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MANITOBA PUBLIC UTILITIES BOARD

Re:                               CENTRA GAS MANITOBA INC.  
                                  2007 COMPETITIVE LANDSCAPE PROCEEDING

Before Board Panel:

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

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
September 28th, 2007  
Vol XIII  
Pages 2744 to 2902

1 APPEARANCES  
2 R.F. Peters )Board Counsel  
3  
4 Marla Murphy )Centra Gas  
5 Brent Czarnecki  
6  
7 Paul Kerr (np) )Coral Energy  
8  
9 Sandy Boyd (np) )Communications, Energy  
10 )and Paper Workers  
11 )Local 681  
12  
13 Kris Saxberg (np) )CAC/MSOS  
14 Ivan Holloway )  
15  
16 Eric Hoaken )Direct Energy  
17 Nola Ruzycki )Marketing Limited  
18 Karen Melnychuk )& Energy Savings  
19 ) (Manitoba) L.P.  
20  
21 Dave Hill (np) )Koch Fertilizer  
22  
23 Nick Gretner (np) )J.R. Simplot  
24  
25

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APPEARANCES (CONT)

William Gange (np) )TREE and Resource  
)Conservation Manitoba

1	TABLE OF CONTENTS	
2		Page No.
3	Exhibit List	2748
4		
5	DEML/ESMLP PANEL 1, Resumed	
6		
7	CLINTON ROEDER, Resumed	
8	KAREN MELNYCHUK, Resumed	
9	GARY NEWCOMBE, Resumed	
10	NOLA RUZYCKI, Resumed	
11	Continued Cross-Examination by Ms. Marla Murphy	2751
12	Cross-Examination by Mr. Brent Czarnecki	2781
13		
14	DEML/ESMLP PANEL 2, Resumed	
15		
16	PHILIPPE CYRENNE, Resumed	
17	Cross-Examination by Mr. Ivan Holloway	2840
18	Cross-Examination by Ms. Marla Murphy	2877
19		
20		
21	Certificate of Transcript	2902
22		
23		
24		
25		

	LIST OF EXHIBITS	
1		
2	CAC/MSOS-6	Excerpt from book entitled,
3		"Privatization and Economic
4		Analysis," by Vickers and Yarrow 2846
5	CAC/MSOS-7	A document entitled, "Utilities
6		Board to Review Hydro's Hedging of
7		Natural Gas Prices, Tuesday,
8		October 3, 2006" 2860
9	CENTRA-28	Response to Undertaking 13 2874
10	CENTRA-29	Response to Undertaking 17, which
11		related to a calculation of salaries
12		and overhead included in the
13		calculation of the direct purchase
14		administration costs 2874
15	CENTRA-30	Response to Undertaking 18, which
16		related to the number of employees
17		involved in hedging, the amount of
18		time spent and the cost associated 2874
19	CENTRA-31	Sing paper 2876
20	CENTRA-32	Description of the Sing paper index 2876
21		
22		
23		
24		
25		

1	UNDERTAKINGS		
2	NO.	DESCRIPTION	PAGE NO.
3	40	Centra to file with Board the current AECO price for three (3), four (4), and five (5) fixed term and fixed price gas, and confirm the source of the data and the assumptions made	2838
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

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

2

3 THE CHAIRPERSON: Good morning everyone.  
4 I think when we left off, Ms. Murphy was carrying on with  
5 her cross-examination.

6 Is there any exhibits to file or anything  
7 of that nature?

8 Okay. So it's whenever you're ready.

9 MS. MARLA MURPHY: Thank you, sir, good  
10 morning. Just before I begin I wanted just to clarify --  
11 I think I created a bit of confusion yesterday in terms  
12 of the dates with respect to the advertisements that I  
13 was talking about.

14 And I note when I looked through the  
15 conversation that occurred at pages 2726 through about  
16 2728 on the transcript. I was referring to ads in 2003  
17 and the discussion that took place in 2003 and I had the  
18 year wrong. It's actually 2004.

19 And I did refer to two (2) ads at the  
20 start of my question; the subsequent discussion is about  
21 only one (1) ad and all of the questions should have  
22 related only to the -- to the one (1) ad, the fairly  
23 tale or Goldilocks ad that we've been talking about.

24 So I just wanted to clarify that. I  
25 apologize if I created any confusion.

1 DEML/ESMLP PANEL 1, Resumed

2

3 CLINTON ROEDER, Resumed

4 KAREN MELNYCHUK, Resumed

5 GARY NEWCOMBE, Resumed

6 NOLA RUZYCKI, Resumed

7

8 CONTINUED CROSS-EXAMINATION BY MS. MARLA MURPHY:

9 MS. MARLA MURPHY: I just wanted to tidy  
10 up one other matter, good morning, panel, with Ms.  
11 Melnychuk.

12 I understood you to say yesterday that  
13 when you provided this -- the package -- the renewal  
14 packages, the three (3) that were marked as Exhibit DEML-  
15 18, that the third one is used in the automatic renewal  
16 period and that you were continuing that process and that  
17 customers who had signed contracts prior to June of '04  
18 were continuing to be automatically rolled over during  
19 that ninety (90) day period.

20 Do I have that right?

21 MS. KAREN MELNYCHUK: For any contract  
22 that was entered into prior to June 1st of 2004, the  
23 ninety (90) day rollover does apply to them. And I  
24 believe that's in one of the tabs in your brief.

25 MS. MARLA MURPHY: I'm sorry, it's in one



1 of the tabs in our brief?

2 MS. KAREN MELNYCHUK: The old code of  
3 conduct that --

4 MS. MARLA MURPHY: Yes.

5 MS. KAREN MELNYCHUK: -- or it is a Board  
6 Order, sorry.

7 MS. MARLA MURPHY: Thank you. Tab 2. It  
8 follows logically from -- I think what you're telling us  
9 is that it's only contracts that have been entered into  
10 since June of 2004 that customers haven't been subjected  
11 to the ninety (90) day automatic rollover.

12 MS. KAREN MELNYCHUK: Yes.

13 MS. MARLA MURPHY: And it would be fair  
14 to say that there have been no contracts that have  
15 expired which were entered into since June of '04?

16 MS. KAREN MELNYCHUK: I would have to go  
17 back and look at our records.

18 MS. MARLA MURPHY: Did you enter any  
19 contracts that were three (3) years in length in 2004?

20 MS. KAREN MELNYCHUK: Again, I'd have to  
21 go back into our records.

22 MS. MARLA MURPHY: Well maybe I can take  
23 you to the response to Centra Exhibit 12.

24 MR. ERIC HOAKEN: Centra Exhibit 12?

25

1 CONTINUED BY MS. MARLA MURPHY:

2 MS. MARLA MURPHY: Yes. That's the  
3 document that summarizes all the expired contracts.

4

5 (BRIEF PAUSE)

6

7 MS. MARLA MURPHY: Do you have it?

8 MS. KAREN MELNYCHUK: Yes.

9 MS. MARLA MURPHY: That would suggest  
10 that there have been no contracts that were entered into  
11 since June 2004 which have expired, correct?

12

13 (BRIEF PAUSE)

14

15 MS. KAREN MELNYCHUK: That appears to be  
16 correct, yes.

17 MS. MARLA MURPHY: So I'm wondering how  
18 it is that you were able to -- able to calculate that  
19 your churn rate had increased by 17 percent, if you  
20 haven't actually experienced any contracts that have  
21 expired without the automatic renewal?

22

23 (BRIEF PAUSE)

24

25 MR. ERIC HOAKEN: Sorry, we're just going

1 to turn up the IR Response, give us a moment.

2

3

(BRIEF PAUSE)

4

5

MS. KAREN MELNYCHUK: Sorry, Ms. Murphy.  
6 The wording that we used in that IR Response is probably  
7 not the clearest that we could have made it. What we  
8 were trying to indicate in that IR Response is that  
9 without that roll -- ninety (90) day rollover, we  
10 anticipate, from what we've seen in other markets,  
11 especial -- specifically Ontario, is that the renewal  
12 drop off would increase to 30 percent.

13

14 CONTINUED BY MS. MARLA MURPHY:

15

MS. MARLA MURPHY: In your evidence,  
16 looking at paragraph 62 on page 18, about the third  
17 sentence in, in that paragraph, you say:

18

19

20

21

22

"The retailers were not anticipating  
such a ruling at that time, and there  
have been significant implications to  
both company's customer bases since the  
reversal decision was issued."

23

24

You're telling me now that's not a correct  
statement, in terms of Manitoba?

25

1 (BRIEF PAUSE)

2

3 MR. CLINTON ROEDER: Yeah. I think when  
4 you look at it, you could -- the wording that's in there  
5 where it says "there have been," what would have been  
6 accurate is for us to indicate based on experience in  
7 other market; we anticipate there will be significant  
8 implications to both company's customer base.

9 MS. MARLA MURPHY: Thank you. I want to  
10 turn to the area of customer research, and I think I  
11 heard you say yesterday, Mr. Roeder, that you perform  
12 customer research and you perform focus groups, and I'm  
13 wondering if any of that research and the focus groups  
14 have been conducted specifically with Manitoba customers?

15 MR. CLINTON ROEDER: The -- the question  
16 I'm asking, Karen, I -- I can't speak specifically for  
17 historically in terms of -- what I can talk toward is our  
18 customer research that we perform now, which is based  
19 across all of Canada, which includes members of each  
20 province, in terms -- that is concluded in that  
21 consideration.

22 Karen, do you want to talk to some  
23 historic?

24 MS. KAREN MELNYCHUK: I'm not sure of the  
25 year, Ms. Murphy, but I believe it was in either 2001 or

1 2002, and as part of a -- a broader pan-Canadian  
2 marketing, that we did pro -- do some focus groups in  
3 Winnipeg. I just don't remember which year it was.

4 MS. MARLA MURPHY: And is that the last  
5 time you recall including Manitoba customers in your  
6 research?

7 MR. CLINTON ROEDER: Just -- just to  
8 clarify my point. My -- my answer to that question was,  
9 we have not done specific research just for Manitoba  
10 residents. My comment was when we do our customer  
11 research, it's across all Canada, which includes employ -  
12 - customers that are in every province.

13 MS. MARLA MURPHY: So you're telling me  
14 that you have included customers from Manitoba in your  
15 research since 2002.

16 MR. CLINTON ROEDER: We've included  
17 citizens of Manitoba. Whether or not they're still  
18 customers or not, I can't confirm that, right here.

19 MS. MARLA MURPHY: Thank you for that  
20 clarification.

21 What type of issues are canvassed with  
22 your research?

23 MR. CLINTON ROEDER: In general, it's a  
24 wide range. As an example, right now part of a  
25 undertaking is to understand consumer's buying patterns,

1 but also their understanding, in terms of what their view  
2 is versus -- in Canada versus the US; and their views  
3 towards utilities, and what they've experienced  
4 historically, and trying to get a better understanding of  
5 why the views are so different; not just in Canada and  
6 the US, but also by province, and why their views are, in  
7 terms of some areas, so negative toward what they've  
8 experienced.

9                   And a lot of it has to do even just  
10 comparison to other industries; for example, Telecom  
11 versus utilities, and getting a better understanding.

12                   MS. MARLA MURPHY:    And I think I  
13 understand your position to be that you're not prepared  
14 to share that research in this forum, correct?

15                   MR. CLINTON ROEDER:    That's correct.

16                   MS. MARLA MURPHY:    That's because it's  
17 commercially sensitive?

18                   MR. CLINTON ROEDER:    It certainly is.

19                   MS. MARLA MURPHY:    It's considered  
20 valuable to the Corporation?

21                   MR. ERIC HOAKEN:    I don't know that we  
22 need to have that debate, but I've put on the record what  
23 our position is.

24                   MS. MARLA MURPHY:    Well, when you say  
25 it's commercially sensitive competitive information, that

1 -- I understood that to imply that it had value to  
2 Corporation, correct?

3 MR. ERIC HOAKEN: Well, I'm -- I'm not  
4 gonna play this game. If you're asking for production of  
5 it, we're refusing on the basis --

6 MS. MARLA MURPHY: I'm not asking for  
7 production.

8 MR. ERIC HOAKEN: -- that it's -- well  
9 let me just --

10 MS. MARLA MURPHY: I'm asking to clarify  
11 your reasons.

12 MR. ERIC HOAKEN: My reasons are -- are  
13 that it's commercially sensitive information. You've  
14 heard that this Company competes in a variety of markets  
15 in Canada, which are extremely competitive; lots of other  
16 market participants.

17 And the information that the shareholders  
18 of Centrica pay to obtain in market research, is used by  
19 personnel of Direct Energy and Centrica to focus their  
20 marketing efforts. It would be extremely damaging to the  
21 Company if it was disclosed.

22

23 CONTINUED BY MR. MARLA MURPHY:

24 MS. MARLA MURPHY: Thank you. That  
25 confirms my point, I think.

1                   Are you aware of Board Order 175/06 which  
2 addressed the Board's directives with respect to Centra's  
3 customer research? Do you have it with you?

4                   MS. KAREN MELNYCHUK: I'm familiar with  
5 it but I don't believe I have a copy with me at the  
6 moment.

7                   MS. MARLA MURPHY: Perhaps your counsel  
8 can provide you with one. I want to look particular at -  
9 - in particular at page 29, please.

10                   That Order was issued on December 21st,  
11 2006, correct?

12                   MS. KAREN MELNYCHUK: That's the date on  
13 the Order, yes.

14                   MS. MARLA MURPHY: And if you look at the  
15 bottom of page 29 you'll see that the Board directed that  
16 Centra should consult widely in advance of proceedings.

17                   "Parties to consult with include  
18 CAC/MSOS. The Board understands  
19 Centra's reservations about involving  
20 the gas brokers in Centra's customer  
21 surveys since, in a sense, the two (2)  
22 parties are in competition with each  
23 other. The parties also have differing  
24 requirements and preferences. This  
25 does not mean Centra should refrain



1                   from making an effort to understand the  
2                   perspectives of brokers."

3                   Do you recall reading that?

4                   MS. KAREN MELNYCHUK:    Yes.

5                   MS. MARLA MURPHY:    And you were aware of  
6                   the fact that the research would be undertaken shortly  
7                   thereafter?

8                   MS. KAREN MELNYCHUK:    Yes, that was in  
9                   the Board Order.

10                  MS. MARLA MURPHY:    And in fact within  
11                  about two (2) weeks of that Order you received a letter  
12                  from Manitoba Hydro requesting your input, correct?

13                  MS. KAREN MELNYCHUK:    Approximately, you  
14                  know subject to check, the dates.

15                  MS. MARLA MURPHY:    You received a copy of  
16                  draft survey questions and were given an opportunity to  
17                  comment on them and to provide you with suggestions?

18                  MS. KAREN MELNYCHUK:    Yes, I believe  
19                  Direct Energy and Energy Savings provided comments.

20                  MR. GARY NEWCOMBE:    I think though, Ms.  
21                  Murphy, through the cross-examination of Mr. Hoaken, this  
22                  consultation with stakeholders has been revealed to be  
23                  pretty much a lip service exercise, I think, as I --

24                  MS. MARLA MURPHY:    Well, I guess we can  
25                  all form our own opinions with respect to that, can't we?

1                   MR. ERIC HOAKEN:    He was finished -- so  
2 if you could let him finish his answer.

3                   MS. MARLA MURPHY:    Well, I hadn't  
4 actually asked him a question.

5                   MR. ERIC HOAKEN:    Well, he was answering  
6 the question that you'd previously asked.

7                   MS. MARLA MURPHY:    Well, I don't think he  
8 was.

9                   MR. ERIC HOAKEN:    I guess the Board's  
10 going to be the judge of that.

11                  THE CHAIRPERSON:    We'd just as soon he  
12 finish his answer.  Go ahead.

13                  MR. GARY NEWCOMBE:    Thank you, Chairman.  
14 No, I think through Mr. Hoaken's cross-examination it was  
15 quite readily pointed out that, you know, when we address  
16 some of the flaws that we saw in the only draft of the  
17 survey that we were shown, I don't think any of our  
18 substantial concerns were addressed.  I think some of the  
19 elements in the only draft that we did see got changed  
20 before the actual survey went out.

21                  So, you know, I think even I guess with  
22 those reservations I mean I think it was telling to say  
23 that the research did show a very strong support among  
24 consumers for competition and the concepts of  
25 competition, and that they strongly believed there would

1 be some benefits in it. But, you know, I think as well,  
2 Mr. Hoaken's cross-examination revealed that the focus  
3 group process was probably less than robust as well.

4 So, you know, I think we -- Ms. Melnychuk  
5 I think indicated she was there, expressed some concerns  
6 to the moderator and -- and, you know, to the best of my  
7 understanding felt ignored. So, you know, to call them  
8 consultations I think is probably stretching the word  
9 "consultation."

10

11 CONTINUED BY MS. MARLA MURPHY:

12 MS. MARLA MURPHY: So do I take it from  
13 your comments that even though you have reservations  
14 about the research, you're prepared to accept its  
15 conclusion that customers are satisfied with their broker  
16 experiences?

17 MR. GARY NEWCOMBE: Yeah, I think we've  
18 said that before, Ms. Murphy, that you know,  
19 notwithstanding the fact that we've got strong  
20 reservations and don't think the process was horribly  
21 robust, there may be the odd gem in there.

22 MS. MARLA MURPHY: And you get to pick  
23 and choose, correct?

24 MS. NOLA RUZYCKI: I think we've also  
25 stated on the record that we thought the customer

1 satisfaction would have in fact been higher had the  
2 survey been conducted in what we deemed to be an  
3 unbiassed manner.

4 MS. MARLA MURPHY: I think I also  
5 understood Mr. Newcombe to have withdrawn that comment  
6 yesterday.

7 I want to look specifically at some of the  
8 comments that you made and I think it's fair to suggest  
9 that both of the companies made a broad comment that you  
10 thought that the survey was biased, correct?

11 MS. NOLA RUZYCKI: That's correct.

12 MS. MARLA MURPHY: And you also made some  
13 specific suggestions for changes to the survey or  
14 additional questions to be added, correct?

15 MS. KAREN MELNYCHUK: That's correct.

16 MS. MARLA MURPHY: And if all of those  
17 changes had been made, would you have felt that the  
18 survey was unbiased?

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

21 MS. MARLA MURPHY: If -- if all of the  
22 changes that you suggested had been made, would you have  
23 felt that the survey was unbiased?

24 MS. KAREN MELNYCHUK: Ms. Murphy, it  
25 wasn't just the questions, it was the tone of -- of the

1 survey, it's how they're asked, how they're defined  
2 throughout the process. So there -- there was the over -  
3 - overlying tone that was biased.

4 The questions that we liked in the survey  
5 were omitted at the end and we were only give one (1)  
6 opportunity to review it and that was, I believe came out  
7 on the evidence as draft 3.

8 MS. MARLA MURPHY: I don't think you  
9 answered my question. I was asking if when you look at  
10 your comments that you sent in the correspondence in --  
11 about April 20th, if all of those changes had been made,  
12 would you have been satisfied that the survey wasn't  
13 biased?

14 MS. KAREN MELNYCHUK: No, we still had  
15 those concerns.

16  
17 (BRIEF PAUSE)

18  
19 MS. MARLA MURPHY: Am I correct that  
20 neither of the people commenting in respect of the survey  
21 are experts in the area of market research?

22 You don't have any designations that would  
23 suggest --

24 MS. NOLA RUZYCKI: No. I don't think we  
25 ever claimed to be market research experts either.

1 MS. MARLA MURPHY: No, just asking. If I  
2 could ask your counsel to provide you with DEML Exhibit  
3 Number 6; this is the one titled "eNRG Panel Cross-  
4 Examination Brief."

5 At Tab 6 there's an email of April 20th,  
6 2007 which provided your feedback on the survey design,  
7 correct?

8 MS. NOLA RUZYCKI: Yes.

9 MS. MARLA MURPHY: If you turn to page 5  
10 of the survey that's attached to that email, you've  
11 included a new question, 12 and 13, correct?

12 MS. NOLA RUZYCKI: Yes.

13 MS. MARLA MURPHY: And your suggested  
14 addition in question 12 was:

15 "Having competition often means that  
16 over the long run consumers pay lower  
17 prices and have additional choices.  
18 Do you agree or disagree with this  
19 statement, strongly or somewhat?"

20 Is that right? Would you agree with me  
21 that the statement that suggests that customers often  
22 save money is actually factually incorrect, at least in  
23 Manitoba to-date?

24

25 (BRIEF PAUSE)

1 MS. NOLA RUZYCKI: Sorry, could -- could  
2 you repeat the question?

3 MS. MARLA MURPHY: Sure. I was asking if  
4 you agree with me that that statement that you've  
5 suggested be included in the survey is factually  
6 incorrect?

7 MR. GARY NEWCOMBE: No, I wouldn't agree  
8 with that, Ms. Murphy.

9 MS. MARLA MURPHY: Well, haven't we  
10 established that through the course of what we've been  
11 looking at, that in Manitoba -- and when you look at  
12 Centra Exhibit 12 it's not factually correct -- that  
13 customers often save money?

14 MR. GARY NEWCOMBE: Well, what the  
15 question says is, does having competition often mean that  
16 over the long run consumers pay lower prices and have  
17 additional choices. I mean, I think it's a pretty well  
18 established principle of economics that competition puts  
19 downward pressure on prices, and in an effective  
20 competitive market prices would be lower than they  
21 otherwise would be.

