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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
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1 --- Upon commencing at 10:04 a.m.

2

3 THE CHAIRPERSON: Good morning all.
4 We've adjusted our schedule slightly here. First of all
5 it appears we have a couple of more new exhibits. Are
6 they from you, Ms. Murphy or...?

7 MR. BOB PETERS: No, Mr. Chairman. I
8 have provided the Board and counsel with a copy of a
9 couple of documents that I may discuss with Dr. Cyrenne
10 this morning.

11 I won't ask to mark them at this time but
12 I wanted to distribute them for later this morning.

13 THE CHAIRPERSON: Very good, sir. So
14 welcome Professor Cyrenne.

15 DR. PHILIPPE CYRENNE: Hello.

16 THE CHAIRPERSON: Mr. Hoaken, do you want
17 to introduce your witness and then we'll have him sworn
18 in?

19 MR. ERIC HOAKEN: Yes, I'll do that.
20 Thank you, Mr. Chair. Good morning.

21 This is as I think you all know, Dr.
22 Philippe Cyrenne, who is a professor of economics at the
23 University of Winnipeg. His pre-filed evidence is before
24 all of you, I think. So I think it would be appropriate
25 at this point to have him sworn and then I'll proceed to

1 take him through his qualifications.

2 THE CHAIRPERSON: Mr. Singh...?

3

4 DEML/ESMLP PANEL NO. 2:

5

6 PHILIPPE CYRENNE, Sworn

7

8 (VOIR DIRE)

9

10 EXAMINATION-IN-CHIEF BY MR. ERIC HOAKEN: (QUAL)

11 MR. ERIC HOAKEN: All right, thank you.

12 Good morning, Dr. Cyrenne. You are I understand is a
13 professor of Economics at the University of Winnipeg?

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. ERIC HOAKEN: And you obtained your
16 BA Honours from the University of Winnipeg in 1981?

17 DR. PHILIPPE CYRENNE: Yes.

18 MR. ERIC HOAKEN: You then went on to
19 obtain your MA from Simon Fraser University in 1983?

20 DR. PHILIPPE CYRENNE: Yes.

21 MR. ERIC HOAKEN: And was that in the
22 field of economics?

23 DR. PHILIPPE CYRENNE: Yes.

24 MR. ERIC HOAKEN: And you then obtained
25 your PhD in Economics from Carleton University in 1991?

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. ERIC HOAKEN: You joined the Faculty
3 of Economics at the University of Winnipeg in 1989?

4 DR. PHILIPPE CYRENNE: Yes.

5 MR. ERIC HOAKEN: And at that time you
6 were an assistant professor?

7 DR. PHILIPPE CYRENNE: Yes.

8 MR. ERIC HOAKEN: You were then a
9 visiting assistant professor at the University of British
10 Columbia from August 1, 1995 to June 1, 1996.

11 DR. PHILIPPE CYRENNE: Yeah, in the
12 business school.

13 MR. ERIC HOAKEN: In the business school.
14 All right. Thank you.

15 You then came back to Winnipeg, and upon
16 coming back you were, as I understand it, promoted to the
17 rank of Associate Professor?

18 DR. PHILIPPE CYRENNE: Yes.

19 MR. ERIC HOAKEN: And you were in that
20 role or rank until you were promoted to full professor on
21 July 1, 2004. Is that correct?

22 DR. PHILIPPE CYRENNE: Yes.

23 MR. ERIC HOAKEN: Now I take it as part
24 of your role as a professor at the university you have
25 teaching responsibilities, is that correct, Professor?

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. ERIC HOAKEN: And if you just turn to
3 your curriculum vitae, there is reference on I believe
4 page 3 to some of the courses you taught. Could you just
5 take us through those that are relevant some of the areas
6 we'll be touching on today in your evidence?

7 DR. PHILIPPE CYRENNE: Okay. At the
8 University of Winnipeg, I have taught industrial
9 organization, competition policy, regulation, public
10 economics, corporate finance and econometrics. Also
11 advanced microeconomic theory.

12 And at the University of British
13 Columbia, I also taught government in business, which
14 involves the area of industrial organization and public
15 policy.

16 MR. ERIC HOAKEN: And could you just help
17 us all understand what industrial organization is, as a
18 field?

19 DR. PHILIPPE CYRENNE: Well industrial
20 organization is the branch of microeconomic theory which
21 looks at the functioning of markets, usually when people
22 feel they're less than perfectly competitive.

23 So within IO there are a number of
24 theories regarding how we would -- you would expect firms
25 to behave in that environment, and there are also

1 empirical techniques which are used to try to determine
2 whether -- what the extent of competition is in that
3 market.

4 And on the other side is regulation. So
5 regulation is the area of study which looks at how
6 regulated industries are governed, and looks at criteria
7 for judging the effectiveness of regulation in those
8 industries.

9 MR. ERIC HOAKEN: All right. Thank you.
10 Let's just try and get a sense quickly of the areas of
11 emphasis in your academic career, Professor.

12 If we look at page 2 of your curriculum
13 vitae, we see reference to an award that you won for an
14 article entitled, "On Antitrust Enforcement and the
15 Deterrence of Collusive Behaviour."

16 That would, I take it from what you've
17 just said, be under the rubric of industrial organization
18 economics?

19 DR. PHILIPPE CYRENNE: Yes.

20 MR. ERIC HOAKEN: And then if we go down
21 the page, we see you've got a heading in your CV,
22 "Current Areas of Scholarly Interest." Would you be good
23 enough just to take us through those areas that are
24 germane to the issues we're gonna be discussing here.

25 DR. PHILIPPE CYRENNE: Well, while I'm

1 not an expert on the technical workings of the natural
2 gas industry, I've been exposed to a number of regulator
3 issues related to the energy industry, primarily through
4 teaching and some other related research.

5 For example, I have looked at regulatory
6 issues regarding the competition between public and
7 private firms in the healthcare industry. I've looked at
8 public/private partnerships in the health services
9 industry in Manitoba.

10 MR. ERIC HOAKEN: All right. Thank you.
11 And have you done any previous expert witness work, or
12 expert consulting work that would be relevant?

13 DR. PHILIPPE CYRENNE: Yes. I've
14 consulted for the Competition Bureau and Industry Canada.
15 And it's perhaps useful to go through the process by
16 which you do that.

17 First of all, you're contacted by a case
18 officer, and the case officer will say, There is an issue
19 that has come to us that looks like it may be in
20 violation of the Competition Act, would you be interested
21 in working on this issue?

22 And usually they select academics whose
23 expertise is related to the specific section of the Act
24 which is in dispute. So, for example, if it's resale
25 price maintenance, they'll look for someone whose done

1 some work in vertical relationships and marketing issues
2 like that.

3 And so what happens is they'll send you
4 technical information regarding the industry, usually put
5 together by technical consultants that they have in terms
6 of how the industry operates, and then that is combined
7 with your economic analysis to then write a report.

8 And sometimes it involves empirical work
9 to try to determine whether there's a competition policy
10 issue here. In other words, whether the practice is
11 anti-competitive or not.

12 MR. ERIC HOAKEN: All right. Thank you
13 very much, Dr. Cyrenne.

14 On that basis, Mr. Chair, I am asking that
15 Professor Cyrenne be qualified to give expert evidence in
16 this proceeding. And I ask that he be qualified as an
17 expert economist with special expertise in regulatory
18 economics, as it relates to a number of industries,
19 including the energy industry.

20 THE CHAIRPERSON: Thank you, Mr. Hoaken.
21 Mr. Holloway, do you have a comment?

22 MR. IVAN HOLLOWAY: I have no objection.
23 Thank you.

24 THE CHAIRPERSON: Ms. Murphy...?

25 MS. MARLA MURPHY: Subject to my

1 understanding of Dr. Cyrenne's comments, that he was not
2 an expert in the natural gas industry, we have no
3 objection.

4 THE CHAIRPERSON: Yes, we take note of
5 that too. That's fine.

6 Okay, Mr. Oaken.

7

8 (VOIR DIRE CONCLUDED)

9

10 EXAMINATION-IN-CHIEF BY MR. ERIC HOAKEN:

11 MR. ERIC HOAKEN: All right. Thank you.
12 Let me start if I may, Dr. Cyrenne, by taking you to page
13 3 of your pre-filed evidence. And you have on page 3
14 started the discussion of some of the special features of
15 the natural gas marketplace in Manitoba.

16 And I just ask if you could summarize for
17 us the main features that you believe are important for
18 the Board to take into account in this proceeding.

19 DR. PHILIPPE CYRENNE: Well, obviously
20 here you have one large firm, Centra, which is a
21 subsidiary of Manitoba Hydro, which is a regulated Crown
22 corporation. And also in the market, you have two (2)
23 retailers, two (2) private sector retailers.

24 MR. ERIC HOAKEN: All right. And you
25 have on page 3 and actually over to page 4, you've

1 commented on the significance that -- of Manitoba Hydro
2 having a monopoly in electricity, and having what you
3 characterize as a dominate, or almost monopoly position,
4 in the retail natural gas market. I want to discuss that
5 with you.

6 First of all, you've made reference to the
7 -- the circumstances in which Centra was acquired by
8 Manitoba Hydro, and you have hypothesised, I think it's
9 fair to say, that if it had been a private firm at the
10 time, it might not have been approved. Could you just
11 speak quickly to that.

12 DR. PHILIPPE CYRENNE: What I meant was
13 that if you had a large private firm buying a principle
14 or an important substitute, it would then be almost a
15 merger to monopoly in the energy industry.

16 So without regulation, and usually with
17 the competition act, only applies in circumstances where
18 you don't have regulated industries, at least to the
19 behaviour of that firm, it probably wouldn't have been
20 approved, because the market share of that firm would
21 have been almost 100 percent in those combined
22 industries.

23 MR. ERIC HOAKEN: All right. But do I
24 hear you saying that the considerations are different in
25 a regulated industry --

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. ERIC HOAKEN: -- such as this?

3 DR. PHILIPPE CYRENNE: And that's why
4 with me -- with Centra being regulated, it changes the
5 landscape a little bit.

6 MR. ERIC HOAKEN: Okay, thank you. And
7 you, I think, started to touch on this, but is there
8 anything more to this concept that you've expanded on in
9 your evidence, of Manitoba Hydro being a dual product
10 monopolist?

11 DR. PHILIPPE CYRENNE: Well, I mean,
12 there is some issues involved when you have a dominant
13 firm which is providing two (2) substitutes. And in
14 particular, if they're not separated in terms of their
15 provision, then it is possible that if a monopolist
16 wished to raise prices of both those products, they could
17 certainly be capable of doing so.

18 Now if -- if we looked at how we would
19 treat the dominant firm in a multi-product monopoly, you
20 would clearly have to make sure that it's prices were
21 both regulated in some way that were appropriate.

22 But here, in this circumstance, it's a
23 little bit different. We have one (1) regulated product
24 and we have a partially regulated product in the other
25 market.

1 cost -- could be the average cost or marginal cost
2 definition -- so you have two (2) types of allocative
3 inefficiency.

4 MR. ERIC HOAKEN: Now, you've made some
5 reference on page 4 of your pre-filed evidence to the
6 concept of abuse of dominant position, and we've hear
7 some evidence on that.

8 Could you please speak to the question of
9 whether there can be abuse of dominant position and/or
10 the exercise of market power, in a regulated environment?

11 DR. PHILIPPE CYRENNE: Well there -- it
12 has been suggested in other circumstances that -- at
13 least in the British Gas example, which is a state owned
14 utility, that it has the ability to use its dominant
15 position to impede entry in the UK gas market.

16 So there is some evidence; David Newberry
17 argues that:

18 "In discussing examples of state
19 ownership of network utilities, the
20 evidence from a wide variety of
21 examples suggest that it requires
22 aggressive regulation to prevent
23 abusive entry deterrent by vertically
24 integrated incumbents."

25 So there is some literature out there

1 which says, even if you have a regulated firm that is
2 competing with other firms, that vigilance must be there.

3 MR. ERIC HOAKEN: All right. Thank you.
4 Let me turn then to the question of the -- the benefits
5 of competition.

6 Are there any conclusions on this subject
7 from the academic literature that, in your view, would be
8 helpful for us to be aware of and understand?

9 DR. PHILIPPE CYRENNE: Well, most
10 economists view the benef -- benefits from competition in
11 two (2) forms.

12 One (1) is what we call static efficiency.
13 So if you look at the existing firms in the market,
14 generally the larger the number of firms, the lower the
15 prices tend to be, and the wider the product offerings
16 tend to be. And both those enhance consumer welfare, and
17 also -- also enhance overall welfare, which is the sum of
18 consumer and producer surpluses.

19 The other area is dynamic efficiencies.
20 And that comes from having competitors invent new
21 product, new service delivery systems, which may totally
22 disrupt -- or disrupt the existing market and even
23 replace it.

24 So you can have it -- very large changes
25 in the environment due to technological change. If you

1 think of the telecommunications industry, for example,
2 there's been significant technological which alters what
3 you used to think was the competitive landscape.

4 MR. ERIC HOAKEN: Now, in this part of
5 your pre-filed evidence you have made reference to an
6 OECD study that reaches some conclusions about the scope
7 for competition in the natural gas market. Can you speak
8 to that for us, Professor?

9 DR. PHILIPPE CYRENNE: Well, if you --
10 looking at this industry, regulation is usually needed
11 where there are naturally -- natural monopoly components;
12 and that's usually the pipelines and if you think if the
13 distribution system. The OECD, in looking at this
14 industry in a -- in the OECD countries, found that there
15 wasn't any reason why competition couldn't work in the
16 retailing industry, because there are no obvious natural
17 monopoly characteristics.

18 And the idea behind a natural monopoly is
19 that single firm production is most efficient. And if
20 there are no scale economies at the retail level, then
21 competition can provide benefits, wider product services,
22 perhaps lower prices, and that's what they concluded in
23 their study.

24 MR. ERIC HOAKEN: All right. So if I
25 understand you, you're saying structurally there's

1 nothing about the natural gas industry that would not be
2 amenable to competition. We're talking about the retail
3 market?

4 DR. PHILIPPE CYRENNE: At the retail
5 level.

6 MR. ERIC HOAKEN: Right. And is there
7 any caveat to that in your view?

8 DR. PHILIPPE CYRENNE: Well, for
9 competition to be effective the firms in the industry
10 have to be on a level playing field. They -- they have
11 to bear their -- their own cost of operation; if not then
12 competition may not work as well.

13 MR. ERIC HOAKEN: Now, we've heard some -
14 - some evidence or suggestion that the practical benefits
15 of competition include lower prices and choice for
16 consumers. Would you agree with that?

17 DR. PHILIPPE CYRENNE: Yes.

18 MR. ERIC HOAKEN: And are there other
19 benefits from competition that you're able to tell us
20 about in addition to those?

21 DR. PHILIPPE CYRENNE: Well, I'd say a
22 key thing is the spur to innovation. I mean, apart from
23 the initial market is the spur to innovation, which I
24 don't think can be discounted.

25 If you think if the changes that have gone

1 on in a number of industries, they have been substantial.
2 And from -- from my sort of background reading in the
3 industry, this industry has also gone through some
4 significant changes, so there is some technological
5 change, in -- in terms of delivery, in terms of
6 marketing, that's taken place in this industry, as well.

7 MR. ERIC HOAKEN: Turning to a different
8 topic you addressed in your evidence, Dr. Cyrenne.

9 You have on page 12 of your pre-filed
10 evidence, you have addressed the suggestion that there
11 are informational issues that arise from the marketing of
12 direct purchase gas. Could you speak to that for us?

13

14 (BRIEF PAUSE)

15

16 DR. PHILIPPE CYRENNE: Well, if you think
17 about the natural gas industry at the retail level, then
18 obviously there are two (2) types of contracts: there's
19 the short-term variable rate contract, and then there's
20 the long-term fixed-rate contract. The question is, is
21 whether there are -- can consumers make informed
22 decisions regarding the alternative suppliers of natural
23 gas?

24 Well, there are other areas where people
25 make similar sorts of choices. If you think about

1 mortgages, all right, there are shorter terms versus
2 longer term mortgages. I'm not sure you can make a very
3 strong case that consumers are misinformed in that
4 market.

5 So what you'd have to ask is whether
6 there's something particular about the short versus long-
7 term contracts, that are offered in -- at that retail
8 natural gas industry that are somewhat peculiar, in terms
9 of making it a problem for consumers to make informed
10 choices.

11 MR. ERIC HOAKEN: And --

12 DR. PHILIPPE CYRENNE: Oh, the one (1)
13 other issue I -- I should mention, is that there are
14 provisions for the retailers that aren't regulated,
15 regarding their marketing practices. They are governed
16 by the Competition Act. So if there was a feeling that
17 something untoward was happening, there's recourse there.

18 MR. ERIC HOAKEN: Let's turn to the issue
19 of hedging, which you also address in you pre-filed
20 evidence, Dr. Cyrenne.

21 What is your view about the
22 appropriateness of the regulated utility hedging, in
23 connection with its primary gas purchases?

24 DR. PHILIPPE CYRENNE: Well I -- my view
25 is really that I think risk management strategies belong

1 in the private sector.

2 The usual argument for hedging is to
3 protect against variable prices for the buyers. What's
4 interesting here is that both the retailers and Centra
5 are act -- acting as agents for the buyers, and if -- if
6 you force a hedging -- a universal hedging program on
7 people, then you may be asking people to purchase
8 contracts that are hedged when they may not wish to do
9 so.

10 The other thing is that if hedging
11 involves profits or loss, and there has been some
12 evidence of -- of losses on hedging activities, then the
13 private sector firms, their shareholders, will bear the
14 consequences of -- of those losses. Whereas, under a
15 regulated environment, consumers gener -- consumers in
16 general will bear those losses, even those consumers who
17 may not have wished the -- the regulated firm hedge in
18 the first place.

19 MR. ERIC HOAKEN: And what do you say in
20 response to the suggestion that if you eliminate hedging,
21 that will lead to undesirable volatility in the price of
22 the commodity?

23 DR. PHILIPPE CYRENNE: Well I mean the
24 best way to think about it is that we have sort of the
25 short term versus the long term.

1 In the short term, hedging can provide
2 limited benefits. It seems to me that the key benefit of
3 hedging is in the longer term market.

4 But the one thing that -- has to keep in
5 mind is that the hedging just protects you against
6 financial exposure. It doesn't eliminate the variability
7 in the price itself, right, which is set largely in the
8 wholesale market.

9 What it does is protect the -- the buyer
10 who has to have contracts in the future. It protects
11 their financial position, but you still have a volatile
12 spot price which still exists. So in some sense, you --
13 people want a -- might want to protect consumers from
14 volatility, but if the -- if the product is inherently
15 volatile, it's -- it's very difficult to do so.

16 MR. ERIC HOAKEN: Now as you're aware,
17 certain parties in this proceeding have suggested that
18 this Board should lift the restriction which arises from
19 this Board's order, 15/98, which prevents Centra from
20 directly offering anything other than its short term
21 variable offering. And there's been a suggestion
22 specifically that Centra should be permitted to offer
23 products that compete directly with those of the
24 retailers.

25 Could you just share with us your views on

1 the appropriateness of that?

2 DR. PHILIPPE CYRENNE: Well, I think --
3 in my view is that the appropriate role for a regulated
4 utility is as a default utility, which means that it is
5 there -- and if you think about the default role that
6 would be for the short term -- the short term market.

7 The longer term market generally is going
8 to require some hedging, or some risk management
9 strategy, and it seems to me that it is certainly
10 appropriate for the private sector, which -- which has
11 expertise in managing risks and also has, you know, its
12 shareholders to -- to account to.

13 It seems that's the appropriate avenue for
14 -- for that activity to take place.

15 MR. ERIC HOAKEN: Now, just expand on
16 that point, Dr. Cyrenne. Why do you say that the
17 offering of a fixed-price product -- a longer term
18 product is going to involve hedging?

19 DR. PHILIPPE CYRENNE: Well, I mean it --
20 most -- as far -- as far as I can tell, if you look at
21 the -- the retail industry for long term contracts, they
22 are supported by risk management strategies, including
23 hedging.

24 Whereas the short term market, if you
25 think about the way short term the -- contracts are

1 priced, they are adjusted quarterly, which means that
2 consumers are being kept abreast of the volatility of
3 prices, and they are allowed to -- and -- and the Utility
4 is allowed to adjust its rates in a much shorter time,
5 which means that the risk management strategy is probably
6 -- aren't as important.

7 The other important point is -- to get to
8 what I mentioned earlier -- is that if you have a
9 regulated firm in the long term market, then implicitly
10 what you're doing is you're saying okay now we're moving
11 from a cost of service or a rate of return regulation, to
12 a system of combined cost of service, plus some vigilance
13 of the risk management strategies of -- of the private --
14 of -- of the firm.

15 And generally, it seems to me, that that
16 is more of an internal firm operation. In other words,
17 how it deals with risk. And it seems to me that's the
18 appropriate avenue to have -- to have the fixed rate
19 contracts.

20 MR. ERIC HOAKEN: And if it had been
21 suggested in this proceeding by any witness that it would
22 be possible for Centra to offer a fixed term product and
23 not engage in hedging, related to the offering of that
24 product, what would your view be on that?

25 DR. PHILIPPE CYRENNE: It -- it seems to

1 me that that's kind of an odd position to have. You want
2 to have a fixed rate contract -- fixed long term
3 contracts with no risk management strategy. That doesn't
4 seem to make sense to me. I think it's -- you need both
5 of those, otherwise it's hard to have a separate retail
6 sector involved in that.

7 Because obviously what's going to happen
8 is without hedging, then you're going to have to have
9 some kind of averaging scheme or you're going to have to
10 have some policy where the losses are made up in the next
11 period by rate increases and vice versa.

12 But you can only do that if -- if you have
13 no other firms in the industry who would be effected by
14 that. Because as soon as you -- you go -- suppose you
15 had a favourable year and you didn't have losses, your
16 prices might be lower, right, then that would effect the
17 competitive landscape.

18 MR. ERIC HOAKEN: Or I suppose the
19 opposite would also be true?

20 DR. PHILIPPE CYRENNE: Right. Right.

21 MR. ERIC HOAKEN: What would the impacts,
22 in your opinion, be? What would the impact on the
23 competitive market in this province be if Centra were to
24 offer a fixed-price product?

25 DR. PHILIPPE CYRENNE: Well, it -- it

1 seems to me that given the current restrictions that are
2 -- that are placed on the -- the retailers and given the
3 -- if you want to think of it as a brand advantage that
4 Centra has through its parent Manitoba Hydro -- it looks
5 like, combining those two (2) things, it looks like it
6 would be very hard for the retailers to exist.

7 And I think, you know, there's -- there's
8 some evidence, if you look at say there's only two (2)
9 retailers in this market, there is a couple of hypothesis
10 here.

11 One is that it's the size of the market.
12 And as far as I can tell from the stuff that I read and
13 I've looked in the -- read in the transcripts, no one's
14 put forth any convincing arguments regarding the fact
15 that the size of the market's the problem.

16 So the other thing must be that for some
17 reason the fixed cost of entry, right, or if you're a
18 potential entrant and you look about entering the
19 Manitoba market, it may not be economic, given the
20 current competitive, kind of, landscape.

21 So that could be because, you know, there
22 are business restrictions that are placed on them that
23 make it less attractive, or they're forced to use
24 marketing channels perhaps which raise the fixed cost of
25 contacting consumers.

1 So that would be the other story. So I
2 think given that the size of the market -- I haven't seen
3 any convincing evidence there. It looks like the best
4 place to look would be whether it's some barrier to entry
5 into the market.

6 MR. ERIC HOAKEN: Now I just asked you
7 about the impact on the competitive market of Centra
8 offering a fixed-price product.

9 What would the impact be on the PUB of
10 Centra of being in that market and offering a fixed-price
11 product?

12 DR. PHILIPPE CYRENNE: Well I think part
13 of the problem is, the recent literature on -- on
14 regulation suggests that regulation is not as -- not
15 always as easy as -- as you might think.

16 So if you're going to regulate an
17 industry, you have to have pretty convincing reasons for
18 regulating an activity. If you see market failure there,
19 then that's an appropriate avenue. But without strong
20 evidence of market failure, then what you're trying to do
21 is regulate private -- or -- or an activity which perhaps
22 can best be met through competition.

23 So competition and regulation are two (2)
24 alternative methods for ensuring that consumers get fair
25 prices.

1 Now regulation involves lengthy and costly
2 hearings, and also I think the one problem with
3 regulation as a tool is that it's the uncertainty that it
4 creates. For example, each time a competitive landscape
5 hearing is set, that may change the competitive
6 conditions, which means that firms who are thinking of
7 entering have to somehow anticipate what might be the
8 results, and that may make it riskier to enter a market.

9 Whereas, if they felt that it was going to
10 be based on normal competitive conditions, they may be
11 more willing to enter.

12 MR. ERIC HOAKEN: So would -- would that
13 also fall into the category of what you detailed earlier,
14 of barriers to entry to the marketplace?

15 DR. PHILIPPE CYRENNE: Well, in some
16 sense, ther -- entry into the market is more uncertain.
17 And so, you know, the more uncertain you make an
18 industry, the less -- less willing you'll have people to
19 enter; particularly if the fixed cost of entry are
20 significant.

21 MR. ERIC HOAKEN: Now, we heard evidence
22 from Dr. Van Audenrode that to permit Centra to offer a
23 fixed- price product would be, what he characterized as a
24 prophylactic measure that would be costless and
25 reasonably harmless. Can you comment on that?

1 DR. PHILIPPE CYRENNE: I don't think so.
2 I think given some evidence that I've seen, it seems that
3 consumers may have some particular views about Centra as
4 a provider.

5 And if the retailers don't -- aren't as
6 well known, then there may be a preference for that --
7 for -- for Centra's product. But the other issue is now
8 you have -- now you have Manitoba Hydro selling
9 electricity, then you have Centra providing variable-rate
10 contracts, and then you have Centra selling fixed-rate
11 contracts; all presumably with common costs.

12 Now, instead of disentangling two (2)
13 common costs, now you have three (3) common costs that
14 you want to disentangle. So, presumably, it would make -
15 - it would increase the regulatory burden which is --
16 which I think would be significant.

17 And as far as I can tell, you know, an
18 alternative method would be to see whether there's
19 something preventing more competitors from entering in
20 the market. Whether there's a structural, or whether
21 there's restrictions on their behaviour which is limiting
22 the number of firms in the market.

23 MR. ERIC HOAKEN: So let me, then, just
24 ask you, at this point you've had an opportunity to
25 review the Board's decision 1598, is that right?

1 DR. PHILIPPE CYRENNE: Right.

2 MR. ERIC HOAKEN: And -- and can you just
3 comment, then, in your opinion, on the appropriateness of
4 the regulatory approach taken in that case, and your
5 views on the appropriateness of changing course at this
6 time; in view of what you know about the market.

7 DR. PHILIPPE CYRENNE: I think the Board
8 got it right last time. I think it was an effective
9 balancing of the benefits of regulation and the benefits
10 of competition. I -- given that you have this situation
11 where you have a large dominant firm, Centra, being aware
12 that it had a role as a default supplier, it seems to me
13 that restricting them to the short-term market was
14 appropriate; but also, then, allowing competitors in the
15 market which expanded the choice.

16 And it -- it seems to be that -- is it 21
17 percent of consumers have decided to chose the retail
18 options? So it sounds like there has been some growth in
19 that market. But as I say, I -- the one thing that
20 happens is that when you deregulate a little, you usually
21 get a few customers -- right; a few entrants.

22 So, the more you deregulate, generally
23 you'll be able to free up the -- the private sector
24 firms, and you're likelier to see more entry. So
25 obviously, as I said, getting back to my original two

1 (2) hypothesis -- one (1) is the barriers to entry
2 versus, you know, sort of the Centra's size of the
3 market.

4 Then, I think if you -- if further steps
5 were taken to see how consumers could be informed about
6 the relative market prices, at lower prices, that may
7 incur -- encourage more firms to enter; not just the --
8 the longer term market, but maybe shorter term markets,
9 right?

10 Generally, what you want to do is try to
11 lower the cost of entry. If you want more competition,
12 lower the cost of entry.

13 MR. ERIC HOAKEN: All right. Thank you.
14 Anything further you'd like to say, Dr. Cyrenne, on the
15 role of the PUB in dealing with the competitive market
16 for natural gas in Manitoba.

17 DR. PHILIPPE CYRENNE: Well, I think the
18 -- you know, the regulator's role is to make sure that
19 the natural monopoly components of the system are --
20 their returns are regulated, right?

21 Regulation works best when you have assets
22 that are sort of dedicated and there's invested capital,
23 which -- from which a return is -- is needed. But in
24 areas where there's no natural monopoly features, I think
25 you can do -- regulation can -- can make things worse

1 rather than better.

2 So -- and it can make life more difficult
3 for regulators if they have to try to regulate activities
4 which are inherently competitive.

5 MR. ERIC HOAKEN: All right. Thank you
6 very much. Those are all of my questions by way of
7 direct examination. Dr. Cyrenne is now available for
8 cross-examination.

9 THE CHAIRPERSON: Thank you, Mr. Hoaken.
10 Mr. Peters...?

11

12 CROSS-EXAMINATION BY MR. BOB PETERS:

13 MR. BOB PETERS: Yes, thank you, and good
14 morning again, Dr. Cyrenne. We had met earlier.

15 DR. PHILIPPE CYRENNE: Yes.

16 MR. BOB PETERS: Am I correct that you've
17 told the Board that you're not holding yourself out today
18 as an expert in Manitoba's natural gas industry?

19 DR. PHILIPPE CYRENNE: In the technical
20 aspects of the natural gas industry, you know, in terms
21 of -- like -- as far as Mr. Stauff in his -- in his role.
22 More in Van Audenrode's capacity.

