against those sorts of evidentiary submissions on the issue of the advertising Direct Energy has some very specific requests it would make of this Board on the issue.

First, Direct Energy submits that the Board should reiterate that the proper role of the Utility is to engage in customer education efforts which the -- which involve the publication of even handed information about gas supply issues. And that it is not appropriate for the Utility to advocate or promote the use of purchase system supply -- sorry, or promote the -- the purchase of system supply gas over the purchase of gas under a WTS option.

Secondly, the Board should confirm that in any of its customer education undertakings or campaigns, Centra Gas must meet the same fair representation standards as are required of brokers under Section 3 of the Code of Conduct for direct purchase transactions.

Third, Direct Energy would request the Board to clarify and confirm that materials published by both the Utility and the brokers can use forward price information, providing that information otherwise complies with the representation standards in -- in the Code of Conduct. So they'd have to be from, you know, reputable -- reputable sources, industry recognized sources.

Fourth, the Board should reiterate that Centra must provide brokers with a reasonable and adequate opportunity to comment, in advance, on customer education information that Centra proposes to publish with respect to primary gas. And to a certain extent one can look back to the WTS proceeding as the good old days. There -- there was really good discussion and cooperation at that and that should be resumed, in my submission.

Fifth and finally, Direct Energy submits that the Board should indicate that the cost of any public relations or advertising materials incurred by Centra, designed to promote the selection of primary gas supply over a WTS option should not be charged to distribution rate -- to distribution costs which are then charged to all customers, but should be charged only to primary gas costs.

So, those are my submission, and I guess if there is one (1) theme coming out of all of those submissions, Mr. Chair, and Members of the Panel, is that for an industry to work anywhere, there has to be good lines of communications between members of that industry.

And many of the recommendations and requests that Direct Energy is -- is seeking from the Board in this Proceeding, are really designed to restore good lines of communication. I think perhaps the point has been reached where the Board or its staff may have to play a bit more of a supervisory role to make sure that that does occur.

But that is the thrust of my submissions. There has to be better communication, because quite frankly, when it comes to a competitive gas supply market in any franchise area, the participants shouldn't have to come before the Board. The industry should be mature enough and have the means by which these problems can be resolved in-house. That's what happens in mature markets and that's what should be happening in this particular area.

So those are my submissions. Thank you very much for your attention.

THE CHAIRPERSON: Thank you, Mr. Brown, and Ms. Melnychuk. Before we have a break for lunch and return with Ms. Murphy, Mr. Peters, do you want to introduce Mr. Gretener's Final Comments?

MR. BOB PETERS: Yes, I will, Mr. Chairman, thank you.

I would like to announce to the parties present that Mr. Gretener, on behalf of the special contract customer class, which contained his client, has filed a written closing submission. It is approximately thirty-seven (37) pages in length, complete with footnotes.

I will provide a copy of it to DigiTran Inc. to embed in the transcript before -- so that the argument is preserved there on the record. The timing of the day is such that with it now having been handed out to all parties, we can review it over the lunch hour.

And on our return, and perhaps Ms. Murphy can assist the Board in indicating what timelines would be requested by her and her client, we will have a chance over that lunch hour to review and read Mr. Gretener's Closing Comments.

Thank you Mr. Chair.

FINAL SUBMISSION BY MR. NICK GRETENER:

1. SUMMARY

Simplot Canada Limited ("Simplot") intervened in this proceeding primarily to address the allocation of Unaccounted For Gas ("UFG"). In particular, Simplot's concerns relate to the level of UFG allocated to the Special

Contract Class ("SCC"), a customer class that is currently composed solely of Simplot’s Brandon fertilizer plant. The fact that all costs work to reduce the economic competitiveness of this facility is important and means that such costs are closely scrutinized by Simplot. However, that fact alone will not cause Simplot to take issue with costs that are fair and reasonable. Simplot is willing to pay legitimate costs but takes issue with paying costs in excess of those that can be fairly and accurately demonstrated to be the SCC’s responsibility.

The magnitude of the UFG issue for the SCC is reflected in the significant level of UFG costs historically paid by this class. Of the SCC’s total Centra charges of some $7.77 million over the last 5 years, UFG charges accounted for fully one-third of the total, or some $2.55 million. In the current environment of sustained strong gas prices, the amount of UFG charges, which is directly related to the cost of gas, remains of high and continuing concern to the SCC.

The SCC has very unique characteristics. As summarized by Centra, such characteristics include the load factor, the volume and the metering facilities of that class. The unique characteristics of the SCC justify a unique rate for this customer class. Similarly, these characteristics also support a unique allocation of UFG for this customer class. The evidence on this record is compelling and clear in establishing that that the unique characteristics of the SCC result in that class causing UFG costs well below the system average or, stated another way, well below costs that would be derived from a pure volumetric allocation methodology.

In the current application, Centra is applying for approval of a revised UFG allocation methodology that would reduce the SCC's percentage responsibility for total Centra UFG costs from the existing 12.8 percent to 5.7 percent.

While Simplot believes that Centra's proposed UFG allocation methodology is directionally correct, a proper allocation for the SCC has not yet been achieved. Simplot believes the UFG costs Centra proposes to allocate to the SCC are still far higher than the UFG costs caused by this class. Accordingly, Simplot is requesting that the Board set the UFG allocation to the SCC at 2.8 percent of total Centra UFG costs as a "placeholder", pending further work by Centra, in cooperation with Simplot, to determine a more accurate method of determining the UFG costs caused by the SCC. Simplot has agreed to assist in funding such further work, with such funding to be obtained from the SCC.

A ballpark estimate of the impact of Simplot's proposal would be to halve the approximate $293,000 of projected UFG costs allocated to the SCC. The shortfall of some $146,500 could be recovered from the remaining Centra customer classes in proportion to the percentages such classes are allocated UFG costs under Centra's proposal. As such, the bill impact of Simplot's proposal on other customer classes would be negligible.

Any suggestion that there is no evidence to support Simplot's proposal flies in the face of this record, as outlined in more detail in this Argument. Simplot urges the Board and parties to focus on the evidence and not hollow assertions that may be advanced in argument. The evidence is overwhelming in support of a UFG allocation to the SCC below that proposed by Centra. While the precise level of that allocation may be open to some debate (hence Simplot chose a conservative placeholder), Simplot submits that the evidence supports a conclusion that any more precise level would be even lower than the Simplot placeholder proposal.
Simplot also requests that the Board direct Centra to provide the SCC with the option of paying for UFG losses by providing gas in kind. Most other pipeline systems in Canada allow their customers this option.

In summary, Simplot respectfully urges the Board to:

(i) approve the Simplot placeholder 2.8 percent UFG allocation to the SCC, and the minor adjustments to

Centra's proposed allocations to the other rate classes that this would entail;

(ii) direct Centra, in cooperation with Simplot, to further study the allocation of UFG to the SCC with the objective of developing a more accurate method of determining the level of UFG caused by the SCC; and

(iii) direct Centra to provide the SCC, and other similarly situated customer classes, with the option of paying for UFG losses by providing gas in kind.

2. BACKGROUND

The allocation of UFG on the Centra system to the SCC has long been of concern to Simplot. Simplot submits that the SCC has in the past been allocated UFG costs far in excess of the costs caused by that class and that Centra's use of the weighted volume UFG allocation methodology has historically resulted in unfair cross-subsidization of other classes by the SCC.

Centra's own review of the causes of UFG losses on its system led Centra to propose in the current Application a revision in the allocation of UFG to the SCC from 12.8 percent to 5.7 percent -- more than a 50 percent reduction. Centra testified that this significant reduction resulted from today's circumstances and the use of better, more up-to-date information but does not mean that the previous allocation was wrong. Simplot submits that the basic circumstances causing UFG have not changed and as such, the significant adjustment of UFG allocations following Centra's detailed review does support the conclusion that historical allocations of UFG to the SCC were unfairly high. Centra implicitly agreed with this conclusion when it characterized its proposed UFG adjustments as providing for "...a more fair allocation".

In 2001, Simplot appeared before the Board opposing Centra's allocation of UFG. While the Board approved Centra's UFG allocation at that time, the Board encouraged Centra to determine whether other alternatives could be pursued to ensure Simplot's share of UFG is accurately and fairly allocated. Centra proceeded to review its UFG allocation methodology, a review the SCC welcomed and considered long overdue.

3. CENTRA UFG ALLOCATION PROPOSAL

3.1 UFG Review

Centra described its UFG review ("UFG Review") as "...a comprehensive system-wide study of the causes of UFG that considered the characteristics of all customer classes, in regard to their potential cost responsibilities" . The UFG Review:

- was conducted over the better part of a year;

- cost $120,000 of company time;
- identified the causes of some 55 percent of UFG on the Centra system; and
- found that of the identified UFG, approximately 70 percent was related to measurement tolerances, 12 percent was contributed by physical loss of gas and 18 percent was contributed by other factors.

3.2 Physical Loss Of Gas

Centra proposes to allocate 30 103m3 of physical losses to the SCC. As noted in Dr. Reading's evidence, this is significantly higher than the annual losses to atmosphere Centra had previously estimated for the transmission facilities serving the SCC, being some 1.35 103m3 at most. This estimate was based on an industry emission factor of one leak per year for every 60 kilometres of pipeline (the pipeline facilities serving the SCC are approximately 23 kilometres in length). While the Centra witnesses could not recall having provided this estimate , no party, including Centra, pursued the matter with the Simplot panel. Accordingly, the evidence of Dr. Reading stands unchallenged on this point.

In the interests of an accurate record, Simplot would note that this previous estimate related only to losses to atmosphere, or emissions, and did not include any line pack component. Simplot understands that Centra's allocation of 30 103m3 of physical losses to the SCC consists of 16 103m3 of emissions and 14 103m3 of new line pack. Nonetheless, the conclusion remains valid that the proposed allocation of emissions to the SCC (16 103m3) far exceeds the previous "at most" emissions estimate (1.35 103m3) that had been provided by Centra.

3.3 Measurement Accuracy

3.3.1 Mean/Base Meter Accuracy Results

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

The results of the metering accuracy results, broken out amongst Centra's four meter categories, were (rounded to one-tenth of a percent):

Turbine Meters:
Gain of 0.1 percent

Rotary Meters:
Loss of 0.1 percent

Small Rotary/Diaphragm Meters:
Gain of 0.3 percent

SCC Meters:

0 percent Error

The only meters that yielded no error based on the direct metering accuracy measurements were the SCC meters. Additionally, each of Centra’s two SCC meters, measured on its own, yielded 0 percent error (i.e. the zero error result was not just a function of taking the average or "net" result of the two meters). Centra testified that no meters on its system are more accurate than the SCC meters and the way the meters at the SCC have been installed and are being maintained and monitored makes this "...a very, very accurate measurement facility".

3.3.2 Adjusting The Mean/Base Meter Accuracy Results û Turning The "Tuning Knob"

Using the mean or base meter results would have yielded a net gain, not a loss, of UFG on the Centra system. Further work was required. As Centra testified:

...the process of gas measurement utilizes, in addition to the base metering device itself, system of components to sense and correct for gas temperature, and to regulate or sense and correct for pressure...While the available data only referred to the base meter itself, other components of the measurement system described above will each exhibit some additional natural variability and will contribute additional variation to the base meter measurement.

With respect to these other temperature and pressure components of the measurement system, Centra testified:

> ...we don’t have specific data available that allows us to perform the complex calculations in addition to the analysis that we’ve done to be able to quantify that to a higher degree of precision.

In the result, Centra had to apply its judgment to adjust the mean or base meter accuracy results to account for the non-measurable temperature and pressure impacts. To do so, Centra made the following adjustments: (i) for the Turbine meters, Centra chose 2 standard deviations below the mean (0.7 percent loss rather than 0.1 percent gain); (ii) for the Large Rotary meters, Centra chose 1 standard deviation below the mean (0.6 percent loss rather than 0.1 percent loss); (iii) for the Small Rotary/Diaphragm meters, Centra chose 1 standard deviation below the mean (0.3 percent loss rather than 0.3 percent gain); and (iv) for the SCC meters, Centra chose the "high" case (0.2 percent loss rather than 0.0 percent error).

