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MANITOBA PUBLIC UTILITIES BOARD

Re: CENTRA GAS MANITOBA INC.
 2007 COMPETITIVE LANDSCAPE PROCEEDING

Before Board Panel:

- Graham Lane - Board Chairman
- Len Evans - Board Member
- Eric Jorgensen - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
September 25th, 2007
Vol X
Pages 2016 to 2266

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1 --- Upon Commencing at 8:59 a.m.

2

3 THE CHAIRPERSON: Okay, good morning,
4 everyone. Cast of player appears to be the same, Mr.
5 Peters, so you can begin.

6

7 DEML/ESMLP PANEL, Resumed:

8

9 CLINTON ROEDER, Resumed

10 KAREN MELNYCHUK, Resumed

11 GARY NEWCOMBE, Resumed

12 NOLA RUZYCKI, Resumed

13

14 MR. BOB PETERS: Thank you, Mr. Chairman,
15 a few matters of -- one (1) matter of housekeeping at
16 least, for the process for this Hearing, and that is to
17 put on the transcript the dates that the parties are
18 presenting to the Board for closing submission.

19 And you'll recall at the outset of the
20 Hearing I indicated there were still some discussions
21 ongoing. The discussions have concluded, and I've also
22 taken the liberty working with the Boards acting
23 secretary to find out the next two (2) available dates,
24 where the Board would be available on consecutive days;
25 and the dates are October 25, and October 26th,

1 approximately one (1) months hence, for oral closing
2 submissions.

3 And for those parties, Mr. Chairman,
4 you'll recall in the outline of procedures, there are
5 some active participants, all of whom are represented in
6 this room this morning. There are also some that are not
7 active and maybe monitoring the transcript and may have
8 reserved the right for themselves to submit closing
9 submissions.

10 And I'll indicate the usual Board
11 practice, that if any of those parties not in this
12 hearing room wish to provide closing submissions, they
13 can provide them orally on October 25 and/or 26. And as
14 well, the Board usually extends to the parties an
15 opportunity to file them in writing if that would be
16 their preference, so I'll extend that on the transcript
17 for those who are monitoring.

18 So I just wanted to make sure that those
19 dates are now publicized and committed, as the parties
20 are available, and to my knowledge, all Board panel
21 members are likewise available.

22 THE CHAIRPERSON: Seems fine with us.

23 MR. BOB PETERS: Thank you, Mr. Chairman.
24 Yesterday there was an undertaking that I asked -- I
25 wanted to be educated about carbon neutral matters, and

1 time didn't permit for the proper education.

2 But through the good graces of Mr. Roeder,
3 they've provided an undertaking to provide some
4 information on Direct Energy's carbon neutral product
5 offerings. And Mr. Hoaken has provided a copy of that
6 information to me this morning, and I would ask that it
7 be circulated and marked as the next exhibit, which
8 according to my records is Direct Energy Savings Exhibit
9 Number 9.

10 MR. ERIC HOAKEN: Yes, I've got it here,
11 Mr. Chair, and I can circulate it. There were in fact,
12 by my count, there were four (4) undertakings -- takings
13 that were given by this panel. And if I could just go
14 through those, we're in a position to answer all four (4)
15 of them, and the fourth of them is the one that Mr.
16 Peters has just made reference to.

17 I'm going based on my notes. I haven't
18 yet had a chance to check the transcript, and if my note
19 of the undertaking is not consistent with that of any
20 other counsel, they can certainly let me know.

21 The first was for us to confirm the US
22 states or jurisdictions in which Direct Energy is
23 currently doing business.

24 The third Undertaking is related, so I am
25 going to address it as well; that was for us to confirm

1 if Direct Energy is active in Pennsylvania.

2 And I'm going to turn it over to Mr.
3 Roeder who can speak to both of those items.

4 MR. CLINTON ROEDER: Just to clarify, in
5 terms of the markets that we're participating in, we
6 currently have a customer base on the residential side in
7 the gas market, but are not active in Pennsylvania and
8 Illinois. We are active in the small commercial market
9 in Maryland.

10 We are active in the residential, in terms
11 of gas market, as well as CN -- large commercial and
12 industrial in Michigan and Ohio. Direct Energy is active
13 in gas and power for small commercial residential as well
14 as large industrial, in New York. And in November we
15 will be entering the residential market in Connecticut.
16 And we're also active in large commercial and industrial
17 in Massachusetts market, as well as Rhode Island.

18 MR. ERIC HOAKEN: All right. So that, by
19 my count, Mr. Chair, would answer Undertakings 1 and 3.
20 Undertaking number 2 was for us to confirm if Direct
21 Energy offers in Manitoba, a five (5) year declining
22 product; I believe that was a question Mr. Peters asked.

23 Ms. Melnychuk, could I ask you to answer
24 that please?

25 MS. KAREN MELNYCHUK: At the current time

1 we do not offer five (5) year declining in Manitoba.

2 MR. ERIC HOAKEN: And that brings us then
3 to Undertaking number 4 which Mr. Peters has made
4 reference to. I have the document here, and perhaps with
5 the assistance of Mr. Singh, it can be circulated and
6 entered.

7 I believe Mr. Roeder just wanted to say a
8 quick word about the carbon neutral product, so I'll ask
9 him to do so.

10 MR. CLINTON ROEDER: Thank you. I did
11 just want to point out -- and it's summarized in the
12 document that was -- that was passed forward, so I don't
13 intend to go through that in full.

14 What I did when I highlight, I realized
15 that yesterday we did not do a sufficient job in terms of
16 explaining it, and part of the reason for that is this is
17 a fairly new market and as well as trading. What I did
18 want, is just provide a high level, in terms of detail
19 around where we do offer the products.

20 As everyone's aware, you know, global
21 warming is -- it is an international issue. Some of the
22 questions that were asked in terms of other specific
23 offsets to make --in Manitoba; at this stage we have not
24 made any trades, whether it's bilateral or through
25 markets or specific to Manitoba. There's nothing

1 preventing us from doing that. It's a reflection of more
2 of the overall markets.

3 But just as an example of -- of -- just to
4 reflect on how new these markets are, in terms of where
5 we do -- do trade in the markets, in Europe we are active
6 in terms of -- with the European Union Emissions Trading.
7 The first year of operations for that market and -- and
8 that trading was actually in 2005.

9 In Europe it's mandatory, in terms of
10 emissions, and the way it works is in that -- they're --
11 let's say they require 20 percent in terms of emission
12 reduction. If a company signs up for 25 percent, which
13 is 5 percent over and above the regulatory requirement,
14 then that incremental 5 percent is traded. So it's a
15 financial incentive offered to those customers to exceed
16 the mandatory requirement.

17 In North America currently there is not a
18 mandatory requirement. However, since December 2003 the
19 Chicago Climate Exchange has been active. It's North
20 America's only and the world's first voluntary legally
21 binding greenhouse gas emissions trading market.

22 There are currently three hundred and
23 twelve (312) members. If you look in 2007 there's
24 already been more than 10 million tons of CO2 that's been
25 traded. We expect that there will be mandatory

1 requirements you move forward, similar to in Europe.

2 The other item -- example we gave
3 yesterday, in terms of how we are active, is in terms of
4 bilateral agreements that are reached, through voluntary
5 emissions reductions. And one that -- example it is
6 highlighted in the paper is -- is one that we have been
7 active in, which is completing the agreement, in terms
8 of our landfill offsets in Ontario.

9 And in all of these what we're doing is
10 essentially securing carbon offsets, based on, as you
11 mentioned yesterday -- and it's highlighted in detail in
12 the paper, the estimated usage in terms of carbon
13 emissions for the average residential household here in
14 Manitoba.

15 MR. ERIC HOAKEN: All right, thank you.
16 So with that I'll pass these documents to Board
17 Secretary, Mr. Singh.

18 THE CHAIRPERSON: Thank you, Mr. Hoaken.

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Mr. Peters, do we have
23 an exhibit number for this?

24 MR. BOB PETERS: Yes, Mr. Chairman. I
25 believe, on checking my notes, that it should be marked

1 as Exhibit DEML/ESMLP number 9.

2 THE CHAIRPERSON: Very good, thank you.

3

4 --- EXHIBIT NO. DEML/ESMLP-9: Response to Undertaking
5 16 re carbon neutral
6 product

7

8 THE CHAIRPERSON: Okay, Mr. Peters.

9

10 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

11 MR. BOB PETERS: I would like to thank
12 the panel for their undertakings promptly this morning.
13 It means they probably didn't get to watch too much of
14 the Monday game last night, Mr. Chairman, so we do
15 appreciate that.

16 Turning to the question that you answered,
17 Ms. Melnychuk, you told the Board in your undertaking
18 answer that presently there is no five (5) year declining
19 offer for primary gas in Manitoba.

20 Have I got that right?

21 MS. KAREN MELNYCHUK: That's correct, for
22 new customers.

23 MR. BOB PETERS: And does that apply --
24 that answer apply to both residential and commercial
25 customers in the LGS and SGS class?

1 MS. KAREN MELNYCHUK: Yes.

2 MR. BOB PETERS: And if the Direct Energy
3 website had listed a five (5) year declining balance, I
4 must have been looking at an old version of it or it's
5 expired at this point in time?

6 MS. KAREN MELNYCHUK: That's correct.

7 MR. BOB PETERS: Which means you did have
8 one but you no longer have one?

9 MS. KAREN MELNYCHUK: That's correct.

10 MR. BOB PETERS: And is there any
11 particular reason you can provide the Board at this time,
12 as to why that product is no longer available in
13 Manitoba?

14 MS. KAREN MELNYCHUK: The major reason is
15 the uptake on the product.

16 MR. BOB PETERS: I read between the lines
17 of that answer, Ms. Melnychuk, that you're telling the
18 Board there wasn't sufficient customer demand for that
19 product to be offered further?

20 MS. KAREN MELNYCHUK: That's correct.

21 MR. BOB PETERS: Mr. Roeder, you told the
22 Board about the markets in the United States in which
23 Direct Energy was active, and you also went on and told
24 them where they were not active, according to my note.
25 In terms of residential gas supply, I'd understood you to

1 be telling the Board that presently Direct Energy is not
2 active in Pennsylvania and Illinois. Did I get that
3 right?

4 MR. CLINTON ROEDER: That's correct,
5 we're not active in the residential and small commercial
6 at the --

7 MR. BOB PETERS: When you say you are not
8 active, does that mean you have no customers in those
9 markets?

10 MR. CLINTON ROEDER: No, what that means
11 is we are not actively out promoting new products to
12 customers. We do -- currently are serving customers,
13 residential, in both markets.

14 MR. BOB PETERS: Thank you for that.

15

16 (BRIEF PAUSE)

17

18 Mr. Chairman, I can perhaps be excused
19 when I get the filings and the offerings of the retailers
20 incorrect; it's probably less excusable when I get the
21 Board's last Order incorrect on the record.

22 And I had indicated yesterday the billed
23 rate -- or the rate for Centra's offering on August 1st,
24 the rate I put on the record was incorrect. I want --
25 just want to correct that.

1 And I now see that it's twenty-eight point
2 nine one (28.91) cents a cubic metre, as of August 1st as
3 a billed rate. I'm not sure if I was adding or
4 subtracting any riders on that.

5 Panel, we were talking yesterday about the
6 various service offerings, and we've now had some more
7 information this morning by way of -- by way of
8 additional undertaking information.

9 Can you explain to the Board why there are
10 no one (1) year fixed-price offerings for residential
11 customers?

12 MR. CLINTON ROEDER: The main driver, in
13 terms of not having one (1) year fixed-price offers here
14 in Manitoba, is related to the market rules that would
15 limit our ability in terms of -- to offer a competitive
16 product at this time.

17 MR. BOB PETERS: All right. I may have
18 got that information from you yesterday, but in terms of
19 the market rules, what specific market rule is the
20 impediment to the retailers going to the Manitoba
21 marketplace for a one (1) year fixed-price offering at
22 this time?

23 MS. KAREN MELNYCHUK: The major roadblock
24 in a one (1) year fixed-price for us, is the minimum
25 volume requirements that we must aggregate to be able to

1 flow a group of customers on at any price point.

2 MR. BOB PETERS: All right. And, Ms.
3 Melnychuk, you've been listening, I think, to most of the
4 evidence from Mr. Stephens and the Centra Panel, correct?

5 MS. KAREN MELNYCHUK: Yes, I have.

6 MR. BOB PETERS: And do you understand
7 from that, that Centra is now aware of some changed
8 requirements on TCPL's terms and conditions, such that
9 the minimum volume requirements can be lowered?

10 MS. KAREN MELNYCHUK: Yes.

11 MR. BOB PETERS: And what is your
12 understanding as to when Centra will implement the lower
13 volume requirements?

14 MS. KAREN MELNYCHUK: I believe in cross,
15 Mr. Hoaken tried to get that yesterday, and we did not --
16 we were not provided with a given date.

17 MR. BOB PETERS: And so one (1) of the
18 requests that you have, either -- and if Mr. Stephens
19 didn't put it on the record -- is you want this Board to
20 require that change to be made as soon as practically
21 possible?

22 MS. KAREN MELNYCHUK: Yes.

23 MR. BOB PETERS: And you're telling the
24 Board that by having lower minimum volume requirements,
25 the retailers will be able to offer a product such as a

1 one (1) year fixed product?

2 MS. KAREN MELNYCHUK: There's also other
3 barriers we have in offering. Like I said, the minimum
4 volume requirements was the major one. The other one is
5 the sales channels that are available to us.

6 Currently, with having to require a wet
7 signature on a contract, we can only avail to a door-to-
8 door sales channel or direct mail. So in regards to a
9 one (1) year we'd have to recover all that cost in one
10 (1) year, versus if we're offering a three (3) or a five
11 (5).

12 With the allowance of telemarketing or e-
13 signature contracts, they are lower cost sales channels
14 and that would allow us to be competitive in that one (1)
15 year fixed-price offering.

16 MR. BOB PETERS: Presently, Direct Energy
17 does telemarket in the Manitoba marketplace?

18 MS. KAREN MELNYCHUK: We telemark in a
19 fashion. The lingo we use for it is telehop. Because we
20 still need a wet signature, so we do telemarket in
21 advance of sending a door-to-door agent to their home.
22 We schedule appointments, is what we're doing.

23 MR. BOB PETERS: And yesterday when Mr.
24 Roeder used the word "telesales" you're using that
25 synonymously with "telemarket"; would that be correct?

1 MS. KAREN MELNYCHUK: Yes.

2 MR. BOB PETERS: And you're telling the
3 Board now that in terms of telemarketing you can't close
4 the deal with the client over the phone; you have to send
5 somebody to their door to get, as you call it, a "wet
6 signature"?

7 MS. KAREN MELNYCHUK: That's correct.

8 MR. BOB PETERS: Ms. Melnychuk, I believe
9 the evidence from yesterday is that there is no present
10 two (2) year offering from the retailers in the Manitoba
11 market; is that also your understanding?

12 MS. KAREN MELNYCHUK: Yes.

13 MR. BOB PETERS: And can you tell the
14 Board why there is not any two (2) year products from
15 retailers in the Manitoba marketplace to the -- to your
16 knowledge?

17 MS. KAREN MELNYCHUK: The same barriers
18 apply to the two (2) year; the minimum volume
19 requirements and the sales channels available to us at
20 this time.

21 MR. BOB PETERS: And in terms of the
22 sales channels -- well, let me just start with the
23 minimum volume.

24 When you tell the Board that you were
25 restricted by minimum volume, I think I had the Centra

1 panel agree with me that the minimum volume requirement
2 that they are presently holding the retailers to, is
3 approximately a hundred and forty (140) typical
4 households. Do you agree with that?

5 MS. KAREN MELNYCHUK: On an average
6 basis, an annual basis. When you take into account
7 attrition and churn moves we -- a marketer has to
8 aggregate more than that because the annual volume can
9 never go below the 310,000 cubic metres. So if you're
10 sitting just at the one hundred and forty (140) you lose
11 a few customers for moves or -- or deaths; we fall below
12 that and we can't continue that price point.

13 MR. BOB PETERS: And so instead of if the
14 number is a hundred and forty (140) typical households,
15 according to my math, you're telling the Board you need
16 some number in excess of that?

17 MS. KAREN MELNYCHUK: That's correct.

18 MR. BOB PETERS: Can you tell the Board
19 how much in excess of that you need to sign up?

20 MS. KAREN MELNYCHUK: Typically 10 to 20
21 percent more.

22 MR. BOB PETERS: And you'd indicated that
23 if you fall below the volume thresholds, or you said you
24 can't fall below the volume thresholds, but I suspect in
25 reality you can fall below but there's a penalty; would

1 that be fair?

2 MS. KAREN MELNYCHUK: Actually, no, we --
3 during the course of the year if we've -- or, sorry, when
4 Centra revisits the -- the requirements for the upcoming
5 gas year which starts on November 1st, if we have a price
6 point that is below that annual minimum volume we have to
7 either return those customers to system or roll them into
8 another price point. So what we've had to do in the past
9 is roll them into a lower price place point where we're
10 taking another hit on those customers.

11 MR. BOB PETERS: All right. So then as I
12 understand it, if -- if numerically your customer uptake
13 -- you called it "churn" C-H-U-R-N?

14 MS. KAREN MELNYCHUK: Yes, or attrition.

15 MR. BOB PETERS: Or attrition. If you
16 churn or have attrition of customer numbers and you do
17 actually fall below the volume -- the minimum volume
18 requirement in Centra's terms and conditions of WTS, you
19 then have to elect a different method of servicing those
20 customers under a different contract?

21 MS. KAREN MELNYCHUK: Or returning them
22 to system.

23 MR. BOB PETERS: Can you tell the Board
24 whether you have in fact ever returned customers to
25 system supply because the volume requirements have not

1 been achieved?

2 MS. KAREN MELNYCHUK: No.

3 MR. BOB PETERS: You haven't returned
4 customers to system supply because volumes haven't been
5 achieved?

6 MS. KAREN MELNYCHUK: No, we have not
7 returned to system. We've rolled them into a lower price
8 point so that we would still service those customers.

9 MR. BOB PETERS: And you'd retain the
10 customers but you would do it at a financial cost to the
11 company?

12 MS. KAREN MELNYCHUK: That's correct.

13 MR. BOB PETERS: Yesterday -- I'm sorry,
14 in the -- it may have been yesterday, but in Mr.
15 Stephens' testimony in the Centra panel, they'd indicated
16 that there was a movement afoot now to reduce the minimum
17 volume requirements.

18 And in my math again, it would come down
19 to approximately four (4) typical household volumes for
20 residential customers, would be needed to be secured
21 before a contract could be entered for direct purchase.
22 Is that your understanding?

23 MS. KAREN MELNYCHUK: That was some of
24 the evidence that I heard yesterday.

25 MR. BOB PETERS: And if the number comes

1 down to the 1 gigajoule a day, is that low enough to
2 remove any barrier for volume requirements?

3 MS. KAREN MELNYCHUK: Yes.

4 MR. BOB PETERS: In terms of variable
5 price offerings, my understanding -- and I want the Board
6 to be clear -- is that because of the current
7 requirements, again with your contracts with the Utility,
8 you cannot change the price of your contracts except on
9 the gas quarters?

10 MS. KAREN MELNYCHUK: Yes, that's the
11 current methodology. May I just add a statement to the
12 minimum volume requirements and the comments that were
13 made on the record yesterday?

14 MR. BOB PETERS: If I don't let you, Mr.
15 Hoaken will make sure you get it in somewhere along the
16 way, so I'll let you.

17 MS. KAREN MELNYCHUK: In June when this
18 Hearing was -- or postponed or rescheduled to September,
19 we had inquired with Centra Gas through their legal
20 counsel, because we had an impression at that time that
21 the minimum requirements were going to be reduced, we'd
22 advi -- or put in the inquiry at that time to see if we
23 could advance that in -- yeah, before this Hearing, so
24 that we could meet the September 15th deadline for
25 November.

1 We did not receive a response from Mr.
2 Stephens through with their counsel, and it's something
3 that we've been waiting for throughout the summer.

4 So we're a little frustrated with the
5 process and -- and with just the -- the constant
6 indefinite date of when we could see this happen.

7 MR. BOB PETERS: And as you testified
8 before the Board today, Ms. Melnychuk, you're telling the
9 Board you don't know with any certainty as to when Centra
10 will officially change their terms and conditions, such
11 that the volume requirements will be reduced to align
12 with the TCPL requirements?

13 MS. KAREN MELNYCHUK: That's correct. We
14 were not given any definite date yesterday. It was
15 dependent on Mr. Stephens timeline or his schedule.

16 MR. BOB PETERS: Okay. Back to my topic
17 of variable offerings. And yesterday I had understood
18 the evidence to be from this Panel, that there were no
19 variable price offerings in Manitoba, for a monthly
20 variable in any event, because the only changes you can
21 make are on the quarter -- the gas quarter?

22 MS. KAREN MELNYCHUK: That's correct.

23 MR. BOB PETERS: And you understand that
24 that requirement is changing as of November 1st of 2007?

25 MS. KAREN MELNYCHUK: That's correct.

1 MR. BOB PETERS: From what you understand
2 the change to be, there will be an opportunity to change
3 prices as well as enroll customers on a monthly basis?

4 MS. KAREN MELNYCHUK: That's correct.

5 MR. BOB PETERS: And as a result of being
6 able to enroll customers on a monthly basis and change
7 prices on a monthly basis, that will facilitate any
8 desire of the retailers to offer variable pricing; would
9 that be correct?

10 MS. KAREN MELNYCHUK: That's correct.

11 MR. BOB PETERS: Can you tell the Board
12 whether or not Direct Energy will be going into the
13 Manitoba market with a variable price offering after
14 November 1st of 2007?

15 MS. KAREN MELNYCHUK: I can speak for
16 Manitoba. We have not looked at that product yet for
17 Manitoba -- until we get confirmation of the minimum
18 volume requirements and removal of those other market
19 barriers.

20 We do offer a variable price or product in
21 other markets, so we will visit that product offering for
22 Manitoba once all the barriers are removed.

23 MR. BOB PETERS: And when you say you
24 offer a variable product in other markets, can you be
25 more specific, Ms. Melnychuk? What variable products do

1 you offer in Ontario?

2 MR. CLINTON ROEDER: I can speak toward
3 that. In Ontario currently we do not offer a variable
4 product. In Alberta we do have a variable product that
5 fluctuates month to month, as well as there are variable
6 products and various markets in the US.

7 MR. BOB PETERS: It might be opportunity
8 to get Mr. Newcombe into the discussion this morning.
9 Mr. Newcombe, Mr. Roeder has just indicated that in
10 Alberta there's a month to month variable product, and
11 I'd like the Board to understand whether that's the
12 unregulated Direct Energy offering or is that the
13 regulated offering of the Utility?

14 MR. GARY NEWCOMBE: I believe Mr. Roeder
15 was referring to our -- one of our competitive offerings
16 called the -- I mean, the regulated product in -- in
17 Alberta does vary month to month as well, for all of
18 their regulated suppliers. But his -- his comment was in
19 direct reference to a competitive product.

20 MR. BOB PETERS: Can you briefly, Mr.
21 Newcombe, explain to the Board how Direct Energy
22 functions in the Alberta market? In -- in both
23 capacities; in the regulated offering and also in the
24 competitive side.

25 MR. GARY NEWCOMBE: I think that's a

1 fairly broad question but I can try. I -- I'll start
2 with the regulated entity.

3 As I said yesterday, we are a regulated
4 retailer, and in Alberta there is a functional separation
5 between distribution and retail -- a regulated retail.
6 So we operate solely as a regulated retailer within the
7 service territory of a specific distributor. We are
8 required to have our rates reviewed; regulated by the
9 Alberta Energy and Utilities Board.

10 Our administration -- or our cost of
11 service, if you will, is approved typically on a multi-
12 year basis. Similar to any other regulated entity, we'll
13 file an application with the Board, and go through -- and
14 either negotiate a settlement or have a hearing to
15 determine our non-energy costs, if you will.

16 The costs of our energy with respect to
17 gas is set on a prospective basis monthly. We do make a
18 forecast -- or take the market forecast of what the costs
19 will be for the upcoming month to purchase our forecast
20 volumes. To that, we will either add or subtract any
21 deferral account balance, and the resultant becomes our
22 energy rate for the upcoming month. And as I said, that
23 changes on a monthly basis.

24 It's a similar process on the electricity
25 side, as well. There are a few exceptions: There's no

1 deferral account mechanism on the electricity side, for
2 example. So it's all done on a forward month fixed
3 basis.

4 On the competitive side, we're able to
5 offer a full range of products; everything from the
6 variable product to fixed-prices of varying lengths.

7 The relationship between the regulated and
8 competitive entities is governed by a number of
9 regulations in place. Probably the most germane to this
10 is the Code of Conduct Regulation, which governs the use
11 of regulated customer information; prevents regulated
12 retailers from allowing competitive affiliates any access
13 to regulated customer information. It governs the use of
14 joint resources and any transfer pricing mechanisms that
15 are there.

16 And it also governs the ability of a
17 regulated entity -- or it prohibits the ability of a
18 regulated entity to allow any preferential treatment of
19 any competitive retailer. Like, for example, our monthly
20 pricing on the regulated side, we are not allowed to let
21 our competitive affiliate know what the upcoming month's
22 price will be any time in advance; we have to make that
23 public to all retailers at the same time.

24 So it governs those kind of activities.

25 MR. BOB PETERS: Is the competitive

1 offering offered by the same corporation?

2 And I know that's got a legal connotation
3 to it, but I want to know if there's -- if it's the same
4 corporation that provides the regulated offering or
5 whether, in fact, it is an unregulated affiliate of the
6 company that provides the regulated offer.

7 And if you're not comfortable with
8 answering that --

9 MR. GARY NEWCOMBE: Yeah --

10 MR. BOB PETERS: -- that's something that
11 --

12 MR. GARY NEWCOMBE: Well --

13 MR. BOB PETERS: -- I'm sure your counsel
14 and you can check and verify for this Board.

15 MR. GARY NEWCOMBE: Yeah, I may not be
16 able to give you a direct answer, I can tell you how the
17 structure is set up.

18 So the competitive offerings our -- are
19 offered through Direct Energy Marketing Limited through a
20 different brand name, Direct Energy Essential Services.
21 The regulated entity is actually part of a -- I might
22 have had that wrong. Maybe I should just defer this.

23 I think the right answers is likely an
24 affiliate rather than the corporation, because there is a
25 partnership engaged in the Alberta business as well,

1 that's mostly controlled by Direct Energy but it is a
2 separate legal entity. So I'd better -- maybe we'd
3 better get back to you on that, sir.

4 MR. BOB PETERS: I think I'd accept that
5 as an undertaking to yourself and your counsel to provide
6 that information to this Board.

7 MR. GARY NEWCOMBE: Sure.

8

9 --- UNDERTAKING NO. 17: DEML/ESMLP to determine for
10 Board whether it is the same
11 corporation that provides the
12 regulated offering or whether
13 it is an unregulated
14 affiliate of the company that
15 provides the regulated offer
16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: You mentioned in your
19 answer to me, Mr. Newcombe, that the -- there was a
20 relationship regulation or a code of conduct, as between
21 the entity that provides the regulated offering and the
22 one that's unregulated.

23 MR. GARY NEWCOMBE: That's correct.

24 MR. BOB PETERS: Have you had any
25 opportunity to review the Tab 5 of a book of documents

1 that I had circulated very early in these Hearing?

2 It contains an affiliate code of conduct
3 for Manitoba that dates back a number of years that was
4 established with respect to Centra and any of the
5 affiliate companies it may become involved with.

6 Would you have had any opportunity in
7 advance -- and I know I didn't notify you -- but to
8 review that?

9 MR. GARY NEWCOMBE: I did review it
10 briefly.

11 MR. BOB PETERS: Can you tell the Board
12 whether there are -- whether it covers essentially the
13 same points that you are -- that Direct Energy is bound
14 by in the province of Alberta, as between it's regulated
15 company and it's unregulated offerings?

16
17 (BRIEF PAUSE)

18
19 MR. GARY NEWCOMBE: I believe at a fairly
20 high level it probably covers off most of the -- the same
21 points. The Alberta regulation, I think, goes into maybe
22 a few more specifics, but I think the attempt is probably
23 to cover off the -- the same high level points.

24 MR. BOB PETERS: Thank you. And rather
25 than go through it then in any great detail with the

1 Alberta situation, is the Alberta Affiliate Relationship
2 Code a document that you have access to, and could
3 provide a copy to your counsel to provide to this Board?

4 MR. GARY NEWCOMBE: Yes.

5 MR. BOB PETERS: I would ask for that as
6 well in a reasonable time frame, if you could undertake
7 to do that, that would be appreciated.

8

9 --- UNDERTAKING NO. 18: DEML/ESMLP to provide to
10 Board a copy of the Alberta
11 Affiliate Relationship Code

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Is there compliance
15 testing in Alberta for your code that you've referred to?

16 MR. GARY NEWCOMBE: Yes. The Alberta --
17 there's actually two (2) codes in Alberta. There's one
18 (1) governing -- governing the electricity market, and one
19 (1) governing the natural gas market.

20 Today the electricity code of conduct is
21 administered by an entity called the Market Surveillance
22 Administrator, and the natural gas code of conduct is
23 administered by the Alberta Energy and Utilities Board.

24 There is an annual audit that those two
25 (2) entities conduct under those two (2) codes. They

1 typically hire a third party auditor to come in and
2 verify that we have the correct separation within our IT
3 systems, within our physical facilities, within the
4 billing system. They'll go through all of that.

5 They'll review all of our marketing
6 material from the competitive side, and -- as well as
7 from the regulated side, to ensure that the correct
8 consumer protection statements were on it; that there was
9 no preferential treatment given or implied in any of the
10 regulated material; those sorts of things.

11 MR. BOB PETERS: Are there intermediate
12 penalties in the form of fines included in -- in those
13 codes?

14

15 (BRIEF PAUSE)

16

17 MR. BOB PETERS: And it's not meant to be
18 a memory test on that, Mr. Newcombe. I appreciate you
19 have had no advance warning of this line of questioning,
20 so perhaps we'll just review the document, and it'll --
21 it'll tell the Board that answer, if they wish to pursue
22 that.

23 MR. GARY NEWCOMBE: Okay.

24 MR. BOB PETERS: Can you tell the Board
25 how -- how well Direct Energy was graded on its last

1 report card from its auditing process by -- through the
2 AEUB process?

3 MR. GARY NEWCOMBE: Oh I'd be thrilled to
4 tell you that, sir.

5 MR. BOB PETERS: It sounds like another
6 commercial coming here, but I asked for it, so you better
7 tell me.

8 MR. GARY NEWCOMBE: Yes, well actually
9 there's been no findings of any fault in any of the
10 audits that have been conducted. And actually our --
11 we've been held up, and I think there's some information
12 out there that says that we have the highest standards of
13 any of the retailers with affiliates in the province of
14 Alberta. And we were actually granted an exemption for
15 the 2007 year from the audit provisions, by the market
16 surveillance administrator.

17 I should also say too, that in the Alberta
18 Code of Conduct Regulation, there is a requirement for
19 all of the entities that have competitive affiliates, to
20 produce a compliance plan, which goes into great gory
21 detail on how they will conduct themselves, and how they
22 will comply with the Code of Conduct Regulation.

23 And those documents as well are reviewed
24 and approved by the respective regulators; either the
25 Market Surveillance Administrator or the Energy and

1 Utilities Board.

2 MR. BOB PETERS: I didn't understand from
3 that answer, Mr. Newcombe, as to why Direct Energy
4 qualified for an exemption?

5 MR. GARY NEWCOMBE: Based on -- sorry.

6 MR. BOB PETERS: For, I think, it was
7 2007 that you said?

8 MR. GARY NEWCOMBE: That's correct. It
9 was based on the findings, or the lack of any findings in
10 the previous audits, and just our market behaviour, sir.

11 MR. BOB PETERS: And...

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: I want to turn with the
16 panel to some of the factors that would go into the
17 establishment of the price that the broker or retailer
18 offers to the residential consumer.

19 And would the panel agree with me that one
20 (1) of the factors that has to be considered is the
21 supply price at which the retailer procures the natural
22 gas molecules?

23 MS. NOLA RUZYCKI: Yes, that's correct.

24 MR. BOB PETERS: From the evidence of
25 yesterday, is the Board to understand that Direct Energy

1 owns its own production facilities in Canada?

2 MR. CLINTON ROEDER: Direct Energy does
3 own upstream gas assets in Canada, but currently we do
4 not own any power generation in Canada.