22 I mean, the statement does -- the question  
23 does contain the phrase "over the long run" and it says  
24 "lower prices and have additional choices," and I think  
25 that's a pretty obvious outcome of effective competitive

1 markets as well as having lower prices. So I don't see  
2 anything misleading or factually incorrect in the  
3 question.

4 MS. MARLA MURPHY: How would a Manitoba  
5 consumer be in a position to evaluate the accuracy of  
6 that statement?

7 MR. GARY NEWCOMBE: Well, I would  
8 suspect, Ms. Murphy, that most Manitoba consumers have  
9 experience with many competitive markets. They would  
10 probably evaluate the -- the response on the basis of  
11 their own knowledge, and just the markets in general.

12 MS. MARLA MURPHY: The question you  
13 propose, is question number 13, relates to the  
14 distribution function of the Utility and doesn't have  
15 anything to do with primary gas, does it?

16 MR. GARY NEWCOMBE: I'm sorry, I -- I  
17 didn't catch that question at all. Sorry.

18 MS. MARLA MURPHY: I was asking about  
19 question 13, the one immediate -- immediately below that.  
20 It says:

21 "There's a cost to maintaining a  
22 monopoly in natural gas distribution.  
23 This cost relates to guaranteed profit  
24 for the monopoly as well as regulatory  
25 and administrative requirements.



1 Consumers pay these costs as part of  
2 their monthly natural gas bill. In  
3 your opinion what is an acceptable  
4 amount you are will to pay on your  
5 monthly natural gas bill to ensure that  
6 Manitoba Hydro maintains its monopoly  
7 on distribution?"

8 And then it gives a series of choices.

9 And my question was: That doesn't have  
10 anything to do with primary gas, does it?

11

12 (BRIEF PAUSE)

13

14 Mr. GARY NEWCOMBE: Well again, I'm not  
15 sure that I would agree Ms. Murphy. I think the way that  
16 Centra or Manitoba Hydro operates their bundled monopoly,  
17 and they provide -- I don't know that they make much of a  
18 distinction between the distribution and retailing  
19 operations. There is some cost allocation separation  
20 between the two (2), but I think they operate them  
21 together, so I'm not sure I'd agree that -- that with  
22 your question.

23 MS. MARLA MURPHY: This was a survey to  
24 obtain customers views, with respect to primary gas  
25 purchases, so how would that question assist in that?

1 (BRIEF PAUSE)

2

3 MR. GARY NEWCOMBE: No, Ms. Murphy this -  
4 - you know the -- what you're asking me here is -- is  
5 probably understandable and -- and a large distinction  
6 for the people in this room, but I'm not sure for the  
7 average consumer, if they would be able to understand the  
8 subtleties of utility cost allocation and rate design.

9 So I think it's a perfectly legitimate  
10 question just to illicit their views on do they actually  
11 even know that, you know, there are other costs and  
12 profits associated with the provision of default supply  
13 service, which I suspect in most consumers minds just  
14 means their gas bill, including both distribution and the  
15 commodity.

16 MS. MARLA MURPHY: And in a survey where  
17 you were struggling to try to keep the length below a  
18 certain minimum that would certainly not fall in a need  
19 to know category would it?

20 MR. GARY NEWCOMBE: I'm not sure if there  
21 was a ever an identified struggle on our part to keep it  
22 below a certain length.

23 MS. MARLA MURPHY: I'd like to turn your  
24 attention to page 14 of the survey.

25 You made comments and suggestions on

1 questions 40 through 46 requesting removal of the word  
2 "clearly" in those phrases, which you suggested was  
3 biassed.

4 And those references were removed,  
5 correct?

6

7 (BRIEF PAUSE)

8

9 MR. GARY NEWCOMBE: I mean, Ms. Murphy,  
10 from my perspective, I think you would probably try and  
11 avoid as many undefined adjectives, such as "clearly."  
12 Like, I'm looking at question 38 or 40, whichever one it  
13 is, and you take out the word "clearly" and you add an  
14 example there: Was he wearing a distinctive tie or an  
15 identification card?

16 I'm not sure of the distinction. I think  
17 the suggestion we made there was to actually tighten up  
18 the question.

19 MS. MARLA MURPHY: I just asked you to  
20 confirm that you requested "clearly" be removed, and it  
21 was removed.

22 Is that true?

23 MR. CLINTON ROEDER: I think we can go  
24 through and we -- if we want to go line-by-line, we can  
25 point out what was included and what was not included.

1 The point we made was that the requests were put forward  
2 and a better understanding -- we've also stated that no  
3 one sitting on this panel who -- claims to be an expert  
4 in market research, however internally we have many  
5 experts in this area.

6 And I think in the testimony that was made  
7 by the expert related to the research, he had  
8 acknowledged that he never made an effort to understand  
9 the request. And so that -- that was the feedback.

10 If we want to go line-by-line and take the  
11 time, we can, to point out what was included and what was  
12 not. That particular word, that request, was taken, yes.

13 MS. MARLA MURPHY: Thank you. There's  
14 also an indication in the -- of a -- I assume it's a  
15 comment added to what was numbered -- renumbered as  
16 question 45, to the piece that's underlined there. It  
17 says:

18 We are extremely concerned about this  
19 line of questioning.

20 That would be a comment you inserted?

21 MS. NOLA RUZYCKI: Yes, that would be.

22 MS. MARLA MURPHY: And did you offer any  
23 explanation as to why you were concerned?

24

25 (BRIEF PAUSE)

1 MR. CLINTON ROEDER: Ms. Murphy, we've  
2 already stated that we're not experts, in terms of each  
3 of the questions. You're asking a question to -- for us  
4 to answer, in terms of why it is or is not appropriate --

5 MS. MARLA MURPHY: No, sorry, if that's  
6 what you think, you didn't understand my question.

7 My question was: Did you offer any  
8 explanation as to why you were extremely concerned about  
9 this line of questioning?

10 MS. NOLA RUZYCKI: Not -- not in this  
11 portion, no. Nor was I asked in the future about it  
12 either. When the comments came back, we were never asked  
13 about our comments, or the lack of.

14 MS. MARLA MURPHY: And why -- why is it  
15 that you'd be concerned about that line of questioning?

16 MS. NOLA RUZYCKI: Well, first off, we're  
17 not experts, and I would suggest, in at least my view,  
18 "comfortable" and "uncomfortable" doesn't necessarily  
19 classify: are they comfortable. It -- it just did not  
20 provide enough detail as to what they were getting at by  
21 "comfortable" or "uncomfortable."

22 I mean some people might say yes, meaning  
23 they're uncomfortable having someone come to their door  
24 during dinner hour, but they may be comfortable having  
25 someone come to their door during the day.

1 MS. MARLA MURPHY: You ultimately  
2 received a copy of the final survey that was fielded to  
3 customers, correct?

4 MS. NOLA RUZYCKI: Yes, we did.

5 MS. MARLA MURPHY: And if you were  
6 unhappy with what you thought the survey was going to  
7 generate, you had the ability at that point to commission  
8 your own research study didn't you?

9 MS. KAREN MELNYCHUK: Ms. Murphy, we were  
10 provided one (1) opportunity to make comments to the  
11 survey and that was it. We did not receive anything back  
12 from the Utility. We did not receive draft 4 or 5. We  
13 provi -- were provided with a final copy and that was it.

14 So we weren't given a -- an opportunity to  
15 do it back and forth with the Utility.

16 MS. MARLA MURPHY: But my question was:  
17 You had a copy of the final survey that was fielded to  
18 customers, correct?

19

20 (BRIEF PAUSE)

21

22 MS. KAREN MELNYCHUK: I'm not sure of the  
23 date but yes, we did receive a final of the survey.

24 MS. MARLA MURPHY: And if you weren't  
25 happy with what you thought that survey was going to

1 generate, you had the ability to conduct your own  
2 research didn't you?

3 MS. KAREN MELNYCHUK: We always have that  
4 ability, yes.

5 MS. MARLA MURPHY: And you chose not to  
6 do that in a fashion that would be filed in this forum,  
7 correct?

8

9 (BRIEF PAUSE)

10

11 MR. GARY NEWCOMBE: Yes, Ms. Murphy, I  
12 think we would always have the ability to conduct  
13 whatever research whenever we wanted.

14 You know, it was our sort of thought,  
15 belief and hope that this process would be sort of a  
16 thorough generic examination of some of the higher level  
17 policies and -- and principles and issues around the  
18 future of the competitive mark -- landscape in Manitoba;  
19 and not necessarily, you know, a fairly detailed  
20 examination of minutia in some of our marketing materials  
21 and -- and a gory dissection of a customer research  
22 survey.

23 MS. MARLA MURPHY: You're familiar with  
24 the market survey report, aren't you?

25 I'm referring to the June 7 -- June 12th

1 report that was filed in this proceeding.

2 MR. GARY NEWCOMBE: "Familiar" might be a  
3 strong term but, yes.

4 MS. MARLA MURPHY: You understand that it  
5 only records the responses of those broker customers who  
6 are able to correctly identify themselves as being a  
7 customer of a broker?

8

9 (BRIEF PAUSE)

10

11 MS. KAREN MELNYCHUK: Yes, we understand  
12 that.

13 MS. MARLA MURPHY: I'd ask you to turn  
14 with me to table 33 please. It's on page 50 of the  
15 report.

16 The first statement that customers were  
17 asked whether they disagreed with -- agreed or disagreed  
18 with was:

19 "I could tell the person at my door  
20 worked for an independent natural gas  
21 marketer and not Manitoba Hydro."

22 Do you see that?

23 MS. KAREN MELNYCHUK: Yes, it's in table  
24 33 on page 50.

25 MS. MARLA MURPHY: And 84 percent of



1 customers who knew their gas was supplied by a broker  
2 agreed with that statement, correct?

3 MS. KAREN MELNYCHUK: That is the number  
4 provided in the table.

5 MS. MARLA MURPHY: However, that would  
6 mean that the remaining 16 percent disagree, correct?

7 I'm sorry. Total -- total disagreed is 10  
8 percent; 6 were -- 6 percent responded they don't know?

9 MS. KAREN MELNYCHUK: Based on how that  
10 question was asked, yes, that's the numbers represented  
11 there.

12 MS. MARLA MURPHY: So that suggests that  
13 for 10 percent of those customers, the marketer was not  
14 correctly identified in a way that they remembered,  
15 correct?

16 MR. GARY NEWCOMBE: No, I don't think it  
17 means that the marketer was not correctly identified when  
18 he came to the door. I think what it said is they prob -  
19 - probably don't remember.

20 MS. MARLA MURPHY: I thought that was  
21 what I asked you, is that it either means that the  
22 marketer didn't identify themselves, or that they don't  
23 remember the marketer identifying themselves.

24 MR. GARY NEWCOMBE: Sorry. I misheard  
25 you. Yes.

1 MS. KAREN MELNYCHUK: It's also -- you  
2 know, a lot of the customers could have been signed up  
3 four (4) years ago, three (3) years ago, so there is a  
4 time lapse as well.

5 MS. MARLA MURPHY: But it's a requirement  
6 in the broker code of conduct that sales agents  
7 immediately and truthfully identify themselves to the  
8 customer, correct?

9 MS. KAREN MELNYCHUK: That's correct.

10 MS. MARLA MURPHY: And to use one of your  
11 counsel's favourite terms, the code of conduct also  
12 suggests that the buck stops with the broker, in terms of  
13 making sure that the salespeople comply with the code of  
14 conduct, correct?

15 MS. KAREN MELNYCHUK: That's correct.

16 MS. MARLA MURPHY: Identification of  
17 brokers at the door has been an area of concern in  
18 Manitoba, hasn't it?

19

20 (BRIEF PAUSE)

21

22 MS. MARLA MURPHY: Do you need me to  
23 repeat the question?

24 MS. KAREN MELNYCHUK: Can you repeat the  
25 question? Sorry.

1 MS. MARLA MURPHY: Sure. This has been  
2 an area of concern. Identification of the brokers at the  
3 door has been an area of concern in Manitoba?

4 MS. KAREN MELNYCHUK: I believe it was a  
5 concern a few years ago, and the Board made an adjustment  
6 to the code of conduct at that time, where we had to --  
7 it's mandatory for agents to present a business card at  
8 the introduction.

9 MS. MARLA MURPHY: That occurred --

10 MS. NOLA RUZYCKI: I'm sorry. The agents  
11 are also badged and they have some sort of clothing on  
12 that represents the company. I think -- I think  
13 sometimes here we get into the issue of -- I was looking  
14 for a -- sorry, an ad that -- I don't know if it was an  
15 ad. It was part of the information that was provided by  
16 Centra, where it spoke about their gas product being  
17 supplied by Centra.

18 I think a lot of people, although you  
19 identify yourself, they're still confused as to the  
20 identify of Centra even; as far as your role in the  
21 market.

22 MS. MARLA MURPHY: The letter that you're  
23 referring to, Ms. Melnychuk, is the one that was sent by  
24 the PUB in April of 2005, is that correct?

25 MS. KAREN MELNYCHUK: I am not familiar

1 with the date at the moment.

2 MS. MARLA MURPHY: I have the letter. I  
3 can give it to you if you'd like. You can take it  
4 subject to check, if you prefer.

5 MS. KAREN MELNYCHUK: Subject to check.

6 MS. MARLA MURPHY: So what do you tell  
7 salespeople to do at the door, in terms of identifying  
8 themselves?

9 MS. KAREN MELNYCHUK: They are to  
10 introduce themselves as a representative of -- of Direct  
11 Energy, or at that time Municipal Gas. They have to  
12 present a business card during the introduction.

13 MS. MARLA MURPHY: And that business  
14 card has Direct Energy or Municipal Gas on -- on the  
15 card?

16 MS. KAREN MELNYCHUK: Yes.

17 MS. MARLA MURPHY: Do you -- sorry.

18 MS. NOLA RUZYCKI: Sorry. There's also a  
19 -- in our -- our area, we leave a large contact form too,  
20 which is a green form, in -- along with the card, so that  
21 if the customer wants to call our number, it's easy to  
22 find. It's a green piece of paper. You can stick it on  
23 your fridge or wherever you'd like, and can easily  
24 contact us.

25 MS. MARLA MURPHY: Do you --

1 MS. KAREN MELNYCHUK: Our agents -- sorry,  
2 Ms. Murphy -- are also branded. They're wearing  
3 uniforms. We also have -- we just implemented this year,  
4 it's also a -- a window film sticker, so that they say  
5 that, you know, they've been with Municipal Gas -- or  
6 Direct Energy as well. But everything is branded with  
7 the company logo and name.

8 MS. MARLA MURPHY: Do you instruct your  
9 people that it's -- it's -- your salespeople, that it's  
10 not acceptable to say, "I'm with the gas company"?

11 MS. KAREN MELNYCHUK: Yes.

12 MS. MARLA MURPHY: And have you had  
13 experiences where salespeople have used those types of  
14 descriptors?

15 MS. KAREN MELNYCHUK: We instruct our --  
16 our agents not to say -- to say they're not from the gas  
17 utility: We are a gas company. We supply natural gas.  
18 We own natural gas.

19 It is a -- I think a confusion in the  
20 marketplace. It -- especially with the old name,  
21 Municipal Gas. We are a gas company, but Direct Energy  
22 owns gas; I believe the Utility does not. So we are more  
23 of a gas company, actually, if you want to look at it  
24 that way, then the Utility.

25 MS. MARLA MURPHY: Mr. Chairman, at this

1 point I'm gonna turn the mic over to Mr. Czarnecki to  
2 finish up a few of the areas that we have, and I'd like  
3 thank the panel for their answers to me.

4 THE CHAIRPERSON: Very good. Mr.  
5 Czarnecki...?

6

7 CROSS-EXAMINATION MR. BRENT CZARNECKI:

8 MR. BRENT CZARNECKI: Thank you, Mr.  
9 Chairman, Members of the Board. Good morning, panel.

10 The area of cross-examination I want to  
11 first touch upon is one (1) of the areas you've  
12 identified as -- on your short list that may help attract  
13 additional competitors to the Manitoba market, and that's  
14 a nomination process.

15 Is -- is that my -- it's my understanding  
16 that the changes you're requesting -- it's your position  
17 that that will attract additional competitors to the  
18 Manitoba market?

19

20 (BRIEF PAUSE)

21

22 MR. GARY NEWCOMBE: Yeah, I think we  
23 could go through all of the items that we've, sort of,  
24 listed here. And, you know, you'd be able to say for any  
25 one (1) of them that, you know, well, it may or may not

1 have that big of an impact.

2                   You know, it's not that big of a deal. I  
3 think our evidence has been clear that what we're looking  
4 at is a -- a package. In other words, what we have said  
5 is that there are a number of impediments to this market;  
6 the nomination process being one (1) that, in our belief,  
7 is adding a lot of burden --unnecessarily so. And, in  
8 totality, if these things were changed, it is our belief  
9 that you would get more competitors into the market.

10                   You know, as I said, you could take any  
11 one (1) of these by itself, dissect it in great, gory  
12 detail and be able to make an argument that, you know,  
13 this isn't really that big of a deal. But you have to  
14 consider it in totality.

15                   So, the answer to your question is if we  
16 change the nominations in isolation, will that in and of  
17 itself attract more competitors to this market? I would  
18 suggest probably not.

19                   MR. BRENT CZARNECKI: And -- and thank  
20 you for that, Mr. Newcombe.

21                   And -- and it is one (1) of the items that  
22 you've identified in -- in totality as -- as may or may  
23 not attracting additional competitors to this market,  
24 correct?

25

1 (BRIEF PAUSE)

2

3 MR. GARY NEWCOMBE: Yes, it is one (1) of  
4 the items on our list, yes.

5 MR. BRENT CZARNECKI: And -- and I'm  
6 hoping not to get into great, gory detail of it, but  
7 there's been a lot that has been said about the  
8 nomination process. And I just want to further explore  
9 and understand what this actually means with this panel.  
10 So that's where I'm going to be coming from.

11 First of all, just to confirm a few things  
12 and I think through Mr. Peters' cross that the -- the  
13 brokers had confirmed that their load profile for their  
14 residential customers is not significantly different than  
15 system-supply customers.

16 Did I have that right?

17 MS. KAREN MELNYCHUK: No, I believe a  
18 residential system or marketer-supplied load would be  
19 about the same.

20 MR. BRENT CZARNECKI: And the other  
21 thing, and I think it was Mr. Roeder -- his testimony of  
22 Mr. Peters -- that you weren't suggesting, sir, that  
23 Centra was balancing its system on behalf of brokers'  
24 supply.

25 Is that correct?



1 MR. CLINTON ROEDER: That's correct.

2 MR. BRENT CZARNECKI: And just a couple  
3 of other things to confirm. Ms. Melnychuk and Ms.  
4 Ruzycki, I think you're both aware of the EEE -- EEA  
5 report which was filed at the last Cost of Gas Hearing?

6 MS. NOLA RUZYCKI: Sorry, that's the one  
7 that includes the storage information and a number of  
8 other -- yes.

9 MR. BRENT CZARNECKI: Right. And maybe I  
10 can be a little more particular. It -- it included the  
11 fact that in EEA's view and review of the weather  
12 patterns across North America, that Centra -- or pardon  
13 me, Manitoba had the most volatile weather in North  
14 America.

15 Is that your understanding?

16

17 (BRIEF PAUSE)

18

19 MR. GARY NEWCOMBE: So I believe that  
20 excerpts from that report were filed in response to  
21 PUB/CENTRA-36.

22 Is that the one?

23 MR. BRENT CZARNECKI: Yes, I believe  
24 that's the one.

25 MR. GARY NEWCOMBE: Yeah. Yeah. So I

1 think as Mr. Ruzycki pointed out yesterday, you know, we  
2 did have the question on here and that was that when  
3 volatility of -- of weather was being compared, Manitoba  
4 seemed to be Manitoba as a whole versus other discreet  
5 locations -- cities.

6 In other words, so Alberta, it lists  
7 Calgary, Saskatchewan, it lists Saskatoon. So I'm not  
8 sure if you were to sort of do an apples-to-apples, if  
9 the weather across all of Alberta would be more or less  
10 volatile than all of Manitoba.

11 And there's not a whole lot of difference  
12 in some of these numbers. But, certainly, I -- having,  
13 you know, lived here in the past and -- and spent the  
14 last week here, yes, the weather's volatile. The  
15 weather's volatile in a lot of places.

16 MR. BRENT CZARNECKI: And thanks, Mr.  
17 Newcombe. But you haven't done any studies to suggest  
18 that Manitoba is not the most volatile province in -- in  
19 Canada, or North America, for that matter?

20

21 (BRIEF PAUSE)

22

23 MR. GARY NEWCOMBE: Well again, no, I  
24 haven't done that. I don't -- not aware that the  
25 company's done any research on that. Again, I just point

1 out that this seems to be a comparison of a province the  
2 size of Manitoba to a city the size of Calgary, Saskatoon  
3 or Toronto. So I'm not sure how valid the comparison is.

4 You'd have to see it, I think, more on a--

5 MR. BRENT CZARNECKI: Okay.

6 MR. GARY NEWCOMBE: -- I'm not going to  
7 deny that the weather here is volatile, yes.

8 MR. BRENT CZARNECKI: Okay, and fair  
9 enough. And maybe I'll take it to the general that you  
10 wouldn't disagree that Manitoba has very volatile  
11 weather, both intra-day and seasonal.