These adjustments can be analogized to turning a "tuning knob". Following the initial meter accuracy analysis, the tuning knob was set at 0 (mean or base result). This yielded a net gain of UFG on the Centra system (in other words, identifying none of the established UFG losses). Centra proceeded to apply its judgment and turned the tuning knob to the left (in the direction of losses or a negative bias) to attribute enough losses to measurement error to allow a total identification of 55 percent of the UFG on its system.

This tuning exercise is extremely sensitive to the application of judgment. For example, one could turn the knob to the right (in the direction of gains or a positive bias) with the result that there would be larger net gains of UFG on the Centra system. Centra acknowledged that it is possible the other measurement components might register gains rather than losses, just as some of the mean/base meter accuracy results showed gains or a positive bias. However, turning the knob to the right and producing further gains was in conflict with the actual data that reflected a net loss in the order of 0.9 percent of total system throughput. Alternatively, Centra agreed it was possible to turn the knob further to the left and attribute more UFG to measurement error, to the point where one could identify 100 percent of the UFG losses. Centra acknowledged that its decision in turning the tuning knob was somewhat arbitrary.

3.3.3 Adjustment Of The SCC Meters Relative To Other Meters

3.3.3.1 Introduction

At the end of the day, Centra agreed that its measurement variance results are quite sensitive to whether and how far one turns the tuning knob. As such, Simplot believes it is worthwhile conducting further work to determine more accurately the SCC's contribution to UFG costs. Simplot is not persuaded that the SCC tuning knob needs to be turned to adjust the SCC metering accuracy results from 0 percent error to û0.2 percent error. If turning the knob is warranted and an adjustment is required, Simplot is not persuaded that the magnitude of the adjustment made by Centra to the SCC meters is warranted.

3.3.3.2 SCC Meters Need Less Temperature/Pressure Correction

While Simplot generally agrees with Centra that negative temperature and pressure corrections are required for some meter types, Simplot is not convinced that such corrections are necessary for the SCC meters, the only meters that showed no error on the basis of direct measurement. For example, Simplot noted the following Centra testimony:

> ...to simply apply the mean average accuracy would not be appropriate because a large number of those meters from time to time throughout the year will be flowing gas at capacities underneath of the tested

capacity that the accuracy was arrived at.

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

Simplot does not believe that these reasons for turning the tuning knob would apply to the SCC meters, at least not to the same degree as for the lower accuracy meters on the balance of the Centra system. For example, the steady load factor of the SCC means that the SCC meters are far less likely to flow below the meters' tested capacity than would be the case for meters serving the SGS class and other classes that have more variable load factors. Furthermore, the unique characteristics of the SCC (high meter accuracy, meter redundancy and Gas Metering Protocol û see Section 4.1.7 of this Argument) make it virtually impossible for these meters to pass gas without any recorded measurement thereof.

Finally, Simplot notes Centra's testimony to the effect that its 55 percent identified UFG estimate is likely low or conservative as Centra should have attributed more losses to non-temperature compensated meters. Any such further allocation of losses to non-temperature compensated meters would reduce the allocation to the SCC meters, as the SCC meters are temperature compensated.

3.3.3.3 Meters With Positive Bias Not Corrected To

Same Degree As SCC Meters

Centra's measurement analysis attributes an accuracy level to the SCC meters (-0.2 percent error) that is only marginally higher than that for the Small Rotary/Diaphragm class of meters used to serve the SGS class (-0.3 percent error). This conclusion results from the fact that the SGS meters are adjusted from a starting point of a positive bias or a gain, and so the 1 standard deviation adjustment does not go so far on the negative side. In fact, the adjustment of the SGS meters did not attribute any increased error to these meters but simply switched their bias from a positive error of 0.3 percent to a negative error of 0.3 percent.

If the SGS meters had only been adjusted by half as much (reduced by 0.3 percent rather than a total of 0.6 percent), they would have been adjusted to zero error while if the SCC meters had only been adjusted by half as much, they would still have shown a loss of û0.1 percent, as the adjustment for them starts at 0 percent error. In other words, with a smaller adjustment, one would get the distorted result that the SGS meters are more accurate than the SCC meters. Centra testified that no meters on its system are more accurate than the SCC meters. Given the unique characteristics of the SCC class (see Section 4.1.7 of this Argument), the SCC meters are clearly more accurate than the SGS meters. Indeed, Simplot believes that the difference in measurement accuracy between the SCC meters and the SGS meters should be more pronounced than that recognized by the UFG Review.

3.3.3.4 Centra's SCC Meter Adjustments Do Not Recognize Extra SCC Metering Provisions û Redundant Centra Meter, Simplot Check Meter And Metering Protocol

Finally, Simplot notes that the rationale for turning the tuning knob was to account for additional variance, beyond the metering accuracy results, that might result from temperature and pressure impacts that could not be measured. If impacts beyond the metering accuracy results are to be accounted for, then Simplot believes the special characteristics of the SCC class that all add extra accuracy to the metering for that class (see Section 4.1.7) should also be given weight. This includes: (i) a redundant Centra meter û i.e. Centra has two meters installed in parallel to measure the SCC; (ii) the Simplot check meter installed at the expense of Simplot; and (iii) the Natural Gas Metering Protocol implemented at the start of this year between Centra and Simplot that monitors the SCC meters and ensures that they remain within very tight tolerances. Other meter classes are not subject to this extra level of metering redundancy and vigilance. As such, these measures will clearly increase metering accuracy for the SCC as opposed to other meters and should be recognized in Centra's metering adjustments.

3.3.3.5 Conclusion

All of the above places real doubt in Simplot's mind as to the appropriateness of turning the tuning knob on the SCC meters away from zero error, or, if turning the knob is indeed warranted, the degree to which Centra has done so.

3.4 Allocation Of Unidentified UFG

Having only identified 55 percent of UFG losses, Centra needed to determine how it would allocate the remaining, unidentified 45 percent. Centra chose to apply the same class percentage allocations to the unidentified 45 percent of UFG as those it had established for the identified 55 percent of UFG.

Centra testified that having completed a UFG Review which concluded that identified UFG was caused to differing extents by differing customer classes, it would be inconsistent to allocate unidentified UFG on a volumetric basis, which assumes UFG is caused equally by all customer classes. Simplot agrees with the logic of this position. While other customer classes will no doubt argue that one should apply a volumetric allocation to the unidentified UFG, as a sort of "default" position, Simplot believes such arguments are based on self interest and not the evidence presented in this proceeding.

With no other information on hand, it is logical for the default position to be an extrapolation of the position supported by the evidence, i.e. the identified UFG allocations. If the default position is to be something else, then, as Mr. Hawk noted, maybe this is where one can apply some of Dr. Reading's indicators , suggesting a UFG allocation to the SCC in the order of 1 percent or less.

4. SIMPLOT UFG ALLOCATION PROPOSAL

4.1 Simplot Proposal Of Placeholder 2.8 percent UFG Allocation For SCC

4.1.1 Introduction

Simplot is proposing a placeholder allocation of UFG losses to the SCC of 2.8 percent. While this reflects the percentage of Centra's total, depreciated rate base represented by the replacement value of assets required to serve the SCC, the recommendation for a 2.8 percent placeholder UFG allocation is based on many other considerations, including:

- 2.8 percent is a conservative number in that it uses a very conservative depreciated Centra rate base number;
- 2.8 percent is a conservative number considering the other indicators outlined in Dr. Reading's evidence;

- 2.8 percent is supported directionally by industry precedent;
- 2.8 percent is supported directionally by Centra's acknowledgment that its analysis should have allocated more losses to non SCC meters;
- 2.8 percent is supported directionally by the lower emissions estimate Centra had previously provided to Simplot; and
- 2.8 percent is supported by the unique characteristics of the SCC.

The basis for the development of Simplot's indicators was described by Simplot as follows:

When we started exploring possible methods of allocating UFG with Centra, Centra advised that UFG is a function of the complexity of a system. The more complex the system (i.e. more interconnections, metering points, odourizing facilities, etc.), the higher the UFG. As we noted in our evidence, a simple "bullet" pipeline with one entry and one exit point should have significantly less UFG losses than a pipeline carrying a similar volume of gas, but with multiple off-takes and interconnections. Accepting the principle that the complexity of a system is a direct measure of cost causation for UFG, we explored a number of indicators that would provide a reasonable measure of the contribution to the system’s complexity from a given set of facilities. The "replacement value of plant in service" is one such indicator, as generally more complex and larger components of the system (for example a network of pipelines versus one or two "bullet" pipelines) will have higher replacement costs. Mr. Hawk summarized Simplot’s approach as follows:

> ...I think part of what’s being said here is that the complexity of the system other than serving Simplot is much greater. There’s thousands of meters, there’s hundreds of miles of pipeline, thousands of miles I presume, there’s hundreds of millions of dollars of cost involved in serving the rest of the system.
>
> The company has said and we believe correctly so, complexity is the source of UFG. And you can define and break that out by several û such as volume, such as metering, such as when you measure the meters, that is when you read the meters, that's all complexity.
>
> We maintain that we're quite simple when compared to the total complexity of the system. And we use several different financial and other types of indicators to make that clear. And those taken in context with what the company has done, I think form the basis for a solid UFG analysis and allocation.

The Simplot proposal would not significantly affect other customer classes compared to Centra's proposal. Finally, it should be noted that the 2.8 percent allocation for UFG to the SCC is proposed by Simplot as a placeholder, pending further work to more accurately determine UFG for the SCC.

4.1.2 2.8 percent SCC Proposal Is Conservative As It Uses Depreciated Rate Base

In challenging the appropriateness of Simplot's 2.8 percent proposal, Centra testified as follows:

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

To derive its allocator, Simplot divided its replacement cost number of $10 million by Centra's depreciated rate base of $361 million. Simplot deliberately chose a depreciated rate base number in an attempt to present a conservative allocator. Indeed, Centra acknowledged that Simplot was being conservative in estimating the relative value of its plant to Centra's total rate base.

If Centra wants the allocator calculated on an "apples to apples" basis it would be reduced from 2.8 percent to 1 percent or less. As Mr. Hawk testified:

> ...while I use the 2.8 percent, that was derived to some extent by taking an approximate $10 million Canadian, a replacement cost, which was very conservative on...our point, and...dividing that by the [un]sic depreciated value of the system...Since the 10 million was a new number, then maybe we should take the total system cost, which is 550 million. Now we're down to 1.9 percent. And if we take the replacement value of the system so that it really is apples to apples, we're probably at 1 percent or perhaps even less. So consequently, we were being conservative in taking ten and dividing it by approximately $350 million.

Centra appears to challenge the use of the replacement cost indicator on the basis that a large driver of replacement cost is pipeline length, which is only relevant for physical losses. What Centra misses is that the 2.8 percent SCC proposal is being advanced by Simplot not just on the basis of the replacement cost indicator but on the totality of the evidence that supports a UFG allocator for the SCC lower than the 5.7 percent proposed by Centra.

Much of this evidence supports an SCC allocation of less than 2.8 percent, in the region of 1 percent or less, yet Simplot chose the 2.8 percent level in part as a saw-off and in part to be conservative.

Centra and intervenors alike seem to agree that UFG measurement does not lend itself to precise answers and yet when a proposal is forthcoming that is not premised on a precise answer, it is apparently grounds for dismissal. While the Simplot 2.8 percent SCC proposal is not backed by a specific study yielding a precise answer, this does not take away from the fact that the evidence in this proceeding supports the conclusion that an allocator of 2.8 percent for the SCC is a reasonable level for a placeholder.