23 MR. BOB PETERS: You'd agree with me then
24 that the perspective you're coming from is from an
25 economic theory perspective, and you have opinions about

1 the Manitoba marketplace?

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. BOB PETERS: And, in your evidence,
4 the two (2) main aspects that you provide your evidence
5 to this Board for is to rebut Mr. Stauff regarding the
6 function of the competitive marketplace?

7 DR. PHILIPPE CYRENNE: Yes.

8 MR. BOB PETERS: And you also want to
9 rebut Mr. Stauff regarding the structure of the retail
10 market for natural gas from at least a theoretical
11 perspective in Manitoba?

12 DR. PHILIPPE CYRENNE: Yes.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: You're aware, Dr.
17 Cyrenne, that the Competition Bureau examined Manitoba
18 Hydro's purchase of the -- of the shares of Centra Gas
19 back in approximately 1999?

20 DR. PHILIPPE CYRENNE: Yes.

21 MR. BOB PETERS: And to that end, sir,
22 I've provided to your counsel, yesterday or the day
23 before, a copy of a couple of letters; one (1) by Hydro's
24 solicitors to the Commissioner of Competition, and the
25 other a response from Industry Canada and the Competition

1 Bureau to the solicitors for Hydro.

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. BOB PETERS: Did you have a chance to
4 review those?

5 DR. PHILIPPE CYRENNE: Briefly. I just -
6 - I was just showed them a while ago, so.

7 MR. BOB PETERS: Right, and -- and you
8 understand the purpose for the requested letter from
9 Hydro's solicitors -- or then solicitors -- was to get a
10 ruling, if they could, from the Competition Bureau as to
11 whether Manitoba Hydro's acquisition of the shares of
12 Centra would be problematic from the Competition Bureau's
13 perspective?

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. BOB PETERS: Mr. Chairman and Dr.
16 Cyrenne, I -- I provided a copy of a letter dated April
17 16th, 199 -- 1999, to counsel, as well as copies to the
18 Board. And I'd like that marked, I believe, as PUB
19 Exhibit 10 if -- unless there's any objections or
20 concerns related to that?

21 THE CHAIRPERSON: That's fine, Mr. Peters

22

23 --- EXHIBIT NO. PUB-10: Copy of letter dated April
24 16, 1999 to the Commission of
25 Competition

1 CONTINUED BY MR. PETERS:

2 MR. BOB PETERS: And this document,
3 Exhibit PUB-10, Dr. Cyrenne, that's a standard form
4 letter, as far as you're aware, making a request of the
5 Commission of Competition to find out whether or not
6 there would be an Advance Ruling Certificate provided
7 with respect to the transaction essentially approving it
8 from the Competition Bureau's perspective?

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. BOB PETERS: And if the Competition
11 Bureau is not prepared to provide an -- an advanced
12 Ruling Certificate, they could also provide a -- what is
13 known as a no-action letter confirming that -- that the
14 Office of the Commissioner is not going to challenge the
15 proposed transaction?

16 DR. PHILIPPE CYRENNE: Yes.

17 MR. BOB PETERS: And in this case, you're
18 aware, then, by looking at the -- the letter, that I
19 believe is dated July 16th, although mine's a little bit
20 difficult to review. That's July 16th, 1999.

21 You're aware that the Competition Bureau
22 responded back to Hydro's solicitors?

23 DR. PHILIPPE CYRENNE: Yes.

24 MR. BOB PETERS: Again, Mr. Chairman, if
25 no objection, I'd ask that be marked as PUB Exhibit 11.

1 --- EXHIBIT NO. PUB-11: Letter of response from
2 Competition Bureau to
3 Manitoba Hydro solicitors
4

5 THE CHAIRPERSON: That's fine.
6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: And in the response that
9 was provided to Manitoba Hydro, Dr. Cyrenne, they --
10 there's an indication as to the reasons why -- or at
11 least a reason why -- the Competition Bureau was not
12 going to become involved and conduct a hearing to the
13 matter.

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. BOB PETERS: In your evidence,
16 there's a suggestion that the reason that Manitoba Hydro
17 was able to acquire Centra's shares is because,, as I
18 read your evidence, Manitoba Hydro was a Crown
19 corporation.

20 DR. PHILIPPE CYRENNE: Yes.

21 MR. BOB PETERS: Now in reviewing PUB
22 Exhibit-11, do you agree with me that nowhere in the
23 letter provided by the Competition Bureau do they say
24 that because Manitoba Hydro's a Crown corporation, they
25 have no concerns about the competitive aspects of the

1 acquisition?

2 DR. PHILIPPE CYRENNE: Well, it says if
3 they continue to be subject to regulatory oversight by
4 the Manitoba Public Utilities Board and usually Crown
5 Corporations are, there's some regulatory oversight.

6 So I guess it's -- my point was that if it
7 was a private firm and it wasn't regulated, then I'm sure
8 -- I'm sure the letter would have been different.

9 MR. BOB PETERS: Okay.

10 DR. PHILIPPE CYRENNE: That's all I'm
11 saying.

12 MR. BOB PETERS: I appreciate that. So
13 what you are -- then are saying is when the Competition
14 Bureau said that they'll not oppose the transaction or
15 investigate the transaction of Hydro's acquisition of
16 Centra, it's because there was regulatory oversight by
17 the Manitoba Public Utilities Board?

18 DR. PHILIPPE CYRENNE: Yes.

19 MR. BOB PETERS: And the fact that they
20 were a Crown Corporation led you to believe that that was
21 more likely they would be subject to regulation?

22 DR. PHILIPPE CYRENNE: Yes.

23 MR. BOB PETERS: Even if they were a
24 private corporation, they would also be subject to
25 regulation, as a monopoly, would they not?

1 DR. PHILIPPE CYRENNE: It would have --
2 that would have to be a decision depending on the
3 industry, right?

4 MR. BOB PETERS: Well let's just assume
5 that the electrical --

6 DR. PHILIPPE CYRENNE: Okay.

7 MR. BOB PETERS: -- the monopoly
8 electrical provider in this Province was a private firm,
9 then do you believe they would also be subject to
10 regulation?

11 DR. PHILIPPE CYRENNE: Well, it wouldn't
12 have been a monopoly depending, for example, if you look
13 at the natural gas side, you have -- if you have
14 competitors there, then usually what you have is you have
15 a regulated monopoly.

16 And so what's diff -- what's different is
17 trying to regulate a -- a dominant firm with a couple of
18 fringes. Then you'd have to regulate the whole industry.

19 But -- I don't know if I'm making a
20 distinction --

21 MR. BOB PETERS: Well let me --

22 DR. PHILIPPE CYRENNE: -- without a
23 difference there.

24 MR. BOB PETERS: Well let me trying it
25 from this perspective. Centra Gas Manitoba Inc. was once

1 -- had a parent comp -- a parent --

2 DR. PHILIPPE CYRENNE: Okay.

3 MR. BOB PETERS: -- who was in the
4 private sector, and they now have a Crown corporation as
5 a parent.

6 DR. PHILIPPE CYRENNE: Okay.

7 MR. BOB PETERS: And they -- they've been
8 regulated under both --

9 DR. PHILIPPE CYRENNE: Okay.

10 MR. BOB PETERS: -- scenarios, correct?

11 DR. PHILIPPE CYRENNE: Okay.

12 MR. BOB PETERS: Would you also agree
13 that if Manitoba Hydro was a private firm, they, too,
14 would face regulation in this Province for their -- at
15 least their electricity side?

16 DR. PHILIPPE CYRENNE: Yes.

17 MR. BOB PETERS: And so, the fact that
18 they are a Crown Corporation, that, in and of itself, may
19 not be reason for the Competition Bureau to approve the
20 transaction, but the fact that they are regulated --

21 DR. PHILIPPE CYRENNE: Right.

22 MR. BOB PETERS: -- seems to be the
23 difference.

24 DR. PHILIPPE CYRENNE: Yes.

25 MR. BOB PETERS: And I think you're

1 agreeing with me then that at least the stated reason for
2 the Competition Bureau's approval of the transaction, or
3 at least taking no issue with it, was because of the
4 Board's oversight here in Manitoba.

5 DR. PHILIPPE CYRENNE: Yes.

6 MR. BOB PETERS: And you'd agree with me
7 that in the Commission's letter as well, there's an
8 indication, perhaps on the second page, that if
9 circumstances changed such that there is no longer
10 regulatory control over Manitoba Hydro and over Centra
11 Gas, then the Competition Bureau may want to have another
12 look at this transaction?

13 DR. PHILIPPE CYRENNE: Yes.

14 MR. BOB PETERS: Following along in your
15 evidence as Mr. Hoaken led you through it, I think on
16 page 4 -- if you want to find specifically where I'm
17 headed and I'll keep trying to provide you with
18 references, Dr. Cyrenne.

19 DR. PHILIPPE CYRENNE: Okay.

20 MR. BOB PETERS: You indicate that, and
21 I'll quote:

22 "Economic theory suggests that a firm
23 that controls two (2) substitutes can
24 earn higher profits by raising both
25 prices over the prices that would exist

1 under separate ownership."

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. BOB PETERS: Close enough?

4 DR. PHILIPPE CYRENNE: Yes.

5 MR. BOB PETERS: Can you tell the Board
6 whether that has factually happened in Manitoba, with
7 respect to Manitoba Hydro and Centra Gas?

8 DR. PHILIPPE CYRENNE: I haven't seen any
9 evidence regarding the -- all I've seen is some evidence
10 regarding the costs of certain contracts. I haven't seen
11 a large data set which compares the prices.

12 MR. BOB PETERS: When you say you've seen
13 some contracts, that's natural gas --

14 DR. PHILIPPE CYRENNE: Yeah --

15 MR. BOB PETERS: -- contracts?

16 DR. PHILIPPE CYRENNE: -- natural gas I'm
17 talking about.

18 MR. BOB PETERS: And you haven't reviewed
19 any of the General Rate Application filings then --

20 DR. PHILIPPE CYRENNE: No.

21 MR. BOB PETERS: -- of Manitoba Hydro or
22 Centra --

23 DR. PHILIPPE CYRENNE: No.

24 MR. BOB PETERS: -- Gas?

25 DR. PHILIPPE CYRENNE: No. You said --

1 MR. BOB PETERS: And --

2 DR. PHILIPPE CYRENNE: -- economic
3 theory, you didn't say empirical evidence.

4 MR. BOB PETERS: No, no. I'm -- I'm
5 understanding that. I want to make sure that the Board
6 will be clear as -- in their understanding as well. And
7 so, while you -- you have no factual data or empirical
8 data to suggest that there has been both prices raised
9 over the prices that would exist under separate
10 ownership, you're alerting the Board that that is an
11 economic theory; a possibility?

12 DR. PHILIPPE CYRENNE: Well, there is --
13 there is some empirical evidence -- not that I've put
14 together, but there's a paper which finds -- by
15 Christopher Knittel -- finds that when electricity,
16 natural gas or -- where is it -- "or combination gas and
17 electric utilities multi-product natural monopolies", and
18 they -- she -- Merrile Sing finds that prices are higher
19 for both in the sample of firms that she looked at.

20 So there -- there is some evidence that
21 has been gleaned on that issue, but not for Manitoba.

22 MR. BOB PETERS: And you're referring to
23 one of your footnotes or endnotes --

24 DR. PHILIPPE CYRENNE: Yes.

25 MR. BOB PETERS: -- that you provided --

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. BOB PETERS: -- in your paper.

3 DR. PHILIPPE CYRENNE: Yes.

4 MR. BOB PETERS: And just while I'm on
5 that point, to the extent that these documents are not
6 publically available, and some of them may not be, the
7 Board would be able to obtain them through a request of
8 your counsel here, Mr. Hoaken, and you could provide them
9 to the Board if they so requested?

10 DR. PHILIPPE CYRENNE: Certainly.

11 MR. BOB PETERS: And the study that you
12 cited, was that a -- was that a natural gas and
13 electricity study?

14 DR. PHILIPPE CYRENNE: Yep.

15 MR. BOB PETERS: Can you just explain a
16 little bit more to the Board in terms of what the -- what
17 the findings were in that study?

18 DR. PHILIPPE CYRENNE: Well, what they
19 did is they looked at a number of -- in -- utilities
20 which were selling both, and what you do is you look at
21 sort of the -- try to find out what is the overall
22 differences in prices between those in -- in that
23 setting.

24 And what they found was I think that
25 prices were 7 percent higher when it was provided by --

1 when the Utility provided both gas and electric.

2 MR. BOB PETERS: You're not aware of any
3 comparable findings or studies in Manitoba related to the
4 gas and electricity supply?

5 DR. PHILIPPE CYRENNE: No.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: Would you agree with me,
10 Dr. Cyrenne, that one (1) of the functions of the Public
11 Utility Board is to ensure that the prices being charged
12 are just and reasonable?

13 DR. PHILIPPE CYRENNE: Yes.

14 MR. BOB PETERS: And in determining what
15 is just and reasonable, it is for the Board to then
16 determine whether or not the energy sources are being
17 priced over the level that they would otherwise be priced
18 if there were separate ownership of the Utility?

19 DR. PHILIPPE CYRENNE: Yes.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Would you agree then,
24 that one (1) of the roles of the Board would be to ensure
25 that the multi-product monopolist was not abusing a

1 dominant position?

2 DR. PHILIPPE CYRENNE: Yes. Particularly
3 if you want entry. If you want to have a competitive
4 sector, you'd have to insure that.

5 MR. BOB PETERS: Have you any examples of
6 where Manitoba Hydro or Centra may have, to date, abused
7 their dominant position?

8 DR. PHILIPPE CYRENNE: Well, I would
9 prefer to defer to my counsel. No, no.

10 MR. BOB PETERS: Thank you. In your
11 evidence, you also indicate that, and I'll quote:

12 "Economies of scope exist if it is
13 cheaper to provide a given quantity of
14 two (2) goods provided by separate
15 firms."

16 DR. PHILIPPE CYRENNE Yes.

17 MR. BOB PETERS: Are there economies of
18 scope with Manitoba Hydro being the parent of both the
19 electricity and the natural gas energy sources in
20 Manitoba?

21 DR. PHILIPPE CYRENNE: I don't know.

22 MR. BOB PETERS: There are potential
23 economies of scope or synergies that may arise as a
24 result of common ownership?

25 DR. PHILIPPE CYRENNE: It's possible, but

1 I haven't seen any evidence. I haven't -- I haven't been
2 presented any evidence that concludes that.

3 MR. BOB PETERS: You're not aware of any
4 prior proceedings before this Board where the synergy
5 impacts of common ownership were examined in some depth?

6 DR. PHILIPPE CYRENNE: No.

7 MR. BOB PETERS: Are you aware that that
8 -- that such hearings did in fact occur in Manitoba?

9 DR. PHILIPPE CYRENNE: No. Can I just
10 add -- add one thing?

11 MR. BOB PETERS: Absolutely.

12 DR. PHILIPPE CYRENNE: The one thing you
13 have to keep in mind is that there are potential
14 economies of scope. It doesn't necessarily mean that
15 they'll be realized, right? You could have economies of
16 scope existing in a monopolist, but for whatever, reason
17 due to something what we call -- economists call 'X-
18 efficiency', that the costs over time could grow.

19 So it may be the case, even though there
20 are potential economies of scope, they're not realized.

21 MR. BOB PETERS: Perhaps you can explain
22 that X-efficiency concept further to the Board.

23 DR. PHILIPPE CYRENNE: X-efficiency just
24 means that over time, without competitive pressures, it
25 may -- it may occur that the -- the dominant firm or the

1 monopolist -- its costs start to increase over time,
2 right?

3 With a competitive threat, they may have
4 to spend more time making sure that their costs are --
5 or, first of all, discerning their cost and allocating
6 their cost appropriately.

7 So X-efficiency is that over time there
8 may be less vigilance in terms of keeping costs down
9 which may rise over time, which then may -- even if there
10 were economies of scope, they may not be realized.

11 MR. BOB PETERS: Perhaps that's an
12 argument for continued regulation and scrutiny of the
13 cost that the Utility is claiming.

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. BOB PETERS: Would you consider it a
16 synergy, when Manitoba Hydro acquired Centra, if the
17 income tax obligation on the gas Utility was removed?

18 DR. PHILIPPE CYRENNE: That's really a
19 transfer. I mean somebody's not getting that -- the
20 Government's not getting those taxes anymore.

21 So, I mean, it depends on whose -- who
22 you're -- who you're considering. If you're considering
23 just the customers of Manitoba Hydro and Centra who may
24 pay lower prices, then you could say well, that's a
25 synergy to them. But if -- if now they're not paying

1 taxes, there's a loss of the benefit of the taxes to
2 other people, right? That -- right?

3 MR. BOB PETERS: Well, you did say you
4 consulted the Government so I'm going to let you -- let
5 you get away with that answer. The -- the point you're
6 making to the Board is that in a true synergy, it is a
7 reduction in the cost that isn't lost and -- and nobody
8 loses?

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. BOB PETERS: And that was -- that's
11 the essence of your example?

12 DR. PHILIPPE CYRENNE: Yes.

13 MR. BOB PETERS: And so perhaps there can
14 synergies through better deployment of staff; perhaps in
15 the functions that they do in the Utilities?

16 DR. PHILIPPE CYRENNE: Yes.

17 MR. BOB PETERS: And if that was -- if --
18 if fewer full-time staff were required, that may be a
19 demonstration of synergies being achieved.

20 DR. PHILIPPE CYRENNE: Yes.

21 MR. BOB PETERS: If additional staff were
22 -- were acquired by the Utility, post-merger, that may be
23 X-efficiency demonstration.

24 DR. PHILIPPE CYRENNE: Yes.

25 MR. BOB PETERS: The ability to bill a

1 customer on one (1) bill, as opposed to sending out two
2 (2) envelopes and two (2) bills a month, might be another
3 synergy to the benefit of the consumer.

4 DR. PHILIPPE CYRENNE: Possibly.

5 MR. BOB PETERS: If I suggested to you
6 that the -- that there may be claims that the synergies
7 to the benefit of gas customers could be in the range of
8 \$12 million, would you think that would be reasonable for
9 this Utility?

10 DR. PHILIPPE CYRENNE: That seems like a
11 lot but -- I'd have to see the -- the evidence.

12 MR. BOB PETERS: Fair enough. And again,
13 you've indicated you haven't had an opportunity, and nor
14 was that asked of you at this -- in this proceeding.

15 DR. PHILIPPE CYRENNE: Right.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: In a previous answer to
20 me, Dr. Cyrenne, you referred the Board to a -- in your
21 evidence you call it a recent st -- a recent major study,
22 which suggests there are no economies of scope in the
23 fact that natural gas and electricity prices are higher
24 when both products are provided by a single firm. And
25 that was the report --

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. BOB PETERS: -- Merrile Sing --

3 DR. PHILIPPE CYRENNE: Yes.

4 MR. BOB PETERS: -- is the one who
5 provide it. Could you provide the board with a copy of
6 that? It may be my computer skills, but other than the
7 abstract, I can't seem to find a -- a full copy of that.

8 DR. PHILIPPE CYRENNE: Right now?

9 MR. BOB PETERS: No.

10 DR. PHILIPPE CYRENNE: Oh.

11 MR. BOB PETERS: No, through your counsel
12 at another point in time.

13 DR. PHILIPPE CYRENNE: Yes.

14

15 --- UNDERTAKING NO. 38: Dr. Cyrenne to provide Board
16 with 1987 Merrile Sing report

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: And when you sa --

20 DR. PHILIPPE CYRENNE: I can -- I can
21 email it to you, or is there --

22 MR. BOB PETERS: That would be
23 appreciated. That report was 1987, so that's not that
24 recent, or is that recent in academic terms?

25 DR. PHILIPPE CYRENNE: Well, you know, if

1 the techniques that underlie it haven't been superceded
2 by better econometric techniques then -- unless --
3 usually if there's a finding like that which is quite
4 significant, there will be more research will be done in
5 that area.

6 And if -- if, you know, if there's the fun
7 -- findings are reversed, there would certainly be a
8 journal willing to publish it, so.

9 MR. BOB PETERS: Well that's an
10 interesting point, because I wondered about that. If in
11 19 -- the report was 1997, correct? I'm sorry, 19 --

12 DR. PHILIPPE CYRENNE: Yeah.

13 MR. BOB PETERS: -- 1987. And in the
14 last twenty (20) years, have there been reports that have
15 refined or used different techniques?

16 DR. PHILIPPE CYRENNE: Not that I'm aware
17 of. This was modern -- modern econometric techniques
18 that are use to uncover economies of scope. Translog
19 cost functions, that's -- that's the formal term for it.

20 MR. BOB PETERS: I'm not going there, so
21 thanks for that. But the point is, that there's been no
22 better techniques developed, in your view?

23 DR. PHILIPPE CYRENNE: Not in my view.
24 But I have to say that I didn't do an exhaustive --I just
25 -- I looked at -- starting from the most recent ones that

1 looked like they addressed that issue, and I -- I looked
2 at one that looked like it had modern techniques.

3 MR. BOB PETERS: And you did that review
4 to see if this report had been contradicted or supported
5 other -- in other places?

6 DR. PHILIPPE CYRENNE: I just looked at
7 that one.

8 MR. BOB PETERS: And it hasn't been
9 refuted to your knowledge?

10 DR. PHILIPPE CYRENNE: No.

11 MR. BOB PETERS: Want to turn in your
12 pre-file evidence, to page 6, where you tell the Board
13 about Ramsey pricing.

14 DR. PHILIPPE CYRENNE: Okay.

15 MR. BOB PETERS: And recognizing this may
16 not be a test for me, but Ramsey pricing occurs when both
17 products are priced above the marginal cost to recover
18 total cost, but the product with the less elastic demand
19 is raised more than the product with a more elastic
20 demand.

21 DR. PHILIPPE CYRENNE: Yes.

22 MR. BOB PETERS: So the one that
23 consumers need the most, that price goes up the most?

24 DR. PHILIPPE CYRENNE: Yes.

25 MR. BOB PETERS: But both of them are

1 above their marginal costs?

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. BOB PETERS: When you talk about
4 natural gas, what do you think -- how would you determine
5 what the marginal cost is of -- of natural gas?

6 DR. PHILIPPE CYRENNE: Well, just think
7 of what is the additional cost to provide another unit,
8 right? I mean --

9 MR. BOB PETERS: In -- in natural gas
10 would you agree with me that the marginal cost would also
11 be the average cost?

12 DR. PHILIPPE CYRENNE: Well, see, the one
13 thing you have to do, is you have to separate the
14 different stages, right? I mean once -- if you're
15 thinking at the retail level, the additional costs,
16 right; that would be probably average cost equal to
17 marginally costs, right?

18 I mean, correct, see -- see -- to get the
19 -- you have -- you have the pipelines, and then you have
20 the distribution network, so you have a whole series of
21 fixed costs which have natural monopoly components.

22 And so once you get far enough down the
23 cost curve, then you're getting to a point where marginal
24 costs may be close to average cost.

25 MR. BOB PETERS: But dealing with the

1 retail component, that is, the primary gas molecules, the
2 ones --

3 DR. PHILIPPE CYRENNE: Yeah.

4 MR. BOB PETERS: -- that the retailers
5 sell, and also the Corporation has a default supply on,
6 you could envision then that the average costs of those
7 molecules would also be the marginal cost?

8 DR. PHILIPPE CYRENNE: At the retail
9 stage.

10 MR. BOB PETERS: And in terms of
11 electricity that may not be the case, because the last --
12 the last unit of energy generated may have a higher cost
13 --

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. BOB PETERS: -- then the --

16 DR. PHILIPPE CYRENNE: Yes.

17 MR. BOB PETERS: -- then the embedded
18 costs.

19 DR. PHILIPPE CYRENNE: Yes.

20 MR. BOB PETERS: Can you tell the Board,
21 in your view, which of the two (2) energy products in
22 Manitoba is more elastic in terms of demand, than the
23 other?

24 DR. PHILIPPE CYRENNE: I -- presumably
25 electricity, I'd think. But I -- you're asking for an

1 empirical answer, and --

2 MR. BOB PETERS: You can't provide that
3 with certainty?

4 DR. PHILIPPE CYRENNE: Right.

5 MR. BOB PETERS: You can also tell the
6 Board that, to your knowledge, there is no Ramsey pricing
7 in Manitoba for gas and elec -- and electricity?

8 DR. PHILIPPE CYRENNE: Well, as far as my
9 understanding is, it's not the techniques that are used.

10 MR. BOB PETERS: All right. And you'd
11 also acknowledge that it's the Bo -- the role of the
12 Board to ensure that that's not necessarily the case;
13 that it does happen in Manitoba?

14 DR. PHILIPPE CYRENNE: Yes. I -- my
15 whole point about that argument, I mean that section, was
16 to -- to talk about how you may allocate common costs;
17 what are the alternatives.

18 There are two (2) principle alternatives
19 that are used. One (1) is -- or at least in terms of the
20 -- the economic regulatory literature about how you would
21 allocate those common costs. The one (1) is the Ramsey
22 pricing example that I went through. The other is fully
23 distributive cost pricing, which -- which tries to
24 allocate those common costs based on some measure of
25 relative usage. For example, it could be the relative

1 number of customers, or it could be the relative volume
2 used by the different groups.

3 The one (1) problem with the FDC or fully
4 distributed cost pricing, is that it is relatively
5 arbitrary. And -- but what's important about that is
6 it's -- it's arbitrary but not without consequences.

7 So depending on whether you -- if the FDC
8 rule allocates too little costs to one (1) of the
9 products, then it would make it more difficult for
10 competitors in that market to compete if their common
11 costs contributions are being underpriced.

12 MR. BOB PETERS: Are you aware that
13 Manitoba Hydro utilizes a fully distributed cost pricing
14 mechanism?

15 DR. PHILIPPE CYRENNE: I suspected.

16 MR. BOB PETERS: And that's common
17 amongst utilities with --

18 DR. PHILIPPE CYRENNE: Yes.

19 MR. BOB PETERS: -- common -- with --
20 with different products?

21 In turning to page 6 of your pre-filed
22 evidence, you talk in contrast to Ramsey pricing and
23 indicate that it's possible for a multi-product firm to
24 subsidize the purchase of one (1) good and make up the
25 losses through a higher price on the other.

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. BOB PETERS: And you told Mr. Hoaken
3 that's what you also call "cross-subsidization"?

4 DR. PHILIPPE CYRENNE: Yes.

5 MR. BOB PETERS: And you'd recognized
6 that, to the extent that if there was any cross-
7 subsidization, that would be a matter for this Board to
8 investigate and determine?

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. BOB PETERS: And there may be
11 circumstances where cross-subsidization is an appropriate
12 response in a regulatory setting?

13 DR. PHILIPPE CYRENNE: Well, the one (1)
14 problem with cross-subsidization is that the subsidies
15 are coming from somebody else. And so you presumably
16 could have a regulatory hearing looking -- that would
17 have a group representing the people who are paying the
18 subsidies, so -- but I under -- but I admit that that's
19 part of the responsibility of the Board, is to -- to
20 judge the rates.

21 MR. BOB PETERS: A homeowner with a 3,000
22 square foot house may be paying more for some fixed costs
23 than a person with a 1,000 square foot house?

24 DR. PHILIPPE CYRENNE: Possibly.

25 MR. BOB PETERS: Do you accept that's

1 possible?

2 DR. PHILIPPE CYRENNE: Possible.

3 MR. BOB PETERS: Would that not be cross-
4 subsidization of the larger residential customer to the
5 smaller residential customer?

6 DR. PHILIPPE CYRENNE: Well, I -- I think
7 what we -- we have to make sure we define cross-
8 subsidization as actually charging a price below usually
9 average cost. So it doesn't mean that, you know -- so
10 somebody has to be getting part of the price paid by
11 someone else.

12 MR. BOB PETERS: Your point is you don't
13 want the electricity customers to pay gas customer costs?

14 DR. PHILIPPE CYRENNE: Well, I mean,
15 that's -- that's a political decision. I'm -- I was
16 asked as an economist to look at economic efficiency
17 arguments, and cross-subsidization is -- isn't
18 economically efficient.

19 Because first of all, I think I mentioned
20 this earlier, is that the -- the good who's being priced
21 below cost, there is inefficiency there. There's too
22 much consumption.

23 Whereas the price that's charged above
24 marginal costs in the other market, there's too little.
25 So you have two (2) economic inefficiencies.

1 So I was -- I was addressing that issue on
2 the basis of economic efficiency arguments.

3 MR. BOB PETERS: Economic theory?

4 DR. PHILIPPE CYRENNE: Yes.

5 MR. BOB PETERS: And you do suggest in
6 your evidence that it's difficult for the regulator to
7 determine whether natural gas is being priced for
8 efficiency reasons, or whether it's priced below marginal
9 cost for cross-subsidy reasons or strategic reasons.

10 Do you recall indicating that in your
11 evidence?

12 DR. PHILIPPE CYRENNE: Yeah.

13 MR. BOB PETERS: You're not aware that
14 the primary gas for Centra pricing is directly related to
15 the price of its acquisition and --

16 DR. PHILIPPE CYRENNE: Yes.

17 MR. BOB PETERS: -- it's flowed to the
18 consumer without additional markup?

19 DR. PHILIPPE CYRENNE: Yeah.

20 MR. BOB PETERS: You are aware of that?

21 DR. PHILIPPE CYRENNE: Yeah.

22 MR. BOB PETERS: So you don't see that
23 the Centra Gas primary gas molecules are being cross-
24 subsidized, do you?

25 DR. PHILIPPE CYRENNE: No.

1 MR. BOB PETERS: What you also state on
2 page 6 of your -- your evidence, is that:

3 "There is evidence that this cross-
4 subsidization occurs and in fact is
5 often used by state owned enterprises."