12 Would you agree with that generally?

13 MR. GARY NEWCOMBE: Yes.

14 MR. BRENT CZARNECKI: And Ms. Ruzycki, do  
15 you recall as part of the GRA -- the last GRA proceeding  
16 before this Board -- you were questioning Mr. Sanderson  
17 as part of the Gas Supply Committee as to the nomination  
18 process?

19 MS. NOLA RUZYCKI: Yes, I recall.

20 MR. BRENT CZARNECKI: And -- and based on  
21 your conversation with Mr. Sanderson, what is your  
22 understanding of how Centra forecasts its MDQs?

23

24

(BRIEF PAUSE)

25

1 MS. NOLA RUZYCKI: Sorry, I'm just  
2 looking for a document here right now.

3 MR. GARY NEWCOMBE: Yeah. Is there  
4 something that you're aware of on the record, sir, that  
5 you can point us to and maybe save some time?

6 MR. BRENT CZARNECKI: Well I -- I was  
7 just -- the --the conversation that Ms. Ruzycki had was  
8 not -- not that far into the past. And I was just -- it  
9 was in some degree of detail, and I can't point you to  
10 the conversation.

11 But I was just wanting to know what her  
12 understanding here today was of how that MDQ is  
13 calculated. If -- if you wish, it was at 1417 to 1425 of  
14 the GRA proceeding of the transcripts.

15

16 (BRIEF PAUSE)

17

18 MS. NOLA RUZYCKI: Sorry, and I don't  
19 have a copy of that here with us.

20 MR. BRENT CZARNECKI: Okay. Well, if --  
21 if you're unable to answer your understanding today, Mr.  
22 Ruzycki, could I suggest to you that Centra -- you're  
23 aware of the fact that Centra aggregates the entire  
24 market for its -- for its MDQ and its for -- for its  
25 forecasting purposes?

1 MR. GARY NEWCOMBE: Well, you know, I'm  
2 sure if you want to just have a general discussion, we've  
3 probably got enough expertise on the panel that we could.

4 I'm sure they forecast their MDQ based on  
5 some kind of normalized weather and forecasts of customer  
6 peak day and everything else by month.

7 They probably look at it on a monthly  
8 basis and adjust what they determine for your monthly  
9 basis. You know, based on some normalized weather  
10 patterns over the last twenty (20) years; things like  
11 that, so.

12 MR. BRENT CZARNECKI: And, Mr. Newcombe,  
13 is your understanding that it is -- it does so on an  
14 aggregate basis meaning that it does the same for broker  
15 supplies and for Centra supplies?

16 MR. GARY NEWCOMBE: I suspect they do.  
17 As I understand the situation here, Centra's distribution  
18 rates include all of the upstream transportation and load  
19 balancing storage, those kinds of things.

20 So I understand that they look after that  
21 function, yes.

22 MR. BRENT CZARNECKI: And -- and Mr.  
23 Newcombe on a general basis -- on a general level, do you  
24 see any advantages of doing it on an aggregate basis  
25 versus breaking it down into different components?

1                   MR. GARY NEWCOMBE:    By different  
2 components, you mean...?

3                   MR. BRENT CZARNECKI:    Singling out  
4 brokers supplies on a contract basis, for example.

5                   MR. GARY NEWCOMBE:    Well, there's two (2)  
6 ways it could be done, I think.  The way that Centra does  
7 it today with all of the upstream transportation  
8 requirements bundled into their distribution rates and  
9 treating everyone the same; on that basis is one (1) way  
10 of doing it.

11                   The other way of doing it would be to  
12 unbundle the upstream transportation, have Centra  
13 maintain responsibility for everything downstream of the  
14 City Gate or the delivery point, and let both the default  
15 supply and competitive supply look after their own trans  
16 -- upstream transportation.

17                   So you could do it either way.  I don't  
18 know if there's any particular advantage in way or the  
19 other.

20                   MR. BRENT CZARNECKI:    And -- and, sir,  
21 the -- I believe your words were "equal" and  
22 "consistent" in that last answer.

23                   Do you agree that that's generally a  
24 regulatory principle that a Board such as this should  
25 prescribe to?

1 MR. GARY NEWCOMBE: When you're looking  
2 at things that are done on behalf of all customers,  
3 that's usually a -- a regulatory principle is followed,  
4 yes. As I said though, or you could unbundle the  
5 transportation.

6 MR. BRENT CZARNECKI: One of the  
7 advantages, I'm gonna suggest to you, of doing it -- to  
8 forecasting on an aggregate basis -- and I believe Mr.  
9 Sanderson had this discussion with Ms. Ruzycki the last -  
10 - at the last GRA -- is that, from a statistical  
11 perspective, you're -- you're lessening the additive  
12 errors that may occur in each individual forecast, if you  
13 were to break those components out.

14 Would you agree with that?

15 MR. GARY NEWCOMBE: Probably depends on  
16 how good the relative forecasts are. I -- I don't know.

17 MR. BRENT CZARNECKI: And -- and back to  
18 the GRA, Ms. Ruzycki. I -- I believe you were trying to  
19 determine, through your questioning, a way for yourself  
20 to better get -- get a handle on your attrition levels.

21 Do you understand that as being the case?

22 MS. NOLA RUZYCKI: Sorry, the attrition  
23 levels of the MDQ from quarter to quarter?

24 MR. BRENT CZARNECKI: Yeah. And I should  
25 have been more specific. The volumes that are associated

1 with the attrition levels.

2 MS. NOLA RUZYCKI: Yes.

3 MR. BRENT CZARNECKI: And I believe Mr.  
4 Sanderson confirmed that brokers would continue to  
5 receive, from Centra, the individual information of  
6 broker customers.

7 MS. NOLA RUZYCKI: As my understanding is  
8 today, that is not the case. When we get our quarterly  
9 MDQ we get a lump-sum revision. And we've recently had a  
10 large error in the MDQ calculation, and it took us some  
11 period of time to determine that we had an error because  
12 of that lump sum. So initially, yes, we do get the pool  
13 broken down.

14 But when the MDQ is set on the quarterly  
15 basis going forward, we get a lump sum number which makes  
16 it very difficult for us to determine when a pool is out  
17 of balance.

18 MR. BRENT CZARNECKI: I'm gonna turn to  
19 you, Mr. Roeder, and I reviewed the transcripts and your  
20 direct with Mr. Hoaken. And it seems like ages ago, but  
21 it was Monday and it was page 1897 and you were speaking  
22 about daily nominations. And I -- I think I have them in  
23 quotes here, that you were words were:

24 "The sheer increase in costs that we  
25 incur because of the current process".



1 Do you remember that?

2 MR. CLINTON ROEDER: Yes.

3 MR. BRENT CZARNECKI: And -- and what I  
4 wanted to know from you, sir, is what you meant by the  
5 use of the word "sheer".

6 MR. CLINTON ROEDER: I think on the graph  
7 that we handed out yesterday, which was a comparison by  
8 market, what it showed was over the year -- and if you  
9 look at the average for 2007, you'll see a 2.5 percent  
10 additive cost that is reflective of the cost that we have  
11 to build in to cover for the -- and I -- oh, yeah, Mr.  
12 Hoaken just clarified -- it's Exhibit 21 -- in terms that  
13 we have to add on to the wholesale costs to cover for the  
14 swings.

15 I think the other part -- if you go back  
16 and look at the explanation, part of the discussion was  
17 wanting clarification on what drives those. I think, to  
18 your earlier point, if we compare just our load in terms  
19 of the swings we see in Manitoba versus Alberta, as an  
20 example, we see larger swings in Alberta.

21 So part of the comment in terms of have we  
22 done -- do we have research to talk to -- we can talk to  
23 our specific load. I think the -- the point that we were  
24 looking for was clarification on what drives those. Are  
25 -- are there areas where there can be improvement to

1 manage that down?

2                   If not, any player, whether it's a broker  
3 or someone in the Utility, would incur similar costs  
4 which as you see there, I think at one point it was 3.1  
5 percent, but on average would have been closer by 2 1/2  
6 percent.

7                   MR. BRENT CZARNECKI:   Okay.  And -- and I  
8 don't want to get into the details on the clarification  
9 of the information and the process, because I think  
10 everyone in this room may be in agreement on that point,  
11 that that may be better served offline between the  
12 marketers and Centra's gas supply.

13                   But what I do want to focus on is the --  
14 the cost.  And I understand your previous answer but I  
15 want to get a little bit more sense of the costs that  
16 we're speaking about.  And -- and when I read your answer  
17 of the sheer cost, what I -- in my mind what I had was a  
18 vertical or a very steep cost.

19                   Would that be fair?

20

21                   (BRIEF PAUSE)

22

23                   MR. CLINTON ROEDER:   I -- I think in the  
24 explanation we reference closer to about 2 1/2 percent;  
25 that's what was meant.

1 MR. BRENT CZARNECKI: And -- and --

2 MR. CLINTON ROEDER: And I think in our -  
3 - also in our response, in our evidence that we  
4 submitted, it touches on inventory. It touches on  
5 finding the adjustments, having to sell in summer months  
6 versus sell in the winter when it's high-priced; selling  
7 inventory when it's -- the market's low. And that's what  
8 it touches on; if there is no way to control it.

9 I think the other comment that I made is -  
10 - was in reference to Mr. Stephens' comment that he has  
11 four (4) people sitting around for a half an hour at a  
12 hundred thousand dollars (\$100,000) cost.

13 And my comment was that if that is in fact  
14 all it cost in order to manage the risk including the  
15 hedging, then, you know, we would love to outsource all  
16 of our forecasting to him because that's not what we  
17 incur.

18 And so this is where it goes back directly  
19 to comment which is: we'd like clarification for that. I  
20 think this as Gary mentioned is trying to understand all  
21 the points that were put forward were points put forward,  
22 whether it's as lower sales channel, whether it's looking  
23 at the daily nomination, whether it's looking at the  
24 minimum volume requirements. All of it's see -- with the  
25 interest, to be able to offer the most competitive

1 product possible to consumers.

2 If at the end of the day, in fact there is  
3 nothing that can be done around daily nominations, then  
4 that's the best that can be done.

5 MR. BRENT CZARNECKI: And -- and thank  
6 you, Mr. Roeder, for that answer but getting back to my  
7 question as you sidestepped it, were you meaning by the  
8 use of the word "sheer" that they were steep costs?

9 MR. CLINTON ROEDER: I'll go back because  
10 I --- I think I did answer your question, which my  
11 comment was by "sheer" and the 2 1/2 percent.

12 MR. BRENT CZARNECKI: Okay. And the 2  
13 1/2 percent that we're talking about is this coloured  
14 graph that has I think been labelled "Direct at --"

15 MR. CLINTON ROEDER: That's correct.

16 MR. BRENT CZARNECKI: "-- 21 percent"?  
17 And just so I have a full understanding of this exhibit  
18 that you've put forward; I understand the blue graph as  
19 being the wholesale forward price of -- of your -- of  
20 your gas cost; now, the green transportation piece that  
21 I'm -- I'm assuming and you can clarify if I'm wrong that  
22 this represents the AECO to Empress toll?

23 MR. CLINTON ROEDER: Yes.

24 MR. BRENT CZARNECKI: And the red bar is  
25 the fuel and that's the fuel to actually move the gas

1 that you're paying?

2 MR. CLINTON ROEDER: That's correct.

3 MR. BRENT CZARNECKI: And I note -- and  
4 it shouldn't be by any surprise that the fuel to Ontario  
5 having coming -- moving a further distance around the  
6 Great Lakes to your markets in Toronto is -- is more than  
7 it is in Manitoba?

8 MR. CLINTON ROEDER: That's correct.

9 MR. BRENT CZARNECKI: And -- and that's  
10 just a geographical characteristic of that particular  
11 market, right?

12 MR. CLINTON ROEDER: That's correct.

13 MR. BRENT CZARNECKI: And in Ontario,  
14 sir, you'd agree with me that they have localized storage  
15 that Centra does not have available to it?

16 MR. CLINTON ROEDER: That's correct.

17 MR. BRENT CZARNECKI: And now the -- the  
18 only thing left that -- on the chart that I'd like you to  
19 clarify is the -- the yellow graph and that's a daily --  
20 what's been labelled a daily balancing premium.

21 These -- is this just like a contingency  
22 fee that you build into the cost to Manitoba or are they  
23 actual costs?

24 MR. CLINTON ROEDER: This is reflective  
25 of historically the costs that we've incurred over the

1 life of these contracts.

2 MR. BRENT CZARNECKI: Specifically to  
3 Manitoba, sir?

4 MR. CLINTON ROEDER: That's correct.

5 MR. BRENT CZARNECKI: So you're able to  
6 disaggregate your Manitoba load from all of your  
7 requirements that you're moving from Alberta to serve  
8 across Canada?

9 You do that type of analysis?

10 MR. CLINTON ROEDER: That's correct and  
11 we -- you know, if you look at the comparison, for  
12 example in Alberta, what we incur in terms of our  
13 premium, we have it broken up for all of our locations.

14

15 (BRIEF PAUSE)

16

17 MR. BRENT CZARNECKI: Now, I'm -- I'm  
18 going to maybe get back to the comments that you just  
19 made were -- in a previous answer that it depends --  
20 these types of costs depend on the season being winter or  
21 summer.

22 Is that right?

23 MR. CLINTON ROEDER: What's reflected in  
24 this graph is an average over the course of the year, and  
25 so in terms of that cost that incurs in terms of the

1 swings, they vary. It's not just the season, in terms of  
2 winter or summer. It's also reflective of what's going  
3 on in the wholesale market.

4 MR. BRENT CZARNECKI: And I just want to  
5 further understand that -- that the -- the winter costs  
6 that we're talking about, and even the summer costs, the  
7 costs are actually driven by the inaccuracy of the  
8 forecast, wherein you're either gonna be long in gas or  
9 you're gonna be short in gas. Long in gas you're being  
10 forced through the market to sell, and if you're short in  
11 gas, you gotta go and purchase some additional gas.

12 Is that right?

13 MR. CLINTON ROEDER: That's correct. And  
14 for example, I mean the reason I hesitate just to go with  
15 summer and winter, is let's go back to 2005. Typically  
16 you're prices may drop in the summer, although obviously  
17 everyone's aware, we had our hurricane situation and  
18 costs were very high. So in that case, in terms of if  
19 you had length, you'd have been selling in a high market.  
20 You probably would have made a profit.

21 So it's not -- you know, you could use the  
22 comment that typically prices are higher in the winter  
23 than the summer, but there are exceptions.

24 MR. BRENT CZARNECKI: And I believe it  
25 was you, Ms. Melnychuk, in your previous testimony, that

1 you said this is more an issue in -- in Manitoba in the  
2 summer than the winter months, because of the fact that  
3 the pipe's running full generally in the winter time, at  
4 100 percent load factor.

5 Is that right?

6 MS. KAREN MELNYCHUK: That's been our  
7 experience, other than the odd shoulder month, November,  
8 and that's where the weather warms up and we've had a  
9 decrease.

10 MR. BRENT CZARNECKI: So, what we're  
11 really talking about is the summer months, and with those  
12 shoulder months that you mentioned, about -- wherein gas  
13 prices are generally more stable.

14 Is that your assertion, Mr. Roeder?

15 MR. CLINTON ROEDER: If you can hang on  
16 one (1) second, please.

17

18 (BRIEF PAUSE)

19

20 MR. CLINTON ROEDER: I apologize for  
21 that. If you could just ask the question, and just to  
22 clarify. The reason -- I just wanted to get -- and we  
23 can put this document out if you'd like, but it's  
24 reflective of, as an example, what we have in terms of  
25 our MBQ and what we see in terms of the swings that occur



1 throughout the course of the year. So if you can ask the  
2 question again, I'd appreciate it.

3 MR. BRENT CZARNECKI: Yeah. And just on  
4 that point though, Mr. Roeder, those are the same swings  
5 that Centra Gas would see, as well?

6 MR. CLINTON ROEDER: I -- I would expect  
7 that, based on the earlier discussion, but I can't -- you  
8 know, as I think Gary's attested to, we don't know  
9 specifically how they're doing their overall forecasting,  
10 so we'll go based on the assumption which he had said  
11 earlier.

12 MR. BRENT CZARNECKI: And -- and I'll  
13 just bring you back to the winter period, Mr. Roeder.  
14 Would you agree that Centra does run it's system at full  
15 pipe, and it's at 100 percent load factor? Close to it?

16 MR. CLINTON ROEDER: I'll have to take  
17 your word for it. I -- I don't know specifically how --  
18 how they're operating, so I can't speak toward that.

19 MR. BRENT CZARNECKI: And, so in terms of  
20 how these things will vary, what we're really focussing  
21 upon is the volumes that are being shipped by the brokers  
22 during the summer months.

23 Is that right?

24 MR. CLINTON ROEDER: What -- what we're  
25 referring to is the initial MBQ that's given, and the

1 swings that occur versus that, and how they occur over  
2 time. And so if that's re -- yes.

3 MR. BRENT CZARNECKI: Yeah. And -- and -  
4 - it -- the volumes that are given in the winter time  
5 remain true, or constant, because their pipe is running  
6 full at 100 percent load factor.

7 Do you agree with that?

8 MR. CLINTON ROEDER: I guess the answer  
9 to your question, if it's constant versus what we were  
10 given in terms of our MBQ, the answer is no. Or if the  
11 question is: Are the swings as large in the winter versus  
12 the summer, looking at this graph, the answer would be:  
13 They appear to be larger in the summer than they are in  
14 the winter. But they are not -- the answer constant, no,  
15 that's not accurate.

16 MR. BRENT CZARNECKI: And -- and thank  
17 you for that, and -- and they're -- are they less  
18 frequent or more frequent in the summer versus winter?

19 MR. CLINTON ROEDER: In terms of  
20 frequency of adjustments, just by looking at this graph,  
21 it appears to be pretty constant that there are  
22 adjustments throughout. Just going back for  
23 clarification, there -- the size of them varies in the  
24 summer and winter, but the frequency of them is quite  
25 common.

1 MR. BRENT CZARNECKI: So your exposure  
2 is, in terms of the size of the adjustments, is greater  
3 in the summer than the winter months?

4 MR. CLINTON ROEDER: Once again, in terms  
5 of -- if -- if the question being asked is exposure in  
6 terms of financial impact, it would partially be  
7 dependent on volume swing, and also partially dependent  
8 on what takes place in the market.

9 So assuming everything's constant in terms  
10 of the rate during those periods, which is not an  
11 accurate assumption, then the volume swing would only be  
12 a large driver, and that's large in the summer.

13 However, based on market and depending on  
14 what is taking place at various times, you can have a  
15 financial impact that's very -- the same during the  
16 winter as what you could incur in the summer months.

17 MR. BRENT CZARNECKI: Okay. And let's --  
18 let's just focus on the summer months, Mr. Roeder. If --  
19 if I were to just try and quantify some volumes for this  
20 Board and -- and let's just assume for a second that, you  
21 know, Centra is -- Centra is, on average, moving, let's  
22 say, seventy-five thousand (75,000) GJ's in a summer  
23 month, on average.

24 And I think that's a quite representative  
25 number of what it may be moving throughout Manitoba on a

1 summer month. And let's assume that it's using fifty  
2 thousand (50,000) of those GJ's to fill its storage down  
3 in Michigan which I believe their storage requirements  
4 allow for fifty to fifty-five thousand (50/55,000) in a  
5 year.

6 So in the summertime what we are talking  
7 about here is twenty-five thousand (25,000) GJ's using my  
8 numbers of gas that's flowing through Manitoba.

9 And let's further -- let's further assume  
10 that 80 percent of that gas is used by system supply and  
11 20 percent of that is broker supply. What that leaves  
12 me, with my math, is five thousand (5,000) GJ's that the  
13 brokers are -- are moving through Manitoba in the summer  
14 months.

15 Are you with me so far? And I'm going to  
16 further break that down and make an assumption because I  
17 don't want to get into commercially sensitive  
18 information. But let's assume that the two (2) brokers  
19 that we do have on the residential side are sharing in  
20 those five thousand (5,000) GJ's at 50/50. So each  
21 broker has twenty-five hundred (2500) GJ's moving.

22 Now and -- and just getting this back to  
23 then that on any given day let's assume that on every day  
24 of the summer what happens is Centra is wrong in its  
25 forecast of twenty-five hundred dollars -- twenty-five

1 hundred (2500) GJ's and nominates you down to zero (0) on  
2 a daily basis.

3 What you're then left with is going to the  
4 market with twenty-five hundred (2500) GJ's or maybe it's  
5 subsumed in your greater gas supply portfolio and you  
6 have to sell or -- you have to sell those.

7 And that may, as you've indicated, may  
8 happen at a profit or a loss; is that right?

9 MR. CLINTON ROEDER: That's correct. It  
10 could be at a profit or a loss.

11 MR. BRENT CZARNECKI: And I'm going to  
12 take that -- the next step that on a -- in Centra's  
13 contract with Nexen, it's premium for its swing service  
14 is at two and a half cents (2 1/2) per GJ?

15 Would you think -- are you aware of that,  
16 first of all?

17 MR. GARY NEWCOMBE: Yeah, I think we've  
18 heard that number, yes.

19 MR. BRENT CZARNECKI: And do you believe  
20 that to be a reasonable number in terms of a premium per  
21 swing service?