4.1.3 2.8 percent SCC Proposal Is Conservative Compared To Reading Indicators

In addition to the replacement value indicator presented in Mr. Hawk's evidence, Dr. Reading reviewed the following five indicators in his evidence:

Physical Indicators

- Total Pipeline Kilometres
  0.28 percent
- Transmission Pipeline Kilometres
  1.15 percent
- Number of Meters
  0.001 percent

Financial Indicators

- Revenue Requirement
  0.34 percent
- Rate Base
  0.77 percent

Clearly, the 2.8 percent proposed allocation of UFG is conservative compared to the five indicators reviewed by Dr. Reading, all of which point to an allocation in the range of 1 percent or less.

Centra agrees that gas measurement is complex and that calculating UFG is difficult. Indeed, one intervenor characterized UFG measurement as "...anything but an exact science". Given that, it is surprising that the indicators developed by Simplot seem to be challenged by others primarily on the basis that they lack a certain exactness and precision. As Dr. Reading testified:

> ...as pointed out by Centra, measuring UFG is complex and can have many aspects. And it is not unusual in the regulatory world that we do the best we can, and use proxies.

Dr. Reading also emphasized that "...you really need to look at them [the indicators] as a group, not necessarily individually".

Intervenors may suggest that by tabling its indicators and 2.8 percent proposal, Simplot has to be of the view that Centra's UFG Review is seriously flawed. That is not the case. In response to a question as to whether Simplot's proposal was superior to all the work Centra had done in conducting the UFG Review, Dr. Reading responded as follows:

> ...I would not use the term superior. What I would say is when û whenever one is engaged in...studies to measure...cost allocations, there is the work that you do where you get the numbers and you crunch them through. And then you stand back and you do a reality check. And you say, does this make sense given this particular situation or this particular class?

And that's what I did. So, I think the approach the company has taken, the first steps they have taken, those steps methodologically are superior to any of the proxy measures I've used. But the proxy measures I've used show that they haven't gone far enough yet.

In its Rebuttal Evidence, Centra challenges the appropriateness of Simplot's individual indicators. Centra states that length of pipe is not an inappropriate allocator of UFG as it does not reflect the factors that cause the majority of UFG. However, at the same time, Centra does acknowledge that length of pipe correlates to certain causes of UFG, such as physical losses and emissions. Centra states that the number of meters is not an appropriate allocator of UFG. However, in its testimony, Centra indicated that the number of meters in a given class is a driver of costs and used this conclusion to develop its existing 2:1 weighting for the allocation of UFG. In other words, the SGS and LGS classes currently are accorded a double weighting for purposes of UFG allocation due in part to the greater number of meters in that class. Clearly, Centra agrees there is a correlation between UFG losses and the number of meters in a class, with more meters contributing to higher losses.

Finally, Centra maintains that Simplot's financial allocators (replacement cost, revenue requirement, rate base) have no relationship to the factors that cause UFG. In support of its position, Centra states "For example, the cost of a pipe or computer does not contribute to any more or less UFG". Simplot would simply note that the cost of a pipe will be proportional to its length, which is a driver of physical losses. More broadly, the financial indicators provide a measure of system complexity, as discussed above.

The basic point is that while Simplot agrees any one indicator would not be a proper basis for allocating

UFG to the SCC, taken in their totality the indicators do provide a reasonable measure of the SCC's contribution to the complexity of Centra's overall system. Centra itself acknowledges that certain aspects measured by the indicators (pipe length, number of meters) are drivers of UFG. The fact that all indicators uniformly point to a UFG allocation to the SCC at a level of 1 percent or less (i.e. far below Centra's proposed 5.7 percent), provides compelling evidence that Centra's proposed allocation of 5.7 percent is much too high and that Simplot's proposed placeholder of 2.8 percent is reasonable and, indeed, conservative.

4.1.4 2.8 percent SCC Proposal Is Supported Directionally By Industry Precedents

Centra noted in its Application that: "While the actual UFG fluctuated during the period 1996 and 2003 between 0.95 percent and 1.39 percent of total system throughput, it was well below industry average". Simplot submits that the evidence does not support this conclusion, at least not with respect to the SCC.

In support of its conclusion that UFG on its system is well below industry average, Centra provided a list of UFG percentages for other distribution companies in PUB/CENTRA 14(b). Some of the percentages are reported in ranges. Centra noted that the average for all the utilities was approximately 1.5 percent . On its face, Centra's UFG value in the order of 1 percent would appear to compare favourably.

A closer look at the industry averages shows that one utility, Enbridge (New Brunswick), reported UFG values which are essentially an order of magnitude higher than the other utilities in the sample (5 percent-10 percent versus average of 0.57 percent for the balance of the utilities). Centra acknowledged that Enbridge (New Brunswick) is a greenfield operation and Centra indicated it would expect Enbridge (New Brunswick) would be endeavouring to reduce its UFG percentage going forward. It is submitted that a more appropriate measure of industry standards for UFG would be to drop the greenfield Enbridge (New Brunswick) operation and limit the analysis to established pipelines. Including the Enbridge (New Brunswick) data seriously skews the outcome. The average UFG for the balance of the utilities is some 0.57 percent, which is well below, in fact roughly half of, Centra’s 1 percent.

Analyzing the industry data further, it can be broken out between distribution UFG levels and transmission UFG levels. Centra agreed that the SCC is a transmission, not a distribution, type customer. Indeed, in evaluating physical gas loss, Centra attributed only transmission and no distribution losses to the SCC. In the industry data shown on the table in PUB/CENTRA 14(b), three companies that provide both a distribution and transmission service broke out their UFG levels for transmission service. The average UFG level for transmission service is 0.29 percent, which is roughly one-quarter of Centra's UFG level of 1 percent. Furthermore, Centra confirmed that its system contains no compression. As such, one would expect Centra's UFG level to be below an industry average that is composed of systems that have to deal with the added complexity associated with compression.

Finally, it should be noted that the above analysis does not take into account the special characteristics of the SCC that support a lower level of UFG for the SCC than the industry standard transmission level (see Section 4.1.7 of this Argument).

4.1.5 2.8 percent SCC Proposal Is Supported Directionally By Centra Acknowledgment More Losses Should Have Been Allocated To Non SCC Meters

As noted in Section 3.3.3.2, Centra testified that its 55 percent identified UFG estimate is likely low or conservative as Centra should have attributed more losses to non-temperature compensated meters. Any such further allocation of losses to non-temperature compensated meters would reduce the allocation to the SCC meters, as the SCC meters are temperature compensated. As such, this observation by Centra supports an SCC allocator lower than

Centra’s proposed 5.7 percent, in the direction of Simplot’s proposal.

4.1.6 2.8 percent SCC Proposal Is Supported Directionally By Previous Emissions Estimate Provided By Centra

As noted in Section 3.2, the proposed allocation of emissions to the SCC (16 103m3) far exceeds the previous "at most" emissions estimate (1.35 103m3) that had been provided by Centra. This previous estimate, the validity of which was not challenged by Centra, supports an SCC allocator lower than Centra’s proposed 5.7 percent, in the direction of Simplot’s proposal.

4.1.7 2.8 percent SCC Proposal Is Supported By Unique Characteristics Of The SCC

The SCC has unique characteristics that support a lower UFG level than would be appropriate for an average transmission customer. These characteristics include the following:

- High Volume û The SCC consumes a very high volume of gas, accounting for some 18 percent of total throughput on the Centra system. As such, the SCC meters operate at high flow rates. As Centra noted, metering accuracies are negatively affected at very low flow rates.

- Steady Load Factor û Centra notes that the SCC's usage pattern "...is characterized by extremely consistent flow. Centra testified that meters will operate at different accuracies at different flow rates. As such, a steady flow rate will reduce inaccuracies;
- Highest Quality Centra Close Tolerance Auto-Adjusting Turbine Meter û Centra describes the SCC meters as follows: "This type of meter is regarded as one of the most accurate meter product offerings available. These meters are relatively new compared to most other meters in service on the system. Centra also testified that no meters on its system are more accurate than the SCC meters and the way the meters at the SCC have been installed and are being maintained and monitored makes this "...a very, very accurate measurement facility" ;
- Back-Up Centra Meter of Same Quality û The SCC class is not served by the normal one meter, but rather, as described by Centra, the SCC "...is served through a pair of close tolerance auto-correcting turbine meters, that enable Centra to switch from one meter run to

another if required. Centra calibrates the pressure and temperature correction apparatus once each month to ensure optimum accuracy ; - Simplot "Check" Meter of Same Quality û in addition to the two Centra meters installed in parallel, the SCC is served by yet a third high quality auto-adjusting turbine meter. As noted by Centra, the SCC "...has invested in a redundant check metering facility in series with the Centra metering station. Both metering stations are connected to the Centra SCADA system and are monitored daily. The potential for an out-of-range meter error is fairly low compared to other customer classes. Simplot's check meter is currently in a separate temperate instrument enclosure. Simplot, with the collaboration of Centra, has made arrangements to house the check meter in a building similar to Centra's custody transfer meter building. As a matter of fact, the building is a Centra meter building made available to Simplot by Centra. Simplot plans to move and commission the building this summer. Both Centra's and Simplot's meters are checked and calibrated monthly by Centra's technicians and witnessed by Simplot. All meters are calibrated to the same parameters ; - Gas Measurement Protocol - While the Centra Tariff refers to tolerances of 2 percent before certain metering invoice adjustments are called for, effective January of 2004 Simplot and Centra entered into a Natural Gas Metering Protocol to ensure the SCC meters operate within much tighter tolerances. While meter maintenance is scheduled once a month, the Natural Gas Metering Protocol calls for immediate action if the check meter and measurement meters fall outside of a very low tolerance. Meter readings are available daily, on a virtual real-time basis. If:

(i) there are two consecutive days with metering at either a plus or minus 0.35 percent or higher discrepancy between the Simplot check meter and the Centra measurement meters; or

(ii) there is one day with metering at either plus or minus 0.60 percent or higher discrepancy between the Simplot check meter and the Centra measurement meters;

then Simplot contacts a Centra technician who will be scheduled to come to the Simplot Brandon Plant no later than two working days after Centra receives such notification, although Centra will send technicians on the same day if they are available. A joint check of both meters is then performed by the Simplot and Centra technicians, which includes checking the meters for any active alarms and verifying the calibration of the pressure and temperature sensors. All information and the results of the audit are then forwarded to the appropriate personnel.

The Natural Gas Metering Protocol is unique to the SCC and ensures that any SCC measurement variances remain within very strict tolerances. Simplot is not aware of other meters on the Centra system that are subject to such a rigorous validation process ; and

- Simple Location û As shown in Attachment 1 to SIMPLOT/CENTRA 19, the SCC is located some 23 kilometres off of the TransCanada system with only one customer located upstream of the SCC delivery point. All of the complex distribution system, with its 1,600 delivery points, is located downstream of the SCC.

4.1.8 2.8 percent SCC Proposal Has Minimal Impact On Other Centra Customer Classes

A ballpark estimate of the impact of Simplot's proposal would be to halve the approximate $293,000 of projected UFG costs allocated to the SCC. The shortfall of some $146,500 could be recovered from the remaining Centra customer classes in proportion to the percentages such classes are allocated UFG costs under Centra's proposal. As Centra noted, for most rate classes the bill impact of Centra's proposed change to the UFG weightings is almost negligible because the total UFG dollars in relation to the total cost of gas is very small and the number of units by which the dollar change is computed also serves to dilute the impact. The bill impact of Simplot's proposal on other customer classes would be similarly negligible as it would only amount to spreading a further $146,500 amongst all of these classes.

4.1.9 2.8 percent SCC Proposal Is A Placeholder

Simplot is proposing the rate of 2.8 percent only as a "placeholder" pending further work by Centra, in cooperation with Simplot, to explore a more accurate method of determining UFG losses attributable to the SCC. Simplot has agreed to assist in funding such further work, with such funding to be obtained from the SCC.

4.1.10 Conclusion

In essence, as Mr. Hawk confirmed to Counsel for Centra, the placeholder proposal of 2.8 percent represents "...a bit of a saw off" between the 1 percent or less allocation pointed to by the indicators in Dr. Reading's evidence and the 5.7 percent proposed by Centra. Simplot submits that the evidence supports 2.8 percent as a reasonable, indeed conservative, allocation of UFG losses to the SCC.