6 That statement is not in relationship to
7 Centra and Manitoba Hydro is it?

8 DR. PHILIPPE CYRENNE: No, no.

9 MR. BOB PETERS: You -- you footnote that
10 or endnote that and you provide the -- a Newberry report.

11 DR. PHILIPPE CYRENNE: Yes.

12 MR. BOB PETERS: Not one that you were
13 involved in?

14 DR. PHILIPPE CYRENNE: No.

15 MR. BOB PETERS: Could you also provide
16 the Board with a copy of that report through your
17 counsel?

18 DR. PHILIPPE CYRENNE: It's a book, so I
19 can -- if you want my copy you can -- I'll lend you my
20 copy for a while if you want.

21 MR. BOB PETERS: I just want, starting on
22 page 180, the copy of the --

23 DR. PHILIPPE CYRENNE: Okay.

24 MR. BOB PETERS: -- the reference of the
25 -- the portion of the text that you're referring to.

1 DR. PHILIPPE CYRENNE: Okay.

2 MR. BOB PETERS: Okay, thank you.

3

4 --- UNDERTAKING NO. 39: Dr. Cyrenne to provide Board
5 with the portion of Newberry
6 Report that is referenced

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Dr. Cyrenne, when you
10 talk about fully distributed cost pricing, and in the
11 case of the natural gas industry in Manitoba, the use of
12 such fully distributed cost pricing might give rise to
13 cross- subsidization concerns. Would that be correct?

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. BOB PETERS: And you would expect
16 those concerns to be ones that the Board would
17 investigate to determine whether in fact there was any
18 cross subsidization, and if so, whether it is
19 appropriate?

20 DR. PHILIPPE CYRENNE: Yes.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: While you say that, on
25 page 7 of your evidence I think you also say:

1 "The regulatory process falls short of
2 ensuring no cross subsidization."

3 Did I get that right?

4 DR. PHILIPPE CYRENNE: Well, what I'm
5 basing that on is work by David Newbury which -- which
6 you've discussed already, so.

7 MR. BOB PETERS: All right. Again, it's
8 not specific to the Manitoba jurisdiction?

9 DR. PHILIPPE CYRENNE: Right.

10 MR. BOB PETERS: But what David Newbury
11 was saying in his book is that there can be cross-
12 subsidization, and unless the regulator is diligent, it
13 may escape detection?

14 DR. PHILIPPE CYRENNE: Yes.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Mr. Chairman, I'm
19 prepared to continue with Dr. Cyrenne, or if the Board
20 would like to take a short recess, we could accommodate
21 that. I'd be pleased to do that as well.

22 THE CHAIRPERSON: We'll give Professor
23 Cyrenne five (5) minutes too.

24 MR. BOB PETERS: Thank you.

25 DR. PHILIPPE CYRENNE: Thanks.

1 --- Upon recessing at 11:15 a.m.

2 --- Upon resuming at 11:22 a.m.

3

4 THE CHAIRPERSON: Okay, Mr. Peters,
5 anytime.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Dr. Cyrenne, you're not
9 aware that this Board has received reports from KPMG,
10 with respect to the cost allocation as between Manitoba
11 Hydro and Centra Gas? You've not --

12 DR. PHILIPPE CYRENNE: No.

13 MR. BOB PETERS: -- seen that material?

14 You've not -- you've not reviewed the
15 information the Board had at a status update hearing
16 conducted in 2004, related to the costs as between the
17 hydro and electric side of the business?

18 DR. PHILIPPE CYRENNE: No.

19 MR. BOB PETERS: And likewise, you
20 wouldn't be aware then of the 2005/06 review and Order of
21 the Board, dealing with costs allocated as between Hydro
22 and Centra?

23 DR. PHILIPPE CYRENNE: No.

24 MR. BOB PETERS: Are you in a position,
25 Dr. Cyrenne, to tell the Board whether they should be

1 doing anything further, with respect to their review and
2 their auditing of the compliance of the Utility, in terms
3 of it's cost allocations?

4 DR. PHILIPPE CYRENNE: No. I guess --
5 you know, just to back up a little bit.

6 I think part of my thinking was that if
7 you allow Centra into another product market, then you're
8 increasing the complexity, and now you have common cost
9 perhaps with three (3) products. So that was the only
10 point I that I wanted to make, in terms of the issue of
11 cost allocation.

12 MR. BOB PETERS: All right. And your --
13 your point that you're making is that not only does there
14 have to be diligence by this Board in allocating costs
15 from Manitoba Hydro to Centra Gas for its system supply
16 customers, it would also have to provide review of any
17 allocation of costs to support a competitive offering?

18 DR. PHILIPPE CYRENNE: Yes.

19 MR. BOB PETERS: That can be done, can it
20 not?

21 DR. PHILIPPE CYRENNE: What I was -- to
22 get back to my earlier point, the -- the one (10 issue
23 that comes up is -- and this isn't particular to the PUB
24 Board, this is a general issue -- is with fully
25 distributed cost pricing, it is -- it is relatively -- I

1 don't want to use the word "arbitrary", but there's a
2 degree of freedom that you can use to allocate common
3 costs, but they can have significant effects on the
4 competitive landscape.

5 So that's -- you can allocate common
6 costs, but you just have to be careful that when you do
7 so it doesn't hinder, you know, the competitor process.

8 MR. BOB PETERS: In your -- in your
9 evidence on page 7, Dr. Cyrenne, you suggest that from
10 the Manitoba Hydro financial statistics, it's difficult
11 to determine the profit rate from the gas component of
12 their business.

13 DR. PHILIPPE CYRENNE: Yes.

14 MR. BOB PETERS: When you say the
15 Manitoba Hydro financial statistics, are you looking at
16 their annual report?

17 DR. PHILIPPE CYRENNE: Yes.

18 MR. BOB PETERS: And when you say the
19 profit rate from the gas component, are you referring to
20 the profit rate from the primary gas molecules that they
21 charge, by way of a separate rate?

22 DR. PHILIPPE CYRENNE: Well, just the
23 return on the -- on the natural gas side, if any.

24 MR. BOB PETERS: Are -- you're aware from
25 those financial statistics that there's a \$12 million

1 corporate allocation from the gas company to the electric
2 company?

3 DR. PHILIPPE CYRENNE: I am -- I'm aware
4 of that. I have been -- become aware of that since I
5 wrote this.

6 MR. BOB PETERS: All right. And you're
7 also aware that there's an approximate \$3 million net
8 income that is allowed to be earned by the gas company
9 and the rates charged to consumers?

10 DR. PHILIPPE CYRENNE: Yes.

11 MR. BOB PETERS: Is there any suggestion
12 by you that there's any further profit being taken by the
13 Gas Utility?

14 DR. PHILIPPE CYRENNE: Well, the question
15 is -- is whether the costs are allo -- allocated
16 appropriately. I mean, that's -- that's -- in some
17 sense, what you could do is you could, you know,
18 depending on how you allocate the cost, that will alter
19 their net income, so -- or -- or their -- their profit
20 rate.

21 So if that is done correctly, then that
22 would -- then the number you gave would be appropriate.

23 MR. BOB PETERS: And again, you have no
24 evidence to suggest it hasn't been done appropriately?

25 DR. PHILIPPE CYRENNE: No.

1 MR. BOB PETERS: You also, in your
2 evidence, make a generalized statement that:

3 "Economic theory maintains that the
4 presence of competition from other
5 firms generally moderates the prices
6 set by dominate firms."

7 DR. PHILIPPE CYRENNE: Yes.

8 MR. BOB PETERS: And how can that
9 statement apply in Manitoba where primary gas prices are
10 simply passed onto consumers?

11 DR. PHILIPPE CYRENNE: Well, I mean, it
12 gets back to my sort of X-eff -- efficiency argument.
13 You know, if the presence of competitors then allows the
14 common costs to be moderated, then if it's rate of return
15 regulation and those costs are lower, then that can
16 result in lower prices.

17 In the primary gas molecules that you talk
18 about, that's the input into then providing the natural
19 gas, but there's the distribution costs, right, that are
20 involved.

21 MR. BOB PETERS: And the distribution
22 costs to the default supplied customers is the -- are the
23 same distribution costs --

24 DR. PHILIPPE CYRENNE: Yes.

25 MR. BOB PETERS: -- to the retailer's

1 customers?

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. BOB PETERS: Does that suggest
4 there's cross-subsidization or inappropriate pricing?

5 DR. PHILIPPE CYRENNE: No.

6 MR. BOB PETERS: Are you suggesting there
7 should be different prices charged for those two
8 different sub-sets of customers?

9 DR. PHILIPPE CYRENNE: For...?

10 MR. BOB PETERS: For system supply as
11 well as direct purchase?

12 DR. PHILIPPE CYRENNE: Well, it depends
13 on the cost of servicing those -- those customers, right.
14 If they're different, then you would expect to charge
15 different prices for that service.

16 MR. BOB PETERS: And for the residential
17 class in Manitoba, you wouldn't expect there to be
18 differences in -- in serving one (1) residential customer
19 who's on system supply compared to one (1) who's on
20 supply from a retailer?

21 DR. PHILIPPE CYRENNE: Well, it depends
22 if -- if they're both in the same length contract, right;
23 if they're both governing the same. Right, I mean,
24 there's the gas, but then there's actually the -- the
25 contractual obligations that are required to make sure

1 the gas gets delivered.

2 So there's the financial aspect, and then
3 there's the physical aspect.

4 MR. BOB PETERS: All right. The physical
5 aspect is the same, whether --

6 DR. PHILIPPE CYRENNE: Yes.

7 MR. BOB PETERS: -- they're on system
8 supply --

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. BOB PETERS: -- or on retailer
11 supply?

12 DR. PHILIPPE CYRENNE: Yes.

13 MR. BOB PETERS: And then --

14 DR. PHILIPPE CYRENNE: But in terms of
15 providing a long-term gas contract, it may be more costly
16 to provide a long-term gas contract, then a short-term,
17 right; just in terms of risk management issues and other
18 -- putting together the necessary volumes.

19 MR. BOB PETERS: And you're suggesting
20 that the financial aspects -- if there is a difference in
21 the di -- in the two (2) types of service, that the
22 financial aspects be allocated to the customers who are
23 utilizing that service?

24 DR. PHILIPPE CYRENNE: Yes.

25 MR. BOB PETERS: And you'd say that as

1 well if the service being provided by the Utility is for
2 the benefit of the retailers as a whole?

3 DR. PHILIPPE CYRENNE: Yes.

4 MR. BOB PETERS: So if Centra Gas is
5 spending, hypothetically, seven hundred and fifty-seven
6 (\$750,000) dollars of monies to support the operations of
7 the retailers by making the service available to sell gas
8 to customers, then those costs should be charged through
9 to the retailers or their customers?

10 DR. PHILIPPE CYRENNE: Yes, but part of
11 my -- my position is that, you know, how that cost amount
12 is determined is quite important. Right, I mean if -- if
13 Centra would -- would tell the retailers that this is our
14 cost, that's different from perhaps the Board deciding
15 that those are the costs.

16 MR. BOB PETERS: All right. So your
17 point there is that there has to be some transparency to
18 those costs --

19 DR. PHILIPPE CYRENNE: Yes.

20 MR. BOB PETERS: -- and those costs have
21 to be -- there has to be an opportunity for the retailers
22 to contest them or to fully understand them?

23 DR. PHILIPPE CYRENNE: Yes.

24 MR. BOB PETERS: In terms of the benefits
25 of competition, can the retailers compete with system-

1 supplied gas as it presently is provided on -- on price?

2 DR. PHILIPPE CYRENNE: Well, there are
3 different -- there are different financial arrangements
4 that are made, right. I mean in terms of right now, I
5 mean, the way that you would do that empirically was to
6 see whether they could, right.

7 But given that they're not in the same
8 markets right now, I mean, one (1) is in the short-term
9 variable rate, and one (1) is in the long-term, you know,
10 that's a -- it's a hypothetical argument right now.

11 MR. BOB PETERS: Well, let's -- let's
12 turn it to more than hypothetical, Dr. Cyrenne, and just
13 allow me a moment here.

14 DR. PHILIPPE CYRENNE: Do you mean at any
15 particular term, or do you mean over a certain length of
16 per -- time, or?

17 MR. BOB PETERS: I'm suggesting -- well
18 I'm -- and -- let me ask it this way then. Is it your
19 position to the Board that it's really not an appropriate
20 comparison to compare Centra's present default offering
21 price to those by the retailers, because those are
22 different markets that they're going after?

23 DR. PHILIPPE CYRENNE: Yeah, there is --
24 I mean, there's -- is it -- obviously the -- there's the
25 risk issue in the -- in the long-term market that is

1 different from the short-term variable rate market.

2 So you'd expect those two (2) prices to be
3 different just based on risk alone.

4 MR. BOB PETERS: And the present com --
5 what is the proper comparison for a -- a residential
6 customer in Manitoba now, who wants to consider what
7 options -- or what option to select when they purchase
8 their natural gas?

9 DR. PHILIPPE CYRENNE: Well, there is a
10 relationship between the long-term prices and short-term
11 prices. The best way to think about it is you think
12 about a yield curve on a financial instrument, right?

13 There are long-term yields to maturity and
14 there are shorter term yields to maturity. But what you
15 can do is you can figure out the implied short-term rates
16 from that.

17 I mean it's -- it's relatively
18 straightforward to do, so you can figure out what would
19 be the expected one (1) year rates going forward, right,
20 from -- from what the -- we'll call it the yield curve
21 here just to keep my story together -- so you can figure
22 out what those implied one (1) year rates would be.

23 I mean, obviously, expecting consumers to
24 do that is a little bit different. But the sort of
25 comparison is -- is, you know, there's a longer term rate

1 and there's a short-term rate and the consumer will
2 think, you know, am I better to lock in this rate for a
3 longer period of time, or am I better to go in each --
4 each quarter or whatever and -- and re-contract, right?
5 I mean that's the kind of comparison they make.

6 Now, the one (1) thing that's true is that
7 there's something called -- a theory called "the
8 efficient market hypothesis" which says those prices
9 should be related. Why? Because suppose the long-term
10 rate is -- is really attractive, then what's going to
11 happen is that more people will buy the long-term
12 contracts. They will leave the short-term contracts.
13 When more people buy the long-term contracts, that will
14 raise the price of the long-term contracts and that will
15 lower, right?

16 In other words, even though it looks like
17 they're not in the same market they are implicitly
18 competing because consumers have the alternative
19 strategies of buying long-term versus a series of short-
20 term.

21 MR. BOB PETERS: Can you tell the Board
22 whether, in natural gas pricing, it is an efficient
23 market in that sense?

24 DR. PHILIPPE CYRENNE: Well, I think if -
25 - the one (1) way you -- you can tell whether it's an

1 efficient market or not is, if you had a whole bunch of
2 competitors lining up to jump into the market, that would
3 tell you that there's lots of profits to be made, which
4 means that currently the existing price structure is less
5 than perfectly competitive. But if the existing members
6 are -- are in it and it looks like it's not expanding,
7 that gives you some idea that the firms in the industry
8 are covering their costs at least.

9 So, that's a long answer to a short
10 question, but most people feel that markets -- and
11 particularly -- I guess the one (1) issue that arises in
12 the natural gas industry is the issue of storage. So
13 it's not quite the same as my yield curve example, but
14 most people feel that there -- it's a relatively
15 efficient market so there is implicit competition between
16 contracts of varying rates.

17 MR. BOB PETERS: Perhaps for my next
18 question, Mr. Hoaken can provide you with Tab 9 of a book
19 of documents that I had prepared earlier in these
20 proceedings. It's PUB Exhibit 9.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: He left it on his night
25 stand, I suspect but --

1 MR. ERIC HOAKEN: Under my pillow.

2 MR. BOB PETERS: -- on -- in Tab 9 of the
3 book of documents, if you turn to attachment number 1,
4 this might not be the yield curve you're talking about,
5 but if this is the plotting of actual prices that were
6 available in the Manitoba marketplace with the relatively
7 flat line just under twenty (20) cents a cubic metre --

8 DR. PHILIPPE CYRENNE: Yeah.

9 MR. BOB PETERS: -- being the fixed-price
10 from a retailer, the other price that fluctuates every
11 three (3) months would be the Centra default price. Do
12 you understand that to be the case?

13 DR. PHILIPPE CYRENNE: Yes. Okay.

14 MR. BOB PETERS: Okay. You have to maybe
15 speak closer to your mic.

16 DR. PHILIPPE CYRENNE: Sorry. Okay.

17 MR. BOB PETERS: And, in this situation,
18 when should a consumer determine whether they've made the
19 correct decision; that is to purchase a fixed-price
20 product or allow themselves to remain on the variable
21 price of the Utility?

22 DR. PHILIPPE CYRENNE: Well, it's the
23 same way that consumers do in terms of mortgages. They
24 look at sort of the long-term mortgage rate versus, you
25 know, locking in their mortgage for a relatively long

1 Board earlier that if a market was efficient, the -- the
2 five (5) year price would also be taking into account
3 what the fluctuations would be along the way.

4 DR. PHILIPPE CYRENNE: No. What I said
5 was that each contract of a different term would embed in
6 it an implied one (1) year rate. That was what I said.

7 MR. BOB PETERS: And in the -- in the
8 case of these graphs then, you would agree with me that
9 whether the consumer is financially advantaged by paying
10 lower primary gas or disadvantaged by paying higher
11 amounts for their primary gas can't be determined at the
12 outset --

13 DR. PHILIPPE CYRENNE: Right.

14 MR. BOB PETERS: -- of the -- of the
15 curve?

16 DR. PHILIPPE CYRENNE: Right.

17 MR. BOB PETERS: That can only be a
18 hindsight review.

19 DR. PHILIPPE CYRENNE: Right.

20 MR. BOB PETERS: And in -- in -- whether
21 you look at attachment 1 or attachment 2, it is, in the
22 natural gas industry, the market that is going to
23 ultimately decide whether the consumer's decision was --
24 was favourable financially or -- or not favourable?

25 DR. PHILIPPE CYRENNE: Right. And

1 there's a distinction between ex-anti and ex-post. Ex-
2 anti is what consumers believe to be true about the
3 different -- the respective prices or the trend of retail
4 natural gas.

5 So they may have an ex-anti view about how
6 that is going to progress. But once uncertainty is
7 realized, ex-post, it may be different from.

8 But what a competent -- what an efficient
9 market does is the market gives an unbiased estimate of
10 what they think that would be at the time, right?

11 So those rates are changing all the time
12 because new information's coming in, right? The
13 efficient market's hypothesis says that the prices in
14 different markets reflect currently -- all currently
15 available information.

16 MR. BOB PETERS: And that's a pre-
17 requisite to an efficient market?

18 DR. PHILIPPE CYRENNE: Yes.

19 MR. BOB PETERS: In Manitoba, you had
20 said before that you have no suggestion that the
21 marketplace is too small for there to be -- it is a
22 factor as to why there may not be more competitors in
23 Manitoba.

24 DR. PHILIPPE CYRENNE: I haven't seen any
25 evidence.

1 MR. BOB PETERS: Is there any evidence to
2 suggest that with two (2) retailers in the Manitoba
3 market that we're talking about, that they have saturated
4 the market in terms of obtaining those customers who have
5 a preference for fixed-price offerings?

6 DR. PHILIPPE CYRENNE: Usually the sign
7 that the existing firms are making significant economic
8 profits is entry. And so if you don't see entry, that's
9 the first thing that you would look at.

10 And if -- but -- but that could be because
11 the fixed cost of entry are there. And so, without
12 looking at the empirical evidence, it's -- it's hard to
13 make that prediction.

14 MR. BOB PETERS: But is the empirical
15 evidence to be reviewed ex-post?

16 DR. PHILIPPE CYRENNE: Ex-anti it's hard
17 to -- because -- because they are -- they are committing
18 themselves to delivering gas at a certain price, and then
19 what's going to happen, ex-post they'll see whether they
20 in fact, you know, their expectations about what price
21 they could supply it at are realized.

22 And so only on an ex-post basis can you
23 tell whether they are making profits or not.

24 MR. BOB PETERS: When you say they are
25 making profits, you mean whether the gas --

1 DR. PHILIPPE CYRENNE: Or the retailers.
2 Yeah, the private -- private retailers.

3 MR. BOB PETERS: But how can the Board
4 tell, or anyone tell, if they were making profits even if
5 they looked at it at the end of the cycle of the
6 contract.

7 DR. PHILIPPE CYRENNE: Well, presumably,
8 they file financial reports and they pay taxes and
9 someone knows, presumably.

10 MR. BOB PETERS: Even if they're
11 unregulated, somebody else would be able to be the judge
12 of that you're saying?

13 DR. PHILIPPE CYRENNE: Yeah. Well,
14 that's why with private sector -- see, this sort of comes
15 back to, sort of, the first statement that was made about
16 -- and I think in Dr. Van Audenrode's discussion where he
17 dismissed the competition policy issue.

18 I think what has to be kept in mind is
19 that as soon as you have a private sector, their -- the
20 Competition Act is involved there. So these two (2)
21 retailers now are governed by the same rules that other
22 private firms are governed by, right?

23 So how does the -- how does the
24 Competition Bureau know whether there's sufficient
25 competition in any other market, right, that's not

1 regulated?

2 So those are the same issues that are
3 addressed in every private sector setting.

4 MR. BOB PETERS: When we're back to the
5 number of customers who are -- who are currently on
6 fixed- price offerings, are you aware as to whether or
7 not there is confusion by some of those customers as to
8 whether, in fact, their gas comes from a retailer or from
9 Centra?

10 DR. PHILIPPE CYRENNE: I'd be surprised
11 if they were confused, because presumably they have to
12 send the cheque to somebody with the name of the person
13 who's selling it to them on it, so.

14 MR. BOB PETERS: All right, and if there
15 was a system in Manitoba where the Utility looked after
16 the billing, even for the retailers, you're not aware of
17 how that would transpire?

18 DR. PHILIPPE CYRENNE: Well, I mean -- I
19 think part of the problem is that it -- usually when you
20 want to deregulate, say, an industry like this that has
21 natural monopoly components, the natural monopoly
22 components are owned by someone separate from the firms
23 that are competing, using the natural monopoly
24 components.

25 And that usually gives the separation. So

1 the owner of the natural monopoly components -- the
2 pipelines or the -- or the gas lines, whatever -- their
3 return is regulated to make sure that they have
4 sufficient funds to maintain the network.

5 And then, think of those as the -- as the
6 roads, and so the other people who are truckers -- who
7 are competing on the truckers, they are independent of
8 those. So that's the usual way that things are
9 deregulated. Or at least that's the way that most people
10 think that you -- would be the ideal way of deregulating.

11 MR. BOB PETERS: You're not aware that in
12 Manitoba the primary gas provided by retailers is billed
13 to the consumers through the one bill that is sent out by
14 the gas Utility?

15 DR. PHILIPPE CYRENNE: I under -- that's
16 correct, yeah.

17 MR. BOB PETERS: So in that situation, in
18 terms of to whom the consumer sends the cheque, they
19 would be sending the cheque back to the gas Utility, and
20 they may not be aware that they're on supply with a
21 retailer?

22 DR. PHILIPPE CYRENNE: Well, I think
23 you'd certainly want to separate -- consumers have to
24 know who they're dealing with, so if -- if there are some
25 consumer information issues in the market, then every

1 economists realizes that the first thing to do is try to
2 remove those.

3 If you want an efficient market, consumers
4 have to know who they're buying it from. They have to
5 know what the prices are. So any regulation that
6 involves improving that information, is -- is necessary
7 for a well functioning market.

8 MR. BOB PETERS: And I thought, in your
9 evidence, that you thought that the informational issues
10 were relatively minor.

11 DR. PHILIPPE CYRENNE: Well, in -- in --
12 I should always put adjectives, or -- potentially, right?

13 I mean, if you -- people buy mortgages,
14 right, which have a substantial financial commitment.
15 Natural gas is -- can be a significant financial
16 commitment.

17 But now the question is whether under the
18 existing arrangements, whether they have sufficient
19 information, is different from in principle or in theory,
20 whether they could have sufficient information.

21 I think I was thinking more about the
22 latter. That in principle you could provide some
23 information that would allow the market to function more
24 efficiently.

25 MR. BOB PETERS: And, in any event,

1 you're not aware of the actual information that's
2 provided to the retailers at the time the contracts are -
3 - are marketed?

4 I'm sorry. Mr. Hoaken has corrected me.
5 You're not aware, Dr. Cyrenne, of the information
6 provided by the retailers to customers at the time of
7 marketing?

8 DR. PHILIPPE CYRENNE: I haven't seen the
9 information that is presented door-to-door, if that's
10 what you're --

11 MR. BOB PETERS: Would you generally
12 agree that more information is better than less
13 information for the customers?

14 DR. PHILIPPE CYRENNE: It has to be. It
15 has to be. And not only better, accurate, right?

16 And that's what -- that's what the -- the
17 Bureau -- most of their cases are misleading advertising.
18 You know, they -- I think half the people there work on
19 misleading advertising cases. So that is -- or deceptive
20 marketing practices, so as soon as you -- whenever you
21 have infor -- significant information issues, they have
22 to be monitored.

23 MR. BOB PETERS: And your reference to
24 the -- to the Bureau is to the fact that the Competition
25 Bureau has, as one of its functions, the ongoing review

1 of the marketing practices of --

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. BOB PETERS: -- of marketers in the
4 marketplace?

5 DR. PHILIPPE CYRENNE: Yes.

6 MR. BOB PETERS: And are you aware of any
7 investigations or prosecutions against retailers in the
8 Manitoba natural gas market?

9 DR. PHILIPPE CYRENNE: No.

10 MR. BOB PETERS: Are you aware of any
11 investigations or prosecutions in the natural gas
12 industry in Canada of any kind?

13 DR. PHILIPPE CYRENNE: It hasn't seemed
14 to be a big -- big area of -- of activity. It seems that
15 it's mostly consumer -- at the consumer product level.
16 And it seems electronics is a big area of activity. I
17 don't know why, but it seems to be.

18 MR. BOB PETERS: Thank you. Can you tell
19 the Board whether the price for the fixed-price contracts
20 being offered by retailers is as low as it can go?

21 DR. PHILIPPE CYRENNE: Could you repeat
22 that?

23 MR. BOB PETERS: Let me -- let me word it
24 a different way. Are -- are the retailers making an
25 excess profit in their charges to Manitoba customers in

1 their fixed- rate offerings?

2 DR. PHILIPPE CYRENNE: Well, I think
3 there was some evidence that was brought out about the --
4 you know, the number of times that consumers made -- or --
5 - or their cost of natural gas was cheaper under a fixed
6 versus a variable rate pattern.

7 And so in some cases it was lower under a
8 -- on a fixed -- by -- by the retailers, and sometimes it
9 was more. So the times that it was less, obviously they
10 were getting a good deal, right. I mean as it just seems
11 -- but as I say, the issues that -- that are being faced
12 in terms of determining the returns of the private sector
13 firms in this industry, are exactly the same as any
14 issues facing any private firm.

15 How do we know whether Costco is making
16 big money, or how do we know -- right, it's the same
17 issues.

18 MR. BOB PETERS: Okay. And back to those
19 charts on -- in tab 9 of -- of the book of documents.
20 The question that I -- that I had of you, Dr. Cyrenne,
21 was whether or not the fixed-price offering that is
22 included in some of those graphs, or depicted in those
23 graphs, whether that is embedding an excess profit or not
24 embedding an excess profit? There's not way to tell
25 that, is there?

1 DR. PHILIPPE CYRENNE: No.

2 MR. BOB PETERS: No?

3 DR. PHILIPPE CYRENNE: Well, unless you
4 looked at the -- usually what it is, is on some contracts
5 they would probably make some money, and some contracts
6 they may lose some money. So, basically, what you have
7 to do is look at the returns that they get overall,
8 right; you'd have to look at the financial statements.

9 MR. BOB PETERS: And if they're not
10 willing to provide those to the regulator, than the Board
11 has no way of knowing what those would -- what those
12 profits would be?

13 DR. PHILIPPE CYRENNE: Well, the -- the
14 important thing to keep in mind is that, you know, as
15 long as there's free entry into the industry -- and as
16 far as I understand, in other markets there are more
17 competitors than in this market -- so presumably, you
18 know, if -- you know, if you saw competitors coming in,
19 that may mean that they think there's lots of money to be
20 made here. And if there isn't, then that's an indication
21 at least that, you know, they're -- they're not making
22 huge amounts of money.

23 MR. BOB PETERS: Can you explain you
24 assertion that yardstick competition can be -- can -- can
25 provide information to regulators regarding the range of

1 prices that are possible?

2 DR. PHILIPPE CYRENNE: Well, to get back
3 to the point I made earlier about it. If you look at the
4 long-term rates, I think -- I don't want to keep
5 hammering this yield curve example, but if you think
6 about the yield curve example, that -- there's implied
7 short-term rates.

8 So if you have longer term natural gas
9 contracts, they are implied short-term contracts. And
10 so, with firms providing the long term contracts, right,
11 they can give you some idea about what is relative prices
12 in the short term.

13 And it also gives -- in general it's --
14 it's -- it helps sometimes if you have some firms that
15 are in the same market as other, and you have some
16 information on those, that may allow you to infer the
17 behaviour of other firms. That's what yardstick
18 competition means.

19 MR. BOB PETERS: And how does that apply
20 in the Manitoba natural gas market?

21 DR. PHILIPPE CYRENNE: Well, I think --
22 as I say, this comes back to my earlier comment, to where
23 I think the Board got it right. I think the short-term
24 variable rate provides this kind of yardstick, right?