22 MR. GARY NEWCOMBE: There are other ways  
23 to do it, whether that number's reasonable or not, that  
24 was something I assumed negotiated between Centra and  
25 Nexen.

1 I mean, you could accomplish equal or  
2 greater flexibility at less cost.

3 MR. BRENT CZARNECKI: So let's just use  
4 my example, I'm going to take it to the next step and say  
5 that twenty-five thousand (25,000) GJ's by that two and a  
6 half cents (2 1/2) is -- is going to derive a number?

7 And I -- I did the math and I -- also what  
8 I did was times that number by the two hundred and ten  
9 (210) days of the summer period in which those GJ's would  
10 be flowing, on average, through Manitoba.

11 And in using that calculation, what I came  
12 to was a number of about thirteen thousand dollars  
13 (\$13,000) and would you agree with me that that -- using  
14 my example, that that would be the maximum exposure for  
15 both brokers in terms of the -- the cost of the summer  
16 months?

17

18 (BRIEF PAUSE)

19

20 MS. NOLA RUZYCKI: No, I would not agree  
21 with that. We -- when we are purchasing our contracts  
22 upfront, we're purchasing a five (5) year term based on  
23 an MDQ that we have.

24 So we are buying for the peak day in the  
25 winter. So in each of those days we're getting rid of

1 gas up to the full amount, regardless of where our  
2 nominations are fluctuating to.

3 So not only do we have the nomination of  
4 fluctuation, we also have the excess of the winter, this  
5 extra fifty thousand (50,000) that -- our portion of that  
6 that we are either selling into the market or trying to  
7 displace elsewhere.

8 MR. BRENT CZARNECKI: So I take it from  
9 that answer, Ms. Ruzycki, that Manitoba is just but one  
10 (1) piece of your entire gas supply portfolio  
11 arrangements?

12 MS. NOLA RUZYCKI: That's correct.

13 MR. BRENT CZARNECKI: And part of that  
14 would include Ontario?

15 MS. NOLA RUZYCKI: Yes, part of that  
16 would include Ontario.

17 MR. BRENT CZARNECKI: And on an order of  
18 magnitude basis, how many GJ's are you moving into  
19 Ontario and when you're passing by Manitoba; are we  
20 talking in the hundreds of thousands, millions, tens of  
21 thousands?

22 MS. NOLA RUZYCKI: I think I mentioned  
23 this week in the Hearing that we purchase our gas supply  
24 for individual locations individually. We don't have the  
25 same price in the same locations because we are going to

1 the market at different times for different areas.

2 So we aren't necessarily purcha --  
3 purchasing an aggregate amount for the company that would  
4 be used in Manitoba, Ontario. We may be able to, in some  
5 cases, use it in other jurisdictions, but there's also  
6 transportation, et cetera that is involved in that.

7 MR. BRENT CZARNECKI: Yes and -- and  
8 understood and -- and maybe to clarify, those gas  
9 molecules although they may be purchased by jurisdiction  
10 by jurisdiction ,they're flowing the same way on the  
11 pipe? They're all flowing on the pipe?

12 MR. GARY NEWCOMBE: Yeah, I think I said  
13 that, I'm not sure if it was Monday or Tuesday, sir,  
14 that, you know, there really isn't anyone in this room  
15 who has any direct operational responsibility for, you  
16 know, either producing or upstream transportation in this  
17 room, you know.

18 MR. BRENT CZARNECKI: Fair -- fair  
19 enough, but there are, Mr. Newcombe, a few people that  
20 have some -- and have put forward some evidence on the  
21 costs of what this daily balancing means. It's Exhibit  
22 21. Would you agree?

23 MR. GARY NEWCOMBE: I -- I'd have to look  
24 at Exhibit 21, I'm sorry.

25 MR. CLINTON ROEDER: Yes, that's correct.



1 MR. BRENT CZARNECKI: And -- and maybe  
2 just to -- to wrap up on this point. If I am a -- a new  
3 competitor that is looking into this particular market,  
4 this balancing issue would be one that I would share in  
5 with my competitors, that being that, you know, something  
6 that ES -- Energy Savings has to deal with, it's  
7 something that Direct Energy has to do with, and I'm  
8 Marketer A that comes in to try and compete, I'm on the  
9 same level playing field and face these same issues with  
10 respect to nominations?

11 MR. GARY NEWCOMBE: Well, I think as I  
12 said earlier, sir, you know, there's really two ways that  
13 this could be done. 1) I think you would look at the BC  
14 model and say that if the distribution utility is going  
15 to do all of the forecasting -- you know, and it really  
16 goes to the heart of our issue with this.

17 If we have no input into the forecast, yet  
18 we're being asked to take some of the risk, and do some  
19 of the balancing with our portfolio, I think that's  
20 simply not appropriate. So I think one way of doing it  
21 is you take all of the costs of balancing the system, you  
22 put them into - and again the BC model is pretty darn  
23 good - you put them into a midstream cost that takes care  
24 of the upstream transport, the peaking requirements, the  
25 storage, all of those things. You bundle it together,

1 and that is done on behalf of all of the customers.

2           The other way of doing it is to put each  
3 supply portfolio out on its own, unbundle the upstream  
4 transportation, and say, retailers, you look after  
5 getting the gas to the city gate for your customers,  
6 default supply same thing. So I think you either  
7 unbundle it or you keep it socialized, but, you know,  
8 this sort of hybrid thing we have here where Centra does  
9 the forecast, Centra then makes the call, we have to  
10 adjust our gas supply, simply inappropriate.

11           MR. BRENT CZARNECKI: And -- and on that  
12 point, sir, I just want to clarify that the control issue  
13 of who's controlling things is -- is a legal one, that  
14 Centra nominates and holds the storage with TransCan --  
15 with the transportation with TransCanada; is that right?

16           MR. GARY NEWCOMBE: Well, maybe they do  
17 today. It doesn't mean it has to be that way in  
18 perpetuity, that could be unbundled. I mean, you know,  
19 it sort of goes to this whole issue that we talked about  
20 early on Monday about utilities living in a -- in a world  
21 where, you know, they're having difficulty letting go.

22           They're having difficulty accepting the  
23 fact that the only part of their business that remains as  
24 a natural monopoly is distribution; that there are  
25 competitors serving the retail function that's no longer

1 a monopoly and, you know, I think if you look at the way  
2 policy should be driven in this jurisdiction, you know,  
3 there's customers believe that there are benefits from  
4 competition, and I think the Utility has to -- to get  
5 with the program and start to facilitate it.

6 MR. BRENT CZARNECKI: Are you suggesting,  
7 sir, that Centra unbundles its upstream assets?

8 MR. GARY NEWCOMBE: I'm saying that's one  
9 way of doing it. The other way of doing it --

10 MR. BRENT CZARNECKI: Are you  
11 recommending that to this Board?

12 MR. GARY NEWCOMBE: No, I'm saying there  
13 are two (2) ways it can be done.

14 MR. BRENT CZARNECKI: And -- and --

15 MR. GARY NEWCOMBE: And that's one of  
16 them.

17 MR. BRENT CZARNECKI: And even if I were  
18 to assume that you were recommending that - which I  
19 understand you're not - would the brokers be prepared to  
20 pay for the imbalancing charges that would be caused by  
21 such unbundling?

22 MR. GARY NEWCOMBE: Well, if the upstream  
23 transportation were unbundled, sir, and we were  
24 responsible for getting the right amount of gas to the  
25 city gate, there may be some residual unbundling costs.

1 But I'm not sure that they would be huge -- or, a  
2 residual in balancing costs left.

3 But, you know, we would absorb those costs  
4 and we would do it. I'm not suggesting that should be  
5 done; I'm saying you can't, I don't think, continue to  
6 live in this hybrid system.

7 MR. BRENT CZARNECKI: And -- and on a  
8 daily basis, sir, how would you know whether you were in  
9 balance or not?

10 MR. GARY NEWCOMBE: Well, that would be a  
11 function that the distribution portion of Centra would  
12 provide to all of the suppliers, sir. I think that would  
13 be a -- a logical thing for the distribution --  
14 distributor to do in -- to facilitate a competitive  
15 market.

16 MR. BRENT CZARNECKI: And -- and at what  
17 costs then? At whose cost?

18 MR. GARY NEWCOMBE: I don't know at what  
19 cost, sir.

20 MR. BRENT CZARNECKI: I understand, Ms.  
21 Ruzycki, and I think you said that ideally in this area  
22 you would like to move to one three-sixty-fifths  
23 (1/365ths)?

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

25 MR. BRENT CZARNECKI: And can you just

1 explain what that means for the Board?

2 MS. NOLA RUZYCKI: That would mean that  
3 we would have the same requirement for daily commodity  
4 throughout the entire year; that would not fluctuate.

5 MR. BRENT CZARNECKI: And -- and I guess  
6 you used the word "ideally" because doing that would fix  
7 your amount and you would insulate yourself from risk; is  
8 that right?

9 MS. NOLA RUZYCKI: It -- it is as it is  
10 done in a number of jurisdictions. In Ontario the  
11 numbers are set for the year and that's a number that it  
12 flows. There's -- there's not an increase mid-day.  
13 There's not a change during the day. That's the number  
14 that flows for the term.

15 There's -- there's mechanisms in place  
16 that allow you to do make-up or suspension, inventory  
17 transfers, et cetera, with other parties in order to  
18 bring your account into line over the year.

19 MR. BRENT CZARNECKI: And -- and in part,  
20 Ms. Ruzycki, that's facilitated by the fact that the  
21 distribution company is sitting on a -- on a localized  
22 storage?

23 MS. NOLA RUZYCKI: That's not the case in  
24 BC.

25 MR. BRENT CZARNECKI: Fair enough. And

1 in moving to fixing a one three-sixty-fifth (1/365th) or  
2 on a -- on a seasonal basis, your -- your world gets  
3 better in the sense that you're fixing your -- your  
4 volumes and you shed that risk from yourself?

5 And am I right to say that you're shedding  
6 that risk to the -- to the rest of system customers?

7 MR. GARY NEWCOMBE: No. I mean, in the  
8 case of BC that we talked about before, there is a  
9 midstream charge that's applied to all distribution level  
10 customers that make sure the system is balanced, and  
11 includes upstream pipe storage.

12 MR. BRENT CZARNECKI: But in Manitoba,  
13 sir, that would include fixing a charge against 80  
14 percent of residential customers who aren't availing  
15 themselves to the -- to that option and would gain no  
16 benefit from it?

17 MR. GARY NEWCOMBE: If you mean the 80  
18 percent that aren't taking service from a competitive  
19 retailer --

20 MR. BRENT CZARNECKI: Yes.

21 MR. GARY NEWCOMBE: -- presumably, then,  
22 that 20 percent would be paying 20 percent of the costs  
23 of the balancing. So I'm not seeing where the inequity  
24 or your perceived inequity's coming from.

25 The other 80 percent of the customers

1 today that are taking system supply would be paying the  
2 80 percent of the costs related to balancing the system  
3 supply.

4 MR. BRENT CZARNECKI: Well, if I -- if I  
5 understand this correctly, and this chart Exhibit Direct  
6 21 -- if -- if the brokers received what they wanted  
7 from this Board in terms of fixing their volumes, either  
8 one three-sixty-fifths ( $1/365$ ths) or on a seasonal basis,  
9 this little yellow portion on the graph, we would expect  
10 it to disappear.

11 Would I be right in that?

12 MR. CLINTON ROEDER: I think the comment  
13 that has been made a number of times is that the 2 1/2  
14 percent is reflective of what we currently incur in the  
15 market. Part of what we put forward are recommendations  
16 to potentially improve that.

17 I don't think anyone's made the indication  
18 that it would go to zero. What we've indicated was more  
19 inside and some of these discussions, we could  
20 potentially improve it and it would benefit everyone in -  
21 - in Manitoba.

22 MR. BRENT CZARNECKI: So, Mr. Roeder, do  
23 I have your answer that the yellow box would not  
24 disappear, but it would be much smaller if you got,  
25 ideally, what you wanted?

1 MR. CLINTON ROEDER: You have my answer  
2 which is I would expect that, through these discussions,  
3 it would be somewhere in between -- as low as zero or as  
4 high as 2 1/2 percent. That's -- we need to have those  
5 discussions and explore the alternatives. I think, in  
6 terms of some of the recommendations and alternatives  
7 that are being proposed, will benefit all.

8 And -- and just to clarify, part of the  
9 reason this was put forward is there has been comments  
10 made regarding the profits that brokers make. And part  
11 of the indication here is to make sure it's clear for all  
12 parties that any fixed price product that is offered in  
13 the market is going to incur these costs today. And that  
14 means we take it into consideration when trying to back -  
15 - do the back of the envelope in terms of what margin is  
16 or is not made.

17 MR. BRENT CZARNECKI: And -- and I --  
18 again, I hate to go back to this, but I just -- the --  
19 the conundrum I'm having is that the cost of doing  
20 business in Manitoba, you're saying, is this 2.5 percent,  
21 or this contingency that is built in because it may or  
22 may not ever be realized based on market conditions.

23 And you're saying that it could -- if you  
24 ideally received what you did in fixing your volumes flat  
25 out across the year in Manitoba, that you're saying that



1 the range will be somewhere zero and 2.5 percent?

2 Intuitively, Mr. Roeder, wouldn't it be  
3 trending close to zero than 2.5 percent, and being just  
4 above zero?

5 MR. CLINTON ROEDER: What we reflected  
6 here is our historical averages. That's the actual. If  
7 we want to go down this path, which we seem to have gone  
8 down with a few other questions, whether it's  
9 hypothetical discussions or bringing in other data, we  
10 could do that.

11 What the intent here was to show,  
12 historically, what we've incurred in the marketplace  
13 under the current rules.

14 MR. BRENT CZARNECKI: And --

15 MR. CLINTON ROEDER: I cannot sit here  
16 and speak to what the actual impact's going to be for  
17 each one of these in terms of what the benefit would be.

18 Part of the comment that you heard from  
19 Gary earlier, which, when Mr. Newcombe was talking about  
20 the risk and what's shared. Today we have a situation to  
21 where we're offering long-term fixed price contracts to  
22 our consumers to where we're taking a risk over a sixty  
23 (60) month period.

24 Yet we're relying on the forecasting and  
25 the volume projections based on Centra, and so what we

1 factor into cover that -- what we've incurred  
2 historically -- is 2 1/2 percent.

3 Part of the discussion you've also heard  
4 which is not just about the daily requirement. We talked  
5 in terms of a number of items. I have expressed -- I was  
6 quite surprised when -- and I'll go back to when I heard  
7 Mr. Stephen's comment on half an hour --

8 MR. BRENT CZARNECKI: Sir, --

9 MR. CLINTON ROEDER: -- because I think--

10 MR. BRENT CZARNECKI: -- sir, if I  
11 could --

12 MR. CLINTON ROEDER: -- that's reflective  
13 of just the differences in terms of the amount of time we  
14 spent internally versus what was indicated here.

15 I do not know if that's in fact what --  
16 what goes on and the time, and that's part of what we're  
17 discussing.

18 MR. BRENT CZARNECKI: No, no, part of  
19 what I was discussing -- and I understand your position  
20 and I understand the broker's position. We've heard it  
21 repeatedly.

22 My question is on this 2.5 percent, that  
23 if you get what you want, and I'm assuming that part of  
24 what -- why you wanted is that this 2.5 percent box is  
25 going to be minimized in terms of cost to -- to the

1 brokers?

2 That's my question. You still haven't  
3 answered it.

4 MR. CLINTON ROEDER: I -- I know what I  
5 have and have not answered. And part of the reason I  
6 have not answered it, and I'll keep repeating it. You  
7 can keep asking the question. I'm going to answer based  
8 on the information that we have and what can be addressed  
9 today.

10 Part of the recommendations being made,  
11 and the recommendation further discussions, is we would  
12 hope that we can reduce the cost towards the benefit of  
13 the consumer.

14 Part of this is reflective of today to  
15 offer a fixed rate product, what the cost is to the  
16 consumer. The recommendations being put forward are how  
17 we can offer a lower rate to the consumers through some  
18 of these benefits.

19 Your question was in terms of reduction;  
20 what I've given you is a range that can potentially --  
21 because until we sit down and understand all the drivers  
22 and have that discussion, it is hard to quantify whether  
23 that will be zero percent, 1 1/2 percent, 2 percent or  
24 2.3 percent.

25 MR. BRENT CZARNECKI: And, Mr. Roeder,

1 I'm just going to -- repeatedly we've heard that the --  
2 one of the advantages of brokers' offerings is that they  
3 take the risk on behalf of the customer. Is that right?

4 MR. CLINTON ROEDER: We provide a stable  
5 rate to the consumers over the life of the contract.

6 MR. BRENT CZARNECKI: And in doing that,  
7 you take risk -- you transfer the risk from the customer  
8 of fluctuating prices and -- on behalf of the customer  
9 and you assume that on their behalf, right?

10 MR. CLINTON ROEDER: In the wholesale  
11 price, that's correct.

12 MR. BRENT CZARNECKI: And this 2.5  
13 percent is -- is an example of a risk that you're taking  
14 and insulating the customer from, is it not?

15 MR. CLINTON ROEDER: The 2.5 percent is  
16 what we have historically and is out of our control. As  
17 an example, when you look at the Ontario at zero  
18 percent --

19 MR. BRENT CZARNECKI: I don't want to  
20 talk about Ontario. I want to talk about Manitoba. In  
21 Manitoba --

22 MR. CLINTON ROEDER: You're asking  
23 questions and -- and I'm answering it. You know, you're  
24 asking questions in terms of the 2 1/2 percent, what is  
25 reflected.

1                   MR. BRENT CZARNECKI:   Well, is this 2.5  
2 percent a part of the risk that you take from the  
3 customer in fixing the prices?

4                   MR. ERIC HOAKEN:    And I think in  
5 fairness, I think Mr. Roeder was trying to answer your  
6 question, Mr. Czarnecki.  If you'd be good enough just to  
7 let him answer.  If you think his answer is not  
8 sufficient, you can followup.

9                   But at least let him answer the question  
10 if you don't mind.

11                  MR. BRENT CZARNECKI:   Well, Mr. Hoaken,  
12 with respect, once he moves into Ontario -- I'm -- I'm  
13 not interested in Ontario with this particular issue,  
14 because there's no yellow line for Ontario.

15                  I don't see how an Ontario answer is going  
16 to assist this Board.

17                  MR. ERIC HOAKEN:    Well, I guess,  
18 ultimately, that's up to the Board.  But when you ask a  
19 question, the witness then has to do his best to answer  
20 the question, which is, I think, what Mr. Roeder is  
21 doing.

22                  And I don't think it's appropriate for you  
23 to interrupt if, in your subjective opinion, his answer  
24 is not what you wanted it to be.  So, if you'd be good  
25 enough just to show him the courtesy of letting him

1 complete his answer.

2 MR. CLINTON ROEDER: The point being made  
3 about Ontario is in a market where we have the inside and  
4 the ability to manage. But in the case of Manitoba, the  
5 reason that's in there is that -- is that the --  
6 basically, in this case we're relying on the Utility, and  
7 that's historically the cost that's been incurred based  
8 on the current process, which is 2 1/2 percent.

9 THE CHAIRPERSON: Okay. We're gonna take  
10 a break right now. We'll come back in 15 minutes.  
11 That'll give cross-examination a chance to reflect.

12

13 --- Upon recessing at 10:32 a.m.

14 --- Upon resuming at 10:55 a.m.

15

16 THE CHAIRPERSON: Sorry for the delay.  
17 Okay, Mr. Czarnecki.

18

19 CONTINUED BY MR. BRENT CZARNECKI:

20 MR. BRENT CZARNECKI: Thank you, Mr.  
21 Chairman. Would the panel agree that the weather in BC is  
22 less volatile than Manitoba?

23 MR. GARY NEWCOMBE: You know, there's a  
24 certain degree of volatility to weather everywhere, but,  
25 you know, could be.

1 MR. BRENT CZARNECKI: Just -- back to the  
2 balancing in the summer months, would the panel agree  
3 that Centra has two (2) objectives: one of which is to  
4 bal -- which is to balance it's daily non -- it's daily  
5 load, and the other one being that it also is trying to  
6 balance the broker's gas loan mechanism?

7 MR. GARY NEWCOMBE: It would seem to me,  
8 sir, that the responsibilities for the operator of the  
9 distribution system would be to balance the entirety of  
10 the load on it; wherever that comes from and whoever is  
11 providing it and whoever those customers are taking  
12 retail service. I don't know that there needs to be a  
13 distinction.

14 MR. BRENT CZARNECKI: That -- that's the  
15 first objective, Mr. Newcombe, but the ancillary one to  
16 that is there is a gas loan mechanism in Manitoba -- a  
17 repayment mechanism between the Utility and the brokers,  
18 and that's another thing that Centra must -- and -- and  
19 the brokers must be mindful of?

20

21 (BRIEF PAUSE)

22

23 MR. BRENT CZARNECKI: And perhaps Ms.  
24 Melnychuk or Ms. Ruzycki, who are a little more familiar  
25 with it, could -- could answer that.