4.2 Simplot Proposal Does Not Offend Postage Stamp Ratemaking

In its Rebuttal Evidence, Centra states that the implication of Simplot's proposal is to move away from the postage stamp philosophy. This is, quite simply, a red herring. Simplot's proposal does not imply a move away from postage stamp ratemaking any more than does the application of a unique or distinct rate for the SCC. Centra testified that it does not consider providing different treatment, such as different rates for different classes, to be in conflict with postage stamp ratemaking.

It appears that the thrust of Centra's concern with respect to Simplot's proposal is Centra's perception that the Simplot proposal may provide customer specific treatment depending on a customer's location on the system. That is not the case.

First of all, the Simplot proposal calls for class-specific, not customer-specific, UFG rates. Indeed, as Mr. Hawk testified, when Simplot sought to include its potato processing plant at Portage La Prairie in the SCC class, Centra refused to do so. Simplot's Portage La Prairie plant will be negatively impacted by any reduction in the UFG allocated to the SCC. As such, the changes Simplot is pursuing are not for the customer Simplot, but rather for the SCC customer class.

Secondly, Simplot's UFG allocation proposal for the SCC is not based on where customers in a class reside, but rather the level of UFG costs that are caused by that class. If, due to a customer class' location on the system, the UFG costs are somewhat lower for that customer class, then that should not stand in the way of the golden rule of directly assigning costs where possible. Simplot's position was summarized in the following exchange between Board Counsel and Mr. Hawk:

> MR. BOB PETERS: Do you agree that the fact that you are a single customer with relatively close proximity to the main line from TCPL puts you in a different position relative to other customer classes and...their specific members on this issue?
>
> MR. DAVID HAWK: Yes.

MR. BOB PETERS: And if the other customer classes wanted the same...dispensation you're requesting, should it be afforded to them?

MR. DAVID HAWK: If those calculations can be made for the other customer classes, in particular I would think of the main line large industrials and the high volume firm type customers, if that can be done, then I think an analysis should be made. The more information you can find, the more cost that you can assign, cost-causers should pay.

And those who don't, shouldn't. We don't have a problem with that.

Dr. Reading was also clear that the Simplot proposal was in no way offside postage stamp ratemaking:

MR. KRIS SAXBERG: If this Board endorses the...use of a direct measurement for Simplot alone, does that not then contravene its earlier policy of not a postage stamp system where... your location on the system doesn't benefit you or doesn't work to your detriment?

MR. DON READING: As I think's been pointed out here, we're talking about postage stamp rates within a class. We're not talking about postage stamp rates for all customers.

And, certainly any position that Simplot would advocate if there would be another -- don't hit me when I say it -- another fertilizer plant would come on the system to compete with the Brandon plant and have usage characteristics the same, we would be advocating they be treated the same and that to me is what postage stamp rates are.

Postage stamp ratemaking does not mean that a shipper's location never plays a role in determining its transportation obligations. For example, as Mr. Hawk testified, when Simplot sought expansion service for its Brandon plant from Centra it was required to sign a ten year agreement. Part of the reason for requiring a ten year term was to amortize the investment that Centra was making in the line. That investment would obviously be proportional to the length of pipeline that had to be installed, or, stated another way, the distance the Brandon plant was located from the TransCanada mainline. Parties located closer to TransCanada would not be faced with supporting as much infrastructure as parties located further away.

In suggesting that the Simplot proposal implied a move away from postage stamp ratemaking, Centra seemed to suggest that the Simplot proposal violated the following principle:

Customers in any given rate class receive the same level of service and pay the same uniform rates as any other customer in that rate class, regardless of whether they are located in Brandon, Winnipeg, Gimli, Dauphin or Altona.

With respect, Simplot's proposal does just that. All that the Simplot proposal would do, is ensure that costs that can be directly allocated to a customer class, such as the SCC, would be allocated to that class. Customers in any given rate class will continue to pay the same rates and receive the same service û it's that simple.

4.3 Further Work To Determine Direct Measurement Of SCC UFG

While Simplot is proposing that UFG be allocated to the SCC on the basis of a 2.8 percent allocator, Simplot has made it clear that this should operate as a "placeholder" pending further work by Centra, in cooperation with Simplot, aimed at determining a more accurate method of measuring UFG caused by the SCC.

Simplot believes that the Centra facilities required to serve the SCC are exceedingly simple, much simpler than the network required to serve most of Centra's other customer classes. As such, Simplot believes that with some further work, it should be possible to specifically identify UFG costs that are caused by the SCC.

Centra appears to want to cloud the issue with respect to the simplicity of the facilities used to serve the SCC. For example, in its Rebuttal Evidence, Centra stated: Simplot suggests that it is being served by a "simple bullet pipeline with one entry and one exit point." That is not the case. Simplot's plant is served along a common pipeline with some 1,800 other customers in the manner described in Centra's responses to SIMPLOT/CENTRA 19(a), (b), (c), (d) and attachments 1 and 2 to SIMPLOT/CENTRA 19(a). As such, Centra cannot measure UFG specifically for Simplot or any other individual customer on the system.

Under cross-examination, Centra acknowledged that the 1,600 (1,800 in Rebuttal Evidence was a typo) customers, and the associated system complexity, were located downstream of the SCC and as such had nothing to do with the SCC.

Centra was ambiguous as to its position on whether it would be possible to isolate the Centra facilities required to serve the SCC:

> MR. BOB PETERS: Is the system capable of being modified so that there is a dedicated service to only this [SCC] customer?

MR. GREG BARNLUND: That’s probably an engineering question, which I am not in a position to answer, but I'm not û I will leave it at that, I guess.

MR. BOB PETERS: You're not aware as to how, if at all, the system could be modified to have a dedicated service to this customer?

MR. GREG BARNLUND: Nor would I understand why we would do that.

Simplot submits that the reason one would do that is clear -- to allow for the specific identification of UFG caused by the SCC. Centra testified that the goal should be to try to determine, to the extent possible, which customer or customer class caused the UFG and therefore should be responsible for its costs. Centra also testified that when it can specifically identify a cost as belonging to a particular customer class, it will assign the cost to that particular class.

In terms of further work, Simplot provided the following specific suggestions:

We do not have a definitive study where we have a meter at the top of the pipeline, downstream from the one meter that comes off where the odourization...takes place. Measure there, maybe even have a check meter there, then move down the system, look at the two...generating stations, look exactly at what comes off there, Measure what’s there. Move down to the Brandon Plant, measure what’s off there. Have a meter just downstream from the Brandon plan and measure what’s there...If you went through the whole procedure then you would have a...very direct indication of...what the gas usage is and any...measurement errors that may occur.

- - - - -

MR. BOB PETERS: ...let’s get back to your comment Dr. Reading, that û and you both have been complimentary towards the Utility and the steps they have taken, but you also say they should have taken additional steps forward.

The only additional steps forward that I hear you recommending is that they attach some more meters. Is that the additional steps?

MR. DON READING: That...would be one approach, more...meters and...I think Mr. Barnlund was asked the question about well couldn't the plant be served from just one of the unodourized lines and his answer was, I can't answer that because I'm not an engineer.

That would certainly be one approach. Another approach would be further measurement meter studies. Another approach may be as kind of indicated, going back and looking at the selection of the standard deviations from base. A whole variety of steps could be undertaken. I certainly didn't disagree with the billing cycle...But I was surprised when I saw the study at how low the allocation was to the billing cycle amount. My gut level in looking at electric and water is as usually when you have billing cycle problems of calculation and matching to particular date, it's usually on a system basis a higher percent of that. So that may be something that they would want to look at...

Simplot has agreed to assist in funding such further work, with such funding to be obtained from the SCC.

5. PROVISION OF UFG "IN KIND"

Simplot respectfully requests the Board to direct Centra to provide the SCC with the option of paying for UFG losses allocated to the SCC by providing gas in kind. Most other pipeline systems in Canada allow their customers this option. Of the nine systems Centra reviewed in SIMPLOT/CENTRA 13, seven of them allowed customers the option of providing UFG in kind (although Enbridge only allowed this option for restricted rate classes that have not been used in recent years). Under cross-examination, Centra confirmed that, in addition, the TransCanada Mainline and the NOVA Gas Transmission Ltd. systems provide their customers with the option of providing UFG in kind. Clearly, industry precedent overwhelmingly supports the option of allowing customers to provide UFG in kind.

Centra suggested that only physical loss gas must be made up and as such, the provision of gas in kind is not appropriate for UFG resulting from measurement error. Centra said that UFG resulting from measurement error is a transactional imbalance as opposed to a physical imbalance. This position is in direct conflict with Centra's own definition of UFG:

The volume of gas received and the volume of gas delivered do not precisely balance. Therefore, UFG can be defined as the difference between the amount of gas received and the amount of gas delivered. (emphasis added)

Centra also agreed that UFG could be considered to be the aggregate of all volumetric losses that originate from the factors of measurement, physical loss and accounting errors. These definitions clearly indicate that

UFG losses result in a volume deficit on the pipeline and are not transactional or financial type losses. To accept that UFG losses from measurement do not result in volume deficits would make the provisions of those pipelines (by far the majority) that allow payment of UFG in kind nonsensical. There is no reason to allow payment in kind if no volumes of gas are lost.

Simplot respectfully requests that the Board direct Centra to allow customer classes, such as the SCC, that have the wherewithal to manage their own gas purchases, the option of paying for UFG losses by providing gas in lieu of a financial payment.

6. MISCELLANEOUS INTERVENOR POSITIONS

6.1 Information Not Adduced By Way Of Evidence

While no other intervenor filed evidence on the UFG allocation issue, or indeed on any other issue, positions certain intervenors may take can be deduced from their cross-examination of the Centra and Simplot witness panels.

At the outset, Simplot would submit that the Board should accord little weight to presentations made to the Board that are not subject to the normal rules of evidence, such as requirements to subject evidence to the pre-hearing IR process and requirements to make witnesses available to defend the evidence. The normal rules of evidence are intended to preserve the basic principle of natural justice that parties have a right to know and challenge any case against them. Accordingly, information and positions offered up that are not subject to such rules, particularly when such information or positions challenge evidence on the record that has followed the normal rules for the introduction of evidence, should not be accorded any significant weight by the decision maker.

6.2 Volumetric Allocation Of UFG Costs

The Consumers Association of Canada (Manitoba) Ltd. / Manitoba Society of Seniors ("CAC/MSOS") through its cross-examination of the Centra and Simplot panels appears to support the use of primarily a volumetric allocation of UFG costs, at least with respect to the 45 percent of UFG costs for which the causes were not specifically identified by Centra in its UFG Review. MacDon Industries Ltd. ("MacDon") similarly advocates primarily a volumetric allocation of UFG costs when in a one paragraph aside in its written submission (filed August 31, 2004 and not provided as evidence) it supports maintaining the status quo û i.e. the present weighted volumetric allocation of UFG costs.

Simplot respectfully submits that the detailed work Centra has done to date in the form of the UFG Review, along with industry precedent, and the evidence adduced by Simplot in this proceeding with respect to the superior measurement accuracy for the SCC, wholly discredits the use of a volumetric based UFG allocation methodology on the Centra system. The efforts of the CAC/MSOS and MacDon to maintain a volumetric based allocation methodology reflect the self-interests of these parties and not the evidence. Requests to maintain the status quo are particularly offensive, given Centra's conclusion, following its in-depth UFG Review, that a significant reduction (over 50 percent) in the percentage allocation to the SCC is fair and called for. This clearly supports the conclusion that the past, volume based allocation methodology was unfair to the SCC. To maintain such unfairness any longer not only flies in the face of the evidence presented in this proceeding but is unsupportable under any reasonable or rational ratemaking principles. It is also noteworthy that Simplot does not seek any "catch-up" adjustment for past inequities.