25 It -- it gives you this benchmark just to

1 tell you whether you think those long- term rates are out
2 of line, and vice versa, right, whether you think that if
3 the retailers can provide gas at a longer -- or for a
4 longer term, at a -- at a reasonable price, then that
5 gives you some information as well.

6 So my point was if you remove independent
7 players in a market, you lose, generally, some
8 information that could be useful.

9 MR. BOB PETERS: You're not aware of any
10 costs on new entrants into Manitoba that aren't also
11 borne by the incumbents, are you?

12 DR. PHILIPPE CYRENNE: Well, the
13 incumbent has the benefit of the brand name, and as far
14 as I can tell, there are some restrictions on retailers
15 in terms of marketing.

16 And -- but I think the one (1) important
17 issue to keep in mind is that in Dr. Van Audenrode's
18 evidence, he discussed the issue of the brand or the
19 return on the brand.

20 Now, I think it's -- it's important to
21 distinguish whether Centra's return or its brand name is
22 due to its business -- efficient business practices, or
23 whether it's got this brand name because it's a
24 subsidiary of Manitoba Hydro, right? You have to try to
25 disentangle those.

1 Whereas, if immediately everybody thinks
2 Centra is Manitoba Hydro, then basically what Centra has
3 is -- is getting a free ride on Manitoba Hydro's brand
4 name. Whereas, retailers will have to create their own
5 brand name which is a barrier in itself. If you -- if
6 what you told me was correct, that some consumers don't
7 know who they're buying the gas from, that -- that seems
8 to be evidence that there's a brand name issue here.

9 MR. BOB PETERS: But are there -- are
10 there any costs to be borne by new entrants that aren't
11 or haven't been borne by the existing retailers in
12 Manitoba?

13 DR. PHILIPPE CYRENNE: Well, there's --
14 there's what's called an absolute cost barrier to entry,
15 so new entrants would have to come in and incur fixed
16 cost.

17 For -- for the retailers, those fixed
18 costs are already gone -- we call those "sunk costs" --
19 so they are already -- they are already been spent. So,
20 in some sense, it may be somewhat more costly for
21 entrants to come in because they then have to start
22 sinking those expenditures and those are advertising
23 customer awareness; those other issues.

24 MR. BOB PETERS: Would you agree that a
25 basic public policy objective should be to achieve the

1 lowest possible price for consumers rather than to
2 promote competition in the marketplace?

3 DR. PHILIPPE CYRENNE: Is that an
4 either/or, or...?

5 MR. BOB PETERS: You don't have to take
6 it that way but...

7 DR. PHILIPPE CYRENNE: Can you say --

8 MR. BOB PETERS: I was asking whether you
9 would agree that from a basic public policy objective,
10 market participants should be there to achieve the lowest
11 possible price for consumers rather than to just promote
12 competition in the marketplace.

13 DR. PHILIPPE CYRENNE: Well, I think as
14 an economist I would say that you use regulation where
15 it's needed and -- because regulation also brings costs,
16 right. And -- and so, I would say that you use
17 competition where it can be helpful, and that's where
18 there may be no -- no market power concerns as a result
19 of natural monopoly considerations.

20 So I think compe -- both regulation and
21 competition are two (2) alternative ways of making sure
22 that consumers are getting a fair price for their product
23 and also treated fairly. Those are two (2) alternative
24 ways. And, in some cases, regulation works better and
25 other times competition may work better. So, that's a

1 long-winded answer to a -- to your question.

2 MR. BOB PETERS: Well, while we're
3 striving to achieve that competitive marketplace, Dr.
4 Cyrenne, do you agree that it's the Public Utilities
5 Board role to ensure that Centra doesn't earn the
6 supranormal profits?

7 DR. PHILIPPE CYRENNE: Yes.

8 MR. BOB PETERS: And you're not
9 suggesting those are being earned in Manitoba --

10 DR. PHILIPPE CYRENNE: No.

11 MR. BOB PETERS: -- at this time?

12 DR. PHILIPPE CYRENNE: No.

13 MR. BOB PETERS: And from your analysis,
14 then, of the Manitoba marketplace would you describe it
15 as a competitive marketplace when there are only two (2)
16 firms plus Centra involved in the sale of primary gas to
17 residential customers?

18 DR. PHILIPPE CYRENNE: I -- I read in the
19 previous transcripts reference to the four (4) firm
20 concentration ratio. The four (4) firm concentration
21 ratio is the sum of the market shares of the four (4)
22 largest competitors in the market.

23 The Bureau doesn't use the four (4) firm
24 concentration ratio anymore largely because for example,
25 consider the four (4) firm concentration ratio where you

1 have one (1) firm that has 97 percent of the market and
2 three (3) other firms have one (1) share.

3 That'll give you 100 percent, right --
4 four (4) firm concentration ratio should be 100 percent.
5 That number's the same if you had four (4) firms each
6 with 25 percent of the market.

7 The problem with the -- just counting the
8 numbers is that it doesn't take into account the relative
9 sizes. And most economists would argue that you're going
10 to have a more competitive environment the closer the
11 firms are in size.

12 So what generally we use is the Hirschman-
13 Herfindahl Index which is -- what you do is you take the
14 market share of each firm and square it and then add them
15 all together, right? So it's -- yes?

16 MR. ERIC HOAKEN: I just said please
17 don't try and do that in your head.

18 DR. PHILIPPE CYRENNE: Okay. So in -- in
19 the US, the scale is between zero and ten thousand
20 (10,000), because you take a hundred (100) and you square
21 it; you get ten thousand (10,000).

22 So, if you take the ninety-seven (97) one
23 -- and one, it's pretty close to ten thousand (10,000).
24 Whereas, if you take the twenty-five (25) square it and I
25 think the total -- wherever it is -- it's significantly

1 less than that.

2 So if you -- the Competition Bureau
3 generally worries about concentra -- or Herfindahl Index
4 is around the eighteen hundred (1,800) mark.

5 So in some sense, in this market, there
6 would be -- it would be less competitive than you would
7 want, but it's -- with one (1) more competitor, you know,
8 if you add three (3) firms with relative sizes, it would
9 be a manageable number.

10 MR. BOB PETERS: Dr. Cyrenne, I want to
11 turn to you with your comments on hedging that you
12 provided to Mr. Hoaken this morning. The sum -- or my
13 summary of your comments is to the effect that you feel
14 it should be left and done only by the private sector?

15 DR. PHILIPPE CYRENNE: Well, I -- I think
16 it's best -- it's most suited for the private sector.

17 MR. BOB PETERS: You're not excluding,
18 then, that a Crown corporation would involve -- would be
19 involved in hedging in some form?

20 DR. PHILIPPE CYRENNE: Well, what I'm
21 saying is that because this is a risk-management strategy
22 which then can involve potential losses, the question is
23 how do you deal with those losses?

24 If you do -- if it's a Crown Corporation
25 that does it, then, presumably, those losses will have to

1 be made up with subsequent rate increases. Now, the
2 problem is, is that if everybody is in that market, then
3 you may have people who didn't want Utility hedging
4 paying higher prices for people who -- who wanted to
5 hedge.

6 Whereas if you have that separate, then
7 you have a product that is provided by the private sector
8 firm and their final decisions are fall -- any losses
9 fall on their shareholders.

10 MR. BOB PETERS: All right. Well let's
11 just deal with that. If -- if the gas Utility could go
12 out and buy a fixed year -- sorry, a five (5) year fixed
13 physical price contract -- I think I've said that wrong
14 again.

15 But they could go out and actually
16 purchase the molecules for a fixed-price over a five (5)
17 year term, there would be no need to hedge, would there?

18 DR. PHILIPPE CYRENNE: Well hedging is --
19 the reason that you hedge is because you have a
20 commitment in the future that you want to cover, right?
21 So it's a financial commitment that you're covering.

22 MR. BOB PETERS: But if the consumer is
23 prepared to pay thirty-five (35) cents, let's say, for a
24 cubic metre of gas for the next five (5) years, and the
25 gas Utility can find a vendor of the gas in Alberta, ship

1 it to Manitoba and charge it through to its customers at
2 that price, there would be no need to hedge?

3 DR. PHILIPPE CYRENNE: Well, because --
4 notice what's happening is they have to deliver that in
5 the future. So that price is going to fluctuate in the
6 future, so.

7 MR. BOB PETERS: Okay. But then in -- in
8 my example, if the vendor of the gas was prepared to fix
9 the price for the next five (5) years at a known amount--

10 DR. PHILIPPE CYRENNE: Yeah.

11 MR. BOB PETERS: -- then there would be
12 no need to hedge.

13 DR. PHILIPPE CYRENNE: Sure. Right.

14 MR. BOB PETERS: And in that instance,
15 does that mean it would be -- that would be a more
16 favoured vehicle for the Crown Corporation to use in
17 terms of offering any fixed-price arrangement?

18 DR. PHILIPPE CYRENNE: Well, it strikes
19 me as a bit odd that you -- that no one would be -- on
20 the other side would be worrying about price volatility,
21 right?

22 Usually the sellers are worried about it
23 too. So they -- right -- both sellers and buyers get
24 into this market, so.

25 MR. BOB PETERS: But in my hypothetical

1 example, you would see that as being an appropriate
2 vehicle if Centra was permitted to be in that -- in that
3 offering?

4 DR. PHILIPPE CYRENNE: I guess my view is
5 that if you're going to get into a longer term period
6 then -- then risk management strategies are an integral
7 part, and that seems to be consistent with how -- from
8 what I've read about other natural gas utilities. So
9 presumably, if they were going to get into a longer term
10 fixed contracts, they'd have to do hedging.

11 See, I think what surprised me about some
12 of the positions taken at this -- this -- in this
13 hearing, is that some people want both. They want no
14 hedging in long term contracts, which I don't think is
15 doable. Or at least it doesn't seem to be doable. So I
16 think you have got to have one or the other, right? You
17 -- I don't think -- I don't think you can have both.

18 I mean, if someone's willing to commit to
19 that long term supply contract, then that's, you know --
20 but it strikes me that those -- both people on both sides
21 of the market are interested in risk management.

22 MR. BOB PETERS: All right. Leaving that
23 aside, can you explain to the Board whether it would be
24 appropriate for Centra to enter the fixed-price contract
25 market and provide an offering out there that isn't being

1 offered by retailers?

2 DR. PHILIPPE CYRENNE: Well, I understand
3 that that's -- that's been suggested, but it has -- I
4 haven't really seen any proposal about what it would look
5 like. If it's about significant hedging then it's --
6 it's back to my original position.

7 MR. BOB PETERS: But from an economic
8 theory perspective, if the consumers' desires are not
9 being provided by the retailers in the market, wouldn't
10 that be a reason to allow the Gas Utility to go into that
11 market --

12 DR. PHILIPPE CYRENNE: But you'd have to
13 find out why that's not the case, right? Why aren't
14 there more offerings in that market?

15 And the first thing that I would do is see
16 why, if there's no restrictions on private firms coming
17 in, why the variety of products being offered are not
18 expanded, and why more entrants -- that's the first thing
19 I would do.

20 Because what you're saying is that for
21 some reason, these are the only two (2) competitors that
22 are ever going to come into this market, and the only way
23 that we're going to get more supply is to have it from
24 the incumbent Crown corporation.

25 MR. BOB PETERS: Is it from an economic

1 theory perspective, Dr. Cyrenne, acceptable for Centra to
2 have an unregulated affiliate in the fixed-price contract
3 market?

4 DR. PHILIPPE CYRENNE: Well, I think
5 that's getting towards more of a level playing field, but
6 how you would separate those things in practice --
7 usually economists are accused of -- of living -- or
8 being naive in terms of less real world concerns, but I
9 think my concern is that, you know, you could do it on
10 paper, but whether -- you know, whether it was a separate
11 private organization, why would Centra be involved --
12 necessarily have to be involved? Just because no one
13 else is wan -- wanting to do it?

14 MR. BOB PETERS: That would be Centra's
15 affiliates decision to make then, as to whether they felt
16 there was a marketplace for them?

17 DR. PHILIPPE CYRENNE: But what would be
18 their relationship to Centra and Manitoba Hydro?

19 MR. BOB PETERS: Right. And assume from
20 my questioning that it would be an unregulated but
21 affiliated company.

22 DR. PHILIPPE CYRENNE: Maybe not being a
23 lawyer, I'm not sure what that would mean, in terms of
24 the --

25 MR. BOB PETERS: All right. Let me ask

1 it this way: Are you aware that in some jurisdictions
2 where monopoly distribution companies are allowed to
3 compete in the retail markets, that there is an affiliate
4 relationship code that governs the conduct of that
5 unregulated affiliate?

6 DR. PHILIPPE CYRENNE: No, no.

7 MR. BOB PETERS: Are you aware --

8 DR. PHILIPPE CYRENNE: Can I -- can I
9 just ask one question? What would it be called? Centra
10 something, or...?

11 MR. BOB PETERS: Well, lets just --lets
12 just explore that and I'll -- if the use of the word
13 Centra was in the name, I take it you would find that
14 problematic, because you weren't -- you'd be -- you'd be
15 suggesting that would attract some market dominant
16 position?

17 DR. PHILIPPE CYRENNE: Well, that would
18 be using the brand name that's been already seen, which
19 could be a potential barrier to other firms, given that
20 Centra is associated -- or affiliated with Manitoba
21 Hydro.

22 MR. BOB PETERS: And you're not aware of
23 the Board having addressed this issue, perhaps -- I think
24 it might have been Order 110 of 1996, where the very
25 questions that you're asking, were -- were addressed,

1 you're not aware of that?

2 DR. PHILIPPE CYRENNE: No.

3 MR. BOB PETERS: All right. If the -- if
4 Centra was to enter the fixed-price contract market with
5 an unregulated affiliate that did not use the Centra
6 name, would that cause you less concern?

7 DR. PHILIPPE CYRENNE: Well, I just sort
8 of wonder why it would be necessary for the Crown
9 Corporation to do it.

10 MR. BOB PETERS: Mr. Chairman, with that
11 answer, I'd like to doc -- thank Dr. Cyrenne.

12 Those are my questions, but I -- I do want
13 to hedge my bets as well, because I believe Dr. Cyrenne
14 will be coming back likely tomorrow morning, and I'll
15 review my notes and the transcript from today, and if I
16 have anything further, I'll try to slip in front of My
17 Friends opposite to -- to get my last few questions in,
18 but that probably is the extent of them, as you've heard
19 them today.

20 THE CHAIRPERSON: Okay then. Well, thank
21 you, Professor Cyrenne. We'll come back to you to --
22 tomorrow.

23

24

(WITNESS RETIRES)

25

1 THE CHAIRPERSON: And when we begin after
2 the lunch break, we'll be returning to Ms. Murphy with
3 her cross-examination.

4 Ms. Murphy, do you prefer to start at 1:15
5 or 1:30? It's up to you.

6 MS. MARLA MURPHY: I think perhaps 1:15
7 would be preferable, sir.

8 THE CHAIRPERSON: 1:15 it is.

9
10 --- Upon recessing at 12:09 p.m.
11 --- Upon resuming at 1:20 p.m.

12
13 THE CHAIRPERSON: Welcome back, to the
14 panel. Mr. Murphy, I think then when we switched over to
15 Professor Cyrenne, it was just after you had concluded
16 yesterday, so we are all set for you to begin again at
17 your convenience.

18 MR. ERIC HOAKEN: And I'm sorry, can I
19 just say, Mr. Chair, and I don't want to disrupt Ms.
20 Murphy's flow, we're in a position to answer some of the
21 undertakings given to her yesterday, I believe. Happy to
22 do it, whenever it's convenient.

23 MS. MARLA MURPHY: You can do them now,
24 if you'd like.

25 MR. ERIC HOAKEN: Thank you. The first

1 was, I believe, an undertaking was given both by Direct
2 Energy and Energy Savings to provide you with renewal
3 packages. I'm going to first ask Ms. Melnychuk to speak
4 to that on behalf of Direct, and then Ms. Ruzycki will
5 speak to it on behalf of Energy Savings.

6

7 DEML/ESMLP PANEL No. 1, Resumed:

8

9 CLINTON ROEDER, Resumed

10 KAREN MELNYCHUK, Resumed

11 GARY NEWCOMBE, Resumed

12 NOLA RUZYCKI, Resumed

13

14 MS. KAREN MELNYCHUK: I have three (3)
15 different mailings that we do to our renewals, and I've
16 brought extra copies for the Board. I've got them
17 numbered 1, 2 and 3.

18 The first one is what we call an early
19 bird; so we send it out at the beginning of the ninety
20 (90) day period before expiry of the contract.

21 The next one, number 2, is sent out about
22 a month or so after that, to those that did not respond
23 to the first mailout.

24 And then number 3 is the renewal package
25 that is sent to customers who we did not hear from, prior

1 actually have not got any renewal letters. We actually
2 chose to just drop the customer and try and re-contract
3 the customer instead, so we've sent out no renewal
4 package at this point in time.

5 MR. ERIC HOAKEN: All right. And while
6 I'm still with you then, you gave an undertaking on
7 behalf of Energy Savings to advise if the verification
8 call that you explained to Ms. Murphy: if the enrollment
9 process starts with that call; I think that's the way Ms.
10 Murphy had phrased the question.

11 MS. NOLA RUZYCKI: Yes. And the answer
12 to that is yes.

13 MR. ERIC HOAKEN: There was an
14 undertaking given very early on, I believe, in your
15 cross-examination, Ms. Murphy, about whether the company
16 that was previously known as Municipal Gas was -- I think
17 your -- your question was, if it was a wholly owned
18 subsidiary. And what I can do is read you the following,
19 which hopefully will answer that question. That company:

20 "Municipal Gas Corp. was acquired by
21 Direct Energy Marketing Limited in
22 November, 1996. It was subsequently
23 amalgamated with DEML.

24 At the time of the amalgamation both of
25 those companies, so Municipal Gas and DEML, were still

1 Alberta corporations. Since the amalgamation DEML has
2 kept using the business name of Municipal Gas and this
3 was, and still is, a registered name in Manitoba;
4 registered under the name of -- or at least registered by
5 DEML.

6 That registration is due to expire shortly
7 and will probably not be renewed, given the re-branding
8 that Ms. Melnychuk has spoken of.

9

10 (BRIEF PAUSE)

11

12 MR. ERIC HOAKEN: Yes, and just a
13 housekeeping matter, Mr. Peters has pointed out that we
14 should assign an exhibit number to the packages that Ms.
15 Melnychuk has distributed.

16 So I would propose that, that package --
17 there's actually three (3) envelopes -- that the three
18 (3) envelopes would collectively comprise Exhibit 18, as
19 DEML/ESML/PAT.

20

21 --- EXHIBIT NO. DEML/ESMLP/PAT-18: Three (3) envelopes:

- 22 1. Early bird document sent out at the
23 beginning of the ninety (90) day
24 period, before expiry of the contract.
25 2. Document sent out about a month of

1 so after early bird, to those that did
2 not respond to the first mailout.
3 3. Renewal package that is sent to
4 customers who did not reply, prior to
5 the expiry of their contract.
6

7 MR. ERIC HOAKEN: And finally, just two
8 (2) other outstanding matters and then I think my
9 conscience is clear, at least for now.

10 You had asked Ms. Murphy a question of Ms.
11 Melnychuk about the contractual arrangements with agents,
12 in whether or not they are exclusive to Direct Energy.
13 And I think Ms. Melnychuk's in a position to answer that
14 question.

15 MS. KAREN MELNYCHUK: Thank you. There
16 is a clause that is in the agreements that we have with
17 our -- our third party vendors, and I'll read that clause
18 to you, Ms. Murphy.

19 "If the distributor terminates this
20 agreement prior to the end date, the
21 distributor hereby agrees on its own
22 behalf and on behalf of its affiliates,
23 that during the agreement term and for
24 one (1) year after the end date,
25 neither the distributor nor its

1 affiliates will individually, or in
2 partnership, or jointly, or in
3 conjunction with each other or any
4 other person, as principle, agent,
5 franchisee, licensee, shareholder,
6 director, investor, lender, employer,
7 employee, co-venturer, guarantor,
8 contractor, consultant, advisor, or in
9 any other manner whatsoever, directly
10 or indirectly, engage, directly or
11 indirectly, in any business activity
12 that is competitive with demos
13 (phonetic), energy commodity products,
14 or demos protection plan products, to
15 either residential or mass market
16 commercial customers in the geographic
17 markets, including the protected
18 markets."

19 It doesn't specifically state for when
20 they're working with us and in -- in the contract, but
21 there are other obligations within the -- the agreement
22 that we have with them, and that is that they are
23 representing themselves as Direct Energy and they're
24 fully branded as Direct Energy; their badged with photo
25 ID; they're wearing a uniform, their contracts are DE, so

1 it's -- the clearly branded DE.

2 MS. MARLA MURPHY: And I take it that the
3 -- the distributor, as the person was named or defined in
4 that contract, is the individual sales person, it's not a
5 third party corporation?

6 MS. KAREN MELNYCHUK: It is a third party
7 corporation.

8 MS. MARLA MURPHY: And -- okay, perhaps I
9 could ask you to sign a co -- to file a copy of that
10 contract. You can take the name of the distributor out
11 if you like -- with the Board.

12 MR. ERIC HOAKEN: I'm not sure we want to
13 file the contract for reasons we eluded to yesterday.
14 Could we file a hard copy of that clause, would that do
15 it?

16 MS. MARLA MURPHY: I was interested,
17 also, to obtain the other conditions that you talked
18 about, the uniform, the whatnot, and if -- if that's in
19 that contract then I would prefer to see all of it. And
20 you can take out whatever commercially sensitive
21 information you like, but I was interested in those
22 terms.

23

24 (BRIEF PAUSE)

25

1 MR. ERIC HOAKEN: Okay, fine, thank you.
2 We'll give a copy of the contract that is redacted, so
3 that we're showing you only the clauses that we've been
4 speaking of.

5 MS. MARLA MURPHY: That's fine.

6 MR. ERIC HOAKEN: Thank you. And then
7 finally, this is the last one, and this came up early in
8 the cross-examination of the panel. Ms. Murphy, you
9 asked Mr. Roeder, I think, about his reference to the
10 carbon offsets being auditable. I can't say that word
11 very well.

12 But you'd asked him who performs that
13 audits. He's gone back and done a bit of work on that
14 and has, I gather, two (2) documents that he thinks will
15 be helpful in answering the question. So what I'm going
16 to do is distribute those, let him speak to them, and
17 then if you have follow up questions, perhaps you'll want
18 to pursue that.

19 MS. MARLA MURPHY: Could I ask you also
20 to circulate your renewal packages, at the same time? I
21 don't think they've made their way over to this side of
22 the room yet.

23 MR. ERIC HOAKEN: Oh, I'm sorry, I gave
24 all my copies to Mr. Peters. I thought he was going to
25 share the wealth.

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(BRIEF PAUSE)

THE CHAIRPERSON: With respect to the URL numbers, would that be 19, Mr. Hoaken?

--- EXHIBIT NO. DEML/ESMLP-19: URL numbers

MR. ERIC HOAKEN: That's correct, Mr. Chair.

THE CHAIRPERSON: And then the printout from the website, "Volunteering at the Foundation Carbon Neutral" -- that would be twenty (20)?

--- EXHIBIT NO. DEML/ESMLP-20: Printout from the website Volunteering at the Foundation Carbon Neutral

MR. ERIC HOAKEN: Yes, thank you. And I'll turn it over now to Mr. Roeder to speak to these documents.

MR. CLINTON ROEDER: Yeah, if I can comment of the two (2) documents. The first one (1), I think it was referred to as -- as nineteen (19). What it lists out are the various companies that are approved

1 offset in terms of auditors or verifiers in terms of the
2 offset.

3 In addition to that, you know, I just the
4 make the comment that, you know, these are also listed on
5 the Chicago Climate Exchange, which also highlights in
6 terms of the charter members of the Chicago Climate
7 Exchange, which includes Manitoba Hydro, and Manitoba
8 Hydro is still an active member of that Exchange.

9 So I would assume if there's any further
10 question about the quality of those auditors, et cetera,
11 any member of that Exchange would be able to provide that
12 information.

13 The other piece that was handed out was a
14 document in terms of that -- the other printout which is
15 twenty (20), is actual the printout that if you reference
16 the document we gave yesterday -- I can't remember the
17 number on the sales training document on the carbon
18 neutral. Do you remember that?

19 It was number -- it was seventeen (17)?
20 It was seventeen (17). At the bottom of that document
21 there was a comment on the back-end page -- back --
22 backside of the page: "Where can I get more information
23 on going carbon neutral?" The first link was actually
24 referenced to David Suzuki's site, was printed out here,
25 was if there's any further question on car -- carbon

1 neutral and how the offsets work.

2 The other recommendation is that -- we
3 don't have access to it, but one (1) of the things
4 pointed out in the Chicago Climate Exchange website is if
5 we -- there's probably a document that would provide even
6 further insight in terms of offset. If you go back to a
7 presentation that was made by Bill Hamlin (phonetic) from
8 Manitoba Hydro on June 20th, where he did a presentation
9 on offsets.

10 So that may be helpful for everyone, as
11 well.

12

13 (BRIEF PAUSE)

14

15 CONTINUED CROSS-EXAMINATION BY MS. MARLA MURPHY:

16 MS. MARLA MURPHY: I guess it's back to
17 me. So where we left off yesterday was looking at some
18 of the sales material. And I was in Tab 6 of our book of
19 documents; and looking at page 2, as it's numbered in the
20 top there.

21 This is a Direct Energy or Municipal Gas
22 brochure. And I was asking you about the -- the
23 assertion that customers who had signed up with Municipal
24 Gas in 2000 have already saved three hundred and twenty
25 dollars (\$320).

1 And I think part of my confusion comes
2 from the fact that on the graph, the -- the timeline
3 indicated there is from 2000 to 2005, and it shows that
4 over that period customers would have saved three hundred
5 and twenty dollars (\$320). And I think you've confirmed
6 for us that in fact you offered a three (3) year contract
7 at that time.

8 MS. KAREN MELNYCHUK: Actually, as the
9 graph states, Ms. Murphy, it is over a five (5) year.
10 You can't quite read it in this copy, but if you go back
11 to the original that was -- or the copies that were filed
12 in the IR, that is over a five (5) year period and that's
13 why the graph sits the way it is; it covers five (5)
14 years.

15 MS. MARLA MURPHY: So the three hundred
16 and twenty dollar (\$320) savings is not something that
17 was available to a Manitoba customer because you didn't
18 have a five (5) year contract at that time?

19 MS. KAREN MELNYCHUK: Not in 2000, no; we
20 had three (3) -- three (3) year contracts.

21 MS. MARLA MURPHY: Now, if I look over on
22 the next fold, I guess you will, of the -- of that
23 brochure, just a little -- it's on the right-hand side of
24 -- of that page, it says in fairly large letters: "One
25 price, countless benefits."

1 One of the benefits that you cite there,
2 it's the third bullet down, is:

3 "Stable financial planning means you
4 can allocate funds for other needs."

5 Could you explain how that works for a
6 customer in Manitoba?

7 MS. KAREN MELNYCHUK: What we were
8 referencing there was the -- the rate stability so they
9 would always know what they're paying, per cubic metre,
10 for the duration of their contract.

11 MS. MARLA MURPHY: And do you agree that
12 that also suggests to customers that they'll have some
13 money saved in order that they can budget better?

14 MS. KAREN MELNYCHUK: No, what it states
15 is, "stable financial," so stable -- stability of the
16 rate.

17 MS. MARLA MURPHY: Well, where will they
18 have money to allocate funds for other needs, if they're
19 not saving money?

20 MS. KAREN MELNYCHUK: They're better able
21 to estimate -- they'll know exactly what they're paying
22 for gas at -- for the duration of the contract, just as
23 the bullet point states.

24 MS. MARLA MURPHY: Well, that's not quite
25 accurate, is it? They won't know what they're paying for

1 gas, they'll know what their gas rate is. But in fact
2 what they pay for gas will vary quite considerably,
3 depending on the weather, correct?

4 MS. KAREN MELNYCHUK: Yes, weather is a
5 condition.

6 MS. MARLA MURPHY: And do you explain
7 that to customers at the time that you show them this
8 material?

9

10 (BRIEF PAUSE)

11

12 MS. KAREN MELNYCHUK: The intent of that
13 bullet, Ms. Murphy, is the stable offer of the rate; the
14 rate is not to change. People then can look at
15 historical bills and see that it's, you know, twenty-nine
16 nine (29.9) versus -- you know, if they compare
17 consumptions, they know approximately what they're going
18 to spend over the course of the year, every year.

19 MS. MARLA MURPHY: Well, and I guess
20 that's my concern is, is that I'm asking if you explain
21 to customers that weather has a huge impact on what
22 they're going to pay year-over-year?

23 MS. KAREN MELNYCHUK: No. We -- when
24 we're selling our product we are talking about the fixed-
25 priced of the gas, per cubic metre. So we're offering

1 rate stability.

2 MS. MARLA MURPHY: And we've talked a
3 little bit about the utility price trend, as you call it
4 in that ad, being based on historical information.

5 Is it fair to say that the historical
6 information that you used to determine that 13 percent
7 per year increase included what I think's been often
8 described as an unprecedented -- unprecedented priced run-
9 up in 2000?

10 MS. KAREN MELNYCHUK: We use the
11 published utility rates to determine that 13 percent
12 historical average over five (5) years. And --

13 MS. MARLA MURPHY: But I mean -- I'm
14 sorry, go ahead.

15 MS. KAREN MELNYCHUK: So it was -- what
16 actually happened, it was historic.

17 MS. MARLA MURPHY: Yes. And it included
18 a fairly large, and what had been described as
19 unprecedented price increase that incurred -- occurred in
20 the year 2000, correct?