1                   MR. GARY NEWCOMBE:    I mean, from how it's  
2    been described to me, sir, it sounds like an accounting  
3    mechanism that needs to be trued up somehow, yes.

4                   MR. BRENT CZARNECKI:    I'd like to --  
5    sorry, Mr. Newcombe.

6                   MR. GARY NEWCOMBE:    Well, I was just  
7    going to say that you know, I mean, I've -- I've lived  
8    through this, you know, process when I was at ATCO on the  
9    other side. I was on the utility side and, you know, we  
10   said all these same things. We said our market's too  
11   volatile. The weather's too volatile in Alberta to ever  
12   do this. Our systems are too complex. Our purchasing  
13   procedures and everything else is way too complex. None  
14   of this will work.

15                   You know, but eventually we came to the  
16   realization that that was policy; that the retail market  
17   was not a natural monopoly. Distribution was.

18                   And when we were talking about, you know,  
19   highly technical, complex operational things like we've  
20   been talking about here for the last hour, you know, this  
21   isn't the forum to do that, sir.

22                   I mean, I think what Mr. Roeder said  
23   earlier is that all we are looking for is an opportunity  
24   to sit down with a distributor that's recognized that  
25   what they should be is a willing facilitator of the



1 retail market; that they've got a necessary role to play,  
2 and we can sort out what's in the best interests of all  
3 the consumers in this Province.

4 But, you know, going through this exercise  
5 is just very frustrating, I think, and I don't know if  
6 it's horribly helpful to the Board. I don't think we've  
7 come to any sort of understanding or -- or heightened  
8 anyone's knowledge of -- of how the -- any of this will  
9 work.

10 MR. BRENT CZARNECKI: And -- and before I  
11 move on, sir, I -- I agree with you, and I think that the  
12 Utility shares in that frustration. And we're not here  
13 to suggest that this isn't -- that this is the  
14 appropriate forum to be dealing with the technical  
15 details of nomination.

16 But one (1) of the major cornerstones of  
17 why you feel that -- how we could make this market more  
18 attractive to new competitors is this very issue.

19 And I just needed to understand, really,  
20 what it meant in the grand scheme of that context. And  
21 would you care to comment on that?

22 MR. GARY NEWCOMBE: Well, again, I would  
23 say I think you'd take -- have to take all of the things  
24 that we've raised together and look at them in totality.  
25 As I said, this is not, in my view, the right forum to

1 really come to any further understanding of these  
2 technical issues. And I just go back to what I said.

3 I mean, I -- you know, I've been through  
4 this many times, in many processes, and it really takes  
5 willing parties who recognize what their true role is.  
6 And I'm not sure that we have that here, sir.

7 MR. BRENT CZARNECKI: Thank you. And I'd  
8 like to move on to the -- if I can call it the half-cent  
9 premium for monthly enrollments?

10 And, Ms. Melnychuk, I understand your  
11 evidence that since 2003 you've been pushing for a  
12 monthly enrollment mechanism?

13 MS. KAREN MELNYCHUK: I believe actually  
14 we've been asking for it since the stakeholder meetings  
15 for a WTS implementation.

16 MR. BRENT CZARNECKI: Right. And that  
17 was -- you gave up on at that point as part of the  
18 greater negotiation of that?

19 MS. KAREN MELNYCHUK: That's correct.

20 MR. BRENT CZARNECKI: And they were most  
21 recently revived as of 2003?

22 MS. KAREN MELNYCHUK: That's four (4)  
23 years ago, so I don't know if you can label that as  
24 recent. But it's always been an issue with us, yes, and  
25 we've been on record here before the Board with that

1 issue for many years, yes.

2 MR. BRENT CZARNECKI: And would you agree  
3 with me, Ms. Melnychuk, that moving from a quarterly  
4 mechanism to a monthly mechanism is an increase in -- in  
5 flexibility that a Utility has with its supplier?

6 MR. GARY NEWCOMBE: Well, was your  
7 question whether going to quarterly -- from quarterly to  
8 monthly enrollments is an increase in flexibility?

9 MR. BRENT CZARNECKI: Yes.

10 MR. GARY NEWCOMBE: Is that your  
11 question? Well, yes, that's I think self-evident.

12 MR. BRENT CZARNECKI: And generally  
13 speaking, when you increase or desire additional options  
14 or flexibility in a contract that there's a cost that  
15 accompanies that?

16 MR. GARY NEWCOMBE: Well, I think the  
17 flexibility that's there today and being talked about, or  
18 the lack of flexibility -- however you want to  
19 characterize it -- is really being driven by Centra's  
20 purchasing practices for default supply and the fact that  
21 it contains some hedging mechanism and the specifics of  
22 their arrangement with Nexen.

23 There are other ways to get that same  
24 flexibility. For example, Centra could purchase a  
25 component -- a base-load on a monthly index and purchase

1 the rest on daily index. That would give them  
2 flexibility to allow customers to avail themselves of  
3 competitive contracts almost on a daily basis and that  
4 wouldn't cost anything.

5 MR. BRENT CZARNECKI: Mr. Newcombe, but  
6 for the brokers' request, are you suggesting that Centra  
7 would have engaged in moving from quarterly adjustments  
8 to monthly adjustments?

9 MR. GARY NEWCOMBE: I don't think that's  
10 what I said at all.

11 MR. BRENT CZARNECKI: Well, is -- is that  
12 the case? You're not suggesting that, are you?

13 MR. GARY NEWCOMBE: Sorry, I'm not  
14 suggesting what -- that Centra would have gone to monthly  
15 enrollments on its own volition?

16 MR. BRENT CZARNECKI: Yeah let -- let's  
17 pretend for a second that Ms. Melnychuk and Ms. Ruzycki  
18 did not desire, and were not pushing since 2003, for a  
19 monthly enrollment. Are you suggesting that Centra, in  
20 that scenario, would have sought out such an adjustment  
21 from quarterly to monthly from Nexen?

22 MR. GARY NEWCOMBE: I -- I don't know.  
23 From what I understand, I -- I would doubt that they  
24 would have.

25 MR. BRENT CZARNECKI: And -- and part of

1 that doubt may be because it -- the quarterly adjustment  
2 works quite well with how Centra sets its rates on a  
3 quarterly basis.

4 MR. GARY NEWCOMBE: So it -- it's sort of  
5 a circular argument, right? It's, Well, this is how we  
6 buy our gas. This is when we change our rates, so  
7 therefore we can't accommodate anything other than a  
8 quarterly mechanism. Well, in that world, yes.

9 I mean, if you were to buy your gas from  
10 Nexen on something that was only adjusted once a year and  
11 you changed your rates once a year, you'd be able to make  
12 the argument that could only do it once a year. So I  
13 think it's just a circular argument you're making.

14 MR. BRENT CZARNECKI: The impetuous for  
15 the monthly change is from the brokers though.

16 Do you agree with that?

17 MR. GARY NEWCOMBE: Yes, I think the  
18 brokers are looking at different -- of ways of better  
19 serving the consumers, and if there doesn't seem to be  
20 any valid commercial reason why a customer would have to  
21 commit to making a purchase and then wait three (3) or  
22 maybe more months to have that happen.

23 MR. BRENT CZARNECKI: Well, I'll get back  
24 to that advantage to the consumer in a minute, But the  
25 brokers wanted monthly and Centra went out and negotiated

1 that with its supplier, Nexen. And that contract is to  
2 start November 1st of this year.

3 Is that your understanding?

4 MR. GARY NEWCOMBE: Well, yes that's my  
5 understanding of the facts.

6 MS. NOLA RUZYCKI: Perhaps --

7 MR. BRENT CZARNECKI: Yeah.

8 MS. NOLA RUZYCKI: -- perhaps I can just  
9 make a comment here. This -- this goes to the issue of  
10 --that Ms. Murphy asked me about yesterday -- the  
11 Utility, in our view or our perception, being secretive  
12 and nonconsultative. The -- we were never consulted with  
13 after, I believe, the -- I'm not sure when Mr. Stephens  
14 sent out the options for the three (3) options that we  
15 had previous to this.

16 We've had no consultation as to whether we  
17 would be willing to pay any charge. We've had no  
18 discussion of it. Actually, I found out reading the GRA  
19 information. I never did find out from a Centra  
20 representative. I phoned them and asked.

21 Also when I asked -- there was a meeting  
22 set up, I believe, in April, and one of the issues was  
23 the terms and conditions. This was a change in the terms  
24 and conditions, and I was told in that meeting that it  
25 was an issue for the GR -- or, sorry -- for the

1 Competitive Landscape Review, and there was no further  
2 discussion to be held on it in that forum.

3 MR. BRENT CZARNECKI: So, Ms. Ruzycki, by  
4 that answer do I take it that you were expected to be  
5 consulted with while Centra negotiated its entire  
6 agreement with Nexen?

7 MS. NOLA RUZYCKI: No, I'm not suggesting  
8 that. I'm suggesting that there was a length of time in  
9 between the initial information coming to us and when you  
10 had to start to negotiate the Centra cont -- or the  
11 contract with Nexen. And there would have been  
12 opportunity during that time frame to consult with the  
13 brokers.

14 MR. BRENT CZARNECKI: Was your  
15 expectation that the move from quarterly to monthly would  
16 be free?

17 MS. KAREN MELNYCHUK: At this point, I  
18 just want to question that the Utility, I believe, also  
19 is receiving benefits from this monthly enrollment.  
20 They're now being a -- sorry -- they're now being allowed  
21 to make monthly changes to their TCPL contract. So this  
22 is not just a benefit to brokers and then broker  
23 customers. This is a benefit to all customers and the  
24 Utility.

25 MR. BRENT CZARNECKI: Thank you, Ms.

1 Melnychuk, and I'll move to the benefits in a moment, but  
2 I'm dealing with the cost right now. And I -- my  
3 question was specific.

4 Did the brokers expect that the  
5 flexibility would come for free?

6

7 (BRIEF PAUSE)

8

9 MR. GARY NEWCOMBE: I think it would be  
10 fair to say, sir, that we're not adverse to paying those  
11 costs that we should probably pay for. But implicit in  
12 that question was, I think, the fact that there was  
13 probably only one (1) option to increase this flexibility  
14 that was considered by Centra.

15 And, as I've said before, there are other  
16 ways to get that or even increase flexibility.

17 MR. BRENT CZARNECKI: And Mr. Newcombe,  
18 are you aware that -- of any other option that Ms.  
19 Melnychuk or Ms. Ruzycki raised with Centra, as including  
20 in those negotiations?

21 MR. GARY NEWCOMBE: I'm not, but I would  
22 let them answer that.

23 MR. BRENT CZARNECKI: Were there any  
24 other options raised other than monthly enrollment?

25 MS. NOLA RUZYCKI: Sir, and what



1 consultative are you speaking of?

2 MR. BRENT CZARNECKI: Well, I'm -- I'm  
3 not -- I'm not sure because Mr. Newcombe is inferring  
4 that there was other ways that Centra could have  
5 negotiated with Nexen. And I'm -- I was just trying to  
6 clarify that the only thing that the brokers -- the only  
7 mechanism that the brokers suggested to Centra was a  
8 monthly enrollment.

9 And if it's different I would like to --  
10 to get some input as to what else did the brokers want  
11 and communicate to Centra in that regard.

12 MR. GARY NEWCOMBE: Well, just for  
13 clarification I don't think there was other things that -  
14 - I don't think I said that there were other things that  
15 Centra could have done, in respect to this negotiation  
16 with Nexen. There may be, there may not be.

17 What I said was that there are other ways  
18 of achieving equal or greater flexibility.

19 MR. BRENT CZARNECKI: Would you agree  
20 that the half cent premium is a reasonable amount for the  
21 flexibility?

22 MS. KAREN MELNYCHUK: We don't know that,  
23 sir.

24 MR. BRENT CZARNECKI: What are the --  
25 what are the benefits from the brokers' view of moving

1 from the quarterly to the monthly mechanism?

2 MS. KAREN MELNYCHUK: I believe we had  
3 stated these before. Currently under the quarterly,  
4 customers can take up to four (4) months to move over, or  
5 to have their gas start to flow with a broker once  
6 they've signed a contract.

7 That lag time, we believe, adds to the  
8 confusion as to who is supplying their gas. There is  
9 also and we've testified to this before, it puts them on  
10 flow sooner so the cash flow for the broker is also  
11 affected.

12 MR. BRENT CZARNECKI: And the -- the  
13 change effectively if I understand your answer will be  
14 that, will remove from potentially a four (4) month  
15 window to a forty-five (45) day window, is that right?

16 MS. KAREN MELNYCHUK: It'll be just  
17 greater than forty-five (45) days because the forty-five  
18 (45) days is the lead time we have to notify Centra.

19 So depending on how long -- approximately  
20 sixty (60) days probably, instead of the hundred and  
21 twenty (120).

22 MR. BRENT CZARNECKI: So we're talking in  
23 -- in the fixed price offerings that are available to  
24 customers today are three (3), four (4) and five (5) year  
25 terms?

1 Do I understand that?

2 MS. NOLA RUZYCKI: That's correct.

3 MR. BRENT CZARNECKI: So effectively the  
4 benefit to consumers is that it's a, you know, forty-five  
5 (45) days or fifty (50) days, or whatever the additional  
6 days is, that out of that contract that they'll be able  
7 to flow sooner with their broker?

8 MR. GARY NEWCOMBE: Well, again as I  
9 think we've said several times, sir, you know, the -- can  
10 take any one of these in isolation and say well that's  
11 only a minor benefit to consumers or this is going to do  
12 this, this is going to cost half a cent, this is going to  
13 save five dollars (\$5).

14 What we've said throughout is that you  
15 need to look at these recommendations and have an  
16 understanding of whether we're trying to foster a  
17 competitive market where it's appropriate here in  
18 Manitoba, or whether we're not.

19 MR. BRENT CZARNECKI: And I understand  
20 that, Mr. Newcombe, and I'm glad that you said that this  
21 is -- is a minor adjustment, because I believe it's  
22 consistent with the discussion you had with Ms. Murphy on  
23 the ninety (90) day rollover of the Evergreen, that you -  
24 - I believe that your position was that it wasn't a great  
25 impedance on customer mobility, correct?



1 when we've done the comparison to some of this in terms  
2 of flexibility and what it offers -- allows us to offer  
3 in various markets, is it talk about how competitive our  
4 products are, and the difference in prices in other  
5 markets.

6 MR. BRENT CZARNECKI: And is there any  
7 benefit to the system supply customers that have chosen  
8 not to enter into broker contracts of the monthly  
9 enrollment?

10 MR. GARY NEWCOMBE: I'd say yes, because  
11 now they do have the ability to -- if they choose to  
12 exercise their choice, they can exercise that choice in a  
13 much more timely fashion. I mean, it's no particular  
14 benefit to those 20 percent of the customers who are  
15 already on a fixed price contract.

16

17 (BRIEF PAUSE)

18

19 MR. BRENT CZARNECKI: And -- and Mr.  
20 Newcombe, the coroll -- the -- the opposite of what you  
21 said, the -- which goes hand-in-hand with it, is that  
22 it's of no benefit to the customers who may never avail  
23 themselves to, and have in fact chosen not to avail  
24 themselves to broker contracts. Is that right?

25 MR. GARY NEWCOMBE: I -- I'm not sure if

1 I would agree with that. Going back to the famous, or  
2 infamous customer research study -- I think it was table  
3 9(a) -- talked about what consumers saw as a benefit of  
4 competition, and one (1) of those things was choice.

5 And to the extent that they can now,  
6 whether they use it or not, have the ability to avail  
7 themselves of choice, apparently is of some benefit, or  
8 perceived benefit, to, I think it was 82 percent of the  
9 customers.

10 MR. BRENT CZARNECKI: Right, and -- and  
11 they had choice before. It's just a matter of the choi -  
12 - the timing of the choice, correct?

13

14 (BRIEF PAUSE)

15

16 MR. GARY NEWCOMBE: Well, I think  
17 implicit in having choice, is being able to exercise it  
18 in a timely manner, yes.

19 MR. BRENT CZARNECKI: Thank you, panel,  
20 and Mr. Chair, Those concludes Centra's cross-examination  
21 on -- on this.

22 THE CHAIRPERSON: Thank you, Mr.  
23 Czarnecki.

24 Just before we go to Mr. Hoaken to ask him  
25 whether he has any redirect of the panel, we -- we have

1 something for you.

2                   Would Centra please undertake to file the  
3 current AECO price for three (3), four (4), and five (5)  
4 fixed term and fixed price gas.

5                   The Board understands that the prices  
6 fluctuate daily, not by the minute. So without this  
7 Board prescribing how, please provide representative  
8 current prices, and please confirm the source of the data  
9 and the assumptions made.

10                   MR. BRENT CZARNECKI: We can do that, Mr.  
11 Chairman.

12                   THE CHAIRPERSON: Thank you, sir.

13

14 --- UNDERTAKING NO. 40:       Centra to file with Board the  
15                                   current AECO price for three  
16                                   (3), four (4), and five (5)  
17                                   fixed term and fixed price  
18                                   gas, and confirm the source  
19                                   of the data and the  
20                                   assumptions made

21

22                   THE CHAIRPERSON: Okay, Mr. Hoaken, do  
23 you have any redirect for the panel?

24                   MR. ERIC HOAKEN: I do not. Thank you.

25                   THE CHAIRPERSON: Okay. Then we can

1 bring Professor Cyrenne back up.

2 MR. ERIC HOAKEN: All right. Thank you.  
3 Could we just take a quick break so this panel can try to  
4 collect up all of their belongings and move on?

5 THE CHAIRPERSON: Makes perfect sense.

6 MR. ERIC HOAKEN: Thank you.

7

8 (PANEL STANDS DOWN)

9

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

11 --- Upon resuming at 11:21 a.m.

12

13 THE CHAIRPERSON: Okay, Mr. Hoaken.

14 MR. ERIC HOAKEN: All right. Thank you  
15 very much, Mr. Chair.

16 I believe it's Mr. Holloway -- is up next,  
17 but just before he starts, there were two (2)  
18 undertakings given by Dr. Cyrenne in the course of his  
19 evidence yesterday.

20 One (1) was to provide a copy of the  
21 relevant passages of the Newberry book, so we have that.  
22 Now, I only have one (1) copy, because I just got it  
23 right now, so, what I might do is just say to my friends  
24 that it's available if they want to look at it this  
25 morning and then what we can do, I'm sure with the



1 assistance of Mr. Peters who I've seen work a  
2 photocopier, it's quite impressive, I'm sure we can get  
3 copies made.

4 We also took an undertaking to produce a  
5 copy of the Sing article which is footnoted in Dr.  
6 Cyrenne's evidence. I have a copy here, but I believe  
7 Ms. Murphy also has made copies and I think has  
8 distributed it around to all counsel.

9 MS. MARLA MURPHY: I've not yet  
10 distributed them but we do have copies available.

11 MR. ERIC HOAKEN: All right. Thank you.  
12 So maybe what I will do is leave it to Ms. Murphy if she  
13 is going to make reference to it in her cross-examination  
14 have it entered as an exhibit at that time.

15 THE CHAIRPERSON: Very good. Thank you,  
16 sir.

17 Mr. Holloway...?

18

19 DEML/ESMLP PANEL 2, Resumes

20

21 PHILIPPE CYRENNE, Resumes

22

23 CROSS-EXAMINATION MR. IVAN HOLLOWAY:

24 MR. IVAN HOLLOWAY: Yes, thank you, Mr.  
25 Chair, and good afternoon, Dr. Cyrenne.

1                   It's just a matter of brief housekeeping.  
2   It's understand from the break that Mr. Hoaken has a  
3   flight to go on at three o'clock and if he makes that  
4   flight, it will be the first time that he's able to have  
5   supper with his wife and kids and being the congenial,  
6   decent fellow that I am I want to ensure that that is  
7   made possible as -- as much as I can do. So --

8                   MR. ERIC HOAKEN:   I'd just like to say  
9   for the record I wish you'd made your decency and  
10  congeniality known to me sooner because I just cancelled  
11  the three o'clock.

12                  MR. IVAN HOLLOWAY:   Well, I was going to  
13  say to Mr. Hoaken that what I was prepared to do is that  
14  I was prepared to consent to examining Dr. Cyrenne in his  
15  absence -- Mr. Hoaken's absence that is.

16                  MR. ERIC HOAKEN:   I don't think my  
17  presence is going to make much of a difference.

18

19  CONTINUED BY MR. IVAN HOLLOWAY:

20                  MR. IVAN HOLLOWAY:   Dr. Cyrenne, -- have  
21  I pronounced that right, Dr. Cyrenne?

22                  DR. PHILIPPE CYRENNE:   Cyrenne.

23                  MR. IVAN HOLLOWAY:   Cyrenne? This --  
24  your -- your report, your June 11th that's the subject of  
25  our -- of this part of the Hearing, do you have that in

1 front of you?

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. IVAN HOLLOWAY: Did you prepare this  
4 on your own or was there assistance of a researcher, a  
5 student, something like that?

6 DR. PHILIPPE CYRENNE: No, I did it  
7 myself.

8 MR. IVAN HOLLOWAY: I'd like to refer you  
9 to page number 4, please, of your report. And in  
10 particular I want to refer you to the second paragraph on  
11 that page, not -- not including the question but just the  
12 -- the answer portion and, in particular, the second  
13 sentence of the -- of the second paragraph which reads,  
14 for the record:

15 "If the dominant firm takes actions to  
16 hinder the entry or expansion of the  
17 smaller firms other than through more  
18 efficient production, this results in a  
19 charge of abuse of dominant position."