5 MR. BOB PETERS: I take from that answer,
6 Mr. Roeder, that you're telling the Board that you do
7 have upstream gas production assets but not electricity
8 production assets?

9 MR. CLINTON ROEDER: That's correct. And
10 we also do have midstream assets for storage in Canada as
11 well.

12 MR. BOB PETERS: And would those storage
13 assets be in eastern Canada?

14 MR. GARY NEWCOMBE: We have contracted
15 capacity in both eastern Canada and in Alberta, sir.

16 MR. BOB PETERS: Does the panel accept
17 and advise this Board that the cost for a retailer to
18 procure the gas molecules has to be assumed to be the
19 same as the cost by Centra to obtain the gas molecules?

20 MS. NOLA RUZYCKI: No, the cost of the
21 gas molecules would be different between Centra and the
22 retailers in this case. Centra is purchasing for short
23 term being three (3) month, or possibly in some of their
24 hedges they're purchasing out one (1) year; whereas
25 Energy Savings is purchasing for a term of five (5)

1 years. So we're looking at the longer term market which
2 has been fairly stable over the last year.

3 MR. BOB PETERS: Ms. Ruzycki, is the five
4 (5) year purchase of molecules, is that purchase of the
5 physical molecules or is that purchase of a -- of a
6 derivative instrument to -- to effectively hedge the
7 price of that product?

8 MS. NOLA RUZYCKI: That would be purchase
9 of the molecules.

10 MR. BOB PETERS: And you're telling the
11 Board that there is a market in Canada where you can
12 purchase the molecules five (5) years forward for a --
13 for a known price?

14 MS. NOLA RUZYCKI: Yes, that's my
15 understanding.

16 MR. BOB PETERS: And in terms of how the
17 Utility purchases its price do you accept that they are
18 using an index that attempts to provide a market price?

19 MS. NOLA RUZYCKI: I -- I -- I'm not
20 sure. I'm not really sure what -- exactly how they
21 purchase so I really couldn't comment on that, but I
22 could comment that a monthly price would be -- likely be
23 a lot more -- or would be more appropriate to a market
24 price.

25 MR. GARY NEWCOMBE: I think, Mr. Peters -

1 - if I could jump in -- I think your -- your first
2 question to Ms. Ruzycki was would the retailers pay the
3 same price to purchase the molecules as would Centra.

4 And I think just to add to what Ms.
5 Ruzycki said, if we were purchasing the exact same
6 product at the exact same time I don't have any reason to
7 think that the -- the price would be different in any
8 significant way or even different at all. If a retailer
9 and Centra were both out purchasing, you know, October
10 index gas we'd probably pay the same price; or if we both
11 went to the market today to purchase similar volumes of a
12 three (3) year instrument we would likely pay the same
13 price.

14 There was another -- something else I was
15 going to say but I've lost my train of thought.

16 MR. BOB PETERS: Well, you're certainly
17 welcome to come back if you -- if you recall it, and if
18 you can be as skilful as Mr. Stephens and get it back
19 into an answer, we'll --

20 MR. GARY NEWCOMBE: Oh sorry, I just
21 remembered. You asked if -- or somebody remembered for
22 me -- if Centra's price was market reflective; I think in
23 one of our IR responses, we -- we addressed that and
24 there's many different definitions of market price.

25 I think a one (1) month index price is

1 reflective of the one (1) month market price. A five (5)
2 price is reflective of the market view of the price over
3 the next five (5) years.

4 So I think there's varying definitions of
5 what a market price is. We just need to say whether
6 we're talking about the short term market or a five (5)
7 year view of the market price. But I think they're all
8 basically -- at the end of the day, market price is just
9 prices reflective of different markets or different times
10 within the market.

11 MR. BOB PETERS: In addition to
12 purchasing the gas molecules at a fixed-price for a
13 longer term than perhaps Centra purchases them, can the
14 panel indicate to the Board whether retailers use hedging
15 instruments for the gas supplied to Manitoba?

16 MR. NOLA RUZYCKI: Yes, we do.

17 MR. BOB PETERS: Would a retailer need to
18 do hedging if it procured its gas on a fixed-price
19 contract for a five (5) year term?

20 MR. NOLA RUZYCKI: Yes. As we have
21 attrition factors that we would account for, and also we
22 may, in certain circumstances, have to move price points
23 to different groups. We also would purchase -- actually
24 I'm going to just leave it at that.

25 MR. BOB PETERS: Thank you. Do I take

1 from that answer that retailers may consider hedging not
2 only the price of the gas, but also try to hedge the
3 volume risk?

4 MR. NOLA RUZYCKI: Yes.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: Do retailers accept that
9 when you do go into the market for -- whether it's a five
10 (5) year fixed-price purchase of the molecules or whether
11 it's through hedging, that there is a risk premium that
12 is exacted in the transaction?

13 MR. NOLA RUZYCKI: Yes, that's correct.

14 MR. BOB PETERS: And the risk premium is
15 one that is paid then to the supplier or the
16 counterparty?

17 MR. NOLA RUZYCKI: That's correct.

18 MR. BOB PETERS: And would it also be the
19 Board -- would the Board also be correct in assuming that
20 if there was that risk premium, that risk premium would
21 have to be included in the price of the product that the
22 retailers provide to the residential customers in
23 Manitoba?

24 MR. NOLA RUZYCKI: Yes, that's correct.

25 MR. GARY NEWCOMBE: Mr. Peters, there's

1 also opportunities though for a -- a privately owned
2 corporation such as Energy Savings or Direct Energy, to
3 absorb some of that risk and, you know, take the risk
4 premium internally, but basically self insure against
5 that risk through the pricing to the end use consumer.
6 So it doesn't always have to flow to the supplier of the
7 actual gas.

8 MR. CLINTON ROEDER: Can I just clarify,
9 when you're referring to risk premium that we're paying
10 in the market?

11 MR. BOB PETERS: You're asking me to
12 explain further what I intended in that question?

13 MR. CLINTON ROEDER: Yes, please.

14 MR. BOB PETERS: All right. When --
15 let's start with the example of a five (5) year fixed-
16 price supply contract, where the molecules are fixed in
17 price for five (5) years which I understood to be the
18 evidence of the Panel, that that option is available to
19 the retailers?

20 MR. CLINTON ROEDER: That option is
21 available to everyone in the market. You know, anyone
22 can go -- go out to the market; it's public; it's
23 publicly traded.

24 MR. BOB PETERS: And would it be correct
25 to say that that five (5) year price is really the sum of

1 the expected monthly prices over the five (5) year term?

2 MR. CLINTON ROEDER: I can't speak
3 specifically in terms of what's reflected in the market,
4 whether it's monthly or over the sixty (60) month strip.

5 MR. BOB PETERS: And would that long term
6 -- would that long term price for the molecules contain
7 in it a premium for the risk of the price, going down,
8 let's say?

9 MR. CLINTON ROEDER: I don't think --
10 well, I can't sit here and explain what is or is not
11 factored into the market over a sixty (60) month term.

12 You know -- and I think one thing I would
13 point out, there is a difference between Direct Energy
14 and Energy Savings in terms of how we manage our
15 wholesale side.

16 We do have our team in-house, in terms of
17 our energy management versus some of our competitors who
18 rely on third parties. So there could be differences in
19 terms of what is or is not factored in.

20 But I can tell you right now, when we go
21 to the market and we look at a sixty (60) month strip per
22 month-to-month, going to Gary's comments, it's the same
23 as if Centra went out and looked in the market.

24 And so when they look at their hedging
25 over 60 percent, I think was the correct number, in terms

1 that they're hedging, and when they're going out forward-
2 looking, it's the same as what we're looking. We're not
3 paying any premium over what is offered in the
4 marketplace.

5 MR. BOB PETERS: All right. Thank you
6 for that clarification.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Mr. Roeder, would you
11 agree with me that if you use derivative instruments to
12 do your hedging, that there is a risk premium built into
13 the hedge instrument?

14 MR. CLINTON ROEDER: There is a cost to
15 mine any instrument out there. So you do pay a cost for
16 that. I mean, don't -- just to clarify, I mean my only
17 concern is when I hear a risk premium, I would say
18 there's a cost if you want to go out and buy an option,
19 just as any tool or instrument you buy in any industry.

20 MR. BOB PETERS: In addition to the
21 supply price for the gas you sell in Manitoba to the
22 residential customers, there also are operating and
23 administrative expenses that need to be considered and
24 recovered in the rate that's charged, would that be
25 correct?

1 MR. CLINTON ROEDER: That's correct.

2 MR. BOB PETERS: And would you agree with
3 me, Mr. Roeder, that in the case of Direct Energy you
4 have a team that supplies resources of the operating and
5 administrative nature to Manitoba and that team also
6 supplies those services to other jurisdictions other than
7 Manitoba?

8 MR. CLINTON ROEDER: My only hesitation -
9 - just to clarify, when you're asking that question, are
10 you asking in terms of all of our costs or specifically
11 to a part of the business?

12 MR. BOB PETERS: I'm -- I want -- I want
13 to deal with the gas -- the primary gas supply, to
14 residential customers in Manitoba.

15 MR. CLINTON ROEDER: And the only reason
16 I asked, just to clarify, is as we've noted, you know,
17 Karen Melnychuk, and her team are based here in Manitoba,
18 and the majority of that team is focussed -- as she was
19 going through the headcount yesterday that's based here
20 in Manitoba, is focussed on the Manitoba business, with
21 the exception of Karen herself.

22 In terms of our Energy Management Group,
23 that is a group that we do leverage across all of Canada.

24 MR. BOB PETERS: And in addition to the
25 Energy Management Group that provides services across

1 Canada, would Direct Energy -- it has the benefit of your
2 services that it can be provided across Canada?

3 MR. CLINTON ROEDER: That's correct.

4 Across Canada as well as some of that US --

5 MR. BOB PETERS: Sure. And -- and so in
6 terms of the assets of Direct Energy, even though they
7 may not be physically located in Manitoba they're
8 available to assist in the Manitoba marketplace?

9 MR. CLINTON ROEDER: That's correct.

10 MR. BOB PETERS: And just like Ms.
11 Melnychuk will be probably on an airplane regularly out
12 to British Columbia to provide some services to the BC
13 marketplace?

14 MR. CLINTON ROEDER: That's correct.

15 MS. NOLA RUZYCKI: Maybe I could just
16 clarify for Energy Savings. That we actually do have
17 different practises, different customer reps, and
18 different market managers for different provinces. So we
19 don't necessarily -- the staff are not interchangeable
20 between different jurisdictions.

21 MR. BOB PETERS: Do you acknowledge, Ms.
22 Ruzycki, that there are operating and administrative
23 services that are provided on a centralized basis to all
24 of the jurisdictions?

25 MS. NOLA RUZYCKI: For some services,

1 yes.

2 MR. BOB PETERS: Could you give the Board
3 an example of what kind of services would be sourced from
4 a -- from a national or an international group, as
5 opposed to a provincial group?

6 MS. NOLA RUZYCKI: So regulatory would --
7 would be one (1) of the groups. Our legal counsel would
8 be other groups. But, in general, we do have specific
9 market managers and then underneath them they have
10 specific people that are addressing individual markets
11 specifically.

12 So, for example, in our Quebec team we
13 have a set of bilingual customer agents, operation
14 specialists, et cetera --

15 MR. BOB PETERS: And you might have --

16 MS. NOLA RUZYCKI: -- which are different
17 from our Manitoba team and Alberta/BC team.

18 MR. BOB PETERS: But as an officially
19 bilingual province, Manitoba may need some of those same
20 resources, wouldn't they?

21 MS. NOLA RUZYCKI: They may. So they may
22 borrow if -- if we found a Manitoba customer that
23 required bilingual services, we would borrow a individual
24 from that team.

25 MR. BOB PETERS: All right. Thank you --

1 MS. KAREN MELNYCHUK: Mr. Peters, if I
2 can add a comment about our energy marketing group out of
3 Calgary. Mr. Roeder has mentioned them a couple of times
4 as providing services to Manitoba. At this point though,
5 I just want to clarify that our EMG group has limited
6 resources that they can provide to the Manitoba group.

7 So we're not using the full capacity of
8 their expertise at this moment. And that's due to the
9 fact that we can't do storage here, we can't -- the --
10 all the different market barriers that we talked about
11 earlier.

12 MR. BOB PETERS: Well, I think that's a
13 new one, Ms. Melnychuk, from -- from -- from my list.
14 You're suggesting to the Board, that while you have some
15 of the Energy Marketing Group in place in Alberta, they
16 can't -- they can't provide Manitoba customers of
17 retailers with the full benefits of their services,
18 because there are some physical limitations on the
19 portfolio used to serve Manitoba customers?

20 MS. KAREN MELNYCHUK: That's correct.
21 And that goes into the -- the balancing of the -- the
22 broker customers by the Utility. We have no control on
23 balancing our nominations. The Utility provides us with
24 a number which can change. The nomination can change up
25 to four (4) times a day. Our DCQ or MDQ, which is the

1 Maximum Daily Quantity that we can provide into this
2 system is changed quarterly; revisited once a year.

3 So for -- to use the full expertise of our
4 EMG group is kind of difficult, as we're told what to
5 deliver and on any given day told what to do.

6 MR. BOB PETERS: In addition to those
7 operating and administrative expenses, the retailers
8 incur marketing costs of varying amounts, correct?

9 MS. KAREN MELNYCHUK: Correct.

10 MR. BOB PETERS: And we'll come to it a
11 little bit later, but the different avenues of marketing
12 all have different price tags for them?

13 MS. KAREN MELNYCHUK: That's correct.

14 MR. BOB PETERS: Has Direct Energy
15 publicly indicated what the -- and I think you had an
16 acronym -- but the -- the cost of acquiring a customer
17 was, on average? Is that on the public record?

18 MS. KAREN MELNYCHUK: No, I don't believe
19 so.

20 MR. BOB PETERS: MS. Ruzycki, you --
21 you're aware that there was, on the public record,
22 indication of the approximate marketing costs or cost to
23 acquire a client from Energy Savings?

24 MS. NOLA RUZYCKI: That's correct.

25 MR. BOB PETERS: And is that number one

1 that you believe to be accurate for the Manitoba
2 marketplace?

3 MS. NOLA RUZYCKI: That number is an
4 aggregate number for all our jurisdictions. In the
5 Manitoba marketplace the cost would be higher for
6 obtaining a customer than in other marketplaces, owing to
7 several factors; the nominations mainly; the fact that
8 they change so frequently, and the volatility of the
9 changes.

10 MR. BOB PETERS: I'll come to that. I
11 wanted to go down some other factors that would go into
12 the setting of the retailers price in the Manitoba
13 marketplace. And I suppose one (1) price that we have to
14 build in, is a profit margin, correct?

15 MS. NOLA RUZYCKI: That's correct.

16 MR. BOB PETERS: Is there any public
17 information as to what that profit margin is from Energy
18 Savings or from Direct Energy?

19 MS. NOLA RUZYCKI: I believe in our
20 annual return -- or annual report, we do show the
21 aggregated customer profit.

22 MR. GARY NEWCOMBE: Mr. Peters, with
23 respect to Direct Energy, there is some information on
24 the public record from Direct Energy Regulated Services -
25 - a hearing we held, I believe it was earlier this year -

1 - that showed the aggregated percentage margin for the
2 Canadian business.

3 MR. BOB PETERS: And what was that?

4 MR. GARY NEWCOMBE: So what I have here
5 is the full year, 2004/2005, and first half of 2006.

6 So for the full year of 2004, the margin
7 on our Canadian business was 3.54 percent. For the full
8 year 2005, it was 3.07 percent. And for the first half
9 2006, it was 2.37 percent.

10 MR. BOB PETERS: And that was information
11 provided in an Alberta Regulatory proceeding?

12 MR. GARY NEWCOMBE: Yes, it was, sir.
13 And just to clarify, that was residential and small
14 commercial energy retail operations. So that didn't
15 include for example our upstream business line.

16 MR. BOB PETERS: And was that restricted
17 to gas or is that also electricity?

18 MR. GARY NEWCOMBE: That would have been
19 both natural gas and electricity combined, sir.

20 MR. BOB PETERS: Was it disaggregated for
21 those two (2) energy sources?

22 MR. GARY NEWCOMBE: No, it wasn't.

23 MR. BOB PETERS: So it was gas and
24 electricity for -- in Canada, in -- in all of the energy
25 markets that you provide to the residential and small --

1 small commercial customer?

2 MR. GARY NEWCOMBE: Yes, sir.

3 MR. BOB PETERS: All right. Can this
4 panel advise the Board as to whether or not retailers
5 market for a specific target customer base?

6 MS. KAREN MELNYCHUK: No, we do not.

7 MR. BOB PETERS: There's no preference as
8 to what demographics or other characteristics that a
9 customer provides, in terms of who will -- who will be
10 signed up by a retailer?

11 MS. KAREN MELNYCHUK: The only
12 demographics we look at is if they've got a mas meter
13 going into their home, and they're within -- on a mailing
14 list that we've acquired, or in a neighbourhood where our
15 agents are canvassing.

16 MR. BOB PETERS: It's interesting you --
17 you raise it all. I had it for later, Ms. Melnychuk, but
18 I'll probably forget it if I don't ask it now. I'm
19 sorry.

20 MS. KAREN MELNYCHUK: Sorry, can you
21 repeat that, please?

22 MR. BOB PETERS: I'll let you finish and
23 I'll proceed.

24

25

(BRIEF PAUSE)

1 MS. KAREN MELNYCHUK: Could you repeat
2 the question, Mr. Peters?

3 MR. BOB PETERS: Yes, and I actually
4 hadn't got quite that far, Ms. Melnychuk --

5 MS. KAREN MELNYCHUK: Sorry.

6 MR. BOB PETERS: -- but in -- I was
7 going to ask it later, but you indicated mailing lists
8 that you would obtain. Do I take it that these are
9 commercially available mailing lists that you procure in
10 your marketing efforts?

11 MS. KAREN MELNYCHUK: Yes.

12 MR. BOB PETERS: You pay money for them?

13 MS. KAREN MELNYCHUK: Yes.

14 MR. BOB PETERS: And they're available to
15 other marketers, as well?

16 MS. KAREN MELNYCHUK: Yes.

17 MR. BOB PETERS: Can you explain to the
18 Board who prepares those -- those mailing lists? Do you
19 know how they're -- how they're assembled or who
20 assembles them?

21 MS. KAREN MELNYCHUK: They would be
22 outside parties that we acquire those lists from, and
23 then we internally would scrub them against our existing
24 customer base.

25 MR. GARY NEWCOMBE: I mean, I know

1 anecdotally, Mr. Peters, I'm not sure who exactly
2 prepares these things, but I know some of the magazines I
3 subscribe to and some of the other things that I belong
4 to you typically get asked, you know, Is it okay if we
5 provide your name to other people who may or may not send
6 you stuff. And so I assume it's probably part of that
7 type of process --

8 MS. KAREN MELNYCHUK: And --

9 MR. GARY NEWCOMBE: -- or could be part
10 of that process.

11 MS. KAREN MELNYCHUK: I believe it was
12 yesterday that someone had mentioned the phonebook is
13 another location where we can obtain a list.

14 Unfortunately with a phone book there is
15 no way of guaranteeing that you're actually finding a gas
16 customer, or finding the right person and the full
17 address to do a direct mailing to. So there's no postal
18 codes and -- and whatnot.

19 MR. BOB PETERS: But you do know that in
20 Manitoba, particularly Winnipeg, the -- the gas
21 penetration rate, in the City of Winnipeg for example, is
22 -- is in the high 90 percent?

23 MS. KAREN MELNYCHUK: We know that
24 there's two hundred and fifty-five thousand (255,000) gas
25 customers in the province and we attempt to market into

1 all the areas that do have natural gas service.

2 Concentration mostly is in Winnipeg, yes.

3 MR. BOB PETERS: And if you did have an
4 address from a phonebook you can also obtain the postal
5 code if you wanted to complete the mailing to them?

6 MS. KAREN MELNYCHUK: Again, I believe
7 there is software out there that, you know, does a postal
8 code match with an address and that, but it's not always
9 100 percent correct.

10 MR. BOB PETERS: Are there any
11 residential customers that retailers would decline to
12 service?

13 MS. NOLA RUZYCKI: I -- sorry. I would
14 say yes, there are some customers that we would decline
15 to supply a fixed-price product to. And those would be
16 customers that show an obvious impairment, that have a
17 language barrier that they don't understand the product;
18 those type of things.

19 MR. BOB PETERS: Is there any credit
20 worthiness conducted at the time of marketing?

21 MS. KAREN MELNYCHUK: Not in regards to
22 Direct Energy, no.

23 MR. NOLA RUZYCKI: Not that I'm aware of.

24 MR. BOB PETERS: If the proposal from
25 Centra Gas to increase the ABC charge by an amount that

1 reflects the incremental bad debts the Company suggests
2 it -- it finds on retailer customers, would that impact
3 on which customers retailers would market to?

4

5 (BRIEF PAUSE)

6

7 MS. KAREN MELNYCHUK: Without access to
8 the bill, Mr. Peters, it's kind of hard to determine that
9 in advance. I'm not sure how a marketer would know if a
10 customer would be in arrears or be -- found to be at risk
11 of bad debt to the Utility.

12 MR. CLINTON ROEDER: Can I -- can I just
13 clarify, in terms of when you asked the question. Were
14 you asking if there was an increase in the common charge
15 across the entire customer base, or was it specific to --
16 based on a credit score?

17 MR. BOB PETERS: Let me ask it this way,
18 Mr. Roeder -- I hope I can answer it -- my understanding
19 of the evidence of Centra is that it is their view that
20 there are incremental bad debt costs that should be
21 attributed to customers of retailers or the retailers
22 themselves.

23 And with that preamble, I'm wondering that
24 if Centra's request to allocate that additional
25 incremental bad debt cost comes back to retailers, would

1 retailers screen their customers differently than they do
2 now?

3 MR. CLINTON ROEDER: The first comment I
4 would just say is that, you know, I think all retailers
5 would be interest in seeing the data that would support
6 that, and there was a lot of discussion on -- on that
7 yesterday.

8 And in terms of -- if I just look at other
9 markets and the steps that are taken, it -- you know,
10 there are other methods in terms it -- to ensure that you
11 are able to offer products to all customer base without
12 increasing -- without eliminating all together.

13 For example, in the Texas market to where
14 the retailers in terms of bill and also carry that bad
15 debt risk, one (1) of the options is offering the
16 customer -- requiring them to put down a deposit to cover
17 for part of that risk. So there are steps that can be
18 taken.

19 And I think the other concern that we have
20 is any discussion around that in terms of one -- you
21 know, we've mentioned in terms that we'd like to see the
22 data to show it.

23 The other piece would be understanding the
24 collection methods that are used in the process that is
25 taken. I can speak first hand in terms of the steps

1 we've taken in other markets.

2 So what we try to do is to offer
3 alternatives for customers to -- whether we can ensure
4 that we are offering across the full range of customers.
5 There may be requirements whether it's deposits, maybe
6 it's a prepayment, could be asking for a credit card up
7 front. So there are alternative methods we would
8 suggest, other than just increasing the cost across the
9 entire base.

10 MS. KAREN MELNYCHUK: If I may add as
11 well, as was testified yesterday, the bad debt is
12 collected in the distribution rate of all customers in
13 the Manitoba market. So our customers are already being
14 charged for bad debt in their distribution charge.

15 I believe the theory behind the Utility's
16 comment that retailer customers are creating more bad
17 debt is because typically our price is higher at the time
18 that we offer a product. But there's not been any hard
19 evidence put on the record, in regards to whether our
20 customers create more bad debt than the Utility
21 customers.

22 MR. BOB PETERS: And I think that's fair,
23 Ms. Melnychuk. I think the explanation from the Company
24 was that they don't break it down by retail supplied or
25 direct purchase supplied, compared to system supplied as

1 to the bad debt customers.

2 MS. KAREN MELNYCHUK: That -- that's
3 correct. And they also have -- another means of
4 collecting for our customers is -- and that's called
5 "disconnect," so we lose the customer if the customer
6 does not make those payments, they're not -- it's not in
7 our control. The Utility controls the disconnects of our
8 customers.

9 MR. BOB PETERS: And -- and if the
10 customer is disconnected, are they then -- and make
11 arrangements to come back and maybe pay up the amount in
12 arrears, do they come back as retail supplied customers
13 or are they system supplied customers at that point?

14 MS. KAREN MELNYCHUK: I would have to get
15 that clarified, but we're not given a reason when a
16 customer's terminated off our supply.

17 We're given a list of customers and that's
18 it. No reason.

19 MR. BOB PETERS: But do those customers
20 come back to the retailer without any incremental
21 marketing efforts to them?

22 MS. KAREN MELNYCHUK: Again, Mr. Peters,
23 I'd have to look into that to get that clarified.

24 MR. BOB PETERS: Perhaps, Ms. Melnychuk,
25 can you provide the Board with an estimate of the annual

1 number of retail supplied customers that are disconnected
2 from the system?

3 MS. KAREN MELNYCHUK: As I mentioned
4 earlier we are not given a reason why the customer is
5 disconnected from us. It could either be a move or a
6 disconnect for arrears in payment. We're just provided a
7 list of people that drop off our -- our supply.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Are you able to advise
12 the Board as to the annual number of such customers?

13 MS. KAREN MELNYCHUK: Not in regards to
14 disconnects, no. Like, for arrears, no.

15 MR. BOB PETERS: And that's because the
16 disconnects that you reference are for reasons other than
17 just nonpayment of the bill?

18 MS. KAREN MELNYCHUK: That's correct.
19 There's moves. If a customer moves, we lose that
20 customer. If a customer passes away, we lose that
21 customer.

22 Each week the Utility provides us with a
23 file of all customers that have been dropped from our
24 supply. We're not given a detailed reason as to why.

25 MR. BOB PETERS: All right. And then it

1 strikes me from that answer that once they are removed
2 from -- from the retailers list of supplied customers,
3 you won't see that customer again unless you go back and
4 do some positive marketing to get them back again.

5 Would that be true?

6 MS. KAREN MELNYCHUK: Yes, but I -- I
7 want to confirm --

8 MR. BOB PETERS: All right.

9 MS. KAREN MELNYCHUK: -- about that other
10 point I'd brought up earlier.

11 MR. BOB PETERS: Okay. I'll let you --
12 and the other point you're going to check and then have
13 your counsel advise us on, is whether or not customers
14 that are disconnected for nonpayment of accounts, once
15 those accounts become current, whether they are returned
16 to the retailer to supply the primary gas or whether they
17 are system supply customers at that point.

18 MS. KAREN MELNYCHUK: That's correct.

19 MR. BOB PETERS: Thank you.

20

21 --- UNDERTAKING NO. 19: DEML/ESMLP to advise Board if
22 each week the Utility
23 provides a file of all
24 customers that have been
25 dropped from their supply

1 --- UNDERTAKING NO. 20: DEML/ESMLP to advise Board if
2 customers that are
3 disconnected for nonpayment
4 of accounts, once those
5 accounts become current
6 whether they are returned to
7 the retailer to supply the
8 primary gas or whether they
9 are system supply customers
10 at that point
11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: I want to turn to the
14 next issue that we were canvassing in 15 of '98, that
15 Board Order. And one (1) of them was whether or not
16 prices for primary gas decreased as a result of retailers
17 in the Manitoba marketplace.

18 Are you able to tell the Board whether the
19 consumers' prices for primary gas have decreased as a
20 result of retailers being in the Manitoba marketplace?

21 MS. KAREN MELNYCHUK: I believe prior to
22 Board Order 15/98 there is hard evidence on the record
23 that gas prices did decrease with the entry of retailers
24 in the market. Since 2000 and the implementation of WTS
25 service, yeah I don't believe there's hard evidence to

1 show that prices have decreased in the market, but the
2 offerings have been different than what they were
3 subsequent to, or prior to 15/98.

4 We've shown in evidence that some of our
5 customers have experienced a lower rate than the Utility.
6 It just depends on when the product is being offered and
7 market conditions over the -- the course of the contract.

8 MR. BOB PETERS: On that point, Ms.
9 Melnychuk, are retailers' offerings to consumers always
10 more expensive than the price Centra's offering are -- is
11 on the date that the retailers make their offering?

12 MS. KAREN MELNYCHUK: For Direct Energy
13 that has historically been the case. There was one (1)
14 instance back in 2001 where the Utility had applied for a
15 rate increase, and we had put out an offer into the
16 market that was lower than the rate that had been applied
17 for, but the Public Utilities Board at that time did not
18 approve their rate increase. Instead they held fast at
19 the existing rate for six (6) months, so in effect our
20 price came in slightly higher than the Utility's at that
21 time.

22 MR. ERIC HOAKEN: I'm sorry. Can I jump
23 in? I'm not objecting to anything. I'm -- and I'm
24 delighted to see the sun shine in Winnipeg this morning
25 but unfortunately Mr. Roeder and I are taking it right in

1 the eyes. I wondered if Mr. Singh could just adjust that
2 blind?

3 MR. BOB PETERS: It was by design, Mr.
4 Hoaken, but you've -- you've caught us. We'll move the
5 mirrors.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Ms. Melnychuk, from that
9 answer and -- and I was looking at I think the book of
10 documents Tab 10 there's a PUB/CENTRA response to the
11 21st Information Request and it compared -- it compared -
12 - you don't have to turn it up unless you want to go down
13 the list.

14 But I'd asked you whether or not Centra's
15 price was always lower than the retailer's price on the
16 day of -- the day the retailer went to the market.

17 And I guess I can be more specific in
18 comparing the specific dates of the offerings here, But
19 generally you'd agree with me that that is certainly the
20 case?

21 MS. KAREN MELNYCHUK: I'm going to get
22 you to repeat that one more time, just so I've got it
23 clear.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: When retailers go to the
2 market with a new offering, is their price on that date
3 always higher than Centra's?

4 MS. KAREN MELNYCHUK: As I mentioned
5 earlier, historically for Direct Energy that has been the
6 case, other than that one scenario in 2001.

7 MR. BOB PETERS: And you also said in
8 2000 -- you didn't give the year, but I think it was
9 2005, when you wanted to go to the market with a rate
10 that you thought would have been lower than the
11 Utility's, but the Utility's rate was not fully
12 implemented?

13 MS. KAREN MELNYCHUK: That was in 2001,
14 sir.

15 MR. BOB PETERS: Oh, okay. Thank you.

16 MR. GARY NEWCOMBE: Just to add to that,
17 Mr. Peters, you know, that may be the case for the
18 Manitoba market; that's not always the case for the --
19 certainly for the Alberta or for the Ontario market.

20 There are times when the retailer's price
21 for a terms -- term product has been at the moment in
22 time of offering, lower than the particular regulated
23 price for the short term monthly offering.

24 MR. BOB PETERS: And that would be a
25 function of the market rising above the price offered by

1 the retailer, Mr. Newcombe?

2 MR. GARY NEWCOMBE: Yes, that's correct.
3 Well, the function of either the market or the particular
4 mechanism by which their regulated provider would recover
5 any deferral balance, for instance.

6 MR. BOB PETERS: All right. Good
7 clarification on that point. Do you -- does the Panel
8 agree that the only value added to broker or retailer
9 supplied primary gas is rate certainty?

10 MS. KAREN MELNYCHUK: I wouldn't say it's
11 the only value but it is the main one; is rate stability.
12 We guarantee that our price will not change for the term
13 of the contract.

14 MR. BOB PETERS: What other value do you
15 believe is added to the retailer supplied products?

16 MR. NOLA RUZYCKI: The -- I believe the
17 retail supplied products offers customers the ability to
18 budget. So for individuals that really can't take the
19 risk in the marketplace, they can budget.

20 They know that their rate is locked in; so
21 certainty. So it allows them less stress and worry in
22 their everyday lives.

23 MR. BOB PETERS: But, Ms. Ruzycski, the
24 fact that they lock in the rate doesn't mean that their
25 monthly bill won't be higher or lower than it was the

1 previous month, does it?

2 MR. NOLA RUZYCKI: It -- if they have the
3 same consumption pattern year over year, they would have
4 a good idea of what their bills would be for the
5 household for the year and they can budget accordingly.

6 MR. CLINTON ROEDER: Mr. Peters, if I
7 could just add onto that, which is under the right market
8 conditions and market structure, and if you look at a
9 market whether it's Ontario or a market like Alberta, one
10 of the other values brokers bring to the market is a
11 flexibility in the different options they offer.

12 If you take a market such as Alberta and
13 their current structure, where we offer a five (5) year
14 and three (3) year, we also offer variable rates monthly.
15 And there's two (2) actual products there.