21 MS. KAREN MELNYCHUK: In hindsight, yes,
22 that could have happened. But again, this was based on
23 historic, actual utility rates that were billed to
24 customers over that five (5) year period.

25 MR. GARY NEWCOMBE: I think, too, Ms.

1 Murphy, the -- the trend line just built on that
2 historical number, probably didn't include the huge price
3 run-up that include -- occurred in early 2006.

4 MS. MARLA MURPHY: Presumably not, with
5 2000 to 2005?

6 MR. GARY NEWCOMBE: Right.

7 MS. MARLA MURPHY: And depending on the
8 period over which you took your comparison of historical
9 prices, you could end up with a significant range of
10 utility trend prices, couldn't you?

11 MR. GARY NEWCOMBE: Well, yeah, I mean I
12 think that's, you know, utility variable price products
13 are volatil -- volatile, and the natural gas commodity is
14 volatile, so I think you could probably look at any
15 particular time period and say, Well, there's something
16 unprecedented that happened in that period. So, yeah,
17 you're always going to get big ups and big downs.

18 MS. MARLA MURPHY: Well, my point was
19 actually the opposite one; that depending on the period
20 over which you choose your comparators, you may get very
21 little up and down in the price.

22 MR. GARY NEWCOMBE: Sure, it...

23 MS. MARLA MURPHY: Turning over the page,
24 page --

25 MS. KAREN MELNYCHUK: If I just may add--

1 MS. MARLA MURPHY: Sorry.

2 MS. KAREN MELNYCHUK: This was based on
3 five (5) years of WTS Service. WTS Service and the
4 unbundling of the Utility's rates, occurred in 1999,
5 2004, WTS Service, so this chart was based on the five
6 (5) years -- because this was done in 2005, so it was
7 taken back to the original implementation of WTS.

8 We deal -- dealt with absolutes. Those
9 were published and approved rates by this Board; those
10 are absolutes, they're not fairytales.

11 MS. MARLA MURPHY: Interesting choice of
12 words. And my point was simply that if you chose a
13 different set of absolutes, you'd have a different
14 utility price trend.

15 MS. KAREN MELNYCHUK: Every year, you
16 know, if you did an absolute, you know, looking back in
17 history, that average is going to change. This was done
18 for the first five (5) years.

19 MS. MARLA MURPHY: Turning over the page
20 to page three (3) of that tab. This is a similar
21 document. The date at the top appears to be July 19th,
22 2005.

23 Is this the same thing? Is this a
24 brochure that you give to your sales people that they
25 take in their package to the door?

1 MS. KAREN MELNYCHUK: Yes.

2 MS. MARLA MURPHY: And I take it that the
3 second page of that page 4 would be the -- the other
4 piece of that same fold in document?

5 MS. KAREN MELNYCHUK: Yes, it has the
6 same reference numbers.

7 MS. MARLA MURPHY: And although the
8 wording is changed a little bit -- sorry, the word -- the
9 wording remains the same, but the -- the graph is
10 actually changed in this picture to the -- compared to
11 the April publication?

12 MS. KAREN MELNYCHUK: Yes, we updated it
13 to the current numbers.

14 MS. MARLA MURPHY: Okay. Well, let's
15 look at that. I'm a bit confused about your update. The
16 total savings of three hundred and twenty dollars (\$320)
17 is still shown, correct?

18 MS. KAREN MELNYCHUK: Yes, for the first
19 five (5) years of the WTS service, from 2000 to 2005.

20 MS. MARLA MURPHY: And again, that wasn't
21 an offering that was available in Manitoba?

22 MS. KAREN MELNYCHUK: No, we had three
23 (3) years in 2000.

24 MS. MARLA MURPHY: And you have -- the
25 crossover point that we were discussing yesterday has

1 changed on this graph. This is actually probably a
2 little bit more of an accurate depiction of a typical
3 experience where, for some period of time the utility
4 price is below the line, and for some period it's above
5 the line, correct?

6 MS. KAREN MELNYCHUK: Yes.

7 MS. MARLA MURPHY: And I noted with
8 interest that although your price has changed from thirty
9 (30) cents to thirty-six point six (36.6) cents, your
10 line on the graph remained at the thirty (30) cent mark,
11 correct?

12

13 (BRIEF PAUSE)

14

15 MS. KAREN MELNYCHUK: Sorry, that line is
16 -- is a flat line to illustrate that our -- our price is
17 flat. It's pretty thick and -- and I -- it -- looking at
18 it, you know, it does look like it's a little bit below
19 where it should be.

20 MS. MARLA MURPHY: Well, your price
21 according to the next fold of that page is thirty-six six
22 (36.6); you'd agree with me that it's a -- it's a fair
23 way up to thirty-six six (36.6) when you look at the
24 distance between thirty (30) and forty (40)?

25 MS. KAREN MELNYCHUK: Like I said, it's

1 below where it should probably be.

2

3 (BRIEF PAUSE)

4

5 MS. MARLA MURPHY: If I could ask you to
6 turn forward to page 8 at that tab.

7

8 (BRIEF PAUSE)

9

10 MS. KAREN MELNYCHUK: Just to go back to
11 the -- the other one, Ms. Murphy, Mr. Newcombe just
12 pointed out something that I kind of tried to reference
13 yesterday.

14 The solid line prior to 2005, isn't exact
15 to what the utility prices were, either, for that time
16 period. So they are below in some references.

17 And -- and actually, I believe, 2005, at
18 that time -- I don't have the table, but the utility
19 price is around thirty-two (32) cents, on average. So
20 that line would have been up as well.

21

22 (BRIEF PAUSE)

23

24 MS. MARLA MURPHY: When we look at
25 PUB/CENTRA-21, it -- it show's the utility prices between

1 February 1st '05 and November 1st '05, at being twenty-
2 four forty-seven (24.47), twenty-eight eighty-six
3 (28.86), twenty-nine sixteen (29.16) and thirty-two-o-
4 seven (32.07).

5 So I don't know whether you went through
6 the process of averaging those for the price, but you'd
7 agree with me that it's pretty close to thirty (30) cents
8 at that point, from the Utilities perspective, isn't it?

9 It might even be a little lower with the
10 twenty-four (24) cent price in there?

11

12 (BRIEF PAUSE)

13

14 MS. KAREN MELNYCHUK: My apologies, I
15 went over to the thirty-two (32) cents later in '05.

16 MS. MARLA MURPHY: Well -- and actually
17 when you point that out, this ad was prepared in July of
18 '05, so the only price you would have known from the
19 Utility would have been the May 1st price at twenty-eight
20 eighty-six (28.86), correct?

21 MS. KAREN MELNYCHUK: That's correct.

22 MS. MARLA MURPHY: Okay. So turning
23 forward to page 8 of that tab. This shows a -- a price
24 trend, I guess you can call it, in the form of a bar
25 graph.

1 You show the 2001 price at approximately
2 fifteen (15) cents, correct?

3 MS. KAREN MELNYCHUK: Yes.

4 MS. MARLA MURPHY: And the 2005 price at
5 about thirty-two (32) cents, correct?

6 MS. KAREN MELNYCHUK: Yes.

7 MS. MARLA MURPHY: And the question posed
8 on the right is:

9 "If you could have capped your costs at
10 the 2001 levels, would you have? Don't
11 miss out on the next five (5) years."

12 I take it you'd agree with me that the
13 suggestion is, that if you'd locked in in 2001, you would
14 have saved money?

15 MS. KAREN MELNYCHUK: You would have been
16 locking in for a fixed rate, so your rates would have
17 been staying flat.

18 MS. MARLA MURPHY: Well, do you think
19 customers see that, or do they see:

20 "If you could have capped your costs at
21 the 2001 level, would you have? Don't
22 miss the next five (5) years."

23 MS. KAREN MELNYCHUK: Over the course of
24 those first five (5) years, yes. A customer who had
25 locked in at the beginning would have saved money.

1 MS. MARLA MURPHY: That would be true if
2 the graph actually depicted your price, correct?

3 MS. KAREN MELNYCHUK: The current --
4 sorry?

5 MS. MARLA MURPHY: Well, let's look back
6 at -- when I look at your response to CENTRA/DEML-5,
7 pages 3, 4 and 5 show contracts that Municipal offered in
8 2001.

9 MS. KAREN MELNYCHUK: Yes.

10 MS. MARLA MURPHY: And those prices were
11 twenty-nine nine (29.9) in May or twenty-five nine (25.9)
12 in November, correct?

13 MS. KAREN MELNYCHUK: Yes.

14 MS. MARLA MURPHY: Neither of them were
15 fifteen (15), were they?

16 MS. KAREN MELNYCHUK: No, not -- they
17 were in 2001, they were different prices, yes.

18 MS. MARLA MURPHY: So your graph would
19 have been a lot less persuasive to a customer if you had
20 shown that the price available in 2001 was thirty (30)
21 cents, correct?

22

23 (BRIEF PAUSE)

24

25 MS. KAREN MELNYCHUK: Ms. Murphy, on page

1 8 of that tab that you brought us to, we did not indicate
2 our price. We were showing the fluctuations in the
3 utility prices over the course of those five (5) years.

4 MS. MARLA MURPHY: But you also said to
5 customers:

6 "If you could have capped your costs at
7 2001 levels, would you have? Don't
8 miss the next five (5) years."

9 Surely you agree with me that that
10 suggests to people that they ought to have locked in and
11 saved money?

12 MS. KAREN MELNYCHUK: No, I don't agree
13 with that.

14 MS. MARLA MURPHY: Do you think customers
15 would have perceived that to be the message?

16 MS. KAREN MELNYCHUK: I don't know what
17 customers perceive, Ms. Murphy. What we were showing,
18 that over the course of five (5) years, the utility
19 billed rate had increased each year, year upon year.

20

21 (BRIEF PAUSE)

22

23 MS. MARLA MURPHY: And you'd agree with
24 me that if you were to look at the responses to DEML-5,
25 that in fact customers didn't save money when they locked

1 in, in 2001, correct?

2 MS. KAREN MELNYCHUK: The price points
3 that we were offering in -- sorry, which year did you
4 indicate?

5 MS. MARLA MURPHY: If you'd locked in, in
6 2001?

7 MS. KAREN MELNYCHUK: Yes, in 2001 there
8 is several different issues that had an effect on the
9 contracts with our customers. There was, like you
10 mentioned earlier, a huge run up in the market; gas
11 prices escalated in the early 2001.

12 In January of 2001, the Utility did file
13 for a rate increase of thirty-one point three two
14 (31.32) cents a cubic metre. The Board -- and that was
15 at the same time as we were in the market pricing our
16 five (5) years -- or sorry, our three (3) year -- no, our
17 five (5) years, and we had started to convert our
18 buy/sell customers to fixed-price contracts.

19 We had a mailer out and it was at twenty-
20 nine point nine (29.9). The Board, at the time, decided
21 not to accept or approve Centra's rate increase. They
22 actually had them hold their prices for six (6) months,
23 which I believe was at twenty-nine two two (29.22).

24 And then that's when the Board ordered --
25 or removed the \$100 million that had accumulated in -- in

1 the deferral accounts, and the new rate rider was
2 applied, I believe, on August 1st of 2001, which then ran
3 for two (2) years collecting that deferral account from
4 all the -- the consumers that had not prior -- previously
5 been on a fixed-price contract.

6 MS. MARLA MURPHY: That really has
7 nothing to do with the customers that signed in into your
8 contract in 2001, does it?

9 MS. KAREN MELNYCHUK: For the price
10 points of twenty-nine point nine (29.9), yes, and the
11 twenty-five nine's (25.9), yes, because by removing that
12 \$100 million dollars out of the primary gas, PGVAs, it
13 did bring down -- artificially bring down the Utility's
14 price.

15 MS. MARLA MURPHY: Can I ask --

16 MS. KAREN MELNYCHUK: Excuse me.

17 MS. MARLA MURPHY: -- you to turn up
18 Centra Exhibit 12, please? Your counsel can provide it
19 to you. Do you have it in front of you? Page 2 of 3 of
20 that exhibit is a calculation of all expired contracts to
21 the end of 2007, and in this page it includes the PGDR.

22 If I can draw your attention, please, to
23 line 6, that's contracts that were entered on May 1st of
24 2000 -- I'm sorry, on May of 2001 running through to
25 April of 2006. And you'll agree with me that, as follow

1 that line across, it shows that the result of those
2 contracts was that customers who signed up in May of '01
3 paid an additional eight hundred and eighty-two dollars
4 (\$882) in gas costs?

5 MS. KAREN MELNYCHUK: That's what your
6 document here states, but those customers actually signed
7 up up to four (4) months in advance of that, and so those
8 would've been on -- like, signed up with us prior to the
9 decision on the -- the rate rider.

10 MS. MARLA MURPHY: Well, then by your
11 calculation, which is at page 3 of DEML/CENTRA-5, you
12 looked at that same contract and concluded differently,
13 didn't you? I'm sorry, yes, you concluded that there was
14 a -- a negative savings is the way you portrayed it, but
15 in essence that it -- customers paid nine hundred and
16 seventy-four dollars and fifty-four cents (\$974.54) more?

17 MS. KAREN MELNYCHUK: Yes, that contract
18 of twenty point nine (20.9) -- sorry, twenty-nine point
19 nine (29.9), those customers did not realize any savings
20 in regards to a comparison with the Utility's price.
21 We've acknowledged that before.

22 MS. MARLA MURPHY: Well, then I think
23 that's in -- in contradiction to what you told me just a
24 few minutes ago, was that when you look at this ad and
25 you said if customers had signed up in 2001 they would've

1 saved money?

2 MS. KAREN MELNYCHUK: Nowhere in that ad
3 does it say anything about savings. There's no mention
4 of savings or anything like that.

5 MS. MARLA MURPHY: You don't mention the
6 word, but you certainly strongly imply to customers that
7 there's a savings to be had, don't you?

8

9 (BRIEF PAUSE)

10

11 MR. CLINTON ROEDER: No, no. I'll go
12 back to it. I -- I would stand by our marketing
13 practices. I think there are some players in the market
14 here with questionable practices. We referenced a
15 fairytale ad we've talked about, and we can go back. And
16 I'll now stand by what's down there.

17 If we don't reference savings, we
18 reference if you could've locked in at the Utility rate
19 in 2001, wouldn't you have. That's a question.

20 MS. MARLA MURPHY: So you're telling me
21 that the question to customers that are supposed to
22 understand is if you could've locked in at the Utility
23 rate in 2001, would you have?

24 MR. CLINTON ROEDER: No, the question
25 was, if you could've locked in on a rate in 2001 for five

1 (5) years, wouldn't you?

2 MS. MARLA MURPHY: And how would a
3 customer know, looking at that ad, what the price
4 available in 2001 was?

5

6 (BRIEF PAUSE)

7

8 MS. MARLA MURPHY: It certainly would've
9 been helpful to draw that on the graph, wouldn't it?

10 MR. CLINTON ROEDER: This is one (1)
11 document of many that the sales representative has --
12 have at their exposure. Also you keep referencing this
13 as ad. That's not an ad, this is an ad. In terms of --
14 if we want to talk about ads, that's -- that's an ad.
15 These are documents that sales people have to talk about
16 factual information that's in the market to reference as
17 their asked questions by a consumer.

18 We've handed you our brochures which we
19 hand out. You've got access to other information that is
20 true advertisement, but this is one (1) document in terms
21 of to help explain to a consumer in terms of the
22 marketplace.

23 MS. MARLA MURPHY: And that was my
24 question is, how would a consumer know what the price
25 available to them in 2001 was by looking at this

1 document?

2 MS. KAREN MELNYCHUK: The information
3 that the agents would have -- this is in their binder,
4 they would have had the existing contract, the existing
5 offer; the agent would not have had the price that would
6 have been out there in 2000 -- or 2001, sorry.

7 MS. MARLA MURPHY: And the same would be
8 true of the information that you've provided as the
9 updated DEML Exhibit 13, correct? It contains a similar
10 graph?

11

12 (BRIEF PAUSE)

13

14 MS. KAREN MELNYCHUK: Again, this graph
15 states and it -- you know there's a -- a note at the
16 bottom:

17 "Direct Energy Natural Gas average
18 price increase figure, based on Centra
19 Gas/ Manitoba Hydro price comparison
20 from 2002 to 2007."

21 MS. MARLA MURPHY: But we have the same
22 problem, right; customers don't know what the price
23 available to be locked in, in 2002, was?

24 MS. KAREN MELNYCHUK: What we're
25 providing is historic utility prices and that's what's

1 stated on there.

2 MS. MARLA MURPHY: And the message that
3 you ought to lock in your gas prices?

4 MS. KAREN MELNYCHUK: We are selling a
5 five (5) year fixed, three (3) year fixed, so this is
6 selling a fixed product.

7 MS. MARLA MURPHY: I understood you to
8 say to Mr. Peters the other day that you don't tell
9 customers that prices will increase. Did I have that
10 right?

11 MS. KAREN MELNYCHUK: What we provide
12 them is -- is historical and trend lines and that's what
13 we've gone through already today.

14 MS. MARLA MURPHY: And when I look at
15 DEML-13 it says, "Prices have been continuing to trend
16 up. Most experts agree that it will continue; do you?"

17 MS. KAREN MELNYCHUK: And that is a
18 veriby -- verifiable statement when this document was
19 created. Most experts still are saying that prices will
20 go up --

21 MS. MARLA MURPHY: It's certainly --

22 MS. KAREN MELNYCHUK: -- we're posing a
23 question to the consumer, making them aware and think
24 about it.

25 MS. MARLA MURPHY: And it certainly

1 suggests a response, doesn't it, that prices will go up?

2 MS. KAREN MELNYCHUK: It leads to
3 conversation, yes.

4 MS. MARLA MURPHY: And what's the nature
5 of that conversation?

6 MS. KAREN MELNYCHUK: Education about
7 natural gas.

8 MS. MARLA MURPHY: I understood you to
9 say that you don't give your sales people price forecast
10 information, is that right?

11 MS. KAREN MELNYCHUK: No, what I
12 indicated yesterday was, we give them excerpts from the
13 newspapers that we've gotten permission to use, and the -
14 - we don't give them price forecasts; we give them
15 historicals.

16 MS. MARLA MURPHY: So how can a sales
17 person with that information educate a consumer as to the
18 forward-looking trend based on what experts suggest?

19

20 (BRIEF PAUSE)

21

22 MS. KAREN MELNYCHUK: If there's any
23 questions an agent cannot answer, Ms. Murphy, this
24 document also includes our website and our phone number
25 so the customer can always phone us.

1 The trend lines was -- I intended -- that
2 comment was referenced to the earlier document. In
3 regards to this one (1), where it specifically -- wrong
4 word -- they would have a historical, and like I said,
5 the -- any newspaper articles that we had permission to
6 re -- replicate.

7 MS. MARLA MURPHY: What kind of newspaper
8 articles are you thinking of when you refer to those?

9 MS. KAREN MELNYCHUK: Newspaper articles
10 that appear in the Winnipeg Free Press, or the Winnipeg
11 Sun, or in the National Globe and Mail, natural ga --
12 anything related to natural gas, typically.

13 MS. MARLA MURPHY: And is there any
14 guidelines you use in terms of how current those articles
15 are when you provide them to your sales people?

16 MS. KAREN MELNYCHUK: We -- we attempt to
17 give them everything that's current and -- and within
18 current -- you know, within the year. That way there's
19 historical information.

20 Not all articles that they carry, you
21 know, are saying the same message, but they're along the
22 same -- you know, like it's about the natural gas.

23 MR. GARY NEWCOMBE: I think too, Ms.
24 Murphy, you heard Dr. Cyrenne this morning say that the
25 five (5) year price is basically the market expectation

1 of what the shorter term prices will be over that five
2 (5) years.

3 So I would say that the last piece of
4 information that the sales agent has at the door, and
5 gives to the customer, is our current five (5) year
6 price, the bulk of which is going to be made up of the --
7 or our five (5) year price, the bulk of which is going to
8 made up of the commodity price for that five (5) year
9 period.

10 And that would contain the markets
11 expectation of what the price is going to be over the
12 next five (5) years. So if it's significantly higher
13 than the prevailing current -- or short term price, I
14 would say the market expectation is that prices are going
15 to rise.

16 If it's significantly lower, let's say
17 that would be a pretty good sign that the markets
18 expecting the price to go down.

19 MS. MARLA MURPHY: You don't give
20 consumers the market price for a five (5) year product.
21 You give then your price for a product, correct?

22 MR. GARY NEWCOMBE: Well, the bulk of
23 that price that we would charge consumers, would be made
24 up of the cost of the commodity itself.

25 MS. MARLA MURPHY: But the consumer has

1 no way of knowing how -- how many and other different
2 costs are built in there, do they?

3 MR. GARY NEWCOMBE: No, but I think as
4 with buying anything else, the consumer can make a fairly
5 educated guess that there's going to be some
6 administrative costs, some sales costs, and some profit.
7 It's just like when they buy a car, Ms. Murphy.

8 MS. MARLA MURPHY: Well when you make an
9 educated guess, you have to have correct information,
10 don't you?

11 MR. GARY NEWCOMBE: Current information
12 on what?

13 MS. MARLA MURPHY: Correct information.

14 MR. GARY NEWCOMBE: Correct information.
15 That's fair.

16 MS. MARLA MURPHY: You can't make a
17 decision without knowing what the -- the facts are,
18 correct?

19 MR. GARY NEWCOMBE: Well, I think there's
20 probably a lot of things that go into the consumer's
21 decision. You know, when a consumer buys a car, I don't
22 know if they need to know what steel prices are, and what
23 the price of rubber is. They comparison shop and decide
24 if they want a BMW or a Honda and they assess the
25 relative value in each.

1 MS. MARLA MURPHY: And they have access
2 to information to do that, correct?

3 MR. GARY NEWCOMBE: They have access to
4 prices of varying types of transportation. They know
5 what a bus pass costs, they know what a car costs, and
6 different kind of cars cost different amounts, so they
7 have that comparison.

8 MS. MARLA MURPHY: They also don't have
9 BMW or Honda coming to their door and asking them to make
10 a purchase decision at the doorstep, do they?

11 MR. GARY NEWCOMBE: Well, if the market
12 rules were relaxed, I think in Manitoba, as we've said
13 quite a bit, you know, they may have other avenues open
14 to them here as well.

15 MS. MARLA MURPHY: Mr. Ruzycki, I want to
16 spend just a minute talking about the -- the website that
17 I'm sure you're very fond of at this point; and the
18 suggestion on that website that Canadian customers have
19 saved over \$100 million dollars in the past -- over five
20 (5) years.

21 And I understood from your responses, that
22 that calculation didn't include Manitoba customers,
23 correct?

24 MS. NOLA RUZYCKI: That's correct.

25 MS. MARLA MURPHY: And I also understood

1 from your evidence yesterday, that those are results of
2 Ontario customers from the 2000 to 2005 period?

3 MS. NOLA RUZYCKI: That's correct.

4 MS. MARLA MURPHY: And it included not
5 only Energy Savings results, but the results of other
6 competitors in that market?

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

8 MS. MARLA MURPHY: I'm wondering why you
9 chose to do that. Why didn't you just include the Energy
10 Savings information?

11 MS. NOLA RUZYCKI: The decision was made
12 to -- I personally did not make the decision --

13 MS. MARLA MURPHY: I understand.

14 MS. NOLA RUZYCKI: -- but the decision
15 was made by the Company that we wanted to reflect in
16 other jurisdictions what had happened.

17 MS. MARLA MURPHY: And does that
18 calculation only reflect the outcome of contracts in
19 which customers saved money?

20 MS. NOLA RUZYCKI: No, it doesn't.

21 MS. MARLA MURPHY: So that's the net
22 effect of customers who both saved money and lost money
23 in Ontario over that period?

24 MS. NOLA RUZYCKI: It includes all
25 customers that ended a five (5) year contract in 2005.

1 (BRIEF PAUSE)

2

3 MS. MARLA MURPHY: And you were asked in
4 the Information Requests, whether or not you had
5 undertaken such a calculation for completed Manitoba
6 contracts, and the answer in the IR was N/A.

7 MS. NOLA RUZYCKI: Well, we didn't have
8 any completed contracts at that point in time.

9 MS. MARLA MURPHY: And --

10 MS. NOLA RUZYCKI: As you'll note from
11 your Exhibit 12, you haven't included our information,
12 because it was right at the time we were preparing our
13 evidence for this case.

14 MS. MARLA MURPHY: And since then there
15 has been one (1) completed contract which is reflected on
16 Centra Exhibit-12, correct?

17 MS. NOLA RUZYCKI: That's correct. I
18 don't know that it -- does it have a dollar value to it?
19 Yes, it does.

20 MS. MARLA MURPHY: And it -- it
21 demonstrates that cust -- Manitoba customers over that
22 period didn't save money, correct?

23 MS. NOLA RUZYCKI: That's correct. They
24 had a slight loss, but I would say that -- I did the
25 calculation on that; it worked out to less than ten (10)

1 cents a day that they would end up paying for that
2 protection.

3 MS. MARLA MURPHY: If I could ask you to
4 turn to Tab 8 of our book of documents. You looked at
5 this with Mr. Holloway the other day. I just wanted to
6 turn your attention to the graph which is at page 2.

7 MS. NOLA RUZYCKI: Yes.

8 MS. MARLA MURPHY: It doesn't include an
9 indication of what the price is, either for the utility
10 supply or the broker fixed-price.

11 MS. NOLA RUZYCKI: No, it doesn't.

12 MS. MARLA MURPHY: Is there a reason for
13 that?

14 MS. NOLA RUZYCKI: Yes. Because it is a
15 blend of our actual pricing. So it's a blend of our --
16 and I think I yesterday spoke incorrectly about what the
17 line is, and I've been told that the line was Union, it's
18 not -- or, sorry -- it's Enbridge. It's not a
19 combination of the two, so it's the Enbridge, this line
20 on here is --

21 MS. MARLA MURPHY: The variable utility.

22 MS. NOLA RUZYCKI: The variable -- yes,
23 is Enbridge's.

24 MS. MARLA MURPHY: And that's not the
25 same -- it's not calculated on the same basis as Centra's

1 quarterly rate-setting methodology, is it?

2 MS. NOLA RUZYCKI: It's similar; it's not
3 the same, but --

4 MS. MARLA MURPHY: The statement below
5 indicates that five hundred and five dollars (\$505) is
6 the average household savings for Energy Saving group
7 natural gas customers in another jurisdiction who
8 completed their five (5) year program in 2005.

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

10 MS. MARLA MURPHY: And you'd agree with
11 me that that's not a -- a fair representation of the
12 experience in Manitoba, correct?

13 MS. NOLA RUZYCKI: Again, I believe I
14 mentioned yesterday that we have not been able to obtain
15 a critical mass of contracts that have completed, so we
16 wanted to represent what happened in another
17 jurisdiction.

18 MS. MARLA MURPHY: Would you agree with
19 me that the message in this advertisement is that
20 customers will save money with a fixed-price offering?

21 MS. NOLA RUZYCKI: No, I don't think it
22 is. I believe that the statement right across from it
23 says there's a potential for savings. The exact wording
24 is, "The potential for savings, if util -- the potential
25 for savings if utility rates go above the fixed-price."

1 MS. MARLA MURPHY: You'd certainly agree
2 with me it's a fairly strong suggestion that there'll be
3 savings?

4 MS. NOLA RUZYCKI: I don't think it is,
5 in that the prices aren't on the graph either. I mean,
6 people -- people will form their own opinions as to --
7 people don't just simply look at price. They also take
8 into account their own personal impressions of where
9 products are going to go.

10 MS. MARLA MURPHY: Doesn't the very name
11 of your company suggest to people that they're going to
12 save money?

13 MS. NOLA RUZYCKI: Not necessarily.
14 There's -- I think there's other savings other than
15 financial savings. There's emotional savings, such as
16 worry and stress.

17 MS. MARLA MURPHY: And that sounds better
18 than, "Energy Peace of Mind?" Is that --

19 MS. NOLA RUZYCKI: Possibly.

20 MS. MARLA MURPHY: For the Panel
21 generally, do you acknowledge that many customers who
22 sign your contracts do so because they -- they think that
23 they'll save money?

24 MS. NOLA RUZYCKI: I would think that
25 most people hope they would save money. Again, I don't

1 think that we would ever guarantee -- obviously we would
2 never guarantee that there would be a savings because we
3 don't have crystal balls.

4 MS. MARLA MURPHY: And the -- the
5 customer research -- I'm sorry, did you want to speak to
6 that?

7 MR. CLINTON ROEDER: I'd say in the case
8 of Direct Energy, I -- my answer to that would be no. I
9 think most people that sign customers in terms of a fixed
10 rate are doing that for the peace of mind to fill those
11 earlier points in terms of knowing they understand what
12 the rate's going to be for the next period.

13 MS. MARLA MURPHY: The customer research
14 that's been presented in this application suggests that
15 about 50 percent of broker customers stated that there
16 reason for entering the contract was to save money.
17 Correct?

18 MS. NOLA RUZYCKI: I believe when we went
19 through that information, it was not specifically -- they
20 did not state that they would save money; it was a
21 potential to save money. Or that they may save money,
22 just to clarify.

23 MS. MARLA MURPHY: Okay. But certainly
24 the idea that they might or may or would save money was
25 in the minds of -- of a fairly significant portion of

1 consumers, correct? At least half.