20 Do you see that?

21 DR. PHILIPPE CYRENNE: Yes.

22 MR. IVAN HOLLOWAY: And I notice there  
23 that you have a footnote to that particular statement  
24 number 3 and I'm going to ask you to turn the page to  
25 your endnotes, please?

1                   And in particular if we look at endnote  
2 number 3, it states for the record --

3                   DR. PHILIPPE CYRENNE:    I think it's  
4 endnote number 2 you were referring to or is it?

5                   MR. IVAN HOLLOWAY:    In my copy it's  
6 number 3.

7                   DR. PHILIPPE CYRENNE:    Oh, okay.

8                   MR. IVAN HOLLOWAY:    Are we on the same  
9 page?

10                  DR. PHILIPPE CYRENNE:    Yeah.

11                  MR. IVAN HOLLOWAY:    Okay.  And in  
12 particular if I read endnote number 3, and I'm going to  
13 for the record, it says:

14                                "It has been suggested that British  
15 Gas, a state-owned utility, has the  
16 ability to use its dominant position to  
17 impede entry into the UK gas market  
18 because a new entrant must negotiate  
19 terms with British Gas for the use of  
20 the pipeline network.  This provides  
21 scope for the dominant firm to impede  
22 entry by charging an excessively high  
23 price for the transport facilities.  In  
24 addition, given the need of the entrant  
25 to negotiate for pipeline use, this

1 allows British Gas time to offer better  
2 terms to the targeted customer."

3 I'm not going to continue with the -- with  
4 the portion that's the -- the reference.

5 But this is something that was taken from  
6 a -- an article "Vickers and Yarrow: Privatization,  
7 Economic Analysis;" is that fair to say?

8 DR. PHILIPPE CYRENNE: It's actually a  
9 book.

10 MR. IVAN HOLLOWAY: Okay. At the break I  
11 provided you with a copy of this document, Mr. Cyrenne  
12 and I -- sorry --

13 DR. PHILIPPE CYRENNE: I think what I got  
14 was two (2) pages from the book.

15 MR. IVAN HOLLOWAY: Yeah.

16 DR. PHILIPPE CYRENNE: Is that what  
17 you're referring to?

18 MR. IVAN HOLLOWAY: You would have  
19 received that as well, and there should have also been an  
20 entire copy.

21 DR. PHILIPPE CYRENNE: Okay. I just -- I  
22 just received it now.

23 MR. ERIC HOAKEN: Okay. And that is I  
24 think a copy of a chapter, is that right, Mr. Holloway?

25 MR. IVAN HOLLOWAY: Yeah. And I'm sorry,

1 what -- what I provided Dr. Cyrenne was a copy of the  
2 chapter.

3 MR. ERIC HOAKEN: Thank you.

4

5 CONTINUED BY MR. IVAN HOLLOWAY:

6 MR. IVAN HOLLOWAY: And I provided a copy  
7 of the last two (2) pages of this chapter to Mr. Singh.  
8 I don't know if Mr. Singh has circulated it or not. Yes,  
9 okay.

10 Now, Dr. Cyrenne, you recognize -- first  
11 of all, you recognize this chapter 9 is the chapter 9  
12 from the book in which you referenced? Is that fair to  
13 say?

14 DR. PHILIPPE CYRENNE: It looks like it.

15 MR. IVAN HOLLOWAY: And the -- the last  
16 two (2) pages which I've provided you separately,  
17 although they're also a part of that --

18 DR. PHILIPPE CYRENNE: Yes.

19 MR. IVAN HOLLOWAY: -- also part of that  
20 chapter 9, you don't take any issue with those being the  
21 last two (2) pages of this particular text in which we're  
22 talking about?

23 DR. PHILIPPE CYRENNE: No, it looks like  
24 they are.

25 MR. IVAN HOLLOWAY: Okay. I'm going to

1 refer you to -- first of all I'd like to mark the last  
2 two (2) pages as an exhibit please.

3 THE CHAIRPERSON: CAC/MSOS-6.

4 MR. IVAN HOLLOWAY: I'm sorry, what was  
5 the reference number for that?

6 THE CHAIRPERSON: CAC/MSOS-6.

7 MR. IVAN HOLLOWAY: Thank you, Mr. Chair.

8 THE CHAIRPERSON: This is an extract of -  
9 - what's the title of the book?

10 DR. PHILIPPE CYRENNE: "Privatization in  
11 Economic Analysis," by Vickers and Yarrow.

12 THE CHAIRPERSON: Very good, thank you.

13

14 --- EXHIBIT NO. CAC/MSOS-6: Excerpt from book entitled,  
15 "Privatization and Economic Analysis,"  
16 by Vickers and Yarrow

17

18 CONTINUED BY MR. IVAN HOLLOWAY:

19 MR. IVAN HOLLOWAY: First of all I  
20 actually want to backup just one (1) step. If we go back  
21 to the text of your -- of your report, at page 4 -- I'm  
22 sorry to jump around.

23 When you state the proposition that:

24 "If the dominant firm takes actions to  
25 hinder the entry or expansion of

1 smaller firms other than through more  
2 efficient production, this results in a  
3 charge of abusive dominant position."

4 When you cite as an authority for that  
5 statement, Privatization and Economic Analysis, is that -  
6 - is that a citation that -- that supports that kind of  
7 general proposition? Or is it -- or is it a citation  
8 that's kind of more specific to the -- the situation with  
9 British Gas in the UK?

10 DR. PHILIPPE CYRENNE: It seems it's more  
11 directed to the UK system -- UK example.

12 MR. IVAN HOLLOWAY: Okay. Now, I want to  
13 refer you to CAC/MSOS Exhibit Number 6, which is the two  
14 (2) pages -- last two (2) pages of that chapter that we  
15 were referring to before.

16 And in particular I want to refer you to  
17 the first page of that document under "9.6 Concluding  
18 Comments," and in particular the second paragraph under  
19 "9.6" and more par -- further particular, the third  
20 sentence in that -- in that paragraph. I'm going to read  
21 it for the record. It says:

22 "In gas and electricity the intentions  
23 of the Oil and Gas Enterprise Act and  
24 the Energy Act have been thwarted,  
25 largely because legislative provisions



1 left dominant incumbent firms with  
2 considerable discretion over the terms  
3 of access to the distribution networks,  
4 and did virtually nothing to restrict  
5 predatory behaviour in the event that  
6 access problems, notwithstanding entry  
7 does not -- does actually take place".

8 You see that sentence, sir -- sir?

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. IVAN HOLLOWAY: Isn't it -- wouldn't  
11 be fair to -- to infer from -- from that -- and this is  
12 part of the concluding comment section -- that -- that  
13 the reason that the British Gas State owned Utility to  
14 which you refer in your endnote, was -- was abusing its  
15 dominate position -- at least according to these authors  
16 -- was that there is a lack of proper legislative power  
17 to be able to regulate and restrict British Gas?

18 DR. PHILIPPE CYRENNE: That's my  
19 understanding.

20

21 (BRIEF PAUSE)

22

23 MR. IVAN HOLLOWAY: I'm gonna refer you  
24 to page 6 of your report, Dr. Cyrenne. And in particular  
25 I want to refer you to the -- the first sentence under

1 the question in that page which, for the record:

2 "Well, first of all cross-subsidisation  
3 lowers overall economic welfare, that  
4 is it isn't an efficient outcome."

5 Do you see that?

6 DR. PHILIPPE CYRENNE: Yes.

7 MR. IVAN HOLLOWAY: And you have provided  
8 a footnote for that as well, right? Or an endnote?

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. IVAN HOLLOWAY: Number 6, that is.

11 DR. PHILIPPE CYRENNE: I didn't realize  
12 endnotes were gonna get so much attention here, so I'm  
13 glad I was careful.

14 MR. IVAN HOLLOWAY: We're very thorough  
15 in this arena.

16 And I'm gonna refer you to your endnotes  
17 again. And your endnote, for the record, says:

18 "See Christopher R. Knittel".

19 Is it Knittel?

20 DR. PHILIPPE CYRENNE: That seems right.

21 MR. IVAN HOLLOWAY: "Market Structure and  
22 the Pricing of Natural Electricity and  
23 Natural Gas: The Journal of Industrial  
24 Economics."

25 Volume -- it gives a volume reference, it

1 gives a date, and it says:

2 "Who finds that when electricity and  
3 natural gas are sold by regulated dual  
4 product monopolists -- monopolists that  
5 extensive -- that extensive cross-  
6 subsidisation occurs. He attributes  
7 the cross-subsidy to the fact that  
8 regulators respond to interest group  
9 activity."

10 You see that, sir?

11 DR. PHILIPPE CYRENNE: Yes.

12 MR. IVAN HOLLOWAY: It seems to me if we  
13 compare your -- your statements at page 6, in which you  
14 provide an endnote, and the endnote itself, that you're  
15 providing in your statements a general proposition; that  
16 being cross-subsidisation lowers overall economic  
17 welfare; that is it -- it isn't an efficient outcome.

18 And then the -- the support for that is a  
19 document which seems to be very particular to market  
20 structure in the pricing of natural electricity and  
21 natural gas. Do you see that?

22 DR. PHILIPPE CYRENNE: Yes.

23 MR. IVAN HOLLOWAY: Is it fair to say  
24 that -- that your -- your general statement could be  
25 something that could have been -- could have been

1 supported from a general textbook on economic theory?

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. IVAN HOLLOWAY: And I've also  
4 provided you with a copy of this -- this study by  
5 Professor Knittel at the break.

6 Do you have a copy of that?

7 DR. PHILIPPE CYRENNE: Yes.

8 MR. IVAN HOLLOWAY: It's entitled,  
9 "Market Structure and the Pricing of Electricity and  
10 Natural Gas."

11 Do you recognize that as the -- the report  
12 that -- or the study that you provided as an input to --  
13 to your report?

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. IVAN HOLLOWAY: Does everyone in the  
16 room have a copy of this report?

17 THE CHAIRPERSON: I believe so.

18 CAC/MSOS-7?

19 MR. IVAN HOLLOWAY: Thank you, Mr. Chair.

20

21 CONTINUED BY MR. IVAN HOLLOWAY

22 MR. IVAN HOLLOWAY: Now, if you go back  
23 to your -- to your endnote number 6, again.

24 Dr. Cyrenne...?

25

1 (BRIEF PAUSE)

2

3 DR. PHILIPPE CYRENNE: I think I put most  
4 of the good information in the endnotes. Next time I'll  
5 move it to the text.

6 MR. IVAN HOLLOWAY: I -- I see that. The  
7 -- the last sentence, which I -- I stated on the record  
8 before, but I'm gonna repeat, is that, of your endnote  
9 number 6, is that, quote:

10 "He attributes the cross-subsidy to the  
11 fact that regulators respond to  
12 interest group activity."

13 Do you see that?

14 DR. PHILIPPE CYRENNE: Yes.

15 MR. IVAN HOLLOWAY: Now, is -- is it not  
16 implicit in that -- in that -- in that statement, in that  
17 assertion, that the regulators would be aware of the  
18 interest group activity?

19 DR. PHILIPPE CYRENNE: Yes.

20 MR. IVAN HOLLOWAY: And would it not be  
21 implicit in -- in that, as well, that the -- the  
22 regulator would have, for whatever reason, political or  
23 otherwise, agreed to go along with that particular  
24 interest group's concerns?

25 DR. PHILIPPE CYRENNE: Yes.



1                   resulted in expanded consumer choice  
2                   and lower prices for a number of  
3                   products."

4                   Do you see that, sir?

5                   DR. PHILIPPE CYRENNE:    Yes.

6                   MR. IVAN HOLLOWAY:    Now, you're -- you're  
7                   -- I don't believe from reviewing your CV that -- that  
8                   you would profess to be an expert in the  
9                   telecommunications industry.  Is that fair to say?

10                  DR. PHILIPPE CYRENNE:    No.

11                  MR. IVAN HOLLOWAY:    Okay.  And -- and  
12                  neither am I, so we're at least on the same playing field  
13                  when it comes to that.

14                  But wouldn't you agree that just from a  
15                  kind of a -- a basic economic/commonsense perspective  
16                  that there's some fairly important differences in the --  
17                  in the telecommunications industry?  And I guess I'm  
18                  thinking in particular that there's been some -- some  
19                  relatively recent technological developments in the past  
20                  ten/twenty (10/20) years.  For example, wireless cell  
21                  phones.  I'm sorry.  I -- I put a lot of words in one (1)  
22                  question.

23                  But you -- you would agree with me that --  
24                  that there has been significant technological change in  
25                  that industry in the last, whatever it's been --

1 DR. PHILIPPE CYRENNE: Yes.

2 MR. IVAN HOLLOWAY: -- relatively  
3 recently. Okay, thanks.

4 And now wouldn't it be the fact that --  
5 that -- the fact that we have the new technology that  
6 provides wireless, probably among other things; but  
7 wouldn't that be something that would inherently allow  
8 that particular industry to become open to competition as  
9 opposed to a monopoly?

10 DR. PHILIPPE CYRENNE: That's a -- a  
11 general view. That -- I mean, the key thing is whether  
12 the original reasons for the regulation of the industry  
13 have changed.

14 And so that can be a number of ways. In  
15 some sense, it can be the case that circumstances where  
16 it looked like regulation was required. If technology  
17 upsets that, then you have to revisit whether regulation  
18 is needed.

19 And, in the telecom industry, that's  
20 basically what's happened in -- in certain markets.

21 MR. IVAN HOLLOWAY: Okay. But -- so --  
22 but just kind of on a -- more kind of basic level. It  
23 would -- it's my understanding that -- that the reason,  
24 original reason, for the natural monopoly in the  
25 telecommunications industry was very similar to -- to



1 natural gas, in that you had wires; at a very basic  
2 level, providing people with telephone access and that it  
3 was -- the nature of the technology was that it -- it  
4 necessitated a natural monopoly within a particular  
5 jurisdiction.

6 Is that fair to say?

7 DR. PHILIPPE CYRENNE: Yes.

8 MR. IVAN HOLLOWAY: And that wireless --  
9 inherent in wireless is the lack of wires; the lack of  
10 that single infrastructure which probably -- among other  
11 things -- probably an important factor, would allow for  
12 competition to more easily flourish with that new  
13 technological change.

14 Is that fair to say?

15 DR. PHILIPPE CYRENNE: Yes. Are you  
16 going to ask me why -- in what way I think the two (2)  
17 industries are different?

18 MR. IVAN HOLLOWAY: Well, I -- I was kind  
19 of going down that track with my own questions.

20 DR. PHILIPPE CYRENNE: Okay.

21 MR. IVAN HOLLOWAY: But, of course you,  
22 would acknowledge that weren't in -- in the natural gas  
23 industry, we're not -- we're not at the stage?

24 and I -- I don't mean to be trite and I  
25 don't mean to be cheeky, but that we're not able to

1 provide people with natural gas by beaming it to them,  
2 you know, a wireless way; something that doesn't require  
3 pipes and infrastructure, right?

4 DR. PHILIPPE CYRENNE: I certainly didn't  
5 say that.

6 MR. IVAN HOLLOWAY: But you would agree  
7 with that though, right?

8 DR. PHILIPPE CYRENNE: Yes.

9 MR. IVAN HOLLOWAY: Okay. And -- that's  
10 fine. I'm going to refer you, Dr. Cyrenne, to page 16.  
11 Actually I'm -- I'm -- sorry, once again I'm going to  
12 refer you back to page 15, last paragraph page 15.

13 And, in particular, I'm going to read this  
14 into the record:

15 "Regarding hedging, it is interesting  
16 that in the past citizen groups have  
17 complained about Centra Gas's hedging  
18 activities.

19 Consumers may feel that Centra should  
20 not be involved in this activity. This  
21 suggests one (1) of two (2) things.

22 Either that some consumers don't value  
23 price stability or, if they do, they  
24 don't think Centra should do it.

25 This distinction is helpful and implies

1 a role for the gas brokers. Gas  
2 brokers can provide a service to the  
3 subset of customers who value price  
4 stability. Centra would provide gas at  
5 prices that fluctuate with the market,  
6 while the direct brokers provide long-  
7 term contracts.  
8 This expanded choice is welfare  
9 enhancing.  
10 From media -- from reports in the  
11 media, it appears that some consumer  
12 groups want Centra Gas to charge prices  
13 that are averaged. They want Centra to  
14 effectively self-ensure if spot prices  
15 are high, charge lower prices and if  
16 spot prices are low, charge higher  
17 prices.  
18 This pricing strategy is only possible  
19 if customers cannot opt out of the  
20 averaging contract and buy at spot  
21 prices. This seems like an accept --  
22 like an unacceptable limitation on  
23 consumer choice, and would prevent the  
24 existence of a competitive retailing  
25 sector."

1 Do you see that, sir?

2 DR. PHILIPPE CYRENNE: Yes.

3 MR. IVAN HOLLOWAY: Now, I -- I note that  
4 for your assertion in that last paragraph -- for the  
5 first paragraph, you say "from reports in the media," and  
6 then continues on in that sentence that you have a  
7 footnote to that which is footnote 14, right?

8 DR. PHILIPPE CYRENNE: Yes.

9 MR. IVAN HOLLOWAY: And I'm going to ask  
10 you once again to refer to your endnotes -- footnotes,  
11 endnotes -- I guess more properly endnotes. And in  
12 particular I'm going to refer you to that endnote 14.

13 And you quote for your endnote as the  
14 source:

15 "Winnipeg lawyer, Chris Saxberg, in  
16 representing the Manitoba Branch of the  
17 Consumers Association of Canada and the  
18 Manitoba Society of Seniors, has stated  
19 that the two (2) organizations oppose  
20 hedging. The position of the  
21 organizations is that Manitoba Hydro  
22 should consider monthly price averaging  
23 as an alternative to hedging.  
24 According to Saxberg one (1)  
25 perspective is that hedges shouldn't be

1 placed at all, and that way consumers  
2 can be assured that they'll pay the  
3 market price of gas."

4 This was reported in the news report  
5 "Utilities Board to Hydro's Hedging of Natural Gas  
6 Prices, CBC News, Tuesday, October 3, 2006." And then  
7 you provide a -- a website address.

8 Can you see that, sir?

9 DR. PHILIPPE CYRENNE: Yes.

10 MR. IVAN HOLLOWAY: And during the break  
11 I also provided you with a document entitled, "Utilities  
12 Board to Review Hydro's Hedging of Natural Gas Prices,  
13 Tuesday, October 3, 2006."

14 Do you have that, sir?

15 DR. PHILIPPE CYRENNE: Yes.

16 MR. IVAN HOLLOWAY: And this -- this  
17 document that I provided you, that's the same document  
18 that you referenced in your endnote number 14, is that  
19 fair to say?

20 DR. PHILIPPE CYRENNE: It looks the same.

21 MR. IVAN HOLLOWAY: And I'd like to mark  
22 that as an exhibit, please.

23 THE CHAIRPERSON: CAC/MSOS-8. (sic)

24

25 --- EXHIBIT NO. CAC/MSOS-7: A document entitled,

1 "Utilities Board to Review Hydro's  
2 Hedging of Natural Gas Prices, Tuesday,  
3 October 3, 2006"  
4

5 CONTINUED BY MR. IVAN HOLLOWAY:

6 MR. IVAN HOLLOWAY: Now, have you had an  
7 opportunity to read that recently, sir?

8 If not, you may want to take the  
9 opportunity to read that now.

10

11 (BRIEF PAUSE)

12

13 DR. PHILIPPE CYRENNE: Okay, I think I've  
14 read it.

15 MR. IVAN HOLLOWAY: Now, I'm -- I'm -- I  
16 should be fair to you, Dr. Cyrenne, you may not realize  
17 but I'm actually representing CAC/MSOS at this Hearing.  
18 And Chris Saxberg who you reference is my colleague who  
19 normally does these hearings, but I'm filling in for him  
20 now. I'm not sure if you're aware of that or not.

21 DR. PHILIPPE CYRENNE: It wasn't done on  
22 purpose. I'm not that far -- farsighted to figure out  
23 who's gonna be on the -- on the panel.

24 MR. IVAN HOLLOWAY: No, and I appreciate  
25 that. I just wanted to -- to make sure that you're aware

1 of that because I -- I -- in any event. Now, I -- I take  
2 it, first of all if we go back to page 16 of your  
3 report...

4

5 (BRIEF PAUSE)

6

7 MR. IVAN HOLLOWAY: And in particular the  
8 -- the sentence to which endnote 14 refers to. You say,  
9 "from reports in the media."

10 Now I -- I assume you're -- you're simply  
11 just referring to this Exhibit Number 8, "The Utilities  
12 Board Review of Hydro's Hedging of Natural Gas Prices,"  
13 the CBC piece?

14 DR. PHILIPPE CYRENNE: Yes, but there was  
15 a -- a concern about the hedging in the Saskatchewan  
16 case; about losses from hedging there as well. So, I  
17 mean, I should of took away the "s" maybe from "reports."

18 MR. IVAN HOLLOWAY: And -- and the  
19 situation in Saskatchewan was -- that was a consumer  
20 group that you're referring to?