16 In addition to that, the other products
17 along the line of innovation, you take a market like
18 Ontario in terms of it offers consumers the ability at
19 this current time to lock in a twelve (12) month that is
20 at a discount.

21 If you go back in 2006, Q-1 of 2006 they
22 were able to lock in five (5) year at a discounted rate,
23 versus the Utility. So it varies by market.

24 And so some of the factors we touch on
25 definitely impact what can or cannot be offered, to the

1 point of what Karen and Nola mentioned, in terms of in
2 this market with the current rules that are in place, the
3 product that is out there is one of certainty.

4 MR. GARY NEWCOMBE: I think too, Mr.
5 Peters, there are other perhaps non-monetary things that
6 customers value in the products that competitive
7 retailers offer.

8 You know, there's a lot of interest in --
9 in our green product, for instance, you know, in British
10 Columbia, here in Manitoba. So a lot of customers take
11 value in knowing that they're doing something that's
12 helping the environment and climate change, you know,
13 notwithstanding, sort of our comments on the customer
14 research report that was done by Centra.

15 I mean, I notice that in Table 9(a), one
16 (1) of the findings there, that a question was asked of
17 customers: How do you benefit from having competing
18 choices in who to purchase gas from? And the -- sort of
19 the number one (1) answer was there was competition and
20 choice is good.

21 So, you know, customers obviously see some
22 value in just having that choice. Whether they exercise
23 it, whether they see a monetary value or not they
24 perceive some benefit from the numbers, right.

25 MR. BOB PETERS: Okay. Thank you. Did I

1 understand from -- from the evidence yesterday of the
2 Panel, that the Manitoba gas products for residential
3 customers are more expensive than they would be,
4 comparably, in Ontario?

5 MR. CLINTON ROEDER: The response that we
6 gave yesterday, just to clarify, is that if you look at
7 the products we offer in the door-to-door channel, which
8 under -- some are cost restraints, they're largely
9 equivalent based on what we can get in the market.

10 The difference in Ontario is you do have
11 more flexibility in terms of our sales channels. With
12 the -- that comment is with the exception of the
13 incremental costs that we incur in the market -- as Karen
14 and some of the others have highlighted -- due to some of
15 the items that you've touched on, that are being
16 addressed around the volume requirements as well as the
17 daily nominations, et cetera.

18 MS. NOLA RUZYCKI: Excuse me. Another
19 factor would be that when we go to purchase gas. So
20 prices in different markets are reflective of the time
21 we've purchased the gas. We aren't necessarily
22 purchasing gas at the same time in each market, so the
23 prices will vary, depending on that.

24 MR. BOB PETERS: Mr. Roeder, I just
25 wanted to close the loop on that last answer you gave me.

1 Would it be -- was it your evidence to this Board, that
2 if some of those market rules were changed as the company
3 -- as the retailers are asking them to change, you
4 foresee the Manitoba gas rates coming down 5 percent?

5 MR. CLINTON ROEDER: Some of the market
6 rules we've touched on, for example, the sales channels,
7 would result in potentially a reduction as much as 5
8 percent.

9 One (1) of the items that we haven't gone
10 into great detail, it's part of the same issue that we've
11 highlighted related to the daily nominations, has to do
12 with the ability in terms of the project volume.

13 And it's not just projecting the volume,
14 it's projecting at which time we'll get an adjustment
15 from the Utility and have potentially length -- or have a
16 short position that we have to go out to the market.

17 And as we've touched on our inability
18 currently to have as much insight and also to control the
19 load and volume management, we carry a substantial amount
20 of risk in terms of -- when we refer to it internally as
21 a company, as our load forecasting risk.

22 And if you take the Manitoba market versus
23 any of the other markets we're in in North America, the
24 risk in this market that retailers carry is as much as 10
25 to 20 percent higher, just because of the lack of

1 information we have currently.

2 MR. BOB PETERS: From that -- from that
3 answer, Mr. Roeder, can the Board understand that your
4 door-to-door products in Manitoba are priced comparable
5 to what they would be in Ontario, under the same
6 assumptions?

7 MR. CLINTON ROEDER: Assuming the -- we
8 could go out to the market and buy same price, et cetera.
9 The -- the difference, though, is the amount of risk --
10 the additional risk we have to build in, in the Manitoba
11 market for load forecasting risk, versus the Ontario
12 market.

13 MR. BOB PETERS: All right. And with
14 other -- other methods of marketing, I interpret your
15 answer to be telling the Board that Manitoba prices may
16 be 5 percent higher than they would be in other
17 jurisdictions, just because of the additional marketing
18 costs that have to be expended?

19 MR. CLINTON ROEDER: That's correct. And
20 I think just to clarify. You know, as a -- in Ontario,
21 probably the best example I can give is currently through
22 our telesales channel as well as some of our other sales
23 channel, we offer a rate that is more than 20 percent
24 less than our door-to-door product, and that's a one (1)
25 year product that's out there today.

1 position that when you're comparing Centra's offering to
2 that of the retailer, that that's a valid comparison,
3 recognizing they are for different terms and have
4 different properties?

5 MR. GARY NEWCOMBE: Different terms,
6 different properties. Essentially, they're a different
7 product.

8 It's -- you know, it's really no different
9 then when someone has to take out a mortgage on their
10 house. They will make an assessment at that time: Do I
11 take a variable rate mortgage that's maybe at 5 percent.
12 Or do I lock in for a term of three (3) or five (5)
13 years; and if I take a five (5) year mortgage, my
14 interest rate might be 6 1/2 percent.

15 I know at that point in time that my
16 monthly payments are going to be higher than they will be
17 this coming month, because there's a percent and a half
18 difference in the interest rate. But you really can't
19 assess what they will be, with any certainty, three (3)
20 months from now, or eighteen (18) months from now, or
21 fifty-five (55) months from now, and you can't make that
22 determination until the -- the end of the amortization
23 period.

24 MR. BOB PETERS: When you talk of
25 financial benefit, Mr. Newcombe, I take it that's the

1 same in your mind as economic benefit?

2 MR. GARY NEWCOMBE: I'm going to get way
3 over my head here really fast.

4 MR. BOB PETERS: Well okay, let me, I
5 just want to be clear for the Board's benefit that -- you
6 told the Board about the economic benefits of contracts
7 provided by retailers, and you've talked about how the
8 market will impact after the contract has expired, and
9 you'll be able to do an assessment.

10 You've also told the Board about rate
11 certainty, your green product, and that one of the other
12 benefits is that competition is good according to
13 consumers.

14 Are there any other economic benefits that
15 retailers provide to residential gas consumers in
16 Manitoba?

17

18 (BRIEF PAUSE)

19

20 MR. GARY NEWCOMBE: I believe, Mr.
21 Peters, the answer to your -- the direct answer to your
22 question is no. I mean, we don't promote our product on
23 the basis of any financial benefit; we promote it on the
24 basis of price certainty.

25 So I think the only direct financial

1 benefit to a consumer would be an after-the-fact review
2 of whether they achieved any savings, as a result of
3 taking a product that was promoted on the basis of
4 certainty.

5 I suppose the one intangible benefit would
6 be the -- to the extent that the competitive retailers
7 are active in the Manitoba market; hiring people, renting
8 property, you know, paying taxes; those sorts of things
9 provides an indirect benefit. But that's what I can
10 think of.

11 MR. BOB PETERS: Just one (1) last
12 question in this area. A previous witness, I believe it
13 was Dr. Van Audenrode, who told the panel -- the Board
14 that perhaps a more valid comparison when comparing
15 retailers products to the Utility's products, would be
16 the spread at the time the offer was made.

17 If I've correctly relayed his evidence, is
18 that something that the witnesses believe would be
19 beneficial in terms of this Board looking at; and that is
20 look at the spread between what the retailer price is,
21 and what the Utility's price is at the time the offering
22 is made?

23 MR. GARY NEWCOMBE: Well, I guess my
24 personal opinion is I don't know that that has a whole
25 lot of relevance. As we've said, we're offering

1 different products.

2 To me it's not more relevant than going to
3 buy a car and the car dealer having to tell you what the
4 cost of a bus pass is this particular month, because
5 somehow that may factor into your decision. I'm not sure
6 what the comparison of different products at a particular
7 point in time, how that would be particularly beneficial.

8 MR. BOB PETERS: Well, you did provide an
9 answer in response to CAC/MSOS question number 19, where
10 you compared the price in Manitoba to the price on
11 Ontario. Do you recall that?

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Mr. Newcombe, if you --
16 maybe my reference is incorrect and I hope it's not. But
17 there was a suggestion or there was evidence provided in
18 response to a question to compare the Ontario offerings
19 to the Manitoba offerings, in terms of at least the
20 initial market prices, correct?

21 THE CHAIRPERSON: Why don't we give Mr.
22 Newcombe an opportunity to ponder this and we'll take our
23 break now?

24 MR. BOB PETERS: That'd be fine, Mr.
25 Chairman.

1 THE CHAIRPERSON: Very good.

2

3 --- Upon recessing at 10:31 a.m.

4 --- Upon resuming at 10:50 p.m.

5

6 THE CHAIRPERSON: Whenever you're ready,
7 Mr. Peters.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Thank you, Mr.
11 Chairman. Before the morning recess I had asked a
12 question I think that Mr. Newcombe was attempting to
13 assist the Board with.

14 And what I posed to him before the break
15 was that on a comparison provided of the retailers'
16 offerings in Manitoba compared to Ontario, it appeared
17 that the Ontario offerings were less expensive or the
18 price was lower.

19 Mr. Newcombe, do you agree generally that
20 is the case, although not exclusively, with the -- the
21 offerings that have been made by your company?

22 MS. KAREN MELNYCHUK: Maybe I'll jump in
23 for Mr. Newcombe.

24 If we're looking at the Direct Energy
25 prices, you can go line by line and see that the majority

1 of them are cheaper for Manitoba than they are for
2 Ontario. Lower.

3

4

(BRIEF PAUSE)

5

6 MR. CLINTON ROEDER: Just to clarify, one
7 (1) thing we can provide is we could actually break out
8 in terms of the difference in the market, in terms of
9 some of the costs, because all the costs that are
10 factored in without getting these -- but to lay those
11 out, because there are different costs in terms of to
12 procure the supply, in each respective market.

13 And I think it would be helpful to lay
14 that out, because it's a bit deceptive just to look at
15 the rates and not factor in some of the other items we've
16 already highlighted regarding some of the risks.

17 MR. BOB PETERS: Mr. Roeder, that's a
18 good point and perhaps an excellent offer that I would
19 ask you to perhaps provide that. Thank you.

20 MR. CLINTON ROEDER: Will do.

21

22 --- UNDERTAKING NO. 21: DEML/ESMLP to show Board the
23 difference in costs to
24 retailers' offerings in
25 Manitoba compared to Ontario

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: I want to turn with the
4 panel, Mr. Chairman, and Board Members, to a -- to a new
5 issue and I'm going to call it contracting concerns.

6 And from the evidence that I've -- that
7 has been put before the Board so far, it appears to me
8 that there are two (2) contracting concerns and that
9 deals with the WTS contract, and one of them was minimum
10 volumes and the second was nominations.

11 Would I have that correct?

12 MS. KAREN MELNYCHUK: Yes, that's
13 correct.

14 MR. BOB PETERS: All right. Let's then
15 turn with the first of those two (2) concerns being the
16 minimum volume requirements.

17 And, Ms. Melnychuk, I think we've
18 exhausted that this morning, in that you've told the
19 Board that the existing minimum volume requirement
20 impedes new product offerings, correct?

21 MS. KAREN MELNYCHUK: Yes, it does. And
22 I can go on about that if you want.

23 MR. BOB PETERS: No, I think we've -- I'm
24 not going to stop you, but if -- if you're volunteering
25 or asking me, I -- I think the Board has your point.

1 Your point is simply, in past you have had
2 to aggregate so many customers, including over and above
3 the minimum volume that's prescribed by Centra to account
4 for the churning or to the attrition. And because of
5 the issues in getting sufficient customer uptake, you
6 haven't been able to offer some products that you'd like
7 to investigate for the Manitoba marketplace.

8 MS. KAREN MELNYCHUK: You've summarized
9 it correctly, yes.

10 MR. BOB PETERS: All right. And to put
11 that to the test, Ms. Melnychuk, can you tell the Board
12 what product offerings were going to come to Manitoba but
13 did not, as a result of the volume requirements that are
14 presently prescribed in the terms and conditions with
15 Centra?

16 MS. KAREN MELNYCHUK: I can list a few
17 specific ones. One (1) example is that we had to remove
18 our offer of the declining product here in Manitoba
19 because of the low uptake on that product.

20 We have visited or -- or evaluated looking
21 at a one (1) year fixed-price offer here in Manitoba.
22 Those restrictions led us to not offer that products.

23 Also a variable, which is similar to the
24 one in Alberta.

25 MR. BOB PETERS: All right.

1 MS. KAREN MELNYCHUK: May I just add one
2 (1) more?

3 MR. BOB PETERS: Yes.

4 MS. KAREN MELNYCHUK: The way we offer
5 our carbon neutral product is also different in Manitoba,
6 and I believe I -- I briefly touched on that yesterday.
7 The way we offer it here is as an inclusion into our
8 fixed-price offer.

9 In other markets we do it as an add-on
10 because the minimum volume requirements are not required
11 in other markets. Whereas here, if someone just wanted
12 to be green, we would have two (2) separate ones: a brown
13 product and a green product.

14 So we've rolled that into one (1) product
15 and Direct Energy is assuming the cost on half of that
16 green product add-on.

17 MR. BOB PETERS: All right. Let's start
18 with that one then, Ms. Melnychuk. If what you're
19 describing is a green product where consumers could
20 request the carbon neutrality aspects of your offering as
21 a separate offering from the -- from the standard
22 offering, correct?

23 MS. KAREN MELNYCHUK: That's correct. It
24 would be two (2) different products: one (1) brown and
25 one (1) green.

1 MR. BOB PETERS: And the green has an
2 incremental price over and above the brown product?

3 MS. KAREN MELNYCHUK: That's correct.

4 MR. BOB PETERS: And can you tell the
5 Board what that incremental price is in other
6 jurisdictions?

7 MS. KAREN MELNYCHUK: I -- in regards to
8 BC we charge fifty (50) cents a gigajoule, and that's an
9 option to the customers. In other markets, I believe
10 it's similar to that; it's fifty (50) cents a gigajoule.

11 MR. BOB PETERS: And because you -- you
12 don't offer that in Manitoba, is it the minimum volume
13 requirements that prevents you from offering that in
14 Manitoba?

15 MS. KAREN MELNYCHUK: Yes. It's --
16 because then if you have it as an option, you need enough
17 customers to pick that option to ensure that you've got
18 the uptake for it.

19 MR. BOB PETERS: So you've blended the
20 two (2) and reduced the cost -- or increased the cost by
21 fifty (50) cents a gigajoule, with the Company absorbing
22 the other -- or sorry, increasing it by twenty-five (25)
23 cents a gigajoule with the Company absorbing the other
24 twenty-five (25) cents?

25 MS. KAREN MELNYCHUK: That's correct.

1 Per gigajoule.

2 MR. BOB PETERS: Yes. The declining
3 price product that you said you were looking at offering
4 in Manitoba but have pulled off the market, was that
5 every available to residential customers?

6 MS. KAREN MELNYCHUK: Yes, it was for
7 about two (2) years. We first offered it in, I believe
8 it was July 2005, and it was just pulled out of the
9 market earlier this summer.

10 MR. BOB PETERS: And how is the minimum
11 volume requirement responsible for not being able to
12 offer the declining price product to residential
13 customers?

14 MS. KAREN MELNYCHUK: Again, it's the
15 uptake on that product by customers. We found that the
16 majority of the customers who have been selecting our
17 products over the last year or so have been choosing our
18 flat fixed-price, instead of the declining, so the uptake
19 has been lower.

20 Where we've had to -- we're at risk right
21 now on some of the declining offerings we offered earlier
22 this year, of not meeting those minimum requirements for
23 November 1st.

24 MR. BOB PETERS: And if you don't meet
25 the minimum volume -- volumes, you've told the Board

1 previously that you'll have to either cut those customers
2 loose back to system supply, or blend them into another
3 offering that you do have?

4 MS. KAREN MELNYCHUK: That's correct.
5 That's why we were asking the Utility's Legal Counsel
6 earlier in the year, if we could get a ruling on that
7 prior to the September 15th deadline for November 2st
8 flows. 'Cause it's at that time point, or just prior to
9 November 1st, that we'll need to make that decision as to
10 what we'll do with those customers.

11 MR. BOB PETERS: Are there any steps to
12 be taken by the retailers in Manitoba to implement the
13 new lower minimum volume requirements that TCPL is
14 permitting the Utility to -- to utilize?

15 MS. KAREN MELNYCHUK: Until we have
16 confirmation that it is removed, we have not looked at
17 that yet.

18 MS. NOLA RUZYCKI: I might just add that
19 Energy Savings has offered green energy products in
20 Ontario and Alberta, and we will be rolling that product
21 out to other markets. We have not rolled it out yet in
22 Manitoba because of the pricing.

23 In other markets we charge an additional -
24 - I just want to make sure I have the -- four dollars
25 (\$4) extra per month to purchase percentage blocks of --

1 so this is for electricity products in this case -- but
2 to -- to purchase 20 percent blocks of renewable or low
3 impact hydro products.

4 So we would need to -- the minimum
5 requirement would allow us to offer a product exclusively
6 to those customers that would like a green energy option.

7 MR. BOB PETERS: Do the answers that the
8 retailers are providing the Board suggest that there's
9 relatively low interest in those products, if we're onl -
10 - if we're talking a hundred forty (140) residential
11 customers in -- approximately, that need -- need to sign
12 up in any event?

13 MS. NOLA RUZYCKI: I'm -- I'm not
14 necessarily sure that it's low interest. I think that
15 individuals -- we may not have enough individuals that
16 want to take that product up in the time frame that we're
17 allotted.

18 And I would note, in our other markets,
19 that we've had -- initially the uptake has been very --
20 more than what we expected.

21 MR. BOB PETERS: Ms. Melnychuk, you also
22 told the Board that -- that Direct Energy was thinking of
23 a one (1) year fixed-price contract to residential
24 customers, but hasn't proceeded on that, because again of
25 the minimum volume requirements.

1 MS. KAREN MELNYCHUK: That's one (1) of
2 the reasons why, yes.

3 MR. BOB PETERS: Does that suggest to the
4 Board, of the same question that I had of Ms. Ruzycki,
5 that -- that there isn't a lot of consumer interest in a
6 one (1) year fixed product, if you can't meet a minimum
7 volume requirement of approximately a hundred forty (140)
8 typical households?

9 MS. KAREN MELNYCHUK: That may be part of
10 the reason, but we haven't put it out as a test, because
11 of the other restrictions we have in -- in sales channels
12 available to us. So, every time we've priced it out,
13 it's been a lot higher. And what we've noticed with
14 customers is they have a tendency to go to the lower
15 priced products that we do offer.

16 MR. BOB PETERS: Does that same answer
17 apply to the variable options that you're looking at for
18 Manitoba?

19 MS. KAREN MELNYCHUK: That one some of
20 the reasons are the same, but we didn't go down the full
21 ladder, or the evaluation on that one, because of the
22 restrictions in the market, and that is due to the
23 quarterly price changes and that. So we have not done a
24 full evaluation of that product for Manitoba as of yet.

25 MR. BOB PETERS: All right. Is it -- do

1 the retailers understand that there aren't any additional
2 costs to the Utility if the volume minimum requirement is
3 reduced, according to TCPL's latest requirements?

4 MS. KAREN MELNYCHUK: I don't believe
5 I've heard any evidence in that regards.

6 MR. BOB PETERS: You're not aware of any
7 that Centra would have to incur?

8 MS. KAREN MELNYCHUK: Again, I don't
9 believe I've heard of any.

10 MR. BOB PETERS: Are there any that the
11 retailers would have to incur? Any additional costs
12 retailers would incur if they -- if they did go to a
13 reduced volume requirements?

14 MS. KAREN MELNYCHUK: I don't believe so
15 at the moment.

16 MR. BOB PETERS: In terms of any
17 additional cost to the Utility --

18 MS. NOLA RUZYCKI: Sorry, can -- can I
19 just add in --

20 MR. BOB PETERS: Yes, sorry

21 MS. NOLA RUZYCKI: I believe, I did hear
22 Mr. Stephens say there may be a small administrative cost
23 that the Utility would incur. And also we would probably
24 incur a small administrative charge internally in our own
25 company to process those -- those transactions.

1 MR. BOB PETERS: Thank you, Ms. Ruzycki.
2 And I was actually going to come to that, that you would
3 expect that if -- if there could be a -- if the volume
4 requirements were lower, there would be more specific
5 contracts that could perhaps be entered into between the
6 retailers and Centra?

7 MS. NOLA RUZYCKI: Yes, it's possible.

8 MR. BOB PETERS: And the more contracts
9 that are entered into, the more contract administration
10 costs that may follow that?

11 MS. NOLA RUZYCKI: Yes. I -- as my
12 understanding it would be a fairly insignificant amount
13 of additional cost.

14 MR. BOB PETERS: Are you able to quantify
15 that for the Board?

16 MS. NOLA RUZYCKI: No, I don't believe
17 that Mr. Stephens quantified it at all so I definitely
18 would not be able to.

19 MR. BOB PETERS: All right, thank you. I
20 want to turn to the second concern by the retailers with
21 the terms and conditions of the WTS arrangement, and that
22 deals with the nominations.

23 We've heard that theme -- at least I have
24 this morning in -- in various responses to questions.
25 And as a bit of a background, would it be correct --

1 correct understanding of the retailers that Centra
2 develops its forecasts for nominations for the entire
3 system and not just for separate classes or groups in the
4 system?

5 MS. KAREN MELNYCHUK: That's our
6 understanding, yes. They -- they treat retailer
7 customers the same as system customers.

8 MR. BOB PETERS: And inherently is there
9 any -- any reason they shouldn't do that?

10 MS. KAREN MELNYCHUK: That -- that's one
11 of the questions we've been asking for a while and do the
12 -- I -- I believe Ms. Ruzycki spoke to it yesterday, is
13 the -- the non-transparency of why they are lowering our
14 nominations or changing RDCQ.

15 The reasons behind that is, you know, not
16 given to the marketers, so it's kind of difficult to say
17 why. We've been told it's to balance the whole load.
18 But at the end of the year when they go to balance just
19 our load for example, they're not out to -- like they
20 don't balance to zero -- there's whether -- like a
21 consumption on balances on almost all our price points
22 with the Utility.

23 MR. BOB PETERS: You're not suggesting
24 that your customers have different load profiles or
25 requirements than do the other residential customers that

1 are on the system supply gas?

2 MS. KAREN MELNYCHUK: Not in regards to
3 residential customers, no.

4 MR. BOB PETERS: You treat them
5 homogeneously?

6 MS. KAREN MELNYCHUK: I believe so.

7 MR. BOB PETERS: And you do that in all
8 other jurisdictions?

9 MR. CLINTON ROEDER: What I will speak
10 toward is I think when you get into the area of load
11 forecasting and what you're projecting and the systems
12 that are there, yes, there is a load profile that's, you
13 know, in all markets you're going to have, in terms of
14 projection.

15 But most companies and -- and I can speak
16 on the retail side in terms -- because a number of
17 companies that we work with, there are pretty complex
18 systems that don't just assume the profile.

19 If you take a look at the Texas market as
20 an example, and look at what occurred in the ERCOT market
21 over the past five (5) years, in terms of just relying on
22 the pro -- the profile alone, were substantial
23 adjustments that every market player had to make because
24 of the errors in load forecasting.

25 So typically your load forecasting system

1 is going to take into account the profile. It's going to
2 take into the historical usage pattern and a number of
3 other factors that are included.

4 So I can't speak specifically for what
5 Centra system takes into account. And that's part of, as
6 we touch on in terms of wanting more insight and just to
7 understand what assumptions are being made. And as we --
8 all I can speak for first hand is the amount of
9 investment we make in the Company in each of our
10 jurisdictions, so it -- the profiles are one of the big
11 factors though.

12 MS. NOLA RUZYCKI: And just to add a
13 little to that -- the weather pat -- the weather is in
14 some jurisdictions it's normalized, some jurisdictions it
15 isn't. Other jurisdictions use the twenty (20) year
16 average, some use a blend of twenty (20) and thirty (30)
17 years.

18 So it is different in every jurisdiction
19 as to how the Utility in that jurisdiction comes up with
20 the load profile.

21 MR. BOB PETERS: Can I summarize for the
22 Board that the real problem that the retailers are having
23 with the nomination issue is that retailers have to build
24 in extra flexibility in their supply contracts to meet
25 the Manitoba load? That's the real concern?

1 MS. KAREN MELNYCHUK: That's part of it,
2 yes.

3 MR. BOB PETERS: When you say "part of
4 it," by building in that flexibility, that flexibility
5 often comes with a price, and you have to pay more for
6 the Manitoba load?

7 MS. KAREN MELNYCHUK: Yes, it does, and
8 it's also the range of that flexibility, and the
9 frequencies of the changes. The -- typically, you know,
10 we'll run at 100 percent of the load -- or MDQ that's
11 provided to us during the winter months, but come May
12 1st, typically the -- that amount swings down quite a
13 bit.

14 And so we're -- it's just the swings in
15 total of our load to the Winnipeg market -- or to the
16 Manitoba market.

17 MR. BOB PETERS: Is there a suspicion by
18 the retailers that Centra is balancing it's load on the
19 nominations made of the retailers?

20 MS. KAREN MELNYCHUK: I don't believe we
21 have the transparency at this point to say that either
22 way.

23 MR. CLINTON ROEDER: If I can just add
24 on, that is not what we've been implying. I mean, what -
25 - this goes back to the only comment being made on the

1 part of, at least Direct Energy, is that to Karen's
2 earlier point, part of the expertise that companies like
3 Direct Energy bring to the table is expertise in areas of
4 energy management, which includes load forecasting, and
5 load and volume management.

6 Because of the lack of transparency, we're
7 not able to fully leverage that in the market. We have
8 no reason to think that, to your point, that there's any
9 other issue.

10 MR. BOB PETERS: Have -- and I wasn't
11 suggesting Mr. Roeder, that it's in the evidence that
12 way, but I just wanted to ask the question -- and I
13 appreciate the answer -- can you tell the Board if
14 Centra's -- sorry -- if Centra has met with the Direct
15 Energy Marketing Group in Calgary?

16 MS. KAREN MELNYCHUK: I am not aware, but
17 I don't have daily contact with that group either.

18 MR. BOB PETERS: But that's the group in
19 Calgary that -- that your company says has the expertise
20 that may be able to help solve this nomination problem?

21 MR. CLINTON ROEDER: Yes, that's correct.
22 It's a mixture of the group in Calgary, as well as part
23 of the team in Toronto that have that.

24 MR. BOB PETERS: And to your knowledge,
25 there have been no -- no meeting as between Centra and

1 those people to discuss this problem?

2 MR. CLINTON ROEDER: I can speak, you
3 know, since I've been in the role, there's -- which is
4 the past year and a half, there's been no meeting.

5 MR. BOB PETERS: But have there been
6 discussions, as between the -- the retailers and Centra
7 on this issue that have taken place outside of the
8 regulatory form?

9 MS. KAREN MELNYCHUK: Yes, there have.

10 MR. BOB PETERS: Do you recall,
11 approximately, how often, and when the last discussions
12 have taken place?

13 MS. KAREN MELNYCHUK: I believe there was
14 a meeting called in '06. Mr. Stephens can correct me if
15 I'm wrong. I believe it was in May '06, where this was
16 up for discussion at a utility and retailer meeting.

17 MR. BOB PETERS: And --

18 MS. NOLA RUZYCKI: Sir, maybe I can just
19 add that this issue has been discussed numerous times
20 with Mr. Stephens, and probably -- probably on a yearly
21 basis the issue is readdressed and we have -- have not
22 made significant movement on the issues.

23 And -- and we still are lacking that
24 transparency that -- for ourselves possibly -- to better
25 understand why the changes are occurring. I don't know

1 if it would be beneficial at all for me to lay out sort
2 of the steps that -- that occur with the nominations, to
3 give the Board a better understanding of the process, or
4 if they feel comfortable right now with the process?

5 MR. BOB PETERS: Well, if you feel that
6 will benefit the Board, then -- then by all means, please
7 -- please do so.

8 MS. NORA RUZYCKI: Okay. Well, I -- I
9 tried to simplify it extremely -- simplify it to -- so
10 Centra would provide retailers with a MDQ or Maximum
11 Daily Quantity for each pool or price point that a
12 retailer has.

13 And this would be the requirement for the
14 term of the contract. And possibly I can just state in
15 other jurisdictions, many of the contracts are just
16 divided by one three sixty-fifths (1/365ths) to come up
17 with the daily requirement.

18 In Manitoba, the marketers combined pools
19 are -- or I'm sorry, the pools are combined, and that
20 becomes the marketers required deliveries for each day
21 during the quarter.

22 Given that that's the Maximum Daily
23 Quantity for the quarter, on a daily basis, Centra can
24 come to the marketers and ask them to change their
25 nomination anywhere between zero and 100 percent, up to

1 four (4) or five (5) times a day. And that is dictated
2 by the North American Energy Standards Board, and
3 TransCanada's nomination time frames.

4 And that -- that notice is typically
5 provided to us with only a few hours notice. So we are
6 in the marketplace on very short notice and we're either
7 in that marketplace buying and selling at the same time
8 that a number of other parties would be buying and
9 selling in the marketplace.

10 And what we are -- what we have been
11 looking for is a better ability to forecast what our load
12 will be, by ideally changing the MDQ to a one/three
13 sixty-fifth (1/365th). Or understanding that Centra has
14 concerns in the marketplace that they don't have storage
15 and they don't have -- they have significant weather
16 swings, we would, you know, look to do possibly seasonal
17 or quarterly, in order that we could better purchase for
18 our loads.

19 So I don't know if that's help at all.

20 One (1) more thing maybe I can add is that
21 this -- this number is changed quarterly. And when we
22 initially start with our -- I'll call them pool or a
23 group. They're called various things and I'm not sure if
24 you call them pools here.

25 So with our pool it is adjusted quarterly,

1 and in that quarterly adjustment we do not get individual
2 lines for each of our pools within our total combined
3 pool, we only get one (1) number, so it's very difficult
4 to tell which pools have changed and why. So that would
5 be some of the transparency we would be looking for.

6 MR. BOB PETERS: Thank you, Ms. Ruzycki,
7 for that and thank you for keeping it brief.

8 Do I take from that information that
9 you've provided to the Board, that transparency is the
10 operative request that you're making in this proceedings;
11 is that you want -- you want to have more transparency
12 which will, you believe, provide greater understanding of
13 how it's done and how it may be able to be improved, if
14 at all?

15 MS. NOLA RUZYCKI: I don't know that
16 that's the only thing we're looking for; that is one (1)
17 of the things. We are also looking to move the
18 nominations to a -- as I indicated, a seasonal or a
19 quarterly allocation.

20 MS. KAREN MELNYCHUK: And Direct Energy
21 is looking for the same.

22 MR. BOB PETERS: All right. And
23 transparency and then movement.

24 Ms. Ruzycki, the one/three hundred and
25 sixty-fifth (1/365th) forecast or nomination, is that a

1 request in these proceedings, or is it simply to go
2 seasonal or quarterly?

3 MS. NOLA RUZYCKI: Well, ideally we'd
4 like to go one/three sixty-fifths (1/365ths), but
5 recognizing Centra's constraints we would be reasonable
6 and try and try and work towards something that's
7 agreeable to all parties.

8 MR. BOB PETERS: But you also know that
9 your retail customers don't use one/three sixty-fifth
10 (1/365th) of their annual supply on any given day in
11 Manitoba?

12 MS. NOLA RUZYCKI: That's correct.

13 MR. BOB PETERS: And you're not
14 requesting Centra to change their load forecast -- their
15 -- their load factor for retailers, are you? For retail
16 customers?

17 MS. NOLA RUZYCKI: No. Perhaps I can
18 indicate to the Intervenors today how it's done in other
19 markets.

20 In BC, for example, the load is set at
21 one/three sixty-fifths (1/365ths), and load balancing is
22 done by the Utility and that cost is socialized across
23 all participants through the distribution or
24 transportation charge, so that Centra would still be
25 doing the load balancing. However, that charge would --

1 would be socialized across all market participants
2 equally according to their volume of gas that flows.

3 MR. BOB PETERS: That doesn't suggest
4 that the load curves or the load profile in BC is -- is
5 equal daily requirements of one/three hundred and sixty-
6 fifth (1/365th) of an annual supply, does it?