2 MR. ERIC HOAKEN: Sorry, we're just
3 turning out the customer research. Give us a moment.

4 MS. MARLA MURPHY: Sure.

5 MR. GARY NEWCOMBE: Do you have a
6 reference to a specific table, Ms. Murphy?

7 MS. MARLA MURPHY: I don't offhand, but
8 I'll look for one.

9 MR. GARY NEWCOMBE: Okay. Because I -- I
10 mean, just look at table 9A, "Why do customers benefit
11 from competition?" The question asked, "How do you
12 benefit from having competing choices?" The number one
13 (1) answer is competition/choice/don't like monopolies.

14 You know, the number two (2) answer was,
15 "drives prices down/save money." The -- the first
16 response, I think, shows 77 percent. The next one
17 thirty-two (32).

18

19 (BRIEF PAUSE)

20

21 MS. MARLA MURPHY: I was referring to
22 page 48 of that report, which is table 29. The question
23 posed to the customers who recognized that they were
24 signed with a broker was:

25 "Why did you sign up with a natural gas

1 marketer?"

2 Multiple mention; they got to pick more
3 than one (1) thing.

4 50 percent of them suggested it was either
5 -- it "save money;" we've agreed that that may mean
6 potentially save money or perhaps save money. But 50
7 percent of them that indicated -- indicated that this was
8 a significant factor to them, correct?

9 MR. ERIC HOAKEN: I'm sorry, I don't
10 think that's a fair question, in view of the evidence of
11 Mr. Enns about the coding for this particular question.
12 You may recall, I put to him a full range of questions
13 that I don't think -- and I know you haven't done it
14 deliberately, but you haven't captured in your question.

15 You know, there was all sort of things,
16 you know, if commodity prices go down; you know, all --
17 all kinds of things. I just don't think it's fair for
18 you to characterize the set of responses that are
19 captured in this table in the homogeneous way that you
20 have.

21

22 CONTINUED BY MS. MARLA MURPHY:

23 MS. MARLA MURPHY: I was actually to
24 attempting to address the line of cross that you covered
25 with Mr. Enns to cover off that they may save money; they

1 potentially could save money.

2 But certainly the indication is that the -
3 - the potential to save money was in the mind of these
4 consumers, correct?

5 MS. KAREN MELNYCHUK: The customers may
6 have had that in their mind, but that's their own
7 assessment. It's their level of risk tolerance. But it
8 is their own assessment of -- of what they thought were
9 the benefits.

10 MS. MARLA MURPHY: And what do you
11 instruct your salespeople to tell potential customers if
12 they ask whether a product will save them money?

13 MS. KAREN MELNYCHUK: That they wouldn't
14 determine that until the end of the contract, and it
15 depends on the utility price. We don't sell our product
16 on savings; we've indicated that several times. We sell
17 our product on rate stability.

18 MS. MARLA MURPHY: And do you refer them
19 to historical examples where customers did save money?

20 MS. KAREN MELNYCHUK: We refer them to
21 historical, actual billed rate utility prices, yes.

22 MS. MARLA MURPHY: No, I asked them if
23 you referred them to historical examples where customers
24 had saved money?

25 MS. KAREN MELNYCHUK: In that one (1)

1 graph it did indicate if they had been on for that five
2 (5) year period, they would've saved three hundred and
3 twenty dollars (\$320), is what that marketing piece said.

4 MS. MARLA MURPHY: And that's what a
5 salesperson would refer customers to, at the door?

6 MS. KAREN MELNYCHUK: Sorry, can you
7 repeat that?

8 MS. MARLA MURPHY: Well, I was asking you
9 what -- what salespeople were instructed to respond to
10 customers, at the door, when they asked if they would --
11 if they would save money with your product. And I asked
12 specifically if you referred them to historical examples
13 where customers had saved money?

14

15 (BRIEF PAUSE)

16

17 MS. NOLA RUZYCKI: I think maybe I can
18 just ans -- I think the two (2) are two (2) different
19 things. One (1) is historically, 'cause obviously
20 historical may be a representation, but as we've seen in
21 a number of years, there's been unpredicted volatility in
22 the prices. So I don't know that at any point anybody
23 could make a statement as to historical is necessarily
24 going to be. It's giving people information to make
25 their own decision.

1 MS. MARLA MURPHY: Yes. So do your
2 salespeople respond to that question by demonstrating an
3 -- an historical example where people did save money?

4 MS. NOLA RUZYCKI: When specifically
5 asked the question, no, they make no comment on whether
6 or not savings will -- that you will determine savings at
7 the end of the contract term, whether or not savings did
8 occur.

9 MS. KAREN MELNYCHUK: Sure. Also, Ms.
10 Murphy, the -- the package that the agents have at the
11 door and the brochures we leave behind are -- you know,
12 everywhere on there it also indicates the phone number
13 for them to call us for more information, our website.
14 There's other means of getting -- gathering the
15 information, if they have questions.

16 If a customer specifically asks about
17 savings, all we can do is lis -- look to historic. But
18 what we are selling is a flat price rate stability, and
19 it all depends on what the Utility price will do, so.

20 MS. MARLA MURPHY: You've said a number
21 of times that people have the ability to go away and look
22 at a website or to call, but isn't the -- the goal of a
23 door-to-door sales to secure the signature on the
24 contract at the time the agent's on the doorstep?

25 MS. KAREN MELNYCHUK: That's a primary

1 goal, yes.

2 MS. MARLA MURPHY: In terms of the
3 analysis -- analysis that's been done at Centra Exhibit
4 12, have you had an opportunity to review that response?

5 MR. GARY NEWCOMBE: Sorry, Ms. Murphy, I
6 just wanted to say, too, before we leave this area, if
7 we're leaving this area, that it seems like regardless of
8 the reason why customers signed up with marketers, you
9 know, if you flip back to table 28, it clearly shows that
10 at least 82 percent of them, regardless of the reasons
11 they signed, are satisfied with the relationship between
12 them and the gas marketer.

13 And I think it's probably our position,
14 that had question been answer -- asked properly, that the
15 response rate for satisfied customers may have even been
16 higher.

17 MS. MARLA MURPHY: You make that
18 suggestion with respect to table 28, that the question
19 wasn't asked properly?

20

21 (BRIEF PAUSE)

22

23 MS. NOLA RUZYCKI: Sorry, maybe -- maybe
24 I can just make a comment here. The -- the statement
25 that Mr. Newcombe is referring to -- referring to here,

1 we believe that a number of areas of the survey were
2 flawed and contain bias, so the answer that was --

3 MS. MARLA MURPHY: I understand that, but
4 I understood Mr. Newcombe to be saying --

5 MS. NOLA RUZYCKI: -- question --

6 MS. MARLA MURPHY: -- that this specific
7 question was asked in such a way that in fact the answer
8 could have been higher. And I'm -- I'm wondering if
9 there is a specific complainant with respect to the
10 question and the answer that was produced in table 28?

11 MR. CLINTON ROEDER: Can you repeat that
12 question, please?

13 MS. MARLA MURPHY: I was simply trying to
14 clarify Mr. Newcombe's statement. He indicated that the
15 table 28 showed that 82 percent of customers were
16 satisfied with their arrangement with marketers, and if
17 the question had been asked that -- better, I think was
18 his idea, that the response would have been higher.

19 And I'm wondering if there's a specific
20 complainant that's been raised, with respect to this
21 question? I don't believe that to be the evidence up
22 until this point.

23 MR. GARY NEWCOMBE: Yes, Ms. Murphy, I
24 probably misspoke myself. I think I meant, what I would
25 -- should have said was that our general level of

1 satisfaction with the entirety of the way the survey was
2 conducted, and I think that's clearly on the record.

3 MR. CLINTON ROEDER: But I think just to
4 clarify in terms of -- for this figure, you're taking the
5 answer to that to -- and we want to make sure it's clear,
6 if the implication, what you're implying, is that
7 customers are satisfied with their fixed rate. Yeah, we
8 have tro -- we have problems with this question --

9 MS. MARLA MURPHY: I wasn't implying
10 anything from it.

11 MR. CLINTON ROEDER: Okay. Now, I just -
12 - that's what we're just clarifying, because as we've
13 highlighted here, we're finding out things in this
14 Hearing, and in terms of the driver, some of the
15 dissatisfaction, and we seem to be getting more
16 information in the past five (5) days than we've gotten
17 for months, so.

18 MS. MARLA MURPHY: I had directed your
19 attention to Exhibit CENTRA-12, and asked if you had an
20 opportunity to review that.

21 MS. KAREN MELNYCHUK: Yes, I have.

22 MS. MARLA MURPHY: And do you accept that
23 the correct information for the Board is -- is what's
24 presented in that exhibit?

25 MS. KAREN MELNYCHUK: The information we

1 provided in our IR response was in regards to residential
2 expired contracts. As I indicated earlier this week, you
3 now have commercially-sensitive material on record, and
4 that's why we didn't include it earlier that -- in the
5 response.

6 The inclusion of some of the price points
7 now that you have in Exhibit 12, were in reference to
8 commercial contracts.

9 MS. MARLA MURPHY: They would be in the
10 SGS class?

11 MS. KAREN MELNYCHUK: Some of them would
12 have been in the SGS class and there also could have been
13 some in the LGS. I don't have a breakdown of those.

14 The reason why this is commercially
15 sensitive now, even though they've expired, is that we
16 have confidentiality contracts and agreements with our
17 customers, and they don't just preclude to the time of
18 the agreement.

19 MS. MARLA MURPHY: Looking at the
20 information that's presented there, do you accept that
21 the correct information is that in roughly half of the
22 cases customers save money, and in the other half they
23 spend more?

24 MS. KAREN MELNYCHUK: If you're doing a
25 cent per cent comparison, price per price comparison,

1 it's about half and half, yes.

2 MS. MARLA MURPHY: Yeah. And that raises
3 an interesting point. The other way to compare it is to
4 look at the -- the netting, if you will -- if you will,
5 of the contracts; the overall pluses and minuses. And in
6 that --

7 MS. KAREN MELNYCHUK: Again --

8 MS. MARLA MURPHY: -- in that case, where
9 a customer wins, they may win a small amount, but where
10 they lose, they lose more, correct?

11 MS. KAREN MELNYCHUK: Again, we sell our
12 products based on rate stability. What -- you know, we
13 don't know what the utility price is going to be. What
14 we're doing is offering them a fixed-price contract with
15 rate stability for that price.

16 MS. MARLA MURPHY: I appreciate that, but
17 looking in at this hind -- hindsight review, you'd agree
18 with me that that's the case, that they either win a
19 smaller amount or run the risk of losing a larger amount?

20 MS. KAREN MELNYCHUK: Ms. Murphy, there
21 are no losers on our contracts, they're all winners.

22 MS. MARLA MURPHY: I appreciate that.
23 We're all winners here. We're all winners.

24 But looking solely at the -- the dollar
25 outcome, the financial outcome, and trying to break out

1 that piece of the analysis, with respect to those
2 contracts that are expired, you'd agree with me that
3 that's correct?

4 MS. KAREN MELNYCHUK: If you're doing a
5 dollar-to-dollar comparison, but that's not what we're
6 selling, we're selling --

7 MS. MARLA MURPHY: I understand.

8 MS. KAREN MELNYCHUK: -- rate stability.
9 That is a different benefit for those customers who, if
10 they did the comparison between their price and the
11 Utility's, it's an added on benefit.

12 MS. MARLA MURPHY: While we've got that
13 exhibit in front of us, I just want to look at one (1) of
14 the process issues that's been raised. You've suggested
15 in the course of this Hearing that the -- the enrollment
16 process and the verification that is required of a
17 contract is too onerous, and that we should be
18 streamlining some of those steps.

19 And I note in looking at page 1 of this
20 exhibit that there are at least two (2) contracts where
21 the prices in the books of Centra and the pri -- the
22 prices in the books of DEML didn't agree. Do you see
23 those?

24 MS. KAREN MELNYCHUK: Yeah, we noted
25 that, as well.

1 MS. MARLA MURPHY: So doesn't that
2 suggest to you that the verification steps that we go
3 through are important?

4 MS. KAREN MELNYCHUK: Yes. And it could
5 have been a typo on our part when we submitted our
6 document.

7 MS. NOLA RUZYCKI: And perhaps that might
8 be one (1) of the things that an EBT system would correct
9 because both parties would have the same information.

10 MS. MARLA MURPHY: Yes, that would be a
11 more expensive way of doing that, correct?

12 MS. NOLA RUZYCKI: That would be correct.

13 MS. MARLA MURPHY: And assuming that
14 everybody checks the work that's being put back and forth
15 to them, everybody has the same information in -- in the
16 current process, as well, correct?

17 MS. NOLA RUZYCKI: That's assuming
18 everybody checks it and don't -- there's no human error,
19 yes.

20 MS. MARLA MURPHY: One (1) other process
21 point that was raised the other day, is that there was a
22 suggestion that it was onerous for you to provide Centra
23 with images of signed contracts. And I understood you to
24 day, Ms. Melnychuk, that Direct does keep images of
25 contracts on file for your own records, correct?

1 MS. KAREN MELNYCHUK: That's correct.

2 MS. MARLA MURPHY: So the additional step
3 that you take is either to burn a disc or to send an
4 email to the Utility with those images?

5 MS. KAREN MELNYCHUK: Burning them all
6 onto a disc from the hard drive, yes.

7 MS. MARLA MURPHY: And you indicated
8 yesterday that that was half of full -- full time
9 equivalent position to do that, correct?

10 MS. KAREN MELNYCHUK: Yes.

11 MS. MARLA MURPHY: And did you mean to
12 say that it takes half of a full time employee to burn
13 those images or to send an email to Centra?

14 MS. KAREN MELNYCHUK: It has to-date,
15 yes.

16 MS. MARLA MURPHY: Even if you don't
17 provide those -- that information to Centra immediately,
18 you still have to retain it in order to be able to
19 provide it upon request, correct?

20 MS. KAREN MELNYCHUK: That's correct.
21 And that's part of the code of conduct that we have in
22 place, that's in the Public Utilities Board code of
23 conduct.

24 MS. MARLA MURPHY: You've said to me
25 several times here that you're selling rate stability;

1 have you undertaken any analysis of what factors in
2 Manitoba contribute to the customers' bill volatility?

3 MS. KAREN MELNYCHUK: You know, we know
4 weather -- it affects the rate -- or the bill volatility.

5 MS. MARLA MURPHY: You understand that to
6 be a significant variable in Manitoba?

7 MS. KAREN MELNYCHUK: I've lived here for
8 all my life, I know that it does have an impact on -- on
9 anything that we do in Manitoba.

10 MS. NOLA RUZYCKI: It think it's also --
11 in other jurisdictions, as well, it's very -- in Alberta
12 they have chinooks where weather can fluctuate
13 significantly, as well, so.

14 MS. MARLA MURPHY: And you're familiar
15 with the EEA report that was put on the record and the
16 GRA, which suggested that Manitoba's weather was the most
17 volatile?

18 MS. NOLA RUZYCKI: Well, interestingly, I
19 think on that page -- I'm not sure which page it was --
20 it did show Manitoba, Manitoba, meaning -- I'm assuming
21 the whole Province of Manitoba, where it had specific
22 cities related to all the other cases. So I'm not sure
23 if Manitoba as a whole possibly is; I don't know if
24 Winnipeg itself is.

25 MS. MARLA MURPHY: Do your marketers

1 discuss the impact of weather on a customer's bill at the
2 doorstep?

3 MS. KAREN MELNYCHUK: Our representatives
4 do not discuss the bill, other than the fact that they go
5 through the line items on the bill with the customer and
6 indicate where the fixed rate will appear so that they
7 can see it on their bill.

8 MS. MARLA MURPHY: And I think I
9 understood your evidence the other day to be that you
10 don't recommend the equal payment plan to customers at
11 the door either, do you?

12 MS. KAREN MELNYCHUK: No, we don't. It's
13 not a service offering that we can offer. If they want
14 information, you know, if it's asked at the door, they
15 would refer them back to Manitoba Hydro.

16 MS. MARLA MURPHY: I take it there's no
17 steps taken, either at the door or during the
18 confirmation, to assure yourselves that customer
19 understands that there will still be impacts of weather
20 that cause volatility on their bill?

21 MS. KAREN MELNYCHUK: Not that I'm aware
22 of. We don't discuss the Hydro bill. We have no access
23 to the bill, we -- other than our prices on there. So we
24 don't have control over what -- we don't even see a bill,
25 so we don't even know what it looks like.

1 that fixing the rate for primary gas does not, in and of
2 itself, allow people to budget any better than they can
3 with a floating rate, wouldn't you?

4 MS. NOLA RUZYCKI: I would disagree with
5 that. I would say if you know all your household
6 expenses for a typical year, you can budget. And I think
7 you can, as I mentioned earlier, you can conserve -- you
8 can conserve and you can -- your budget -- you have a
9 good idea of what your budget is for the year.

10 If you're saying, I believe your
11 information said on average a customer is -- bill over
12 the year is two thousand dollars (\$2,000) -- some range,
13 I can't remember the exact number, but it was in excess
14 of -- or maybe it was twelve hundred (1,200), sorry. I
15 don't remember the number, but I believe that the
16 customer can budget for that.

17 MS. MARLA MURPHY: I'm going to ask you
18 to turn up what Mr. Hoaken described as his cardiogram
19 which is at Tab 7 of Mr. Peters' book of documents.

20

21 (BRIEF PAUSE)

22

23 MS. MARLA MURPHY: I'm looking in
24 particular at attachment 2(b).

25

1 (BRIEF PAUSE)

2

3 MS. MARLA MURPHY: Does it surprise you
4 to see that fixing a rate does not have a significant
5 impact on bill volatility in this analysis?

6

7 (BRIEF PAUSE)

8

9 MR. CLINTON ROEDER: The only delay -- if
10 someone wants to explain the graph to us and the legend
11 that would go along with it and the likes, we'd be
12 prepared to answer it, but...

13 MS. MARLA MURPHY: I take it you haven't
14 heard Mr. Stephens' evidence with respect to how this
15 graph worked?

16 MS. KAREN MELNYCHUK: I was in the room,
17 yes.

18 MS. MARLA MURPHY: So does it surprise
19 you to see that fixing the rate doesn't impact bill
20 volatility to any significant degree?

21 MS. KAREN MELNYCHUK: We don't sell on
22 bill volatility. And we've said this before, we -- our
23 product is a stable rate offer. How that impacts a bill
24 -- we're selling a fixed-price product. Weather impacts
25 the bill, but we're selling a rate stability.

1 MS. MARLA MURPHY: Well, if that's the
2 case, how does -- I'm sorry, Nola, did you want to...

3 MS. NOLA RUZYCKI: I also thought I heard
4 Mr. Stephens say that this is a snapshot in time, and it
5 could be different in other time periods if you looked at
6 it.

7 MS. MARLA MURPHY: It is a snapshot from
8 the year 2000 to 2007, correct?

9 MS. NOLA RUZYCKI: That's correct.

10 MS. MARLA MURPHY: A really panoramic
11 snapshot at this point?

12 MS. NOLA RUZYCKI: Sorry. I -- I'm -- I
13 don't understand the graph at all, myself, when I look at
14 it, so I'm not going to offer any input on it, but...

15 MS. MARLA MURPHY: Thank you.

16 MS. KAREN MELNYCHUK: I just want to add
17 as well, that when this graph came up earlier, I turned
18 to Mr. Hoaken and said, "I don't understand it at all."
19 and it was only through the little bit that I heard from
20 Mr. Stephens that I gathered some of it, but I still
21 don't understand it, Ms. Murphy.

22 MS. MARLA MURPHY: You do understand that
23 it demonstrates that when you compare the fixed-price
24 products to the Utility variable product, that you see a
25 very similar pattern in terms of the customer's overall

1 bill; all of those lines moves together?

2 MR. CLINTON ROEDER: We understand that's
3 what Centra's saying. We've asked, I think, a few times
4 on the Panel now, if you all want to take the time to
5 explain it in detail and then ask us that question again,
6 we will respond to it.

7 MS. MARLA MURPHY: Well, I would turn you
8 back to the transcript as Mr. Stephens has already given
9 a great deal of evidence about that. But given the
10 explanation --

11 MR. CLINTON ROEDER: I think Ms.
12 Melnychuk has already indicated she said in here, in
13 that, we've got the transcript, and we still have
14 questions.

15 MS. MARLA MURPHY: You haven't put any
16 -- any evidence on the record to demonstrate anything
17 other than what this graph demonstrates, have you?

18 MR. CLINTON ROEDER: Without
19 understanding what this graph is supposed to be
20 indicating, I can't comment. I --

21 MS. MARLA MURPHY: I'm tempted to walk
22 you through this graph.

23 MR. CLINTON ROEDER: That'd be perfectly
24 fine. We -- we've requested that.

25 MS. MARLA MURPHY: It might be perfectly

1 fine with you, I'm not sure of everybody else in the
2 room, but I'll give it a short try.

3 The lines on this graph demonstrate; the
4 thick black line being the Utility's quarterly price
5 offering, all of the other lines being various fixed-
6 price offerings available in the market.

7 And as Mr. Stephens indicated, they have,
8 in some cases, extrapolated prices where there wasn't a
9 price available. The gist of it -- and I think there's
10 really nothing more complex that needs to come out of
11 this than the fact that when you look at those products
12 together, the lines move essentially together and that
13 really it's weather that drives the -- the customer's
14 bill volatility in Manitoba.

15 And my question to you was, you haven't
16 given any evidence in this proceeding that would suggest
17 that weather isn't the biggest driver and that, in fact,
18 a fixed-price product does not impact a customer's bill
19 volatility in any significant way?

20 MS. KAREN MELNYCHUK: I guess the
21 difficulty we have, Ms. Murphy, is because we sell a
22 price stability; we don't talk bill volatility. And I
23 think that's where you're -- you're losing us on this,
24 because we don't talk bill, we don't have access to the
25 bill, we don't know what the customer's being billed

1 other than after the fact when we get a record from the
2 customer -- from the Utility on their consumption.

3 So what we're selling our customers is a
4 price stability.

5 MS. MARLA MURPHY: Ms. Melnychuk, you
6 proceed in almost -- you participate in almost every GRA
7 that -- that appears here, and certainly you're aware of
8 Centra's prices -- Centra's rates?

9 MS. KAREN MELNYCHUK: Yes, we are.

10 MS. MARLA MURPHY: Are you're aware of
11 Centra's primary gas rate on a quarterly basis?

12 MS. KAREN MELNYCHUK: Yes, we are.

13 MS. MARLA MURPHY: So I -- I find it hard
14 to believe that you're not aware of -- of what a customer
15 might see on a bill. In fact, you probably receive a
16 bill fairly regularly, don't you?

17 MS. KAREN MELNYCHUK: I don't believe
18 that's what I indicated, Ms. Murphy. We don't see our
19 customer's bills, so we don't see the total that they're
20 being billed each month.

21 What I'm trying to say is, we are selling
22 price stability. We don't talk to customers about bill
23 volatility. That is something -- that is an arrangement
24 between the Utility and the customer. We sell them a
25 price stability on their natural gas.

1 MS. MARLA MURPHY: You do talk to
2 customers about peace of mind, correct?

3 MS. KAREN MELNYCHUK: Yes, in regards to
4 the price that they will pay for their natural gas per
5 cubic metre for the duration of their contract.

6 MS. MARLA MURPHY: And from the
7 customer's perspective in receiving a bill, they're not
8 seeing much peace of mind when their line is following
9 essentially the same pattern as the Utility quarterly
10 price, are they?

11 MS. KAREN MELNYCHUK: Again, Ms. Murphy,
12 we're selling price stability. We're selling price
13 stability.

14 MS. MARLA MURPHY: Mr. Chairman, I was
15 about to move to a different area. I don't know if this
16 might be an opportunity you'd like a break or I'd like a
17 break or we'd like a break?

18 THE CHAIRPERSON: Yes, I think we are all
19 game for that. Okay.

20 MS. MARLA MURPHY: Thank you.

21

22 --- Upon recessing at 2:30 p.m.

23 --- Upon resuming at 2:56 p.m.

24

25 THE CHAIRPERSON: Sorry for the delay.

1 Okay, Ms. Murphy.

2

3 CONTINUED BY MS. MARLA MURPHY:

4 MS. MARLA MURPHY: Thank you.

5 MR. GARY NEWCOMBE: Ms. Murphy, before we
6 start, I mean, maybe we could just come back to this
7 cardiogram graph here.

8 I didn't want to leave you with the
9 impression that we were disagreeing with you in any way
10 that there is volatility introduced month-to-month due to
11 weather changes in Manitoba. That's certainly the case.

12 I guess what we were struggling with, I
13 think, was the -- sort of the underlying implication that
14 somehow we've been misleading customers by telling them
15 that by taking a fixed-priced product for natural gas,
16 that we would somehow protect them from any and all bill
17 volatility.

18 That's certainly not the case, I think, as
19 Ms. Ruzycki and Ms. Melnychuk have testified to quite a
20 bit. I mean, all we can offer customers is some price
21 protection, with respect to one (1) part of the bill, and
22 that's the commodity itself, to the extent that customers
23 view some value in protecting themselves in fluctuations
24 from the commodity pricing, they will take a contract
25 from us, and -- and that's really all we can do.

1 It's, you know, in the underlying premise,
2 it's sort of like buying house insurance. I mean, if I
3 buy houses insurance for a year and my house doesn't burn
4 down, financially I would have been better off not to
5 take the insurance. However, if my house did burn down,
6 that's why I'm buying the protection and peace of mind.

7 But, as I said, we're not disagreeing with
8 you that month-to-month, yes, there is volatility due to
9 changes and consumption.

10 MS. MARLA MURPHY: Thank you for that.

11 I want to turn to a different area and I
12 would like the views of the Panel as to whether or not
13 you'd agree that your established position in the
14 Manitoba market gives you an advantage over new brokers
15 seeking to enter the market?

16

17 (BRIEF PAUSE)

18

19 MR. CLINTON ROEDER: I think from our
20 perspective -- at least I can speak on Direct Energy's
21 part -- no, the fact that we just recently did change our
22 brand -- our brand name from Municipal Gas to Direct
23 Energy, you know, and as I mentioned yesterday in terms
24 of a market like Ontario with the number of players that
25 come there, it proves that just because have established

1 players that have been there longer, does not prevent
2 them, under the right market rules, from new retailers
3 being competitive.

4 MS. MARLA MURPHY: I take it you'd agree
5 that customers need to understand what the products are
6 that are available at -- in the market, and that the
7 different risks and benefits associated with each should
8 be clear to them?

9 MR. CLINTON ROEDER: Yes.

10 MS. MARLA MURPHY: And the nature of the
11 Utility offering doesn't change that requirement, does
12 it?

13 MR. GARY NEWCOMBE: Are you suggesting
14 that they need to fully understand the nature of the
15 Utility offering as well?

16 MS. MARLA MURPHY: Yes.

17 MR. GARY NEWCOMBE: Is that --

18

19 (BRIEF PAUSE)

20

21 MR. GARY NEWCOMBE: No, I think it's our
22 belief that customers should understand all of the
23 products and services that are out there, yes.

24 MS. MARLA MURPHY: And the monthly
25 procurement mechanism that you suggested would be

1 appropriate for the Utility would also need to be
2 explained to customers, correct?

3 MR. GARY NEWCOMBE: I think that's fair.
4 If -- if Centra were to change the way they price their
5 default supply gas it would be appropriate that they let
6 consumers know.

7 MS. MARLA MURPHY: Consumers would need
8 an education to understand that pricing mechanism?

9 MR. GARY NEWCOMBE: Yes.

10 MS. MARLA MURPHY: And that's no
11 different than the need to be educated on the quarterly
12 fixed-price offering or a fixed-price products, correct?

13 MR. GARY NEWCOMBE: Yes, I -- I don't
14 think we can disagree that consumers should know the full
15 range of products that are out there; what the risks and
16 costs and benefits of all of them are.

17 MS. MARLA MURPHY: The panel suggested
18 Tuesday in their evidence that the market rules in
19 Manitoba limited your ability to offer lower prices in
20 Manitoba.

21 And you suggested that prices in Ontario
22 were cheaper because they could offer more sales
23 channels; that if the market rules relating to projecting
24 volumes, nominations, load forecasting, and telesales
25 were available here, that you could potentially reduce

1 your prices by up to 5 percent. Do you recall that?

2 MR. GARY NEWCOMBE: Yes.

3 MS. MARLA MURPHY: And I note at the same
4 time that during the course of testimony, Ms. Melynychuk
5 referred the response to DEML-19, which demonstrated that
6 Manitoba prices are frequently already lower than those
7 in Ontario, correct?

8 MR. GARY NEWCOMBE: I'm sorry, which IR
9 was that?

10 MS. MARLA MURPHY: It's DEML/CENTRA-19.

11

12 (BRIEF PAUSE)

13

14 MS. MARLA MURPHY: Sorry, that's not the
15 right reference.

16

17 (BRIEF PAUSE)

18

19 MS. MARLA MURPHY: It's DEML/CAC-19.

20

21 (BRIEF PAUSE)

22

23 MS. MARLA MURPHY: Got it?

24 MR. ERIC HOAKEN: Okay, thank you. We've
25 got it.

1 Would you be good enough to just ask that
2 question again?

3

4 CONTINUED BY MS. MARLA MURPHY:

5 MS. MARLA MURPHY: Yeah, I was just
6 wanting to confirm Ms. Melnychuk's previous evidence, as
7 I understood it, was that in referencing this IR, she
8 indicated that the Manitoba prices are frequently already
9 lower than those available in Ontario.

10 MR. CLINTON ROEDER: That's correct. I
11 mean I think one (1) of the questions that we were asked,
12 I think My Friend Mr. Peters, that we can provide in
13 evidence, was questions on how we build up our costs and
14 -- so we can --

15 MR. ERIC HOAKEN: Actually, this was an
16 undertaking response that I should have added to the pile
17 earlier this afternoon. It was an undertaking that Mr.
18 Roeder gave to Mr. Peters to try to disaggregate some of
19 the costs that are inherent in the Manitoba offering as
20 compared to the Ontario offering.