21 DR. PHILIPPE CYRENNE: I can't recall,  
22 but I know there were complaints about the losses there.

23 MR. IVAN HOLLOWAY: Okay. I mean, this  
24 is minor but -- but you're -- you're simply referencing  
25 in this report this particular Exhibit Number 8, right?





1                   consider monthly price averaging as an  
2                   alternative to hedging.

3                   That's what you were referring to,  
4                   presumably?

5                   DR. PHILIPPE CYRENNE:    Yes.

6                   MR. IVAN HOLLOWAY:    Okay.  But I think,  
7                   as you've said before, you didn't -- you didn't contact  
8                   the Manitoba Society of Seniors or Consumer Association  
9                   of Canada, the Manitoba Branch, to confirm your  
10                  understanding as to what monthly price averaging meant in  
11                  this report?

12                  DR. PHILIPPE CYRENNE:    No.

13                  MR. IVAN HOLLOWAY:    Is it -- you would  
14                  agree with me that it's possible that this media report  
15                  has this characterization wrong, right?

16                  DR. PHILIPPE CYRENNE:    From my dealings  
17                  with the media, I would have to agree with that; that it  
18                  does happen on occasion.

19                  MR. IVAN HOLLOWAY:    If -- if I were to  
20                  put to you the proposition, at least hypothetically, that  
21                  -- that this was wrong, and that what may have been meant  
22                  was that CAC/MSOS is -- is looking for a -- for -- for  
23                  Centra to obtain primary gas on a monthly index, and that  
24                  the monthly index price is derived from the averaging of  
25                  prices on the market for the previous month, would that -

1 - if that was the case, would that change your conclusion  
2 in this paragraph to which we're referring to?

3 DR. PHILIPPE CYRENNE: As long as you're  
4 not paying the spot price, and it's the result of some  
5 price over some period, and if you're going to take an  
6 average of that, it looks like averaging of some sort.

7 MR. IVAN HOLLOWAY: But, hypothetically,  
8 let's say, if that's not CAC/MSOS's position -- if their  
9 position more fairly is characterized as desiring Centra  
10 to obtain gas for the default supply on the month -- with  
11 a monthly index price, as opposed to a spot price, does  
12 that change your conclusion in the last two (2) sentences  
13 of that paragraph?

14 DR. PHILIPPE CYRENNE: I think the issue  
15 was really related to the hedging issue when -- when I  
16 was writing that, And as far as I could tell, you know,  
17 I accepted this as face value.

18 But I think from my understanding of the  
19 proceedings is that CAC/MOS -- MSOS, is opposed to a  
20 hedging policy, right? Am I mistaken there in term --  
21 for long-term contracts?

22 MR. IVAN HOLLOWAY: I -- I -- you're --  
23 you're generally correct. In this proceeding, we are --  
24 are -- are taking a position against the Utility using  
25 hedging policies for default gas.

1 DR. PHILIPPE CYRENNE: So the matter of  
2 debate is -- is my use of the word "averaging" versus the  
3 use of "a monthly index"?

4 MR. IVAN HOLLOWAY: Well, if we -- if we  
5 break this down here. If gas is purchased on a spot  
6 price -- and by "spot" price you mean a daily price?

7 DR. PHILIPPE CYRENNE: Let's -- the  
8 usual.

9 MR. IVAN HOLLOWAY: Or a -- or a moment-  
10 by-moment price, I guess?

11 DR. PHILIPPE CYRENNE: Well, you can have  
12 a daily -- spot price is often referred to the daily  
13 price, but obviously it fluctuates within a day, so.

14 MR. IVAN HOLLOWAY: And under that  
15 scenario, if gas was purchased on a different rate or  
16 particular rate each of the month, and the Utility wanted  
17 to smooth out the rate that it charged to customers  
18 without using hedging, you're saying you would have to  
19 self-insure.

20 In other words, if the particular price  
21 for the commodity on a particular day was lower than  
22 average, the Utility would charge a higher price and if  
23 on another day it was higher than average, the Utility  
24 would charge a lower price and that there would be an  
25 accumulated account balance?

1 DR. PHILIPPE CYRENNE: It's possible to  
2 do it that way. That was -- I -- I -- when I was writing  
3 this, I wasn't investigating all the possible ways that  
4 someone could provide a contract other than through --  
5 through hedging.

6 MR. IVAN HOLLOWAY: Right. Okay. But if  
7 it's not -- if -- if CAC/MSOS is saying that that's not  
8 what they're talking about -- that they were referring to  
9 purchasing gas on a monthly index for a monthly price for  
10 -- for gas; that obviously must change your conclusion in  
11 -- or your commentary in this paragraph, right?

12 I mean, when you say this pricing strategy  
13 is only possible if consumers cannot opt out of the  
14 averaging contract and buy the spot prices, this seems  
15 like an unacceptable limitation in consumer choice and  
16 would prevent the existence of a competitive gas  
17 retailing sector. I mean, that's really -- the -- the  
18 concern there, as I understand.

19 And correct me if I'm wrong: Is that --  
20 first of all, there would be balances built up that would  
21 cause inequities between consumers that left this  
22 particular market --

23 DR. PHILIPPE CYRENNE: Right.

24 MR. IVAN HOLLOWAY: -- right? And that  
25 if consumers were allowed to opt out and simply pick and

1 choose when spot prices were in their favour, that there  
2 would be even more inequities and the whole system  
3 wouldn't work.

4 Is that right?

5 DR. PHILIPPE CYRENNE: No, I think the  
6 idea was that if you're going to have some kind of  
7 averaging system, you're going to have to have a  
8 commitment for some length of time from the consumers.  
9 Because, presumably -- if you think of the equal payment  
10 plan at the consumer level, right, sometimes you have a  
11 credit, sometimes you're -- you know, you're below.

12 So the way it works to smooth the price,  
13 including price and volume risk at the consumer level,  
14 you have an equal payment plan which is an averaging  
15 plan.

16 I guess that was my sort of understanding  
17 in terms of possibly you can imagine the Utility doing  
18 that, right, on a wider scale for consumers.

19 MR. IVAN HOLLOWAY: But if we don't have  
20 an averaging plan, then the comments in your last two (2)  
21 sentences of this paragraph don't apply, right?

22 DR. PHILIPPE CYRENNE: It was base  
23 written on the understanding from the article.

24 MR. IVAN HOLLOWAY: Okay.

25 DR. PHILIPPE CYRENNE: If that's what

1 you're asking.

2 MR. IVAN HOLLOWAY: And so, if your  
3 understanding is wrong, then the statements in your last  
4 two (2) sentences would be wrong, too, right?

5 DR. PHILIPPE CYRENNE: They're not wrong  
6 conditional on my understanding.

7 MR. IVAN HOLLOWAY: I think we're saying  
8 the same thing though, aren't we?

9 DR. PHILIPPE CYRENNE: No.

10 MR. IVAN HOLLOWAY: But -- but --

11 DR. PHILIPPE CYRENNE: If -- if what  
12 you're asking me was whether my understanding of what the  
13 CBC reported. if I used that -- and it was incorrectly  
14 quoted, and I used that as the basis for understanding  
15 this issue, then I don't accept that I had an error in  
16 logic. But if you have, say, had an error in fact,  
17 that's a different thing.

18 MR. IVAN HOLLOWAY: Right.

19 DR. PHILIPPE CYRENNE: That's what you're  
20 referring to?

21 MR. IVAN HOLLOWAY: I'm not referring to  
22 an error of logic. I'm referring to an error of fact.

23 DR. PHILIPPE CYRENNE: Okay.

24 MR. ERIC HOAKEN: And just to be clear,  
25 there's no evidence of that? You're putting a

1 hypothetical, I take it?

2 MR. IVAN HOLLOWAY: I'm putting a  
3 hypothetical.

4 MR. ERIC HOAKEN: Right.

5

6 CONTINUED BY MR. IVAN HOLLOWAY:

7 MR. IVAN HOLLOWAY: So if -- assuming  
8 there was an error of fact, then your -- the last two (2)  
9 sentences would not logically -- an error of fact in the  
10 way I'm referring to, your last two (2) sentences would  
11 not conclude what they do?

12 MR. ERIC HOAKEN: Well, I -- I think  
13 we're going around in a circle here. I mean, you've --  
14 you've had this discussion.

15 And the difficulty with the line of  
16 questioning is that it's one thing to ask a hypothetical,  
17 but you've had this evidence for some time, and if it was  
18 going to be the position of CAC/MSOS that there was a  
19 factual inaccuracy in the source document that Professor  
20 Cyrenne relied upon, we certainly would have expected you  
21 to correct that in the record, which hasn't been done.

22 So I'm not sure -- you're calling it a  
23 hypothetical. It's not really a hypothetical.

24 MR. IVAN HOLLOWAY: No, but --

25 MR. ERIC HOAKEN: There is no evidence

1 that the information he relied upon is incorrect, and so  
2 in those circumstances I think it's inappropriate to  
3 pursue this so-called hypothetical.

4 MR. IVAN HOLLOWAY: Well, Mr. Hoaken,  
5 it's not CAC/MSOS's responsibility to look over Dr.  
6 Cyrenne's research and see if there's errors in it,  
7 either before or right after he files it. And I --

8 MR. ERIC HOAKEN: Well, I'm just saying  
9 that if you're going to suggest in cross-examination that  
10 there is an error, it's incumbent upon you to put that  
11 evidence in the record. And I think we're all entitled  
12 to infer from your failure to do so that there is no such  
13 error.

14 So calling it a hypothetical is not, in my  
15 view, a fair, appropriate, or accurate way to pursue it.

16 MR. IVAN HOLLOWAY: Well, Mr. Hoaken, I  
17 mean what do you want me to do? Call a witness to say  
18 it's an error? I mean, you know, I can't do that or at  
19 least it's -- it's impractical.

20 All I'm saying, Mr. Hoaken, is that I -- I  
21 want to see the -- I'm probing and testing the  
22 thoroughness of Dr. Cyrenne's report, in terms of his  
23 underlying materials, and the extent to which he checked  
24 his sources, and I think that's a perfectly acceptable  
25 line of cross-examination questions.



1                   MR. ERIC HOAKEN:    It's not because if --  
2   if you're going to do that and if the inference that  
3   you're asking anybody in this room to draw, is that Dr.  
4   Cyrenne was anything less than completely thorough, or  
5   that he relied upon a source that's inaccurate, it's  
6   incumbent upon you to demonstrate that.  You haven't done  
7   that.

8                   And so in my view, this is a completely  
9   inappropriate and ultimately unfruitful line of cross-  
10  examination.  And in any event I think the Witness has  
11  answered your question.

12                   So I think maybe we need a direction from  
13  you, Mr. Chairman.

14                   MR. IVAN HOLLOWAY:   Well, just before  
15  that, Mr. Chair.  Mr. Hoaken, I think that what you're  
16  saying is -- is within the realm of the Chair to decide  
17  on a lot of these issues, and actually I think perhaps I  
18  agree with you on one (1) point and that is that  
19  basically the questions have been answered.

20                   So with that I'm not even sure we need a  
21  ruling, Mr. Chair.  Although you can provide a ruling, I  
22  suppose, if you want to or you can tell me something  
23  else.

24                   THE CHAIRPERSON:    You say you're moving  
25  on?

1                   MR. IVAN HOLLOWAY:    I'm actually  
2 complete.   That's my last question.   Thank you, Dr.  
3 Cyrenne.

4                   THE CHAIRPERSON:    Thank you, Mr.  
5 Holloway.   So the next up is Ms. Murphy, for Centra.

6                   I -- I imagine you've got a few minutes at  
7 least with Dr. Cyrenne, correct?

8                   MS. MARLA MURPHY:    Yes, we do.

9                   THE CHAIRPERSON:    Okay.   Then we'll have  
10 our break.   We'll come back at 1:15 and then we'll return  
11 with Ms. Murphy.   Thank you.

12

13 --- Upon recessing at 12:05 p.m.

14 --- Upon resuming at 1:25 p.m.

15

16                   THE CHAIRPERSON:    We clearly have some  
17 new exhibits here.   I am trying to guess from which party  
18 they came from.   Ms. Murphy, are the yours?

19                   MS. MARLA MURPHY:    I think I'm guilty on  
20 at least some of them, sir.   And I would just like to  
21 mark for the record, if I could, please, the responses to  
22 Undertaking Number 13, which was taken from transcript  
23 page 1555.   And according to my records, that would be  
24 Centra Exhibit Number 26 -- 27.   Oh, I'm really off, 28.

25

1 --- EXHIBIT NO. CENTRA-28: Response to Undertaking 13

2

3 THE CHAIRPERSON: Time flies.

4 MS. MARLA MURPHY: When you're having  
5 fun, indeed. The next one is Centra Undertaking Number  
6 17, which related to a calculation of salaries and  
7 overhead included in the calculation of the direct  
8 purchase administration costs. And I'd propose that be  
9 marked as Exhibit Number 29

10

11 --- EXHIBIT NO. CENTRA-29: Response to Undertaking 17,

12 which related to a  
13 calculation of salaries and  
14 overhead included in the  
15 calculation of the direct  
16 purchase administration costs

17

18 MS. MARLA MURPHY: And finally, the  
19 response to Undertaking Number 18, which related to the  
20 number of employees involved in hedging, the amount of  
21 time spent and the cost associated, which I believe  
22 should be Centra Exhibit Number 29 -- oh, 30, jeez.  
23 Sorry, Number 30.

24

25 --- EXHIBIT NO. CENTRA-30: Response to Undertaking 18,



1 MS. MARLA MURPHY: -- and the article  
2 relating to the combination of gas and electric  
3 utilities.

4 THE CHAIRPERSON: Okay.

5 MS. MARLA MURPHY: I do intend to put  
6 those to this witness in the course of the examination  
7 and --

8 MR. ERIC HOAKEN: Yeah, I'm assuming he's  
9 going to identify them as such, so if you want to do it  
10 right now, I have no problem with that.

11 MS. MARLA MURPHY: Certainly. If they  
12 could be marked now, that would be fine.

13 THE CHAIRPERSON: Okay. Well, can we  
14 will put them together --

15 MS. MARLA MURPHY: I'm in your hands,  
16 however you like it.

17 MR. ERIC HOAKEN: It probably makes sense  
18 for them to be separate.

19 THE CHAIRPERSON: Okay. So the paper  
20 itself, the Sing paper, 31 and the description of the  
21 index is 32.

22

23 --- EXHIBIT NO. CENTRA-31: Sing paper

24

25 --- EXHIBIT NO. CENTRA-32: Description of the Sing paper

1 index

2

3 MS. MARLA MURPHY: Thank you.

4 THE CHAIRPERSON: Any time you want to  
5 begin, Ms. Murphy.

6

7 CROSS-EXAMINATION BY MS. MARLA MURPHY:

8 MS. MARLA MURPHY: Thank you. Good  
9 afternoon, Professor Cyrenne.

10 DR. PHILIPPE CYRENNE: Good afternoon.

11 MS. MARLA MURPHY: I want to just start  
12 by turning your attention, if I could, please, to Order  
13 1598, which I believe your counsel has provided you.  
14 You're familiar with this order?

15 DR. PHILIPPE CYRENNE: Yes.

16 MS. MARLA MURPHY: And I wanted to ask  
17 you to turn to page 67, please. And I want to bring to  
18 your attention a particular Finding of the Board in  
19 respect of this Order.

20 DR. PHILIPPE CYRENNE: I have the page.

21 MS. MARLA MURPHY: Half way down the  
22 page, it's in the middle of the second full paragraph on  
23 the page, it -- it discusses the real objective in moving  
24 towards a fully competitive market.

25 It says:

1                    "That objective is to provide the  
2                    consumer with meaningful customer  
3                    choices, service offerings, and  
4                    economic benefits. Ultimately the  
5                    consumer must benefit, and that must be  
6                    the rationale for any industry and  
7                    regulatory change."

8                    And I'd just like your view on whether or  
9                    not you agree with that statement.

10                   DR. PHILIPPE CYRENNE:    Which paragraph  
11                   was that again, I'm just --

12                   MS. MARLA MURPHY:    It's the second full  
13                   paragraph.

14                   DR. PHILIPPE CYRENNE:    Okay.

15                   MS. MARLA MURPHY:    And I'm reading the  
16                   very last sentence -- sorry, the last two (2) sentences.

17                   DR. PHILIPPE CYRENNE:    And the question  
18                   is whether I agree with --

19                   MS. MARLA MURPHY:    Yes, do you agree  
20                   with --

21                   DR. PHILIPPE CYRENNE:    -- both those  
22                   sentences, or the --

23                   MS. MARLA MURPHY:    Yes.

24                   DR. PHILIPPE CYRENNE:    -- first? I  
25                   certainly agree with the first. This one (1) includes

1 Centra offering an alternative to the -- I'm not sure  
2 about that sentence.

3 MS. MARLA MURPHY: I think you may be  
4 reading the wrong sentence. The sentence I was reading  
5 you was:

6 "That objective is to provide the  
7 consumer with meaningful customer  
8 choices, service offerings, and  
9 economic benefits."

10 Do you have a different version of the  
11 Order; is that where we've encountered a problem?

12 MR. ERIC HOAKEN: I'm wondering what the  
13 problem is because I can't see what you're reading.

14 MS. MARLA MURPHY: I can provide you with  
15 a copy of -- I've copied the pages, if that helps.

16 MR. ERIC HOAKEN: Sure, ours says page 67  
17 and we see the second paragraph, but I just can't see  
18 where you're reading from.

19

20 (BRIEF PAUSE)

21

22 MS. MARLA MURPHY: Mr. Chairman, if it  
23 would be helpful, I could circulate the excerpts of the  
24 pages I was going to refer to?

25 THE CHAIRPERSON: Yes, I think so, it



1 might save time.

2

3

(BRIEF PAUSE)

4

5 CONTINUED BY MS. MARLA MURPHY:

6 MS. MARLA MURPHY: I'm going to guess  
7 that one (1) of these is printed off the web site and the  
8 other is the -- the Board produced Order? I'm certainly  
9 happy to have you take the time to find it in the copy  
10 you're looking at, if you prefer?

11 DR. PHILIPPE CYRENNE: I think we found  
12 it here.

13 MS. MARLA MURPHY: Okay. So maybe I'll  
14 try my question again. Looking at the -- the excerpt  
15 that we circulated, page 67, second full paragraph down  
16 the page, discussing the real objective in moving towards  
17 a fully competitive market, the Board says that the  
18 second last sentence of that paragraph.

19 "That objective is to provide the  
20 consumer with meaningful customer  
21 choices, service offerings and economic  
22 benefits. Ultimately, the consumer  
23 must benefit and that must be the  
24 rationale for any industry or  
25 regulatory change."

1 I just wanted to know whether you agreed  
2 with that?

3 DR. PHILIPPE CYRENNE: Yes.

4 MS. MARLA MURPHY: Thank you. Turning  
5 over the page. It's way easier when you're all reading  
6 the same thing. Turning over the page, looking at the  
7 bottom of page 68. It's discussing essentially some --  
8 it sa -- it says essentially that some natural gas  
9 aspects may benefit from being driven by market forces  
10 rather than regulatory directives. And when you go over  
11 the page is says, "However competition is not a goal in  
12 itself."

13 Do you agree with that?

14 DR. PHILIPPE CYRENNE: Usually the  
15 objective of regulation or competition is to provide  
16 meaningful benefits to consumers. And that is -- and I  
17 just want to point out, in the past I've seen a  
18 discussion which says that that means it should be lower  
19 prices, increased supply, and increase product offerings;  
20 is it "and".

21 My understanding of the economics is that  
22 either of those would be sufficient, you don't need all  
23 three (3). And the forth the issue is that, even if the  
24 prices to the consumers are the same, and there are some  
25 efficiencies found in the market, then that shows up as,

1 what we call, "producer surplus", which is also a welfare  
2 benefit.

3 MS. MARLA MURPHY: Do you agree with the  
4 statement that competition, in and of itself, for the  
5 sake of competition is not a goal?

6 DR. PHILIPPE CYRENNE: Yes.

7 MS. MARLA MURPHY: The last statement  
8 there is the next sentence that I just wanted to have you  
9 confirm, please, is that:

10 "Competition in the natural gas market  
11 should be encouraged only if it will  
12 advance the interests of the natural  
13 gas end user."

14 Do you agree with that statement?

15 DR. PHILIPPE CYRENNE: Yes, as long as  
16 you put the provision that the competition has to be  
17 effective.

18 MS. MARLA MURPHY: Thank you. If I could  
19 ask you to turn to what's been marked as Centra Exhibit  
20 Number 31. This is the Sing article that was referred to  
21 in one (1) of your end notes.

22 DR. PHILIPPE CYRENNE: Yes.

23 MS. MARLA MURPHY: You had a bit of a  
24 discussion with Mr. Peters about it the other day. And  
25 I'm -- to boil it down, as -- as I understand it, that

1 this study attempted to relate the costs of the single  
2 product and dual product firms with their output  
3 scale/input prices in cust -- customer density Is that  
4 right?

5 DR. PHILIPPE CYRENNE: Yes.

6 MS. MARLA MURPHY: Were there any other  
7 potentially influential variables incorporated into the  
8 analysis?

9 DR. PHILIPPE CYRENNE: At the end, they  
10 said that there could be some issues regarding quality  
11 measures which may qualify the results. But in terms of  
12 the results -- suggest that the cost for the average  
13 combination utility could be decreased 7.2 percent if  
14 electricity and gas were supplied separately.