7 MS. NOLA RUZYCKI: No, it doesn't. But
8 that is the requirements of the marketers' brokers in
9 that market.

10 MR. BOB PETERS: And when you say move
11 the nominal process to forecasting the retailers' load on
12 a seasonal basis, is that twice a year is what you're
13 saying or is that the same --

14 MS. NOLA RUZYCKI: Yes, that would be --

15 MR. BOB PETERS: -- as quarterly --

16 MS. NOLA RUZYCKI: Sorry. That would be
17 twice a year. So that would be the period from November
18 to March for the winter season and from April through
19 October for the summer season.

20 MR. BOB PETERS: In this process, do the
21 retailers want their customers in the residential class
22 in Manitoba, to be treated preferentially to system
23 supply customers?

24 MS. NOLA RUZYCKI: No, we're not asking
25 for that.

1 MR. BOB PETERS: And through this
2 process, in seeking the transparency, do I take from the
3 answers of the panel that to-date there is still a lack
4 of transparency that prevents the retailers from having a
5 better understanding of how the nomination process would
6 work?

7 MS. NOLA RUZYCKI: I'm sorry, could you
8 just repeat the question for me?

9 MR. BOB PETERS: Have you been able, Ms.
10 Ruzycki, through this process to gain a better
11 understanding or to gain the transparency that you've
12 sought?

13 MS. NOLA RUZYCKI: No, I have not.

14 MR. BOB PETERS: Are there any other
15 recommendations? And I'm certainly open for the
16 witnesses to provide it and I'm sure they may also
17 provide it through Mr. Hoaken in his closing submissions.

18 But are there any recommendations you can
19 -- that can be made to the Board as to how the matter can
20 be proactively addressed and resolved, other than through
21 regulatory proceedings?

22 MS. NOLA RUZYCKI: Well, as in other
23 jurisdictions technical conferences are typically used,
24 And the only comment I would have on a technical
25 conference, there would have had to be some sort of

1 sunset clause in it, that perhaps a set period of time
2 after the technical conference if there was no agreement
3 between the parties that the Board or an independent
4 third party would adjudicate.

5 MR. BOB PETERS: In the materials that
6 have been provided is it a suggestion that the Utility
7 should provide benchmarks for the accuracy of their
8 forecasting?

9 MS. NOLA RUZYCKI: Yes, it has.

10 MR. BOB PETERS: And is it the suggestion
11 then that if -- if the Utility missed the -- the
12 benchmarks or were outside the range they would have
13 consequences assessed against them in the -- in the
14 process of nominations?

15 MS. NOLA RUZYCKI: Yes, that was a
16 suggestion.

17 MR. BOB PETERS: And would that put the
18 system supply customers at a different or a disadvantage
19 compared to retailer supplied customers?

20 MS. NOLA RUZYCKI: It would put them in
21 the same position as -- as we heard earlier, that Centra
22 is doing the balancing for all customers on the system.

23 MR. BOB PETERS: So do I take it then
24 that the benchmarks are really to be an incentive for the
25 Company?

1 MS. NOLA RUZYCKI: Yes.

2 MR. BOB PETERS: That there'll be no --
3 is it envisioned there'd be a financial penalty or how
4 would -- what would be the consequence of -- of being
5 outside the benchmark?

6 MS. NOLA RUZYCKI: I don't know that
7 we've really determined whether it would be a financial
8 penalty. I think we're just trying to determine if there
9 is better accuracy that -- that can be achieved. Perhaps
10 -- I know with the load balancing services between
11 different utilities there's penalties -- there's a range
12 where there is a tolerance and then there's a penalty --
13 it could be financial or it could be something else
14 that's determined, but there is a penalty for going
15 outside that range.

16 MR. BOB PETERS: And just to leave with
17 the Board the thought of a seasonal or a quarterly
18 forecast, can you explain to the Board what you mean by -
19 - by that request?

20 MS. NOLA RUZYCKI: Yes. What we would
21 like to see is, if it was a seasonal product, that it
22 would take the -- I believe it's a hundred and fifty-one
23 (151) days for the winter season and it would determine
24 the required quantity for that season, and it would
25 spread the -- daily requirement would be one fifty (150)

1 -- a hundred and fifty-one (151) over three sixty-five
2 (365). And likewise for the remaining portion of the
3 summer.

4 Sorry, and the quarterly would be just
5 taking the -- the time period in the quarter -- each
6 quarter -- and dividing it by three sixty-fifths (365ths)
7 and that would be the MDQ that would be set and stay in
8 place for that quarter.

9 MR. BOB PETERS: All right. So you're
10 then assuming that each -- each day would be exactly the
11 same amount, regardless of the weather?

12 MS. NOLA RUZYCKI: Yes, that's right.

13 MR. BOB PETERS: From the perspective of
14 the retailers and their energy management group -- energy
15 marketing group, in Calgary is there a preference as
16 between quarterly and seasonal?

17 MS. KAREN MELNYCHUK: I believe you're
18 directing that to me. We prefer the -- the three hundred
19 and sixty-fifth (365th). Direct Energy is also open to
20 one-twelfth (1/12th), as well as the seasonal or the
21 quarterly. The one-twelfth (1/12th) was not referenced
22 by Ms. Ruzycki and that would be setting the MDQ on a
23 monthly basis, which would allow the Utility also to
24 revisit that load, especially when coming to balancing in
25 the latter -- the later months of the gas year.

1 MR. BOB PETERS: From that answer, and I
2 appreciate there's technical details, but are you
3 suggesting then that any under or overage would be
4 compensated in the next month's nomination?

5 MS. KAREN MELNYCHUK: It would be
6 adjusted to in -- in the balancing, yes.

7 MR. BOB PETERS: And that balancing would
8 occur every month throughout the year?

9 MS. KAREN MELNYCHUK: I don't have the
10 experience in that behalf. I'd have to refer to the
11 group in -- in Calgary for that.

12 MR. BOB PETERS: No, I thank you for your
13 clarification on it.

14 I would like to -- to turn with the panel
15 to the concerns that have been raised with respect to
16 Centra's contract administration. And when I say
17 "contract administration", I'm understanding that to be
18 the WTS contract that the retailers have to enter into
19 with -- with the gas Utility, correct?

20 MS. KAREN MELNYCHUK: We have an agency
21 agreement that we signed with the Utility, yes.

22 MR. BOB PETERS: And also, this may have
23 been referred to as market rules in -- in earlier
24 testimony or some of these may have been, but I've tried
25 to -- to make a note of them and I want to go through

1 them in some semblance of an order.

2 But the first I want to deal with is there
3 was a concern in the evidence of the retailers that
4 there's been a reversal of the renewal policy in
5 Manitoba, and that's of a concern to the retailers; am I
6 correct?

7 MS. KAREN MELNYCHUK: Yes, but that's not
8 in regards to our contract with the Utility; that is
9 under the rules of the Public Utilities Board, the Code
10 of Conduct.

11 MR. BOB PETERS: That's under the
12 brokers' Code of Conduct?

13 MS. KAREN MELNYCHUK: That's correct?

14 MR. BOB PETERS: Yes. And -- and let's
15 deal with that one (1) first. But the concern there was
16 that -- maybe you can help us, Ms. Melnychuk -- the --
17 the agreements that you had with your customers for --
18 let's pick a three (3) year fixed-price agreement --
19 would be executed and, near the end of the time of that
20 agreement, the company would make efforts to keep the
21 customer on retail supply?

22 MS. KAREN MELNYCHUK: That's correct. We
23 would send them a renewal notice.

24 MR. BOB PETERS: And how much time prior
25 to the end of the contract were you able to send them

1 information about a renewal notice?

2 MS. KAREN MELNYCHUK: I believe it's a
3 hundred and twenty (120) days.

4 MR. BOB PETERS: And it used to be ninety
5 (90) days?

6 MS. KAREN MELNYCHUK: It used to be
7 ninety (90) days before the ninety (90) day rollover was
8 eliminated, but this did not stop us from re-contracting
9 that customer under a new contract at any time during the
10 term of the original contract. A little...

11 MR. BOB PETERS: Okay. But -- but
12 there's a -- there's a difference here, and let's be
13 clear so the Board is clear on terms of what the request
14 is.

15 The -- the ninety (90) day rollover period
16 was an ability to keep providing gas to the customer
17 while you waited to hear whether they wanted to renew?

18 MS. KAREN MELNYCHUK: That is correct,
19 yes.

20 MR. BOB PETERS: And, if a customer
21 didn't respond to you by the end of that ninety (90)
22 additional days, did they revert back to system supply?

23 MS. KAREN MELNYCHUK: That's correct.

24 MR. BOB PETERS: And that ninety (90) day
25 rollover provision was removed from the Code of Conduct

1 is what I understood your previous answer to be?

2 MS. KAREN MELNYCHUK: Yes, it was
3 removed, I believe, in June of 2004.

4 MR. BOB PETERS: And I think -- if it
5 becomes important to refer to, Ms. Melnychuk, I think I
6 put a copy of that in the book of documents.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: That would be found at
11 Tab 12 of the book of documents that I had previously
12 prepared, if you still have a copy of it.

13 MS. KAREN MELNYCHUK: We're just turning
14 it up.

15 MR. BOB PETERS: All right, but I don't
16 know that you'll need to. You're welcome to if you need
17 to refresh yourself on any aspects of it.

18

19 (BRIEF PAUSE)

20

21 MS. KAREN MELNYCHUK: I have it. It was
22 just under a whole bunch of other papers.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: So let's -- let's deal
2 with these -- these two (2) points. The concern, Ms.
3 Melnychuk, I have here, is the reversal of the renewal
4 policy; that's a concern for the retailers?

5 MS. KAREN MELNYCHUK: That's correct.

6 MR. BOB PETERS: And what reversal
7 specifically was the concern?

8 MS. KAREN MELNYCHUK: Initially when WTS
9 was implemented here, we were allowed the ninety (90) day
10 rollover which in other markets it's kind of considered
11 an Evergreen. By eliminating that in 2004, it took away
12 the ease of enrollment or renewal for our customers, and
13 it also had an impact on the business.

14 MR. BOB PETERS: What impact did it have
15 on the business?

16 MS. KAREN MELNYCHUK: We -- we had to
17 expend additional efforts to renew customers in advance
18 of their renewal date. This was not anticipated in when
19 we were pricing the gas for that group of customers on a
20 go-forward basis, because that ruling took effect for all
21 contracts after that date.

22 The ease of renewal for the customers was
23 also a -- a big disadvantage for customers after that.
24 In any other industry, customers can renew by receiving
25 something in the mail.

1 Give an example -- my house insurance. I
2 get a notice once a year saying that this is what my
3 policy is, they've updated it based on, you know, any
4 additions or whatever that I've done to my house or any
5 riders.

6 And I don't have to sign anything. I just
7 send in my cheque.

8 MR. BOB PETERS: When a customer signs a
9 three (3) year contract, would you agree that your
10 customer understands that the contract comes to an end
11 after three (3) years?

12 MS. KAREN MELNYCHUK: Yes, that the
13 original terms is for three (3) years, yes.

14 MR. BOB PETERS: And so if a customer
15 wants to sign on again, the customer has to have some
16 positive act to sign on again. Would that be fair?

17 MS. KAREN MELNYCHUK: Yes. That's the
18 current rules, yes.

19 MR. BOB PETERS: And that's always been
20 the rule?

21 MS. KAREN MELNYCHUK: Yes, yes.

22 MR. BOB PETERS: And the only change was
23 instead of allowing ninety (90) days after the three (3)
24 years expired, the Board suggested that you could try to
25 get that customer to stay on starting a hundred and

1 twenty (120) days before the contract expired.

2 MS. KAREN MELNYCHUK: That's correct.

3 MS. NOLA RUZYCKI: Can I just point out
4 one (1) thing -- that our contracts would have contained
5 provisions allowing for renewals at the time they were
6 initially done before this ruling changed.

7 So the contract did contain a provision
8 that if renewal if allowed, that that process would be
9 followed, so the 90 day rollover would be included in
10 that so the customer would see that.

11 MR. BOB PETERS: Help the Board with
12 that, Ms. Ruzycki. If the contracts you had with the
13 consumer would contain a provision that after the three
14 (3) years expired, there would be an opportunity for the
15 customer to continue on with the retailer, correct?

16 MS. NOLA RUZYCKI: Yes, that's correct.

17 MR. BOB PETERS: And to continue on with
18 the retailer, there would have to be some positive act on
19 behalf of the consumer?

20 MS. NOLA RUZYCKI: Not necessarily, no.

21 MR. BOB PETERS: The consumer's silence
22 would be taken to be agreement to continue?

23 MS. NOLA RUZYCKI: Yes, that's correct.
24 If no effort was made, they would be -- if no effort was
25 made to cancel the contract, they would be effortlessly

1 renewed for the term that was agreed upon --

2 MR. BOB PETERS: But that wasn't --

3 MS. NOLA RUZYCKI: -- in the initial
4 agreement.

5 MR. BOB PETERS: And -- and that wasn't
6 the Code of Conduct requirement though?

7 MS. NOLA RUZYCKI: The Code of Conduct
8 allowed for a ninety (90) day rollover.

9 MR. BOB PETERS: And I thought the
10 rollover you were talking about was -- I think you called
11 it an 'effortless renewal'; that is, in addition to the
12 ninety (90) days, the customer would remain on retail
13 supply if they did nothing.

14 MS. NOLA RUZYCKI: Well they would remain
15 on retail supply for a set period, not the initial five
16 (5) year term. So the set period would be laid out in
17 that. And in this case, it would be the ninety (90) day
18 period.

19 MR. BOB PETERS: Okay. Then -- I'm sorry
20 I misunderstood your previous answer. What you're
21 telling the Board is that when you went to the market and
22 got your customers, you told them in their contract that
23 there would be a ninety (90) day rollover period where
24 they would continue to receive gas after the three (3)
25 years expired, and during that period of time they'd have

1 to make a positive election one way or the other.

2 MS. NOLA RUZYCKI: I'm not sure exactly
3 what the specific wording is, but there is wording to the
4 effect of renewals in the contract.

5 MR. BOB PETERS: And so the -- the
6 reversal of the renewal policy in Manitoba, then, had to
7 do with the change in the ninety (90) day post expiry of
8 the fixed term agreement?

9 MS. NOLA RUZYCKI: Yes, that's correct.

10 MR. BOB PETERS: And the Board Order that
11 addressed that matter was Board Order 81/04 found at Tab
12 12 of the Book of Documents. Is that your recollection?

13 MS. NOLA RUZYCKI: Yes.

14 MR. BOB PETERS: Ms. Ruzycki, I'll ask
15 you this and then I'll maybe ask it also of Ms.
16 Melnychuk. If the ninety (90) day rollover provision was
17 provided in your agreements with the customers, did it
18 indicate that the customer would continue to receive
19 supply from the retailer at the same existing price that
20 was in their contract?

21 MS. KAREN MELNYCHUK: I can respond for
22 Direct Energy. Our renewal clause in our contracts
23 indicated that they would be renewed at the renewal
24 price, and the renewal notice that they would receive in
25 advance of their expiry date. They would be renewed --

1 if we did not hear from a customer, they were renewed on
2 the new price for the ninety (90) days.

3 MR. BOB PETERS: So, Ms. Melnychuk, what
4 you're telling the Board is you did market to the
5 customer before the three (3) year fixed term
6 hypothetical that I gave you expired in any event,
7 correct?

8 MS. KAREN MELNYCHUK: Yes.

9 MR. BOB PETERS: And, in that -- in that
10 marketing effort to them, you provided them with the then
11 current rate from your company?

12 MS. KAREN MELNYCHUK: Yes.

13 MR. BOB PETERS: And if they did nothing,
14 they were continued on for ninety (90) days at the new
15 rate?

16 MS. KAREN MELNYCHUK: Yes.

17 MR. BOB PETERS: And after ninety (90)
18 days, if they still had done nothing, they were returned
19 to system supply?

20 MS. KAREN MELNYCHUK: That's correct.

21 MR. BOB PETERS: Ms. Ruzycki, do you
22 understand Energy Savings to be a similar process and
23 similar terminology?

24 MS. NOLA RUZYCKI: Yes, I do, subject to
25 check, and I can do that at our break.

1 MR. BOB PETERS: There was a suggestion -
2 - and if I understood it correctly, in -- that there's
3 customer attrition at the end of any fixed-term
4 agreement, would that be fair?

5 MS. KAREN MELNYCHUK: Not just at the
6 end, but throughout.

7 MR. BOB PETERS: And -- and I -- I have a
8 note here, Ms. Melnychuk, that in the question from the
9 PUB to Direct Energy and Energy Savings number 23, there
10 was a suggestion that there was a 17 percent loss of
11 business. Do you recall that?

12 MS. KAREN MELNYCHUK: I don't recall the
13 exact IR that you're speaking to, but I -- I believe I
14 mentioned earlier it's between 10 and 20 percent
15 attrition.

16 MR. BOB PETERS: And is that 10 to 20
17 percent attrition due to the fact that you can't have a
18 ninety (90) day rollover, or is that just due to the fact
19 that at some point the customer does not provide you with
20 a new wet signature?

21 MS. KAREN MELNYCHUK: I'm just going to
22 turn up that IR.

23

24

(BRIEF PAUSE)

25

1 MS. KAREN MELNYCHUK: Sorry, Mr. Peters,
2 for just the time it's taken to pull together an answer.
3 I wasn't part of the response for this one (1), so that's
4 what's creating the confusion on my side.

5 We were doing some comparisons in regards
6 to our results -- our renewal results in Ontario -- and
7 with the Evergreen provisions in Ontario, our results --
8 you know, if you're looking at a high percent, our
9 results there were considerably higher in our renewal
10 rates versus what we were experiencing in Manitoba.

11 I believe I've cited that right. Again, I
12 -- I didn't respond to the IR.

13 MR. BOB PETERS: All right. But I
14 understood the IR to be telling this Board that because
15 of the change in the ninety (90) day rollover, the
16 Company experienced a 17 percent attrition rate. Is that
17 a correct understanding?

18 MS. KAREN MELNYCHUK: Yes. And it's
19 actually higher than we've experienced. At the time that
20 this response was -- was written, it was approximately 17
21 percent.

22

23 (BRIEF PAUSE)

24

25 MS. KAREN MELNYCHUK: It's an increase in

1 attrition rate since then.

2 MR. BOB PETERS: And is that -- is that
3 being attributed by the retailers to the lack of the
4 ninety (90) day rollover provision?

5 MS. KAREN MELNYCHUK: Part of it is, yes.

6 MR. BOB PETERS: Can you separate out how
7 much is attributable to the lack of the ninety (90) day
8 and how much is attributable to the consumers' choice not
9 to renew?

10 MR. CLINTON ROEDER: The -- the response
11 we'll just comment in terms of the increase that we've
12 seen in attrition since the rule was put in place. In
13 terms of specific reasons for the churn, whether it's due
14 to the ninety (90) day rollover or other market factors;
15 no, we can't separate them.

16 MR. BOB PETERS: And do I take from that
17 response as well, Mr. Roeder, that the 30 percent drop
18 rate in Ontario is at the end of a fixed-price contract?

19 MR. CLINTON ROEDER: That's correct.

20 MS. NOLA RUZYCKI: Sorry, I'd like to
21 just -- Energy Savings did not respond to this. We've
22 only had one (1) contract complete and it was just at the
23 time of the filing and that was a four (4) year contract.
24 But, I can provide you information from our 2007 annual
25 report that 82 percent of our Ontario gas customers

1 renewed in the physical year 2007.

2 MR. BOB PETERS: So your churn rate was
3 18 percent?

4 MS. NOLA RUZYCKI: Yes, that's correct.

5 MR. BOB PETERS: In which Canadian
6 jurisdiction is there a provision where the customer
7 signs on for a, say, three (3) year fixed-price contract,
8 and if the customer does nothing, they continue to stay
9 with the company past the three (3) years and into the --
10 into subsequent years?

11 MS. KAREN MELNYCHUK: I can speak to the
12 BC market. There's two (2) different things that occur
13 in BC. If a customer does not receive a renewal notice
14 from the marketer and no notice is given to the utility
15 Terasen, in BC, the customer will be evergreened at the
16 exiting price or the existing contract price; that's the
17 one (1) evergreen.

18 The other one is an automatic renewal
19 where the customer is sent a renewal price and we -- we
20 give direction to the Utility. If no response is
21 received from the customer, they are renewed at the
22 renewal price in that renewal notice.

23 One (1) differential on the Evergreen,
24 it's for a one (1) year term, so that default one, which
25 would be the exact same price -- their contracted price -

1 - extending or a further year. The automatic renewal
2 would be at the renewal price for whatever terms were in
3 that renewal notice.

4 MR. BOB PETERS: Ms. Melnychuk, in BC
5 then, if the consumer -- if -- if the consumer does
6 nothing and the retailer does nothing, the customer stays
7 with the retailer for an additional year?

8 MS. KAREN MELNYCHUK: That's correct; at
9 the -- the first price, like the existing price.

10 MR. BOB PETERS: At the price they signed
11 on for in their initial contract?

12 MS. KAREN MELNYCHUK: That's correct.

13 MR. BOB PETERS: And then you say there
14 was also a second approach in BC and that was called "the
15 auto renewal," but that was one where the company had
16 gone back, during the term of the fixed-price contract,
17 and attempted to market for an additional term?

18 MS. KAREN MELNYCHUK: That's correct.

19 MR. BOB PETERS: All right.

20 MS. NOLA RUZYCKI: Perhaps I can add --
21 in Ontario, Ontario also has what we'd refer to as
22 "effortless renewals"; that a customer is sent a renewal
23 package and if they do not respond, they would be
24 automatically renewed at the price in the contract for a
25 term of one (1) year.

1 MR. BOB PETERS: And that's similar to
2 the BC auto renewal program, Ms. Ruzycki, would you
3 agree?

4 MS. NOLA RUZYCKI: Yes, that's correct.

5 MR. BOB PETERS: All right. And --

6 MR. GARY NEWCOMBE: Mr. Peters, it's very
7 similar to that in Alberta as well. There's provision
8 for a one (1) year renewal at a renewal price following
9 that renewal package sent to the customer.

10 MR. BOB PETERS: All right. Correct. In
11 all of those examples, before the expiration of the fixed
12 contract term, the retailer sends a renewal package to
13 the customer, and no response from the customer results
14 in that customer staying on for one (1) more year at a
15 new renewal price?

16 MS. KAREN MELNYCHUK: Yes.

17 MR. BOB PETERS: Mr. Roeder, I have a
18 Texas question for you. I hope you appreciate that. I -
19 - I understand in Texas there is the opportunity for
20 Evergreen renewals to mean something different than it
21 does in Canada; and that is no further action by the
22 customer results in that customer staying on with the
23 Utility. Is that correct?

24 MR. CLINTON ROEDER: That's correct, I --
25 I guess. My hesitation is just clarification on

1 different from what was described in terms of Ontario in
2 terms -- and as well as Alberta. In Texas, the customer
3 receives a package -- renewal package -- and, should they
4 not respond, they will be -- continue on with the
5 retailer at whatever's indicated in the renewal letter.

6 MR. BOB PETERS: I understand that as a
7 result of Direct's activities in the Texas market, that
8 they recently, if not negotiated, they reached a
9 compromise as a result of a marketing practice involving
10 renewal of contracts for residential customers. Are you
11 aware of that?

12 MR. GARY NEWCOMBE: Yes, Mr. Peters.
13 This was in relation to a -- a difference in
14 interpretation between Public Utility Commission Staff
15 and Direct Energy as to the interpretation of one of the
16 clauses respecting the renewal provisions for commercial
17 industrial customers.

18 As I understand it, there was substantial
19 negotiation -- or discussion between the PUCT staff and
20 Direct Energy. There was an agreement that we paid a
21 voluntary amount.

22 Our recommendation was that that go
23 towards an education program directed specifically at
24 consumer -- or sorry, commercial and industrial customers
25 on the basis that there was obviously need for it. If a

1 company like Direct Energy with some, you know, legal and
2 regulatory understanding of rules, misunderstands a rule
3 then, obviously, the rule is fairly complex and you'd
4 probably be remiss if you think that customers can
5 understand it.

6 There was a, I believe, an admission on
7 the PUCT web site that there was no intent or
8 inappropriate intent on the behalf of -- of Direct
9 Energy. It was simply a -- a difference of opinion as to
10 the interpretation of a specific rule.

11 MR. BOB PETERS: And I think that -- that
12 same admission from the staff of the Public Utilities
13 Commission of Texas about there being no intention to
14 interpret something inappropriately is found in the
15 decisions that were -- were given.

16 But I want to turn to what the
17 misinterpretation was, specifically. And was it not
18 related to whether or not a customer would remain on a
19 retailer supply in the -- in the event they did nothing?
20

21 (BRIEF PAUSE)

22
23 MR. GARY NEWCOMBE: Yes, I believe that's
24 true, as I understand it, that we interpreted the rule as
25 to not require a customer's explicit consent to continue

1 serving them with a new -- or a renew -- a twenty-four
2 (24) month renewal.

3 And we provided customers with the
4 convenience of opting into the new plan by taking no
5 action.

6 MR. BOB PETERS: And by -- by that
7 marketing option, the PUCT found that to be
8 inappropriate, and Direct was -- is not allowed to market
9 in that fashion. Would that be correct?

10 MR. GARY NEWCOMBE: Well I -- I'm not
11 sure about inappropriate. It was -- PUC took a different
12 interpretation of the rule than we had originally taken.

13 We agreed to -- that on a go-forward
14 basis, certainly, we would agree with their
15 interpretation of the rule.

16 MR. BOB PETERS: Okay. I -- I didn't
17 mean to mis-characterize or to suggest otherwise. The --
18 is the lesson to be learned from the Texas situation that
19 to extend a customer beyond the fixed-price term, there
20 should be a positive act from the customer?

21 MR. GARY NEWCOMBE: I don't know if I
22 would agree with that, Mr. Peters. I would say the
23 lesson to be learned from the -- the -- the circumstances
24 in Texas is that, you know, probably we should all take a
25 hard look at the rules and make sure there is clear and

1 concise and brief as possible.

2 MR. BOB PETERS: All right. The second
3 of the concerns that I wanted to touch with this Panel
4 was the submission of original contracts.

5 Presently the Board will understand that
6 it's a requirement by Centra that they have on their
7 files an image of the signed agreement between the
8 residential customer and the retailer. Is that correct?

9 MS. KAREN MELNYCHUK: That's correct.

10 MR. BOB PETERS: And the proposal you're
11 asking the Board to consider in these proceedings is to
12 modify that requirement such that the retailer keeps an
13 image of it and has it available if and when an audit is
14 needed to be done?

15

16 MS. KAREN MELNYCHUK: Yes, that's
17 correct.

18 MR. BOB PETERS: And explain to the
19 Board, is that -- is that a financial advantage to the
20 retailers? Is that -- is that why it's being pursued, or
21 is it -- is it simply convenience of not having to go
22 through the process of giving that data to the -- to the
23 Utility?

24 MS. KAREN MELNYCHUK: It takes a -- huge
25 amount of resources to scan those images and then to save

1 them and forward them on to the Utility.

2 In other markets, we do not have to
3 provide a copy of our signed or -- or executed contract
4 to the Utility, so this is the only market that we need
5 to do so. So we do have additional costs, here in
6 Manitoba, that we don't have in other markets.

7 We still maintain images in other markets;
8 it's just they're stored internally and always available
9 at the request of the Board or of the Utility.

10 MR. GARY NEWCOMBE: Mr. Peters, you know,
11 you'd asked if that was a financial benefit to the
12 retailers or a financial penalty to the retailers. I
13 think this goes right to Mr. Roeder's earlier points
14 about the market rules and the -- the costs that they add
15 on to what we have to do.

16 And, to the extent that we could eliminate
17 some of what we view as sort of unnecessary bureaucratic
18 steps here, we could pass those savings on to customers.
19 We could look at expanding our service offerings and
20 provide more competitive pricing.

21 MR. BOB PETERS: And I thought I also
22 heard the Panel tell the Board that while it may not be
23 one (1) of these in particular that -- that's the
24 problem, but collectively they do add the price?

25 MR. GARY NEWCOMBE: Yes. I think, yes.

1 MR. BOB PETERS: And is there any way for
2 this Panel to quantify to the Board what the financial
3 impact would be of a change? That instead of submitting
4 copies of the contract to the Utility, you -- you could
5 just maintain the images on your database and have them
6 available for audit or verification, if required?

7 MS. KAREN MELNYCHUK: At this point in
8 time, no, we haven't itemized it out like that, but it
9 does require probably half an FTE to do this work.

10 MR. BOB PETERS: That's an attempt, Ms.
11 Melnychuk, to quantify for the Board that it may take a
12 full-time equivalent employee half of -- half of their
13 time to -- to keep doing this?

14 MS. KAREN MELNYCHUK: That's correct.

15 MR. BOB PETERS: And whatever cost is
16 associated with that, the Board can -- can, I suppose,
17 infer that?

18 MS. KAREN MELNYCHUK: Yes.

19 MS. NOLA RUZYCKI: I don't know that we
20 could tell you exactly. We don't track the information,
21 but it would definitely mean that we could do more with
22 the people we currently have.

23 So I couldn't give you if it's -- if it
24 would mean a savings of an additional person because we'd
25 have that person there, but it would definitely reduce

1 the requirements on that person.

2 MR. BOB PETERS: Can that be translated
3 into savings for the customer?

4 MS. NOLA RUZYCKI: When combined with the
5 other items, yes.

6 MR. BOB PETERS: Well, one (1) of the
7 other items that I wanted to talk about was the
8 electronic business standards transaction capabilities.

9 And the evidence that's pre-filed suggests
10 that there are systems in other jurisdictions where the
11 communication between the retailers and the Utility is
12 all electronic, correct?

13 MS. NOLA RUZYCKI: That's correct.

14 MR. BOB PETERS: And you'd acknowledge
15 that that - that has a significant price tag to it?

16 MS. NOLA RUZYCKI: Yes, it does.

17 MR. BOB PETERS: And is that a price that
18 the retailers are prepared to contribute towards or pay
19 part of?

20 MS. NOLA RUZYCKI: As in the other
21 jurisdictions, in Alberta, BC and Ontario, a portion is
22 attributed to all customers through the transportation
23 and distribution. In some cases there are additional
24 charges added to the marketers for administration.

25 For example, in Ontario we are charged a

1 price for invoice vendor adjust, which is a line to
2 correct errors that may have happened -- if we put a
3 customer, for example, on a wrong price point and we need
4 to do a correction. So there is a charge that would go
5 with that to the retailer only.

6 MR. GARY NEWCOMBE: So I -- I think
7 there's two (2) parts to that, Mr. Peters.

8 I mean, the first is the costs of any
9 system enhancements technology that has to be put in by
10 the distributors to facilitate customers taking advantage
11 of choice. And those costs, I think, are appropriately
12 recovered through the distribution rates over all
13 customers, because that's a service that's available to
14 all customers.

15 The second piece, though; you asked if
16 retailers were prepared to directly bear any of the
17 costs, and certainly we are, because the other half of
18 that is the technological and system interfaces that the
19 retailers, themselves, have to build to talk to and
20 interact with the socialized system that's put in by the
21 distributor. And in those cases, that cost is directly
22 borne by the retailers.

23 MR. BOB PETERS: All right, I -- I have
24 your point. The evidence also contains the -- the costs
25 incurred in other jurisdictions and for other LDCs. The

1 cost seems fairly significant, does it not?

2 MS. NOLA RUZYCKI: Yes, it is.

3 MR. BOB PETERS: And is that -- is that
4 being put in only for the ability for consumers to sign
5 on with retailers, or is there some other purpose for
6 which that technology is in place?

7 MS. NOLA RUZYCKI: The technology is in
8 place to provide guidelines and rules between the
9 relationship between the distributor and the LDC. But it
10 also provides a public standard where disputes can be
11 resolved using the procedures laid out in the document.

12 MR. GARY NEWCOMBE: Just to add to that,
13 certainly, in Alberta, the same standards for electronic
14 business transaction are applied to regulated retail
15 supply as well, so it's not just retailers. But it's
16 both retailers and regulated supply that interact with
17 the distributor in the same manner through the same
18 system -- same set of standardized protocols.

19 MR. BOB PETERS: Mr. Newcombe, would the
20 -- would your company's ability to -- to conduct business
21 through electronic business standards in other
22 jurisdictions be transferable to Manitoba? Like, that
23 is, you could use the same IT platform that you develop
24 in Ontario and to just apply it to Manitoba from there?