21 So that's what Mr. Roeder is speaking to,
22 and actually is responsive, I believe, to the question
23 you're asking now. So he's got a very pretty graph here
24 that I think he could explain to you as part of his
25 answer to your question.

1 MS. MARLA MURPHY: Are you in a position
2 to circulate the pretty graph?

3 MR. ERIC HOAKEN: I certainly am.

4 MS. MARLA MURPHY: Thank you.

5

6 (BRIEF PAUSE)

7

8 MR. ERIC HOAKEN: So that would be
9 marked, I think, as the next exhibit. Mr. Sing can
10 correct me if I'm wrong. Number twenty-one (21). Thank
11 you.

12

13 --- EXHIBIT NO. DEML/ESMLP-21: A graph explaining the
14 costs that are inherent in the Manitoba
15 offering, as compared to the Ontario
16 offering

17

18 MR. CLINTON ROEDER: I can just take
19 everyone through it. And we were trying to find the
20 specific reference, Mr. Peters, that this one is
21 Undertaking for -- I think there was a different table
22 that has been presented that actually had a comparison of
23 the Ontario retail price that we're being offered versus
24 the Manitoba retail price.

25 And part of it in that explanation, we had

1 described that in addition to acquisition costs, there
2 are differences also in terms of -- in terms of our cost
3 of goods in terms of their incurred by the var -- various
4 markets.

5 And what this graph is intended to show is
6 just demonstration, illustration in terms of an average,
7 over the course of respective years, of how much of the
8 cost is driven based on the wholesale -- the foreign
9 market -- what the respective costs are for various
10 factors such as transport, fuel and then the dal -- daily
11 balancing premium.

12 But what this graph demonstrates is in --
13 for the most -- basically, I think it's across all years
14 on average. The wholesale price in terms of the costs it
15 may occur and we build into our factors is actually
16 higher in Ontario than Manitoba. And that's part of the
17 driver for the differences in price.

18

19

(BRIEF PAUSE)

20

21 CONTINUED BY MS. MARLA MURPHY:

22 MS. MARLA MURPHY: So that would suggest
23 to the Board that a comparison between the prices in
24 Ontario and Manitoba won't necessarily give them the
25 assurance that you had suggested, that prices here were -

1 - were reasonable, because the input costs are different.
2 Correct?

3

4 (BRIEF PAUSE)

5

6 MR. CLINTON ROEDER: Apologize for that.
7 Gary was just asking me to clarify a point. So if I can
8 just clarify, just so everyone's following this
9 correctly. Obviously the fuel is a big driver of the
10 differences between Ontario and Manitoba. The other
11 factor in Manitoba is the daily balancing premium, which
12 we've touched on in terms of what's incurred under the
13 current market rules.

14 Assuming those two factors were the same,
15 what you find in terms of the bottom line, in terms of
16 the blue part of the graph, which is your wholesale, is
17 that is consistent in the respective market. What they -
18 - what's reflected here is a percentage of the total
19 cost. But if you look at the underlying numbers you'd
20 find that the wholesale is consistent across the two
21 markets.

22 So, apologize for that, Ms. Murphy. Can
23 you repeat the question now that we've clarified that?

24 MS. MARLA MURPHY: Well, I guess,
25 unfortunately now I have two (2). The first one though,

1 the one that I'd already asked you, was in terms of
2 looking at this. And the explanation that I think I've
3 understood you to provide, that would suggest that the
4 Board can't look at the graph that was provided in the
5 response to DEML/CENTRA -- CAC-19 -- and conclude that
6 they can take any comfort that the Manitoba prices are
7 reasonable by comparing them to the Ontario ones, because
8 the input costs are not the same.

9 MR. CLINTON ROEDER: That's correct.

10 MS. MARLA MURPHY: And I guess the other
11 question I have is when I look at these bar graphs -- and
12 maybe I'm misunderstanding something -- but it appears to
13 me for each of the years that you're showing, that the
14 overall comparators, when you look at the top of those
15 graphs, for Ontario and Manitoba, the Manitoba costs are
16 actually less.

17 MR. CLINTON ROEDER: That's reflective of
18 the -- the wholesale market, that's correct.

19 MS. MARLA MURPHY: Thank you.

20 MR. CLINTON ROEDER: Just to clarify, Ms.
21 Murphy. I think one (1) of the questions you had, that
22 was a driver behind presenting this, was your question to
23 start out was specifically related to our request in
24 terms of the change in the market and how it would be
25 insured in terms of that reflecting back in the lower

1 prices of the consumers.

2 The purpose of this graph was to show
3 what's built up in terms of cogs. In addition to this,
4 we've touched on the differences in terms of the
5 acquisition costs by telesource channel.

6 And, specifically, the reference point
7 that led to this discussion in Ontario was the example we
8 gave where a market like that, to where we have fixed-
9 rate five (5) year product we offer on the door-to-door
10 versus a fixed-rate product that we offer through a
11 telesource channel, and how we're able to offer a
12 substantially lower rate, due to the lower acquisition
13 cost.

14 MS. MARLA MURPHY: That telesales offer
15 isn't a five (5) year one, is it?

16 MR. CLINTON ROEDER: Excuse me?

17 MS. MARLA MURPHY: The one (1) offered
18 solely through telesales isn't a five (5) year contract,
19 is it?

20 MR. CLINTON ROEDER: There -- there is a
21 five (5) year and a one (1) year. The one (1) that we
22 referenced in terms of the lowest offer out there is a
23 one (1) years.

24 MS. MARLA MURPHY: I wanted to turn to
25 the consideration of the differences between Centra's

1 current quarterly rate-setting methodology and the
2 monthly procurement mechanism that you suggested in your
3 evidence.

4 Is it your expectation that the monthly
5 mechanism is likely to produce more volatility than the
6 current quarterly rate-setting methodology?

7 MR. GARY NEWCOMBE: I think that sort of
8 depends on how you define "volatility," Ms. Murphy. It
9 will be a lot more reflective of current short-term
10 monthly prices with the, sort of, the paying out of the -
11 - or the inclusion of the deferral account balances on a
12 monthly basis.

13 If you were to, say, measure volatility
14 from prevailing monthly prices, it may give you a much
15 lower one that deferring those PGVA balances over three
16 (3) months. It's -- it's tough to say.

17 MS. MARLA MURPHY: Well, I was -- I was
18 defining "volatility" as the -- the absolute change in
19 price from price-to-price.

20 MR. GARY NEWCOMBE: From month-to-month
21 or --

22 MS. MARLA MURPHY: Month-to-month --

23 MR. GARY NEWCOMBE: -- from period-to-
24 period?

25 MS. MARLA MURPHY: -- or quarter-to-

1 quarter, yes. And then given that definition of
2 volatility, you'd expect that the mechanism that you are
3 advocating would produce more volatility than our current
4 rate-setting mechanism, correct?

5 MR. GARY NEWCOMBE: Yeah, I think in
6 fairness, yes, you'll see a -- a change every month.
7 Yes.

8 MS. MARLA MURPHY: And, in fact, that
9 mechanism would, in many cases, be more volatile than the
10 monthly strip price, correct?

11 And I can maybe direct you to Tab 8 --
12 Tab 9 of my book of documents, which is Centra DML-8.

13 MR. GARY NEWCOMBE: Yes. Yeah, so to the
14 extent, as I said, if you include the deferral account or
15 PGVA balance every month, you'd probably get some
16 deviations from the monthly equal price, that's right.

17 MS. MARLA MURPHY: And that's what's
18 demonstrated in that graph, it -- it actually indicates
19 more volatility, correct?

20 MR. GARY NEWCOMBE: Yes.

21 MS. MARLA MURPHY: In the current state
22 of the market, if your recommendation regarding Centra's
23 offering were accepted, and Centra were not permitted to
24 offer any new products, customers would then be forced to
25 choose between the two (2) extremes, wouldn't they? An

1 extremely volatile monthly product or a long-term fixed-
2 price product?

3 MR. GARY NEWCOMBE: Well, customers would
4 have the ability to choose between a prevailing short-
5 term market price reflected in the Centra default price.
6 And, presumably, if that change was made in conjunction
7 with other market-rule changes, as we've suggested, they
8 would probably have a full range of shorter-term and
9 long-term fixed-prices.

10 MS. MARLA MURPHY: But given what we know
11 about the market today and what's available today, if all
12 that changed was Centra's price, they would -- they would
13 only have the choice between that more volatile monthly
14 price and a long-term fixed-price, correct?

15 MR. GARY NEWCOMBE: Well there's a big
16 assumption, I think, at the beginning of tha -- that
17 question. So, if you put it in that context, if all the
18 things being equal, that's the only change that's made,
19 then you're probably right. But I don't think we've
20 suggested that that should be the only change.

21 MS. MARLA MURPHY: I understand that.
22 And what harm comes to consumers from being able to
23 choose a middle-ground product?

24 MR. GARY NEWCOMBE: I'm not sure there'd
25 be any harm from consumers having the ability to choose a

1 middle-ground product, Ms. Murphy. It depends what that
2 middle-ground product is, who's offering it, how it's
3 structured.

4 MS. MARLA MURPHY: Not having a middle
5 ground would probably mean that more customers would feel
6 that they could choose, or might choose, a fixed-price
7 product, correct?

8 MR. GARY NEWCOMBE: Well, again, it's --
9 the assumption in that question is that there hasn't been
10 any rationalization of practises in marketing rules. So,
11 if that's accompanied by the rest of our recommendations,
12 I'm not sure there wouldn't be several middle grounds for
13 consumers to choose.

14 MS. MARLA MURPHY: No, my question was:
15 If there is no middle ground and you have the choice of
16 only the more volatile monthly or the fixed-price
17 offering, more customers are likely to find the fixed-
18 price offering desirable, correct?

19 MR. GARY NEWCOMBE: But we haven't
20 suggested there not be a middle ground, Ms. Murphy.

21 MS. MARLA MURPHY: Mr. Stauff in --
22 indicated in his evidence that what he described as
23 "random, erratic and unexpected price spikes," would
24 probably make it easier for door-to-door salesmen to
25 persuade people to sign up for their product. Would you

1 agree with that?

2 MR. GARY NEWCOMBE: Those random, erratic
3 price spikes in the commodity itself are going to occur
4 whether there are people going door-to-door or not.

5 MS. MARLA MURPHY: And the more visible
6 those random, erratic price spikes are, the easier it is
7 for your salespeople to sign customers to fixed-price
8 offerings at the door, correct?

9

10 (BRIEF PAUSE)

11

12 MR. GARY NEWCOMBE: I don't know if it's
13 possible to give you a definitive answer to that one, Ms.
14 Murphy. I think if you look at other markets, for
15 example, the Ontario market, prices are changes quarterly
16 there. The percentage takeup on fixed-price contracts
17 has been as high as 60 percent; somewhere around 40
18 percent today.

19 In Manitoba you've got quarterly price
20 changes with about a 20 percent takeup of fixed-price
21 contracts. In Alberta you've got monthly price changes;
22 to date, you've got somewhere in the order of 20 percent
23 takeup in fixed monthly products. In British Columbia, I
24 believe it's once every six (6) months that Terasen
25 changes its price.

1 Their market's been open for four (4)
2 months and you've already got in excess of a 10 percent
3 takeup on fixed-price products, so. I don't know that
4 the presence of the monthly price changes for default
5 supply would be a -- a sole determinant. I think you'd
6 have to look at the market a lot more holistically and
7 look at the full range of products and policies and
8 everything else.

9 MS. MARLA MURPHY: All right, thank you.
10 I want to turn to the -- the issue that was raised in
11 this Hearing with respect to the Equal Payment Plan and
12 your call centre experiences. And I understand there to
13 be an Undertaking that's forthcoming, and I'm -- I'll ask
14 my questions, in any event, unless you're in a position
15 to provide that, at this point?

16 MR. ERIC HOAKEN: I'm sorry, I just
17 missed that, Gary and I were speaking. I'm sorry, could
18 you repeat that?

19 MS. MARLA MURPHY: I was just wondering
20 about the Undertaking that's been made with respect to
21 the -- the complaints logs.

22 MR. ERIC HOAKEN: Yeah, we're working on
23 that, but I can't give you any sense right now of when
24 we're going to have it.

25 MS. MARLA MURPHY: Okay. Well, I'll --

1 it's actually not an Undertaking, I think it's an Order
2 of the Board. I'm sorry, but I will ask my questions,
3 and I guess we'll -- we'll see what comes out of that,
4 and I may have some additional questions, once they come.

5 I understood you to testify, Ms.
6 Melnychuk, that between June 1st and September 17th, your
7 call centre received three hundred and fifty-three (353)
8 calls with complaints and inquires about Centra. Is that
9 right?

10 MS. KAREN MELNYCHUK: I believe three
11 hundred and fifty-three (353) was the number that I said,
12 yes.

13 MS. MARLA MURPHY: And you testified that
14 you received a hundred and thirteen (113) calls in August
15 related to the Equal Payment Plan?

16 MS. KAREN MELNYCHUK: Yes, I believe it
17 was a hundred and thirteen (113).

18 MS. MARLA MURPHY: And are those hundred
19 and thirteen (113) included in the three hundred and
20 fifty-three (353), or are those separate numbers?

21 MS. KAREN MELNYCHUK: That's included in
22 the three hundred and fifty-three (353).

23 MS. MARLA MURPHY: And would you
24 characterize those as complaints and inquiries, as well?

25 MS. KAREN MELNYCHUK: They were calls

1 about budget, and that's how were there -- they were
2 rated.

3 MS. MARLA MURPHY: And I take it that's
4 calls only to Direct. Those numbers don't include any
5 calls that might have been received by Energy Savings?

6 MS. KAREN MELNYCHUK: That's correct.

7 MS. MARLA MURPHY: Could you tell us how
8 those -- those complaints or calls were -- were responded
9 to?

10 MS. KAREN MELNYCHUK: They were -- sorry,
11 my throat is sore. They were responded to individually,
12 customer by customer. As they came in, each one (1) was
13 a little bit different than the next, but the -- most of
14 the customers were indicating that they'd contacted
15 Centra already, and that they were directed to Direct
16 Energy because it was a result of Direct Energy that
17 their budget plan was off.

18 Once we -- we got them through about a
19 week or so of receiving these calls and that's when, I
20 believe, Ms. Yarmie sent the email to Ms. Mansky
21 (phonetic) in regards to some specific customers who had
22 indicated large differences in their budget plan.

23 And so we were waiting on a response from
24 Ms. Mansky as to, you know, the understanding of what was
25 going on with those customers.

1 MS. MARLA MURPHY: When did -- when did
2 you first notify Centra that you were receiving those
3 calls?

4 MS. KAREN MELNYCHUK: The date of the
5 email.

6 MS. MARLA MURPHY: Sorry, do you have
7 that?

8 MS. KAREN MELNYCHUK: August 27th.

9 MS. MARLA MURPHY: And when did you bring
10 that matter to the attention of the Public Utilities
11 Board?

12 MS. KAREN MELNYCHUK: I believe I phoned
13 Mr. Singh around the same time.

14 MS. MARLA MURPHY: And why did you want
15 the matter brought to the attention of the Public
16 Utilities Board?

17 MS. KAREN MELNYCHUK: Because several of
18 the customers were indicating that they were going to be
19 phoning Mr. Singh, or the Public Utilities Board, so I
20 wanted to give him notice that certain customers were
21 phoning him.

22 MS. MARLA MURPHY: So why did you ask
23 Centra to notify the Public Utilities Board when you
24 already had?

25 MS. KAREN MELNYCHUK: We were asking for

1 a confirmation that they had notified the PUB as to the
2 reasons behind. Because at that time we still did not
3 know the reasons behind the issues with the budget.

4 MS. MARLA MURPHY: I don't believe your
5 original email is on the record. Do you have it
6 available?

7 MR. ERIC HOAKEN: I'm just looking for
8 it.

9

10 (BRIEF PAUSE)

11

12 MR. ERIC HOAKEN: Yeah, I thought it
13 actually did end up on the record as part of the exhibit
14 that you'd tendered, is it not part of that?

15 MS. MARLA MURPHY: Well that's what I was
16 leafing through. In fact, this -- this email starts with
17 my correspondence to Mr. Singh on September 3rd, which
18 includes the body of the email that was passed along to
19 Direct Energy on August 31st, but it doesn't include the
20 Direct Energy original inquiry.

21 MR. ERIC HOAKEN: Okay, give me just a
22 moment.

23

24 (BRIEF PAUSE)

25

1 MR. ERIC HOAKEN: All right. Thanks. It
2 is an email on the 27th of August 2007, 3:28 p.m. from
3 Ms. Yarmie to Ms. Mansky. And it does make reference to
4 specific customers, which is I think why I didn't put it
5 on the record earlier.

6 If you'd like it put on the record, I
7 don't have any difficulty with that subject, I think, but
8 we already did to the related exhibit.

9 MS. MARLA MURPHY: That would be fine,
10 thank you.

11

12 CONTINUED BY MS. MARLA MURPHY:

13 MS. MARLA MURPHY: You didn't tell Centra
14 at that time that you'd received one hundred and thirteen
15 (113) calls, did you?

16 MS. KAREN MELNYCHUK: No, not at that
17 time. We added them up later on.

18 MS. MARLA MURPHY: And in fact you raised
19 four (4) customer accounts with Centra, correct?

20 MS. KAREN MELNYCHUK: Those were the ones
21 that were of either threatening or -- there was one that
22 was threatening in the email. There were a couple
23 others. It was the dollar amount that they were saying
24 was huge, and that's why we rose those four (4) to the
25 Utility.

1 MS. MARLA MURPHY: And those are the
2 customers that are referred to in the email that's been
3 provided and is on the record as CENTRA Exhibit-19?
4

5 (BRIEF PAUSE)
6

7 MS. KAREN MELNYCHUK: Ms. Murphy, I'm
8 going to have to ask you to repeat, 'cause Mr. Roeder and
9 Mr. Hoaken were speaking and I didn't quite catch the
10 whole question.

11 MS. MARLA MURPHY: Sure. I was just
12 wanting to confirm that the four (4) customers that
13 you're talking about being raised are the ones that are
14 in the email that's on the record already as CENTRA
15 Exhibit 18?

16 MS. KAREN MELNYCHUK: Yes, it's those
17 same ones.

18 MS. MARLA MURPHY: Unnamed.

19 MS. KAREN MELNYCHUK: And just, you know,
20 to note, like in -- you'll see it once it's filed that,
21 you know, we're talking about a dollar amount of one (1)
22 customer saying thirteen hundred and twenty-seven
23 (\$1,327) dollars was the true-up that was being requested
24 of her.

25 And this customer actually threatened to

1 come dow -- or, I can't remember if she came down to the
2 office, but she was threatening to put a curse on -- on
3 one of the employees, and was actually quite verbally
4 abusive, and that's, you know, it was an accumulation of
5 calls like that and visits that -- that's why we raised
6 it.

7 MS. MARLA MURPHY: For the specific
8 customers that were raised with Centra, when you look at
9 the response that's given there, and they're blocked off
10 in separate paragraphs with different black lines to
11 protect the customer's names, but you can see in three
12 (3) out of four (4) of those cases, the changes resulted
13 from a renewal of a fixed-price contract that went from
14 about twenty-five (25) cents to thirty-eight (38) cents,
15 correct?

16 MS. KAREN MELNYCHUK: Yes, that's what it
17 indicates in the email.

18 MS. MARLA MURPHY: And I did my math
19 behind the scenes rather than in public and I calculate
20 that to be a 52 percent rate increase, correct?

21 MS. KAREN MELNYCHUK: I'm not going to do
22 math in public, Ms. Murphy.

23 MS. MARLA MURPHY: You can take it
24 subject to check if you want to.

25 MS. KAREN MELNYCHUK: I think I've learnt

1 through the last week or two not to.

2 But I guess the thing here is that, Ms.
3 Murphy, we've always been under the impression, and I
4 believe Ms. Ruzycki, her company has always been under
5 the same impression, is that when a customer moved over
6 to -- to a marketer, that when -- when that happened
7 there was a readjustment to the EPP.

8 And it wasn't until this proceeding, I
9 believe, last week that, I believe, I understood and
10 through Ms. Mansky that that wasn't occurring. So that
11 was some information that we were not availed to before.

12 And especially with a rate -- like, this
13 customer -- these customers here, they were renewal
14 customers and they were from, like, '06. So this is a
15 year later, and so they've already been billed the
16 majority of a year at the new rate. So that was, you
17 know, an issue as well.

18 MS. MARLA MURPHY: Did you ever ask
19 anyone at Centra how they adjusted the equal payment plan
20 for customers of the WTS services?

21 MS. KAREN MELNYCHUK: In the past we
22 have, and that's why we were under the assumption that
23 they were being adjusted.

24 MS. MARLA MURPHY: Could you provide any
25 information that you've received from Centra in that

1 respect? Certainly, on a best-efforts basis.

2 MR. ERIC HOAKEN: Sorry, you mean
3 documentary information?

4 MS. MARLA MURPHY: Yes.

5 MR. ERIC HOAKEN: I don't think I can
6 give that undertaking until Ms. Melnychuk tells me if
7 anything of that nature exists.

8 MS. KAREN MELNYCHUK: I believe they were
9 verbal conversations, Ms. Murphy.

10 Ms. Ruzycki, do you have anything?

11 MS. NOLA RUZYCKI: No, I don't have
12 anything in writing.

13 MR. GARY NEWCOMBE: Just on the --
14 regards to your math, Ms. Murphy, if you said the percent
15 change in the contract price was 52 percent, if that was
16 a renewal of a five (5) year price, I think that compares
17 pretty favourably with the material that Ms. Melnychuk
18 was talking about earlier, which showed a five (5) year
19 change in the utility rates over that same period of time
20 if it was at 81 percent.

21 MS. MARLA MURPHY: I'm not taking issue
22 with the reason ability. I'm just suggesting that for
23 these customers, they experienced a change of 52 percent,
24 from twenty-five point four cents (24.5 cents) to thirty-
25 eight point seven cents (38.7 cents).

1 MR. GARY NEWCOMBE: Right, but at the end
2 of that five (5) years at the one price and then -- so
3 that --

4 MS. MARLA MURPHY: Understood. But
5 regardless of anything else, that would mean a 52 percent
6 increase in their primary gas costs, correct?

7 MR. GARY NEWCOMBE: It depends how you
8 would -- yes, in that one particular period, if you look
9 at the change in the default supply pricing over that
10 time, I understand it was 81 percent.

11 MS. MARLA MURPHY: There's no suggestion
12 that these customers' bills were calculated incorrectly,
13 is there?

14 MS. KAREN MELNYCHUK: No, not the bills.
15 What the issue was was the budget, how the budget plan
16 was calculated. And I believe on the bills of these
17 customers as well there is, to date -- dollar amounts
18 paid to date versus consumption and whatnot.

19 So I'm not sure if customers are not
20 looking at all the sections of their bill, especially
21 when they've been on that rate for almost a year.

22 MS. MARLA MURPHY: Certainly if the
23 customer had been observing that section, they might have
24 been aware that there was a problem with the amount of
25 their equal payment plan, correct?

1 MS. KAREN MELNYCHUK: I would be aware if
2 I was seeing a number like that, yes.

3 MS. MARLA MURPHY: And one of the
4 improvements that you suggested for Centra would be to
5 review the EPP plan amounts when a customer switches to a
6 broker, correct?

7 MS. KAREN MELNYCHUK: Yes.

8 MS. MARLA MURPHY: And I take it you
9 would accept that that will require some manual work on
10 the part of Centra?

11 MS. KAREN MELNYCHUK: I don't have a full
12 understanding of the processes at Centra, so I'm not sure
13 if it would be manual.

14 MS. MARLA MURPHY: And would you, as a
15 broker, be prepared to pay the cost that Centra incurred
16 to review those budget plans when a customer switches to
17 a broker?

18

19 (BRIEF PAUSE)

20

21 MR. GARY NEWCOMBE: So I think, Ms.
22 Murphy, it's important to remember, too, that these
23 customers, while they're buying their commodity from us,
24 they're also still distribution customers of Centra and
25 to the extent that there's adjustments recover --

1 required to their EPP, whether it's a -- going to a
2 different commodity supplier or simply a change in the
3 default supply commodity price or a change in
4 distribution rates, my understanding is those costs are
5 all imbedded in the distribution charges and I think it's
6 appropriate that's where they be recovered.

7 MS. MARLA MURPHY: Well, my question was
8 actually a bit more specific.

9 With respect to any additional work that's
10 required, specifically for WTS customers, would you agree
11 that that's a cost that would be more fairly borne by the
12 brokers?

13 MR. GARY NEWCOMBE: No, I don't. I think
14 by leaving those costs in the distribution rates, all the
15 customers, including the broker customers, are absorbing
16 whatever incremental costs there may be with that.

17 MS. MARLA MURPHY: And regardless of the
18 fact that -- well, first of all, even if we made that
19 process improvement, that wouldn't have helped in three
20 (3) out of four (4) of these customer cases, would it?
21 They weren't customers who were switching from system to
22 a broker, they were broker renewals?

23 MS. KAREN MELNYCHUK: Actually, as I
24 believe I said earlier, or maybe I -- maybe I didn't,
25 maybe just expand on that, but also when a rate changes

1 for -- for the broker, because the -- these customers
2 have been on for five (5) years, so they're going from
3 one (1) contract to another, and I consider that the
4 same, switching, so that would happen at that time, as
5 well.

6 So that would be a ris -- a reassessment
7 upon renewal, as well.

8 MS. MARLA MURPHY: Regardless of the fact
9 that these customers didn't pay the full amount owing for
10 their gas over the winter, Direct Energy received the
11 full amount charged on account of the new rates, correct?

12 MR. GARY NEWCOMBE: But I -- I don't
13 think that would be any different than any other gas that
14 Centra was paying for. I assume the same would hold true
15 if -- through your supplies from Nexen.

16 MS. MARLA MURPHY: My point was that we
17 remit to brokers the amount that the -- that the customer
18 incurs, not the amount that we receive on account of
19 their budget plan payments, you'd agree with that?

20 MR. GARY NEWCOMBE: Right, and you would
21 do the same to Nexen, I assume, if -- even if your bills
22 don't match what your supply costs from them are in any
23 given month.

24 MS. MARLA MURPHY: This is a cashflow
25 benefit to the brokers, correct?

1 MR. GARY NEWCOMBE: Well, I assume that
2 if there's a cashflow impact to that to Centra, that
3 they're recovering some working capital on that through
4 their rates somehow.

5 MS. MARLA MURPHY: But it is a cashflow
6 benefit to the brokers, correct?

7 Broker customers have the opportunity to
8 avail themselves of the equal payment plan without any
9 costs on the part of the broker.

10 MS. KAREN MELNYCHUK: I guess, Ms.
11 Murphy, the difficulty we have is, we don't know what the
12 customers are budgeted for.

13 MS. MARLA MURPHY: And the reason you
14 don't need to know that is that you're getting paid for
15 the amount of gas that you delivered to them, correct?

16 MS. KAREN MELNYCHUK: No, I think the
17 issue is that's a service that's provided by the Utility
18 and that service is in control by the Utility and that's
19 why, you know, earlier in our evidence we stated we
20 didn't want the EPP to be the default, we also wanted to
21 be a choice.

22 With Centra having the -- the control on
23 the bill, you know -- Centra's in control of the amounts
24 that the customer is seeing, we're not in control of
25 that, we don't have visibility to that, so we're -- we

1 don't know if a customer is behind in arrears.

2 MS. MARLA MURPHY: I understand that and
3 it doesn't impact the amount of money that flows to the
4 brokers, correct?

5 MS. KAREN MELNYCHUK: There's a whole gas
6 loan mechanism behind the scenes that -- that works into
7 how remittances are paid to cust -- to brokers.

8 MS. MARLA MURPHY: And brokers receive
9 credit for the amount of gas delivered to a customer at
10 the rate on your contract, correct?

11 MS. KAREN MELNYCHUK: That's the gas loan
12 mechanism, yes, it's an in and out. But again, like we
13 don't -- we are not the one (1) billing the customer; we
14 don't know the budget payments have been worked out; we
15 don't see -- we don't know if customers are in arrears.
16 We don't have access to that information.

17 MS. MARLA MURPHY: Would you say that the
18 -- the experience of these customers is typical, that is,
19 when a long-term contract expires, it's generally fair to
20 say that the rate available for the subsequent contract
21 has been higher than the previous contract?

22

23 (BRIEF PAUSE)

24

25 MR. CLINTON ROEDER: In Manitoba, we -- I

1 think part of what we've talked about is that, in terms
2 of the customer base, that it's been up for renewal and
3 in terms of those, I think Karen's indicating those that
4 are renewed, some of them were at a lower rate, some were
5 at a higher.

6 But I can, you know, I think a better
7 reflection is what's occurred in other markets that have
8 been open longer, which, you know, if your question was:
9 Is it -- is the tendency of the rate to be higher normal
10 on renewal? I would challenge that and say in Ontario
11 that's not the case. And so, we don't have many data
12 points to touch on here.

13 And I think the other comment in reference
14 to your question on the budget bill, part of the reason
15 Ms. Melnychuk was trying to indicate we don't have all
16 the data, I can speak for other markets where we do have
17 all the data, and what that will attest to is, typically,
18 it balances out in terms of whether -- in terms there is
19 not a cashflow, some are over-paying and some are under-
20 paying, in terms -- it's a wash.

21 We -- and the assumption here it's a
22 similar piece, without all the data, we can't comment.

23 MS. MARLA MURPHY: The data points that
24 are available to us are in Mr. Peters' book of documents
25 at Tab 10, in the response to PUB/CENTRA-21. It's Mr.