The CAC/MSOS suggested in cross-examination of the Simplot panel that Simplot had not presented any independent information or evidence that the Board can weigh against Centra's proposed allocation of UFG to the SCC to conclude that it should be some lower number. The CAC/MSOS entirely ignores Simplot's evidence in making this bald assertion. Simplot has provided extensive evidence supporting a UFG allocation to the SCC lower than that proposed by Centra. Such evidence is reviewed in Section 4.1

of this Argument.

The CAC/MSOS posed the following, rather curious, question to the Simplot witness panel:

> MR. KRIS SAXBERG: ...You indicated that you want to measure for Simplot directly it's contribution to UFG and that that may be possible.
>
> If it isn't possible for other customer classes, Dr. Reading, is...that fair then? Is that something that...Professor Bonbright would endorse?
>
> MR. DON READING: Well, without being sacrilegious and stepping on holy ground of Dr. Bonbright, I would think that he would agree with that, because as I understand what he had to say, is you do the best you can to do the direct, the most you can. And if it is feasible for one class and not another class, so be it. You do that and then you use...second best solution when first best solution isn't available for those others...

As noted in Dr. Reading's evidence, Professor Bonbright stated: "...the golden rule of socially optimal ratemaking is that, whenever possible, prices should track all identifiable...costs occasioned by a services provision." So, when a cost can be tracked directly to a customer class, the price for that customer class should include that cost. Only when costs cannot be tracked directly, should one resort to the second-best solution of indirect allocation. Centra agrees with this position.

The CAC/MSOS is suggesting that if one cannot track all costs directly, one should not track any costs directly or if we can't apply the best solution to all of our costs, let's not apply it to any of our costs. This brings to mind the old adage about the Best being the enemy of the Good.

Essentially, the CAC/MSOS says that using the best solution for some customer classes but not all is unfair to the classes where one must resort to the second-best solution. This defies any rational approach to ratemaking and certainly doesn't reflect the real world. It is rare that all costs can be directly tracked or allocated, but as Dr. Bonbright noted, direct allocation should be used whenever possible. That is the golden rule of socially optimal ratemaking.

6.3 DSM System Benefit Charge

Time to Respect Earth's Ecosystems ("TREE") and Resource Conservation Manitoba ("RCM") have proposed that the Board take advantage of the reductions in rates offered by the present Application to impose a system benefit charge to pay for Demand Side Management ("DSM") programs that Centra should be directed to undertake. Simplot respectfully submits that before the Board considers any such system benefit charge, there should be a concrete proposal on the table, accompanied by a cost/benefit study, to ensure that costs are recovered from the customer classes that will benefit from the DSM programs. As Mr. Hawk testified, customer classes such as the SCC, that use natural gas as a feedstock, will not be able to take advantage of typical DSM programs and as such should not be responsible for any DSM costs. Simplot agrees with Centra that a future GRA would likely be the appropriate forum in which to explore these issues.

Simplot also notes that while TREE/RCM proposed a system-wide charge, in the Avista Corporation precedent submitted by TREE/RCM, it appeared that only retail customers were responsible for the Public Purposes Rider under Schedule 191 while special contract customers were explicitly excluded from the DSM programs under Schedule 190. This would follow the basic principle that costs should follow the benefits. Simplot also notes Centra’s evidence that it would be reasonable for the costs of specific programs to be charged to the specific customer classes getting the benefit of those programs, which is the approach taken on the electricity side of the business.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 22ND DAY OF SEPTEMBER, 2004.

THE CHAIRPERSON: Thank you, Mr. Peters. Ms. Murphy, how much time would you like to reflect on this matter and prepare to provide your comments?

MS. MARLA MURPHY: I expect the Board will be wanting to take a lunch break, and I think if we have the -- the normal, the hour lunch break, something like that would be sufficient for us to prepare our comments.

THE CHAIRPERSON: Thank you. So we will be back at two o'clock then. Thank you.

--- Upon recessing at 12:40 p.m.
--- Upon resuming at 2:06 p.m.

THE CHAIRPERSON: Ms. Murphy, it's your turn now.

MS. MARLA MURPHY: Thank you, Mr. Chairman. Just as an introductory matter, I've had circulated a Book of Documents, which are documents that I will be referring to through the course of this Argument, and I thought for completeness of the record, perhaps it could be marked as an exhibit.

THE CHAIRPERSON: Certainly.

MS. MARLA MURPHY: I -- I believe it would be Exhibit 23, but that's a bit of a guess.

THE CHAIRPERSON: Subject to check.

--- EXHIBIT NO. CENTRA 23: Marla Murphy's Book of Documents

FINAL SUBMISSION BY MS. MARLA MURPHY

MS. MARLA MURPHY: Thank you. On February 19th, of 2004, Centra filed it's 2004-2005 Cost of Gas Application, seeking approval of supplemental gas, transportation, and distribution rates. As a result of the timing of this Hearing, Centra has amended its Application to seek rates to be effective with respect to all gas consumed on or after November 1st of 2004.

Centra has included in its Book of Documents, a listing of the approvals requested, which you can find at Tab 1. For ease of reference, we've also included a copy of the proposed rate schedules, as revised on September 2nd of 2004, in Tab 1 of the same Book of Documents.

The rates requested by Centra include two (2) components: Base rates and rate riders. If approved by the Board, the combined impact on the typical residential customer will be an annualized decrease of approximately 3.9

percent or fifty-two dollars ($52). The impact for all customer classes is shown on updated Schedule 8.1.0, which is also included at Tab 1 of Centra's Book of Documents.

The Company has prepared a 2004/2005 cost -- gas cost forecast based on its volume forecast and on the forward price strip as at July 2nd of 2004. The resulting gas cost forecast for 2004/05 is $420.5 million of which $83.4 million is non-primary gas costs.

This $83.4 million represents a decrease of approximately $3.2 million from the non-primary gas cost included in existing base rates which were approved by the Board in Order 125/03. This information is found in updated Schedules 6.1.4, 6.2.3 and 6.2.4, all of which are at Tab 2 in Centra's Book of Documents.

Centra is requesting through rate riders, the refund to customers of non-primary gas PGVA and gas cost deferral balances to March 31st of 2004 which carrying costs to October 31st, 2004, totalling approximately $16.5 million. This amount includes the $3.25 million in forecasted capacity management revenues for the 2004/05 year as a refund to customers.

Centra is proposing to refund the $16.5 million balance over nine (9) months of normalized volumes commencing November 1st of 2004. Centra is proposing a nine (9) month amortization in order that the expiry of the proposed rate riders will coincide with the customer implementation of non-primary gas rate changes on August 1st of 2005.

Centra is seeking final approval of its 2003/04 gas cost to March 31st of 2004 of approximately $368.4 million which is summarized in updated Schedule 5.0.0 contained at Tab 3 of Centra's Book of Documents.

A summary of deferral amounts is set out in updated Schedule 5.1.0 is also contained at Tab 3 as well as the calculation of proposed rate riders which are updated Schedules 8.4.0 and 8.5.0.

In connection with these approvals, Centra has also requested approval of ten (10) interim orders which are detailed at Tab 1 of Centra's Book of Documents.

Issue which were of note in this Application and which impact upon the proposed rates include gas supply contracts and transportation arrangements, the allocation of UFG, the demand billing of costs to the high volume firm class, the disposition of the supplemental gas PGVA and the basic monthly charge.

I'll deal with each of those issues in turn and I'll then deal with the issues that do not impact directly on rates but which were discussed at the Hearing, such as gas demand side management, terms and conditions of service, the blank page analysis and the customer marketing research study. I will close with comments related to multiple service offerings and future regulation.

With respect to gas supply and transportation arrangements, Centra is requesting approval of the gas cost consequences flowing from the new gas supply and transportation arrangements. Centra is not seeking approval of the contracts in and of themselves, but rather of the cost consequences and the rate impacts which arise from them. There are several contracts for the Board to consider in this context.

First, with respect to the primary gas supply, Centra's current primary gas supply contract with Nexen Energy Marketing will expire on October 31st of 2004. As the Board has heard in evidence, Centra issued a request for proposal to twenty (20) parties and following a comprehensive review of the nine (9) responses received, it determined that Nexen is the preferred supplier.

As noted in the evaluation matrix which has been filed as an exhibit in this proceeding and is contained at Tab 4 of Centra's Book of Documents, Nexen Marketing scored significantly higher than other proposals with regard to price, flexibility to accommodate weather and WTS, completeness and previous experience with Centra.

Centra has also included in attachment -- sorry -- included Attachment 5 of Tab 3 to its Application which is a summary of those proposals -- in its Book of Documents.

The proposal submitted by Nexen provides flexibility very similar to that which Centra currently enjoys. Centra has retained the ability to adjust its nominations for any given day, several times throughout the day, to reflect changing weather conditions and the flexibility to revise its system requirements each quarter to reflect any changes to the quantities supplied by broker.

The salient features of the Nexen Contract were outlined by Mr. Stephens in his direct evidence, at pages 50 and 51 of the transcript. It has been suggested that Centra failed to act on the recommendations of IGC with respect to these contract terms.

However, as is evidenced from the proposals received, pricing out portions of the gas supply contract did not yield the most attractive price offerings. Instead, Centra would have paid a premium for lesser quantities of gas, which it was determined was not in the best interest of ratepayers.

I note My Friend, Mr. Saxberg, also suggested that Centra breached its promise to the Board by entering into those contracts. The commitment made to the Board is at page 21 of the Pre-Hearing Conference transcript, and it indicated that Centra intended that it would be back before the Board and would not make any long term decisions with regard to storage, prior to its appearance or filing of the next Cost of Gas Hearing which it was anticipated to be in 2005.

I expect that no one in this room is surprised that Centra made gas supply arrangements for the short term; that was contemplated in the filing, it was contemplated throughout the evidence, and it's important to note that these are short term supply arrangements. As Mr. Stephens said, a three (3) year contract term is business as usual, and it's consistent with the IGC Report.

Direct Energy has also expressed a concern that Centra's consultation with the broker community, regarding the Gas Supply Contract was insufficient. It was suggested that at least one (1) participant desired a contract which contemplated monthly displacements for WTS volumes.

During the broker relations meetings hosted by Centra in March of 2004, the brokers did not express a concern with respect to the quarterly adjustment provisions. This was a clear opportunity for any of the brokers to express any reservations.

In addition, Centra has noted that although Direct Energy was provided with a request for proposal, and had an opportunity to offer supply on any terms it chose, no proposal was submitted.

My Friend, Mr. Brown, took issue with the terms of the RFP, however, the scope of the work specifically invites flexibility and bidding for portions of the supply arrangements.

The remaining operational issues which were raised by Direct, go the nature of the competitive market and the role of the regulated utility in it.

Those issues, such as daily nominations controlled by brokers, and establishment of the maximum daily quantities, are best overseen by the Utility, in order to ensure that sufficient supplies are contracted for and nominated each day to ensure that Centra's system is balanced each day, and these could be considered costs which Centra performs on behalf of the brokers at no cost.

In summary, Centra engaged in a transparent, competitive process, invited creative solutions and proposals, and selected the best available proposal in the market. It is respectfully submitted that the Board should approve the gas cost consequences flowing from this arrangement for the 2004-2005 fiscal year.

Centra has also renewed its transportation arrangements with TransCanada Pipeline. Centra's current contractual arrangements with TCPL for firm service have been in place since January 1st of 1989, and terminate on December

31st, 2004.

The daily contract quantity of the Manitoba Delivery Area Firm Service Transportation Contract was reduced slightly to accommodate the Firm Service Contract which Centra took assignment of as part of the acquisition of the Gladstone Austin Natural Gas Co-op.

No changes were made to the Saskatchewan Delivery Area Firm Service Transportation Contract. Both contracts were renewed for twenty-two (22) months, terminating October 31st of 2006. That's the minimum term provided by TCPL which would allow for termination of the contract coincident with the end of the gas year.