25 MR. GARY NEWCOMBE: I don't know that I'd

1 be able to provide an answer yes or no. I think it would
2 depend on the, you know, the architecture of the systems,
3 the -- the protocols, the standards, all of those things.

4 MS. NOLA RUZYCKI: Perhaps, although I
5 don't have personal experience with it, I know that we
6 have implemented EBT systems for at least two (2)
7 jurisdictions and the -- they are not the exact system in
8 each jurisdiction; bits and pieces may be, but they do
9 require individual IT support within our company anyway.

10 MR. BOB PETERS: So it's not one (1) back
11 office that can provide these services to all your
12 jurisdictions?

13 MS. NOLA RUZYCKI: It is -- the IT
14 support system is the back office, however, there are
15 separate programs that are designed in order to -- in
16 each -- in each market jurisdiction.

17 MR. BOB PETERS: Turning to the use of
18 signatures, and I -- I learned in this proceedings from
19 Ms. Melnychuk the wet signature and that simply tells the
20 Board somebody has to put ink on paper, and that's what
21 you need in Manitoba to get a recognized agreement with a
22 residential customer?

23 MS. KAREN MELNYCHUK: That's correct.

24 MR. BOB PETERS: And, even though you
25 get this signature on paper, you can submit an image of

1 it; you don't have to submit the actual contract to
2 Centra, but an image is satisfactory, correct?

3 MS. KAREN MELNYCHUK: That's the process
4 at the moment, yes.

5 MR. BOB PETERS: And that image, is that
6 -- it can't be sent by scanning it in PDF over the
7 Internet to the Utility?

8 MS. KAREN MELNYCHUK: We currently just
9 moved to that process within the last month or so.

10 MR. BOB PETERS: Okay. Now, you're
11 asking the Board that the market rules that require this
12 wet signature be relaxed such that you can use other
13 marketing techniques including telemarketing and
14 Internet, correct?

15 MS. KAREN MELNYCHUK: Yes, those are two
16 (2) sales channels that we've identified.

17 MR. BOB PETERS: And the primary reason
18 for your request of the Board is that it would be less
19 expensive to market through Internet and through
20 telemarketing?

21 MS. KAREN MELNYCHUK: That's also --
22 that's one (1) of the reasons. The other one (1) is the
23 -- the geographical diversity of the province -- I got
24 that right today -- being able to offer a choice to all
25 consumers in Manitoba. But the -- the main one (1) is

1 the cost to acquire those channels of door-to-door and
2 direct mail are typically higher than what be incurred
3 under a -- a web sign-up or a telemarketing sign-up.

4 MR. BOB PETERS: You're telling the Board
5 that the technology exists for the retailers to use e-
6 signatures or voice-recorded signatures as -- as being
7 available for audit or verification subsequently if there
8 is a concern?

9 MS. KAREN MELNYCHUK: That's correct,
10 yes.

11 MR. BOB PETERS: And you use that
12 presently in other jurisdictions?

13 MS. KAREN MELNYCHUK: Yes, we do. We use
14 web in BC, telemarketing in Ontario and web in Ontario
15 and I believe Alberta telemarketing and web as well.

16 MR. BOB PETERS: Would the use of
17 electronic signatures and voice-recorded signatures
18 require changes to the Manitoba Code of Conduct?

19 MS. KAREN MELNYCHUK: Yes, there are
20 specific, I think, sections in the Code of Conduct where
21 it refers to the wet signature, so a physical contract
22 has to be signed. So that would be -- would have to be
23 revised.

24 There is a section there -- and I don't
25 have a copy in front of me -- but it does reference to

1 telemarketing but because of the wet signature, we can't
2 implement it.

3 MR. BOB PETERS: All right. You do have
4 a copy. If Mr. Hoaken would provide you with Tab 12 of
5 the book of documents. And I appreciate, I probably
6 didn't give him enough copies but we seem to be making
7 do.

8 MS. NOLA RUZYCKI: Yes, Section 3.4 is I
9 believe -- or sorry, 3.5 is the one that references:
10 "A broker shall provide the consumer
11 with a copy of the contract and/or
12 agency agreement at the time the
13 contract or agreement is entered into."

14 MR. BOB PETERS: Ms. Melnychuk, that's
15 the specific item that you feel would need some revision
16 to reflect that the contract may be, under your request,
17 electronic or voice recorded?

18 MS. KAREN MELNYCHUK: I believe that's
19 one (1) section. I believe there is another one though,
20 Mr. Peters. I'm just trying to find that.

21 MR. BOB PETERS: Well, if you look to the
22 definition of marketing which is on the second page of
23 the code -- it's under the definition section, section
24 1.1 -- there is a definition of marketing. And I'll wait
25 for you to find that.

1 [consumer, sorry]."

2 So that section there would need to be
3 changed.

4 MR. BOB PETERS: Okay. Well that's a
5 detail that will be included I suppose in the request
6 made, and the Board will understand it that way from --
7 from the retailers.

8 Let me ask this question then: If -- if
9 you had your druthers, and in my hypothetical example,
10 you could have either door-to-door marketing on one side
11 or you could have the ability to do internet and
12 telemarketing on the other, which would be the preferred
13 option and why?

14 MS. NOLA RUZYCKI: Perhaps I could speak
15 for Energy Savings. You were -- just to clarify you were
16 asking whether we would -- if we only had the option of
17 door-to-door or telemarketing, which one we would choose?

18 MR. BOB PETERS: Well, I actually bundled
19 them together. I said if on one side it was door-to-door
20 and the other side it was telemarketing/ --

21 MS. NOLA RUZYCKI: And internet.

22 MR. BOB PETERS: -- internet.

23 MS. NOLA RUZYCKI: Internet, okay.

24 Definitely for Energy Savings we would choose the door-
25 to-door, in that we feel that we can bring the product to

1 the customer. We have face-to-face interactions with the
2 customer. We can answer questions at the time we're at
3 the door. We can sort of sense whether a customer is
4 understanding or not. It -- and we found it a proven
5 effective method for marketing.

6 MS. KAREN MELNYCHUK: And if I can just
7 add, our preference is not for one or the other. To
8 reach the geographical diversity of customers in this
9 province, you do need access to all those sales channels.

10 And if I can just add, Mr. Peters, another
11 section of the code that would need to be changed, is
12 3.9.

13 Mr. Newcombe's eyes are -- are better than
14 mine.

15 This one refers to:

16 "A broker must provide the distributor
17 with evidence of the written permission
18 of the customer authorizing the broker
19 to supply gas to a consumer."

20 MR. BOB PETERS: And -- and that's -- I
21 mean and understood, and that's the -- the hurdle that
22 you're talking about in terms of having to presently
23 image the contract and send it over to the Utility?

24 MS. KAREN MELNYCHUK: Yes. And that it
25 references to a written, as well.

1 MR. BOB PETERS: Yes. Mr. Chairman, in
2 light of Ms. Melnychuk wanting to have her cake and eat
3 it too in that last answer to me, I wonder if this would
4 be an appropriate time for the lunch break?

5 MS. KAREN MELNYCHUK: I don't eat cake.

6 THE CHAIRPERSON: Actually we look
7 forward to the cake.

8 Okay. So we will see you back at 1:15.

9 MR. BOB PETERS: Thank you.

10

11 --- Upon recessing at 12:01 p.m.

12 --- Upon resuming at 1:19 p.m.

13

14 THE CHAIRPERSON: Anytime you are ready,
15 Mr. Peters.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Yes, thank you, Mr.
19 Chairman. Just before the lunchbreak we were talking
20 about door-to-door marketing. And do the retailers
21 acknowledge that door-to-door marketing is the source of
22 the greatest number of marketing practice complaints?

23 MS. KAREN MELNYCHUK: In regards to the
24 amount of channels that are available to us, it would
25 reason that that's where the complaints would come from.

1 MR. BOB PETERS: While you're
2 acknowledging that my be where most of the complaints
3 come from, Ms. Melnychuk, you're also saying that it
4 stands to reason because you're not allowed to use other
5 marketing channels?

6 MS. KAREN MELNYCHUK: That's correct.

7 MR. BOB PETERS: Does that suggest that
8 if you used other marketing channels to get a final
9 contract, such as internet or telemarketing, that the
10 number of complaints in those areas would -- would
11 increase?

12 MS. KAREN MELNYCHUK: Just by reason, I -
13 - I would assume that you would have some complaints come
14 out of those sales channels, as well.

15 MR. BOB PETERS: And the complaints that
16 would come out of those sales channels in terms of the
17 information that was or was not provided would be subject
18 to verification, either through what was written on the
19 internet website or what was said on the voice recording
20 on the telemarketing?

21 MS. KAREN MELNYCHUK: That's correct.

22 MR. BOB PETERS: And the telemarketing
23 would record the entire conversation with a customer?

24 MS. KAREN MELNYCHUK: In some
25 jurisdictions it records a certain part of -- of the

1 conversation where got -- it gets into contract terms and
2 acknowledgement of the contract terms and price.

3 Mr. Roeder, I'm not sure if -- what
4 section is recorded in Ontario.

5 MR. CLINTON ROEDER: Yeah, I don't have
6 the specifics on that.

7 MR. BOB PETERS: In terms of door-to-door
8 marketing efforts, the individuals that conduct the door-
9 to-door marketing are commissioned independent agents of
10 the retailers?

11 MS. KAREN MELNYCHUK: For Direct Energy
12 they are, yes.

13 MS. NOLA RUZYCKI: That's the same for
14 Energy Savings.

15 MR. BOB PETERS: And because they are
16 commissioned agents and not employees per se, they would
17 go through a turnover rate, there would be different --
18 different independent agents every time you went back to
19 the market; some the same, some different?

20 MS. KAREN MELNYCHUK: There's always a
21 turnover for various reasons, yes.

22 MR. BOB PETERS: And is there -- are
23 there training manuals provided to these individuals in
24 training sessions?

25 MS. KAREN MELNYCHUK: It -- it may assist

1 the Board if I go through Direct Energy's training for
2 its agents; it is probably different than what Energy
3 Savings does.

4 MR. BOB PETERS: All right.

5 MS. KAREN MELNYCHUK: When an agent
6 begins work for Direct Energy, we set them up with a pat
7 -- an idea and a password and the training -- well, the
8 first section of the training is provided online.

9 They go through a series of modules.
10 Those modules contain information on the market, the
11 regulatory rules, the code of conduct, the products that
12 we have offered in the jurisdiction that they are going
13 to be selling into.

14 That is the first part of the training.
15 There is what we call infield training, as well, after
16 that. So they're paired up with an experienced agent and
17 they job shadow, if you want, in the field and then are
18 monitored by their supervisor. And we also do a sales
19 quality after the fact; a sales quality phone call.

20 Every customer that we sign up through a
21 door-to-door interaction is attempted to be what we
22 called third party verified. We make five (5) attempts
23 on every customer that signs up through that sales
24 channel.

25 And right now we've got about a 30 percent

1 contact rate. And we go through a series of questions
2 with the customer to confirm that they understand, you
3 know, the terms and conditions of the contract, the
4 price, that the proper documentation was left behind with
5 the customer and so forth.

6 MR. BOB PETERS: Just before I turn to
7 Ms. Ruzycki and see if she has any different comments or
8 additional comments, did I understand you to say that
9 even though you go -- you try five (5) times to contact
10 your new customers, you only get a 30 percent contact
11 rate?

12 MS. KAREN MELNYCHUK: That is correct,
13 yes.

14 MR. BOB PETERS: And the purpose of doing
15 that is for each and every new customer signed there's an
16 attempt made to discuss the quality of the experience at
17 the door, and the information provided?

18 MS. KAREN MELNYCHUK: Yes.

19 MR. BOB PETERS: Do I take it that when
20 they are at the door they have also a -- in essence, a
21 script that they are to -- I'm sorry, Ms. Ruzycki, I
22 didn't know if you wanted to add anything further to what
23 Ms. Melnychuk said about what Direct Energy's protocol
24 was?

25 MS. NOLA RUZYCKI: Not that I'd like to

1 add to their protocol. Perhaps I'd like to tell -- tell
2 you about our protocol.

3 We -- we are bit different, in that we
4 have classroom training instead of the internet training.
5 We have in-class instruction, which includes information
6 on the Company, its products, the energy market,
7 deregulation, the door-to-door marketing program, the
8 information to be left with the customers, the code of
9 conduct, any rules and applicable laws that they must
10 follow.

11 And after this classroom instruction is
12 completed, the -- move to the field training portion
13 where, similar to Ms. Melnychuk, our agents are shadowed
14 -- they actually shadow an experienced agent until the
15 time that they -- it is deemed that they are ready to
16 move into the market on their own. The experienced agent
17 continues to stay with that agent until that agent is
18 completely ready to enter the market.

19 We -- we do a verification call after, as
20 well. And in that call it verifies -- on a digitally
21 recorded line, we confirm the customer's understanding of
22 our fixed-price program. We provide further information
23 if the customer requires it, as well.

24 MR. BOB PETERS: You keep a copy of the
25 voice conversation you have with the customer afterwards

1 that's then available to the customer subsequently?

2 MS. NOLA RUZYCKI: Yes, we do.

3 MR. BOB PETERS: But the customer's voice
4 recording would not be of when the contract was entered
5 into, it would be just the followup audit of it, would it
6 not?

7 MS. NOLA RUZYCKI: Ours are actually done
8 as an inbound confirmation, so the information would be
9 received when the customer has signed the contract.

10 MR. BOB PETERS: Do either or your
11 commissioned agents have a script that they are to follow
12 when they approach customers door-to-door?

13 MS. KAREN MELNYCHUK: They have a basic -
14 - for -- for Direct Energy agents, a very basic outline.
15 It starts with an introduction of -- and presentation of
16 a business card to ide -- identify that they are from
17 Direct Energy. In regards to a script, we have found
18 that a -- a conscribed script like that does not work
19 well at the door.

20 They do have, you know, our brochure,
21 which is the guide to purchase natural gas in Manitoba
22 and they will have information on our green product,
23 those kinds of things, but not so much as a prescribed
24 script.

25 And, Mr. Peters, if I can just make a -- a

1 clarification on our TVP, or our third party verification
2 calls, those are strictly to ensure the sales quality and
3 -- and to ensure our agents are following compliance
4 issues.

5 MR. BOB PETERS: All right, thank you. I
6 -- I think I understand and I'll review the transcript,
7 but I think there's a difference there between yours --
8 between Direct Energy's and Energy Savings, and I think
9 we've got that.

10 Is there any agreement between or amongst
11 retailers as to which geographic territories you can
12 target?

13 MS. KAREN MELNYCHUK: Whoever get there
14 first.

15 MS. NOLA RUZYCKI: Now, we have -- we --
16 I believe, as we mentioned earlier, we complete -- we
17 compete vigorously for the same customers in the
18 marketplace.

19 MR. BOB PETERS: All right. And I'm not
20 sure, Ms. Melnychuk, if your -- if your answer was
21 literally agreed to by Ms. Ruzycki, but whoever gets
22 there first, does that imply that there is an agreement
23 as to how often you will go back to each neighbourhood?

24 MS. KAREN MELNYCHUK: No, there's no
25 agreement between the two (2) parties.

1 MR. BOB PETERS: All right. Is there --
2 and in your door-to-door marketing campaign, is it
3 coordinated as to geographic territory as to which parts
4 of the city will be canvassed at what particular time by
5 the retailers?

6 MS. KAREN MELNYCHUK: Not for Direct
7 Energy, no.

8 MR. BOB PETERS: You leave that up to the
9 independent agent to decide where they're going to go?

10 MS. KAREN MELNYCHUK: Not so much the
11 independent agent, but their supervisor, yes.

12 MR. BOB PETERS: And is their supervisor
13 an employee of a retailer?

14 MS. KAREN MELNYCHUK: No, they're also
15 commissioned.

16 MR. BOB PETERS: Is there any
17 understanding as to how often you would go back to the
18 same neighbourhood with the same product?

19 MS. KAREN MELNYCHUK: No, frequency of
20 contact with -- with a neighbourhood, we don't dictate to
21 our -- our agents. It also -- 100 percent contact in a
22 neighbourhood does not happen on the first visit, as
23 well. People are not home always at the same time, so you
24 have to make several visits into that community.

25 Our agents do attempt to record, you know,

1 which house is home, which house said no and so forth,
2 during their visits, but not all agents will do that and
3 some -- so sometimes you're -- you're knocking on the
4 same door, you know, probably more frequently than we
5 would like. But we don't know when people are home.

6 MR. BOB PETERS: Would you go back to the
7 same commu -- to the same neighbourhoods with the same
8 product offering repeatedly, even if the people are home?

9 MS. KAREN MELNYCHUK: I guess it depends
10 on -- on the amount of uptake we've had on the product
11 to that date, and the number of crews that we have
12 working at that time.

13 MR. BOB PETERS: Is that decision made by
14 the retailer or is that made by the independent marketer?

15 MS. KAREN MELNYCHUK: It's kind of both.

16 MR. BOB PETERS: Okay. And then if there
17 was a new offering that was coming out by the Company,
18 whether or not you had been to a neighbourhood or not,
19 you would see no restriction on why you couldn't go back
20 there with a new offering compared to what you had last
21 time you were there?

22 MS. KAREN MELNYCHUK: That's correct.

23 MR. BOB PETERS: Do you know how your
24 independent agents decide which parts of the city to
25 target at what particular times?

1 MS. KAREN MELNYCHUK: I believe our crews
2 rotate around the city, so they'll work, you know,
3 systematically around the city. They usually start where
4 their supervisor is given a meeting point. So it all
5 depends on the weather, the road conditions, how many
6 crew they have out that day, so there's a lot of
7 variables to that. But it -- it depends on who shows up
8 for work that day.

9 MR. BOB PETERS: And you told the Board
10 there wasn't a, per se, a script; that's how I
11 interpreted your answer, Ms. Melnychuk, but you do have
12 guidelines as to what you would like the independent
13 agents to say at the door, correct?

14 MS. KAREN MELNYCHUK: That's correct.

15 MR. BOB PETERS: But you can't have any
16 certainty as to what in fact they say at the door,
17 because you're not there recording it and you may not
18 have anybody standing beside them or behind them when
19 they do say it?

20 MS. KAREN MELNYCHUK: That's correct.

21 MR. BOB PETERS: Would you agree that
22 door-to-door sales elevates the risk for the brokers that
23 the standards you set will be compromised?

24 MS. KAREN MELNYCHUK: I believe in
25 combination with the training that we provide our agents

1 and the followup third party sales quality phone calls,
2 ensure that our agents are complying to the -- the code
3 of conduct and to the standards of the Company, so we're
4 doing everything within our controls to ensure that those
5 rules are being abided by.

6 MR. BOB PETERS: And if those rules are
7 not being abided by, what happens?

8 MS. KAREN MELNYCHUK: We have a zero
9 tolerance policy within the Company.

10 MR. BOB PETERS: Okay. What does that
11 mean?

12 MS. KAREN MELNYCHUK: If an agent is
13 found to have been in breach of the code or -- and breach
14 of policy, we have a zero tolerance, so that agent would
15 be dismissed.

16 MR. BOB PETERS: I see. Similar idea,
17 Ms. Ruzycki?

18 MS. NOLA RUZYCKI: Sorry, we do monitor,
19 actually -- at Energy Savings we do monitor trends in
20 calls we may receive from individuals that have been
21 visited. If we see it -- perhaps a trend with the
22 information not being as clear as it could be, we would
23 address that trend.

24 So we also -- we have weekly meetings
25 where we would address trends, we would address any new

1 standards that have been put in place. We would also --
2 we -- we also have refresher classes where we go through
3 the training again. We may find that once agents are out
4 on the street for awhile that they may need a refresher,
5 just like we may need a refresher for certain things.

6 MS. KAREN MELNYCHUK: Direct Energy also
7 does that. They -- most of our supervisors will meet
8 with their crews on a daily basis. And we have
9 employees, regional sales managers, who then meet with
10 the supervisors and update them on a regular basis of any
11 changes in regulation, changes in code, changes to
12 product offerings.

13 And again, like Ms. Ruzycki said, if
14 there's anything that's coming through our call centre of
15 interest or of -- of concern, we'll raise that with the
16 agents -- or with the regional sales manager, who will
17 then take it to the supervisors of those crews.

18 MR. BOB PETERS: These commissioned
19 independent agents that you utilize would also sell door-
20 to-door other products, would that be true?

21 MS. KAREN MELNYCHUK: Not in regards to
22 Direct Energy, no.

23 MR. BOB PETERS: No, I meant they can be
24 contracted to sell door-to-door products for some other
25 company. As oppo -- not -- not necessarily energy

1 products, but widgets, for example.

2 MS. KAREN MELNYCHUK: Not the agents that
3 we use for Direct Energy in Manitoba.

4 MR. BOB PETERS: I'm sorry, then -- then
5 your evidence is that the independent agents you have,
6 their only door-to-door activity is to sell Direct Energy
7 products?

8 MS. KAREN MELNYCHUK: At this moment,
9 yes.

10 MR. BOB PETERS: All right.

11 MS. NOLA RUZYCKI: Sorry, that would be my
12 understanding as well, for our agents.

13 MR. BOB PETERS: All right. So on -- in
14 September the independent agent working for Direct Energy
15 may be at my door, and next month if that person comes
16 back they won't be there because of Energy Savings?

17 MS. KAREN MELNYCHUK: Not unless they've
18 left Direct Energy and started work for Energy Savings --

19 MR. BOB PETERS: Okay.

20 MS. KAREN MELNYCHUK: -- within that time
21 period. I -- I may just add to that, Mr. Peters, is
22 Direct Energy also has other businesses within the
23 province of Manitoba, so our agents may, on occasion,
24 also sell, like, a -- a heating product protection plan,
25 but's it's under the umbrella of Direct Energy at all

1 times.

2 MR. BOB PETERS: All right. And -- and
3 the other businesses you refer to, I -- the heating,
4 ventilating, air-conditioning industry, the HVAC
5 dealerships?

6 MS. KAREN MELNYCHUK: Yes.

7 MR. BOB PETERS: Do the retailers have
8 their independent brokers suggest to residential
9 customers that those residential customers will save
10 money by signing up for a fixed-price contract from a
11 retailer?

12 MS. KAREN MELNYCHUK: No. I reviewed all
13 our online training just last week to ensure this. And
14 we just put this into implementation last year or so ago,
15 our online training. And actually there's four (4)
16 instances in our online training where it says we do not
17 guarantee savings, and, you know, any reference to that
18 we actually mention it several times in our online
19 training.

20 What we offer is a fixed-price program
21 when the rate does not change for the duration of the
22 contract.

23 MR. BOB PETERS: And if the customers
24 asks if they will save money under your program compared
25 to what Centra is offering, what response are they to

1 give?

2 MS. KAREN MELNYCHUK: The response that
3 they're trained to give is that over the -- the duration
4 of the contract their price will not change, depending on
5 what the market does. It secures their rates so that
6 will -- of price -- future price increases. We do not go
7 into savings.

8 MR. BOB PETERS: Do they tell consumers
9 at the door that rates are probably going to rise in the
10 future?

11 MS. KAREN MELNYCHUK: I don't believe so.
12 They may have -- show historical information, where over
13 a course of time rates have risen. You know, I've said
14 it to my staff many times. If I had the crystal ball to
15 say what prices will be, we wouldn't be here.

16 MS. NOLA RUZYCKI: Sorry. Maybe I can
17 just add that I think as we in this room all know, that
18 there is no guarantee as to whether prices will rise or
19 not. But there is a potential for savings, if and only
20 if the retailer price remains lower at some point in the
21 contract than the utility price.

22 But that is not determined until the end,
23 so we would not be able to, in any way, guarantee any
24 type of savings to the customer. The only thing we could
25 guarantee is the peace of mind that they can budget using

1 their -- their consumption patterns that -- that they
2 will be guaranteed the rate. So it's the rate volatility
3 we are selling.

4 MR. BOB PETERS: And while you won't
5 guarantee that they will save money, do the retailers,
6 independent agents, suggest to commercial -- to
7 residential customers that they may save money?

8 MS. NOLA RUZYCKI: I believe our brochure
9 that we leave with the customer says there is a
10 potential, and -- a potential for savings, and that's
11 only if, as I explained, the product at the end of the
12 term has proven to be lower-priced than that of the
13 Utility's over that term.

14 MR. BOB PETERS: Ms. Ruzycki, while we're
15 talking --

16 MS. KAREN MELNYCHUK: The infor --

17 MR. BOB PETERS: I'm sorry, go ahead.

18 MS. KAREN MELNYCHUK: The information
19 that our agents leave behind with our customers is the
20 guide to purchase natural gas of Manitoba. We do brand
21 it with the front page of Direct Energy, but we do not
22 guarantee savings. And the guide actually lists the
23 risks as well as the -- you know, the pros and cons of
24 the program.

25 MR. BOB PETERS: That's the guide that's

1 approved by this Board?

2 MS. KAREN MELNYCHUK: Yes.

3 MR. BOB PETERS: Ms. Ruzycki, there's
4 been a suggestion -- well, there -- it's in one of your
5 information requests, there's a suggestion by Energy
6 Savings, at least on your website, that consumers have
7 saved in the, you know, hundreds of millions of dollars
8 or maybe more than a \$100 million. You're aware of that
9 -- that claim?

10 MS. NOLA RUZYCKI: Yes, I am.

11 MR. BOB PETERS: That's on the website of
12 your company?

13 MS. NOLA RUZYCKI: Was on the website,
14 yes.

15 MR. BOB PETERS: No longer?

16 MS. NOLA RUZYCKI: It was taken off the
17 website I believe three (3) months ago. We -- as I
18 mentioned yesterday, we are doing a major website
19 redesign, so we are looking at all of our communication
20 that is on the website and it is all being redesigned.
21 So that information was taken off, at that time.

22 And also that information was up there for
23 a period of time which has now passed, so we will -- we
24 reassess our information and provide appropriate
25 information for the website.

1 MR. BOB PETERS: It's your expectation
2 that that information on the website was factual,
3 correct?

4 MS. NOLA RUZYCKI: That's my
5 understanding.

6 MR. BOB PETERS: Would you also agree
7 that it is factually correct that there may have been --
8 that there have been residential customers who have paid
9 \$100 million more for their natural gas by going to a
10 fixed-price contract than they would have had they stayed
11 with system supply?

12 MS. NOLA RUZYCKI: I personally couldn't
13 answer that question because I have not done the analysis
14 on it. I don't know if it would be to that degree of
15 magnitude, but there could be definitely losses that
16 customers -- not every customer is saving money.

17 MR. BOB PETERS: No, understood. And I
18 guess in terms of the magnitude, just as there may be
19 consumers who end up paying less for their primary gas by
20 going to a fixed-priced contract, the market may also
21 impact such that residential customers will pay millions
22 of dollars more?

23 MS. NOLA RUZYCKI: That could be the
24 case.

25 MR. BOB PETERS: In the marketing of the

1 products door-to-door, if there becomes a dispute that
2 dispute through the code of conduct ends up to be
3 adjudicated by the Board or its designate, correct?

4 MS. KAREN MELNYCHUK: Yes, that's
5 correct.

6 MR. BOB PETERS: And Ms. Melnychuk, there
7 are no intermediate penalties presently in the code of
8 conduct that I'm aware of, is that correct?

9 MS. KAREN MELNYCHUK: Not intermediary,
10 no.

11 MR. BOB PETERS: And what we mean -- what
12 I mean by that is, if the independent agent on behalf of
13 the company has done something that is inappropriate in
14 terms of a marketing practice, the options in terms of
15 adjudicating are either to return that customer to system
16 supply or to revoke the -- the broker licence?

17 MS. KAREN MELNYCHUK: That's basically
18 it, yes.

19 MR. BOB PETERS: And what do the
20 retailers say about including intermediate penalties in
21 the code of conduct?

22 MS. KAREN MELNYCHUK: I don't believe
23 Direct Energy has any reservations or any objection to
24 that.

25 MS. NOLA RUZYCKI: Perhaps I could add,

1 Energy Savings does not believe that that would be
2 necessary. The number of complaints that have been
3 received, have been minimal. And just -- we don't feel
4 that there is a need for the process. Should -- should
5 that change and complaints increase, possibly it could be
6 looked at again, but at this point in time we don't
7 believe that there is a demonstrated need for it.

8 MR. BOB PETERS: Well, there was a
9 demonstrated need in Ontario where there was a fine
10 levied against a retailer for, perhaps an agent, forging
11 signatures, is that not correct?

12 MS. NOLA RUZYCKI: I can speak for Energy
13 Savings. We -- we were fined. We've had one (1) fine in
14 our ten (10) years of history. It was for an agent that
15 had forged signatures. The agent had been fired before
16 the complaint became befo -- came before the Board, owing
17 to our compliance procedures that are in place.

18 So we had already taken the actions
19 against that -- the agent in question or the agents in
20 question.

21 MR. BOB PETERS: Mr. Newcombe, from the -
22 - from Direct Energy's point of view, was there also not
23 a situation in Ontario where there was a -- a forgery by
24 one of the agents that lead to a fine from the OEB?

25 MR. GARY NEWCOMBE: Yes, I believe there

1 was. I know it was referenced somewhere in the
2 materials, I'm just trying to find it; if it was in the
3 pre-filed evidence --

4 MR. BOB PETERS: No, I think I've beaten
5 you to it. I think it's at CAC/MSOS question of Direct
6 Energy and Energy Savings number 25, if you --

7 MR. GARY NEWCOMBE: Okay, thank you.

8 MR. BOB PETERS: -- need to turn -- turn
9 to it?

10 MS. NOLA RUZYCKI: Maybe one (1) thing I
11 can mention too, that that was a significant time ago.
12 And in the Ontario market we did have a number of issues
13 that were dealt with early on, and those issues have not
14 -- they -- they've been dealt with and they have not
15 reoccurred.

16 MR. BOB PETERS: How long ago was that,
17 Ms. Ruzycki?

18 MS. NOLA RUZYCKI: I want to say it's
19 2003, but I would have to check on that.

20 MR. BOB PETERS: We'll take that as
21 approximate answer, and if you feel inclined to change
22 that, you can. But we'll take that as it is.

23 MR. BOB PETERS: Mr. Newcombe...?

24 MR. GARY NEWCOMBE: Yes. Yes, you're
25 right. In CAC/MSOS/Direct/ESM-25 there was reference to

1 one (1) fine dating back to 2003. And that was, I think,
2 as we described, in the very formative years of Direct
3 Energy, before we had instituted very rigorous compliance
4 management programs; the training programs that Ms.
5 Melnychuk talked about; our own compliance audit
6 programs.

7 And in many of these cases, they were
8 related to incidents that had already happened at the
9 time that Direct Energy purchased these different
10 companies.

11 MR. BOB PETERS: All right. And just to
12 keep current on this, Ms. Ruzycki, in British Columbia,
13 where the market, we've heard, is in its infancy, Energy
14 Savings BC had occasion to report a fellow retailer for a
15 violation of a code; is that correct?

16 MS. NOLA RUZYCKI: Yes, that's true.

17 MR. BOB PETERS: And that was adjudicated
18 by the BCUC?

19 MS. NOLA RUZYCKI: That's my
20 understanding.

21 MR. BOB PETERS: and that resulted in a
22 financial penalty of three thousand dollars (\$3,000) for
23 the breach of the code?

24 MS. NOLA RUZYCKI: I'm sorry, I don't --
25 I'm not sure what the outcome of that was.

1 MR. BOB PETERS: All right. And do you
2 understand that the allegation that was -- was, I guess,
3 upheld, was that one (1) retailer was inducing customers
4 to break their customers with another retailer?

5 MS. NOLA RUZYCKI: That's my
6 understanding.

7 MR. BOB PETERS: Is that presently
8 prohibited in the Manitoba Code of Conduct?

9 MS. NOLA RUZYCKI: Yes, it is?

10 MR. BOB PETERS: And to your knowledge,
11 there's been no steps in Manitoba that have required any
12 adjudication of those issues?

13 MS. NOLA RUZYCKI: That's my
14 understanding.

15 MR. BOB PETERS: On the issue of
16 telemarketing, just before I move forward here, there's a
17 suggestion that if telemarketing was permitted in
18 Manitoba -- that is, permitted more than it presently is
19 -- you would need the ability to have the voice
20 contracts, correct?

21 MS. KAREN MELNYCHUK: That's correct.

22 MR. BOB PETERS: And the telemarketing
23 that you envision would comply with the CRTC Rules?

24 MS. KAREN MELNYCHUK: That's correct.

25 MR. BOB PETERS: And those CRTC Rules,

1 although prescribed in other forum, include things like
2 there may be a no-call list and you're not supposed to
3 call when parents and kids are having dinner?