1 Peters' book of documents.

2

3

(BRIEF PAUSE)

4

5 MS. MARLA MURPHY: I'm looking at
6 attachment 2, Tab 10, attachment 2. And my point, I
7 thought, was a simple one, is that, the pattern generally
8 is, as you see here, the prices are increasing. So when
9 a customer renews a long-term contract, it's generally at
10 a higher price than their previous contract.

11

12

(BRIEF PAUSE)

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MR. CLINTON ROEDER: Now, the limited
subset of data we have to work with that's in attachment
'B', that's reflective -- it is reflective of the
Manitoba market. If your question is, is more than 50
percent, did they renew on a higher rate, the answer is
"Yes".

20

21

22

23

24

Is that reflective of the overall rates
that have increased, and I'll refer back to Mr.
Newcombe's comment, in which he referenced that what's
happened with the regular rate, which is, it's gone up by
81 percent.

25

And have the majority increased by

1 81 percent? If I just do the rough math here, I would
2 say No.

3 MS. MARLA MURPHY: Well, that's an
4 interesting comparison and -- and my point was simply
5 that, that prices do go up and that even with a long-term
6 contract you can't very -- do everything and it's not
7 possible to perfectly shield consumers from volatility in
8 the market.

9 But if you want to look at the example
10 you've given, and you've given it a couple of times now,
11 when you pick two (2) sets of -- of data to compare the
12 Utility prices, it depends on which data sets you -- you
13 choose.

14 You can show a 1 percent volatility or you
15 can show very little volatility, isn't that fair?

16 MR. CLINTON ROEDER: The data point we
17 chose was factual data based on historical rates.

18 MS. MARLA MURPHY: Sure. But a different
19 data point would give you a different result. I think we
20 had already established that.

21 MR. CLINTON ROEDER: You are saying we
22 can just pull any data point out that's not factual, --

23 MS. MARLA MURPHY: No, not that it's not
24 factual, --

25 MR. CLINTON ROEDER: -- I guess we

1 could --

2 MS. MARLA MURPHY: -- but you could
3 choose a different set of facts and -- and have a
4 different outcome.

5 MR. CLINTON ROEDER: The facts we were
6 showing were the history of the last five (5) years.

7 MS. MARLA MURPHY: And --

8 MR. CLINTON ROEDER: That's what was in
9 there. I don't think you can report that any other way
10 than what's happened is it's been a 81 percent increase
11 at that point in time.

12 MS. MARLA MURPHY: Sure. And if I chose
13 different data sets, for example, if I picked the price
14 February of 2001 and compared it to February of 2006,
15 that's also a five (5) year period, correct?

16 MR. CLINTON ROEDER: Yes. And I guess,
17 you know, I could have -- we could put in there the five
18 (5) year history of Ontario too and it would show a
19 different set of facts, and maybe Alberta.

20 MS. MARLA MURPHY: Well, let's --

21 MR. CLINTON ROEDER: So if --

22 MS. MARLA MURPHY: -- stick with
23 Manitoba, since that's --

24 MR. CLINTON ROEDER: -- if that's your
25 question, yes.

1 MS. MARLA MURPHY: -- the prices we're
2 interested in. And when I look at February 2001, you can
3 take it subject to check if you like, that Centra's price
4 was twenty-nine twenty-two.

5 It's in the same graph you were just
6 looking at, attachment 2 to PUB/CENTRA-21. You'll see
7 Centra at the February '01 line is twenty-nine twenty-
8 two. When I go down to the February '06 line, it's
9 thirty-two-o-five.

10 And according to my rates expert on the
11 side, that's a 6 percent change in volatility over a five
12 (5) year period, correct?

13 MR. CLINTON ROEDER: That appears to be
14 the case.

15 MR. GARY NEWCOMBE: Sure, I mean, you can
16 look at all sorts of data, Ms. Murphy. I mean if you
17 look under the broker primary gas rates, you can take
18 November 1, 2000, which is twenty-four six (24.6) and
19 November 1, 2003 at twenty-five point four (25.4) and you
20 could do similar math and you'd probably get a 2 or 3
21 percent increase if a person had had a three (3) year
22 contract November to November --

23 MS. MARLA MURPHY: Sure.

24 MR. GARY NEWCOMBE: -- over that period,
25 so.

1 MS. MARLA MURPHY: And my point was
2 simply that, generally speaking, you can't shield
3 customers from volatility in the market.

4 MR. GARY NEWCOMBE: You -- not over an
5 infinite length of time, no, but over the duration of the
6 contract, yes.

7 MS. MARLA MURPHY: Yes, and -- and at
8 that point they generally see a fairly significant
9 increase. You've pointed me to an example where that
10 might be as significant but, generally speaking, with the
11 data that's available here, they generally see a
12 significant increase.

13 MR. GARY NEWCOMBE: Well, with the data
14 that's available here, in a rising gas market, when you
15 renew, chances are, yes, you will see an increase in the
16 price.

17 MS. MARLA MURPHY: I want to just touch
18 for a minute on the payment of broker fees and my
19 understanding is that Union and Enbridge recover their
20 direct purchase administration costs from marketers
21 through fees; is that correct?

22 MS. NOLA RUZYCKI: That's correct.

23 MS. MARLA MURPHY: And when we look at
24 the response to PUB/CENTRA-28, those fees are detailed
25 there, correct?

1 They show a base charge of between fifty
2 dollars (\$50) a month and a maximum charge of eight
3 hundred and fifteen dollars (\$815) per month plus a per
4 account charge.

5 MR. GARY NEWCOMBE: Sorry, which question
6 number was that again?

7 MS. MARLA MURPHY: PUB/CENTRA-28. I was
8 referring to Page 2, it details the Enbridge charges and
9 down below that there's the Union charges.

10

11 (BRIEF PAUSE)

12

13 MR. GARY NEWCOMBE: Yes.

14 MS. MARLA MURPHY: And do you also
15 understand the market rules in BC to provide for
16 administration costs of Terasen to be recovered from
17 brokers through their fees, correct?

18 MR. GARY NEWCOMBE: Yes. I think those
19 are on Page 1 of that response, yes.

20 MS. MARLA MURPHY: And that's noted to be
21 a hundred and fifty dollars (\$150) per month for each
22 active marketer group, which I understand to be what Ms.
23 Ruzycki referred to as a pool?

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

25 MS. MARLA MURPHY: Plus a charge per bill

1 per month?

2 MS. NOLA RUZYCKI: Correct.

3 MS. MARLA MURPHY: And they've also added
4 a confirmation letter charge, as well, as I see, correct?

5 MR. GARY NEWCOMBE: Yes.

6 MS. MARLA MURPHY: Your counsel engaged
7 in some pretty harsh name calling last week on your
8 behalfs and he suggested that brokers view Manitoba Hydro
9 as secretive, dictatorial and non-consultative and I'm
10 wondering if you agree with that characterization.

11 MS. KAREN MELNYCHUK: Yes.

12 MS. MARLA MURPHY: And specifically to
13 Ms. Melnychuk and Ms. Ruzycki, would -- is it your
14 evidence that that accurately describes your daily
15 experiences with Manitoba Hydro staff?

16 MS. NOLA RUZYCKI: I would definitely say
17 not with the daily staff.

18 I believe with the number of the issues we
19 found out on very short notice and that continues to be
20 the case, even after we've brought it to individual's
21 attention, but the daily interaction that we would have -
22 - well, I don't exactly have daily interaction, but
23 interaction that we would have with the frontline people
24 we deal with, we haven't had an issue.

25 MS. KAREN MELNYCHUK: And I agree with

1 those statements. The daily operations and interactions
2 between the Winnipeg office, Direct Energy's Winnipeg
3 office, and the Direct Purchase Department have been very
4 friendly and they work together.

5 MS. MARLA MURPHY: So, to whom does your
6 characterization apply?

7 MS. KAREN MELNYCHUK: The
8 characterization applies to when we have attempted to
9 work in -- in consultation with Manitoba Hydro and Centra
10 Gas in regards to the topics that we've been discussing
11 for the last couple of weeks at this Hearing.

12 The monthly enrollments, we found out at
13 the GRA that it was approved; the minimum volume
14 requirements, we're waiting on -- on a date for that;
15 there's several different things.

16 It's working with the focus groups, the
17 survey -- there was a whole bunch of customer education
18 in 2006 that we worked together at and many times we have
19 felt that our views and opinions were not considered and
20 that came through, very clearly, through the research,
21 once we got the response to the I -- Number 60 IR, that
22 we were provided one (1) opportunity to look at the
23 survey.

24 We had issues with some questions and we
25 liked others, and we provided our comments, but we didn't

1 get a final -- like, the next time we got input was the
2 final version. It's overall the theme or the feeling
3 that Direct Energy has is that it's not been a consul --
4 a friendly relationship.

5 MS. MARLA MURPHY: And is it your
6 evidence that you're candid, open and cooperative with
7 Manitoba Hydro with your -- with you communications, in
8 those respects?

9 MS. KAREN MELNYCHUK: When we're allowed
10 to provide comments, yes.

11 MS. MARLA MURPHY: When I use the recent
12 EPP discussion as an example, you didn't advise Manitoba
13 Hydro that you had contacted the PUB when you asked them
14 to do that, did you?

15 MS. KAREN MELNYCHUK: No, as I indicated
16 earlier, I called Mr. Sing to give him a heads-up as some
17 of those customers -- same customers, that I had said or
18 Tiff -- or Ms. Yarmie had sent information to Ms. Mansky
19 on -- they were indicating that they were following up
20 with the -- the Public Utilities Board, so that was my --
21 why I called Mr. Sing.

22 MS. MARLA MURPHY: And you didn't tell
23 Manitoba Hydro, until you were giving evidence here, that
24 you'd received a hundred thirteen (113) calls in respect
25 to that issue, correct?

1 MS. KAREN MELNYCHUK: No, I believe, Ms.
2 Yarmie had indicated to Ms. Mansky in a conversation that
3 we'd been receiving several calls and had been going on
4 for about a week.

5 MS. MARLA MURPHY: But you didn't them
6 how many?

7 MS. KAREN MELNYCHUK: Not the number, no.
8 We just added it up in advance of this Hearing.

9 MS. MARLA MURPHY: During the course of
10 his cross-examination, your Counsel took Centra witnesses
11 to a couple of advertisements that were posted in 2003.
12 Do you recall that?

13 MS. KAREN MELNYCHUK: Can you give us
14 the --

15 MS. MARLA MURPHY: Well, I'm thinking of
16 the fairytale and the other ad that he referred to.

17 MR. ERIC HOAKEN: Actually, that's one
18 (1) of the few numbers I actually have memorized.

19 MS. MARLA MURPHY: Well, then you'll be
20 happy to help us out, I'm sure. I don't think you need
21 to turn it up, I don't intend to spend any time with the
22 ads, but...

23 MR. ERIC HOAKEN: Okay. We've got it,
24 thank you.

25 MS. MARLA MURPHY: Those advertisements

1 had already been debated in this forum at the time that
2 they were published, correct? We had those discussions
3 with respect to the -- those ads in 2003? Mr. Brown was
4 your Counsel at the time. Do you recall that?

5 MS. KAREN MELNYCHUK: Yes.

6 MS. MARLA MURPHY: Since 2003, there's
7 been a process established whereby Manitoba Hydro gives
8 notice to the brokers of its intention to publish an ad,
9 provides you with a copy, and gives you a certain amount
10 of time to raise concerns, correct?

11 MS. KAREN MELNYCHUK: Yes, I believe
12 those arrangements were made and it was over -- I don't
13 have the amount -- specific amount of days that we had,
14 yes.

15 MS. MARLA MURPHY: And in the event that
16 you do have concerns, Manitoba Hydro considers them and
17 advises you of what they intend to do, correct?

18 MS. KAREN MELNYCHUK: Yes, that was what
19 the arrangements were derived in 2004 -- or 2003.

20 MS. MARLA MURPHY: And Manitoba Hydro
21 hasn't been able to publish any ads since it invoked that
22 process with you, correct?

23 MS. KAREN MELNYCHUK: That process is not
24 just with us, Ms. Murphy. I believe that process is also
25 with the -- the other Interveners here. They did, I

1 believe, do the updated version of the guide last fall.

2 MS. MARLA MURPHY: We'll talk about that
3 one, but in terms of advertisements, there -- that would
4 be true, there's been none?

5 MS. KAREN MELNYCHUK: The one (1) last
6 fall is the only one (1) that's been, I believe, brought
7 to our attention.

8 MS. MARLA MURPHY: You mean -- sorry, I
9 was going to ask you about an ad that included a
10 comparison of prices?

11 MS. KAREN MELNYCHUK: Yes, that's the --

12 MS. MARLA MURPHY: That's the ad you're
13 referring to?

14 MS. KAREN MELNYCHUK: Yes. Yeah, that's
15 the only one (1) that we've been, I believe, asked to
16 look at since, I believe, 2003 or 2004.

17 MS. MARLA MURPHY: And the -- sorry --

18 MS. NOLA RUZYCKI: Sorry, that's my
19 understanding, as well.

20 MS. MARLA MURPHY: The contents of that
21 ad are similar to what would be posted on a website,
22 correct?

23

24

(BRIEF PAUSE)

25

1 MS. KAREN MELNYCHUK: To be honest, I
2 don't know if that's similar to anything that's posted on
3 a website.

4 MS. MARLA MURPHY: No, sorry, I didn't
5 mean that it had been posted, but that if we were to have
6 a -- a website of the type of information that we've been
7 contemplating here, this would be the type of information
8 that would be on that website?

9 MS. KAREN MELNYCHUK: I believe we
10 provided evidence that we don't -- and -- and the reason
11 why we didn't like this ad in the fall was, it was not a
12 reflective price comparison. And in the example given, I
13 believe even our price was cited incorrectly.

14 But this does not provide a, like, an
15 apples-to-apples comparison. It's a three (3) month
16 versus the different longer terms that Energy Savings had
17 and Municipal Gas had at the time.

18 I -- I'm at a -- a disadvantage because I
19 don't have the notes from those -- the meetings that we
20 held on this.

21 MS. MARLA MURPHY: It's fair to say the
22 ad hasn't been published, correct?

23 MS. NOLA RUZYCKI: Not that I know of.

24 MS. MARLA MURPHY: And I just want to
25 clarify, I guess, your position with respect to the

1 website, as I understood in this proceeding, is that you
2 didn't object to this kind of information being posted on
3 a website, provided that it was maintained by an
4 independent party?

5 MR. ERIC HOAKEN: That's not all I said.
6 I -- I don't know if you're purporting to characterize
7 the entire answer, because if you are, that's not
8 complete.

9 MS. MARLA MURPHY: Well, if I've missed
10 something, please enlighten me.

11 MS. NOLA RUZYCKI: I believe that we said
12 we would not like to have it posted, but if the Board
13 mandated it to be posted, that we would not want it to be
14 hosted on Centra's website.

15 MS. MARLA MURPHY: Fair enough. Thank
16 you.

17 MR. GARY NEWCOMBE: I think we also said
18 that it was very important that any sort of posting like
19 that be kept very up-to-date; that there be some context
20 provided around it -- make sure that consumers do have
21 the right information.

22 I mean, you know, if you're talking the
23 provision of educational material, I think there's a
24 different onus and a -- a different connotation there.
25 You know, if you're trying to educate consumers about the

1 full range of products that are available to them, I
2 think you need to do that and provide the right context,
3 and not simply a snapshot of, Here's some prices that are
4 available from different people today. I don't think
5 that's providing education at all, you know.

6 You know, I was actually was just looking
7 at this, what's called, "The Goldilocks Ad." I think
8 that's pretty cute, actually.

9 But, you know, in the -- in the context of
10 the -- of the discussion that you and I had earlier
11 around educating consumers, and consumers have to know
12 all of the products that are out there, and some of the
13 discussion we had around bill volatility; I -- I don't
14 really know the history of this ad, but I think it's
15 pretty interesting that there's a statement on this one
16 that says:

17 "We use a variety of financial tools,
18 quarterly adjusted rates in storing gas
19 in the summer to give you stability in
20 your gas bill."

21 And, you know, when you looked at that
22 cardiogram graph, I'm not sure that any of these things
23 provide a whole lot of stability in that gas bill. So I
24 think when you're taking on consumer education, you have
25 to be very careful and very factual.

1 MS. MARLA MURPHY: I want to focus a
2 little further on the relationship issue that's been
3 raised in this hearing. During the course of this
4 hearing, Mr. Stephens invited the brokers to spend a day
5 observing the nomination process that you feel quite
6 aggrieved by. Do you recall that?

7 MS. NOLA RUZYCKI: Yes, we do. And we'd
8 be happy to take Mr. Stephens up on his offer.

9 MS. MARLA MURPHY: I appreciate that, and
10 that's certainly different than what you told Mr.
11 Stephens at the end of the day in which it was offered,
12 correct?

13 MS. NOLA RUZYCKI: I don't think...

14 MR. ERIC HOAKEN: I'm trying. In -- in
15 fairness, I think we should be careful about talking
16 about conversations that have occurred outside the
17 context of this hearing. So --

18 MS. MARLA MURPHY: I don't intend to
19 detail the specifics of the conversation. But it is fair
20 to say, and I -- I'm putting to the witness that she did
21 in fact reject that offer --

22 MR. ERIC HOAKEN: Well, --

23 MS. MARLA MURPHY: -- at the end of the
24 day.

25 MR. ERIC HOAKEN: -- and you should be

1 very careful about what you put to the witness about the
2 conversation that she had with Mr. Stephens the other
3 day.

4 MS. MARLA MURPHY: Well, if you'd like to
5 put an objection forward, but I'm asking Ms. Ruzycki did
6 you have a conversation with Mr. Stephens at the end of
7 that day?

8 MS. NOLA RUZYCKI: I -- at the end of the
9 day? I saw Mr. Stephens at the elevator and basically
10 joked with him. However, yesterday I also had a twenty
11 (20) minute discussion with Mr. Stephens and indicated
12 that I would be very happy to take him up on the offer
13 and looked forward to it as --

14 MS. MARLA MURPHY: That was certainly
15 different than the message that was left with Centra at
16 the end of day in which the offer was made, correct?

17 MS. NOLA RUZYCKI: I don't -- no, I don't
18 think so, I think it was definitely said --

19

20 (BRIEF PAUSE)

21

22 MS. MARLA MURPHY: Mr. Chairman, if it
23 creates that much of an issue, I'll withdraw the
24 question.

25 THE CHAIRPERSON: I think it is probably

1 better to move on, Ms. Murphy.

2

3 CONTINUED BY MS. MARLA MURPHY:

4 MS. MARLA MURPHY: There has also been a
5 suggestion, through the course of this proceeding, that
6 Centra hasn't been timely in dealing with a request to
7 deal with your request regarding the minimum volumes,
8 correct?

9 MS. KAREN MELNYCHUK: Yes.

10 MS. MARLA MURPHY: You understood that to
11 be an issue that was to be addressed in the course of the
12 Competitive Landscape Proceeding, correct?

13 MS. KAREN MELNYCHUK: Yes.

14 MS. MARLA MURPHY: And that issue was
15 discussed at a meeting with brokers in April of 2007,
16 correct?

17 MS. KAREN MELNYCHUK: I was not able to
18 attend that meeting, but I did receive the minutes from
19 it.

20 MS. MARLA MURPHY: I have a copy of them
21 here, I'll just ask that they be circulated.

22 THE CHAIRPERSON: Mr. Singh...?

23

24 (BRIEF PAUSE)

25

1 THE CHAIRPERSON: Do we have an Exhibit
2 Number for this, Mr. Singh?

3 MR. BOB PETERS: Mr. Singh will probably
4 tell us it's CENTRA-26 when he gets back.

5 THE CHAIRPERSON: Sure. Very good.

6

7 --- EXHIBIT NO. CENTRA-26: Minutes from April 2007
8 meeting with brokers

9

10 CONTINUED BY MS. MARLA MURPHY:

11 MS. MARLA MURPHY: I just draw your
12 attention to paragraph number 5 on page 2, which explores
13 the conversation that was had at that time. It's
14 paragraph number 5 on page 2 of 3. Ms. Ruzycki, were you
15 at this meeting?

16 MS. NOLA RUZYCKI: Yes, I was.

17 MS. MARLA MURPHY: Do you recall the
18 discussion?

19 MS. NOLA RUZYCKI: Sorry, I just want to
20 refresh my memory here.

21 MS. MARLA MURPHY: Sure. Sorry.

22

23 (BRIEF PAUSE)

24

25 MS. NOLA RUZYCKI: Ready.

1 MS. MARLA MURPHY: I just wanted to
2 confirm that you recall if this discussion took place and
3 that there was a review of the request and of the cost
4 that may be associated with that.

5 MS. NOLA RUZYCKI: There was mention that
6 there would be likely a cost. I don't believe that any
7 cost was specified. I also believe I did bring this
8 issue up during the GRA, as well.

9 MS. MARLA MURPHY: Yes. The minutes as
10 you see them are accurate.

11 MS. NOLA RUZYCKI: I believe so.

12 MS. MARLA MURPHY: You're not -- dispute
13 them?

14 MS. NOLA RUZYCKI: No, I'm not disputing.

15 MS. MARLA MURPHY: There was subsequent
16 meeting in which there was another conference call
17 convened by Mr. Sanderson to discuss the changes to the
18 terms and conditions of service that occurred in August
19 of this year, correct?

20 MS. NOLA RUZYCKI: That's correct.

21 MS. MARLA MURPHY: And were both of you
22 in attendance at that meeting?

23 MS. NOLA RUZYCKI: Yes, I believe we
24 were.

25 MS. KAREN MELNYCHUK: I believe I was on

1 that one (1).

2 MS. MARLA MURPHY: I also have the
3 minutes for that meeting; I'd like to have them
4 circulated, please.

5

6 (BRIEF PAUSE)

7

8 THE CHAIRPERSON: It's good to give Mr.
9 Singh lots of exercise.

10 MS. MARLA MURPHY: In case I'm not
11 keeping him awake otherwise, we'll make sure he's moving.

12 THE CHAIRPERSON: I think we know the
13 exhibit number on this one; 27.

14 MS. MARLA MURPHY: So this will be Centra
15 Exhibit 27, correct?

16

17 --- EXHIBIT NO. CENTRA-27: Minutes of August 2007
18 meeting

19

20 CONTINUED BY MS. MARLA MURPHY:

21 MS. MARLA MURPHY: Now, as you read
22 through this -- the minutes of this meeting, there's no
23 discussion of the minimum volumes, is there?

24 MS. NOLA RUZYCKI: No, I don't believe we
25 discussed the minimum volumes. But this was a meeting to

1 discuss changes to the terms and conditions, and I don't
2 recall the minimum volume being a change that occurred.

3 MS. MARLA MURPHY: That's correct, and,
4 in fact, it is a -- a change that will be required before
5 it can be instituted, correct?

6 MS. NOLA RUZYCKI: That's correct.

7 MS. MARLA MURPHY: And at no time during
8 the course of this conversation did either you or Ms.
9 Melnychuk raise the issue of the minimum volumes,
10 correct?

11

12 (BRIEF PAUSE)

13

14 MS. KAREN MELNYCHUK: I believe, Ms.
15 Murphy, this meeting was called by the Utility to discuss
16 the changes to the terms and conditions that were ordered
17 coming out of the GRA Order.

18 MS. MARLA MURPHY: Well, this certainly
19 would've been an appropriate place to raise your question
20 with respect to the minimum volumes, if it had been of
21 significant concern, wouldn't it?

22

23 (BRIEF PAUSE)

24

25 MS. KAREN MELNYCHUK: Ms. Murphy, I'm

1 just trying to recall if there was an agenda for the
2 meeting, and I don't know if you have that available.
3 'Cause I don't recall minimum volume requirements being
4 on the agenda, and we were focussed on the ar -- or the
5 items that were ordered in the GRA Order for changes.

6 And -- and it was specific to, I believe,
7 like, timelines 'cause of the monthly enrollments and
8 that, and working through that, and Ms. Ruzycki can add
9 to that.

10 MS. NOLA RUZYCKI: It was also wis --
11 with respect to the reports and clarification as to the
12 Board Order and reports in -- and changes we might see to
13 the systems with amalgamation of some of the reports.
14 So, our focus was not on that. Our understanding was the
15 focus was solely on the items that were the terms and
16 conditions, that had been agreed to.

17 MS. MARLA MURPHY: But, certainly, you
18 had an opportunity to raise questions or issues that you
19 had during the course of this meeting, correct?

20 MS. KAREN MELNYCHUK: I guess we've got
21 an opportunity at any time. And we did take that
22 opportunity, I -- I believe, through our counsel earlier
23 in June of this year to get that information directly
24 from yourself. And, no, we did not bring it up at this
25 meeting, no.

1 MS. MARLA MURPHY: I just want to draw
2 your attention to the last paragraph of this minutes, and
3 I'll just read it for the record. It's actually the
4 second last paragraph:

5 "Brent Sanderson emphasized Centra's
6 willingness and desire to work
7 bilaterally with brokers directly on
8 matters of mutual interest, as well as
9 to provide whatever consultation or
10 clarification the brokers may require.
11 Brokers were strongly encouraged to
12 contact either himself or the direct
13 purchase supervisor directly with any
14 questions or concerns. Brent Sanderson
15 also confirmed that any other
16 anticipated changes to the format of
17 reports provided to brokers will be
18 communicated to brokers with as much
19 advance notice as possible, in order to
20 allow review and comments."

21 You see that?

22 MS. KAREN MELNYCHUK: Yes, that's the --
23 I believe, the last paragraph of the -- the second page.

24 MS. MARLA MURPHY: Thank you.

25 MS. KAREN MELNYCHUK: And I believe that

1 reference was geared to one (1) of Direct Energy's staff
2 because Mr. Summers, who's listed as one (1) of the
3 attendees on behalf of Direct Energy had questions in
4 regards to the weekly files, and Brent extended that, as
5 well.

6 MS. MARLA MURPHY: It's certainly not
7 limited to that area, though, is it?

8 MS. KAREN MELNYCHUK: That specific
9 reference was to Mr. Summers from Direct Energy in
10 regards to convers -- questions he needed answered in
11 regards to the weekly files that we receive from the
12 Utility.

13 MR. GARY NEWCOMBE: And I think, Ms.
14 Murphy, is very com -- commendable that the Utility would
15 make that offer. But, you know, your -- your assertion
16 here that we didn't raise this one (1) particular issue,
17 well, without seeing the agenda for the meeting and what
18 was the intended subject matter, it's pretty tough to say
19 that that was what was on the agenda for that day.

20 I notice that Cen -- there's different
21 parties from Centra, for the most part, at both of these
22 meetings. To suggest that we should take every
23 opportunity to raise every point that we have, I think is
24 totally inappropriate. I mean, typically, meetings are
25 called to deal with specific subject matter and they're

1 governed by agendas and time limits.

2 MS. MARLA MURPHY: Well, certainly --

3 MR. GARY NEWCOMBE: So just because we
4 didn't ask a particular question at one (1) particular
5 meeting, I don't think it means that we didn't think it
6 was important, at the time.

7 MS. MARLA MURPHY: Well, certainly, if
8 you were aggrieved and were waiting to here from Mr.
9 Stephens in respect of that, the fact that he was
10 participating in that call would've been a pretty good
11 opportunity to raise it, wouldn't it?

12 MS. KAREN MELNYCHUK: Yes. And we
13 believed that Mr. Hoaken, who are -- is our legal
14 counsel, was dealing with that behind the scenes, so we
15 did not bring it up at this meeting. He was dealing with
16 that through you and Mr. Stephens.

17 MS. MARLA MURPHY: Did you want to say --

18 MS. NOLA RUZYCKI: Sorry.

19 MS. MARLA MURPHY: -- something, Ms.
20 Ruzycki?

21 MS. NOLA RUZYCKI: Yes, I did, thank you.
22 I -- I would also just like to add that that was Mr.
23 Sanderson's introduction to us, as well. This -- he had
24 just moved into this new role, and he was welcoming -- I
25 think, the end comment there, the last paragraph, was

1 that he was opening the door and welcoming us to contact
2 him should we have any questions.

3 MS. MARLA MURPHY: Thank you.

4 MS. NOLA RUZYCKI: And for a lot of us,
5 that was the first time we had dealt with Mr. Sanderson
6 directly.

7 MS. MARLA MURPHY: Thank you. But did --

8 MS. KAREN MELNYCHUK: It was also our
9 first introduction -- sorry -- to Christine Foulkes who
10 was taking over for Brenda Obanowich (phonetic), so she
11 was also new to that role, so, it was a lot of new
12 introductions at that meeting.

13 MS. MARLA MURPHY: Thank you. Mr.
14 Chairman, being mindful of the hour, I expect that Mr.
15 Czarnecki and I will finish up before coffee tomorrow
16 morning, but we will be a little bit longer yet and I
17 suspect you probably don't want to hear from us any more
18 today.

19 THE CHAIRPERSON: Well, that might help
20 you, Mr. Hoaken, with Professor Cyrenne, you can give him
21 some idea he wouldn't have to come here until -- if I can
22 keep track of -- approximately 10:30.

23 MR. ERIC HOAKEN: It -- it certainly
24 does. It definitely doesn't help me with Mr. Roeder, who
25 had hoped to be on an airplane, but it helps me with

1 Professor Cyrenne, thank you.

2 THE CHAIRPERSON: Okay, thanks to
3 everyone, we will adjourn for the night. Nine o'clock.

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5 (PANEL RETIRES)

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7 --- Upon adjourning at 4:07 p.m.

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11 Certified Correct,

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Wendy Warnock, Ms.

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