The TCPL Storage Transportation Service or STS Contract, that expires on March 31st, 2005, has also been renewed for one (1) year.

Centra has also made changes to the ANR and GLGT contracts for storage and transportation services. These changes do not impact the term of the storage arrangements, which expire in 2013, and the former revenue cap remains in place. ANR proposed that the revised contract incorporate reservation charges fixed at levels, which, going forward, would result in the lesser of the revenue cap or the tariff rates.

It was also proposed that the Great Lakes Gas Transmission contracts, previously held by ANR, would be permanently assigned to Centra. Centra has signed contracts directly with Great Lakes Gas Transmission for both its forward haul and back haul requirements.

The previous back haul service was provided on an interruptible basis and has been replaced with a firm back haul service, coincident with the remaining term of the storage arrangement to March 31st, 2013.

Apart from the change from interruptible to firm, the terms of the firm back haul service arrangement mirror the terms of the previous interruptible back hauler contract held by ANR.

The terms of the forward haul contract with GLGT remain unchanged, except that the contract is now held directly by Centra.

The move from interruptible back haul service to firm service will result in a cost increase of approximately two hundred thousand dollars ($200,000) US, per year, relative to the current pricing.

Realignment of the contracts through to March 31, 2013, will provide great rate certainty for back haul service by avoiding the potential exposure to paying undiscounted rates and eliminates any concerns about GLGT not having sufficient back haul capacity available or potential changes arising from GLGT filing a new tolling application.

The long term firm discounted back haul

service will ensure that Centra will be able to access its storage gas without interruption for the remainder of the contract term with price certainty.

CAC/MSOS has suggested that Centra did not get value for the increase in cost. However, it’s important to recognize that Centra’s storage arrangements are contingent upon having access to those back haul arrangements.

The risks associated with interruptible service were outlined by Mr. Stephens on Pages 276 through 278 of the transcript. In essence, the back haul arrangement -- the interruptible back haul arrangement was a month to month arrangement which could have been terminated at any time or been the subject of a rate application.

Significant decontracting on the GLGT system could also put Centra’s ability to access its gas in storage at risk as a reduction of gas flowing down the Great Lakes would mean that Centra wouldn’t have gas supply to intercept in the Manitoba delivery area, stranding Centra’s storage gas in Michigan.

As such, Centra is of the view that the costs associated with firming up the back haul service and fixing the associated rate were a prudent investment in gas supply security on behalf of the Manitoba ratepayers.

Mr. Chairman, Members of the Board, another issue that received considerable attention at this hearing and which impacts upon Centra's proposed rate is the appropriate allocation of unaccounted for gas among Centra's ratepayers.

UFG is simply the difference between the measured amount of gas received on to Centra's system and the measured amount of gas delivered to its customers. There appears to be no quarrel that UFG arises primarily from measurement differences and only marginally from the physical loss of gas.

You've heard evidence that Centra's UFG is in the range of 1 percent and is estimated at .9 percent for 2004/05. Essentially for every hundred (100) units of gas delivered by Centra, we only bill customer for -- customers for ninety-nine (99) of those units. The remaining roughly 1 percent is Centra's unaccounted for gas.

So where does it go? We know Mr. Saxberg doesn't have it. Mr. Meronek doesn't have it. Centra undertook a fresh study of the UFG in 2003. This comprehensive study determined that UFG is caused by a number of factors, each of which was examined for its contribution to UFG on a class by class basis.

The study was able to identify the causes of 55 percent of UFG. 70 percent of which was attributable to the normal and acceptable measurement tolerances which occur within the parameters mandated by Measurement Canada. Twelve percent was related to physical loss, including fugitive emissions and operational venting.

Centra has explained its approach to measurement accuracy at Pages 887 through 890 of the transcript. Simplot has expressed a concern that the use of the high case versus the base case in the calculation of measurement error casts doubt on the accuracy of Centra's UFG study. Centra strongly disagrees with this characterization.

As explained by Mr. Barnlund, in order to meter gas, the temperature and the pressure of the gas must be taken into consideration in order to correctly calculate the volume of gas delivered.

In addition to the base metering device itself, there is also a system of components to sense and correct for gas temperature and pressure. These components will contribute additional error or variation to the base meter measurement.

Operating tolerances of the measured -- meter testing devices and actual flow rate conditions will also affect measurement accuracy.

As such, it's reasonable to exercise judgment by applying one (1) or two (2) standard deviations to the mean numbers to reflect the actual operating conditions that are experienced. This is reasonable in light of the factors that negatively influence measurement accuracy in real life.

Simplot suggested in their argument that Centra had arbitrarily turned the knob to produce a desired result. The reverse is true. The study was done, the standard deviations applied and the fact that that is consistent with the amount of UFG on Centra's system supports the reasonableness of the work that's been done by Centra.

Simplot has also suggested that they're served by a simple bullet pipeline. However, as was demonstrated in Centra's evidence, this is simply not the case.

Simplot is served by pipelines shared with the power station and some sixteen hundred (1,600) customers in southwest Manitoba.

In addition, the TCPL takeoff which serves those pipelines also supplies gas to the pipeline which serves the city of Brandon and some additional eleven thousand (11,000) customers.

While Simplot may be one (1) of the first customers to take gas off the line, there is no way to ignore the fact that they are but one (1) of many thousands of customers who take gas off that line and the losses that flow cannot be specifically measured for this one (1) customer because Centra cannot determine which of the gas measured at the TCPL takeoff is destined for Simplot.

As such, even if Centra were to add additional metres and undertake further studies as suggested by Simplot, the results would be no more accurate than those already before the Board.

I hope that's come clear in this argument that when the gas is metered at TCPL, there's one (1) metre that measures what comes onto Centra's system; that gas then gets divided through a series of pipelines and the only way that the net number is determined is once the measurements of all the metres at the far end are taken.

So while Simplot puts great stock in the fact that it's early on the system, the fact remains that it shares those systems and the UFG is allocated amongst all of the people that are on the system whether they're above them or below them in terms of the distance from TCPL.

I think Simplot's position can be summarized to say that they want the amount of -- of UFG allocated to them, to take into account where they are on the system, and the length of the pipe that serves them.

Even if that were physically possible, and it's not for the reasons that we've explained, it's not consistent with the philosophy of rate making which has been applied consistently in this jurisdiction for many years. That philosophy was reiterated by the Board in Order 91/01 when it found, and I quote:

> "The cost allocation methodology previously approved by the Board allocates UFG cost on

a customer class basis rather than on an individual customer basis. The methodology treats Centra's system on a province-wide basis and does not consider location or distance from the TCPL system as being a factor in the allocation.

The Board is aware that it is neither fair, cost effective, or practical to meter individual customer's premise to determine -- determine UFG. Under such a methodology, a customer near a TCPL takeoff would have an unfair advantage over a customer located at the far reaches of Centra's system."

End quote. I've enclosed a copy of the relevant pages of that order in Centra's book of documents at Tab 5.

Simplot has proposed an alternative allocation of 2.8 percent which is derived, at least in part, by the cost to serve Simplot directly from TCPL. As Mr. Hawk admitted during cross-examination, and that's at page 1089 of the transcript, that cost is driven by the length of pipe required and, of course, the location of Simplot becomes an important factor in determining that cost.

Centra's view, and one which has long been endorsed by this Board, is that location-based rates are not appropriate as they result in an unfair and discriminatory treatment of customers based upon their location within the province.

"It must also be noted that Simplot's own expert agrees that Simplot should be responsible for a portion of the costs of UFG which cannot be directly attributed to them."

I've taken that from transcript page 1086.

Simplot has taken issue with how those costs should be allocated. In the evidence of Dr. Reading and Mr. Hawk, several physical and financial indicators are suggested. However, as was noted by Ms. Derksen, these indicators simply do not correlate with the causes of UFG or with fundamental cost allocation principles.

There appears to be agreement among all the parties that the physical component of UFG is very small and that the majority of UFG relates to measurement. Simplot's own evidence suggests that the Board cannot rely on any one (1) of those indicators and has offered no evidence to support their correlation with the causes of UFG. They describe them as directional indicators.

Simplot has also suggested that the Board give consideration to allowing customers such as Simplot to supply

UFG in kind rather than paying the cost of UFG. However, as was agreed at this hearing, most UFG is comprised of a measurement loss, not a physical loss. This issue was also addressed in the response to Simplot Centra 13 wherein Centra noted that it does not support accepting delivery of gas in lieu of a customer paying their allocated share of the financial imbalances that cause UFG.

Centra does not have market area storage and operates its system under different conditions than other utilities. As such, acceptance of gas in excess of a customer's consumption requirements may cause negative operational balancing and contractual impacts on the system gas supply arrangements to the detriment of all of Centra's customers.

Simplot has also suggested that measurement of UFG could be simplified by isolating Simplot by means of a separate pipeline. This ignores the reality of Centra's system. Centra operates an integrated system.

Construction of facilities to isolate Simplot is a completely unwarranted duplication of facilities that is wasteful and economically inefficient. The construction of new facilities are neither warranted nor required.

I think this suggestion also loses sight of the issue. While Centra respects the fact that the financial impact of UFG is significant for this customer, one must put this in context. Simplot is allocated one thousand one hundred and fifty-one (1,151) 10-3-M-3s of UFGs.

This should be compared to their total volume of four hundred and twenty thousand four hundred and forty-nine (420,449) 10-3-M-3s.

This amounts to .27 percent of their total gas volume.

Interestingly, My Friend Mr. Gretener, suggests that Alberta and Saskatchewan transmission facilities assign a UFG percentage of .29 percent. Mr. Gretener suggests that this is more reasonable that Centra's UFG proposal.

In fact, the 5.7 percent allocation proposed results in a UFG allocation to Simplot of .27 percent based on their volume. This is consistent with the transmission facilities in Alberta and Saskatchewan, and supports Centra's findings.

CAS/MSOS has suggested that it's appropriate to use Centra's study for 55 percent of UFG but that the unidentified portion of UFG should be allocated on the basis of an unweighted volumetric calculation.

However, as noted by Mr. Barnlund at Pages 983 and 984 of the transcript, that would suggest that the unidentified portion of UFG was caused equally by all customers, which is clearly in conflict with the findings of the study.

Because of the elusive nature of UFG, Centra and the Board must look at the best information available to it. Centra's study is a robust one. It is the only comprehensive and detailed calculation which is before the Board.

This is the best information and should be accepted by the Board with respect to the allocation of the identified UFG.

Centra also submits that this information is the best available information to the Board with respect to the remaining 45 percent UF -- of UFG.

That is, this information is better than any other information related to the unidentified UFG. And given the conservatism of Centra's approach, which suggests that perhaps more than 55 percent of UFG is identified, it's appropriate to allocate all UFG on the basis of Centra's study.

I'd like to turn now to the issue of high volume firm and the demand billing. That issue's also been discussed in this Hearing and is one (1) which impacts upon Centra's proposed rates for the 2004/05 year.

The history of this issue is, I'm sure, well known to the Board and it's been outlined in Section 7.6.1 of Centra's Application.

Centra is requesting PUB approval to bill high volume firm demand charges on the basis of actual peak day, commencing November 1st of 2004. And has incorporated actual peak day billing units as part of its demand rate determination.

Centra is of the view that it's appropriate to bill and recover the capacity costs that have been allocated to the high volume firm class on the basis of an actual peak day, as this method most accurately reflects the nature of the costs incurred to provide service to customers and is consistent with the billing of demand for all customer classes with three (3) part rates.

It allows customers to observe and directly control their peaks and encourages high load factor usage of Centra's system. As Ms. Derksen noted in her evidence, at Page 677 of the transcript, the use of actual peak day to bill and recover capacity costs is superior to the use of average demand as it more accurately measures the maximum draw of a customer on the system consistent with how capacity costs are incurred.

This rationale has been accepted and is being used as the basis for billing demand costs in other high volume classes and is the reason that it should be used for the HVF class as well.

Rather than setting demand on the basis of the

2003/04 actual peak, Centra proposes to continue billing customers in this class, based on the average of the peak month until a customer exceeds their average peak.