4 MS. KAREN MELNYCHUK: That's correct.

5 MR. BOB PETERS: All right.

6 MS. NOLA RUZYCKI: Also with the no-call
7 list, I believe that that list has to be maintained.
8 There's certain rules around it. It has to be maintained
9 for a certain amount of time, there can be no contact, et
10 cetera.

11 And also, the other thing that we do have
12 to continue to follow, obviously, is the code of conduct
13 set out by the Manitoba Public Utilities Board.

14 MR. BOB PETERS: Thank you. There's a
15 confirmation process in BC that the Panel has -- that the
16 Board has heard from a panel of witnesses, is a bit
17 different than in Manitoba. And that is when the letter
18 confirming a residential customer has signed on with a
19 retailer, from the date that that letter is received
20 there's a cooling off period provided; it's approximately
21 ten (10) days. Is that correct?

22 MS. KAREN MELNYCHUK: That's correct for
23 BC, yes.

24 MR. BOB PETERS: And that's different
25 than Manitoba Ms. Melnychuk, because the ten (10) day

1 cooling off period in Manitoba starts when the door-to-
2 door contract is signed?

3 MS. KAREN MELNYCHUK: Yes, that's
4 correct. Just in regards to the BC one, we are lobbying
5 'cause this -- to have that changed. It is in conflict
6 or it kind of overlaps with the Provincial Legislation in
7 regards to the cooling off clause.

8 So it actually -- there's two (2)
9 different cooling off clauses, depending on which Act you
10 look at, but the BCUC is the one (1) that finally
11 prevails but you have to provide wording on both of them.

12 So we're trying to -- we are lobbying with
13 the government there and the BCUC to have them rolled
14 into one (1) and so that it's consistent.

15 MR. GARY NEWCOMBE: Mr. Peters, I think -
16 - as I said in my opening remarks yesterday that the --
17 you know, when regulators and policy makers deal with
18 sort of the onset of competitive market development, they
19 tend to take a cautious approach, and I think the
20 approach taken in British Columbia is an example of that.

21 I believe that over time, as these markets
22 mature, parties will come to the realization that the
23 same consumer protection standards that apply to the vast
24 majority of goods and services that are sold every day,
25 can apply to the sale of energy as well.

1 MR. BOB PETERS: All right. Mr.
2 Newcombe, is there any objection by the retailers to
3 having, in Manitoba, the confirmation letter from the
4 Utility contain similar information as to what is
5 contained in the BC letter?

6

7 (BRIEF PAUSE)

8

9 MS. KAREN MELNYCHUK: I don't believe
10 there's any evidence in this -- this hearing in regards
11 to a change in that step of the process. That would have
12 to be reviewed by Direct Energy before it put it's view
13 onto -- onto the record.

14 MR. BOB PETERS: But you are complying
15 with that requirement in British Columbia already?

16 MS. KAREN MELNYCHUK: Yes, but that was
17 through lengthy meetings and regulatory hearings and
18 stakeholder processes that led up to that market opening.

19 MR. GARY NEWCOMBE: You know, again,
20 that's -- I mean we will comply with whatever rules are
21 there that we have to comply with. Again that's, I
22 think, another example of a market that's fairly in its
23 infancy. It actually hasn't commenced first flow yet,
24 so, you know, to introduce additional levels of
25 complexity and -- and reporting and things like that into

1 the Manitoba market, I guess, in my view, would be more
2 or less a regressive step.

3 MR. BOB PETERS: There's been discussion
4 in these proceedings about an information website or
5 somewhere where consumers can go to get, essentially,
6 I'll call it unbiased information. You're aware of that
7 suggestion?

8 MS. KAREN MELNYCHUK: Yes.

9 MR. BOB PETERS: Does that find favour
10 with the retailers?

11 MS. KAREN MELNYCHUK: I believe that
12 information is already available on the website. Direct
13 Energy provides its offerings and its prices for its
14 products on its website, and then Ms. Ruzycki referenced
15 energyshop.com yesterday.

16 I believe Direct Energy's prices are also
17 on there, and that is a third-party outs -- a third-party
18 company, as well, so it had no relation to Direct Energy.

19 MS. NOLA RUZYCKI: Perhaps I might just
20 mention that some of the pricing on Energy Shop is --
21 their -- our four year product, for example, I don't
22 believe is listed in Ontario or in Manitoba, although it
23 -- oh, it may be in Manitoba. But it definitely isn't in
24 Ontario, so not all the options are necessarily on there.

25

1 They have bits and pieces, and they do --
2 I did find out from yesterday that they phone us to get
3 our information, so I'm not sure how frequently they
4 phone, and we can't be guaranteed that the prices on it
5 are accurate.

6 MR. BOB PETERS: Would it be more
7 beneficial to Manitoba consumers if that information was
8 all on one (1) website, rather than on multiple websites?

9 MS. KAREN MELNYCHUK: In our opinion, no.
10 The consumer, the way it is right now, has to search our
11 information on the website and then search Manitoba
12 Hydro's. So the intent is there for them to -- to do
13 their -- their research in advance.

14 We don't believe that a consolidation of
15 that information needs to be contained on one (1)
16 website. If this Board deems it necessary, we don't
17 believe that the Utility website would be the choice.

18 MS. NOLA RUZYCKI: Yeah, and we would
19 just second that. We don't think that Centra should have
20 it appear on their website. It may make it appear as
21 though they're party to the contract with re -- or they'd
22 be the contact person with respect to the broker
23 products, and we couldn't be guaranteed as to what
24 instructions or advice they would be given.

25 MS. KAREN MELNYCHUK: I guess, Mr.

1 Peters, you know, this is no different than if a customer
2 is shopping for a mortgage rate. I don't believe that
3 one (1) location contains, you know -- on a website,
4 contains all rates available at any given time. A
5 customer must shop around for those mortgage rates, and
6 then it shows intent and that they've done they're
7 research.

8 MR. BOB PETERS: I think in the sports
9 pages, almost every day, we have the mortgage listings.
10 We're probably reading different parts of the paper here,
11 Ms. Melnychuk, but...

12 MS. KAREN MELNYCHUK: Unfortunately, I
13 don't go to the sports page too frequently.

14 MR. BOB PETERS: But don't you -- aren't
15 you -- are you aware that there are -- there are
16 publications of mortgage interest rates published in --
17 in daily newspapers?

18 MS. KAREN MELNYCHUK: Yes, there are, but
19 they're not indirect -- like it's not showing a listing
20 of twenty (20) different bra -- banks and then all their
21 various rates and offers.

22 MR. BOB PETERS: Well, it will list the
23 fifteen (15) various financial institutions, as well as a
24 comparison of one (1) year, three (3) year, or five (5)
25 year rates.

1 MS. KAREN MELNYCHUK: I guess I haven't
2 looked recently, Mr. Peters.

3 MR. BOB PETERS: Okay, well maybe --

4 MS. NOLA RUZYCKI: I -- I would agree
5 with that, yes.

6 MR. BOB PETERS: You've seen that, Ms.
7 Ruzycki?

8 MS. NOLA RUZYCKI: Yes, I have seen that
9 in the Saturday's paper.

10 MR. BOB PETERS: You've been reading the
11 sports pages.

12 MS. NOLA RUZYCKI: No, Saturday paper;
13 not sports section, different paper, perhaps, but -- in
14 the home section. Go figure.

15 MR. BOB PETERS: I'll starting reading
16 the -- I'll start reading the home section then. But,
17 Ms. Ruzycki, you -- you've given evidence in this Hearing
18 that your five (5) year fixed-price is at thirty-nine
19 point eight nine cents (39.89), if I heard you correctly?

20 MS. NOLA RUZYCKI: For Manitoba, yes.

21 MR. BOB PETERS: And you've heard that
22 Direct Energy's five (5) year fixed-price is thirty-four
23 point nine cents (34.9), correct.

24 MS. NOLA RUZYCKI: I don't think that was
25 the price. I thought it was thirty-six (36), but I'll

1 let Ms. Melnychuk tell me.

2 MS. KAREN MELNYCHUK: Ms. Peters was
3 correct yesterday when he cited our five (5) year flat at
4 thirty-four point nine (34.9) cents. I did confirm all
5 the rates that you gave us last night -- or are put on
6 the record, and they are -- were all accurate, as of
7 yesterday.

8 MR. BOB PETERS: All right. So, Ms.
9 Ruzycki, if I'm correct, and it's thirty-four point nine
10 (34.9) cents for the -- for the retailer to your left,
11 and yours is at thirty-nine point eight nine (39.89),
12 wouldn't consumers in Manitoba benefit by seeing your two
13 (2) numbers side by side?

14 MS. NOLA RUZYCKI: Perhaps they would,
15 however, the -- again, our prices are a function of when
16 we've got into the market, how much we've purchased and
17 the market conditions at that time. So although they --
18 they may differ today, tomorrow it could be the
19 opposite.

20 So, I guess if -- if the Board determines
21 it is important that consumers have a place to identify
22 it, that we would not want to see the -- the one (1)
23 underlying, we would not want to see it on Centra's
24 website.

25 MR. BOB PETERS: All right.

1 MS. NOLA RUZYCKI: An independent party
2 is where we would like to see it.

3 MR. BOB PETERS: Okay, thank you for that
4 -- for that point.

5 MS. NOLA RUZYCKI: Maybe just one (1)
6 other thing, too, is that, you know, there's -- price
7 changes and we -- we'd have to go into who would be
8 responsible for ensuring that the information is correct
9 on the website. As I mentioned, the Energy Shop website
10 does not appear to have accurate information on it; at
11 least for some of our products.

12 MR. BOB PETERS: But if there was an onus
13 on the retailer to provide current information, then
14 every time the retailer went to market with a new
15 product, they would also have the obligation to notify
16 the -- the webmaster, as it were. Would -- would that be
17 workable?

18 MR. CLINTON ROEDER: If -- if I can
19 respond, I mean, at least from Direct Energy's
20 perspective. We don't have a problem with a website
21 showing retailer prices in comparative. The concern we
22 have is websites that aren't maintained properly. And so
23 you've heard, in some of the evidence previously in terms
24 of a concern in some of the markets to where it's not
25 updated on a regular basis, so you just heard some of the

1 comments here and -- and there were questions about what
2 is or is not showing up on the website. That's the
3 concern.

4 In a number of markets, when there is a
5 website where consumers can go to and look at competitive
6 offerings -- and that would be acceptable, as long as
7 there is controls around how frequently it's updated and
8 also to ensure that if there is an error, that we -- we
9 have someone who will follow up and timely update that
10 website. 'Cause, if you're going to have the
11 information, we just want to make sure it's accurate.

12 MS. NOLA RUZYCKI: Maybe I can add one
13 (1) thing, too. It's -- it's fine if we provide the
14 information in a timely matter, but if it is -- the onus
15 has to be on the party receiving it, as well, to promptly
16 change the information that they've received.

17 MR. BOB PETERS: Good clarification, Ms.
18 Ruzycki, and -- and, Mr. Roeder, back to you. What would
19 be an example of a Canadian jurisdiction where that
20 consumer information is available on a website that you
21 find acceptable for the reasons that you've told the
22 Board; that is, there is controls on it and there's an
23 opportunity for error correction?

24

25

(BRIEF PAUSE)

1 MR. GARY NEWCOMBE: Mr. Peters, there is
2 a website in Alberta -- sorry -- that's maintained by a
3 government entity called Utility Consumers Advocate, and
4 they post current regulated pricing and pricing available
5 from all of the retailers. I wouldn't want to suggest,
6 though, that everything on that website is just the way
7 we'd like to see it, but, you know, it's a -- a good
8 start.

9 MS. KAREN MELNYCHUK: If I can add, Mr.
10 Peters, BC does also have a website. At first it was not
11 mandatory that participants post their prices. The BCUC
12 did put an -- a letter to marketers early into -- in --
13 in May advising all marketers that they had that it was
14 now mandatory.

15 We still don't believe that's the perfect
16 forum for our prices to be listed 'cause it is a website
17 that is administered by the Utility and there is some
18 conflict there.

19 MR. BOB PETERS: Perhaps, if this becomes
20 of further interest to the Board, they could look at the
21 web addresses, if you could provide the -- the websites
22 for them, at an appropriate time.

23 MR. ERIC HOAKEN: I think -- now I'm on.
24 I -- I think the site for the Alberta site is already in
25 the materials. I'm pretty sure it's an IR request. I'll

1 do my best to turn it up for you and we'll get the --
2 we'll find the Web address for the BC site.

3 MR. BOB PETERS: Thank you very much, Mr.
4 Hoaken.

5 MR. GARY NEWCOMBE: The Alberta one, I
6 believe is www.ucahelps.com -- or it may be .gov, I'm not
7 sure.

8 MR. ERIC HOAKEN: Sorry. I'm just
9 advised actually that the BC site is also in the IR
10 responses. I'll try and find the number for you.

11 MR. BOB PETERS: Thank you. In terms of
12 those Web listings, I think I'm understanding one (1) of
13 them is maintained through a government agency and one
14 (1) is through a Utility; is that correct?

15 MS. KAREN MELNYCHUK: Yes.

16 MR. BOB PETERS: And is there a cost for
17 that charged through the market participants?

18 MS. KAREN MELNYCHUK: Not for the one (1)
19 in BC, no.

20 MR. BOB PETERS: And Alberta?

21 MR. GARY NEWCOMBE: Not directly levied
22 on anyone; just paid by general taxation.

23 MR. BOB PETERS: I want to turn to a new
24 area and that's the Centra pricing mechanism.

25 Do you agree, as a panel, that the pricing

1 on the default supply needs to protect consumers but also
2 balance the need for there to be competitive options
3 available?

4 MR. GARY NEWCOMBE: I'm not sure that I
5 would agree with the first one; that the role of default
6 supply is to protect consumers.

7 I think our position has fairly clear, Mr.
8 Peters, that we believe the role of default supply is
9 there to make available -- or should be there to make
10 available short-term market pricing so that consumers
11 can see what the more immediate market price for the
12 commodity is.

13 It should be flexible enough to permit
14 consumers to exercise choice; in other words, it
15 shouldn't have lengthy notice periods or exit provisions.
16 And it should be there to act as -- in a role of default
17 supply for customers that have not made a conscious
18 choice to select something else.

19 MR. BOB PETERS: Dressing that up a bit,
20 Mr. Newcombe, what you're suggesting to this Board is
21 that Centra's default supply in Manitoba be a monthly
22 market-base price without hedging. Would that be
23 correct?

24

25

(BRIEF PAUSE)

1 MR. GARY NEWCOMBE: That would certainly
2 be one (1) of our preferred methods, yes.

3 There's probably two (2) methodologies
4 that could be adopted by Centra in the short term. One
5 (1) would be, say, a monthly methodology that does not
6 involve any hedging; that's simply a flow-through of
7 prevailing index pricing for the month.

8 MR. BOB PETERS: With -- if I can
9 interrupt just -- and I want you to continue in a minute.
10 But that one (1) month -- that monthly changing rate
11 would also attract a PGVA or a deferral account that
12 would settle the follow month, over a thirty (30) day
13 period?

14 MR. GARY NEWCOMBE: Yes, that's correct.

15 MR. BOB PETERS: All right. Sorry. And
16 then you had another default option that you suggest
17 might be workable in Manitoba?

18 MR. GARY NEWCOMBE: Well, I think it
19 would be workable, not just in Manitoba, but anywhere,
20 and that would be to take a look at the way default
21 supply is priced in Alberta with respect to electricity.

22 And in that particular model, it again is
23 a -- a forecast of the upcoming month's price; it is
24 changed every month. The difference there is that there
25 is no deferral account or PGVA mechanism, so that the

1 regulated retailer takes all of the risk on price and
2 volume in that circumstance.

3 So, into that price is built a
4 compensation for the risk that the regulated retailer is
5 taking as well as provision for a reasonable return on
6 that risk that they are taking.

7 The benefit to the consumer in that
8 mechanism is you don't see the swings that come; swings
9 from the, sort of, upcoming monthly market price that are
10 introduced through the deferral account or PGVA
11 mechanism.

12 And I guess a similar, in concept,
13 benefit, but a little different, is the fact that when
14 the rate is published for the upcoming month, the
15 consumer knows that they will be paying that rate and
16 nothing more or nothing less due to any changes that
17 occurred during the month.

18 MR. BOB PETERS: Well, I have an
19 understanding of your first suggestion. That was the
20 monthly index-based price with no hedging and you flow
21 through the PGVA from the previous month. Your second
22 default model, which you say is patterned after the
23 Alberta Electricity model that Direct Energy has in
24 Alberta, includes a fixed-price based on a forecast with
25 no deferral account.

1 MR. GARY NEWCOMBE: That's correct.

2 MR. BOB PETERS: Isn't it -- yes.

3 MR. GARY NEWCOMBE: I'm sorry. Yeah, and
4 it's not just Direct Energy. That is the default supply
5 model for all Alberta suppliers. And it is -- it is
6 fixed for the month, yes.

7 MR. BOB PETERS: And when you say the
8 retailer takes the risk of the volume and the price
9 swings, is the retailer kept whole in any way?

10 MR. GARY NEWCOMBE: Only to the extent
11 that the amount charged and the rate for risk
12 compensation is equal to or greater than the risk events
13 that happen in any month. So there's no subsequent
14 recourse back to the customers.

15 MR. BOB PETERS: And who determines what
16 this risk premium is that's built into the electricity
17 rate in Alberta?

18 MR. GARY NEWCOMBE: In the case of Direct
19 Energy, that was determined through a negotiation between
20 representatives of consumer groups and Direct Energy,
21 along with the resources of an independent expert.

22 MR. BOB PETERS: Is it the same for other
23 retailers of electricity?

24 MR. GARY NEWCOMBE: Similar in concept to
25 the extent that all of the regulated rates have the same

1 components. It seems to me that one of the regulated
2 retailers had some of the components set through a
3 litigated hearing and it wasn't all negotiated. But I
4 could stand to be corrected on that.

5 MR. BOB PETERS: In either -- in the --
6 the first example you gave of a defau -- default supply
7 model, Mr. Newcombe, would a default equal payment
8 program fit in that default model?

9 MR. GARY NEWCOMBE: Well, I think an
10 equal payment plan is -- can be a feature of any
11 particular pricing regime. I don't know that I would
12 recommend that it would be the default model, but it
13 certainly could be made available to any customer that
14 wanted to use it, whether that customer was taking
15 default supply or taking service from a competitive
16 retailer.

17 MR. BOB PETERS: Just so the Board will
18 be clear, in terms of the equal payment plan as a default
19 option; that is one that customers are enrolled in unless
20 they take a positive step to the contrary, is that
21 supported by the retailers or is that opposed by the
22 retailers?

23 MR. GARY NEWCOMBE: I believe that is
24 opposed. My understanding is that when a customer takes
25 service, they're given the option of either/or -- taking

1 the equal payment plan or not. And that seems to me to
2 be in keeping with customer choice.

3 MS. KAREN MELNYCHUK: We would agree with
4 that as well; that the option should be given to the
5 customer and should be the customer's choice, not that
6 they automatically default to the equal payment plan.

7 MR. BOB PETERS: Mr. Newcombe, of those
8 two (2) models that you presented the Board with for
9 default supply, do you agree that both of them would lead
10 to increased volatility -- rate volatility -- in the
11 market?

12

13 (BRIEF PAUSE)

14

15 MR. GARY NEWCOMBE: As compared to the
16 current situation in Manitoba?

17 MR. BOB PETERS: Yes, correct.

18 MR. GARY NEWCOMBE: Certainly, not -- I
19 don't believe the second model would, no. In a model
20 where you've got PGA -- PGVA balances being cleared out
21 on a monthly basis, you may or may not introduce more
22 month-to-month volatility. I guess what you'd be trading
23 off there, if you were introducing more volatility, would
24 be less inter-generational inequities.

25

1 (BRIEF PAUSE)

2

3 MR. GARY NEWCOMBE: And -- sorry -- just
4 to finish that off, Mr. Peters. I think there's probably
5 a equally as complete answer to you question, I think, in
6 response to CENTRA/DMO/ESMLP-18.

7 MR. BOB PETERS: Thanks for the
8 reference. We have that. The -- on the equal payment
9 plan there's been evidence in this hearing that recently
10 there has been a -- a process problem where as many as
11 ten thousand five hundred (10,500) residential customers
12 have not had their equal payment plan processed as would
13 normally be expected.

14 MS. KAREN MELNYCHUK: Yes, that's our
15 understanding as of, I believe, Monday morning this week.

16 MR. BOB PETERS: And -- but you were
17 aware of that before Monday morning, were you not?

18 MS. KAREN MELNYCHUK: Or did it come out
19 Friday? Friday. We knew there -- we -- we had been
20 receiving calls into the Winnipeg office -- Direct
21 Energy's office -- in August, but we did not know that
22 there had been an issue at the Utility.

23 MR. BOB PETERS: And you only found out
24 there was an issue at the Utility through these
25 proceedings?

1 MS. KAREN MELNYCHUK: That's correct.

2 MR. BOB PETERS: And you said, I think,
3 in your direct evidence to Mr. Hoaken yesterday that your
4 expectation is that -- I'm not sure you used the word
5 "the majority" or "vast majority", but you expected that
6 retailer customers comprised the greatest portion of that
7 ten thousand five hundred (10,500) customers.

8 MS. KAREN MELNYCHUK: Yeah, and that was
9 -- that conclusion came by the explanation that was given
10 to us in early September from a staff member at the
11 Utility, and again by listening to Mr. Kuczek's evidence
12 on -- on Friday, that it was due to a rate change.

13 The only -- and -- and knowing that we had
14 a lot of customers come -- go through renewals last year,
15 so we -- we understand that there's probably a majority
16 that are retailer customers.

17 MR. BOB PETERS: You have no
18 quantification of that?

19 MS. KAREN MELNYCHUK: No, Mr. Kuczek has
20 not provided that.

21 MR. BOB PETERS: And in terms of dealing
22 with that issue, that's it's arisen, my understanding is
23 there was an opportunity being provided to consumers to
24 pay the balancing amount -- if that's the correct
25 terminology -- over a longer period of time than one (1)

1 month and without interest.

2 MS. KAREN MELNYCHUK: Again, yes, we
3 heard that for the first time on Friday. We were not
4 advised of any of this prior to this proceeding on
5 Friday.

6 MR. BOB PETERS: All right, do you have
7 any other suggestion as to how to deal with that EPP
8 under recovery?

9 MS. KAREN MELNYCHUK: Under recovery?

10 MR. BOB PETERS: Well, it was under
11 billed, I guess, at the --

12 MS. KAREN MELNYCHUK: I guess more --

13 MR. BOB PETERS: -- during the year and
14 then there's an over recovery in the balancing month.

15 MS. KAREN MELNYCHUK: In -- in specific
16 to how the Utility collects or -- or re-collects that
17 from customers, I have a -- a suggestion as to how they
18 can prevent it from happening.

19 They could reassess the customers moving
20 from system to supply to relate -- re -- retailers supply
21 and reassess their EPP at that time, taking into account
22 the rate that they've signed on with a retailer.

23 In regards to how they can deal with the
24 customers at hand, I believe contacting those ten
25 thousand five hundred (10,500) customers would be the

1 first step in providing the customer service and letting
2 them know that there are options.

3 I believe Mr. Kuczek said they had called
4 some customers, but I'm not sure as to the number. Mr.
5 Kuczek was also doing an Undertaking as to the number of
6 those customers that were retailers, and I don't believe
7 it's been filed yet.

8 MR. BOB PETERS: I was just intrigued by
9 the front end of that answer, Ms. Melnychuk. You're
10 suggesting that when a customer switches over from system
11 supply to direct purchase, that would be the point in
12 time to readjust their equal payment plan?

13 MS. KAREN MELNYCHUK: That would be a
14 point in time that it could be adjusted. My -- our
15 understanding is that Centra looks at it once a year.
16 Prior to the proceedings, we were under the impression
17 that they did do that when a retailer or a customer
18 switched from system to a retailer.

19 It was only through the last few days that
20 -- and the email that was put on the record earlier, that
21 -- that, I guess, we -- we were under the wrong
22 assumption there that the Utility was doing that. So we
23 do recommend that an adjustment or an as -- reassessment
24 is done at that time a switch is made.

25 MR. BOB PETERS: All right, thank you for

1 that. At the time -- at the time the switch is made --
2 that is leaving system supply, going to direct purchase
3 or -- or retailer-supplied primary gas -- are those
4 customers given an opportunity at that point in time to
5 sign up for the equal payment plan, as well?

6 MS. KAREN MELNYCHUK: I believe, going by
7 Mr. Kuczek's evidence the other day, that they can sign
8 up any time --

9 MR. BOB PETERS: But --

10 MS. KAREN MELNYCHUK: -- throughout the
11 year, but it's dependent -- they don't encourage it
12 during the summer.

13 MR. BOB PETERS: Correct, but I'm just
14 wondering, are you aware as to whether or not there is an
15 express choice given to consumers at the time they sign
16 up for retailer supply, that in addition to that, they
17 can also have equal payment program applied to their
18 account, if they're not already on that?

19 MS. KAREN MELNYCHUK: We don't market the
20 products of the Utility, so if the Utility canvasses that
21 or -- or provides that as an option to them, I'm not
22 aware. I know our customers are -- can avail themselves
23 of the EPP. We don't market that, though.

24 MR. BOB PETERS: Interesting, Ms.
25 Melnychuk. You see the EPP as a Utility product as

1 opposed to a product for all customers?

2 MS. KAREN MELNYCHUK: It -- it's a
3 service that's delivered by the utility. We have no
4 input or, you know, we don't have access to the bills, so
5 what happens on the bill, Direct Energy or the retailers
6 doesn't see. On occasion, we do get calls into the
7 office about the EPP and we refer those back to the
8 Utility.

9 So in regard -- that's how we see it as a
10 -- as a Manitoba Hydro product or service.

11 MS. NOLA RUZYCKI: I would probably
12 clarify more a service provided by Manitoba Hydro than a
13 product.

14 MR. BOB PETERS: Thank you for that.
15 Turning to Centra's request that they be given an
16 opportunity to provide alternative product offerings,
17 including fixed-price contracts, do I take it the
18 position of the retailer is that there's no objection
19 from the retailers if Centra -- if -- if a fixed-priced
20 offering was to emanate, but provided it be an
21 unregulated affiliate of Centra rather than the -- the
22 regulated utility?

23 MR. GARY NEWCOMBE: Well, certainly from
24 Direct Energy's perspective. You know, if you look at
25 other jurisdictions and -- and look at some of the

1 regulations that are put in place to govern the
2 interactions between regulated entities and affiliates,
3 and assuming that you have the proper separation of
4 regulated retail from distribution and that all of the
5 retailers -- regulated, unregulated, affiliated or not --
6 are being treated equally, you could say that that would
7 be acceptable.

8 The -- I guess, the -- the difficulty for
9 me, at least, in -- in Manitoba is with Centra being a
10 Crown Corporation, I don't know that they have any
11 ability to absorb any of the risks that are inherent in
12 offering fixed-price products. And so I see them
13 ultimately having a taxpayer backstop, and I don't know
14 how you ever eliminate that advantage they would have.

15 You can address -- you could address
16 everything else, achieve as level a playing field as you
17 possibly could, but I -- I don't know how you could ever
18 address the issue of who ultimately bears the risk behind
19 fixed-priced products.

20 MR. BOB PETERS: I'm tempted to say that
21 that might be a detail that the onus would shift to the
22 company to come back and explain that to the Board's
23 satisfaction. But your suggestion to the Board is that
24 there will always be an inherent risk to the -- to the
25 taxpayers or ratepayers because of a fixed-price offering

1 by the Utility?

2 MR. GARY NEWCOMBE: Well, in -- in the
3 case of a Crown Corporation, that would be my
4 understanding. But, you know, there's probably some very
5 smart tax lawyers out there who could figure it out. I -
6 - I don't know.

7 MR. BOB PETERS: Does that answer imply,
8 Mr. Newcombe, that if Centra, as a regulated company, was
9 going to have a fixed-price contract of three (3) year
10 duration, that their price would not necessarily be
11 cheaper than yours?

12 MR. GARY NEWCOMBE: If they were going to
13 do it as a competitive affiliate of a regulated entity, I
14 have no reason to believe how they would be able to do it
15 any cheaper than we could. I mean, you know, I'm sure
16 they've got some very smart people in their gas
17 acquisition group and -- and so do we. You know, we can
18 all work on the -- the different supply arrangements and
19 everything else, but if we were all out going to the
20 market to buy the same product at the same, I don't know
21 why we'd be paying any different price.

22 If they, as a competitive affiliate, had
23 the same access or lack of access to regulated customer
24 information as we woul -- we do today, had to use the
25 same marketing channel that we do today, I don't see how

1 they could beat our price.

2 MR. BOB PETERS: And let's ask the same
3 question now, but assuming that the fixed-price offering
4 is coming from within the regulated Utility, can it be
5 any cheaper than that offered by the retailers?

6 MR. GARY NEWCOMBE: Well, if it was
7 utilizing regulated resources, regulated customer
8 information, using the regulated bill as a sales channel,
9 not subject to the subject rules restrictions as
10 competitive marketers; it probably could be cheaper. But
11 then, I don't see much future in the --the competitive
12 market here in Alberta -- or in Manitoba if that were to
13 happen.

14 MR. BOB PETERS: And I heard the same
15 suggestion from Mr. Roeder in his direct evidence, that
16 from a retailer's perspective, if the regulated Utility
17 is in the business without the proper constraints, it's
18 not a market in which the retailers will want to continue
19 in.

20 MR. GARY NEWCOMBE: Well, I mean, first
21 of all, you've got a huge brand advantage from the name
22 recognition, assuming that you've, you know, maintained
23 the -- the distribution and the regulated retail
24 together.

25 Manitoba Hydro is a name that I would

1 assume is pretty near and dear to the hearts of people
2 here, so you've got that huge brand awareness and -- and
3 brand respect that's going to be difficult to overcome
4 even if all the proper rules are put in place.

5 But, yeah, to -- to give one (1) entity
6 sort of significant competitive advantages -- and
7 presumably being a regulated entity, it may or may not
8 again have any profit margin built into it.

9 If they're able, as I said before, to use
10 the Manitoba tax base to backstop the risk, access to
11 preferential marketing channels, preferential access to
12 customer information, there's -- there's no way we would
13 be able to compete, certainly not on price.

14 MR. CLINTON ROEDER: If I can just add a
15 comment. I mean, part of the question you're asking in
16 terms of how we compare -- questions in terms of overall
17 cost structure; what benefits we have as an organization,
18 you know, we don't have all that detail. We would need
19 to get that.

20 The only reference point I can comment
21 toward is the comment I heard yesterday when we were in
22 here, when I heard reference to it costing seven hundred
23 and fifty thousand dollars (\$750,000) to process
24 enrollments.

25 If that's actually what it cost them and

1 that's their overall cost structure, and knowing what it
2 cost us in other markets we're in, if everything was
3 equal and we had a level playing field and not an unfair
4 advantage, I would challenge we would be more competitive
5 in terms of overall price.

6 MS. NOLA RUZYCKI: Maybe I can also just
7 add that the Utility also has access to the information
8 of the retailers, in that we have to provide a scanned
9 copy of our contract, including our start/end dates and
10 our price of our contracts, which gives them an
11 advantage. They also have access to the credit and
12 collection information.

13 And they also determine when and by how
14 much our nominations will increase, so they would have
15 that information prior to us receiving any of that
16 information and would have an advantage because of that.

17 MR. BOB PETERS: All right. Thank you
18 for those collective comments.

19 I want to turn to the last area and that
20 is on -- on the various costs that have been discussed in
21 these proceedings, and just make the sure the Board is
22 clear on the positions.

23 In terms of the WTS costs -- and Mr.
24 Roeder referred to those in his last answer -- the
25 approximate seven hundred and fifty thousand dollars

1 (\$750,000) of costs -- incremental costs -- to support
2 the WTS contracts; the position of the retailers is that
3 that number, whatever that number is, should be, I think
4 your words are "socialized" -- paid for by all in the
5 distribution rates?

6 MS. KAREN MELNYCHUK: That's correct.

7 MR. BOB PETERS: And --

8 MS. KAREN MELNYCHUK: It's a choice
9 available to all consumers in the province.

10 MR. BOB PETERS: All right. And the
11 rationale that you're underpinning that with is that it's
12 a -- it's an amount that's being paid to support the
13 choice of all consumers, whether or not they have gone to
14 direct purchase?