15 So that meant that she found no economies  
16 of scope.

17 MS. MARLA MURPHY: Well, that's not quite  
18 right, isn't it? She didn't rule out the possibility of  
19 economies of scope, and, in fact, when I look at page  
20 397, she refers to one (1) of the explanations for those,  
21 which is the one (1), I think, you were just referring  
22 to.

23 DR. PHILIPPE CYRENNE: What I was saying,  
24 based on her empirical findings, she qualified the  
25 results saying that it is possible that there would be

1 some quality issues. That's my understanding of the  
2 article.

3 MS. MARLA MURPHY: Quality improvements -  
4 - higher quality service; that's what you mean by quality  
5 issues?

6 DR. PHILIPPE CYRENNE: Yes.

7 MS. MARLA MURPHY: And in your discussion  
8 with Mr. Peters, you suggested that although this was an  
9 1987 article, that there hadn't been changes to the  
10 econometric techniques that were used, correct?

11 DR. PHILIPPE CYRENNE: Not as far as  
12 issues like this. I mean, there are a number of changes  
13 to econometric techniques in general. So, it's a -- it's  
14 an area that I keep abreast of, but in terms of looking  
15 at issues in this area, this is fairly standard  
16 methodology.

17 MS. MARLA MURPHY: Would you agree with  
18 me that although the methodology might remain standard,  
19 that there have been some fairly significant changes in  
20 the industry?

21 DR. PHILIPPE CYRENNE: Certainly.

22 MS. MARLA MURPHY: And I would just like  
23 to finally, before I leave this document, ask you to read  
24 into the record the last sentence in the article.

25 DR. PHILIPPE CYRENNE:

1 "I cannot reject the hypothesis that  
2 some combination Utilities do supply  
3 gas and electricity at lower costs than  
4 separate Utilities, and I do not have  
5 clear -- I do not have evidence that  
6 the benefits from competition between  
7 two regulated energy utilities are  
8 substantially greater than the cost of  
9 corporate reorganization."

10 But I should -- where that's usually  
11 something that's often put in the end of articles if  
12 there's a strong result.

13 MS. MARLA MURPHY: Thank you. Professor  
14 Cyrenne, did I understand your evidence with respect to  
15 Centra's hedging to be that you didn't think Centra  
16 should be hedging because of the possibility of losses?

17 DR. PHILIPPE CYRENNE: Well, I just -- my  
18 general view is that it's a risk-management strategy and  
19 there have been some losses in the past.

20 And the question is, how would you deal  
21 with those losses in an environment where, if you're in a  
22 fixed-rate market, and you're competing with retailers  
23 who don't have the same access to have those losses  
24 covered, then that could cause a potential problem --  
25 could cause potential competitive effects.

1 MS. MARLA MURPHY: Are you aware of how  
2 Centra hedges its primary gas?

3 DR. PHILIPPE CYRENNE: Not in great  
4 detail.

5 MS. MARLA MURPHY: Do you understand that  
6 Centra's objective is to constrain volatility within the  
7 bounds of an upper and a lower strike price.

8 DR. PHILIPPE CYRENNE: Through the  
9 evidence that's come out in this Hearing, I've been --  
10 I've been made aware of that.

11 MS. MARLA MURPHY: So, what you  
12 characterize as a loss is a situation that exists  
13 whenever the index price falls below the lower strike  
14 price. Is that right?

15 DR. PHILIPPE CYRENNE: Well, in terms of  
16 not having the positions covered, if there's commitments  
17 that you result in losses; that's my understanding of  
18 what a hedging loss is.

19 MS. MARLA MURPHY: Would you also agree  
20 with me that there could be serious impacts on customers  
21 from not hedging?

22 DR. PHILIPPE CYRENNE: Certainly in the  
23 long-term fixed-rate market. It seems to be that risk  
24 management strategy is -- is common in that market. So I  
25 assume that the people in the industry realize that their

1 consumers are better off if their product is hedged,  
2 particularly with long -term commitments involved.

3 MS. MARLA MURPHY: You also suggested in  
4 your evidence that when risk management is undertaken by  
5 a regulated Utility, that they're -- we're pursuing rate  
6 stability on behalf of ratepayers with little knowledge  
7 of the particular risk preferences of the ratepayers. Is  
8 that right?

9 DR. PHILIPPE CYRENNE: Yes.

10 MS. MARLA MURPHY: Have you had an  
11 opportunity to review the market research that Centra has  
12 placed on the record during this proceeding?

13 DR. PHILIPPE CYRENNE: Some parts of it.  
14 I haven't, I don't think, seen all of it.

15 MS. MARLA MURPHY: Well, specifically,  
16 are you aware that 68 percent of a sample of residential  
17 customers surveyed supported Centra's price management  
18 program?

19 DR. PHILIPPE CYRENNE: Well, as someone  
20 who's done empirical work, I -- I am sort of reluctant to  
21 accept the results of either surveys or other results  
22 unless I've had a chance to look at the survey  
23 methodology. I mean, it just -- I mean, I wouldn't  
24 expect people to agree with my empirical results if I  
25 didn't show them how I arrived at them. Maybe there is



1 some -- some of that in the evidence, but I haven't seen  
2 it, so I'm not sure what -- what questions were asked,  
3 and so on. Whether that --.

4 MS. MARLA MURPHY: Were you --.

5 DR. PHILIPPE CYRENNE: -- was all the  
6 questions that are asked.

7 MS. MARLA MURPHY: Were you aware of that  
8 particular finding?

9 DR. PHILIPPE CYRENNE: I think there's  
10 something to that effect that comes -- seems familiar.

11 MS. MARLA MURPHY: On the bottom of page  
12 5 of your evidence, you state that multi-product  
13 monopolies may pursue alternative objectives rather than  
14 efficient pricing. I take it that you're referring there  
15 to unregulated monopolies?

16 DR. PHILIPPE CYRENNE: Not necessarily.  
17 I mean, obviously, unregulated monopolies are generally  
18 profit maximizing. That means what they care about is  
19 maximizing the profits. Now, if you have a -- a  
20 regulated Utility, they may have reasons for pursuing  
21 different pricing strategies.

22 It could be a part of a Board Order, or it  
23 could have been some flexibility that they have in terms  
24 of pricing which may be done for reasons -- for equity  
25 reasons, or it could be done for other reasons. But I

1 wouldn't expect an unregulated monopoly to deal -- or to  
2 behave exactly like a regulated monopoly.

3 MS. MARLA MURPHY: And with respect to a  
4 regulated monopoly, you'd acknowledge that the role of  
5 the Public Utilities Board, in our case, is to ensure  
6 efficient pricing?

7 DR. PHILIPPE CYRENNE: Yes.

8 MS. MARLA MURPHY: Do you think that  
9 Manitoba Hydro and Centra could pursue alternative  
10 objectives within the framework of the supervision by  
11 this Board?

12 DR. PHILIPPE CYRENNE: Well, as I think  
13 I've mentioned earlier, regulated firms have information  
14 that must be conveyed to the regulators. So, if  
15 information was perfectly and freely available, it would  
16 be transparent. Whatever the regulated firm was doing,  
17 the regulator would see it.

18 But in case there may be some information  
19 that is not readily available or is not put together,  
20 which may affect the Board's decisions, that's what we  
21 call asymmetric information.

22 In other words, the regulated firm may  
23 have more information about what it's doing than the  
24 Board has. I mean, the regulatory process, as I've said  
25 earlier, is designed to remove that asymmetry, but most

1 modern theories of regulation and empirical work think  
2 that, as diligent as regulatory boards can be, some  
3 asymmetry of in -- information is likely to remain.

4 MS. MARLA MURPHY: We had some discussion  
5 yesterday about how we could measure the degree of  
6 competition in the Manitoba market for primary and  
7 natural gas. And you suggested that Canada's Competition  
8 Bureau no longer uses the four (4) firm concentration  
9 ratio as a measure of how competitive a market it, is  
10 that right?

11 DR. PHILIPPE CYRENNE: Well, what I'm sa  
12 -- what I meant was that it didn't -- it doesn't depend  
13 solely on the four (4) firm concentration raise -- ratio.

14 And, in general, in terms of the academic  
15 literature, the four (4) firm concentration ratio has  
16 fallen at a favour because the problem with it is that it  
17 doesn't illustrate the respective sizes of firms. And  
18 modern economic theory would suggest that it's the  
19 relative sizes of firms that may be important for how  
20 competitive the market is. That was --

21 MS. MARLA MURPHY: So, do I understand  
22 you to be saying that the Competition Bureau may still  
23 continue to use the four (4) firm concentration ratio,  
24 but just not in isolation?

25 DR. PHILIPPE CYRENNE: When the case

1 officers call me and they -- they're asking me about my  
2 opinion of a case, if I mention the four (4) firm  
3 concentration ratio, they would think that I hadn't  
4 studied IO or Regulation for twenty (20) years.

5 So that's not the first thing they ask me,  
6 is what the four (4) firm concentration -- if -- if you  
7 know -- it's -- it's a measure that's -- was there in the  
8 past, which is not in -- in general use among, I think  
9 academics and practitioners.

10 The Herfindahl -- Her -- Herfindahl-  
11 Hirschman Index is a preferred measure.

12 MS. MARLA MURPHY: And do I understand  
13 you correctly that the HHI, I'm going to call it, does  
14 essentially the same thing, except that it -- it measures  
15 the degree to which the firms in the market differ in  
16 size?

17 DR. PHILIPPE CYRENNE: Yes, and -- and  
18 people do refer to the HHI because no one likes to --

19 MS. MARLA MURPHY: To attempt that one?

20 DR. PHILIPPE CYRENNE: Yes, yes, so  
21 you're on -- you're on solid footing there.

22 MS. MARLA MURPHY: Good, thank you. I've  
23 provided you with a copy of the US Department of Justice  
24 description, through your counsel this morning; it's been  
25 marked as Centra Exhibit Number 32.

1                   Did you have an opportunity to review that  
2 summary of the HHI?

3                   DR. PHILIPPE CYRENNE:    Yes.

4                   MS. MARLA MURPHY:    And is that a fair  
5 characterisation of the -- the index and how it's used?

6                   DR. PHILIPPE CYRENNE:    Yes, I think it  
7 corresponds to what I had in the record yesterday.

8                   MS. MARLA MURPHY:    Thank you.  Are you  
9 familiar with the evidence that Dr. Van Audenrode in this  
10 proceeding?

11                   DR. PHILIPPE CYRENNE:    Yes.

12                   MS. MARLA MURPHY:    And he characterised  
13 the Manitoba primary gas natural -- primary natural gas  
14 market as "segmented".  Do you agree with the  
15 characterisation?

16                   DR. PHILIPPE CYRENNE:    If you define  
17 "segmented" as a market which has more than one (1)  
18 product, and that seems to be -- my understanding of Dr.  
19 Van Audenrode's evidence was that he characterised a  
20 short-term market and a long-term market.

21                   And he seemed to be positing a theory --  
22 what's called the Market Segmentation Theory -- which is  
23 the antitheses of what we call the Efficient Markets  
24 Hypothesis.  So he was -- and I think what he was  
25 arguing.



1 five (5) or a ten (10) year -- people say, well, the  
2 three (3) year market is different from the five (5) year  
3 mortgage market, different from the ten (10) year market.  
4 If you're saying that those are different then you're  
5 saying that prices for those markets are set  
6 independently of each other. That's what we really mean  
7 by market segmentation, in terms of a theory.

8                   And my view is that there is a  
9 relationship between the short-run prices and the long-  
10 run prices, which exist in natural gas, which means that  
11 I don't think they are segmented to the same extent as --  
12 segmented in the theoretical sense. They are segmented  
13 in that they're different products, so I agree with that.

14                   MS. MARLA MURPHY: Mr. Wiens described  
15 them as a substitute, but not a perfect substitute. Do  
16 you agree with that?

17                   DR PHILIPPE CYRENNE: Yes.

18                   MS. MARLA MURPHY: Could I ask you just  
19 to assume for a minute that Dr. Van Audenrode was  
20 correct, and that there are two (2) markets in Manitoba.  
21 And we don't know --

22                   DR. PHILIPPE CYRENNE: Do I have to?

23                   MS. MARLA MURPHY: Just for a minute. We  
24 don't know the respective shares of the two (2)  
25 competitive brokers in the market of the fixed price

1 product. But just assume for a minute that they have  
2 equal shares. Can you tell us what the HHI would be for  
3 that market?

4 DR. PHILIPPE CYRENNE: Well, if you put  
5 them in the only market, then, if they were fifty/fifty  
6 (50/50), right, you can just fifty (50) squared, right,  
7 twenty-five hundred (2,500) is five thousand (5,000).  
8 But that assumes that you believe that those markets are  
9 completely different, and that the consumers don't view  
10 them.

11 Now, if you put Centra in with those  
12 firms, you're going to get a different measure. And --

13 MS. MARLA MURPHY: I was going to take  
14 you there next, but I have one (1) more question about  
15 this fifty/fifty (50/50) scenario.

16 DR. PHILIPPE CYRENNE: Okay.

17 MS. MARLA MURPHY: If that's the case and  
18 the market share of those two (2) competitors is not  
19 equal, your -- your HHI number will get higher, correct?

20 DR. PHILIPPE CYRENNE: Yes.

21 MS. MARLA MURPHY: That will suggest that  
22 there's even a less competitive result?

23 DR. PHILIPPE CYRENNE: Yes.

24 MS. MARLA MURPHY: And if you went all  
25 the way to the max, where I either those two (2) comb --



1 competitors combined or one (1) of them left the market,  
2 that would take you right to the end of the HHI and you'd  
3 be at ten thousand (10,000), correct?

4 DR. PHILIPPE CYRENNE: Yeah, that's if --  
5 if you're only talking about --

6 MS. MARLA MURPHY: Yeah, with my  
7 assumption --

8 DR. PHILIPPE CYRENNE: -- that market  
9 segment.

10 MS. MARLA MURPHY: So now I'll relax it  
11 and let you go back to the scenario you want. Where we  
12 have -- we assume there is a high degree of  
13 substitutability between the fixed-price product and the  
14 variable product. Based on the variable product having a  
15 79 percent market share and the two (2) retailers sharing  
16 the rest equally, can you tell us what the HHI index  
17 would be?

18 And Mr. Wiens tells me that he'll lend you  
19 his calculator, if you'll let me.

20 DR. PHILIPPE CYRENNE: Well, just square  
21 it and -- just square it and add it together. If you  
22 have your calculator, you can do it, I'll trust your  
23 numbers.

24 MS. MARLA MURPHY: He's actually already  
25 done them for me.

1 DR. PHILIPPE CYRENNE: Yeah. Sixty-four  
2 hundred (6,400) plus -- what's the other shares, you  
3 said, for the two (2) retailers?

4 MS. MARLA MURPHY: Ten point five (10.5)  
5 twice.

6 DR. PHILIPPE CYRENNE: Yeah. That's a  
7 hundred (100) and then add to the sixty (60), whatever it  
8 is, sixty (60) --

9 MS. MARLA MURPHY: Sixty-four sixty on  
10 (6,461) -- sixty-four sixty-one point five (6,461.5)

11 DR. PHILIPPE CYRENNE: Okay.

12 MS. MARLA MURPHY: That would also be  
13 indicative of a -- a pretty concentrated market, correct?

14 DR. PHILIPPE CYRENNE: Okay. But, you  
15 know, the -- as you pointed out earlier, what contributes  
16 to the size of the Index is how big the big firm is. So  
17 you could easily suggest the one (1) way to get the HHH -  
18 - HHI down is to reduce the sixty-four (64) size, right?

19 I mean, there's -- there's --

20 MS. MARLA MURPHY: The 79 percent.

21 DR. PHILIPPE CYRENNE: Or 79 percent --  
22 79 percent.

23 MS. MARLA MURPHY: And, I suppose, the  
24 other comfort that this Board has is that that 79 percent  
25 share is regulated, correct?

1 DR. PHILIPPE CYRENNE: Yes.

2 MS. MARLA MURPHY: And that, to some  
3 extent at least, mitigates the concern about  
4 concentration?

5 DR. PHILIPPE CYRENNE: Yes.

6 MS. MARLA MURPHY: And following my  
7 logic, with respect to the remaining two (2) -- the ten  
8 and a half (10 1/2) and ten and a half (10 1/2) -- to the  
9 extent that those numbers are not equal, that will  
10 increase -- or it'll increase your HHI number; the market  
11 will become less competitive, correct?

12 DR. PHILIPPE CYRENNE: Yes.

13 MS. MARLA MURPHY: I just wanted to -- to  
14 turn for a minute to the issue of the Manitoba market,  
15 and I wonder if you're aware of the number of natural gas  
16 consumers in Manitoba?

17 DR. PHILIPPE CYRENNE: I haven't seen the  
18 total numbers. I just -- I understand that 21 percent is  
19 served by the -- the retailers. That's the figure I  
20 have.

21 MS. MARLA MURPHY: If a new entrant were  
22 to be considering entry into the Manitoba market, there  
23 would be a number of factors for them to consider,  
24 correct?

25 DR. PHILIPPE CYRENNE: Yes.

1 MS. MARLA MURPHY: And you mentioned  
2 yesterday the notion of start-up costs and you compared  
3 those to the sunk costs of existing competitors, correct?

4 DR. PHILIPPE CYRENNE: Yes.

5 MS. MARLA MURPHY: Do you agree that  
6 another factor that a new entrant would want to consider  
7 would be the number of competitors already established in  
8 the market?

9 DR. PHILIPPE CYRENNE: Yes.

10 MS. MARLA MURPHY: Would you also agree  
11 that the number of potential customers would be an  
12 important consideration?

13 DR. PHILIPPE CYRENNE: Yes. But I -- I  
14 would say that the entrants aren't just looking at the  
15 market share of the -- of variable rate company.

16 MS. MARLA MURPHY: And if --

17 DR. PHILIPPE CYRENNE: So that would be --  
18 -- influence their decision.

19 MS. MARLA MURPHY: Sure. If a competitor  
20 was considering a market in which there were two hundred  
21 and fifty thousand (250,000) customers, and comparing  
22 that with a -- a market with something in the 3 million  
23 customers, which do you think they would find more  
24 attractive?

25 DR. PHILIPPE CYRENNE: Your -- your

1 intuition would -- would suggest the larger market, but  
2 who knows? I mean, it just -- it depends on the relative  
3 prices in those markets that currently exist.

4 MS. MARLA MURPHY: My economist friend is  
5 throwing Latin terms at me, but all other things being  
6 equal you'd agree with --

7 DR. PHILIPPE CYRENNE: Yes, ceteris  
8 paribus. We'll put that on the record. It's probably  
9 the first Latin that's been...

10 MS. MARLA MURPHY: We'll spell it for  
11 the reporter later. Thank you, Professor Cyrenne, those  
12 are my questions. Thank you, Mr. Chair.

13 THE CHAIRPERSON: Mr. Hoaken, do you have  
14 any redirect?

15 MR. ERIC HOAKEN: I do not. Thank you,  
16 Mr. Chair.

17

18 (PANEL STANDS DOWN)

19

20 THE CHAIRPERSON: I think we might be at  
21 the end of this particular phase of our proceeding. So  
22 this does bring to a close this phase of the proceeding,  
23 and we look forward to closing argument now slated for  
24 October 25th and 26th of this year.

25 Hope that you would all use your best

1 efforts to provide all out -- any outstanding  
2 Undertakings within the week. I believe there's only the  
3 one (1), and I'm not aware of any from Direct or Energy  
4 Savings. But, in any case, you might want to check your  
5 records; one (1) perhaps.

6           As there is no applicant and with the  
7 exception of Board counsel who we would prefer lead off,  
8 we see closing argument being in the following order:  
9 Board counsel, CAC/MSOS, then Centra, and then, lastly,  
10 Direct Energy and Energy Savings. And while a written  
11 rather than oral filing is permissible, we'd prefer oral  
12 supported by a written brief.

13           Given the complexities of the proceeding  
14 and the potential importance of the Board Order that will  
15 arise from it, if the parties were to develop briefs with  
16 references, perhaps supported by a book of documents, we  
17 would appreciate that. Such an approach would aid the  
18 Board in following the argument, and there appears to be  
19 sufficient time to allow for such an approach.

20           As to what topics the parties choose to  
21 address in closing argument, the Board leaves that to  
22 each party. Although we do remind you that it will be  
23 expected that some attention be paid to the issues raised  
24 by this Board in my opening address on September the 4th.

25

1                   By no means, please do not take the Boards  
2 reference to those issues as a limiting comment. Speak  
3 to that with which you wish to speak to.

4                   Before adjourning to the closing argument  
5 phase and on behalf of this panel for the Board, I want  
6 to thank Manitoba Hydro personnel constituting the panels  
7 for Centra Gas; Centra's dual counsels; Direct Energy and  
8 Energy Savings representatives, witnesses, and joint  
9 counsel.

10                   And thank you, Professor Cyrenne, and  
11 CAC/MSOS's two (2) witnesses and dual counsel, Board  
12 counsel, and our advisors, Board staff and, last but not  
13 least, Digi-Tran. We stand adjourned.

14

15 --- Upon adjourning at 1:53 p.m.

16

17

18 Certified Correct,

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22

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23 Wendy Warnock, Ms.

24

25