This implementation proposal allows HVS -- HVF customers to make changes to their load profile, if they wish, to avoid being billed on their actual 2003/04 peak, and will ease the transition for HVF customers.

Mr. Chairman and Members of the Board, this issue ultimately becomes a question of fairness. The most appropriate basis for billing demand or capacity charges is based on a customer's actual daily peak, not their average monthly peak.

This was recognized as early as 1996 and with the installation of appropriate meeting -- metering for all customers in the HVF class, this billing can now be put into place.

There is no reason to delay any further. Centra's customers in this class require certainty in the manner in which demand charges will be billed. Movement between billing methodologies and retroactive adjustments create customer confusion and hardship, particularly for those customers who, in anticipation of changes, made alterations to their load patterns or equipment.

Centra suggests that the evidence regarding the appropriateness of actual peak demand methodology has been unchallenged. The fact that one customer is not pleased with the result of being billed, based on its actual consumption pattern, is not a basis upon which the Board should dismiss the most appropriate methodology.

Customers have been given adequate notice and an appropriate opportunity to respond to the proposed changes. Centra, therefore, respectfully submits that the amendments to the demand billing for HVF class, be implemented as requested.

The other demand-related issue which was discussed in this Hearing, is the incorporation of 65 percent of demand costs, in demand rates, for the high volume firm and interruptible classes. As outlined by Ms. Derksen in her evidence, this stems from the implementation of three (3) part rates in 1997, when it was determined that 50 percent of demand costs would be recovered in demand rates, as a means of smoothing the rate impact to moving to three (3) part rates for some customers.

Moving to 100 percent has been considered, but given the operation of the winter demand ratchet, and the advantage which is a gift to seasonal customers in an interruptible class, Centra will put forward its views on this item at the next GRA. As such, Centra is not proposing any changes to this 65 percent demand rates in this proceeding.

Centra is proposing to refund the supplemental PGVA balance through the distribution to customer charge, for all customer classes, except the main line class. Centra has proposed this change to deal with the volatility in the supplemental gas rate that results from the large refund that's accumulated in the supplemental gas PGVA.

Centra's concerns with respect to the volatility in the supplemental gas rate, were discussed in the Update to the Application, which was filed with the Board on August the 9th, 2004. Refunding the supplemental PGVA in the distribution to customer charge, allows for a more correct price signal to customers on the cost of supplemental gas, while ensuring that the refund is provided to the appropriately customers.

As well, the supplemental PGVA will be refunded over total sales volumes in the distribution to customer charge, thus allowing for a smoother refund of the supplemental PGVA.

For the four mainline customers who received supplemental gas from Centra, it's proposed that this be billed by way of a separate line item on the bill, because refunding the supplemental PGVA in their distribution charge, results in a negative billed rate. Centra is able to propose this alternative treatment for these customers because of the small number of customers impacted and the separate billing system which is used for mainline customers.

It has been suggested by CAC/MSOS that rather than refund the supplemental PGVA by way of a rate rider on the distribution base rate, that Centra should refund this amount as a lump sum to customers. Centra strongly opposes this suggestion.

In the evidence at pages 1268 and following, Centra outlined the administrative complexities associated with a lump sum refund to customers. In particular, refunding such an amount, based on historical volume information, would require a calculation of refund amounts for each of Centra’s two hundred and fifty thousand (250,000) customers, based on their unique historical volumes. Centra would have to locate each customer in order to provide them with the refund.

As Ms. Derksen noted, there was some forty thousand (40,000) moves on the system last year, which would require Centra to manually locate each of those customers. In addition, such a refund creates issues as to who is entitled to the refund, in circumstances between landlords and tenants, spouses, and other arrangements. The class associated with administering such refunds, could in fact outweigh the amounts being refunded.

Centra noted in its evidence that it was a long process to undertake refunding in this manner. It would not necessarily accomplish the goal of putting money in a customer's hand sooner and in fact, by the time Centra can implement this change, if it were approved by the Board, nine (9) months may very well have elapsed.

CAC/MSOS has suggested that its clients, particularly seniors, cannot wait for their refunds, and might want their money immediately. However, these are the very same customers for whom it suggested that bill volatility is not acceptable.

In addition, I think it's trite to say, that if the situation were reversed and Centra were seeking a lump sum payment to recover money from those same customers, that CAC/MSOS would be strenuously objecting to any suggestion that a rate rider was not the most appropriate means to recover these monies.

Some perspective in the matter is warranted. There is a suggestion that there is an inter-generational inequity which results from the application of a rate rider to refund these amounts. For a typical residential customer, the amount in question is approximately seventeen dollars ($17) for the supplemental gas, thirty-one dollars ($31) if transportation, distribution, and supplemental are all considered.

A refund of this amount will neither seriously impact bill volatility nor create inter-generational inequities of any consequence. The well-established practice of a rate rider is the most appropriate methodology to refund those amounts.

I also want to address My Friend's comments regarding the hedging transaction for the month of January 2004. First off, I think it's important to remember that the prices that we're looking at are future prices. They're one (1) year out and while the market may be moving dramatically in a few moments, the market's going to continue to move for the next three hundred and sixty-five (365) days as we get closer to the -- the date with the -- to which that transaction applies.

CAC/MSOS suggested in its argument today that Centra has gone too far in its mechanistic approach. CAC, in hindsight, suggests that Centra should have called off its plans and picked a different day on which to place that hedge. This is the very essence of a market view. The basis Mr. Saxberg suggests is that the market would have been calmer on another day. He thinks the market would have been doing something different the next day. This is clearly inappropriate.

In fact, witnesses indicated at several places in the transcript -- I can refer you to pages 506, 508, 509, and 513, that had they gone back to the market later, the addition to gas costs would have in fact, increased on that transaction.

CAC/MSOS also suggested this morning that Centra has eliminated all judgement in its derivative hedging program and this is blatantly false. You've heard evidence of refinements that have been made recently relating to liquidity concerns, the determinations made regarding the time of execution of transactions, and the execution of transactions in tranches (phonetic).

These are all reasonable exercises of judgement in the context of a -- mechanistic approach. These are the kind of judgements which Centra is confident it's able to apply without hampering its ability to carry out a mechanistic program and are the ones that are reasonable in circumstance.

Before I leave my list of topics which impacted rates, there's one (1) further matter that was discussed at the Hearing and which I'd like to briefly address and that was the discussion of the level of the basic monthly charge.

Centra's not proposing any changes to the basic monthly charge for the reasons noted by Ms. Derksen in her evidence. Outputs of the cost allocation study and the related rate design matters are reviewed by the Company on an ongoing basis. If the Company's of the view that changes are warranted these will be brought before the Board in the context of a General Rate Application.

Mr. Chairman and Members of the Board, I'd like to briefly address the suggestion that was made during the presentation of Professor Miller on behalf of TREE that a 2 percent system benefit charge be instituted to fund gas DSM programs.

I think it's worth noting that this came at the end of a lengthy process and without notice to other parties or customers. No evidence has been offered or tested that would support the notion of such a charge or the appropriate quantum for such a charge. I would refer you to Mr. Warden's evidence in response to Mr. Peters at pages 1190 and 1191 of the transcript, wherein Mr. Warden clearly stated that Centra does not support this proposal.

The appropriate forum to address this issue is at a General Rate Application. And it's inappropriate to commingle commodity costs with what is properly a charge against the distribution rates of the company.

Mr. Warden also indicated that the Company is presently preparing to launch a gas DSM program. It should also be noted that this issue was addressed by the PUB during the electricity General Rate Application and that Manitoba Hydro was issued a directive in this regard.

Turning to the issue of the terms and conditions of service, Centra is requesting approval of various amendments to -- to its Ts and Cs. Many of these are what I would describe as housekeeping nature, such as those to update the definition of service territories, adding an additional pressure zone as approved in Interim Order 4404, minor amendments with respect to WTS and ABC service.

Removal of remaining references to the buy/sell service and the broker administration fee which are no longer available or applicable, amendment of the standard pressure and temperature to reflect base conditions on which Centra's meters operate. And a minor amendment to include a reference to metres and regulators in Sections 4(b), 5, and 11 to address Centra's practice of charging for relocation or alteration to Centra's meters, regulators, and service lines.

Similarly, a proposed amendment to Section 4(G)(3) will add service lines to the reference to metres and regulating equipment in determining the re-connection fee payable by customers within five (5) years of disconnecting their service.

I should also note that Centra's original Application also contained a request to amend Section 4(E)(C) which related to costs of part and labour, however, Centra subsequently amended its Application and is no longer seeking amendment of that section.

Centra has also proposed to amend the company labour rate as outlined in the terms and conditions of service to more accurately reflect the cost of providing those services to the customers requesting them.

As noted in Centra's evidence, Manitoba Hydro's full absorption costing principles are applied to determine the activity rate which -- which it will recover all costs of carrying out a particular function.

In many instances the fifty-five dollar ($55) labour rate is not representative of the cost associated with the work being performed.

Centra is therefore proposing that this rate be replaced with a reference to various cost-based rates depending on the nature of the work performed. This will allow Centra the flexibility to charge customers requesting work the appropriate cost for that work, and it will ensure that other customers are neither profiting from nor subsidising that work.

Any customer requesting work will be provided with an estimate of cost before the work is commenced and, as such, will be aware of the costs associated with the work.

Centra submits that this proposal will result in equal clarity for customers as having a rate specified in the Ts and Cs as in either case, customers will require an indication of the time associated with the work and the cost of the materials in order to -- to determine the cost. As such there is no loss of transparency for customers.

Centra has also requested approval to amend the current fixed charge for temporary disconnections. The principle behind this requested amendment is the same, that is, that the costs associated with offering this service vary depending on the nature and the size of the equipment which is removed and reinstalled.

As indicated in Centra's evidence, the cost for this service for a residential customer ranges from a hundred and twenty-five dollars ($125) to three hundred dollars ($300) and as such, the current fixed fee of two hundred and twenty dollars ($220) means that, in some cases, other customers are subsidizing the work or profiting from that work.

I wanted to bring to the Board's attention Section 65(1) of the Public Utilities Board Act which gives the Board jurisdiction in order to be able to determine a rate that's either on a fixed or variable basis and reserves to the Board the jurisdiction to review that rate if there's a suggestion that they're inappropriate.

I think there was some concern expressed this morning on the part of My Friend that that may be outside of the Board's purview. However, I believe that that section of the Act permits you specifically to -- to do that and to retain the jurisdiction to review it as required.

I should also note that this isn't the first time that this type of a charge has been included in the Ts and Cs. At present there are rates for meter relocation and equipment rental which are variable. They indicate cost-based rates based on the appropriate cost.

Finally, Centra has requested an amendment to the terms and conditions of service to assist in advancing its initiative to achieve synergies in the billing of energy services.

In order to accomplish this, Manitoba Hydro is preparing to move all electricity customers onto the banner customer information system which will permit one (1) bill for customers who have both natural gas and energy -- electricity services.

It is Manitoba Hydro's intention to issue the first of these combined bills in November of 2005. However, in order to meet that objective, programming changes must be commenced and as such, Centra is seeking approval to amend it's terms and conditions of service to address the appropriate allocation of payment between customer accounts for that small minority of customers who do not pay their bills in full on or before the due date.

First, in all cases, Centra is seeking approval of allocation rules which will apply in the absence of direction from the customer to the contrary.

Centra is seeking approval to allocate

payments first based on the vintage of the outstanding amount. Centra proposes that payments, again in the absence of direction from the customer, be allocated to the oldest arrears first.

For arrears of equal vintage, or if there are no arrears for current charges, Centra wishes to allocate payments among Manitoba Hydro finance and rental charges, gas and electric charges, and third party finance and rental charges pro rata.

A black line version of the terms and conditions of service which was updated for all of the amendments that I've outlined, is contained in Centra's Application and highlights those proposed amendments.