15 MS. KAREN MELNYCHUK: That's correct.
16 It's a choice available to all.

17 MR. BOB PETERS: And that same rationale
18 would apply then, Ms. Melnychuk, dealing with the half a
19 cent a GJ cost on the Nexen contracts?

20 MS. KAREN MELNYCHUK: That's correct.

21 MR. BOB PETERS: Whether or not
22 consumers avail themselves of the choice or have availed
23 themselves of the choice, they should all still be
24 responsible for it?

25 MS. NOLA RUZYCKI: You're not going to

1 get to speak. Maybe one (1) thing I can add too, is that
2 a Utility customer doesn't have to wait. If they enrol
3 with the Utility at a new address, they don't have to
4 wait, currently, the three (3) or four (4) months that we
5 do.

6 So I think it would be unfair to charge
7 that to retailers given that the Utility now enjoys a
8 customer can sign up with them right when they move into
9 a premise.

10 MR. GARY NEWCOMBE: You know, I think
11 too, from my perspective, Mr. Peters, the flexibility
12 that's now built into the Nexen contract and this half a
13 cent a gigajoule, I mean, really that's providing a
14 potential benefit to customers that are today on system
15 supply to allow them to avail themselves a choice.

16 It's not really providing any benefit to
17 any existing re -- competitive retail customers. There's
18 one that, you know, while you could probably make an
19 argument, it should become a system supply cost, I think
20 in fairness it should be a distribution level cost
21 applied to all customers.

22 MR. BOB PETERS: All right. Thank you
23 for that. In terms of the bad debt expense and the ABC
24 charges, if there is an incremental amount attributable
25 to the bad debts of retailers' customers, why should that

1 not be charged through to the retailers or the retail
2 customers?

3 MR. GARY NEWCOMBE: Well, I think, again,
4 as I said yesterday in my opening remarks, you know, when
5 it comes to bad debts there's really only two (2) classes
6 of customers out there; those that pay their bill and
7 those that don't. And you have to collect the -- the
8 unpaid bills from those that do col -- pay their bills,
9 so I think that again is only fair it be socialized
10 across all customers.

11 And typically -- you know, I'm not aware
12 any -- of any jurisdiction that streams bad debt costs to
13 customer class. In other words, has a component for
14 industrial customers, large commercial, small commercial,
15 apartment, farms, residential.

16 MR. BOB PETERS: Why don't the retailers
17 bill their customers for the primary gas that's provided?

18 MS. KAREN MELNYCHUK: There's several
19 reasons why. The main one right now is the inconsistency
20 of data that comes from the Utility. What we found over
21 the last few years is, they will change the format of the
22 files, so we can't rely on them and every time that that
23 happens we get no notice, we find out after we've merged
24 it into our data and the data becomes corrupt and we have
25 to redo it all.

1 We also don't want to inconvenience our
2 customers at this time of having to send them a second
3 bill. So those are two (2) of the main reasons.

4 MR. BOB PETERS: Mr. Chairman, I'd like
5 to thank Ms. Ruzycki and Ms. Melnychuk and Messrs
6 Newcombe and Roeder for their answers. Those complete my
7 questions.

8 THE CHAIRPERSON: Thank you, Mr. Peters.
9 And you are right on the dot for our break at the same
10 time. Well done, sir.

11 Okay, when we return from our break, I
12 believe, next up is Mr. Holloway. So we will see you in
13 fifteen (15) minutes, Mr. Holloway, fifteen (15). Thank
14 you.

15
16 --- Upon recessing at 2:25 p.m.

17 --- Upon Resuming at 2:46 p.m.

18

19 THE CHAIRPERSON: Okay. Mr. Holloway,
20 you have been quite patient. It is your turn now.

21 MR. ERIC HOAKEN: I'm sorry, I'm going to
22 ask Mr. Holloway to be a little more patient. I wanted
23 to just jump in on two (2) very quick housekeeping
24 matters --

25 THE CHAIRPERSON: Sure.

1 MR. ERIC HOAKEN: -- which may be of
2 assistance. The first was that, in the course of the
3 questions Mr. Peters was asking this panel about
4 websites, I had said that I would provide the reference
5 for the IR response that referenced the website addresses
6 and I can advise that that is the response to
7 CAC/MSOS/DEML/ESMLP-13. So that's item 1.

8 The second item is that we had an
9 undertaking earlier today, I believe it was this morning,
10 in response to a question Mr. Peters asked about whether
11 -- if a customer is disconnected, if that customer comes
12 back on direct purchase or system supplied, I believe Ms.
13 Melnychuk's in a position to speak to that.

14 MS. KAREN MELNYCHUK: Thank you. I
15 contacted the office and they've informed me that we're
16 not notified of any disconnects, so we don't have
17 visibility into that, but our understanding of the
18 process is, if a customer is disconnected, they stay on
19 contract with us, so they are not returned to system. We
20 have no visibility in the transaction, though.

21 THE CHAIRPERSON: Thank you. Okay, Mr.
22 Holloway.

23

24 CROSS-EXAMINATION BY MR. IVAN HOLLOWAY:

25 MR. IVAN HOLLOWAY: Thank you, Mr. Chair.

1 Good afternoon to the panel. The first thing I'd like to
2 say is that it was refreshing to hear such direct answers
3 to Mr. Peters' questions. I think that's very much
4 appreciated and certainly helps in -- in my understanding
5 of what's going on.

6 And I'm not going to provide any surprises
7 in terms of where I'm going to go right away. I want to
8 talk about competition as a general idea, first of all.
9 And my first question is not really particularly
10 addressed to anyone, but anyone can answer it and, that
11 is, is that I think it's fair to say that -- that the
12 retailers are supportive of competition in the
13 marketplace, right?

14 MR. CLINTON ROEDER: Yes.

15 MR. IVAN HOLLOWAY: And when we talk
16 about competition, competition's kind of a -- an allusive
17 type of concept and -- and what I'm getting with that is
18 that is it -- is it really competition that we should be
19 striving for or is it -- is there some implied concepts
20 in -- in competition, is there some implied benefits that
21 flow from competition?

22 Would agree with me that -- that the
23 reason why you're supportive of competition, and
24 generally we support the idea of competition in the
25 marketplace, is that in principle, for example, it should

1 provide the lowest cost for a particular service, as an
2 example?

3 MR. CLINTON ROEDER: I think competition
4 should provide the best offer available for multiple
5 products, assuming the market rules are structured
6 properly.

7 In terms of -- the one -- the only
8 hesitation, just to clarify, when you ask -- when you
9 make the comment "lowest price", obviously the -- the
10 product's going to be structured quite differently. And
11 so if you take, for example, the products that are in the
12 market today and what's offered on the competitive side
13 and you have multiple five (5) year products versus the
14 Utility's rate here in Manitoba, which is adjusted
15 quarterly.

16 If you take the five (5) year products
17 that are offered, as Energy Savings has attested to
18 earlier, is that, you know, the timing of when that rate
19 is set is largely driven based on the current market
20 structure and how long we have to leave it open.

21 So that -- my only caution that I'm just
22 indicating is, just because the rate is not the lowest
23 out there today, and you're going to have various prices
24 that are out there, does not indicate that it's not a
25 competitive product and I think it -- the lowest rate is

1 not necessarily the best offer or product for all
2 consumers; everyone is looking for a different type of
3 product.

4 Gary, do you want to add anything?

5 MR. GARY NEWCOMBE: Yeah, I think there's
6 maybe just a couple of more aspects. When you're talking
7 about moving from regulated environment to a competitive
8 environment, there's a couple of things that it does, as
9 well.

10 I think competition allows for and almost
11 necessitates the bringing of innovation to the market,
12 the innovation in product type, the innovation in pricing
13 structure, those types of things.

14 Competition also provides for the transfer
15 of risk from ratepayers to shareholders. Competition, I
16 think as Mr. Roeder said, will put downward pressure on
17 price for similar type products and, you know, as a more
18 nebulous function, it -- it allows for a choice to be
19 made by consumers, conscious choice to be made by
20 consumers rather than by regulated entities or by
21 government bodies.

22 MR. IVAN HOLLOWAY: Thank you for that.
23 And -- and so what I hear from you, basically, and really
24 what I'm getting at is -- is not so much a particular,
25 but more of a general, and that is, is that, in theory,

1 at least, competition is the benefit of it or, in theory,
2 some of the benefits that you've just said, Mr. Newcombe,
3 innovation, downward pressure on price, choice and things
4 of that nature; right?

5 MR. GARY NEWCOMBE: Yes, and -- and I
6 think as pointed out earlier even in the consumer
7 research that was done by Centra that was -- you know,
8 when they ask customers what benefits they perceive to be
9 getting from competitive natural gas marketplace, I think
10 the introduction of choice and just this concept of
11 competition was the number one answer.

12 MR. IVAN HOLLOWAY: Okay. But, I mean,
13 fundamentally what we want to achieve are some of the
14 things you've mentioned: Innovation, downward pressure
15 on price, choice, I mean, ultimately, those are the
16 benefits we want to receive.

17 That's pretty fair to say, isn't it?
18 Among other things.

19 MR. GARY NEWCOMBE: Yeah, and -- and I
20 think another important one not to omit is the transfer
21 of risk from ratepayers to shareholders.

22 MR. IVAN HOLLOWAY: Okay. But is it true
23 that competition may not always, competition per se in
24 the marketplace may not always provide these benefits?
25 Is it your position that competition always, in all

1 circumstances, will provide such benefits?

2 MR. CLINTON ROEDER: I mean, the -- the
3 way the question is phrased, you know, definitive in the
4 terms of using the term "always," yeah, I'd hesitate to
5 ever comment on anything saying "always" or "never". If
6 you believe theoretically in terms of competition and
7 what it should drive in a marketplace, it should keep all
8 parties in check, it should ensure it, like in this case.

9 It's not just about the competitive offer
10 in the product. Part of this -- the check that's in
11 there too, is to ensure that even on the regular or the
12 default rate in any market, that whoever the party is
13 that's maintained that in any market, that they're kept
14 in check as well.

15 But that's more of a theoretical, so I
16 wouldn't count on it in terms of -- in terms of
17 referencing "always" because that's assuming we can
18 respond to every competitive environment out there.

19 MR. IVAN HOLLOWAY: So you're saying that
20 there could be scenarios in which competition does not
21 provide the benefits that we're looking for; is that fair
22 to say?

23 MR. CLINTON ROEDER: Once again, I mean,
24 I assume there could be. I can't speak for everything
25 that's available throughout the world in terms of...I

1 mean, just using a definitive statement like that, I
2 don't know how any -- anyone can respond to that.

3 MR. IVAN HOLLOWAY: Well, let -- let's --
4 let's go to a concrete example, maybe make it a bit
5 easier. I don't think -- let's talk about the physical
6 distribution of gas.

7 The retailers aren't making any -- aren't
8 coming forward today and making any application that the
9 physical distribution of gas be -- be turned over to the
10 competitive market; right? I think that's in your
11 materials; do you think that's fair to say?

12 MR. GARY NEWCOMBE: Yeah, I -- I don't
13 think we would ever or have ever said that, you know, or
14 made any suggestion that the -- the provision of safe,
15 reliable service is anything but a -- an essential
16 service and a regulated monopoly. So, no, we're not
17 suggesting that the distribution system be deregulated.

18 MS. NOLA RUZYCKI: Likewise for Energy
19 Savings, we would continue to rely on Centra for the
20 efficient, safe reliable distribution and transportation
21 function.

22 MR. IVAN HOLLOWAY: Right. And leaving
23 aside the -- the safe for a moment, I want to deal with
24 the efficient, 'cause I think there's something key to
25 that.

1 Fundamentally, it doesn't make any sense
2 to have two or three different companies within a city
3 like Winnipeg providing comp -- competing distribution
4 services; right?

5 MR. GARY NEWCOMBE: No, I mean a
6 distribution system is a, in my mind anyway, a natural
7 monopoly. You're right, it doesn't make any sense, you
8 know, nor would it make any sense to have two or three
9 sort of privately-owned roads going by everybody's house.
10 It's a part of a network infrastructure that's there to
11 facilitate the rest of the market.

12 MR. IVAN HOLLOWAY: So there would be an
13 example, to get back to what I'm talking about before, of
14 a situation where competi -- a competitive market would
15 not be advantageous but a monopoly in this particular
16 case would be more advantageous; would you agree with
17 that?

18 MR. GARY NEWCOMBE: Yeah, I mean there
19 was -- there's probably a time when the entirety of the
20 gas infrastructure in North America was all regulated
21 but, you know, there's -- there's parts of it that are --
22 seem to lend themselves to being treated as regulated
23 monopolies, like distribution; in some cases, not all,
24 pipeline systems; certainly the production of natural gas
25 is a competitive market, the wholesale sale; and, you

1 know, when you look at it carefully there's really no
2 reason why the retailing of natural gas should remain as
3 a -- exclusively the domain of a competitive monopoly
4 either.

5 There's another aspect of it that lends
6 itself very well to a competitive market. You know, I
7 mean, we're -- the things that are -- regulated
8 monopolies like the distribution system, things like
9 that, I mean, you know, you're talking about physical
10 supply in those cases and anybody who's spent a winter in
11 Canada knows that getting natural gas to your house is
12 pretty much an essential service, so that's not what
13 we're talking about.

14 But, you know, whether you supply the
15 retail function through either a regulated monopoly, a
16 default supply or through a competitive service
17 offerings, you're really only talking about financial
18 transactions between a retailer and the end-use customer
19 on how he pays for the gas. We're not talking about, you
20 know, how the gas gets to his house.

21 MR. IVAN HOLLOWAY: Right, but there's --
22 there's -- fundamentally, the reason why the distribution
23 of natural gas is a natural monopoly is because there's
24 technical -- technological, physiological constraints in
25 the sense as you need -- doesn't make any sense having

1 three (3) companies having al -- overlapping pipes,
2 right?

3 MR. GARY NEWCOMBE: Yeah, right, that's
4 correct.

5 MR. IVAN HOLLOWAY: Okay. And so that
6 would be an example of a situation where just the
7 parameters of the situation mean that it's -- it's not
8 advantageous to have competition; is that fair to say?

9 MR. GARY NEWCOMBE: No, I -- you know, I
10 -- I can't think of any reason to have competition at the
11 distribution level.

12 MR. IVAN HOLLOWAY: So then getting back
13 to what I was talking about earlier, it's not really
14 competition that we're striving for per se, we're
15 striving for the benefits of competition and the theory
16 that you're putting forward is that a competitive market
17 for retailers is the best way to provide the benefit,
18 such as innovation, depression of price, assumption of
19 risk and things like that, right?

20

21 (BRIEF PAUSE)

22

23 MR. GARY NEWCOMBE: That sounds fair to
24 Direct Energy.

25 MS. NOLA RUZYCKI: That sounds fair to

1 Energy Savings, as well. I would add that there are
2 other benefits other than just those ones you've
3 mentioned. For example, the -- the peace of mind they're
4 rate vol -- the reduction in -- or elimination of rate
5 volatility.

6 MR. IVAN HOLLOWAY: Understood, thanks.
7 And part of competition, you'll agree with me, inherent
8 competition, any kind of competition whether it be
9 economic or otherwise, is that there's winners and
10 losers, right?

11 MS. NOLA RUZYCKI: Yes.

12 MR. CLINTON ROEDER: I would disagree. I
13 mean, that doesn't necessarily mean winning/losing. If
14 you're asking from a sports analogy in terms of does
15 someone win from having a higher score than the other,
16 but you could make the argument in terms of just because
17 you don't have the highest score.

18 Maybe you go out on -- on an evening and
19 you play hockey, you go out there for exercise and
20 competition and so you -- everyone can win and I think
21 when we talk about, for example, in a competitive retail
22 market, we're offering consumers choice.

23 And, you know, in terms of making the
24 assumption that that consumer that locks in a retail
25 price at a fixed rate, who's to say whether they won or

1 lost, if what they were looking for was stability.

2 You're making the assumption, if you just
3 sit and go through the transcript and listen to the
4 discussions here, just yesterday, sitting and listening
5 to some of the explanations in terms of the cost, the
6 level of risk, the assumptions being made that every
7 consumer would like the Utility to bear that risk for
8 them. That's -- I would challenge that.

9 MS. NOLA RUZYCKI: Sorry, and -- and just
10 to clarify from my answer, I was speaking more on there
11 are winners and losers when we relate to the actual
12 financial. However, there are other factors that go into
13 that.

14 MR. GARY NEWCOMBE: Okay. But just --
15 sorry, I was just going to say, you know, at the risk of
16 passing the buck, that may well be a question you want to
17 pose to our expert when he comes on the stand as well.

18 You know, to Mr. Roeder's point, I mean,
19 competition isn't necessarily about two gladiators duking
20 it out and one of them ends up on his back and the other
21 one raising his fists in the air.

22 It's -- I think the more classic
23 definition of competition, at least from my limited
24 understanding is about the efficient allocation of
25 resources and people making economic decisions on how

1 much they value those, but, we should probably leave that
2 to the good professor.

3 MR. IVAN HOLLOWAY: I'm -- I'm not really
4 getting at a technical question, I'm not trying to trick
5 anyone here. I'm just trying to get a -- a certain level
6 playing field as where to begin a discussion.

7 But you would agree with me that there's
8 more successful companies and less successful companies,
9 right?

10 MR. GARY NEWCOMBE: Yeah, I think that's
11 fair.

12 MR. IVAN HOLLOWAY: Right. And there's
13 some companies that -- that make a lot of profit and
14 there's some companies that go bankrupt, right?

15 MR. GARY NEWCOMBE: Yes.

16 MR. IVAN HOLLOWAY: And that's just part
17 of the game, right? That everyone accepts when you enter
18 into a competitive market place, right?

19 MR. GARY NEWCOMBE: Yes, that's a -- a
20 risk that shareholders or proprietors are prepared to
21 bear. Yes, take some risk in -- in the hopes of making
22 some profit.

23 MR. IVAN HOLLOWAY: Right. And so as --
24 as part of that reality in which you exist, you would
25 accept -- you may not like it -- but you would accept

1 that if there is a company that's able to provide natural
2 gas in Manitoba at a -- a -- more competitively, for
3 whatever reason, and that causes Direct Energy or Energy
4 Savings, as the case may be, to leave the market, that's
5 just a reality of the game, right?

6 All things being equal. I'm not talking
7 about -- I'm not talking about, you know, anything
8 illegal or anything immoral or anything like that. It's
9 just part of the game, right?

10 MR. CLINTON ROEDER: I'll just comment.
11 I mean, companies in terms of in our part of the
12 government can go bankrupt. I think -- look at the city
13 of Toronto; there's a risk they're going to go bankrupt.

14 The difference with Manitoba Hydro, if
15 they make a mistake, and they fell, you have the
16 taxpayers to back them up. And so, you know, if you look
17 at it -- if -- the only difference in terms of -- from a
18 competitors, we don't have that, our sharehol --
19 shareholders bear the risk.

20 MR. IVAN HOLLOWAY: Understood. But I'm
21 not talking about Manitoba Hydro or the government of
22 Toronto right now. I'm -- I'm simply saying that the
23 fact that a retailer leaves Manitoba because they can't
24 compete, in and of itself, is not something that's wrong;
25 right?

1 sales staff that are trained by some absolutely
2 inspirational superhuman person. And they're able to
3 sign up everybody and their dog to retailer natural gas.
4 And as a consequence, Direct Energy decides, we can't
5 compete with these guys; we're going to leave.

6 There's nothing wrong with that, right?

7 MR. ERIC HOAKEN: I take it we're to
8 assume we can get a wet signature from the dogs?

9

10 CONTINUED BY MR. IVAN HOLLOWAY:

11 MR. IVAN HOLLOWAY: Maybe a pawprint.

12 MR. CLINTON ROEDER: Just clarify your
13 question, because you're clearly going with, Can we exit
14 the market? Anyone can make a decision on that today,
15 that's correct. But I mean, just to clarify your
16 question --

17 MR. IVAN HOLLOWAY: All I'm saying is
18 that there's -- is that that's a risk that's involved
19 with being in the competitive market, is there might be
20 another retailer that comes in that's even more
21 competitive than you are, way more competitive and you
22 either got to pack up shop or you go bankrupt, I mean
23 that's a risk that you take in the competitive market,
24 right?

25 MR. CLINTON ROEDER: Do you -- I -- I

1 think we clarified -- in my opening statement I
2 clarified.

3 MR. IVAN HOLLOWAY: Right.

4 MR. CLINTON ROEDER: You know, that
5 depending on the structure in the market, if we cannot
6 offer a competitive -- those are choices we're going to
7 have to make and you are correct.

8 MR. IVAN HOLLOWAY: And -- and a
9 possibility would be that you would leave the market and
10 that's just part of the way the competitive game is
11 played, right?

12

13 (BRIEF PAUSE)

14

15 MR. CLINTON ROEDER: I would caution in
16 terms of the comparison to competitive marketplaces in
17 general. Part of our discussion and part of the evidence
18 that's been presented, is we're challenging that the
19 market is structured to where you can truly have a
20 competitive situation in terms of this is, the current
21 structure really inhibits the part of retailers in terms
22 they are to put their best foot forward.

23 We've highlighted it in terms of the
24 differences for other provinces and what we are bringing
25 -- able to bring to the forefront and we've recommended

1 some changes to create that level playing field.

2 I would argue in any industry -- and it --
3 and really in -- in any competitive environment, whether
4 it's business or sports, and if it's not a level playing
5 field, people are going to make the decision whether or
6 not they want to participate.

7 And so if -- you know along those lines,
8 if your question is, you know, is that a risk that people
9 take when they enter markets, yes, that is a risk; I mean
10 that's part of being a business, that's part of entering
11 any level of competition.

12 MR. IVAN HOLLOWAY: And that's something
13 that you accept going into business in this market,
14 right, that possibility?

15 MR. CLINTON ROEDER: Interesting question
16 because at the time that we entered the market and when
17 we made the purchases in our acquisitions, that level
18 risk wasn't there and that's part of what we've
19 highlighted and what has changed in the marketplace.

20 Companies like Direct Energy when we make
21 choices in terms of where to invest, part of it we're
22 assuming some uncertainty and some re -- commit --
23 commitments we make in terms of the market structure and
24 how it's going to evolve.

25 Part of -- you know, the challenge we have

1 here in the Manitoba market is that that -- that
2 environment has changed since some of those investments
3 were made.

4 MS. NOLA RUZYCKI: Maybe I can just add
5 to that, as well, that when we go into markets, we don't
6 expect that the markets will change dramatically giving
7 one (1) participant a significant advantage over another;
8 either we -- we would assume that there's processes in
9 place that would not allow that type of activity to
10 happen.

11 MR. IVAN HOLLOWAY: I hear you loud and
12 clear about the un -- un-level playing field, I mean, I -
13 - I've got that -- that evidence, you don't have to
14 repeat it to me and I understand what you're saying.

15 I'm just getting at a very high level
16 principle here and that is, is that a reality and a risk
17 that you take in entering any kind of market to do any
18 kind of competitive business is that you might not win,
19 you might not be competitive, you might lose to your
20 competitor, whether you have to withdraw from the market,
21 whether you have to go bankrupt, whether you have to sell
22 your company; that is always a chance you take.

23 The risk may vary, depending upon where
24 you go, but that's always a chance you take, right? I
25 mean, I wouldn't think that would be controversial,

1 actually.

2 MR. CLINTON ROEDER: We're not trying to
3 make it controversial. I mean, you're -- you're asking
4 some very high level theoretical questions, which, if we
5 want to have that discussion, we can.

6 I don't think it gets to the root of the
7 issues we're trying to address here and I don't think it
8 gets to the root of the issues, which is our big concern
9 which, quite honestly, from -- from our standpoint, you
10 know, if at the end of the day, you're right, we will
11 make that decision in terms of whether we want to stay in
12 the market and we -- we have to address that every day in
13 the risk we take.

14 Why are we here and why -- why have we
15 made the commitment in terms of the resource and the time
16 to come to these Hearings and go through this process, is
17 because at the end of the day, what we're trying to do is
18 -- is look in the best interest of the consumers to make
19 sure they have that choice.

20 And so the hesitation on the part of the
21 answer of our question is, you know, it's pretty simple,
22 do we have that choice, the answer is yes. If that's
23 what you're looking for, yes, we -- we have that choice,
24 we assess that risk in every part of the business that we
25 enter into.

1 MR. IVAN HOLLOWAY: I -- I guess it is
2 kind of squarely at issue because as I understand the
3 position -- and I'm really more trying to understand the
4 retailers' position, is I understand that one (1) of the
5 -- there's seems to be almost a circular kind of argument
6 here.

7 One (1) of the reasons why, as I
8 understand it, among other things and I understand this,
9 that -- that the retailers don't want Centra to provide
10 fixed-price options is because that would potentially
11 cause the retailers to leave the market.

12 And all I'm asking is that -- all I'm
13 saying for you to agree or disagree, is that is the fact
14 that they're leaving the market, is that something that
15 somehow is -- is improper or unfair or -- or somehow
16 ought not to be allowed?

17 Is there something just in -- in -- it
18 seems to me that part of competition is you may win, you
19 may lose and if you lose, that's just part of the game,
20 but it seems to me from -- from some of the evidence that
21 you've put forward is that somehow being forced to leave
22 the market is somehow something that shouldn't be
23 allowed?

24 I -- I'm trying to get a sense of what
25 your position is on that.

1 MR. CLINTON ROEDER: Just so I'd -- I'd
2 clarify your question because there was a lot you said
3 there. Is -- is -- are you asking the question in terms
4 of, should there be some reason to be concerned if the
5 retailers were to leave the market through a lack of
6 competition?

7 MR. IVAN HOLLOWAY: No, I'm saying that
8 if -- if they're beaten in the market. Never mind the
9 reason why, just for a moment, if they're beaten in the
10 market, is that something that you're coming here and
11 saying, you know, we should be -- that should be a reason
12 for -- for -- in -- in essence, reducing competition
13 because we might get beaten in the market and have to
14 leave?

15 MR. CLINTON ROEDER: You know, we're not
16 here advocating that. You know, if we have a level
17 playing field and we cannot perform up to par and have to
18 exit the market, that's not what we're advocating. What
19 we're ad --

20 MR. IVAN HOLLOWAY: Would you accept
21 that, though?

22 MR. CLINTON ROEDER: Pardon me?

23 MR. IVAN HOLLOWAY: Would you accept
24 that? If you have a level playing field --

25 MR. CLINTON ROEDER: If there was --

1 MR. IVAN HOLLOWAY: -- and you are beaten
2 and you had to leave the market, would you accept that?

3 MR. CLINTON ROEDER: If we have a --
4 marketers come and go and you can look at the history of
5 this market, that's pro -- you know, to your point and
6 we've said it earlier, that's part of competition.

7 MR. IVAN HOLLOWAY: Okay. Thanks. I
8 want to talk about the -- the -- some of the ingredients
9 for successful competition, to be a successfully
10 competitive company.

11 And I'm asking you, would you agree with
12 me that one (1) of the ingredients -- or potentially one
13 (1) of the ingredients to be successfully competitive is
14 to provide a product that is distinguished from your
15 competitor's product?

16 MS. KAREN MELNYCHUK: Yes, I believe that
17 is one (1) of the ingredients and that's where the
18 innovation comes into play. We don't offer all the same
19 products as our competitor does, so innovation does play
20 a key factor.

21 Our green product, for example, our
22 seasonal product, those are offerings that are not
23 available in -- from the system or from our competitors,
24 so we try to distinguish ourselves in that respect.

25 MR. IVAN HOLLOWAY: Would you agree with

1 me the -- the more -- the more you can distinguish your
2 product from your competitor's product or from Centra's
3 product, the better off you're going to be?

4 MS. KAREN MELNYCHUK: Yes, and the
5 service that -- that goes with that product, yes.

6 MS. NOLA RUZYCKI: And I think customer
7 service satisfaction definitely plays a key role in that.

8

9

10 (BRIEF PAUSE)

11

12 MR. IVAN HOLLOWAY: So distinguishing a
13 product is one (1) example of -- of an ingredient that
14 you'd want for -- for a more competitive company.

15 Innovation, I think we've said before, is
16 another example, is that fair to say?

17 MS. KAREN MELNYCHUK: Yes, that's
18 correct.

19 MR. IVAN HOLLOWAY: And there are -- you
20 know, I think there's a number of other things that we
21 can include in that as well.

22

23 (BRIEF PAUSE)

24

25 MR. IVAN HOLLOWAY: So when we look at

1 what other retailers do, I want to go through kind of a
2 quick A to Z, if I may.

3 You're purchasing primary gas and I think
4 this was stated in evidence either in direct or to Mr.
5 Peters, I can't recall, that is on the same index as
6 Centra would buy gas. I mean, you might buy it on a five
7 (5) market or you might buy it on a one (1) month market,
8 but it's the same -- it's the -- the same market that
9 you're purchasing gas from, right?

10 MR. GARY NEWCOMBE: Yes. Yes. We're not
11 necessarily buying exactly the same financial product
12 from the market but, yes, we're buy it in the same
13 market.

14 MR. IVAN HOLLOWAY: Understood. And I
15 think maybe, Mr. Newcombe, you said to Mr. Peters that,
16 basically, the retailers don't have any magic way of --
17 of buying gas molecules on the average at any more
18 competitive price than Centra would; right?

19 MR. GARY NEWCOMBE: Well, we'd probably
20 like to believe that our people are just a little bit
21 better and a little bit smarter and, you know. But at
22 the end of the day, it's very likely we'd be able to beat
23 -- find a different price for exactly the same, you know,
24 term gas product.

25 MR. IVAN HOLLOWAY: Right. So

1 essentially when it comes to actually buying the physical
2 product, i.e., gas molecules, you're not really able to
3 get the physical product any cheaper than Centra, right?
4 That's -- that's kind of a built-in constraint, right?

5 MR. GARY NEWCOMBE: Yes.

6 MR. IVAN HOLLOWAY: Now the method of
7 transportation from Alberta to here, let's use that for
8 the moment, we're talking about the same pipes, right?
9 Gas goes through the same pipes from here -- from Alberta
10 to here, right?

11 MR. GARY NEWCOMBE: Yes, we are talking
12 about the same pipes. Now if the trans -- upstream
13 transportation and delivery to the Centra City Gate was
14 to be unbundled, you know, there are possibilities for
15 different entities to put together different packages of
16 firm service, interruptible storage, back haul, whatever
17 -- source it from a different -- off of a different pipe
18 to maybe manage their transportation costs in different
19 ways.

20 MR. IVAN HOLLOWAY: Right. But as we
21 stand right now.

22 MR. GARY NEWCOMBE: As we stand today, as
23 I understand it, there's -- there's no opportunity to
24 change the cost of transportation, that's right.

25 MR. IVAN HOLLOWAY: Okay. And -- and, of

1 course, we've agreed before and it's obvious is that the
2 distribution within the City of Winnipeg is -- whether
3 it's -- whether it's retailer gas or whether it's Centra
4 gas, it's on the same pipes, right?

5 MR. GARY NEWCOMBE: Yes.

6 MR. IVAN HOLLOWAY: And of course the
7 billing structure, ABC, is done by Centra right now;
8 right?

9 MR. GARY NEWCOMBE: Yes.

10 MR. IVAN HOLLOWAY: So basically what the
11 retailers are doing is they're simply selling a -- a
12 product within all those constraints?

13 MR. GARY NEWCOMBE: Yes, product or
14 number of products. Yes.

15 MR. IVAN HOLLOWAY: They don't have --
16 there's no -- there's -- they're taking something that is
17 equivalent. Natural gas molecules are the same between
18 Centra as they are between the retailers, right?

19 There's no -- you don't have superior
20 natural gas molecules, right?

21 MR. GARY NEWCOMBE: No, darn it all
22 anyway.

23 No, that's right. I mean -- I mean, even
24 -- it's not us -- it's not even Centra who has really any
25 direct operating control over what happens upstream of

1 the City Gate or the delivery points, that's right.

2 MR. IVAN HOLLOWAY: Right.

3 MR. GARY NEWCOMBE: It's just whatever
4 goes whistling by.

5 MR. IVAN HOLLOWAY: Right. I'm going to
6 throw you a bit of softball here, although I'm going to
7 preface it in a way that may not sound like a softball.

8 But, you're selling the same product, the
9 same -- when I say product, I mean the same gas
10 molecules; you're using the same pipes; you're buying it
11 at the same price. I'm trying to understand what the
12 value added is that's being provided.

13 I mean, we've talked about the value of
14 competition provides opportunities for innovation,
15 provides opportunities for reduced price, and -- and
16 various other things, but what exactly is the value added
17 that's being provided within those -- within that very
18 narrow constraint?

19 MS. NOLA RUZYCKI: One (1) of the values
20 added is choice for the customer. I believe in the
21 customer survey it stated that not all customers want to
22 purchase from the monopoly, they want to have choice. So
23 that is one (1) of the benefits for a customer. A
24 customer can make their own mind up as to which company
25 they would like to purchase the molecule of gas from.

1 MR. CLINTON ROEDER: Yeah. If I can just
2 add to it. I mean, I think, you know, part of this, in
3 terms of we talk about choice, but it's also in terms of
4 from the part of what we bring to the table is not just
5 choice but also the sense of security that, you know, we
6 are going to take on the risk. It's not something that
7 we're going to offer a fixed-rate product and then, Oops.
8 If we make a mistake it's gonna come back, and we're
9 going to make an adjustment through our variance account.

10 I think the other piece, is that even if
11 you look at some of the customer research that was done,
12 in terms of that -- you look at it; what does it talk
13 about in terms of the view of the consumers, in terms of
14 what they look for in the market and around competition
15 having competitors is a value.

16 It's a check on the Crown corporation.
17 And so that's that sense of security on the part of a
18 consumer, is that there is a -- an independent check as
19 well beyond the Board.

20 MR. IVAN HOLLOWAY: Okay. Well, let's
21 talk about choice. Now, when it comes to choice of
22 product you would agree with me that -- you know,
23 depending upon a possible order of this Board, in terms
24 of a choice of product that Centra could provide a five
25 (5) year fixed-term product, a three (3) year fixed-term

1 product, a four (4) year fixed-term product, just like
2 the retailers do, right?

3 There's nothing that stops them from doing
4 it except of course an order of the Board, right?

5 MS. KAREN MELNYCHUK: Actually, I believe
6 Centra is already allowed to do that, as an unregulated
7 affiliate. That's never stopped -- that barrier's not
8 been there for them from doing it under the regulated
9 premise. That is up to this Board to decide.

10 MR. IVAN HOLLOWAY: Right. But I'm not
11 talking about an unregulated affiliate, I'm just talking
12 about Centra for now. Nothing that stops them from doing
13 anything, except an order of the Board, right?

14 MR. GARY NEWCOMBE: No. So you'd --
15 you're right. I mean, they would be able to offer those
16 choices to consumers. I think what you would lose
17 though, is the ability, as a consumer, is to evaluate and
18 pay for whatever their risk tolerance was. And by doing
19 this through Centra, what you would be doing would be
20 imposing the costs of the -- the risks of all of those
21 fixed-price instruments on all customers, regardless of
22 who took them.

23 So, you know, while you may be on the one
24 hand giving them a perceived increase in choices of
25 products, you'd also be taking some other choices away.

1 MR. IVAN HOLLOWAY: Well, let's talk
2 about risk. It -- it's a common, I think, theme that the
3 retailers have put forward, and that is that they assume
4 risk. Whereas the -- whereas with the Utility, that the
5 -- the argument being put -- put forward is that the
6 taxpayers essentially are assuming the risk.

7 Have I got that more or less right, in
8 terms of your position?

9 MR. GARY NEWCOMBE: Yeah, well under the
10 PGVA mechanism that's in place today, it's ratepayers
11 that would take that risk, as I understand it. But
12 underlying that, if there -- to the extent there are any
13 costs associated with hedging or risk costs, risk events
14 that happened because of fixed-price products, then that
15 risk would fall either back to ratepayers, taxpayers,
16 close to being one in the same.

17 MR. IVAN HOLLOWAY: Okay. But the
18 companies, in fairness though, the retailers are not just
19 taking on risk for free, right? I mean, they're --
20 they're charging a premium or a component in their bill,
21 whether you call it a profit or whatever, for that risk.
22 Is that fair to say?

23 MR. GARY NEWCOMBE: Yes, we do. I mean,
24 there's a -- a component of compensation for the risks
25 that we're taking.

1 But, you know, just by virtue of the fact
2 that it's a compensation for risk, you may have the best
3 analyst in the world and be able to calculate the -- the
4 costs of that risk based on, sort of, foreseen and, to
5 some extent, unforeseen events over time, but, you know,
6 nobody can predict what might happen from Hurricane
7 Katrina a couple of years ago, you know, when short term
8 gas prices hit nearly twenty dollars (\$20).

9 So there are always events like that, that
10 notwithstanding the fact that for the first fifty-nine
11 (59) months of a five (5) year contract, your risk
12 compensation covered your costs and then some, and month
13 sixty (60) it might wipe out the previous fifty-nine (59)
14 months and the -- the sixty (60) months before that, as
15 well.

16 MR. IVAN HOLLOWAY: Understood. So what
17 you're saying basically is that sometimes you can come
18 out on the wrong side of risk, right?

19 MR. GARY NEWCOMBE: Well, absolutely.

20 MR. IVAN HOLLOWAY: But that doesn't
21 change the fact that you are charging something above and
22 beyond just to assume that risk, right?

23 MR. GARY NEWCOMBE: Right. But I guess
24 the -- the underlying point there is that when you do
25 come out on the wrong side of that, it's the shareholders

1 that take that hit and that is why it's perfectly
2 appropriate that they be compensated when you're on the
3 right side.

4 I guess without -- or maybe at the risk of
5 belabouring it, if you've got Centra entering into those
6 same types of arrangements, there are -- the risks being
7 borne by the shareholders are being borne, I guess,
8 unwittingly.

9 You know, if a shareholder does -- of
10 Centrica does not like our risk practices in the
11 commercial arrangements we enter into, they can sell our
12 shares and buy shares of General Motors.

13 A Manitoba taxpayer, I guess, has the
14 option to move to British Columbia, or Alberta, or
15 Saskatchewan, but barring that he has really no choice.

16 MR. IVAN HOLLOWAY: Okay. Now, I think
17 you said before that -- under the PGA System, that the
18 ratepayer assumes the risk, right, under -- if the -- a
19 ratepayer for Centra's services?

20 MR. GARY NEWCOMBE: Yes. I believe
21 that's what happens, yes --

22 MR. IVAN HOLLOWAY: Okay.

23 MR. GARY NEWCOMBE: -- as I understand
24 it.

25 MR. IVAN HOLLOWAY: And the -- the risk

1 is, is that the ratepayer could, at some future point,
2 have to pay for an imprudent choice or a decision of its
3 -- of its supplier or just simply because there's been an
4 increase in the -- in the cost of gas and therefore it
5 has to be passed on.

6 So, under that scenario -- is that fair to
7 say, first all?

8 MR. GARY NEWCOMBE: Yes, as I understand
9 it. I mean, I think in -- in Centra's case, yeah,
10 there's two (2) components to the PGVA and I think you've
11 enumerated both of them.

12 MR. IVAN HOLLOWAY: Okay. So -- but even
13 in that scenario the customers -- or the ratepayer is
14 paying for risk, as well, right?

15 MR. GARY NEWCOMBE: Well, to the extent
16 that there's risk associated with the hedging costs of
17 Centra, yes, they are. With respect to any, you know,
18 changes -- price changed due to volume variations and
19 that, with respect to the variable component, I don't
20 know if I'd characterise that as being called -- paying
21 for risk, or just paying for the actual cost of the gas
22 that was purchased for them. I think there's a subtle
23 difference there.

24 MR. IVAN HOLLOWAY: Let's talk about, I
25 think what you said, Mr. Roeder, and that is that there -

1 - another value added that's provided is that there's a
2 check on Crown corporations.

3 Now I -- I assume what you mean by that is
4 -- is a -- is it a price check on Crown corporations; is
5 that what you mean by that?

6 MR. CLINTON ROEDER: My -- my comment, in
7 terms if there's a check, because there are -- is
8 alternatives to consumers in the marketplace. And from a
9 consumers perspective -- I mean, you can assume anything
10 you want from the surveys, but what they've shown, you
11 know, we've got in terms of -- in the various markets
12 that we're in, is that consumers like to know they have
13 the alternative.

14 And so it can be a check from a price
15 standpoint and from the standpoint of comparing what --
16 what is there versus the regulator rate, but also in
17 terms of just an efficiency of how -- how effective they
18 are and manage that.

19 MR. IVAN HOLLOWAY: Okay. But you would
20 also agree that, of course, the Public Utilities Board
21 provides a check on what the Utility does, right?

22 MR. CLINTON ROEDER: I think I actually
23 made that comment earlier.

24 MR. IVAN HOLLOWAY: I'm sorry, I might
25 have missed it.

1 MR. CLINTON ROEDER: But -- but I did. I
2 said, you know, it's an alternative and I think, you
3 know, if you look at the customer research, what it
4 showed was that consumers are looking for alternatives in
5 the marketplace and that's part of what is brought to the
6 table.

7 MR. IVAN HOLLOWAY: Okay, thanks.

8 MR. GARY NEWCOMBE: Maybe just to go back
9 to my ad nauseam harping on risk though, Mr. Holloway. I
10 mean, even when the regulator does provide a check on --
11 on Centra, and if they were to disallow what they felt
12 were to be some imprudently incurred costs, again I'm --
13 I'm not sure how that disallowance would ever stick to
14 the Corporation itself and wouldn't find itself someway
15 back to the Manitoba taxpayer, either through reduction
16 in dividends paid by Manitoba Hydro or -- or some other
17 way.

18 So I don't think, by virtue of it being a
19 Crown Corp, it can have quite the same discipline as a
20 privately owned enterprise, even regulated.

21 MR. IVAN HOLLOWAY: But that's -- in
22 fairness, that's a speculative comment.

23 MR. GARY NEWCOMBE: Oh, yes, it is.
24 Well, which part?

25 MR. IVAN HOLLOWAY: I'm going to say the

1 whole part.

2 MR. GARY NEWCOMBE: Speculative to -- in
3 that the regulator would never find any disallowance in
4 Centra or?

5 MR. IVAN HOLLOWAY: No, no, not in the
6 sense -- in the sense -- No, in the sense that the --
7 you know, what would happen -- what the Government of
8 Manitoba would do under a particular situation where a
9 Utility needed help?

10 MR. GARY NEWCOMBE: Well, no, my point
11 was more to the fact that if they disallowed some of
12 Centra's cost because they've -- through the regulatory
13 process they didn't think they should be spent; the fact
14 that Centra's revenue requirement and resulting rates
15 were lower would somehow find its way back to the
16 Manitoba taxpayers, somehow.

17 Like I said, either through a reduced
18 dividend paid by Centra/Manitoba Hydro to the Government
19 or some other way. There's no -- I don't think there's
20 any ability for the Crown Corporation to actually absorb
21 the costs.

22 MR. IVAN HOLLOWAY: Well, or it -- at
23 some later date there could be an application to the
24 Board in which a rate increase is -- is asked for in
25 order to recover those costs, right? That's another

1 possibility.

2 MR. GARY NEWCOMBE: Yes, so in that case
3 then, you know, any discipline imposed by the -- the
4 regulator in year one (1) would simply be returned to the
5 corporation in that subsequent year, So I don't see that
6 as being any sort of discipline imposed on the
7 corporation at all.

8 MR. IVAN HOLLOWAY: No, but I -- well, I
9 guess what I'm saying is essentially the -- you know, the
10 -- the whole -- it seems to me that the assumption of
11 risk by the retailers is -- is maybe a little bit
12 illusory in that sense that, you've admitted, the
13 retailers are paying a premium for that risk that's being
14 assumed by the companies.

15 And, whereas, with the -- with the
16 Utility, the -- the risk is being borne by ratepayers.
17 But essentially, that's almost something that's
18 relatively similar in the sense that it's all coming back
19 to ratepayers at the end of the day.

20 MR. GARY NEWCOMBE: Yes, but nothing --
21 any risk events that occur, or are incurred by a
22 privately-held Corporation like us, will not come back to
23 our customers. It'll go to our shareholders. Any risk
24 events and the costs associated with them that are --
25 impact Manitoba Hydro will flow back to the Manitoba

1 Hydro shareholders, which I understand to be the
2 taxpayers of Manitoba.

3 MR. IVAN HOLLOWAY: Okay. I want to talk
4 about subsidies. Now, it seems -- and I think your --
5 your position is clear that the retailers are not
6 receiving any subsidies from the Utility right now, is
7 that fair to say, in terms of operations?

8 MS. NOLA RUZYCKI: Yes.

9 MR. GARY NEWCOMBE: Yes.

10 MR. IVAN HOLLOWAY: And you're not
11 looking for any subsidies from the Utility, right?

12 MR. GARY NEWCOMBE: No.

13 MS. NOLA RUZYCKI: That's correct.

14 MR. IVAN HOLLOWAY: And you would agree,
15 though, that if for whatever reason, you were wrong in
16 that assessment, because sometimes these things get
17 complicated and technical, that that should be corrected,
18 right?

19 MR. GARY NEWCOMBE: So you're saying to
20 the extent that we are receiving subsidies, that should
21 be corrected; or if we're subsidizing Centra, that should
22 also be corrected?

23 MR. IVAN HOLLOWAY: Either way.

24 MR. GARY NEWCOMBE: Either way? I think
25 as a -- from my perspective any way -- I'll let Mr.

1 Roeder slap me -- but, you know, as a principle, I -- I
2 don't think we're looking for any subsidies either way.

3 MR. IVAN HOLLOWAY: Right.

4 MR. GARY NEWCOMBE: I'm not.

5 MR. IVAN HOLLOWAY: You agree with that
6 basic principle?

7 MR. GARY NEWCOMBE: I do.

8 MR. IVAN HOLLOWAY: Okay.

9 MS. NOLA RUZYCKI: Yes, I do as well.

10 MR. IVAN HOLLOWAY: So -- and
11 essentially, the basic principle is -- is that he who
12 benefits, pays; right? Or she who benefits, pays.

13 As a basic principle, you'd agree with
14 that; right?

15

16 (BRIEF PAUSE)

17

18 MR. GARY NEWCOMBE: In general, I -- I
19 would agree with you that there -- you know, when you do
20 Utility cost-to-service studies, you try and do your cost
21 allocations as best you can, and those customers that
22 incur the costs and -- or benefit from certain
23 expenditures, should be the ones that pay them.

24 You know, it's not -- when you're dealing
25 with Utility customers and the volume of Utility

1 customers, it's not always possible to stream costs and
2 benefits to every customer. So you have to sometimes
3 take a class approach or a more socializing approach.
4 So, while I agree with you in theory, it's -- it's not
5 always practical right down to the customer level.

6 MR. IVAN HOLLOWAY: Okay. Thank you.

7 MS. KAREN MELNYCHUK: And also I can just
8 add; if -- if that benefit is a benefit that is available
9 to all consumers, whether they elect to -- to use that
10 benefit or not or a choice, it should still be socialized
11 to all customers.

12 MR. GARY NEWCOMBE: Yeah. Just going to
13 say, I mean, a prime example of that, for instance, is a
14 Utility Call Centre.

15 Not every customer is going to call the
16 Call Centre every year. Some customers may only call it
17 twice: once to apply for service and forty (40) years
18 later to apply for, you know, cancellation of that
19 service. But, you know, it's there, it's standing by
20 every day. They can call it every day if they want.

21 So there's another example of where it's
22 just simply impractical. I mean, I guess you could put a
23 charge for every call if you so desired, but typically
24 it's not that way.

25 MR. IVAN HOLLOWAY: Okay. So -- so what

1 I'm hearing from you -- if -- if I got this correct -- is
2 that in -- in principle, you're against cross-
3 subsidization of any type; in principle, at a high level.
4 But that in terms of determining some of the details,
5 that there's room for -- for exception, room for nuance,
6 room for judgment. Is that fair to say?

7 MR. GARY NEWCOMBE: Yeah. Sometimes the
8 -- the costs of doing all of that work will outweigh any
9 benefit and it -- yes, it becomes very difficult.

10 MR. IVAN HOLLOWAY: Okay. And would you
11 agree that the ultimate arbiter of the issue of whether
12 there is a subsidy in any given particular situation --
13 well, and we're talking about, obviously, natural gas
14 here -- would be the Public Utilities Board?

15 MR. GARY NEWCOMBE: Yes.

16

17 (BRIEF PAUSE)

18

19 MR. IVAN HOLLOWAY: I'm going to direct
20 you to PUB/Direct IR number 16. And I'm just going to --
21 if you don't mind, I'll just say "Direct" as opposed to
22 the full acronym as I find it a little bit cumbersome to
23 speak -- or to say.

24

(BRIEF PAUSE)

25

1 MR. IVAN HOLLOWAY: You might want to
2 take just an opportunity to quickly glance over it.

3

4 (BRIEF PAUSE)

5

6 MR. IVAN HOLLOWAY: I might be able to
7 spare you the necessity of reading this long passage,
8 because I'm really only wanting to focus on the bottom of
9 the second page. If you feel I need to review the rest
10 for context, by all means, but let's -- let's see how far
11 we get, and -- and you can let me know.

12 I want to direct your attention to the
13 last sentence of the second page, where it starts, "The
14 potential for cross-subsidization". Do you see that?

15 MS. NOLA RUZYCKI: Yes.

16 MR. IVAN HOLLOWAY: And I'm going to read
17 it for the record:

18 "The potential for cross-subsidization
19 and increased regulatory requirements
20 identified by the OEB will be more of a
21 challenge in the case of Manitoba Hydro
22 since it is also -- since it also has
23 the ability to move funds and share
24 services between its electricity
25 operations, and detail scrutiny of

1 separate financials may not be
2 possible."

3 Which I think means should be detailed
4 scrutiny of financials; separate financials may not be
5 possible.

6 Now, when I read that sentence, it sounds
7 to me that there's a may not and a -- a potential. And
8 there's some qualifying words here. I -- I take it from
9 that, that the retailers are putting forward a -- a
10 theoretical possibility as opposed to evidence that there
11 is, in fact, cross-subsidization between the different
12 components of Manitoba Hydro. Is that fair to say?

13 MR. GARY NEWCOMBE: Yes. I think, yeah.
14 You -- you've pointed to the right words there. I mean,
15 there's just going to be a potential, but we're not in
16 any way suggesting it's happening.

17 MR. IVAN HOLLOWAY: Okay. And you
18 basically -- along with that, you don't have any
19 evidence; you're not putting any evidence before the
20 Board that there is cross-subsidization between the
21 electric and gas in Manitoba Hydro, right?

22 MR. GARY NEWCOMBE: No.

23 MS. NOLA RUZYCKI: Sorry, that's correct.

24

25 (BRIEF PAUSE)

1 MR. IVAN HOLLOWAY: And, as I understand
2 it, there's also a concern on behalf of the retailers
3 that if Centra Gas were to provide a fixed-price
4 offering, that there could be a potential for cross-
5 subsidization between the fixed-price component and the
6 variable price component. Is that right?

7 MR. GARY NEWCOMBE: Yes. Again, I mean,
8 in the -- that potential always exists. If they were to
9 offer that within the confines of the regulated entity as
10 opposed to outside through a competitive affiliate, with
11 the right regulations in place, that possibility would
12 probably be higher.

13 But, again, we're not in any way
14 suggesting that they would do it or -- it's just an over-
15 hanger there that could be there.

16 MR. IVAN HOLLOWAY: But one (1) possible
17 solution that I think is -- is I hear from the retailers
18 would be acceptable is if Centra Gas were to create an
19 unregulated affiliate that had certain rules and
20 regulations and restrictions and codes of conduct, and so
21 on, in place so that it wouldn't be able to cross-
22 subsidize.

23 Is that fair to say, that that would be
24 okay?

25 MR. GARY NEWCOMBE: Well, you can put all

1 sorts of rules and regulations in place to attempt to
2 ensure that regul -- or a competitive affiliate is
3 treated exactly the same as any other competitive regu --
4 marketer.

5 The difficulty I think you have in the
6 Manitoba market with that is, even if you have all of the
7 right rules in place, you've got this huge overwhelming
8 brand presence and loyalty that's held by Manitoba Hydro,
9 that I don't think there's any way you can get around,
10 and you still got the underlying, again, risk being borne
11 by shareholders/taxpayers that I don't think is
12 appropriate.

13 MR. IVAN HOLLOWAY: I want to come back
14 to brand loyalty in a moment and -- and if I forget, you
15 may want to remind me or you may not want to remind me.

16 MR. GARY NEWCOMBE: Yeah, we'll count on
17 that, yeah.

18 MR. IVAN HOLLOWAY: But, is there not
19 another concern or another problem with -- with having an
20 affiliate -- and it doesn't necessarily, I think, align
21 with your argument -- but when you create an affiliate,
22 you're essentially creating a related but a separate
23 company; right?

24 MS. NOLA RUZYCKI: Yes.

25 MR. IVAN HOLLOWAY: And -- and that

1 separate company presumably has, you know, its -- its own
2 office space, its -- its own HR manager, its -- its own
3 receptionist and -- and -- and so on. I mean, doesn't
4 that process create a lot of duplication and a lot of
5 synergies are lost in that process that would make that
6 affiliate inherently uncompetitive?

7 MR. GARY NEWCOMBE: I don't know if it
8 would make that affiliate uncompetitive, or it would
9 simply put it on the same -- relatively the same -- cost
10 footing as any other stand-alone enterprise.

11 MR. IVAN HOLLOWAY: Okay. But, I mean,
12 if -- if on a -- in a hypothetical world here for a
13 moment, and I don't know under what circumstances this
14 would happen, but just hypothetically -- if the Board or
15 some other governing entity said to Direct Energy, We
16 want you to operate with two (2) companies in Manitoba.

17 You would have to agree with me that if
18 you had to divide your company evenly and your customer
19 base evenly and have two (2) office spaces, two (2) sets
20 of HR managers, two (2) sets of whatever, that that would
21 inherently, and for no real good reason, increase your
22 costs; right? It would be harder to be competitive,
23 right?

24

25

(BRIEF PAUSE)

1 MR. GARY NEWCOMBE: You know, I think a
2 lot of these -- what you're talking about here -- can be
3 overcome. I know earlier today we'd given an Undertaking
4 to Mr. Peters to put the Alberta Natural Gas Code of
5 Conduct Regulation on -- on the record. And that Code of
6 Conduct Regulation does allow for the sharing of
7 resources between a regulated entity -- regulated entity
8 and a competitive affiliate. And it does so in
9 recognition of the very fact that you're talking about;
10 that there's no point in burdening either the regulated
11 entity or competitors, for that matter, with unnecessary
12 costs.

13 What that Code of Conduct Regulation does
14 specify though, is that sharing of resources cannot
15 create -- or only creates a problem when it does create a
16 -- an unfair competitive advantage. It's very strict on
17 allowing, you know, access to data, preferential
18 treatment of -- of affiliates versus other competitors.
19 It's very clear on the fact that sales and marketing
20 people cannot be shared between the two (2). So, you
21 know, people that have access to customer information
22 cannot be shared between the two (2).

23 But to allow the sort of joint use of
24 human resources or some back-office accounting or things
25 like that, is acceptable. So, I think with the -- the

1 right set of rules, you can get around a lot of those
2 concerns that you're discussing here.

3 MR. IVAN HOLLOWAY: Okay. So if I
4 understand you correctly, you're keeping economies of
5 scale and synergies is not necessarily a part of your
6 concern about cross-subsidization, right?

7 MR. GARY NEWCOMBE: Right. To the extent
8 that it doesn't introduce anything inherent -- what we
9 would see as being inherently unfair competition, yes.

10 MR. IVAN HOLLOWAY: Okay.

11 MR. GARY NEWCOMBE: You know, and as
12 we've said, you know, the access to customers, the access
13 to the bills and things like that.

14 MR. IVAN HOLLOWAY: Well, let -- let's
15 talk about brand loyalty. I remembered it on my own,
16 unfortunately maybe for everyone else.

17 MR. GARY NEWCOMBE: We're happy for you.

18 MR. IVAN HOLLOWAY: I -- I'm a little
19 troubled by -- by your concern about brand loyalty. You
20 would agree with me that -- that Direct Energy or its
21 parent company, Centrica, has built up a brand
22 recognition, right?

23

24 (BRIEF PAUSE)

25

1 MS. KAREN MELNYCHUK: Mr. Holloway, in
2 the markets that we do operate in, Direct Energy has
3 built up a brand recognition. But the cost of building
4 that brand recognition has been borne by Direct Energy
5 and, ultimately, the shareholders of Direct Energy; not
6 the taxpayers or the ratepayers of a Utility.

7 MR. GARY NEWCOMBE: Actually, just as a
8 little aside, Mr. Holloway, I think the market research
9 Table 7 shows that the old Municipal Gas name probably
10 has the biggest brand recognition of -- of any presence
11 in the -- in the Province of Manitoba, and Direct
12 Energy's down there quite a ways, but.

13 MR. IVAN HOLLOWAY: Sorry. The concern
14 is how the brand recognition was achieved, basically,
15 right? That's what your concern is; it is achieved
16 through a Crown Corporation and through taxpayers as
17 opposed through the shareholders of a private business?
18 That's the concern about the brand recognition of Centra?

19 MS. KAREN MELNYCHUK: That is one (1) of
20 the concerns that we have in the brand recognition.

21 MR. IVAN HOLLOWAY: And I'm going to
22 throw out a -- a wide-open question which you -- you may
23 make me look really stupid, which has happened a number
24 of occasions -- but why is that concern of the retailers;
25 what difference does it make?

1 MR. GARY NEWCOMBE: Well, it's probably a
2 -- a number of concerns, Mr. Holloway. One (1), it's
3 sort of, as Mr. Melnychuk said, who paid to build that
4 brand loyalty? In our case, it was paid for by
5 shareholders. In the case of regulated entities setting
6 up affiliates, it was typically whatever brand loyalty is
7 there is paid for by ratepayers over time.

8 Again, if you don't separate distribution
9 and regulated retail function, I think there's a lot of
10 brand loyalty that properly belongs with the distribution
11 company. People tend to -- in my mind anyway -- like
12 distribution companies because those are the ones that
13 have the metre readers and the trucks and those are the
14 people they phone when they smell gas coming out of their
15 furnace.

16 And, you know, when you sort of -- if you
17 don't separate the retail function from that, I think
18 there's a lot of brand loyalty stickiness that properly
19 belongs with the distribution function and comes over to
20 the retailer.

21 MR. IVAN HOLLOWAY: You would agree with
22 me that part of that brand loyalty, at least, is the fact
23 that people have come know particular brand, are
24 comfortable with it, it's been around for a long time;
25 there's something in that brand that has some meaning.

1 Is that not fair to say?

2

3

(BRIEF PAUSE)

4

5 MR. CLINTON ROEDER: Can you repeat the
6 question?

7

MR. IVAN HOLLOWAY: Sure.

8

MR. CLINTON ROEDER: I apologize, I was--

9

MR. IVAN HOLLOWAY: That's okay.

10

MR. CLINTON ROEDER: -- was reading
11 something in the IRs.

12

MR. IVAN HOLLOWAY: Part and parcel with
13 your brand loyalty is the fact that -- or the value in
14 it, at least, from customer's standpoint, depending on
15 the brand -- but let's talk about Centra -- is that
16 Centra's -- the name "Centra" has been around for awhile;
17 it's developed a reputation in the marketplace; its --
18 its length of time has provided people with a sense of
19 stability for the company.

20

There's something inherently valuable in
21 that brand and -- and that's what consumers are -- are
22 looking for, right?

23

MR. CLINTON ROEDER: I -- I can't speak
24 toward what the consumer's looking for in the brand.
25 What I would reference and I was -- that's what I was

1 trying to find was, in the customer research.

2 You know, the -- I think it was in excess
3 of 70 to 80 percent of the customers, and in terms of
4 part of the reason they want it, in terms of to have
5 retailers in the marketplace, in terms was -- and I ca --
6 I think the comment was related to the Crown and I --
7 that's what I was looking for.

8 You can give me one (1) minute?

9 MR. IVAN HOLLOWAY: Yeah, I'm --

10 MR. GARY NEWCOMBE: I think, too, Mr.
11 Holloway, in our direct evidence, we've provided on page
12 8 some quotations from the British Columbia Utilities
13 Commission on some of their findings, and that was in
14 relation to Terasen Gas offering a stable rate option,
15 which I think is right on point with -- or the -- why --
16 why we're here today.

17 You know, and in that decision where they
18 decided that Terasen would no longer be permitted to
19 offer the stable rate option, BCUC said that, you know,
20 that the successful launch of residential commodity
21 choice should be based on a market with a level playing
22 field, and -- which at the outset gives no participant an
23 undue advantage.

24 And they're finding was that Terasen Gas's
25 current brand impact was significant in comparison to the

1 -- to marketers. And that allowing Terasen to continue
2 to compete with a product in direct competition with
3 marketers just wouldn't be appropriate because of that's
4 brand significance or significant brand impact that they
5 would have.

6 So that's -- that's, I think, part in
7 parcel of our concern with Centra being allowed to step
8 out and get into direct competition with ourselves and --
9 and with Energy Savings is the impact their brand will
10 have; and is that some form of inappropriate undue
11 competition? And, in our view, it is.

12 MR. CLINTON ROEDER: Just to clarify in
13 terms of -- because earlier I had referenced in terms of
14 the research, I think we -- we've stressed in terms of
15 our concern with how the question was put forward and --
16 and the likes, but you know in terms of what was put
17 forward, I think Gary had already referenced in terms of
18 one (1) of the questions that talks about the strength of
19 the brand.

20 And part of, you know, what your hearing
21 is, in terms of the amount of investment and what
22 required in terms of in this market, to overcome that, to
23 Gary's point, would be an uncompetitive advantage.

24 I think even the consumers talk, even
25 though they talk about -- they understand the brand and -

1 - and the value they place on it, they also, in terms of
2 when the question was asked, "Why do customers benefit
3 from com -- competition?" even the Hydro customers, 77
4 percent, commented in terms of the value of it is due to
5 competition, and they don't like monopolies.

6 MS. KAREN MELNYCHUK: If I may just add
7 to that, as well, I believe Mr. Warden, late last week,
8 also testified that the Manitoba Hydro brand does have an
9 unfair advantage if it was to be used.

10 MR. IVAN HOLLOWAY: I guess I'm arguing
11 against myself, then. But you -- your position wouldn't
12 be the same, presumably, if we're talking about one (1)
13 of your competitors in retail market, right?

14 I mean, you can't make any -- any argument
15 about -- because someone's built up a brand recognition
16 in the competitive real -- retail market, that somehow
17 that company should be put on a level playing field by
18 having their brand changed.

19 It's only with respect to the Utility that
20 you're making that argument, right?

21 MR. CLINTON ROEDER: I think the
22 difference is, in the case of the incumbent Utility, it's
23 inherited brand advantage versus, in the other markets
24 and in terms of where the investment's being made on the
25 part of the retailers, which they all have that choice to

1 make in terms of to build that brand advantage.

2 MR. IVAN HOLLOWAY: I'm sorry, could you
3 repeat that? I just didn't follow that?

4 MR. CLINTON ROEDER: What we're
5 differentiating between -- in terms of, just to clarify
6 your question, which was, would you -- if I understood it
7 correctly, your question was, Would there be a concern if
8 a competitor or a retailer had a stronger brand than
9 another retailer?

10 And where we're differentiating is, in the
11 case of Manitoba Hydro, it's an inherited brand in terms
12 of that was there in terms of when the market became a
13 competitive situation, versus where retailers made an
14 investment and conscious effort to build their brand.

15 MR. IVAN HOLLOWAY: Okay. But I think
16 you're agreeing with me though that you wouldn't have a
17 problem with a competitor in the retail market that has a
18 well recognized brand?

19 MR. CLINTON ROEDER: I would support it
20 if Manitoba Hydro wants us to invest to build our brand
21 in Manitoba through their ratepayers, which is how they
22 built their brand.

23 MR. IVAN HOLLOWAY: Yeah, but no --

24 MR. CLINTON ROEDER: We would be
25 supportive of that.

1 MR. IVAN HOLLOWAY: Yeah, I just want to
2 -- I just want an answer to the question about, you know,
3 whether your -- whether a competitive retailer has a
4 built-up brand, whether you would take any issue with
5 that, which I think you'd have to agree is no, you
6 couldn't.

7 MR. CLINTON ROEDER: No.

8 MR. IVAN HOLLOWAY: Right.

9 THE CHAIRPERSON: Mr. Holloway, if you
10 want to find a point in time in which we can adjourn for
11 the night.

12 MR. IVAN HOLLOWAY: That was the point
13 right there, Mr. Chair.

14 THE CHAIRPERSON: Perfect timing again.
15 I'm amazing. Okay, we'll see you all in the morning.

16 MR. IVAN HOLLOWAY: Thanks.

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18 (PANEL RETIRES)

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

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Certified correct,

Wendy Warnock, Ms.