Based on the discussion which took place on the record, I'd like to ask the Board to consider giving Centra an opportunity to provide the Board with an updated version of those Ts and Cs for its consideration in order that we can accurately reflect the -- the discussion that's taken place.

With respect to the questions of income tax and the expense component in the feasibility test, Centra is seeking approval to remove that income tax expense from its feasibility test, which is used to assess the financial feasibility of a proposed expansion or main extension and to calculate the amount of the customer contribution required, if any.

The test includes both incremental costs and incremental revenues associated with the proposed project. As Centra is no longer subject to income taxes, there is no incremental tax cost for expansion projects or main -- main extension, and as such, it's appropriate to remove this component from the feasibility test.

In Order 118/03, it was resolved that the one-time tax payment that was made by Centra to become non-taxable, would be recovered through customer sales rates over a thirty (30) year amortization period. In that Order, the Board also encouraged Centra to review the feasibility test and to bring proposed changes forward for approval.

Given the resolution of the recovery of the one-time tax payment, Centra now requests approval to revise the feasibility test, to remove the income tax expense component.

Centra has requested that these changes be made effective January 1st, 2004, and applied to all new expansion projects and new main extensions approved by management after that date. In addition, Centra is proposing that income taxes be removed from feasibility true-ups completed after January 1st of 2004.

For these true-ups, income tax will be included in the feasibility test for all calendar periods, up to and including December 31st, 2003, and will be removed from all calendar periods commencing January 1st, 2004.

Centra is of the view that the January 1st, 2004 date is appropriate, since Centra's feasibility tests and true-ups generally follow the calendar year, and this is the first calendar year following the issuance of Order 118/03. Administratively, this can be accomplished because of the small number of projects to which a refund will apply.

Having discussed the areas which impact rates in the 2004/05 fiscal year, and the approvals that Centra is seeking, there are some final areas that were discussed during the Hearing, on which I'd like to address before closing.

First, the Board directed in its Pre-Hearing Conference Order, that a general review of the blank page analysis be part of this process. IGC's report with respect to the review of Centra's gas supply portfolio, has been filed in these Proceedings in Tab 4.

IGC concluded that Centra's existing gas supply portfolio, which has essentially been in place since 1993, has served Centra's customers reliably and at reasonable cost. And recommended that Centra migrate the existing portfolio over time, to a new portfolio consisting of salt cavern storage and expanded ANR reservoir storage.

IGC recognized the availability of surplus capacity on TCPL, is such that there is an adequate time for Centra to fully consider its options before embarking on this project.

While CAC has -- MSOS has suggested this morning that Centra left money on the table, this contradicts the substance of the IGC report, which recognizes the economy and efficiency of Centra's current portfolio for the current circumstances.

As noted in the evidence, Centra is presently able to utilize short-term contracts for delivered gas, and can arrange exchanges of firm capacity, in order to meet its needs in a secure and economical matter -- manner.

CAC/MSOS had suggested that there was some imprudence on the part of Centra by not reacting to this report immediately. And I'd like to refer you to pages 609 and 610 of the transcript, where Mr. Stephens not only discussed the hair on the back of his neck, but went on to discuss the appropriateness of the current portfolio for the current circumstances.

Centra is presently undertaking an internal analysis and will make recommendations to its Board of Directors in the new year. Centra will consider what, if any approvals are required or desirable, prior to entering into long-term arrangements and will, in any event, keep the Board apprised of its decisions with respect to the gas supply portfolio.

Suggestions regarding process to review a decision which has not yet been made, are putting the proverbial cart before the horse. Prior to considering what the review process should be, it's appropriate that Centra have an opportunity to complete its due diligence, to make a determination of the appropriate arrangements for the future, and what regulatory approvals or reviews it may require.

Management has an important role in determining the response to the blank page analysis. Centra respectfully suggests that it be allowed an opportunity to complete that work, prior to any further orders of the Board being made with respect to this report.

I should also note that the Centra Panel took offence to Mr. Saxberg's characterizations this morning, that it was ignoring this report and rolling the dice. These -- characterizations are unfounded.

Centra has indicated to this Board many times that it's monitoring the market and that any concerns it has, relate with respect to the price of gas in the future. There is no concern on the part of the Corporation that there's any suggestion of a security of supply issue.

I'd like to talk for a minute about the customer research study. During the 2003/04 GRA, Centra indicated that it intended to undertake market research on customer’s perceptions and preferences related to the natural gas price volatility as it’s then current research had been undertaken in 1998.

Western Opinion Research undertook market research on behalf of the Company and provided a report which was filed as an attachment to the response to PUB Centra 9(A) in this proceeding. The study found that 53 percent of respondents indicated that they would like to see the current level of hedging maintained. An additional 13 percent of respondents indicated that they wished to see an increase in hedging activities.

Given those results, Centra is not proposing any changes to its derivative hedging policy. The current hedging program strikes an appropriate balance between market responsiveness and price volatility.

My Friend, Mr. Saxberg, suggested this morning that the -- the Western Opinion Research was of negligible value and pointed to a number of -- of items which he thought meant that the customers hadn’t been given sufficient information on which to base their decisions. And frankly I’m not quite sure what he suggests.   Western Opinion Research gave impartial information and it seems to be accepted that past performance won’t necessarily be an indicator of future performance. So to suggest that we should have indicated to customers our positive performance in the past few years would certainly have been misleading on the part of the Corporation in conducting the research and -- and would most certainly have skewed the results.

One (1) of the things that Centra learned through its market research was that customers were unaware -- or generally unaware -- of the steps that Centra takes to control bill and rate volatility. The steps that Centra takes were not well understood by its customers. As a result, Centra embarked on a public awareness campaign which, as Ms. Stewart outlined in her evidence, was designed for three (3) purposes.

First, to re-emphasize that customers have choice related to primary gas and their options.

Second, to ensure that customers understand the consequences of those choices.

And, third, to clearly outline what Centra does to mitigate price volatility and I'd refer you to the transcript pages 417 and 418 in that regard.

Municipal Gas suggested that Centra's conduct in undertaking this awareness campaign was inappropriate and violates the spirit of the WTS service. Centra strongly disagrees with that suggestion. Included in Tab 6 of the Book of Documents is an excerpt from Order 19/00 in which the Board approved the WTS service and contemplated public awareness of this service.

At page 52 of that order, the Board indicated that for the guide to the purchase of natural gas, which was prepared in collaboration with all parties, a generic title for that brochure was appropriate and that, I quote:

> "It would allow both Centra and the ABMs to develop and utilize their own separate marketing tools to promote their service offering."

End quote. Clearly, further publications were contemplated by the Board. I don't propose to deal with the specifics of Municipal's letter to Mr. Brennan as I understand and Mr. Brown has indicated on the record this morning that a meeting's been arranged in that regard.

It's expected that the parties will discuss their respective views in that forum and that Board intervention should not be required. Mr. Brown made a number of suggestions this morning regarding consultations.

I think it's important to note that the mechanism for this already exists. Formal meetings are held annually as you've seen with the agenda that's an exhibit -- Direct Exhibit 4 and as noted in Centra's evidence there are ongoing informal contact between brokers and Centra's Broker Relation department.

I respectfully submit that no further process is required. The billing suggestions which were made by

Municipal during the course of this hearing were good ones and in fact, in the interest of updating quickly, I can advise that Centra account number, in fact, won't be changing which would address that concern.

But this is precisely the kind of concern that can be addressed and should be discussed through the Broker Relations Department. That would facilitate the ongoing contact between the broker and the -- the Company.

With respect to the suggestions made by Mr. Brown this morning regarding advertising of the twelve (12) month strip, Centra's view -- Centra views the use of the twelve (12) month strip -- the -- the forward strip which is a consensus forecast -- as an appropriate means of -- of predicting -- as an appropriate means of displaying future price.

That is the consensus on which the market thinks forward price is going. That's vastly different that the proprietary forecast information which has been considered by this Board and rejected as being part of an -- an advertising campaign in the past.

Finally, Mr. Brown suggested that the WTS service was broken, in his words, and I simply wish to note for the Board that this isn't the view of the Company. There is, before the Board, one (1) out of eleven (11) brokers. There are many others that may not share that view and for whom the broker contact that they have through Centra and the broker relations certainly appear to be working. They're not here to complain about a broken service.

Finally, there has been discussion during the course of this Hearing about the possibility of Centra offering multiple service offerings to customers. Centra's position continues to be that it would like to have the capability to offer multiple service offerings to customers, although it does not intend to pursue the matter at this time.

The competitive market in Manitoba is continuing to evolve and until such time as the evolution is more mature or there's an indication that Centra's offering services -- other services is warranted, its premature to consider what those offerings might entail or how they might best be put forward to customers.

Some of the considerations which must be addressed include how such a service would be offered, how the transactions would be managed and how would be responsible for the risks associated with volume.

It is Centra's position that additional rate offerings which the company may wish to advance should be considered in the context of a General Rate Application.

A final area that was canvassed was the future regulation as it relates to rate-based rate of return regulation versus regulation based on a cost of service model.

It is Centra's position that gas rates should be based upon the cost of service model as this best fits with the philosophy of a Crown-owned utility. The relative comparisons of the two (2) methodologies were discussed by Messrs. Rainkie and Warden, at pages 334 through 340 of the transcript.

Centra is also of the view that, until appropriate legislative changes are made to permit the regulation of Centra Gas under a cost of service methodology, that there is discretion for the PUB to satisfy its current legislative requirements by considering the relative amounts determined as a contribution to retained earnings or return under the two (2) methodologies.

Centra has therefore suggested that it's next GRA filing could include calculations for both rate-based rate of return and cost of service methodologies. This would allow the Board to satisfy its legislative requirements and permit the comparison of the two (2) methodologies based on actual circumstances prevailing at the time.

Mr. Chairman, Members of the Board, in conclusion I submit that the evidence in these proceedings clearly demonstrates that Centra's rates, as proposed, are just, reasonable, and prudent.

I therefore submit that the requested rate decrease and the rate refund riders be approved by the Board and that Centra be granted the relief and approvals requested.

As an administrative matter, I note that Centra will be filing its quarterly Primary Gas Application in early October and will request an Order issued in respect of that on or about October 22nd, in order to accomplish the communication to customers which is contemplated by Centra and the Board.

If the Board is in a position to issue its Order with respect to this Application at the same time, or slightly in advance of that date, Centra would then be in a position to communicate the impact of both of those Orders to its customer communications.

Thank you.

THE CHAIRPERSON: Thank you, Ms. Murphy. So we've reached the end of the Public Hearing process. We want to thank the Utility and the Intervenors for their efforts related to the Utility's Application throughout this Hearing. Your contributions are greatly appreciated.

We've found the Company's panels and its Counsel to be forthcoming and helpful in assisting the Board, just as we've found the Intervenors to have raised significant issues in a cooperative and effective fashion.

The participation of CAC/MSOS, MacDon, Simplot, and Direct Energy/Municipal Gas was of considerable value to the Board and this process and provides the Board with perspectives difficult, if not impossible, to feasiblely obtain otherwise.

We also want to thank our Board advisors, staff, Carol Wilkinson the Court Reporter for Digi-Tran, for her transcript service. And we will now sequester ourselves to evaluate the evidence and reflect on the Application.

Our Decision will be forthcoming and can be expected in sufficient time to allow for any subsequent price changes.

Through the process we have become apprised and seized with the significance of the various aspects of the Application. And this realization and understanding will assist the Board in meeting its responsibilities, both with respect to the directions that it may provide but also with respect to providing sufficient support for those Decisions in the Order itself.

This concludes the Public Hearing segment of the process, unless I've missed something, Mr. Peters. Otherwise, thank you very much. Mr. Peters, did you have...

MR. BOB PETERS: No, I'm not aware of any matters outstanding and so the matter is concluded from the evidentiary point of view and the parties will await the

Board’s Decision.

THE CHAIRPERSON: Very good. Thank you to all.

--- Upon adjourning at 3:00 p.m.

Certified Correct

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Carol Wilkinson
Court Reporter